

COMPOSITE SCHEME OF ARRANGEMENT

BETWEEN

KARNATAKA NEERAVARI NIGAM LIMITED (“DEMERGED COMPANY”)

AND

VISVESVARAYA JALA NIGAM LIMITED (“RESULTING COMPANY”)

AND

THEIR RESPECTIVE SHAREHOLDERS

AND

THEIR RESPECTIVE CREDITORS

FOR

**THE DEMERGER OF DEMERGED UNDERTAKING OF KARNATAKA NEERAVARI
NIGAM LIMITED TO VISVESVARAYA JALA NIGAM LIMITED**

**UNDER SECTIONS 230 TO 232 READ WITH SECTION 66 OF THE COMPANIES
ACT, 2013**

I. BACKGROUND

- (i) Karnataka Neeravari Nigam Limited (hereinafter referred to as the “Demerged Company” or KNNL) is a public limited company and wholly owned undertaking of Government of Karnataka incorporated on 9th December, 1998 under the provisions of Companies Act, 1956 and has its registered office at 4th Floor, Coffee Board Building, No.1, Dr.AmbedkarVeedhi, Bengaluru – 560 001. The Corporate identity number of the Demerged Company is U85110KA1998SGC024503. The Demerged Company, inter alia, is engaged in the business of planning, investigating, estimating, building, operating and maintaining irrigation projects and the works of Command Area Development Authority (CADA) in any part of the State of Karnataka (excluding Upper Krishna Project); prepare detailed project reports and estimates of such irrigation projects and build them after Government of Karnataka obtains

necessary approvals and sanctions the projects administratively; resettle and rehabilitate people affected by the building of irrigation projects.

- (ii) VisvesvarayaJala Nigam Limited (hereinafter referred to as the "Resulting Company") is a public limited Company and wholly owned undertaking of Government of Karnataka incorporated on 20th October, 2016 under the provisions of Companies Act, 2013 and has its registered office at No.148, Ground Floor, "Embassy Square", Infantry Road, Bengaluru – 560 001. The Corporate identity number of the Resulting Company is U41000KA2016SGC097260. The Resulting Company, inter alia, is engaged in the business of taking up and implementing the projects based on the study report submitted by the Expert Committee for formulation of permanent irrigation facilities to Kolar and Chikkaballapur Districts and to take over the implementation and management of Yettinahole Integrated Drinking Water Project and the Upper Bhadra Irrigation Project and allied Projects from Karnataka Neeravari Nigam Limited and also other Projects that the Government of Karnataka may entrust from time to time for catering to the water needs of the drought prone areas of Chikkaballapur, Kolar, Bengaluru Rural, Chitradurga, Chickamagalur, Hasan, Davangere and Tumakuru District of Karnataka; planning, investigating, estimating, building, operating and maintaining all kinds of infrastructures like Dams, Reservoirs, Barrages, Weirs, Canals, Lift Irrigation Schemes, Solar Irrigation Systems, Pipelines, Road Works etc., required for the Project for supply of water for irrigation, drinking, power generation and other purposes including the works of Command Area Development Authority (CADA).

II. OVERVIEW AND OPERATION OF THIS SCHEME

The Scheme of Arrangement is presented under Sections 230 to 232 read with Section 66 and other applicable provisions of the Companies Act, 2013 ("the Act") and Rules made there under provides for the demerger and vesting of the Demerged Undertaking (as defined hereinafter) from the Demerged Company to the Resulting Company on a 'going concern' basis and the consequent issue of shares by the Resulting Company in the manner set out in the Scheme and in accordance with the provisions of sections 230 to 232 of the Act (as defined hereinafter) and other applicable provisions of the Applicable Law.

III. RATIONALE FOR THIS SCHEME

- (i) Visvesvaraya Jala Nigam Limited (Resulting Company or VJNL) was incorporated pursuant to the decision taken by the Government of Karnataka to incorporate a new Company for implementing certain irrigation and drinking water projects in the drought prone areas of central Karnataka region with greater focus and attention.

- (ii) Accordingly, the Government of Karnataka (GOK) vide GO No: WRD/35/VEBYA EE/2016, Bengaluru dated 20.08.2016 (attached as **Annexure – 1**) have directed that the demerged undertaking (as defined hereinafter) hitherto being implemented by the Karnataka Neeravari Nigam Limited (Demerged Company or KNNL) will vest with a separate Company to be incorporated under the Companies Act, 2013. Consequently, VJNL was incorporated on 20th October, 2016 as a public limited company wholly owned by Government of Karnataka.
- (iii) Pending transfer of Assets and Liabilities of the demerged undertaking (as defined hereinafter) to the Resulting Company, the Government of Karnataka has vested the operational control of the above said projects to the Resulting Company (VJNL). Accordingly, the on-going project works of the de-merged undertaking (as defined hereinafter) were transferred for further execution by the Resulting Company (VJNL) with effect from the appointed date i.e., 01.01.2017.
- (iv) Government of Karnataka have given in principle approval for transfer of the assets and liabilities of demerged undertaking (as defined hereinafter) to the Resulting Company (VJNL) from the Demerged Company (KNNL) vide Government Order No. WRD 130/VIBYAE 2016, Bengaluru dated 18.11.2016. (attached as **Annexure – 2**). The Board of Directors of KNNL at its 75th meeting held on 14th December, 2016 have approved the transfer of the demerged undertaking along with concerned offices and associated employees to VJNL with effect from 01.01.2017. Accordingly, an Office Memorandum Dated 22.12.2016 been issued in this regard. (A copy of the same is attached as **Annexure – 3**).
- (v) The proposed restructuring pursuant to this Scheme is expected, inter alia, to result in speedy and focussed implementation of the Yettinahole Integrated Drinking Water Project catering to drought prone areas of Central Karnataka Region; Greater focus of the management on implementation of Upper Bhadra and other allied Irrigation Projects on a priority basis.
- (vi) Both the Demerged and Resulting Companies are wholly owned by the Government of Karnataka and as such there is no question of any adverse effect on the rights/interest of the shareholders. Further the creditors of the Demerged Undertaking will not be affected by the Scheme as the Demerged Company will be having assets of value much higher than its liabilities post demerger. Moreover, the borrowings of the Demerged Company (KNNL) are

guaranteed by Government of Karnataka. Hence, the proposed demerger will be in the interest of shareholders (Government of Karnataka), Creditors and other Stakeholders of the Demerged and the Resulting Companies and would enable focussed operational approach for the maximization of benefits to all Stakeholders.

IV. PARTS OF THE SCHEME

The Scheme of Arrangement is divided into the following parts:

- Part I** - Deals with the definitions of Capitalized terms used in this Scheme and the share capital of the Demerged Company and the Resulting Company;
- Part II** - Deals with transfer and vesting of the Demerged Undertaking from the Demerged Company into the Resulting Company and the consideration thereof; and
- Part III** - Deals with general terms and conditions that would be applicable to this Scheme.

PART I – DEFINITIONS AND SHARE CAPITAL

1. DEFINITIONS

In this Scheme of Arrangement, unless inconsistent with the subject or context thereof, (i) Capitalised terms defined by inclusion in quotations and / or parentheses have the meanings so ascribed; (ii) subject to (iii) below, all terms and words not defined in this Scheme shall have the same meaning ascribed to them under Applicable laws; and (iii) the following expressions shall have the following meanings:

- 1.1** “Act” means the Companies Act, 2013 including any other statutory amendment or re-enactment or restatement and the rules and / or regulations and / or other guidelines or notifications, made there under from time to time.
- 1.2** “Appointed Date” for the Demerger means 1st January, 2017 or such other date(s) as the board of directors of the Demerged Company and the Resulting Company may fix or such other date(s) as the Central Government or such other competent authority may approve / fix.
- 1.3** “Applicable Law” means any applicable central, provincial, local or other law including all applicable provisions of all (a) constitutions, decrees, treaties, statutes, acts, laws (including the common law), codes, notifications, rules, regulations, policies, guidelines, circulars, directions, directives, ordinances or orders of any Appropriate Authority, statutory authority, Court, Tribunal having jurisdiction over the parties; (b)

Permits and (c) orders, decisions, injunctions, judgements, awards and decrees of or agreements with any Appropriate Authority having jurisdiction over the parties.

1.4 "Appropriate Authority" means:

- (a) The government of any jurisdiction (including any central, state, municipal or local government or any political or any administrative subdivision thereof) and any department, ministry or agency, instrumentality, court, central bank, commission or other authority thereof;
- (b) Any governmental, quasi-governmental or private body or agency lawfully exercising, or entitled to exercise, any administrative, executive, judicial, legislative, regulatory, licensing, competition, tax, importing or other governmental or quasi-governmental authority including without limitation SEBI (as defined hereinafter), ROC (as defined hereinafter), the Tribunal (as defined hereinafter).

1.5 "Board" in relation to the Demerged Company and Resulting Company, as the case may be, means the board of Directors of such company, and shall include a committee of directors or such committee of directors duly constituted and authorised for the purpose of matters pertaining to this Scheme or any other matter relating thereto.

1.6 "Central Government" means the Government of India.

1.7 "Demerged Company" means Karnataka Neeravari Nigam Limited or KNNL, a public limited company and wholly owned undertaking of Government of Karnataka incorporated on 9th December, 1998 under the provisions of Companies Act, 1956 and having its registered office at 4th Floor, Coffee Board Building, No.1, Dr.AmbedkarVeedhi, Bengaluru – 560 001. The Corporate identity number of the Demerged Company is U85110KA1998SGC024503.

1.8 "Demerger" means the demerger of the "Demerged Undertaking" of the Demerging Company in accordance with Part II of the Scheme.

1.9 "Demerged Undertaking" means the entire activities, operations, divisions of the Demerged Company pertaining to the Projects viz., a) Upper Bhadra Project) Yettinahole Integrated Drinking Water Project c) VanivilasSagar Project d) Gayathri Project as is presently carried out by the Demerged Company which is being transferred to the Resulting Company on a going concern basis (as on the Appointed Date and as modified and altered from time to time up to the Effective Date) along with all related assets, agreed liabilities, employees, rights, powers and shall include (without limitation) in particular the following:

- (i) All identified assets of the Demerged Company pertaining to the transferred Projects whether moveable or immoveable, real or personal, corporeal or incorporeal, in possession, or in reversion, leasehold or otherwise, present, future, contingent, tangible or intangible) and not limited to the plant and machinery, Buildings, capital work in progress, furniture, fixtures, office equipment, appliances, accessories, vehicles, all stocks, sundry debtors, deposits including deposits or outstanding in litigations or paid under protest, provisions, advances, receivables, funds, leases, licenses, tenancy rights, premises, hire purchase and lease arrangements including statutory clearances, benefits of agreements, contracts and arrangements, powers, authorities, industrial and other licenses, registrations, domain name, quotas, permits, allotments, approvals, consents, privileges, liberties, advantages, easements and all the rights, title, interests, goodwill, benefits, entitlement and advantages, contingent rights or benefits belonging to or in the ownership, power, possession or the control of or vested into or granted in favour of or held for the benefit of or enjoyed by KNNL pertaining to the demerged undertaking;
- (ii) The immovable properties of the Demerged Undertaking are more fully set out in **Schedule A** annexed hereto for the purpose of identification and including all rights, interest and benefits accrued or arising there from;
- (iii) All debts, liabilities (excluding term loans from Banks and Bond funds of the Demerged Company utilised for creation of assets of the demerged undertaking), contingent liabilities, duties and obligations whether provided for or not in the books of account relating to or pertaining to the said business as per the records of the Demerged Company;
- (iv) Title to Immovable Property at Ground Floor, No.148, Embassy Square, Infantry Road, Bengaluru – 560 001;
- (v) All earnest monies, security deposits, or other entitlements, if any, in connection with or relating to Demerged undertakings;
- (vi) All identified employees of the Demerged Company employed in the Demerged Undertaking including such other employees who were required to carry out the work of the Resulting Company as on the Effective Date;
- (vii) All books, records, files, papers, engineering and process information, computer programmes, software licenses (whether proprietary or otherwise), drawings, manuals, data, catalogues, quotations and other records whether in physical or electronic form in connection with or relating to Demerged undertaking;

(viii) Any asset or liability pertaining to the Demerged Undertaking identified subsequently after the appointed date shall also be considered for transfer by the Demerged Company to the Resulting Company and shall be deemed to be part of the scheme.

1.10 "Effective Date" means the date on which the certified copies of the Order(s) or last of the Orders, as the case may be, of the Government of India sanctioning the Scheme, are filed with the Registrar of Companies, Karnataka by the Demerged Company and Resulting Company and if such filing is made on different dates, then the last of such dates. Any references in the Scheme to the words "date of coming into effect of the Scheme" or "upon the Scheme becoming effective" or "Scheme coming into effect" shall mean the "Effective Date".

1.11 "INR" or "Rs" means Indian Rupee, the lawful currency of the Republic of India.

1.12 "Parties" shall mean collectively the Demerged Company and the Resulting Company.

1.13 "Party" shall mean each of them individually.

1.14 "Person" means an individual, a partnership, a corporation, a limited liability partnership, a company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or an Appropriate Authority.

1.15 "Record Date" means the date to be fixed jointly by the Board of Directors of KNNL and VJNL for the purposes of determining the names of the shareholders of Demerged Company, as applicable, who shall be entitled to shares of the Resulting Company in accordance with Clause 9 of this Scheme (as defined hereinafter).

1.16 "Resulting Company" means VisvesvarayaJala Nigam Limited or VJNL, a public limited company and wholly owned undertaking of Government of Karnataka incorporated on 20th October, 2016 under the Companies Act, 2013 and having its registered office at Ground Floor, Embassy Square, #148, Infantry Road, Bengaluru – 560001. The Corporate identity number of the Company is U41000KA2016SGC097260).

1.17 "Remaining Business" means all the business, units, divisions, undertakings and assets and liabilities of the Demerged Company other than those forming part of the Demerged Undertaking.

1.18 "ROC" means the relevant Registrar of Companies having jurisdiction over the Demerged or the Resulting Company as the case may be.

1.19 "Scheme" or "the Scheme" or "this Scheme" or "Composite Scheme of Arrangement" means this Composite Scheme of Arrangement presented under Sections 230 to 232

of the Companies Act, 2013 and other applicable provisions of the Companies Act, 2013 and / or the Companies Act, 1956 in its present form or with any modification(s) made under clause 13 of this Scheme or any modifications approved or directed by the Central Government.

1.20 "Shareholders" means persons registered as holders of equity shares of the respective companies.

1.21 "Stock Exchange" means the BSE Limited ("BSE") and the National Stock Exchange of India Limited ("NSE") as the case may be.

1.22 "Taxation" or "Tax" or "Taxes" means all forms of taxes and statutory, governmental, state, provincial, local governmental or municipal impositions, duties, contributions and levies and whether levied by reference to income, profits, book profits, gains, net wealth, asset values, turnover, added value or otherwise and shall further include payments in respect of or on account of Tax, whether by way of deduction at source, advance tax, minimum alternate tax or otherwise or attributable directly or primarily to the Demerged Company or Resulting Company or any other Person and all penalties, charges, costs and interest relating thereto.

1.23 "Tax Laws" means all Applicable Laws, acts, rules, regulations dealing with taxes including but not limited to the income-tax, wealth-tax, sales tax / value added tax, service tax, goods & services tax, excise duty, customs duty or any other levy of similar nature.

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

3. Reference to clauses, recitals and schedules, unless otherwise provided, are to clauses, recitals and schedules of and to this Scheme. The words importing the singular include the plural; words importing any gender include every gender.

2. SHARE CAPITAL

2.1 The authorised, issued and paid-up share capital of the Demerged Company as on 31st March, 2018 is as under:

Particulars	Amount (<i>In Rupees</i>)
Authorized Capital	
<i>Equity Shares</i>	
30,00,00,000 Equity shares of Rs. 1000/- each	30000,00,00,000

Total	30000,00,00,000
Issued, Subscribed and Paid-up Capital	
<i>Equity Shares</i>	
25,44,49,151 equity shares of Rs. 1000/- each.	25444,91,51,000
Total	25444,91,51,000

- 2.2 The authorised, issued and paid-up share capital of the Resulting Company as on 31st March, 2018 is as under:

Particulars	Amount (In Rupees)
Authorized Capital	
<i>Equity Shares</i>	
500,00,000 Equity shares of Rs. 1000/- each	5000,00,00,000
Total	5000,00,00,000
Issued, Subscribed and Paid-up Capital	
<i>Equity Shares</i>	
1,25,58,687 Equity shares of Rs. 1000/- each	1255,86,87,000
Total	1255,86,87,000

- 2.3 Subsequent to 31st March, 2018, there is no change in the authorised share capital of the Demerged & Resulting Company. However, the issued, subscribed and paid-up capital of equity shares as on 30th November, 2018 is as follows:

The issued, subscribed and paid-up equity share capital of the Demerged Company is:
26,87,77,776 Equity shares of Rs. 1000/- each amounting to Rs.26877,77,76,000/-.

The issued, subscribed and paid-up equity share capital of the Resulting Company is:
1,47,64,351 Equity shares of Rs.1000/- each amounting to Rs.1476,43,51,000/-.

The Equity shares of both the Demerged Company and the Resulting Company are not listed on any of the Stock Exchanges and are fully held by the Government of Karnataka as on this date.

- 2.3.1 The Resulting Company was incorporated on October 20, 2016. As such, the first financial year of the company covers the period from 20th October, 2016 to 31st March, 2017.

- 2.3.2 The latest audited financial position of the Demerged Company and the Resulting Company pertain to the financial year ended 31st March, 2018. A copy of the said audited accounts along with the auditor's report is annexed hereto as **Annexure-4**).

2.3.3 As on 31st December 2018, there are no investigations or such similar proceedings pending against the Demerged Company or the Resulting Company under the Companies Act, 1956 / 2013.

3. PART II – DEMERGER AND VESTING OF THE DEMERGED UNDERTAKING OF THE DEMERGED COMPANY INTO THE RESULTING COMPANY

3.1 The Demerged Company had engaged the services of a Chartered Accountant firm to validate the book values of assets and liabilities of the divisions pertaining to the de-merged undertaking identified for transfer and for evaluating other related issues pertaining to the proposed Demerger. A detailed report in this regard has been submitted by them and the summary of the report detailing the values of assets and liabilities of the Demerged Undertaking for vesting and transfer to the Resulting Company is attached as **Annexure- 5**.

3.2 DEMERGER

3.2.1 On and from the Appointed Date and upon the Scheme becoming effective and pursuant to sections 230 to 232 of the Companies Act, 2013 and Section 2(19AA) of the Income-tax Act, 1961, the Demerged Undertaking along with all its identified assets, liabilities, Contracts arrangements, employees, licences, approvals etc., shall without any further act, deed, instrument, matter or thing stand transferred to and vested in or deemed to be transferred to and vested in the Resulting Company as a going concern. With effect from the Appointed Date, the Resulting Company shall be entitled to exercise all rights and privileges and be liable to pay ground rent, municipal taxes and fulfil all obligations, in relation to or applicable to transfer of immovable properties to the Resulting Company. The mutation of the title / assignment of leases in respect of the immovable properties in the name of the Resulting Company shall be made and duly recorded by the appropriate authorities pursuant to the sanction of this Scheme and this Scheme becoming effective in accordance with the terms hereof without any further act or deed on part of the Resulting Company. Pending statutory approval of the scheme, Government of Karnataka have entrusted the operational control of the Demerged Undertaking in VJNL with effect from 1st January, 2017;

- 3.2.2** In respect of such of the assets of the Demerged Undertaking which are movable in nature or are otherwise capable of transfer by manual delivery, they shall be physically handed over by manual delivery or endorsement and delivery, and the same may be so transferred by the Demerged Company, without requiring any deed or instrument of conveyance for the same and shall become the property of the Resulting Company to the end and intent that the ownership and property therein passes to the Resulting Company on such handing over.
- 3.2.3** In respect of such of the assets of the Demerged Undertaking other than those referred to in sub-clause 3.2.2 above, the same shall, *ipso facto* and without any further act, instrument or deed, be transferred to and stand vested in and / or be deemed to be transferred to and stand vested in the Resulting Company.
- 3.2.4** In relation to the assets belonging to the Demerged Undertaking, which may require separate documents of transfer, the parties shall execute requisite documents.
- 3.2.5** The Demerged Company shall obtain release of the existing charges, mortgages and encumbrances over or in respect of the transferred assets of the demerged undertaking upon approval of the scheme.
- 3.2.6** In respect of the identified debts, liabilities, duties and obligations of the Demerged Undertaking, it is hereby clarified that it shall not be necessary to obtain the consent of any third party or other person who is a party to any contract or arrangement by virtue of which such debts, liabilities, duties and obligations have arisen.
- 3.2.7** For the purpose of giving effect to the order passed under Sections 230 to 232 in respect of this Scheme, the Demerged Company shall at any time pursuant to the orders be entitled to get the required changes done in the title and appurtenant legal right(s) upon the vesting of such assets of the Demerged Undertaking in the Resulting Company.
- 3.2.8** Where any of the liabilities and obligations attributed to the Demerged Undertaking on the Appointed Date has been discharged by the Demerged Company on behalf of the Demerged Undertaking after the Appointed Date and prior to the Effective Date, such discharge shall be deemed to have been for and on behalf of the Resulting Company.

4. LEGAL PROCEEDINGS

- 4.1 Upon the coming into effect of this Scheme, proceedings relating to the Demerged Undertaking shall not abate or be discontinued or be in any way prejudicially affected by reason of this Scheme or by anything contained in this Scheme but shall be continued and be enforced by or against the Resulting Company with effect from the Effective Date in the same manner and to the same extent as would or might have been continued and enforced by or against the Demerged Company.
- 4.2 After the Appointed Date, if any proceedings are taken against Demerged Company in respect of the matters referred to in the Clause 4.1 above, Demerged Company shall defend the same at the cost of Resulting Company and the Resulting Company shall reimburse and indemnify Demerged Company against all liabilities and obligations incurred by it in respect thereof and further reimburse all amounts including interest, penalties, damages, costs etc. which Demerged Company may be called upon to pay or secure in respect of any liability or obligation relating to Resulting Company.
- 4.3 The Resulting Company undertakes to have all legal or other proceedings initiated by or against Demerged Company referred to in Clause 4.1 above transferred into its name and to have the same continued, prosecuted and enforced by or against Demerged undertaking and on any other assets and liabilities transferred under the scheme to the exclusion of Demerged Company to the extent legally permissible both from the appointed date and after the Scheme being effective. To the extent such proceedings cannot be taken over by the Resulting Company, the proceedings shall be pursued by the Demerged Company for and on behalf of the Resulting Company as per the instructions of and entirely at the cost of the Resulting Company.
- 4.4 In case of any litigation, suit, recovery proceedings which are to be initiated or may be initiated against the Demerged Company in relation to Demerged Undertaking including litigation, suit, recovery proceedings arising out of the operations of the Demerged Undertaking, the Resulting Company shall be made party thereto and any payment and expenses made thereto shall be the liability of the Resulting Company. Any other litigation, suit, recovery proceedings pertaining to Demerged Undertaking that may arise after the Appointed Date, shall also stand transferred to the Resulting Company and no liability shall ever be vested in the Demerged Company.

5. CONTRACTS AND DEEDS

- 5.1** Subject to the other provisions of this Scheme, all contracts, deeds, bonds, agreements, arrangements, incentives, licenses, engagements, approvals, registrations and other instruments of whatsoever nature in connection with or pertaining to or relating to the Demerged Undertaking to which the Demerged Company is a party or to the benefit of which the Demerged Company may be eligible, and which have not lapsed and are subsisting on the Appointed Date, shall remain in full force and effect against or in favour of the Resulting Company as the case may be, and may be enforced by or against the Resulting Company as fully and effectually as if, instead of the Demerged Company, the Resulting Company had been a party or beneficiary thereto. The Resulting Company will, if required, enter into a notation agreement in relation to such contracts, deeds, bonds, agreements arrangements and other instruments as stated above. Wherever required the Demerged Company will, if necessary, also be a party in order to give formal effect to the provisions of this Scheme.
- 5.2** Without prejudice to other provisions of this Scheme and notwithstanding the fact that vesting of the Demerged Undertaking occurs by virtue of this Scheme, the Resulting Company may, at any time after coming into effect of this Scheme, in accordance with the provisions hereof, if so required under any Applicable Law or otherwise, take such actions and execute such deeds (including deeds of adherence), confirmations, other writings or arrangements with any party/ parties to any contract or arrangement to which the Demerged Company is a party or any writings as may be necessary in order to give effect to the provisions of this Scheme. With effect from the Appointed Date, the Resulting Company shall under the provisions of this Scheme, be deemed to be authorised to execute any such writings on behalf of the Demerged Company to carry out or perform all such formalities or compliances referred to above on the part of the Demerged Company.
- 5.3** On and from the Appointed Date, and thereafter, the Resulting Company shall be entitled to enforce all pending contracts and transactions in respect of the Demerged Company, in relation to or in connection with the Demerged Undertaking, in the name of the Resulting Company in so far as may be necessary until the transfer of rights and obligations of the Demerged Undertaking to the Resulting Company under this Scheme have been given effect to under such contracts.

6. STAFF AND EMPLOYEES OF THE DEMERGED UNDERTAKING

- 6.1** All Staff and Employees of the Demerged Undertaking and such other employee as identified by the Board of Directors of the Demerged Company shall become the staff and employees of the Resulting Company on such date without any break or interruption in service and on the terms and conditions not in any way less favourable to them than those subsisting with reference to the Demerged Undertaking as the case may be on the said date. The Resulting Company shall be liable to pay to the employee in the event of his retirement / resignation, compensation on the basis that his service has been continuous and has not been interrupted by the transfer.
- 6.2** It is expressly provided that as far as the Provident fund, Gratuity fund or any other special fund or schemes created or existing for the benefit of the employees of the Demerged Undertaking are concerned, upon the Scheme becoming effective, the Resulting Company shall stand substituted for the Demerged Company for all purposes whatsoever related to the administration or operation of such schemes or funds or in relation to the obligation to make contributions to such funds in accordance with provisions of such schemes and such funds. To this end and intent, all the rights, duties, powers and obligations of the Demerged Company in relation to such funds / schemes shall become those of the Resulting Company. It is clarified that the services of the staff and employees of the Demerged Undertaking will be treated as having been continuous for the purpose of aforesaid funds or provisions.

7 SAVING OF CONCLUDED TRANSACTIONS

The transfer of the assets and liabilities of the Demerged Undertaking under clause 3 above, the continuance of Proceedings by or against the Resulting Company under clause 4 above and the effectiveness of contracts and deeds under clause 5 above, shall not affect any transaction or Proceedings already concluded by the Demerged Company in respect of the Demerged Undertaking on or before the Appointed Date and after the Appointed Date till the Effective Date, to the end and intent that the Resulting Company accepts and adopts all acts, deeds and things done and executed by the Demerged Company in respect thereto, as if done and executed on its behalf.

8. AMENDMENT TO MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE RESULTING COMPANY

8.1 Increase in the Authorized Share Capital of the Resulting Company:

8.1.1 Upon coming into effect of Part II of this Scheme, the Authorised Share Capital of the Resulting Company (as detailed in clause 2.2 of this Scheme) shall stand increased from the present Rs. 5000,00,000 (i.e. 5,00,00,000 Equity shares of Rs. 1,000 each) to Rs. 10000,00,00,000(i.e. 10,00,00,000 Equity shares of Rs. 1000 each), without any further act, deed or procedure, formalities or payment of any Stamp duty or Registration fees. Provided that pursuant to this Scheme, the Resulting Company shall file necessary forms with the Registrar of Companies for the said increase in authorized share capital of the Resulting Company.

8.1.2 In terms of clause 5, of the Memorandum of Association and Article 7 of the Articles of Association of the Resulting Company shall without any further act, deed or instrument be substituted as follows:

(a) Clause no. V of the Memorandum of Association of the Transferee Company shall, without any further act, deed or instrument, be substituted by the following clause:

“The Authorised Share Capital of the Company is Rs.10,000,00,00,000 (Rupees Ten Thousand Crores) divided into 10,00,00,000 (Ten Crores) Equity Shares of Rs.1000 (One thousand) each”.

(b) Article 7 of the Articles of Association of the Resulting Company shall, without any further act, deed or instrument, be substituted by the following clause:

“The Authorised Share Capital of the Company shall be as per Clause no. V of the Memorandum of Association”.

8.2 It shall be deemed that the members of the Resulting Company have also resolved and accorded all relevant consents under Sections 13, 14, 61 and other applicable provisions (to the extent notified and in effect) of the Companies Act, 2013 for the purpose of amendment of the Memorandum of Association and Articles of Association of the Resulting Company as above. It is clarified that there will be no need to pass a separate shareholders’ resolution as required under Sections 13, 14 and 61 of the Companies Act, 2013 for amendment of the Memorandum of Association and Articles of Association of the Resulting Company as above.

9. CONSIDERATION

- 9.1 In consideration of the transfer and vesting of the Demerged Undertaking of the Demerged Company in to the Resulting Company, in accordance with the provisions of this Scheme, the Share Capital of the Resulting Company shall be increased in the manner set out in this Paragraph 8.
- 9.2 Upon the Scheme becoming effective and in consideration of the demerger including the transfer and vesting of the Demerged Undertaking into the Resulting Company, the Resulting Company shall, without any further act or deed, issue and allot 3,69,89,037 Equity Shares of Rs. 1000/- each of the Resulting Company as fully paid-up (the "**New Equity Shares**") to the Government of Karnataka, the sole share-holder whose name appears in the Register of members of Demerged Company (*except beneficiary shareholders representing the Government of Karnataka, holding 12 Equity shares for the purpose of minimum number of members as required by the Act*) for 26,87,77,776 fully paid Equity shares of Rs.1000/- held by the Government of Karnataka in the Demerged Company on the Record Date. Any fraction of share arising out of the aforesaid share exchange process, if any, will be rounded off to the nearest whole number.
- 9.3 The Demerged Undertaking consists of Projects which are under construction stage and hence the assets majorly consists of Capital Work-In-Progress including allocated expenses in addition to service assets like Buildings, Vehicles, Computers etc., The Resulting Company was incorporated pursuant to the decision taken by the Government of Karnataka for implementing certain irrigation and drinking water projects in the drought prone areas of central Karnataka region with greater focus and attention. The Government of Karnataka is the sole shareholder in both the Companies. Hence, the net assets owned by them as on the effective date will not change when they receive the shares of the Resulting Company consequent to the Demerger. Therefore, the issue of adjusting equity values between different Shareholders that usually forms the prime consideration for determining a fair ratio of allotment is not considered relevant for the Scheme. As there is no change in the shareholding in the Demerged Company pursuant to the proposed Scheme, no separate share valuation is deemed necessary. Considering the shareholding and construction stage of the Demerged Undertaking, the number of equity shares for allotment to the Government of Karnataka in the Resulting Company has been considered at equal to the value of net assets transferred from the Demerged Company.

9.4 The Equity Shares to be issued by the Resulting Company to the Shareholders of the Demerged Company on the Record Date pursuant to this Paragraph 9 shall be issued:

9.4.1 In dematerialized form, if the Shares are held in dematerialized form by the Shareholders of the Demerged Company on the Record Date.

9.4.2 In physical form, if the Shares are held in physical form by the Shareholders of the Demerged Company on the Record Date.

9.5 The Equity Shares of the Resulting Company to be issued and allotted to the members of the Demerged Company pursuant to this Paragraph 9 shall be subject to the Memorandum and Articles of Association of the Resulting Company shall rank *pari passu in all respects* with the existing equity shares of the Resulting Company.

9.6 It shall be deemed that the members of the Demerged Company and the Resulting Company who have approved the Scheme have also accorded all relevant consents under Section 62 of the Companies Act, 2013 or any other provisions of the Act to the extent the same may be considered applicable and that there will be no need to pass a separate Shareholders' resolution as required under Section 62 of the Companies Act, 2013.

9.7 The approval of this Scheme by the shareholders of Demerged Company and Resulting Company under Sections 230 to 232 of the Companies Act, 2013 shall be deemed to have the approval under Sections 13, 14 and 186 of the Companies Act, 2013 and other applicable provisions of the Act and any other consents and approvals required in this regard.

10. REDUCTION OF EQUITY SHARE CAPITAL OF DEMERGED COMPANY

As a result of Demerger and resultant transfer of the Demerged Undertaking to the Resulting Company, the issued, subscribed and paid up share capital of the Demerged Company will no longer be represented by the assets of the Demerged Undertaking. Accordingly, as an integral part of the scheme, and, upon the coming into effect of the scheme, the issued, subscribed and paid up equity share capital of the Demerged Company shall be reduced by Rs. 3698,90,37,000/- being the net value of assets (Assets minus Liabilities) of the Demerged Undertaking transferred and vested into the Resulting Company by extinguishing 3,69,89,037 Equity Shares of Rs. 1,000/- each of the Demerged Company. As a result, the issued, subscribed and paid-up share capital of the Demerged Company shall stand reduced from Rs.26877,77,76,000/- to Rs. 23178,87,39,000/- comprising of 23,17,88,739 equity shares of Rs.1000/- each without any further act or deed.

The reduction in the Share Capital of the Demerged Company shall be effected as an integral part of the scheme in accordance with the provisions of Section 66 and any other applicable provisions of the Act and the Order of Central Government sanctioning the scheme shall be deemed to be also the Order under Section 66 of the Act for the purpose of confirming the reduction. The reduction would not involve either a diminution of liability in respect of the unpaid share capital or payment of paid up share capital. In any event it shall be deemed that the members of the Demerged Company who have approved the Scheme have also resolved and accorded all relevant consents under Section 66 of the Companies Act, 2013 or any other provisions of the Act to that extent the same may be considered applicable and that there will be no need to pass a separate Shareholders' resolution as required under Section 66 of the Companies Act, 2013. Notwithstanding the reduction in the equity share capital of the Demerged Company, the Demerged Company shall not be required to add "And reduced "as suffix to its name.

11. ACCOUNTING TREATMENT

11.1 Accounting Treatment in the books of the Demerged Company

On effectiveness of the Scheme and with effect from the Appointed date, the Demerged Company shall account for demerger of the Demerged Undertaking in its books of account in accordance with the Indian Accounting Standard (IND AS) prescribed under section 133 of the Companies Act, 2013, as notified under the Companies (Indian Accounting Standard) Rules, 2015 and generally accepted accounting principles, as may be amended from time to time, as under:

- 11.1.1** All the assets and liabilities of the Demerged Company being transferred shall be reduced at their book value as on the Appointed date;
- 11.1.2** The excess of the book value of assets transferred over the book value of liabilities transferred shall be adjusted against the surplus / deficit accumulated in Retained Earnings;
- 11.1.3** A sum of Rs. 3698,90,37,000/- upon reduction from existing Equity Share Capital of Rs. Rs.26877,77,76,000/-divided into 26,87,77,776 Equity shares of Rs.1000/- each fully paid-up to Rs. 23178,87,39,000/- comprising of 23,17,88,739 equity shares of Rs.1000/- each be transferred to "Capital Restructuring Account". Part of the balance of the accumulated losses amounting to Rs.3698,90,37,000/- be transferred to "Capital Restructuring Account".
- 11.1.4** If considered appropriate for compliance with accounting standards, the Demerged Company may make suitable adjustments to the accounting treatment and adjust the effect thereof in the manner determined by the Board of the Demerged Company.

11.2 Accounting treatment in the books of the Resulting Company

Upon the Scheme becoming effective, the Resulting Company shall give effect to the accounting treatment in the books of account in accordance with the Indian Accounting Standard (IND AS) prescribed under section 133 of the Companies Act, 2013 as notified under the Companies (Indian Accounting Standard) Rules, 2015 and generally accepted accounting principles, as may be amended from time to time, as under:

- 11.2.1** Record the assets and liabilities pertaining to the Demerged Undertaking at the respective book values as appearing in the books of Demerged Company as on the Appointed date;
- 11.2.2** Credit to its Share Capital Account, the aggregate face value of Equity Shares issued by it the Equity Shareholders of the Demerged Company pursuant to the Scheme and Paragraph 9;
- 11.2.3** The excess of assets of the Demerged Undertaking as on the Appointed date over (i) the book value of the liabilities of the Demerged Undertaking as on the Appointed date and (ii) Paid-up value of the Equity Shares issued by the Resulting Company to the Shareholders of the Demerged Company (the amount credited as Share Capital) will be credited to the Capital Reserve account of the Resulting Company, in case of there being a shortfall, the same shall be debited to goodwill;
- 11.2.4** If considered appropriate for compliance with accounting standards, the Resulting Company may make suitable adjustments to the accounting treatment and adjust the effect thereof in the manner determined by the Board of the Resulting Company.

PART III – GENERAL TERMS AND CONDITIONS APPLICABLE TO THE SCHEME

12. APPLICATIONS TO THE CENTRAL GOVERNMENT

The Demerged Company (KNNL) and the Resulting Company (VJNL), shall, with all reasonable dispatch, make applications to the Central Government, for sanctioning this Scheme for an order or orders thereof for carrying this Scheme into effect.

13. MODIFICATIONS/AMENDMENTS TO THE SCHEME

13.1 The Demerged Company (KNNL) and the Resulting Company (VJNL), by their respective Board of Directors or such other person or persons, as the respective Board of Directors may authorize, including any committee or sub-committee thereof, may make and / or consent to any modifications / amendments to the Scheme or to any conditions or limitations that the Central Government or any other authority may deem fit to direct or impose or which may otherwise be considered necessary, desirable or appropriate by them. The Demerged Company (KNNL) and the Resulting Company (VJNL), by their respective Board of Directors or such other person or persons, as the respective Board of Directors may authorize, including any committee or sub-committee thereof, shall be authorized to take all such steps as may be necessary, desirable or proper to resolve any doubts, difficulties or questions whether by reason of any directive or orders of any other authorities or otherwise howsoever arising out of or under or by virtue of the Scheme and / or any matter concerned or connected therewith.

13.2 For the purpose of giving effect to this Scheme or to any modifications or amendments thereof or additions thereto, the authorized person(s) of the Demerged Company (KNNL) and the Resulting Company (VJNL), may give and are hereby authorized to determine and give all such directions as are necessary including directions for settling or removing any question or doubt or difficulty that may arise and such determination or directions, as the case may be, shall be binding on all parties, in the same manner as if the same were specifically incorporated in this Scheme.

14. CONDUCT OF BUSINESS TILL EFFECTIVE DATE

With effect from the Appointed Date and up to and including the Effective Date;

all the income, taxes (including advance tax, tax deducted at source) or any costs, charges, expenditure accruing to the Transferor Company in connection with or pertaining to or relatable to the Demerged Undertakings or expenditure or losses arising or incurred or suffered by the Transferor Company in connection with or pertaining to or relatable to the Demerged Undertakings from the Appointed Date shall for all purpose be treated and be deemed to be and accrue as the profits, taxes, incomes, costs, charges, expenditure or losses of the Transferee Company, as the case may be.

15. SCHEME CONDITIONAL ON APPROVALS / SANCTIONS

The Scheme is conditional upon and subject to:

- (i) Approval of the Scheme by the requisite majority of the respective members and such class of persons of the Demerged Company (KNNL) and the Resulting Company (VJNL), as may be directed by the Central Government.
- (ii) Sanctions and Orders under the provisions of Section 230 to 232 of the Companies Act, 2013 being obtained by the Demerged Company (KNNL) and the Resulting Company (VJNL), from the Central Government.
- (iii) All other sanctions and approvals as may be required by law in respect of this Scheme being obtained.
- (iv) Certified or authenticated copy of the Order of the Central Government sanctioning the Scheme being filed with the respective Registrar of Companies by KNNL and VJNL.

16. COSTS

All costs, charges and expenses including stamp duty and registration fee of any deed, document, instrument or Central Government order including this Scheme or in relation to or in connection with negotiations leading up to the Scheme and of carrying out and implementing the terms and provisions of this Scheme and incidental to the completion of arrangement in pursuance of this Scheme shall be borne and paid by the respective companies.

17. COMPLIANCE WITH TAX LAWS

The provisions of this Scheme as they relate to demerger of the Demerged Undertaking of the Demerged Company into the Resulting Company have been drawn up to comply with the conditions relating to "demerger" as defined under Section 2(19AA) of the Income-tax Act, 1961. If any terms or provisions of the Scheme are found or interpreted to be inconsistent with the provisions of the said Section of the Income-tax Act, 1961, at a later date including resulting from an amendment of law or for any other reason whatsoever, the Scheme shall stand modified to the extent determined necessary to comply with Section 2(19AA) of the Income-tax Act, 1961. Such modification will, however, not affect the other provisions of this Scheme. The power to make such amendments as may become necessary shall jointly vest with the Board of the Demerged Company and the

Resulting Company, which power can be exercised at any time and shall be exercised in the best interests of the Companies and their Shareholders.

18. REVOCATION OF THE SCHEME

In the event of any of the said sanctions and approvals referred to in clause 15 above not being obtained and / or complied with and / or satisfied and / or this Scheme not being sanctioned by the Central Government and / or order or orders not being passed as aforesaid, this Scheme shall stand revoked, cancelled and be of no effect and in that event, no rights and liabilities whatsoever shall accrue to or be incurred *inter se* the Demerged Company (KNNL) and the Resulting Company (VJNL), or their respective shareholders or creditors or employees or any other person save and except in respect of any act or deed done prior thereto as is contemplated hereunder or as to any right, liability or obligation which has arisen or accrued pursuant thereto and which shall be governed and be preserved or worked out in accordance with the applicable law and in such case, each company shall bear its own costs unless otherwise mutually agreed. Further, the Board of Directors of the Demerged Company (KNNL) and the Resulting Company (VJNL), shall be entitled to revoke, cancel and declare the Scheme to be of no effect if such boards are of the view that the coming into effect of the Scheme in terms of the provisions of this Scheme or filing of the drawn up orders with any authority could have adverse implication on all/any of the companies.

SCHEDULE A

Details of immovable properties of the Demerged Undertaking are more fully set out below:

Sl. No	Particulars	Amount (Rs.)	Acres
1.	<u>Upper Bhadra Project</u>		
	a) Freehold Land		
	Year 2013-14	1,38,75,000	
	Year 2014-15	37,53,750	
	Year 2015-16	1,06,86,62,494	
	Year 2016-17	56,01,77,807	174 Acres, 22 Guntas
	Total	1,64,64,69,051	
	b) Building & Colonies		
	Year 2010-11	42,45,819	
	Year 2011-12	1,57,78,056	
	Year 2012-13	0	
	Year 2013-14	10,61,60,860	
	Year 2014-15	6,94,78,300	
	Year 2015-16	4,99,00,693	
	Year 2016-17	20,18,512	
	Total	24,75,82,240	
	c) Roads, Bridges & Culverts	4,12,152	
	Total	4,12,152	
	Total (a+b+c)	1,89,44,63,443	
2.	<u>Yettinahole Project</u>		
	a) Freehold Land		
	Year 2015-16	1,77,88,610	
	Year 2016-17	3,78,98,789	
	Total	5,56,87,399	
3.	<u>Registered Office, Bangalore</u>		
	a) Building & Colonies		
	Year 2016-17	14,04,48,000	Embassy , Infantry Road, Bangalore-01
	Total	14,04,48,000	
	Grand Total	2,09,05,98,842	