

**KRIZM HOTELS PRIVATE LIMITED**  
**(LEMON TREE HOTELS)**

**EMPLOYEES STOCK OPTION PROGRAM (ESOP) 2006**

**I. Introduction**

- This document sets out the salient features of the employees stock option plan called "Employees Stock Option Program 2006" of Krizm Hotels Private Limited, a private limited company incorporated under the Companies Act, 1956 and having its registered office at B-6/17, Safdarjung Enclave, New Delhi-110029 (hereinafter referred to as "Company").
- This ESOP Plan will come into force on and from the date of approval of shareholders in their meeting. All the Options granted under this ESOP Plan shall continue to be governed by the provisions of this ESOP Plan and the Grantees, or any persons acquiring rights (in accordance with this ESOP Plan) from the Grantees, may exercise their rights on or before the expiration of the Exercise Period.
- This ESOP Plan has been formulated by the Board of Directors of the Company in conformity with the Guidelines on Employees' Stock Option Plan or Scheme dated 11<sup>th</sup> October 2001 issued by the Government of India in exercise of the powers conferred by proviso to sub-clause (iii) of clause (2) of Section 17 of the Income Tax Act, 1961. This ESOP Plan has been approved unanimously by the Board of Directors at its meeting held on 18<sup>th</sup> July 2006.

**II. Intent**

2.1 The objectives of this ESOP Plan are to promote the long-term financial interest of the Company and to offer to eligible Employees of the Company an opportunity to participate in the share capital of the Company. The objects of the Employee Stock Option Program are:

- To provide means to enable the Company to attract and retain high quality human talent in the employment of the Company;
- To motivate the Employees of the Company with incentives and reward opportunities.

- To achieve sustained growth of the company and creation of shareholder value by aligning the interests of the Employees with the long term interests of the Company; and
- To create a sense of ownership and provide the Employees, with wealth creation opportunities, while in employment of the Company.

2.2 The Company desires that Options for equity shares of the Company should be granted to certain Employees, Officers, Directors and Consultants of the Company pursuant to a structure where under:

- The Trust (as defined below) is settled by the Company;
- The Company grants loans to the Trust from time to time for the purpose of subscribing to the Shares not more than 7.5% of the issued share capital of the Company;
- The shareholders of the Company have unanimously approved the subscription to the Shares by the Trust.;
- The Trust shall use the funds received by it pursuant to the loans received from the Company to purchase the Shares;
- In accordance with this ESOP Plan, Options shall be granted to certain Employees, Officers, Directors and Consultants of the Company eligible under this ESOP Plan to purchase the Shares from the Trust at a specified price. It is clarified that (i) an employee of the Company who is a promoter or belongs to the promoter group; and (ii) an employee who is a director and who has a beneficial holding of more than 10% of the issued, subscribed and paid up equity share capital of the Company will not be granted Options under the ESOP Plan.

### **III. Definitions and Interpretation**

3.1 In this document, the following expressions including their grammatical variations or cognate expressions shall, where the context so admits, have the following meaning:

- a) '*Board / Board of Directors*' means the Board of Directors of the Company from time to time and where the context so requires includes the Board of Directors of the Holding Company and/or its Subsidiaries.
- b) '*Common Stock*' means the equity shares of the Company and includes any securities convertible into equity shares.

- c) *'The Act'* means the Companies Act, 1956 for the time being in force and as amended from time to time.
- iv) *'Company'* means Krizm Hotels Private Limited, having its registered office at B-6/17, Safdarjung Enclave, New Delhi-110029, its successors and assigns and where the context so requires includes its Holding Company and/or its Subsidiary.
- v) *'Disability'* shall mean "Disability" as defined in any applicable agreement between the Grantee and the Company or if there is no such agreement or Disability is not defined therein, then a grantee's becoming physically or mentally incapacitated, as confirmed by the medical doctor of the Company, so that he is therefore reasonably expected to be unable to perform his duties to the Company.
- vi) *'Employee'* means any person employed by the Company and its subsidiaries or holding company including permanent or part time employees, officers, consultants and any Director of the Company, whether whole time or not, working in India or abroad.
- vii) *'Exercise'* in relations to Options means, the tendering by an employee, of a written application for the issue of shares, pursuant to the Options vested in him under the Grant and this ESOP Plan, accompanied by the Exercise Price payable for the Shares.
- viii) *'Exercise Date'* means the date on which an Employee of the Company elects to Exercise the Options.
- ix) *'Exercise Period'* in relations to the Options means the period commencing from the date of Vesting of Options and ending on the date after which Options cannot be Exercised.
- x) *'Exercise Price'* means the price payable by the eligible Employee for exercising the Option granted to him in pursuance of this ESOP Plan.
- xi) *'Grant'* means, individually or collectively, issue of Options to eligible Employees under this ESOP Plan
- xii) *'Grantee'* means an eligible Employee who has been granted Stock Options pursuant to this ESOP Plan where the context so requires includes his legal heirs and/or designated nominee/beneficiary.
- xiii) *'Grant Date'* means the date on which Stock Options are granted to an eligible Employee pursuant to this ESOP Plan.
- n) *'Holding Company'* means a Holding company as defined under the Act and as altered from time to time
- xv) *'IPO'* means Initial Public Offer of the Company's shares resulting in listing of the shares on any Recognized Stock Exchange.
- xvi) *'Option' or 'Stock Option'* means a right but not an obligation granted to an eligible Employee to subscribe for Shares or any Resultant Shares in pursuance of this ESOP

Plan to apply for Shares of the Company at a pre- determined price and upon such terms and conditions as may be specified.

- xvii) *'Recognized Stock Exchange'* means stock exchange in India recognized by Securities Board and Exchange Board of India or stock exchange outside India recognized by similar regulatory authorities of the countries outside India.
- xviii) *'Resultant Shares'* means the equity shares issued in lieu of Shares of the Company on any Change in Capital Structure or on any Corporate Action as mentioned in this ESOP Plan.
- xix) *'Share'* means equity shares of the Company and the securities convertible into equity shares.
- xx) *'Strategic Sale'* refers to the sale of entire issued, subscribed and paid up equity share capital of the Company and/or any event resulting from Corporate Action undertaken by the Company
- xxi) *'Subsidiary'* means a subsidiary company as defined under the Act and as altered from time to time.
- xxii) *'Tenure' or 'Plan Tenure'* means the period from approval of this ESOP Plan till the end of vesting period of options granted before the Date of IPO during which the ESOP Plan is effective.
- xxiii) *'Trust'* means KRIZM HOTELS PVT. LTD. EMPLOYEES WELFARE TRUST created and established by the Board of Directors of the Company for holding the Shares for the benefit of the eligible Employees in accordance with the terms and conditions of this ESOP Plan.
- xxiv) *'Trustees'* means the trustees of the Trust for the time being and persons nominated/appointed as such from time to time by the Board of Directors of the Company and to perform such actions and deeds as stipulated in the Trust Deed.
- xxv) *'Vesting'* means the process by which the eligible Employee is given the right to apply for Shares of the Company against the Option granted to him in pursuance of this ESOP Plan.
- xxvi) *'Vesting period'* means the period during which the Vesting of the Option granted to the eligible Employee, in pursuance of this ESOP Plan, takes place.

3.2 Except where the context requires otherwise, this ESOP Plan will be interpreted as follows:

- (a) in this ESOP Plan headings are for convenience only and shall not affect the interpretation hereof.

- (b) where a word or phrase is defined, other parts of speech and grammatical forms and the cognate variations of that word or phrase shall have corresponding meanings.
- (c) words importing the singular shall include plural and vice versa.
- (d) reference to Clauses, Articles, Annexures are to clauses, articles, annexures of this ESOP Plan.
- (e) words denoting one gender include the other gender.
- (f) any reference in this ESOP Plan to a statutory provision includes that provision and any regulation made in pursuance thereof, as from time to time modified or re-enacted, whether before or after the date of this ESOP Plan.

#### **IV. Creation and Funding of the Trust**

- 4.1 The Trust shall hold the Shares, for and on behalf of the eligible Employees, in accordance with the terms and conditions of this ESOP Plan. The Trust would be settled by the Company with a nominal amount of Rs. 10,000/-. The first trustees will be Mr. J.K. Chawla (who presently is the Senior Vice President-Projects & Engineering Services of the Company), Mr. Rahul Pandit (who presently is the Vice President-Hotel Operations & Vice President-People of the Company) and Mr. Kapil Sharma (who presently is the Senior General Manager–Finance of the Company). The Trust Deed will provide, inter alia, that the Trust would hold the funds and other assets of the Trust for the benefit of the eligible Employees in accordance with this ESOP Plan from time to time, as may be approved by the Board of Directors and the shareholders of the Company.
- 4.2 The Trust Deed will authorize the trustees to borrow funds from the Company for the purpose of subscribing to the Shares for the eligible Employees.
- 4.3 All transactions done by the Trust will be at arms length and with uniform application to all groups of shareholders and no preferential treatment to a particular individual or group of shareholders shall be given, except in those cases as may be specifically approved by the Chairman & Managing Director.
- 4.4 The Trust shall maintain accounts and shall appoint a Chartered Accountant to conduct an audit and provide a report on the accounts of the Trust on a yearly basis.

## **V. Implementation**

5.1 This ESOP Plan shall be implemented by the Chairman & Managing Director of the Company under the supervision and guidance of the Board of Directors. The issuance of Shares from the Trust by the Trustees will be under the guidance, advice and direction of the Board of Directors and the Chairman & Managing Director. The re purchase of any Shares, whether from eligible Employees, ex employees, or any other personnel whom the Grant was offered shall be based on the recommendations and suggestions of the Trustees, who will seek the requisite approval from the Chairman & Managing Director for all such transactions and keep the Chairman & Managing Director informed of such actions. The Trustees will act as custodians of the matters and issues relating to and arising out of finances and Shares available with the Trust. The Trust shall retain the physical custody of Shares certificates issued after the Grants are Exercised by eligible Employees under this ESOP Plan.

## **VI. Effective Date**

6.1 As per the resolution unanimously passed by the Board of Directors at its meeting held on 18<sup>th</sup> July 2006. This ESOP Plan shall be deemed to have come into force on and from the date of approval of shareholders in their meeting.

## **VII. Grant of Options**

7.1 The Grant of Options shall be offered and made in accordance with the following:

➤ *The Grant and Price*

- The Chairman & Managing Director, shall recognize special category of eligible Employees, based on specific criteria viz. seniority level in the Company, key resource, long-term association with the Company, etc.
- The Grant, under this ESOP Plan shall be made at the discounted price, to such eligible Employees as may be determined by the Chairman & Managing Director as the case may be and shall also be specified in the Grant.
- The maximum number of Shares to be granted to eligible Employees falling under this ESOP Plan shall be 7.5% of the issued share capital of the Company
- The Grant shall be in writing and shall specify the number of Options granted, the price payable for exercising the Options, the earlier date on which some or

all of the Options and the Shares acquired under the Grant shall be eligible for Vesting, fulfillment of the performance and other conditions, etc, if any, subject to which Vesting shall take place and other terms and conditions thereto.

- The Shares to be offered pursuant to a Grant under this ESOP Plan shall be from the paid up share capital of the Company or Common Stock previously issued and outstanding and reacquired by the Company. Shares subsequently purchased by the Company/ Trust from Grantees would be available for Grant of further Stock Options within this ESOP Plan's tenure.
- Options granted to an eligible Employee are not transferable unless agreed to by the Chairman & Managing Director of the Company (e.g. in the case of a takeover).
- No person, other than the eligible Employee to whom the Option is Granted, shall be entitled to exercise the Option.
- If a Grantee dies or becomes totally and permanently disabled while in employment of the Company; the Granted Stock Options shall vest with the eligible Employee (vested or unvested) or the nominee/beneficiary designated by the Grantee and the Options must be Exercised as below: -
  - i. In case of death within six months from the date of death or such extended time approved by the Board of Directors of the Company.
  - ii. In case of total and permanent disability within three months from the date of total & permanent disability or such extended time as may be approved by the Board of Directors of the Company.
- In the event of resignation or termination of the eligible Employee, all Options not Vested as on that day shall expire.
- All Shares acquired under this ESOP Plan will rank pari passu with all other Shares of the Company for the time being in issue, save as regards any right attached to any such Shares by reference to a record date prior to the date of allotment. In case of issue of Bonus Shares by the company, such options granted to the employees which have not been exercised till the date of Bonus issue, shall be increased in the proportion of Bonus issue. Further, the exercised price shall get reduced in the proportion of increase in share capital of the company due to Bonus Shares. Dividend in respect of Shares allotted on Exercise of the Options shall be payable pro-rata from the date of allotment.

## **VIII. Vesting of Options**

### 8.1 Vesting Plan

- The Vesting period will be decided by the Chairman & Managing Director as and when any Grant takes place. However there shall be a minimum period of one year between Grant and first Vesting and a maximum vesting period of 5 years before the Options can be exercised.

### 8.2 Vesting Period

The Vesting period for the Grant shall in general, unless specifically approved by the Chairman & Managing Director, be as follows:

<b>Period of service from the date of Grant of Stock Options</b>	<b>Percentage of Stock Options that shall vest</b>
End of 12 months	10%
End of 24 months	20%
End of 36 months	30%
End of 48 months	40%

Notwithstanding anything to the contrary in this ESOP Plan, the Chairman & Managing Director shall be entitled in his absolute discretion, to vary or alter the Vesting Date from Employee to Employee or any class thereof, as he may deems fit. The Chairman & Managing Director in his absolute discretion may permit the Options granted, which have not Vested to be exercised within such time and on such terms and conditions as he may determine.

## **IX. Exercise of Options**

- 9.1 There shall be no lock-in after the Options have Vested. The Vested Options would be eligible to be exercised on the Vesting Date itself.



## **X. Purchase Plan**

### **10.1 Whilst in employment:**

- i. Until IPO or a strategic sale of the Company, the eligible Employee who has exercised his Options shall not, other than as expressly provided for herein or as may be amended in this ESOP Plan, sell, pledge, mortgage, charge, encumber or otherwise dispose off or create any lien or interest in the underlying Common Stock, whether express or implied in any manner whatsoever.
- ii. The eligible Employee, who intends to sell his Exercised Options, shall first offer his Shares to the Trust and the Trust shall have right of first refusal to buy all, but not some of the Shares, at the then prevailing fair market value. If Trust declines, then the same shall be facilitated by the Trust utilizing the methodology of Passaround amongst eligible Employee shareholders.
- iii. On the completion of Passaround, if there are Shares not taken up, the Trust may arrange for an outside buyer to buy all or part of the Shares offered, at the then prevailing market value. The Employee may withdraw his offer to sell the Shares or sell only to the extent the Shares have been taken up.
- iv. Any eligible Employee shareholder, who buys Shares vide above passaround, shall abide by the conditions that he shall not be entitled to sell, pledge, mortgage, charge, encumber or otherwise dispose off or create any lien or interest in the underlying Common Stock, whether express or implied in any manner whatsoever. This is also clarified that the Shares so purchased shall also remain in the custody of the Trust.
- v. This is to clarify further that those eligible Employees to whom the Grant was made, but have not exercised their Options, shall not be eligible for the aforementioned Passaround.
- vi. Eligible Employees will be able to exercise their Options at any time within five years from the date of Vesting of the Options i.e. 1.4.xx till 31.3.xx+5. The *Exercise Price will be fixed for the year in which the Option is granted – the price at which Trust may buy the Shares shall be the variable* and will be announced annually based on the previous year's financial performance (PFY EBITDA). If an eligible Employee resigns from the services of the Company, he/she will not be eligible to exercise his/her Options.
- vii. In case of the valuation being lower than the Exercise Price, the eligible Employees will be able to relinquish their stock to the Trust at no cost.
- viii. In the absence of an IPO, i.e. an external mechanism by which an eligible Employee may exercise his Options and sell the resultant Shares, there will be a

secondary exit mechanism as described in para (vi) which will be subject to an annual limit, to be set at the discretion of the Board of Directors. Should more Shares be put up for sale than this limit, Shares will be bought by the Trust on a prorata basis.

- ix. All the Shares purchased from or relinquished by eligible Employees will be put back into the ESOP pool.
- x. In event of an IPO, the eligible Employee will be free to sell his Shares in the open market, subject to any holding restrictions by any Government Regulatory Authority and applicable law at such point of time.
- xi. In event of a strategic sale, all Vested Options of the eligible Employee will be exited in the currency of the transaction (cash or equity swap, as the case may be). With respect to unvested Options, they will be traded with Options under the new entity or they will be deemed as Vested and will be treated in the same manner as all other Vested Options, as may be determined by the Board of Directors and the Chairman & Managing Director at such point of time.

#### 10.2 Whilst not in employment:

In case an eligible Employee separates from the Company, for any reason whatsoever, the following shall apply with respect to any Shares held by him, without exception:

- i. At the time of separation, the eligible Employee must offer his Shares for purchase by the Trust and the Trust must buy all such Shares at the then prevailing fair market value.
- ii. The Trust shall not be bound by any consent or dissent of any eligible Employee or Director or any other party for dealing with such Shares. The Trust shall under be no obligation to discuss or give declaration to any person, by whatever name called, while dealing with such Shares/securities.

For the purpose of this Clause, separation includes termination of employment.

- iii. In event of an IPO, the ex-employee will be free to sell his Shares in the open market, subject to any holding restrictions by any Government Regulatory Authority and applicable law at such point of time.

## **XI. ESOP Pricing, Valuation and Purchase Methodology**

- The Company has the freedom to determine or amend, at its own discretion and without giving any prior notice, the Exercise Price (including the part of the price payable at the time of exercise and amount to be called up later) and the exercise/vesting periods in the ESOP for additional Options to existing eligible Employees or for new Options to new eligible Employees. All Options contracted previous to the change will however not be affected.
- At the end of a financial year (PFY), the fair value (FV) of an equity share of the Company will be calculated on the following basis:

EBTDA of PFY x 11 times/Total number of Shares (partly and fully paid up and total ESOP Options granted) as at the end of the PFY. This will be the Fair Value (FV) of the Share for the entire period of the current financial year (CFY).

- Should an eligible Employee wish to cash in on an Option which has vested with him at a price of say Rs. X, the Trust will then repurchase the Shares from him and will pay the employee the difference i.e. Rs. FV-X per share.

The Shares will then be returned to the ESOP pool.

### Example

CFY = 2006/7, PFY = 2005/6, EBITDA, 2005/6 = say Rs. 2.5 crores

Total shares outstanding in 2005/6 = say 25 lacs or 0.25 crores

So FV in 2006/7 =  $2.5 \times 11 / 0.25 = \text{Rs. } 110$

If an eligible Employee who has 20,000 Shares at an exercise price of Rs. 46 wishes to sell 5,000 Shares (25% of total) to the Company, the Trust will pay such eligible Employee Rs.  $(110-46) \times 5,000 = \text{Rs. } 3.2 \text{ lacs}$ . The 5,000 Shares so purchased will revert back into the ESOP pool.

- Eligible Employees will be Granted Options in the current financial year at a price discounted by 20% over the FV applicable for that financial year or the last sale price of an equity share, whichever is higher.

In the example above, if the Company now allots equity shares to another eligible Employee, it will do so at an exercise price of Rs. 88 (i.e. 20% discount on FV), providing no external sale of shares has happened in the meantime, at a price in excess of Rs. 110 per share.

- An eligible Employee can sell the total number of Shares that have vested in his name in any financial year, over a total period of 4 years, provided that, not more than 25% of the total number of Shares that have vested in his name in any financial year can be sold in a single financial year. However the Chairman & Managing Director of the Company, entirely on his discretion, may permit this percentage to increase to 100%.
- If an eligible Employee does not fully exercise his limit of selling the number of Shares upto 25% in any financial year, then his unexercised limit of selling the number of Shares will be added to the limit of the next financial year.

Example

If an eligible Employee who has 20,000 Shares as on 01.04.xx can sell only 5,000 shares (25% of 20,000 Shares) during the financial year xx-xx+1.

If he sold only 2,000 Shares (10% of 20,000 Shares) during the financial year xx-xx+1, then he can sell upto 8,000 Shares (5,000 Shares + {5,000-2,000} Shares) during the financial year xx+1-xx+2 i.e. 40% of 20,000 Shares {25% of 20,000 Shares (Current financial year limit) + (25% limit -10% limit of the last financial year) of 20,000 Shares}.

- No eligible Employee may sell more than 25% of the total number of Shares that have vested (cumulatively) in his name in any financial year. However the Chairman & Managing Director of the Company, entirely on his discretion, may permit this percentage to increase to 100%.

**XII. Structure**

- An Option Grantee who has exercised options will receive copies of all documents that are sent to the shareholders of the Company. This will include the annual accounts of the Company as well as notices of general meetings and the accompanying explanatory statements and related documents.

### **XIII. General Terms**

- Listing of the Shares under this ESOP Plan: If the Shares are listed, the Shares of the Company issued under this ESOP Plan to the eligible Employees will be listed in the Stock Exchanges where the Shares are listed.
- Liquidation: In the event of liquidation of the Company, all the Options not granted shall automatically lapse.
- No Right or Claim: Nothing in this ESOP Plan shall confer any right or claim in favour of any person for a Grant. Nothing in this ESOP Plan, or any Options granted under this ESOP Plan, shall confer upon the Grantee any right to continue to be an Employee for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company. The Company expressly reserves the right, at any time, to terminate the employment of the Grantee, free of any liability or claim under this ESOP Plan, except as expressly provided in this ESOP Plan. The rights and obligations of any eligible Employee shall not be affected by participation in this ESOP Plan. This ESOP Plan shall not form part of any employment agreement between the Company and the eligible Employee.
- Tax Liability: The Grantees and the persons acquiring rights to the Options under this ESOP Plan shall be solely liable for any tax liability arising on account of issue or Grant of Options, Exercise of Options under this ESOP Plan or disposal of any Shares acquired pursuant to this ESOP Plan.
- Dispute Resolution and Jurisdiction:
  - (i) This ESOP Plan shall be subject to requisite approvals and registration requirements under applicable laws, rules and regulations. The Company shall not be obliged to issue any Shares under this ESOP Plan unless the issuance of such Shares complies with all laws, rules and regulations applicable to the Company.
  - (ii) Any dispute or differences arising out of or in connection with this ESOP Plan (including the validity or interpretation hereof) shall be settled through arbitration by a sole arbitrator, under the provisions of the Arbitration and Conciliation Act, 1996. The venue of Arbitration shall be New Delhi.
  - (iii) The Parties submit to the jurisdiction of the Courts of New Delhi.

- Applicability of provisions of Memorandum and Articles of Association: This ESOP Plan and the Shares that may be allotted pursuant to this ESOP Plan shall be subject to the provisions of the Memorandum and Articles of Association of the Company and the Act.

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