

**“Harshad Mehta disclosed his source of funds to the
Income Tax department more than 15 months
before the alleged scam.”**

TRUE COPY

HARSHAD S. MEHTA

MEMBER (THE STOCK EXCHANGE BOMBAY)

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Ref : 0029

January 21, 1991

The Deputy Director of Income Tax (Investigation)
Unit 11, Income Tax Department
IV Floor, Aayakar Bhavan,
Churchgate, M. Karve Road,
Bombay 400 020.

Dear Sir,

**Re : Action U/S 132 of the Income Tax Act, 1961
Against me and my family members**

**Sub : Explanation of source of payments for acquisition of
flats in “MADHULI”, Worli by the entities of my family**

May I draw your kind attention to my earlier letters of January 11, 1991 enclosing a self-contained note as desired by you on the Modus Operandi of my Money and capital Market businesses. I would further submit as follows:

My transactions in the Capital and Money market, especially the letter, result in a continuous stream of funds and securities moving in and out. These transactions result in large but transient positive balances in my bank accounts on any given day. Running up of such current liabilities constitutes payables to my clients/constituents which include, inter-alia, corporates and banks. Such funds, though transient in nature, tend to acquire semi-permanency in view of the daily operations in the Money Market and result in a pool of funds float. This float of funds has been utilized for acquisition of flats as well as for making investments in shares, pending accrual of income, in future, when such liabilities are automatically washed off. In point of fact, deferred and future incomes have been financed in advance by the float.

I now enclose, on behalf of my family and myself details of payments made to M/s Crest Hotels Pvt. Ltd. the owners of the 9 (nine) flats, at "Madhuli", Worli in the first half of 1990 and extracts of the relevant Bank Accounts of the concerned members of my family, reflecting the payments and corresponding receipts in the bank. Details of transactions which resulted in credit balances in my accounts on those particular dates on which the payments for these flats were effected are also enclosed. You will appreciate that all my family members have been financed through my business operations.

Pending finalization of accounts, inter-se, amongst us these transactions will be reflected in my books as "accounts receivable" with corresponding liabilities towards clients.

Read with earlier letter of January 11, 1991, I trust that the matter stands clarified.

Thanking you,

Yours faithfully,

Sd/-

Harshad S. Mehta