ERNST & YOUNG

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March 29, 2012

The Board of Directors
Lloyd Electric & Engineering Limited
159, Okhla Industrial Area,
Phase III, New Delhi

Sub: Recommendation of distribution ratio for the purpose of proposed demerger of Demerged Undertaking of Perfect Radiators and Oil Coolers Private Limited into Lloyd Electric & Engineering Limited.

Dear Sirs,

We refer to the letter dated March 1, 2012 , wherein the Management of Lloyd Electric & Engineering Limited (hereinafter referred to as "LEEL") has requested Ernst & Young Private Limited (hereinafter referred to as "Ernst & Young" or "EY") to recommend a distribution ratio for the purpose of proposed demerger of demerged undertaking of Perfect Radiators and Oil Coolers Private Limited (hereinafter referred to as "PROCPL") into LEEL, and the discussions that we have had with and information that we have received from representatives and Management of LEEL and PROCPL from time to time in the above matter.

SCOPE AND PURPOSE OF THIS REPORT

Lloyd Electric & Engineering Limited ("LEEL") has its registered office located at A – 146 (B and C), RIICO Industrial Area, Bhiwadi, District Alwar, Rajasthan – 301019, India. It is engaged in manufacturing of fin and tube type heat exchangers for air conditioning and refrigeration systems and manufacturing of air conditioners for domestic and transportation usage. Besides, manufacturing of air conditioners, it is also engaged in trading of other consumer durable products. For the financial year ended March 31, 2011, LEEL reported net sales of ₹7,823 million and a profit after tax of ₹361 million.

Perfect Radiators & Oil Coolers Private Limited ("PROCPL"), with its registered office address at B-10/1, Okhla Industrial Area, Phase-II, New Delhi – 110020 was established in 1984. It is an unlisted company and is engaged in business of designing, manufacturing and selling of heat exchanger products. For the financial year ended March 31, 2011, PROCPL reported a turnover of ₹1,456 million and a profit after tax of ₹51 million.

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The Heat Exchangers Business of PROCPL is hereinafter referred to as the "Demerged Undertaking".

We understand from the Management of LEEL that LEEL and PROCPL are considering a demerger of the Demerged Undertaking into LEEL on a going concern basis with effect from April 1, 2011 (opening of business hours). The demerger would be implemented through a Scheme of Arrangement under Sections 391 to 394 of the Companies Act, 1956 and shall be in accordance with Section 2 (19AA) of the Income Tax Act, 1961. The shareholders of PROCPL would be issued shares of LEEL as consideration for the demerger. The shares of LEEL would be issued to the shareholders of PROCPL in addition to, and not in lieu of, the shares already held by them in PROCPL. The balance sheet of the Demerged Undertaking as at 31 December 2011 as provided to us by the Management of PROCPL has been attached in Annexure I of the report.

In this connection, EY has been requested by the Management of LEEL to submit a report recommending the distribution ratio of equity shares in the event of demerger of Demerged Undertaking into LEEL for the consideration of Board of Directors of LEEL.

We have carried out a relative valuation of the Demerged Undertaking and the equity shares of LEEL.

This report is our deliverable to the above engagement.

Our report is subject to the scope limitations detailed hereinafter. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

SOURCES OF INFORMATION

The following information has been received from the Management of LEEL/PROCPL:

- Audited financial statements (profit and loss account, balance sheet, auditors' report and notes to accounts) of PROCPL for the years ended March 31, 2008 to 2011.
- Unaudited profit and loss account of Demerged Undertaking for the year ended March 31, 2011 and 9 month period ended December 31, 2011 and unaudited balance sheet of Demerged Undertaking as at March 31, 2011 and December 31, 2011.
- Projections of Demerged Undertaking including profit and loss and balance sheet statements for the 3-month period ending March 31, 2012 and years ending March 31, 2013 to 2016.

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- Audited financial statements (profit and loss account, balance sheet, auditors' report and notes to accounts) of LEEL for the years ended March 31, 2008 2009, 2010 and 2011.
- Unaudited profit and loss account for the 9 month period ended December 31, 2011 and unaudited balance sheet of LEEL as at December 31, 2011.
- Projections of LEEL including profit and loss and balance sheet statements for the 3-month period ending March 31, 2012 and years ending March 31, 2013 to 2016.
- Details of surplus/non-operating assets along with their estimated present market value, wherever applicable, of LEEL and Demerged Undertaking.
- Details of contingent liabilities of LEEL and Demerged Undertaking and the probabilities of their converting into actual liabilities
- Shareholding pattern of LEEL and PROCPL as at December 31, 2011.
- Other relevant details regarding LEEL and Demerged Undertaking
- Draft scheme of arrangement dated March 1, 2012 prepared by DSK Legal

We have also obtained necessary explanations and information, which we believed were relevant to the present exercise, from the executives and representatives of LEEL and PROCPL.

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SCOPE LIMITATIONS

Affecting results:

Valuation analysis and result are specific to the purpose of valuation as agreed per term of our engagement. It may not be valid for any other purpose or as at any other date Also, it may not be valid if done on behalf of any other entity.

Valuation analysis and result are specific to the date of this report. A valuation of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. As such, our valuation results are, to a significant extent, subject to continuance of current trends beyond the date of the report. We, however, have no obligation to update this report for events, trends or transactions relating to the LEEL/Demerged Undertaking or the market/economy in general and occurring subsequent to the date of this report.

The analysis in this report is based upon information furnished by the Management of LEEL/ PROCPL and other sources and the said analysis shall be considered advisory in nature. Our analysis will however not be for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors.

The opinion rendered in this report only represents the opinion of Ernst & Young based upon information furnished by the Management and other sources and the said opinion shall be considered advisory in nature. Our opinion will however not be for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors.

In the course of the valuation, we were provided with both written and verbal information, including market, technical, financial and operating data. We have however, evaluated the information provided to us by the Management through broad inquiry and comparative analysis vis-à-vis past information available including for comparable companies (but have not carried out a due diligence or audit of LEEL/PROCPL/Demerged Undertaking for the purpose of this engagement, nor have we independently investigated or otherwise verified the data provided). We have neither checked nor are we responsible for arithmetical accuracy/ logical consistency of any financial models or business plan provided by LEEL/PROCPL and used in our valuation analysis. The terms of our engagement were such that we were entitled to rely upon the information provided by the Management without detailed inquiry. Any information shared by the Management of LEEL/PROCPL with any other team of EY unless shared with valuation team may not have been considered for present analysis. Also, we have been given to understand by the Management of LEEL/PROCPL that they have not

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omitted any relevant and material factors and that they have checked out relevance or materiality of any specific information to the present exercise with us in case of any doubt. Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness. Our conclusions are based on these assumptions, forecasts and other information given by/on behalf of LEEL/PROCPL. The Managements of LEEL/PROCPL has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the above information furnished by the Management of LEEL/PROCPL and their impact on the present exercise. Also, we assume no responsibility for technical information furnished by LEEL/PROCPL and believed to be reliable.

We express no opinion on the achievability of the forecasts if any, given to us. The assumptions used in their preparation, as we have been explained, are based on the Management's present expectation of both - the most likely set of future business events and circumstances and the Management's course of action related to them. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period may differ from the forecast and such differences may be material.

No enquiry into LEEL's and Demerged Undertaking's claim to title of assets or property has been made for the purpose of this valuation. With regard to their claim to title of assets or property, we have relied solely on representations, whether verbal or otherwise, made by the Management of LEEL/PROCPL to us for the purpose of this report. We have not verified such representations against any title documents or any agreements evidencing right or interest in or over such assets or property, and have assumed their claim to such rights, title or interest as valid for the purpose of this report. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Accordingly, no due diligence into any right, title or interest in property or assets was undertaken and no responsibility is assumed in this respect or in relation to legal validity of any such claims.

Our report is not nor should it be construed as our recommending the demerger or opining or certifying the compliance of the proposed demerger with the provisions of any law including companies, taxation and capital market related laws or as regards any legal implications or issues arising from such proposed demerger.

The fee for the report is not contingent upon the results reported.

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Others:

We owe responsibility to only the directors of LEEL that has retained us and nobody else.

We do not accept any liability to any third party in relation to the issue of this report, and our report is conditional upon an express indemnity from LEEL in our favor holding us harmless from and against any cost, damage, expense and other consequence in connection with the provision of this report which is more specifically mentioned in the engagement letter.

This report is subject to the laws of India.

Neither the report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than for submission to fairness opinion provider, High Court, stock exchanges, other regulatory authorities and inspection by shareholders in connection with the proposed restructuring of LEEL/PROCPL including the proposed Scheme of Arrangement, without our prior written consent. In addition, this report does not in any manner address the price at which LEEL's equity shares will trade following consummation of the demerger and we express no opinion or recommendation as to how the shareholders of LEEL and/or PROCPL should vote at any shareholders' meeting(s) to be held in connection with the demerger.

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BACKGROUND OF LEEL and PROCPL

Lloyd Electric & Engineering Limited

The paid up equity share capital of LEEL as at December 31, 2011 was ₹310 million consisting of 3,10,00,260 equity shares of face value of ₹10 each fully paid up. The shareholding pattern of LEEL as at December 31, 2011 is as follows:

Category	% shareholding
Promoters and promoters group	38.31%
Foreign Institutional Investors (FIIs)	12.51%
Domestic Institutional Investors (DIIs)	1.98%
Others/Individuals/ HUF/Trusts	47.20%
Total	**100.00%**

Source: Management

The Management of LEEL has represented that there are no outstanding stock options/warrants/convertible instruments issued or granted by LEEL as of the date of issue of this report.

Perfect Radiators & Oil Coolers Private Limited

The paid up share capital of PROCPL as at December 31, 2011 was ₹80 million consisting of 8,000,000 equity shares of face value of ₹10 each fully paid up. The shareholding pattern of PROCPL as at December 31, 2011 was as follows:

Shareholder	Number of shares	% shareholding
Lloyd Sales Private Limited	3,000,000	37.50%
Lloyd Manufacturing Private Limited	2,000,000	25.00%
Airserco Private Limited	1,000,000	12.50%
Mr. Bharat Raj Punj	700,000	8.75%
Ms. Renu Punj	695,000	8.69%
Mr. Brij Raj Punj	605,000	7.56%
Total	**8,000,000**	**100.00%**

Source: Management

The Management of PROCPL has represented that there are no outstanding stock options/warrants/convertible instruments issued or granted by PROCPL as of the date of issue of this report.

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APPROACH - FAIR BASIS OF DEMERGER

Arriving at the distribution ratio of equity shares for the demerger of Demerged Undertaking into LEEL would require determining the fair value of Demerged Undertaking in terms of the fair value of the equity shares of LEEL.

There are several commonly used and accepted methods for determining the fair value of the equity shares of a company, which have been considered in the present case, to the extent relevant and applicable, including:

- Net Asset Value method
- Comparable Companies' Multiples method
- Market Price method
- Discounted Cash Flows method

It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of Demerged Undertaking/LEEL. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of Demerged Undertaking/LEEL, and other factors which generally influence the valuation of Demerged Undertaking/LEEL and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose.

Net Asset Value (NAV) Methodology

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability. A Scheme of Arrangement would normally be proceeded with, on the assumption that the business is demerging as going concern and an actual realization of the operating assets is not contemplated. In such a going concern scenario

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the relative earning power is of importance to the basis of demerger, with the values arrived at on the net asset basis being of limited relevance.

We have computed the Net Asset Value of LEEL and Demerged Undertaking.

We have computed the NAV of equity shares of LEEL based on its unaudited balance sheets as at 31 December 2011, which are the latest available financial statements. For Demerged Undertaking, we have used the unaudited carved-out balance sheet as at 31 December 2011. We have made adjustments for following items to the value arrived under NAV method:

- Contingent liabilities of LEEL and Demerged Undertaking as at 31 December 2011 appropriately adjusted for the probabilities of their conversion into actual liabilities and the tax benefits available on them
- The estimated fair value (net of tax) of the surplus assets of LEEL and Demerged Undertaking as at December 31, 2011

Comparable Companies' Multiple (CCM) method

Under this method, value of the equity shares of a company is arrived at by using multiples derived from valuations of comparable companies or comparable transactions, as manifest through stock market valuations of listed companies and the transaction valuation. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

We have used the Enterprise Value (EV) to EBITDA valuation multiple of comparable listed companies for the purpose of our valuation analysis of LEEL and Demerged Undertaking and have made suitable adjustments such as for deferred tax liabilities/assets, etc. for the purpose of our valuation analysis. For this purpose, we have used the EBITDA for the twelve months period ended 31 December 2011 of the comparable companies.

For computing the value of LEEL under this method, we have applied the multiple on the EBITDA of LEEL for the twelve months period ended 31 December 2011.

For computing the value of the Demerged Undertaking under this method, we have applied the multiple on the annualized EBITDA of Demerged Undertaking for the nine months period ended 31 December 2011.

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The equity value of LEEL and Demerged undertaking as per CCM method has been adjusted for the fair value of surplus assets and value of tax benefits of LEEL and Demerged Undertaking.

Market Price method

The market price of an equity share as quoted on a stock exchange is normally considered as the fair value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in the case of a demerger, where there is a question of evaluating the shares of one company against the value of the business, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

The Supreme Court in the case of *CWT vs. Mahadev Jalan (86 ITR 621)* has laid down certain principles of valuation of shares under the Wealth-tax Act. In dealing with shares of quoted companies the Court observed:

"Where shares in a company are bought and sold on the stock exchange and there are no abnormalities affecting the market price, the price at which the shares are changing hands in the ordinary course of business is usually their true value. These quotations generally reflect the value of the asset having regard to the several factors which are taken into consideration by persons who transact business on the stock exchange and by the buyers who want to invest their money in any particular share or shares."

In the present case, the shares of LEEL are listed and there are regular transactions in its equity shares with reasonable volumes on Bombay Stock Exchange ("BSE") and National Stock Exchange ("NSE"). In the circumstances, the average of daily weighted average share price of LEEL over an appropriate period has been considered for determining the value of LEEL under the market price methodology.

We have not used this method for Demerged Undertaking as the shares of Demerged Undertaking are not listed on any stock exchange.

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Discounted Cash Flows (DCF) Method

The DCF method is considered the most theoretically sound approach and scientific and acceptable method for determination of the value of a business undertaking. Under the DCF method, the projected free cash flows to the equity shareholders are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the equity shares.

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Using the DCF analysis involves determining the following:

Estimating future free cash flows:

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

Appropriate discount rate to be applied to cash flows i.e. the cost of capital.

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the equity capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

We have used the DCF method for the valuation of LEEL and Demerged undertaking.

The equity value of LEEL and Demerged Undertaking as per DCF method has been adjusted for the fair value of surplus assets and contingent liabilities of LEEL and Demerged Undertaking, as described in NAV method above.

FAIR BASIS OF DEMERGER

The fair basis of demerger of Demerged Undertaking into LEEL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above methodologies, for the purposes of recommending a distribution ratio of equity shares, it is necessary to arrive at a single value for the shares of LEEL and Demerged Undertaking. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity value of LEEL and Demerged Undertaking but at their comparative values to facilitate the determination of a distribution ratio. For this purpose,

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it is necessary to give appropriate weights to the values arrived at under each methodology.

We have used MP, DCF and NAV methods to value LEEL and have assigned weights of 40%, 40% and 20% to them, respectively. We have not used CCM as the same has been considered to be a proxy for MP method.

For valuation of Demerged Undertaking, we have used CCM method (EV/EBITDA multiple), DCF and NAV methods and have assigned weights of 40%, 40% and 20% to them, respectively.

The distribution ratio of equity shares of LEEL and Demerged Undertaking has been arrived on the basis of a relative equity valuation for LEEL and Demerged Undertaking based on the various methodologies explained herein earlier and various qualitative factors relevant to each company/business and the business dynamics and growth potentials of the businesses of the companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.

In the ultimate analysis, valuation will have to be tempered by the exercise of judicious discretion and judgement taking into account all the relevant factors. There will always be several factors, e.g. quality and integrity of the management, present and prospective competition, yield on comparable securities and market sentiment, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognised in judicial decisions. For example, Viscount Simon Bd in *Gold Coast Selection Trust Ltd. vs. Humphrey* reported in 30 TC 209 (House of Lords) and quoted with approval by the Supreme Court of India in the case reported in 176 ITR 417 as under:

"If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible."

The shareholders of PROCPL would continue to hold shares in PROCPL after issue of shares of LEEL. In the light of the above, and on a consideration of all the relevant

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factors and circumstances as discussed and outlined hereinabove, in our opinion, the distribution ratio of equity shares for the demerger of Demerged Undertaking into LEEL would be a ratio of 54 (fifty four) equity share of LEEL of Rs 10/- each fully paid up for every 100 (one hundred) equity shares of PROCPL of ₹10/- each fully paid up, will be fair and equitable in relation to the demerger.

In case of a) any significant variation in capital of the Companies or b) dividend distribution with significant different dividend yields by the Companies, before the demerger becomes effective, the distribution ratio would be required to be appropriately modified.

We have not examined any other matter including accounting and tax matters involved in the proposed demerger exercise.

Thanking You.

Ernst & Young Private Limited

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Navin Vohra
Partner,
Place: Mumbai
Dated: 29 March 2012

factors and circumstances as discussed and outlined hereinabove, in our opinion, the distribution ratio of equity shares for the demerger of Demerged Undertaking into LEEL would be a ratio of 54 (fifty four) equity share of LEEL of Rs 10/- each fully paid up for every 100 (one hundred) equity shares of PROCPL of ₹10/- each fully paid up, will be fair and equitable in relation to the demerger.

In case of a) any significant variation in capital of the Companies or b) dividend distribution with significant different dividend yields by the Companies, before the demerger becomes effective, the distribution ratio would be required to be appropriately modified.

We have not examined any other matter including accounting and tax matters involved in the proposed demerger exercise.

Thanking You.

Ernst & Young Private Limited

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Navin Vohra
Partner,
Place: Mumbai
Dated: 29 March 2012

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Annexure I

Balance sheet of the Demerged Undertaking

PERFECT RADIATORS & OIL COOLERS PRIVATE LIMITED PROVISIONAL BALANCE SHEET AS AT 31st DECEMBER, 2011			
	Schedule	As At 31.12.2011	As At 31.03.2011
SOURCES OF FUNDS			
1. Shareholders' Funds			
a) Share Capital	A	-	-
b) Share Application Money			
c) Reserves & Surplus	B	-	-
2. Deferred Tax Liability		-	-
3. Loan Funds			
a) Secured loans	C	380,776,205.65	219,730,445.06
b) Unsecured Loans	D	-	-
		380,776,205.65	219,730,445.06
APPLICATION OF FUNDS			
1. Fixed Assets	E		
a) Gross Block		332,891,457.75	134,866,035.75
b) Less: Depreciation		55,667,296.07	42,649,654.31
c) Net Block		277,224,161.68	92,216,381.44
d) Capital Work in Progress		45,830,628.35	161,495,094.00
2. Investment	F	-	-
3. Current Assets, Loans & Advances	G		
a) Inventories		287,959,782.19	211,514,576.99
b) Sundry Debtors		171,226,971.39	160,916,924.06
c) Cash and Bank Balances		4,575,160.30	5,009,378.02
d) Loans and Advances		20,388,527.00	25,352,977.00
		484,150,440.88	402,793,856.07
Less: Current Liabilities & Provisions	H		
a) Current Liabilities		149,788,391.01	209,962,918.24
b) Provisions		-	-
		149,788,391.01	209,962,918.24
Net Current Assets		334,362,049.87	192,830,937.83
TOTAL		657,416,839.90	446,542,413.27

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Ref: SCL/Lloyd Electric/Valuation/04-2012

Date: 26/04/2012

To,

The Board of Directors,
Lloyd Electric & Engineering Limited
159, Okhla Industrial Estate,
Phase-III, New Delhi-110020

Dear Sir(s),

Ref: Fairness Opinion Report on Valuation of Shares of Lloyd Electric & Engineering Limited("LEEL") and Perfect Radiators and Oil Coolers Private Limited("PROCPL") with regard to proposed demerger of Demerged Undertaking of PROCPL into LEEL for determining the Fair Share Exchange Ratio.

1. BACKGROUND INFORMATION

In the context of the proposed demerger of Heat Exchanger Business of PROCPL into LEEL, as has been decided by the management of the respective companies and M/s Ernst & Young Pvt. Limited, Mumbai (herein referred to as "Valuers") have been appointed as the Valuers for the above mentioned merger.

We, SMC Capitals Limited ("SCL"), SEBI registered Merchant Banker, have been entrusted by the management of LEEL vide engagement letter dated 17th April, 2012 to provide our fairness opinion in terms of Clause 24 (h) of the Listing Agreement on the valuation of equity shares being done by the Valuers of the companies for determining the share exchange ratio.

Llyod Electric and Engineering Limited ("LEEL") is a listed company and is engaged in the business of manufacturing fin and tube type heat exchangers for air conditioning and refrigeration systems, manufacturing of air conditioners for domestic and transportation usage. It is also involved in trading of consumer durable products.

SMC Capitals Ltd. New Delhi

Perfect Radiators and Oil Coolers Private Limited ("PROCPL") is an unlisted company engaged in the business of designing and manufacturing of heat exchangers and cooling systems.

2.PURPOSE OF VALUATION

PROCPL is considering a demerger of its Heat Exchanger Business (referred as "Demerged Undertaking" hereafter) into LEEL on a going concern basis w.e.f. April 01, 2011. In this regard we are hereby requested by management of LEEL to provide our fairness opinion on the valuations provided by the Valuers to determine the Share Exchange Ratio for the proposed demerger.

3.SOURCES OF INFORMATION

- Valuation Ratio report by **M/s Ernst & Young Pvt. Limited**, Mumbai dated 29 March, 2012.
- Audited financials of LEEL: 31 March, 2010, 31 March, 2011
- Unaudited Provisional Financials of LEEL for 9 Months ended 31.12.2011
- Financial Projections of LEEL for 3 months ending 31 March 2012 and FY 2013 to FY 2016.
- Draft Scheme of Arrangements of Demerged Undertaking of PROCPL into LEEL by M/s DSK Legal.
- Audited financials of PROCPL: 31 March, 2010, 31 March, 2011
- Unaudited Financials for 9 months ended 31.12.2009 of PROCPL as well as Demerged Undertaking of PROCPL
- Financial Projections of PROCPL for 3 months ending 31 March 2012 and FY 2013 to FY 2016.

In addition to the above, we have also obtained such other information and explanations, which were considered relevant for the purpose of our Analysis.

4.LIMITATIONS

4.1 For the purpose of our fairness opinion, we have essentially relied on the information provided to us by the management of LEEL & Valuation Report dated 29th March 2012 provided by the Valuers.

4.2 Our work does not constitute an audit or certification of the historical financial statements including the working results of the Companies referred to in this report. Accordingly, we are unable to and do not express an opinion on the accuracy of any financial information referred to in this report. Valuation analysis and results are specific to the purpose of valuation. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.

New Delhi

4.3 A valuation of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. This report is issued on the understanding that the Companies have drawn our attention to all material information, which they are aware of concerning the financial position of the Companies and any other matter, which may have an impact on our opinion, on the fair value of the equity shares of the Companies, including any significant changes that have taken place or are likely to take place in the financial position of the Companies, subsequent to the last audited balance sheet date. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

4.4 During the course of work, we have relied upon assumptions and projections made by management of the companies. These assumptions require the exercise of judgment and are subject to uncertainties. While we have reviewed the assumptions for reasonableness and discussed these assumptions with management of the Companies, there can be no assurance that the assumptions are accurate. To the extent that the assumed events do not occur, the outcome may vary from that projected. The fact that we have considered the projections in this exercise of valuation should not be construed or taken as our being associated with or a party to such projections.

4.5 In the course of the valuation we were provided with various forms of information. We have however, evaluated the information provided to us by the Companies through broad inquiry, analysis and review (but have not carried out a due diligence or audit of the Companies for the purpose of this engagement). Our conclusions are based on the information given by /on behalf of the Companies. However, we make no representation or warranty, express or implied, in respect of the completeness, authenticity or accuracy of such statements. Our report is not and nor should it be construed as our opining or certifying the compliance of the proposed Scheme with the provisions of any law including companies, taxation, foreign exchange regulations and capital market related laws or as regards any legal implications or issues arising from such Scheme.

5. APPROACH ADOPTED

In calculation of per share Value for LEEL and Demerged Undertaking of PROCPL the following methods have been adopted:

1. Net Asset Value Method
2. Comparable Companies' Multiples Method
3. Market Price Method
4. Discounted Cash Flow Method

New Delhi

As per our understanding and on the basis of the information provided to us by the management of LEEL & the Valuation Report provided to us by Valuers, we hereby opine that the share exchange ratio for the proposed merger of 1:0.54 – i.e. the equity shareholders of PROCPL will receive 54 (Fifty Four) fully paid up Equity shares of the face value of Re.10/- each of LEEL for every 100 (One Hundred) fully paid up Equity shares of Rs.10/- each of PROCPL - is fair and reasonable and may be adopted for share exchange with regard to the proposed scheme of demerger.

6. LIMITATION OF LIABILITY

In no events shall we be liable for any loss, damage, cost or expense arising in any way from fraudulent acts, misrepresentations and willful default on the part of the companies under consideration, their Directors, employees or agents.

In no circumstances shall the liability of SCL, its Directors or employees, relating to services provided in connection with the engagement set out in this report (or valuation or addition thereto) exceed the amount paid to us in respect of the fees charged to these services.

Disclaimer Clause

We hereby declare that we have no direct and indirect interest in the Companies/ assets valued.

For **SMC Capitals Limited**

Authorised Signatory