



K2 Systems Limited

SCHEME OF ARRANGEMENT OF K2 SYSTEMS LIMITED BETWEEN IT'S SHAREHOLDERS AND UNSECURED CREDITORS

(Under Sections 391 to 394 read with Section 100 to 104 of the Companies Act, 1956)

1. PREAMBLE

1.1 K2 SYSTEMS LIMITED (hereinafter referred to as "Company"), the corporate particulars in respect of which are given in clauses 3, 4 and 5, is engaged in the business of development of computer software.

1.2 The Breakup of Accumulated Losses of the Company for the past 6 years is as follows:

(Amount in Rupees)

Year	Depreciation (Loss)	Business (Loss) / Profit	Capital (Loss)	Tax Expense	Total (Loss) / Profit	Cumulative (Loss) / Profit
31.03.2008	(503121)	(2752129)	-		(2752129)	(41870447)
31.03.2009	(207843)	110009	-		110009	(41760437)
31.03.2010	(79920)	(252272)	-		(252272)	(42012709)
31.03.2011	(79920)	(31300)	-		(31300)	(42044009)
31.03.2012	(79920)	379674	-	(99062)	478736	(41565273)
31.03.2013	(79920)	532173	-	(30441)	562614	(41002659)

1.3 In view of the complete erosion of its Net Worth, the Company is not in a position to undertake operations in a reasonable way. The Company was also not able to raise any loans from Financial Institutions, which is essential for continuing / expanding / diversifying its business activities.

1.4 In view of the above circumstances, the Company proposes to undertake a corporate restructuring exercise in the manner as provided below:

- Out of its total accumulated losses of Rs. 4,10,02,659/- (Rupees Four Crores Ten Lakhs Two Thousand Six Hundred and Fifty Nine Only), the Company seeks to set off a loss of Rs.3,54,60,000/- (Rupees Three Crores Fifty Four Lakhs Sixty



Thousand only) against its Paid Up Capital of Rs.3,94,00,000/- (Rupees Three Crore Ninety Four Lakhs Only) resulting in a reduction of Rs. 3,54,60,000/- (Rupees Three Crores Fifty Four Lakhs Sixty Thousand only) from its Paid Up Capital.

- b) Upon set off of the accumulated losses, the issued, subscribed and paid up capital of the Company shall be **Rs.39,40,000/-** (Rupees Thirty Nine Lakhs Forty Thousand only) divided into **39,40,000** (Thirty Nine Lakhs Forty Thousand) Equity Shares of Re.1/- (Rupee "One" Only) each. The said issued, subscribed and paid up share capital of the company shall further consolidated into **Rs.39, 40,000** (Rupees Thirty Nine Lakhs Forty Thousand only) divided into **3,94,000** (Three Lakhs Ninety Four Thousand) Equity Shares of Re.10/- (Rupee Ten Only) each.
- c) Every shareholder of the Company, whose name appears on the Register of Members on the Record Date, shall receive 1 (One) Equity Share of Rs.10/- (Rupees Ten Only) in lieu of every 10 Equity Shares of Rs.10/- (Rupees Ten Only) each, held earlier in the Company. For example a person who is holding 100 (Hundred) Equity Shares of Rs.10/- (Rupees Ten only) each aggregating to Rs1000/- (Rupees one thousand only) shall hold (after the reduction and consolidation) 10 Equity Shares of Rs.10/- (Rupees Ten) each aggregating to Rs.100/- (Rupees Hundred only).
- d) Further, the unsecured loans amounting to **Rs. 46, 23, 820/-** (Rupees Forty Six Lakhs Twenty Three Thousand Eight Hundred Twenty only) standing in the books of the Company as on 31st March, 2013 shall be converted into Equity Shares (i.e.) **Rs. 46, 23,820/-** (Rupees Forty Six Lakhs Twenty Three Thousand Eight Hundred Twenty only) divided into **4, 62, 382** (Four Lakhs Sixty Two thousand Three Hundred and Eighty Two Only) Equity Shares of Rs.10/- (Rupees Ten Only) each.
- e) After conversion of unsecured loans into equity shares, the equity share capital and the total number of equity shares of the company after set off of accumulated losses and after conversion of unsecured loans into equity shares will become **Rs. 85, 63, 820/-** (Rupees Eighty Five Lakhs Sixty Three Thousand Eight Hundred and Twenty only) divided into **8, 56, 382** (Eight Lakhs Fifty Six Thousand Three Hundred and Eighty Two) Equity shares of Rs.10/- (Rupees Ten Only) each. (Rs.39,40,000 + Rs.46,23,820)



- f) Further, infusion of fresh funds in to the Company by way of preferential allotment of 25, 50, 000 (Twenty Five Lakhs Fifty Thousand) Equity Shares of Rs. 10/- (Rupees Ten only) each at par aggregating to Rs. 2, 55, 00, 000/- (Rupees Two Crores Fifty Five Lakhs only) to the strategic investors.
- g) The reconstruction / restructuring of capital shall not cause any shareholder to hold any fractional shares in the Company. In respect of the fractional shares, if any, caused by the reconstruction / restructuring of capital, the same shall be transferred, without requiring any further action either on behalf of such shareholder or the Company, to a Trust to be formed for this purpose and the fractional shares shall be consolidated. The Independent Directors of the Company shall manage this Trust and the Compliance Officer / Company Secretary of the Company shall be the Secretary of the Trust and shall assist the Independent Directors in managing the affairs of the Trust. This Trust shall sell the consolidated shares in the market at the best available price in one or more lots. The decision of the Trust as to the timing and method of the sale and the price at which such sale has been given effect to, in that behalf shall be final and binding on all concerned. The Trust shall hold the net sale proceeds of all such shares after defraying there from all costs, charges and expenses of such sale and shall thereafter distribute such sale proceeds to the members of the Company in proportion to their fractional entitlements.

2. OBJECTS / BENEFITS ARISING OUT OF THE SCHEME:

- i. The Company has incurred heavy losses and completely eroded its Net Worth. The Scheme will result in making its Net Worth positive.
- ii. The Scheme will enable the Company to overcome its financial difficulties and improve its working in the future.
- iii. The improved financial resources of the Company would ensure enhancement of its shareholders' value.
- iv. The fresh infusion of funds into the Company, through the preferential issue, would not only improve its cash flow but also increase its financial strength, thereby benefiting the Company.



- v. The Scheme will help in the revival of the Company, which will be in the interests of its employees, shareholders, the National and State Exchequer and the Society in general.

3. **DEFINITIONS:**

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

- 3.1 "Act" shall mean the Companies Act, 1956 or any statutory modification or reenactment thereof.
- 3.2 "Appointed Date" means the date from which this Scheme shall become operative viz., 1st April 2013 or if the Boards of Directors of the Company require any other date prior or subsequent to 1st April 2013 and / or the High Court of Andhra Pradesh modifies the Appointed Date to such other date, then the same shall be the Appointed Date.
- 3.3 "Company" shall mean K2 SYSTEMS LIMITED, a company limited by shares incorporated under the provisions of the Companies Act, 1956 and having its Registered Office at 2-4-68/rc/506, Upperpally, Hyderabad, Andhra Pradesh-500048.
- 3.4 "Accumulated Losses" shall mean losses amounting to Rs. 4,10,02,659/- (Rupees Four Crores Ten Lakhs Two Thousand Six Hundred and Fifty Nine Only), of which losses amounting to **Rs.3,54,60,000/- (Rupees Three Crores Fifty Four Lakhs Sixty Thousand only)** proposed to be set-off against the issued, subscribed and paid up capital of the Company of **Rs.3,94,00,000/- (Rupees Three Crore Ninety Four Lakh Only)**.
- 3.5 "Court" shall mean the Hon'ble High Court of Andhra Pradesh and shall include National Company Law Tribunal or any other appropriate forum or authority empowered to approve the Scheme as per the law for the time being in force.
- 3.6 "Effective Date" for the Scheme of Arrangement shall mean the date on which the certified copies of the order of the Hon'ble High Court of Andhra Pradesh under Sections 391 to 394 and other applicable provisions of the Companies Act, 1956, if any, are filed with the Registrar of Companies, Andhra Pradesh ("ROC") and if the certified copies are filed on different dates, the last of such dates. Reference in the



Scheme to "coming into effect of the Scheme" or "effectiveness of the Scheme" shall mean the Effective Date.

- 3.7 "Record Date" means the date to be fixed by the Board of Directors or a committee of the Company for the purpose of allotment of shares pursuant to this Scheme.
- 3.8 "Scheme of Arrangement" or "Scheme" or "The Scheme" or "This Scheme" means this Scheme of Arrangement in its present form or with any modification(s) approved, imposed, or directed by the Court.
- 3.9 The words "Shareholder" and "Member" are used to denote the same meaning and are used interchangeably in this Scheme.
- 3.10 Word(s) and expression(s) elsewhere defined in the Scheme will have the meaning(s) respectively ascribed.

All the terms and words not defined in this Scheme shall, unless repugnant or contrary to the context or meaning thereof, have the same meaning as ascribed to them under the Act and other applicable laws, rules, regulations and byelaws as the case may be, including any statutory modification or re-enactment thereof from time to time.

2. EFFECTIVE DATE AND OPERATIVE DATE

The Scheme though operative from the Effective Date shall be effective from the Appointed Date.

3. INCORPORATION

K2 SYSTEMS LIMITED, means a limited company incorporated in the State of Andhra Pradesh vide Certificate of Incorporation No. 01-10200 in the name and style M/s Recursion Software Consultant Private Limited issued by the Registrar of Companies, Andhra Pradesh at Hyderabad on 03.07.1989 (Third Day of July One Thousand Nine Hundred and Eighty Ninety).

Further, the Company was converted into a public limited company vide special resolution passed at the Extra Ordinary general meeting of the shareholders held on



25.11.1999 and obtained the fresh certificate of incorporation from the Registrar of Companies, Andhra Pradesh on 22.12.1999.

Further the name of the Company was changed to K2 Systems Limited, vide special resolution passed at the Extra Ordinary general meeting of the shareholders held on 17.01.2005 and obtained the fresh certificate of incorporation from the Registrar of Companies, Andhra Pradesh on 17.01.2005.

The Registered Office is situated at H. No. 10-4-1/A/8, Flat No. G-3, Ramakrishna Nagar, SriLaxmi Nilayam, Lower Masab Tank, Hyderabad. Andhra Pradesh - 500028 India.

4. CAPITAL STRUCTURE

The Authorized Share Capital of the Company as on 31.03.2013 is Rs.5, 00, 00, 000/- (Rupees Five Crores only) divided into 50, 00, 000 Equity Shares of Rs.10/- each and the Paid-up Capital of the Company is **Rs.3, 94, 00, 000/- (Rupees Three Crores Ninety Four Lakhs only) divided into 39, 40, 000 Equity shares of Rs. 10/- each.**

5 MAIN OBJECTS OF THE COMPANY:

The main objects of the Company are as follows:

1. To carry on the business of developing, improving, designing, marketing, selling and licensing software and programme products of any and all descriptions.
2. To provide consultancy service related to the preparations and maintenance of accounting, statistical, scientific, or mathematical information and reports, data processing, programming, collecting, storing, processing and transmitting information and data of every kind and description, systems analysis and machine services for solving or achieving commercial, industrial, scientific and research problems and for all other related business.
3. To establish, maintain and conduct in India or abroad, training schools, institutes, course and programme in connection with the use, purchase, sale import, export, licence, distribution, design or rental of the aforesaid types of



apparatus, appliances, systems, machines and merchandise and of articles required in the use thereof or used in connection therewith.

4. To undertake the business of all types of media & entertainment through internet or cables or through satellite channels whether for business or entertainment with huge types of computers and electronic equipment, software technology, multimedia application in domestic or overseas markets to develop and establish multimedia or animation of studios for developing and processing 2D & 3D media or entertainment applications, to produce files, tele-serials and to establish distribution channels through franchise or any other method and to carry on the business of all types of media & entertainment equipment anywhere in the world.
5. To undertake the business of all types of entertainment by setting up of theme parks, whether based on Information Technology, water, snow or otherwise, to develop and maintain tourism oriented projects for public entertainment, to set up rest rooms, restaurants for food centers in the theme parks or otherwise to develop infrastructures for such theme parks, shopping malls, to market the facilities and to act as consultants and for setting up similar projects in India or abroad, whether for the company or otherwise.

6. **THE SCHEME:**

Upon the Scheme coming into effect, the unsecured loans and the share capital structure shall be restructured, reorganized, sub-divided and consolidated in the following manner:

a. **REDUCTION OF PAID UP CAPITAL AGAINST ACCUMULATED CAPITAL LOSSES.**

- i. The Company seeks to set off a loss of Rs. 3,54,60,000 (Rupees Three Crores Fifty Four Lakhs Sixty Thousand only), out of its total accumulated losses of Rs. 4,10,02,659/- (Rupees Four Crores Ten Lakhs Two Thousand Six Hundred and Fifty Nine Only), ("Total Accumulated Losses"), against its Paid Up Capital of Rs.3,94,00,000/- (Rupees Three Crore Ninety Four Lakh Only) resulting in a reduction of Rs. 3,54,60,000 (Rupees Three Crores



Fifty Four Lakhs Sixty Thousand only) from its total Paid Up Capital.

- ii. As a result of the aforesaid set off of Rs. 3,54,60,000/- (Rupees Three Crores Fifty Four Lakhs Sixty Thousand only), the Paid-up Share Capital of the Company shall stand reduced from Rs.3,94,00,000/- (Rupees Three Crore Ninety Four Lakh Only) divided into 39,40,000 (Thirty Nine lakhs Forty Thousand only) Equity Shares of Rs.10/- (Rupees Ten Only) each to Rs.39,40,000/- (Rupees Thirty Nine Lakhs Forty Thousand only) divided into 39,40,000 (Thirty Nine Lakhs Forty Thousand) Equity Shares of Re.1/- (Rupee "One" only) each. The said issued, subscribed and paid up share capital of the company shall further be consolidated into Rs. 39,40,000 (Rupees Thirty Nine Lakhs Forty Thousand only) divided into 3,94,000 (Three Lakhs Ninety Four Thousand) Equity Shares of Rs.10/- (Rupee Ten only) each.
- iii. Every shareholder of the Company, whose name appears on the Register of Members on the Record Date, shall receive 1 (One) Equity Share of Rs.10/- (Rupees Ten Only) in lieu of every 10 Equity Shares of Rs.10/- (Rupees Ten Only) each, held earlier in the Company. For example a person who is holding 100 (Hundred) Equity Shares of Rs.10/- (Rupees Ten only) each aggregating to Rs.1000/- (Rupees One Thousand Only) shall hold (after the reduction and consolidation) 10 Equity Shares of Rs.10/- (Rupees Ten) each aggregating to Rs.100/- (Rupees Hundred only).
- iv. The reconstruction / restructuring of capital shall not cause any shareholder to hold any fractional shares in the Company. In respect of the fractional shares, if any, caused by the reconstruction / restructuring of capital, the same shall be transferred, without requiring any further action either on behalf of such shareholder or the Company, to a Trust to be formed for this purpose and the fractional shares shall be consolidated. The Independent Directors of the Company shall manage this Trust and the Compliance Officer / Company Secretary of the Company shall be the Secretary of the



