

CIN: U67120MH2005PLC155188

DCS/AMAL/MA/24(f)/147/2013-14

August 28, 2014

The Company Secretary  
**HIGH STREET FILATEX LTD.**  
B-17, IInd Floor,  
22 Godam Industrial Area ,  
Jaipur-302006,  
Rajasthan.

Dear Sir/Madam,

**Sub: Observation letter regarding Draft Scheme of Arrangement filed by High Street Filatex Ltd.**

We refer to your submission of draft Scheme of Arrangement between High Street Fashions Ltd. and High Street Filatex Ltd.

As required under SEBI Circular No.CIR/CFD/DIL/5/2013 & No.CIR/CFD/DIL/8/2013 dated February 4, 2013 & May 21, 2013 respectively, SEBI vide its letter dated August 27, 2014 has given the comments on the draft scheme of arrangement as per Annexure I (copy attached).

*The comments communicated in the above SEBI letter refer to inter alia :*

- 1. Substantial Acquisition of shares and change in control over Filatex (listed Company) without providing an exit opportunity- an attempt to Circumvent the obligations under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (Takeover Regulation)*
- 2. Increasing Shareholding of Promoters ( Promoters of Unlisted Company) through Share Swap- under scheme of Arrangement- an Attempt to bypass the Preferential issue guidelines under ICDR.*
- 3. Dilution of Shareholding of Selective public shareholding- An attempt to circumvent provision of SEBI Circular dated February 4, 2013 read with Circular dated May 21,2013.*
- 4. Achieving Listing status without complying with requirement of SCRR and SEBI (Issue of Capital and Disclosure Requirement) Regulation ,2009 (ICDR)*

The Exchange has therefore been advised by SEBI to inter alia :

1. Implead itself in the proceedings before the Hon'ble High Court, stating, inter-alia, that the proposed Scheme of Arrangement is detrimental to the interest of investors and securities market along with its own observation, if any.
2. Bring the observations of SEBI to the notice of the Hon'ble High Court;

3. Take up the matter actively with ROC and impress upon ROC to object to the Scheme of Arrangement before Hon'ble High Court, inter-alia, on the above grounds.
4. Keep SEBI informed the developments in the matter.

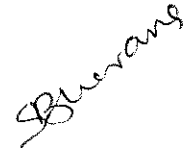
In view of the above observations, the Exchange is unable to grant its 'No-Objection' to the draft Scheme of Arrangement filed by the company. The company may therefore consider revising the scheme suitably to address all the concerns raised and re-submit the same.

Further, you are advised to bring the contents of this letter to the notice of your shareholders, all relevant authorities, as deemed fit and also include the above observations in the filings to be made before the Honorable High Court/Registrar of Companies, Rajasthan,.

Yours faithfully,



Nitin Pujari  
Manager



Bhuvana Sriram  
Dy. Manager



Assistant General Manager  
Corporation Finance Department  
Division of Issues and Listing  
Phone: +91 22 26449596

Fax: +91 22 26449022 || Email: [richag@sebi.gov.in](mailto:richag@sebi.gov.in)

भारतीय प्रतिभूति  
और विनिमय बोर्ड

Securities and Exchange  
Board of India

CFD/DIL/HB/RGA/ 25350 /2014

August 27, 2014

Shri Khushro Bulsara  
General Manager,  
Bombay Stock Exchange Ltd.  
Floor 25, P J Towers, Dalal Street,  
Mumbai - 400 001.

Dear Sir,

**Sub: Draft Scheme of Amalgamation between High Street Fashions Limited with  
High Street Filatex Limited**

1. This has reference to your letter no. LIST/LO/SEBI/SK/145/2013-14 dated March 13, 2014 and all correspondences exchanged in this regard whereby you have forwarded the draft Scheme of Amalgamation between High Street Fashions Limited with High Street Filatex Limited filed in accordance with SEBI Circular No. CIR/CFD/DIL/5/2013 dated February 4, 2013 read with SEBI Circular No. CIR/CFD/DIL/8/2013 dated May 21, 2013 (hereinafter referred to as 'the Circulars') for our comments on the draft Scheme of Arrangement (hereinafter referred to as 'draft Scheme').
2. The matter has been examined by SEBI in the light of the provisions under Part A, Annexure I of the aforesaid Circular. Accordingly, SEBI's comments on the draft Scheme are placed at Annexure I.
3. BSE is advised to
  - 3.1. ensure compliance with Para 5.8 SEBI Circular No. CIR/CFD/DIL/5/2013 dated February 4, 2013 which, inter-alia, states that the stock exchanges shall issue Observation Letter to the listed company after suitably incorporating the comments received from SEBI.
  - 3.2. implead itself in the proceedings before the Hon'ble High Court, stating, inter-alia, that the proposed Scheme of Arrangement is detrimental to the interest of investors and securities market, alongwith its own observations, if any.
  - 3.3. bring the observations of SEBI to the notice of the Hon'ble High Court;
  - 3.4. in case the Hon'ble High Court needs any further clarification on the matter, prior to deciding on the Scheme of Arrangement, request the Hon'ble High Court to serve a notice on SEBI, to enable SEBI to appear and clarify the issues to the Hon'ble Court;
  - 3.5. take up the matter with RoC and follow up with RoC to object to the Scheme of Arrangement before the Hon'ble High Court, inter-alia, on the above grounds.

सेबी भवन, प्लॉट सं. सी 4-ए, "जी" ब्लॉक, बान्द्रा कुर्ला कॉम्प्लेक्स, बान्द्रा (पूर्व), मुंबई - 400 051.

दूरभाष : 2644 9950 / 4045 9950 (आई.वी.आर. एस.), 2644 9000 / 4045 9000 फैक्स : 2644 9019 से 2644 9022 वेब : [www.sebi.gov.in](http://www.sebi.gov.in)

SEBI Bhavan, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051.  
Tel.: 2644 9950 / 4045 9950 (IVRS), 2644 9000 / 4045 9000 Fax : 2644 9019 to 2644 9022 Web : [www.sebi.gov.in](http://www.sebi.gov.in)



अनुवर्ती :

Continuation :

**Securities and Exchange  
Board of India**

3.6. keep SEBI informed of the developments in the matter.

4. Please note that the submission of documents/information in accordance with the Circular, to SEBI should not in any way be deemed or construed that the same has been cleared or approved by SEBI. SEBI does not take any responsibility either for the financial soundness of any scheme or for the correctness of the statements made or opinions expressed in the documents submitted.

Yours faithfully,

Richa G. Agarwal

Encl: a/a

Copy to: Sh.R.K.Meena (ROC Jaipur)  
Registrar of Companies, Jaipur  
Corporate Bhawan  
G/6-7, Second Floor, Residency Area  
Civil Lines, Jaipur-302001  
Phone: 0141-2222465,2222466  
Fax: 0141-2222464



**Securities and Exchange  
Board of India**

Annexure I

**Sub: Draft Scheme of Arrangement between High Street Fashions Limited and High Street  
Filatex Limited**

**I. FACTS OF THE CASE IN BRIEF**

1. The parties relevant to this case are as under:  
(i) High Street Fashions Limited (Fashion) - Transferor Company – Unlisted Company  
(ii) High Street Filatex Limited (Filatex) - Transferee Company – Listed on The Stock Exchange, Mumbai, Jaipur Stock Exchange and Calcutta Stock Exchange.

1.1. Appointed date for the scheme to take effect is October 01, 2013.

1.2. In consideration of merger of Fashions with Filatex, Filatex will issue and allot 2 equity shares for every 3 equity shares of Rs. 10/- held in Fashions.

1.3. The Capital Structure of Filatex and Fashion are as follows:

Fashion (Transferor)		Filatex (Transferee)	
Authorized Share Capital			
	Amount (Rs.)		Amount (Rs.)
-112.45 lakh equity shares of Rs. 10/- each	1124.5 lakhs	- 40 lakh equity shares of Rs. 10/- each -3.5 Lakh 6% NCRPS of Rs. 100 each	400 lakhs 3500 lakhs
Issued, Subscribed & Paid Up Share Capital			
	Amount (Rs.)		Amount (Rs.)
-112.45 lakh equity shares of Rs. 10/- each	1124.5 lakhs	- 6.47 lakh equity shares of Rs. 10/- each -2.78 Lakh 6% NCRPS of Rs. 100 each	64.70 lakhs 278 lakhs

2. Pursuant to the provisions of Sections 391 to 394 of the Companies Act, 1956, the transferor business and undertakings shall stand transferred to and vested in transferee (Filatex) and the transferor company shall stand dissolved without winding up.

3. The details of the present promoters of all the entities is as follows:-

Filatex	Fashions
Promoter & Promoter Group	



Continuation :

Securities and Exchange  
Board of India

2. Shee Chand Sethia	
6. Prabhat Sethia	
7. Prashant Sethia	
8. Motilal Baid	
9. Sadhna Baid	
10. Rajiv Baid	
11. Sadhna Sethia	
<b>Directors</b>	
1. Bhagwan Singh	1. Raj Kumar Sethia
2. Devendra Palod	2. Neeta Sethia
3. Rajdeep Ghiya	3. Padmini Palod
4. Rajneesh Chindalia	4. Vimal Kumar Kothari
	5. Pawan Singh
	6. Charan Singh

It is submitted by the company that 4 of the members of promoters/promoter group of the listed company are same with the promoters/promoter group of the unlisted company.

4. Further as per Clause 10(b) of Scheme, sanction by the concerned High Court(s) under section 391 to 394 of the Companies Act, 1956, shall be sufficient compliance with the provisions of Section 100 to 104 of Companies Act, 1956, rule 85 of Companies (Court) Rules, 1959 and other applicable provisions relating to reduction of share capital on cancellation of cross holding, if any liability in respect of unpaid share capital or the payment to any shareholder of any paid-up share capital, and accordingly, the provisions of Section 101(2) of the Act not be applicable.
5. The share holding pattern of the transferee company and transferor company before and after amalgamation is as follows:

Sr	Description	Fashion (Unlisted Company)		Filatex (Listed Company)			
		Pre Scheme	%	Pre Scheme	%	Post Scheme	%
		No. of shares		No. of shares	%	No. of shares	%
(A)	Shareholding of Promoter and Promoter Group						
1	Indian						
(a)	Individuals/ Hindu Undivided Family						
(a1)	Shree Chand Sethia C/o Techmech India	0	0.00	380	0.06	380	0.00
(a2)	Shree Chand Sethia	0	0.00	4953	0.77	4953	0.06



(a3)							
(a4)	Prabhat Sethia	0	0.00	1	0.00	1	0.00
(a5)	Prashant Sethia	0	0.00	1	0.00	1	0.00
(a6)	Moti Lal Baid	0	0.00	50	0.01	50	0.00
(a7)	Sadhna baid	0	0.00	100	0.02	100	0.00
(a8)	Rajiv Baid	0	0.00	100	0.02	100	0.00
(a9)							
(a10)	Prabhat Kumar Sethia C/o Techmech India	0	0.00	200	0.03	200	0.00
(a11)	Prashant Kumar Sethia C/o Techmech India	0	0.00	400	0.06	400	0.00
(a12)	Sadhana Sethia	0	0.00	500	0.08	500	0.01
(a13)							
(a14)							
(b)	Central Government/ State Government(s)	0	0.00	0	0.00	0	0.00
(c)	Bodies Corporate	0	0.00	0	0.00	0	0.00
(d)	Financial Institutions/ Banks	0	0.00	0	0.00	0	0.00
(e)	Any Others	0	0.00	0	0.00	0	0.00
	Sub Total(A)(1)	7592400	67.52	159931	24.72	5221532	64.12
2	Foreign						
(a)	Individuals (Non- resident Individuals/ Foreign Individuals)	0	0.00	0	0.00	0	0.00
(b)	Bodies Corporate	0	0.00	0	0.00	0	0.00
(c)	Institutions	0	0.00	0	0.00	0	0.00
(d)	Any Others (Specify)	0	0.00	0	0.00	0	0.00
	Sub Total(A)(2)	0	0.00	0	0.00	0	0.00
	Total Shareholding of Promoter & Promoter Group (A) = (A)(1) + (A)(2)	7592400	67.52	159931	24.72	5221532	64.12
(B)	Public Shareholding						
1	Institutions	0	0.00	0	0.00	0	0.00
(a)	Mutual Funds/ UTI	0	0.00	0	0.00	0	0.00
(b)	Financial Institutions / Banks	0	0.00	0	0.00	0	0.00
(c)	Central Government/ State Government(s)	0	0.00	0	0.00	0	0.00
(d)	Venture Capital Funds	0	0.00	0	0.00	0	0.00
(e)	Insurance Companies	0	0.00	0	0.00	0	0.00
(f)	Foreign Institutional Investors	0	0.00	0	0.00	0	0.00
(g)	Foreign Venture Capital Investors	0	0.00	0	0.00	0	0.00
(h)	Any Other (specify)	0	0.00	0	0.00	0	0.00
	Sub-Total (B)(1)	0	0.00	0	0.00	0	0.00
2	Non-institutions						
(a)	Bodies Corporate						
(a1)							
(a2)							
(a3)							



Securities and Exchange  
Board of India

(a4)							
(a5)							
(a6)							
(a7)							
(a8)							
(a11)							
(a12)							
(b)	Individuals						
I	Individual shareholders holding nominal share capital up to Rs 1 lakh						
	Hemant Palod	6800	0.06	100	0.02	4634	0.06
	Rehana Sheikh	100	0.00	1	0.00	68	0.00
	Laxman Rai	297	0.00	0	0.00	198	0.00
	Rajdeep Ghiya	5225	0.05	0	0.00	3484	0.04
II	Individual shareholders holding nominal share capital in excess of Rs. 1 lakh.						
	Piyush Gupta	14000	0.12	5180	0.80	14514	0.18
	Kamal Kishore Ghiya	20000	0.18	6384	0.99	19718	0.24
	Padmini palod	25000	0.22	6395	0.99	23062	0.28
	Bhagwan Singh	13000	0.12	6399	0.99	14866	0.18
	rajneesh chindalla	0	0.00	10	0.00	10	0.00
(c)	Qualified Foreign Investor	0	0.00	0	0.00	0	0.00
(c)	Any Other	0	0.00	4681	0.72	4660	0.06
	Sub-Total (B)(2)	3652400	32.48	487068	75.28	2921788	35.88
(B)	Total Public Shareholding (B)= (B)(1)+(B)(2)	3652400	32.48	487068	75.28	2921788	35.88
	TOTAL (A)+(B)	11244800	100.00	646999	100.00	8143320	100.00
(C)	Shares held by Custodians and against which DRs have been issued	0	0.00	0	0.00	0	0.00
	GRAND TOTAL (A)+(B)+(C)	11244800	100.00	646999	100.00	8143320	100.00

5.1. Thus the change in Share holding of the Public & Promoter Share holders of the Pre Scheme Entity would be as follows:-

	Pre Scheme		Post Scheme	
	No. of Shares	%	No. of Shares	%
Promoter	159931	24.72	5221532	64.12





Public	487068	75.28	2921788	35.88
Total	646999	100.00	8143320	100.00

5.2. The change in public shareholding of Public shareholders of Listed Company would be as follows:-

	Pre Scheme		Post Scheme	
	No. of Shares	%	No. of Shares	%
Body Corporate - Public Shareholders in Both Listed and Unlisted Company	209341	32.36	2587277	31.77
Other Body Corporate	57491	8.89	58211	0.71
Directors and Relatives	18060	2.79	62194	0.76
Individual Public shareholders	191086	29.53	191086	2.35

## II. COMMENTS OF SEBI ON THE DRAFT SCHEME OF ARRANGEMENT

6. Certain concerns are observed with regard to the above proposed amalgamation:

- 6.1. Substantial Acquisition of shares and Change in control over Filatex (Listed Company) without providing an exit opportunity - an attempt to circumvent the obligations under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (Takeover Regulations).
- 6.2. Increasing shareholding of Promoters (Promoters of Unlisted Company) through Share Swap under Scheme of Arrangement - an attempt to bypass the Preferential Issue guidelines under ICDR.
- 6.3. Dilution of shareholding of selective public shareholders - An attempt to circumvent provisions of SEBI Circular dated February 4, 2013 read with Circular dated May 21, 2013.
- 6.4. Achieving Listing status without complying with requirements of SCRR and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR).
- 6.1. Substantial Acquisition of shares and Change in control over HIL(Listed Company) without providing an exit opportunity - an attempt to circumvent the obligations under Takeover Regulations



6.1.1. The Scheme of Arrangement also envisages substantial increase in the shareholding of some of the existing promoters.

6.1.2. SEBI, in order to protect the interest of investors has put in place Takeover Regulations. The Takeover regulations seek to ensure that the substantial acquisition of shares and/or of control over a listed company in the securities market takes place in a fair, equitable and transparent manner. The takeover regulations are based on the following principles:

- Equality of treatment and opportunity to all shareholders.
- Protection of interests of shareholders.
- Fair and truthful disclosure of all material information by the acquirer in all public announcements and offer documents.
- Availability of sufficient time to shareholders for making informed decisions.
- An offer to be announced only after most careful and responsible consideration.
- The acquirer and all other intermediaries professionally involved in the offer, to exercise highest standards of care and accuracy in preparing offer documents.
- All parties to an offer to refrain from creating a false market in securities of the target company.

6.1.3. The regulations require the promoter to make an open offer before acquiring the control over the target company. However, it may be argued that such change in management and control under Schemes of Arrangement is exempt from the applicability of Takeover Regulations under regulation 10(1)(d)(ii).

6.1.4. The pre-scheme shareholding of the promoters of Filatex (Listed Company) was 24.72%. Pursuant to the Scheme, the same gets increased to 64.12%. Correspondingly, the public shareholding also gets reduced from 75.28% to 35.88%. Hence, this is a change in control attracting open offer obligations under the Takeover Regulations.

6.1.5. Moreover, the shareholding of the erstwhile public shareholders of the listed entity would get reduced to a irrelevant percentage in the post scheme capital, i.e. from 75.28% to 35.88%. The substantial acquisition and change in control is being achieved without going through the transparent mechanism of open offer process envisaged in the Takeover Regulations. Thus, the principles underlying the regulations have



**Securities and Exchange  
Board of India**

also been defeated because of this non-transparent and opaque method adopted through the Scheme of Arrangement.

- 6.1.6. The present Scheme appears to have been designed as an artifice to circumvent the compliance with the provisions of the Takeover Regulations and surreptitiously claiming exemption from the applicability of the Takeover Regulations under reg. 10(1)(d)(ii).
- 6.2. **Increasing shareholding of existing Promoters (Promoters of Unlisted Company) through Share Swap under Scheme of Arrangement - an attempt to bypass the Preferential Issue guidelines under ICDR through Preferential allotment**
- 6.2.1. Preferential Allotment is the process by which allotment of securities/shares is done on a preferential basis to a select group of investors which is neither a rights issue nor a public issue.
- 6.2.2. A listed company going for preferential allotment has to comply with the requirements contained in Chapter VII of ICDR, in addition to the requirements specified in the Companies Act.
- 6.2.3. In the instant case, the shares of the listed company are reportedly issued to the shareholders of the unlisted company as consideration for the merger.
- 6.2.4. However, it may be argued that such preferential allotment would be exempt from the applicability of Chapter VII of ICDR under regulation 70 (1) (b). The exemption is provided where the preferential allotment is made pursuant to a scheme approved by the High Court u/s 391-394 of the Companies Act, 1956. In the instant case, the consideration for merger of the assets of the unlisted company with the listed company is paid through the preferential allotment of shares as part of the scheme in order to avail the exemption under the said regulations.
- 6.3. **Dilution of shareholding of selective public shareholders - An attempt to circumvent provisions of SEBI Circular dated February 4, 2013 read with Circular dated May 21, 2013.**
- 6.3.1. In terms of Rule 19(2)(b) of SCRR, as amended on June 04, 2010, every listed company (other than public sector company) shall maintain public shareholding of at least 25%. The object of this minimum public shareholding requirement is to ensure the availability of a minimum portion/ number of shares (floating stock) of the listed company with the public. This would provide a reasonable depth in the



market and the prices of the securities are not susceptible to manipulation. Further, a dispersed shareholding structure is an essential ingredient for the sustenance of a continuous market for listed securities to provide liquidity to the investors and to discover fair prices.

- 6.3.2. In order to maintain the essence behind the above rule, SEBI in its Circular dated February 4, 2013 read with Circular dated May 21, 2013 has mandated that at least 25% of the post scheme paid-up share capital of the transferee entity shall comprise of shares allotted to the public shareholders in the transferor entity.
- 6.3.3. It is observed that shareholding of the listed company can be divided into shareholding held by body corporate and shareholding held by individual shareholders. The shareholding of Body corporates in the pre scheme entity (Filatex) was 41.24% approximately and this reduced to 32.49% post scheme. However shareholding of other public shareholders (individuals) is getting reduced from 32.33% to 3.11%.
- 6.3.4. On further analysis it was observed that Body Corporates holding 2,09,341 shares in Filatex with 32.46% shareholding were also holding 3567,978 shares with 31.73% shareholding in the unlisted company. Only body corporate holding 57,941 shares i.e. 8.89 shareholding in the listed company were not holding any shares in the unlisted company and as a result of which their holding got reduced to 0.71% post scheme.
- 6.3.5. Thus in the present scheme, the shareholding of body corporates holding more than 1% in Filatex is not getting reduced substantially as it is reducing from 41.24% to 32.49% , however the shareholding of other public shareholders (individuals) is getting reduced from 32.33% to 3.11%.
- 6.3.6. Thus the present Scheme appears to have been designed as an artifice to circumvent the compliance with the provisions of the SEBI Circular dated February 4, 2013 read with Circular dated May 21, 2013.
- 6.4. Achieving Listing status without complying with requirements of SCRR and ICDR

- 6.4.1. An unlisted company, in order to get listed, is required to go through Initial Public Offer (IPO) route by complying with the provisions of rule 19(2)(b) of SCRR and ICDR.



Continuation :

**Securities and Exchange  
Board of India**

6.4.2. The said IPO process involves a due diligence process conducted by a SEBI registered merchant banker, filing of a draft offer document with SEBI/Stock Exchange/Merchant Banker, disseminating of the draft offer document on the websites of SEBI/Stock Exchanges/Merchant Banker, in-principle approval by Stock Exchange, processing of the same by SEBI to ensure adequacy of disclosures, issuance of observations by SEBI, filing of prospectus with RoC, issuance of advertisements in newspapers, allotment of shares and listing of the same on the Stock Exchange.

6.4.3. The offer document is required to contain disclosures on:

- Background of the Promoters
- Capital Structure including share capital built up
- History of the company
- Past financial details including indebtedness, related party transactions, etc.
- Basis for valuation of shares vis-a-viz peer group
- Management of the company
- Government and other statutory approvals required for the business
- Pending litigations against the company, its directors, promoters, etc.
- Risk factors associated with the business carried out by the company

6.4.4. The unlisted company are required to go through the aforesaid process which would provide adequate and accurate information to the investors to take an informed decision with regard to their investment.

6.4.5. Listing provides an exclusive privilege to securities in the stock exchange. Only listed shares are quoted on the stock exchange. Stock exchange facilitates transparency in transactions in listed securities in perfect equality and competitive conditions. Listing is beneficial to the company, to the investor, and to the public at large.

6.4.6. Some of the important advantages of listing are enumerated below:

- **Fund Raising**  
Listing provides an opportunity to the corporates / entrepreneurs to raise capital to fund new projects/undertake expansions/diversifications and for acquisitions.
- **Ready Marketability of Security**



**Securities and Exchange  
Board of India**

Listing brings in liquidity and ready marketability of securities on a continuous basis adding prestige and importance to listed companies.

- **Ability to raise further capital**  
An initial listing increases a company's ability to raise further capital through various routes like preferential issue, rights issue, Qualified Institutional Placements and ADRs/GDRs/FCCBs, and in the process attract a wide and varied body of institutional and professional investors.
- **Supervision and Control of Trading in Securities**  
The transactions in listed securities are required to be carried uniformly as per the rules and bye-laws of the exchange. All transactions in securities are monitored by the regulatory mechanisms of the stock exchange, preventing unfair trade practices. It improves the confidence of small investors and protects them.
- **Fair Price for the Securities**  
The prices are publicly arrived at on the basis of demand and supply; the stock exchange quotations are generally reflective of the real value of the security. Thus listing helps generate an independent valuation of the company by the market.
- **Timely Disclosure of Corporate Information**  
The listing agreement signed with the exchange provides for timely disclosure of information relating to dividend, bonus and right issues, book closure, facilities for transfer, company related information etc. by the company. Thus providing more transparency and building investor confidence.
- **Collateral Value of Securities**  
Listed securities are acceptable to lenders as collateral for credit facilities. A listed company can also borrow from financial institutions easily as it is rated favorably by lenders of capital.
- **Benefits to the Public**  
The data published daily by the stock exchange in the form of price quotations and others, provide valuable information to the public which can be used for project and research studies. The stock exchange prices can be an index of the state of the economy. Financial institutions, NRI, individual investor's etc. can take wise decisions before making investments.



**Securities and Exchange  
Board of India**

- **Subdivision and Consolidation of Holdings**  
Stock exchange bye-laws provide for explicit rules for sub division and consolidation of securities as desired by the investors. There is special trading sessions in the exchange for conversion of odd lots into market lots arranged by financial and institutional investors. Thus listing helps to provide flexibility to investors in the subdivision and consolidation of their holdings with speed and earnestness.

6.4.7. As the listing is being achieved through a scheme of arrangement, the unlisted company does not offer at least 25% of the shares of the company in terms of rule 19(2)(b) of SCRR.

6.4.8. The scheme of arrangement, envisaged in the instant case does not provide adequate information of the unlisted company with regard to background of the Promoters, Capital Structure, history of the company, financial details, management of the company, government and other statutory approvals required for the business, litigations, risk factors associated with the business carried out by the company as no prospectus is prepared.

6.4.9. Even if the aforementioned disclosures are made, the adequacy and authenticity of the same cannot be ensured in the absence of due-diligence by a SEBI registered Merchant Banker and/or examination by SEBI.

6.4.10. Without complying with the aforesaid regulatory requirements, the unlisted transferor company (Fashion) will enjoy the benefits of listing as stated above, which they are otherwise not entitled to.

6.4.11. Further, due to the unavailability of required disclosures pertaining to the unlisted transferor company, once listed, the investors trading in the secondary market would be deprived of the critical information for taking informed investment decisions. If such backdoor listing is allowed unchecked, it will jeopardize and tarnish the image of the securities market as a transparent and efficient way of raising capital and thus shaking the very foundation of capital raising in India. It will also affect the development of a strong, transparent and credible securities market which is an important prerequisite for the economic development of the country.

## **7. Conclusion on the Scheme of Arrangement**

7.1. The Scheme of Arrangement in its current form resulting in substantial acquisition and change in control over the listed company will be detrimental to the public shareholders of



**Securities and Exchange  
Board of India**

Filatex (Listed Company) as the change in control is achieved through a non-transparent, inequitable and unfair method.

- 7.2. As part of the Scheme, the shareholders of the unlisted company are receiving shares of the listed company as consideration. Such an acquisition is being done as through Share Swap under Scheme of Arrangement without complying with the regulatory requirements with respect to preferential allotment. The shareholders of the unlisted company are receiving marketable securities of the listed company in lieu of the shares of the unlisted company which may not be marketable which tantamounts to undue enrichment.
- 7.3. As listing of the unlisted company is being achieved through backdoor as part of the Scheme, it will jeopardize and tarnish the image of the securities market as a non-transparent and inefficient way of raising capital and listing. It will also affect the development of a strong, transparent and credible primary securities market, which is an important prerequisite for the economic development of the country. Further, the promoters of the unlisted company by virtue of getting the 'listing' status would derive the benefits of 'listing' which they otherwise are not entitled to, as they are not complying with the necessary regulatory framework.

\*\*\*\*\*