Himalya
INTERNATIONAL LIMITED
CIN : L51909DL1992PLC047399

REPORT OF THE AUDIT COMMITTEE OF HIMALYA INTERNATIONAL LIMITED RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT OF HIMALYA INTERNATIONAL LIMITED INTO APPETIZERS AND SNACKS FOODS LIMITED & HIMALYA GREEN APARTMENTS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

Members

1. Mr. Man Mohan Malik Chairman Cum Managing Director
2. Smt. Sangita Malik Whole time Director
3. Mr. Sunil Khera Independent Director
4. Mr. Ashish Sachdeva Independent Director

1. Background

In accordance with the provisions of SEBI Circular No. CIR/CFD/CMD/16/2015 dated November 30, 2015 ("**Circular**"), the draft Composite Scheme of Arrangement under Section 391-394 of the Companies Act, 1956 and other relevant provisions of the Companies Act, 1956 and/or Sections 230-233 of the Companies Act, 2013, if in force, and other relevant provisions of the Companies Act, 2013 as may be applicable to Himalya International Limited ("**Company**") and Appetizers And Snacks Foods Limited and Himalya Green Apartments Limited and their respective Shareholders and Creditors ("**Scheme**") was placed before the Audit Committee by the Company after Re-organization Committee has evaluated the various options for restructuring of the Company so as to achieve the optimum utilization of the resources and better management focus , to consider and recommend the draft Scheme to the Board of Directors of the Company taking into account *inter alia*, the valuation report dated September 30, 2016 from R Somani & Associates, Independent Chartered Accountants and fairness opinion dated September 30, 2016 from R R Investors Capital Service Private Limited, Independent Merchant Bankers.

This report is made in accordance with the requirements of the Circulars and Section 177 of the Companies Act, 2013 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules 2014, and the relevant rules, circulars and notifications issued under the Companies Act, 2013 including any amendment or enactment thereof.

The report has been made after perusing the following necessary documents:

a. Draft Scheme of Arrangement;
b. Valuation report dated September 30, 2016 from R Somani & Associates, Independent Chartered Accountant; and
c. Fairness opinion dated September 30, 2016 from R R Investors Capital Service Private Limited, Independent Merchant Banker.

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2. Proposed Scheme

The Audit Committee perused the draft Scheme placed before it for its consideration and noted the rationale of the proposed Scheme, which is, *inter alia*, as follows: -

The Demerged Company currently has diversified food and agro business. It is the first Indian Company to set up 100% EOU for frozen mushrooms, vegetables and fruits. It offers all the natural products which includes mushrooms, dairy products, French fries and potato speciality products, battered appetizers and Ethnic Indian snacks and sweets. The Company has a plant in Paonta Sahib in Himachal Pradesh for producing mushrooms and other packaged food products mainly catering to domestic demand and another plant with latest technology has been set up in Vadnagar Gujarat with large capacities for mushrooms, French fries, frozen appetizers, Dairy and canning.The Demerged Company also has an investment in 13.44 Hectare agriculture land at Neemrana in Rajasthan for Infrastructure Project.

Pursuant to the demerger of Demerged Undertaking 1 and vesting the same in Resulting Company 1, the capital redemption reserve, capital reserve (if required) and the securities premium account (if required) of the Demerged Company shall be reduced to set off the difference between the assets and the amount of liabilities pertaining to the Demerged Undertaking 1 being transferred to the Resulting Company 1. The management of the Demerged Company proposes to demerge its business interests in the production and export of packaged foods, comprising of the Demerged Undertaking 1. The Demerged Company will only retain the production and domestic sale of mushrooms and retain the domestic & export sale of packaged sweets, Indian snacks & meals products from its plant at Paonta Sahib, Himachal Pradesh.

The unit in Gujarat has major investment with modern units of large capacities set up with new infrastructure on 20.85 hectare land. The units consist of French fries & potato specialty products, fresh chilled, frozen and canned mushrooms, Western style appetizers, Milk processing for cheese, butter & yogurt besides canned soups and curries.

It also has imported 9.5 Ton per hour line to manufacture French fries yet to be setup under EOU scheme. The management is of the view that these assets can be hived off as a separate company catering to export demand of products. Gujarat is the only state of India that is producing high solids, Low sugar oblong varieties of potato that are the basic requirement of French-fry industry. Further, the unit being close to Mundra port is very suitable for exports also and has major attraction for large players. Also, Himachal unit is located in one corner of the country and has reach to the limited markets of North India. Exports from here are becoming expensive due to high inland costs of Refrigerated containers to port.

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Pursuant to the demerger of Demerged Undertaking 2 and vesting the same in Resulting Company2, the capital redemption reserve, capital reserve (if required) and the securities premium account (if required) of the Demerged Company shall be reduced to set off the difference between the assets and the amount of liabilities pertaining to the Demerged Undertaking 1 being transferred to the Resulting Company 2.The management of the Demerged Company proposes to demerge its business interests in infrastructure project on Agriculture land in Rajasthan, comprising of the Demerged Undertaking 2.

The Agriculture Land at NH8 is proposed to be converted to infrastructure/Real Estate project including low cost housing project. The management of the Demerged Company believes that the business interests of the Demerged Company in the Demerged Undertaking 2require dedicated management focus. The separation of the Real Estate/Infrastructure Business, by way of the Scheme, including its undertaking and investments from the Demerged Company would lead to significant benefits for both the businesses.

The proposed reconstruction will add best value to the business and create fresh opportunities as under:

a) Demerged Company will be able to invest for the modernization of existing unit and will focus on catering the demand of regional North Indian markets upto NCR & only value added Frozen Indian sweets & snacks for exports.
b) Resulting Company 1 will become an export oriented Company focusing on French fries, specialty potato products, western style appetizers, Cheese and canned soups & curries for exports and will attract large overseas players.
c) Resulting Company 2 will become attractive as infrastructure/Real estate project for potential Joint Ventures or outright sale of the housing to poor under PMAY 'Housing to All' mission.

Further, the listing of the equity shares of Resulting Company 1 and Resulting Company 2 on the Stock Exchange (*as defined hereinafter*) would help the shareholders of both the companies to unlock the value of their shares.

The demerger would also enable greater/enhanced focus of management of the Resulting Company 1 at Demerged Undertaking 1 and Resulting Company 2 at Demerged Undertaking 2 and thereby facilitating the management to exploit further opportunities for the said undertakings. The proposed segregation will create enhanced value for shareholders by allowing a focused strategy in operations, which would be in best interest of all the stakeholders and the persons connected with Demerged Company, Resulting Company 1 and Resulting Company 2. The demerger will help in growth of Demerged Company, Resulting Company 1 and Resulting Company 2 by providing the scope for independent collaboration and expansion. Further, the reorganization and consequent reduction of the paid up share capital of the Demerged Company will result in better returns to the investors and improved financial ratios.

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The salient features of the draft Scheme are as under:

This Composite Scheme of Arrangement is presented under the provisions of Sections 391 - 394 read with Sections 100 - 103 of the 1956 Act and / or other relevant provisions of the Act (as defined hereinafter), for the (i) demerger of the Demerged Undertaking 1 and Demerged Undertaking 2 of the Demerged Company and vesting of the same in the Resulting Company 1 and Resulting Company 2 (as defined hereinafter); (ii) the reduction of the issued and paid-up equity share capital of the Resulting Company 1 and Resulting Company 2 and reorganization and reduction of the paid up equity share capital of Demerged Company; and (iii) listing of the equity shares of Resulting Company 1 and Resulting Company 2 on the Stock Exchange. In addition, this Composite Scheme of Arrangement also provides for various other matters consequential or otherwise integrally connected herewith.

3. Recommendation of the Audit Committee

The Audit Committee has considered and noted the aforementioned documents along with the draft Scheme and recommends the draft Scheme, for favourable consideration by the Board of Directors of the Company, Stock Exchanges, SEBI and other regulatory authorities.

Date: 01.10.2016
Place: Paonta Sahib

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Man Mohan Malik
Chairman