

SCHEME OF ARRANGEMENT

BETWEEN

KHODAY INDIA LIMITED AND ITS SHAREHOLDERS

This Scheme of Arrangement is presented under Sections 391 to 393 read with Sections 100 to 104 of the Companies Act, 1956 ("The Act") for paying off the equity share capital held by the shareholders other than the promoters/promoter group by reduction of proportionate paid-up equity share capital and cancellation of the corresponding equity shares of the face value of Rs.10/- (Rupees ten only) of Khoday India Limited and issue of cash warrant to the shareholders, entitled thereto, in lieu of such cancelled shares ("Scheme").

1, Definitions :

In this Scheme, unless inconsistent with the subject or context, the following expressions shall have the following meanings.

1.1 "Act" means the Companies Act, 1956.

1.2 "Board" means the Board of Directors of the Company.

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(K.L. Srihari)
Vice-Chairman & Managing Director

- 1.3 "Company" means Khoday India Limited, a Company incorporated under the Act, having its Registered Office presently at "Brewery House", 7th Mile, Kanakapura Road, Bangalore-560 062.
- 1.4 "Court" means the Hon'ble High Court of Karnataka at Bangalore.
- 1.5 "Cash Warrant" means any instrument issued under the Scheme for payment in lieu of cancellation of each share, as consideration fixed, pursuant to the Scheme.
- 1.6 "Date of cancellation" means the 7th day of the record date or any such succeeding date, if such 7th day of the record date is a "public holiday", being the date on which the Board cancels the equity shares held by persons other than those belonging to the promoters and promoter group and issues cash warrant to such shareholders pursuant to this scheme.
- 1.7 "Designated Stock Exchange" means BSE Limited, Mumbai.
- 1.8 "Equity Share" means equity share of Rs.10/- (Rupees Ten only) each in the Company.
- 1.9 "Effective Date" means the date on which the Certified copy(ies) of the order(s) of the Court sanctioning the scheme

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is/are filed with the Registrar of Companies, Karnataka, Bangalore. The Scheme shall be operative from the effective date.

1.10 "Record Date" means the date (subsequent to the "Effective Date") to be fixed by the Board or a committee constituted by a Board or the date up to which the Register of Members of the Company is closed pursuant to Section 154 of the Act and pursuant to sanction of the Scheme by the Court.

1.11 "Shareholder" means a person who is registered as a member in the Register of Members of the Company as on the record date as well as those persons whose names appears as the beneficial owner of the shares in the records of the Depositories on the record date. For the purposes of this Scheme each folio in the Register of Members will be treated as a separate shareholder.

1.12 "Shareholding" means the holding of equity shares by a shareholder under the registered folio in the Register of Members as well as by the beneficial owner whose name appears in the records of the Depositories.

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1.13 "Scheme" means this Scheme in its present form or with any modification(s) approved or imposed or directed by the Court.

2. Preamble of the Scheme:

2.1 The Applicant Company was incorporated on 28th day of September 1965 as Private Limited Company under the name and style of "Khoday Distilleries Private Limited", under the Companies Act, 1956, in the State of Karnataka. Subsequently, the Company changed its status to Public Limited Company on 5th June 1986 and its equity shares were listed on Bombay, Bangalore and Madras Stock Exchanges with effect from 29th September 1986. The name of the Company was changed to "KHODAY INDIA LIMITED", pursuant to the fresh certificate of incorporation dated 14th February 1992 issued by the Registrar of Companies, consequent on change of name.

2.2 The Registered Office of the Applicant Company is situated at "Brewery House", 7th Mile, Kanakapura Road, Bangalore-560 062.

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2.3 The Authorized share capital of the Company is Rs.45,00,00,000/- (Rupees Forty five crores only)divided into 4,50,00,000/- (Four crore fifty lakhs) Equity Shares of Rs.10/- (Rupees Ten only) each. The issued, subscribed and paid-up equity share capital of the Company is 37,59,12,370/- (Rupees Thirty seven crores fifty nine lakhs twelve thousand three hundred and seventy only)divided into 3,75,91,237 (Three crores seventy five lakhs ninety one thousand two hundred and thirty seven)equity shares of Rs.10/-(Rupees Ten only) each fully paid up.

2.4 Up to the financial year 2003-04 the paid up capital of the Applicant Company was Rs.14,51,43,140/- (Rupees Fourteen crores fifty one lakhs forty three thousand one hundred and forty only) divided into 1,45,14,314 (One crore forty five lakhs fourteen thousand three hundred and fourteen) equity shares of Rs.10/- (Rupees Ten only) each fully paid up, and listed on the Stock Exchanges. Pursuant to a Scheme of amalgamation of Khodayss Systems Limited with the Applicant Company during the financial year 2003-04, 2,30,76,923 (Two crores thirty lakhs seventy six thousand

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nine hundred and twenty three) equity shares were allotted to the Promoters and Promoter group of the Applicant Company, which are unlisted at present.

2.5 The main objects of the Applicant Company are set out in Clause III A of the Memorandum of Association of the Applicant Company.

2.6 The Applicant Company commenced its business inter-alia, in dealing in manufacture and sale of Indian made liquors of various types and generally to carry on the business of manufacturers, dealers, importers and exporters of liquors, and has been carrying on the same since obtaining Certificate of Incorporation. A certified copy of the Memorandum and Articles of Association also containing the Certificates of incorporation issued by the Registrar of Companies, Karnataka, Bangalore, consequent on the changes in the Company's name, is at Annexure – "A".

2.7 As per the un-audited financial results for nine months ended 31st December 2012 during the financial year 2012-13, the Applicant Company has incurred a loss of Rs.16,76,51,000/- (Rupees Sixteen crores seventy six lakhs and fifty one

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thousand only). A certified copy of the un-audited financial results for the nine months period ended 31st December 2012 is enclosed as annexure "B".

2.8 The Shareholding pattern comprised in the issued, subscribed and paid-up capital of the Applicant Company as at 31st March 2013 is as follows:

Category	No. of shares held	% of issued, subscribed and paid-up capital
Promoters and Promoter Group	3,36,60,195	89.54
Other than Promoter and Promoter Group (Public)	39,31,042	10.46

Distribution of shares of the Applicant Company listed on the Stock Exchanges as at 31st March 2013 is as follows:

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Range of Shares		Physical	Demat	Total
1	500	917450	890969	1808419
501	1000	33800	297289	331089
1001	5000	12673	748995	761668
5001	10000	-	354070	354070
10001 & ABOVE		89950	585846	675796
Total		1053873	2877169	3931042

Demat means the shares dematerialized with National Securities Depository Limited (NSDL) and also with Central Depository Services India Ltd (CDSL) and physical means shares that have not been dematerialized.

A certified copy of the Statement containing the shareholding pattern of the Applicant Company, as at 31st March 2013 and submitted to the Stock Exchanges in compliance with Clause 35 of the Listing Agreement is at Annexure – “C”.

Though the shares allotted by the Applicant Company in its initial public offer during 1986 were in the physical mode, subsequently, on Securities and Exchange Board of India (SEBI) making it

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mandatory for the Company's shares to be traded in the Stock Exchanges only in the Dematerialized mode, more than 73 % of the listed shares held by the public are in dematerialized mode at present. Even then, the Company's shares were not at all traded on Bangalore and Madras Stock Exchanges during the previous 4 financial years as confirmed in the letters of the respective Stock Exchanges, at Annexures "D-1" and "D-2".

Even on BSE Limited, the trading volumes are extremely low as borne out from the following data * :-

Calendar year	Volume of equity shares traded	Monthly average volume	Average monthly trading volume as percentage of Listed shares	Average monthly trading volume as % of shares held by public
2009	20,48,401	1,70,700	1.17	4.34
2010	37,20,669	3,10,055	2.13	7.88
2011	8,22,310	68,526	0.47	1.74
2012	22,70,045	1,89,170	1.30	4.81
2013 (upto 18 th April 2013)	4,87,949	1,08,433	0.74	2.76

* Source : website of BSE. Ltd.

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Apparently, the average monthly volume of trading of the Applicant Company's shares on BSE during the previous 4 calendar years as well as during the first three months of 2013, has been less than 3% of the listed shares and less than 8 % of the shares held by public. Further from 2011 a marked declining trend in the trading volumes is noticed. The data as printed from the web site of BSE Ltd is at Annexure – "E".

3. From the public shareholders' perspective, there has been no dividend earning on the Applicant Company's shares during the immediately preceding five consecutive financial years (2007-08 to 2011-12) and the trading volumes of the Applicant Company's shares on Bombay Stock Exchange are extremely low (there being complete absence of trading on Bangalore and Madras Stock Exchanges), thereby rendering the holding of Applicant Company's shares an unattractive proposition. The following table gives data on the Earnings Per Share as disclosed in the audited balance sheet and profit and loss account of the Applicant Company for the immediately preceding five financial years:

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Financial Year	Earning Per Share (Rs.)
2007-08	2.22
2008-09	(0.93)
2009-10	(1.48)
2010-11	(3.55)
2011-12	4.22
2012-13	(4.46)
(for nine months ended 31 st December 2012)	

With a view to mitigate the hardship faced by its public shareholders in the above scenario and make investible funds available to them, the Applicant Company has formulated the following Scheme under Sections 391 to 393 read with Sections 100 to 104 of the Act.

4. Objective of the Scheme:

4.1 The objective of the Scheme is to provide an exit route to the shareholders of Applicant Company other than those belonging to the promoters/promoter group.

4.2 The Scheme is conceived with the object to result in the public shareholders getting back their investment in capital together with a premium that is higher than the intrinsic value of the shares of the Applicant Company and also the average of the weekly high and low

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quoted price of the Applicant Company's share on Bombay Stock Exchange during the immediately preceding 26 weeks.

4.3 The Share Valuation Report dated 28th March 2013 of the Independent Valuer M/s N.C.Rajagopal & Co., Chartered Accountants, Chennai and a Certificate issued in that regard are at Annexures – 'F - 1 and F - 2', as per which the value per equity share of the Company as on 31st December 2012 is Rs.31.39 (Rupees Thirty one and paise thirty nine only).

4.4 The average of the weekly high and low quoted price of the Applicant Company's share on Bombay Stock Exchange during the period of 26 weeks from 22nd October 2012 to 19th April 2013 was Rs.53.27 (Rupees Fifty three and paise twenty seven only). The market price data of the Applicant Company's share, for the said period as taken from the website of BSE Limited and a calculation chart are at Annexure 'G'.

4.5 The Scheme envisages paying off the shareholders other than the promoters/promoter group of the Applicant Company, the paid-up capital amount of Rs.10/- (Rupees ten only) for every 1 (One) equity share together with a premium of Rs.65/- (Rupees Sixty five

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only) thereof, aggregating to Rs.75/- (Rupees Seventy five only) for every 1 (One) equity share, pursuant to a reduction of the proportionate paid-up equity share capital of Rs.3,93,10,420/- (Three crores ninety three lakhs ten thousand four hundred and twenty only) under Section 100 of the Act, and automatic cancellation of the corresponding equity shares of the face value of Rs.10/- (Rupees Ten only) on the Scheme being sanctioned by the Court and without requiring any action from such shareholders,

4.6 The premium of Rs.65/- (Rupees Sixty five only) to be paid together with the return of capital of Rs.10/- (Rupees Ten only) for every 1 (One) equity share cancelled pursuant to the Scheme, will be paid by the Company out of its accumulated, distributable reserves.

4.7 Thus the aggregate price of Rs.75/- (Rupees Seventy five only) to be paid for every one equity share cancelled pursuant to the Scheme, will be 2.39 times the value as per the Share Valuation Report dated 28th March 2013 and 1.40 times the 26 weeks' average of the high and low prices of the share as quoted on BSE during the period from 22nd October 2013 to 19th April 2013.

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4.8 The Scheme is basically designed to help the public investors' at large, so as to enhance liquidity in their hands and thus stimulate investment and trading activities in the capital market.

4.9 The Scheme will not affect in any manner the rights and interests of the creditors and employees of the Applicant Company.

5. Scheme:

5.1 The Applicant Company shall pay consideration @ Rs.75/- (Rupees Seventy five only) for every 1 (One) equity share held by shareholders other than those belonging to the promoters and promoter group, within 30 days from the Date of Cancellation, as follows:

- i) in respect of resident shareholders holding shares in demat mode, by directly crediting the amount of consideration to their bank account as provided to the respective depository participant, with prior intimation to the shareholders in that regard.
- ii) in respect of resident shareholders holding shares in physical mode, the consideration shall be paid by either crediting their bank account as provided to the Applicant Company's Registrar and

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Share Transfer Agents or by despatch of cash warrant to the registered address of such shareholders by registered post / speed post.

iii) in respect of non-resident shareholders holding shares in demat mode, the consideration shall be credited to their bank account in India as provided to the respective depository participant, subject to requisite approval, if any of Reserve Bank of India to be obtained under the Foreign Exchange Management Act, 1999

iv) in respect of non-resident shareholders holding shares in physical mode, the consideration shall be paid by either crediting their bank account as provided to the Applicant Company's Registrar and Share Transfer Agents or by despatch of demand drafts in foreign currency (USD) to the registered address of such shareholders by registered air mail, subject to requisite approval, if any of Reserve Bank of India to be obtained under the Foreign Exchange Management Act, 1999.

v) The aggregate amount of consideration Rs.29,48,28,150/- (Rupees Twenty nine crores forty eight lakhs twenty eight thousand one hundred and fifty only) payable under the Scheme, shall be

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deposited by the Company in a Special Account to be opened with a bank for the purpose within seven days of admission of the petition of the Applicant Company, by the Court.

5.2 The cash warrants as may be issued by the Applicant Company shall be payable at par at all locations at which the Stock Exchanges exist and also at as many branches of the paying bank as practicable and situated nearest to the address of the shareholders. In the event of any shareholder opting for payment of consideration by demand draft at any place, such shareholder shall surrender the said cash warrant to the Company and the Company shall, within seven days of such surrender arrange for issue of demand draft.

5.3 Those of the cash warrants which could not be encashed on or before its validity period, shall on its surrender, be revalidated or a fresh demand draft be arranged by the Company within seven days of receipt of any request in that behalf from the registered shareholder.

6. Implication under the Income Tax Act, 1961:

Out of the aggregate amount of consideration Rs.75/- (Rupees Seventy five only) for every one equity share cancelled pursuant to

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the Scheme, the Company shall discharge the tax liability on the premium amount of Rs.65/- (Rupees Sixty five only) under Section 115-O of the Income Tax Act, 1961 and the balance amount of Rs.10/- (Rupees Ten only) representing the return of capital on reduction of paid-up equity share capital of the Company, shall be subject to tax on capital gains, if any, in the hands of the shareholder under Section 45 of the Income Tax Act, 1961.

7. Intimation to Stock Exchanges:

The Applicant Company shall, at any time after the Record Date but before effecting cancellation, submit to the Stock Exchanges on which its equity shares are listed, a Certificate from a Practicing Company Secretary, furnishing the particulars of equity shares proposed to be cancelled pursuant to the Scheme by furnishing the relevant details such as name of the shareholder whose equity shares are to be cancelled (both physical and demat form), the distinctive nos. and share certificate nos. of such equity shares in physical form.

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8 Continuation of business activities:

Upto the Effective Date, and also on from the "Effective date", the Applicant Company shall be deemed to carry on all its business activities in the ordinary course of its business and the reduction in its paid-up equity share capital will not in any manner affect its financial position

9. Enforcement of contracts, deeds and bonds:

9.1 Save and except as expressly provided in this Scheme, nothing containing in the Scheme shall affect any contract, deed, bond, agreement and other instruments of whatsoever nature to which the Company is a Party and which is subsisting or having effect on the "Effective Date" and shall remain in full force and effect against or in favor of the Applicant Company and may be enforced fully and effectively.

9.2 The Scheme shall not materially affect in any manner, the rights and interest of creditors and employees of the Applicant Company.

10. Cancellation and Reduction of paid-up Equity Share Capital:

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On and from the Date of Cancellation, the following shall come into effect:-

10.1 The Issued, Subscribed and Paid-up Equity Share Capital of the Applicant Company shall stand reduced to Rs.33,66,01,950/- (Rupees Thirty three crores sixty six lakhs one thousand nine hundred and fifty only) divided into 3,36,60,195 (Three crores thirty six lakhs sixty six thousand one hundred and ninety five) of Rs.10/- (Rupees ten only) each.

10.2 Upon the Scheme coming to effect, 39,31,042 (Thirty nine lakhs thirty one thousand and forty two) equity shares of the Company shall stand cancelled and liability thereof shall be extinguished.

10.3 This Scheme is presented under Sections 391 to 393 of the Act and in accordance with the procedures prescribed under Circular CIR/CFD/DIL/5/2013 dated 04th February 2013 issued by the Securities and Exchange Board of India, and upon the Scheme coming to effect, shall have the effect of having obtained the sanction / approval of the Court pursuant to the provisions contained in Section 100 to 104 of the Act dealing with reduction of capital

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and all other consequential and incidental compliances as contemplated under the Act.

11. Authority of Directors:

For the purpose of giving effect to this Scheme or to any modification or amendments thereof, the Board or any Committee of Directors of the Applicant Company or any person duly authorized in that behalf may give all such directions as are necessary or desirable including directions for settling or resolving any question, doubt or difficulty arising under the Scheme or in regard to its implementation or in any manner connected therewith and such determination or directions as the case may be, shall be binding on all parties, in the same manner as if the same are specifically incorporated in this Scheme.

12. General:

This Scheme is specifically conditional upon and subject to :-

- a) the sanction and order(s) of the Court being obtained under the Act, and certified copy of the order(s) of the Court sanctioning the

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scheme being filed by the Applicant Company with the Registrar of Companies, Karnataka, Bangalore.

b) the sanction or approval under any law or of the Central Government or any other person or Authority concerned being obtained and granted in respect of any of the matters provided for or relating to the Scheme for which such sanction or approval is required.

13. Costs and Expenses:

All costs, charges and expenses, registration fees of or in respect of any deed, document, instrument or orders of the Court in relation to or in connection with this Scheme or incidental to implementation and completion of this Scheme, shall be borne and paid by the Company.

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