

On the basis of Control

On the basis of control, a company may be classified into :

1. Holding companies, and
2. Subsidiary Company

Holding Company

A company is known as the holding company of another company if it has control over the other company. According to Sec 2(46) a company is deemed to be the holding company of another if, but only if that other is its subsidiary.

A company may become a holding company of another company in either of the following three ways :-

- a) by holding more than fifty per cent of the normal value of issued equity capital of the company; or
- b) By holding more than fifty per cent of its voting rights; or
- c) by securing to itself the right to appoint, the majority of the directors of the other company , directly or indirectly. The other company in such a case is known as a “Subsidiary company”.

Though the two companies remain separate legal entities, yet the affairs of both the companies are managed and controlled by the holding company. A holding company may have any number of

subsidiaries. The annual accounts of the holding company are required to disclose full information about the subsidiaries.

Subsidiary Company. [2(87)].

A company is known as a subsidiary of another company when its control is exercised by the latter (called holding company) over the former called a subsidiary company. Where a company (company S) is subsidiary of another company (say Company H), the former (Company S) becomes the subsidiary of the controlling company (company H).