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19th March, 2010.

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

Dear Sirs,

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

In a Composite Scheme of Arrangement approved by the High Court of judicature at Bombay, as per Order dated 5th February, 2010, Bhalchandra Investment Limited, Forge Investment Limited, Mundhwa Investment Limited, Jalakumbhi Investment and Finance Limited, Jalakamal Investment and Finance Limited and Kalyani Utilities Development Limited (the Amalgamating Companies) amalgamated with BF Utilities Limited (the Amalgamated Company and the Demerged Company) having Registered Office at Mundhwa, Pune – 411 036 with effect from the appointed date, being 1st April, 2009. With effect from the appointed date, being 1st April, 2009 the Investment Business Undertaking of BF Utilities Limited was transferred to and vested in BF Investment Limited, having Registered Office at Mundhwa, Pune – 411 036 (the Resulting Company).

I have gone through the details of allotment of 37,667,628 Equity Shares of Rs.5/- each as fully paid up for consideration other than cash made by BF Investment Limited to the equity share holders of BF Utilities Limited, on 15th March, 2010 under the said scheme of arrangement.

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.

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.”



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.

On a careful examination of the Composite Scheme of Arrangement approved by the High Court, vide its order dated 5th February, 2010, it is seen that amalgamation of the amalgamating companies with BF Utilities Limited effective from the appointed date being 1st April, 2009, preceded the demerger of Investment Business Undertaking of BF Utilities Limited to BF Investment Limited effective from the appointed date being 1st April, 2009. Accordingly, the net worth of BF Utilities Limited, for the purposes of subsection (2C) of section 49 of the Income Tax Act, 1961, immediately before the demerger, is required to be calculated after giving accounting effects to the provisions of the Composite Scheme of Arrangement, concerning the amalgamation of the Amalgamating Companies with the BF Utilities Limited.

On the basis of my examination of the books and records of the Demerged Company and the resulting Company and having regard to the information and explanations obtained by me during the course of my examination, I report that__



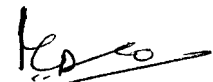
- a) the cost of acquisition of the equity shares in BF Investment Limited, received by the shareholders of BF Utilities Limited, under the above referred composite scheme of arrangement, for the purposes of subsection (2C) of section 49 of the Income Tax Act, 1961 shall be calculated by applying the proportion of **90.44%**, (being, the proportion as the net book value of the assets transferred as per **Annexure – I**, bears to the net worth of BF Utilities Limited, immediately before the demerger as per **Annexure – II**) to the cost of acquisition of the shares held by the concerned shareholders in BF Utilities Limited.
- b) the cost of acquisition of the shares in BF Utilities 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.

Thanking you,

Yours faithfully,



P. V. Deo
Chartered Accountant
Membership No. 041609

Enclosures : As stated



Demerged Company : BF Utilities Ltd.
 Resulting Company : BF Investment Ltd.
 Appointed Date of Demerger : 1st April, 2009.

ANNEXURE-I

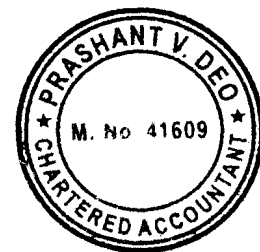
ANNEXURE I : COMPUTATION OF NET BOOK VALUE OF ASSETS TRANSFERRED IN DEMERGER

Sr. No.	Particulars	Rs.	Rs.
A. Book Value of Assets transferred in demerger			
i)	Fixed Assets		6,149,214
ii)	Investments		2,893,611,089
iii)	Deferred Tax Asset (Net)		820,217
iv)	<u>Current Assets, Loans and Advances :</u>		
a)	Inventories	5,294,682	
b)	Cash and Bank Balances	416,829,691	
c)	Other Current Assets	216,126,731	
d)	Loans and Advances	1,817,276,237	
			2,455,527,341
	TOTAL (A) :		5,356,107,861
B. Book Value of Liabilities transferred in demerger			
i)	<u>Current Liabilities :</u>		
a)	Sundry Creditors	826,476	
b)	Other Liabilities	240,247,345	
c)	Provisions	122,619	
			241,196,440
	TOTAL (B) :		241,196,440
C. NET BOOK VALUE OF ASSETS TRANSFERRED IN DEMERGER (A-B) :			
			5,114,911,421

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

Place : Pune
 Date : 19th March, 2010.


 P. V. Deo
 Chartered Accountant




Demerged Company : BF Utilities Ltd. ANNEXURE-II
 Resulting Company : BF Investment Ltd.
 Appointed Date of Demerger : 1st April, 2009.
 Reference Date for Computation of Net Worth : 1st April, 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		188,338,140
B.	General Reserves		
	i) Capital Redemption Reserve	1,340	
	ii) Capital Reserve	2,555,861,515	
	iii) Reserve Fund	522,717,338	
	iv) General Reserve	870,000	
	v) Surplus in the Profit and Loss Account	2,388,069,869	
			5,467,520,062
	NET WORTH :		5,655,858,202

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

Place : Pune
 Date : 19th March, 2010.


P. V. Deo
 Chartered Accountant

