

DRAFT SCHEME FOR REDUCTION OF CAPITAL

FRONTIER INFORMATICS LIMITED

H.NO.8-3-960, FLAT NO.403, SIRI ENCLAVE, SRINAGAR COLONY
MAIN ROAD, HYDERABAD – 500 073



V.K. Premchand

**DRAFT SCHEME OF ARRANGEMENT
FOR RECONSTRUCTION / RESTRUCTURING OF CAPITAL
BETWEEN
FRONTIER INFORMATICS LIMITED
AND
ITS SHAREHOLDERS**

1. Definitions

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

- 1.1 'The Act' means the Companies Act, 2013 as amended from time to time and alternatively Companies Act, 1956, wherever provisions of the Companies Act, 2013 are not notified as on relevant date .
- 1.2 'Accumulated Losses' means the losses that have been carried forward from previous years and the amount shown in the Audited balance sheet.
- 1.3 'The Appointed Date' shall mean the 1st day of April, 2014 or such other date as the Hon'ble High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh may direct.
- 1.4 'Company' means Frontier Informatics Limited, (Formerly Frontier Information Technologies Limited) a company registered under the Companies Act, 1956 and having its registered office at flat No 403, Siri Enclave, (MCH NO 8-3-960), Main Road Srinagar Colony, Hyderabad – 500 073
- 1.5 'The Court' shall mean the Hon'ble High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh.
- 1.6 'The Effective Date' for the Scheme of Arrangement shall mean the date on which certified copies of the Order of the Hon'ble High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh under Sections 391 to 394 and other applicable provisions of the Companies Act, if any, are filed with the Registrar of Companies, Andhra Pradesh and Telangana and if the certified copies are filed on different dates, the last of such dates.



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- 1.7 "General Reserve" shall mean and include the General Reserve of the Company forming part of its Revenue Reserve, which has been built up through retained undistributed profits as reflected in the Balance sheet of the Company.
- 1.8 'Record Date' means the date to be fixed by the Board of Directors or a committee of the Company for the purpose of determining the members of the Company whose shares in the Company will stand reduced pursuant to this Scheme.
- 1.9 Reference in the Scheme to "coming into effect of the Scheme" or "effectiveness of the Scheme" shall mean the Effective Date.
- 1.10 'Scheme' means this Scheme of Arrangement for reconstruction / restructuring /Reduction of capital between Frontier Informatics Limited and its Shareholders in its present form or with any modification(s) approved or imposed or directed by the High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh.
- 1.11 'Share Premium' means the amount received by the company more than the nominal value of the share, paid by a Share holder for the shares.
- 1.12 'Share Premium Amount' means the amount shown in the Audited balance sheet under the head of Share Premium.
- 1.13 The words 'shareholder' and 'member' are used to denote the same meaning and are used interchangeably in this Scheme.
- 1.14 Promoters
i. "Present promoters" mean and include Mr V.K.Premchand and associates who promoted the Company.
- 1.15 Word(s) and expression(s) elsewhere defined in the Scheme will have the meaning(s) respectively ascribed.



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2. EFFECTIVE DATE AND OPERATIVE DATE

“Effective Date” means the later of the dates on which the certified copies of the Order(s) of the Court sanctioning this Scheme of Arrangement is filed with the Registrar of Companies, Andhra Pradesh and Telangana, by the Company. References in this Scheme to ‘upon the Scheme becoming effective’ or ‘effectiveness of the Scheme’ shall mean the ‘Effective Date’. The Scheme though operative from the Effective Date shall be effective from the Appointed Date.

3. INCORPORATION

The Company was originally incorporated as FRONTIER INFORMATION TECHNOLOGIS PRIVATE LIMITED on 29.07.1986. The company was converted to public limited company vide fresh certificate issued by the Registrar of Companies dated 16.01.1995. Subsequently, in the year 2011, the name of the company was changed to **FRONTIER INFORMATICS LIMITED**; Registrar of companies, Andhra Pradesh, Hyderabad has issued fresh certificate of incorporation consequent to change of name on 14th October 2011.

4. CAPITAL STRUCTURE

The Authorised Share Capital of the Company, as on 30.09.2013, is Rs. 18,00,00,000 /- (Rupees Eighteen Crores Only) Only) divided into 1,80,00,000 (One Crore Eighty Lakhs) Equity Shares of Rs.10/- (Rupees Ten Only) each and the Issued, Subscribed and Paid-up Capital of the Company is Rs. 13,31,04,000/- (Rupees Thirteen Crores Thirty One Lakhs Four Thousand Only) divided into 1,33,10,400 (One Crore Thirty Three Lakhs Ten Thousand and Four Hundred) fully paid up Equity Shares of Rs. 10/- (Rupees Ten Only) each.



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5. MAIN OBJECTS OF THE COMPANY:

The main objects of the company as stated in Memorandum of association for which the company was incorporated is as follows:-

- i) To design, develop, use, implement, lease, purchase, sell import, export, distribute, maintain and support various kinds of software for any information, processing application.
- ii) To design, develop, assemble, manufacture, use, install, purchase, sell, value add and resell, import, export, distribute, maintain and support computers, micro-processors, communication equipment and any other electronic, electrical, mechanical, electro-mechanical, optical, electro magnetic equipment and any combination of these for information processing applications.
- iii) To design integrated and other electronic circuits and lubricate them.
- iv) To digitize and make drawings, maps, pictures and photographs.
- v) To design, develop and produce loathing aids, export systems, engineering work stations, process control and real time systems and to provide any kind of Information management services including data entry, software package development, conducting feasibility studies, performing benchmark lots, selling computer time, executing turnkey projects, recruiting and training personnel and rendering advice on any information processing aspects.



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6. THE SCHEME

This Scheme seeks to reconstruct / restructure the issued, subscribed and paid up capital of the Company in the following manner:

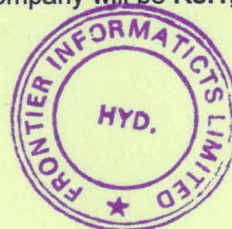
a. SETTING OFF THE SHARE PREMIUM AMOUNT AND GENERAL RESERVE AGAINST PART OF THE ACCUMULATED LOSSES.

On the effective date and after securing necessary approvals and permissions, part of the Accumulated losses to the extent of **Rs.27,95,25,000/-** (Rupees Twenty Seven Crores Ninety Five Lakhs Twenty Five Thousand Only) of the Company out of **total accumulated Loss of Rs. 42,74,24,470/-** (Rupees Forty Two Crore Seventy Four Lakhs Twenty Four Thousand Four Hundred Seventy Only) as on 31st March, 2014, is sought to be set off against Share Premium Amount which is **Rs.27,95,25,000/-** (Rupees Twenty Seven Crores Ninety Five Lakhs Twenty Five Thousand Only) and **Rs. 25,54,798/-** (Rupees Twenty Five Lakhs Fifty Four Thousand Seven Hundred and Ninety Eight Only) , is sought to be set off against General Reserve which is **Rs. 25,54,798/-** (Rupees Twenty Five Lakhs Fifty Four Thousand Seven Hundred and Ninety Eight Only). After setting off the part of Accumulated losses against the Share Premium Amount and General Reserves the remaining Accumulated Losses of the Company will be **Rs.14,53,44,672/-** (Rupees Fourteen Crore Fifty Three Lakh Forty Four Thousand Six Hundred Seventy Two Only)

b. REDUCTION OF PAID UP CAPITAL AGAINST ACCUMULATED LOSSES.

- i Out of the remaining Accumulated Losses of the Company i.e., **Rs. 14,53,44,672/-** (Rupees Fourteen Crore Fifty Three Lakh Forty Four Thousand Six Hundred Seventy Two Only) after setting off part of Accumulated losses against the Share Premium Amount and General Reserve, the amount of **Rs. 12,64,48,800/-** (Rupees Twelve Crore Sixty Four Lakhs Forty Eight Thousand Eight Hundred Only) which is 95% of the subscribed and paid up capital, is sought to be set off against the Paid Up Capital of the company and the remaining Accumulated Losses of the Company will be **Rs.1,88,95,872/-**(Rupees

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One Crore Eighty Eight Lakhs Ninty Five Thousand Eight Hundred Seventy Two only). As a result of such set off against the Paid Up Capital of the company the **Subscribed and Paid-up Share Capital of the Company shall stand reduced from Rs. 13,31,04,000/- (Rupees Thirteen Crore Thirty One Lakh Four Thousand Only)** divided into 1,33,10,400 (One Crore Thirty Three Lakhs Ten Thousand Four Hundred Only) Equity Shares of Rs.10/- (Rupees Ten Only) each, to Rs. 66,55,200/- (Rupees Sixty Six lakhs Fifty Five Thousand Two Hundred only) divided into 1,33,10,400 (One Crore Thirty Three Lakhs Ten Thousand Four Hundred Only) Equity Shares of Rs.0.50/- (Fifty Paise only) each. **Simultaneously thereafter, every Two such Equity Shares of the reduced face value of Rs.0.50/- (Fifty Paise only) each shall stand consolidated into 1 (One) Equity Share of the face value of Rs.1/- (Rupee One only) each**, thus making the reduced paid up capital of the Company to Rs. 66,55,200/- (Rupees Sixty Six lakhs Fifty Five Thousand Two Hundred only) divided into 66,55,200- (Sixty Six lakhs Fifty Five Thousand Two Hundred Only) Equity Shares of Rs.1 (Rupees One Only) each. **Consequently, 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.1/- (Rupees one only) in lieu of every 2 (Two) Equity Shares of Rs.10/- (Rupees Ten Only) each, held earlier in the Company.** For example (TO REFLECT THE ACTUAL REDUCTION) a person who is holding 100 (Hundred) Equity Shares of Rs.10/- (Rupees Ten) each aggregating to Rs.1,000/- (Rupees One Thousand Only) shall hold (after the reduction and consolidation) 50 (Fifty) Equity Shares of Rs.1/- (Rupees One only) each aggregating to Rs. 50/- (Rupees Fifty Only). The revised structure of the share capital of the Company shall be as specified in Clause No.7 of the Scheme.

- ii. 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 formed for this purpose and the fractional shares



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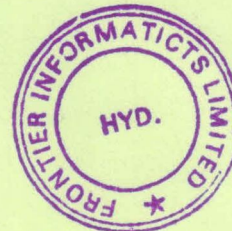
shall be consolidated. The Independent Directors of the Company shall manage this Trust and the Compliance Officer / Company Secretary of the Company shall be the Secretary of the Trust and shall assist the Independent Directors in managing the affairs of the Trust. This Trust shall sell the consolidated 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 shall be 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.

- iii. For the purpose as aforesaid, the Company / Trust shall, if and to the extent required, apply for and obtain any approvals including, that of the Reserve Bank of India and other concerned authorities, for the transfer of the fractional shares to the Trust and to pay the proportionate net sale proceeds of fractional entitlement as provided above.

7. EFFECT OF THE SCHEME

The proposed reconstruction / restructuring of capital by reduction of paid up capital against accumulated losses and further issue of additional shares pursuant to the Scheme shall be reflected in the books of Account of the Company, on the effective date, in the following manner.

Particulars	Prior to the Scheme of Arrangement	Proposed Setting Off Share Amount & Premium against Part of Accumulated Losses	Proposed Reduction of capital against accumulated loss as per Scheme	Proposed Conversion and Preferential allotment as per Scheme	After the Scheme of Arrangement as on the Effective Date
Number of Equity Shares (Nos)	1,33,10,400	NA	1,26,44,880	0.00	66,55,200
Value of each share (Rs)	10	NA	9.50	0.00,	1.00



Total paid up share Capital Rs	13,31,04,000	NA	12,64,48,800	0.00	66,55,200
Profit & Loss A/c (Rs)	42,74,24,470	28,20,79,798	12,64,48,800	-	1,88,95,872
<u>Break up of Profit & Loss Account:</u>					
i. Business & Depreciation	42,74,24,470	28,20,79,798	12,64,48,800	-	1,88,95,872
Loss	NIL	NIL	NIL	-	NIL
ii. Capital Loss					

8. The share holding pattern of the Company, upon the approval of Scheme shall in the following manner:

Particulars	Prior to the Scheme of Arrangement		After the implementation of the Scheme of Arrangement. (As on effective date)	
	Face Value of Rs 10/- Share		Face Value of Rs 1/- Share	
	No. of shares	% to total	No. of Shares	% to total
Promoters holding	6,22,792	4.68	3,11,396	4.68
Additional Promoters holding as per the scheme	-	-	-	-
Promoter's Associates, friends and relatives	-	-	-	-
Total Promoter Holding	6,22,792	4.68	3,11,396	4.66
Institutions/ Mutual Funds etc	18,600	0.14	9,300	0.14
NRIs /OCBs	3,05,805	2.30	1,52,902	2.30
Domestic Companies	10,41,364	7.82	5,20,682	7.82
Public Holding	1,13,21,839	85.06	56,60,920	85.06
Total Non Promoter Holding	1,26,87,608	95.32	63,43,804	95.32
Total	1,33,10,400	100.00	66,55,200	100.00



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9. The Scheme, which is an arrangement between the Company and its Members under Section 100 (Section 66 of Companies Act, 2013), 391 and 394 of the Companies Act, 1956, does not envisage transfer or vesting of any properties and / or liabilities to or in favor of the Company as contemplated in Section 394 of the Companies Act 1956.
10. The Scheme does not involve any conveyance or transfer of any property and consequently, the order of the Hon'ble High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh approving the Scheme will not attract any stamp duty, under the Andhra Pradesh Stamp Act, in this regard.
11. The Company shall make all applications / petitions as may be required under Sections 100, 391 and 394 of the Companies Act, 1956 to the High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh, for convening and holding the meeting of the Equity Shareholders of the Company and for obtaining further sanction of the Court for this Scheme of Arrangement for reconstruction / restructuring of capital as per the above provisions.
12. Upon sanction of the Scheme the Face Value of Rs 10/- (Rs Ten only) each per share shall be split into Rs 1/- (Rs One only), whereupon the authorized Share Capital of the company of Rs 18,00,00,000 (Rupees Eighteen Crores only) divided into 1,80,00,000 (One Crore Eighty Lakhs) Equity shares of Rs 10/ (Rupees Ten only) each shall be split as 18,00,00,000 (Eighteen Crores only) Equity Shares of Rs 1 each.
13. **JUSTIFICATION OF THE SCHEME**
- 13.1 The Company has been mainly operating in the spears of software Products Development and Training. The Company could not effectively market and commercially exploit various software products developed by it namely, KNETS, Hello AP.com, Libris, Web Enabled Master Health and other products. Consequently the comapny has been incurring losses continuously since 2001. The Company was not able to sustain its activities and consequently incurred heavy losses. The accumulated losses of the Company which amounted to Rs.42,74,24,470/-- as on 31.03.2014 wiped off entire net worth of the Company, in fact resulting in negative net worth of

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Rs 1,12,40,672/-. The company is therefore unable to raise any finance either from the capital markets or financial institutions or from any Private Investors, whether in the form of equity or debt, to undertake business activities. The proposed Scheme will enable the company to clean its balance sheet and to avail further funds by way of equity to enable it to develop its business and thereby increase its net worth to enhance the stakeholder's value.

- 13.2 The Break up of Accumulated Losses of the Company for the past 7 years is as follows:

Rupees in Lakhs

Year	Depreciation Loss	Business Loss	Capital Loss	Total Loss	Cumulative Loss
2007-08	301.15	43.16	0	344.31	3,163.70
2008-09	238.05	71.87	0	309.92	3,473.62
2009-10	268.66	65.66	0	334.32	3,807.94
2010-11	235.75	31.37	0	267.12	4,075.05
2011-12	161.71	5.17	0	166.88	4,241.93
2012-13	0.00	7.15	0	7.15	4,249.08
2013-14	9.73	15.43	0	25.16	4,274.24

- 13.3 In view of the accumulated losses and erosion of 100% Net worth, the Company is not in position to undertake any projects either in Software or any other approved segment due to paucity of working capital. The Company was also not able to raise any loans/capital from Financial Institutions, banks or any other source, because of track of continuous losses for 12 years resulting in piling up of accumulated losses at Rs Rs. 42,74,24,470/- as on 31.03.2014. This is resulting in lack of working capital, lack of business opportunities and therefore further losses. The scheme envisages writing off losses and simultaneously enables the company to raise further capital which is essential for surviving and expanding its business activities.

- 13.4 In view of the above, the Company is seeking to reduce/reconstruct / restructure its capital by writing off the accumulated loss against Share Premium and further by the reduction of its paid up capital which is not represented by available assets and to raise further capital through a preferential issue for infusing funds into the Company. Infusion of fresh funds



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will augment the resources of the Company and improve the net worth of the Company. Besides, by virtue of this Scheme, if approved, the Company would be able to represent its true financial position to reflect proper corporate governance, which would be beneficial to the Company and its shareholders in the long-term.

14. OBJECTS / BENEFITS ARISING OUT OF THE SCHEME:

- The Scheme will help in reflecting the correct net worth of the company.
- The Scheme will enable the Company to raise further finances and overcome its financial difficulties and improve its working immediately.
- The improved financial resources of the Company would ensure enhancement of its shareholders' value.
- The Scheme will help 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.
- Mere infusion of further funds into the Company will not benefit any existing share holder even if the Company registers profits in coming years since no dividend can be paid out of profits unless accumulated losses are wiped out. Under this Scheme the accumulated losses are reduced to the extent of reduction of capital. Under this Scheme, if approved, the Company will represent true financial position which would benefit both the Company, Institutions in general, and share holders in particular as their holding will yield better results and value.
- Under the Scheme, if approved, the promoters shall revive the Company's operations which would benefit the existing shareholders in particular and other stake holders at large.



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15. IMPACT OF THE SCHEME ON EMPLOYEES/ WORKERS

The Scheme shall not have any adverse impact on the employees/workers of the Company and they would, in fact be generally benefited as the infusion of fresh funds into the Company would help it to deploy the same in its business and thereby improve its financial position.

16. IMPACT OF THE SCHEME ON SECURED CREDITORS / BANKS / FINANCIAL INSTITUTIONS.

As on date the Company does not have any Secured loans from Secured Creditors / Banks / Financial Institutions.

17. LEGAL PROCEEDINGS

The Scheme would not affect any legal or other proceedings by or against the Company.

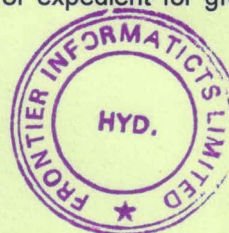
18. APPLICATION TO HONOURABLE HIGH COURT OF JUDICATURE AT HYDERABAD FOR THE STATE OF TELANGANA AND FOR THE STATE OF ANDHRA PRADESH

This Scheme involves reduction of share capital as contemplated by regulation 16 of the Company's Articles of Association. Approvals of the shareholders and of the Hon'ble High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh, pursuant to this Scheme under Section 100, 391 and 394 of the Act are being sought for legal compliance and as a measure of transparency and prudence.

19. MODIFICATIONS / AMENDMENTS OF THE SCHEME

The Company, by its Directors (including a Committee of Directors constituted for this purpose), may effect or assent to any modification or amendment of the Scheme which the Court and/or any other authorities under law may deem fit to direct or impose or which may otherwise be considered necessary or desirable by the Board of Directors of the Company for settling any question or doubt or difficulty that may arise for implementing and/or carrying out the Scheme or otherwise as may be considered by the Board to be in the best interest of the Company and its members and do all acts, deeds and things as may be necessary, desirable or expedient for giving effect to the Scheme.

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20. THIS SCHEME IS SPECIFICALLY CONDITIONAL UPON AND SUBJECT TO:

The Scheme is conditional on and subject to:-

i) The approval to the Scheme by the requisite majority of the members of the Company; the requisite resolutions under the applicable provisions of the Act including in particular Section 100 and other applicable provisions, if any, of the Act being passed by the members of the Company for any of the matters provided for or relating to the Scheme as may be necessary.

ii) The sanction of the Hon'ble High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh under section 391 of the Act, being obtained.

iii) The requisite approval of the Reserve Bank of India and/or the Central Government being obtained under the provisions of Foreign Exchange Management Act, 1999 if any required, for the issue of shares pursuant to the Scheme to the non-resident Members of the Company

iv) Any other sanction or approval of the Appropriate Authorities concerned, as may be considered necessary and appropriate by the Board of Directors of the Company being obtained and granted in respect of any of the matters for which such sanction or approval is required.

v) In principal Approval of Bombay Stock Exchange for further approval by the Hon'ble High Court.

21. EFFECT OF NON-RECEIPT OF APPROVALS / SANCTIONS

21.1 In the event of any of the aforesaid sanctions and approvals not being obtained and/or the Scheme not being sanctioned by the High Court of Judicature at Hyderabad for the State of Telangana and for the State of Andhra Pradesh and/or the order or orders not being passed as aforesaid, the Scheme shall become null and void and Company shall bear and pay the costs, charges and expenses for/or in connection with the Scheme.



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21.2 If, in the opinion of the Board of Directors of the Company, any part of the Scheme is found to be unworkable for any reason whatsoever, the same shall not affect the validity or implementation of other parts or provisions of the Scheme.

22. EXPENSES CONNECTED WITH THE SCHEME

All Costs, charges, expenses, taxes, duties levies and fees, if any, arising out of or incurred in carrying out and implementing the provisions of and giving effect to this Scheme, shall be borne and paid by the Company.

23. CANCELLATION OF SHARES

Upon this Scheme becoming finally effective, all the shareholders, if so required by the Company, shall surrender their share certificates for cancellation thereof. Notwithstanding anything to the contrary, upon the issue of the new share certificates in the Company to the Shareholders whose names shall appear in the Register of Members of the Company on such Record Date fixed as aforesaid, the old share certificates held by them in the Company shall be deemed to have been automatically cancelled and cease to be negotiable and be of no commercial or legal value, on and from the Record Date. The Company may instead of requiring the surrender of the old share certificates, as above, directly issue and dispatch the new share certificates of the Company in lieu thereof. In the case of shares held in dematerialized and electronic form, the required procedure for reflecting the change in the holdings of the members of the Company, as a consequence of the sanctioning of this Scheme, shall be adopted for making the necessary alterations in the Depository Accounts of the shareholders.



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24. **LISTING OF SHARES:**

Notwithstanding the reduction of Capital of the Company the listing benefit of the Company, for the existing shares on all or any of the Stock Exchanges where the existing Equity Shares of the Company are listed shall continue.

25. Notwithstanding the reduction of capital of the Company in pursuance of this Scheme, the Company shall not be required to add the words "And Reduced" to its name as the last words thereof.



V.K. Parnekar