

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).