PRASHANT V. DEO
B. Com., F.C.A.
CHARTERED ACCOUNTANT

Flat No. 11, Building No. 8-B, Laxminarayannagar No. 4 Co-op. Housing Society, 11, 12, Erandawana, PUNE – 411 004. ☎ (020) 2546 5542

24th May, 2010.

The Board of Directors,
Kalyani Investment Company Limited,
Mundhwa,
PUNE – 411 036.

Dear Sirs,

Sub : Cost of acquisition of shares of Kalyani Investment Company Ltd., in the hands of the shareholders

1. In a Composite Scheme of Arrangement approved by the High Court of judicature at Bombay, as per Order dated 12th March, 2010, the Investment Division, as more particularly defined in the said Scheme, of Kalyani Steels Limited (the Demerged Company) was transferred to and vested in Kalyani Investment Company Limited (the Resulting Company), with effect from the Appointed Date, being 1st October, 2009, as a going concern in accordance with the Section 2(19AA) of the Income Tax Act, 1961.

2. In terms of the said Composite Scheme of Arrangement, the Resulting Company is required to issue and allot to every member of the Demerged Company, holding fully paid up equity shares in the Demerged Company and whose names appear in the Register of Members of the Demerged Company on the Record Date, to be fixed by the Board of Directors of the Demerged Company, in respect of every 10 (Ten) Equity Shares of the face value of Rs.10/- each fully paid up held by such members in the Demerged Company, 1 (One) Equity Share of the face value of Rs.10/- each of the Resulting Company credited as fully paid up.

3. I have been provided particularly with the following documents by you.
   a) Reviewed Balance Sheet of the Demerged Company as at 30th September, 2009 approved by the Board of Directors of the said Company in the meeting held on 3rd November, 2009 audited by another firm of auditors,
   b) Unaudited Balance Sheet of the Resulting Company as at the Appointed Date being 1st October, 2009, giving accounting effects to the provisions of the Scheme, and taken on records by its Board of Directors on 24th May, 2010,
   c) A copy of the said Composite Scheme of Arrangement, approved by the High Court of judicature at Bombay, as per Order dated 12th March, 2010,
   d) Books and other records of the Resulting Company.

4. My responsibility is to submit a report on the Cost of acquisition of shares in the Resulting Company upon demerger, in the hands of the shareholders of the Demerged Company, for the purposes of the Income Tax Act, 1961.

5. Cost of acquisition of shares in the resulting company upon demerger, is required to be worked out for the purposes of the Income Tax Act, 1961, in accordance with the provisions of subsection (2C) of section 49 of the Act.

6. Subsection (2C) of section 49 of the Income Tax Act, 1961 provides as under.

> "49(2C) The cost of acquisition of the shares in the resulting company shall be the amount which bears to the cost of acquisition of shares held by the assessee in the demerged company the same proportion as the net book value of the assets transferred in a demerger bears to the net worth of the demerged company immediately before such demerger."

7. Subsection (2D) of section 49 of the said Act provides as under.

> "49(2D) The cost of acquisition of the original shares held by the shareholders in the demerged company shall be deemed to have been reduced by the amount as so arrived at under subsection (2C)"

Explanation to section 49 of the Act reads as under.

> "*Explanation*- For the purposes of this section, "net worth" shall mean the aggregate of the paid up share capital and general reserves, as appearing in the books of account of the demerged company immediately before such demerger."

The term "reserve," has been defined in the Guidance Note on Terms used in Financial Statements, issued by the Institute of Chartered Accountants of India, as under.

> "The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability. The reserves are primarily of two types : capital reserves and revenue reserves."

Though the Income Tax Act, 1961 is silent as regards the interpretation of the phrase "general reserves," the phrase "general reserves" as appearing in the explanation to section 49 seems to be a term of wider import, in view of the plural expression used. It, thus, covers within its ambit, many other reserves, besides

what is ordinarily called "General Reserve." The word 'general' in the phrase "general reserves," appearing in the explanation indicates that the reserves should not be earmarked for any specific purpose.

8. On the basis of my examination of the documents referred to in Paragraph 3 above and having regard to the information and explanations obtained by me during the course of my examination, I report that__
   a) the cost of acquisition of the equity shares in Kalyani Investment Company Limited, received by the shareholders of Kalyani Steels Limited, under the above referred composite scheme of arrangement, for the purposes of subsection (2C) of section 49 of the Income Tax Act, 1961 shall be calculated by applying the proportion of **52.26%**, (being, the proportion as the net book value of the assets transferred as per **Annexure – I**, bears to the net worth of Kalyani Steels Limited, immediately before the demerger as per **Annexure – II**) to the aggregate cost of acquisition of the shares of Kalyani Steels Limited in the hands of the respective shareholders.

   b) the aggregate cost of acquisition of the shares in Kalyani Steels Limited, held by the concerned shareholders shall be reduced by the amount so arrived, for the purposes of subsection (2D) of section 49 of the Income Tax Act, 1961.

Annexures - I and II referred to hereinabove, form an integral part of this report.

No assurance is given that the revenue authorities/ courts will concur with the views expressed herein. My views are based on the existing provisions of law and its interpretation, which are subject to change from time to time. I do not assume responsibility to update the views consequent to such changes. I will not be liable to any other person in respect of this statement. Shareholders are advised to consult their own consultants to understand the specific tax implications, in their respective cases.

Thanking you,

Yours faithfully,

P. V. Deo
Chartered Accountant
Membership No. 041609

Enclosures : As stated

Demerged Company : Kalyani Steels Ltd. **ANNEXURE-I**
Resulting Company : Kalyani Investment Company Ltd.
Appointed Date of Demerger : 1st October, 2009.

ANNEXURE I : COMPUTATION OF NET BOOK VALUE OF ASSETS TRANSFERRED IN DEMERGER

Sr. No.	Particulars	Rs.	Rs.
A.	**Book Value of Assets transferred in demerger**		
	Investments		2,758,474,815
	TOTAL (A) :		2,758,474,815
B.	**Book Value of Liabilities transferred in demerger**		-
	TOTAL (B) :		-
C.	**NET BOOK VALUE OF ASSETS TRANSFERRED IN DEMERGER (A-B) :**		**2,758,474,815**

This is the Annexure - I referred to in my Report of even date

P. V. Deo
Chartered Accountant

Place : Pune
Date : 24th May, 2010.

Demerged Company : Kalyani Steels Ltd. **ANNEXURE-II**
Resulting Company : Kalyani Investment Company Ltd.
Appointed Date of Demerger : 1st October, 2009.
Reference Date for Computation of Net Worth : 30th September, 2009.

ANNEXURE II : COMPUTATION OF NET WORTH OF DEMERGED COMPANY, AS PER BOOKS, IMMEDIATELY BEFORE DEMERGER

Sr. No.	Particulars	Rs.	Rs.
A.	**Paid up Capital**		436,909,667
B.	**General Reserves**		
	i) Capital Redemption Reserve	100,000,000	
	ii) Securities Premium Account	512,000,000	
	iii) Debenture Redemption Reserve	46,500,000	
	iv) General Reserve	1,963,751,402	
	v) Surplus in the Profit and Loss Account	2,219,170,824	
			4,841,422,226
	NET WORTH OF KALYANI STEELS LIMITED IMMEDIATELY BEFORE DEMERGER :		**5,278,331,893**

This is the Annexure - II referred to in my Report of even date

P. V. Deo
Chartered Accountant

Place : Pune
Date : 24th May, 2010.