Guide to Reporting on Proforma Financial Statements

(Pursuant to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009[1])

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

[1] As amended by the Amendment order of 12th November, 2010.

Edition	:	October, 2012
Committee/ Department	:	Auditing and Assurance Standards Board
E-mail	:	aasb@icai.org
Website	:	www.icai.org
Price	:	Rs. 150/-
ISBN No	:	
Published by	:	The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.
Printed by	:	Sahitya Bhawan Publications, Hospital Road, Agra - 282 003 October/2012/1,000 Copies

Contents

Appendices

Background

1. The Securities and Exchange Board of India ("SEBI"), through its Order no. LAD-NRO/GN/201-11/19/26456 dated 12 November 2010, issued the SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2010 to amend the SEBI(Issue of Capital and Disclosure Requirements) Regulations, 2009. Pursuant to the said amendment Order, SEBI introduced a number of changes to the various requirements of the 2009 Regulations, including the Schedules thereto.

2. The amendment Order, by amending sub-item (B) of item (IX) of Part A to Schedule VIII to the 2009 Regulations, introduced a new paragraph (23), requiring the Issuer to prepare Proforma Financial Statements when certain conditions contained therein are met as also reporting by the statutory auditor of the Issuer on certain information to be given by the Issuer pursuant to the requirements of paragraph (23). The said paragraph (23) states as follows:

"(23) Proforma Financial Statements

(1) In addition to other requirements laid down in these regulations and subject to the stipulation in sub-para. (3) of this para., the Issuer shall disclose Proforma Financial Statements in the offer document, if -

(a) an acquisition or divestment is made by the Issuer after the end of the latest disclosed annual financial results in the offer document, due to which certain companies become/cease to be direct or indirect subsidiaries of the Issuer, and

(b) the financial statements of such acquired or divested entity is material to the financial statements of the Issuer company.

Explanation: The financial statements of the acquired or divested entity shall be "material" to the financial statements of the Issuer if:

(i) the total book value of the assets of the acquired/divested entity amounts to more than 20% of the pre-acquisition/pre-divestment book value of the assets of the Issuer;

or

(ii) the total income of the acquired/divested entity amounts to more than 20% of the pre-acquisition/predivestment total income of the Issuer.

(2) Proforma Financial Statements shall be disclosed in respect of the following, namely:

i. the last completed accounting year, and

ii. the period beginning from the date of the end of the last completed accounting year and ending on the date on which financial statements of the Issuer have been disclosed in the offer document.

(3) Where the said acquisition or divestment does not fulfill the tests of materiality specified in clause 23 (1) (b) above, the fact of the acquisition or divestment along with the consideration paid/received and the mode of financing such acquisition shall be disclosed.

(4) The information disclosed as per sub-clause (2) and (3) above shall be certified by the statutory auditor of the Issuer."

The text of the complete item (IX) of Part A of Schedule VIII of the 2009 Regulations, as amended by the Order of 12th November 2010, is given as **Appendix A** to the Guide.

3. The Proforma Financial Statements, are, normally, used in the offer documents to demonstrate the effect of a transaction on the financial statements of a company as if those transactions had occurred at an earlier date. The Proforma Financial Statements take the form of Statement of Profit and Loss and Balance Sheet to illustrate how the transactions might have affected the assets,

liabilities and earnings of the Issuer. They also include notes in relation to the significant aspects of the transactions, assumptions used to prepare the Proforma Financial Statements and the adjustments made to arrive at the Proforma Balance Sheet and Proforma Statement of Profit and Loss.

Scope of the Guide

4. This Guide is applicable to the Proforma Financial Statements prepared for the purposes of complying with the aforesaid SEBI Regulations and is, therefore, limited to offerings registered in India. It should be noted that presently para (23) of sub-item (B) of item (IX) of Part A of Schedule VIII of the Regulations is only applicable in cases of Initial Public Offer, Further Public Offer (including Fast Track Public Issue) and in certain cases rights issue of equity shares and convertible securities. As per the Regulations, it is only to be applied in case of acquisition or divestiture of direct/indirect subsidiaries and not for any jointly controlled asset, operations or entity or any equity affiliate of the Issuer. Paragraph 8 of the Guide contains an illustrative list of circumstances where requirements to present Proforma Financial Statements may not apply. It should also be noted that in cases where the proposed offering of equity shares and convertible securities involve an offering in a country outside India, additional procedures and reporting obligations may apply. This Guide does not apply where there are other specified requirements applicable to a particular foreign jurisdiction for the purposes of offering of equity shares and convertible securities in that jurisdiction or where the auditor has to report on Proforma Financial Statements under a different reporting framework.

This Guide also does not apply to examination of prospective financial information like a profit forecast which is included in a public offering document[2]. Further, the Guide also does not deal with matters which are specifically covered by Guidance Note on Reports in Company Prospectus, issued by the Institute of

---

[2] Attention of the members is drawn to the Standard on Assurance Engagement (SAE) 3400, *Examination of Prospective Financial Information,* issued by the Institute of Chartered Accountants of India.

Chartered Accountants of India. The auditor would also need to comply with the requirements of the Guidance Note on Audit Reports and Certificates for Special Purposes, issued by the Institute of Chartered Accountants of India.

Applicability of the Regulations in Relation to Proforma Financial Statements

5. The conditions under which Proforma Financial Statements are required to be prepared and presented by the Issuer in the offer document, under the 2009 Regulations, are as follows:

(a) an acquisition or divestment is made by the Issuer after the end of the latest disclosed annual financial results in the offer document, due to which certain companies become/cease to be direct or indirect subsidiaries of the Issuer; and

(b) the financial statements of such acquired or divested entity is material to the financial statements of the Issuer company.

The financial statements of the acquired or divested entity are considered to be "***material***" to the financial statements of the Issuer if:

(i) the total book value of the assets of the acquired/divested entity amounts to more than 20% of the pre-acquisition /pre-divestment book value of the assets of the Issuer; or

(ii) the total income of the acquired /divested entity amounts to more than 20% of the pre-acquisition/pre-divestment total income of the Issuer.

6. The SEBI Regulations are silent as to whether the analysis of materiality is to be done by the management of the Issuer company on the basis of the stand-alone financial statements of the Issuer company or on the basis of the consolidated financial statements of the Issuer Company. For the purpose of this Guide, it has been assumed that the analysis would be done on the basis of the stand alone financial statements of the Issuer Company.

The following factors need to be considered for arriving at any decision regarding materiality threshold:

(i) For a like-to-like comparison, the latest annual stand-alone financial statements of the direct or indirect subsidiaries acquired or divested, immediately prior to the date of acquisition or divestment, should be prepared as per the instructions of the Issuer company, following the same accounting principles and policies as adopted by the Issuer company in its latest available audited annual stand-alone financial statements immediately prior to the date of acquisition or divestment of the direct or indirect subsidiaries. For instance, in case of acquisition/ divestment of foreign subsidiaries, who, ordinarily, would have prepared their financial statements as per the Generally Accepted Accounting Principles (GAAPs), applicable to them in their jurisdiction. Accordingly, the financial statements of such foreign subsidiaries would need to be prepared as per the GAAPs followed by the parent Issuer company in its own latest available audited annual stand-alone financial statements. Before assessing the materiality threshold as specified above, these stand-alone financial statements of the acquired/divested entities, after conversion, would need to be translated into the reporting currency of the Issuer company (which is generally Indian Rupees (INR) for Indian companies) in accordance with the requirements of the Accounting Standard (AS) 11, *The Effects of Changes in Foreign Exchange Rates*, issued by the Institute of Chartered Accountants of India.

(ii) The term “assets” would mean “total assets” (after conversion as per the Issuer company’s accounting principles and policies as specified in (i) above) and not the “net assets”.

(iii) The term “total income” would mean all items of income including other income and other items of revenue appearing on the income side of the Statement of Profit and Loss (after conversion as per the Issuer company’s accounting principles and policies as specified in (i) above) and not "net income" or "net profit".

(iv) Any acquisition/divestiture of group of direct/indirect subsidiaries as part of one whole transaction, though proposed to be executed in phases for commercial or regulatory reasons, for example, as open offer or for want of regulatory approval, would be considered as one single transaction for the purposes of above calculations.

(v) The definition of a subsidiary to be considered for the purposes of preparation of Proforma Financial Statements as per the Regulations would be as defined under the Accounting Standard (AS) 21, *Consolidated Financial Statements*, issued by the Institute of Chartered Accountants of India.

7. As per the 2009 Regulations, where the said acquisition or divestment does not fulfil the tests of materiality, the fact of the acquisition or divestment along with the consideration paid/received and the mode of financing such acquisition needs to be disclosed by the management. This would include disclosure of any known or agreed upon deferred or contingent consideration payable or receivable as part of the said acquisition or divestment.

8. The following is an indicative list of circumstances where the requirement to present Proforma Financial Statements under the 2009 Regulations may not apply:

(i) The acquisition or divestment is made by the Issuer before the end of the latest disclosed annual financial results.

(ii) The acquisition or divestment does not result in one or more companies becoming or ceasing to be direct or indirect subsidiaries, eg, a transaction of merger, amalgamation, or de-merger, or an entity becoming or ceasing to be a jointly controlled asset in accordance with Accounting Standard (AS) 27, *Financial Reporting of Interests in Joint Ventures*, operations or entity or any associate in accordance with Accounting Standard (AS) 23, *Accounting for Investments in Associates in Consolidated Financial Statements*, of the Issuer, etc.

(iii) The materiality threshold i.e., 20% of the pre-acquisition/pre-divestment total book value of assets or total income of the Issuer, is not met.

(iv) The materiality threshold i.e., 20% of the pre-acquisition/pre-divestment total book value of assets or total income of the Issuer, is met at an aggregate level of investments/divestments, but not at the level of individual investments/divestments (if not done as part of one single transaction as explained in paragraph 6(iv) above).

Period for Which Proforma Financial Statements are Required

9. The 2009 SEBI Regulations require the presentation of Proforma Financial Statements for:

a. the last completed accounting year, and

b. the period beginning from the date of the end of the last completed accounting year and ending on the date for which financial statements of the Issuer have been disclosed in the offer document (also referred to as the *stub period*).

Management's Responsibility for the Preparation of Proforma Financial Statements

10. As discussed earlier, the Proforma Financial Statements are used in the offer documents to demonstrate the effect of a transaction on the financial statements of an Issuer company as if the transactions had occurred at an earlier date. Preparation of the Proforma Financial Statements involves the development of several assumptions, and the application of adjustments arising from those assumptions to the historical financial statements of the Issuer company and the acquired/divested entity(ies). Accordingly, the responsibility for preparation of the Proforma Financial Statements is that of the management (Board of Directors) of the Issuer company. The auditor's responsibility is to report whether such Proforma Financial Statements have been prepared by the management in accordance with the basis for

preparation of such Proforma Financial Statements as stated by the management.

Determination of Materiality Threshold

11. The management of the company is responsible for computing and certifying it to the auditor, whether the acquisition/divestiture of the direct/indirect subsidiary(ies) are above or below the materiality threshold as specified in the 2009 SEBI Regulations.

Principles of Preparation of Proforma Financial Statements

General

12. As indicated earlier, the objective of presenting Proforma Financial Statements is to demonstrate the effect of a transaction on the financial statements of the Issuer company as if the transaction had occurred at an earlier date. The proforma Statement of Profit and Loss is prepared as if the transaction/s occurred immediately before the start of the period, and proforma Balance Sheet is prepared as if the transaction/s occurred at the balance sheet date. It follows that since the proforma Statement of Profit and Loss and the proforma Balance Sheet are prepared on different basis/ assumptions, there will be inherent inconsistencies between the two.

13. The underlying historical financial information must be derived from a source duly approved by the Board of Directors of the Issuer company, such as statutory accounts, interim financial accounts or other historical financial information such as that prepared in accordance with the requirements of Clause 41 of the Listing Agreement (which might be included in the same document).

14. For the purposes of acquisitions, there is no requirement for the two companies to have coterminous year ends. The difference between two year-ends, ideally, should not be more than that what is specified in paragraphs 18 and 19 of AS 21, *Consolidated Financial Statements*, i.e. not exceeding more than 6 months. However, consideration needs to be given to the

possible effects of seasonality and materiality. Whilst this may not be significant or material where full year Statements of Profit and Loss are being aggregated, it may be significant or material where balance sheets are being aggregated. In such cases, as well as generally, adequate and due consideration needs to be given for the effects of material transactions between the dates of period end, of the Issuer and the acquired entity. These adjustments on grounds of materiality should be reflected in the underlying historical financial information with suitable disclosure and should not form part of the proforma adjustments.

Contents of Proforma Financial Statements

15. In order for the Proforma Financial Statements to meaningfully reflect the effect/s of the transaction(s) that trigger(s) their presentation, the following must, at a minimum, form part of the Proforma Financial Statements:

a. Proforma Balance Sheet/s;

b. Proforma Statement of Profit and Loss; and

c. Notes to the Proforma Balance Sheet/s and Proforma Statement of Profit and Loss.

16. If the transaction/s has/have, however, been reflected in the entity's stand-alone and or consolidated Statement of Profit and Loss included in the offer document for an entire stub period, a Proforma Statement of Profit and Loss would not be required to be presented in relation to that/ those transaction/s for such stub period unless the figures of the Proforma Statement of Profit and Loss and the actual consolidated Statement of Profit and Loss are expected to be different. For instance, if a material acquisition requiring proforma reporting took place after the most recent full financial year, but before the end of the stub period (for which financial information is presented in the offer document), then the proforma Statement of Profit and Loss should not consider the effect of that acquisition/divestment as regards the stub period financial information, if it is included for the entire period for which the stub period financial information is prepared unless the numbers and the actual consolidated numbers are expected to be different. If not, then the proforma Statement of Profit and Loss for

the stub period financial information would also be required. As regards Proforma Balance Sheet, such Balance Sheet need not be presented as of the end of the stub period in case actual historical consolidated balance sheet presented as of the end of the stub period gives effect to the transaction.

Illustration

The financial year of the Issuer company is 31 March, 20x1. The acquisition of a qualifying subsidiary happens on 1 June, 20x1. The Company is including stub period financial information of April 20x1 to June 20x1 in the offer document in which the results of the acquired entity for say one month of June 20x1 is already consolidated with the Issuer company stub period financial information of April 20x1 to June 20x1. In this case, the Proforma Financial Statements for the stub period of April 20x1 to June 20x1 would be required in addition to the annual Proforma Financial Statements for the year ended March 20x1, provided it meets the threshold requirement of more than 20%. Also, no stub period proforma balance sheet would be required, in case the transaction is already consummated as at or before the stub period historical balance sheet date.

17. Ordinarily, the Proforma Financial Statements should include each of the headings and sub-headings that were included in the Issuer's most recent annual financial statements and the relevant explanatory notes as required, including notes relating to the proforma adjustments. Appropriate references should be included to the relevant note(s) that explain(s) the basis, nature and effect of the adjustments made to the Balance Sheet line items, to arrive at the Proforma Balance Sheet.

18. For presentation of Proforma Financial Statements on a stand-alone and /or consolidated basis the following also need to be considered:

(a) The Proforma Financial Statements would be in columnar format.

(b) The first column shows the audited financial information of the Issuer company, on which effect of the transaction is illustrated.[3]

(c) The second column shows the historical financial information of the acquired/divested entity for which Proforma Financial Statements are required. If the historical financial information of the acquired/divested entity were prepared in accordance with a different GAAP than that of the Issuer company and hence presented in a different format as compared to the format followed by the Issuer company, then the reclassification of historical financial information of the acquired/divested entity from the format in which they were audited to the format of the Issuer company followed for the purposes of preparation of Proforma Financial Statements would need to be explained by way of a separate note.

(d) Subsequent columns would reflect adjustments for the effect of the acquisition/divestment for which Proforma Financial Statements are required to be prepared.

(e) The proforma adjustments column could either be one single column covering all types of adjustments, like conversion to Issuer company GAAPs from local GAAPs of the acquired/divested entity, translation of foreign currency financial information of the acquired/divested entity and/or any other suitable proforma adjustments with necessary disclosures in the notes to the Proforma Financial Statements.

(f) The last column would reflect the final proforma amounts so arrived at.

APPENDIX B to the Guide contains illustrative Proforma Consolidated Balance Sheet and Statement of Profit and Loss.

[3] The regulator may, however, insist on presenting the first column as restated number.

19. It must also be noted that ideally the proforma adjustments should relate only to the acquisition/disinvestment related adjustments.

20. In order to meet the objective of Proforma Financial Statements, the following specific requirements should be considered.

Proforma Balance Sheet

21. The balance sheet should be presented as of each period-end as required to be so presented under the SEBI Regulations. However, where the transaction of acquisition/divestment has occurred after the date of the last audited annual financial statements but before the end of the stub period for which financial information is presented in the offer document, and the effect of such acquisition/divestment is already included in such historical financial information for the stub period, no separate proforma Balance Sheet would require to be presented, as at the stub period-end, in the offer document. The fact that, only the balance sheet as at the annual year-end is presented and not the balance sheet as at the stub-period end, should be appropriately disclosed in the Proforma Financial Statements.

22. The Proforma Balance Sheet would include proforma adjustments as if the transaction was consummated as at the date of the balance sheet(s) (as at annual year-end and stub-period end or only annual year-end, as the case may be), for each balance sheet (s) separately, included in the offer document.

Proforma Statement of Profit and Loss

23. Typically, the Proforma Statement of Profit and Loss would be prepared as if the transaction occurred at the beginning of the relevant period for which Proforma Statement of Profit and Loss is presented in the offer document, and the approach selected needs to be clearly disclosed in the notes to the Proforma Financial Statements and consistently applied. The Proforma Statement of Profit and Loss should be presented for each period required to be so presented under the SEBI Regulations.

Notes to Proforma Balance Sheet and Proforma Statement of Profit and Loss

24. The notes to the Proforma Financial Statements should clearly include all accounting policies and should explain each proforma adjustment, the basis, nature and effect of each of the adjustments made to the Proforma Balance Sheet and Proforma Statement of Profit and Loss, and the assumptions involved in its calculation. For example, notes to the Proforma Financial Statements depicting the effects of an acquisition of a direct/indirect subsidiary should disclose how the amount of goodwill arising on consolidation has been arrived at and considered in the Proforma Financial Statements. The notes to the proforma Balance Sheet and proforma Statement of Profit and Loss should be presented for each period required to be so presented under the SEBI Regulations.

Other Disclosures to be Included in Proforma Financial Statements

25. The following other disclosures need to be included as part of the Proforma Financial Statements. Generally, these disclosures are made as part of the explanatory notes accompanying the Proforma Financial Statements:

(i) The Proforma Financial Statements must include a description of the transactions, the businesses or entities involved and the period to which it refers, and must clearly state the following:

   a) the purpose for which they have been prepared;

   b) the fact that they have been prepared for illustrative purposes only;

   c) the fact that because of its nature, the Proforma Financial Statements addresses a hypothetical situation and, therefore, does not represent the company's actual or expected financial position or results.

(ii) The sources of the historical financial information included in the Proforma Financial Statements.

Accounting Policies

26. Generally, the accounting policies of the Issuer, as adopted in its most recent set of interim or annual financial statements, must be applied in the preparation of the Proforma Financial Statements, since the objective of Proforma Financial Statements is to present the financial information of the Issuer as if the transaction of acquisition or divestment had occurred at an earlier date.

27. When the Issuer includes Proforma Financial Statements for the most recently completed financial period and the most recently completed interim period and the Issuer has adopted a change in accounting principle during the most recently completed interim period, the Proforma Financial Statements should consistently apply the newly adopted accounting principle to all periods presented.

28. Considering the requirements of paragraph 20 of AS 21, *Consolidated Financial Statements*, where there are different accounting policies used between the Issuer and the acquired/divested entity, where it is not practicable to bring in uniformity between the two in the preparation and presentation of Proforma Financial Statements, the nature of such differing policies and reasons therefor must be adequately disclosed in the notes to the Proforma Financial Statements. If the auditor concludes that adequate disclosure is not made, the auditor should consider the effect thereof on his report. If the auditor considers it necessary to modify the opinion on that account, the matter should be discussed with those charged with governance of the Issuer.

Proforma Adjustments

29. Proforma adjustments include material charges, credits, related tax and other effects that are directly attributable to the transaction/s and are factually supportable. The effect of proforma adjustments should be presented on the face of the Proforma Financial Statements, with additional information in relation to the nature, basis and determination of amounts being explained in the notes to the Proforma Financial Statements.

30. There are two key aspects, in addition to the Proforma adjustments being clearly explained that, these adjustments must be:

a. Directly attributable to the transaction/s; and

b. Factually supportable.

31. The adjustments, therefore, cannot relate to future decisions or intentions. For example, it is generally inappropriate to show anticipated cost savings or synergy benefits. However, this by itself does not prevent adjustments being made that are based upon estimates so long as the effect and scope of any uncertainty are explained and such adjustments are supportable with evidence. Any adjustment must be capable of some reasonable degree of objective determination. In other words, there may be circumstances where the lack of support prevents a necessary adjustment from being made.

32. In the presentation of Proforma Financial Statements, all proforma adjustments need to be cross-referenced to the relevant notes thereto.

Materiality Considerations

33. In the context of determining the proforma adjustments, consideration needs to be given to whether the adjustments being made or excluded are material to the Proforma Financial Statements. Adjustments to and misstatements as regards the Proforma Financial Statements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the intended users of such Proforma Financial Statements. Determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the financial statements needs of users of the Proforma Financial Statements. Materiality depends on the size or nature (or both) of the omission or misstatement judged in light of the facts and circumstances of each case.

34. A misstatement in the context of the compilation of Proforma Financial Statements may include, for example:

a) Use of an inappropriate source for the unadjusted historical financial statements;

b) Incorrect extraction of the unadjusted historical financial statements from an appropriate source; and

c) Application of incorrect accounting policies in relation to the adjustments.

Directly Attributable to the Transaction

35. Proforma Financial Statements should only reflect matters that are an integral part of the transactions which are described in the offer document. In particular, Proforma Financial Statements should not include adjustments which are dependent on actions to be taken once the current transactions have been completed, even where such actions are central to the Issuer's purpose in entering into the transactions.

36. The accounting treatment applied to the adjustments should be presented and prepared in a form consistent with the policy the Issuer would adopt in its last or next published financial statements. For instance, the Issuer should not include deferred or contingent consideration in its Proforma Financial Statements if such consideration is not directly attributable to the transaction at hand but to a future event and may result in unduly inflating the net assets figures. However, where the contingent consideration is directly attributable to the transaction same needs to be considered.

37. It is not appropriate to omit adjustments that are directly attributable to a transaction and factually supportable, on the grounds that they do not have a continuing impact or, alternatively, to make adjustments to eliminate items solely on the grounds that they are considered not to have a continuing impact.

Evidence to Support Adjustments

38. The requirement for adjustments being factually supported means that there should be reliable, documentary evidence in support of the adjustment, such as executed contracts and consummated transactions. The nature of the facts supporting an adjustment would vary with the facts and circumstances of each

case. Nevertheless, the facts are expected to be capable of some reasonable degree of objective determination. Support might typically be provided by published accounts, management accounts, other financial statements and valuation reports contained in the offer document, purchase and sale agreements and other agreements to the transaction that may or may not be covered by the offer document. For instance, in relation to the management accounts, the interim figures for one of the subsidiaries (forming part of a consolidated group) being acquired may be derived from the consolidation schedules underlying that entity's interim consolidated financial statements.

39. In some cases, it may be difficult to determine whether a proforma adjustment is factually supportable. In contrast, an adjustment for projected cost savings following the acquisition of a subsidiary, generally, should not be made (as it is not factually supportable). In addition, proforma adjustments usually should not give effect to actions taken by management (or expected to be taken) after the acquisition related to the integration and management of the acquired subsidiary.

40. If the management of the Issuer does not have appropriate support for the proforma adjustments, the auditor should discuss these matters with management and request that the Proforma Financial Statements be modified to include only those adjustments that are factually supportable. The auditor should obtain an understanding of the reason why management does not have appropriate support for the proforma adjustments. The lack of support for required information is not a reason to avoid disclosure merely because management does not want to make the disclosure or does not want to expend the effort to obtain the necessary support. In this situation, if the support is not provided and/or the Proforma Financial Statements are not modified, the auditor should consider the effect thereof on the report.

Adjustments Without Continuing Effects

41. In the preparation of the Proforma Statement of Profit and Loss, adjustments that do and do not have a continuing effect must be identified and separately disclosed in a manner that their

effect is clearly evident. It is suggested for these purposes that items treated as discontinued operations in accordance with Accounting Standard (AS) 24, *Discontinuing Operations*, are not likely to have a continuing effect but additional disclosure should be considered. Adjustment should not be made to eliminate items just because they do not have a continuing effect.

42. It is also not appropriate to remove the effects of nonrecurring items included in a historical income statement from which the Proforma Statement of Profit and Loss is derived if those nonrecurring items are not directly related to the transaction. For example, if the historical income statement included a material provision (that did not result directly from the transaction for which the Proforma Financial Statements are presented), say in relation to impairment or restructuring, it is not appropriate to remove the historical restructuring provision as a proforma adjustment. In such a situation, it may be desirable to provide disclosure of the nonrecurring items in a manner similar to that included in the related historical financial statements.

Adjustments with One-time Impact

43. When the proforma Statement of Profit and Loss is prepared as if the transaction occurred at the beginning of each period presented, the “one-time impact” will be reflected in both the annual and interim periods and this should be disclosed in the notes to the Proforma Financial Statements.

Tax Effects

44. The tax effects, if any, of proforma adjustments should be reflected as a separate proforma adjustment. The tax adjustments should be calculated at the tax rate(s) in effect during the period(s) for which the Proforma Financial Statements are presented, which would typically be consistent with the rates used in the historical financial statements. If taxes are calculated on another basis, or if unusual effects of loss carry forwards or other aspects of tax accounting are depicted, adequate explanation should be provided in a note to the Proforma Financial Statements. Under no circumstances, should tax effects be determined on the basis of

average tax rates applicable to the Issuer and/or the acquired/divested entity.

Omitted Adjustments

45. An adjustment may be directly attributable to a transaction but may not be factually supportable. Therefore, such an adjustment would not be included in the Proforma Financial Statements. The exclusion of adjustments of this nature may render the Proforma Financial Statements to be misleading. An example of such an adjustment would be a transaction involving the purchase of a subsidiary involving some amount of contingent consideration which is not fully determinable at the time of the preparation of the Proforma Financial Statements. However, disclosure of such item(s) is important to the users' understanding of Proforma Financial Statements. If the auditor believes that an omitted adjustment is so significant as to render the Proforma Financial Statements misleading, he should discuss the matter with the Issuer and ascertain whether revisions to the disclosures should be made. If revisions to the disclosures, as considered necessary by the auditor, are not made, the auditor should consider the effect on his report.

Effects of New Arrangements

46. Contractual terms of an acquisition of a subsidiary, such as new compensation contracts with management, would generally require proforma adjustment only if the new contract is entered into as part of the overall acquisition of the subsidiary. New arrangements such as new distribution, cost sharing, management agreements or benefit plans may be reflected as proforma adjustments only if the amounts can be supported with evidence and are directly attributable to the acquisition transaction.

Inappropriate Adjustments

47. Generally, adjustments of the following nature are not considered appropriate for inclusion in the Proforma Financial Statements, but are included in the notes thereto:

- Interest income from the investment of proceeds from the sale of securities that are the subject of the transaction because the use of cash balances is subject to the discretion of management and, therefore, not factually supportable.
- Elimination or inclusion of operating results of other transactions during the year/period those are not directly attributable to the transaction for which the Proforma Financial Statements are presented.

The above list is by no means a complete or comprehensive list of cases. The key conditions of an adjustment, i.e., being factually supportable and directly related to the transaction, need to be met, failing which an adjustment could be considered an inappropriate adjustment (subject to other exceptions as described earlier in this Guide).

Areas of Special Consideration

48. Certain aspects of the Proforma Financial Statements may require special consideration by the auditor. These have been discussed below:

(a) ***Tax Effects -*** In addition to the guidance given in paragraph 44 above, it should be noted that, generally, it would be inappropriate for the Issuer company to account for adjustments from tax effects of transactions or balances between itself and the acquired entity. This is because usually, income-tax is assessed at the level of individual entities. For instance, the losses of the acquired entity cannot normally be offset against the profits of the Issuer (or *vice versa*), in determining the income-tax charge or liability in the Proforma Financial Statements. However, where the applicable laws permit a legal right of offset or adjustment, such offset or adjustment is permissible. For example, an Issuer A that has a subsidiary B in country X, acquires a material subsidiary C, through subsidiary B, consequent to which A is required to present Proforma Financial Statements. If the tax laws in country X require or permit the income-tax assessment of B to be done at a consolidated level (ie, including its subsidiaries), then there is a legal right of set off/adjustment in relation to the financial results of C, which could be considered when presenting Proforma Financial Statements. Appropriate disclosures, however, will be required to be made in the Proforma Financial Statements in this regard.

(b) ***Earnings Per Share (EPS) -*** Proforma EPS calculations should be based on Proforma Statement of Profit and Loss and the assumption that any new shares issued as part of the transaction were in issue for the whole period for which Proforma Financial Statements are presented.

(c) ***Purchase Consideration -*** The notes to the Proforma Financial Statements would need to state how any purchase consideration in shares has been calculated, the assumptions made in mixed cash and shares offer, and whether the consideration will be revised to reflect the market price of the shares on the day the shares are issued or based on a legally agreed document like in case of scheme of merger, demerger or amalgamation under the Companies Act, 1956, as the case may be. All of these would be based on the actual facts and the accounting to be done as per the applicable Accounting Standards specified in Section 211 (3C) of the Companies Act, 1956. An extra column can be added to show the effect of another mix of shares and cash, or this could be disclosed in the notes. In addition, the mode of discharge of the purchase consideration will also require disclosure in the notes to the Proforma Financial Statements.

(d) ***Contingent Consideration -*** A realistic estimate should be made (and not simply the maximum amount that could be paid). The same should be disclosed very clearly, including all the contingencies and uncertainties involved in payment/receipt of the contingent consideration in relation to an acquisition or divestment of a subsidiary.

(e) ***Proforma Statement of Profit and Loss -*** The goodwill arising on consolidation and any asset impairment charge and financing cost related to an acquisition or divestment should be included in a proforma Statement of Profit and Loss.

(f) ***Post Acquisition (or Post Disposal) Impact -*** No adjustment should be made for expected synergy benefits arising from proposed management action.

(g) ***Cost and Revenue Eliminations -*** It may be that certain revenues or costs will not recur in the future under the terms of the transaction (e.g., directors' emoluments where new service agreements have been entered into on acquisition). Whilst consideration may be given to adjusting these in any proforma Statement of Profit and Loss, there will often be an offset in other costs that cannot be factually supported. For example, management charges from the previous parent company for the supply of corporate support services might not recur, but the additional costs to be incurred on its own account are unlikely to be capable of factual support. In this case, no adjustment should be made and the matter should be dealt with by making appropriate disclosures.

(h) ***Intra-group Transactions -*** In the preparation of Proforma Financial Statements, intra-group transactions (i.e., transactions amongst two or more members of the group) will require elimination. Particulars of all intra-group transactions which require elimination should be disclosed in the notes to the Proforma Financial Statements, in addition to any proforma adjustments that may arise from such transactions in the preparation of the Proforma Financial Statements.

(i) ***Foreign Currency Translation -*** It may be necessary to translate adjustments into the reporting currency of the Issuer. For a Proforma Balance Sheet, the rate applied would usually be the rate ruling at the date of the Issuer's historical balance sheet. For a proforma Statement of Profit and Loss, the rate applied would be the average rate for the relevant period which would normally be calculated on the basis used by the Issuer in preparing its statements for the relevant period.

Auditors' Responsibilities and Reporting

Auditors' Responsibilities in Relation to Proforma Financial Statements

49. Paragraph 23(4) of sub-item (B) of Item (IX) of Part A of Schedule VIII envisages an assurance from the statutory auditors on the Proforma Financial Statements as also in situations where the acquisition or divestment doesn't fulfil the test of materiality. The auditor's procedures and considerations in this regard are discussed in the following paragraphs. It should also be noted, that the auditor has no responsibility to report on, review or verify the source documentation. His procedures are limited to ascertaining that the Proforma Financial Statements have been correctly extracted/summarised from the underlying financial information/financial statements for the purposes of presentation of the Proforma Financial Statements in the offer document, and appropriate adjustments and assumptions have been applied thereon.

50. The auditor need to consider whether the period which the Proforma Financial Statements cover is permitted and required under the 2009 SEBI Regulations and whether the source of the unadjusted historical statements is appropriate and clearly stated. The auditor would also need to consider the need for disclosure or the impact on their opinion if he/she believe that the information is or may be unreliable.

51. The auditor would need to discuss with management of the Issuer the steps taken to identify relevant adjustments. In particular, the auditor would:

i. determine whether any significant adjustments have been omitted;

ii. determine whether all adjustments relate to the transaction and not to future events; and

iii. obtain appropriate evidence that the management have factual support for all adjustments.

If appropriate adjustments have been omitted, possibly because there is no factual support, the auditor considers whether adequate disclosures relevant to an understanding of the Proforma Financial Statements have been made.

In addition to above, the auditor would also need to consider the effect on the Proforma Financial Statements and, in particular, whether the exclusion renders the Proforma Financial Statements misleading. In such circumstances, the auditor would consider whether the disclosure in the notes to the Proforma Financial Statements of the fact that such an adjustment has not been made is sufficient in the context of the overall purpose of the Proforma Financial Statements. However, if the auditor concludes that an omitted adjustment is so fundamental as to render the Proforma Financial Statements misleading in the context of the purpose for which they have been presented, he should discuss the matter with the management of the Issuer and consider the impact of the same on his opinion.

52. The auditor should determine the steps taken by the Issuer to ensure that the accounting policies of the Issuer have been applied consistently in the Proforma Financial Statements, where required.

53. There may be situation where the acquired entity has been audited by another firm of chartered accountants or may not have been subject to audit during the last completed accounting year and stub period. In those circumstances, it would be considered necessary by the Issuer to seek audited financial statement for the last completed accounting year and stub period, if any, and if necessary, the issuer’s auditors may issue necessary instructions as may be required.

Auditor’s Responsibilities in Relation to Proforma Adjustments

54. The auditor considers the guidance provided in paragraphs 15 to 20 in relation to the overall preparation and presentation of the Proforma Financial Statements itself, paragraphs 26 to 28 in

relation to the accounting policies used, and paragraphs 29 to 32 in relation to the proforma adjustments, in the context of the engagement to report on Proforma Financial Statements.

55. Having regard to the matters discussed in paragraph 10 (Management's Responsibility for the preparation of Proforma Financial Statements) and paragraph 49 (Auditor's Responsibilities and Reporting) above, the auditor is not responsible for the identification, completeness or correctness of the proforma adjustments themselves. This fact would be clearly indicated in the engagement letter to be entered into with the Issuer company and also would be clearly spelt out in the management representation letter to be taken from the management of the Issuer company for inclusion of the necessary information as per the Regulations.

Written Representations

56. The auditor should request written representations from the Issuer that:

(a) In compiling the Proforma Financial Statements, the Issuer has identified all appropriate proforma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration;

(b) The Proforma Financial Statements has been compiled, in all material respects, on the basis of the applicable criteria; and

(c) Acknowledgment of the Issuer's management's responsibility for the Proforma Financial Statements

57. Where the auditor, based on his experience and also having regard to the various matters discussed in this Guide, is of the view that one or more of the proforma adjustments are incorrect, erroneous or otherwise inappropriate, he/ she should bring such matters to the attention of the Company's management and request that such matters be rectified. Where management of the Company does not make necessary rectifications to the Proforma Financial Statements, the auditor considers the impact on his report on the Proforma Financial Statements.

Agreeing the Terms of Engagement

58. The auditor should agree the terms of the engagement with the client so as to avoid any misunderstandings at a later date. The engagement letter should specify those reports which are intended for publication in the Offer Document. The engagement letter should specify, in respect of each report, to which it is to be addressed.

Elements of the Auditor's Report on Proforma Financial Statements

59. The auditor's report on Proforma Financial Statements ordinarily includes:

(a) An addressee, which is, ordinarily, the Board of Directors of the Issuer, which is responsible for the preparation of the Proforma Financial Statements.

(b) Identification of the Proforma Financial Statements, including where appropriate, the fact that the Proforma Financial Statements is unaudited, the period (or date) covered, and a reference to a description of the basis of preparation used by management.

(c) A statement that preparation of the Proforma Financial Statements is the responsibility of the Issuer's management.

(d) A statement that the auditor's responsibility is to express an opinion that the Issuer's Proforma Financial Statements has been prepared, in all material respects, in accordance with the basis stated.

(e) A statement that the engagement was conducted in accordance with the Guidance Note on Audit Reports and Certificates for Special Purposes issued by the Institute of Chartered Accountants of India.

(f) Where required, other matters (such as qualifications in the auditors' report on the historical financial statements of the Issuer and/or the investee[s]/divested entity[ies], statement of reliance on the auditors' report of other auditors to the extent relevant, etc.)

(g) A conclusion on whether the Proforma Financial Statements have been prepared, in all material respects, on the basis stated in the notes thereto.

(h) A statement that the report is prepared in connection with an offer document prepared in connection with an offer to the public in the relevant jurisdiction and that it should not be used or relied upon for any other purpose or for any sale of securities outside of that jurisdiction.

(i) A statement that the report is issued solely for the purpose of compliance with the relevant clause of the Regulations and not for any other purpose.

(j) The signature and name of the partner/proprietor, and the name and registration number of the firm.

(k) Date of the report.

(l) Place of the report.

Appendix C to the Guide contains an illustrative format of the report to be issued by the auditor on Proforma Financial Statements.

Auditor's Responsibilities When Transactions Are Not Material

60. In cases where the acquisition or divestment falls under paragraph 7 above, presentation of Proforma Financial Statements is not required and as per the Regulations, the statutory auditors are required to certify the disclosure of the facts of the acquisition or divestment along with the consideration paid/received and the mode of financing such acquisition. Under these circumstances, since it would not be possible to certify the content of the management's declaration, the auditor should consider discharging his/her reporting responsibility in accordance with the requirement of the Guidance Note on Audit Reports and Certificates for Special Purposes, issued by Institute of Chartered Accountants of India ('ICAI'). **Appendix D** to the Guide contains

an illustrative format of a statutory auditor's report in such circumstances.

61. For obtaining a reasonable assurance the statutory auditor should perform the procedures including:

a) Reading the disclosure made in the Declaration of facts of the acquisition or disinvestment made by the Management and exercise professional judgement on whether same are appropriate;

b) Inquiring from the Issuer Company's personnel whether the acquired/ divested subsidiary is/was a direct or indirect subsidiary of the Issuer Company;

c) Tracing the amount paid/received or payable/receivable as consideration on acquisition or divestment of the Company by the Issuer Company, to the sale/purchase agreement, which should be annexed to the report; and

d) Inquiring from the Issuer Company personnel in respect of mode of financing acquisition of the Company.

62. Although, the management is responsible for certifying whether the acquisition or disinvestment was material or not, the auditor should, as part of his working paper, document how he has evaluated the adequacy of the management's assessment of the materiality. This could include performing procedures including:

i) Tracing the details contained in management statement to the source document from which relevant details like the standalone total book value of assets or the total income of the acquired/divested Company has been extracted by the Management of the Issuer Company.

ii) Tracing the details contained in management statements to the source document from which relevant details like the pre-acquisition/pre-divestment standalone total book value of assets or the pre-acquisition/pre-divestment standalone total income of the Issuer Company has been extracted by the Management of the Issuer Company.

iii) Comparing the accounting policy followed for preparation of the standalone financial statements of the Issuer Company with those that are used for the preparation of the source document of the acquired/divested Company.

iv) Checking the arithmetical accuracy of standalone total book value of asset/total income of the acquired/divested Company as a percentage of pre-acquisition/pre-divestment standalone total book value of assets or the pre-acquisition/pre-divestment standalone total income of the Issuer Company.

63. There may be cases where some acquisition or divestment would qualify the threshold as part of paragraph 5 above and some of them do not as per paragraph 7 above. Both, these facts have to be suitably disclosed as part of two separate reports as specified in Appendix C and Appendix D to the Guide with a clear disclosure that the Proforma Financial Statements so presented by the Issuer company is only considering those entities which qualify the threshold as part of paragraph 5 above.

Appendix A

Text of Item IX of Part A of Schedule VIII of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009

(IX) Financial Statements:

[4][*[Notes:*

1. *The financial informations specified in this item shall be certified by only those auditors who have subjected themselves to the peer review process of the Institute of Chartered Accountants of India (ICAI) and hold a valid certificate issued by the 'Peer Review Board' of the ICAI.*

2. *All financial informations specified in this item must be reaudited for one full financial year and the stub period, by the auditor certifying them in case where the financial statements were audited by an auditor who had not been subjected to peer review process of ICAI.]*]

(A) **Selected Consolidated Financial and Operating data:**

(1) The consolidated financial statement prepared on the basis of Accounting Standard 21(AS 21) "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India shall be incorporated in the offer document.

(2) All the notes to the accounts, significant accounting policies as well as the auditors' qualifications shall be incorporated.

(B) **Financial Information of the Issuer:**

(1) A report by the auditors of the Issuer with respect to:

---

[4] Inserted by SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2009, w.e.f. 01.04.10.

(a) profits and losses and assets and liabilities, in accordance with para (2) or (3) of sub-item (B) of Item (IX), as the case may require; and

(b) the rates of dividends, if any, paid by the Issuer in respect of each class of shares in the Issuer for each of the five financial years immediately preceding the issue of the offer document, giving particulars of each class of shares on which such dividends have been paid and particulars of the cases in which no dividends have been paid in respect of any class of shares for any of those years;

and, if no accounts have been made up in respect of any part of the period of five years ending on a date three months before the issue of the offer document, containing a statement of that fact (and accompanied by a statement of the accounts of the Issuer in respect of that part of the said period up to a date not earlier than six months of the date of issue of the offer document indicating the profit or loss for that period and the assets and liabilities position as at the end of that period together with a certificate from the auditors that such accounts have been examined and found correct by them. The said statement may indicate the nature of provision or adjustments made or are yet to be made).

(2) If the Issuer has no subsidiaries, the report shall:

(a) so far as regards profits and losses, deal with the profits or losses of the Issuer (distinguishing items of a non- recurring nature) for each of the five financial years immediately preceding the issue of the offer document; and

(b) so far as regards assets and liabilities, deal with the assets and liabilities of the Issuer at the last date to which the accounts of the Issuer were made up.

(3) If the Issuer has subsidiaries, the report shall:

(a) so far as regards profits and losses, deal separately with the Issuer's profits or losses as provided by para (2) of sub-item (B) of Item (IX) and in addition, deal either:

(i) as a whole with the combined profits or losses of its subsidiaries, so far as they concern the members of the Issuer; or

(ii) individually with the profits or losses of each subsidiary, so far as they concern the members of the Issuer;

or, instead of dealing separately with the Issuer's profits or losses, deal as a whole with the profits or losses of the Issuer, and, so far as they concern the members of the Issuer, with the combined profits or losses of its subsidiaries; and

(b) so far as regards assets and liabilities, deal separately with the Issuer's assets and liabilities as provided by para (2) of sub-item (B) of Item (IX) and in addition, deal either:

(i) as a whole with the combined assets and liabilities of its subsidiaries, with or without the Issuer's assets and liabilities; or

(ii) individually with the assets and liabilities of each subsidiaries;

and shall indicate as respects the assets and liabilities of the subsidiaries, the allowance to be made for persons other than the members of the Issuer.

(4) If the proceeds, or any part of the proceeds, of the issue of the shares or debentures are, or is, to be applied directly or indirectly:

(a) in the purchase of any business; or

(b) in the purchase of an interest in any business and by reason of that purchase, or anything to be done in consequence thereof, or in connection therewith; the Issuer will become entitled to an interest as respects either the capital or profits and losses or both, in such business exceeding fifty percent, thereof; a report made by accountants (who shall be named in the offer document) upon:

(i) the profits or losses of the business of each of the five financial years immediately preceding the issue of the offer document; and

(ii) the assets and liabilities of the business at the last date to which the accounts of the business were made up, being a date not more than one hundred and twenty days before the date of the issue of the offer document.

(5)

(a) If:

(i) the proceeds, or any part of the proceeds, of the issue of the shares or debentures are or is to be applied directly or indirectly in any manner resulting in the acquisition by the Issuer of shares in any other body corporate; and

(ii) by reason of that acquisition or anything to be done in consequence thereof or in connection therewith, that body corporate will become a subsidiary of the Issuer; a report shall be made by accountants (who shall be named in the offer document) upon:

- the profits or losses of the other body corporate for each of the five financial years immediately preceding the issue of the offer document; and

- the assets and liabilities of the other body corporate at the last date to which its accounts were made up.

(b) The said report shall:

(i) indicate how the profits or losses of the other body corporate dealt with by the report would, in respect of the shares to acquired, have concerned members of the Issuer and what allowance would have fallen to be made, in relation to assets and liabilities so dealt with for holders of other shares, if the Issuer had at all material times held the shares to be acquired; and

(ii) where the other body corporate has subsidiaries, deal with the profits or losses and the assets and liabilities of the body corporate and its subsidiaries in the manner provided by sub-clause (a) (ii) above in relation to the Issuer and its subsidiaries.

(6) Principal terms of loan and assets charged as security: Brief terms and conditions of the term loans including re-schedulement, prepayment, penalty, default, etc.

(7) (a) Age-wise analysis of sundry debtors shall be given.

(b) Aggregate book value of quoted investments as well as aggregate market value of quoted investments shall be disclosed.

(8) All significant accounting policies and standards followed in the preparation of the financial statements

shall be disclosed including all notes thereto and the auditors' qualifications shall be incorporated.

(9) Statements of Assets and Liabilities and Profit and Loss or any other financial information shall be incorporated after making the following adjustments, wherever quantification is possible:

(a) Adjustments/ rectification for all incorrect accounting practices or failures to make provisions or other adjustments which resulted in audit qualifications. Audit qualifications, which have not been given effect to, if any, shall be highlighted along with the management comments. If the impact of non- provisions is not considered ascertainable, then a statement to that effect by the auditors.

(b) Material amounts relating to adjustments for previous years shall be identified and adjusted in arriving at the profits of the years to which they relate irrespective of the year in which the event triggering the profit or loss occurred.

(c) Where there has been a change in accounting policy, the profits or losses of the earlier years (required to be shown in the offer document) and of the year in which the change in the accounting policy has taken place shall be recomputed to reflect what the profits or losses of those years would have been if a uniform accounting policy was followed in each of these years.

(d) If an incorrect accounting policy is followed, the re-computation of the financial statements shall be in accordance with correct accounting policies.

(e) Statement of profit or loss shall disclose the profit or the loss arrived at before considering extraordinary items and after considering the profit or loss from extraordinary items. An illustrative format of the disclosure of profits and losses on this basis is specified hereunder:

	Year ended March 31, ….				
	20X1	**20X2**	**20X3**	**20X4**	**20X5**
	(Rupees In lakhs)				
Income					
Sales -					
of products manufactured by the Issuer	1000	1240	1640	1800	1800
of products traded in by the Issuer	100	60	60	200	200
Total	**1100**	**1300**	**1700**	**2000**	**2000**
Other income	10	30	40	60	100
Increase (decrease) in inventories	40	(70)	60	180	310
	1150	**1260**	**1800**	**2240**	**2410**
Expenditure					
Raw materials consumed	400	480	630	1110	1200
Staff costs	200	220	240	340	400
Other manufacturing expenses	250	260	280	540	650
Administration expenses	40	42	60	80	85
Selling and distribution expenses	110	120	130	190	250
Interest	60	55	90	200	140
	1095	**1227**	**1495**	**2635**	**2795**
Net profit before tax and extraordinary items	55	33	305	(295)	(385)
Taxation	25	12	144	(185)	(235)
Net profit before extraordinary items	30	21	161	(110)	(150)
Extraordinary items (net of tax)-		49	(64)	800	1000
Net Profit after Extraordinary Items	**30**	**70**	**97**	**700**	**850**

(f) The statement of assets and liabilities shall be prepared after deducting the balance outstanding on revaluation reserve account from both fixed assets and reserves and the net worth arrived at after such deductions. An illustrative format of assets and liabilities is specified hereunder:

					As at March 31, ….	
		20X1	**20X2**	**20X3**	**20X4**	**20X5**
					(Rupees in lakhs)	
(1)	**Fixed Assets**					
	Gross Block	440	750	900	922	1350
	Less Depreciation	(55)	(107)	(170)	(250)	(320)
	Net Block	385	643	730	672	1030
	Less: Revaluation Reserve	(100)	(95)	(89)	(83)	(75)
	Net Block after adjustment for Revaluation Reserve	285	548	641	589	955
(2)	**Current Assets, Loans and Advances**					
	Inventories	485	420	720	1030	3200
	Sundry Debtors	28	30	30	500	2500
	Cash and Bank Balances	13	14	22	200	400
	Loans and Advances	78	100	85	1100	2000
	Other Current Assets	70	80	55	200	220
	Total	674	644	912	3080	8320
(3)	**Liabilities and Provisions:**					

	Secured Loans	376	607	616	620	460
	Unsecured Loans	3	3	-	-	4000
	Current Liabilities and Provisions	250	180	330	460	1100
	Total	(629)	(790)	(946)	(1080)	(5560)
(4)	**Net worth**	330	402	607	2589	3715
(5)	**Represented by**					
	Share Capital	300	300	400	1600	2000
	Reserves	130	197	296	1072	1790
	Less: Revaluation Reserve	(100)	(95)	(89)	(83)	(75)
	Reserves (Net of revaluation reserves)	30	102	207	989	1715
	Net worth	330	402	607	2589	3715

(g) Relevant details of all the contingent liabilities.

(10) The turnover disclosed in the Profit and Loss Statement shall be bifurcated into:

(a) turnover of products manufactured by the Issuer;

(b) turnover of products traded in by the Issuer; and

(c) turnover in respect of products not normally dealt in by the Issuer but included in (b) above, shall be mentioned separately.

(11) The offer document shall disclose details of 'Other Income' in all cases where such income (net of related expenses) exceeds twenty per cent. of the net profit before tax, including:

a) the sources and other particulars of such income; and

b) an indication as to whether such income is recurring or non-recurring, or has arisen out of business activities/ other than the normal business activities.

(12) **Related Party Transactions:** The Issuer shall disclose the following details of related party transactions and make disclosures in accordance with the requirements of Accounting Standard (AS 18) "Related Party Disclosures" issued by the Institute of Chartered Accountants of India:

(a) Information with respect to transactions or loans between the Issuer and

(i) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the Issuer;

(ii) associates;

(iii) individuals owning, directly or indirectly, an interest in the voting power of the company that gives them significant influence over the Issuer, and close members of any such individual's family;

(iv) key managerial personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Issuer, including directors and senior management of companies and close members of such individuals' families;

(v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence and includes enterprises owned by directors or major shareholders of the Issuer.

(b) The nature and extent of any transactions which are material to the Issuer or the related party, or any transactions that are unusual in their nature or conditions, involving goods, services, or tangible or intangible assets, to which the Issuer or any of its parent companies was a party.

(c) The amount of outstanding loans (including guarantees of any kind) made by the Issuer or any of its parent companies to or for the benefit of any of the directors or key managerial personnel. The information given should include the amount outstanding as of the latest date, the nature of the loan and the transaction in which it was incurred, and the interest rate on the loan.

(13) **Accounting and other ratios:**

(a) The following key accounting ratios shall be given for each of the accounting periods for which financial information is given.

(b) Earnings per Share and Diluted Earnings Per Share: This ratio shall be calculated after excluding extra ordinary items.

(c) Return on net worth: This ratio shall be calculated after excluding revaluation reserves and extra-ordinary items.

(d) Net Asset Value per share. This ratio shall be calculated excluding revaluation reserves.

(e) ‘Accounting and other Ratios’ shall be based on the Financial Statements prepared on the basis of Indian Accounting Standards.

(f) In the event of capital structure undergoing a change on account of capitalisation of reserves, its impact on the key ratios should be distinctly brought out. The impact of outstanding financial instruments, if any, on the ratios, should also be disclosed.

(14) **Capitalisation Statement:**

(a) A Capitalisation Statement showing total debt, net worth, and the debt/equity ratios before and after the issue is made shall be incorporated.

(b) In case of any change in the share capital since the date as of which the financial information has been disclosed in the offer document, a note explaining the nature of the change shall be given.

(c) An illustrative format of the Capitalisation Statement is specified hereunder:

Particulars	**Pre-issue as at 30-6-20X1**	**As Adjusted for issue**
		(Rupees in lakhs)
Short-Term Debt	1870	1870
Long Term Debt	4370	4370
Shareholders Funds		
Share Capital	4000	4450
Reserves	14570	37520
Total Shareholders Funds	18570	41940
Long Term Debt/Equity	0.24:1	0.10:1
Note: Since 31-3-20X1 (which is the last date as of which financial information has been given in para of this document) share capital was increased from Rs.3000 lacs to Rs.4000 lacs by the issue of bonus shares in the ratio of 1 share for every 3 shares.		

(15) **Presentation of financials in case of change of denomination:** In case of change in standard denomination of equity shares, the compliance with the following shall be ensured while making disclosure in the offer document:

(a) all the financial data affected by the change in denomination of shares shall be clearly and unambiguously presented in the offer document.

(b) comparison of financial ratios representing value per share and comparison of stock market data in respect of price and volume of securities shall be clearly and unambiguously presented in the offer document.

(c) the capital structure incorporated in the offer document shall be clearly presented giving all the relevant details pertaining to the change in denomination of the shares.

(16**) Unsecured loans:**

(a) Break-up of total outstanding unsecured loans taken by the Issuer shall be given in the offer document into the amount borrowed from promoters/group companies/subsidiaries/material associate companies and amount borrowed from others. Further, in respect of each such loan of the former category, terms and conditions shall be disclosed including the interest rates and repayment schedule. If the loans can be recalled by the lenders at any time, the same shall be disclosed.

(b) Break-up of the total outstanding unsecured loans taken by the promoters, group companies, related parties, material associate companies and others shall be disclosed.

(c) If the loans can be recalled by the lenders at any time, the same shall be disclosed along with details of such loans.

(17) For a proper understanding of the future tax incidence, the following factors shall be identified and explained through proper disclosures:

(a) Profits after tax are often affected by the tax shelters which are available.

(b) Some of these are of a relatively permanent nature (for example, arising out of export profits) while others may be limited in point of time (for example, tax holidays for new undertakings).

(c) Tax provisions are also affected by timing differences which can be reversed in the future (for example, the difference between book depreciation and tax depreciation).

(d) In respect of provision for taxation, adjustment shall be made for deferred tax assets and deferred tax liabilities in accordance with the requirements of Accounting Standard (AS 22) "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India and a reconciliation of taxable income and book profits shall be disclosed in accordance with the illustrative format given hereunder:

	Year ended March 31, ….				
	20X1	**20X2**	**20X3**	**20X4**	**20X5**
			(Rupees in lakhs)		
Tax at Notional Rate	28	70	89	546	675
Adjustments:					
Export Profits	(4)	(5)	(20)	(100)	(120)
Difference between Tax Depreciation and Book Depreciation	(6)	(8)	(9)	(10)	(10)
Other Adjustments	3	3	4	4	5
Net Adjustments	**(7)**	**(10)**	**(25)**	**(106)**	**(125)**
Tax Saving thereon	(3)	(5)	(13)	(49)	(58)
Total Taxation	25	65	76	497	617
Taxation on Extraordinary Items-		53	(68)	682	852
Tax on Profits before Extraordinary Items	**25**	**12**	**144**	**(185)**	**(235)**

(18) The Issuer, if it so desires, may include in the offer document, the financial statements prepared on the basis of more than one accounting practices, subject to disclosure of the material differences arising because of differences in the accounting policies of different accounting practices.

(19) In respect of the periods, within the period of five years, when the relevant Accounting Standard issued by the Institute of Chartered Accountants of India was mandatory in respect of such Issuers:

(a) Where, in respect of listed Issuers, the auditors report does not deal with the profits and losses and assets and liabilities of the Issuer and its subsidiaries as a whole, the consolidated balance sheets and profit and loss accounts shall be presented in respect of the periods, within the period of five years, when preparation of such statements was mandatory in respect of such Issuers under the listing agreement with the recognised stock exchanges.

(b) In respect of business segments, disclosure shall be made of segment revenue, segment result and net capital employed and where the primary segment is a geographic segment, similar details by geographic segments shall be given.

(20) The latest statement of audited/unaudited quarterly financial results published by the Issuer in accordance with clause 41 of the equity listing agreement with the stock exchanges shall be reproduced.

(21) It shall be disclosed in the offer document whether any of the sundry debtors is related to the directors or promoters or the Issuer in any way. Similar disclosures shall be made in case of loans and advances.

[5][(22) If the Issuer has entered into any scheme of arrangement during the period for which the financials are disclosed in the offer document, lead merchant banker to the issue shall ensure that the following disclosure requirements as specified in Accounting Standard 14 has been complied with:-

(a) A description of the accounting treatment followed in respect of financials contained in the schemes of arrangement and the reasons for following the treatment if it is different from those, which has been prescribed in applicable Accounting Standards.

(b) In case of deviations, disclosure of the accounting treatment had the applicable standard been followed.

(c) Impact on the financials, if any, arising due to such deviation.]

"(23) Proforma Financial Statements

(1) In addition to other requirements laid down in these regulations and subject to the stipulation in sub-para. (3) of this para., the Issuer shall disclose Proforma Financial Statements in the offer document, if -

(a) an acquisition or divestment is made by the Issuer after the end of the latest disclosed annual financial results in the offer document, due to which certain companies become / cease to be direct or indirect subsidiaries of the Issuer, and

(b) the financial statements of such acquired or divested entity is material to the financial statements of the Issuer company.

[5] Inserted by SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2009, w.e.f. 01.01.10

Explanation: The financial statements of the acquired or divested entity shall be "material" to the financial statements of the Issuer if:

(i) the total book value of the assets of the acquired / divested entity amounts to more than 20% of the pre-acquisition/ pre-divestment book value of the assets of the Issuer;

or

(ii) the total income of the acquired /divested entity amounts to more than 20% of the pre-acquisition/pre- divestment total income of the Issuer.

(2) Proforma Financial Statements shall be disclosed in respect of the following, namely:

i. the last completed accounting year, and

ii. the period beginning from the date of the end of the last completed accounting year and ending on the date on which financial statements of the Issuer have been disclosed in the offer document.

(3) Where the said acquisition or divestment does not fulfill the tests of materiality specified in clause 23 (1) (b) above, the fact of the acquisition or divestment along with the consideration paid /received and the mode of financing such acquisition shall be disclosed.

(4) The information disclosed as per sub-clause (2) and (3) above shall be certified by the statutory auditor of the Issuer."

(III) in item (XI), in sub-item (K), after the words "Reserve Bank of India" the words "or Insurance Regulatory and Development Authority" shall be inserted.

(b) in Part E, in item (IX), under para. (A), the following sub-paras. shall be inserted-

"(1) Details of current and past directorship(s) for a period of five years in listed companies whose shares have been/were suspended from being traded on the Bombay Stock Exchange Ltd./National Stock Exchange of India Ltd., as follows:

- Name of the Company:
- Listed on [give name of the Stock Exchange(s)]
- Date of Suspension on stock exchanges:
- Suspended more than three months: Yes/No. If yes, reasons for suspension and period of suspension.
- Whether suspension revoked: Yes/No. If yes, date of revocation of suspension.
- Date and Term of Director in the above company(ies):

Explanation: The above details shall be given for a period of five years prior to date of filing of draft offer document and ought to be updated upto the date of filing of the red herring prospectus. In case of offer documents for fast track issues filed under Regulation 10, the period of five years shall be reckoned on the date of filing of prospectus with Registrar of Companies or letter of offer with the designated stock exchange.

(2) Details of current and past directorship in listed companies who have been/ were delisted from the stock exchange(s):

- Name of the Company:

- Listed on [give name of the Stock Exchange(s)]:
- Date of delisting on the Stock Exchange(s):
- Compulsory or voluntary delisting:
- Reasons for delisting:
- Whether relisted: Yes/No. If yes, date of relisting on [give name of the Stock Exchange/(s)].
- Date and Term of Director in the above company/ies."

Appendix B

Illustrative Proforma Consolidated Financial Statements

Company X acquires Company Y, on June 2012. Pursuant to such acquisition the Company Y becomes 100% subsidiary of Company X. Company X and Company Y have March 31 as their financial year end for purpose of statutory reporting.

During May 2012, the Company X intends to go for initial public offer and thus in accordance with the requirement of SEBI Regulation, the Company X has to prepare Proforma Financial Statements for purpose of its intended filing of the offer document in August 2012, which will include financial information for each of the 5 years ended March 31, 2012 in accordance with SEBI Regulations.

As discussed earlier, Proforma Financial Statements are used in the offer documents to demonstrate the effect of a transaction on the financial statements of an Issuer company as if the transactions had occurred at an earlier date. Accordingly, Company X would be required to present proforma balance sheet as at March 31, 2012 as if the acquisition completed on March 31, 2012, and present proforma Statement of Profit and Loss for year ended March 31, 2012 as if the acquisition completed on April 1, 2011. The approach selected should be clearly disclosed in the notes to the Proforma Financial Statements and consistently applied.

Illustrative Proforma Consolidated Balance Sheet As At March 31, 2012

(in Millions)

	Company X	Company Y	Proforma Adjustments			Total Adjust-ments	Proforma consolidated	Notes
			GAAP Adjustments (Note 1)	Acquisition Adjustments (Note 2)	Offering Adjustments (Note 2)			
	A	B	C	D	E	F= C+D+E	G= A+B +F	
I. SOURCES OF FUNDS:								
SHAREHOLDERS' FUNDS :								

Share Capital	xxx	xxx		(xxx)	xxx	xxx	xxx	(b), (d)
Share Application Money Pending Allotment	xxx	xxx					xxx	
RESERVES & SURPLUS								
General Reserve	xxx	xxx		(xxx)		(xxx)	xxx	(b)
Profit and Loss account	xxx	xxx	xxx	(xxx)		xxx	xxx	(b), (e), (i)
Capital Reserve	xxx	xxx		(xxx)		(xxx)	xxx	(c)
LOAN FUNDS:								
Secured Loans	xxx	xxx		xxx	(xxx)	xxx	xxx	(a), (d)
Unsecured Loans	xxx	xxx					xxx	
Total	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**	

II. APPLICATION OF FUNDS:							
GOODWILL	xxx	xxx	xxx		xxx	xxx	(c)
FIXED ASSETS:							
Gross block	xxx	xxx	-	-		xxx	
Less : Depreciation	xxx	xxx	-	-		xxx	
Net block	xxx	xxx				xxx	
Capital work in progress and capital advances	xxx	xxx	-	-		xxx	
	xxx	**xxx**	**-**	**-**	**xxx**	**xxx**	
CURRENT ASSETS, LOANS AND ADVANCES							
Inventories	xxx	xxx	-	-		xxx	
Sundry Debtors	xxx	xxx	-	-		xxx	
Cash and Bank Balances	xxx	xxx	-	-		xxx	
Other Current Assets	xxx	xxx	-	-		xxx	

Loans and Advances	xxx	xxx		-	-		xxx	
	xxx	**xxx**		**-**	**-**		**xxx**	
LESS:CURRENT LIABILITIES AND PROVISIONS								
Current Liabilities	xxx	xxx		-	-		xxx	
Provisions	xxx	xxx		-	-		xxx	
	xxx	**xxx**		**-**	**-**		**xxx**	
NET CURRENT ASSETS	**xxx**	**xxx**		**-**	**-**		**xxx**	
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	xxx	xxx	xxx	-	-	xxx	xxx	(i)
Total	**xxx**	**xxx**	xxx	**xxx**	**xxx**	**xxx**	**xxx**	

NOTE 1 - These adjustments represent adjustments for significant differences between accounting policies followed by the acquired entity for the purposes of the preparation of foreign gaap financial statements, and the accounting policies followed by the Issuer company, as explained hereunder:

(i) Miscellaneous expenditure incurred during the year ended March 31, 2012, capitalised in the financial statements of the acquired company, not capitalised in accordance with the accounting policy of the Issuer company.

NOTE 2 - The proforma balance sheet has been prepared to reflect the acquisition of Company Y by Company X for an aggregate price of $ xxx Proforma adjustments are made to reflect

(a) The issuance of Rs. xxx bank indebtedness with an interest rate of XX% maturing on ______ to provide the funds to complete the purchase acquisition.

(b) The elimination of the common shareholders' equity accounts of Company Y

(c) Goodwill/Capital reserve arising on consolidation

Illustrative Proforma Consolidated Statement of Profit and Loss for the Year ended March 31, 2012

(in Millions)

	Company X	Company Y	Proforma Adjustments: Accounting Policy Adjustments (Note 1)	Proforma Adjustments: Acquisition Adjustments (Note 2)	Proforma Adjustments: Offering Adjustments (Note 2)	Total Adjustments	Proforma consolidate-ed	Notes
	A	**B**	**C**	**D**	**E**	**F= C+D+E**	**G= A+B +F**	
INCOME :								
Sale of Products and Services	xxx	xxx		-	-		xxx	
Less: Excise Duty	(xxx)	(xxx)		-	-		(xxx)	

	xxx	xxx		-	-	xxx	
Other income	**xxx**	xxx		-	-	xxx	
	xxx	**xxx**		**-**	**-**	**xxx**	
EXPENDITURE :							
Cost of goods/materials consumed	xxx	xxx				xxx	
Selling, Administrative & other expenses	xxx	xxx	(xxx)			xxx	(i), (e)
Depreciation	xxx	xxx				Xxx	
Financial expenses (Net)	xxx	xxx		xxx	(xxx)	xxx	(a), (c)
	xxx	**xxx**	**(xxx)**	**xxx**	**xxx**	**xxx**	
Loss for the year before tax	**xxx**	**xxx**				**xxx**	
Tax expense	xxx	xxx	xxx	(xxx)	xxx	xxx	(b), (d)
Loss for the year after tax	**xxx**	**xxx**	**(xxx)**	**xxx**	**(xxx)**	**xxx**	

Earning per share

NOTE 1 - These adjustments represent adjustments for significant differences between accounting policies followed by the acquired entity for the purposes of the preparation of foreign GAAP financial statements, and the accounting policies followed by the Issuer company, as explained hereunder:

(i) Miscellaneous expenditure incurred during the year ended March 31, 2012,capitalised in the financial statements of the acquired company, not capitalised in accordance with the accounting policy of the Issuer company.

NOTE 2 - These adjustments represent adjustments for significant differences between accounting policies followed by the acquired entity for the purposes of the preparation of foreign GAAP financial statements, and the accounting policies followed by the Issuer company.

(a) Interest expense on xxx of xx% bank indebtedness issued in connection with the acquisition maturing on _____.

(b) Reduction of current income taxes relating to foregoing adjustments based upon the statutory rate of xx%.

(c) Acquisition costs of xxx incurred by Company X (reflected in the Company X historical column) and xxx incurred by Company Y (reflected in the Company Y historical column) during 2012 in connection with Company X's acquisition of Company Y and included in Selling, Administrative & other expenses amounted to xxx and yyy, respectively

Appendix C

[Refer para 59]

Illustrative Independent Auditors' Report on Proforma Financial Statements

The Board of Directors

[Name of the Company]

[Address]

Independent Auditors' Report on Proforma Financial Statements in Connection with the Initial Public Offer/Rights Issue of [Name of the Company]

Dear Sirs,

1. This report is issued in accordance with the terms of our engagement letter dated [date].

2. The accompanying Proforma Financial Statements (hereinafter referred to as the "Proforma Financial Statements") of [Name of the Company] (hereinafter referred to as the "Company") comprising of the Proforma Balance Sheet as at [month][date][year] and the Proforma Statement of Profit and Loss for the year/period ended[6] [month][date][year], read with the notes thereto, has been prepared by the Management of the Company in accordance with the requirements of paragraph 23 of item (IX)(B) of Schedule VIII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended to date (the "SEBI Regulations") issued by the Securities and Exchange Board of India (the "SEBI") to reflect the impact of a significant [acquisition /disinvestment] made during the [ ] period ended [month/date/year] and as further set out in the basis of preparation paragraph included in the attached notes to the Proforma Financial Statements, which is initialled by us for identification purposes only.

---

[6] As the case may be.

3. We have examined the Proforma Financial Statements. For our examination, we have placed reliance on the following:

- the audited/restated[7] consolidated/standalone[8] financial information of the Company for the year ended [month][dated][year] on which we have expressed a modified/an unmodified opinion in our reports dated [Mention report dates];
- the audited/restated[9] consolidated/standalone[10] financial statements of the Company for the period ended [month][dated][year] on which we have expressed a modified/ an unmodified opinion in our reports dated [Mention report dates];
- the audited consolidated/standalone[11] financial statements of the [Name of the acquired/divested company/ies] for the year ended [month][date][year] on which we/other firms of chartered accountants have expressed a modified/an unmodified audit[12] opinion dated [Mention report dates];
- the audited consolidated/standalone[13] financial statements of the [Name of the acquired/divested company/ies] for the period ended [month][dated][year] on which we/another firm of Chartered Accountants[14] have expressed a modified/an unmodified audit[15] opinion in our/their reports dated [Mention report dates];

---

[7] As the case may be [Refer requirements stated in paragraph 18(b) above].

[8] As the case may be, as there may be some entities where consolidation is not required at all, as there were no subsidiaries of the Issuer company.

[9] As the case may be [Refer requirements stated in paragraph 18(b) above].

[10] As the case may be, as there may be some entities where consolidation is not required at all, as there were no subsidiaries of the Issuer company.

[11] As the case may be. However, in case of acquisition, the consolidated financial statements of the acquired entity should be considered, if applicable. In case of divestment, the entities which are divested alongwith the direct or indirect subsidiary or the entire consolidated financial statements of the divested entity, as the case may be, should be considered.

[12] As the case may be.

[13] As the case may be. However, in case of the acquisition, the consolidated financial statements of the acquired entity should be considered. In case of divestment, the entities which are divested alongwith the direct or indirect subsidiary or the entire consolidated financial statements of the divested entity, as the case may be, should be considered.

[14] As may be applicable.

[15] As the case may be.

4. For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Proforma Financial Statements, nor have we, in the course of this engagement, performed an audit or review of the financial information used by the Management in the compilation of the Proforma Financial Statements.

Managements' Responsibility for the Proforma Financial Statements

5. The preparation of the Proforma Financial Statements, which is to be included in the [*refer the appropriate document where Proforma Financial Statements needs to included]*, is the responsibility of the Management of the Company and has been approved by the Board of Directors of the Company (hereinafter referred to as the "Board of Directors") in their meeting dated [ ]. The Board of Directors' responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Proforma Financial Statements. The Board of Directors is also responsible for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities.

Auditors' Responsibilities

6. Pursuant to the requirement of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, it is our responsibility to express an opinion on whether the Proforma Financial Statements of the Company for [specify the period], as attached to this report, read with respective significant accounting policies and the notes thereto have been properly prepared by the Management of the Issuer Company on the basis stated in the note [ ] to the Proforma Financial Statements.

7. We conducted our engagement in accordance with the Guidance Note on Audit Reports and Certificates for Special Purposes, issued by the Institute of Chartered Accountants of India.

8. The purpose of the Proforma Financial Statements is to reflect the impact of a significant [acquisition /disinvestment] made

during the [ ] period ended [month/date/year], as set out in the basis of preparation paragraph included in the attached notes to the Proforma Financial Statements and solely to illustrate the impact of a significant event on the historical financial information of the Company, as if the event had occurred at an earlier date selected for purposes of illustration and based on the judgements and assumptions of the Management of the Company to reflect the hypothetical impact, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the standalone/consolidated financial position of the Company as at [month][date][year] or any future date; or
- the standalone/consolidated results of the Company for year ended [month][date][year] or for the nine month period ended [month][date][year] or any future periods

9. Our work consisted primarily of comparing the respective columns in the Proforma Financial Statements to the underlying restated/audited historical financial information, as the case may be, referred to in paragraph 3 above, considering the evidence supporting the adjustments and reclassifications, performing procedures to assess whether the basis of preparation of Proforma Financial Statements as explained in the attached notes to the Proforma Financial Statements provide a reasonable basis for presenting the significant effects directly attributable to the [acquisition/divestment] and discussing the Proforma Financial Statements with the Management of the Company.

10. We have not audited any financial statements of the Company as of any date or for any period subsequent to [month/date/year]. Accordingly, we do not express any opinion on the financial position, results or cash flows of the Company as of any date or for any period subsequent to [month/date/year].

11. We have no responsibility to update our report for events and circumstances occurring after the date of the report.

12. We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to issue this report.

13. This engagement did not involve independent examination of any of the underlying financial information.

14. We believe that the procedures performed by us provide a reasonable basis for our opinion.

Opinion

15. In our opinion the Proforma Financial Statements of the Company for [specify the period], as attached to this report, read with respective significant accounting policies and the notes thereto have been properly prepared by the Management of the Issuer Company on the basis stated in the note [ ] to the Proforma Financial Statements.

Restrictions on Use

16. This report is addressed to and is provided to enable the Board of Directors of the Company to include this report in the [refer the appropriate document where Proforma Financial Statements need to be included] prepared in connection with the proposed initial public offer/rights issue of the Company, to be filed by the Company with the SEBI [and the concerned Registrar of Companies].

For Name of the Firm

Firm Registration Number

Chartered Accountants

[Name of the Partner]

Partner

Membership Number

Place:

Date:

Appendix D

[Refer para 60]

Illustrative Independent Auditors' Report Where the Acquisition/ Divestment is Below the Materiality Threshold

Board of Director

[Name of the Company]

[Address]

1. This report is issued in accordance with the terms of our engagement letter dated (date).

2. The accompanying Declaration contains detailed fact of the acquisition/disinvestment along with the consideration paid/received [and the mode of financing such acquisition][16] (the "Declaration"), as required by the clause (23) of point (IX)(B) of Part A of Schedule VIII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (the "Regulations") issued by Securities and Exchange Board of India ("SEBI") (hereinafter referred to as the 'SEBI Regulations'), which we have initialled for identification purposes only.

Managements' Responsibility for the Declaration

3. The preparation of the accompanying Declaration, including its content, is the responsibility of the Management of the Company. This responsibility includes the designing, implementing and maintaining internal control relevant to the preparation and presentation of the Declaration, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4. The Management is also responsible for ensuring that the Company complies with the requirements of the SEBI Regulations and for providing all relevant information to the SEBI.

---

[16] Applicable only for the cases of acquisitions.

Auditors' Responsibility

5. Pursuant to the requirements of the SEBI Regulations, it is our responsibility to obtain reasonable assurance and form an opinion as to whether the Declaration is in agreement with the books and records of the Company and to obtain reasonable assurance as to whether it fairly presents, in all material respects, fact of the acquisition/disinvestment along with the consideration paid/received [and the mode of financing such acquisition] [17] .

6. We conducted our examination, in accordance with the Guidance Note on Audit Reports and Certificates for Special Purposes, issued by the Institute of Chartered Accountants of India. As part of our engagement we performed following procedures:

a) We read the disclosure made in the Declaration of facts of the acquisition or disinvestment made by the Management;

b) We inquired from the Issuer Company's personnel whether the acquired/ divested subsidiary is/was a direct or indirect subsidiary of the Issuer Company;

c) We traced the amount paid/received or payable/receivable as consideration on acquisition or divestment of the Company by the Issuer Company, to the sale/purchase agreement, which is annexed to the report; and

d) We inquired from the Issuer Company personnel in respect of mode of financing acquisition of the Company[18].

Opinion

7. Based on our examination as above, and the information and explanations given to us, in our opinion, Declaration is in agreement with the audited/unaudited[19] books and records of the Company and fairly presents, in all material respects, fact of the

---

17 Applicable only for the cases of acquisitions.
18 Applicable only for the cases of acquisitions.
19 As may be applicable.

acquisition/disinvestment along with the consideration paid/received [and the mode of financing such acquisition][20].

Restrictions on Use

8. This report is addressed to and provided to Board of Directors of the Company solely for the purpose of enabling it to comply with its obligations under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 to submit the accompanying Declaration to the SEBI and should not be used by any other person or for any other purpose. [Name of the Firm] do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For [Name of the Firm]

Firm Registration number

Chartered Accountants

[Name of the Partner]

Partner

Membership Number

Place:

Date:

[20] Applicable only for the cases of acquisitions.