

**REPORT OF THE AUDIT COMMITTEE OF HB PORTFOLIO LIMITED ('THE COMPANY')
RECOMMENDING THE SCHEME OF ARRANGEMENT BETWEEN THE COMPANY, HB
STOCKHOLDINGS LIMITED AND HB ESTATE DEVELOPERS LIMITED, IN THEIR MEETING HELD
ON 10TH FEBRUARY, 2016.**

MEMBERS PRESENT:

Mr. Raj Kumar Bhargava Chairperson (Independent Director)
Mr. Bhuneshwar Lal Chadha Member (Independent Director)

IN ATTENDANCE:

Mr. Anil Goyal Managing Director
Mr. Dinesh Kapoor Company Secretary

I. BACKGROUND:

We have been informed that the Board of Directors of HB Portfolio Limited is proposing to consider a Scheme of Arrangement between HB Portfolio Limited (HBPL / the Company), HB Stockholdings Limited (HBSL) and HB Estate Developers Limited (HBEDL) under Sec 391-394 of the Companies Act, 1956, Sec 100 to 104 of the Companies Act, 1956, Sec 13, 52, 61 of the Companies Act, 2013 ('the Act') and / or applicable provisions of the Act.

This report of Audit Committee is made in order to comply with the requirements of Circular No. CIR/CFD/DIL/5/2013 Dated February 04, 2013 read with Circular No. CIR/CFD/DIL/8/2013 Dated May 21, 2013 ("Circular") issued by the Securities Exchange Board of India ("SEBI").

As required under Regulation 37 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Company will be filing the Draft Scheme of Arrangement along with all necessary information/documents with the Bombay Stock Exchange Limited (BSE) post approval of the Scheme in the Board Meeting.

The Board has sought a report from the Audit Committee for recommending the Draft Scheme of Arrangement.

The members of the Audit Committee have discussed and approved the said Draft Scheme of Arrangement and have made this Report after perusing the following necessary documents:



- a) Draft Scheme of Arrangement;
- b) Valuation Report dated 06th February, 2016 obtained from M/s S. S. Kothari Mehta & Co., Chartered Accountants, New Delhi on the Share Exchange Ratio pursuant to the said Scheme of Arrangement; and
- c) Fairness Opinion dated 09th February, 2016 obtained from D&A Financial Services (P) Ltd, Merchant Bankers, New Delhi on the Share Exchange Ratio recommended by M/s S. S. Kothari Mehta & Co., Chartered Accountants.

II. PROPOSED SCHEME OF ARRANGEMENT:

SUMMARY OF SCHEME OF ARRANGEMENT

PART – I: DEMERGER

(1) The Management of HB Stockholdings Limited (“HBSL”), HB Portfolio Limited (“HBPL”) and HB Estate Developers Limited (“HBEDL”), collectively referred as the “Group” are considering Demerger (“Proposed Restructuring”) of the following, through a Scheme of Arrangement under Section 391-394 of the Companies Act, 1956 and as per Section 2(19AA) of the Income Tax Act, 1961, in the Chronological order as mentioned below:

- (A) Investment Division 1 from HB Stockholdings Ltd. into HB Portfolio Ltd. (Demerger 1);
- (B) Investment Division 2 from HB Stockholdings Ltd. into HB Estate Developers Ltd. (Demerger 2);
- (C) Investment Division 3 from HB Portfolio Ltd. into HB Estate Developers Ltd. (Demerger 3).

(A) Investment Division 1 from HB Stockholdings Ltd. (HBSL) into HB Portfolio Ltd. (HBPL) (“Demerger 1”):

(Amount Rs. In Lakhs)

Particulars	As at 31 st March, 2015
Assets	5763.49
Liabilities	3.60
Net	5759.89

The Fair Value of Investment Division 1 of HBSL as per Adjusted NAV Method works out to Rs. 5,313 Lakhs.

SHARE EXCHANGE RATIO:

25 Equity Share of Rs. 10/- fully paid up of HBPL will be issued for every 100 Equity Shares of Rs. 10/- fully paid of HBSL to the Shareholders of HBSL as a consideration of Demerger 1.

TOTAL NUMBER OF SHARES TO BE ISSUED:

HBPL will issue 59,48,055 Nos. of fresh equity shares of Rs. 10/- each to the Shareholders of HBSL on the appointed date of the Demerger 1.



APPOINTED DATE:

The appointed date for the Demerger 1 is taken as opening of business hours as on April 1, 2015.

(B) Investment Division 2 from HB Stockholdings Ltd. (HBSL) into HB Estate Developers Ltd. (HBEDL) ("Demerger 2"):

(Amount Rs. In Lakhs)

Particulars	As at 31 March 2015
Assets	3604.00
Liabilities	4.17
Net	3599.83

The Fair Value of Investment Division 2 of HBSL as per Adjusted NAV Method works out to Rs. 3,420 Lakhs.

SHARE EXCHANGE RATIO:

24 Equity Share of Rs. 10/- fully paid up of HBEDL will be issued for every 100 Equity Shares of Rs. 10/- fully paid of HBSL to the Shareholders of HBSL as a consideration of Demerger 2.

TOTAL NUMBER OF SHARES TO BE ISSUED:

HBEDL will issue 57,10,132 Nos. of fresh equity shares of Rs. 10/- each to the Shareholders of HBSL on the appointed date of the Demerger 2.

APPOINTED DATE:

The appointed date for the Demerger 2 is taken as opening of business hours as on April 2, 2015.

(C) Investment Division 3 from HB Portfolio Ltd. (HBPL) into HB Estate Developers Ltd. (HBEDL) ("Demerger 3"):

(Amount Rs. In Lakhs)

Particulars	As at 31 March 2015
Assets	7202.50
Liabilities	3.54
Net	7198.96

The Fair Value of Division 3 of HBPL as per Adjusted NAV Method works out to Rs. 6,283 Lakhs.

SHARE EXCHANGE RATIO

59 Equity Share of Rs. 10/- fully paid up of HBEDL will be issued for every 100 Equity Shares of Rs. 10/- fully paid of HBPL to the Shareholders* of HBPL as a consideration of Demerger 3.



* Number of shares of HBPL as on appointed date for Demerger 3, i.e. after considering the number of shares issued to the Shareholders of HBSL in Demerger 1 to be taken into account.

TOTAL NUMBER OF SHARES TO BE ISSUED

HBEDL will issue 1,05,84,826 Nos. of fresh equity shares of Rs. 10/- each to the Shareholders of HBPL on the appointed date of the Demerger 3.

APPOINTED DATE

The appointed date for the Demerger 3 is taken as opening of business hours as on April 3, 2015.

(2) CONSIDERATION

- The consideration for such proposed demerger will be discharged by issue of equity shares by Respective Resulting Companies (Companies in which the divisions are demerged) to the shareholders of the Respective Demerged Companies (Companies from which divisions are getting demerged) as on the respective appointed date for the Demerger.
- As per the scheme of arrangement, The Investments in preference shares of HBEDL amounting to INR 750 lakhs by HBSL shall stand cancelled after Demerger 2 coming into effect and immediately after issuance of the Equity shares of HBEDL to the shareholders of HBSL. Also Investments in preference shares of HBEDL amounting to INR 750 lakhs and loan of INR 900 lakhs by HBPL to HBEDL shall stand cancelled after Demerger 3 coming into effect and immediately after issuance of the Equity shares of HBEDL to the shareholders of HBPL.

(3) EFFECTIVE DATE

- 'Effective Date' means the last of the dates on which all conditions, matters and filings have been fulfilled and necessary orders, approvals and consents referred to therein have been obtained. References in this Scheme to the date of "coming into effect of this Scheme" or "upon the Scheme being effective" shall mean the Effective Date.
- The Scheme in its present form or with any modification(s) approved or imposed or directed by the Hon'ble High Court, shall be effective from the Appointed Date but shall be operative from the Effective Date.

(4) RATIONALE OF DEMERGER

- The restructuring proposed by the Management will enable investors to separately hold investment in businesses with different investment characteristics, thereby enabling them to select investments which best suit their investment strategies and risk profiles.
- In order to effectively and efficiently cater to the independent growth plans both through organic and inorganic means, for each of the businesses of the respective Company, there is a requirement of diversification and continuous funding support through equity and debt. In view of this, the Management proposes to re-organize the business of the Demerged Companies in order to facilitate greater efficiency in cash management and excess of cash flow generated to maximize shareholders' value. Therefore, it is proposed to demerge



various Demerged Undertakings, being the Investment Divisions for different asset types of the Demerged Companies and transfer and vest the same in different Resulting Companies.

- The demerger shall facilitate the running of the other Investment business of the Demerged Company with a greater and focused approach. Further, the demerger shall help to create a focused Investment company.
- This reorganization and segregation of the businesses, is indispensable to provide focused management attention and leadership required by the business which is to be segregated and demerged as also by the residual business.
- Also it is believed that the proposed segregation will create enhanced value for shareholders and allow a focused strategy in operations, which would be in the best interest of the companies mentioned herein, its shareholders, creditors, and all other person connected with the companies.

PART – II: REDUCTION OF SHARE CAPITAL

The management intends to carry out Reduction of Share Capital of the group as per Section 66 of Companies Act, 2013 read with Section 100 to 104 of Companies Act, 1956 and other applicable provisions of the Company Law in the following ways:

(1) HB Stockholdings Limited (HBSL)

- (i) The management proposes that after the above mentioned demerger(s), the issued and paid up equity share capital of HBSL shall be reduced by reducing the face value of the equity shares from 1 (one) equity shares of Rs. 10/- fully paid up to 1 (one) equity share of Rs. 3/- each fully paid since such capital shall no longer be represented by the assets of the company.
- (ii) As a result, the issued and paid up equity share capital shall be reduced from Rs. 23,79,22,180 comprising of 2,37,92,218 shares of Rs. 10/- each to Rs. 7,13,76,654 comprising of 2,37,92,218 shares of Rs. 3/- each.
- (iii) Simultaneously, 10 (Ten) equity shares of Rs. 3 each fully paid up shall be consolidated into 3 (three) fully paid- up share of Rs. 10/- each resulting in 71,37,665 fully paid-up Equity Shares of Rs. 10/- each after ignoring fractional shares.

(2) HB Portfolio Limited (HBPL)

- (i) The management proposes that after the above mentioned demerger(s), the issued and paid up equity share capital of HBPL shall be reduced by reducing the face value of the equity shares from 1 (one) equity share of Rs. 10/- fully paid up to 1 (one) equity share of Rs. 6/- each fully paid since such capital shall no longer be represented by the assets of the company.
- (ii) As a result, the issued and paid up equity share capital shall be reduced from Rs. 17,94,03,840 comprising of 1,79,40,384 shares of Rs. 10/- each to Rs. 10,76,42,300 comprising of 1,79,40,384 shares of Rs. 6/- each.
- (iii) Simultaneously, 5 (five) equity shares of Rs. 6/- each fully paid up shall be consolidated into 3 (three) fully paid- up share of Rs. 10/- each resulting in 1,07,64,230 fully paid-up Equity Shares of Rs. 10/- each after ignoring fractional shares.



(3) HB Estate Developers Limited (HBEDL)

- (i) In order to maintain a capital that is commensurate with the present income generating capacity and future viability of operations of HBEDL, the management proposes that the issued and paid up equity share capital of HBEDL shall be reduced by reducing the face value of the equity shares from 1 (one) equity share of Rs. 10/- fully paid up to 1 (one) equity share of Rs. 6/- each fully paid after the above mentioned demerger(s).
- (ii) As a result, the issued and paid up equity share capital shall be reduced from Rs. 32,43,32,450 comprising of 3,24,33,245 shares of Rs. 10/- each to Rs. 19,45,99,470 comprising of 3,24,33,245 shares of Rs. 6/- each.
- (iii) Simultaneously, 5 (five) equity shares of Rs. 6/- each fully paid up shall be consolidated into 3 (three) fully paid-up share of Rs. 10/- each resulting in 1,94,59,947 fully paid-up Equity Shares of Rs. 10/- each after ignoring fractional shares.

PART – III: REORGANISATION OF AUTHORISED SHARE CAPITAL

The management intends to carry out Reorganisation of Authorised Share Capital of the group as per Section 13 and 61 of Companies Act, 2013 and other applicable provisions of the Company Law in the following ways:

(1) HB Stockholdings Limited (HBSL)

The existing Authorised Share Capital of HBSL is Rs. 100,00,00,000/- (Rupees One Hundred Crores) divided into 7,00,00,000 (Seven Crore) Equity shares of Rs. 10/- (Rupees Ten) each and 3,00,00,000 (Three Crore) Redeemable Preference shares of Rs. 10/- (Rupees Ten) each.

Upon the Scheme becoming effective, the Clause V of the Memorandum of Association of HBSL shall stand substituted, without any further act or deed by the following clause:

"The Authorized Share Capital of the Company is Rs. 35,00,00,000/- (Rupees Thirty Five Crores) divided into 2,50,00,000 (Two Crores Fifty Lakhs) Equity shares of Rs. 10/- (Rupees Ten) each and 1,00,00,000 (One Crore) Redeemable Preference shares of Rs. 10/- (Rupees Ten) each."

(2) HB Portfolio Limited (HBPL)

The existing Authorised Share Capital of HBPL is Rs. 30,00,00,000/- (Rupees Thirty Crores) divided into 2,00,00,000 (Two Crore) Equity shares of Rs. 10/- (Rupees Ten) each and 1,00,00,000 (One Crore) Redeemable Preference shares of Rs. 10/- (Rupees Ten) each.

Upon the Scheme becoming effective, the Clause V of the Memorandum of Association of HBPL shall stand substituted, without any further act or deed by the following clause:

"The Authorized Share Capital of the Company is Rs. 40,00,00,000/- (Rupees Forty Crores) divided into 2,00,00,000 (Two Crore) Equity shares of Rs. 10/- (Rupees Ten) each and 2,00,00,000 (Two Crore) Redeemable Preference shares of Rs. 10/- (Rupees Ten) each."

(3) HB Estate Developers Limited (HBEDL)

The existing Authorised Share Capital of HBEDL is Rs. 115,00,00,000/- (Rupees One Hundred Fifteen Crores) divided into 3,50,00,000 (Three Crore Fifty Lakh) Equity shares of Rs. 10/-



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(Rupees Ten) each and 80,00,000 (Eighty Lakh) Redeemable Preference shares of Rs. 100/- (Rupees One Hundred) each.

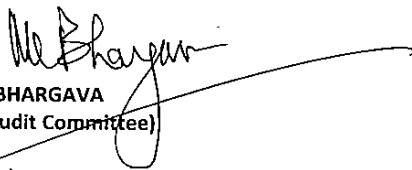
Upon the Scheme becoming effective, the Clause V of the Memorandum of Association of HBEDL shall stand substituted, without any further act or deed by the following clause:

"The Authorized Share Capital of the Company is Rs. 170,00,00,000/- (Rupees One Hundred Seventy Crores) divided into 3,50,00,000 (Three Crore Fifty Lakh) Equity shares of Rs. 10/- (Rupees Ten) each and 1,35,00,000 (One Crore Thirty Five Lakh) Redeemable Preference shares of Rs. 100/- (Rupees One Hundred) each."

III. RECOMMENDATION OF THE AUDIT COMMITTEE:

Based on the Valuation Report received from M/s S. S. Kothari Mehta & Co., Chartered Accountants and Fairness Opinion received from D&A Financial Services (P) Ltd, Merchant Bankers, the Audit Committee recommends the Draft Scheme of Arrangement for the consideration of the Board of Directors of the Company, Bombay Stock Exchange (BSE) and the Securities and Exchange Board of India (SEBI).

By order of the Audit Committee
For HB PORTFOLIO LIMITED



RAJ KUMAR BHARGAVA
(Chairman, Audit Committee)

Dated: 10th February, 2016

Place: Gurgaon

