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STATEMENT OF TAX BENEFITS

June 15, 2015

The Board of Directors,
Pneumatic Holdings Limited
13/A, Karve Road, Kothrud,
Pune - 411 038

Re: Tax benefits in connection with the proposed listing of 52,88,718 equity shares of Rs. 10 each

Dear Sirs,

We are in receipt of your letter dated 9th June 2015 seeking our advice regarding various benefits available to M/s Pneumatic Holdings Limited ("the Company") and its shareholders under the Indian Direct Tax Laws. We understand that our advice will be incorporated in the Information Memorandum to be issued in connection with the proposed listing of 52,88,718 equity shares of Rs. 10 each.

In this behalf, we enclose herewith a statement of possible tax benefits available to the Company and its shareholders on the basis of current tax laws presently in force in India, subject to the fulfillment of the respective requirements of the relevant provisions.

The benefits discussed in the enclosed statement are not exhaustive nor are they conclusive. This statement is only intended to provide general information and to guide the investors and is neither designed nor intended to be a substitute for professional tax advice. A shareholder is advised to consult his/ her/ their own tax consultant with respect to the tax implications of an investment in the equity shares particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail.

Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant tax laws and their interpretations. Hence, the ability of the Company or its shareholders to derive tax benefits is dependent upon fulfilling such conditions, which based on business imperatives the Company faces in the future, the Company may or may not choose to fulfill.

Further, we have also incorporated the amendments brought out by the Finance Act, 2015, where ever applicable.



We do not express any opinion or provide any assurance as to whether:

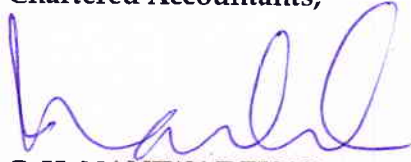
- The Company or its shareholders will continue to obtain these benefits in future; or
- The conditions prescribed for availing the benefits have been / would be met with;
- The revenue authorities/ courts will concur with the views expressed herein.

Our views are based on the existing provisions of law and its interpretations, which are subject to change from time to time. We do not assume responsibility to up-date the views of such changes.

The contents of the enclosed statement are based on information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company. While all reasonable care has been taken in the preparation of this opinion, we accept no responsibility for any errors or omissions therein or for any loss sustained by any person who relies on it.

This report is intended solely for information and for the inclusion in the Information Memorandum to be issued in connection with the proposed listing of 52,88,718 equity shares of Rs. 10 each and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For NANIWADEKAR & CO.,
Chartered Accountants,



C. H. NANIWADEKAR,
Proprietor
Membership No. 033032
Pune



STATEMENT OF POSSIBLE TAX BENEFITS TO THE COMPANY AND ITS SHAREHOLDERS:

Special Tax Benefits:

There are no special benefits available to the Company and to the Shareholders of the Company.

General Tax Benefits:

I. UNDER THE INCOME TAX ACT, 1961

As per the existing provisions of the Income Tax Act, 1961 ("the Act") and other laws as applicable for the time being in force, the following tax benefits and deductions are and will, *inter-alia* be available to M/s. Pneumatic Holdings Limited ("the Company") and its shareholders. These benefits are available to all companies or to the shareholders of any Company, after fulfilling certain conditions as required in the respective Act.

A. General Benefits available to the Company:

- a. Dividend income referred to in section 115-O of the Act earned by the Company from domestic companies, will be exempt under section 10(34) of the Act. Similarly income received by the Company in respect of units of Mutual Funds specified under section 10(23D) of the Act will be exempt under section 10(35) of the Act.
- b. Income arising on transfer of equity shares or units of an equity oriented fund held by the Company will be exempt under section 10(38) of the IT Act if the said asset is a long-term capital asset and securities transaction tax has been charged on the said transaction. However, the said exemption will not be available to the Company while computing the book profit and income-tax payable under section 115JB of the Act.
- c. In accordance with and subject to the provisions of section 112 of the Act, the long-term capital gains arising to the Company from the transfer of listed securities or units, as defined, not covered under 'b' above shall be chargeable to tax at the rate of 20% (plus applicable surcharge and cess) of the capital gains computed after indexing the cost of acquisition or at the rate of 10% (plus applicable surcharge and cess) of the capital gains computed before indexing the cost of acquisition, whichever is lower.
- d. The long-term capital gains in respect of assets not covered under 'b' & 'c' above shall be chargeable to tax at the rate of 20% (plus applicable surcharge and cess) of the capital gains computed after indexing the cost of acquisition / improvement.



- e. Short-term capital gains arising on transfer of equity shares in a Company or units of an equity oriented fund held by the Company will be chargeable to tax at the rate of 15% (plus applicable surcharge and cess) as per the provisions of section 111A of the Act if securities transaction tax has been charged on the said transaction.
- f. In accordance with and subject to the conditions, including the limit of investment of Rs.50 lakh (during the previous year in which the original asset or assets are transferred and subsequent financials years), and to the extent specified in section 54EC of the Act, capital gains arising on transfer of long-term capital assets of the Company not covered under 'e' above shall be exempt from capital gains tax if the gains are invested within six months from the date of transfer in the purchase of long-term specified assets as defined in sec. 54EC of the Act.

B. General Benefits available to the shareholders of the Company:

1. Residents:

- a. Dividend income earned on shares of the Company will be exempt in the hands of shareholders under section 10(34) of the Act.
- b. Income arising on transfer of the shares of the Company will be exempt under section 10(38) of the Act if the said shares are long-term capital assets (i.e. shares held for more than twelve months from the date acquisition, since these are listed securities) and securities transaction tax has been charged on the said transaction. In terms of clause (f) of Explanation 1 to sec. 2(42A) of the Act, the date of acquisition of the shares shall be the date of allotment of shares to the shareholders by the Company. Shareholders being companies will not be able to claim the above exemption while computing the book profit and income-tax payable under section 115JB of the Act.
- c. In accordance with and subject to provisions of sec. 112 of the Act, the long-term capital gains (i.e. capital gains in respect of shares held for more than twelve months from the date acquisition) accruing to the shareholders of the Company from the transfer of the shares of the Company otherwise than as mentioned in 'b' above shall be chargeable to tax at the rate of 20% (plus applicable surcharge and cess) of the capital gains computed after indexing the cost of acquisition or at the rate of 10% (plus applicable surcharge and cess) of the capital gains computed before indexing the cost of acquisition, whichever is lower. In terms of clause (f) of Explanation 1 to sec. 2(42A) of the Act, the date of acquisition of the shares shall be the date of allotment of shares to the shareholders by the Company. The cost of acquisition of the shares will be 'nil' in terms of sec. 55(2)(aa)(iia) of the Act.



- d. In case of an individual or Hindu Undivided Family, where the total taxable income as reduced by long-term capital gains is below the basic exemption limit, the long-term capital gains will be reduced to the extent of the shortfall and only the balance long-term capital gains will be subjected to such tax in accordance with the proviso to sec. 112(1) of the Act.
- e. Short-term capital gains arising on transfer of the shares of the Company will be chargeable to tax at the rate of 15% (plus applicable surcharge and cess) as per the provisions of section 111A of the Act if securities transaction tax has been charged on the said transaction. In case of an individual or Hindu Undivided Family, where the total taxable income as reduced by short-term capital gains is below the basic exemption limit, the short-term capital gains will be reduced to the extent of the shortfall and only the balance short term capital gains will be subjected to such tax in accordance with the proviso to sec. 111A(1) of the Act. The cost of acquisition of the shares will be 'nil' in terms of sec. 55(2)(aa)(iiia) of the Act.
- f. In accordance with, and subject to the conditions, including the limit of investment of Rs.50 lakhs (during the previous year in which the original asset or assets are transferred and subsequent financials years), and to the extent specified in section 54EC of the Act, long-term capital gains arising on transfer of the shares of the Company not covered under point (ii) above shall be exempt from capital gains tax if the gains are invested within six months from the date of transfer in the purchase of long-term specified assets as defined in sec. 54EC of the Act.
- g. In accordance with, and subject to the conditions and to the extent specified in section 54F of the Act, long-term capital gains arising on transfer of the shares of the Company not covered under 'b' above held by an individual or Hindu Undivided Family shall be exempt from capital gains tax if the net sales consideration is utilized, within a period of one year before, or two years after the date of transfer, for the purchase of a new residential house, or is utilized for construction of a residential house within period of three years.

2. Non Residents:

- a. Dividend income earned on shares of the Company will be exempt in the hands of shareholders under section 10(34) of the Act.
- b. Income arising on transfer of the shares of the Company will be exempt under section 10(38) of the Act if the said shares are long-term capital assets (i.e. shares held for more than twelve months from the date acquisition and being listed securities) and securities transaction tax has been charged on the said transaction. In terms of clause (f) of Explanation 1 to sec. 2(42A) of the Act, the date of acquisition of the shares shall be the date of allotment of shares to the shareholders by the Company. Shareholders being companies will not be able to claim the above exemption while computing the book profit and income-tax payable under section 115JB of the Act.



- c. In accordance with, and subject to section 48 of the Act, capital gains arising on transfer of shares of the Company which are acquired in convertible foreign exchange and not covered under 'b' above shall be computed by converting the cost of acquisition, expenditure in connection with such transfer and full value of the consideration received or accruing as a result of the transfer into the same foreign currency as was initially utilized in the purchase of shares and the capital gains computed in such foreign currency shall be reconverted into Indian currency, such that the aforesaid manner of computation of capital gains shall be applicable in respect of capital gains accruing / arising from every reinvestment thereafter in, and sale of shares of the Company.
- d. In accordance with and subject to the provisions of sec. 112 of the Act, the long-term capital gains accruing to the shareholders of the Company from the transfer of the shares of the Company otherwise than as mentioned in 'b' & 'c' above shall be chargeable to tax at the rate of 20% (plus applicable surcharge and cess) of the capital gains computed after indexing the cost of acquisition or at the rate of 10% (plus applicable surcharge and cess) of the capital gains computed before indexing the cost of acquisition, whichever is lower. In terms of clause (f) of Explanation 1 to sec. 2(42A) of the Act, the date of acquisition of the shares shall be the date of allotment of shares to the shareholders by the Company. The cost of acquisition of the shares will be 'nil' in terms of sec. 55(2)(aa)(iiia) of the Act.
- e. Short-term capital gains arising on transfer of the shares of the Company will be chargeable to tax at the rate of 15% (plus applicable surcharge and cess) as per the provisions of section 111A of the Act if securities transaction tax has been charged on the said transaction. The cost of acquisition of the shares will be 'nil' in terms of sec. 55(2)(aa)(iiia) of the Act.
- f. In accordance with, and subject to the conditions, including the limit of investment of Rs.50 lakh (during the previous year in which the original asset or assets are transferred and subsequent financials years), and to the extent specified in section 54EC of the Act, long-term capital gains arising on transfer of the shares of the Company not covered under point (ii) above shall be exempt from capital gains tax if the gains are invested within six months from the date of transfer in the purchase of long-term specified assets within the meaning of section 54EC of the Act.
- g. In accordance with, and subject to the conditions and to the extent specified in section 54F of the Act, long-term capital gains arising on transfer of the shares of the Company not covered under 'b' above held by an individual or Hindu Undivided Family shall be exempt from capital gains tax if the net sales consideration is utilized, within a period of one year before or two years after the date of transfer, for the purchase of a new residential house, or is utilized for construction of a residential house within three years.
- h. Under the provisions of section 90(2) of the Act, a non-resident will be governed by the provisions of the Double Taxation Avoidance Agreement (DTAA) between India and the country of residence of the non-resident if the said provisions are more beneficial than the provisions under the Act.



Besides the above benefits available to non-residents, Non-Resident Indians (NRIs) have the option of being governed by the provisions of Chapter XII-A of the Act which *inter alia* entitles them to the following benefits in respect of income from shares of an Indian Company acquired, purchased or subscribed to in convertible foreign exchange:

- Under section 115E of the Act, NRIs will be taxed at 10% (plus applicable surcharge and cess) on long-term capital gains arising on sale of shares of the Company which are acquired in convertible foreign exchange and are not covered under 'b' above which are acquired in convertible foreign exchange.
- Under section 115F of the Act, and subject to the conditions and to the extent specified therein, long-term capital gains arising to NRIs from transfer of shares of the Company acquired out of convertible foreign exchange not covered under 'b' above acquired out of convertible foreign exchange shall be exempt from capital gains tax if the net consideration is invested within six months of the date of transfer of the asset in any specified asset or in any saving certificates referred to in clause (4B) of section 10 of the Act.
- In accordance with the provisions of section 115G of the Act, NRIs are not obliged to file a return of income under section 139(1) of the Act, if their only source of income is income from investments or long-term capital gains earned on transfer of such investments or both, provided tax has been deducted at source from such income as per the provisions of Chapter XVII-B of the Act.
- In accordance with the provisions of section 115H of the Act, when NRIs become assessable as resident in India, they may furnish a declaration in writing to the Assessing Officer along with their return of income for that year under section 139 of the Act to the effect that the provisions of Chapter XII-A shall continue to apply to them in relation to such investment income derived from the specified assets for that year and subsequent assessment years until such assets are transferred or converted into money.
- As per the provisions of section 115I of the Act, NRIs may elect not to be governed by the provisions of Chapter XII-A of the Act for any assessment year by furnishing their return of income for that year under section 139 of the Act, declaring therein that the provisions of Chapter XII-A shall not apply to them for that assessment year and accordingly their total income for that assessment year will be computed in accordance with the other provisions of the act. The said Chapter *inter alia* entitles NRIs to the benefits stated there under in respect of income from shares of an Indian Company acquired, purchased or subscribed in convertible foreign exchange.

3. Foreign Institutional Investors:

- a. Dividend income earned on shares of the Company will be exempt in the hands of shareholders under section 10(34) of the Act.



- b. Income arising on transfer of the shares of the Company will be exempt under section 10(38) of the Act if the said shares are long-term capital assets (i.e. shares held for more than twelve months from the date of its acquisition) and securities transaction tax has been charged on the said transaction. In terms of clause (f) of Explanation 1 to sec. 2(42A) of the Act, the date of acquisition of the shares shall be the date of allotment of shares to the shareholders by the Company.
- c. In section 115JB, sub clause (iia) has been inserted through Finance Act, 2015 applicable w.e.f. 1st April 2016 in which, the amount of income accruing or arising to a foreign company from the capital gains arising on transactions in securities or the interest, royalty or fees for technical services chargeable to tax at the rates prescribed under Chapter XII, if such income is credited to P&L and income tax payable thereon is at the rate less than 18.5%, then such income is to be reduced from the book profits u/s 115JB.
- d. Under section 115AD(1)(b)(iii) of the Act, income by way of long-term capital gains arising from the transfer of shares held in the Company not covered under 'b' above will be chargeable to tax at the rate of 10% (plus applicable surcharge and cess). In terms of clause (f) of Explanation 1 to sec. 2(42A) of the Act, the date of acquisition of the shares shall be the date of allotment of shares to the shareholders by the Company. The cost of acquisition of the shares will be 'nil' in terms of sec. 55(2)(aa)(iia) of the Act.
- e. Short-term capital gains arising on transfer of the shares of the Company will be chargeable to tax at the rate of 15% (plus applicable surcharge and cess) as per the provisions of section 111A of the Act if securities transaction tax has been charged on the said transaction. The cost of acquisition of the shares will be 'nil' in terms of sec. 55(2)(aa)(iia) of the Act.
- f. Under section 115AD(1)(b)(ii) of the Act, income by way of short-term capital gains arising from the transfer of shares held in the Company not covered under 'd' above will be chargeable to tax at the rate of 30% (plus applicable surcharge and cess).
- g. Under the provisions of section 90(2) of the Act, a FII will be governed by the provisions of the Double Taxation Avoidance Agreement (DTAA) between India and the country of residence of the FII if the said provisions are more beneficial than the provisions under the Act.

4. Mutual Funds:

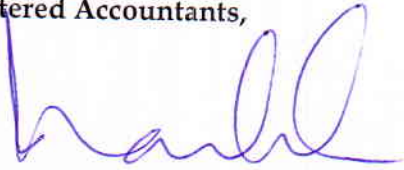
- Under section 10(23D) of the IT Act, any income earned by a Mutual Fund registered under the Securities and Exchange Board of India Act, 1992, or a Mutual Fund set up by a public sector bank or a public financial institution, or a Mutual Fund authorized by the Reserve Bank of India would be exempt from income-tax, subject to such conditions as the Central Government may by notification in the Official Gazette specify in this behalf.



II. UNDER THE GIFT TAX ACT, 1958

- Gift tax is not leviable in respect of any gifts made on or after 1st October, 1998. Therefore, any gift of shares of the Company will not attract gift-tax. It is however pertinent to note that under sec. 56(1)(vii) of the Income Tax Act, 1961, inserted by the Finance (No.2) Act, 2009 w.e.f. 1st October 2009, if any person transfers any property, the fair market value of which exceeds Rupees Fifty Thousand to an individual or Hindu Undivided Family without consideration, then the fair market value of the property shall be treated as income and taxed as such in the hands of the transferee. Similarly if such property is transferred to an individual or Hindu Undivided Family for inadequate consideration and the difference between the fair market value of the property and actual consideration exceeds Rupees Fifty Thousand, such difference shall be treated as income and taxed as such in the hands of the transferee.

For NANIWADEKAR & CO.,
Chartered Accountants,



C. H. NANIWADEKAR,
Proprietor
Membership No. 033032
Pune

