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December 23, 2015

To,

**The Board of Directors****Zee Learn Limited**

Continental Building,

135, Annie Besant Road,

Worli, Mumbai – 400 018.

**The Board of Directors****Tree House Education & Accessories Limited**

702-C, Morya House,

Off New Link Road,

Andheri (W), Mumbai – 400 053.

**Re: Recommendation of Fair Share Exchange Ratio for the purpose of proposed amalgamation of Tree House Education & Accessories Limited with Zee Learn Limited.**

Dear Sir(s),

As requested by the Management of Zee Learn Limited and Tree House Education & Accessories Limited (hereinafter collectively referred to as the "Management"), we have carried out fair valuation of equity shares of Zee Learn Limited (hereinafter referred to as "ZLL") and Tree House Education & Accessories Limited (hereinafter referred to as "THEAL") to recommend fair share exchange ratio for the proposed amalgamation of THEAL with ZLL (hereinafter collectively referred to as the "Companies").

**1. PURPOSE OF VALUATION**

- 1.1 We have been informed that the management of the Companies are considering a proposal for the amalgamation of THEAL with ZLL (hereinafter referred to as "Amalgamation") pursuant to the provisions of Sections 391 to 394 and other applicable provisions of the Companies Act, 1956 and the relevant provisions of the Companies Act 2013, including rules and regulations made thereunder (hereinafter referred to as "Scheme"). Subject to necessary approvals, THEAL would be amalgamated with ZLL, with effect from Appointed Date of March 31, 2016 (close of business hours). In consideration for the Amalgamation, equity shares of ZLL would be issued to the shareholders of THEAL.



- 1.2 In this connection, SSPA & Co., Chartered Accountants (SSPA) has been appointed to carry out the relative valuation of equity shares of THEAL and ZLL to recommend the fair share exchange ratio.

## **2. BRIEF BACKGROUND OF THE COMPANIES**

### **2.1 ZEE LEARN LIMITED**

- 2.1.1 Zee Learn Limited, incorporated in the State of Maharashtra on January 4, 2010, is one of the diversified premium education companies which delivers learning solutions and training through its multiple products viz. Kidzee, Mount Litera Zee Schools, Mount Litera World Preschool, Zee Institute of Media Arts (ZIMA), Zee Institute of Creative Arts (ZICA).
- 2.1.2 ZLL is one of India's leading company in education segment with chain of K-12 schools and preschools in its portfolio. ZLL also acts as a consultant to local entrepreneurs who wish to set up K-12 schools, under its brand name Mount Litera Zee School and it also helps in providing Educational management and Advisory services.
- 2.1.3 ZLL runs Asia's No. 1 chain of pre-schools under its brand name Kidzee with more than 1,500+ operational pre-schools across India. Further, ZLL's Mount Litera Zee School is one of the leading chain of K-12 schools in the private-unaided category with over 89 schools in more than 75 cities. ZLL is also engaged in providing world-class vocational educational programs in creative and media arts.
- 2.1.4 The shares of ZLL are listed on The National Stock Exchange of India Limited ('NSE') and BSE Limited ('BSE') and the Global Depository Receipts were listed on the Luxembourg Stock Exchange.

### **2.2 TREE HOUSE EDUCATION & ACCESSORIES LIMITED**

- 2.2.1 Tree House Education and Accessories Limited, incorporated in the State of Maharashtra on July 10, 2006, is India-based self-operated pre-school chain. The company is engaged in providing pre-primary education and education support services. THEAL is also engaged in leasing of education infrastructure.
- 2.2.2 THEAL is a Pan India Operator with 611 Self Operated Pre-School and 109 Franchisee outlets. Total 720 pre-school centres in 103 cities. THEAL also manages 24 K-12 Schools. The company offers a range of courses pertaining to a disparate age-group of children belonging to various levels, such as nursery, junior kindergarten (KG), senior KG and day





care, among others. The company also organizes summer camps, teacher's training course (TTC) and activity/hobby classes.

- 2.2.3 The shares of THEAL are listed on NSE, BSE and Metropolitan Stock Exchange of India Limited.

### **3. EXCLUSIONS AND LIMITATIONS**

- 3.1 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 herein.
- 3.2 No investigation of the Companies' claim to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.
- 3.3 Our work does not constitute an audit or certification of the historical financial statements / prospective results 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 fairness or accuracy of any financial information referred to in this report. Valuation analysis and results are specific to the purpose of valuation mentioned in the report is as per agreed terms 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.
- 3.4 A valuation of this nature involves consideration of various factors including those impacted by prevailing market trends in general and industry trends in particular. This report is issued on the understanding that the management of the Companies have drawn our attention to all the matters, 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 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 Appointed Date for the proposed amalgamation. We have no responsibility to update this report for events and circumstances occurring after the date of this report.
- 3.5 In the course of the valuation, we were provided with both written and verbal 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



information provided for the purpose of this engagement. Public information, estimates, industry and statistical information relied in this report have been obtained from the sources considered to be reliable. However, we have not independently verified such information and make no representation as to the accuracy or completeness of such information from or provided by such sources. Our conclusions are based on the assumptions, forecasts and other information given by/on behalf of the Companies. We assume no responsibility for any errors in the above information furnished by the Companies and consequential impact on the present exercise.

- 3.6 Our recommendation is based on the estimates of future financial performance as projected by the management of the Companies, which represents their view of reasonable expectation at the point of time when they were prepared, but such information and estimates are not offered as assurances that the particular level of income or profit will be achieved or events will occur as predicted. Actual results achieved during the period covered by the prospective financial statements may vary from those contained in the statement and the variation may be material. 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.
- 3.7 Our report is not, nor should it be construed as our opining or certifying the compliance of the proposed amalgamation 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 amalgamation.
- 3.8 This report is prepared only in connection with the proposed amalgamation exclusively for the use of the Companies and for submission to any regulatory/statutory authority as may be required under any law.
- 3.9 Any person/party intending to provide finance/invest in the shares/businesses of any of the Companies, shall do so, after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision.
- 3.10 It is to be noted that any reproduction, copying or otherwise quoting of this report or any part thereof, other than in connection with the proposed amalgamation as aforesaid, can be done only with our prior permission in writing.
- 3.11 SSPA, nor its partners, managers, employees or agents of any of them, makes any representation or warranty, express or implied, as to the accuracy, reasonableness or





completeness of the information, based on which the valuation is carried out. All such parties expressly disclaim any and all liability for, or based on or relating to any such information contained in the valuation.

#### **4. SOURCES OF INFORMATION**

For the purpose of the valuation exercise, we have relied upon the following sources of information provided by the management.

- (a) Annual Reports of the Companies for FY 2014-15.
- (b) Estimated Financial statements of THEAL for the financial year (FY) ended March 31, 2016.
- (c) Estimated Consolidated Financial statements of ZLL for the financial year ended March 31, 2016.
- (d) Financial Projections of THEAL and ZLL comprising of Balance Sheet and Profit & Loss Account for FY 2016-17 and FY 2017-18, as provided to us by the respective management.
- (e) Draft Scheme of Amalgamation u/s 391 to 394 and other applicable provisions of the Companies Act, 1956 and the relevant provisions of the Companies Act 2013.
- (f) Other relevant details regarding the Companies such as their history, their promoters, past and present activities, other relevant information and data including information in the public domain.
- (g) Such other information and explanations as we required and which have been provided by the management of the Companies.

#### **5. VALUATION APPROACH**

5.1 For the purpose of valuation for amalgamation, generally the following approaches are adopted:

- (a) the "Underlying Asset" approach;
- (b) the "Income" approach; and
- (c) the "Market Price" approach;

5.2 In the present case, both the Companies are engaged in service sector i.e. providing educations service across the country and the "Underlying Asset" approach does not fully capture the value of the business. Hence the "underlying asset" approach has limited



relevance for the current valuation exercise. Considering this, we have thought fit to ignore the "underlying asset" approach in case of current valuation exercise.

**6. INCOME APPROACH**

- 6.1 Under the "Income Approach", we have considered the Comparable Companies Multiple (CCM) Method of valuation. The Comparable Companies Multiple Method arrives at the value of the company by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies. 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. The Enterprise Value (EV) to Earnings before Interest Tax Depreciation and Amortization (EBITDA) multiples of comparable listed companies are used.
- 6.2 To the value so arrived, adjustments are made for contingent liabilities, loan funds, cash and cash equivalents, value of investments, capital expenditure to be incurred, value of surplus assets, inflow on account of ESOP's after making adjustment of tax wherever applicable.
- 6.3 The value as arrived above is divided by the outstanding/dilutive number of equity shares to arrive at the value per share.

**7. MARKET PRICE APPROACH**

- 7.1 The market price of an equity share as quoted on a stock exchange is normally considered as the 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.
- 7.2 As stated earlier, equity shares of THEAL and ZLL are listed on BSE and NSE and there are regular transactions in their equity shares with reasonable volumes. In the circumstances, the share price of THEAL and ZLL over an appropriate period has been considered for determining the value of THEAL and ZLL under the "Market Price" Approach.

**8. RECOMMENDATION OF FAIR EXCHANGE RATIO**

- 8.1 The fair basis of amalgamation of the Companies 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 approaches, for the purposes





of recommending a ratio of exchange it is necessary to arrive at a single value for the shares of each company. It is however important to note that in doing so, we are not attempting to arrive at the absolute values of the shares of each company. Our exercise is to work out relative value of shares of the Companies to facilitate the determination of a ratio of exchange. For this purpose, it is necessary to give appropriate weightage to the values arrived at under each approach.

Considering the fact that, after the amalgamation, the business of the Companies is intended to be continued on a "going concern" basis, to arrive at relative value of the Companies, we have considered it appropriate to give equal weightages to the value determined under the "Income" approach and "Market" approach.

- 8.2 The share exchange ratio has been arrived on the basis of a relative valuation of the shares of the Companies based on the methodology explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potential of the businesses of the Companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.
- 8.3 In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments, 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 recognized 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."*



8.4 In the light of the above and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, in our opinion, a fair ratio of exchange in the event of amalgamation of THEAL with ZLL would be:

**53 (Fifty Three) equity shares of ZLL of INR 1 each fully paid up for every 10 (Ten) equity shares of THEAL of INR 10 each fully paid up.**

Thanking you,  
Yours faithfully,

SSPA *20*



**SSPA & CO.**  
**Chartered Accountants**  
Firm Registration Number: 128851W

Place: Mumbai