

**POLICY ON MATERIALITY OF RELATED PARTY  
TRANSACTIONS AND DEALING WITH RELATED PARTY  
TRANSACTIONS  
OF JK FILES & ENGINEERING LIMITED**

## **Introduction**

The Securities Exchange Board of India (SEBI), on September 2, 2015, notified the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**the Regulations**").

As per Regulation 23 of the Regulations, JK Files & Engineering Limited (the "**Company**") has adopted a Policy namely "**Policy on Materiality of Related Party Transactions and on dealing with Related Party Transactions**" (the "**Policy**") to ensure the proper approval and reporting of transactions between the Company and its Related Parties.

## **Definitions**

"**Act**" means Companies Act, 2013, rules framed thereunder and any amendments thereto.

"**Arm's Length Transaction**" means a transaction between two Related Parties that is conducted as if they were unrelated, so that there is no question of conflict of interest.

"**Associate Company**" in relation to another Company, means a Company in which that other Company has a significant influence, but which is not a Subsidiary Company of the Company having such influence and includes a Joint Venture Company as per sub-section (6) of Section 2 of the Act.

Explanation: For the purpose of Associate Company (i) "Significant Influence" means control of at least 20% (twenty percent) of total voting power, or control of or participation in business decisions under an agreement; and (ii) "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

"**Audit Committee or Committee**": Audit Committee is the committee which is constituted by the Company pursuant to section 177 of the Companies Act, 2013 read with the Companies (Meetings of Board and its Powers) Rules, 2014 and Regulation 18 of the Regulations.

"**Board**" means Board of Directors of the Company.

"**Body Corporate**" or Corporation includes a Company incorporated outside India as per sub-section (11) of Section 2 of the Act, but does not include—

- (i) a co-operative Society registered under any law relating to Co-operative Societies; and
- (ii) any other Body Corporate (not being a Company as defined in this Act), which the Central Government may, by notification, specify in this behalf;

"**Control**" shall include the right to appoint majority of the Directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner as per sub-section (27) of Section 2 of the Act.

**“Compliance Officer”** means Company Secretary of the Company.

**“Holding Company”** in relation to one or more Companies means a Company of which such Companies are Subsidiary Companies as per sub-section (46) of Section 2 of the Act.

**“Key Managerial Personnel” or “KMP”** shall have the same meaning as defined in sub-section (51) of Section 2 of the Act.

**“Material Related Party Transaction”** means a transaction with a Related Party where the transaction/transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds 10 (ten) percent of the annual consolidated turnover of the Company as per the last audited Financial Statements of the Company.

Notwithstanding the above, a transaction involving payments made to a Related Party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered individually or taken together with the previous transactions during a financial year exceed 5% of the annual consolidated turnover of the Company as per its last audited Financial Statements.

**“Materiality Threshold”** means limits for Related Party Transactions beyond which the Shareholders' approval will be required as specified in Act and rules thereof and amendments thereto.

**“Net Worth”** means the aggregate value of the paid-up Share Capital and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation as per sub-section (57) of Section 2 of the Act.

**“Related Party”**

**A. As per Regulation 2(1) (zb) of the Regulations:**

As defined under sub-section (76) of Section 2 of the Act or under the applicable Accounting Standards.

**B. As per sub-section (76) of Section 2 of the Act as amended from time to time:**

- (i) A Director or his/her Relative;
- (ii) A KMP or his/her Relative;
- (iii) A firm, in which a Director, Manager or his/her Relative is a partner;
- (iv) A Private Company in which a Director or Manager or his/her Relative is a member or Director;

- (v) A Public Company in which a Director or Manager is a Director and holds along with his/her Relatives, more than 2 (two) per cent of its paid-up share capital;
- (vi) Any Body Corporate whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with the advice, directions or instructions of a Director or Manager; except advice, directions or instructions given in a professional capacity;
- (vii) Any person on whose advice, directions or instructions a Director or Manager is accustomed to act; except advice, directions or instructions given in a professional capacity;
- (viii) any company which is—
  - (A) a holding, subsidiary or an associate company of such company;
  - (B) a subsidiary of a holding company to which it is also a subsidiary;  
or
  - (C) an investing company or the venturer of the company

Explanation.—For the purpose of this clause, “the investing company or the venturer of a company” means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

- (ix) A Director, other than an Independent Director, or KMP of the Holding Company or his/her Relative with reference to a company.

“**Relative**” means any person as per sub-section (77) of Section 2 of the Act and rules prescribed there under and as per Regulation 2(1) (zd) of the Regulations as amended from time to time, means anyone who is related to another, if

- (i) They are members of a Hindu Undivided Family; or
- (ii) They are husband or wife; or
- (iii) One person is related to the another in the following manner, namely:
  - (a) Father, includes step-father
  - (b) Mother, includes step-mother
  - (c) Son includes step-son
  - (d) Son’s wife
  - (e) Daughter
  - (f) Daughter’s husband
  - (g) Brother includes step-brother
  - (h) Sister includes step-sister

## “Related Party Transaction”

### A. As per Regulation 2(1) (zc) of the Regulations:

A transfer of resources, services or obligations between the Company and a Related Party, regardless of whether a price is charged and a "transaction" with a Related Party shall be construed to include a single transaction or a group of transactions in a contract.

### B. As per Section 188 of the Act:

In case of specified Related Party Transaction(s) as mentioned in section 188(1) of the Companies Act, 2013 prior approval of Board and/or Shareholders is required for entering into any contract or arrangement with a Related Party as per the following:

- a. Prior approval of the Board at a meeting - which are not in ordinary course of business or not on arm's length basis.
- b. Prior approval of the Shareholders by a resolution- which are not in ordinary course of business or not on arm's length basis and beyond threshold limits.

S. No.	Specified Related Party Transaction(s) u/s 188(1) of the Companies Act, 2013	
	Approval of the Board	Materiality Threshold
a)	sale, purchase or supply of any goods or materials	Exceeding 10% of the turnover of the Company or Rs. 100 crore, <i>whichever is lower.</i>
b)	selling or otherwise disposing of, or buying, property of any kind	Exceeding 10% of net worth of the Company or Rs. 100 crore, <i>whichever is lower.</i>
c)	leasing of property of any kind	Exceeding 10% of the net worth of the Company or 10% of turnover of the Company or Rs. 100 crore, <i>whichever is lower.</i>
d)	availing or rendering of any services	Exceeding 10% of the turnover of the company or Rs. 50 crore, <i>whichever is lower.</i>
e)	appointment of any agent for purchase or sale of goods, materials, services or property	As per the limit prescribed in clause a), b) and d), in case resulted into appointment of an agent.
g)	underwriting the subscription of any securities or derivatives thereof, of the company	Exceeding 1 % of the net worth.

Explanation(s):

Limits specified in sub-clauses a) to d) shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

Turnover or net worth shall be computed on the basis of the audited Financial Statement of the preceding Financial Year.

**“Securities”** means the Securities as defined in clause (h) of Section 2 of the Securities Contracts (Regulations) Act, 1956.

**“Subsidiary Company”** or **“Subsidiary”**, in relation to any other Company (that is to say the Holding Company), as per the sub-section (87) of Section 2 of the Act means a Company in which the Holding Company

- (i) Controls the composition of the Board of Directors; or
- (ii) Exercises or controls more than 1/2 (one-half) of the total voting power either at its own or together with one or more of its Subsidiary Companies.

**“Office or Place of Profit”** as per Section 188 of the Act means any office or place:

- (i) where such office or place is held by a Director, if the Director holding it receives from the Company anything by way of remuneration over and above the remuneration to which he is entitled as Director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
- (ii) where such office or place is held by an individual other than a Director or by any firm, Private Company or other Body Corporate, if the individual, firm, Private Company or Body Corporate holding it receives from the Company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

All other words and expressions used but not defined in the Policy but defined in the SEBI Act, 1992, the Act, the Regulations, the Securities Contracts (Regulation) Act, 1956, the Depositories Act, 1996 and/ or the rules and regulations made thereunder shall have the same meaning as respectively assigned to them in such Acts or rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

### **Approving Authority**

**By the Audit Committee:**

**Under the Regulations**

All Related Party Transactions as per the Regulations shall require the prior approval of the Audit Committee at a Meeting of the Audit Committee or by way of circulation.

**Under the Act**

Any transaction or any subsequent modification of transactions of the Company with related parties shall require the approval of the Audit Committee at a Meeting of the Audit Committee or by way of circulation.

**By the Board:**

**Under the Regulations**

All Material Related Party Transactions under the Regulations which are subject to approval of the Shareholders shall require the approval of the Board of Directors at a Meeting of the Board.

**Under the Act**

All "Related Party Transactions which are not in Ordinary Course of Business or not at an Arm's Length" shall require the prior approval of the Board of Directors at a Meeting of the Board and required compliances prescribed under section 188 of the Companies Act read with the Companies (Meetings of Board and its Powers) Rules, 2014, as amended.

**By the Shareholders of the Company:**

**Under the Regulations**

All Material Related Party Transactions under the Regulations shall require approval of the Shareholders' by means of a Resolution passed at a General Meeting or through Postal Ballot. All entities falling under the definition of Related Parties shall not vote to approve such resolution irrespective of whether the entity is a party to the particular transaction or not.

Provided that the aforesaid requirement shall not apply in respect of a resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016, subject to the event being disclosed to the recognized stock exchanges within one day of the resolution plan being approved.

**Under the Act**

All "Related Party Transactions which are not in Ordinary Course of Business or not at an Arm's Length" and exceeding the prescribed criteria under Section 188 of the Act shall require prior approval of the Shareholders'.

**Approval Process for Transaction with Related Party**

**Omnibus approval by the Audit Committee:**

- (a) As per the terms of reference approved by the Board, the Company may obtain omnibus approval from the Audit Committee for Related Party Transactions in accordance with the Act and the Regulations.
- (b) The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval:
  - (i) Repetitiveness/ frequency of the transaction;

- (ii) Justification for the need of Omnibus Approval.
- (c) The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company.
- (d) The Audit Committee shall specify the criteria for making the omnibus approval which shall include the following conditions:
  - maximum value of the transactions, in aggregate, which can be allowed under omnibus route in a year;
  - the maximum value per transaction which can be allowed;
  - extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;
  - review, at such intervals as the Audit Committee may deem fit, Related Party Transactions entered by the Company pursuant to the each of the omnibus approval made;
  - transactions which cannot be subject to the omnibus approval by the Audit Committee.
- (e) The omnibus approval shall contain the following information:
  - Name(s) of the Related Party;
  - Nature of the transaction;
  - Period of transaction;
  - Maximum amount of transactions that can be entered into;
  - The indicative base price/current contracted price and the formula for variation in the price, if any,
  - Method and manner of determining the pricing and other commercial terms;
  - Whether the transaction is at arm's length; and
  - Any other information relevant or important for the Audit Committee to take a decision on the proposed transaction.
- (f) In such cases where the need for Related Party Transaction cannot be foreseen and details as required above are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 (one) crore per transaction.
- (g) The Audit committee shall review, at least on a quarterly basis, the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approvals given and such transactions shall be placed before the Board



within a period of 3 (three) months from the date of transaction for approval/ratification of the Board, if required.

- (h) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

**Specific Approval by the Audit Committee:**

All the transactions that are identified as Related Party Transactions under the scope of this Policy and not covered under Omnibus Approval mechanism shall be placed before the Audit committee for prior approval with the relevant material information of the Related Party Transaction.

**Approval by the Board and Shareholders:**

The following information shall be provided to the Board pertaining to the approval of Related Party Transaction:

- (a) The name of the Related Party and nature of relationship;
- (b) The nature, duration of the contract and particulars of the contract or arrangement;
- (c) The material terms of the contract or arrangement including the value, if any;
- (d) Any advance paid or received for the contract or arrangement, if any;
- (e) The manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- (f) Whether all factors relevant to the contract have been considered, if not, the details of factors not considered with the rationale for not considering those factors;
- (g) The persons/authority approving the transaction; and
- (h) Any other information relevant or important for the Committee to take a decision on the proposed transaction.

In case of "Related Party Transactions which are not in Ordinary Course of Business or not at an Arm's Length" and exceeds the prescribed criteria under Section 188 of the Act and in case of Material Related Party Transactions, the following information shall be given in the explanatory statement forwarded to Shareholders after the approval of the Board:

- (a) Name of the Related Party
- (b) Name of the Director or KMP who is related, if any
- (c) Nature of relationship
- (d) Nature, material terms, monetary value and particulars of the contract or arrangement

- (e) Any other information relevant or important for the members to take a decision on the proposed resolution

#### **Exemption from Obtaining Approval for Related Party Transaction under Regulations**

As per the provisions of the Act and the sub-regulation (5) of Regulation 23 of the Regulations, transactions entered into between the Company and its Wholly Owned Subsidiary whose accounts are consolidated with such Holding Company and placed before the Shareholders at the General Meeting for approval are exempted from obtaining prior approval of Audit Committee for Related Party Transaction.

#### **Ratification of the Related Party Transaction**

Where any contract or arrangement is entered into by a Director or employee of the Company with Related Party without obtaining the consent of the Board or approval of Shareholders, and if the same is not ratified by the Board or Shareholders as the case may be within 3 (three) months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board or, as the case may be, at the option of the Shareholders.

#### **Reporting of Related Party Transactions**

The Company is required to disclose in its Annual Financial Statements and Directors' Report, certain transactions between the Company and Related Parties as well as Policy relating thereto. The Policy shall also be disclosed on the website of the Company and a web link thereto shall be provided in the Annual Report of the Company.

Upon listing, the Company shall submit within 30 days from the date of publication of its financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website.

#### **Amendment**

The Board shall have power to amend any of the provisions of the Policy, substitute any of the provisions with a new provision or replace the Policy entirely with a new Policy according to subsequent modification(s)/amendment(s) to the Act and Regulations.