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ANNUAL REPORT

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**HARDCASTLE
& WAUD
MANUFACTURING
COMPANY LIMITED**



Our Vision

We will be the preferred provider of quality solutions through our products/services by building a dynamic & efficient organisation.

Our Values

Honesty & integrity

Acquire & Share Knowledge

Result Oriented & Accountable

Delegiate & Empower

Customer Focussed

Achieve Professional Excellence

Support Decisions 100%

Teamwork & Respect for Individuals

Leverage Diversity

Encourage Innovation, Initiative & Transparency

"WE WILL PUT OUR HEART & SOUL FOR THE BETTERMENT OF OUR ORGANISATION"

**IN THE HIGH COURT OF JUDICATURE AT BOMBAY
ORDINARY ORIGINAL CIVIL JURISDICTION
COMPANY APPLICATION NO. 486 OF 1999**

In the matter of Sections 391 and 394 of the Companies Act, 1956 (1 of 1956);

And

In the matter of Hardcastle & Waud Manufacturing Company Limited;

And

In the matter of a Scheme of Arrangement between Hardcastle & Waud Manufacturing Company Limited and Vesna Agencies Private Limited.

Hardcastle & Waud Manufacturing Company Limited, an existing company within the meaning of the Companies Act, 1956 having its registered office at Netivali Baug, Kalyan - 421 306.

..... APPLICANT COMPANY

**NOTICE CONVENING MEETING OF EQUITY SHAREHOLDERS
(UNDER CERTIFICATE OF POSTING)**

To

The Equity Shareholders of Hardcastle & Waud Manufacturing Company Limited

TAKE NOTICE that by an order made on the 19th day of August, 1999 in the above Company Application the High Court of Bombay has directed that a meeting of the Equity Shareholders of the Applicant Company be held at Geeta Hall, Opp. Krishna Talkies, Shivaji Chowk, Kalyan - 421 304 on Thursday the 30th day of September 1999 at 12.00 Noon for the purpose of considering, and, if thought fit, approving, with or without modifications, the arrangement embodied in the Scheme of Arrangement between the Applicant Company and Vesna Agencies Private Limited.

TAKE FURTHER NOTICE that in pursuance of the said order and as directed therein a meeting of the Equity Shareholders of the Applicant Company will be held at Geeta Hall, Opp. Krishna Talkies, Shivaji Chowk, Kalyan - 421 304 on Thursday, the 30th day of September, 1999 at 12.00 Noon when you are requested to attend.

TAKE FURTHER NOTICE THAT you may attend and vote at the said meeting in person or by proxy, provided that a proxy in the prescribed form, duly signed by you or by your authorised representative, is deposited at the Registered Office of the Applicant Company at its registered office at Netivali Baug, Kalyan - 421 306 not later than 48 hours before the meeting.

The Court has appointed Mr B.L. Jatia, Director and failing him Mr O.P.Adukia, Director and failing him Mr N.S. Karnavat, Director to be the Chairman of the said meeting.

A copy each of the Scheme of Arrangement, the Explanatory Statement under Section 393 of the Companies Act, 1956 and a Form of Proxy are enclosed.

Dated this 31st day of August 1999.

Netivali Baug
Kalyan - 421 306

(B. L. Jatia)
CHAIRMAN APPOINTED FOR THE MEETING

**IN THE HIGH COURT OF JUDICATURE AT BOMBAY
ORDINARY ORIGINAL CIVIL JURISDICTION
COMPANY APPLICATION NO. 486 OF 1999**

In the matter of Sections 391 and 394 of the Companies Act,
1956 (1 of 1956);

And

In the matter of Hardcastle & Waud Manufacturing Company
Limited;

And

In the matter of a Scheme of Arrangement between Hardcastle
& Waud Manufacturing Company Limited and Vesna Agencies
Private Limited

Hardcastle & Waud Manufacturing Company Limited an existing
company within the meaning of the Companies Act, 1956 having
its registered office at Netivali Baug, Kalyan - 421 306.

..... APPLICANT COMPANY

EXPLANATORY STATEMENT UNDER SECTION 393 OF THE COMPANIES ACT, 1956

1. (a) Pursuant to the order dated 19th day of August 1999 passed by the High Court of Bombay in the Company Application referred to hereinabove, a meeting of the Equity Shareholders of Hardcastle & Waud Manufacturing Company Limited to be held on the 30th day of September 1999 is being convened for the purpose of considering and, if thought fit, approving with or without modification, the Scheme of Arrangement, (the "Scheme") which is a demerger of the undertaking comprising the Sarigam Unit of Hardcastle & Waud Manufacturing Company Limited and transfer thereof to Vesna Agencies Private Limited as a going concern with effect from April 1, 1999 (the "Appointed Date"), as also all other consequential matters including reorganisation of capital as more particularly contained in the Scheme. Upon the coming into effect of the Scheme, Vesna Agencies Private Limited would be converted into a public limited company in terms of the Scheme.
- (b) The resolution to be submitted at the said meeting will read as follows:

"RESOLVED THAT the arrangement as embodied in the Scheme of Arrangement between Hardcastle & Waud Manufacturing Company Limited and Vesna Agencies Private Limited placed before the meeting and initialled by the Chairman for the purpose of identification, be and is hereby approved.

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to do all such act, deeds, matters and things as are considered requisite or necessary to effectively implement the said Scheme of Arrangement and to make and/or consent to any modification or alterations to the Scheme and agree to any conditions and limitations imposed by the Hon'ble High Court of Judicature at Bombay while sanctioning the said Scheme of Arrangement or otherwise."
- (2) In this Statement, Hardcastle & Waud Manufacturing Company Limited is hereinafter referred to as "Hawco" or "Transferor Company" or "Applicant Company" and Vesna Agencies Private Limited is hereinafter referred to as "Hawcoplast" or "Transferee Company".
- (3) The Applicant Company was incorporated under the provisions of the Indian Companies Act, 1913 on 15th October, 1945. Its Registered Office is situated at Netivali Baug, Kalyan - 421 306.
- (4) The Transferee Company was incorporated under the provisions of the Companies Act, 1956 on 5th February 1999. Its Registered Office is situated at Hardcastle & Waud Compound, Netivali Baug, Kalyan - 421 306.
- (5) **SHARE CAPITAL**

| | |
|--|-------------|
| (a) The Share Capital structure of the Transferor Company as on March 31, 1999 was as follows: | |
| Authorised: | |
| 50,00,000 Equity Shares of Rs10 each | 5,00,00,000 |
| Issued, Subscribed and Paid up: | |
| 20,00,000 Equity Shares of Rs 10 each, fully paid up | 2,00,00,000 |
| (b) The Share Capital structure of the Transferee Company as on March 31, 1999 was as follows: | |
| Authorised : | |
| 700 Equity Shares of Rs 100 each | 70,000 |
| 300 11% Non-cumulative Redeemable | |
| Preference Shares of Rs 100 each | 30,000 |
| | 100,000 |
| Issued, Subscribed & Paid Up: | |
| 2 Equity Shares of Rs 100 each fully paid up | 200 |
| | 200 |

Pursuant to alteration to the Memorandum and Articles of Association of the Transferee Company made by its members on 12th July 1999, the shares have been subdivided into shares of Rs 10 each and consequently its Share Capital Structure is now as follows -

| | |
|--|---------|
| Authorised : | |
| 7000 Equity Shares of Rs 10 each | 70,000 |
| 3000 11% Non-cumulative Redeemable Preference Shares of Rs 10 each | 30,000 |
| | 100,000 |
| Issued, Subscribed & Paid Up: | |
| 20 Equity Shares of Rs 10 each fully paid up | 200 |
| | 200 |

- (6) The main objects for which Hawco has been established are set out in its Memorandum and Articles of Association. Briefly speaking Hawco is presently engaged in the business of manufacturing and selling various products.
- (7) The objects for which Hawcoplast has been established are set out in its Memorandum and Articles of Association. Briefly speaking Hawcoplast proposes to engage in the business of manufacturing, selling and or dealing in Powder Coatings.

RESTRUCTURING OF HAWCO BUSINESSES

- (8) HAWCO HAS TWO MANUFACTURING UNITS AT Kalyan and Sarigam. The Sarigam Unit is manufacturing exclusively powder coatings. The Kalyan unit has capabilities, inter alia, of manufacturing synthetic and other resins, varnishes, etc. and for coating of metal surfaces. Apart from these manufacturing units, Hawco also markets various chemical products to industries and the service sector. The line of powder coatings is a remunerative business and it is desired to develop and expand the same.
- (9) In an increasingly competitive scenario, it is considered appropriate for Hawco to adopt a dynamic and forward looking growth strategy in order to sustain its leadership position in its core businesses of powder coatings and marketing activities. Such a strategy includes creation of focussed companies for powder coating manufacture and marketing-related activities through the process of demerger, which would lead to enhancing shareholder value.

It has been felt necessary and desirable to carry on the business of the powder coating division as a separate legal entity under a separate body corporate as a going concern. After due consideration of various aspects it is felt that the Sarigam unit of Hawco be transferred to Vesna Agencies Pvt. Ltd (Hawcoplast) in toto by way of a Scheme of Arrangement under sections 391-394 of the Companies Act, 1956 in the manner and on the terms and conditions stated therein. The Scheme will result in independent growth and expansion of the respective business of the companies concerned and will facilitate greater focus on the operations of the respective companies to improve their profit potential.

The Board of Directors of the Transferor Company and that of the Transferee Company have approved at their meetings held on 29th July, 1999 and 30th July, 1999 respectively, the enclosed Scheme of Arrangement for transfer and merger of the Sarigam Unit of the Transferor Company with the Transferee Company as a going concern. The Transferee Company has agreed to issue and allot its Equity Shares to the shareholders of the Transferor Company as provided in the Scheme and explained hereinbelow. The Scheme also makes provisions for various other matters consequential or related thereto and otherwise integrally connected therewith including the reorganisation of the share capital of the Transferor Company.

- (10) The Transferor Company belongs to the chemical industry. The Transferor Company is engaged in the business of manufacture, sale and distribution of various chemical products required by industry. Likewise, the Transferee Company proposes to engage in the business of manufacture, sale and distribution of Powder Coatings. The main benefits of the Arrangement will be as follows:
- The Powder Coating Industry has become highly competitive. A focussed manufacturing and technological organisation will enhance the competitive capabilities of the Transferee Company in the domestic and international market and strengthen growth prospects.
 - The demerger will result in better customer service, increased sales and improved profits.
 - The demerger will result in stability and growth in operations.
 - The demerger will promote efficiencies in operations and long-term growth by paving the way for more efficient and economic control in the operations.
 - The demerger will lead to a rational approach for marketing, selling and distribution of powder coatings and development of new markets.
 - The demerger will facilitate acquisition of resources (human, financial and others) required to compete effectively in the revamped economic environment.
 - The demerger would enable inducting in due course an international collaborator in the Transferee Company, with equity participation and to provide advanced technical and marketing assistance.
 - By becoming two focussed companies both Hawco and Hawcoplast would capture independent value for their respective activities.
 - The Scheme of Arrangement which is a demerger would not be prejudicial to the interests of Hawco's other stakeholders (lenders, creditors and employees).

IMPLICATIONS TO SHAREHOLDERS

- The proposed restructuring is expected to create value to the shareholders in a phased manner through the creation of focussed companies that can independently exploit core competencies to capture value.
- Upon coming into effect of the Scheme Hawcoplast shall issue and allot on a proportionate basis to each member of Hawco in the ratio of three Equity shares in Hawcoplast of Rs 10 each credited as fully paid-up for every five Equity Shares of Rs 10 each held by such member in Hawco the details whereof are more particularly contained in paragraph 16(a) of the Scheme.

13. With all the shareholders receiving shares in Hawcoplast, the restructuring will give selectivity in their participation. The shareholding pattern would remain identical in Hawco and Hawcoplast.
14. Hawco has been advised that under the provisions of the Income Tax Act, as amended by the Finance Act, 1999, it is likely that the demerger would be tax neutral to both shareholders and Hawco, in matters such as deemed dividend and capital gains. Hawco has been further advised that under the provisions of the new section 2 (42A)(g) of the Income Tax Act, the period of holding of Hawcoplast shares will be with reference to the original date of acquisition of Hawco shares, and that the original cost of acquisition of Hawco shares will be apportioned between Hawco shares and Hawcoplast shares in the proportion of the net book value of the Sarigam Unit versus networth of Hawco. However, the shareholders may seek independent tax advice in this matter.
15. Pursuant to the Scheme, the share capital of Hawco would be re-organised the details whereof are provided in paragraph 16(b) of the Scheme. So far as the shareholding in Hawco is concerned, the reorganised capital pursuant to the Scheme will lead to a leaner capital base and better earning ratios. Therefore, as a result of the restructuring, the shareholders of Hawco will be in a position to realise the potential for enhancement of value of their investment in Hawco as well as in Hawcoplast. Therefore, shareholders of both the companies would benefit from the growth opportunity and focus created by the restructuring.
16. A full text of the Scheme is enclosed.

Members are requested to read the Scheme to get acquainted with the provisions thereof.

17. No investigation proceedings have been instituted or are pending u/s 235 and 251 of the Act, in respect of the Transferor Company and the Transferee Company.
18. The accounts of the Transferor Company have been audited till 31st March, 1999. The auditors' report does not disclose any irregularity or mismanagement in the affairs of the Transferor Company.
19. No petition under Section 397 or 398 of the Act has been filed. No material changes in the affairs of the Companies, except what was done in the normal course of business have taken place.
20. The assets of the Transferor Company and the Transferee Company are sufficient to meet all their liabilities. The Scheme will not affect the rights of any of the creditors of the Transferor Company and the Transferee Company in any manner whatsoever.
21. All costs, charges, levies and duties and in relation to or in connection with or incidental to or in carrying out and implementing the terms and provisions of this Scheme and incidental thereto including those incurred during negotiations leading to the Scheme are to be borne by the Transferee Company.
22. There is no likelihood that any unsecured creditor of the Transferor Company would lose or be prejudiced as a result of the Scheme being passed since no sacrifice or waiver is at all called for from them nor are their rights sought to be modified in any manner. The Transferor Company would be able to meet the liabilities as they arise in the course of business. Hence, the Scheme in no way adversely affects the interests of any of the classes of the creditors.
23. The Directors of the Transferor Company and those of the Transferee Company may be deemed to be concerned and or interested in the Scheme to the extent of the shares that are/may be held by them or by the companies, firms and or institutions of which they are directors, partners or members. The shares held by the Directors of Hawco and Hawcoplast, either singly or jointly where their names appear first in the order are as follows:

DIRECTORS' SHAREHOLDINGS

| Directors of Hawco | No. of Equity Shares held in | | Directors of Hawcoplast | No. of Equity Shares held in | |
|--------------------|------------------------------|------------|-------------------------|------------------------------|-------|
| | Hawco | Hawcoplast | | Hawcoplast | Hawco |
| Shri B.L. Jatia | 300 | 10 | Shri B L Jatia | 10 | 300 |
| Shri O.P. Adukia | NIL | NIL | Shri O.P. Adukia | NIL | NIL |
| Shri N.M. Bhandari | NIL | NIL | | | |
| Shri S.C. Kothari | NIL | NIL | | | |
| Shri N.S. Karnavat | NIL | NIL | | | |
| Shri A Jatia | NIL | NIL | | | |

24. Inspection of the following documents may be had at the registered office of Hawco situated at Netivali Baug, Kalyan - 421 306 on any working day (except Sundays) prior to the date of the meeting, between 10.00 A.M. and 12 Noon;
 - (a) Order dated 19th August 1999 of the High Court of Bombay directing the convening of a meeting of the Equity shareholders of Hawco;
 - (b) Scheme of Arrangement
 - (c) Memorandum and Articles of Association of Hawco and Hawcoplast;
 - (d) Annual Report of Hawco as at March 31, 1998; and
 - (e) Valuation report dated 22nd July, 1999 of M/s Bansi S. Mehta & Co.

This statement may be treated as an Explanatory Statement under Section 173 as also Section 393 of the Companies Act, 1956. A copy of the Scheme and Explanatory Statement may be obtained from the office of Hawco as stated above.

Dated this 31st day of August 1999

Registered Office:
Netivali Baug
Kalyan - 421 306

(B.L. Jatia)
Chairman appointed for the Meeting

SCHEME OF ARRANGEMENT
Between
HARDCASTLE & WAUD MANUFACTURING COMPANY LIMITED Transferor Company
And
VESNA AGENCIES PRIVATE LIMITED Transferee Company
And
THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

WHEREAS

- (A) The Transferor Company is engaged in various businesses including manufacture, sale and distribution of various chemical products (including Powder Coatings). It has two manufacturing Units at Kalyan and at Sarigam (Dist Valsad, Gujarat). The Sarigam Unit manufactures only Powder Coatings.
- (B) This Scheme of Arrangement (hereinafter referred to as the "Scheme") which is a demerger provides for the transfer of the Sarigam Unit (defined hereinafter as the "Sarigam Unit") of the Transferor Company to the Transferee Company, and in consideration thereof issue of equity shares by the Transferee Company to the shareholders of the Transferor Company on a proportionate basis, pursuant to section 394 and other relevant provisions of the Companies Act, 1956.
- (C) The Scheme also makes provisions for various other matters consequential or related thereto and otherwise integrally connected therewith including reorganisation of capital of the Transferor Company.

SCHEME
PART 1 - GENERAL

1. Definitions

In this Scheme, unless repugnant to the meaning or context thereof, the following expressions shall have the following meaning:

- (A) **"Act"** means the Companies Act, 1956 or any statutory modification or re-enactment thereof;
- (B) **"Appointed Date"** means April 1, 1999;
- (C) **"Sarigam Unit"** means the undertaking of the Transferor Company comprising the Sarigam Unit being and situate at G.I.D.C Sarigam in District Valsad (Gujarat) and shall in relation to the aforesaid unit mean and include (without limitation):
- (a) all assets wherever situate, whether movable or immovable, tangible or intangible, including any plant and machinery, buildings, offices, furnitures, fixtures, office equipment, appliances, accessories together with all present and future liabilities/debts (including contingent liabilities) appertaining to or relatable thereto;
 - (b) all permits, quotas, rights, entitlements, industrial and other licences, approvals, consents, municipal permissions, collaborations, tenancies in relation to trade marks residential properties for the employees, offices, goodwill, intellectual property, investments, cash balances, the benefit of any deposits, financial assets, funds belonging to or proposed to be utilised for the Sarigam Unit, bank balances, bank accounts, privileges, all other rights and benefits, licences, incentives including Capital Subsidy and Interest free Sales Tax Loans, powers and facilities of every kind, nature and description whatsoever, rights to use and avail of telephones, telexes, facsimile connections and installations, utilities, electricity and other services, facilities, provisions, funds, benefits of all agreements, contracts and arrangements and all other interests in connection with or relating to the Sarigam Unit;
 - (c) all earnest moneys and/or security deposits paid or received by the Transferor Company in connection with or relating to the Sarigam Unit; and
 - (d) all necessary records, files, papers, engineering and process information, computer programmes, drawings, manuals, data, catalogues, quotations, sales and advertising materials, lists of present and former customers and suppliers, customer credit information, customer pricing information, and other records in connection with or relating to the Sarigam Unit;

but shall not include the respective assets and liabilities of the Sarigam Depot (also situated at Sarigam) of the Transferor Company which shall continue to belong to and vest in the Transferor Company.

- (E) **"Effective Date"** means the date on which all the conditions and matters referred in Clause 3. hereof have been fulfilled and approvals and consents referred to therein have been obtained. References in this Scheme to the date of "coming into effect of this Scheme" or "effectiveness of this Scheme" shall mean the Effective Date;
- (F) **"Transferee Company"** means Vesna Agencies Private Limited, a company incorporated under the Act and having its registered office at Hardcastle & Waud Compound, Netivali Baug, Kalyan - 421 306;
- (G) **"Transferor Company"** means Hardcastle & Waud Manufacturing Company Limited, an existing Company within the meaning of the Act and having its registered office at Netivali Baug, Kalyan - 421 306.
- (H) **"Record Date"** means the date to be fixed by the Board of Directors or a committee thereof of the Transferor Company for purpose of determining the members of the Transferor Company to whom shares will be allotted pursuant to this Scheme;
- (I) **"Remaining Business"** means all the business of the Transferor Company other than the Sarigam Unit; and
- (J) **"Scheme"** means this Scheme of Arrangement.

2. SHARE CAPITAL

| | |
|--|-------------|
| (a) The Share Capital structure of the Transferor Company as on March 31, 1999 was as follows: | |
| Authorised: | |
| 50,00,000 Equity Shares of Rs10 each | 5,00,00,000 |
| Issued, Subscribed and Paid up: | |
| 20,00,000 Equity Shares of Rs 10 each, fully paid up | 2,00,00,000 |
| (b) The Share Capital structure of the Transferee Company as on March 31, 1999 was as follows: | |
| Authorised : | |
| 700 Equity Shares of Rs 100 each | 70,000 |
| 300 11% Non-cumulative Redeemable | |
| Preference Shares of Rs 100 each | 30,000 |
| | 100,000 |
| Issued, Subscribed & Paid Up: | |
| 2 Equity Shares of Rs 100 each fully paid up | 200 |
| | 200 |

Pursuant to alteration to the Memorandum and Articles of Association of the Transferee Company made by its members on 12th July 1999, the shares have been sub-divided into shares of Rs 10 each and consequently its Share Capital Structure is now as follows -

| | |
|--|---------|
| Authorised : | |
| 7000 Equity Shares of Rs 10 each | 70,000 |
| 3000 11% Non-cumulative Redeemable | |
| Preference Shares of Rs 10 each | 30,000 |
| | 100,000 |
| Issued, Subscribed & Paid Up: | |
| 20 Equity Shares of Rs 10 each fully paid up | 200 |
| | 200 |

PART II - SARIGAM UNIT

3. (a) With effect from the Appointed Date, all the assets, rights, title and interest including accretions and appurtenances of the Sarigam Unit at their closing book values as on March 31, 1999 shall, subject to the provisions of this Clause in relation to the mode of vesting and pursuant to Section 394(2) of the Act, be transferred to and vested in or be deemed to have been transferred to and vested in the Transferee Company as a going concern so as to become as and from the Appointed Date, the assets, rights, title and interest of the Transferee Company.
- (b) In respect of such of the assets of the Sarigam Unit, including cash and bank balances, as are movable in nature or are otherwise capable of transfer by manual delivery, payment or by endorsement and delivery, the same shall be so transferred by the Transferor Company, and shall become the property of the Transferee Company as an integral part of the unit. Such delivery and transfer shall be made on a date to be mutually agreed upon between the respective Boards of Directors of the Transferor Company and the Transferee Company within thirty days from the date of the order of the Bombay High Court sanctioning this Scheme.
- (c) In respect of such of the assets belonging to the Sarigam Unit other than those referred to in sub-clause (b) above, the same shall, as more particularly provided in sub-clause (a) above, without any further act, instrument or deed, be transferred to and vested in and/or be deemed to be transferred to and vested in the Transferee Company on the Appointed Date pursuant to the provisions of Section 394 of the Act.
- (d) All assets acquired by the Transferor Company after the Appointed Date and prior to the Effective Date for operations of the Sarigam Unit shall also stand transferred to and vested in the Transferee Company, upon the coming into effect of the Scheme.
4. (a) Upon the coming into effect of the Scheme, the following liabilities and obligations of the Transferor Company as on the Appointed Date, shall be deemed to have been transferred to the Transferee Company and to the extent they are outstanding on the Effective Date shall, without any further act or deed be and stand transferred to the Transferee Company and shall become the liabilities and obligations of the Transferee Company which shall undertake to meet, discharge and satisfy the same:
 - i) the liabilities which arose out of the activities of the Sarigam Unit; and
 - ii) such of the general or multipurpose borrowings of the Transferor Company as identified by the Board of Directors of the Transferor Company and which in the aggregate stand in the same proportion which the value of the assets transferred to the Transferee Company bears to the value of assets of the Transferor Company on the Appointed Date.
- (b) Where any of the liabilities and obligations of the Transferor Company as on the Appointed Date deemed to be transferred to the Transferee Company have been discharged by the Transferor Company after the Appointed Date and prior to the

Effective date, such discharge shall be deemed to have been for and on account of the Transferee Company and all loans raised and used and all liabilities and obligations incurred by the Transferor Company for the operations of the Sarigam Unit after the Appointed Date and prior to the Effective Date shall be deemed to have been raised, used or incurred for and on behalf of the Transferee Company and to the extent they are outstanding on the Effective Date, shall also without any further act or deed be and stand transferred to the Transferee Company and shall become the liabilities and obligations of the Transferee Company which shall undertake to meet, discharge and satisfy the same.

- (c) The transfer of the general or multipurpose borrowings in terms of sub-clause (a)(ii) above shall be without prejudice to any agreements or arrangements including in respect of security entered into between the Transferor Company and the lenders existing on the Appointed Date which shall continue in full force notwithstanding that the liability for repayment of principal and payment of interest is taken over by the Transferee Company. The Transferor Company shall make repayments of such principal amounts and payments of interest thereon on behalf of the Transferee Company, and the Transferee Company shall be under obligation to place the Transferor Company in funds at the relevant time so as to enable the Transferor Company to make payment to the lenders.
 - (d) It is clarified that all debts, liabilities, duties and obligations of the Transferor Company relating to the Sarigam Unit as on the close of business on 31st March 1999, whether provided for or not in the books of accounts of the Transferor Company and all other liabilities relating to the Sarigam Unit which may accrue or arise after 31st March 1999, but which relate to the period upto 31st March, 1999 shall be the debts, liabilities, duties and obligations of the Transferee Company.
5. (a) All the assets and liabilities of the Sarigam Unit shall be transferred at the values appearing in the books of the Transferor Company immediately before the demerger which are set forth in the closing balance sheet relating to the Sarigam Unit as on March 31, 1999 attached hereto as Schedule A.
 - (b) The Capital Subsidy Reserve of Rs 19,52,000 appearing in the books of the Transferor Company shall be transferred to the Transferee Company.
6. (a) Upon the coming into effect of this Scheme and subject to the provisions of this Scheme, all contracts, deeds, bonds, agreements, collaborations, schemes, arrangements and other instruments of whatsoever nature in relation to the Sarigam Unit to which the Transferor Company is a party or to the benefit of which the Transferor Company may be eligible, and which are subsisting or having effect immediately before the Effective Date, shall be in full force and effect on or against or in favour, as the case may be, of the Transferee Company and may be enforced as fully and effectually as if, instead of the Transferor Company, the Transferee Company had been a party or beneficiary or obligee thereto.
 - (b) The Transferee Company may, at any time after the coming into effect of this Scheme in accordance with the provisions hereof, if so required, under any law or otherwise, execute deeds, confirmations or other writings or tripartite arrangements with any party to any contract or arrangement to which the Transferor Company is a party or any writings as may be necessary to be executed in order to give formal effect to the above provisions. The Transferor Company will, if necessary, also be a party to the above. The Transferee Company shall, under the provisions of this Scheme, be deemed to be authorised to execute any such writings on behalf of the Transferor Company and to carry out or perform all such formalities or compliances referred to above on the part of the Transferor Company to be carried out or performed.
7. (a) The Transferee Company undertakes to engage, on and from the Effective Date, all employees of the Transferor Company relating to and/or necessary for the Sarigam Unit or necessary for the Transferee Company to independently carry on its business, and which employees are in the employment of the Transferor Company as on the Effective Date (the "Transferred Employees") on the same terms and conditions on which they are engaged by the Transferor Company, without any interruption of service as a result of the demerger. The Transferee Company undertakes to continue to abide by any agreement/settlement entered into by the Transferor Company in respect of the Sarigam Unit with any union/employee of the Transferor Company being the Transferred Employees. The Transferee Company agrees that for the purpose of payment of any compensation, gratuity and other terminal benefits, the past services of the Transferred Employees with the Transferor Company shall also be taken into account, and agrees and undertakes to pay the same as and when payable.
 - (b) In so far as the existing gratuity fund trust created by the Transferor Company for its employees (including the Transferred Employees) is concerned, the part of the fund referable to the Transferred Employees shall be continued for the benefit of the Transferred Employees pursuant to this Scheme in the manner provided hereinafter. The Transferee Company shall have the obligation to take all necessary steps to set up its own fund as soon as practicable. In the event that the Transferee Company has set up its own fund (similar to the fund of the Transferor Company referred to above), the amount in such fund in respect of contributions pertaining to the Transferred Employees of the Sarigam Unit shall, subject to the necessary approvals and permissions, if any, be transferred to the relevant fund of the Transferee Company. Until such time that the Transferee Company creates its own fund, the Transferee Company may, subject to necessary approvals and permissions, if any, continue to contribute in respect of the Transferred Employees to the relevant fund of the Transferor Company. At the time that the Transferee Company creates its own fund, the contributions pertaining to the Transferred Employees shall be transferred to the fund created by the Transferee Company.
8. (a) Upon the coming into effect of the Scheme, all legal or other proceedings by or against the Transferor Company under any statute and as agreed between the Transferor Company and the Transferee Company, whether pending on the Appointed Date or which may be instituted in future (whether before or after the Effective date) in respect of any matter arising before the Effective Date and relating to the Sarigam Unit shall be continued and enforced by or against the Transferee Company after the Effective Date.

- (b) If proceedings are taken against the Transferor Company in respect of the matters referred to in sub-clause (a) above, it shall defend the same in accordance with the advice of the Transferee Company and at the cost of the Transferee Company, and the latter shall reimburse and indemnify the Transferor Company against all liabilities and obligations incurred by the Transferor Company in respect thereof.
 - (c) The Transferee Company undertakes to have all legal or other proceedings initiated by or against the Transferor Company referred to in sub-clause (a) above transferred to its name and to have the same continued, prosecuted and enforced by or against the Transferee Company to the exclusion of the Transferor Company.
9. With effect from the Appointed Date and upto and including the Effective Date, the Transferor Company:
- (a) shall be deemed to have been carrying on and to be carrying on all business and activities relating to the Sarigam Unit and stand possessed of all the estates, assets, rights, title and interest of the Sarigam Unit for and on account of, and in trust for, the Transferee Company;
 - (b) all profits accruing to the Transferor Company, or losses arising or incurred by it (including the effect of taxes, if any, thereon), relating to the Sarigam Unit shall for all purposes, be treated as the profits, taxes or losses, as the case may be, of the Transferee Company.
10. The Transferor Company hereby undertakes that it will from the Appointed Date up to and including the Effective Date preserve and carry on the Sarigam Unit with diligence, prudence and agrees that it will not, without the prior written consent of the Transferee Company, alienate, charge or otherwise deal with or dispose of the Sarigam Unit or any part thereof or recruit new employees (in each case except in the ordinary course of business) or conclude settlements with union or employees or undertake substantial expansion of the Sarigam Unit, other than expansions which have already been commenced.
11. The transfer and vesting of the assets, liabilities and obligations of the Sarigam Unit under Clause 3 & 4 and the continuance of the proceedings by or against the Transferee Company under Clause 8 hereof shall not affect any transactions or proceedings already completed by the Transferor Company on and after the Appointed Date to the end and intent that, subject to Clause 10, the Transferee Company accepts all acts, deeds and things done and executed by and/or on behalf of the Transferor Company as acts, deeds and things done and executed by and on behalf of the Transferee Company.

PART III - REMAINING BUSINESS

12. The Remaining Business and all the assets, liabilities and obligations pertaining thereto shall continue to belong to and be vested in and be managed by the Transferor Company.
13. All legal or other proceedings by or against the Transferor Company under any statute, whether pending on the Appointed Date or which may be instituted in future whether or not in respect of any matter arising before the Effective Date and relating to the Remaining Business (including those relating to any property, right, power, liability, obligation or duties of the Transferor Company in respect of the Remaining Business) shall be continued and enforced by or against the Transferor Company.
14. With effect from the Appointed Date and up to and including the Effective Date, the Transferor Company:
- (a) shall be deemed to have been carrying on and to be carrying on all business and activities relating to the Remaining Business for and on its own behalf;
 - (b) all profits accruing to the Transferor Company thereon or losses arising or incurred by it (including the effect of taxes (including advance taxes paid), if any, thereon) relating to the Remaining Business shall, for all purposes, be treated as the profits, taxes or losses, as the case may be, of the Transferor Company.

PART IV - REORGANISATION OF CAPITAL

The provisions of this Part shall operate notwithstanding anything to the contrary in this Scheme or in any other instrument, deed or writing.

SECTION "A"

15. In view of the demerger, and as an integral part of the Scheme, the capital of the Transferor Company and the Transferee Company shall be restructured and reorganised in the manner set out in Section "B" below.

SECTION "B"

16. (a) Upon the coming into effect of the Scheme and as consideration for the demerger of the Sarigam Unit, including the transfer and vesting thereof in the Transferee Company pursuant to Part II of the Scheme, the Transferee Company shall, without any further act or deed and without any further application and/or payment, issue and allot on a proportionate basis to each member of the Transferor Company whose name is recorded in the Register of Members of the Transferor Company on the Record Date, in the ratio (the "Entitlement Ratio") of three Equity Shares in the Transferee Company of Rs 10 each credited as fully paid-up for every five Equity Shares of Rs 10 each held by such member in the Transferor Company.
- (b) In view of the demerger and other related provisions of this Scheme and concurrently and as an integrally connected part of the Scheme and upon the coming into effect of this Scheme, with effect from the Appointed Date, the issued, subscribed and paid-up capital of the Transferor Company shall be reduced by Rs1,20,00,000 and such reduction shall be effected by reducing the paid-up capital by rupee six per equity share of Rs 10 each of the Transferor Company, which have been issued and are outstanding. Simultaneously with the reduction of the Share Capital of the Transferor Company, five equity shares so reduced shall be consolidated into two equity shares of Rs 10 each.