Bombay Stock Exchange Ltd.
P J Towers, Dalal Street.
Mumbai – 400 001

Kind Attention: Mr. Khusro Balsara

Dear Sir,

Sub: Draft Scheme of Arrangement between Palred Media & Entertainment Private Limited, Palpremum Online Media Private Limited and Palred Technologies Limited

1. This has reference to your letter No. LIST/LO/SEBI/RD/139/2013-14 dated February 24, 2014, whereby you have forwarded the application of Draft Scheme of Arrangement between Palred Media & Entertainment Private Limited, Palpremum Online Media Private Limited and Palred Technologies Limited filed in accordance with SEBI Circular No. CIR/CFD/DIL/5/2013 dated February 4, 2013 and 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. It is noted that Designated Stock Exchange, viz., Bombay Stock Exchange (BSE), has accorded 'no-objection' to the draft Scheme vide letter dated May 12, 2014 respectively.

3. 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 1.

4. BSE is advised to:
   a. 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.
   b. bring the observations of SEBI to the notice of the Hon'ble High Court;
   c. 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; and
d. take up the matter actively with RoC and impress upon RoC to object to the Scheme of Arrangement before the Hon’ble High Court, inter-alia, on the above grounds.

e. keep SEBI informed of the developments in the matter

5. Stock exchange(s) to ensure that "fairness opinion" submitted by the Company, PTL, as forwarded by BSE, vide letter dated February 24, 2014, is displayed from the date of receipt of this letter on the websites of the listed company and the stock exchange(s) along with various documents submitted pursuant to the Circulars.

6. Stock Exchange(s) to ensure compliance with the said Circulars.

7. The company shall duly comply with various provisions of the Circulars.

8. Please note that the submission of documents/information in accordance with the Circulars 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,

Pranav H. Variava

CC:

1. Company Secretary,  
   Palred Technologies Limited  
   Plot No. 2, 8-2-703/2/B, Road no. 12,  
   Banjara Hills,  
   Hyderabad – 500034

2. Mr. Kamlesh Patel  
   National Stock Exchange of India Ltd  
   Exchange Plaza, Plot no. C/1, G Block,  
   Bandra-Kurla Complex, Bandra (E),  
   Mumbai - 400051
Annexure 1

I. Facts of the Case In brief

1. The parties relevant to this case are as under:
   1.1 Palred Technologies Limited ("PTL") – transferee company, listed on BSE and NSE
       Name of the company was changed from Four Soft Limited to Palred Technologies Limited in December 2013.
   1.2 Palred Media & Entertainment Private Limited ("PMEPL") - transferor company and Unlisted
   1.3 Palpremium Online Media Private Limited ("POMPL") - transferor company and Unlisted

2. The scheme envisages the following:
   2.1. Reduction of paid up capital of PTL
       Upon the scheme becoming effective, the subscribed, issued and paid up equity share capital of PTL will be reduced from Rs. 19.52 Cr. divided into 3,90,36,970 equity shares of Rs. 5/- each to Rs. 9.76 Cr. divided into 1,95,18,485 equity shares of Rs. 5/- each.

       The aforesaid reduction of capital shall be effected by cancelling and extinguishing up to 1,95,18,485 equity shares of Rs. 5/- each on proportionate basis, constituting up to 50% of the existing paid up capital of the company and returning to the shareholders an amount of Rs. 29/- per equity share of Rs. 5/- so cancelled and extinguished at a premium of Rs. 24/-.

       Further, the paid up share capital of the company of Rs. 9.76 Cr. (Post-reduction) divided into 1,95,18,485 equity shares of Rs. 5/- each shall be consolidated into the paid up share capital of Rs. 9.76 Cr. divided into 97.59,242 equity shares of Rs. 10/- each.

   2.2. Amalgamation of PMEPL and POMPL into PTL
       Post reduction & consolidation of capital of PTL, PMEPL and POMPL are proposed to be amalgamated with PTL. As per the draft scheme, in consideration of the amalgamation, the shareholders of PMEPL will be entitled to receive 4 equity shares of Rs. 10/- each of PTL for every 10 equity share of Rs. 10/- each held in PMEPL and the shareholders of POMPL will be entitled to receive 37 equity shares of Rs. 10/- each of PTL for every 10 equity share of Rs. 10/- each held in POMPL.
2.3. Alteration of main objects clause of MoA of PTL

Upon the scheme becoming effective, the Object Clause of Memorandum of Association of PTL will be amended to reflect its plan to venture into online E-Commerce and Media and Entertainment Industry, which is similar to the business model of the transferor companies.

3. PTL has sold its entire business in the month of October 2013 for a consideration of Rs. 250 Cr., and has received the consideration in the form of cash from sale of business and subsidiaries. PTL has thereafter, declared and paid a cash dividend of Rs. 29/- equity share to the shareholders of PTL from the consideration amount received.

4. The pre and post scheme shareholding pattern in summarized form is given as under:

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5. In view of the above, PTL has made application to SEBI (through BSE, the designated Stock Exchange) as per the provisions of SEBI Circular No. CIR/CFD/DIL/5/2013 dated February 4, 2013.

II. **SEBI's observations with regard to Scheme of Arrangement**

6. The Scheme of Arrangement is divided into two parts:

6.1. **Part I: Reduction and Consolidation of paid up capital of PTL**

6.2. **Part II: Amalgamation of PMEPL and POMPL with PTL**

**Comments with respect to Part -I of the Scheme:**

7. In the instant case, the reduction of capital in PTL by cancelling and extinguishing, as envisaged by the company, appears to circumvent the provisions of Section 77A of Companies Act, 1956 as well as SEBI (Buy Back Of Securities) Regulations, 1998. However, the same is on proportionate basis for all shareholders of PTL and hence SEBI has no specific concerns in this regard.

**Comments with respect to Part -II of the Scheme:**

8. The Scheme, which involves amalgamation of transferor entity with the transferee entity, certain concerns are observed with regard to the following:

8.1 **Achieving Listing benefit – An attempt to circumvent requirements of Securities Contracts (Regulation) Rules, 1957 (SCRR) and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR)**
8.2 Substantial acquisition of voting rights of PTL without providing an exit opportunity - an attempt to circumvent the obligations under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (Takeover Regulations).

8.3 Increasing shareholding through Share Swap - an attempt to bypass the Preferential Issue guidelines under ICDR.

8.1. Achieving Listing benefit – An attempt to circumvent requirements of SCRR and ICDR

8.1.1. 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.

8.1.2. 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 for public comments, 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.

8.1.3. 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-vis 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
8.1.4. The unlisted companies 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.

8.1.5. 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 of listed securities in perfect equality and competitive conditions. Listing is beneficial to the company, to the investor, and to the public at large.

8.1.6. 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**
  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 daily culled out 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.

• **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.
8.1.7. When listing is being achieved through a scheme of arrangement, the unlisted companies do not offer at least 25% of the shares of the companies in terms of rule 19(2)(b) of SCRR.

8.1.8. 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.

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

8.1.10. The shareholders of PMEPL and POMPL prior to the scheme, have been holding equity shares of unlisted company and through the scheme of arrangement shall be getting equity shares of the listed company (PTL). Due to such allotment, the shareholders of PMEPL and POMPL would be holding 8.55% of post-scheme capital of PTL. Had the unlisted company come out with IPO for listing the shares, entire pre-issue shareholding has to be locked-in for a period of 1 year in addition to locking promoters contribution of 20%. By devising backdoor listing through the scheme, such shareholding post scheme gets exempted from the lock-in requirements.

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

8.1.12. 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 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.

Change in objects of the Listed Company

8.1.13. It is observed that the main objects of the listed company are proposed to be amended to include provisions related to film business, internet portals, e-commerce, media and marketing, website, advertising agents etc.

8.1.14. Thus, the objects of the new company would be different from the one before the merger. With the result, the identity of the listed company is completely changed.

8.2. Substantial acquisition of voting rights of PTL without providing an exit opportunity - an attempt to circumvent the obligations under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (Takeover Regulations)

8.2.1. Post scheme, collectively, the promoter holding / voting rights of the transferee company (PTL) will be increasing from 23.91 % to 30.42%. Such an increase would otherwise be considered as substantial acquisition in terms of Takeover Regulations and would trigger an open offer obligations the promoters.

8.2.2. SEBI, in order to protect the interest of investors, has put in place Takeover Regulations which seek to ensure that the substantial acquisition of shares and/or change of control over a listed company in the securities market takes place in a fair, equitable and transparent manner. 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.

8.2.3. Takeover Regulations require an acquirer to make an open offer before making substantial acquisition (i.e. acquisition along with person acting in concert which taken together with shares or voting rights, if any, held by him and by persons acting in concert with him in PTL entitle them to exercise 25% or more of the voting rights in PTL.

8.2.4. However, it may be argued that such substantial acquisition of voting rights due to scheme of arrangement pursuant to the sanction of Hon'ble High Court is exempt from the applicability of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 under regulation 10(1)(d)(ii).

8.2.5. Substantial acquisition of voting rights is taking place without any exit opportunity to the public shareholders of the listed entity. Moreover, the shareholding of the erstwhile public shareholders of the listed entity would get reduced from 76.09% to 69.5%.

8.2.6. Substantial acquisition 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 also been defeated because of this non-transparent method adopted through the Scheme of Arrangement.

8.2.7. 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).
8.3. **Increasing shareholding through Share Swap - an attempt to bypass the Preferential Issue guidelines under ICDR**

8.3.1. 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.

8.3.2. 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.

8.3.3. In the instant case, the shares of the listed company will be reportedly issued to the shareholders of the unlisted company as consideration for the amalgamation. Such a transaction is akin to preferential allotment.

8.3.4. However, it may be argued that preferential allotment would be exempt from the applicability of Chapter VII of SEBI (ICDR) Regulations, 2009 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.

9. **Conclusion on the Scheme of Arrangement**

9.1. 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 shareholders of the unlisted company by virtue of getting the 'listed' status would derive the benefits of 'listing' which they otherwise are not entitled to, as they are not complying with the necessary regulatory framework.

9.2. The Scheme of Arrangement in its current form, resulting in substantial acquisition of the voting rights/shares of listed company, will be detrimental
to the public shareholders of PTL as the substantial acquisition is achieved through a non-transparent, inequitable and unfair method.

9.3. 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 a share swap, which is akin to preferential allotment without complying with the regulatory requirements. The shareholders of the unlisted company are receiving marketable shares of the listed company in lieu of the shares of the unlisted company which may not be marketable which tantamount to undue enrichment.