



Hindustan Foods Ltd.



Corporate Headquarters & Registered Office : Dempo House, Campal, Panaji, Goa - 403 001.
Ph. : 832 - 2441300, Gram : 'hindfood. Fax : 91 - 832 - 2225098, 2228588,
E-mail : hfl@dempos.com, Website: www.hflgoa.com CIN: L15139GA1984PLC000601

REPORT OF THE AUDIT COMMITTEE OF HINDUSTAN FOODS LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN AVALON COSMETICS PRIVATE LIMITED AND HINDUSTAN FOODS LIMITED.

ANNEXURE (D)

Present – Members

- a) Mr. Shashi K. Kalathil : Chairman of the Audit Committee
- b) Mr. Ganesh T. Argekar : Member
- c) Ms. Honey Vazirani : Member

In attendance

- a) Mr. Amrish Vaidhya : MSKA & Associates, Statutory Auditors
- b) Mr. S. Sriram : R.Sundararaman & Co., Internal Auditors
- c) Ms. Beena Mahambrey : Company Secretary

1. Background

- 1.1 The Proposal to approve a scheme of arrangement between Hindustan Foods Limited ('the Company' or 'the Resulting Company' or 'HFL') and Avalon Cosmetics Private Limited ('Demerged Company' or 'ACPL') was placed before and considered by the Audit Committee at its meeting held on Thursday, May 24, 2018 at 11.00 am at Office No.3, Level-2, Centrium, Phoenix Market City, 15 LBS Marg, Kurla, Mumbai-400070. The said proposal would involve (a) the transfer by way of a demerger of the Contract Manufacturing (Hyderabad) Business ('Demerged Undertaking') of the Demerged Company to the Company and consequent issue of equity shares by the Company to the shareholders of the Demerged Company ('Demerger') and (b) various other matters consequential or otherwise integrally connected therewith, with effect from the Appointed Date or such other date as may be approved by NCLT or any other competent authority, in accordance of the terms of a scheme of arrangement between the Company, the Demerged Company and their respective shareholders. The said proposal ('Draft Scheme of Arrangement' or 'the Scheme') is to be implemented in accordance with Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions, if any, of the Companies Act, 2013, as may be applicable.
- 1.2 The Equity shares of the Company are listed on BSE Limited ("BSE"). The Company will be filing the Scheme along with necessary information / documents with both the mentioned exchanges





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- 1.3 The report of Audit Committee is made in order to comply with the requirements of the SEBI circular No CFD/DIL3/CIR/2017/21 dated March 10, 2017 read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 after considering the following:
- Draft Scheme, duly initialed by Company Secretary of the Company for the purpose of identification;
 - Valuation Report of M/s. N. H. Vyas And Company, Chartered Accountants dated 23rd May, 2018, being valuer appointed for the purpose of the scheme.
 - Fairness Opinion Report dated 23rd May, 2018 issued by M/s. V. B. Desai Financial Services Ltd , Category I Merchant Banker providing the fairness opinion on the share entitlement recommended in the valuation report prepared by M/s. N. H. Vyas And Company, Chartered Accountants; and
 - Certificate dated 23rd May, 2018 obtained from the Statutory Auditors of the Company i.e. M/s. MSKA & Associates, Chartered Accountants to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013

2. Rationale For the Scheme

- 2.1 HFL is engaged in the FMCG segment for contract manufacture of high quality cereal based food products and a range of instant mixes, baby foods, instant porridges, breakfast cereals and health drinks. It further manufactures leather products and accessories. The Contract Manufacturing (Hyderabad) Undertaking of ACPL is engaged in manufacturing of fabric cleaning product including detergent powders on contract basis. In order to enable greater focus on this segment, this Scheme provides for the demerger of the Contract Manufacturing (Hyderabad) Business of ACPL into HFL.

Amongst others, the demerger of Contract Manufacturing (Hyderabad) Business of ACPL into HFL would result in the following benefits:-

- Concentrated management focus on the businesses in a more professional manner and to create a more competitive business both in scale and operations. The Resulting Company would develop combined long-term corporate strategies and financial policies, thus enabling better management and accelerated growth of the business.
- Operational rationalization, organizational efficiency and optimal utilization of various resources due to pooling of management, administrative and technical skills of various resources of both the companies, better administration, and cost reduction, including reduction in managerial, administrative and other common costs;
- Providing better flexibility in accessing capital, focused strategy and specialization for sustained growth; and
- Creation of value for various stakeholders and shareholders.





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3. Proposed Scheme

- 3.1 The "Appointed Date" for the Scheme is 1st April, 2018 or such other date as may be approved by NCLT or any other competent authority for the purposes of the Demerger
- 3.2 The "Effective Date" for the Scheme is the date on which the certified copy of the order of the NCLT sanctioning this Scheme of Arrangement, is received and filed by ACPL and HFL with respective Registrar of Companies;
- 3.3 In furtherance of the aforesaid rationale, the Scheme provides Demerger of the Contract Manufacturing (Hyderabad) Business ('Demerged Undertaking') of the Demerged Company to the Company and various other matters consequential or otherwise integrally connected therewith.

4. Demerger

- (a) The Demerged Undertaking, i.e. Contract Manufacturing (Hyderabad) Business of the Demerged Company (as defined in the Scheme) shall stand transferred to and vested in or deemed to be transferred to and vested in the Resulting Company, as a going concern, in accordance with Section 2(19AA) of the Income Tax Act, 1961.
- (b) The Demerged Company, with effect from the Appointed Date and up to and including the Effective Date shall be deemed to have been carrying on and to be carrying on all business and activities relating to the Demerged Undertaking in trust for the Company;
- (c) The Remaining Avalon Cosmetics Private Limited (as defined in the Scheme) shall continue to belong to and be vested in and be managed by the Demerged Company subject to the provisions of the Scheme.
- (d) In consideration of the transfer of the Demerged Undertaking, the Company shall issue and allot to each member of the Demerged Company, as of the date as may be stipulated by the Board of Directors of the Company in accordance with applicable laws and regulations, equity shares in the Company as per the share entitlement ratio recommended by the valuers and approved by the Boards of Directors of the Company and the Demerged Company.
- (e) Pursuant to the Demerger of the Demerged Undertaking and consequent to the accounting treatment prescribed in the Scheme, difference between the book value of assets pertaining to the Contract Manufacturing (Hyderabad) Business demerged from the Demerged Company and the book value of the liabilities pertaining to the Contract Manufacturing (Hyderabad) Business demerged from the Demerged Company shall be adjusted against the Securities Premium Account of the Demerged Company to the extent available. The deficit if any shall be adjusted against reserves of the Demerged Company.





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5. The Audit Committee reviewed the valuation report and noted the report and recommended the following:

In consideration for the Demerger in terms of the Scheme and relying on valuation report issued by M/s. N. H. Vyas And Company, Chartered Accountants and fairness opinion provided by M/s. V. B. Desai Financial Services Ltd , Category I Merchant Banker, the Company will issue and allot an aggregate of such number of equity shares as may be required in ratio of 42.15 equity shares of Resulting Company for every 1 share of Demerged Company of the face value Re. 10/- (Rupee Ten) each to the equity shareholders of the Demerged Company, as defined in the Draft Scheme, in the proportion of their holding in the Demerged Company.

- 5.1 Further, the Fairness Opinion confirmed that the share entitlement in the valuation report is fair to the Company, Demerged Company and their respective shareholders.
- 5.2 Further, M/s. MSKA & Associates, Chartered Accountants, Statutory Auditors of the Company have confirmed that the accounting treatment as specified in the Scheme are in accordance with applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013.
- 5.3 The proposed Appointed Date for the Scheme will be 1st April, 2018 or such other date as may be approved by NCLT or any other competent authority for the purposes of the Demerger

6. **Recommendations of the Audit Committee**

- 6.1 The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, Valuation report, Fairness Opinion Report and the specific points mentioned above, recommends the draft Scheme for favorable consideration by the Board of Directors of the Company, the BSE and Securities Exchange Board of India.

By Order of the Audit Committee

For and on behalf of

HINDUSTAN FOODS LIMITED



Chairperson / Member of the Audit Committee

Date: May 24, 2018

Place: Mumbai.