



TRUE COLORS LIMITED

(Formerly known as "True Colors Private Limited")

(U17299GJ2021PLC126265)

POLICY ON IDENTIFICATION OF MATERIAL CREDITORS AND MATERIAL LITIGATIONS

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A. Introduction

This Policy has been formulated to define the materiality for identification of outstanding material litigation, identification of group companies and outstanding dues to material creditors in respect of True Colors Limited and its Directors (the "**Company**"), pursuant to the disclosure requirements under Schedule VI of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as may be amended from time to time ("**SEBI ICDR Regulations**").

B. Applicability and Objective

This policy shall be called the 'Policy on Identification of Material Creditors, Group Companies and Material Litigations' ("**Materiality Policy**").

The Board of Directors of the Company ("**Board**") at their meeting held on March 13, 2025 discussed and approved this Materiality Policy. This Materiality Policy shall be effective from the date of approval of this Materiality Policy by the Board.

The Company has adopted this Materiality Policy for identification and determination of: (i) material creditors; (ii) group companies and (iii) material litigations pursuant to the provisions of SEBI ICDR Regulations, details of which shall be disclosed in the issue documents.

In this Materiality Policy, the term "**Issue Documents**" shall mean the Draft Red Herring Prospectus, the Red Herring Prospectus and the Prospectus to be filed by the Company in connection with the proposed initial public offering of its equity shares with the Securities and Exchange Board of India, Registrar of Companies, Mumbai ("**RoC**") and stock exchanges where the equity shares of the Company are proposed to be listed, as applicable.

All other capitalized terms not specifically defined in this Materiality Policy shall have the same meanings ascribed to such terms in the Issue Documents.

In this Materiality Policy, unless the context otherwise requires:

- a. Words denoting the singular shall include the plural and vice versa;
- b. References to the words "include" or "including" shall be construed without limitation.

C. Policy Pertaining to the Identification of Material Creditors, Group Companies and Material Litigations

The Materiality Policy with respect to the identification of the material creditors and material litigation shall be as follows:

Identification of Material Creditors

Requirement:

As per the requirements of SEBI ICDR Regulations, the Company shall make relevant disclosures in the Issue Documents for outstanding dues to creditors:

- (i) Based on the policy on materiality defined by the Board of Directors of the Company and as disclosed in the Issue Document, disclosure for such creditors which include the consolidated number of creditors and the aggregate amount involved;
- (ii) Consolidated information on outstanding dues to micro, small and medium enterprises and other creditors, separately giving details of number of cases and amount involved; and
- (iii) Complete details about outstanding over dues to material creditors along with the name and amount involved for each such material creditor shall be disclosed on the website of the Company with a web link thereto in the Issue Documents.

Policy on materiality:

For identification of material creditors, in terms of point (i) above, a creditor of the Company shall be considered to be material for the purpose of disclosure in the Issue Documents, if amounts due to such creditors exceed 5 % of the total consolidated trade payables of the Company as per the latest restated financial statements of the Company, as disclosed in the Issue Documents.

Disclosures in the Issue Documents regarding material creditors

- (i) For creditors identified as 'material' based on the abovementioned Policy, information on outstanding dues to such material creditors shall be disclosed in the Issue Documents along with the details of the material creditors, which include the consolidated number of creditors and amount involved on an aggregate basis, as of the date of the latest restated financial statements included in the Issue Documents.
- (ii) For outstanding dues to micro, small and medium enterprises ("**MSMEs**"), the disclosure will be based on information available with the Company regarding the status of the creditors as MSMEs as defined under Section 2 of the Micro, Small and Medium Enterprises Development Act, 2006, as amended, as has been relied upon by the statutory auditors in preparing their audit report. Information for such identified MSMEs creditors shall be provided in the Issue Documents in the following manner:
 - aggregate amounts due to such MSME creditors; and
 - aggregate number of such MSME creditors. as of the date of the latest restated financial statements included in the Issue Document.
- (iii) Complete details about outstanding over dues to the material creditors along with the name and amount involved for each such material creditor shall be disclosed on the website of our Company with a web link in the Issue Documents.

For the purposes of identification of material creditors, in terms of point (i) above, a creditor of the Company, shall be considered to be material for the purpose of disclosure in the Issue Documents and the website of the Company, if amounts due to such creditor is equal to or in excess of 5% of the consolidated trade payables of the Company as at the end of the latest period included in the Restated Consolidated Financial Information.

Identification of Group Companies

Requirement:

The policy with respect to the identification of the Group Companies of our Company shall be as follows:

As per Regulation 2(1)(t) of the SEBI ICDR Regulations, Group Companies shall include “such companies (other than promoter(s) and subsidiary(ies)) with which there were related party transactions, during the period for which financial information is disclosed, as covered under the applicable accounting standards, and also other companies as considered material by the board of the issuer.”

Policy on Materiality:

For the purpose of disclosure in the Issue Documents, a company shall be considered and disclosed as a Group Company if:

- a. such companies (other than promoter) and subsidiary(ies)) with which the relevant issuer company had related party transactions during the period for which financial information is disclosed, as covered under applicable accounting standards, and
- b. any other companies considered material by the Board of Directors of the relevant issuer company.

Accordingly, for (a) above, all such companies (other than our Subsidiary) with which there were related party transactions during the periods covered in the Restated Consolidated Financial Statement, as covered under the applicable accounting standards, shall be considered as Group Companies in terms of the SEBI (ICDR) Regulations. For the purpose of avoidance of doubt and pursuant to regulation 2(1)(t) of SEBI (ICDR) Regulations, 2018 it is clarified that our promoters and Subsidiary will not be considered as Group Companies.

In terms of the SEBI (ICDR) Regulations and in terms of the policy of materiality defined by the Board of Directors pursuant to its resolution dated March 13, 2025 our Group Companies includes:

Those companies disclosed as having related party transactions in accordance with Accounting Standard (“AS 18”) issued by the Institute of Chartered Accountants of India, in the Restated Consolidated Financial Statements of the Company for the last three financial years and stub period.

All such companies which the Board has deemed to be material to be considered as Group Companies / Associates Companies.

Accordingly, as per the most recently completed fiscal or stub period as per the restated consolidated financial statements (“Restated Financial Consolidated Statements”) of the Company, as disclosed in the Issue Documents, below entities are identified as Group Companies:

1. [●]

Identification of Material Litigation

Requirement:

As per the requirements of SEBI ICDR Regulations, the Company shall disclose all the litigation involving the Company, its material subsidiaries, Promoters, Directors of the Company related to:

- (i) All criminal proceedings;
- (ii) All actions by statutory / regulatory authorities;
- (iii) Claims related to direct and indirect taxes, in a consolidated manner giving details of number of cases and total amount; and
- (iv) Other material pending litigations - as per policy of materiality defined by the Board and disclosed in the Issue Documents.

Additionally, in terms of the SEBI ICDR Regulations, the Company is required to disclose any outstanding litigation involving the Group Companies, which may have a material impact on the Company. For the purposes of determining the outstanding litigation involving the Group Companies, which may have a material impact on the Company, the criteria specified under "Policy on materiality" herein below shall apply.

Policy on materiality:

For the purpose of point number (iv) above, any other pending litigation involving the Company, Subsidiaries, Promoters and its Directors and shall be considered "material" for the purpose of disclosure in the Issue Documents if:-

- (i) the omission of an event or information, whose value or the expected impact in terms of value exceeds the limits as prescribed under the SEBI Listing Regulations (as amended from time to time) i.e.
 - a. two percent of turnover, as per the last audited consolidated financial statements of the Company; or
 - b. two percent of net worth, except in case of the arithmetic value of the networth is negative, as per the last audited consolidated financial statements of the Company;
 - c. five percent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the Company.

Accordingly, any transaction exceeding the lower of i, ii or iii above i.e. 61.429 Lakhs, will be considered for the above purpose.; or

- (ii) where the decision in one case is likely to affect the decision in similar cases, even though the amount involved in individual litigation does not exceed the amount determined as per clause (a) above, and the amount involved in all of such cases taken together exceeds the amount determined as per clause (i) above; and
- (iii) any such litigation which does not meet the criteria set out in (a) above and an adverse outcome in which would materially and adversely affect the operations or financial position of the Company.

D Amendment

The Executive Chairman of the Company in consultation with the Board of Directors shall have the power to amend any of the provisions of this Materiality Policy, substitute any of the provisions with a new provision or replace this Materiality Policy entirely with a new Policy. This Materiality Policy shall be subject to review/changes as may be deemed necessary and in accordance with regulatory amendments from time to time.

(This Policy is approved by the Board of Directors at its meeting held on July 04, 2025)