

14/15, Khatau Bldg. 1st Floor, 40 Bank Street, Fort, Mumbai - 400 001. • Tel. : (022) 22671543 / 44, 22666156 / 57.
Fax : (022) 22625991 • E-mail : info@hemonline.com • Website : www.hemonline.com

To,

**The Board of Directors
LKP Finance Limited**
203, Embassy Centre,
Nariman Point,
Mumbai - 400 021.

**The Board of Directors
LKP Securities Limited**
203, Embassy Centre,
Nariman Point,
Mumbai - 400 021.

Dear Sirs,

I. Engagement background:

We Hem Securities Limited ("HSL") understand that the Board of Directors ("Board") of LKP Finance Limited ("Demerged Company" or "LKPFL") is considering the demerger of "SEBI Registered Intermediary Business" of LKPFL into LKP Securities Limited ("LKPSL" or "Resulting Company") through a Scheme of Arrangement under Section 391-394 read with sections 78, 80, 100 to 104 of the Companies Act, 1956 and other relevant provisions of the Companies Act, 2013 (to the extent as applicable).

The Scheme envisages demerger of the "SEBI Registered Intermediary Business" (the "Demerged Undertaking") of LKPFL into Resulting Company as per the terms and conditions more fully set forth in the Scheme of Arrangement to be placed before the Board for their approval.

In consideration of the demerger of the "SEBI Registered Intermediary Business" of Demerged Company into the Resulting Company pursuant to the Scheme of Arrangement, equity shares of the Resulting Company will be allotted to the shareholders of Demerged Company. In this regard, SSPA & Co., Chartered Accountants ("Valuer") are appointed to issue a report recommending a fair share entitlement ratio for the proposed demerger.

In connection with the aforesaid, you requested our Fairness Opinion (the "Opinion") as of the date hereof, as to the fairness of the Share Entitlement Ratio to the Equity Shareholders of the Demerged Company as recommended by SSPA & Co., Chartered Accountants.

Scheme of Arrangement

This Scheme of Arrangement provides for:

- i. Under this Scheme, the SEBI Registered Intermediary Business of LKPFL will be transferred to Resulting Company.
- ii. Demerged Company is a holding company of the Resulting Company holding 99.86% of the Equity Share Capital and 100% of the Preference Share Capital.

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- iii. On the record date, all shareholders of the Demerged Company will be entitled to receive shares in the Resulting Company.
- iv. On and from the Effective Date, existing equity shares and preference shares held by LKPFL in LKPSL shall stand cancelled.
- v. LKPFL will retain all the undertakings, businesses and activities which are not exclusively related to or utilized by the SEBI Registered Intermediary Business.

II. Basis of Opinion

In the Rationale of the Scheme, it has been provided that the Scheme would result in:

- simplified corporate structure by providing the shareholders of LKPFL direct participation in SEBI Registered Intermediaries Business;
- creating enhanced value for shareholders and allow a focused strategy in operations and enable investors to hold investments in businesses with different investment characteristics which best suit their investment strategies and risk profiles.
- to re-organize the business of LKPFL on the basis of nature of risk, competition involved, and handling & managing distinct business.

A brief history of each of the aforesaid companies is as under:

- a) **LKP Finance Limited**, a listed public limited company incorporated under the Companies Act, 1956 under the name of Elkaypee Merchant Financing Limited. Subsequently, the name was changed to LKP Merchant Financing Limited. The name was subsequently changed to LKP Finance Limited with effect from 27th August, 2008. The Corporate Identification Number of the Company is **L65990MH1984PLC032831** and the registered office is located at 203, Embassy Centre, Nariman Point, Mumbai - 400 021. LKPFL is a Non-Banking Finance Company registered with Reserve Bank of India and is engaged in the business of lending, finance, trading and investment in shares and securities. The equity share capital of LKPFL is currently listed at the BSE Limited ('BSE').
- b) **LKP Securities Limited**, a public limited company incorporated under the provisions of the Companies Act, 1956. The Corporate Identification Number of the Company is **U67120MH1994PLC080039** and the registered office is located at 203, Embassy Centre, Nariman Point, Mumbai - 400 021. LKPSL is engaged in the business of Equities markets, Debt markets, Investment Banking, Merchant Banking, Depository Services, IPOs, Mutual Fund Distribution.

The key feature of Scheme provided to and relied upon by us for framing a fairness opinion on transfer of Demerged Undertaking of LKPFL into Resulting Company are as under:

- Upon the coming into effect of this Scheme and with effect from the Appointed date ("**being April 01, 2015 or such other date as may be approved by the High Court of Judicature at Bombay or such other competent authority**") and subject to the provisions of this Scheme in relation to the mode of transfer, the Demerged Undertaking (Including all the estate, properties,

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assets, rights, claims, title, interests and authorities of the Demerged Undertaking) of the Demerged Company shall without any further act, instrument, deed, matter or thing, be demerged from LKPFL and transferred to and be vested in or deemed to have been transferred to or vested in, as a going concern, into the Resulting Company;

- As consideration for the transfer, equity shares in the Resulting Company shall be issued to the equity shareholders of the Demerged Company;
- All the Shareholders of the Demerged Company shall become shareholders of the Resulting Company on the record date;
- The equity shares of Resulting Company will be listed and admitted to trading on the BSE. The Resulting Company shall enter into such arrangements and give such confirmations and/ or undertaking as may be necessary in accordance with the applicable Laws or regulations for complying with the formalities of the BSE. On such formalities being fulfilled, the BSE shall list and/ or admit such equity shares also for the purpose of trading.
- SSPA & Co., Chartered Accountants have recommended the following share entitlement ratio for the demerger in their valuation report as under
6 (Six) equity shares of LKPSL of Rs. 2/- each fully paid for every 1 (One) equity share of LKPFL of Rs. 10 each fully paid.
- We have taken the foregoing facts (together with the other facts and assumptions set forth in section III of this opinion) into account when determining the meaning of "fairness" for purposes of this opinion.

III. Limitation of scope and review:

We have relied upon the accuracy and completeness of all information, documents, data and explanations provided to us by the Resulting Company and the Demerged Company including:

- (a) Management certified financials of Demerged Undertaking of LKPFL for Financial Year (FY) 14-15.
- (b) Audited financial statements of LKPSL for FY 14-15.
- (c) Draft Scheme of Arrangement.
- (d) Valuation Report from Independent Chartered Accountant dated May 18, 2015 prepared by SSPA & Co., Chartered Accountants and the relevant explanations provided by them.
- (e) Other relevant details regarding the Companies such as their history, past and present activities, future plans and prospects, existing shareholding pattern and other relevant information and data, including information in the public domain.
- (f) Such other information and explanations as we required and which have been provided by the Management.

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The scope of our work has been limited both in terms of area of business and operations which we have reviewed and the extent to which we have reviewed them.

We have not conducted any independent valuation or appraisal of any of the assets or liabilities of the Companies. We have relied upon the accuracy and completeness of all information, documents, data and explanations provided to us, without carrying out any due diligence or independent verification or validation of such information to establish its accuracy or sufficiency. We did not review any financial forecasts relating to the Demerged Companies and the Resulting Company. We have not conducted any individual valuation or appraisal of any of the assets or liabilities of the Demerged Company or the Resulting Company. In particular, we do not express any opinion as to the value of any asset of the Demerged Company or the Resulting Company, whether at current prices or in the future. We also believe that the same bears very limited relevance, given that all the Shareholders of the Demerged Company shall become Shareholders of the Resulting Company on the record date as explained earlier.

We do not express any Opinion as to the price at which shares of the Demerged Companies and/ or the Resulting Company may trade at any time, including subsequent to the date of this opinion. We do not express any Opinion as to any tax or other consequences that might arise from the Scheme. In rendering our Opinion, we assumed, that the Scheme will be implemented on the terms described therein, without any waiver or modification of any material terms or conditions, and that in the course of obtaining the necessary Regulatory or third party approvals for the Scheme, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on the Demerged Company, Resulting Company and their respective shareholders.

We or our affiliates, in the ordinary course of business, may have actively traded in securities of the Demerged Company on its own account and for the accounts of their customers and, accordingly, may at any time hold a position in such securities.

Our Opinion solely expressed herein is for the benefit of the Board of the Demerged Company and/ or Resulting Company in connection with and for purposes of its evaluation of the Scheme and is not rendered to or for the benefit of, and shall not confer rights or remedies upon, any person other than the Board of Demerged Company and/or Transferee Company.

Neither HSL, nor its affiliates, directors, shareholders, managers, employees or agents of any of them, makes any representation or warranty, express or implied, as to the information and documents provided to us, based on which we have issued the Opinion. All such parties and entities expressly disclaim any and all liability for, or based on or relating to any such information contained therein.

CIN : U67120RJ1995PLC010390

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Our opinion is not intended to and does not constitute a recommendation to any shareholder or act in connection with the Scheme or any matter related thereto. Further, this report has been issued for the sole purpose to facilitate the Company to comply with clauses 24(f) and 24(h) of the Listing Agreement and the circular issued by the Securities and Exchange Board of India on **February 04, 2013, Circular No. CIR/CFD/DIL/5/2013** and **May 21, 2013, Circular No. CIR/CFD/DIL/8/2013** and it shall not be valid for any other purpose.

We assume no responsibility for updating or revising our Opinion based on circumstances or events occurring after the date hereof. Our Opinion is specific to the transfer and vesting of the Demerged undertaking of the Demerged Company into the Resulting Company as contemplated in the Scheme provided to us and is not valid for any other purpose. It is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

CONCLUSION

With reference to the above and based on our examination of the documents including the Scheme and SSPA valuation report, our discussions with the Company and SSPA in this regard and subject to the foregoing, including the various assumptions and limitations set forth herein, to the best of our knowledge and belief, we are of the opinion that the share entitlement ratio recommended in the SSPA valuation report is fair to the equity shareholders.

Yours faithfully

For and on behalf of
Hem Securities Limited



CA Yogesh Malpani
AVP - Investment Banking

Place: Mumbai
Date: 18/05/2015