



POLICY ON RELATED PARTY TRANSACTIONS

PREAMBLE

The Board of Directors (the “Board”) of Velan Hotels Limited (the “Company”), has adopted the policy and procedures with regard to Related Party Transactions as below. This policy is to regulate transactions between the Company and its Related Parties based on the applicable laws and regulations. This policy is effective from October 1, 2014 and has been adopted pursuant to Section 188 of the Companies Act, 2013 (the “Act”) and Rules made there-under and as per Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) 2015. The Audit Committee will review and may amend this policy from time to time. The amended policy came into effect from April 1, 2022.

PURPOSE

This policy is intended to ensure a system of approval and reporting of transactions between the Company and its Related Parties. Such transactions are appropriate only if they are in the best interest of the Company and its shareholders. The Company is required to disclose each year in its Financial Statements the transactions entered between the Company and the Related Parties as well as policies concerning transactions with the Related Parties.

DEFINITIONS

“**Arm’s Length Basis**” means that the price for a transaction between two Related Parties that is conducted as if they were unrelated, so that there is no conflict of interest. For determination of Arm’s Length Basis, guidance may be taken from the provisions of Transfer Pricing under The Income Tax Act, 1961.

“**Audit Committee or Committee**” means a Committee of Board of Directors of the Company constituted under provisions of the Act and the SEBI (Listing Obligations and Disclosure Requirements), 2015.

“**Board**” means Board of Directors of the Company.

“**Control**” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

“**Director(s)**” means a Director(s) of the Company.

“**Key Managerial Personnel**” means key managerial personnel as defined under the Companies Act and includes:

- (i) Managing Director, or Chief Executive Officer or manager and in their absence, a whole time Director;



- (ii) Company Secretary; and
- (iii) Chief Financial Officer.

“Material modification” in a related party transaction means any modification related to change in price/value of the transactions which will exceed 25% of the approved transactions for a financial year.

“Material Related Party Transaction” means a transaction with a Related Party if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds rupees one thousand crore or ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company, whichever is lower;

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 into individually or taken together with previous transactions during a financial year, exceed five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

“Policy” means this Related Party Transactions Policy.

“Promoter” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2004 and SEBI (Listing Obligations and Disclosure Requirements), 2015.

“Related Party” means a related party as defined in Section 2(76) of the Act and Regulation 2 (zb) of the SEBI (Listing Obligations and Disclosure Requirements), 2015 and applicable Accounting Standards followed in India, as amended from time to time.

“Related Party Transaction” means a transaction involving a transfer of resources, services or obligations between:

- (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or
- (ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;

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:

Provided that the following shall not be a related party transaction:

- a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- b) the following corporate actions by the listed entity which are uniformly applicable/offered to all shareholders in proportion to their shareholding:
 - i. payment of dividend;
 - ii. subdivision or consolidation of securities;
 - iii. issuance of securities by way of a rights issue or a bonus issue; and



- iv. buy-back of securities.
- c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board:

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognized stock exchange(s);”

Provided further that the following is the lists of transactions are exempted from the definition of Related Party Transactions:

- a. Issue of specified securities on a preferential basis, subject to compliance of ICDR Regulations;
- b. Corporate actions which are uniformly applicable/ offered to all the shareholders in proportion to their shareholding;
- c. payment of dividend,
- d. subdivision or consolidation of securities.
- e. issuance of securities by way of a rights issue or a bonus issue; and
- f. buy-back of securities.
- g. acceptance of fixed deposits by banks/ NBFCs at the terms uniformly applicable/ offered to all shareholders/ public, subject to disclosure of the same along with the disclosure of RPTs every 6 months to the stock exchanges.
- h. acceptance of fixed deposits by banks/ NBFCs at the terms uniformly applicable/ offered to all shareholders/ public, subject to disclosure of the same along with the disclosure of RPTs every 6 months to the stock exchanges.

“**Relative**” shall have the meaning assigned to it in Section 2(77) of the Act and the Rules prescribed there-under and SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015.

“subsidiaries” shall refer to and have the same meaning as assigned to “subsidiary company” or “subsidiary” in Section 2 (87) of the Act and the Rules prescribed there-under and SEBI Listing (Obligations and Disclosure Requirement) Regulations, 2015.

POLICY

All the transactions with the Related Parties of the Company should be reported to the Audit Committee and referred for approval by the Audit Committee in accordance with this Policy. However, the Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company, subject to the following conditions:

- a) Audit Committee, after obtaining approval of the Board, shall lay down the criteria for granting the omnibus approval in line with the policy on Related Party Transactions of the Company and such approval shall be applicable in respect of transactions which are repetitive in nature. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company.



- b) Such omnibus approval shall specify (i) the name of the Related Party, nature of transaction and period of transaction; (ii) maximum amount of transaction that can be entered into; (iii) the indicative base price/current contracted price and the formula for variation in the price, if any; and (iv) such other conditions as the Audit Committee may deem fit.
- c) The Audit Committee shall review on a quarterly basis the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approval given.
- d) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

Identification of the Related Parties

- a) The Directors and the Key Managerial Personnel of the Company shall provide the names of the Related Party(ies) from time to time in so far as it relates to them;
- b) The Chief Financial Officer of the Company shall finally identify and provide details of Related Party(ies) of the Company.
- c) The Company Secretary shall identify details of Related Party(s), covered under the definition of Promoter(s).
- d) The details of Related Party(ies) so received under clause (a), (b) and (c) hereinabove shall be updated periodically by the person(s) responsible for providing such details and any changes during the year shall be promptly intimated to the Company Secretary.
- e) The Company Secretary shall conduct a census of Related Party(ies) based on the details so provided and as available with the Company in order to facilitate compliance.
- f) The Company Secretary shall update the Related Party Register whenever necessary and review the Related Party Register at least once a year to confirm the information provided in the previous year or to communicate any changes.

Identification of potential Related Party Transactions

Each Director of the Company and Key Managerial Personnel of the Company is responsible for providing notice to the Board or Audit Committee of any potential Related Party Transaction involving him or her or his or her Relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. The Board or Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

Such notice of any potential Related Party Transaction shall be provided well in advance so that the Audit Committee or Board has adequate time to obtain and review information about the proposed transaction.



Prohibitions related to Related Party Transactions

All Related Party Transactions shall be on an Arm's Length basis only. All Related Party Transactions shall require prior approval of Audit Committee. Further, all Material Related Party Transactions and material modifications shall require prior approval of the shareholders and the Related Parties shall abstain from voting on such resolutions.

The criteria to determine whether a Related Party Transaction is in ordinary course of business:

There is no definition of the term 'ordinary course of business' under the Act and the Rules made thereunder. Accordingly, the meaning of the expression 'ordinary course of business' has to be construed in common parlance. The Black Law Dictionary, 7th Edition, defines 'course of business' as normal routine in managing a trade or business. It also states that 'course of business' is also termed as ordinary course of business, regular course of business, ordinary course, regular course. Para A25 and A38 of the Standard on Auditing 550 on Related Parties, specify the parameters to identify transactions which might be considered as outside entity's ordinary course of business, such as:

- (a) Whether the transactions are overly complex;
- (b) Has unusual terms of trade, such as unusual price, interest rates, guarantees and repayment terms;
- (c) Lacks an apparent logical business reason for its occurrence;
- (d) Involves previously unidentified related parties;
- (e) Transaction is processed in an unusual manner.

In view of the above, the following criteria that shall be applied to determine as to whether the proposed transaction can be said to be in the 'ordinary course of business' or not:

- a) Whether the activity is normal or otherwise unremarkable - These are activities undertaken by the enterprise as a part of its normal business. As per Accounting Standard 5 on 'Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policy', related activities in which the enterprise engages in furtherance of, incidental to, or arising from, would also be considered ordinary activities;
- b) Frequency of the Activity - The more frequent an activity the more it would be considered to be normal or ordinary;
- c) Regularity of an activity - This would relate to the predictability of the activity. An activity might not be frequent in nature but it could be predictable and that would make it ordinary;
- d) Activity meeting objectives - Where an activity is carried out to meet the objectives of the business it would be considered to be normal;
- e) Resources committed to the activity - If there are certain resources are dedicated to a particular activity then the activity would be considered ordinary. If the resources involved are significant and material then it is more likely that the activity is ordinary.

Thus, the transactions which are normally and routinely entered in managing a trade or business could be regarded as transactions entered into in the 'ordinary course of business'.



The criteria to determine whether the proposed RPTs have been entered into at a price that satisfies the “Arm’s Length” test

Explanation (b) of Sub-section (1) of Section 188 of the Act defines the expression “arm’s length transaction” as a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. However, there is no methodology provided in the Act and Rules for evaluating and benchmarking the RPTs with a transaction/price with an unrelated party. The concept of arm’s length price between Related Party/s is present under the IT Act and the IT Rules. Section 92C of the IT Act prescribes six methods for determining whether the transaction between two or more AEs is at ‘arm’s length’ price, which are listed down as follows:

- a) Comparable Uncontrolled Price method
- b) Resale Price Method
- c) Cost Plus Method
- d) Profit Split Method
- e) Transactional Net Margin Method
- f) Such other method as may be prescribed by the Board (Rule 10AB).

The methodology that has been adopted in the past and accepted by the Income tax authorities can be used for determining the arm’s length price of the transaction. Thus, in absence of mechanism under the Act and Rules, one may resort to the Transfer Pricing methodologies prescribed under the IT Act (‘Indian TP Regulations’) and any past precedence with the statutory authorities for benchmarking whether the RPTs entered into by the Company are at arm’s length.

Based on the study conducted comparing the Transactions of the Company with the similar Transactions with the Comparable Companies, the Transactional Net Margin Method would normally be the most appropriate method to benchmark the RPTs of the Company.

The following are the broad categories of Related Party Transactions:

- 1) Sale, purchase or supply of goods or materials ;
- 2) Selling or otherwise disposing of, or buying property of any kind;
- 3) Leasing of property of any kind;
- 4) Availing or rendering of any services;
- 5) Appointment of any agent for purchase or sale of goods, materials, services or property;
- 6) The Related Party’s appointment to any office or place of profit in the Company, its subsidiary company or associate company; and
- 7) Underwriting the subscription of any securities or derivatives thereof of the Company.

Review and Approval of Related Party Transactions

At the beginning of every financial year, the Company shall place before the Audit Committee the list of Related Party Transactions that the Company may enter into for that financial year which are repetitive in nature and an omnibus approval for the same be obtained. At every quarterly scheduled meeting of the Audit Committee that is convened to consider the financial results for the last quarter, the list of Related Party Transactions for the last quarter will be placed for review and approval if any required.



Any member of the Audit Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction. Only the independent directors of the Company shall approve the Related Party Transactions.

To review a Related Party Transaction, the Audit Committee will be provided with all relevant material information of the Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters. In determining whether to approve a Related Party Transaction, the Audit Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- ✓ Whether the terms of the Related Party Transaction are fair and/or on Arm's Length Basis (as far as possible) to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- ✓ Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- ✓ Whether the Related Party Transaction would affect the independence of an independent Director;
- ✓ Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- ✓ Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company;
- ✓ Whether the pricing mechanism, payment terms, terms on overdue, warranty, and other commercial and legal terms are in line with this policy; and
 - ✓ Whether the Related Party Transaction would present an improper conflict of interest for any Director of the Company and/or its subsidiaries or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the Director, Executive Officer or other Related Party, the direct or indirect nature of the Director's, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Board/Committee deems relevant.

If the Audit Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.



Related Party Transactions not approved under this Policy

In the event the Company or its subsidiaries become aware of a Related Party Transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Company and/or its subsidiaries, including ratification, revision or termination of the Related Party Transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Audit Committee under this Policy, and shall take any such action it deems appropriate.

In any case, where the Audit Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

This Policy will be communicated to all concerned employees of the Company, its associates and to all the Related Parties.