

SCHEME OF ARRANGEMENT

BETWEEN

HOME SOLUTIONS RETAIL (INDIA) LIMITED ...THE TRANSFEROR COMPANY

AND

PANTALOON RETAIL (INDIA) LIMITED ...THE TRANSFEREE COMPANY

AND

THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

(A) PREAMBLE

This Scheme of Arrangement is presented under Sections 391 to 394 read with section 78 and 100 to 103 and other applicable provisions of the Companies Act, 1956 for demerger of the Business Undertaking (as defined hereinafter) of Home Solutions Retail (India) Limited (“the Transferor Company” or “HSRIL”) in Pantaloon Retail (India) Limited (“the Transferee Company” or “PRIL”), pursuant to the relevant provisions of the Companies Act, 1956. This Scheme also provides for various other matters consequential or otherwise integrally connected therewith.

(B) RATIONALE FOR THE SCHEME

1. HSRIL currently operates numerous lifestyle and value retail formats. Among its lifestyle retail formats are – eZone (high end consumer electronics specialty store), collection i (luxury furniture & furnishings) and HomeTown (Home Improvement store). It’s value retail formats are Electronics Bazaar (value electronics), Furniture Bazaar (value furniture), Home Town Collection, Home Bazaar (mini Home Town format) and Got IT (knick knacks & useful tools).
2. PRIL is India’s leading retailer that operates multiple retail formats in both the value and lifestyle segment of the Indian consumer market and holds 66.86% stake in HSRIL.

3. The demerger of the Business Undertaking from HSRIL into PRIL would consolidate the business operations and have the following benefits:

- (a) Reduction in administrative cost and overheads
- (b) Synergies expected to bring in cost savings in the marketing, selling and distribution expenses of PRIL
- (c) Redundancies would be eliminated and resultant cost savings would give further boost to operating profits of PRIL.

(C) Parts of the Scheme:

This Scheme of Arrangement is divided into the following parts:

- (i) **PART I** deals with the definitions and share capital;
- (ii) **PART II** deals with the transfer and vesting of Business Undertaking of HSRIL;
- (iii) **PART III** which deals with general terms and conditions applicable to this the Scheme of Arrangement.

PART I

DEFINITIONS AND SHARE CAPITAL

1. DEFINITIONS

In this Scheme of Arrangement (as defined hereunder), unless inconsistent with the subject or context, the following expressions shall have the following meaning:

- 1.1 **“Act” or “The Act”** means the Companies Act, 1956, or any statutory modification or re-enactment thereof for the time being in force;
- 1.2 **“Appointed Date”** means the 1st day of April, 2009 or such other date as may be fixed or approved by the High Court of Judicature at Bombay.
- 1.3 **“Court” or “High Court”** means the High Court of Judicature at Bombay and shall include the National Company Law Tribunal, if and when applicable;
- 1.4 **“Effective Date”** means the last of the dates on which the certified copy of the Order of the High Court of Judicature at Bombay sanctioning the Scheme of Arrangement is filed by both the companies with the Registrar of Companies, Mumbai, Maharashtra.
- 1.5 **“Business Undertaking”** means business of HSRIL comprising of lifestyle retail formats such as eZone, HomeTown and value retail formats such as Electronics Bazaar, Furniture Bazaar, Home Town Collection, Home Bazaar and Got IT on a going concern basis and include without limitation:
 - (i) All assets wherever situated, whether movable or immovable, tangible or intangible, vehicles, furniture, office equipments, investments, appliances, accessories, computers, deferred tax assets together with all present and future liabilities (including contingent liabilities) appertaining or relatable thereto.
 - (ii) Without prejudice to the provisions of sub-clause (i) above, the Business Undertaking of HSRIL shall include all the debts, liabilities, duties and obligations and also including, without limitation, all properties and assets in connection with or pertaining or relatable to the Business Undertaking of HSRIL such as licenses, permits, quotas, approvals, registrations, lease, tenancy rights in relation to office and residential properties, permissions, buildings, plant and machinery, office equipments, vehicles, incentives if any, and all other rights, title, interests, copyrights, patents,

trademarks, trade names and other industrial or intellectual property rights of any nature whatsoever, format brands including but not limited to eZone, HomeTown, Electronics Bazaar, Furniture Bazaar Home Town Collection, Home Bazaar and Got IT, consent, approvals or powers of every kind nature and description whatsoever in connection with or pertaining or relatable to the Business Undertaking of HSRIL and all deposits and or moneys paid or received by HSRIL in connection with or pertaining or relatable to the Business Undertaking of HSRIL and all statutory licences, permissions, approvals or consents to carry on the operations of the Business Undertaking of HSRIL.

For the purpose of this Scheme, it is clarified that liabilities pertaining to the Business Undertaking of HSRIL include:

- (a) The liabilities, which arise out of the activities or operations of the Business Undertaking of HSRIL.
 - (b) Specific loans and borrowings raised, incurred and / or utilized solely for the activities or operation of the Business Undertaking of HSRIL.
 - (c) Liabilities other than those referred to in Sub-Clauses (a) and (b) above and not directly relatable to the remaining business of HSRIL, being the amounts of general or multipurpose borrowings of HSRIL shall be allocated to the Business Undertaking of HSRIL in the same proportion which the value of the assets transferred under this Clause bears to the total value of the assets of HSRIL immediately before giving effect to this Scheme.
- (iii) All permanent and / or temporary employees of HSRIL employed in and / or relatable to the Business Undertaking of HSRIL as on the Effective Date;
 - (iv) All deposits and balances with Government, Semi Government, Local and other authorities, and bodies, customers and other persons, earnest moneys and / or security deposits paid or received by HSRIL directly or indirectly in connection with or relating to the Business Undertaking;
 - (v) All necessary books, records, files, papers, product specification, engineering and process information, records of standard operating procedures, computer programmes along with their licenses, drawings, manuals, data, catalogues, quotations, sales and advertising materials,

lists of present and former customers and suppliers, customer credit information, customer pricing information, and other records whether in physical or electronic form in connection with or relating to the Business Undertaking of HSRIL;

- (vi) Any question that may arise as to whether a specified asset or liability pertains or does not pertain to the Business Undertaking of HSRIL or whether it arises out of the activities or operations of the Business Undertaking of HSRIL shall be decided by mutual agreement between the Board of Directors of HSRIL and PRIL.

- 1.6 **“Remaining Business of HSRIL”** means all the undertakings, businesses, activities and operations of HSRIL for Collection i and businesses and / or assets other than the Business Undertaking of HSRIL;
- 1.7 **“Scheme”** or **“the Scheme”** or **“this Scheme”** means this Scheme of Arrangement in its present form as submitted to the Honorable High Court of Judicature at Bombay or this Scheme with such modification(s), if any made, as per Clause 16 of the Scheme;
- 1.8 **“PRIL”** or **“the Transferee Company”** means Pantaloon Retail (India) Limited, a company incorporated under the Companies Act, 1956, and having its registered office at Knowledge House, Shyam Nagar, Off Jogeshwari-Vikhroli Link Road, Jogeshwari (East), Mumbai - 400 060;
- 1.9 **“HSRIL”** or **“the Transferor Company”** means Home Solutions Retail (India) Limited, a company incorporated under the Companies Act, 1956, and having its registered office at Knowledge House, Shyam Nagar, Off Jogeshwari-Vikhroli Link Road, Jogeshwari (East), Mumbai - 400 060.

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, the Securities Contract Regulation Act, 1956, the Depositories Act, 1996 and other applicable laws, rules, regulations, bye-laws, as the case may be or any statutory modification or re-enactment thereof from time to time.

2. SHARE CAPITAL

- 2.1 The authorized, issued, subscribed and paid-up share capital of HSRIL as on June 30, 2009 is as under:

Share Capital	Amount in Rs. Lacs
Authorized Share Capital	
40,000,000 Equity Shares of Rs. 10 each	4,000
2,000,000 Preference Shares of Rs. 100 each	2,000
Total	6,000
Issued, Subscribed and Paid-up Share Capital	
30,138,149 Equity Shares of Rs. 10 each, fully paid up	3013.82
Total	3013.82

Subsequent to the above date, there has been no change in authorised, issued, subscribed and paid up share capital. PRIL holds 66.86% of total paid up equity share capital.

- 2.2 The authorized, issued, subscribed and paid-up share capital of PRIL as on June 30, 2009 is as under:

Share Capital	Amount in Rs. Lacs
Authorized Share Capital	
250,000,000 Equity Shares of Rs. 2 each	5,000
50,000,000 Class B Series 1 Shares of Rs. 2 each	1,000
TOTAL	6,000
Issued	
174,402,921 Equity Shares of Rs. 2 each, fully paid up	3,488.04
15,929,152 Class B Series 1 Shares of Rs. 2 each, fully paid up	318.58
Subscribed and Paid-up Share Capital	
174,391,521 Equity Shares of Rs. 2 each, fully paid up	3,487.83
15,929,152 Class B Series 1 Shares of Rs. 2 each, fully paid up	318.58
TOTAL	3,806.62

Subsequent to the above date, there has been no change in the Authorised capital. PRIL's Issued, Subscribed and Paid-up share capital has been increased by issue and allotment of 1,58,22,200 shares to Qualified Institutional Buyers. The increased issued, subscribed and paid up capital of PRIL stand at Rs.4122.86 Lacs.

On 22nd May, 2009 PRIL allotted 50,00,000 warrants @ Rs. 183/- on preferential basis to one of the group company which can be converted to same number of equity shares at the option of the holders within 18 months from the date of allotment (i.e on or before 21st November, 2010)

3. DATE OF TAKING EFFECT AND OPERATIVE DATE

The Scheme as set out herein in its present form or with any modification(s) approved or imposed or directed by the High Court shall be effective from the Appointed Date, but shall be operative from the Effective Date.

PART II

TRANSFER AND VESTING OF BUSINESS UNDERTAKING OF HSRIL

4. VESTING OF BUSINESS UNDERTAKING

- 4.1 Upon the coming into effect of this Scheme and with effect from the Appointed Date and subject to the provisions of this Scheme, the whole of the undertaking, assets, properties and liabilities of the Business Undertaking as defined in Clause 1.5 shall pursuant to the provisions contained in Sections 391 to 394 and all other applicable provisions, if any, of the Act and without any further act or deed shall stand transferred to and vested in and / or be deemed to be transferred to and vested in PRIL so as to vest in PRIL all rights, title and interest pertaining to the Business Undertaking.
- 4.2 Upon the coming into effect of this Scheme and with effect from the Appointed Date, all debts, liabilities, contingent liabilities, duties and obligations of every kind, nature and description of HSRIL relating to the Business Undertaking shall also, under the provisions of Sections 391 to 394 and all other applicable provisions, if any, of the Act, and without any further act or deed, be transferred to or be deemed to be transferred to PRIL, so as to become from the Appointed Date the debts, liabilities, contingent liabilities, duties and obligations of PRIL and 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, contingent liabilities, duties and obligations have arisen in order to give effect to the provisions of this sub-clause.
- 4.3 With effect from the Appointed Date and upon the Scheme becoming effective, any statutory licenses, permissions or approvals or consents relating to and or held by HSRIL required to carry on operations of the Business Undertaking shall stand vested in or transferred to PRIL without any further act or deed, and shall be appropriately mutated by the statutory authorities concerned therewith in favour of PRIL. The benefit of all statutory and regulatory permissions, registration or other licenses, and consents shall vest in and become available to PRIL pursuant to the Scheme. In so far as the various incentives, subsidies, special status and other benefits or privileges granted by any Government body, local authority or by any other person, or enjoyed and availed of by HSRIL relating to the Business Undertaking, are concerned, the same shall vest with and be available to PRIL on the same terms and conditions.

- 4.4 All the existing securities, mortgages, charges, encumbrances or liens, if any, as on the Appointed Date and created by HSRIL after the Appointed Date, over the assets comprised in the Business Undertaking transferred to PRIL by virtue of this Scheme and in so far as such securities, mortgages, charges, encumbrances or liens secure or relate to liabilities of the Business Undertaking, the same shall, after the Effective Date, continue to relate and attach to such assets or any part thereof to which they are related or attached prior to the Effective Date and as are transferred to PRIL and such securities, mortgages, charges, encumbrances or liens shall not relate or attach to any of the other assets of PRIL.
- 4.5 Any existing encumbrances over the assets and properties of PRIL or any part thereof which relate to the liabilities and obligations of PRIL prior to the Effective Date shall continue to relate only to such assets and properties and shall not extend or attach to any of the assets and properties of the Business Undertaking transferred to and vested in PRIL by virtue of this Scheme.
- 4.6 This Scheme has been drawn up to comply with the conditions relating to “Demerger” as specified 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 at a later date including resulting from an amendment of law or for any other reason whatsoever, the provisions of the said Section of the Income-tax Act, 1961 shall prevail and 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 parts of the Scheme.

5. ISSUE OF SHARES BY RESULTING COMPANY

- 5.1 Upon coming into effect of the Scheme and in consideration for the transfer and vesting of the Business Undertaking in PRIL, PRIL shall, without any further application or deed, issue and allot shares, credited as fully paid up, to all the shareholders of HSRIL (other than PRIL) or to their respective heirs, executors, administrators or other legal representatives or the successors-in-title, as the case may be, whose names appear in the register of members as on the effective date, on a Proportionate Basis, aggregating to 59,28,818 (Fifty Nine Lacs Twenty Eight Thousand Eight Hundred Eighteen) fully paid Equity Shares of Rs. 2/- (Rupees Two) each and 63,47,635 (Sixty Three Lacs Forty Seven Thousand Six Hundred Thirty Five) fully paid 0.01% Compulsorily Convertible Preference Shares of Rs.100/- (Rupees One Hundred) each convertible into 63,47,635 (Sixty Three Lacs Forty

Seven Thousand Six Hundred Thirty Five) fully paid Equity Shares of Rs. 2/- (Rupees Two) each within a period of 12 months from the date of allotment but not later than 31st July 2011, such that equity shares and 0.01% compulsorily convertible preference shares of PRIL would be deemed to be issued in consideration of equity shares of HSRIL held by the shareholders of HSRIL. It is clarified that no shares will be issued to PRIL for its holding in HSRIL. The key terms of the preference shares to be issued by PRIL would be as outlined in Schedule 1 to this Scheme.

- 5.2 Any fraction arising out of allotment of equity, preference shares as per clause 5.1 above shall be rounded off to the nearest lower integer.
- 5.3 The Equity Shares to be issued to the shareholders of HSRIL as above shall be subject to the Memorandum and Articles of Association of PRIL and shall rank *pari passu* with the existing equity shares of PRIL in all respects including dividends.
- 5.4 The Equity and Preference Shares shall be issued in dematerialized form to those shareholders who hold shares of HSRIL in dematerialized form, in to the account in which HSRIL shares are held or such other account as is intimated by the shareholders to HSRIL and / or its Registrar. All those shareholders who hold shares of HSRIL in physical form shall also have the option to receive the Equity and Preference Shares, as the case may be, in dematerialized form provided the details of their account with the Depository Participant are intimated in writing to HSRIL and / or its Registrar. Otherwise, they would be issued Equity and Preference Shares in physical form.
- 5.5 The Board of Directors of PRIL shall, if and to the extent required, apply for and obtain any approvals from concerned Government / Regulatory authorities for the issue and allotment of equity and preference shares to the shareholders of HSRIL pursuant to clause 5.1 of the Scheme.
- 5.6 The equity shares (including the equity shares post conversion from the compulsorily convertible preference shares) to be issued to the members of HSRIL pursuant to clause 5.1 of this Scheme will be listed and/or admitted to trading on the Bombay Stock Exchange Limited and National Stock Exchange of India Limited, where the shares of PRIL are listed and/or admitted to trading. PRIL shall enter into such arrangements and give such confirmations and/or undertakings as may be necessary in accordance with the applicable laws or regulations for complying with the formalities of the said stock exchanges.

- 5.7 In the event of there being any pending share transfer, whether lodged or outstanding, of any shareholder of HSRIL, the Board of Directors or any committee thereof of HSRIL shall be empowered even subsequent to the Effective Date, to effectuate such transfer as if such changes in the registered holder were operative from the Effective Date, in order to remove any difficulties arising to the transfer of shares after the Scheme becomes effective.
- 5.8 Approval of this Scheme by the shareholders of PRIL shall be deemed to be the due compliance of the provisions of Section 81(1A) and the other relevant and applicable provisions of the Act for the issue and allotment of equity shares by PRIL to the shareholders of HSRIL, as provided in this Scheme.
- 5.9 The approval of this Scheme by the shareholders of both the companies under Sections 391 and 394 of the Act shall be deemed to have the approval under sections 16, 31 and other applicable provisions of the Act and any other consents and approvals required in this regard.

6. REORGANISATION OF AUTHORISED SHARE CAPITAL OF PRIL

- 6.1 Upon the scheme coming into effect the authorised share capital of PRIL consisting of Rs.60,00,00,000/- divided into 25,00,00,000 equity shares of Rs.2/- each and 5,00,00,000 Equity Shares with differential voting rights of Rs.2/- each shall stand increased by Rs.70,00,00,000/- to Rs.130,00,00,000/- divided into 25,00,00,000 equity shares of Rs.2/- each, 5,00,00,000 Equity Shares with differential voting rights of Rs.2/- each and 70,00,000 Preference Shares of Rs.100/- each.
- 6.2 The Authorized Share Capital of PRIL as stand increased as above upon sanction of the said Scheme without any further act or deed on the part of PRIL and the Memorandum of Association and Articles of Association of PRIL (relating to the authorized share capital) shall without any further act, instrument or deed be and stand altered, modified, amended and the consent of the shareholders to the Scheme shall be deemed to be sufficient for the purposes of effecting this amendment and no further resolution(s) under Sections 16, 31, 94 and 394 and applicable provisions of the Act would be required to be separately passed, as the case, may be
- 6.3 The increase in authorised share capital shall be subject to the payment of necessary fees for registration and stamp duty by PRIL.

7. REORGANISATION OF EQUITY SHARE CAPITAL OF HSRIL

- 7.1.1 The subscribed and paid up equity share capital of HSRIL consisting of Rs.30,13,81,490/- divided into 3,01,38,149 equity shares of Rs. 10/- fully paid each as mentioned in clause 2.1 above shall, upon the Scheme coming into effect stand reduced on proportionate basis of the existing shareholding to Rs.1,00,00,000/- divided into 10,00,000 equity shares of Rs. 10/- each by cancellation of 2,91,38,149 equity shares aggregating to Rs.29,13,81,490/- paid up equity share capital of HSRIL.
- 7.1.2 Consequent to such reduction, the 2,91,38,149 equity shares aggregating to Rs.29,13,81,490/- held by the equity shareholders shall in proportion to their holdings stand cancelled as on the effective date.
- 7.1.3 It is expressly clarified that for the purpose of ascertaining the number of shares in PRIL to be issued and allotted to the shareholders of HSRIL in the entitlement ratio specified in clause 5 above, the reduction of capital as per clause 7.1.1 above shall be ignored.
- 7.1.4 Since the proposed reduction of equity share capital contemplated above, does not involve diminution of liability in respect of unpaid share capital of HSRIL or payment to any shareholder of HSRIL of any paid up share capital, provisions of Section 101 are not applicable. Therefore no order under Section 102 of the Act confirming the reduction shall be required.
- 7.1.5 HSRIL shall obtain the necessary approval from its shareholders and creditors, as required, in terms of this Scheme only, under and pursuant to provisions of Section 391-394 of the Act. HSRIL shall not, nor shall be obliged to call for a separate meeting of its shareholders and creditors for obtaining their approval sanctioning the reduction of paid up share capital.
- 7.1.6 It is hereby further clarified that the reduction of the paid up equity share capital shall not affect the authorised share capital of HSRIL and unissued authorised share capital shall be available to HSRIL for issue and allotment.
- 7.1.7 Notwithstanding the reduction of subscribed and paid up equity share capital of HSRIL, HSRIL shall not be required to add "And Reduced" as suffix to its name.

8. ACCOUNTING TREATMENT IN THE BOOKS OF HSRIL AND PRIL

8.1 IN THE BOOKS OF PRIL

- 8.1.1 As on the Appointed Date, PRIL shall record all the assets and liabilities, pertaining to the Business Undertaking, at the respective book values appearing in the books of HSRIL.
- 8.1.2 PRIL shall credit to its share capital account, the aggregate face value of the Equity and Preference Shares issued by it pursuant to Clause 5.1 of this Scheme.
- 8.1.3 Loans and advances and other dues outstanding between PRIL and the Business Undertaking of HSRIL will stand cancelled and there shall be no further obligation / outstanding in that behalf.
- 8.1.4 The difference between the amount credited as share capital in terms of clause 8.1.2 above and the net assets of the Business Undertaking acquired and recorded by PRIL in terms of clause 8.1.1 above and after making adjustments referred to in clause 8.1.3 above would be credited to Securities Premium Account of PRIL.
- 8.1.5 Upon the Scheme becoming operative, PRIL shall revalue its investment in HSRIL at its fair values, as may be decided by the Board of Directors of PRIL based on valuation report, if required, and adjust the difference between the book value of the investments and the fair value of the investments against Securities Premium Account.
- 8.1.6 All costs and expenses incurred as per Clause 19 below as well as other costs incidental with the finalisation of this Scheme and to put it into operation, including but not limited to expenses in connection with excise and label re-registrations, all advisory fees, stamp duty charges, meeting expenses, professional fees, consultant fees & expenses and any other expenses or charges attributable to the implementation of the above Scheme, shall be adjusted against the Securities Premium Account of PRIL.
- 8.1.7 If considered appropriate for the purpose of application of uniform accounting methods and policies between HSRIL and PRIL, PRIL may make suitable adjustments to its accounting methods and policies and debit the difference to Securities Premium Account of PRIL or credit the difference to General Reserve, as the case may be.

8.1.8 The application and reduction, if any, of the Securities Premium Account of PRIL as above, shall be effected as an integral part of the Scheme itself in accordance with the provisions of Sections 78 read with Sections 100 to 103 of the Act. However as the same does not involve either diminution of liability in respect of unpaid share capital or payment to any shareholder of any paid-up share capital, the provisions of Section 101 of the Act are not applicable. Therefore no order under Section 102 of the Act confirming the reduction shall be required.

8.2 **IN THE BOOKS OF HSRIL**

8.2.1 Upon the Scheme becoming effective, HSRIL shall reduce the book value of assets and liabilities pertaining to the Business Undertaking.

8.2.2 The surplus arising on reorganisation of subscribed and paid up share capital of HSRIL pursuant to clause 7.1.1 of this Scheme shall be credited to Business Reorganisation Reserve Account of HSRIL.

8.2.3 The difference, being the excess of the book value of assets transferred over the book value of liabilities transferred and the balance in the Deferred Tax Asset, if any, shall be adjusted against Business Reorganisation Reserve Account and Securities Premium Account, to the extent available. The balance, to the extent available in the Business Reorganisation Reserve Account and the Securities Premium Account shall be utilised to adjust the debit balance in the Profit and Loss account.

8.2.4 The application and reduction, if any, of the Securities Premium Account of HSRIL as above, shall be effected as an integral part of the Scheme itself in accordance with the provisions of Sections 78 read with Sections 100 to 103 of the Act. However as the same does not involve either diminution of liability in respect of unpaid share capital or payment to any shareholder of any paid-up share capital, the provisions of Section 101 of the Act are not applicable. Therefore no order under Section 102 of the Act confirming the reduction shall be required.

PART III

GENERAL TERMS AND CONDITIONS

9. TRANSACTIONS UPTO THE EFFECTIVE DATE

9.1 With effect from the Appointed Date and up to and including the Effective Date:

- (a) HSRIL shall carry on and be deemed to have carried on the business and activities in relation to the Business Undertaking and shall stand possessed of their properties and assets relating to the Business Undertaking for and in trust for PRIL and all the profits / losses accruing on account of the Business Undertaking shall for all purposes be treated as profits / losses of PRIL.
- (b) HSRIL shall not without the prior written consent of the Board of Directors of PRIL or pursuant to any pre-existing obligation, sell, transfer or otherwise alienate, charge, mortgage or encumber or otherwise deal with or dispose of the undertaking relating to the Business Undertaking or any part thereof except in the ordinary course of its business.
- (c) HSRIL shall not vary the terms and conditions of service of its permanent employees relating to the Business Undertaking except in the ordinary course of its business.
- (d) PRIL shall be entitled, pending sanction of the Scheme, to apply to the Central Government, State Government, Union Territories and all other concerned agencies, departments and authorities (statutory or otherwise) as are necessary under any law for such consents, approvals and sanctions, which PRIL may require to carry on the business of Business Undertaking.

9.2 With effect from the date of approval to the Scheme by board of directors of both the companies until the Effective Date, HSRIL shall carry on the business and activities of Business Undertaking with reasonable diligence and business prudence; further, HSRIL shall not engage in any corporate restructuring exercise including any merger and / or demerger without prior written consent of PRIL.

10. DECLARATION OF DIVIDEND, BONUS, ETC.

- 10.1 For the avoidance of doubt it is hereby clarified that nothing in this Scheme shall prevent PRIL from declaring and paying dividends, whether interim or final, to its equity shareholders as on the record date for the purpose of dividend.
- 10.2 HSRIL shall not utilize the profits or income, if any, relating to the Business Undertaking for the purpose of declaring or paying any dividend to its shareholders or for any other purpose in respect of the period falling on and after the Appointed Date, without the prior written consent of the Board of Directors of PRIL.
- 10.3 HSRIL shall not, without the prior written consent of PRIL, issue or allot any further securities, either by way of rights or bonus shares.
- 10.4 Until the coming into effect of this Scheme, the holders of equity shares of HSRIL and PRIL shall, save as expressly provided otherwise in this Scheme continue to enjoy their existing respective rights under their respective Articles of Associations.
- 10.5 It is clarified that the aforesaid provisions in respect of declaration of dividends, whether interim or final, are enabling provisions only and shall not be deemed to confer any right on any member of HSRIL and/or PRIL to demand or claim any dividends which, subject to the provisions of the Act, shall be entirely at the discretion of the respective Boards of Directors of HSRIL and PRIL and subject, wherever necessary, to the approval of the shareholders of HSRIL and PRIL, respectively.

11. EMPLOYEES

- 11.1 On the Scheme becoming effective, all employees of the Business Undertaking in service on the Effective Date, shall be deemed to have become employees of PRIL with effect from the Appointed Date or their respective joining date, whichever is later, without any break in their service and on the basis of continuity of service, and the terms and conditions of their employment with PRIL shall not be less favorable than those applicable to them with reference to the Business Undertaking on the Effective Date. Any question that may arise as to whether any employee belongs to or does not belong to the Business Undertaking shall be decided by Board of Directors of HSRIL.
- 11.2 It is expressly provided that, on the Scheme becoming effective, the provident fund, gratuity fund, superannuation fund or any other special fund or trusts created or existing for the benefit of the employees of the Business Undertaking shall be deemed to have been created by PRIL in place of HSRIL for all purposes whatsoever in relation to the administration or operation of such fund or funds or in relation to the

obligation to make contributions to the said fund or funds in accordance with the provisions thereof as per the terms provided in the respective trust deeds, if any, to the end and intent that all rights, duties, powers and obligations of HSRIL in relation to such fund or funds shall become those of PRIL. It is clarified that the services of the employees of the Business Undertaking will be treated as having been continuous and not interrupted for the purpose of the said fund or funds.

12. LEGAL PROCEEDINGS

- 12.1 All legal proceedings of whatsoever nature by or against HSRIL pending and/or arising before the Effective Date and relating to the Business Undertaking, shall not abate or be discontinued or be in any way prejudicially affected by reason of the Scheme or by anything contained in this Scheme but shall be continued and enforced by or against PRIL, as the case may be in the same manner and to the same extent as would or might have been continued and enforced by or against HSRIL.
- 12.2 After the Appointed Date, if any proceedings are taken against HSRIL in respect of the matters referred to in the sub-clause 12.1 above, they shall defend the same at the cost of PRIL, and PRIL shall reimburse and indemnify HSRIL against all liabilities and obligations incurred by HSRIL in respect thereof.
- 12.3 PRIL undertakes to have all legal or other proceedings initiated by or against HSRIL referred to in Clauses 12.1 above transferred into its name and to have the same continued, prosecuted and enforced by or against PRIL as the case may be, to the exclusion of HSRIL.

13. CONTRACTS, DEEDS, ETC.

- 13.1 Notwithstanding anything to the contrary contained in the contract, deed, bond, agreement or any other instrument, but subject to the other provisions of this Scheme, all contracts, deeds, bonds, agreements and other instruments, if any, of whatsoever nature and subsisting or having effect on the Effective Date and relating to the Business Undertaking of HSRIL, shall continue in full force and effect against or in favour of PRIL, and may be enforced effectively by or against PRIL as fully and effectually as if, instead of HSRIL, PRIL had been a party thereto from inception.
- 13.2 PRIL may, at any time after the coming into effect of this Scheme in accordance with the provisions hereof, if so required, under any law or otherwise, enter into, or issue

or execute deeds, writings, confirmations, novations, declarations, or other documents with, or in favour of any party to any contract or arrangement to which HSRIL is a party or any writings as may be necessary to be executed in order to give formal effect to the above provisions. PRIL shall, be deemed to be authorised to execute any such writings on behalf of HSRIL and to carry out or perform all such formalities or compliances required for the purposes referred to above on the part of HSRIL.

14. SAVING OF CONCLUDED TRANSACTIONS

14.1 The transfer and vesting of the Business Undertaking as above and the continuance of proceedings by or against HSRIL in relation to the Business Undertaking shall not affect any transaction or proceedings already concluded on or after the Appointed Date till the Effective Date, to the end and intent that PRIL accepts and adopts all acts, deeds and things done and executed by HSRIL in respect thereto as done and executed on behalf of PRIL.

15. APPLICATION TO HIGH COURT

15.1 HSRIL and PRIL shall as may be required make applications and/or petitions under Sections 391 to 394 read with section 78 and 100 to 103 and other applicable provisions of the Act to the High Court of Judicature at Bombay or such other appropriate authority for sanction of this Scheme and all matters ancillary or incidental thereto.

16. MODIFICATION OR AMENDMENTS TO THE SCHEME

16.1 On behalf of HSRIL and PRIL, the Board of Directors of respective companies, may consent, on behalf of all persons concerned, to any modifications or amendments of the Scheme and without prejudice to the generality of the foregoing, any modification to the Scheme involving withdrawal of any of the parties to the Scheme at any time and for any reason whatsoever, or to any conditions or limitations that the High Court or any other authority may deem fit to direct or impose or which may otherwise be considered necessary, desirable or appropriate by them (i.e. the Board of Directors) and solve all difficulties that may arise for carrying out the Scheme and do all acts, deeds and things necessary for putting the Scheme into effect.

16.2 For the purpose of giving effect to this Scheme or to any modification thereof the Board of Directors of HSRIL and PRIL may give and are authorised to give such

directions including directions for settling any question of doubt or difficulty that may arise.

17. CONDITIONALITY OF THE SCHEME

This Scheme is and shall be conditional upon and subject to:

- 17.1 The requisite consent, approval or permission of the Central Government or any other statutory or regulatory authority, which by law may be necessary for the implementation of this Scheme.
- 17.2 The Scheme being approved by the requisite majorities in number and value of such classes of persons including the respective members and/or creditors of HSRIL and PRIL as may be directed by the Hon'ble High Court of Judicature at Bombay or any other competent authority, as may be applicable.
- 17.3 The Scheme being sanctioned by the High Court of Judicature at Bombay or any other authority under Sections 391 to 394 of the Act.
- 17.4 Certified copy of the Order of the High Court sanctioning the Scheme being filed with the Registrar of Companies, Maharashtra, at Mumbai by both the companies.

18. EFFECT OF NON-RECEIPT OF APPROVALS

- 18.1 In the event of any of the said sanctions and approvals referred to in the preceding Clause 17 not being obtained and / or the Scheme not being sanctioned by the High Court or such other competent authority and / or the order or orders not being passed as aforesaid before December 31, 2010 or such other date as may be agreed by the respective Board of Directors of HSRIL and PRIL may determine, the Scheme shall become null and void, and each party shall bear and pay their respective costs, charges and expenses in connection with the Scheme.

19. COSTS, CHARGES & EXPENSES

- 19.1 All costs, charges, taxes including duties, levies and all other expenses, if any (save as expressly otherwise agreed) arising out of, or incurred in carrying out and implementing this Scheme and matters incidental thereto, shall be borne as mutually agreed by the Board of Directors of HSRIL and PRIL.

SCHEDULE – 1

KEY TERMS AND CONDITIONS FOR ISSUE OF PREFERENCE SHARES

Issuer	Pantaloon Retail (India) Limited
Instrument	0.01% Compulsorily Convertible Preference Shares
Face value	Rs. 100 per Preference Share
Dividend Rate	0.01 % per annum
Conversion mechanism	One Preference Share shall be converted into one Equity Share.
Conversion period	Within 12 months from the date of allotment at the option of the issuer, but not later than 31 July 2011.