



HANUNG TOYS AND TEXTILES LIMITED

(Our Company was originally incorporated on October 10, 1990 as "Hanung Toys (India) Private Limited" under the Companies Act, 1956, at New Delhi with the Registration No. 55-41722. The name was changed to "Hanung Toys (India) Limited" w.e.f. May 23, 1996 and then subsequently to Hanung Toys and Textiles Limited w.e.f. January 9, 2006)

Registered Office: E-93, 2nd Floor, Greater Kailash Enclave, Part I, New Delhi - 110 048;

(For details on changes of our Registered Office, please refer to the chapter titled "History and Other Corporate Matters" beginning on page 82 of this Red Herring Prospectus.)

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Corporate Office: 108-109, NSEZ, Noida - 201 305

Tel: +91 120 256 7501 - 04; **Fax:** +91 120 256 7505

Contact Person: Mr. Arvind Kumar Gupta, Company Secretary cum Finance Controller; **E-mail:** investor@hanung.com;

Website: www.hanung.com

PUBLIC ISSUE OF 95,00,000 EQUITY SHARES OF RS. 10/- EACH AT A PREMIUM OF RS. [●] PER EQUITY SHARE AND AT A PRICE OF RS. [●]/- PER EQUITY SHARE FOR CASH AGGREGATING RS. [●] LAKH (HEREINAFTER REFERRED TO AS "THIS ISSUE"). THIS ISSUE COMPRISES OF RESERVATION OF 5,00,000 EQUITY SHARES AGGREGATING RS. [●] LAKH FOR ELIGIBLE EMPLOYEES ON A COMPETITIVE BASIS AND THE NET ISSUE TO THE PUBLIC OF 90,00,000 EQUITY SHARES OF FACE VALUE OF RS. 10/- EACH AT PREMIUM OF RS.[●] PER EQUITY SHARE AND AT A PRICE OF RS. [●] PER EQUITY SHARE FOR CASH AGGREGATING RS. [●] LAKH. THE NET ISSUE WOULD CONSTITUTE 35.73% OF THE POST ISSUE PAID-UP CAPITAL OF OUR COMPANY.

PRICE BAND: RS. 85/- TO RS. 95/- PER EQUITY SHARE OF FACE VALUE RS 10/-

THE ISSUE PRICE IS 8.5 TIMES OF THE FACE VALUE AT THE LOWER END OF THE PRICE BAND AND 9.5 TIMES OF THE FACE VALUE AT THE HIGHER END OF THE PRICE BAND

In case of revision in the Price Band, the Bidding Period shall be extended for three additional working days after such revision, subject to the Bidding Period not exceeding 10 working days. Any revision in the Price Band, and the revised Bidding Period, if applicable, shall be widely disseminated by notification to Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE), by issuing a press release and by indicating the change on the websites of the Book Running Lead Managers ("BRLMs") and the terminals of the member of the Syndicate.

This Issue is being made through a 100% Book Building Process wherein upto 50% of the Net Issue shall be allotted on a proportionate basis to Qualified Institutional Buyers ("QIBs"). 5% of the QIB Portion shall be available for allocation on a proportionate basis to Mutual Funds. Mutual Fund applicants shall also be eligible for proportionate allocation under the balance available for QIBs. Further, not less than 15% of the Net Issue shall be available for allocation on a proportionate basis to Non Institutional Bidders and not less than 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price.

RISK IN RELATION TO THE FIRST ISSUE

This being the first issue of the Equity Shares of our Company, there has been no formal market for the Equity Shares of our Company. The face value of the Equity Shares is Rs. 10/- and the Issue Price is [●] times of the face value. The Floor Price is 8.5 times and Cap Price is 9.5 times of the face value. The Issue Price (as determined by our Company, in consultation with the BRLMs on the basis of assessment of market demand for the Equity Shares by way of book building) should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active and/or sustained trading in the Equity Shares of our Company or regarding the price at which the Equity Shares will be traded after listing.

GENERAL RISKS

Investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of our Company and this Issue including the risks involved. The Equity Shares issued in this Issue have not been recommended or approved by the Securities and Exchange Board of India ("SEBI"), nor does SEBI guarantee the accuracy or adequacy of this Red Herring Prospectus.

Specific attention of the investors is invited to the statements in the chapter titled "Risk Factors" beginning on page x of this Red Herring Prospectus.

IPO GRADING

We have not opted for IPO grading.

COMPANY'S ABSOLUTE RESPONSIBILITY

Our Company having made all reasonable inquiries, accepts responsibility for and confirms that this Red Herring Prospectus contains all information with regard to our Company and this Issue, which is material in the context of this Issue, that the information contained in this Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The Equity Shares issued through this Red Herring Prospectus are proposed to be listed on the Bombay Stock Exchange Limited ("BSE") and the National Stock Exchange of India Limited ("NSE"). We have received in-principle approvals for the listing of our Equity Shares from BSE pursuant to its letter dated May 5, 2006 and from NSE pursuant to its letters dated May 22, 2006 and August 23, 2006. For purpose of this Issue, BSE is the Designated Stock Exchange.

BOOK RUNNING LEAD MANAGERS



Karvy Investor Services Limited
Karvy House, 46, Avenue 4, Street No. 1,
Banjara Hills,
Hyderabad - 500 034.
Tel: + 91 40 2331 2454
Fax: + 91 40 2337 4714
Email: mbd@karvy.com
Website: www.karvy.com



Anand Rathi Securities Limited
J.K. Somani Building, 3rd Floor,
British Hotel Lane, Bombay Samachar Marg,
Fort, Mumbai - 400023.
Tel: +91 22 6637 7000
Fax: +91 22 6637 7070
Email: ht1@rathi.com
Website: www.rathi.com

REGISTRAR TO THE ISSUE



Karvy Computershare Private Limited
Karvy House, 46, Avenue 4, Street No. 1,
Banjara Hills, Hyderabad - 500 034.
Tel: + 91 40 2342 0828
Fax: + 91 40 2342 0814
E-mail: hanung ipo@karvy.com
Website: www.karvy.com

ISSUE PROGRAMME

Bid/Issue Opens On : Thursday, September 28, 2006

Bid/Issue Closes On : Thursday, October 5, 2006

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SECTION I – DEFINITIONS AND ABBREVIATIONS

Conventional /General Terms

Term	Description
Articles/ Articles of Association	The Articles of Association of our Company.
Companies Act	The Companies Act, 1956, as amended from time to time.
Depositories Act	The Depositories Act, 1996, as amended from time to time.
Depository	A body corporate registered under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time.
Depository Participant	A depository participant as defined under the Depositories Act.
Financial Year/ Fiscal/ FY	The period of twelve months ended March 31 of that particular year, unless otherwise stated
Indian GAAP	Generally accepted accounting principles in India.
Insurance Act	Insurance Act, 1938, as amended from time to time.
Non Resident	A person who is not resident in India except NRIs and FIIs.
NRI/ Non-Resident Indian	Non-Resident Indian, as defined under Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 as amended.
OCB / Overseas Corporate Body	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs, including overseas trusts in which, not less than 60% of the beneficial interests is irrevocably held by NRIs, directly or indirectly as defined under Foreign Exchange Management (Deposit) Regulations, 2000. OCBs are not allowed to invest in this Issue.
Person / Persons	Any individual, sole proprietorship, unincorporated association, unincorporated organisation, body corporate, corporation, company, partnership, limited liability company, joint venture, or trust or any other entity or organisation validly constituted and/or incorporated in the jurisdiction in which it exists and operates / as the context requires.
PIO / Person of Indian Origin	Shall have the same meaning as is ascribed to such term in the Foreign Exchange Management (Investment in firm or Proprietary Concern in India) Regulations, 2000.
SEBI Guidelines	The SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended from time to time, including instructions, guidelines and clarifications issued by SEBI from time to time.
SEBI Insider Trading Regulations	The SEBI (Prohibition of Insider Trading) Regulations, 1992, as amended from time to time, including instructions and clarifications issued by SEBI from time to time.
SEBI Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as amended from time to time.
U.S. GAAP	Generally accepted accounting principles in the United States.

Issue Related Terms

Term	Description
Allotment/ Allotment of Equity Shares	Unless the context otherwise requires, allotment of Equity Shares pursuant to this Issue.
Allottees	The successful bidder to whom the Equity Shares are being allotted.
Banker(s) to this Issue	The banks, which are registered with SEBI as Banker (s) to the Issue at which the Escrow Account for this Issue will be opened, in this case being ICICI Bank Limited, HDFC Bank Limited and Standard Chartered Bank.
Bid	An indication to make an offer, made during the Bidding Period by a prospective investor to subscribe to the Equity Shares at a price within the Price Band, including all revisions and modifications thereto.



Term	Description
Bid Amount	The highest value of the optional Bids indicated in the Bid-cum-Application Form and payable by the Bidder on submission of the Bid for this Issue.
Bid/ Issue Closing Date	The date after which the members of the Syndicate will not accept any Bids for this Issue, which shall be notified in a widely circulated English national newspaper and a Hindi national newspaper.
Bid-cum-Application Form	The form in terms of which the Bidder shall make an offer to subscribe to the Equity Shares of our Company and which will be considered as the application for allotment in terms of the Red Herring Prospectus.
Bidder	Any prospective investor who makes a Bid pursuant to the terms of the Red Herring Prospectus and the Bid-cum-Application Form.
Book Building Process	Book building mechanism as provided under Chapter XI of the SEBI Guidelines, in terms of which this Issue is made.
BRLMs / Book Running Lead Managers	Book Running Lead Managers to this Issue, in this case being Karvy Investor Services Limited and Anand Rathi Securities Limited.
CAN Confirmation of Allocation Note	The note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares after discovery of Issue Price in the Book Building Process.
Cap Price	The upper end of the Price Band, above which the Issue Price will not be finalised and above which no Bids will be accepted.
Cut-off Price	The Issue Price finalised by our Company in consultation with the BRLMs and it shall be any price within the Price Band. A Bid submitted at the Cut-off Price by a Retail Individual Bidder or Eligible Employees is a valid Bid at all price levels within the Price Band.
Designated Date	The date on which funds are transferred from the Escrow Account to the Public Issue Account after the Prospectus is filed with the RoC, following which the Board of Directors shall allot Equity Shares to successful Bidders.
Designated Stock Exchange	BSE
Draft Red Herring Prospectus	The Draft Red Herring Prospectus filed with SEBI on March 13, 2006.
Eligible Employee/ Employees (in the Employee Reservation Portion)	<p>All or any of the following:</p> <ul style="list-style-type: none"> a) A permanent employee of our Company; b) A Director of our Company (whether a whole-time Director, part time Director or otherwise); and <p>An Employee, as used in the context of the Employee Reservation Portion, should be an Indian national, based in India and physically present in India on the date of submission of the Bid-cum-Application Form. Also, such person should be an Employee on the payroll of the Company on the date of filing this Red Herring Prospectus with RoC. Promoter Directors and / or their relatives are not permitted to participate in this Issue.</p>
Employee Reservation Portion	The portion of this Issue being 5,00,000 Equity Shares of Rs. 10/- each available for allocation for Eligible Employees
Equity Shares	Equity Shares of our Company of face value of Rs. 10/- each unless otherwise specified in the context thereof.
Escrow Account	Account opened with Escrow Collection Bank(s) and in whose favour the Bidder will issue cheques or drafts in respect of the Bid Amount.
Escrow Agreement	Agreement to be entered into among our Company, the Registrar to this Issue, the Escrow Collection Banks, the BRLMs and the Refund Banker in relation to the collection of the Bid Amounts and dispatch of the refunds (if any) of the amounts collected, to the Bidders.
Escrow Collection Bank(s)	The banks, which are registered with SEBI as Banker (s) to the Issue at which the Escrow Account for this Issue will be opened.



Term	Description
First Bidder	The Bidder whose name appears first in the Bid-cum-Application Form or Revision Form.
Floor Price	The lower end of the Price Band, below which this Issue Price will not be finalised and below which no Bids will be accepted.
IPO	Initial Public Offering
Issue/ Public Issue	Public issue of 95,00,000 Equity Shares of Rs. 10/- each at a Price of Rs. [●] per Equity Shares for cash aggregating Rs. [●] lakh pursuant to this Red Herring Prospectus.
Issue/ Bidding Period	The period between the Bid / Issue Opening Date and the Bid/Issue Closing Date inclusive of both days and during which prospective Bidders can submit their Bids.
Issue Price	The final price at which Equity Shares will be issued and allotted in terms of this Red Herring Prospectus. The Issue Price will be decided by our Company in consultation with the BRLMs on the Pricing Date.
Margin Amount	The amount paid by the Bidder at the time of submission of the Bid, being 10% to 100% of the Bid Amount.
Mutual Funds	Means mutual funds registered with SEBI pursuant to the SEBI (Mutual Funds) Regulations, 1996, as amended from time to time.
Net Issue	This Issue other than the Employee Reservation Portion i.e. 90,00,000 Equity Shares
Non Institutional Bidders	All Bidders that are not Qualified Institutional Buyers or Retail Individual Bidders and who have Bid for Equity Shares for an amount more than Rs. 100,000.
Non Institutional Portion	The portion of this Issue being not less than 15% of the Net Issue consisting of 13,50,000 Equity Shares of Rs. 10/- each, available for allocation to Non Institutional Bidders.
Pay-in Date	Bid/Issue Closing Date or the last date specified in the CAN sent to Bidders receiving allocation who pay less than 100% Margin Amount at the time of bidding, as applicable.
Pay-in-Period	Means: (i) with respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid/ Issue Opening Date and extending until the Bid/Issue Closing Date; and (ii) with respect to QIBs, whose Margin Amount is 10% of the Bid Amount, the period commencing on the Bid/Issue Opening Date and extending until the closure of the Pay-in Date.
Price Band	The price band of a minimum price ("Floor Price") of Rs. 85/- and the maximum price ("Cap Price") of Rs. 95/- and includes revisions thereof.
Pricing Date	The date on which our Company in consultation with the BRLMs finalises the Issue Price.
Prospectus	The Prospectus to be filed with RoC containing, <i>inter alia</i> , the Issue Price that is determined at the end of the Book Building Process, the size of this Issue and certain other information.
Public Issue Account	Account opened with the Bankers to the Issue to receive monies from the Escrow Account for this Issue on the Designated Date.
QIB Margin Amount	An amount representing at least 10% of the Bid Amount.
QIB Portion	The portion of this Issue being upto 50% of the Net Issue consisting of not more than 45,00,000 Equity Shares of Rs. 10/- each, available for allocation on a proportionate basis to QIBs. 5% of the QIB Portion shall be available for allocation on a proportionate basis to Mutual Funds.
Qualified Institutional	Public financial institutions as specified in Section 4A of the Companies Act, FIIs, scheduled
Refund Banker	Shall mean the Escrow Collection Bank who has been appointed / designated for the purpose of refunding the amount to investors either through the electronic mode as prescribed by SEBI and /or physical mode where payment through electronic mode may not be feasible, in this case being HDFC Bank Limited.
Buyers or QIBs	commercial banks, mutual funds registered with SEBI, multilateral and bilateral development financial institutions, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, state industrial development corporations, insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 2,500 lakh and pension funds with minimum corpus of Rs. 2,500 lakh.



Term	Description
Registrar/ Registrar to this Issue	Karvy Computershare Private Limited.
Retail Individual Bidders	Individual Bidders (including HUFs) who have Bid for an amount less than or equal to Rs. 1,00,000 in any of the bidding options in this Issue.
Retail Portion	The portion of this Issue being not less than 35% of the Net Issue consisting of 31,50,000 Equity Shares of Rs. 10/- each, available for allocation to Retail Individual Bidders.
Revision Form	The form used by the Bidders to modify the quantity of Equity Shares or the Bid price in any of their Bid-cum-Application Forms or any previous Revision Form(s).
Red Herring Prospectus	Means this document issued in accordance with Section 60B of the Companies Act, which does not have complete particulars of the price at which the Equity Shares are offered and the size of this Issue. The Red Herring Prospectus, which will be filed with RoC atleast 3 (three) days before the Bid Opening Date and will become a Prospectus after filing with RoC after pricing
Syndicate	The BRLMs and the Syndicate Members.
Syndicate Agreement	The agreement to be entered into between our Company and the members of the Syndicate, in relation to the collection of Bids in this Issue.
Syndicate Member	Intermediaries registered with SEBI and eligible to act as Underwriters. Syndicate Members are appointed by the BRLMs.
Transaction Registration Slip/ TRS	The slip or document issued by the Syndicate Members to the Bidders as proof of registration of the Bid.
Underwriters	The BRLMs and the Syndicate Members.
Underwriting Agreement	The agreement among the Underwriters and our Company to be entered into on or after the Pricing Date.

Notwithstanding the foregoing, in the chapter titled “Main Provisions of the Articles of Association of our Company” on page 181 of this Red Herring Prospectus, defined terms have the meaning given to such terms in the Articles of Association of our Company.

Company/ Industry Related Terms

Term	Description
Agreement to Sell and Purchase	The separate agreements entered into by us with our Promoter Group Companies, namely, Hanung Furnishings Private Limited and Hanung Processors Private Limited dated October 21, 2005 to takeover the business of the companies on a going concern basis.
APE	Apparel Parks for Export Scheme
Article/ AOA	Articles of Association of our Company
ASTM	American Society for Testing and Materials
ATC	Agreement on Textiles and Clothing
Auditors	The Statutory Auditors of our Company, being M/s. Rohtas & Hans, Chartered Accountants.
BCCL	Bennett, Coleman & Company Limited
Board of Directors / Board	The Board of Directors of our Company or a Committee thereof.
B.O.D	Biological Oxygen Demand
BS-5852	British Standards-5852
CII	Confederation of Indian Industry
CMIE	Centre for Monitoring Indian Economy
Cr.	Crore
Director(s)	Director(s) of our Company unless otherwise specified.
DIY Toys	Do it yourself toys
DMF	Dwell media filter
EIA	Environment Impact Assessment



Term	Description
EN-71	European Nations-71 which is a quality standard in European Nations
EPCG	Export Promotion Capital Goods Scheme
EU	European Union
FDI	Foreign Direct Investment
FG	Finished Goods
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
Gherzi/ GEL	M/s. Gherzi Eastern Limited
GSM	Grams Per Square Meter
HFPL	Hanung Furnishings Private Limited
HPPL	Hanung Processors Private Limited
“Hanung Toys and Textiles Limited”/ “Hanung”/ “HTTL”/ “our Company”/ “we”/ “us”/ and “the Issuer”	Unless the context otherwise requires, refers to Hanung Toys and Textiles Limited (formerly known as Hanung Toys (India) Limited), a public limited company incorporated under the Companies Act, 1956.
HTS	Harmonised tariff schedule
ISO	International Organisation for Standardization
KVA	Kilo Volt Ampere
M/c	Machine
MEF	Ministry of Environment and Forests
MFA	Multi-Fibre Agreement
Mn	Million
Memorandum/ MOA	Memorandum of Association of our Company
NSEZ	Noida Special Economic Zone
NSIC	National Small Industries Corporation
OBC	Oriental Bank of Commerce
OTEXA	Office of Textiles and Apparel
PANVVL	Paschimanchal Vidyut Vitran Nigam Limited
PCB	Pollution Control Board
PICUP	The Pradeshia Industrial & Investment Corporation of Uttar Pradesh Limited
Pcs	Pieces
PPCPL	Percept Picture Company Private Limited
Promoter(s)	Unless the context otherwise requires, refers to Mr. Ashok Kumar Bansal and Mrs. Anju Bansal.
Proposed Expansion Project	Setting up of our proposed integrated home textile unit at Roorkee.
PNB	Punjab National Bank
PSF	Polyester Staple Fibre
Registered Office of our Company	E-93, 2 nd Floor, Greater Kailash Enclave, Part I, New Delhi – 110 048.
RM	Raw Material
RMG	Readymade Garments
SBI	State Bank of India



Term	Description
Slump Sale Arrangement	The term connotes the sale of an entire business undertaking, comprising various assets net of liabilities for a lump-sum or 'slump' consideration.
SKUs	Stock Keeping Units
SSI	Small Scale Industries
TMC	Technology Mission on Cotton
TUFS	Technology Upgradation Fund Scheme
Tw	Twadell (unit for viscosity of caustic soda)
TCIDS	Textile Centres Infrastructure Development Scheme
VDR	Vertical Drying Range
W.e.f	With effect from
WIP	Work in Progress
WTO	World Trade Organisation

Abbreviations

Abbreviation	Full Form
AGM	Annual General Meeting.
A/c	Account
AS	Accounting Standards issued by the Institute of Chartered Accountants of India.
AY	Assessment Year
BSE	Bombay Stock Exchange Limited.
CAGR	Compounded Annual Growth Rate.
CDSL	Central Depository Services (India) Limited.
CMD	Chairman-cum-Managing Director
DGFT	Directorate General of Foreign Trade.
DP	Depository Participant.
ECS	Electronic Clearing System
EGM	Extra Ordinary General Meeting of the shareholders.
EPS	Earnings per Equity Share.
FCNR Account	Foreign Currency Non Resident Account.
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time and the regulations issued thereunder.
FII	Foreign Institutional Investor (as defined under SEBI (Foreign Institutional Investors) Regulations, 1995, as amended from time to time) registered with SEBI under applicable laws in India.
FIPB	Foreign Investment Promotion Board.
FIs	Financial Institutions.
FVCI	Foreign Venture Capital Investors registered with SEBI under the SEBI (Foreign Venture Capital Investor) Regulations, 2000.
GIR Number	General Index Registry Number.
Gol/ Government	Government of India.
HUF	Hindu Undivided Family.
ICAI	Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949
ICSI	Institute of Company Secretaries of India constituted under The Company Secretaries of India Act, 1980



Abbreviation	Full Form
I. T. Act	The Income Tax Act, 1961, as amended from time to time.
I. T. Rules	The Income Tax Rules, 1962, as amended from time to time, except as stated otherwise.
MRP	Maximum Retail Price
N.A.	Not Applicable
NAV	Net Asset Value.
NEFT	National Electronic Funds Transfer
NI Act	Negotiable Instruments Act, 1881.
NOC	No Objection Certificate
NRE Account	Non Resident External Account.
NRO Account	Non Resident Ordinary Account.
NSDL	National Securities Depository Limited.
NSE	National Stock Exchange of India Limited.
P/E Ratio	Price/Earnings Ratio.
PAN	Permanent Account Number.
RBI	The Reserve Bank of India.
RBI / Reserve Bank of India Act.	The Reserve Bank of India Act, 1934, as amended from time to time.
RoC/Registrar of Companies	The Registrar of Companies, NCT of Delhi and Haryana, located at CGO Complex, Paryavaran Bhawan, 2 nd Floor, New Delhi 100 003.
RONW	Return on Net Worth.
Rs./ Rupees	Indian Rupees, the legal currency of the Republic of India.
Sec.	Section
SCRA	The Securities Contract (Regulation) Act, 1956, as amended from time to time.
SCRR	The Securities Contracts (Regulation) Rules, 1957, as amended from time to time.
SEBI	The Securities and Exchange Board of India constituted under the SEBI Act, 1992.
SEBI Act	The Securities and Exchange Board of India Act, 1992, as amended from time to time.
Stock Exchanges	NSE and BSE
UIN	Unique Identification Number issued in terms of SEBI (Central Database of Market Participants) Regulations, 2003, as amended from time to time.
UoI	Union of India.
U.K.	United Kingdom
U.S./ U.S.A	United States of America
USD/ \$/ US\$	The United States Dollar, the legal currency of the United States of America.
WTD	Whole-Time Director



SECTION II – RISK FACTORS

PRESENTATION OF FINANCIAL INFORMATION AND USE OF MARKET DATA

Unless stated otherwise, the financial information used in this Red Herring Prospectus is derived from our Company's restated financial statements as of and for the years ended on March 31, 2002, 2003, 2004, 2005 and 2006, and three months ended on June 30, 2006, prepared in accordance with Indian GAAP and the Companies Act and restated in accordance with SEBI Guidelines, as stated in the report of our Auditors, M/s. Rohtas & Hans, Chartered Accountants, included in this Red Herring Prospectus.

Our fiscal year commences on April 1 and ends on March 31 of a particular year. Unless stated otherwise, references herein to a fiscal year (e.g., fiscal 2006), are to the fiscal year ended March 31 of a particular year.

In this Red Herring Prospectus, unless the context otherwise requires, all references to one gender also refers to another gender and the word "lakh/lac" means "one hundred thousand" and "Crore" means "one hundred lakh". Further, any discrepancies in any table between the total and the sum of the amounts are due to rounding-off. Throughout this Red Herring Prospectus, currency figures have been expressed in "lakh" except those, which have been reproduced/ extracted from sources as specified at the respective places.

Use of Market Data

Market data used in this Red Herring Prospectus have been obtained from industry publications and internal Company reports. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe market data used in this Red Herring Prospectus is reliable, it has not been independently verified. Similarly, internal Company reports, while believed by us to be reliable, have not been verified by any independent source.



FORWARD-LOOKING STATEMENTS

We have included statements in this Red Herring Prospectus which contain words or phrases such as “will”, “aim”, “is likely to result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions, that are “forward-looking statements”.

All forward looking statements are subject to risks, uncertainties and assumptions about us that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include but are not limited to:

- General economic, political and business conditions in the markets in which we operate and in the local, regional and national economies;
- Changes in laws and regulations relating to the industries in which we operate;
- Increased competition in these industries;
- Our ability to successfully implement our growth strategy and expansion plans, and to successfully launch and implement various projects and business plans for which funds are being raised through this Issue;
- Our ability to meet our capital expenditure requirements;
- Fluctuations in operating costs;
- Our ability to attract and retain qualified personnel;
- Changes in technology;
- Changes in political and social conditions in India or in countries that we may enter, the monetary and interest rate policies of India and other countries, inflation, deflation, unanticipated turbulence in interest rates, equity prices or other rates or prices;
- The performance of the financial markets in India and globally; and
- Any adverse outcome in the legal proceedings in which we are involved.

For a further discussion of factors that could cause our actual results to differ, see the chapters titled “Risk Factors” “Our Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on pages x, 60, and 130 of this Red Herring Prospectus respectively. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither our Company nor the members of the Syndicate, nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, our Company and the BRLMs will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.



RISK FACTORS

An investment in Equity Shares involves a high degree of risk. You should carefully consider all of the information in this Red Herring Prospectus, including the risks and uncertainties described below, before making an investment in our Company's Equity Shares. If any of the following risks occur, our business, financial condition and results of operations could suffer, the trading price of our Equity Shares could decline, and you may lose all or part of your investment.

INTERNAL TO THE COMPANY

1. Project Related Risk Factors

- a) *We have drawn the expansion plan on the basis of expected business opportunities in this industry and accordingly, unfavourable market conditions could adversely affect our profitability.***

We propose to deploy the Issue proceeds towards two main objects namely, expansion aimed at tapping the opportunities thrown open in the textile sector post quota regime by setting up a new unit having the facilities for weaving, processing and making up and part substitution of existing working capital. For details, please refer to chapter titled "Objects of this Issue" beginning on page 25 of this Red Herring Prospectus. The figures in our capital expenditure plans are based on Techno Economic Feasibility Report dated December 15, 2005 and Supplementary to the same dated February 4, 2006 prepared and issued by M/s. Gherzi Eastern Limited (GEL). Also, Punjab National Bank (PNB), our lead banker in relation to the term loan component of the Proposed Expansion Project, has relied on GEL's report for the purpose of sanction of term loan *vide* its sanction letter dated February 13, 2006. For details on the same, please refer section titled "Notes on Assessment of Term Loan" in chapter titled "Objects of this Issue" beginning on page 25 of this Red Herring Prospectus. Expenditure plans are subject to a number of variables, including possible cost and time overruns among others. In view of the reasons stated above, we cannot assure you that we will be able to execute our capital expenditure plans as contemplated.

- b) *We have not commissioned an independent financial appraisal for the proposed project.***

The project, for which we intend to use a significant part of our Issue proceeds as mentioned in the Objects of the Issue has not been independently appraised by any financial institution. However, Punjab National Bank (PNB) has relied on GEL's report for the purpose of sanction of term loan *vide* sanction letter dated February 13, 2006 and the other banks have concurred with this view in their respective sanction letters.

- c) *We have made certain deviations to the techno-economic feasibility report prepared by M/s. Gherzi Eastern Limited due to certain commercial benefits available to our Company.***

As per GEL's report, the Proposed Expansion Project was to be set up on 20 acres of land at Kosi Kalan, Uttar Pradesh. However, we have entered into the sale deeds to acquire 22.69 acres of land and 2 agreements to acquire 2.11 acres of land near Roorkee in Uttaranchal. Due to this change in location, we have to incur an additional sum of Rs. 28.98 lakh, which has been adjusted out of the contingencies provided for the total Proposed Expansion Project estimations.

For the said land at Roorkee, we have not entered into formal sale deeds for land aggregating 2.11 acres as the seller is yet to receive approval from a District Magistrate under Section 157 of the U.P. Zamindari Abolition and Land Reforms Act, 1950 wherein the seller being a member of the Scheduled Caste / Tribe is required to take prior approval of a District Magistrate before entering into any sale deed with respect to his/her property. As on date of filing this Red Herring Prospectus with RoC, we have paid the consideration to the seller and 61% of the stamp duty with respect to the same.

- d) *The orders for all the Plant & Machinery / Equipment of Rs. 8621 lakh (i.e. 100% of the machinery and Equipment required for the project) are yet to be placed.***

In relation to the Proposed Expansion Project, quotations for some of the plant and machinery and services have been received for the purpose of estimation of cost by GEL. However, for some of the plant & machinery / equipment, quotations have not been received and the cost estimates are based on Gherzi Estimates. For



details, please refer to chapter titled “Objects of this Issue” beginning on page 25 of this Red Herring Prospectus. Any delay in placing orders or procurement of such plant and machinery etc. may delay implementation of the Proposed Expansion Project. Such delays may also lead to increase in prices of these machineries/ equipment further affecting our cost estimates of the Proposed Expansion Project.

e) *Regulatory approvals for the proposed expansion are yet to be received and any delay or non-receipt of such approvals may delay the Proposed Expansion Project.*

There are certain licenses / permissions / consents for the Proposed Expansion Project which are yet to be obtained. Delay in receipt of such approvals may adversely affect the implementation of the Proposed Expansion Project. For details, please refer to chapter titled “Government / Statutory and Business Approvals” beginning on page 143 of this Red Herring Prospectus.

f) *Failure to comply with the conditions of TUFS shall make our Company ineligible for 5% interest subsidy on term loans.*

The rupee term loan component of Rs. 9,000 lakh out of the total Proposed Expansion Project cost is being raised under TUFS. Any non-compliance with the terms and conditions of TUFS shall add a further financial burden to the extent of 5% of the interest subsidy on term loans.

g) *We have not identified alternate sources of financing for the Equity component of the Proposed Expansion Project.*

The total requirement of funds is proposed to be funded by a mix of net proceeds from this Issue and term loan to be raised from banks. The rupee term loan component has already been tied up, however, we have not identified alternate sources of financing for the equity component. Any delay on our part to raise money through this Issue will delay the proposed implementation of our plans. For details, please refer to chapter titled “Objects of this Issue” beginning on page 25 of this Red Herring Prospectus

h) *Export obligation under the import and export policy*

The machinery for the Proposed Expansion Project will be imported under Export Promotion Capital Goods Scheme (EPCG Scheme). One of the conditions subject to which licence under EPCG Scheme is granted is to achieve export obligations based on concession in import duty availed. Any failure to achieve required export obligation will subject us to obligation to pay the customs duty saved under the EPCG Scheme together with interest. As on June 30, 2006, we do not have any outstanding export obligation.

i) *There has been a delay in the Schedule of implementation for the proposed project.*

Our Proposed Expansion Project for setting up an integrated home textile unit at Roorkee commenced in December 2005. However, there has been a delay in the schedule of implementation following acquisition of land due to a delay in the IPO process.

2. Other Risk Factors

a) *Our success depends upon our ability to attract and retain talented professionals.*

Our ability to sustain our growth depends, in large part, on our ability to attract, train, motivate and retain skilled and unskilled personnel. Our inability to hire and retain additional qualified personnel will impair our ability to continue to expand our business. An increase in the rate of attrition for our experienced employees, would adversely affect our growth strategy. While we have never experienced a work stoppage as a result of labour disagreements or otherwise and maintain a very cordial relationship with employees however, any strike, work stoppage or other industrial action in future cannot be ruled out.

b) *Registration of Trade Marks*

We have made applications dated January 29, 1991, March 19, 2002 and September 1, 2005 in relation to the registration of trademark “Play-n-Pets” in various classes and for various purposes, to the Registrar of Trademarks, New Delhi in respect of our stuff toys products. Further, the registration in relation to word “Play-n-Pets” granted to us in one of the class has expired and our application dated August 22, 2005 for renewal of the same is pending.



We have also made applications dated November 13, 1992 and September 1, 2005 for registration of trademarks “Troll” and “Muskan”, respectively, in respect of our stuff toys products.

Also, the applications dated July 8, 2004 for the registration of trademark “*Splash*” has been made by our Promoter Group Company viz. Hanung Furnishings Private Limited (HFPL) in various classes and for various purposes, which are also pending with the Registrar of Trademarks, New Delhi. As the business of HFPL has been taken over by us on a going concern basis through a Slump Sale Arrangement effective from October 29, 2005, all the rights of HFPL in these applications have also been transferred to us through the Deed of Assignment dated March 1, 2006.

Further, the application dated August 9, 1994, for the registration of the word “*Hanung*” is pending with the Registrar of Trademarks, New Delhi.

Any delay or non-registration of these trademarks in our name may subject us to commercial disadvantages.

c) *Notices issued by our Company*

We have filed two Notices of Opposition to Application for Registration of a Trade Mark under section 21(1) of the Trade Marks Act, 1999 & rule 47 of the Trade Marks Rules, 2002, both dated July 11, 2006, in respect of Application No. 1281846 and Application No. 920289 in class 25 for the Trade Mark “*Splash*” made by K. M. Sangeeth, (a) Suraj Bharathan, G. Mothilal, P. V. Bijuraj, Geetha Sivanandan, P. N. Narayanan, Ayappa Prasad and Sadma Sunil Kumar; and Amarlal Jhangaldas Wadhwa respectively.

The trademark “*Splash*” in class 24 is owned by our Promoter Group Company viz. Hanung Furnishings Private Limited (HFPL). As the business of HFPL has been taken over by us on a going concern basis through a Slump Sale Arrangement effective from October 29, 2005, all the rights of HFPL in these applications have also been transferred to us through the Deed of Assignment dated March 1, 2006.

In the event that the aforesaid oppositions are decided against us we would be subject to commercial disadvantages.

d) *Our success depends upon our ability to effectively implement our strategies and manage the growth of our business.*

Whilst we have been successfully executing our business strategy in the past, there can be no assurance that we will be able to execute our strategy on time and within the estimated budget, or that we will meet the expectations of targeted customers. Our inability to manage our business and growth strategy could have a material adverse effect on our business, financial condition and results of operations.

e) *Inability in being creative in designing as per the specification of the customers in relation to our stuff toys segment and our existing as well as proposed business of made-ups.*

We are in the business of manufacturing and exporting of stuff toys and now, after the takeover of the business of our Promoter Group Companies, also made-ups. Creativity is the key to success in these industry segments. In order to remain competitive in respect of appealing designs, shapes and colour combinations, the designers of our Company need to have an understanding of the latest trends and also the design requirements of the clients. To keep up with the pace of the industry, our designers and merchandisers keep exploring global markets from time to time to adapt and incorporate changes in our product mix. We also consult well-known international designers from time to time. However, any inability on our part to understand the prevailing world-wide trend or to forecast changes well in time may affect our growth prospects.

f) *There are no long-term contracts with buyers.*

Our Company has been dealing with its clients for a long time. However, we do not have any long-term contracts with them. Although, we have a strong emphasis on quality, timely shipment of goods and after sales service such as feedback on the trends in their market, personal interaction by the top management with the clients, any change in the buying pattern of buyers can adversely affect the business of our Company. Further, in absence of such contracts there will always be uncertainty.



- g) 26.18 % of the total turnover of our Company during the year ended March 31, 2006 is through sales to IKEA group and 27.36 % of the total debtors as on March 31, 2006 constitute IKEA group. Any decline in orders from the IKEA group could adversely affect our business and profitability.**

IKEA group has been sourcing from us since last fifteen years. Any decline in orders from the IKEA group could adversely affect our business and profitability.

- h) During the FY ended March 31, 2006, the total turnover of our Company has increased to Rs. 14,667 lakh from Rs. 8,044 lakh in the FY ended March 31, 2005. There is an increase of approximately of Rs. 6,623 lakh in turn over where as the profit before tax of our Company has increased by Rs. 1,286.5 lakh.**

This increase in profit was due to the change in our policy to concentrate on value added products instead of mass production and also acquisition of the textiles processing and home furnishings business of two of our Promoter Group Companies, hence the improvement in bottom line.

- i) Our Company had a negative cash flow for the period ended June 30, 2006**

Our Company had a negative cash flow of Rs. 226.95 lakh for the three month period ended June 30, 2006 due to utilization of funds for capital expenditure.

- j) Risk associated with Contingent Liabilities as on June 30, 2006 are as follows:**

(Rs. in lakh)

Particulars	As at 30.06.2006	As at 31.03.2006
Bank Guarantees and Letters of Credit	851.46	630.15
Bills Discounted	674.23	750.82
Capital Commitment	5.25	274.30
TOTAL	1,528.79	1,655.27

- k) Our buyers prescribe various standards, which we are required to comply with, and they conduct regular audits to check customer regulatory compliance.**

Our major customers are from the Europe, USA, the Middle East and Latin America. They generally prescribe the norms for quality and other measures in relation to the products supplied to them. In this respect, they conduct periodic audits to ensure the compliance with the same. Any non-compliance on our behalf with respect to such customer requirements and dissatisfaction by customers during their audit checks can lead to loss of customers and thus result in losses and affect our future results of operation.

- l) The major portion of our Company's revenues is dependent on certain countries, mainly in Europe and USA as well as on a limited number of buyers. The loss of business from these countries or any one of our major buyers may adversely affect the revenues and profits of our Company.**

Our products are targeted at large organisations based in Europe, USA, Canada, Latin America and the Middle East markets. Over a period of time our dependence on the top clients has been reducing since we are exploring new markets and tapping new customers, however in FY 2004, USA contributed 46.68% and Europe 48.66% in FY 2005, USA contributed 58.68% and Europe contributed 37.55% to our total exports. Our top five buyers accounted for 75.24% and 60.25% in FY 2004 and FY 2005 respectively of our total revenues. Also in FY 2006 (during which the business of two of our Promoter Group Companies have been acquired w.e.f. October 29, 2005), USA contributed 80.76% and Europe 15.94% to our total exports and our top five buyers accounted for 83.9 % of our total revenues.

As a result, it is possible that we may face pricing pressure from these countries/buyers. The purchases by these countries/ buyers also may fluctuate from year to year since we are not an exclusive supplier to them. There could be other reasons, relating to their business, which could affect the quantity they source from us. The loss of business from any one of their major buyers or any decline in volume of stuff toys and made-ups they source may adversely affect our revenues and profits.



m) We do not have any offshore offices

Exports form a significant part of our business. We sell to international brands, wholesalers and retailers etc. abroad. However, we do not have any offshore office as a result of which we may not be able to capitalise on opportunities in a timely manner.

n) Foreign Exchange Fluctuation

Our Company is in the manufacturing and exports of stuff toys and home furnishings (processing and home furnishings units) and approximately 92.33%, of our total revenues in the FY 2006 was derived from exports and hence any fluctuation in the Rupee value vs. US Dollar (\$), Euro (€) and any other currencies where our Company is exporting to, may affect the performance of our Company. Our Company does not have any hedging mechanism in place to mitigate the foreign exchange risk. Further, some of the machinery/ equipment are proposed to be imported and any fluctuations in the exchange rate may affect the cost of the Proposed Expansion Project.

o) Conflict of interest with the other Group Companies

We have three Group Companies viz. HFPL, HPPL and Abhinav International Private Limited having main objects and business similar to our Company. Interests of these companies may conflict with our Company's interest and/ or with each others. However, at present the above-mentioned companies are not carrying on any business activities.

p) Losses made in the Group Companies

Four of the ventures of our Promoters have incurred losses in the previous years, the details of which are as follows:

(Rs. in lakh)

Sr. No.	Name of the venture*	FY 2005-06	FY 2004-05	FY 2003-04
1.	Praneet Softech Private Limited	Nil	(1.21)	(2.44)
2.	Abhinav International Private Limited	Nil	(0.04)	(0.04)
3.	Omega Fabrics Private Limited**	**	(0.05)	(0.10)
4.	Hanung Toys Limited**	**	(0.04)	(0.04)

* amount considered is profits after tax.

** The names of these two companies have been deemed to be struck-off from the Register of Companies of RoC as the period of 3 months has expired without any cause being shown to the contrary, from the date of notice from RoC issued under Section 560 of the Companies Act, 1956.

q) Closure of two of the Group Companies in the recent past

The names of two of the ventures of our Promoters viz. Omega Fabrics Private Limited and Hanung Toys Limited, have been deemed to be struck off from the Register of Companies of RoC as the period of 3 months have expired without any cause being shown to the contrary, from the date of notice from RoC issued under Section 560 of the Companies Act, 1956.

r) Risk associated with negative covenants in our agreements with our Lenders

We are subject to usual and customary restrictive covenants in agreements that we have entered into with our banks for short-term loans and long-term borrowings. These restrictive covenants require us to seek the prior permission of the banks to:



- Effect any change in the capital structure.
- Formulate any scheme of amalgamation and reconstruction.
- Undertake any new project or expansion schemes/modernization/diversification /renovation or acquire any fixed assets, unless the expenditure on such expansion, etc, is covered by the company's net cash accruals after providing for dividends, investments etc, or from long term funds received for financing such new projects or expansion.
- Invest by way of share capital in or lend or advance funds to or place deposits with any other concern.
- Enter into borrowing arrangements either secured or unsecured with any other bank, financial institution, company or otherwise save and except the working capital facilities granted/ to be granted by other consortium member banks, under consortium arrangement with the bank and term loans proposed to be obtained from financial institutions/ banks for completion of the replacement-cum-modernization programme.
- Undertake guarantee obligation on behalf of any other company.
- Declare dividends for any year except out of profits relating to that year and with specific approval from the banks.
- Withdraw loans/deposits secured from promoter shareholders, directors, depositors and promoters of the company.
- The company should not make any drastic change in its management setup without the bank's permission.
- Pay any commission to the guarantors towards the guarantees executed by them for the credit facilities granted by the banks to the company.
- Create any further charge, lien or encumbrance over the assets and properties of the Borrower to the assets charged to the Bank in favour of any other bank, financial institutions, Company, firm or person.
- Sell, assign, mortgage or otherwise dispose off any of the fixed assets charged to the bank.

We have obtained No Objection Certificates from our bankers i.e. Punjab National Bank, Union Bank of India, Syndicate Bank, Bank of Baroda and State Bank of India that they have no objection for the proposed Issue / IPO.

- s) ***The loan agreements that we intend to enter with the banks for the rupee debt component of the total requirements of funds also provides for similar restrictive covenants. Further, there are conditions stipulated in the sanction letters which we have received for the rupee debt component of the total requirements of funds providing for conditions to be fulfilled prior to disbursement. If we fail to comply with such pre disbursement conditions, implementation of our plans may get delayed. For details, please refer to chapter titled "Objects of this Issue" beginning on page 25 of this Red Herring Prospectus.***
- t) ***Our name Hanung Toys and Textiles Limited comprises the word "Hanung", which had been provided under the Foreign Collaboration with the Korean Company viz. Hanung Industrial Co. Limited entered into by our Promoter's Partnership Concern Hanung Toys (India) in the year 1990. As on date there are certain other companies in India as well as abroad, which are using the same word as a part of their corporate names.***



u) This Proposed Expansion Project would be our Promoters first integrated textile plant.

Our Promoters are into the business of stuff toys manufacturing for almost last 15 years and have 3 years experience in dyeing, printing and home furnishing for exports. Thrust of the Proposed Expansion Project is to manifold increase export of home furnishing textiles. Inexperience of our Promoters in weaving may lead to delay in implementation of the Proposed Expansion Project.

v) Our limited experience of managing corporate affairs of widely held companies.

So far our Promoters were running their business through closely held companies and partnership firms. Therefore, they have no experience in managing compliance requirements applicable to widely held companies. Inability of our Promoters to respond appropriately to the changed regulatory environment applicable to widely held companies may adversely affect our Company.

w) Allotment of Equity Shares to Promoters/ Promoter Group Companies and other persons at a price lower than the Issue Price to be discovered through book building in this Issue.

We have made the following allotments of Equity Shares to our Promoters/ Promoter Group Companies and the price of such issues may be lower than the Issue Price:

Date	Number of Shares	Face Value	Issue Price	Details
October 31, 2005	60,50,335	10	38.11	Issue of Equity Shares at the Book Value to Promoter Group Companies viz. HFPL and HPPL pursuant to the Agreement to Sell and Purchase of business dated October 21, 2005
January 24, 2006	19,05,500	10	10	Issue of Equity Shares for cash at par to Promoter Group Company, namely, Abhinav International Private Limited
January 24, 2006	5,33,540	10	10	Issue of Equity Shares for cash at par to Promoter Group Company, namely, C.K. Software Private Limited

x) Any future issuance of Equity Shares by our Company or major shareholders may dilute your holding percentage in our Company.

To fund future growth plans of our Company we may further raise capital by way of issuance of Equity Shares or convertibles in domestic or overseas market. Such further issuance of Equity Shares or convertibles could dilute your shareholding in our Company. Further, perception of such further Issues may also affect the trading price of our Equity Shares.

Also, sale by the Promoters or major shareholders of their shareholding (subject to lock-in compliances) may affect the trading price of the Equity Shares of our Company.

y) Interests of Promoters/ Directors

Our Promoters may be deemed to be interested to the extent of Equity Shares held by them, their friends or relatives or the Group Companies, and benefits arriving from their directorship in our Company. The promoters are interested in the transaction entered into between our Company and the ventures where our Promoters are interested either as a promoter, director, partner, proprietor or otherwise. For details please refer the chapters "Our Management" and "Our Promoters and their Background" beginning on pages 88 and 99 of this Red Herring Prospectus.

z) Interest of BCCL

BCCL forms part of the top ten shareholders of our Company and may be deemed to be interested to the extent of Equity Shares held by it. Further, BCCL would also be interested to the extent of advertising costs



payable by us for advertisements / publicity regarding our Company that may appear in newspapers owned by BCCL. For details on the advertising agreement entered into with BCCL, please refer section titled "History and Other Corporate Matters" beginning on page 82 of this Red Herring Prospectus.

aa) There are certain restrictive covenants in the shareholders agreement entered into by our Company with BCCL.

As per the shareholders agreement entered into between our Company and BCCL dated February 11, 2006, as long as BCCL holds not less than 2% Equity Shares in the Share Capital of HTTL, any decision (a) relating to any matter for which a special resolution of the shareholders is required under the Companies Act, (b) having any bearing on the rights of BCCL set out in the Agreement, (c) relating to pledge, mortgage, charge or otherwise encumber any of its Shares, options or warrants or any interest in any such Shares, options or warrants, (d) the Promoters shall not either alone or jointly with any other person, directly or indirectly, engage, involve, invest substantially, be concerned or interested in any business, venture or project which directly or indirectly competes with the business of our Company and (e) affecting share capital or shareholding of our Company, whether taken by the Board or shareholders or the promoters shall be taken after written prior consent of BCCL, otherwise the same would not be binding on HTTL and shall not be given effect.

bb) Order passed by the Delhi High Court against our Company

The High Court of Delhi has in Civil Suit No. 1938/1999 passed an order dated May 26, 2006 wherein our Company has been held liable to pay Pavilion Investment Limited the dues for the supply of raw materials supplied to us as per a memorandum of understanding entered into between our Company and Pavilion Investment Limited amounting to Rs. 53,16,750/- with cost and interest @ 12% from the date of presentation of the Suit and 9% from the date of decree till recovery of the aforesaid amount.

cc) There are outstanding litigations and notices issued by various authorities against our Company.

We are involved in certain legal proceedings that are pending at different levels of adjudication before the High Court, Labour Court and various tribunals. Should any new developments arise, such as a change in Indian law or rulings against us by appellate courts or tribunals, we may need to establish reserves in our financial statements, which could increase our expenses and our current liabilities. Furthermore, if a claim is determined against us and we are required to pay all or a portion of the disputed amount, it could have a material adverse effect on our results of operations and cash flows. For further information regarding litigation, please refer chapter titled "Outstanding Litigation, Material Developments and Other Disclosures" beginning on page 137 of this Red Herring Prospectus.

Types of cases	No. of cases involved	Amount involved (Rs. in lakh) (Approx.)
Labour disputes	14	Not assessable

dd) The following are the details of the tax related penalties levied against our Company

Notice issued by the Trade Tax Department Noida dated March 17, 2005 and November 9, 2005 under section 28 (a) of the Uttar Pradesh Trade Tax Act, 1948 with respect to the toys unit regarding missing of Form 31 (Import Declaration Form) for raw materials imported in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 2,50,000/-.

Notice issued by the Trade Tax Department Noida dated March 19, 2005 and November 9, 2005 under Section 15 (1) (o) of the Uttar Pradesh Trade Tax Act, 1948 with respect to the toys unit regarding error in Form 31 (Import Declaration Form) for import of raw materials in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 28,000/-.

Notice issued by the Trade Tax Department dated October 3, 2005 under section 28 (a) of the Uttar Pradesh Trade Tax Act, 1948 with respect to the processing unit regarding error in Form 31 (Import Declaration Form) for import of raw materials in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 18,400/-.



Notice issued by Trade Tax Department, Noida dated July 16, 2005 and November 9, 2005 under section 28 (a) of the Uttar Pradesh Trade Tax Act, 1948 with respect to the furnishing unit regarding error in Form 31 (Import Declaration Form) for import of raw materials in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 84,000/-.

Notice issued by the Trade Tax Department, Noida dated September 10, 2005 under section 15 (1) (o) of the Uttar Pradesh Trade Tax Act, 1948 with respect to the furnishing unit regarding missing Form 31 (Import Declaration Form) for import of raw materials in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 37,500/-.

Notice issued by the Trade Tax Department, Noida dated September 19, 2005 under section 28 (a) of the Uttar Pradesh Trade Tax Act, 1948 regarding error in Form 31 (Import Declaration Form) for import of raw materials in FY 2005-2006. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 6,000/-.

ee) The following are the details of the penalties levied against our Company and our Directors:

Show Cause Notice dated November 14, 2005 issued to our Chairman-cum-Managing Director, Mr. Ashok Kumar Bansal for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 1,000/- has been paid by our Chairman-cum-Managing Director, Mr. Ashok Kumar Bansal for the same.

Show Cause Notice dated November 14, 2005 issued to our Whole-time Director, Mrs. Anju Bansal for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 1,000/- has been paid by our Whole-time Director, Mrs. Anju Bansal for the same.

Show Cause Notice dated November 14, 2005 issued to our ex-Director, Mr. Brij Lal Bansal for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 1,000/- has been paid by our ex-Director, Mr. Brij Lal Bansal for the same.

Show Cause Notice dated November 14, 2005 issued to our ex-Director, Mr. Ashwani Singla for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 1,000/- has been paid by our ex-Director, Mr. Ashwani Singla for the same.

Our Directors and ex-Directors had filed a petition dated January 3, 2006 under Section 383A read with Section 621A of the Act against the above mentioned notices before the Company Law Board showing cause as to why we had not appointed a Whole-time Company Secretary for the said period and for compounding of the offences committed under section 383A of the Act.

The Company Law Board *vide* its order dated February 24, 2006 has allowed for the above mentioned offences to be compounded on payment of Rs. 5,000/- by the Company and Rs. 1,000/- by each the Managing Director, Whole-time Director and ex-Directors.

For further information regarding the penalties levied against our Company and our Directors, please refer chapter titled "Outstanding Litigation, Material Developments and Other Disclosures" beginning on page 137 of this Red Herring Prospectus.

ff) The Promoters and Promoter Group will collectively own approximately 60% of Equity Shares in our Company post listing and will continue to control and exercise substantial influence over our Company. Their interest may conflict with your interest as a shareholder.

Post listing our Promoters and Promoter Group will hold approximately 60% in the paid-up equity capital of our Company. As a result, our Promoters will have the ability to exercise significant influence over the decisions of our Company, as they will be able to determine the outcome of all actions requiring the approval of the shareholders or/ and our Board. The interests of our Promoters may conflict with the interests of our



other investors, and you may not agree with the manner in which they exercise their powers of management or voting rights.

gg) We have entered into two agreements dated August 29, 2005 and May 31, 2006 with The Walt Disney Company (India) Private Limited to use some of the specified materials and trademarks ("licensed materials") in relation to our toys and home furnishing manufacturing. In terms of the agreements, we are under an obligation to aggressively market the articles based on the licensed materials provided in the agreements during the tenure of the agreement. Further, as per the said agreements, we are required to carry out the Marketing commitment (amount spent on consumer or trade advertisings, promotion and marketing activities) to the extent of 5% and 2%, respectively of the net invoiced billings and also get our marketing plans reviewed and approved by The Walt Disney Company (India) Private Limited.

Our agreements with The Walt Disney Company (India) Private Limited in relation to the use of some of the cartoon characters in relation to our stuff toys and home furnishings products require us to aggressively market the licensed materials as per the terms of the agreements. With the marketing team comprising of the Executive Vice-President (Marketing), General Managers, Managers and Marketing Executives, we do not foresee any difficulty in fulfilling this commitment. However, any shortfall in relation to the same will lead to the default consequences as provided under the said agreements.

hh) We have entered into an agreement dated January 11, 2006 (Effective from March 8, 2006) with Percept Picture Company Private Limited wherein we have been granted certain limited pre-approved manufacturing and selling rights to use the characters used in the animated motion picture "Hanuman". As per the agreement, the minimum sales projections during the term shall be 10000 units of the articles mentioned in the agreement. The consideration for such rights shall be calculated @4.5% on the Maximum Retail Price (MRP) per unit mentioned in the agreement. In the event, articles have been sold at a price lower than the said MRPs we would be under an obligation to pay the consideration to PPCPL calculated at the said MRP only.

With the marketing team comprising of the Executive Vice-President (Marketing), General Managers, Managers and Marketing Executives, we do not foresee any difficulty in fulfilling the obligations provided in the said agreement. However, any shortfall in relation to the same will lead to the default consequences and financial liability on us.

ii) We have not executed the "Conveyance Deed" for transfer of title rights for the property "B-7, Hosiery Complex, NSEZ, Noida 201 305, Uttar Pradesh" from our Group Company Hanung Processors Private Limited to us pursuant to the Agreement to Sell and Purchase dated October 21, 2005.

As per the terms of the Agreement to Sell and Purchase dated October 21, 2005, whereby we acquired the business of our Promoter Group Company Hanung Processors Private Limited as a going concern basis, we were to execute a conveyance deed for the transfer of title rights for the property where the unit is situated. However, we have not executed the same as on the date of filing of this Red Herring Prospectus with SEBI and therefore the title rights of the said property do not vest with us.



EXTERNAL RISK FACTORS

1. *Reduction or termination of policies instituted to promote growth of the textile sector*

The Government of India has instituted several policies to promote the growth of the Indian textile sector. These include interest rate subsidies, duty / tax reimbursement schemes like duty drawback / DEPB. Termination of or variation in the terms of such policies can adversely impact the profitability of textile companies in the country.

2. *Probable opposition to sourcing stuff toys and made-ups from India*

Potential threats to the domestic textile industry in developed countries which are not as competitive as India and China has led to a growing political opposition to sourcing of home furnishings from countries such as India. Any increase in such opposition can lead to non quantitative restrictions being imposed on export of home furnishings from countries such as India and China and impact the growth of textile industry players in such countries.

3. *Emergence of competition from other manufacturing countries having Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs) with the major importing countries*

While quantitative restrictions stand eliminated with the removal of quotas, certain countries which enjoy FTAs / PTAs with major importing countries may have an advantage (by way of lower or zero import tariffs) over exporters from countries that do not have such agreements. India currently is not party to such agreements.

4. *Stability of economic policies and the political situation in India could adversely affect the fortunes of the industry*

There is no assurance that the liberalization policies of the government will continue in the future. Protests against privatization could slow down the pace of liberalization and deregulation. The Government of India plays an important role by regulating the policies and regulations governing the private sector. The current economic policies of the government may change at a later date. The pace of economic liberalization could change and specific laws and policies affecting the industry and other policies affecting investment in our Company's business could change as well. A significant change in India's economic liberalization and deregulation policies could disrupt business and economic conditions in India and thereby affect our Company's business. Unstable internal and international political environment could impact the economic performance in both the short term and the long term.

The Government of India has pursued the economic liberalization policies including relaxing restrictions on the private sector over the past several years. The present Government has also announced policies and taken initiatives that support continued economic liberalization.

The Government has traditionally exercised and continues to exercise a significant influence over many aspects of the Indian economy. Our Company's business, and the market price and liquidity of the Equity Shares, may be affected by changes in interest rates, changes in Government policy, taxation, social and civil unrest and other political, economic or other developments in or affecting India.

5. *Risk Arising out of Volatility of Capital Markets.*

The price of our Company's Equity Shares in Indian stock exchanges may fluctuate after this Issue as a result of several factors, including:

- Volatility in the Indian and global securities market;
- Our Company's results of operations and performance;
- Perceptions about our future performance or the performance of Indian home textile companies or market for stuff toys;
- Performance of competitors in the Indian stuff toys and home furnishings manufacturing industry and market perception of investments in the Indian stuff toys and home textile manufacturing sector;
- Adverse media reports on our Company or on the Indian stuff toys and textile industry;



- Change in the estimates of our Company's performance or recommendations by financial analysts;
- Significant development in India's economic liberalization and deregulation policies; and
- Significant development in India's fiscal and environmental regulations.

There has been no public market for the Equity Shares of our Company till now and the prices of the Equity Shares may fluctuate after this Issue. There can be no assurance that an active trading market for the Equity Shares will develop or be sustained after this Issue, or that prices at which the Equity Shares are initially offered will correspond to the prices at which the Equity Shares will trade in the market subsequent to this Issue. The share price of our Company could be volatile and may also decline.

6. *Force Majeure*

In future there might be a natural calamity like earthquake, tsunami, volcano, etc. or some unforeseen event that is beyond the control of our Company that might prevent us from performing our business obligations and adversely affect our business, results of operations, financial conditions and cash flows.

7. *An economic downturn may negatively impair our Company's operating results*

An economic downturn or slowdown may adversely affect our Company's business and operating results.

Notes to Risk Factors:

- The net worth of our Company as per the Report of our Auditor, M/s. Rohtas & Hans as on June 30, 2006 is Rs. 7,173.20 lakh.
- Public Issue of 95,00,000 Equity Shares of Rs. 10/- Each at a price of Rs. [●] per Equity Share for cash aggregating Rs. [●] lakh. This Issue comprises of reservation of 5,00,000 Equity Shares aggregating Rs. [●] lakh for Eligible Employees on a competitive basis and the Net Issue of 90,00,000 Equity Shares aggregating Rs. [●] lakh. The Net Issue would constitute 35.73% of the Post Issue Paid-up Capital of our Company.
- The average cost of acquisition of Equity Shares by our Promoters viz. Mr. Ashok Kumar Bansal and Mrs. Anju Bansal is Rs. 3.65 and Rs. 3.77 per share respectively. The Book value per share as on March 31, 2006 and June, 30, 2006 is Rs. 42.65 & Rs. 45.72 per share of Rs.10/- each respectively.
- The Related Party Transactions as per the Report of our Auditors, M/s. Rohtas & Hans for the past three years is as follows:

Financial Year 2005-06	Financial Year 2004-05	Financial Year 2003-04
I. Related Parties		
a. Associate Companies		
Hanung Processors Private Limited	Hanung Processors Private Limited	Hanung Processors Private Limited
Hanung Furnishings Private Limited	Hanung Furnishings Private Limited	Hanung Furnishings Private Limited
Abhinav International Private Limited	Abhinav International Private Limited	Abhinav International Private Limited
C.K. Software Private Limited	C.K. Software Private Limited	C.K. Software Private Limited
Praneet Softech Private Limited	Praneet Softech Private Limited	Praneet Softech Private Limited
Hanung Toys Limited	Hanung Toys Limited	Hanung Toys Limited
Omega Fabrics Private Limited	Omega Fabrics Private Limited	Omega Fabrics Private Limited



b. Key Management Personnel

Mr. Ashok Kumar Bansal	Mr. Ashok Kumar Bansal	Mr. Ashok Kumar Bansal
Mrs. Anju Bansal	Mrs. Anju Bansal	Mrs. Anju Bansal
Col. Ashok Malhotra	-	-
Mr. Sanjeev Hota	-	-

c. Relatives of Key Management Personnel

Mrs. Manisha Hota (Wife of Mr. Sanjeev Hota)	N.A.	N.A.
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d. Transactions with Related Parties

(Rs. in Lacs)

Nature of Transactions	Associates Companies			Key Management Personnel		
	F Y 2005-06	F Y 2004-05	F Y 2003-04	F Y 2005-06	F Y 2004-05	F Y 2003-04
Purchase of Goods & Services	58.90	844.23	52.94	3.36	-	-
Sale of Goods & Services	-	1042.59	203.77	-	-	-
Advances Outstanding & Receivable	80.94	-	291.72	-	-	-
Loans & Security Outstanding	-	-	14.00	-	-	-
Fixed Assets	-	-	2.75	-	-	-
Remuneration	-	-	-	42.00	13.80	13.80

- The outstanding loans and advances as on June 30, 2006 to our Group Companies, namely Praneet Softech Private Limited and Hanung Processors Private Limited is Rs. 80.94 lakh and Rs. 0.05 lakh respectively.
- Other than as disclosed either in related party transaction or otherwise, our Promoters / Directors / key management personnel of our Company have no interest other than reimbursement of expenses incurred or normal remuneration or benefits arising out of the shareholding in our Company or out of any business relation with any of the ventures in which they are interested. For interests of our Promoters and Directors, please refer the chapters "Our Management" and "Our Promoters and their Background" beginning on pages 88 and 99 of this Red Herring Prospectus.
- None of the other ventures of the Promoters have business interests / other interests in the Issuer Company.
- No loans and advances have been made to any person(s) / Companies in which the Director(s) of our Company are interested except as stated in the Report of our Auditors, M/s. Rohtas & Hans, Chartered Accountants. For details please refer to section titled "Financial Information" beginning on page no. 107 of this Red Herring Prospectus.
- The Investors are advised to refer to the chapter titled "Basis of Issue Price and Justification for the Premium" beginning on page no. 41 of this Red Herring Prospectus before making any investment in this Issue.
- Investors may note that in case of over-subscription in this Issue, allotment to QIB's, Non Institutional, Retail Portion, and Eligible Employees, shall be on proportionate basis. For details, please refer to "Basis of Allotment" beginning on page no. 176 of this Red Herring Prospectus.
- The name of our Company has been changed from "Hanung Toys (India) Limited" to "Hanung Toys and Textiles Limited" w.e.f January 9, 2006, consequent to our decision to enter into textile sector. The main objects clause of our Memorandum was amended on October 31, 2005 to incorporate the new activities undertaken by our Company.
- The Investors may contact the Book Running Lead Managers or the Compliance Officer for any complaint/ clarification / information pertaining to this Issue, who will be obliged to attend to the same.



SECTION III: INTRODUCTION

SUMMARY

This is only a summary and does not contain all the information that you should consider before investing in our Equity Shares. You should read the entire Red Herring Prospectus, including the information contained in the chapters titled "Risk Factors" and "Financial Statements" and related notes beginning on pages x and 107 of this Red Herring Prospectus before deciding to invest in our Equity Shares.

INDUSTRY OVERVIEW

The Global Soft Toys Industry

The retail value of the global toy industry is estimated at around \$150 bn for 2005. Toys can be classified into radio-controlled electronic / mechanical toys, regular soft plush toys, DIY (do-it-yourself) toys and educational games/toys, dolls, computer games, collectibles and so on. The export (ex-country) market size of regular soft plush toys is estimated at US \$2.2 billion, of which roughly 70% is controlled by China. Stuffed plush toy exports from China were estimated at US \$1.54 billion in 2004.

The Indian Toy Industry

The size of Indian toy industry is estimated at Rs. 1,00,000 lakh. This includes manufacturers of fun games, electronic toys, stuff toys, educational games, toy cars, rattles, dolls, plush toys, computer games, brain teasers, children puzzles etc. The toy industry is characterized by small-scale establishments and is fairly labour intensive. Broadly, toys can be categorized in three categories: mechanical toys, electrical toys and stuff toys. 70% of India's toys and games manufacturers, exporters and suppliers are located in the unorganised sector. Stuff toys account for 15% of India's total production of toys.

Overview of the Indian Textile Industry

Textile is among the leading sectors in the Indian economy in terms of production, exports, employment and contribution to the exchequer. According to the Confederation of Indian Industry (CII), textile industry has high growth potential given inherent strengths such as abundant raw materials, low labour cost and a thriving domestic market. Textile industry is also important from a foreign exchange and employment perspective. The sector employs 3.5 crore people and is the second highest employer in the country. It contributes to about 16.7% (US \$13.5 billion) of India's total export earnings and about 4% to the country's GDP. The high capital employment ratio has immense potential to promote employment, especially in the rural areas.

Indian textile industry is multi-fibre based, using cotton, jute, wool, silk and man-made and synthetic fibre. India has a share of 14 per cent in \$31billion global cotton export trade. India accounts for 23 per cent of the world's installed capacity of spindles. Not surprisingly, cotton yarn accounts for a large portion of yarn production in the country. The country also has the largest cotton acreage of nine million hectares in the world. In fiscal 2003-04, India's cotton production totalled 2.84 million tons making it the third largest producer of cotton in the world, accounting for 13.90 per cent of the global production. Worldwide, India ranks fourth in staple fibre production and sixth in filament yarn production.

(Source: Ministry of Textiles, Government of India)

BUSINESS OVERVIEW

We are engaged in the manufacturing and exporting of stuff toys and home furnishing. Incorporated in the year 1990, we started our operations in 1993 by taking over the business, as a going concern, of a partnership firm M/s. Hanung Toys (India) which was running a manufacturing unit for stuff toys in technical collaboration with a South Korean Company viz. Hanung Industrial Co. Ltd. Our Promoters are Mr. Ashok Kumar Bansal and Mrs. Anju Bansal. After the initial association of five years with the South Korean company for technical know-how, today we are independently operating in stuff toys manufacturing. Our toys manufacturing unit is established in the Noida Special Economic Zone (NSEZ) wherein the benefits of duty free imports and single window clearance for imports/exports are available.

Subsequently, our Promoters have also ventured into the home furnishing and textile processing in the year 2002 through the Companies, Hanung Furnishings Private Limited and Hanung Processors Private Limited respectively. As a part of our business integration strategy, we have acquired the business of these two Promoter Group Companies through a Slump Sale Arrangement vide an Agreement to Sell and Purchase, wherein all the assets and liabilities have been taken over by us on a going concern basis. For details, please refer chapter titled "History and Other Corporate Matters" beginning on page 82 of this Red Herring Prospectus.

Thus, our business units consist of toys manufacturing facility, home furnishing production facility and textile processing facility, all located in Noida. Today, we have approximately 450 sewing machines in our stuff toys unit with capacity of producing 1,10,00,000 pcs. p.a. and approximately 250 sewing machines in our furnishing unit with the capacity of manufacturing 12,50,000 sets p.a. Also, in our textile processing unit, we have the capacity of processing 60,00,000 meters p.a. and have the '16 color 108 inches wide' printing machine.



At present, we mainly deal with the overseas markets viz. Europe, USA, Latin America and the Middle East and have been able to attract and retain known names. We have been serving these markets with both stuff toys and home furnishings and our customers are primarily large importers/ whole sellers that service the respective retailers in their country.

In USA, our major buyers are Britannica Home Fashions, CHF Industries, Spring Industries, Mohawk Home, The Bombay Company, Kojo Worldwide, Meijer and America Pacific. In Europe, our buyers include IKEA, Metro Group, ASDA (Walmart), A loja do gato preto, Carpenter, Francodim. In Latin America, we have Sodimac (Chile) as our Buyers. Though we do not have any long-term arrangement with these customers we have been getting repeat orders from them.

GEOGRAPHICAL SEGMENTATION OF EXPORTS IN LAST 3 YEARS

(Rs. in lakh)

	FY 2005-06		FY 2004-05		FY 2003-04	
	Amount	%	Amount	%	Amount	%
USA	11193.21	80.76	4567.98	58.68	3180.57	46.68
Europe	2209.62	15.94	2923.77	37.55	3315.25	48.66
Canada	291.72	2.10	222.72	2.86	167.26	2.45
Latin America	45.18	0.33	68.93	0.89	94.38	1.39
Australia	—	—	—	—	42.59	0.63
Other Countries	120.94	0.87	1.62	0.02	12.72	0.19

Note: During the FY 2005-06, we have acquired the business of two of our Promoter Group Companies viz. HPPL and HFPL. Accordingly, the geographical segmentation for the FY 2005-06 has been depicted after taking into account the exports made in the textile processing as well as home furnishing business w.e.f. October 29, 2005.

CUSTOMER SALES GROWTH IN THE LAST 3 YEARS

(Rs. in lakh)

Customers	FY 2005-06		FY 2004-05		FY 2003-04	
	Amount	%	Amount	%	Amount	%
Top 1	3840.19	26.18	1660.44	20.64	2459.58	34.88
Top 2	6946.48	47.36	2995.80	37.24	4394.68	62.33
Top 5	12305.54	83.90	4846.88	60.25	5305.00	75.24

Note: During the FY 2005-06, we have acquired the business of two of our Promoter Group Companies viz. HPPL and HFPL. Accordingly, the customer sales growth for the FY 2005-06 has been depicted after taking into account the sales made in the textile processing as well as home furnishing business w.e.f. October 29, 2005.

Nevertheless, we have also launched our Domestic Brands viz. "Play-n-Pets" and "Muskan" in stuff toys and "Splash" in home furnishing. "Play-n-Pets" and "Splash" are our registered trademarks. We have applied for the registration of other brands with the Registrar of Trademarks, New Delhi. Till now we have not been concentrating on the domestic markets, however, we have developed the network of distributors and retailers across the length and breadth of the Country.

The domestic distribution under three of our brands viz. "Play-n-Pets", "Muskan" and "Splash" is done through network of distributors and retailers. We cater to the demands of more than 100 distributors for the stuff toys under the brands "Play-n-Pets" and "Muskan" spread in all the four regions viz. North, South, West and East. Our stuff toys are available across the country at more than 3000 retail stores and multi brand outlets including Kids Kemp, Lifestyle, Land Mark, Archies Ltd., Vishal Retails Pvt. Ltd., Big Bazaar, Globus, Hyper City, Shoppers Stop, Piramyd, Wellspun, Odyssey, Pantaloon Central, Westside etc.

Similarly, in home furnishings, we supply our "Splash" range to more than 20 distributors who in turn cater to a network of more than 600 retailers spread across India.

We have international quality standard certifications like EN-71 (European Standards), ASTM (American Standards) and BS-5852 (British Standards). We have been awarded ISO 9001: 2000 for quality management systems to manufacture, supply and export of home furnishings and stuff toys.

COMPETITIVE STRENGTHS

Duty Free Imports and Single Window Clearance

Being located in the Special Economic Zone, we have the benefits of duty free imports in respect of raw materials we use in relation to our toys unit. Further, we have the Single Window Clearance for the exports/imports wherein we save the time, which is involved in taking goods to the customs clearance, resulting in maintaining the time schedule for deliveries.



Benefits at the Proposed Home Textile Unit near Roorkee in Uttaranchal

- 100% Central Excise exemption for First Ten Years
- 100% Income Tax exemption for First Five Years and 30% exemption for next five years
- Central Sales Tax @1% for first five years
- Capital Investment Subsidy @15% with maximum of Rs. 30,00,000
- Exemption from Entry Tax on Plant and Machinery
- Competitive Power Tariffs

Design and Development

We are manufacturing the shaped stuff toys and home furnishings wherein innovation in designing and colour combinations is the key element to remain competitive. We have separate design teams for both the units to create new designs keeping in view the market flavour and also on the basis of customer's requirements. Today, we have a library of over 4000 designs.

Dedicated Prototype Development Facilities

We have separate facilities dedicated completely towards producing the prototypes of toys as well as home furnishings as per designs developed by our design team on the basis of customer's specifications. Our marketing department continuously interacts with the customers and samples are made, remade and design changes are incorporated till the customer finally approves the particular prototype. Then the specifications of approved prototypes are used to complete the purchase orders. The entire process is very time consuming but with our dedicated in-house facility, we have been able to meet the delivery schedules on time.

Quality Assurance

In all our facilities viz. stuff toys, home furnishing, and textile processing, stringent quality checks are carried out starting from procurement of raw materials till the end of production process. In our stuff toys and home furnishing units, we carry out the inspections and checks such as 100% fabric check in respect of missing threads, random checks during the cutting and sewing stages to ensure removal of defects at these respective stages, 100% skin metal test through a metal detector to ensure safety against any broken needle part or any unwanted element being left in the finished product. Similarly, in our textile processing unit, we maintain a separate lab consisting of Spectrophotometer, Light Fastness Tester, Random Pilling Tester, Crock Meter, Tear Strength Tester, Washing Fastener Tester to ensure quality of dyeing and printing. The quality assurance measures are taken to make sure that quality is maintained, to identify and analyse areas of improvement, creation of database for future reference and analysis etc.

Interest Cost Benefits

We are operating both in the stuff toys and textile segments. Accordingly, TUFS benefits are available to us and consequently the weighted average interest rate of our existing term loans after considering the benefits on loans covered under TUFS is around 5%. This has helped us in lowering the overall average cost of funds and has increased our competitiveness. As we are expanding in the textile segment, the effective interest cost of the specified term loans will further reduce to 3.5% per annum taking into account the benefits available to us under TUFS.

Continued Association with Customers

We are catering to the demands of markets like Europe, USA, Latin America and the Middle East. We have been getting the repeat orders from our customers like IKEA, Sweden since the start of our operations.

Established Domestic Network and Brands

Although, till now we have been mainly catering to the overseas markets, nonetheless we have also launched our domestic brands viz. "Play-n-Pets" and "Muskan" in stuff toys and "Splash" in home furnishings. We are already catering to the network of more than 100 distributors for the Stuff toys under the brand "Play-n-Pets" and "Muskan" spread in all the four regions viz. North, South, West and East and multi brand outlets including Lifestyle, Piramyd, Wellspun, Odyssey, Pantaloon Central, Ebony, Shoppers Stop etc.

Similarly, our "Splash" range is supplied to more than 20 distributors who in turn cater to the network of more than 600 retailers spread across India.



OUR BUSINESS STRATEGY

Our core business segments include stuff toys and home furnishings. The opening up of the Indian economy after phasing out of Quota Regime in the textile sector and the strategic advantages of the Indian manufacturing sector in general has given us an unlimited opportunity to grow in the international market. The stuff toy and home furnishing industry in particular has vast scope for development in the organized sector.

We propose to adopt the following strategy for our future growth:

New Facilities and Expansion

After the acquisition of business of our Promoter Group Companies, now, we have the processing and home furnishing manufacturing facilities but do not have the production facility for fabric. This would require us to buy the fabric from outside as has been happening prior to acquisition of business of our Promoter Group Companies *vide* Agreement to Sell and Purchase. The same is time consuming and requires continuous monitoring on the deliveries and inspections making us dependent on the fabric manufacturers. Thus, in order to become self-dependent and competitive in terms of turnaround time and quality, we intend to pursue the strategy to have in-house facilities starting from fabric production till home furnishings. Accordingly, we propose to set up a new home textile manufacturing facility having weaving, processing and made-ups unit with the production capacity of 21000 meters of grey fabric per day, about 1,05,000 meters of processed fabric per day and 16,058 sets of made-ups per day, respectively.

Also, we plan to increase the production capacity of our existing stuff toys unit at Noida out of our internal accruals to meet the growth in the market share as well as the anticipated demands of the Indian, US and European markets.

Product Portfolio

We propose to expand the existing toy product mix of over 4000 SKUs substantially, to meet the diverse market needs. We have recently tied up with "Disney" to use their various specified cartoon characters and with "PPCPL" wherein we have been granted certain pre-approved manufacturing and selling rights in respect of characters used in the animated motion picture "*Hanuman*". Further, we propose to ink similar strategic alliances with other icons and business ventures in the future.

Focus on domestic retail space

With the established domestic brands viz. "*Play-n-Pets*", "*Muskan*" and "*Splash*" and the established network of distributors/retailers and institutional clients, we also intend to focus and tap the Indian market through aggressive marketing and brand building of "*Play-n-Pets*", "*Muskan*" and "*Splash*" range.

Customer Base

With the increasing opportunities available in the post quota regime, we intend to strengthen our customer base in the existing as well as in the new markets in both our toys and textile segments. We target to achieve the same through increase in number of distributors / dealers as well as tie up with leading stores and align with new buyers in the existing markets of North America and Europe.

Constant updation on Design and Development

We have an in-house design studio for both toys and home furnishings which is manned by 10 designers for furnishing and 12 designers for toys, qualified, experienced and trained in their respective fields. They work very closely with the Marketing Team on a daily basis to understand individual/key customer's needs as well as on the seasonal / current colour and fabric forecasts and trends to develop top-of the line collections using various techniques available. We aim at making it improved and updated to remain competitive.



THIS ISSUE

Equity Shares Offered:	
Issue by our Company	95,00,000 Equity Shares aggregating to Rs. [●] lakh.
Of which	
Reserved for Eligible Employees ⁽¹⁾	5,00,000 Equity Shares aggregating to Rs. [●] lakh constituting 5.26 % of this Issue allocated on a proportionate basis
And	
Net Issue	90,00,000 Equity Shares aggregating to Rs. [●] lakh
Comprising	
A) Qualified Institutional Buyers Portion	Upto 45,00,000 Equity Shares aggregating to Rs. [●] lakh, constituting upto 50% of the Net Issue allocated on a proportionate basis. Of which, 2,25,000 Equity Shares aggregating to Rs. [●] lakh will be available for allocation to Mutual Funds and balance for all QIBs including Mutual Funds.
B) Non-Institutional Portion ⁽²⁾	Not less than 13,50,000 Equity Shares aggregating to Rs. [●] lakh, constituting not less than 15% of the Net Issue that will be available for allocation to Non-Institutional Bidders on a proportionate basis.
C) Retail Portion ⁽²⁾	Not less than 31,50,000 Equity Shares aggregating to Rs. [●] lakh constituting not less than 35% of the Net Issue that will be available for allocation to Retail Individual Bidders on a proportionate basis.
Equity Shares outstanding prior to this Issue	1,56,87,925 Equity Shares
Equity Shares outstanding after this Issue	2,51,87,925 Equity Shares
Use of Proceeds	Please refer to chapter titled "Objects of this Issue" beginning on page 25 of this Red Herring Prospectus for additional information.

⁽¹⁾ Under-subscription, if any, in the Employee Reservation Portion will be added back to the Net Issue and the same would be allocated proportionately by our Company in consultation with the BRLMs.

⁽²⁾ Under-subscription, if any, in any of the above categories would be allowed to be met with spillover inter-se from any other categories, at the sole discretion of our Company and BRLMs.



SUMMARY OF FINANCIAL DATA

You should read the following information together with the information contained in the Auditors' report included in section titled "Financial Information" beginning on page 107 of this Red Herring Prospectus.

Summary of Financial Data under Indian GAAP

The following table sets forth selected financial information of our Company as of and for the year ended on March 31, 2002, 2003, 2004, 2005, 2006 and for the period of three months ended on June 30, 2006, all prepared in accordance with Indian GAAP, the Companies Act, 1956 and restated under the SEBI Guidelines:-

SUMMARY OF PROFIT AND LOSS AS RESTATED

(Rs. in Lac)

	Particulars	01.04.06 - 30.06.06	2005 - 06	2004 - 05	2003 - 04	2002 - 03	2001 - 02
A.	INCOME						
	Operational Income	5,471.16	14,667.75	8,044.50	7,051.04	6,614.12	5,819.40
	Other Income	163.63	343.98	36.45	24.78	6.94	7.92
	Increase / (Decrease) in Stocks	98.33	2,057.35	487.18	278.70	(86.53)	117.72
	Total Income	5,733.12	17,069.08	8,568.13	7,354.52	6,534.53	5,945.04
B.	EXPENDITURES						
	Material Consumed	4,081.91	12,302.57	6,192.64	5,616.35	4,816.13	4,126.74
	Staff Cost	108.55	348.29	199.94	168.88	139.63	141.39
	Other Manufacturing expenses	350.03	1,171.44	748.04	627.40	608.75	702.96
	Administration Expenses	68.56	236.36	175.04	206.09	166.73	195.23
	Selling and Distribution Expenses	130.67	381.38	257.76	247.20	268.81	161.84
	Total Expenses	4,739.72	14,440.04	7,573.42	6,865.92	6,000.05	5,328.16
C.	Profit Before Interest, Depreciation, Income Tax and Extra-ordinary items	993.40	2,629.04	994.71	488.60	534.48	616.88
	Interest and Finance Charges	205.60	536.41	256.84	237.16	245.53	307.74
	Depreciation	57.81	140.10	71.84	50.83	34.28	23.58
	Preliminary Expenses	0.34	1.35	1.35	1.59	1.85	1.85
D.	Net Profit before Tax and Extra- ordinary items	729.65	1,951.18	664.68	199.02	252.82	283.71
	Provision for Taxation	247.80	653.40	252.77	55.52	53.58	77.00
E.	Net Profit before Extra-ordinary items (net of tax)	481.85	1,297.78	411.91	143.50	199.24	206.71
	Extra-ordinary items (net of tax)	-	-	-	-	-	-
	Net Profit after Extra-ordinary items (available for appropriation)	481.85	1,297.78	411.91	143.50	199.24	206.71
	Dividend / Dividend Tax	-	74.54	38.19	-	-	55.36
F.	Balance carried to Balance Sheet	481.85	1,223.24	373.72	143.50	199.24	151.35

1. The Fixed Assets have not been revalued during any of the reporting period.
2. The Textile home furnishing business of Hanung Furnishings Private Limited and the Textile Processing business of Hanung Processors Private Limited were acquired by the company as on 29-10-2005 under a slump sale agreement dated 21.10.2005. Accordingly, the figures for 31-03-2006 are inclusive of the assets and liabilities taken over from those entities, as well as the revenues from the acquired business during the period 30.10.2005 to 31.03.2006, and so the figures for the year 2005 - 2006 are not comparable with those of the figures for the year 2004 - 2005.
3. The increase in Share Capital is due to the issue of bonus shares in the ratio of 1:1 and new allotment of shares to the above two companies against purchase consideration in lieu of cash in accordance with the slump sale agreement, as well as allotment made against cash consideration received from group companies and Bennett Coleman and Co. Limited in the year 2005 - 2006.



SUMMARY OF ASSETS AND LIABILITIES AS RESTATED

(Rs. in Lac)

	Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
A.	Fixed Assets :						
	Gross Block	3,533.85	3,527.18	1,159.16	821.12	665.93	504.67
	Less : Depreciation	440.88	383.07	247.71	176.66	125.82	91.54
	Net Block	3,092.97	3,144.11	911.45	644.46	540.11	413.13
	Less: Revaluation Reserve						
	Capital Work in Progress	1,234.86	592.96	—	—	—	—
	Total Fixed Assets	4,327.83	3,737.07	911.45	644.46	540.11	413.13
B.	Investments	12.01	12.01	25.57	23.47	36.11	34.34
C.	Current Assets, Loans & Advances						
	Inventories	9,063.65	8,067.18	3,631.06	3,549.65	2,348.38	1,911.46
	Sundry Debtors	3,781.25	3,664.23	1,282.25	630.29	881.87	944.37
	Cash and Bank Balances	427.07	654.02	153.40	113.22	159.31	113.06
	Loans and Advances	969.63	1,119.50	54.31	117.16	33.42	69.52
	Total Current Assets	14,241.60	13,504.93	5,121.02	4,410.32	3,422.98	3,038.41
D.	Liabilities & Provisions						
	Secured Loans	7,676.47	7,262.69	2,632.60	2,419.28	1,753.75	1,555.07
	Unsecured Loans	—	—	—	14.00	—	86.76
	Current Liabilities and Provisions	3,421.25	3,014.78	1,039.59	736.65	518.63	348.06
	Deferred Tax Provisions	310.52	285.52	219.11	116.65	80.24	50.50
	Total	11,408.24	10,562.99	3,891.30	3,286.58	2,352.62	2,040.39
E.	Networth (A+B+C-D)	7,173.20	6,691.02	2,166.74	1,791.67	1,646.58	1,445.49
F.	Represented by						
	Share Capital	1,568.79	1,568.79	334.93	334.93	334.93	334.93
	Reserves and Surplus	5,606.78	5,124.93	1,835.87	1,462.15	1,318.65	1,119.41
	Total	7,175.57	6,693.72	2,170.80	1,797.08	1,653.58	1,454.34
	Less : Miscellaneous Expenditure	2.37	2.70	4.06	5.41	7.00	8.85
	Networth	7,173.20	6,691.02	2,166.74	1,791.67	1,646.58	1,445.49

1. The Fixed Assets have not been revalued during any of the reporting period.
2. The Textile home furnishing business of Hanung Furnishings Private Limited and the Textile Processing business of Hanung Processors Private Limited were acquired by the company as on 29-10-2005 under a slump sale agreement dated 21.10.2005. Accordingly, the figures for 31-03-2006 are inclusive of the assets and liabilities taken over from those entities, as well as the revenues from the acquired business during the period 30.10.2005 to 31.03.2006, and so the figures for the year 2005 - 2006 are not comparable with those of the figures for the year 2004 - 2005.
3. The increase in Share Capital is due to the issue of bonus shares in the ratio of 1:1 and new allotment of shares to the above two companies against purchase consideration in lieu of cash in accordance with the slump sale agreement, as well as allotment made against cash consideration received from group companies and Bennett Coleman and Co. Limited in the year 2005 - 2006.



GENERAL INFORMATION

Registered Office of our Company

Hanung Toys and Textiles Limited

E-93, 2nd Floor, Greater Kailash Enclave,
Part I, New Delhi - 110 048

Tel: + 91 11 2624 2122

Fax: + 91 11 2624 1822

Registration Number: 55-41722

Our Company is registered with the Registrar of Companies, NCT of Delhi and Haryana, situated at CGO Complex, Paryavaran Bhawan, 2nd Floor, New Delhi - 110 003.

Board of Directors

Our current Board of Directors consists of the following:

1. Mr. Ashok Kumar Bansal - Chairman-cum- Managing Director (Executive Director)
2. Mrs. Anju Bansal - Whole-Time Director (Executive Director)
3. Colonel Ashok Malhotra - Whole-Time Director (Executive Director)
4. Mr. Piyush Mittal - Independent Director
5. Mr. R.K. Pandey - Independent Director
6. Mr. Gulshan Rai Jain - Independent Director

Brief details of Chairman, Managing Director and Whole Time Director

Mr. Ashok Kumar Bansal, Chairman-cum-Managing Director

Mr. Ashok Kumar Bansal, 48 years, a resident Indian national, is a Promoter of our Company. He is Bachelor of Commerce from Punjab University. He is a fellow member of ICAI and is also a qualified Company Secretary from ICSI and has over 23 years of business experience. Mr. Bansal has been involved with our Company since inception and is our Chairman-cum-Managing Director.

He started his career in 1982 and in 1989, he laid the foundation of the business of our Company by establishing a partnership concern and entered into a technical collaboration agreement. Subsequently, in the year 1990 our Company was incorporated with the object of manufacturing and exporting stuff toys. Later, in the year 2002, he also entered into the textile home furnishings and textile processing business through separate entities viz. Hanung Furnishings Private Limited and Hanung Processors Private Limited. He is the overall incharge of our Company and is also responsible for new projects and initiatives and business activities of our Company. Under the guidance of Mr. Ashok Kumar Bansal, our Company has grown and risen to be one of the largest exporters of soft and stuff toys in India exporting to various countries like the United States of America, various European countries and parts of Latin America. Our Company has received various awards and prizes from a number of Government and other International agencies under his leadership.

Mrs. Anju Bansal, Whole-time Director

Mrs. Anju Bansal, 45 years, a resident Indian national, is a Promoter of our Company. Mrs. Anju Bansal has completed her Masters in Arts from Punjab University and has over 20 years of business experience. She is responsible for production co-ordination.

Colonel Ashok Malhotra, Whole-Time Director

Colonel Malhotra, 61 years, joined our Board as Whole-Time Director w.e.f. January 24, 2006. He has been employed with our Company since July 5, 1998 and is the incharge of manufacturing operations. He holds a degree in Bachelors in Arts (Economic Honors) from Delhi University and has also done post graduation in Export Management and in Business Management and Industrial Administration from Delhi Institute of Management and Services. He also holds degree in Masters in Science in defence studies from Tamil Nadu University. He looks after production operations of our Company. After taking premature retirement from Defence Services in the year 1988, he was engaged in the various industry segments like transportation, pharmaceuticals, textiles manufacturing and exports etc. in the field of operations and production. Prior to joining our Company, he was engaged in his own business of manufacturing and exports of textiles under the entity Households (I) Impex. He has 18 years of experience in the industry and 8 years of experience in our Company.

For further details of our other Directors, please refer to the chapter titled "Our Management" beginning on page 88 of this Red Herring Prospectus.



Company Secretary and Compliance Officer

Mr. Arvind Kumar Gupta

Hanung Toys and Textiles Limited
108-109 NSEZ,
Noida - 201 305
Tel.: +91 120 256 7501-04
Fax: +91 120 256 7505
Email: investor@hanung.com

Bankers to our Company

Punjab National Bank

International Banking Branch
8th Floor, DCM Building,
16 Barakhamba Road
New Delhi - 110 001.
Tel. : +91 11 2332 28827
Fax : +91 11 2337 7957
E-mail: pnbibnd@yahoo.co.in

Syndicate Bank

SSI Branch
B-118, 1st Floor,
Sector 18, Noida Uttar Pradesh
Tel.: +91 120 251 5040
Fax : +91 120 251 5783
E-mail: syndinet@syndicatebank.net

ISSUE MANAGEMENT TEAM

Book Running Lead Managers (BRLMs)

Karvy Investor Services Limited

Karvy House, 46, Avenue 4,
Street No.1, Banjara Hills,
Hyderabad - 500 034
Tel : +91 40 2331 2454
Fax: +91 402337 4714
Email: mbd@karvy.com
Website: www.karvy.com
Contact Person : Mr. T.R. Prashanth Kumar

Registrar to this Issue

Karvy Computershare Private Limited

Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034
Tel.: +91 40 2342 0828
Fax: +91 40 2342 0814
E-mail: hanung.ipo@karvy.com
Website: www.karvy.com
Contact Person: Mr. M. Muralikrishna

Investors can contact the Compliance Officer or the Registrar in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allocation, credit of allotted Equity Shares in the respective beneficiary account or refund orders, etc.

Legal Advisors to this Issue

M/s. Crawford Bayley & Co.

State Bank Buildings, 4th floor
N. G. N. Vaidya Marg
Fort, Mumbai - 400 023
Tel.: +91 22 2266 3713
Fax: +91 22 2266 0355
E-mail: sanjay.asher@crawfordbayley.com

Bank of Baroda

International Business Branch
PB No. 651, 1st Floor,
Bank of Baroda Building
16, Sansad Marg, New Delhi - 110 001
Tel.: +91 11 2332 3768
Fax : +91 11 2332 2841
E-mail: oversc@bankofbaroda.com

State Bank of India

Commercial Branch
59, Community Centre, Industrial Area,
Phase - I, Naraina, New Delhi - 110 028
Tel. : +91 11 2589 6809
Fax : +91 11 1589 3839
E-mail: sbi.3786@sbi.co.in

Anand Rathi Securities Limited

J.K. Somani Building, 3rd Floor,
British Hotel Lane, Bombay Samachar Marg,
Fort, Mumbai-400 023
Tel: +91 22 6637 7000
Fax: +91 22 6637 7070
Email: http@rathi.com
Website: www.rathi.com
Contact Person : Mr. Paresh Raja



Bankers to this Issue and Escrow Collection Banks

ICICI Bank Limited

Capital Market Division
Raja Bahadur Mansion
30, Mumbai Samachar Marg,
Fort, Mumbai 400 001.

Tel. No.: +91 22 2265 5206 / +91 22 2265 5285

Fax No.: +91 22 2261 1138

Contact Person: Mr. Sidhartha Sankar Routary

Website: www.icicibank.com

HDFC Bank Limited

26 A, Narayan Properties Off Saki Vihar Road,
Chandivali, Saki Naka, Andheri (East),
Mumbai-400 072

Tel. No.: +91 22 2856 9009

Fax No.: +91 22 2856 9256

Contact Person: Mr. Viral Kothari

Website: www.hdfcbank.com

Standard Chartered Bank

270 D.N. Road,
Fort, Mumbai - 400 001.

Tel. No.: +91 22 2268 3965

Fax No.: +91 22 2209 6067

Contact Person: Mr. Rajesh Malwade

Website: www.in.standardchartered.com

Refund Banker

HDFC Bank Limited

26 A, Narayan Properties Off Saki Vihar Road,
Chandivali, Saki Naka, Andheri (East),
Mumbai-400 072

Tel. No.: +91 22 2856 9009

Fax No.: +91 22 2856 9256

Contact Person: Mr. Viral Kothari

Website: www.hdfcbank.com

BROKERS TO THIS ISSUE

All members of the recognized stock exchanges would be eligible to act as Brokers to this Issue.

Syndicate Members

Karvy Stock Broking Limited
Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034.

Tel.: +91 40 2331 2454 / 2332 0251

Fax: +91 40 2344 0680

Email: Vincent@karvy.com

Website: www.karvy.com

Contact Person: Mr. Vincent

Statutory Auditors

M/s. Rohtas & Hans

Chartered Accountants
A-15, Priyadarshini Vihar
Delhi - 110 092

Tel. : +91 11 2241 8280

Fax : +91 11 2243 9060

E-mail: hansjainca@yahoo.com



Statement of Inter Se Allocation of Responsibilities among the BRLMs

Statement of Inter Se Allocation of Responsibilities for this Issue among the Book Running Lead Managers, Karvy Investor Services Limited (Karvy) and Anand Rathi Securities Limited (Anand Rathi), is set forth below:

Activity	Responsibility	Co-ordinator
Capital structuring with the relative components and formalities such as type of instruments, etc.	Karvy, Anand Rathi	Karvy
Due diligence of the Company's operations / management / business plans / legal etc.	Karvy, Anand Rathi	Karvy
Drafting and design of Offer Document and of statutory advertisement including memorandum containing salient features of the Prospectus. Ensure compliance with stipulated requirements and completion of prescribed formalities with SEBI, Stock Exchanges, and RoC.	Karvy, Anand Rathi	Karvy
Primary co-ordination with SEBI, Stock Exchanges and RoC upto bidding and co-ordination interface with lawyers for agreement	Karvy, Anand Rathi	Karvy,
Drafting and approval of all publicity material other than statutory advertisement as mentioned above including corporate advertisements, brochure, etc.	Karvy, Anand Rathi	Anand Rathi
Appointment of Registrar, Escrow Collection Bankers and Bankers to the Issue, Printers and Advertising Agency	Karvy, Anand Rathi	Anand Rathi
Company Positioning and pre-marketing exercise, finalise media and Public Relation strategy	Karvy, Anand Rathi	Anand Rathi
Qualified Institutional Buyers ('QIBs'): Finalising the list and division of investors for one to one meetings and co-ordinating institutional investors meetings.	Karvy, Anand Rathi	Anand Rathi
Non-Institutional and Retail Marketing of the Issue, which will cover inter-alia, <ul style="list-style-type: none"> Formulating marketing strategies Preparation of publicity budgets Finalizing centers for holding conferences for brokers, etc. Finalizing collection centers Follow-up on distribution of publicity and Issue material including forms, prospectus and deciding on the quantum of the Issue material 	Karvy, Anand Rathi	Karvy
<ul style="list-style-type: none"> Appointment of Syndicate Members / Brokers to the Issue Finalise Underwriters and the Underwriting Arrangements 	Karvy, Anand Rathi	Anand Rathi
Managing the Book, interaction / co-ordination with Stock Exchanges for book building software, bidding terminals and mock trading	Karvy, Anand Rathi	Anand Rathi
Finalising pricing, QIB Allocation and Intimation by BRLMs in consultation with the Company	Karvy, Anand Rathi	Anand Rathi
Finalisation of Prospectus and RoC filing etc.	Karvy, Anand Rathi	Karvy
Post bidding activities including management of Escrow Accounts, co-ordination with Registrar and Banks, Refund to Bidders, invoking the Underwriting obligations and ensuring the underwriters pay the amount of devolvement etc.	Anand Rathi	Anand Rathi
The post Issue activities of the Issue will involve essential follow up steps, which include finalisation of basis of allotment / weeding out the multiple applications, listing of instruments and dispatch of non-institutional allotment advice and related orders, with the various agencies connected with the work such as Registrar to the Issue, Bankers to the Issue and the bank handling refund business.	Anand Rathi	Anand Rathi

Credit Rating

As this is an Issue of Equity Shares there is no credit rating for this Issue.

Trustees

As this is an Issue of Equity Shares, the appointment of Trustees is not required.



IPO Grading

Our Company has not opted for grading this issue.

Monitoring Agency

Punjab National Bank, International Banking Branch, Barakhamba Road, New Delhi-110 001 has consented *vide* letter dated March 7, 2006 to monitor the utilization of proceeds of this Issue.

Techno-Economic Feasibility Study for the Proposed Expansion Project

M/s. Gherzi Eastern Limited (GEL) has done the techno-economic feasibility study. Also, we have submitted the GEL report to PNB, our lead banker, for grant of term loan component of the total required funds. Consequently, we have received the sanction letters dated February 13, 2006 and February 15, 2006 from PNB and OBC (the other consortium banker), respectively. PNB has provided in its Notes on Assessment of Term Loan with reference to the said sanction letter that it has considered the GEL's techno economic feasibility report dated December 15, 2005 and found it comparable and reasonable and accordingly has not considered the separate appraisal necessary. The details of GEL is as follows:

Techno-Economic Feasibility Study by

M/s. Gherzi Eastern Limited
Wing "A", Raheja Point-I,
Pandit Jawaharlal Nehru Marg,
Vakola, Santacruz (E)
Mumbai - 400 055
Tel.: +91 22 5502 1380
Fax: +91 22 2267 3193
E-mail: gel@gherzieastern.com

Book Building Process

Book Building refers to the process of collection of bids from investors on the basis of this Red Herring Prospectus. The Issue Price is fixed after the Bid/Issue Closing Date. The principal parties involved in the Book Building Process are:

- (1) Our Company;
- (2) Book Running Lead Managers, in this case being Karvy Investor Services Limited and Anand Rathi Securities Limited
- (3) Syndicate Members who are intermediaries registered with SEBI or registered as brokers with BSE/NSE and eligible to act as underwriters, in this case being Karvy Stock Broking Limited.
- (4) Registrar to this Issue, in this case being Karvy Computershare Private Limited.

SEBI, through its guidelines, has permitted this Issue of securities to the public through the 100% Book Building Process, wherein upto 50% of this Issue shall be allotted on a proportionate basis to QIBs, of which 5% shall be reserved for Mutual Funds. Further, not less than 15% of this Issue shall be available for allocation on a proportionate basis to Non Institutional Bidders and not less than 35% of this Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. Our Company will comply with these guidelines for this Issue. In this regard, our Company has appointed the BRLMs to procure subscriptions to this Issue.

QIBs are not allowed to withdraw their Bid after the Bid/ Issue Closing Date and are now required to pay 10% Margin Amount upon submission of their Bid. For details see the chapter titled "Terms of this Issue" beginning on page 155 in this Red Herring Prospectus.

Steps to be taken by the Bidders for bidding:

- Check whether the bidder is eligible for bidding;
- Bidder necessarily needs to have a demat account;
- Ensure that the Bid-cum-Application Form is duly completed as per instructions given in this Red Herring Prospectus and in the Bid-cum-Application Form; and
- Ensure that the Bid-cum-Application Form is accompanied by the Permanent Account Number or by Form 60 or Form 61 as may be applicable together with necessary documents providing proof of address. For details please refer to the chapter titled "Issue Procedure" beginning on page 158 of this Red Herring Prospectus. Bidders are specifically requested not to submit their General Index Register number instead of the Permanent Account Number as the Bid is liable to be rejected.



Underwriting Agreement

After the determination of the Issue Price but prior to filing of the Prospectus with Registrar of Companies, NCT of Delhi and Haryana, we will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be issued through this Issue. It is proposed that pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that the Syndicate Members do not fulfill their underwriting obligations. Pursuant to the terms of the Underwriting Agreement, the obligations of the Underwriters are several and not joint, and are subject to certain conditions as specified in such agreement.

The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

(This portion has been intentionally left blank and will be filled in before filing of the Prospectus with Registrar of Companies, NCT of Delhi and Haryana.)

Name and Address of the Underwriters	Indicated Number of Equity Shares to be Underwritten	Amount Underwritten (Rs. lakh)
Karvy Investor Services Limited Karvy House, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034 Tel : +91 40 2331 2454 Fax: +91 40 233 74714 Email: mbd@karvy.com	47,49,900	[●]
Anand Rathi Securities Limited, J.K.Somani Building, 3rd Floor, British Hotel Lane, Bombay Samachar Marg, Fort Mumbai - 400 023 Tel: +91 22 6637 7000 Fax: +91 22 6637 7070 Email: http://rathi.com	47,50,000	[●]
Karvy Stock Broking Limited Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034. Tel.: +91 40 2331 2454 / 2332 0251 Fax: +91 40 2344 0680 Email: vincent@karvy.com	100	[●]
Total	95,00,000	[●]

The above-mentioned amount is an indicative underwriting and would be finalised after pricing and actual allocation. The above underwriting agreement is dated [●] .

In the opinion of the Board of Directors of our Company (based on a certificate given by the Underwriters), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the BRLMs and the Syndicate Members shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default, the respective underwriter in addition to other obligations to be defined in the Underwriting Agreement, will also be required to procure/subscribe to the extent of the defaulted amount. For details about allocation please refer chapter titled "Other Regulatory and Statutory Disclosures" beginning on page 148 of this Red Herring Prospectus.



CAPITAL STRUCTURE

The share capital of our Company as on the date of filing of this Red Herring Prospectus with RoC is as set forth below:

Share Capital as on the date of filing of this Red Herring Prospectus	Amount (Rs. in lakh)	
	Aggregate Value at Nominal Price	Aggregate Value at Issue Price
A. Authorised Capital 2,80,00,000 Equity Shares of Rs. 10/- each.	2800.00	
B. Issued, Subscribed and Paid-Up Capital before this Issue 1,56,87,925 Equity Shares of Rs. 10/- each.	1568.79	
C. Present Issue to the public in terms of this Red Herring Prospectus 95,00,000 Equity Shares of Rs. 10/- each fully paid up	950.00	[●]
D. Out of which 5,00,000 Equity Shares are reserved for the Eligible Employees of the Company	50.00	[●]
E. Net Issue to the Public 90,00,000 Equity Shares of Rs 10/- each at a price of Rs [●] per share.	900.00	[●]
F. Issued, Subscribed and Paid-Up Capital after this Issue 2,51,87,925 Equity Shares	2518.79	[●]
G. Securities Premium Account ⁽¹⁾ Before this Issue After this Issue	2400.75 [●]	

⁽¹⁾ The amount standing in the Securities Premium Account, on a pre-Issue basis, is Rs. 2400.75 lakh. The increase in the Securities Premium Account as a result of this Issue will be completed only after the Issue Price is determined.

Details of Increase in Authorised Capital of our Company

Particulars of Increase	Date of the Meeting
Increased from 10,000 Equity Shares of Rs. 100/- each aggregating to Rs. 10,00,000/- to 1,10,000 Equity Shares of Rs. 100/- each aggregating Rs. 1,10,00,000/-.	October 28, 1993
Increased from 1,10,000 Equity Shares of Rs. 100/- each aggregating Rs. 1,10,00,000/- to 50,00,000 Equity Shares of Rs. 10/- each aggregating Rs. 5,00,00,000/-.	January 15, 1996
Increased from to 50,00,000 Equity Shares of Rs. 10/- each aggregating Rs. 5,00,00,000/- to 2,00,00,000 Equity Shares of Rs. 10/- each aggregating Rs. 20,00,00,000/-.	August 29, 2005
Increased from to 2,00,00,000 Equity Shares of Rs. 10/- each aggregating Rs. 20,00,00,000/- to 2,20,00,000 Equity Shares of Rs. 10/- each aggregating to Rs. 22,00,00,000/-.	October 31, 2005
Increased from to 2,20,00,000 Equity Shares of Rs. 10/- each aggregating Rs. 22,00,00,000/- to 2,80,00,000 Equity Shares of Rs. 10/- each aggregating to Rs. 28,00,00,000/-.	January 24, 2006



NOTES TO CAPITAL STRUCTURE

1. Share Capital History of our Company

Date of Allotment/ Reduction	No. of Equity Shares	Cumulative No. of Equity Shares	Face Value	Issue Price	Nature of payment of consideration	Reasons for Allotment/ Reduction	Cumulative Securities Premium Account	Cumulative Paid-up Capital
October 10, 1990	40	40	100	100	Cash at Par	Original subscribers to the Memorandum	–	4000
August 23, 1993	30	70	100	100	Cash at Par	Further issue of Equity Shares	–	7000
March 29, 1994	1,09,750	1,09,820	100	100	Other than cash	Issued on acquisition of business of Partnership by our Company	–	1,09,82,000
January 15, 1996	10,98,200	10,98,200	10		–	Subdivision of Equity Shares of Rs. 100/- to Rs. 10/- per share	–	1,09,82,000
January 15, 1996	10,98,200	21,96,400	10	Nil	Bonus 1:1	Bonus	–	2,19,64,000
January 15, 1997	1,50,000	23,46,400	10	30	Cash at Premium	Further issue of Equity Shares	30,00,000	2,34,64,000
February 28, 1997	20	23,46,420	10	10	Cash at Par	Further issue of Equity Shares	30,00,000	23,464,200
March 26, 1997	3,33,000	26,79,420	10	30	Cash at Premium	Further issue of Equity Shares	96,60,000	2,67,94,200
March 31, 1997	6,69,855	33,49,275	10	Nil	Bonus 1:4	Bonus	96,60,000	3,34,92,750
August 30, 2005	33,49,275	66,98,550	10	Nil	Bonus 1:1	Bonus	Nil	6,69,85,500
October 31, 2005	60,50,335	1,27,48,885	10	38.11	Other than Cash as per Agreement to Sell and Purchase dated October 21, 2005	Further issue of Equity Shares at the Book Value of Rs. 38.11 pursuant to the Agreement to Sell and Purchase dated October 21, 2005, with HFPL and HPPL	17,00,74,907	12,74,88,850
January 24, 2006	24,39,040	1,51,87,925	10	10	Cash at par	Further Issue of Equity Shares	17,00,74,907	15,18,79,250
February 17, 2006	5,00,000	1,56,87,925	10	150	Cash at Premium	Further Issue of Equity Shares	24,00,74,907	15,68,79,250



2. Details of Promoters Contribution and Lock-In

a. Allotment to Promoters

Name	Date of Allotment / Transfer/ Acquisition	Consideration	No. of Equity Shares	Face Value (Rs.)	Issue Price/ Acquisition Price
Ashok Kumar Bansal	October 10, 1990	Cash at par	10	100	100
	March 29, 1994	Other than Cash	29,470	100	100
	May 4, 1994	Cash (Purchase)	7,117	100	100
	August 30, 1995	Cash (Sale)	(12000)	100	90
			24,597		
	January 15, 1996	Subdivision of Equity Shares of Rs. 100/- to Rs. 10/- per share	2,45,970	10	
	January 15, 1996	Bonus	2,45,970	10	Nil
	March 4, 1996	Cash (Purchase)	200	10	10
	January 15, 1997	Cash at Premium	37,567	10	30
	March 31, 1997	Bonus	1,32,427	10	Nil
	May 6, 2001	Cash (Purchase)	6,66,575	10	9
	September 28, 2001	Cash (Sale)	(6000)**	10	10
	August 30, 2005	Bonus	13,22,709	10	Nil
	Total Holding		26,45,418		
Anju Bansal	August 30, 1995	Cash (Purchase)	12,000	100	90
	January 15, 1996	Subdivision of Equity Shares of Rs. 100/- to Rs. 10/- per share	1,20,000	10	
	January 15, 1996	Bonus	1,20,000	10	Nil
	January 15, 1997	Cash	12,433	10	30
	March 31, 1997	Bonus	63,108	10	Nil
	May 6, 2001	Cash (Purchase)	3,17,600	10	9
	July 28, 2001	Cash (Purchase)	3,11,100	10	9
	August 30, 2005	Bonus	9,44,241	10	Nil
	Total Holding		18,88,482		
	Total Promoter Holding		45,33,900		

** 6000 Equity Shares have been transferred on September 28, 2001. The said transfer has been made from the allotment made on January 15, 1996 to the extent of 4000 Equity Shares and on January 15, 1997 to the extent of 2000 Equity Shares.



b. Allotment to Promoter Group

Name	Date of Allotment / Transfer/ Acquisition	Consideration	No. of Equity Shares	Face Value (Rs.)	Issue Price/ Acquisition Price
Ashok Kumar Bansal (HUF)	July 28, 2001	Cash (Purchase)	6,60,075	10	9
	September 28, 2001	Cash (Purchase)	1,000	10	10
	August 30, 2005	Bonus	6,61,075	10	Nil
	Total Holding		13,22,150		
Brij Lal Bansal	September 28, 2001	Cash (Purchase)	1,000	10	10
	August 30, 2005	Bonus	1,000	10	Nil
	Total Holding		2,000		
Aanchal Bansal	September 28, 2001	Cash (Purchase)	1,000	10	10
	August 30, 2005	Bonus	1,000	10	Nil
	Total Holding		2,000		
Ena Bansal	September 28, 2001	Cash (Purchase)	1,000	10	10
	August 30, 2005	Bonus	1,000	10	Nil
	Total Holding		2,000		
Abhinav Bansal	September 28, 2001	Cash (Purchase)	1,000	10	10
	August 30, 2005	Bonus	1,000	10	Nil
	Total Holding		2,000		
Ashwani Singhla	September 28, 2001	Cash (Purchase)	1,000	10	10
	August 30, 2005	Bonus	1,000	10	Nil
	Total Holding		2,000		
Hanung Furnishings Private Limited	October 31, 2005	Other Than Cash	24,98,276	10	38.11
Hanung Processors Private Limited	October 31, 2005	Other Than Cash	35,52,059	10	38.11
Abhinav International Private Limited	December 15, 2005	Cash (Purchase)	8,32,500	10	23.13
	January 24, 2006	Cash at Par	19,05,500	10	10
	Total Holding		27,38,000		
C.K. Software Private Limited	January 24, 2006	Cash at Par	5,33,540	10	10
Bennett, Coleman & Co. Limited	February 17, 2006	Cash at Premium	5,00,000	10	150
Total Promoter Group Holding			1,11,54,025		



c. Lock-in of minimum Promoters Contribution

Name	Date of Allotment / Transfer/ Acquisition	Consideration	No. of Equity Shares	Face Value (Rs.)	Issue Price/ Acquisition Price	% of post issue capital	Lock-in Period
Ashok Kumar Bansal	October 10, 1990	Cash at par	10	100	100	--	
	March 29, 1994	Other than Cash	29,470	100	100	--	
	May 4, 1994	Cash (Purchase)	7,117	100	100	--	
	August 30, 1995	Cash (Sale)	(12000)	100	90	--	
			24,597			--	
	January 15, 1996	Subdivision of Equity Shares of Rs. 100/- to Rs.10/- per share	2,45,970	10		0.98	3 years
	January 15, 1996	Bonus	2,45,970	10	Nil	0.98	3 years
	March 4, 1996	Cash (Purchase)	200	10	10	Negligible	3 years
	January 15, 1997	Cash at Premium	37,567	10	30	0.15	3 years
	March 31, 1997	Bonus	1,32,427	10	Nil	0.53	3 years
	May 6, 2001	Cash (Purchase)	6,66,575	10	9	2.65	3 years
	September 28, 2001	Cash (Sale)	(6000)	10	10	--	--
	August 30, 2005	Bonus	13,22,709	10	Nil	5.25	3 years
	Total Holding		26,45,418			10.50	
Anju Bansal	August 30, 1995	Cash (Purchase)	12,000	100	90	--	--
	January 15, 1996	Subdivision of Equity Shares of Rs. 100/- to Rs. 10/- per share	1,20,000	10	--	0.48	3 years
	January 15, 1996	Bonus	1,20,000	10	Nil	0.48	3 years
	January 15, 1997	Cash	12,433	10	30	0.05	3 years
	March 31, 1997	Bonus	63,108	10	Nil	0.25	3 years
	May 6, 2001	Cash (Purchase)	3,17,600	10	9	1.26	3 years
	July 28, 2001	Cash (Purchase)	3,11,100	10	9	1.24	3 years
	August 30, 2005	Bonus	9,44,241	10	Nil	3.75	3 years
	Total Holding		18,88,482			7.50	
Ashok Kumar Bansal (HUF)	July 28, 2001	Cash (Purchase)	6,60,075	10	9	2.62	3 years
	September 28, 2001	Cash (Purchase)	1,000	10	10	Negligible	3 years
	August 30, 2005	Bonus	6,61,075	10	Nil	2.62	3 years
	Total Holding		13,22,150			5.25	
	Grand Total		58,56,050			23.25	

The above Promoters and Promoter Group entity have vide their letter dated March 2, 2006 given their consent for lock in as stated above.



d. Balance Promoter Group Shareholding shall be Locked in as follows

Name	Date of Allotment / Transfer/ Acquisition	Consideration	No. of Equity Shares	Face Value (Rs.)	Issue Price/ Acquisition Price	% of post issue capital	Lock-in Period
Brij Lal Bansal	September 28, 2001	Cash (Purchase)	1,000	10	10	Negligible	1 year
	August 30, 2005	Bonus	1,000	10	Nil	Negligible	1 year
	Total Holding		2,000				
Aanchal Bansal	September 28, 2001	Cash (Purchase)	1,000	10	10	Negligible	1 year
	August 30, 2005	Bonus	1,000	10	Nil	Negligible	1 year
	Total Holding		2,000				
Ena Bansal	September 28, 2001	Cash (Purchase)	1,000	10	10	Negligible	1 year
	August 30, 2005	Bonus	1,000	10	Nil	Negligible	1 year
	Total Holding		2,000				
Abhinav Bansal	September 28, 2001	Cash (Purchase)	1,000	10	10	Negligible	1 year
	August 30, 2005	Bonus	1,000	10	Nil	Negligible	1 year
	Total Holding		2,000				
Ashwani Singhla	September 28, 2001	Cash (Purchase)	1,000	10	10	Negligible	1 year
	August 30, 2005	Bonus	1,000	10	Nil	Negligible	1 year
	Total Holding		2,000				
Hanung Furnishings Private Limited	October 31, 2005	Other Than Cash	24,98,276	10	38.11	9.92	1 year
Hanung Processors Private Limited	October 31, 2005	Other Than Cash	35,52,059	10	38.11	14.10	1 year
Abhinav International Private Limited	December 15, 2005	Cash (Purchase)	8,32,500	10	23.13	3.31	1 year
	January 24, 2006	Cash at Par	19,05,500	10	10	7.56	1 year
	Total Holding		27,38,000			10.87	
C.K. Software Private Limited	January 24, 2006	Cash at Par	5,33,540	10	10	2.12	1 year
Bennett, Coleman & Co. Limited	February 17, 2006	Cash at Premium	5,00,000	10	150	1.99	1 year
Grand Total			98,31,875			39.03	

We confirm that the minimum Promoter contribution of 20% which is subject to lock-in for three years does not consist of:

- Equity Shares acquired for consideration other than cash and revaluation of assets or capitalization of intangible assets or bonus shares out of revaluation reserves or reserves without accrual of cash resources.
- Securities issued during the preceding one year, at a price lower than the price at which Equity Shares are being offered to public.
- Private placement made by solicitation of subscription from unrelated persons either directly or through any intermediary.
- Equity Shares for which specific written consent has not been obtained from the respective shareholders for inclusion of their subscription in the minimum promoters contribution subject to lock-in.
- Equity Shares issued to promoters on conversion of partnership firms into limited company.
- Equity Shares with a contribution less than Rs. 25,000/- per application from each individual and contribution less than Rs.1,00,000/- from firms and companies.

58,56,050 Equity Shares constituting 23.25% of the post issue share capital of our Promoters would be locked-in for a period of 3 years. Balance entire pre-issue share capital of 98,31,875 Equity Shares shall be locked in for the period of 1 year. The lock in shall start from the date of allotment in the proposed public issue and the last date of the lock in shall be reckoned as 3 years from the date of allotment in the public issue.



Equity Shares held by Promoter(s) which are locked in as per the relevant provisions of Chapter IV of the SEBI Guidelines, may be transferred to and amongst Promoter/Promoter Group or to a new promoter or persons in control of our Company, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable.

Equity Shares held by the person other than our Promoters, prior to this Issue, which are subject to lock in as per the relevant provisions of Chapter IV of SEBI Guidelines, may be transferred to any other person holding Equity Shares which are locked in, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 as applicable.

The names of the natural persons in control of corporate bodies forming part of the Promoters Group are as follows:

Hanung Furnishings Private Limited

- (1) Mr. Ashok Kumar Bansal
- (2) Mrs. Anju Bansal

Hanung Processors Private Limited

- (1) Mr. Ashok Kumar Bansal
- (2) Mrs. Anju Bansal

Abhinav International Private Limited

- (1) Mr. Ashok Kumar Bansal
- (2) Mrs. Anju Bansal

C.K. Software Private Limited

- (1) Mr. Ashok Kumar Bansal
- (2) Mrs. Anju Bansal

Bennett, Coleman & Co. Limited

- (1) Smt. Indu Jain
- (2) Shri Samir Jain
- (3) Shri Vineet Jain

None of these bodies corporate/natural persons have been restrained from accessing the capital markets for any reasons by SEBI or any other authorities.

3. Transactions in our Company's Equity Shares by our Promoters/Promoter Group and the Directors of our Company during a period of six months preceding the date of filing of this Red Herring Prospectus with SEBI

There has been no sale or purchase in our Company's Equity Shares by our Promoters/Promoter Group and the Directors of our Company during a period of six months preceding the date of filing of this Red Herring Prospectus with RoC.



4. Shareholding pattern of our Company prior and post this Issue

Name of the Shareholders	Pre-Issue Equity Capital		Post-Issue Equity Capital	
	Number of Equity Shares	%	Number of Equity Shares	%
A Promoter's Holding				
1. Promoters				
- Indian Promoters	45,33,900	28.90	45,33,900	18.00
- Foreign Promoters	--	--	--	--
2. Persons Acting in concert/ Promoters Group				
- Individuals and Corporates	1,11,54,025	71.10	1,11,54,025	44.28
I Sub-Total (1+2)	1,56,87,925	100.00	1,56,87,925	62.28
B Non-Promoters Holding				
1. Mutual Funds and UTI	--	--	--	--
2. Banks, Financial Institutions. Insurance Companies (Central/ State Govt. Institutions/ Non-Government Institutions)	--	--	--	--
3. FIIs	--	--	--	--
II Sub-Total (1+2+3)	--	--	--	--
C Others				
1. Employees	--	--	5,00,000	1.99
2. Private Corporate Bodies	--	--	--	--
3. Indian Public	--	--	90,00,000	35.73
4. NRIs/ OCBs	--	--	--	--
5. Any Other (Please Specify)	--	--	--	--
III Sub-Total (1+2+3+4+5)	--	--	95,00,000	37.72
Grand Total (I+II+III)	1,56,87,925	100.00	2,51,87,925	100.00

5a) Particulars of top ten shareholders on the date of filing this Red Herring Prospectus with RoC

Sr. No.	Name of the shareholder	Number of Equity Shares
1.	Hanung Processors Private Limited	35,52,059
2.	Abhinav International Private Limited	27,38,000
3.	Mr. Ashok Kumar Bansal	26,45,418
4.	Hanung Furnishings Private Limited	24,98,276
5.	Mrs. Anju Bansal	18,88,482
6.	Ashok Kumar Bansal (HUF)	13,22,150
7.	C.K. Software Private Limited	5,33,540
8.	Bennett, Coleman & Co. Limited	5,00,000
9.	Mr. Brij Lal Bansal	2,000
9.	Mr. Ashwani Singla	2,000
9.	Master Abhinav Bansal	2,000
9.	Ms. Aanchal Bansal	2,000
9.	Ms. Ena Bansal	2,000



5b) Particulars of the top ten shareholders 10 (ten) days prior to filing this Red Herring Prospectus with RoC

Sr. No.	Name of the shareholder	Number of Equity Shares
1.	Hanung Processors Private Limited	35,52,059
2.	Abhinav International Private Limited	27,38,000
3.	Mr. Ashok Kumar Bansal	26,45,418
4.	Hanung Furnishings Private Limited	24,98,276
5.	Mrs. Anju Bansal	18,88,482
6.	Ashok Kumar Bansal (HUF)	13,22,150
7.	C.K. Software Private Limited	5,33,540
8.	Bennett, Coleman & Co. Limited	5,00,000
9.	Mr. Brij Lal Bansal	2,000
9.	Mr. Ashwani Singla	2,000
9.	Master Abhinav Bansal	2,000
9.	Ms. Aanchal Bansal	2,000
9.	Ms. Ena Bansal	2,000

5c) Particulars of the top ten shareholders 2 (two) years prior to the date of filing of this Red Herring Prospectus with RoC

Sr. No.	Name of the shareholder	Number of Equity Shares
1.	Mr. Ashok Kumar Bansal	13,22,709
2.	Mrs. Anju Bansal	9,44,241
3.	M/s. A.K. Bansal (HUF)	6,61,075
4.	Magnus Capital Corporation Limited	4,16,250
5.	Mr. Brij Lal Bansal	1,000
5.	Mr. Ashwani Singla	1,000
5.	Master Abhinav Bansal	1,000
5.	Ms. Aanchal Bansal	1,000
5.	Ms. Ena Bansal	1,000

6. Our Company, our promoters, our Directors and the BRLMs to this Issue have not entered into any buy-back, standby or similar arrangements for purchase of Equity Shares of our Company from any person.
7. The total number of members of our Company as on the date of filing this Red Herring Prospectus is 13.
8. Our Company has not raised any bridge loan against the proceeds of this Issue.
9. In the case of over-subscription in all categories, upto 50% of the Net Issue shall be allocated on a proportionate basis to Qualified Institutional Buyers, of which 5% shall be reserved for Mutual Funds. Further, not less than 15% of the Net Issue shall be available for allocation on a proportionate basis to Non Institutional Bidders and not less than 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price. Under-subscription, if any, in any of the categories would be allowed to be met with spill over from any other category at the sole discretion of our Company in consultation with the BRLMs. In case of inadequate demands from the Mutual Funds, the Equity Shares would be made available to QIBs other than Mutual Funds.
10. Only Eligible Employees would be eligible to apply in this issue under Employee Reservation Portion on a competitive basis. Separate Bid-cum-Application Forms can be submitted by Eligible Employees under the Net Issue category as well and such bids will not be treated as multiple bids. The un-subscribed portion, if any, out of the Equity Shares reserved for allotment to Eligible Employees of our Company will be added back to the Net Issue.
11. The un-subscribed portion, if any, after such inter-se adjustments amongst the reserved categories shall be added back to the Net Issue. And in case of under-subscription in the Net Issue portion, spill over to the extent of under-subscription shall be permitted from the reserved category to the Net Issue.



12. There would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, and rights issue or in any other manner during the period commencing from submission of the Draft Red Herring Prospectus with SEBI until the Equity Shares offered through this Red Herring Prospectus have been listed.
13. We presently do not have any intention or proposal to alter our capital structure for a period of six months from the date of opening of this Issue, by way of split/ consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into or exchangeable, directly or indirectly, for our Equity Shares) whether preferential or otherwise, except that if we enter into acquisitions or joint ventures, we may consider raising additional capital to fund such activity or use Equity Shares as currency for acquisition or participation in such joint ventures.
14. Our Company has not revalued its assets since inception.
15. Our Company has not capitalized any of its reserves since inception except as stated in the note 1 in chapter titled "Capital Structure" beginning on page 14 of this Red Herring Prospectus.
16. A Bidder cannot make a Bid for more than the number of Equity Shares offered through this Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.
17. Our Company has not made any public issue since its incorporation.
18. Our Company undertakes that at any given time, there shall be only one denomination for the Equity Shares of our Company and we shall comply with such disclosure and accounting norms as specified by SEBI from time to time.
19. As on the date of filing of this Red Herring Prospectus, there are no outstanding warrants, options or rights to convert debentures, loans or other financial instruments into our Equity Shares. The Equity Shares locked in by our Promoters are not pledged to any party. The locked-in Equity Shares held by the Promoters can be pledged only with banks or financial institutions as collateral security for loans granted by such banks or financial institutions, provided the pledge of Equity Shares is one of the terms of sanction of such loan.
20. An over-subscription to the extent of 10% of the Net Issue can be retained for the purpose of rounding off to the nearest integer while finalising the Basis of Allotment.
21. Securities offered through this Issue shall be made fully paid up or may be forfeited within 12 months from the date of allotments of securities in the manner specified in clause 8.6.2 of the SEBI (DIP) Guidelines.
- 22. Allotment of Equity Shares to Promoters/ Promoter Group Companies and other persons at a price lower than the Issue Price to be discovered through book building in this Issue.**

We have made the following allotments of Equity Shares to our Promoters/ Promoter Group Companies and the price of such issues may be lower than the Issue Price:

Date	Number of Shares	Face Value	Issue Price	Details
October 31, 2005	60,50,335	10	38.11	Issue of Equity Shares at the Book Value to Promoter Group Companies viz. HFPL and HPPL pursuant to the Agreement to Sell and Purchase .
January 24, 2006	19,05,500	10	10	Issue of Equity Shares for cash at par to Promoter Group Company, namely, Abhinav International Private Limited
January 24, 2006	5,33,540	10	10	Issue of Equity Shares for cash at par to Promoter Group Company, namely, C.K. Software Private Limited



23. Equity Shares issued for consideration other than cash or out of revaluation reserves are as follows:

Date of Issue	No. of Shares	Issue Price (in Rs.)	Reasons for issue	Benefits accrued to the Company
March 29, 1994	1,09,750	100/-	Issued on acquisition of business by our Company	Due to backward integration, increase in profitability
January 15, 1996	10,98,200	NIL	Bonus Issue 1:1	N.A.
March 31, 1997	6,69,855	NIL	Bonus 1:4	N.A.
August 30, 2005	33,49,275	NIL	Bonus 1:1	N.A.
October 31, 2005	60,50,335	38.11	Pursuant to Agreement to Sell and Purchase	Acquisition of business of two of the Promoter Group Companies.



OBJECTS OF THIS ISSUE

We are proposing to add integrated facilities of fabrics weaving, modern process house and textiles made-ups manufacturing plant (proposed Home Textile Unit). In relation to the same, M/s. Gherzi Eastern Limited, a textile consultancy firm has carried out the Techno Economic Feasibility study. Also, Punjab National Bank (PNB), our lead banker in relation to the term loan component of the Proposed Expansion Project, has relied on GEL's report for the purpose of sanction of term loan as mentioned in the Notes on Assessment of Term Loan with reference to its sanction letter dated February 13, 2006.

Further, we propose to part substitute the existing working capital to the extent of Rs. 1,500 lakh. The other object of this Issue is to get the Equity Shares listed on Bombay Stock Exchange Limited ("BSE") and National Stock Exchange of India Limited ("NSE").

The main objects clause and objects incidental or ancillary to the main objects clause of the Memorandum of Association of our Company enables us to undertake the existing activities and the activities for which the funds are being raised through the present Issue. We further confirm, that the activities of our Company carried out until now are in accordance with the objects of the Memorandum of Association of our Company.

Requirements of Funds

The estimated requirement of funds is as follows:

Sr. No.	Particulars	Amount (Rs. in Lakhs)
1.	Setting up of integrated Home Textile Unit at Roorkee	15344.00
2.	Part Substitution of existing working capital	1500.00
3.	Public Issue Expenses	[●]
	TOTAL	[●]

Techno Economic Feasibility Study

We have retained M/s. Gherzi Eastern Limited (Gherzi), a textile consultancy firm to conduct Techno Economic Feasibility Study and submit the report. Accordingly, GEL has submitted its report dated December 15, 2005 and the Supplementary to the same dated February 4, 2006. The report prepared was valid for a period of six months from the date of this report. However, we have received an extension to the same vide letter dated August 22, 2006 for an additional period of six months. Gherzi specializes in the field of textiles, tourism, housing, management consultancy, water supply and environment engineering. Gherzi was India's first company to provide organized, comprehensive consultancy in the field of textiles. Gherzi has initiated, planned and executed several new textile projects besides undertaking rationalization of existing mills and technologies. GEL has, in technical collaboration with Gherzi Textile Organisation, Zurich, undertaken several textile projects covering techno-economic feasibility studies, planning, reorganization, technology up-gradation and rehabilitation in various parts of the world.

SALIENT FEATURES OF THE PROPOSED EXPANSION PROJECT

Product-Mix:

With our past experience in the textiles business, discussions carried out with prospective buyers, technology providers, as well as with GEL, and after considering the present market trends, we propose to manufacture:-

Around 21000 meters per day of superior quality wider width (+120 inches) fabrics in the weaving division. Entire quantity will be internally consumed in the processing division, to derive the full benefit of value addition. The grey fabric will be of varieties ranging from thread counts 120 and above up to 600, out of fine yarns in the count range 20s, 30s, 40s, 60s, 80s, 100s.

The processing division will have a capacity of around 1,05,000 meters per day of fabrics. The Final product will be 100% bleached, dyed and / or printed. These will be available in thread counts 120 to 600 and will be made out of own as well as outsourced grey fabrics. Initially, about 85,000 meters of grey fabrics will be procured from outside.

Weaving:

It is proposed to install 72 looms initially, which will be entirely imported. The looms will be of AIRJET and PROJECTLE technology, which has the advantage of high speed and productivity, and a lower overall cost of operation. The Weaving preparatory machinery will also be imported. The Weaving division will be modern and a state of the art facility, with humidification and all required utilities to ensure quality and smooth operations.



Processing:

The Processing division will be ultra modern, with CONTINUOUS PROCESS technology. All the critical processes will be automated and the machineries imported. Wherever possible indigenous machinery is considered to optimize investment without compromising on the quality. The processing division, which includes printing also, will have a capacity of processing about 1,05,000 meters per day.

Making-Up:

An "in-house" textile made-ups unit consisting of various machines, cutting and industrial sewing machines will cater to the requirement of making finished products and packing them into pieces as per customer requirements.

COST OF THE PROJECT AND MEANS OF FINANCE

The cost of the project as per the 'Notes on Assessment of Term Loan' with reference to the PNB's sanction letter dated February 13, 2006 is as follows:

COST OF THE PROJECT

(Rs. in lakh)

Description	Total Cost
Land	500
Site Development	50
Building	1,638
Plant & Machinery	
- Indigenous Machinery	881
- Imported Machinery	5,943
Other Fixed Assets	
- Indigenous Equipment	1,500
- Imported Equipment	297
Preliminary & Preoperative Expenses	643
Provision for Contingencies	605
Margin Money for Working Capital	3,287
Part Substitution of existing working capital	1500
Sub - Total	16,844
Public Issue Expenses	[●]
TOTAL	[●]

Means of Finance

The entire requirement of the funds for the Proposed Expansion Project and the Public Issue Expenses is proposed to be funded out of the proceeds of this Issue and through rupee term loans to be raised through banks/financial institutions.

(Rs. in lakh)

Sr. No.	Particulars	Amount
1.	Public Issue of Equity Shares	[●]
2.	Rupee Term Loan	9,000
	Total	[●]

We confirm that firm arrangements of finance through verifiable means towards 75% of the stated means of finance, excluding the amount to be raised through this Issue have been made.



Notes:

- The term loan component required for the proposed project is Rs. 9,000 lakh, against which we have received the sanction for Rs. 13,500 lakh from PNB, OBC and SBI. However, we intend to utilize up to Rs. 9,000 lakh.
- In case of any shortfall in the means of finance or cost escalation in the Proposed Expansion Project, the same shall be met from term loan sanctioned and internal accruals. Excess money, if any, will be utilized for general corporate purposes including but not restricted to re-payment of loans or towards working capital requirement.
- The entire Rupee term loan is eligible for a 5% interest subsidy under TUFs subject to the conditions specified therein.

Appraisal

Our Proposed Expansion Project has not been independently appraised by any bank / financial institution. However, Punjab National Bank (PNB), our lead banker in relation to the term loan component of the Proposed Expansion Project, has relied on GEL's report for the purpose of sanction of term loan as mentioned in the Notes on Assessment of Term Loan with reference to its sanction letter dated February 13, 2006.

DESCRIPTION OF THE ABOVE COST HEADS

Land

For the new project with integrated facilities of weaving, process house and made-ups, as per GEL's report, it was proposed to acquire **20 acres** of land at Kosi Kalan (U.P) about 90 Km from New Delhi. The total cost of aforementioned land as estimated by GEL was Rs 500 lakh.

However, we have decided to acquire the land near Roorkee in Uttaranchal to avail of various incentives and benefits given by the Central Government and the State Government.

Even at the time of estimation of land for GEL's Report, we considered the option of acquiring the land in Uttaranchal. Due to non-availability of a plot of 20 acres in Uttaranchal, we opted for the estimation for land available at Kosi Kalan.

On subsequent exploration of opportunities in Uttaranchal, we have been able to identify the land admeasuring 24.79 acres near Roorkee. Accordingly, we have acquired 22.68 acres of land near Roorkee in Uttaranchal, the details of which are as follows:

Date of Sale Deed	Plot No.	Name of Party from whom the Land has been acquired	Acre	Consideration Paid (Rs.)	Stamp Duty (Rs.)	Total Amount Paid (Rs.)
March 7, 2006	253	Upendra Kaul	6.65	60,00,000	17,23,520	77,23,520
March 7, 2006	258	Upendra Kaul	0.95	10,00,000	2,45,120	12,45,120
April 13, 2006	254	Rao Irshad, Rao Farmood, Ramesh, Jamshed, Mehak Singh	5.11	1,37,86,500	13,25,100	1,51,11,600
April 13, 2006	255	Mohd Ashkar, Mohd khalid, Mohd Saajid, Mohd Waajid, Mohd Wakil	0.51	16,40,000	1,31,200	17,71,200
July 4, 2006	265	Ashok Gupta	1.20	10,00,000	3,10,500	13,10,500
July 4, 2006	266	Sandeep Gupta and Subhash Gupta	1.20	10,00,000	3,10,000	13,10,000
April 22, 2006	267	Atul Tyagi, Athar Hasan, Illyas, Dilip Kumar, Mustkam, Menpal, Liyaqat, Rajendra, Yakoob, Illyas, Devendra	7.07	1,67,52,000	18,30,600	1,85,82,600
Total			22.69	4,11,78,500	58,76,040	4,70,54,540



Further, we have entered into an Agreement for acquiring 2.11 acres of land, the details of which are as follows:

Date of the Agreement	Plot No.	Acre	Name of the Party from whom the land has been acquired	Total Consideration (Rs.)	Consideration paid (Rs.)	Stamp Duty paid (Rs.)	Stamp Duty to be paid (Rs.)	Total (Rs.)
March 7, 2006	259	0.94	Jai Ram	23,38,900	23,38,900	1,46,600	97,240	25,82,740
March 7, 2006	138-140	1.17	Jai Ram	29,58,000	29,58,000	1,85,100	1,17,620	32,60,720
Total		2.11		52,96,900	52,96,900	3,31,700	2,14,860	58,43,460

For the abovementioned land, we have not entered into formal sale deeds as the seller is yet to receive approval from a District Magistrate under Section 157 of the U.P. Zamindari Abolition and Land Reforms Act, 1950 wherein the seller being a member of the Scheduled Caste / Tribe is required to take prior approval of a District Magistrate before entering into any sale deed with respect to his / her property. As on date of filing this Red Herring Prospectus with RoC, we have paid the consideration to the seller and 61% of the stamp duty with respect to the same.

The whole of the aforesaid land has been declared to be an industrial land vide Notification no. 1764/ST-1/OV/07-Industry/ 2004-05 dated May 21, 2005 from State Government of Uttaranchal.

The above mentioned land acquired by our Company is free from all encumbrances and has a clear title. The various benefits available to us in Uttaranchal includes Central Excise Exemption, Income Tax exemption, Central Sales Tax @1% for first five years, Competitive Power Tariffs etc. For details, please refer to the chapter titled "Statement of Tax Benefits" beginning on page 44 of this Red Herring Prospectus. Other than what is mentioned herein, we do not require any approvals with respect to this land.

Site Development

As per Gherzi, the cost for Site Development will be Rs. 50 lakh and this would include:

- Cost of leveling and filling
- Culvert at the entrance
- Cost of laying approach road and internal road
- Compound Wall
- Barbed wire fencing
- Iron Gates

Building

We will be setting up the various facilities, viz., weaving, processing, manufacturing, utilities, administrative block, etc. in a total built up area of approximately 35,320 square meter at a total cost of Rs. 1,638 lakh as per details given below:

(Rs. In lakh)

Sr. No.	Production	Total Area m2	Total
1.	Yarn Store	648	25.92
2.	Direct Warper	1,080	48.60
3.	Sizing, Beam Store & Drawing In	1,728	69.12
4.	Grey Fabric Inspection and Storage	1,998	79.92
5.	Weaving Shed	3,456	155.52
6.	Process house	12,000	540.00
7.	Made Up Unit	12,000	540.00
8.	Miscellaneous	2,410	178.02
	Total	35,320	1637.10
	Rounded off to		1638.00

(Source: Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL)

The contract for the construction of the building is yet to be awarded by our Company.



Plant and Machinery

The details of plant and machinery required in relation to the proposed manufacturing facilities are given hereunder. The estimates of cost of plant and machinery are based on the Techno-Economic Feasibility Study done by GEL. For the purpose of estimation of cost, quotations have been invited from various suppliers and based on the quotations received and further negotiations with the suppliers, costs of plant and machinery have been estimated.

The plant and machinery requirements have been estimated as under:

(Rs. in lakh)

Sr. No.	Department	Amount
1	Weaving	3,154.25
2	Processing & Making Up	3,669.00
	Total	6,823.25

I. Weaving

- (a) The details of the imported machinery which is proposed to be purchased for weaving division are as follows and orders for the same have not yet been placed:

(Rs. in lakh)

Sr. No.	Particulars	No. of Units	Price	Name of the Supplier from whom quotations have been obtained
1	Looms			
	Airjet Weaving Machine-Cam 340 cms. PICANOL OMNI Plus800-2P	36	1,591.87	PICANOL N.V. Ter Waarde
	Airjet Weaving Machine-Cam 340 cms. PICANOL OMNI Plus800-2R	12	573.19	PICANOL N.V. Ter Waarde
	Supplementary Equipment for OMNI Plus	48	263.41	PICANOL N.V. Ter Waarde
	CIF Value for PICANOL Looms		59.55	--
2	Reaching Machine / Automatic Drawing in machine Staubli	1	135.29	Staubli Sargans AG
3	Sulzer Weaving Machine-330 cms. Projectile P7300HP B330 N2 EPD12	24	1,008.00	Sultex (India) Pvt. Ltd.
4	Sizing Machine - Tsudakoma (CIF) -HS40 (S2C12) Type Sizing Machine. Including Warping machine	1	590.38	Tsudakoma Corp
5	Warp Tying Machine with Frame Todo HL-210-135S (CIF)	1	26.27	Todo Seisakusho Ltd.
Total: Imported			4,247.97	
Discount on new machinery@40%			1,295.99	
Discount @ 5% on Sulzer Machinery Cost			50.40	
Machinery cost after discount			2,901.58	
Import Duty @ 5.05% of Machinery Landed Cost			146.53	
Total Landed Cost			3,048.11	
Transportation, Erection and other expenses			58.41	
TOTAL			3,106.52	

(Source: Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL)



- (b) The details of indigenous machinery for weaving division are as follows and orders for the same have not yet been placed:

(Rs. in lakh)

Sr. No.	Description	No of Units	Price	Name Of the Supplier from whom quotations have been obtained
1.	Remnant Cone winding Machine (120 spindles) - local	1	5.00	--
2.	Warping Beams - Bharat Bobbins	60	12.00	Bharat Bobbins Limited
3.	Size Cooking and Storage Vessels - local	Lot	5.00	--
4.	Inspection Cum Rolling Machine - Almac	4	13.00	Almac
5.	Drawing in stands - local	2	2.00	--
	Gross Total		37.00	
	Transportation, Excise and Sales tax @ 25%		9.25	
	Erection and Spares @ 4%		1.48	
	Total Indigenous		47.73	

(Source: Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL)

II. Processing and Making Up

- (a) The details of the imported machinery proposed to be purchased for processing and made up are as follows and orders for the same have not yet been placed:

(Rs. in lakh)

Sr. No.	Particulars	No of units	Price	Name of the Supplier from whom quotations have been obtained
Processing				
1.	Singeing Machine - Osthoff	1	167.38	Osthoff senge GmbH & Co KG
2.	Continuous Open width bleaching Machine - Kuster	1	776.00	Kuster Calico Machinery Limited
3.	Mercerising Machine - Benninger	1	1,523.73	BENNINGER CO LTD
4.	Continuous Dyeing Range - Monforts	1	899.96	A. Monforts Textile maschinen GmbH & Co. KG
5.	Printing Machine - Stork	1	378.30	Stork Prints B.V
6.	Digital Engraving - AGS	1	40.28	AGS
7.	Weft Straightener - Mahlo	1	32.02	Mahlo GmbH Co KG
Making Up				
1.	Cutting Machine - Eastman	4	1.97	IIGM
2.	End Cutter - Eastman	4	0.90	IIGM
3.	Air Flootation Table - Gerber	1	13.43	IIGM
4.	Single Needle Machine (DDL-8300N) - Juki	595	90.53	IIGM
5.	Double Needle Machine (LH-3128SF) - Juki	50	32.33	IIGM
6.	5 Thread Overlock Machine - Juki	30	12.08	IIGM
7.	Steam Iron - Juki	60	2.66	IIGM
8.	Vacuum Iron table - Juki	60	18.12	IIGM
9.	Calendar Ramisch - Ramisch	1	373.59	Ramisch Guarneri
Total : Imported (CIF)			4,363.00	
Total CIF after discount @ 35%			2,836.00	

(Source: Techno- Economic Feasibility Study for Home Textile Project dated December 15,2005 and the Supplementary to the same dated February 4, 2006 by GEL)



- (b) The details of the indigenous machinery for processing division are as follows and orders for the same have not yet been placed:

(Rs. in lakh)

Sr. No.	Description	No of Units	Price	Name of the Supplier from whom quotations have been obtained
1.	Grey Inspection Machine - Almac	4	13.00	Almac
2.	Dryer & Exit for Printing - Stork	1	85.00	Stovec Industries Limited
3.	Three Needle Chain Stitch Machine - Yamato	4	8.00	India Agencies
4.	Pad Dry / Pad Batch - Kusters	1	105.00	A.T.E Marketing Pvt. Limited
5.	Loop Ager - Texfab	1	55.00	Texfab Engineers (I) Pvt. Ltd.
6.	Drying Machine - Swastik	2	85.95	Shreeji Engineering and Marketing Services
7.	Washer - Dhall	1	80.00	Dhall Enterprises & Engineers Pvt. Ltd.
8.	Stenter - Motex	2	357.60	A.T.E Marketing Pvt. Limited
9.	Sanforiser - Swastik	2	150.00	Shreeji Engineering and Marketing Services
10.	Jigger Dyeing Machine - Swastik	3	30.00	Shreeji Engineering and Marketing Services
11.	Finish Inspection - Almac	5	19.78	Almac
12.	Fabric Rolling/Plating Machine - local	2	4.00	--
Total			993.32	
Total after discount @ 35%			646.00	
Excise, C.S.T, Insurance & Octroi @ 25%			161.41	
Erection charges @ 4 %			25.83	
Total: Indigenous			833.00	

(Source: *Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL*)

Miscellaneous Fixed Assets

- (a) The imported miscellaneous fixed assets required for the proposed home textile unit are as follows and orders for the same have not yet been placed:

(Rs. in lakh)

Sr. No.	Particulars	No. of units	Price	Name of the Supplier from whom quotations have been obtained
1.	Air Compressor			
	Air Compressor: Atlas Copco (2+1 Stand By)			
	Air Compressor: ZR 250 (1515 CFM)	3	102.73	Atlas Copco
	Air Dryer Model FD 1600 W	3	46.75	Atlas Copco
	CIF for No. 1		5.98	
2.	Material Handling			
	Todo Warp Beam Carrier: Model BS-N/2000 with Heald Support	1	13.06	Todo Seisakusho Ltd.
	Todo Warp Beam Carrier: Model BS-N/2000 without Heald Support	1	10.59	Todo Seisakusho Ltd.
	Todo Cloth roll doffer Carrier: Model 3DL/500	1	2.27	Todo Seisakusho Ltd
	Todo Empty Beam Carrier : Model F 500	1	2.30	Todo Seisakusho Ltd
3.	Overhead Travelling Cleaner: Luwa	3	43.11	Zellweger Luwa AG
4.	Laboratory Equipment (local)		50	--



Total Landed Cost	277	
Import Duty @5.05% of landed machinery cost	14	
Education Cess @2% of import duty	0.28	
Total Landed Cost	291	
Local Transport & Expenses @ 2% of machinery cost	6	
Total Cost	297	

(Source: Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL)

- (b) The indigenous miscellaneous fixed assets required for the unit are as follows and orders for the same have not yet been placed:

(Rs. in lakh)

Particulars	No. of units	Price	Name of the Supplier from whom quotations have been obtained
Humidification plant, Ventillation System and Chilling Plant	--	205	--
Electrical Installation with Transformer and Stabiliser @ 9500 / KVA	--	315	Rohini Industrial Electricals Pvt. Ltd.
Solid Fuel Boilers and Thermic Fluid Heater and accessories	--	195	Thermax Ltd.
Caustic Recovery Plant	--	150	Korting Hannover AG
D.G. Sets (1500 KVA) (second hand)	2	162	--
Diesel Storage Tanks	--	25	--
Steam and condensate piping	--	80	--
Storage tanks for fuel, caustic soda, hydrogen peroxide	--	15	--
Water Treatment Plant and Effluent Treatment Plant	-	140	Enviro Protect Utility
Water Supply and Distribution	--	65	--
Fire Protection System	--	50	--
Other equipment including computers and vehicles	--	98	--
Total		1,500	

(Source: Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL)

Preliminary and Pre-Operative Expenses

Pre-operative and preliminary expenses mainly consist of start up and trial run expenses, establishment and project management expenses, engineering and consultancy fees, upfront fees, interest during construction period, etc. The total amount of pre operative and preliminary expenses has been estimated at Rs. 643.04 lakh. Following is the break up of pre-operative and preliminary expenses:

(Rs. in lakh)

Sr. No.	Description	Amount
1	Establishment and Project Management Expenses	50.00
2	Financial expenses	269.96
3	Project related consultation fees etc.	160.00
4	Start Up Expenses (3 days stock of yarn)	45.00
5	Others	117.74
	Total	642.70



Contingencies

Contingencies have been provided at 5% of the capital expenditure, which include land, site development, buildings, plant and machinery, miscellaneous fixed assets and pre-operative and preliminary expenses. The total amount of Rs. 605 lakh has been provided for contingencies. The following are the break up of contingencies:

(Rs. in lakh)

Description	Amount
Contingency on pre-operative expenses	64.65
Contingency (on all other items)	239.67
Contingency on currency fluctuation	300.71
Total	605.03

(Source: *Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL*)

Details of Margin Money on Working Capital Requirement for the Proposed Expansion Project

Working capital margin of Rs. 3286.99 lakh has been provided for the Proposed Expansion Project based on requirement of working capital for the 1st year of production. The working capital requirement has been worked out on the basis of assumptions given in the following table:

(Rs. in lakh)

Particulars	Period in Months	1st Year			
		Amount	%	Bank Finance	Margin Money
Raw Materials - Yarn+Fabric+Thread	1.75	3,191.65	75	2,393.74	797.91
Sizing Ingredients + Finishing Chemicals	1.5	411.79	75	308.84	102.95
Consumable Stores & Spares	1.5	4.73	75	3.54	1.18
Packing Material	1.5	154.56	75	115.92	38.64
Finished Goods	1.75	4,299.40	75	3,224.55	1,074.85
Work in Progress	0.75	1,827.91	75	1,370.93	456.98
Miscellaneous Deposits	15 Days	50.00			50.00
Debtors	1.75	5,262.41	75	3,946.81	1,315.60
Less Creditors	1	- 2,204.52	75	-1,653.39	-551.13
TOTAL		12,997.93		9,710.94	3,286.99

(Source: *Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006, by GEL*)

As per the estimates given in the above table, the requirement of total Working Capital for our Company as a whole after the new project commences operations would be Rs. 12,997.93 lakh.

The requirement of the incremental margin money for working capital of Rs. 3,286.99 lakh is proposed to be met from the Public Issue.

Part Substitution of the existing Working Capital

As on June 30, 2006, we have working capital limits of Rs. 6,625 lakh. For details, please refer chapter titled "Report of our Auditors, M/s. Rohtas & Hans, Chartered Accountants" beginning on page 107 of this Red Herring Prospectus.

Out of the aforesaid amount of Rs.6625.00 lakh, the outstanding working capital as at June 30, 2006 is Rs. 6,264.73 lakh. Now, we propose to substitute the said existing outstanding working capital out of the proceeds of this Issue to the extent of Rs. 1,500 lakh.



Issue Related Expenses

Issue related expenses includes underwriting and Issue management fees, selling commission, distribution expenses, legal fees, fees to advisors, printing and stationery costs, advertising expenses and listing fees payable to the Stock Exchanges etc. The total expenses for this Issue are estimated at Rs. [●] lakh, which is [●]% of the Issue size, which shall be met out of the proceeds of this Issue and the break-up of the same is as follows:

(Rs. in lakh)

Sr. No.	Particulars	Amount
1.	Issue Management	[●]
2.	Registrars fees	[●]
3.	Printing of Stationery	[●]
4.	Advertising and marketing expenses	[●]
5.	Underwriting, Brokerage and Selling commission	[●]
6.	Other expenses	[●]
	Total	[●]

Approval/Sanction of Debt Component of the Project Cost

Against the total term loan component mentioned above, we have already tied up for Rs. 13,500 lakh and we have received the final sanction letters from the three bankers, the details of which are as follows:

Sr. No	Name of the Bank	Sanction letter number and date	Amount (Rs in lakh)	Important Conditions as per Sanction Letters
1.	Punjab National Bank (PNB)	IBB: ND:HTTL dated February 13, 2006	5,400	<p>Interest: ROI of minimum 8.75% p.a (linked to BPLR-2.50% +0.50% tp) subject to reset after every two years.</p> <p>Repayment: The proposed term loan is to be repaid in 28 equal quarterly instalments after 12 months moratorium period from the date of 1st disbursement. Tentatively, first installment is likely to be disbursed in the month of April 06 and first installment of the repayment shall fall due in April'07.</p> <p>Interest is to be recovered as and when due/levied.</p> <p>Primary Security: First pari-passu charge on entire block assets (existing and future) including land and building of consolidated Group Companies i.e Hanung Toys (I) Ltd to be renamed as Hanung Toys & Textiles Ltd. Total value of security is Rs. 148.06 Crores.</p> <p>Disbursement: Disbursement along with margin money contribution by the party shall be made directly to the suppliers/ manufacturers. However for construction of building, T/L may be disbursed by way of reimbursement of bills submitted by the Company duly certified by Chartered Accountants for having made the payment after verification of end use by the Branch Officials.</p>
2.	Oriental Bank of Commerce (OBC)	OF-81/S.P. dated February 15, 2006	3,600	<p>Interest: @ 8.75% p.a (PLR-2.25%) i.e as charged by PNB, with monthly rests. Penal Interest @ 2% p.a over and above the rate on overdrawn portion shall be applicable.</p>



				<p>The rate of interest shall be reviewed and reset after a period of two years.</p> <p>Repayment: 28 equal quarterly instalments, after a moratorium period of 12 months from the date of first disbursement. Tentatively, first instalment is likely to be disbursed in the month of April 2006 and first instalment of the repayment shall fall due in April 2007.</p> <p>Primary Security: 1st charge on Plant Machinery and other fixed assets to be purchased from Bank Finance valuing Rs 121.08 Crores as envisaged in the Project Cost including land & building costing Rs 21.88 Crores and charge on the Net Block of the Company valuing Rs 25.98 Crores with first pari passu basis with other term lender (PNB), total value of primary security being Rs 147.06 Crores (Rs 121.08 Crores + Rs 25.98 Crores)</p> <p>Disbursement: The term loan payment shall be directly made to machinery supplier/ contractors. However, reimbursement to Company for expenditure incurred out of own funds against Chartered Accountant certificate for expenditure incurred may also be treated as margin for further disbursements and amount excess to the required margin may be reimbursed to the Company.</p> <p>The Company may also be permitted import LC of Rs. 29.00 Crores as complementary to the proposed term loan for importing capital goods related to the project at Nil margin and on other usual terms and conditions.</p>
3.	State Bank of India (SBI)	MCG/VB/2005-06/117 dated February 25, 2006	4,500	<p>Interest: 1.25% below SBAR (of 10.25%) at monthly rests.</p> <p>Repayment: The term of loan of Rs. 45.00 Crore will be repayable in 26 Quarterly installments on completion of 12 months moratorium as per details below :</p> <p>First 22 quarterly installments of Rs. 1.6 Crore each from 15.10.2007 to 15.01.2013</p> <p>Last 4 quarterly installments of Rs. 2.45 Crore from 15.04.2013 to 15.01.2014</p> <p>Primary Security: First Pari Passu Charge on the present and future fixed assets of the Company. Including EM of the Company's properties as under:</p> <ul style="list-style-type: none"> Sub-lease of land located at plot no. 108-109, 110 and 125, NSEZ, Noida Hanung Toys and Factory Building thereat



				<ul style="list-style-type: none"> • Factory land and building located at B-7, Hosiery Complex, Phase-II, Noida measuring 5000 Sq. Meters. Held in the name of Hanung Processors Pvt. Limited • Sub-lease of land located at Plot No. 115 NSEZ, Noida - Hanung Furnishings and factory building thereat. <p>Disbursement: The term loan will be disbursed directly to the suppliers of machinery by bankers cheque as per the invoices and after recovering the required margin. In case of re-imbursement of the expenditure already incurred by the Company, the branch will ensure that the same is as per the project cost and the re-imbursement to be made after satisfactory physical inspection of the assets and against the receipts of such expenditure.</p>
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SCHEDULE OF IMPLEMENTATION

The schedule of implementation of the Project as per the Notes on Assessment of Term Loan with reference to PNB's Loan Sanction Letter dated February 13, 2006 is given below:

Sr. No.	Activity	Activity Commencement Date	Estimated Completion Date	Present Status as on August 31, 2006
1.	Acquisition of Land	December, 2005	March, 2006	Ongoing
2.	Site Development	March, 2006	April, 2006	Ongoing
3.	Placement of Order for Machinery	March, 2006	April, 2006	Pending
4.	Building Plan Approval	March, 2006	April, 2006	Pending
5.	Civil Construction	April, 2006	August, 2006	Pending
6.	Approval for Power/ Pollution	September, 2006	November, 2006	Pending
7.	Approval for Boiler	October, 2006	November, 2006	Pending
8.	Delivery of Machinery	July, 2006	August, 2006	Pending
9.	Installation of Machines	July, 2006	October, 2006	Pending
10.	ETP Installation	October, 2006	November, 2006	Pending
11.	Trial Run	November, 2006	November, 2006	Pending
12.	Commercial Production	January 2007		Pending

The delay in commencement of Commercial Production is due to the delay in IPO Process

Raw Material and Utilities Requirements for the Proposed Expansion Project

The raw material requirements of the Proposed Expansion Project are as follows:

Sr. No.	Raw Material	Estimated Requirement
1.	Grey Yarn	9318 Kgs per day
2.	Grey Fabric	84647 Meters per day

(Source: Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL)



The utility requirement like power, water and manpower for the Proposed Expansion Project is as follows:

Division	Power	Fuel	Water	Manpower (In Numbers)
Weaving	1660 Kw	Steam- 5390 Kgs / day	19 M3/day	210
Processing & Making Up	2269 Kw	Steam- 458869 Kgs/Day LPG- 720 Kgs / day	1944 M3/day	2192
Miscellaneous			601 M3/ day	

(Source: Techno- Economic Feasibility Study for Home Textile Project dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 by GEL)

Availability of Utilities for the Proposed Expansion Project

Power

Power requirement for the operations of the Proposed Expansion Project is proposed to be sourced from Uttaranchal Power Corporation Limited at the prevailing rates. For taking care of any power failure and uninterrupted supply of power in the proposed unit , we propose to install two DG sets of 1500 KVA each.

Fuel

The requirement of steam is proposed to be met by installing t boilers as mentioned above under the head "Miscellaneous Fixed Assets". For the requirement of LPG, we propose to obtain the same locally at the time of requirement.

Water

Water requirement at the proposed unit shall be met by having our own bore wells.

Manpower

Manpower is available in abundance in Uttaranchal. We propose to meet our entire manpower requirement locally and will make necessary in-house arrangement for training.

SOURCES AND DEPLOYMENT OF FUNDS TILL 31ST AUGUST 2006

We have incurred Rs. 1238.55 lakh for our Proposed Expansion Project. Details of the amount incurred and the source for the same as certified by the Auditors, M/s. Rohtas & Hans, Chartered Accountants vide its certificate dated September 7, 2006 are as follows:

(Rs. in lakh)

Sr. No.	Particulars	Amount
1.	Land	526.83
2.	Site Development	247.06
3.	Pre-operative and Other expenses	390.29
4.	Issue related expenses	74.37
	TOTAL	1,238.55 (Rupees One Thousand Two Hundred and Thirty Eight lakh and Fifty Five Thousand Only)

The aforesaid amount was financed from our internal accruals and term loan from banks as under:

(Rs. In lakh)

Sr. No.	Particulars	Amount
1.	Term loans	
	- Punjab National Bank	404.81
	- Syndicate Bank	279.99
2.	Internal Accruals	553.75
	Total	1238.55 (Rupees One Thousand Two Hundred and Thirty Eight lakh and Fifty Five Thousand Only)



PROPOSED DEPLOYMENT OF FUNDS IN THE PROJECT

The quarter -wise breakup of proposed deployment of funds is mentioned below:

(Rs. In lakh)

Sr. No.	Particulars	Upto Aug 31.2006	For Sep. 06	Dec. 06 (Qtr)	Mar. 07 (Qtr.)	Total
1.	Land	526.83		–	–	526.83
2.	Site Development	247.06		–	–	247.06
3.	Building		–	800.00	838.00	1638.00
4.	Plant and Machinery		–	4000.00	2823.00	6823.00
5.	Miscellaneous Fixed Assets		–	1000.00	797.00	1797.00
6.	Preliminary and Pre-operative Expenses	390.29	9.71	150.00	93.00	643.00
7.	Contingency		–	–	381.11*	381.11*
8.	Working Capital Margin		–	3287.00		3287.00
9.	Reduction in Working Capital Facility		–	1500.00		1500.00
10.	Issue Expenses	74.37	0.63	[●]	[●]	[●]
	Total	1238.55	10.34	[●]	[●]	[●]

* The excess amount spent on acquisition of Land & for Site Development has been reduced out of the contingencies & the balance amount only has been depicted.

(Source: Estimates by Company Management)

Government Approvals/Licensing Arrangements for the Proposed Expansion Project

We need to obtain several licenses/approvals/permissions under various statutes from several authorities for setting of the Proposed Expansion Project. For details, please refer chapter titled "Government / Statutory and Business Approvals" beginning on page 143 of this Red Herring Prospectus.

INTERIM USE OF FUNDS

Pending utilisation of funds for the objects of this Issue, the same would be kept in fixed deposit account with a scheduled commercial bank. These investments would be authorised by Board of Directors of the Company or a duly authorised committee thereof.

MONITORING OF UTILISATION OF FUNDS

Punjab National Bank has consented vide letter dated March 7, 2006 to act as the monitoring agency to monitor the deployment of Issue proceeds. We will disclose the utilization of the proceeds of this Issue under a separate head in our Balance Sheet clearly specifying the purpose for which such proceeds have been utilized. We will also, in our Balance Sheet, provide details, if any, in relation to all such proceeds of this Issue that have not been utilized thereby also indicating investments, if any, of such unutilized proceeds of this Issue.

No part of the Issue proceeds will be paid by us as consideration to our Promoters, Directors, key management personnel or companies promoted by our Promoters except in the course of normal business.



BASIC TERMS OF ISSUE

The Equity Shares being offered are subject to the provisions of the Companies Act, the Memorandum and Articles of our Company, the terms of the Red Herring Prospectus, Bid-cum-Application Form, the Revision Form, the Confirmation of Allocation Note ("CAN") and other terms and conditions as may be incorporated in the Allotment Advice, and other documents/certificates that may be executed in respect of this Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to this Issue of capital and listing and trading of securities issued from time to time by SEBI, Government of India, Stock Exchanges, RBI, RoC and / or other authorities, as in force on the date of this Issue and to the extent applicable.

ISSUE STRUCTURE

	Employees	QIBs	Non-Institutional Bidders	Retail Individual Bidders
Number of Equity Shares	5,00,000	45,00,000	13,50,000	31,50,000
Percentage of Issue Size available for allocation	Upto 5.26% of the Issue Size	Upto 50% of the Net Issue 5% of which will be available for allocation to Registered Mutual Funds.	Not less than 15% of the Issue or Net Issue less allocation to QIB bidders and Retail Individual Bidders	Not less 35% of the Net Issue or Net Issue less allocation to QIB bidders and Non-Institutional Bidders
Basis of allocation if respective category is oversubscribed	Proportionate	Proportionate	Proportionate	Proportionate
Minimum Bid	60 Equity Shares and multiple of 60 Equity Shares thereafter	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of 60 Equity Shares thereafter	Such number of Equity Shares that the Bid Amount exceeds Rs 100,000 and in multiples of 60 Equity Shares thereafter.	60 Equity Shares and in multiples of 60 Equity Share thereafter
Maximum Bid	Not exceeding 5,00,000 Equity Shares	Not exceeding the size of the Net Issue subject to applicable limits	Not exceeding the size of the Net Issue subject to applicable limits	Such number of Equity Shares whereby Bid Amount does not exceed Rs. 100,000
Mode of Allotment	Compulsorily in dematerialized form.	Compulsorily in dematerialized form.	Compulsorily in dematerialized form.	Compulsorily in dematerialized form.
Trading Lot/ Market Lot	One Equity Share	One Equity Share	One Equity Share	One Equity Share
Who can Apply	Eligible Employees who are permanent employees of our Company; or a Director of our Company (whether a whole-time Director, part time Director or otherwise); an Employee should be an Indian national, based in India and physically present in India on the date of submission of the Bid-cum-Application Form. Also, such person should be an Employee on the payroll of our Company on the date of filing the Red Herring Prospectus with Roc. Promoter Directors and / or their relatives are not permitted to participate in this category.	Public financial institutions, as specified in Section 4A of the Companies Act: scheduled commercial banks, mutual funds, foreign institutional investor registered with SEBI, multilateral and bilateral development financial institutions, Venture Capital Funds registered with SEBI, foreign Venture capital investors registered with SEBI, State Industrial Development Corporations, permitted insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 2,500 lakh and pension funds with minimum corpus of Rs. 2,500 lakh in accordance with applicable law.	Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, NRIs, Scientific Institutions, societies and trusts	Individuals (including NRIs and HUFs in the name of Karta) applying for Equity Shares such that the Bid Amount does not exceed Rs. 100,000 in value.



	Employees	QIBs	Non-Institutional Bidders	Retail Individual Bidders
Terms of Payment	Margin Amount applicable to Eligible Employees at the time of submission of Bid-cum-Application Form to the Member of Syndicate.	Margin Amount applicable to QIB Bidders at the time of submission of Bid-cum-Application Form to the Member of Syndicate.	Margin Amount applicable to Non-institutional Bidder at the time of submission of Bid-cum-Application Form to the Member of Syndicate.	Margin Amount applicable to Retail Individual Bidder at the time of submission of Bid-cum-Application Form to the Member of Syndicate.
Margin Amount	Full Bid Amount on Bidding	10% of the Bid Amount in respect of bids placed by QIB Bidder on Bidding.	Full Bid Amount on Bidding	Full Bid Amount on Bidding.

Notes: Subject to valid Bids being received at or above the Issue Price, under-subscription, if any, in the Non-Institutional and Retail Individual categories would be allowed to be met with spillover inter-se from any of the other categories, at the sole discretion of our Company, the BRLMs and subject to applicable provisions of the SEBI Guidelines.

If the aggregate demand by Mutual Funds is less than 2,25,000 Equity Shares, the balance Equity Shares available for allocation in the Mutual Fund Portion will first be added to the QIB portion and be allocated proportionately to the QIB Bidders in proportion to their Bids.

The un-subscribed portion, if any, out of the Equity Shares reserved for allotment to Eligible Employees will be added back to the Net Issue and the same would be allocated proportionately by our Company in consultation with the BRLMs.



BASIS OF ISSUE PRICE AND JUSTIFICATION FOR THE PREMIUM

The Price Band for the Issue Price will be decided by us in consultation with the BRLMs and advertised at least one day prior to the Bid Opening Date/Issue Opening Date in Financial Express, an English language newspaper Jansatta and a Hindi language newspaper with wide circulation.

Investors should read the following summary along with the sections titled "Risk Factors" and "Financial Information" beginning on pages x and 107 of this Red Herring Prospectus respectively. The trading price of the Equity Shares of our Company could decline due to these risks and you may lose all or part of your investments.

QUALITATIVE FACTORS

Duty Free Imports and Single Window Clearance

Being located in the Special Economic Zone, we have the benefits of duty free imports in respect of raw materials we use in relation to our toys unit. Further, we have the Single window Clearance for the exports/imports wherein we save the time, which is involved in taking goods to the customs clearance, resulting in maintaining the time schedule for deliveries.

Benefits At the Proposed Home Textile Unit near Roorkee in Uttaranchal

- 100% Central Excise Exemption for First Ten Years
- 100% Income Tax exemption for First Five Years and 30% exemption for next five years
- Central Sales Tax @1% for first five years
- Capital Investment Subsidy @15% with maximum of Rs. 30,00,000
- Exemption from Entry Tax on Plant and Machinery
- Competitive Power Tariffs

Design and Development

We are manufacturing the shaped stuff toys and home furnishings wherein innovation in designing and colour combinations is the key element to remain competitive. We have separate design teams for both the units to create new designs keeping in view the market flavour and also on the basis of customer's requirements. Today, we have a library of over 4000 designs.

Dedicated Prototype Development Facilities

We have separate facilities dedicated completely towards producing the prototypes of toys as well as home furnishings as per designs developed by our design team on the basis of customer's specifications. Our marketing department continuously interacts with the customers and samples are made, remade and design changes are incorporated till the customer finally approves the particular prototype. Then the specifications of approved prototypes are used to complete the purchase orders. The entire process is very time consuming but with our dedicated in-house facility, we have been able to meet the delivery schedules on time.

Quality Assurance

In all our facilities viz. stuff toys, home furnishing, and textile processing, stringent quality checks are carried out starting from procurement of raw materials till the end of production process. In our stuff toys and home furnishing units, we carry out the inspections and checks such as 100% fabric check in respect of missing threads, random checks during the cutting and sewing stages to ensure removal of defects at these respective stages, 100% skin metal test through a metal detector to ensure safety against any broken needle part or any unwanted element being left in the finished product. Similarly, in our textile processing unit, we maintain a separate lab consisting of Spectrophotometer, Light Fastness Tester, Random Pilling Tester, Crock Meter, Tear Strength Tester, Washing Fastener Tester to ensure quality of dyeing and printing. The quality assurance measures are taken to make sure that quality is maintained, to identify and analyse areas of improvement, creation of database for future reference and analysis etc.

Interest Cost Benefits

We are operating both in the stuff toys and textile segments. Accordingly, TUFS benefits are available to us and consequently the weighted average interest rate of our existing term loans after considering the benefits on loans covered under TUFS is around 5%. This has helped us in lowering the overall average cost of funds and has increased our competitiveness. As we are expanding in the textile segment, the effective interest cost of the specified term loans will further reduce to 3.5% per annum taking into account the benefits available to us under TUFS.



Continued Association with Customers

We are catering to the demands of markets like Europe, USA, Latin America and the Middle East. We have been getting repeat orders from our customers like IKEA, Sweden since the start of our operations.

Established Domestic Network and Brands

Although, till now we have been mainly catering to the Overseas markets, nonetheless we have also launched our Domestic brands viz. "Play-n-Pets" and "Muskan" in stuff toys and "Splash" in home furnishings. We are already catering to the network of more than 100 distributors for the Stuff toys under the brand "Play-n-Pets" and "Muskan" spread in all the four regions viz. North, South, West and East and multi brand outlets including Lifestyle, Piramyd, Ebony, Shoppers Stop, Wellspun, Odyssey, Pantaloon, Central Westide, etc.

Similarly, our "Splash" range is supplied to more than 20 distributors who in turn cater to the network of more than 600 retailers spread across India.

"Disney" and other Tie Ups

We have tied up with "Disney" to use their various specified cartoon characters and with "PPCPL" wherein we have been granted certain pre-approved manufacturing and selling rights in respect of characters used in the animated motion picture "Hanuman".

QUANTITATIVE FACTORS

1. Weighted Average Earning Per Share (EPS) of Face Value of Rs. 10/-

YEAR/ PERIOD ENDED	EPS (Rs.)	WEIGHT
FY 2004	4.28	1
FY 2005	12.30	2
FY 2006	13.32	3
Weighted Average	11.47	

The weighted average EPS for Equity Share considered with face value of Rs.10/- is Rs. 11.47

EPS for the three months ended June 30, 2006 is Rs. 12.29 (annualized).

For detailed calculation of weighted average EPS, kindly refer to Annexure III, note 20 on "Earning Per Share" in section titled "Financial Information" beginning on page 107 of this Red Herring Prospectus.

2. Price/Earning Ratio (P/E)* in relation to Issue Price of Rs. [●]

- Based on FY 2005-06 EPS of Rs.13.32 : [●]
- Based on weighted average EPS of Rs. 11.47 : [●]

* would be calculated after discovery of the Issue Price through Book-building

3. Return of Network (RONW)

YEAR/PERIOD ENDED	RONW (%)	Weight
FY 2004	8.01	1
FY 2005	19.01	2
FY 2006	19.40	3
Weighted Average	17.37	

Return on network for the three months ended June 30, 2006 is 26.87% (annualized).

The average return on net worth has been computed on the basis of the restated profits and losses of the respective years.

4. Minimum return on total network after this Issue required to maintain pre-Issue EPS of Rs.13.32 is [●]%.

5. Net Asset Value (NAV) per share, post-Issue and comparison with the Issue Price

- As at June 30,2006 : Rs. 45.72
- Issue Price* : Rs. [●]
- NAV after this Issue : Rs. [●]

*would be compared after discovery of the Issue Price through Book Building



6. Comparison with Industry Peers / Industry Average

We are in the business of manufacturing and exports of stuff toys and home furnishings. There are no comparable listed companies in the stuff toys segment and hence comparison of our Company with peer group is not given. Since our Company is not comparable with any listed company, comparison of industry average or comparisons of profitability and return ratios with other listed companies have not been made.

However, in the home furnishings segment, the comparison of accounting ratios of our Company, with industry average and accounting ratios of peer group as on March 31, 2006, is as follows:

Name of the Company	Face Value of Equity Shares (Rs.)	EPS (Rs.)	P/E Ratio	RONW (%)	NAV (Rs.)
Hanung Toys and Textiles Limited	10	13.32	[●]	19.40	42.65
Peer*					
Bombay Dyeing	10	17.9	38.30	17.00	98.8
Welspun	10	5.7	16.8	14.20	71.1
Gokaldas Exports	10	34.30	16.70	23.80	201.00
SPL Industries	10	5.5	7.2	15.30	57.00

(*Source: Capital Market, August 28- September 10, 2006)

7. The face value of Equity Shares of HTTL is Rs. 10/- and the Issue Price is [●], i.e., [●] times of the face value.

The face value of Equity Shares of our Company is Rs. 10/- and the Issue Price is [●] time of the face value. The Issue Price of Rs. [●] has been determined by our Company in consultation with the BRLMs, on the basis of assessment of market demand for the Equity Shares by way of Book Building and is justified on the basis of the above factors.

Investors are advised to refer to sections titled "Risk Factors" and "Financial Information" beginning on pages x and 107 of this Red Herring Prospectus.



STATEMENT OF TAX BENEFITS

To,
The Board of Directors,
Hanung Toys and Textiles Limited
E-93, 2nd Floor, G.K. Enclave Part-I,
New Delhi-110 048

Statement of Possible Tax Benefits Available To The Company And Its Shareholders

1. BENEFITS TO THE COMPANY UNDER THE INCOME TAX ACT, 1961 ("THE ACT"):

The Company will be entitled to deduction under the sections mentioned hereunder from its total income chargeable to Income Tax.

1.1 Dividends exempt under Section 10(34)

Under Section 10(34) of the Act, the Company will be eligible for exemption of income by way of dividend from domestic company referred to in Section 115-O of the Act.

1.2 Income from units of Mutual Funds exempt under Section 10(35)

The Company will be eligible for exemption of income received from units of mutual funds specified under Section 10(23D) of the Act, income received in respect of units from the Administrator of specified undertaking and income received in respect of units from the specified company in accordance with and subject to the provisions of Section 10(35) of the Act.

1.3 Computation of capital gains

1.3.1 Capital assets may be categorized into short term capital assets and long term capital assets based on the period of holding. Shares in a company, listed securities or units of UTI or unit of Mutual Fund specified under Section 10(23D) or a zero coupon bond will be considered as long term capital assets if they are held for a period exceeding 12 months. Consequently, capital gains arising on sale of these assets held for more than 12 months are considered as "long term capital gains". Capital gains arising on sale of these assets held for 12 months or less are considered as "short term capital gains".

1.3.2 Section 48 of the Act, which prescribes the mode of computation of capital gains, provides for deduction of cost of acquisition/improvement and expenses incurred in connection with the transfer of a capital asset, from the sale consideration to arrive at the amount of capital gains. However, in respect of long term capital gains, it offers a benefit by permitting substitution of cost of acquisition/improvement with the indexed cost of acquisition / improvement, which adjusts the cost of acquisition/improvement by a cost inflation index as prescribed from time to time.

1.3.3 As per the provisions of Section 112 of the Act, long term gains as computed above that are not exempt under section 10(36) or 10(38) of the Act and would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess). However, as per the proviso to Section 112(1), if the tax on long term capital gains resulting on transfer of listed securities or units or zero coupon bond, calculated at the rate of 20 percent with indexation benefit exceeds the tax on long term gains computed at the rate of 10 percent without indexation benefit, then such gains are chargeable to tax at a concessional rate of 10 percent (plus applicable surcharge and education cess).

1.3.4 As per the provisions of Section 111A of the Act, short-term capital gains on sale of equity shares or units of an equity oriented fund where the transaction of sale is chargeable to Securities Transaction tax ("STT") shall be subject to tax at a rate of 10 per cent (plus applicable surcharge and education cess).

1.3.5 Exemption of capital gain from income tax.

1.3.5.1 Under Section 10(36) of the Act, long term capital gains arising on eligible equity share in a company (acquired on or after the 1st day of March 2003 and before the 1st day of March 2004) sold through a recognized stock exchange in India will be exempt from tax.

1.3.5.2 Under Section 10(38) of the Act, long term capital gains arising out of sale of equity shares or a unit of equity oriented fund will be exempt from tax provided that the transaction of sale of such equity shares or unit is chargeable to STT. However, such income shall be taken into account in computing the book profit tax payable under Section 115JB.



- 1.3.5.3 According to the provisions of Section 54EC of the Act and subject to the conditions specified therein, long term capital gains not exempt under Section 10(38) shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer. If only part of the capital gain is so reinvested, the exemption shall be allowed proportionately. However, if the said bonds are transferred or converted into money within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the bonds are transferred or converted into money.

2. Benefits available to resident shareholders

2.1 Dividends exempt under Section 10(34)

Under Section 10(34) of the Act, income earned by way of dividend from domestic company referred to in Section 115-O of the Act is exempt from income tax in the hands of the shareholders.

2.2 Computation of capital gains

- 2.2.1 Capital assets may be categorized into short term capital assets and long term capital assets based on the period of holding. Shares in a company, listed securities or units of UTI or unit of Mutual Fund specified under Section 10(23D) of the Act or a zero coupon bond will be considered as long term capital assets if they are held for a period exceeding 12 months. Consequently, capital gains arising on sale of these assets held for more than 12 months are considered as "long term capital gains". Capital gains arising on sale of these assets held for 12 months or less are considered as "short term capital gains".

- 2.2.2 Section 48 of the Act, which prescribes the mode of computation of capital gains, provides for deduction of cost of acquisition / improvement and expenses incurred in connection with the transfer of a capital asset, from the sale consideration to arrive at the amount of capital gains. However, in respect of long term capital gains, it offers a benefit by permitting substitution of cost of acquisition / improvement with the indexed cost of acquisition / improvement, which adjusts the cost of acquisition / improvement by a cost inflation index as prescribed from time to time.

- 2.2.3 As per the provisions of Section 112 of the Act, long term gains as computed above that are not exempt under section 10(38) of the Act and would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess). However, as per the proviso to Section 112(1), if the tax on long term capital gains resulting on transfer of listed securities or units or zero coupon bond, calculated at the rate of 20 percent with indexation benefit exceeds the tax on long term gains computed at the rate of 10 percent without indexation benefit, then such gains are chargeable to tax at a concessional rate of 10 percent (plus applicable surcharge and education cess).

- 2.2.4 As per the provisions of section 111A of the Act, short-term capital gains on sale of equity shares where the transaction of sale is chargeable to STT shall be subject to tax at a rate of 10 per cent (plus applicable surcharge and education cess).

- 2.2.5 Exemption of capital gain from income tax

- Under Section 10(38) of the Act, Long term Capital Gains arising out of sale of equity shares or a unit of equity oriented fund will be exempt from tax provided that the transaction of sale of such equity shares or unit is chargeable to STT.
- According to the provisions of Section 54EC of the Act and subject to the conditions specified therein, long term capital gains not exempt under section 10(38) shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer. If only part of the capital gain is so reinvested, the exemption shall be allowed proportionately.

In such a case, the cost of such long term specified asset will not qualify for deduction under section 80C of the Act.

However, if the said bonds are transferred or converted into money within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the bonds are transferred or converted into money.

- According to the provisions of section 54F of the Act and subject to the conditions specified therein, in the case of an individual or a Hindu Undivided Family ('HUF'), gains arising on transfer of a long term capital asset (not being a residential house) are not chargeable to tax if the entire net consideration received on such transfer is invested within the prescribed period in a residential house. If only a part of such net



consideration is invested within the prescribed period in a residential house, the exemption shall be allowed proportionately. For this purpose, net consideration means full value of the consideration received or accruing as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.

2.3 Rebate under section 88E

Section 88E provides that where the total income of a person includes income chargeable under the head "Profits and gains of business or profession" arising from taxable securities transactions, he shall get rebate of STT paid by him in the course of his business. Such rebate is to be allowed from the amount of income tax in respect of such transactions calculated by applying average rate of income tax.

3. Benefits available to Non-Resident Indian shareholders (Other than FII and Foreign venture capital investors)

3.1 Dividends exempt under Section 10(34)

Under Section 10(34) of the Act, income earned by way of dividend from domestic company referred to in Section 115-O of the Act is exempt from income tax in the hands of the shareholders.

3.2 Computation of capital gains

3.2.1 Capital assets may be categorized into short term capital assets and long term capital assets based on the period of holding. Shares in a company, listed securities or units of UTI or unit of Mutual Fund specified under Section 10(23D) of the Act or a zero coupon bond will be considered as long term capital assets if they are held for a period exceeding 12 months. Consequently, capital gains arising on sale of these assets held for more than 12 months are considered as "long term capital gains". Capital gains arising on sale of these assets held for 12 months or less are considered as "short term capital gains".

3.2.2 Section 48 of the Act contains special provisions in relation to computation of capital gains on transfer of shares of an Indian company by non-residents. Computation of capital gains arising on transfer of shares in case of non-residents has to be done in the original foreign currency, which was used to acquire the shares. The capital gain (i.e., sale proceeds less cost of acquisition/ improvement) computed in the original foreign currency is then converted into Indian Rupees at the prevailing rate of exchange.

According to the provisions of Section 112 of the Act, long term gains as computed above that are not exempt under section 10(38) of the Act would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess).

3.2.3 In case investment is made in Indian rupees, the long-term capital gain is to be computed after indexing the cost.

According to the provisions of Section 112 of the Act, long term gains as computed above that are not exempt under section 10(38) of the Act would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess). However, as per the proviso to Section 112(1), if the tax on long term capital gains resulting on transfer of listed securities or units or zero coupon bond, calculated at the rate of 20 percent with indexation benefit exceeds the tax on long-term gains computed at the rate of 10 percent without indexation benefit, then such gains are chargeable to tax at a concessional rate of 10 percent (plus applicable surcharge and education cess).

3.2.4 As per the provisions of Section 111A of the Act, short-term capital gains on sale of equity shares where the transaction of sale is chargeable to STT shall be subject to tax at a rate of 10 per cent (plus applicable surcharge and education cess).

3.2.5 Options available under the Act

Where shares have been subscribed to in convertible foreign exchange -

Option of taxation under Chapter XII-A of the Act:

- Non-Resident Indians [as defined in Section 115C(e) of the Act], being shareholders of an Indian Company, 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:
- According to the provisions of Section 115D read with Section 115E of the Act and subject to the conditions specified therein, long term capital gains arising on transfer of shares in an Indian company not exempt under Section 10(38), will be subject to tax at the rate of 10 percent (plus applicable surcharge and education cess), without indexation benefit.



- According to the provisions of Section 115F of the Act and subject to the conditions specified therein, gains arising on transfer of a long term capital asset being shares in an Indian company shall not be chargeable to tax if the entire net consideration received on such transfer is invested within the prescribed period of six months in any specified asset. If part of such net consideration is invested within the prescribed period of six months in any specified asset the exemption will be allowed on a proportionate basis. For this purpose, net consideration means full value of the consideration received or accruing as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.

Further, if the specified asset in which the investment has been made is transferred within a period of three years from the date of investment, the amount of capital gains tax exempted earlier would become chargeable to tax as long term capital gains in the year in which such specified asset or savings certificates are transferred.

- As per the provisions of Section 115G of the Act, Non-Resident Indians are not obliged to file a return of income under Section 139(1) of the Act, if their source of income is only investment income and / or long term capital gains defined in Section 115C of the Act, provided tax has been deducted at source from such income as per the provisions of Chapter XVII-B of the Act.
- Under Section 115H of the Act, where the Non-Resident Indian becomes assessable as a resident in India, he may furnish a declaration in writing to the Assessing Officer, along with his return of income for that year under Section 139 of the Act to the effect that the provisions of the Chapter XII-A shall continue to apply to him in relation to such investment income derived from any foreign exchange asset being asset of the nature referred to in sub clause (ii), (iii), (iv) & (v) of Section 115C(f) for that year and subsequent assessment years until such assets are converted into money.
- As per the provisions of Section 115-I of the Act, a Non-Resident Indian may elect not to be governed by the provisions of Chapter XII-A for any assessment year by furnishing his return of income for that assessment year under Section 139 of the Act, declaring therein that the provisions of Chapter XII-A shall not apply to him for that assessment year and accordingly his total income for that assessment year will be computed in accordance with the other provisions of the Act.

3.2.6 Exemption of capital gain from income tax

- Under Section 10(38) of the Act, long term capital gains arising out of sale of equity shares or a unit of equity oriented fund will be exempt from tax provided that the transaction of sale of such equity shares or unit is chargeable to STT.
- According to the provisions of Section 54EC of the Act and subject to the conditions specified therein, capital gains not exempt under Section 10(38) and arising on transfer of a long term capital asset shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer. If only part of the capital gain is so reinvested, the exemption shall be allowed proportionately.
- In such a case, the cost of such long term specified asset will not qualify for deduction under Section 80C of the Act.

However, if the said bonds are transferred or converted into money within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the bonds are transferred or converted into money.

- According to the provisions of section 54F of the Act and subject to the conditions specified therein, in the case of an individual, gains arising on transfer of a long term capital asset (not being a residential house) are not chargeable to tax if the entire net consideration received on such transfer is invested within the prescribed period in a residential house. If only a part of such net consideration is invested within the prescribed period in a residential house, the exemption shall be allowed proportionately. For this purpose, net consideration means full value of the consideration received or accruing as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.

3.3 Rebate under section 88E

Section 88E provides that where the total income of a person includes income chargeable under the head "Profits and gains of business or profession" arising from taxable securities transactions, he shall get rebate of STT paid by him in the course of his business. Such rebate is to be allowed from the amount of income tax in respect of such transactions calculated by applying average rate of income tax.



4. Benefits available to other Non-resident Shareholders (Other than FII's and Foreign venture capital investors)

4.1 Dividends exempt under Section 10(34)

Under Section 10(34) of the Act, income earned by way of dividend from domestic company referred to in Section 115-O of the Act is exempt from income tax in the hands of the shareholders.

4.2 Computation of capital gains

4.2.1 Capital assets may be categorized into short term capital assets and long term capital assets based on the period of holding. Shares in a company, listed securities or units of UTI or unit of Mutual Fund specified under Section 10(23D) of the Act or a zero coupon bond will be considered as long term capital assets if they are held for a period exceeding 12 months. Consequently, capital gains arising on sale of these assets held for more than 12 months are considered as "long term capital gains". Capital gains arising on sale of these assets held for 12 months or less are considered as "short term capital gains".

4.2.2 Section 48 of the Act contains special provisions in relation to computation of capital gains on transfer of shares of an Indian company by non-residents. Computation of capital gains arising on transfer of shares in case of non-residents has to be done in the original foreign currency, which was used to acquire the shares. The capital gain (i.e., sale proceeds less cost of acquisition/ improvement) computed in the original foreign currency is then converted into Indian Rupees at the prevailing rate of exchange.

As per the provisions of Section 112 of the Act, long term gains as computed above that are not exempt under section 10(38) of the Act would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess).

4.2.3 In case investment is made in Indian rupees, the long-term capital gain is to be computed after indexing the cost.

As per the provisions of Section 112 of the Act, long term gains as computed above that are not exempt under section 10(38) of the Act would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess). However, as per the proviso to Section 112(1), if the tax on long term capital gains resulting on transfer of listed securities or units or zero coupon bond, calculated at the rate of 20 percent with indexation benefit exceeds the tax on long-term gains computed at the rate of 10 percent without indexation benefit, then such gains are chargeable to tax at a concessional rate of 10 percent (plus applicable surcharge and education cess).

4.2.4 As per the provisions of section 111A of the Act, short-term capital gains on sale of equity shares, where the transaction of sale is chargeable to STT, shall be subject to tax at a rate of 10 per cent (plus applicable surcharge and education cess).

4.2.5 Exemption of capital gain from income tax

- Under Section 10(38) of the Act, long term capital gains arising out of sale of equity shares or a unit of equity oriented fund will be exempt from tax provided that the transaction of sale of such equity shares or unit is chargeable to STT.
- According to the provisions of Section 54EC of the Act and subject to the conditions specified therein, long term capital gains not exempt under section 10(38) shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer. If only part of the capital gain is so reinvested, the exemption shall be allowed proportionately.
- In such a case, the cost of such long term specified asset will not qualify for deduction under Section 80C of the Act.
- However, if the assessee transfers or converts the notified bonds into money within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the bonds are transferred or converted into money.
- According to the provisions of Section 54F of the Act and subject to the conditions specified therein, in the case of an individual or a HUF, gains arising on transfer of a long term capital asset (not being a residential house) are not chargeable to tax if the entire net consideration received on such transfer is invested within the prescribed period in a residential house. If only a part of such net consideration is invested within the prescribed period in a residential house, the exemption shall be allowed proportionately. For this purpose, net consideration means full value of the consideration received or accrued as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.



4.3 Rebate under section 88E

Section 88E provides that where the total income of a person includes income chargeable under the head "Profits and gains of business or profession" arising from taxable securities transactions, he shall get rebate of STT paid by him in the course of his business. Such rebate is to be allowed from the amount of income tax in respect of such transactions calculated by applying average rate of income tax.

5. Benefits available to Foreign Institutional Investors ('FIIs')

5.1 Dividends exempt under section 10(34)

Under Section 10(34) of the Act, income earned by way of dividend from domestic company referred to in Section 115-O of the Act is exempt from income tax in the hands of the shareholders.

5.2 Taxability of capital gains

5.2.1 Under Section 10(38) of the Act, long term capital gains arising out of sale of equity shares or a unit of equity oriented fund will be exempt from tax provided that the transaction of sale of such equity shares or unit is chargeable to STT.

5.2.2 The income by way of short term capital gains or long term capital gains [in cases not covered under Section 10(38) of the Act] realized by FIIs on sale of shares of the company would be taxed at the following rates as per Section 115 AD of the Act

- Short term capital gains, other than those referred to under Section 111A of the Act shall be taxed @ 30% (plus applicable surcharge & education cess).
- Short term capital gains, referred to under Section 111A of the Act shall be taxed @ 10% (plus applicable surcharge and education cess)
- Long Term capital gains @ 10% (plus applicable surcharge and education cess) (without cost indexation)
It may be noted here that the benefits of indexation and foreign currency fluctuation protection as provided by Section 48 of the Act are not applicable.

5.2.3 According to the provisions of Section 54EC of the Act and subject to the conditions specified therein, long term capital gains not exempt under Section 10(38) shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer. If only part of the capital gain is so reinvested, the exemption shall be allowed proportionately.

However, if the assessee transfers or converts the notified bonds into money within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the bonds are transferred or converted into money.

5.4 Rebate under section 88E

Section 88E provides that where the total income of a person includes income chargeable under the head "Profits and gains of business or profession" arising from taxable securities transactions, he shall get rebate of STT paid by him in the course of his business. Such rebate is to be allowed from the amount of income tax in respect of such transactions calculated by applying average rate of income tax.

6. Benefits available to Mutual Funds

As per the provisions of Section 10(23D) of the Act, any income of Mutual Funds registered under the Securities and Exchange Board of India Act, 1992 or Regulations made there under, Mutual Funds set up by public sector banks or public financial institutions or authorized by the Reserve Bank of India would be exempt from income tax. However, the Mutual Funds shall be liable to pay tax on distributed income to unit holders under Section 115R of the Act.

7. Venture Capital Companies / Funds

In terms of Section 10(23FB) of the Act, all Venture capital companies/funds registered with Securities and Exchange of India, subject to the conditions specified, are eligible for exemption from income tax on all their income, including profit on sale of shares of the Company.

8. Tax Treaty benefits

An investor has an option to be governed by the provisions of the Act or the provisions of Tax Treaty that India has entered into with another country of which the investor is a tax resident, whichever is more beneficial.



9. Benefits available under the Wealth-tax Act, 1957

Shares of the Company held by the shareholder will not be treated as an asset within the meaning of Section 2(ea) of Wealth Tax Act, 1957, hence no Wealth Tax will be payable on the market value of shares of the Company held by the shareholder of the Company.

Special Benefits to the Company being in Special Economic Zone

In addition to the aforesaid, the Company being located in a Special Economic Zone in Noida is entitled for the following Tax benefits:

- a. **Duty free Import** of capital goods, raw material and components.
- b. Exemption from **Central Excise Duty** and other levies on goods brought from Domestic Tariff Area.
- c. Exemption from payment of **Service Tax**.
- d. Exemption from **Sales Tax** on the materials procured from within the state of Uttar Pradesh.
- e. Exemption from payment of **Central Sales Tax** against Form-I on interstate sales.

Special Benefits to the Company being located in the State of Uttaranchal

In addition to the aforesaid, the Company being located in the state of Uttaranchal is entitled to the following benefits:

- a. Exemption from **Entry Tax** on Plant and Machinery.
- b. Exemption from **Central Excise Duty** for ten years.
- c. Exemption of 100 % from **Income Tax** for first five years and 30 % for next five years.
- d. Lower rate of 1 % on **Central Sales Tax** for five years.
- e. Capital Investment Subsidy at the rate of 15 % or Rs. 30.00 lakh, whichever is lower.

Notes:

01. All the above benefits are as per the current tax laws as amended by the Finance Act, 2006 and will be available only to the sole / first named holder in case joint holders hold the shares.
02. In respect of non - residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the double taxation avoidance agreements, if any, between India and the country in which the non- residence has fiscal domicile.
03. In view of the individual nature of tax consequences, each investor is advised to consult his / her own tax advisor with respect to specific tax consequences of his / her participation in the scheme. The tax implications of and investment in the equity shares, particularly in view of the fact that certain recently enacted legislations may not have direct legal precedent or may have a different interpretation on the benefits, which an investor can avail.

For ROHTAS & HANS

Chartered Accountants

(HANS JAIN)

Partner

Membership No. 82912

Place : New Delhi

Date : 04-09-2006



SECTION IV : ABOUT US

INDUSTRY

THE SOFT PLUSH TOY INDUSTRY

The Global Soft Toys Industry

The retail value of the global toy industry is estimated at around \$150bn for 2005. Toys can be classified into radio-controlled electronic / mechanical toys, regular soft plush toys, DIY (do-it-yourself) toys and educational games/toys, dolls, computer games, collectibles and so on. The export (ex-country) market size of regular soft plush toys is estimated at US \$2.2billion, of which roughly 70% is controlled by China. Stuffed plush toy exports from China were estimated at US \$1.54 billion in 2004.

Stuffed plush toys are one of the main toy categories exported from the country. China makers offer regular stuffed plush toys, electronic and mechanical stuffed plush toys and DIY unstuffed toys. The stuffed plush toy industry consists of about 1,200 manufacturers, and an additional 1,000 companies that subcontract for exporters. It is predominantly composed of small and midsize makers, more than half of which are foreign-invested or joint ventures. While still growing, the industry is losing market share to radio-controlled and electronic toys. It is also feeling the impact of rising raw-material costs, as well as a labor shortage.

Retail consolidation in overseas markets has changed the business landscape for toy exporters. In the US, for example, mass merchants including Wal-Mart and Target are taking up an increasing share of the toy market from specialty chains and traditional retailers. The mass market depends on aggressive advertising campaigns or promotional tie-ups for success. Increasingly, toy manufacturers are entering partnerships with companies from other disciplines, especially fast-food chain stores, in their promotion campaigns. Toy makers are also entering into licensing deals with movie studios to make products featuring film characters.

(Source : www.globalsource.com)

The Indian Toy Industry

The size of Indian toy industry is estimated at Rs. 1,00,000 lakh. This includes manufacturers of fun games, electronic toys, stuff toys, educational games, toy cars, rattles, dolls, plush toys, computer games, brain teasers, children puzzles etc. The toy industry is characterized by small-scale establishments and is fairly labour intensive. Broadly, toys can be categorized in three categories: mechanical toys, electrical toys and stuff toys. 70% of India's toys and games manufacturers, exporters and suppliers are located in the unorganised sector. Stuff toys account for 15% of India's total production of toys.

The Indian toy market can be categorized as under:

1. Unorganised sector: The unorganised toy sector is 70%. It consists of producers scattered across the country. Manufacturing processes are assorted and diversified in the industry as a whole and include plastics, metals, electronics and plush options.
2. Organised sector: Major players such as Lego and Mattel dominate this sector. Mattel Toys is another dominant force in the market with 19 branch/stock points and 350 distributors. Some 12,000 retail outlets regularly sell Mattel toys. Funskool is the third largest producer. It is a joint venture between MRF and Hasbro of the US and are mainly into moulded character toys and board games. In plush stuff toys, Hanung Toys and Textiles Limited is the largest manufacturer and exporter in India.

(Source : *Estimates by Company Management*)

INDIAN TEXTILE AND MADE-UPS INDUSTRY

Overview of the Indian Textile Industry

Textile is among the leading sectors in the Indian economy in terms of production, exports, employment and contribution to the exchequer. According to Confederation of Indian Industry (CII), textile industry has high growth potential given inherent strengths such as abundant raw materials, low labor cost and a thriving domestic market. Textile industry is also important from a foreign exchange and employment perspective. The sector employs 3.5 crore people and is the second highest employer in the country. It contributes to about 16.7% (US \$13.5billion) of India's total export earnings and about 4% to the country's GDP. The high capital employment ratio has immense potential to promote employment, especially in the rural areas.

Indian textile industry is multi-fibre based, using cotton, jute, wool, silk and man-made and synthetic fibre. India has a share of 14 per cent in \$31billion global cotton export trade. India accounts for 23 per cent of the worlds installed capacity of spindles. Not surprisingly, cotton yarn accounts for a large portion of yarn production in the country. The country also has the largest cotton



acreage of nine million hectares in the world. In fiscal 2003-04, India's cotton production totaled 2.84 million tons making it the third largest producer of cotton in the world, accounting for 13.90 per cent of the global production. Worldwide, India ranks fourth in staple fiber production and sixth in filament yarn production.

Indian textile industry comprises a diverse, fragmented group of establishments that produce and/or process textile-related products (fiber, yarn, fabric) for further processing into apparel, home furnishings, and industrial goods (see Table below).

Table on segment-wise Fabric Production in the country

FY	Cotton Fabric			Blended Fabric			100% Non Cotton Fabric			Total	Growth rate
	Quantity (Million sq. Mtr.)	Growth Rate	% share	Quantity (Million sq. Mtr.)	Growth Rate	% share	Quantity (Million sq. Mtr.)	Growth Rate	% share	Quantity (Million sq. Mtr.)	
2001	19627	3%	49%	6348	7%	16%	14358	5%	36%	40333	4%
2002	19769	1%	48%	6288	(1%)	15%	15334	7%	37%	41390	3%
2003	19296	(2%)	47%	5877	(7%)	14%	16289	6%	39%	41462	0%
2004	18062	(6%)	43%	6078	3%	14%	17970	10%	43%	42109	2%
2005	20578	14%	46%	6025	(1%)	13%	18388	2%	41%	44991	7%

(Source: Ministry of Textiles, Government of India)

In its broadest sense, Indian textile industry comprises:

Spinning: India is the third largest producer of cotton in the world. It also has a strong production base for synthetic fibres. Indian spinning industry is dominated by cotton yarn. With an installed capacity of 40 million spindles, India accounts for about 23 per cent of the worlds spindle capacity. In terms of rotors, India has 0.5 million rotors (6% of the world). This sub-segment of the industry is concentrated in Gujarat, Tamil Nadu, Maharashtra and Madhya Pradesh.

Weaving and knitting: The woven fabric production industry can be divided into three sectors: power loom, handloom and mill sector. The decentralized power loom sector accounts for 95 per cent of the total cloth production. The knitted fabric forms 18 per cent of the total fabric production. India is equipped with 1.80 million shuttle looms (45% of the world), 0.02 million shuttle less looms (3% of the world) and 3.90 million handlooms (85% of world). This segment is concentrated in Tamil Nadu and Gujarat.

Processing Industry: Processing is the weakest link in India's entire textile value chain. The processing industry is largely decentralized and marked by hand processing units and independent processing units. Composite mill sectors are very few falling into the organized category. Indian processing industry has deployed low-end technology with little investment initiative in technology upgradation. The decentralized processing industry lacks R&D and innovation.

Garment manufacturing: The apparel industry is the largest foreign exchange earner accounting for 8% of India's exports in 2004-05. It also accounts for 48% of India's total textile exports (see Table below). This industry is structurally a labour intensive, low wage industry with some variations across its market segments. Pricing in the industry depends upon the extent of value addition in the end product, the more the value addition the higher per unit price realization. The competitive advantage of companies in this market segment is related to their ability to create designs that capture tastes and preferences, and even better - influence such tastes and preferences - in addition to cost effectiveness. This industry has also seen a significant amount of global relocation of production and outsourcing to lower-cost producers.



Table on Trend in Textile Exports

As at 31st March

Indicator (Figures in Rs. crore)	2001	2002	2003	2004	2005
Exports	201,356	209,018	255,137	293,367	356,069
Textiles (excluding readymade garments) export	26,114	24,799	28,684	30,144	29,599
Yarns, fabrics, made-ups exports	22,333	21,310	24,608	25,700	24,864
Jute manufacture excluding floor coverings export	626	537	785	950	996
Carpets exports	2,657	2,433	2,578	2,691	2,679
Other textiles excl. RMG exports	497	519	714	803	1,060
Readymade garments export	25,441	23,878	27,536	28,634	27,077
Readymade garments cotton incl. accessories export	17,941	17,646	21,510	22,009	20,521
Readymade garments silk export	844	720	664	760	801
Readymade garments manmade fibres export	4,454	3,694	3,520	3,530	3,140
Readymade garments wool export	1,357	1,130	1,057	1,285	1,557
Readymade garments of other textile materials export	845	687	785	1,050	1,058

(Source: CMIE)

Though ready made garments account for a significantly large chunk of textile exports from India, exports of cotton made-ups as a category is also growing, thanks to investments made by large organized players in the processing segment of the Industry. Cotton made-ups as a sub-segment accounted for 12.7% of the total textile exports from India and 2.1% of the India's total exports in 2004-05 (see Table below).

Key Textile Export Categories

Indicators (Rs in crore)	FY2004	%	FY2005	%
Total Exports	293,367		361,879	
<i>Of which:</i>				
Textile Exports	61,942	21.1%	60,641	16.8%
<i>Of which:</i>				
Total RMG Export	28,634	46.2%	27,077	44.7%
Cotton RMG	22,009	35.5%	20,521	33.8%
Cotton Made-ups	7,230	11.7%	7,723	12.7%
Cotton Yarn	5,878	9.5%	5,138	8.5%
Cotton Fabrics	4,685	7.6%	4,165	6.9%

(Source: TEXPROCIL and CMIE)

Removal of quotas and its impact on Indian textile and clothing exports

For 40 years, the international trade in textiles and clothing was regulated by special arrangements outside the rules of General Agreement on Tariff and Trade (GATT). The framework of Multi-Fibre Arrangement (MFA) applied to international trade in textiles and clothing for the period 1974 to 1994. This MFA imposed restrictions on exports from low-cost Asian textile/garment producers.

Consequent upon the establishment of the World Trade Organisation (WTO) with effect from January 01, 1995, the quantitative restrictions in the bilateral agreements under the MFA were being governed by the Agreement on Textiles and Clothing (ATC) contained in the final Act of the Uruguay Round negotiations.

The ATC was a transitory regime between the MFA and the full integration of textiles and clothing into the multilateral trading system. Four countries carried the MFA restrictions into the ATC (Canada, the EU, Norway and the United States). As per the ATC agreement, the signatory members were to remove all the quantitative restrictions in four phases over a 10-year period.



Integration of textiles and clothing into GATT

Date	Minimum volume integrated (%)	Accumulated volume integrated (%)	Remaining quota growth rate (%)
01.01.1995	16	16	16
01.01.1998	17	33	25
01.01.2002	18	51	27
01.01.2005	49	100	Full Integration

(Source: Staff of the WTO Secretariat)

The quota regime in the textile sector as a result now stands completely phased out by the end of 2004.

World trade in textiles and clothing amounted to US \$385 billion in 2003, of which textiles accounted for 43 percent (US \$169bn) and the remaining 57 percent (US \$226bn) for clothing. Developed countries accounted for little over one-third of the world export in textiles and clothing.

The expiry of ATC has increased the size of the accessible global market for Indian exporters of garments and that of made-ups to developed markets of U.S, Canada and European Union. Especially in made-ups (or home furnishings/textiles), the overall shrinkage in the supply base in developed markets due to adverse cost structures has thrown up a unique opportunity of Indian exports. Further, as global retailers and merchandisers are looking to outsource a greater share of their need from low-cost manufacturing bases, India is slowly emerging as a major outsourcing destination, next to China.

As a fallout to the quota regime, there would be consolidation of production and restriction on supplying countries, which would necessarily mean improved scale operations. Indian players should also integrate to achieve operating leverage and demonstrate high bargaining power. It is reported that Chinese textile firms have already invested heavily to expand and grab huge market share in the quota free world. In India, organised players in this sector would require huge investments to remain competitive in the quota-free world. According to a research report by Exim Bank, Textiles Exports: Post MFA Scenario, it is estimated that the industry would require Rs1.5trillion (US\$35bn) new capital investment in the next ten years (by 2014) to tap the potential export opportunities of US\$70bn. It is estimated that USA and European Union (EU) together would offer a market of US\$42bn for Indian textiles and garments in 2014.

Share of India in Textile & Clothing

FY	Textiles			Clothing		
	World Exports	India's Exports	India's Shares	World Exports	India's Exports	India's Shares
1990	104.35	2.18	2.09%	108.13	2.53	2.34%
1995	152.32	4.36	2.86%	158.35	4.11	2.60%
2001	146.87	5.38	3.66%	194.49	5.48	2.82%
2002	152.76	6.03	3.95%	202.31	6.04	2.99%
2003	169.42	6.51	3.84%	225.94	6.46	2.86%

Figures in US \$ Billion

(Source: WTO International Trade Statistics Book 2004)

The Opportunity for India in Made-ups

The global market for home textiles is estimated at around US \$70bn, of which USA and Europe account for around 70%. Imports into US and EU are to the tune of about US \$11.25bn and U.S \$6.5bn respectively. Post the abolition of quotas in global trade, home textiles i.e. bed sheets, curtains, towels, pillow covers, etc, are expected to grow very fast. These are lifestyle products that fit into definition of both necessity and luxury. Though home textile has still to catch-up as a concept in India, it has deep penetration in developed countries. In USA, home textiles account for almost half the consumption of total textile and clothing products i.e. garments, etc. Similarly, share of home textiles in total textile & clothing consumption in the EU is around 32%. Due to the high costs, several home textile facilities have shut down in the developed world and the manufacturing has moved to low-cost developing countries. Pillowtex, the largest home textiles company in the world with capacities of around 45,000 tonnes per annum shut down, this has left a large demand for home textiles from India and China.

Competition from low-cost global suppliers has customers aggressively shopping around the world and without quotas this becomes easy. India is among the world's top three suppliers of home textile products. Most of the annual US \$1.75billion exports are shipped to the US and the European Union. Growth is forecast to be robust, especially as Western customers come



to appreciate traditional Indian specializations in embellishments such as embroidery and patchwork. However, Indian companies are also becoming more competitive by establishing in-house dyeing facilities, adding high-speed looms and taking other steps to stay ahead. Cotton made-ups as a sub-segment accounted for 12.7% of the total textile exports from India, and 2.1% of the India's total exports in 2004-05. Bedlinen's, Terry Towels and Bedsheet's are largest categories within cotton made-ups (see Table below).

Itemwise Exports of Cotton Made-ups

	April 2004/ March 2005			April 2003/ March 2004		
	Rs. Cr.	Mn. (US\$)	%age	Rs. Cr.	Mn. (US\$)	%age
Bedlinen/Coverlets/ Counter pane etc	1,141.5	254.3	14.8%	937.9	202.8	13.0%
Towels (Terry)	656.9	146.3	8.5%	686.4	148.4	9.5%
Bedspread/Bed Sheets	627.3	139.7	8.1%	493.6	106.7	6.8%
Durries/Druggets/Rug	554.4	123.5	7.2%	539.3	116.6	7.5%
Table Toilet kitchen Linen	538.9	120.1	7.0%	389.8	84.3	5.4%
Carpets/Carpetting Mats	495.9	110.5	6.4%	464.9	100.5	6.4%
Arab Rumals/Turbans	397.8	88.6	5.2%	401.5	86.8	5.6%
Table Cloth	328.5	73.2	4.3%	364.6	78.8	5.0%
Cushion Cover	288.6	64.3	3.7%	311.7	67.4	4.3%
Curtains	204.1	45.5	2.6%	261.0	56.4	3.6%
TOTAL (including others)	7,723.3	1,720.5	100.0	7,229.8	1,562.9	100.0

(Source: TEXPROCIL)

USA: A fast growing market for Home Textiles

According to data from the US Department of Commerce, US imports of made-ups grew 33.7% between 2002 and 2004 from US \$8.42bn to US \$11.25bn. Year-to-date data on imports for September 2005 shows a growth of 16.2% to US \$9.72bn, which makes the U.S market the largest and fastest growing market for made-ups (see Table below) post-removal of quota from January 2005.

The US textile and apparel industry has witnessed a significant structural change over the past decade. Cheaper imports from China, India and Pakistan and the growing clout of large retailers have led to a gradual decline in the domestic manufacturing capacity of several textile items.

According to data from TEXPROCIL, the total number of hours that shuttle looms operated in US in 1992 was 204.7mn; in 2002 it had decreased 93.4% to 13.5mn. The total number of hours shuttle-less looms operated decreased 48.8% in that ten-year period.

U.S General Imports in US Dollars

Country	2002	2003	2004	YTD Sep 2004	YTD Sep 2005	% Share
World	8,422	9,554	11,257	8,368	9,722	100.00%
China	2,739	3,884	5,055	3,774	4,718	48.53%
India	959	1,069	1,266	931	1,067	10.97%
Pakistan	676	783	899	666	901	9.27%
Mexico	551	432	454	339	361	3.71%
Turkey	308	330	387	296	326	3.35%
Canada	391	349	376	282	274	2.82%
Brazil	178	202	206	163	191	1.96%

Data for category 14

{Source: US Department of Commerce (OTEXA)}



For imports of cotton made-ups into US, the growth rate has been 31% between 2002 and 2004 from US \$3.46bn to US \$4.54bn. However, post removal of quota, this growth has been 25% to US \$4.2bn for year-to-date September 2005 (see Table below). In terms of market share, China has the largest share of imports of made-ups into the US, while India and Pakistan are close competitors.

US Imports of Cotton Made-ups

Country	2002	2003	2004	YTD Sep 2004	YTD Sep 2005	% Share
World	3,467	3,940	4,545	3,363	4,201	100.00
China	958	1,182	1,403	1,046	1,511	35.97
Pakistan	477	581	681	499	758	18.04
India	645	701	836	620	723	17.20
Turkey	162	176	208	157	198	4.72
Portugal	210	195	203	155	155	3.69
Brazil	134	144	133	107	148	3.52

Sum of Categories: 360, 361, 362, 363, 369

{Source: US Department of Commerce (OTEXA)}

With the quota system in place, all imports to the US were classified under a harmonised tariff schedule (HTS) numbers with a specific textile or apparel category number. Cotton home textile imports to US were classified mostly under number 360, 361, 362, 363 and 369. As an aggregate they were classified under number 14. The break-up of these imports from India to US and their growth rate is shown under:

US Home Textile Imports from India

(US \$ Million)	2002	2003	2004	YTD Sep-2004	YTD Sep-2005	% Growth
Aggregations						
14 - Made-ups & Misc.	959	1,069	1,266	931	1,067	14.55%
Cotton						
360 - Pillowcases	17	27	31	21	32	51.84%
361 - Sheets	53	93	134	91	138	51.83%
362 - Bedspreads & quilts	69	64	57	47	54	15.54%
363 - Terry & other Towels	121	135	182	136	159	16.46%
369 - Other Cotton	385	382	432	325	339	4.49%
Wool						
465 - Floor coverings	234	244	290	205	229	11.60%
469 - Other Wool	3	2	3	2	3	31.07%
Man-Made Fibres						
665 - Floor coverings	12	10	8	6	8	34.58%
666 - Other MMF Furnishings	34	60	70	55	56	2.86%

Note 369 is a very broad category that covers shop towels, dish towels, pillow covers, tablecloth, window curtains, bedding articles and so on.

(Source: Compiled data from US Department of Commerce, OTEXA)



European Union: An attractive Destination of Home Textiles for Indian Suppliers

According to The Cotton Textiles Export Promotion Council home textiles is one of the strategic areas where India is expected to perform well in a free trading environment. In fact, initial import trends in the US market after the removal of quotas has been encouraging with India being able to register growth in most of the categories of commercial significance.

The EU on the other hand, continues to be the most important destination for Indian home textile suppliers with a total market size of around €26billion in the year 2003 for household and furnishing articles, out of which the level of import is pegged at around €5.5billion. The major seven national markets within the EU for household and furnishing textiles are United Kingdom, Germany, Italy, France, Spain, The Netherlands and Belgium. These countries are the leading consumers of household and furnishing textiles and, in another sequence, the leading importers. Besides, among the ten new accession countries, Hungary, Poland and the Czech Republic are the countries to be watched in the future.

India has a market share of roughly 9% in the top fifteen countries representing the EU. Turkey, Pakistan and China are key competitors.

EU-15 leading suppliers of household and furnishing textiles by product groups in 2003

	Mn Euros (€)	Leading suppliers in 2003 (import share in % between brackets)
Blankets	289	China (37), Germany (8), India (7), Turkey (6), Italy (5), Spain (4), Portugal (3)
Bed Linen	1891	Pakistan (22), Turkey (15), Portugal (8), India (5), China (5), France(5)
Table Linen	439	India (19), China (18), Turkey (8), Germany (6), Czech Republic (5), Belgium (4)
Bath/kitchen linen	1185	Turkey (25), Portugal (13), Belgium (9), Pakistan (9), China (5), India (5)
Curtains	825	Turkey (12), China (11), India (10), Pakistan (9), Germany (7), Czech Republic (6)
Bedspreads	138	India (38), China (13), Portugal (11), Spain (5), UK (4), Turkey (4)
Other furnishings	524	China (20), India (15), Turkey (11), Portugal (9), Germany (5), Poland (5)
Total imports	5291	Turkey (15), Pakistan (12), China (11), India (9), Portugal (8), Germany (5), Belgium (4), France (3), Poland (3), Czech Republic (3), Italy (2)

(Source: TEXPROCIL newsletter dated July 30, 2005)

The EU market for household and furnishing textiles can be divided into a residential/consumer one and a commercial contract one. Both markets have their own market structure and market characteristics and differ considerably in size. The EU-25 consumer market for household and furnishing textiles amounted to €26.4billion in 2003, 0.1 percent lower than in the previous year. Despite the slump in 2003, the household and furnishing textiles market in the EU countries has experienced non-stop growth for many years now. The United Kingdom is the largest market since 2002, despite a considerable fall in consumption in 2003, followed by Germany. Other important markets in the EU are Italy, France and Spain. The Netherlands ranked sixth before Belgium, Austria and Sweden. Five countries (UK, Germany, France, Italy and Spain) account for 76 percent of EU-25 household and furnishing textile consumption.

Consumers in the UK, Ireland, Austria and Denmark are the biggest spenders per capita on household and furnishing textiles in the EU, followed by Belgium and Sweden. In South European countries, consumption was less than the EU average consumption.

The bulk of household and furnishing textiles purchased in the EU during any particular year is for replacement purposes rather than a primary purchase. New dwellings account for a relatively small number. Most purchases of household and furnishings textiles are made to replace old, worn or unfashionable textiles. These purchases can in most cases be deferred or not, depending upon economic circumstances at a particular time. Just like in the situation on the consumer market, the biggest commercial market is the UK, followed by Germany, France and Italy. The Netherlands ranked sixth behind Spain. The situation on the market for office buildings, the health and the hotel sector led to decreased investments and a related fall in textile consumption, in the EU countries Germany, Belgium and The Netherlands.



Imports of household and furnishing textiles into EU-15 in volume and value, 2001-2003

	2001		2002		2003	
	'000 tons	Mn €	'000 tons	Mn €	'000 tons	Mn €
Blankets and travelling rugs	38	239	53	254	60	289
Bed Linen	231	1734	261	1838	292	1891
Table Linen	43	456	42	427	49	439
Bath and Kitchen Linen	178	1191	172	1151	191	1185
Curtains	63	696	70	753	85	825
Bedspreads	21	140	21	133	25	138
Other Furnishing Textiles	47	422	52	449	68	524
Total EU imports	621	4878	671	5005	770	5291
Of which from :						
-other EU countries	184	1704	177	1701	225	1733
-developing countries	349	2435	406	2600	488	2862
-other countries outside the EU	88	739	88	704	92	696

(Source: *TEXPROCIL newsletter dated July 30, 2005*)

EU countries can be divided as to developments in the value of imports (annual average) during this period, into:

- Falling imports in the UK, Ireland, The Netherlands and Sweden;
- Slowly growing imports (less than EU average) in Denmark, Portugal and Luxembourg
- Strongly growing imports (more than EU average but less than 10%) in Germany, France , Austria and Finland;
- Fast growing imports (more than 10% and less than 20%) in Greece, Belgium and Italy;
- Booming (more than 30%) imports in Spain.

Government initiatives for promoting the textile industry

The Government has recognized the urgency to revive and modernise the industry and hence the Ministry has set the following targets to be achieved in a 5-year period:

1. Upgradation of the technology of the industry for achieving a growth of the textile economy from the current \$ 37 billion to \$ 85 billion by 2010;
2. Creation of supportive environment for facilitating massive investment in the sector and thereby creating additional 12 million jobs in Textile Sector;
3. Increasing India's share in world textile trade from the current 4% to 8% by 2010 and achieving export value of \$ 50 billion by 2010;
4. Expediting the process of modernisation and consolidation for creating a globally competitive industry;
5. Undertaking effective schemes for ensuring handsome growth in handlooms, power looms and handicrafts, thereby substantially enhancing the incomes of the weavers and artisans; and
6. Turning the Public Sector Undertakings from chronic loss making units into self-reliant entities.

Strategy

A multi-disciplinary strategy has been formulated to:

- a) Continue and give stability to the fiscal duty reform process and thereby encouraging fresh investment into the Sector;
- b) Make the Banks proactively invest in Textile Sector;



- c) Provide an additional allocation of Rs. 100,000 Lakh in the balance Xth Plan period for Technology Upgradation Fund Scheme (TUFS), Technology Mission on Cotton (TMC), Textile Infrastructure Development Scheme and Apparel Parks for Export Scheme (APE);
- d) Provide 10% Capital subsidy for processing under TUFS;
- e) De-reserve knitting sector from the ambit of Small Scale Industries (SSI);
- f) Accelerate Labour & Power reforms to enhance the competitiveness of the Indian textiles and
- g) Accelerate the process of leveraging assets of PSEs for funding already approved rehabilitation schemes.

Fiscal Duty Reforms

Far-reaching decisions have been taken to remove the discriminatory excise duty structure, which placed the organised industry at a disadvantaged position and throttled investment in the modern mills.

- In the Budget 2004-05, the duty structure of textiles was completely revised. The excise duty for textiles was made optional with mandatory duty only on man-made fibres / yarns;
- Except for mandatory duty on man-made fibres / yarns, all other textile goods were fully exempt from excise duty;
- For those opting to pay the duty and thereby avail of duty credit, the duty was reduced to a nominal rate of 4% for cotton textile items (i.e., yarns, fabrics, garments and made-ups) and 8% for other textile items including yarn, fabrics, garments, and made-ups;
- Additional Excise Duty was abolished;
- Customs duty on a number of textile items was also reduced; and
- The process of fiscal duty reforms continued in the Budget 2005-06
- Excise duty on Polyester Filament Yarn and customs duty on a number of textile machinery items reduced.
- Texturising of Polyester Filament Yarn exempted from excise duty.



OUR BUSINESS

OVERVIEW

We are engaged in the manufacturing and exporting of stuff toys and home furnishing. Incorporated in the year 1990, we started our operations in 1993 by taking over the business, as a going concern, of a partnership firm M/s. Hanung Toys (India) which was running a manufacturing unit for stuff toys in technical collaboration with a South Korean Company viz. Hanung Industrial Co. Ltd. Our Promoters are Mr. Ashok Kumar Bansal and Mrs. Anju Bansal. After the initial association of five years with the South Korean company for technical know-how, today we are independently operating in stuff toys manufacturing. Our toys manufacturing unit is established in the Noida Special Economic Zone (NSEZ) wherein the benefits of duty free imports and single window clearance for imports/exports are available.

Subsequently, our promoters have also ventured into the home furnishing and textile processing in the year 2002 through the Companies viz. Hanung Furnishings Private Limited and Hanung Processors Private Limited respectively. As a part of our business integration strategy, we have acquired the business of these two Promoter Group Companies through a Slump Sale Arrangement vide an agreement to sell dated October 21, 2005, wherein all the assets and liabilities have been taken over by us on a going concern basis. For details, please refer chapter titled "History and Other Corporate Matters" beginning on page 82 of this Red Herring Prospectus.

Thus, our business units consist of toys manufacturing facility, home furnishing production facility and textile processing facility, all located in Noida. Today, we have approximately 450 sewing machines in our stuff toys unit with capacity of producing 1,10,00,000 pcs. p.a. and approximately 250 sewing machines in our furnishing unit with the capacity of manufacturing 12,50,000 sets p.a. Also, in our textile processing unit, we have the capacity of processing 60,00,000 meters p.a. and have the '16 color 108 inches wide' printing machine.

At present, we mainly deal with the overseas markets viz. Europe, USA, Latin America and the Middle East and have been able to attract and retain known names. We have been serving these markets with both stuff toys and home furnishings and our customers are primarily large importers/ whole sellers that service the respective retailers in their country.

In USA, our major buyers are Britannica Home Fashions, CHF Industries, Spring Industries, Mohawk Home, The Bombay Company, Kojo Worldwide, Meijer and America Pacific. In Europe, our buyers include IKEA, Metro Group, ASDA (Walmart), A loja do gato preto, Carpenter, Francodim. In Latin America, we have Sodimac (Chile) as our buyers. Though we do not have any long-term arrangement with these customers but we have been getting repeat orders from them.

GEOGRAPHICAL SEGMENTATION OF EXPORTS IN LAST 3 YEARS

(Rs. in lakh)

	FY 2005-06*		FY 2004-05		FY 2003-04	
	Amount	%	Amount	%	Amount	%
USA	11193.21	80.76	4567.98	58.68	3180.57	46.68
Europe	2209.62	15.94	2923.77	37.55	3315.25	48.66
Canada	291.72	2.10	222.72	2.86	167.26	2.45
Latin America	45.18	0.33	68.93	0.89	94.38	1.39
Australia	--	--	--	--	42.59	0.63
Other Countries	120.94	0.87	1.62	0.02	12.72	0.19

*During the FY 2005-06, we have acquired the business of two of our Promoter Group Companies viz. HPPL and HFPL. Accordingly, the geographical segmentation for the FY 2005-06 has been depicted after taking into account the exports made in the textile processing as well as home furnishing business w.e.f. October 29, 2005.



CUSTOMER SALES GROWTH IN THE LAST 3 YEARS

(Rs. in lakh)

Customers	FY 2005-06		FY 2004-05		FY 2003-04	
	Amount	%	Amount	%	Amount	%
Top 1	3840.19	26.18	1,660.44	20.64	2,459.58	34.88
Top 2	6946.48	47.36	2,995.80	37.24	4,394.68	62.33
Top 5	12305.54	83.90	4,846.88	60.25	5,305.00	75.24

Note: During the FY 2005-06, we have acquired the business of two of our Promoter Group Companies viz. HPPL and HFPL. Accordingly, the customer sales growth for the FY 2005-06 has been depicted after taking into account the sales made in the textile processing as well as home furnishing business w.e.f. October 29, 2005.

We have launched our domestic brands viz. "Play-n-Pets" and "Muskan" in stuff toys and "Splash" in home furnishing. Whereas "Play-n-Pets" and "Splash" are our, we have applied for the registration of other brands with the Registrar of Trademarks, New Delhi. Till now we have not been concentrating on the Domestic markets, however, we have developed the network of distributors and retailers across the length and breadth of the Country.

The domestic distribution under three of our brands viz. "Play-n-Pets", "Muskan" and "Splash" is done through network of distributors and retailers. We cater to the demands of more than 100 Distributors for the Stuff toys under the brands "Play-n-Pets" and "Muskan" spread in all the four regions viz. North, South, West and East. Our Stuff toys are available across the country at more than 3000 retail stores and multi brand outlets including Kids Kemp, Lifestyle, Land Mark, Archies Ltd., Vishal Retails Pvt. Ltd., Big Bazar, Globus, Hyper City, Shoppers Stop, Piramyd, Wellspun, Odyssey, Pantaloon Central, Westside etc.

Similarly, in home furnishings, we supply our "Splash" range to more than 20 distributors who in turn cater to a network of more than 600 retailers spread across India.

We have international quality standard certifications like EN-71, ASTM and BS-5852. We have been awarded ISO 9001: 2000 for quality management systems to manufacture, supply and export of home furnishings and stuff toys.

COMPETITIVE STRENGTHS

Duty Free Imports and Single window Clearance

Being located in the Special Economic Zone, we have the benefits of duty free imports in respect of raw materials we use in relation to our toys unit. Further, we have the Single Window Clearance for the exports/imports wherein we save the time, which is involved in taking goods to the customs clearance, resulting in maintaining the time schedule for deliveries.

Benefits At the Proposed Home Textile Unit near Roorkee in Uttaranchal

- 100% Central Excise Exemption for First Ten Years
- 100% Income Tax exemption for First Five Years and 30% exemption for next five years
- Central Sales Tax @1% for first five years
- Capital Investment Subsidy @15% with maximum of Rs. 30,00,000
- Exemption from Entry Tax on Plant and Machinery
- Competitive Power Tariffs

Design and Development

We are manufacturing the shaped stuff toys and home furnishings wherein innovation in designing and colour combinations is the key element to remain competitive. We have separate design teams for both the units to create new designs keeping in view the market flavour and also on the basis of customer's requirements. Today, we have a library of over 4,000 designs.

Dedicated Prototype Development Facilities

We have separate facilities dedicated completely towards producing the prototypes of toys as well as home furnishings as per designs developed by our design team on the basis of customer's specifications. Our marketing department continuously interacts with the customers and samples are made, remade and design changes are incorporated till the customer finally approves the particular prototype. Then the specifications of approved prototypes are used to complete the purchase orders. The entire



process is very time consuming but with our dedicated in-house facility, we have been able to meet the delivery schedules on time.

Quality Assurance

In all our facilities viz. stuff toys, home furnishing, and textile processing, stringent quality checks are carried out starting from procurement of raw materials till the end of production process. In our stuff toys and home furnishing units, we carry out the inspections and checks such as 100% fabric check in respect of missing threads, random checks during the cutting and sewing stages to ensure removal of defects at these respective stages, 100% skin metal test through a metal detector to ensure safety against any broken needle part or any unwanted element being left in the finished product. Similarly, in our textile processing unit, we maintain a separate lab consisting of Spectrophotometer, Light Fastness Tester, Random Pilling Tester, Crock Meter, Tear Strength Tester, Washing Fastener Tester to ensure quality of dyeing and printing. The quality assurance measures are taken to make sure that quality is maintained, to identify and analyse areas of improvement, creation of database for future reference and analysis etc.

Interest Cost Benefits

We are operating both in the stuff toys and textile segments. Accordingly, TUFS benefits are available to us and consequently the weighted average interest rate of our existing term loans after considering the benefits on loans covered under TUFS is around 5%. This has helped us in lowering the overall average cost of funds and has increased our competitiveness. As we are expanding in the textile segment, the effective interest cost of the specified term loans will further reduce to 3.5% per annum taking into account the benefits available to us under TUFS.

Continued Association with Customers

We are catering to the demands of markets like Europe, USA, Latin America and The Middle East. We have been getting the repeat orders from our customers like IKEA, Sweden since the start of our operations.

Established Domestic Network and Brands

Although, till now we have been mainly catering to the Overseas markets, nonetheless we have also launched our Domestic Brands viz. "Play-n-Pets" and "Muskan" in stuff toys and "Splash" in home furnishings. We are already catering to the network of more than 100 Distributors for the Stuff toys under the brand "Play-n-Pets" and "Muskan" spread in all the four regions viz. North, South, West and East and multi brand outlets including Lifestyle, Piramyd, Wellspun, Odyssey, Pantaloon Central, Ebony, Shoppers Stop etc.

Similarly, our "Splash" range is supplied to more than 20 distributors who in turn cater to the network of more than 600 retailers spread across India.

Location of Manufacturing Facilities

We have the following manufacturing units located at Noida:

- 1) A unit at 108-109, 110 - 111, 115 and 125 NSEZ, Noida, manufacturing the stuff toys with an installed capacity of 110 lakh pcs./ p.a.
- 2) A unit at A-21, Hosiery Complex, Noida, manufacturing the home furnishings with an installed capacity of 12.50 lakh pcs/ p.a.
- 3) A unit at B-7, Hosiery Complex, Noida, providing the textile processing facilities with an installed capacity of 60 lakh meters/p.a.

OUR BUSINESS MODEL

Our Business model caters to two industry segments viz. Toys specifically in stuff toys and textiles specifically made-ups (home furnishings). In the Stuffs toys segment, we are manufacturing all types of stuff toys in various shapes, designs, sizes and colour made with acrylic/polyester fabric stuffed with PSF of hollow tubes, decorative and shaped pillows etc. Our home furnishing unit manufactures products in various colours and designs like sleeping bags, bolsters, floor rags, carpets, sit sacks, sheet sets, cushion covers, duvet covers, curtains, throws, comforters sets. We also have a facility in textile processing providing services like dyeing, bleaching and printing of fabrics in wider width.

I. TOYS UNIT

We have been into the manufacturing of stuff toys since 1993. We are using the technical know how imparted to us by a South Korean Company which was in technical collaboration with us for the initial period and assigned the rights to use the same to us after the end of the said collaboration. Today, this unit of ours is operating at approximately 93% capacity utilization level.



Plant and Machinery

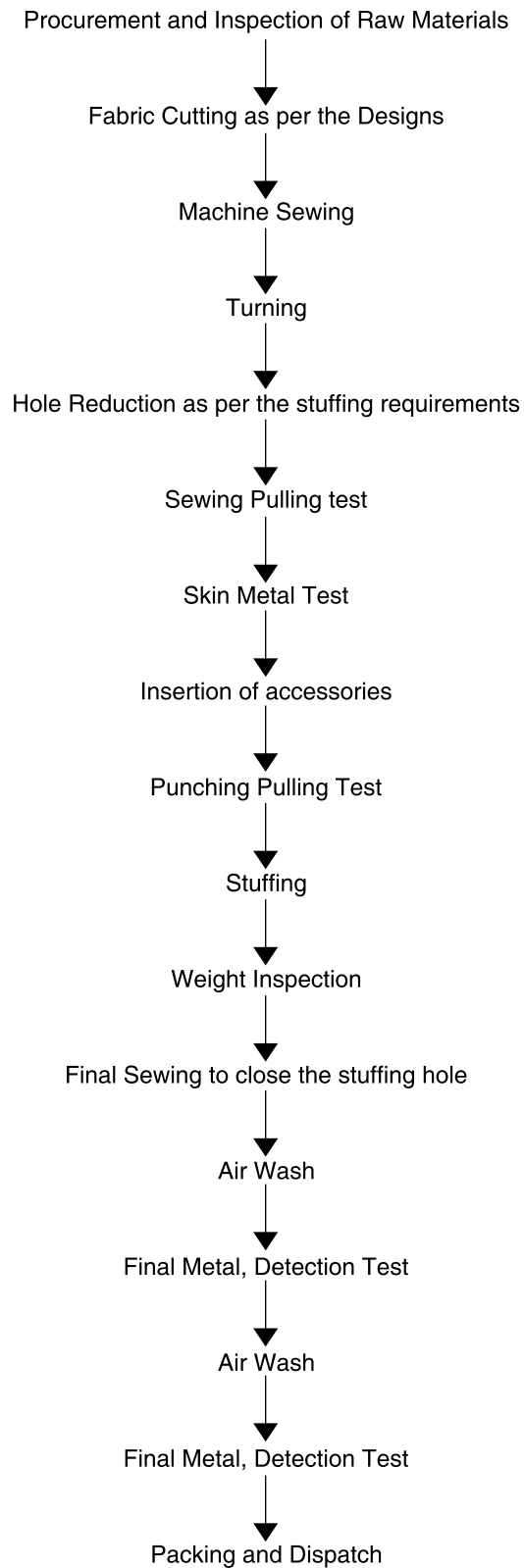
The details of major machineries in the toys unit are as follows:-

Type	Make	Qty.	Description
Production			
Sewing M/c	Juki	75	Single Needle Sewing
Sewing M/c	Sun Star	280	Single Needle
Sewing M/c	Juki	2	5 Thread Overlock
Sewing M/c	Dutta	5	3 Thread Overlock
Sewing M/c	Puff	19	Embroidery
Sewing M/c	Ralson	1	Embroidery
Sewing M/c	Gold Star	69	Embroidery
Garnetting M/c	D. Raj.	2	Carding of the PSF
Garnetting M/c	Kwality	1	Carding of the PSF
Carding M/c	Amroha	1	Carding of the PSF
Stuffing M/c	Taiwan	1	Stuffing of PSF in the Stitched pieces
Stuffing M/c	Korean	2	Stuffing of PSF in the Stitched pieces
Stuffing M/c	India	2	Stuffing of PSF in the Stitched pieces
Stuffing Blower M/c	India	3	Stuffing of PSF in the Stitched pieces
Hydraulic Clicker M/c	Hind Hydraulic	1	Cutting
Hydraulic Clicker M/c	Kabera Hydraulic	2	Cutting
Press Cutting M/c	Korean	2	Cutting
Cutting M/c	Glory	2	Hand Cutting
Fire Cutting Dimmer	India	3	Cutting of High Pile Fabric
Punching M/c	Pneumatic	13	To punch hole for attachment of accessories
Compress Packing M/c	Pneumatic	1	Packing in a Compressed form
Compress Packing M/c	Hydraulic	2	Packing in a Compressed form
Quality			
Fabric Inspection M/c	Ramson	1	Inspection of Incoming Fabric
Metal Detector M/c	Shanghai Dingle Detector Instrument Co. Ltd.	2	Checking in respect of absence of unwanted metal material
Metal Detector M/c	Unique	2	Checking in respect of absence of unwanted metal material
Tensile Testing M/c	Precision	1	Punching and Pull Testing
Weight M/c	Essac Tareoka	1	Weighting the Stuffed Pieces against the prescribed Standards



Process Flow

The manufacturing process of stuff toys comprises of the following steps: -





Procurement and Inspection of Raw Material

Our purchase department procures the fabrics, PSF and accessories as per the orders booked with the marketing department. The orders for the raw materials are placed according to the plans of delivery chalked out by the marketing department in consultation with the clients. The procured raw material goes from the stores for 100% defect checking wherein whole of the fabric is inspected against the board fitted with bright lights. In case any missing threads or other defect is noticed the same is marked so that it can be taken care at the cutting and sewing stages or in case of major defects the same is returned to the suppliers for replacements. Accessories are also fully inspected.

Cutting as per the Designs

After the inspection, the fabric is layered lengthwise so that cutting of various parts / shapes required can be done in bulk and with uniformity. Then this layered fabric is placed on a table where press cutting machines cut the fabric according to the desired shape with the help of different design specific moulds. In case of high pile fabric, the cutting is done with in single layer with the fire cutting machine so that the piles of the fabric do not get chopped and create rough edges after stitching. The cut fabrics are packed into boxes and passed to the machine sewing department. The sample checking is done at random every hour at this stage to ensure the quality standards.

Machine Sewing

The fabric then reaches the machine sewing department wherein the various parts including the labels are stitched together on chain system as per the design keeping an opening / hole for turning and stuffing. In this department, the sewing machines are arranged in lines and work done on each line is supervised separately to maintain quality standards by reviewing the performance on various basis like frequency of sewing defects, needle breakages etc. The records of each machine line is maintained and analyzed periodically to remove the bottlenecks and increase efficiency and quality. These efficiency checks are further extended to the individual worker level wherein each workers' output is recorded and analyzed against the targets given and grades are given on variance basis. Then these stitched shapes are passed to the next department.

Turning

The stitched shapes of stuff toys reach the turning department where these shapes are turned towards the finished side manually through the hole kept in it at the stitching stage. In this department, the turning is done separately for the output of each of the machine lines and the 100% post turning inspection is carried out. Then the defecting piece, if any, is sent back for rectification to the same worker who has stitched it.

Hole Reduction as per the stuffing requirements

The accepted stitched pieces then get to next stage wherein another round of stitching is carried out to reduce the opening / hole kept in the piece to the size as per the opening of the stuffing machine.

Sewing Pulling test and Skin Metal test

After hole reduction, the stitched shapes are checked at random every hour in respect of sewing quality on a machine wherein the stitching of pieces is pulled, stretched and measured as per and against the specified quality standard measurements. Then these pieces are carried through another quality test viz. skin metal test which is carried out at 100% level. In this test, each and every piece is passed through a metal detector to ensure safety against any broken needle part or any unwanted element being left in the finished product.

Insertion of accessories and Punching Pulling Test

Accessories like eyes, nose, buttons etc. depending on case to case basis are inserted into the stitched pieces with the help of a machine. After the insertion of accessories, a quality check viz. punching pulling test is carried out at random every hour wherein the attached accessories are pulled, stretched and measured as per and against the specified quality standard measurements.

Stuffing and Weight Inspection

These stitched pieces then reach the stuffing stage. The stuffing material viz. PSF is filled into the stitched piece through a machine with a blow opening. Thereafter, in order to ensure compliance with the specified weight norms, these stuffed pieces go through weight inspection wherein the weight of each piece is checked against the prescribed weight measurements. In case of any differences found, the piece is sent back for rectifications.

Final Sewing to close the stuffing hole

Then the last step of stitching is carried out to close the opening / hole kept for stuffing through hand sewing. The stuff toys are then inspected manually to ensure that there are no openings through which the stuffing can come out.



Air Wash

The stuff toys finally go through blow air wash to clean its body from any dirt, PSF particles etc. left on it.

Final Metal Detection Test and Packing for dispatch

After air cleaning, the final metal detection test is carried out to ensure again that there are no sharp, metallic or unwanted particles within the stuff toy. Then the stuff toy is packed and made ready for dispatch.

II. FURNISHING UNIT

We have ventured into textile segment viz. home furnishings in the year 2002 through our Promoter Group Company Hanung Furnishings Private Limited. This unit was started in order to satisfy the demands coming from our customers to provide a one stop shop in children furnishing products as we have already been providing them with stuffed cushions in various shapes as a part of our toys product range. Today, this unit produces the complete range of home furnishings. Prior to recent Agreement to Sell and Purchase the business of Hanung Furnishing Private Limited, the furnishing unit had been operating as a separate entity recording its revenue to its own account. But after Agreement to Sell and Purchase, the unit is operating as the furnishing division of our Company.

Plant and Machinery

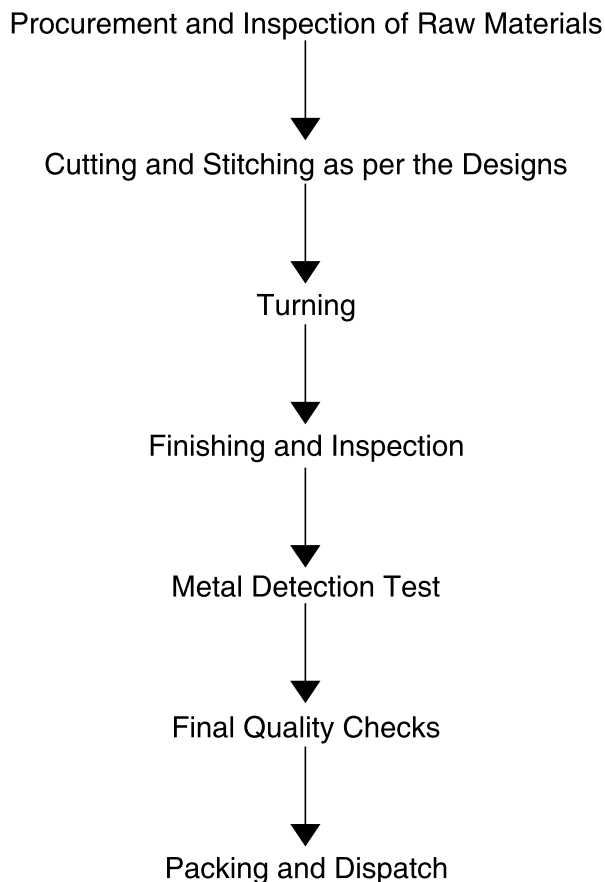
The details of major machineries in the furnishing unit are as follows:-

Type	Make	Qty.	Description
Production			
Sewing M/c	Jukki	198	Single Needle
Sewing M/c	Jukki	16	Double Needle
Sewing M/c	Jukki	6	Zig Zag
Sewing M/c	Yamato	11	5 Thread Overlock
Sewing M/c	Jukki	9	5 Thread Overlock
Sewing M/c	Delta	10	Embroidery
Button Hole M/c	Jukki	1	Kaj
Button Hole M/c	Jukki	1	Button
Carding M/c	D Raj Engg.	1	Carding of PSF
Blowfill	Indian	1	Stuffing of PSF
Cutting M/c	East Man	2	Cutting
100 Kgs Tumbler	Fab Care	2	Drying
50 Kgs Tumbler	Fab Care	1	Drying
Hydro 10 HP	Fab Care	2	Drying
Steam Press Table	Fab Care	12	Ironing
200 Kgs Washing M/c	Ramsons	1	Washing
200 Kgs Washing M/c	Fabcare	1	Washing
100 Kgs Washing M/c	Ramsons	1	Washing
Quality			
Metal Detector	Shanghai Dingle Detector Instrument Co. Ltd.	2	Checking in respect of metallic pieces
GSM Measuring M/c	Indian	1	Determination of weight per sq. meter of fabric
Red Pick Glass	Indian	1	Thread count



Process Flow

The process involved in manufacturing of home furnishing products consists of the following steps: -



Procurement and Inspection of Raw Material

As indicated above, prior to recent Agreement to Sell and Purchase, this unit was booking its own orders. Accordingly, the raw material procurement was also done independently as per its own order position. The major raw material includes cotton fabric, vinyl bags and accessories. In case of grey fabric procurement, the same is sourced from South India mainly Coimbatore and Madurai where most of fabric manufacturers are located. This Grey Fabric is then processed from processing units including our own textile processing facility (which was prior to Agreement to Sell and Purchase operating as an independent unit). In some cases depending upon the requirements, this unit also procures the processed fabric directly from the indigenous processing houses and also from overseas market. The vinyl bags and accessories are procured from indigenous market.

The selected fabric is checked for both quality as well as quantity. This process is done with the aid of machines that help to visualize the extent of damage / waste in the fabrics. The fabrics are selected depending upon the specific quality norms ensuring that fabric matches the specifications laid by the production / design department and buyers. Besides fabric, the accessories are also thoroughly checked for defects and damages.

Cutting and Stitching as per designs

The inspected fabric received is laid on the cutting table and cut manually or by a motorised cutting machine as per the product specification and size of the order. This fabric is then passed on for necessary embellishments like embroidery etc., if required or directly goes to the stitching department. Similar to our toys unit, in the machine sewing department of this unit, the sewing machines are arranged in lines and work done on each line is supervised separately to maintain quality standards by reviewing the performance on various basis like frequency of sewing defects, needle breakages etc. The records of each machine line is maintained and analyzed periodically to remove the bottlenecks and increase efficiency and quality. These efficiency checks are further extended to the individual worker level wherein each workers output is recorded and analyzed against the targets given and grades are given on variance basis. The fabric is then stitched in the style and specifications of the designs requirement. In case of comforters and quilts, there is generally a filling of polyfill fibre required. This is outsourced on job work basis.



Turning and Metal Detection Test

The stitched pieces reach the turning department where these are turned towards the finished side manually. In this department, the turning is done separately for the output of each of the machine lines and the 100% post turning inspection is carried. Then the rejected piece, if any, is sent back for rectification to the same worker who has stitched it.

Finishing and Measurement/ Spot Detection Test

After the basic stitching, buttons, zippers, etc. as required in specifications are attached in the finishing stage. This is done with the help of specialized machinery. The products are now checked manually for loose threads and if any they are cut off to give a neat look. Then the pieces are checked against the measuring specifications. After that a spot detection test is carried out wherein any dirt or other unwanted elements are spotted and cleaned out.

Metal Detection Test

The accepted pieces are carried through another quality test viz. metal detection test which is carried out at 100% level. In this test, each and every piece is passed through a metal detector to ensure safety against any broken needle part or any unwanted metallic part being left in the finished product.

Final Quality Checks

We subject all the products that we manufacture to stringent quality control, to ensure that every piece is manufactured as per specification and the quality standards. There is a separate Quality Control Department that is solely responsible for ensuring that all finished goods are free from defects and are stitched as per the specifications provided for the respective products and as per the respective designs. In case any variance beyond the quality specifications is found, the piece carrying the same is rejected and is sent back for rectifications.

Finishing and packing

Finally the furnishing products are folded as per the fold diagrams given in the specification sheet. The necessary folding accessories like stiffeners, colour inserts, barcodes etc., are put in according to the requirement and the products are packed in vinyl zipper bags as per the different sizes. These are then placed in cartons ready to be shipped. In some case the goods are also shipped bulk packed, if the buyer wants it so.

III. PROCESSING UNIT

In the year 2002, we have through our Promoter Group Company Hanung Processors Private Limited, ventured into dyeing and printing of 100% cotton and cotton polyester blended woven fabric . This processing unit is capable of dyeing, bleaching and washing of the above types of woven fabric and deals with the requirements of both our home furnishing manufacturing unit of ours as well as of the outside needs of dyed and printed fabric. Same as is the case with furnishing unit, prior to recent Agreement to Sell and Purchase the business of Hanung Processors Private Limited, the processing unit had been operating as an Independent entity recording its revenue to its own account. Accordingly, apart from operating as a processing unit, this unit had also been booking the order for home furnishing and getting the same done from the furnishing unit on job work basis. But after Agreement to Sell and Purchase, the unit is operating as an in-house processing division for Hanung Toys and Textiles Limited catering only to the in-house requirements.



Plant and Machinery

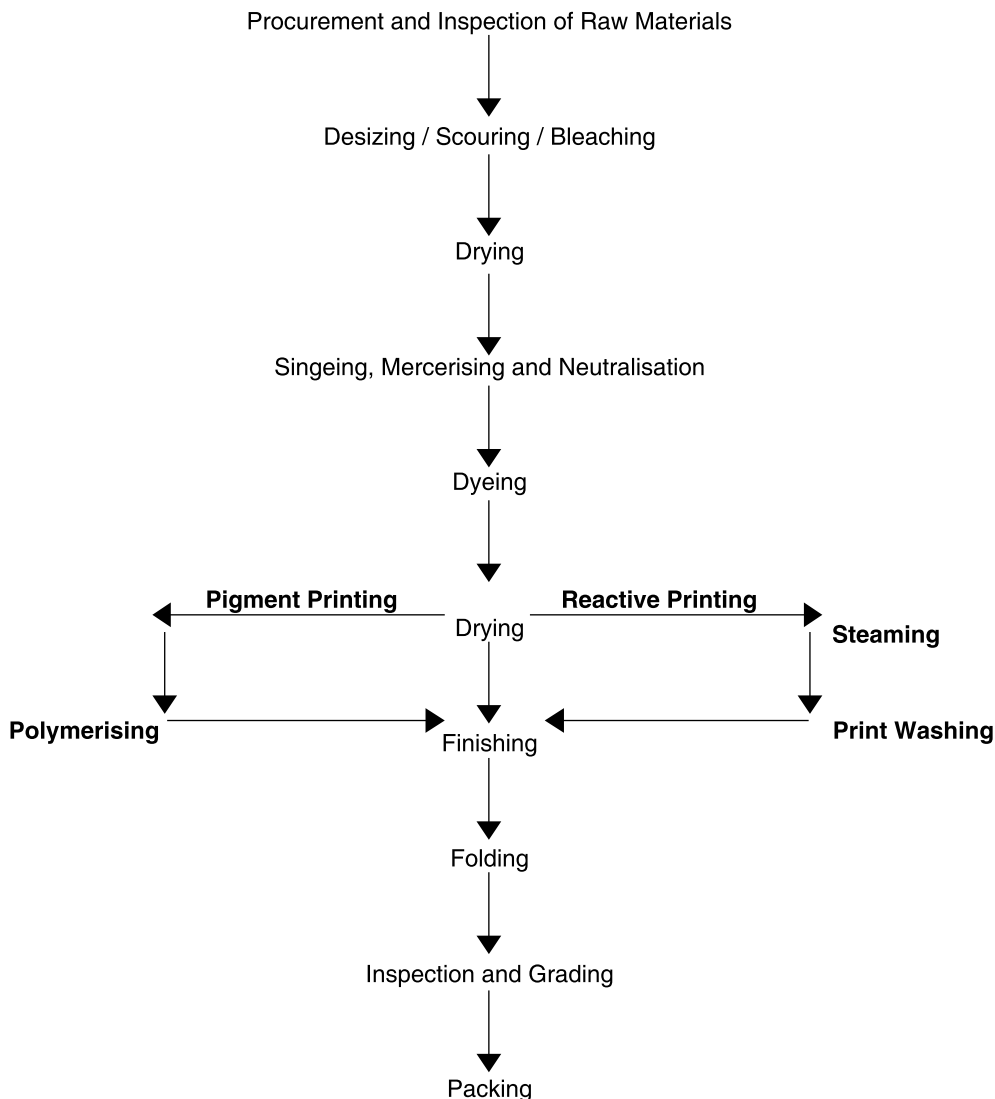
The details of major machinery in the processing unit are as follows:-

Type	Make	Qty.	Description/ Usage
Processing			
Batching M/c	Swastik	1	To make big batches of grey fabric
Singeing M/c	Sanjay	1	To remove the Protruding Fibre
Merceriser	Dhall	1	To obtain luster for good appearance and dye absorbency
JT 10	Shakti	2	For Desizing, Bleaching and Scouring
JT 10	Swastik	2	For Desizing, Bleaching and Scouring
Jigger	Shakti	4	Dyeing
Jumbo Jigger	Swastik	10	Dyeing
VDR	Dhall	2	Drying Range
Stenter (5 chamber, hot air)	SM Enery	1	Finishing
Electronic Weft straightner	Mahlo	1	To straighten the distorted weft of the fabric
Zero Zero (pre shrinking range)	Dhall	1	Pre-Shrinking Treatment
Calender M/c (6 Bowl)	Prabhat	1	To add luster
Folding M/c	Laxmi	2	Folding for Packing
Rotary Printing M/c	Laxmi	1	Sixteen Colour 108 inches printing machine
Loop Steamer	Ind Fab	1	Colour Fixing
Jet Dyeing M/c	Ind Fab	1	Dyeing of cotton / polyester blended fabric
Continuous Soaper Washing M/c	Dhall	1	Washing after reactive printing
ROT M/c	Almec	1	Roll on tubes for dispatch
Bale Pressing	National Engg.	1	For making bale of fabric
Caustic Recovery Plant	Ashok Bros	1	For recovering caustic from wash liquor of mercerizing machine,
Quality			
Inspection M/c	Ramson	1	Inspection of Incoming Fabric
Spectrophotometer	Gretec Mecbeth	1	To develop the colours and to gauge the colour tone differences to the minutest level
Judge II Matching Box	Mecbeth	1	To check the proper tone for colour as per specifications
Light Fastness Tester	Megatec	1	To check the extent of colour fading on light exposure
Random Pilling Tester	Megatec	1	To rate the extent of pilling on the fabric
Crockmeter	Megatec		To check the extent of colour fading on rubbing
Tear Strength Tester	Megatec	1	Tear Strength Test
Washing Fastness Tester	Megatec	1	Washing Fastness Test
Beasley Count Tester	Megatec	1	To check the count of Grey fabric
Beaker Dyeing M/c	Megatec	1	Sample Dyeing
Horizontal Padder	R.B. Electronics	1	For testing finishing chemicals
Electronic Balance	Eagle	1	For weighting
Electric Oven	Megatec	1	For drying lab samples



Process Flow

The Process carried out at this unit consists of the following steps:-



Procurement and Inspection of Raw Material

In this unit also, prior to Agreement to Sell and Purchase, booking of orders had been done independently. Accordingly, the raw material procurement was also done independently as per its own order position. The major raw material includes grey cotton/ blended fabric, dyes and chemicals and other materials. In case of grey fabric procurement, the same is sourced from South India mainly Coimbatore and Madurai where most of fabric manufacturers are located. The dyes and chemicals are procured from the indigenous market through wholesalers and selling agents.

The selected fabric is checked for both quality as well as quantity with the aid of machines that helps to visualize the extent of damage / waste in the fabrics like missing threads, kitty holes etc. The fabrics are selected depending upon the specific quality norms ensuring that fabric matches the specifications laid by the production / design department and Buyers.

Desizing/ Scouring/ Bleaching

During desizing, the fabrics are impregnated with enzyme solution to remove size chemicals (used prior to weaving during sizing process). Impregnated fabrics are kept at 70 C to 80 C for two hours for effective removal of sizing chemicals.

Desized fabrics are first washed in a bath of water and then treated for scouring and bleaching with caustic soda, good detergent /soap and peroxide with stabilizer at boiling temperature for eight hours so that reaction takes place with impurities



and they are fully dissolved. The fabric so washed is then clean and absorbent, passed through steamer so that reaction takes place with impurities and they are fully dissolved. This process is very important for obtaining good quality results in dyeing and printing.

Singeing/ Mercerising/ Neutralization

In Singeing, the fabric runs on gas flame at a speed of about 120 Mtrs /min and the protruding fibres on the surface of fabrics are burnt during this process. After singeing, the fabric appears as clean shave look.

Fabrics are treated on Merceriser to obtain luster for good appearance and dye absorbency. This also results in saving in quantity of dyes and hence cost of dyeing. Also it improves strength of fabrics for better life. To achieve this, fabrics are impregnated with caustic soda solution of 52° Tw along with wetting agent, processed further under tension and washed to remove surplus caustic soda and neutralized before drying.

Dyeing and Drying

Fabrics are normally dyed with reactive dyestuffs. In this step, the fabric is treated for 30 to 40 minutes in a dye bath containing reactive dye solution and electrolyte (common salt), after which alkaline re-agent(soda ash) is introduced and treatment carried on for another 90 minutes. The reactive dye forms a bond with the fabric. Now, the fabric is washed with the soap solution to remove unfixed dyes.

After dyeing, the process of drying is carried out in the vertical drying range (VDR).

Printing

In order to obtain combination of different designs and colours on fabrics, Printing is done. First of all designs are to prepared with the help of latest cad-cam design Equipment which we are getting done from outside. Then the transparencies of designs are engraved on rolls using photo exposure. The rolls are then mounted on the 108 inches Rotary Printing machine (16 color).

Normally a combination of different colours is used for printing. Rotary Printing machine can be operated on higher speed and is used for large orders. We also use the conventional manual table screen printing for execution of small orders.

There are two types of printing processes which we use at this unit viz. Reactive Printing and Pigment Printing. In reactive printing, dyes form the chemical bond with cotton fiber whereby the colour is penetrated in the fiber. In pigment printing, binding adhesives are used to fix the colour on the surface of the fabric. The reactive printing can be done on 100% cotton/ viscose fabrics only but pigment printing can be done on cotton as well as on cotton polyester blends.

After printing, the process of Curing (Pigment Printing)/ Steaming (Reactive Printing) in the Loop Ager Machine is carried out depending upon the type of printing used. Through these processes, colours are fixed on fabric.

In case of Reactive Printing, printed fabric is washed to remove the gums and also another round of drying is carried out in the VDR. This is important as, if wet cloth after printing is stored then design /colours gets tampered/damaged.

Finishing

The final finishing of fabric is always done on a stenter. The stenters are normally provided with a padder in the front, a bow and weft straightener device. The cloth to be finished passes through the padder, where finishing chemicals are added and goes through bow and weft correction device before entering the drying chamber. It can be either pad or dip stenter. The pair chains hold the cloth horizontally. The process is pad-dry and drying is achieved by blowing hot air in the stenter chamber. The stenter is the most important machine in the finishing.

Also, another finishing process known as calendaring is carried out, if required, wherein the luster/ shine is enhanced in the fabric.

Sanforising is the last process in the fabric finishing. The basic function of this machine is to control the shrinkage warp wise. Any cloth having undergone Sanforising will not shrink abnormally any further even after repeated wash, meaning dimensional stability is maintained on the fabric.

Folding, Inspection and Grading

Finally, the processed fabric is folded in layers with the help of folding machine and then the exhaustive quality inspection is carried out. In the inspection and grading step, each yard of the processed fabric is run through the inspection machine, the defects are marked, defect reports are prepared and then the grading of the processed fabric is done taking care of the defected fabrics.



Packing and Dispatch

The processed fabric is then packed depending upon the customer to whom the same is to be delivered. In case of exports, the fabric is rolled on tubes with the help of rolling machine and in case of indigenous customers, the same is packed in polythene.

Laboratory / Research and Development

In this unit, in order to produce highest quality product, a dedicated laboratory controls the entire production activities. All the dyes, chemicals and auxiliaries are tested and approved prior to their use in the production process.

Various online quality tests are conducted to ensure required quality parameters viz desizing efficiency, wetting efficiency and degree of mercerization. Also the pilling resistance, tear strength testing and residual shrinkages are tested.

Apart from process controls, laboratory is responsible for developing new shades and recipe generator with the help of spectro photometer and computers.

COLLABORATIONS

We do not have any collaboration, any performance guarantee or assistance in marketing.

INFRASTRUCTURE FACILITIES FOR RAW MATERIALS AND UTILITIES

Raw Material

At present, we are procuring the following raw materials to be used at our three units:-

- A. **Fabric:** In our toys unit, plush fabric of various types like Velour, Nylex, Velboa, Boa, Vonnell, High Pile, Satin and Poly suede is used. These fabrics are procured mainly from Korea, China, Thailand, Indonesia and Pakistan. Sometimes depending upon the requirements, some of the fabrics are also sourced from Ludhiana and Panipat.

For processing and Furnishing Unit, Grey Cotton / Blended Fabrics are procured from fabric manufacturing mills located in South India mainly Coimbatore, Madurai and surrounding areas. We have one fabric sourcing department in Coimbatore which keeps in close contact with these mills so that the fabric requirements can be met as per the production requirements without delays.

There are number of suppliers and manufacturers of fabrics and our Company does not foresee any problem in procuring the desired quantity of fabrics.

- B. **Stuffing:** The stuffing used in our stuff toys unit is mainly PSF, which is hollow and siliconised tubes. We procure this PSF from Reliance Industries Limited as well as import from China and Taiwan.
- C. **Dyes and Chemicals:** The main chemicals required are Caustic Lye, Acetic Acid, Soda Ash, Glouber Salt, Finishing Agent, Scouring Agent etc. The dyes required are all type of pigment reactive and disperse dyes. The manufacturers of dyes and chemicals are B.A.S.F., Ciba, Bayer, GACL, Nirma, Birla VXL, Vam Organic, ATIC, ICI, Jaysynth, Clariant, Alfa etc. Our Company procures the material through the wholesalers or through the authorized agents of the Dyes manufactures located in Delhi and NCR. Our Company is already established in the market and does not foresee any difficulty in procuring the same.
- D. **Accessories and Packing Material:** Various main accessories required in our toys unit includes eyes and nose, which are procured from Korea and China. Other accessories used in all the units are imported as well as bought from the local market depending upon the orders, accessories like buttons, rags, labels, zippers, price tickets, velcro, elastic, sewing threads, draw cords, vinyl bags etc. These accessories are very easily available in the market and we do not foresee any difficulty in procuring the same.

Existing Utilities

● Power

In our toys unit, we have total sanctioned load of 350 KVA from PAVVNL, of which the present minimum usage is of 263 KVA. We also have 3 DG sets, two of which are of the capacity of 140 KVA and one of 125 KVA as standby arrangement.

In our Processing unit, the sanctioned load is 500 KVA from PAVVNL against which the present minimum usage is of 263 KVA. As a back up, we have 2 DG sets, one of 320 KVA and another of 180 KVA.

The sanctioned load of power in our Furnishing unit is 125 KVA from PANVVL. The present usage of power at this unit is 94 KVA. We also have 2 DG sets, one of 50 KVA and another of 140 KVA and also an inverter of 1250 KVA, as the back up power.



- **Water**

We have 2 bore wells at our toys unit to meet the drinking water and sanitary requirements and the annual usage of water is 27000 kltrs p.a.

We have 2 bore wells at our processing unit and 1 bore well at our furnishing unit to meet our water requirements. The present usage of water at processing and furnishing units are 90000 kltrs p.a. and 24000 kltrs p.a., respectively.

- **Fuel**

At our toys unit, we use Diesel for DG Sets, which are used as standby arrangement for power and present consumption of Diesel is 21,524 ltrs. p.a. Other fuels which are used at this unit are diesel oil, compressor oil, hydraulic oil, machine oil and Lubricating oil, the present usage of these are 133 ltrs. p.a., 164 ltrs. p.a., 514 ltrs. p.a., 462 ltrs. p.a. and 170 ltrs. p.a. respectively.

The fuel requirement at our processing unit includes Diesel, Furnace oil and Wood and present usage of these is 250 ltrs. / day, 2 KL / day and 24 Metric Tone / day respectively.

In our furnishing, the present diesel and lubricating oil requirements are 66 ltrs. / day and 5 ltrs. P.a. respectively

- **Boiler**

To meet steam requirement at our processing unit, we have two boilers, one lignite boiler having the capacity of generating 6 tonnes of steam per hr. and other thermic fluid boiler with the capacity of generating 15 lakh Kcal of dry heat per hour. The present usage of steam is 4 tones / hr and present usage of dry heat is 12 K cal/ hr.

In our furnishing unit also, we have two steam boilers, one with the capacity of generating 50Kg of steam per hr and another with the capacity of generating 25 Kg of steam per hr. The present usage of steam is 55 Kgs/ hr. which is mainly required for ironing.

- **Air Compressor**

We have 8 air compressors, five at our toys unit, three from Elgi Equipment Limited (with the compressed air generating capacity of 5.4 and 2.4 cubic meters per min.) and two from Hanshin Machinery Co. Ltd. (with the compressed air generating capacity of 1.5 and 0.42 cubic meters per min.), one at our furnishing unit from Elgi Equipment Limited (having the capacity of 2.9 cubic meter per minute) and two at our processing unit, one from Elgi Equipment Limited (having the capacity of 2.973 cubic meter per minute) and another from Airtech (having the capacity of 0.375 cubic meter per minute).

Effluent Treatment Plant

As per the norms of the State Pollution Control Board, we have installed an Effluent Treatment Plant of Enviro Protect Utility at our processing unit and furnishing unit, for the disposal of visible and invisible effluents, generated during the activities carried out for the processing fabric.

In this, the effluent is passed through screen and grid chamber for the removal of coarse particles before being entering into oil and grease trap. After this, the effluent is being stored in an underground tank storage capacity. Aeration is being done through a compressor and piping grid inside the equalization tank to keep the particles in suspension for the ease of pumping.

Thereafter, the effluent is pumped from underground tank to flash mixer in which lime, alum and polymer solution is being mixed. Then the effluent is transferred to lamella clarifier where the effluent solidifies. From lamella clarifier, clarified water is taken to an underground sump while the slurry is collected from the bottom of lamella in a slurry tank below the clarifier. This slurry is pumped through the filter press for de-watering of sludge. The solid in the form of sludge cakes is disposed to a suitable place as suggested by the pollution control board. The clarified water from the sump is pumped through dwell media filter (DMF) and activated carbon filter having filtering medium for the removal of solids and B.O.D. to a desired level.

Water Softener Plant

In our furnishing unit, we also use a water treatment plant to reduce scaling/ layering of unwanted elements in pipes of our boiler. This plant is from EPU and has the capacity of 5000 ltrs. In this plant the resins are used to absorb all the impurities from the water.



Manpower

Our existing manpower as on July 31, 2006 is as follows:-

Sr. No.	Unit	Workmen	Staff	Total
1.	Toys Unit	617	130	747
2.	Processing Unit	141	46	187
3.	Furnishing Unit	273	25	298
	Total	1031	201	1232

MARKET AND MARKETING STRATEGY

Existing

Our Company's marketing team is headed by the Executive Vice-President (Marketing) supported by General Managers, Managers and Marketing Executives.

Our marketing and sales policy is based on International Market Survey and Research. Further, product development is based on the Current Trends and Fashion Forecasts, Customer Needs. Following that policy, our marketing team takes part on the various International and National Fairs and Fashion Shows to be updated on the market trends and accordingly guide the designing team. These Executives also visit the buyers' show rooms and interact with their designers to have a clear idea of their needs. Also, we focus on quality and timely deliveries which are chalked out for each and every manufacturing step and in consultation with the client so as to achieve Customer Satisfaction.

We have been able in attracting and retaining as our customers, known names in both Toys and home furnishing Products in all the major markets like U.S.A., Europe, Latin America and the Middle East who are primarily Large Importers/Whole sellers who service the respective Retailers in their Country.

We have an in-house design studio for both toys and home furnishings which is manned by approximately 10 designers for furnishing and 12 designers for toys, qualified, experienced and trained in their respective fields. They work very closely with the Marketing Team on a daily basis to understand individual/key customer's needs as well as on the seasonal / current colour and fabric forecasts and trends to develop top-of the Line Collections using various techniques available.

In domestic market, we have the brands like "Play-n-Pets", "Muskan" and "Splash". Our domestic market has been negligible. We are already catering to the network of more than 100 Distributors for the Stuff toys under the brand "Play-n-Pets" and "Muskan" spread in all the four regions viz. North, South, West and East and multi brand outlets including Lifestyle, Piramyd, Wellspun, Odyssey, Pantaloon Central, Ebony, Shoppers Stop etc. "Play-n-Pets" and "Splash" are registered trademarks and all formalities with respect to these marks in their respective classes have been completed and complied with. "Play-n-Pets" has been registered in our name and for the mark "Splash" applications dated July 8, 2004 for the registration of trademark "Splash" has been made by our Promoter Group Company viz. Hanung Furnishings Private Limited (HFPL) in various classes and for various purposes, which are also pending with the Registrar of Trademarks, New Delhi. As the business of HFPL has been taken over by us on a going concern basis pursuant to an Agreement to Sell and Purchase, all the rights of HFPL in these applications have also been transferred to us through the Deed of Assignment dated March 1, 2006.

Similarly, our "Splash" range is also being supplied to more than 20 distributors who in turn cater to the network of more than 600 retailers spread across India.

Future Prospects and Our Strategy

With the Quota-Free regime having begun from January 1, 2005, more and more U.S. Manufactures have closed down their factories and moved to Sourcing from the Asia-Pacific region where India is placed second only to China as the Exporting Country. The recent imposition of Restrictions on China to export some major product categories of Textiles Products to the U.S.A. would also help India and consequently us to a great extent and generate more Business.

In this scenario, we are expanding our production facilities and capacities by setting up state-of-the-art composite unit starting from weaving of fabric, processing and cut and sew operations, so as to target the large American and European Retailers directly which will open up an entirely new segment and increase our business multi-fold. This would result mainly due to reduction in process and production costs, improving logistics and higher capacities resulting in economies of scale and faster turn-around of orders which in itself will contribute substantially to increased business and customer satisfaction.



Till now, our focus being on overseas market, we have been distributing in the domestic market through our distributors in a limited manner which we plan to extend further keeping in view the surge in the organized retail segment. As we are already catering to institutional clients having chain stores and these being already conversant with our products, we also intend to target more of these with various multi store malls coming up across the country. We also plan to enter into the retail sector.

COMPETITION

Our Competition in stuff toys segment has been primarily from China only as there are hardly any manufactures / exporters of high quality and large volumes for stuff toys in India.

As regards home furnishings, some of our Key Competitors are Alok Industries, Wellspun, Creative Mobus and Shahi Exports etc. Also, countries like Mexico and Brazil, who have abundant and low-salaried labour as well as proximity to the largest market i.e. the U.S.A. have emerged as potential competitors in the last 2 years or so particularly with respect to shorter lead times and lower freight costs. China, Pakistan and Bangladesh have always been stiff competition as well.

However, as in the past, we have our own strategies worked out to counter competition by way of product differentiation viz., innovative fabric and value added techniques and designs, better quality and timely deliveries augmented, by state-of-the-art production facilities with experienced professionals manning them and better communication with the Customers. The recent imposition of restriction of exports from China to the U.S., will also help us grow our business in the Quota-free regime that India enjoys.

EXPORT OBLIGATION

As at June 30, 2006, we do not have any pending / outstanding export obligations. On commencement of our Proposed Expansion Project, there would arise export obligations, which cannot be ascertained as on date as the concerned authorities would determine the extent of export obligation on receipt of the imported machinery.

OUR BUSINESS STRATEGY

Our core business segments include stuff toys and home furnishings. The opening up of the Indian economy after phasing out of quota regime in the textile sector and the strategic advantages of the Indian manufacturing sector in general has given us an unlimited opportunity to grow in the international market. The stuff toy and home furnishing industry in particular has vast scope for development in the organized sector.

We propose to adopt the following strategy for our future growth:

New Facilities and Expansion

After the acquisition of business of our Promoter Group Companies, now, we have the processing and home furnishing manufacturing facilities but do not have the production facility for fabric. This would require us to buy the fabric from outside as has been happening prior to acquisition of business of our Promoter Group Companies *vide* Agreement to Sell and Purchase. The same is time consuming and requires continuous monitoring on the deliveries and inspections making us dependent on the fabric manufacturers. Thus, in order to become self-dependent and competitive in terms of turnaround time and quality, we intend to pursue the strategy to have in-house facilities starting from fabric production till home furnishings. Accordingly, we propose to set up a new home textile manufacturing facility having weaving, processing and made-ups unit with the production capacity of 21000 meters of grey fabric per day, about 1,05,000 meters of processed fabric per day and 16,058 sets of made-ups per day, respectively.

Also, we plan to increase the production capacity of our existing stuff toys unit at Noida out of our internal accruals to meet the growth in the market share as well as the anticipated demands of the Indian, US and European markets.

Product Portfolio

We propose to expand the existing toy product mix of over 4000 SKUs substantially, to meet the diverse market needs. We have recently tied up with "Disney" to use their various specified cartoon characters and with "PPCPL" wherein we have been granted certain pre-approved manufacturing and selling rights in respect of characters used in the animated motion picture "Hanuman". Further, we propose to ink similar strategic alliances with other icons and business ventures in the future.

Focus on domestic retail space

With the established Domestic Brands viz. "Play-n-Pets", "Muskan" and "Splash" and the established network of distributors/retailers and institutional clients, we also intend to focus and tap the Indian market through aggressive marketing and brand building of "Play-n-Pets", "Muskan" and "Splash" range.



Customer Base

With the increasing opportunities available in the post quota regime, we intend to strengthen our customer base in the existing as well as in the new markets in both our toys and textile segments. We target to achieve the same through increase in number of distributors / dealers as well as tie up with leading stores and align with new buyers in the existing markets of North America and Europe.

Constant updation on Design and Development

We have an in-house Design Studio for both Toys and home furnishings which is manned by 10 designers for furnishing and 12 designers for toys, qualified, experienced and trained in their respective fields. They work very closely with the Marketing Team on a daily basis to understand individual/key customer's needs as well as on the seasonal / current colour and fabric forecasts and trends to develop top-of the Line Collections using various techniques available. We aim at making it improved and updated to remain competitive.

Existing Capacity and Capacity Utilisation for the last 3 years

Products/ Facilities		Units	2003-04	2004-05	2005-06***
Stuff toys	Installed Capacity	Pieces p.a.	1,10,00, 000	1,10,00,000	1,10,00,000
	Utilised Capacity	Pieces p.a.	91,24,464	92,18,871	102,29,412
	% of Capacity Utilised	%	82.95	83.81	92.99
Processing*	Installed Capacity	Mtrs. p.a.	45,00,000	45,00,000	60,00,000
	Utilised capacity	Mtrs p.a.	1,47,638	42,04,148	47,36,600
	% of Capacity Utilised	%	3.28	93.43	78.94
Home furnishings**	Installed Capacity	Sets p.a.	12,50,000	12,50,000	12,50,000
	Utilised capacity	Sets p.a.	1,55,391	3,26,057	6,66,560
	% of Capacity Utilised	%	12.43	26.08	53.32

*The Commercial Production of this unit started from February 12, 2004.

** The Commercial Production of this unit started from April 1, 2003.

***The processing and furnishing business were taken over by the company from HPPL and HFPL respectively with effect from October 29, .2005. Thereafter, our Company has been operating in two business segments viz. Soft Toys and home furnishings and Processing Unit is acting as a facility to the home furnishings Business.

Projected Capacity and Capacity Utilisation for the next 3 years

For our Noida Units

Products/ Facilities		Units	2006-07	2007-08	2008-09
Stuff toys	Installed Capacity	Pieces p.a.	1,37,50,000	1,37,50,000	1,37,50,000
	Utilised Capacity	Pieces p.a.	1,12,77,000	1,20,00,000	1,26,50,000
	% of Capacity Utilised	%	82.01	87.27	92.00
Processing	Installed Capacity	Mtrs p.a.	60,00,000	60,00,000	60,00,000
	Utilised capacity	Mtrs p.a.	57,00,000	57,00,000	57,00,000
	% of Capacity Utilised	%	95.00	95.00	95.00
Home furnishings	Installed Capacity	Sets p.a.	12,50,000	12,50,000	12,50,000
	Utilised capacity	Sets p.a.	10,00,000	11,25,000	11,87,500
	% of Capacity Utilised	%	80.00	90.00	95.00



For Our Proposed Home Textile Unit

Products/ Facilities		Units	2006-07	2007-08	2008-09
Weaving	Installed Capacity	Mtrs. p.a.		73,50,000	73,50,000
	Utilised Capacity	Mtrs. p.a.		44,10,000	51,45,000
	% of Capacity Utilised	%		60.00	70.00
Processing	Installed Capacity	Mtrs. p.a.		3,50,00,000	3,50,00,000
	Utilised capacity	Mtrs. p.a.		2,10,00,000	2,45,00,000
	% of Capacity Utilised	%		60.00	70.00
Home furnishings	Installed Capacity	Sets p.a.	56,00,000	56,00,000	56,00,000
	Utilised capacity	Sets p.a.	8,40,000	33,60,000	39,20,000
	% of Capacity Utilised	%	15.00	60.00	70.00

* As per implementation schedule for the Proposed Expansion Project, this unit would be commissioned by January 2007.

The projection of capacity utilization at 15% for 2006 - 07 is for three month period, which when annualized comes to 60%, hence there is no increase in capacity utilization in 2007 - 08 over 2006 - 07 on annualized basis.



INSURANCE

Sr. No.	Policy No.	Policy Type	Description	Period To	From	Sum Insured (In lakh)	Premium (for the period of Policy)
Toys Unit							
1.	21/26/15/00078/06	Industry Care Policy	(i) Fire & Allied Perils in respect of Stock of RM, WIP, FG, Packing Material, Plant & Machinery, Furniture, fixture, fitting, computer, peripheral, Air conditioner, Electronic Appliances etc (ii) Burglary & Housebreaking	April 1, 2006	March 31, 2007	11728.79	13,82,676
2.	1000086424	Marine Open (Cargo)	Transit of Imported Fabric including duty	November 6, 2005	November 5, 2006	1480	70,251
3.	1000088799	Marine Open (Cargo)	Toys	November 11, 2005	November 10, 2006	1000	27,501
4.	1000076866	Marine Open (Cargo Inland)	Grey Clothing and other types of Cloth Fabrics	September 23, 2005	September 22, 2006	2900	80,513
5.	1000077037	Marine Open (Cargo)	All types of Printing Screen	September 23, 2005	September 22, 2006	100	10001
Processors Unit							
1.	321600/11/06/11/00000159	Fire & Allied Perils	Building	June 5, 2006	June 4, 2007	220	48,881
2.	321600/11/05/00775	Floater	Stock of RM, WIP, FG, Packing Material	November 18, 2005	November 17, 2006	2700	7,42,500
3.	321600/46/05/00447	Burglary Floater	Stock of RM, WIP, FG, Packing Material	November 18, 2005	November 17, 2006	2700	16,365
4.	21/26/15/0074/05	Industry Care Policy	(i) Fire & Allied Perils in respect of Plant & Machinery, Electronic Appliances etc (ii) Burglary and Housebreaking	March 12, 2006	March 11, 2007	1083.65	2,36,189
5.	1000091087	Marine Inland	Transit of Grey Fabrics	November 19, 2005	November 18, 2006	1300	39,735
6.	1000091088	Marine Inland	Transit of finished goods,	November 19, 2005	November 18, 2006	300	8,251
7.	1000108765	Fire and Special Perils (Material Damages)	Plant and Machinery	January 30, 2006	January 29, 2007	125	30,994
Furnishing Unit							
1.	11085806	Floater	Stock of RM, WIP, FG, Packing Material	November 17, 2005	November 16, 2006	800	2,23,045
2.	44023438	Burglary Floater	Stock of RM, WIP, FG, Packing Material	November 22, 2005	November 21, 2006	800	9,698
3.	321600/11/06/11/00000288	Fire & Special Peril	Building (115 NSEZ)	July 12, 2006	July 11, 2007	44	9,000
4.	321600/11/06/11/00000287	Fire & Special Peril	Plant & Machinery, Furniture & Fixture, Fitting, Office Equipment, Electrical Fittings & appliances.	July 12, 2006	July 11, 2007	149	41,809
5.	1000091237	Marine Inland	Transit of Grey Fabrics	November 19, 2005	November 18, 2006	500	15,152
6.	1000091238	Marine Inland	Transit of finished goods	December 23, 2005	December 22, 2006	300	8251



PROPERTY

We have offices and manufacturing facilities at various locations as per details given below:

Particulars	Area	Status	Terms
Registered Office at E-93, 2nd Floor, Greater Kailash Enclave, Part -I, New Delhi-110 048	700 Sq. Fts.	Leased from the Directors Mr. Ashok Kumar Bansal and Mrs. Anju Bansal	Lease deed dated November 23, 2005 for an initial period of three years, which may be renewed. The consideration for the same is Rs. 3,000 payable per month.
Corporate Office and Toys Unit at 108-109, 110-111, 115, 125, NSEZ, Noida-201 305	4,935 Sq. Mtrs.	Leasehold	Lease deed dated July 8, 2005 entered into with the Development Commissioner, Noida Special Economic Zone, Noida for an initial period of 15 years, which may be renewed. The consideration for the same is Rs. 29,508 payable quarterly.
Furnishing Unit at A-21, Hosiery Complex, Phase-II, Noida-201 305	45,000 Sq. Fts.	Pursuant to the Leave and License Agreement with a Promoter promoted Company viz. Praneet Softech (P) Ltd.	Lease deed dated March 1, 2004 for an initial period of 3 years, which may be renewed. The consideration for the same is Rs. 75,000 payable monthly.
Processing Unit at B-7, Hosiery Complex, Phase-II, Noida-201 305	5,000 Sq. Mtrs.	Leasehold	Lease deed dated October 10, 2002 for a term of 90 years with effect from August 10, 1999. The consideration for the same is Rs. 1,15,313 payable annually for the first ten years.

PURCHASE OF PROPERTY

Except as stated in the paragraph on "Property for Proposed Expansion Project" in chapter titled "Objects of this Issue" beginning on page 25 of this Red Herring Prospectus there is no property which our Company has purchased or acquired or proposes to purchase or acquire, which is to be paid for wholly, or in part, from the net proceeds of the present Issue or the purchase or acquisition of which has not been completed on the date of the Red Herring Prospectus:

- The contracts for the purchase or acquisition were entered into in the ordinary course of the business, and the contracts were not entered into in contemplation of this Issue nor is this Issue contemplated in consequence of the contracts; or
- as respects which the amount of the purchase money is not material

Except as stated in chapter titled "Related Party Transactions" beginning on page 105 of this Red Herring Prospectus, we have not purchased any property in which any of the promoters and directors, have any direct or indirect interest in any payment made thereof.



REGULATIONS AND POLICIES

Note: Investors are advised to read this chapter along with chapter titled "Statement of Tax Benefits" beginning on page 44 of this Red Herring Prospectus.

TUFS - Technology Upgradation Fund Scheme

The Scheme was made operational for the textile, jute and cotton ginning and pressing industries and at present is valid upto March 31, 2007. The main feature of the TUFS Scheme is a five percent reimbursement on the interest actually charged by the identified financial institutions or the Bank on the sanctioned projects. The main objective for introduction of this scheme is in order to sustain and improve the competitiveness and overall long term viability of the textile industry and to have access to timely and adequate capital at internationally comparable rates of interest in order to upgrade its technology level.

Export Promotion Capital Goods (EPCG) Scheme

The scheme facilitate import of capital goods at 5% concessional rate of duty with appropriate export obligation. Import of second hand capital goods is allowed under the EXIM Policy as announced on March 31, 2003.

Advance Licensing Scheme

With a view to facilitates exports and to access duty-free imports under the scheme, standard input-output norms for about 300 textiles and clothing export products have been prescribed and this scheme remained under operation.

Duty Drawback Scheme

The exporters are allowed refund of the excise and import duty suffered on raw materials under the scheme so as to make the products more competitive in the international market.

Duty Entitlement Pass Book (DEPB) Scheme

The Exporters are given transferable Duty Entitlement Pass Book (DEPB) against their export performance in order to reimburse the component of duty paid on exported goods at various stages from the duty to be paid at the time of importing the goods.

DEPB Scheme incorporates the concept of the old Pass Book but with simplified procedures and greater coverage and transparency in the matter of giving credit entitlements. The entitlement rate will be pre-determined so that the exporters at the time of exports can do their costing accordingly. It is a transparent scheme and does away with any discretion to the Licensing Authority or Custom Authority and can be availed on pre-export/post export basis.

This scheme is very easy to operate and the exporter has to come to the Licensing Authority only once for getting the credit under post export DPEB.

Textile Centres Infrastructure Development Scheme (TCIDS)

Development of infrastructure facilities at pre-dominantly textile/apparel sector areas is one of the thrust areas of NTx P-2000. For attaining this objective, a new scheme (TCIDS) has been launched for upgrading infrastructure facilities at important textile centers.

Environmental Regulations:

We are subject to Indian laws and regulations concerning environmental protection, in particular, the discharge of effluent water and solid particulate matter during our manufacturing processes. The principal environmental regulations applicable to industries in India are the Water (Prevention and Control of Pollution) Act, 1974, the Water Access Act, 1977, the Air (Prevention and Control of Pollution) Act, 1981 and the Environment Protection Act, 1986.

Further, environmental regulations require a company to file an Environment Impact Assessment ("EIA") with the State Pollution Control Board ("PCB") and the Ministry of Environment and Forests ("MEF") before undertaking a project entailing the construction, development or modification of any plant, system or structure. If the PCB approves the project, the matter is referred to the MEF for its final determination. The estimated impact, which a project would have on the environment, is carefully evaluated before granting clearances. When granting clearance, conditions can be imposed and the approving authorities can direct variations to the proposed project.

The PCB located across the States monitors compliance with applicable environmental regulations. No industrial or productive facility may operate without a valid authorisation from the local PCB office. PCBs routinely inspect industrial and productive facilities, to monitor compliance with applicable environmental standards and regulations, including the provisions of the Water Act and the Water Access Act. The PCBs are also empowered to grant authorisation for collection, treatment, storage and disposal of hazardous waste, either to the occupier or the operator of the facility.



Violations of relevant environmental regulations are punishable by monetary fines and imprisonment for company officers and controlling persons.

We have established water and air pollution control systems at all our Toys, Furnishings and Processing units. Our environmental compliance program is administered internally and includes monitoring, measuring and reporting compliance, establishing safety programs and training our personnel in environmental and safety matters.

Foreign Investment Regulations

The new industrial policy was formulated in 1991 to implement the Government's liberalisation programme and consequently, the industrial policy reforms relaxed industrial licensing requirements and restrictions on foreign investment. In subsequent years, the Government has further liberalized the foreign investment regime.

Customs Regulations

All imports into the country or exports from the country are subject to duties under the Customs Act, 1962 at the rates specified under the Customs Tariff Act, 1975. However, the Government has the power to exempt certain specified goods from custom duty, by notification.



HISTORY AND OTHER CORPORATE MATTERS

HISTORY AND BACKGROUND OF OUR COMPANY:

The foundation of our business was laid with the formation of a Partnership Concern viz. "Toy Park (India)" by our Promoters in the year 1990 with the object of manufacturing and export of stuff toys. Subsequently, in the same year, the partnership concern entered into a Foreign Collaboration with "Hanung Industrial Co. Limited", a South Korean company. Consequently, the name of the partnership concern was changed to "Hanung Toys (India)". The agreement was for providing the technology for the manufacturing of stuff toys and allied products. The same was effective for 5 years and after the expiry of this period the technical know-how became the property of the partnership concern for full and free use.

Simultaneously, on October 10, 1990, our Company was incorporated under the name of "Hanung Toys (India) Private Limited" under the Companies Act, 1956, with the Registration number 55-41722 having its registered office at 35, Govind Mohalla, Haiderpur, Delhi - 110 042. In 1993, our Company took over the business of "Hanung Toys (India)" as a going concern vide an Agreement of Takeover dated November 1, 1993 and carried on the business of the firm namely manufacturing of soft and stuff toys having the capacity of manufacturing 12 lakh pieces p.a. Consequently, the partnership concern was dissolved.

Subsequently, our Company was converted into a public limited company w.e.f. May 23, 1996 and pursuant to this, the name of our Company was changed to "Hanung Toys (India) Limited".

In the year 1997, we have increased our capacity to 110 lakh pieces p.a. which was financed through equity participation by our Promoters amounting to Rs. 45.00 lakh and Magnus Capital Corporation Limited, a body corporate registered in Mauritius to the tune of Rs. 99.90 lakh and also term loans from Financial Institutions/ Banks viz. PICUP and NSIC to the tune of Rs. 61.00 lakh and Rs. 43.97 lakh, respectively.

In 2005, we have entered into an agreement with The Walt Disney Company (India) Private Limited wherein we have been licenced to use some of the Disney Characters and Trademarks enabling us to increase the variety in our stuff toys range.

Also, as a part of our business integration strategy, we have acquired the business of two of the Promoter Group Companies viz. Hanung Furnishings Private Limited engaged in the business of manufacturing and marketing of home furnishings and Hanung Processors Private Limited engaged in the business of textile processing through a Slump Sale Arrangement w.e.f. from midnight October 29, 2005. Consequently, we have also changed the name of our Company to "Hanung Toys and Textiles Limited" w.e.f. January 9, 2006.

In 2006, we have also entered into an agreement with Percept Picture Company Private Limited pursuant to which we have been granted certain pre-approved manufacturing and selling rights in respect of characters used in the animated motion picture "Hanuman".

In 2006, we also entered into two more agreements with The Walt Disney Company (India) Private Limited wherein we have been licenced to use some of the Disney Characters and Trademarks in relation to our home furnishing products.

MAJOR EVENTS

Year	Event
1990-91	Incorporation of our Company as "Hanung Toys (India) Private Limited" on October 10, 1990 under the Companies Act, 1956
1993-94	Takeover of business from Hanung Toys (India) on a going concern basis vide an agreement dated November 1, 1993
1994-95	Sales touched the level of approximately RS. 500 lakh
1996-1997	● Investment by Magnus Capital Corporation Limited
	● Expansion of capacity to 110 lakh pieces p.a.
	● Conversion of Company into a Public Limited Company as "Hanung Toys (India) Limited" w.e.f. May 23, 1996
	● Sales crossed RS. 1,000 lakh
1999-2000	Sales reached the level of around RS. 3,000 lakh
2001-2002	Sales Crossed Rs. 5,000 lakh
2004-2005	Sales reached the level of Rs. 8,000 lakh



Year	Event
2005-2006	<ul style="list-style-type: none"> Total income reached the level of Rs. 15000 lakh
	<ul style="list-style-type: none"> Qualified under European Standard on Safety of Toys EN-71 part 3: 1994 and amendment A1 : 2000 on May 17, 2005
	<ul style="list-style-type: none"> Qualified under ASTM Standard Consumer Safety Specification for Toys on May 26, 2005
	<ul style="list-style-type: none"> Qualified under Furniture and Furnishings (Fire) (Safety) Regulations, 1998-Amended 1989 and 1983 based on BS-5852 dated October 10, 2005
	<ul style="list-style-type: none"> Agreements with The Walt Disney Company (India) Private Limited for using certain Disney Characters and Trademarks
	<ul style="list-style-type: none"> Acquisition of the business of two of our Promoter Group Companies viz. Hanung Furnishings Private Limited and Hanung Processors Private Limited through a Slump Sale Arrangement
	<ul style="list-style-type: none"> Exit of Magnus Capital Corporation Limited through sale of its shareholding in our Company to a Promoter Group Company Abhinav International Private Limited
	<ul style="list-style-type: none"> Change of name to "Hanung Toys and Textiles Limited" w.e.f. January 9, 2006
	<ul style="list-style-type: none"> Awarded Quality Certification of ISO 9001: 2000 by TUV GmbH, Germany
	<ul style="list-style-type: none"> Agreement with Percept Picture Company Private Limited for using all the characters used in the animation motion picture "Hanuman"
	<ul style="list-style-type: none"> Investment by Bennett, Coleman and Co. Limited of 5,00,000 Equity Shares at a price of Rs. 150/- per share

AWARDS AND RECOGNITIONS

Year	Event
1995	First position for export performance during 1993-94 by NEPZ, Govt. of India, Ministry of Commerce, Noida
1998	<ul style="list-style-type: none"> Top Exporter of the year 1997 by The All India Toy Manufacturers Association, Mumbai. Trophy Award in the category of Stuffed Soft Toys by The All India Toy Manufacturers Association, Mumbai.
1999-2000	1st Prize for excellence performance in export by Small Scale Industries and Export Promotion Department, Govt. of U.P.
2001-2002	1st Prize for excellence performance in export by Small Scale Industries and Export Promotion Department, Govt. of U.P.
2002-2003	Excellence Award for excellence performance in export by Small Scale Industries and Export Promotion Department, Govt. of U.P.
2003-2004	Excellence Award for excellence performance in export by Small Scale Industries and Export Promotion Department, Govt. of U.P.
2005-2006	Excellence Award from Export Promotion Bureau, Govt. of U.P. for performance in export in 2004-05

Changes in Registered Office of our Company

The table below shows the changes in the Registered Office since incorporation:

Previous Address	New Address	Reasons for Change in Office	Date of Change
35, Govind Mohalla, Haiderpur, Delhi - 110 042	B-308, Kedar Apartments, Plot No. 15, Sector - IX, Delhi - 110 085.	Better Location	August 23, 1993
B-308, Kedar Apartments, Plot No. 15, Sector - IX, Delhi - 110 085.	E-93, 2nd Floor, Greater Kailash Enclave, Part I, New Delhi - 110 048.	Better Location	May 1, 1997



MAIN OBJECTS OF OUR COMPANY

The Main Objects of our Company as stated in the MOA are as under :

- (1) To carry on the business as manufacturers, sellers, dealers, distributors, stockists, importers, exporters, fabricators of all kinds of toys, stuff toys, electronic module, accessories and instruments, components, equipment, related or connected therewith and deal in raw materials, used or required therein.
- (2) To carry on the business of manufacturing, dyeing, printing, colouring, spinning, weaving, buying, selling, importing, exporting or otherwise dealing in all fabrics and such other fibrous substances and preparations of all types and manufacturers of and dealers in cotton, silk, woolen, linen, hemp, jute, rayon, nylon, artificial silk and such other yarn and all kinds of woven synthetic blended textile manufactured from such yarn.
- (3) To carry on the business as traders, importers and exporters of and dealers in cotton, whether raw, semi-processed and all kinds of cotton goods.
- (4) To carry on the business of dyeing, printing, processing, importing, exporting, designing, fabricating, manufacturing, buying, selling, reselling, sorting, developing, marketing or supplying and to act as broker, trader, agent, C&F agents, franchisee agents, commission agents, distributor, consultant, collaborator, export house or other wise to deal in all types of textiles products including garments, handicraft goods, made-up knitted fabrics, hosiery goods, hosiery materials, dress materials, collars, fabrics, cloths, yarns, suiting, shirting, sarees, readymade garments for men, women and children including sportswear, daily wears, fashion wears, party wear, wearing apparels, under garments and other similar items made on power loom. Handloom or mill by made or natural materials such as cotton, flex, hemp, made linen, wool, nylon threads, polyester, silk, art silk rayon, fibers, cashmilon, filaments, multifilament polyamide-spun, woolen, acrylic, leather or any combination thereof available at present.
- (5) To carry on in India or aboard the business of manufacturing, exporting, importing, buying, selling, supplying, wholesaling, retailing, preparing, scouring, finishing and to act as job worker, agent, stockiest, distributor, broker, vendor, packer, designer, or otherwise to deal in all shapes, sizes and varieties or furnishings, fabrics, upholstery, cushions, shaped pillows, toys, handmade and machine made carpets, under lays, floor covering, durries, rugs mattings and other allied material made wholly or partly of coir, silk cotton, wool, hair, flax, spun, staples, synthetic or natural fibers and allied materials or blending thereof.
- (6) To carry on the business of design, manufacture, import, export, merchant, agents, and deals in all kinds of furnishings and fabrics, handlooms products, curtains, cushions, pillows, carpets, bed sheets and other home furnishings products.
- (7) To carry on business as manufactures, importers, exporters and dealers in all kinds of raw materials used in manufacturing of the aforesaid products, cushions, pillows, mattresses, upholster and other allied purpose.

CHANGES IN MEMORANDUM OF ASSOCIATION

Date of Shareholders' Approval	Changes in the Memorandum of Association
October 28, 1993	Increase in Authorised Share Capital from Rs. 10 lakh to Rs. 110 lakh
January 15, 1996	● Increase in Authorised Share Capital from Rs. 110 lakh to Rs. 500 lakh
	● Subdivision of Equity Shares of face value of Rs. 100/- each to that of the face value of Rs. 10/- each
	● Change in name of our Company to "Hanung Toys (India) Limited" consequent to conversion into a Public Limited Company
August 29, 2005	● Increase in Authorised Share Capital from Rs. 500 lakh to Rs. 2,000 lakh
	● Change in name of our Company from "Hanung Toys (India) Limited" to "Hanung Toys and Textiles Limited"
	● Alteration of Main Objects Clause of our Company
October 31, 2005	● Increase in Authorised Share Capital from Rs. 2,000 lakh to Rs. 2,200 lakh
	● Alteration of the Main Objects Clause of our Company
January 24, 2006	Increase in Authorised Share Capital from Rs. 2,200 lakh to Rs. 2,800 lakh



Our Subsidiaries

We do not have any subsidiaries.

Shareholders Agreement

Shareholders Agreement between Hanung Toys and Textiles Limited and Bennett, Coleman and Co. Limited and Mr. Ashok Kumar Bansal

Bennett, Coleman and Co. Limited ("BCCL"), one of the largest media companies in India and is publisher of popular newspapers including "Times of India" and "Economic Times", entered into a shareholders' agreement dated February 11, 2006 with HTTL and Mr. Ashok Kumar Bansal, representing himself and our other shareholders (referred to as the "Promoters" of HTTL) and thereby acquired by way of subscription 5,00,000 Equity Shares ("BCCL Shares") at a premium of Rs.140 for a total consideration of Rs. 7,50,00,000 (Rupees Seven Crores And Fifty lakh only) constituting 3.2% of the total equity share capital of HTTL on the date of agreement (i.e. the pre-issue equity share capital).

As per the agreement, in case, HTTL proposes to issue further Equity Shares prior to the IPO and such further issue (apart from allotment of Equity Shares pursuant to any Employees Stock Option Plan) is below 90% of the issue price of "BCCL Shares", BCCL shall have the irrevocable right (but not the obligation) to acquire such number of Equity Shares at par value, as may be necessary, so that the average issue price of all the Share held by BCCL after such allotment is equal to the issue price of the Equity Shares proposed to be allotted as per the notice of HTTL.

Various covenants and undertakings by HTTL and Promoters for the benefit of BCCL have been made which are subject to the SEBI norms applicable after listing. Further, notwithstanding the allotment of Equity Shares to BCCL, the management and the operational control of our Company shall solely vest in HTTL and its Board of Directors. However, as long as BCCL holds not less than 2% Equity Shares in the Share Capital of HTTL, any decision (a) relating to any matter for which a special resolution of the shareholders is required under the Companies Act, (b) having any bearing on the rights of BCCL set out in the Agreement, (c) relating to pledge, mortgage, charge or otherwise encumber any of its Shares, options or warrants or any interest in any such Shares, options or warrants, (d) the Promoters shall not either alone or jointly with any other person, directly or indirectly, engage, involve, invest substantially, be concerned or interested in any business, venture or project which directly or indirectly competes with the business of our Company and (e) affecting share capital or shareholding of our Company, whether taken by the Board or shareholders or the promoters shall be taken after written prior consent of BCCL, otherwise the same would not be binding on HTTL and shall not be given effect.

The BCCL Shares are subject to lock-in provisions of SEBI (i.e. for a period of 12 months from the date of allotment of the Equity Shares pursuant to an Initial Public Offer (IPO)).

Further, as per the agreement, the Exit Option shall be available to BCCL in this sequence: (a) IPO within 24 months, (b) exit before an IPO: BCCL shall have the rights to sell its Equity Shares to any person but nevertheless, BCCL has to first offer such Equity Shares to the Promoters of our Company and (c) in case IPO does not happen within 24 months, HTTL and BCCL will jointly appoint an independent consultant for the valuation of HTTL and Promoters will have to either themselves buy out the BCCL shares at the value arrived at by the consultant or find a third party to buy out the same. In case BCCL could not exit as provided herein, BCCL shall be free to sell its Equity Shares to any third party.

Further, there is also a clause providing the events in which the agreement will terminate and according to which this agreement will automatically terminate on any of the following events, whichever is earlier : (a) If BCCL ceases to hold any share in our Company ; (b) on mutual agreement between the parties to the agreement ; and (c) on HTTL coming up with an IPO provided there is sufficient liquidity post listing for a period of 2 years wherein sufficient liquidity shall mean a total trading divided by market capitalization to be less than ½% as an average in a given month.

Other Agreements

1. Salient features of the agreement with The Walt Disney Company (India) Private Limited (Toys)

We have approached The Walt Disney Company (India) Private Limited, who has been granted the right to license third parties to use certain characters and trademarks which are owned by or licenced to Disney Enterprises Inc., State of Delaware, United States of America, to obtain a license to use some of those characters and trademarks in order to carry on our business of manufacture of stuffed toys.

Accordingly, we have entered into an agreement dated August 29, 2005 with The Walt Disney Company (India) Private Limited to use some of the aforementioned materials and trademarks ("licensed materials") in relation to our toys manufacturing. The licensed materials/properties are the classic characters, Finding Nemo, The Lion King, standard characters including Mickey Mouse, Minnie Mouse, Donald Duck, Daisy Duck, Goofy and Pluto and Winnie the Pooh.



As per this agreement, we have been granted the right to distribute the articles based on the licensed material only to the wholesalers and retailers for re-sale within the territory of India. The terms of the agreement requires us to get the pre-production and production samples approved by The Walt Disney Company (India) Private Limited. The agreement specifically prohibits the sale by direct marketing methods including but not limited to, computer online selling, catalogue sale, direct mail and door to door solicitation except as specifically approved by The Walt Disney Company (India) Private Limited. We would have to take consent of the licensor in writing before we sell or otherwise provide articles for use as premiums, promotions, give-aways, donations etc.

In terms of the agreement, we are under an obligation to aggressively market the articles based on the licensed materials as provided in the agreement during the tenure of the agreement. Further to this, we are required to carry out the Marketing commitment (amount spent on consumer or trade advertising, promotion and marketing activities) to the extent of 5% of the net invoiced billings and also get our marketing plans reviewed and approved by The Walt Disney Company (India) Private Limited.

In consideration of the license granted, we are required to pay Royalties @13% of Sales payable quarterly, Advance Guaranteed Royalty amounting to Rs. 2,43,750 upon the signing up of the agreement (already paid) and Minimum Guaranteed Royalty amounting to Rs. 21,87,250/-. The license has been granted for a period from September 1, 2005 to December 30, 2007.

2. Salient features of the agreements with The Walt Disney Company (India) Private Limited (home furnishings)

We have entered into two agreements dated May 31, 2006 with The Walt Disney Company (India) Private Limited to use some of the Disney Characters ("licensed materials/ properties") in relation to our home furnishings products. The licensed materials/properties are Disney's Princess, standard characters, Disney Winnie the Pooh with any Winnie the pooh characters, Baby Daisy, Baby Donald, Baby Goofy, Baby Mickey, Baby Minnie, Baby Pluto, Baby Pooh.

As per the agreements, we have been granted the right to distribute the articles based on the licensed material only to the wholesalers and retailers for re-sale within the territory of India. The terms of the agreements requires us to get the pre-production and production samples approved by The Walt Disney Company (India) Private Limited. The agreements specifically prohibits the sale by direct marketing methods including but not limited to, computer online selling, catalogue sale, direct mail and door to door solicitation except as specifically approved by The Walt Disney Company (India) Private Limited. We would have to take consent of the licensor in writing before we sell or otherwise provide articles for use as premiums, promotions, give-aways, donations etc.

In terms of the agreements, we are under an obligation to actively market the articles based on the licensed materials as per the marketing dates provided in the schedule to the agreement. Further to this, we are required to carry out the Marketing commitment (amount spent on consumer or trade advertising, promotion and marketing activities) to the extent of 2% of the net invoiced billings and also get our marketing plans reviewed and approved by The Walt Disney Company (India) Private Limited.

In consideration of the license granted, we are required to pay Royalties @13% of Sales payable monthly and Advance Guaranteed Royalty amounting to Rs. 3,25,000 and Rs. 1,62,500 upon the signing up of the agreements (already paid). The licenses have been granted for a period from April 1, 2006 to May 31, 2008 in one case and from April 1, 2006 to June 30, 2008 in other case.

3. Salient Features of the Agreement to Sell and Purchase the Business with Hanung Furnishings Private Limited and Hanung Processors Private Limited

Effective as of midnight of October 29, 2005 (the "Effective Date"), we have acquired the furnishings and processing business of HFPL and HPPL respectively, our Promoter Group Companies, through a Slump Sale Arrangement pursuant to the Agreement to Sell and Purchase. Pursuant to the said agreement, we have acquired all assets and liabilities of HFPL and HPPL relating to the home furnishings and processing business as a going concern together with all the rights, title and interest attached thereto. The total purchase consideration for the sale and transfer of the business has been at the aggregate book value of all the movable and immovable assets less the aggregate book value of all the liabilities, loans and provisions as at the close of the business on October 29, 2005 standing in the audited financial statements of HFPL and HPPL which stood as Rs. 1353.69 lakh and Rs. 952.09 lakh, respectively. This purchase consideration has been settled by issue of ordinary Equity Shares at book value of Rs. 38.11 per Equity Share as per our Company's audited financial statements as at October 29, 2005. For details, please refer to note 1 of "Notes to Capital Structure" in chapter titled "Capital Structure" beginning on page 14 of this Red Herring Prospectus.



4. Salient Features of the agreement with Percept Picture Company Private Limited (PPCPL)

We have approached PPCPL for acquiring certain pre-approved manufacturing and selling rights in respect of specific articles bearing the likeness of the PPCPL specified character from the film "*Hanuman*". Accordingly, vide agreement dated January 11, 2006, PPCPL agreed to allow the same to us for a period of 11 months within the geographical limits of India. The agreement has been made effective from March 8, 2006. The agreement provides for the prior written approval in respect of each of the articles and the production of the articles is allowed only till the end of the 9th month.

As per the agreement, the minimum sales projections during the term shall be 10000 units of the articles. The consideration for such rights shall be calculated @4.5% on the Maximum Retail Price (MRP) per unit mentioned in the agreement. In the event, articles have been sold at a price lower than the said MRPs, we would be under an obligation to pay the consideration to PPCPL calculated at the said MRP only.

Also, the articles shall bear the logo of PPCPL as provided to us.

5. Salient Features of the Advertising Agreement with BCCL:

We have entered into an advertising agreement dated February 11, 2006 with Bennett Coleman & Co. Limited, wherein our products / services shall be advertised in BCCL print publications for a term of two years from the commencement date i.e. February 15, 2006 and shall act as a facilitator for other non BCCL print and non print media of the Times Group i.e., internet, radio and television or any other new medium launched during the term of the said agreement. The Company has agreed to release advertisements of total value of Rs. 750 lakh in BCCL publications in two years. The agreement also provides for "Client Incentive Scheme", whereby our Company shall be given incentive of 10% at the end of the year by way of space bank which has to be utilized in 3 months of the end of the sub-term of 2 years.

Strategic and Financial Partners

We do not have any strategic or financial partners.



OUR MANAGEMENT

BOARD OF DIRECTORS

Sr. No.	Name, Designation, Father's Name, Address and Occupation	Date of Appointment and Term	Age (in years)	Details of other Directorships
1.	Mr. Ashok Kumar Bansal Chairman-cum-Managing Director S/o. Brij Lal Bansal E-93, 2nd Floor, Greater Kailash Enclave, Part I, New Delhi - 110 048 Occupation: Business	October 10, 1990 as Director and October 31, 2005 as Managing Director For the period of 3 years	48	1. Hanung Furnishings Private Limited 2. Hanung Processors Private Limited 3. Abhinav International Private Limited 4. Praneet Softech Private Limited 5. C.K. Software Private Limited
2.	Mrs. Anju Bansal Whole-Time Director W/o Mr. Ashok Kumar Bansal E-93, 2nd Floor, Greater Kailash Enclave, Part -I, New Delhi - 110 048 Occupation: Business	September 28, 2001 as Director and October 31, 2005 as Whole time Director For the period of 3 years	45	1. Hanung Furnishings Private Limited 2. Hanung Processors Private Limited 3. Abhinav International Private Limited 4. Praneet Softech Private Limited 5. C.K. Software Private Limited
3.	Colonel Ashok Malhotra Whole-Time Director S/o Late Shri J.G. Malhotra B-174, Sector -31, Noida-201301 Uttar Pradesh Occupation: Service Permanent Address : 22/142 Vikram Vihar Lajpat Nagar, New Delhi – 110024	January 24, 2006 Appointed as Additional Director. Subsequently appointed as a Director retiring by rotation at the AGM held on June 6, 2006	61	NIL
4.	Mr. Piyush. Mittal Director (Independent) S/o Mr. V.P. Mittal A - 18, Sector 23, Noida - 201 301 Uttar Pradesh Occupation: Consultant	October 31, 2005 Appointed as Additional Director. Subsequently appointed as a Director retiring by rotation at the AGM held on June 6, 2006.	39	1. Altius Financial Consulting (P) Limited 2. Altius Merchandising (P) Limited 3. Omega Industries F.Z.C., Fujairah (UAE) 4. Premier Ticket Company Limited (U.K.) 5. Orchid Holdings FZC, Fujairah, UAE. 6. Orchid Printers (P) Limited, India
5.	Mr. R.K. Pandey Director (Independent) S/o. Mr. R.N. Pandey L - 277, Sarita Vihar, New Delhi- Occupation: Consultant	October 31, 2005 Appointed as Additional Director. Subsequently appointed as a Director retiring by rotation at the AGM held on June 6, 2006.	65	1. Precise Laboratories (P) Limited 2. British Health Products Limited 3. Welcure Drugs and Pharmaceuticals Limited 4. P.T.C. Limited 5. Amar Ujala Publications Limited 6. Spice Limited



Sr. No.	Name, Designation, Father's Name, Address and Occupation	Date of Appointment and Term	Age (in years)	Details of other Directorships
6.	Mr. Gulshan Rai Jain Director (Independent) S/o. Mr. S.L. Jain BE/13-C, DDA Flat MIG Munirka, New Delhi- Occupation: Consultant	October 31, 2005 Appointed as Additional Director. Subsequently appointed as a Director retiring by rotation at the AGM held on June 6, 2006.	70	1. G.R.S. Builders and Developers Private Limited

BRIEF BIOGRAPHY OF OUR DIRECTORS

A brief profile of the Board members, other than the Promoters is as follows: [For details of our Promoters, please refer chapter titled "Our Promoters and their Backgrounds" beginning on page 99 of this Red Herring Prospectus]

Colonel Ashok Malhotra, Whole-Time Director

Colonel Malhotra, 61 years, joined our Board as Whole-Time Director w.e.f. January 24, 2006. He has been employed with our Company since July 5, 1998 and is the incharge of manufacturing operations. He holds a degree in Bachelors in Arts (Economic Honors) from Delhi University and has also done post graduation in Export Management and in Business Management and Industrial Administration from Delhi Institute of Management and Services. He also holds degree in Masters in Science in defence studies from Tamil Nadu University. He looks after production operations of our Company. After taking premature retirement from Defence Services in the year 1988, he was engaged in the various industry segments like transportation, pharmaceuticals, textiles manufacturing and exports etc. in the field of operations and production. Prior to joining our Company, he was engaged in his own business of manufacturing and exports of textiles under the entity Households (I) Impex. He has 18 years of experience in the industry and 8 years of experience in our Company.

Mr. R.K. Pandey, Independent Director

Mr. R.K. Pandey, 65 years joined our Company as an Independent Director on October 31, 2005. He has completed his Masters in Commerce, L.L.B. and is also a fellow member of ICSI. Mr. Pandey has an experience of around 18 years with various private companies as well as Government Undertakings in various finance and legal capacities and has also served as Executive Director of the Delhi Stock Exchange Association Limited for 16 years.

Mr. Gulshan Rai Jain, Independent Director

Mr. Gulshan Rai Jain, 70 years joined our Company as an Independent Director on October 31, 2005. Mr. Jain is a graduate in Civil Engineering from Institute of Engineers. He retired from Delhi Development Authority as Executive Engineer in 1993. Mr. Jain has over 41 years of experience in construction, supervision, valuation and management of building, road and development projects. Presently, he is acting as a Consultant to various organizations including Sulabh International Social Service Organization.

Mr. Piyush Mittal, Independent Director

Mr. Piyush Mittal, 39 years, joined our Company as an Independent Director on October 31, 2005. Mr. Mittal is a commerce graduate and is also a qualified Chartered Accountant from ICAI. He has started his career in 1990 with Arthur Andersen, Delhi, a Financial Consultancy Firm and then joined IL&FS, where he worked for 2 years. Subsequently, he has set up his own financial consulting company viz. Altius Financial Consulting (P) Limited and has been associated with various known groups like Satyam Group, Sterling Group, Crompton Greaves etc. in relation to advising them in the field of private equity, debt syndication and business consultancy.

BORROWING POWERS OF DIRECTORS

The shareholders of our Company have passed a resolution at the EGM of our Company held on October 31, 2005, authorising the Board of Directors of our Company pursuant to Section 293(1)(d) of the Companies Act, 1956 to borrow, such sum or sums of money as they may deem requisite for the purpose of the business of our Company notwithstanding that the monies to be borrowed together with the monies already borrowed by our Company (apart from temporary loans obtained from the bankers of our Company in the ordinary course of business) shall exceed the aggregate of the paid up capital of our Company and its free



reserves, that is to say, reserves not set up for any specific purposes provided that the total amount together with the monies already borrowed by the Board of Directors shall not at any time exceed the sum of Rs. 25,000 lakh only.

For details regarding the borrowing powers of our Board please refer section titled 'Main Provisions of the Articles of Association' beginning on page no. 181 of this Red Herring Prospectus.

DETAILS OF APPOINTMENT AND COMPENSATION OF OUR EXECUTIVE DIRECTORS

Mr. Ashok Kumar Bansal - Chairman-cum-Managing Director

Mr. Ashok Kumar Bansal was one of the original subscribers to the Memorandum of Association and has been on the Board of Directors of our Company since inception. He was appointed as Managing Director of our Company for a term of five years w.e.f. January 1, 1996, which was approved by our shareholders in the EGM held on January 15, 1996 and was further re-appointed on the expiration of that term vide the shareholders approval in the EGM held on March 30, 2001 for the further period of five years. He has also been designated as Chairman vide Board Resolution dated September 27, 2005. Now, he has been further re-appointed for the period of three years w.e.f. October 31, 2005, which has been approved by the shareholders in the EGM held on October 31, 2005, wherein the terms of his appointment have also been changed.

The remuneration approved by the shareholder is as follows:-

- (a) Salary : Rs. 3,00,000 p.m. The increment will be decided by the Board from time to time and will be merit based and take into account the Company's performance.
- (b) House accommodation shall be provided by the company and 10% of salary shall be recovered by way of rent. Expenditure incurred by the company on his electricity, water and furnishing shall be evaluated as per Income Tax Rules, 1962 subject to a ceiling of 10% of salary.
- (c) Other perquisites shall be in accordance with and within the limits prescribed in Part II of the Schedule XIII of the Companies Act, 1956. Salary and perquisites shall, however, be restricted to an aggregate amount of the annual salary as given in Category 'A' of the perquisites.

Category A

- (i) Reimbursement of medical expenses of the Managing Director and his family, the total cost of which to the company shall not exceed one month salary in the year or three months salary in a block of three years.
- (ii) Leave Travel Assistance: Expenses incurred for self and family in accordance with the rules of the company.
- (iii) Club Fees: Subject to a maximum of two clubs. This will not include admission and life membership fees.
- (iv) Personal Accident Insurance Premium.

Category B

Other Statutory benefits not included in the computation of the minimum permissible remuneration of the Managing Director of the Company:-

- (i) Earned Privilege Leave : As per the rules of the Company, subject to the condition that the leave accumulated but not availed of will be allowed to be encashed for 15 days salary for every year of completed services at the end of the tenure.
- (ii) Contribution to Provident Fund and Family Benefit Funds : As per rules of the Company.
- (iii) Gratuity: As per rules of the Company, subject to a maximum ceiling as may be prescribed under the Payment of Gratuity Act from time to time.

Category C

Other facilities performing the official duties not considered as perquisites to the Managing Director:-

- (i) Car: The Company shall provide car with driver for the company's business and if no car is provided re-imbursement of the conveyance shall be made on the basis of claims made by him.
- (ii) Telephone: Free use of telephone at his residence provided that personal long distance calls on the telephone shall be billed by the company to the Managing Director.

Note: - For the purpose of perquisites stated in Category "A" above, "Family" means the spouse, the dependent children and dependent parents of the appointee.



Commission

Such remuneration by way of commission, in addition to the above salary and perquisites, calculated with reference to the net profits of the company in a particular year, as may be determined by the Board of Directors of the Company at the end of each financial year, subject to the overall ceiling stipulated in sections 198 and 309 of the Act.

Minimum Remuneration

Notwithstanding anything to the contrary herein contained where in any financial year during the currency of the tenure of the Managing Director, the company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary and perquisites as specified above.

Mrs. Anju Bansal - Whole-Time Director

Mrs. Anju Bansal was appointed as Whole-Time Director on the Board of Directors of our Company for a term of five years w.e.f. March 1, 2001 which was approved by the shareholders in the EGM held on March 30, 2001. Now, she has been further re-appointed for the period of three years w.e.f. October 31, 2005, which has been approved by the shareholders in the EGM held on October 31, 2005, wherein the terms of her appointment have also been changed.

The remuneration approved by the shareholder is as follows:-

- (a) Salary : Rs. 2,00,000 p.m. The increment will be decided by the Board from time to time and will be merit based and take into account the Company's performance.
- (b) House accommodation shall be provided by the company and 10% of salary shall be recovered by way of rent. Expenditure incurred by the company on her electricity, water and furnishing shall be evaluated as per Income Tax Rules, 1962 subject to a ceiling of 10% of salary.
- (c) Other perquisites shall be in accordance with and within the limits prescribed in Part II of the Schedule XIII of the Companies Act, 1956. Salary and perquisites shall, however, be restricted to an aggregate amount of the annual salary as given in Category 'A' of the perquisites.

Category A

- (i) Reimbursement of medical expenses of the Whole Time Director and her family, the total cost of which to the company shall not exceed one month salary in the year or three months salary in a block of three years.
- (ii) Leave Travel Assistance: Expenses incurred for self and family in accordance with the rules of the company.
- (iii) Club Fees: Subject to a maximum of two clubs. This will not include admission and life membership fees.
- (iv) Personal Accident Insurance Premium.

Category B

Other Statutory benefits not included in the computation of the minimum permissible remuneration of the Whole Time Director of the Company:-

- (i) Earned Privilege Leave : As per the rules of the Company, subject to the condition that the leave accumulated but not availed of will be allowed to be encashed for 15 days salary for every year of completed services at the end of the tenure.
- (ii) Contribution to Provident Fund and Family Benefit Funds : As per rules of the Company.
- (iii) Gratuity: As per rules of the Company, subject to a maximum ceiling as may be prescribed under the Payment of Gratuity Act from time to time.

Category C

Other facilities performing the official duties not considered as perquisites to the Whole Time Director:-

- (i) Car: The Company shall provide car with driver for the company's business and if no car is provided re-imbursement of the conveyance shall be made on the basis of claims made by her.
- (ii) Telephone: Free use of telephone at her residence provided that personal long distance calls on the telephone shall be billed by the company to the Managing Director.

Note: - For the purpose of perquisites stated in Category "A" above, "Family" means the spouse, the dependent children and dependent parents of the appointee.



Commission

Such remuneration by way of commission, in addition to the above salary and perquisites, calculated with reference to the net profits of the company in a particular year, as may be determined by the Board of Directors of the Company at the end of each financial year, subject to the overall ceiling stipulated in sections 198 and 309 of the Act.

Minimum Remuneration

Notwithstanding anything to the contrary herein contained where in any financial year during the currency of the tenure of the Whole Time Director, the company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary and perquisites as specified above.

Colonel Ashok Malhotra - Whole-Time Director

Colonel Ashok Malhotra was appointed as Whole-Time Director on the Board of Directors of our Company for a term of three years w.e.f. January 24, 2006, which has been approved by the shareholders in the EGM held on January 24, 2006.

The remuneration approved by the shareholder is as follows:-

- (a) Salary: Rs. 28,500 p.m. The increment will be decided by the Board from time to time and will be merit based and take into account the Company's performance.
- (b) House accommodation shall be provided by the company and 10% of salary shall be recovered by way of rent. Expenditure incurred by the company on his electricity, water and furnishing shall be evaluated as per Income Tax Rules, 1962 subject to a ceiling of 10% of salary.
- (c) Other perquisites shall be in accordance with and within the limits prescribed in Part II of the Schedule XIII of the Companies Act, 1956. Salary and perquisites shall, however, be restricted to an aggregate amount of the annual salary as given in Category 'A' of the perquisites.

Category A

- (i) Reimbursement of medical expenses of the Whole Time Director and his family, the total cost of which to the company shall not exceed one month salary in the year or three months salary in a block of three years.
- (ii) Leave Travel Assistance: Expenses incurred for self and family in accordance with the rules of the company.
- (iii) Club Fees: Subject to a maximum of two clubs. This will not include admission and life membership fees.
- (iv) Personal Accident Insurance Premium.

Category B

Other Statutory benefits not included in the computation of the minimum permissible remuneration of the Whole Time Director of the Company:-

- (i) Earned Privilege Leave: As per the rules of the Company, subject to the condition that the leave accumulated but not availed of will be allowed to be encashed for 15 days salary for every year of completed services at the end of the tenure.
- (ii) Contribution to Provident Fund and Family Benefit Funds: As per rules of the Company.
- (iii) Gratuity: As per rules of the Company, subject to a maximum ceiling as may be prescribed under the Payment of Gratuity Act from time to time.

Category C

Other facilities performing the official duties not considered as perquisites to the Whole Time Director:-

- (i) Car: The Company shall provide car with driver for the company's business and if no car is provided re-imbursment of the conveyance shall be made on the basis of claims made by him.
- (ii) Telephone: Free use of telephone at his residence provided that personal long distance calls on the telephone shall be billed by the company to the Whole Time Director.

Note: - For the purpose of perquisites stated in Category "A" above, "Family" means the spouse, the dependent children and dependent parents of the appointee.

None of the above Directors are entitled to any benefits on termination of their employment with our Company.



Commission

Such remuneration by way of commission, in addition to the above salary and perquisites, calculated with reference to the net profits of the company in a particular year, as may be determined by the Board of Directors of the Company at the end of each financial year, subject to the overall ceiling stipulated in sections 198 and 309 of the Act.

Minimum Remuneration

Notwithstanding anything to the contrary herein contained where in any financial year during the currency of the tenure of the Managing Director, the company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary and perquisites as specified above.

CORPORATE GOVERNANCE

In terms of SEBI circular no. SEBI/CFD/DIL/CG/1/2004/12/10 dated October 29, 2004, which was deferred till December 31, 2005, which period now stands expired, the provisions of the Listing Agreement to be entered into with the Stock Exchanges and the SEBI Guidelines in respect of corporate governance will be applicable to our Company at the time of seeking in-principle approval from the Stock Exchanges. Accordingly, our Company has complied with the applicable sub-clauses of Clause 49 of the listing agreement.

Composition of Board of Directors

The Board of Directors have been constituted as per the said clause. For details please refer chapter titled "General Information" beginning on page 8 of this Red Herring Prospectus.

Committees of Board

I. Audit Committee

We have constituted an Audit Committee on October 31, 2005. The Audit Committee consists of the following Directors of the Board:

1. Mr. R.K. Pandey - Chairman (Non-Executive, Independent Director)
2. Mr. Ashok Kumar Bansal
3. Mr. Piyush Mittal (Non-Executive, Independent Director)

The powers and role of audit committee is as follows:-

The Audit Committee is bestowed with following powers to:

- Investigate any activity within its terms of reference
- Seek information from any employee of Hanung Toys and Textiles Limited
- Obtain outside legal or professional advice.
- Secure attendance of outsiders with relevant experience, if considered necessary.

Role of Audit Committee

a) Financial reporting

Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible. To review and challenge where necessary, the actions and judgments of management, in relation to the Company's financial statements, operating and financial review, interim reports, preliminary announcements and related formal statements before submission to, and approval by, the Board and Auditors. The Committee would pay particular attention to:

- Critical accounting policies & practices and any changes therein.
- Decisions involving a significant element of judgment.
- Accounting & disclosure of exceptional items.
- Clarity of disclosures.
- Significant audit adjustments.
- Going Concern adjustment.



- Compliance with accounting standards.
- Compliance with legal requirements & stock exchange requirements.
- Other areas as defined by the Board.

b) Internal Control & Risk Management

- To review procedures for detection of fraud, including procedures for reporting fraud by staff in confidence.
- To review management & internal audit reports on the effectiveness of the systems for internal financial control, financial reporting & risk management.
- To monitor the integrity of internal financial controls.
- To review disclosures on internal controls & risk management framework.
- To assess the scope & effectiveness of risk monitoring & control systems.
- To approve related party transactions. One member shall be authorised to pre-approve such transactions.

c) Internal Audit

- To appoint/ dismiss the Internal Auditors & fix their remuneration for services.
- To assess the qualifications, expertise, resources, effectiveness and independence of the internal auditors.
- To review the internal Audit function & internal audit programme.
- To ensure access of Internal Auditor to the Chairman of board/ Audit Committee.
- To receive periodic internal audit reports.
- To review management response(s) to the internal audit report.
- To review effectiveness of internal audit in the Company's risk management system.
- To review other services by the internal auditors to ensure auditors independence / objectivity.

d) External Audit

- To recommend appointment/ removal of External auditors of the Company to the Board and fix remuneration.
- To assess the qualifications, expertise, resources, effectiveness and independence of the external auditors annually.
- To discuss the nature and scope of audit before commencement of audit.
- To ensure completeness of coverage and optimum use of audit resources.
- To review the audit issues which are resolved/unresolved, errors encountered during audit, accounting/ audit adjustments & management explanation.
- To review audit representation letters before approval from external auditors.
- To review audit process at the end of audit by discussion with external auditors on audit plan, audit risks, internal controls & feedback from key personnel involved.
- To review the management letter received from external auditors.
- To review non-audit services by the auditors to ensure external auditors independence/ objectivity.
- To annually review the accounts, audit of subsidiary companies with their Auditors & Audit Committee, so far it concerns the Company.

e) Systems Audit

- To appoint / dismiss Systems Auditors & fix their remuneration for services.
- To assess the qualifications, expertise, resources, effectiveness and independence of the systems auditors.
- To review the scope of systems audit programme.
- To ensure access of Systems Auditors to the Chairman of board/ Audit Committee.
- To review management response to system audit report.
- To review effectiveness of systems within the Company.



f) Reporting

The Company Secretary circulates the minutes of the meetings of the Committee to all Directors. The Chairman of Audit Committee attends the Board meetings at which the accounts are approved. The Chairman of the Committee also attends the Annual General Meeting and answers questions related to accounts, audit & the other activities of the Audit Committee.

The Audit Committee has the right to review its terms of reference & recommend any necessary changes to the Board annually.

The Audit Committee approves the report on its role, names & qualifications of members, numbers of meetings & attendance and comments on the way in which its responsibility was discharged and unresolved disagreements with the Board for inclusion in the Annual Report.

II. Remuneration Committee

The Remuneration Committee has been constituted on October 31, 2005 and presently comprises of the following Independent Directors:

1. Mr. R.K. Pandey - Chairman
2. Mr. Gulshan Rai Jain
3. Mr. Piyush Mittal

Subject to the supervision and control of the Board, the functions of the Remuneration Committee include approval/ recommendation to Board for approval of:

- Remuneration / commission payable to Directors.
- Managerial remuneration.
- Frame policies to attract, motivate & retain personnel.
- Other functions of a Remuneration Committee as required / recommended in the Listing Agreement.

III. Share Transfer / Investor Grievance Redressal Committee

We have constituted the Share Transfer / Investor Grievance Redressal Committee on October 31, 2005 consisting of following Directors:

1. Mr. Gulshan Rai Jain - Chairman
2. Mr. Ashok Kumar Bansal
3. Mrs. Anju Bansal

The Share Transfer Committee has been constituted to do all such acts, deeds and things relating to Share transfers, transmission, splitting of share certificates, issue of duplicate share certificates and other related matters as may be deemed necessary.

Our Company also undertakes to comply with various other sub-clauses of Clause 49 of the Listing Agreement to be entered into with the Stock Exchanges.

IPO Committee

Apart from the committees required to be constituted under Clause 49 of the listing agreement, we have also constituted an IPO Committee on October 31, 2005, which comprises of the following Directors:

1. Mr. Ashok Kumar Bansal
2. Mrs. Anju Bansal
3. Colonel Ashok Malhotra

The terms of reference of the IPO Committee is as follows:

- a) to decide on the actual size of the IPO and/or reservation for employees and/or any other reservations or firm allotments as may be permitted, timing, price band, pricing and all the terms and conditions of the issue of the shares, including the price, and to accept any amendments, modifications, variations or alterations thereto;
- b) to appoint and enter into arrangements with the book running lead managers, co-managers to the issue, underwriters to the issue, syndicate members to the issue, advisors to the issue, stabilizing agent, brokers to the issue, escrow collection bankers to the issue, registrars, legal advisors as to Indian and overseas jurisdictions, advertising and/or promotion or public relations agencies and any other agencies or persons;



- c) to finalise and settle and to execute and deliver or arrange the delivery of the offering documents (the draft red herring prospectus, the red herring prospectus, final prospectus (including the draft international wrap and final international wrap, if required, for marketing of the Issue in jurisdictions outside India), syndicate agreement, underwriting agreement, escrow agreement, stabilization agreement and all other documents, deeds, agreements and instruments as may be required or desirable in connection with the issue of shares or the IPO by the Company;
- d) to open one or more separate current account(s) in such name and style as may be decided, with a scheduled bank to receive applications along with application monies in respect of the issue of the shares of the Company;
- e) to open one or more bank account of the Company such name and style as may be decided for the handling of refunds for the Issue;
- f) to make any applications to the FIPB, RBI and such other authorities, as may be required, for the purpose of issue of shares by the Company to non-resident investors including but not limited to NRIs, FIIs, FVCI's and other non-residents;
- g) to make applications for listing of the equity shares of the Company in one or more stock exchange(s) and to execute and to deliver or arrange the delivery of the listing agreement(s) or equivalent documentation to the concerned stock exchange(s);
- h) to settle all questions, difficulties or doubts that may arise in regard to the Issue or allotment of shares as it may, in its absolute discretion deem fit; and
- i) to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable for such purpose, or otherwise in relation to the Issue or any matter incidental or ancillary in relation to the Issue, including without limitation, allocation and allotment of the shares as permissible in law, issue of share certificates in accordance with the relevant rules.

SHAREHOLDING OF OUR DIRECTORS

As per our Articles, our Directors are not required to hold any Equity Shares in our Company. Save and except as below, our Directors do not hold any Equity Shares in our Company as on the date of filing of this Red Herring Prospectus.

Sr. No.	Names of our Directors	No. of Equity Shares
1.	Mr. Ashok Kumar Bansal, CMD	26,45,418
2.	Mrs. Anju Bansal, WTD	18,88,482

Interest of Directors (Other than promoter directors)

Except as stated in "Related Party Transactions" beginning on page 105 of this Red Herring Prospectus and to the extent of their compensation as mentioned in section titled "Our Management" beginning on page 88 of this Red Herring Prospectus, and their shareholding or shareholding of companies they represent, the Directors, other than the Promoters who are also Directors, do not have any other interest in our Company.

All Directors may be deemed to be interested in the contracts, agreements/arrangements entered into or to be entered into by our Company with any company in which they hold Directorships or any partnership firm in which they are partners as declared in their respective declarations.

Our Company has not entered into any contract, agreements or arrangements during the preceding two years from the date of the Red Herring Prospectus in which the directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them except as mentioned above.

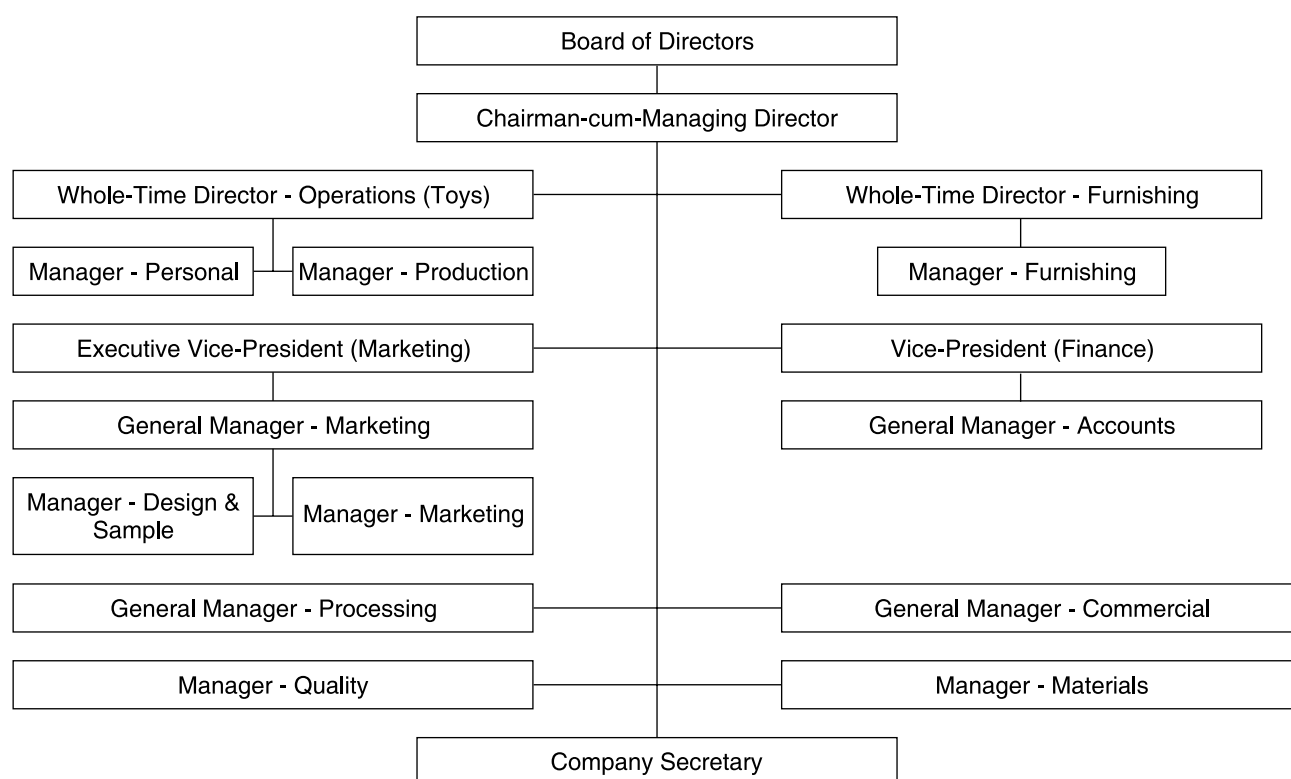
The Articles of Association provide that the Directors and officers shall be indemnified by our Company against loss in defending any proceeding brought against Directors and officers in their capacity as such, if the indemnified Director or officer receives judgment in his favour or is acquitted in such proceeding.



CHANGES IN OUR BOARD OF DIRECTORS DURING THE LAST THREE YEARS

Sr. No.	Name of the Director	Date of Joining	Date of Resignation.
1.	Mr. Brij Lal Bansal	October 5, 2001	October 31, 2005
2.	Mr. Ashwani Singla	October 5, 2001	October 31, 2005
3.	Mr. Piyush Mittal	October 31, 2005	–
4.	Mr. R.K. Pandey	October 31, 2005	–
5.	Mr. Gulshan Rai Jain	October 31, 2005	–
6.	Mr. Sanjeev Hota	October 31, 2005	January 24, 2006
7.	Colonel Ashok Malhotra	January 24, 2006	–

ORGANISATIONAL STRUCTURE



OUR KEY MANAGERIAL PERSONNEL

The Key Managerial Personnel of our Company other than our Directors are as follows:

Sanjeev Hota - Executive Vice-President (Marketing)

Mr. Sanjeev Hota, 42 years, joined our Company on October 31, 2005 as Whole-Time Director of our Company and served till January 24, 2006 in that capacity and subsequently designated as Executive Vice-President (Marketing). He has been associated with our Company since 1996 on Independent basis and assisting our Company in its marketing activities. Mr. Hota is incharge of the overall marketing of our products and also looks after all post-production activities. He has visited various countries including USA, UK, Germany, France, Japan, South Korea, Thailand to attend seminars / conferences and for interaction with prospective buyers. He holds a Bachelor in Commerce degree from Utkal University. Mr. Sanjeev Hota has an experience of over 16 years in the marketing field. Prior to joining our Company Mr. Hota was employed as General Manager, Delhi for Radiant Electronics Limited for a period of over 6 years. Mr. Hota was paid a gross salary of Rs. 3,00,000 during the period from January 25, 2006 to March 31, 2006.

**Sushil Vij - Vice-President (Finance)**

Mr. Sushil Vij, 44 years, joined our Company on November 5, 2001. As Vice President (Finance), his main responsibility is to supervise all finance and account related matters. Mr. Vij is a Chartered Accountant and has a total experience of 19 years in the finance / accounts in various industries. Prior to joining our Company, he was General Manager Finance of Fedders Lloyd Corporation Limited for a period of 2 years. Mr. Vij has been paid the gross salary of Rs. 5,40,000 for FY 2005-06.

Arvind Kumar Gupta, Company Secretary cum Finance Controller

Mr. Arvind Kumar Gupta, 47 years, is a Fellow member of both ICAI and ICSI. He looks after all legal and Company Law and compliance with various law matters. He has an experience of 20 years and has previously been employed with Hindustan Breweries Bottling Limited as Company Secretary and Financial Controller. He has been with our Company since September 6, 2005 and has drawn a gross salary of Rs. 2,39,167 for the period from September 6, 2005 to March 31, 2006.

Vijay Grover, General Manager (Commercial)

Mr. Vijay Grover, 48 years, is a Chartered Accountant and looks after all commercial activities and has an experience of 22 years in the industry and was previously employed in Karam Chand Appliances Private Limited as Senior Manager-Accounts. He has also been involved into ERP implementation. He has been with our Company since October 23, 2003 and received gross salary of Rs. 4,55,000 FY 2005-06.

Aseem Verma, General Manager (Accounts and Taxation)

Mr. Aseem Verma, 48 years, has completed his Bachelors in Science from Gorakhpur University. He is also a fellow member of ICAI. In our Company, Mr. Verma is an overall incharge of accounts and taxation. and was previously employed with Lumax Industries Limited as General Manager- Finance. Mr. Verma has an experience of over 19 years in the finance including takeovers, mergers, business reconstruction, ERP development and implementation in various industry segments like mining, chemical, plastic, automotive, retail and hotel. He has been with our Company since November 1, 2005 and has drawn a gross salary of Rs. 2,46,667 for the period from November 3, 2005 to March 31, 2006.

All the above mentioned key managerial personnel are permanent employees of our company. None of the key managerial personnel are related to each other except Mr. Ashok Kumar Bansal and Mrs. Anju Bansal. None of the key managerial personnel are appointed pursuant to any arrangement or understanding with major shareholder, customer or supplier.

SHAREHOLDING OF OUR KEY MANAGERIAL PERSONNEL

None of the key employees except the Directors of our Company holds any Equity Shares in our Company as on the date of this Red Herring Prospectus.

CHANGES IN OUR KEY MANAGERIAL PERSONNEL DURING THE LAST THREE YEARS

Sr. No.	Name	Date of Appointment
1.	Mr. Arvind Kumar Gupta - Company Secretary	September 6, 2005
2.	Mr. Aseem Verma - General Manager (Accounts and Taxation)	November 1,, 2005
3.	Mr. Vijay Grover -General Manager (Commercial)	October 23, 2003
4.	Mr. K.K. Sharma - General Manager (Operations)	December 12, 2003
5.	Mr. Sanjeev Hota -Executive Vice-President (Marketing)	January 24, 2006
6.	Mr. K.K. Sharma - General Manager (Operations)	July 31, 2006

BONUS OR PROFIT SHARING PLAN AND INTEREST OF KEY MANAGERIAL PERSONNEL

Our Company does not have any bonus or profit-sharing plan for Key Managerial Personnel. No amount or benefit has been paid or given within the two preceding years or are intended to be given to any of our key managerial personnel except the normal remuneration for services rendered as directors, officers or employees.

EMPLOYEES STOCK OPTION SCHEME

Our Company has not granted any stock options to the employees.

NON SALARY RELATED PAYMENT OR BENEFIT TO EMPLOYEES/KEY MANAGERIAL PERSONNEL OF OUR COMPANY

There has been no other payment or benefit given to the employees / key managerial personnel of our Company other than salary.



OUR PROMOTERS AND THEIR BACKGROUND

Core Promoters

Our core Promoters are Mr. Ashok Kumar Bansal and Mrs. Anju Bansal



Mr. Ashok Kumar Bansal, Chairman-cum-Managing Director

Mr. Ashok Kumar Bansal, 48 years, a resident Indian national, is a Promoter of our Company. He is Bachelor of Commerce from Punjab University. He is a fellow member of ICAI and is also a qualified Company Secretary from ICSI and has over 23 years of business experience. Mr. Bansal has been involved with our Company since inception and is our Chairman-cum-Managing Director.

He started his career in 1982 and in 1989, he laid the foundation of the business of our Company by establishing a Partnership concern and entered into a technical collaboration agreement. Subsequently, incorporated our Company with the object of manufacturing and exporting stuff toys. Later, in the year 2002, he also entered into the textile home furnishings and textile processing business through separate entities viz. Hanung Furnishings Private Limited and Hanung Processors Private Limited. He is the overall incharge of our Company and is also responsible for new projects and initiatives and business activities of our Company. Under the guidance of Mr. Ashok Kumar Bansal, our Company has grown and risen to be one of the largest exporters of soft and stuff toys in India exporting to various countries like the United States of America, various European countries and parts of Latin America. Our Company has received various awards and prizes from a number of Government and other International agencies under his leadership.

Mr. Bansal's Driving License number NT-7068/R/N/98 and Voter ID no. LLZ 1092550.



Mrs. Anju Bansal, Whole-time Director

Mrs. Anju Bansal, 45 years, a resident Indian national, is a Promoter of our Company. Mrs. Anju Bansal has completed her Masters in Arts from Punjab University and has over 20 years of business experience. She is responsible for production coordination.

Mrs. Bansal does not possess a driving license and her Voter ID no. LLZ 1092568.

We confirm that the Permanent Account Number, Passport Number and Bank Account Number of all the above individual promoters have been submitted to BSE and NSE at the time of filing Draft Red Herring Prospectus with them. Further, our Promoters have not been declared as willful defaulters by RBI or any other government authority and there are no violations of securities laws committed by our promoters in the past nor any such proceedings are pending against our promoters.

PROMOTER GROUP

In addition to our Promoters, the following persons/ entities constitute the Promoter Group.

- Mr. Brij Lal Bansal
- Master Abhinav Bansal
- Ms. Aanchal Bansal
- Ms. Ena Bansal
- Ashok Kumar Bansal (HUF)
- Hanung Furnishings Private Limited
- Hanung Processors Private Limited
- Abhinav International Private Limited
- C.K. Software Private Limited



Common Pursuits

We have three Group Companies viz. Hanung Furnishings Private Limited, Hanung Processors Private Limited and Abhinav International Private Limited, which have the main objects similar to that of our Company.

To that extent there may be a potential conflict of interests in the companies of the Group. Except this there are no common pursuits in the business of our Company and our group/associate companies.

Interest of the Promoters

Except to the extent of lease rent of Rs. 3000/- per month being paid by our Company for registered office located at E-93, 2nd floor, Greater Kailash Enclave, Part I, New Delhi-110048 and the reimbursement of expenses incurred at actuals, remuneration or benefits in their capacity as Whole-Time Directors and their shareholding in our Company our Promoters have no other interest in our Company.

The Promoters may be deemed to be interested to the extent of Equity Shares held by them, their friends or relatives.

The Promoters are not interested in any loan or advance given by our Company, neither are they beneficiary of any such loans or advances.

Our Promoters have promoted companies and they may be deemed to be interested in these companies. For details, please refer chapter titled "Financial of the Other Ventures of the Promoters" beginning on page 127 of this Red Herring Prospectus.

Payment or benefit to our Promoters

The Promoters of our Company may deemed to be interested to the extent of remuneration received by them in their respective capacities and reimbursement of expenses and to the extent of any Equity Shares of our Company held by them. There is no interest of Promoters or any payment or benefit to Promoters / Directors other than as mentioned in the chapter titled "Our Management" beginning on page 88 of this Red Herring Prospectus.



OUR PROMOTER GROUP COMPANIES

Hanung Furnishings Private Limited (HFPL)

Hanung Furnishings Private Limited was incorporated on May 13, 2002 and is engaged in manufacturing, exporting, importing of varieties of furnishings.

The Shareholding Pattern of HFPL as on July 31, 2006 is set out below:

Sr. No.	Name of Director	No. of shares	% of Shareholding
1.	Ashok Kumar Bansal	17,35,200	39.84
2.	Anju Bansal	15,95,200	36.63
3.	Ashok Kumar Bansal (HUF)	10,25,000	23.53
	TOTAL	43,55,400	100.00

The shares of HFPL are not listed on any Stock Exchange.

Board of Directors:

The board of directors of HFPL comprises of the following:

- 1) Mr. Ashok Kumar Bansal
- 2) Mrs. Anju Bansal

Financial Performance:

(Rs. in lakh, except per share data)

Particulars	March 31, 2006	March 31, 2005	March 31, 2004
Equity Share capital	435.54	435.54	53.02
Reserves and surplus*	518.90	285.68	48.22
Total Income	2282.36	3310.90	1663.04
Profit after tax	233.22	237.46	48.22
Earnings per share (face value Rs. 10/-) ** (Rs.)	5.35	5.45	9.10
Net Asset Value per share (Rs.)	21.86	16.51	18.81

* Excludes revaluation reserves

** Computed on the basis of earnings including extraordinary items

Note: The Commercial production in HFPL started on April 1, 2003.

As a part of our business integration strategy, we have acquired the business of Hanung Furnishings Private Limited engaged in the business of manufacturing and marketing of home furnishings through a Slump Sale Arrangement w.e.f. from midnight October 29, 2005. As on date of filing this Red Herring Prospectus with RoC, HFPL is not carrying on any business activities.

Hanung Processors Private Limited (HPPL)

Hanung Processors Private Limited was incorporated on September 9, 2002 and is engaged in the business of dyeing, printing and dealing in all types of textile products.

The Shareholding Pattern of HPPL as on July 31, 2006 is set out below:

Sr. No.	Name of Director	No. of shares	% of Shareholding
1.	Ashok Kumar Bansal	47,38,000	52.36
2.	Anju Bansal	27,82,500	30.75
3.	Ashok Kumar Bansal (HUF)	15,28,400	16.89
	TOTAL	90,48,900	100.00

The shares of HPPL are not listed on any Stock Exchange.



Board of Directors:

The board of directors of HPPL comprises of the following:

1. Mr. Ashok Kumar Bansal
2. Mrs. Anju Bansal

Financial Performance:

(Rs. in lakh, except per share data)

Particulars	March 31, 2006	March 31, 2005 (FY of 15 months)	December 31, 2003
Equity share capital	904.89	904.89	1.00
Reserves and surplus*	452.39	34.6	--
Total Income	2671.21	5186.83	--
Profit after tax	417.79	34.61	--
Earnings per share (face value Rs. 10/-) ** (Rs.)	4.62	0.38	--
Net Asset Value per share (Rs.)	14.96	10.34	(34.57)

* Excludes revaluation reserves

** Computed on the basis of earnings including extraordinary items

Note: The Commercial production in HPPL started on February 12, 2004.

As a part of our business integration strategy, we have acquired the business of Hanung Processors Private Limited engaged in the business of textile processing through a Slump Sale Arrangement w.e.f. from midnight October 29, 2005. As on date of filing this Red Herring Prospectus with RoC, HPPL is not carrying on any business activities.

Abhinav International Private Limited

Abhinav International Private Limited was incorporated on February 7, 2002 and is engaged in the business of network marketing, import and export in India and abroad of goods, commodities and articles of all descriptions.

The Shareholding pattern of the company as on July 31, 2006 is set out below:

Sr. No.	Name of Director	No. of shares	% of Shareholding
1.	Ashok Kumar Bansal	20,30,000	52.05
2.	Anju Bansal	18,70,000	47.95
	TOTAL	39,00,000	100.00

The shares of Abhinav International Private Limited are not listed on any Stock Exchange.

Board of Directors:

The board of directors of Abhinav International Private Limited comprises the following:

1. Mr. Ashok Kumar Bansal
2. Mrs. Anju Bansal



Financial Performance:

(Rs. in lakh, except per share data)

Particulars	March 31, 2006	March 31, 2005	March 31, 2004
Equity share capital	390.00	1.00	1.00
Reserves and surplus*	-	-	-
Sales	-	-	-
Profit after tax/ Loss	0.16	(0.04)	(0.04)
Earnings per share (face value Rs. 10/-) ** (Rs.)	0.004	(0.38)	(0.38)
Net Asset Value per share (Rs.)	9.90	(16.88)	(16.51)

* Excludes revaluation reserves

** Computed on the basis of earnings including extraordinary items

C.K. Software Private Limited

C.K. Software Private Limited was incorporated on June 9, 2000 and is engaged in the business to run and conduct computer service centres to develop, design, programme studies and run agency for computers, their repair, maintenance and installation.

The Shareholding pattern of the company as on July 31, 2006 is set out below:

Sr. No.	Name of Director	No. of shares	% of Shareholding
1.	Ashok Kumar Bansal	4,60,100	52.27
2.	Anju Bansal	4,20,100	47.72
3.	Ashok Kumar Bansal (HUF)	100	0.01
	TOTAL	8,80,300	100.00

The shares of C.K. Software Private Limited are not listed on any Stock Exchange.

Board of Directors:

The board of directors of C.K. Software Private Limited comprises of the following:

1. Mr. Ashok Kumar Bansal
2. Mrs. Anju Bansal

Financial Performance:

(Rs. in lakh, except per share data)

Particulars	March 31, 2006	March 31, 2005	March 31, 2004
Equity share capital	88.03	1.03	1.03
Reserves and surplus*	12.31	8.12	4.27
Total Income	13.92	15.33	13.85
Profit after tax	4.20	3.84	3.55
Earnings per share (face value Rs. 10/-) ** (Rs.)	0.47	37.31	34.52
Net Asset Value per share (Rs.)	11.32	84.47	45.00

* Excludes revaluation reserves

** Computed on the basis of earnings including extraordinary items

There is no Promoter Group Company and the venture of the promoters, which has become sick within the meaning of the Companies Act. Additionally, there is no Group Company that was referred to erstwhile BIFR or under the process of winding up.



However, the two ventures of the Promoters viz. Omega Fabrics Private Limited and Hanung Toys Limited have filed the applications with RoC under Sec. 560 of the Companies Act, 1956, for striking off its names from the register of companies maintained by RoC.

There is no Promoter Group Company and the venture of the promoters, having the negative networth except Praneet Softech Private Limited, which has the negative networth of Rs. 2.69 lakh as on March 31, 2005 due to provision for Deferred Tax Liability.

Companies with which the Promoter has disassociated themselves in the last three years

The Promoters of our Company have not disassociated themselves from any company in last three years except that in case of two ventures of the Promoters viz. Omega Fabrics Private Limited and Hanung Toys Limited wherein applications have been filed with RoC under Sec. 560 of the Companies Act, 1956, for striking off its names from the register of companies.

Related party transaction with Group Companies

For details of transactions with the aforesaid companies, please refer to chapter titled "Related Party Transactions" beginning on page 105 of this Red Herring Prospectus.

Conflict of Interest

We have three Group Companies viz. HFPL, HPPL and Abhinav International Private Limited having main objects and business similar to our Company. Interests of these companies may conflict with our Company's interest and/ or with each others.



RELATED PARTY TRANSACTIONS

The Related Party Transactions for the past three Financial years ending are as follows:

	Financial Year 2005-06	Financial Year 2004-05	Financial Year 2003-04
I. Related Parties			
a. Associate Companies			
Hanung Processors Private Limited	Hanung Processors Private Limited	Hanung Processors Private Limited	Hanung Processors Private Limited
Hanung Furnishings Private Limited	Hanung Furnishings Private Limited	Hanung Furnishings Private Limited	Hanung Furnishings Private Limited
Abhinav International Private Limited	Abhinav International Private Limited	Abhinav International Private Limited	Abhinav International Private Limited
C.K. Software Private Limited	C.K. Software Private Limited	C.K. Software Private Limited	C.K. Software Private Limited
Praneet Softech Private Limited	Praneet Softech Private Limited	Praneet Softech Private Limited	Praneet Softech Private Limited
Hanung Toys Limited	Hanung Toys Limited	Hanung Toys Limited	Hanung Toys Limited
Omega Fabrics Private Limited	Omega Fabrics Private Limited	Omega Fabrics Private Limited	Omega Fabrics Private Limited
b. Key Management Personnel			
Mr. Ashok Kumar Bansal	Mr. Ashok Kumar Bansal	Mr. Ashok Kumar Bansal	Mr. Ashok Kumar Bansal
Mrs. Anju Bansal	Mrs. Anju Bansal	Mrs. Anju Bansal	Mrs. Anju Bansal
Col. Ashok Malhotra	-	-	-
Mr. Sanjeev Hota	-	-	-
c. Relatives of Key Management Personnel			
Mrs. Manisha Hota (Wife of Mr. Sanjeev Hota)	N.A.	N.A.	N.A.

d. Transactions with Related Parties

(Rs. in Lacs)

Nature of Transactions	Associates Companies			Key Management Personnel		
	Financial Year 2005-06	Financial Year 2004-05	Financial Year 2003-04	Financial Year 2005-06	Financial Year 2004-05	Financial Year 2003-04
Purchase of Goods & Services	58.90	844.23	52.94	3.36	-	-
Sale of Goods & Services	-	1042.59	203.77	-	-	-
Advances Outstanding & Receivable	80.94	-	291.72	-	-	-
Loans & Security Outstanding	-	-	14.00	-	-	-
Fixed Assets	-	-	2.75	-	-	-
Remuneration	-	-	-	42.00	13.80	13.80



DIVIDEND POLICY

The declaration and payment of dividends on our Equity Shares will be recommended by our board of directors and approved by our shareholders, at their discretion, and will depend on a number of factors, including but not limited to our profits, cash flows, capital expenditure, capital requirements and overall financial condition. During the period of last 5 years, we have declared and paid dividend on Equity Shares only in the Fiscal Years 2001-2002, 2004-05 and 2005-06 of 15%, 10% and 10% amounting to Rs. 50.24 lakh, Rs. 33.49 lakh and Rs. 65.37 lakh, respectively. The amounts paid as dividends in the past are not necessarily indicative of our dividend policy or dividend amounts, if any, in the future.



SECTION V: FINANCIAL STATEMENTS

AUDITORS' REPORT

The Board of Directors,
HANUNG TOYS AND TEXTILES LIMITED
E - 93, G K Enclave Part - I,
New Delhi - 110048

- A. a) We have examined the annexed financial information of Hanung Toys and Textiles Limited for the five financial years ended on March 31st, 2006 and for the period April 1st, 2006 to June 30th, 2006 being the last date to which the accounts of the Company have been made up and audited by us. The Financial statements for the year ended 31st March, 2006 and for the period ended 30th June, 2006 are approved by the Board of Directors of the Company for the purpose of disclosure in the Offer document being issued by the company in connection with the Public Issue of Equity Shares in the Company.
- b) In accordance with the requirements of
1. Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956;
 2. The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ('the SEBI Guidelines') issued by the Securities and Exchange Board of India ('SEBI') on January 19, 2000 in pursuance to Section 11 of the Securities and Exchange Board of India Act, 1992 and related amendments and;
 3. Our terms of reference given by the Company vide its letter dated August 7, 2006 requesting us to carry out work in connection with the Public Issue of Equity Shares as aforesaid.

We report that the restated assets and liabilities of the Company as at 31st March of 2002, 2003, 2004, 2005, 2006 and as at 30th June, 2006 are as set out in **Annexure I** to this report after making such adjustments / restatements and regrouping as in our opinion are appropriate and are subject to the significant accounting policies and notes to account as appearing in **Annexure III**.

We report that the restated profits of the Company for the financial years ended on 31st March, 2002, 2003, 2004, 2005, 2006 and for the period 1st April, 2006 to 30th June, 2006 are as set out in **Annexure II** to this report. These profits have been arrived at after charging all expenses including depreciation and after making such adjustments / restatements and regrouping as in our opinion are appropriate and are subject to the Significant Accounting Policies and notes to accounts as appearing in **Annexure III** to this report. The Company has paid dividend on Equity Shares in some of the years mentioned above.

- B. We have examined the following financial information relating to the Company proposed to be included in the Red Herring Prospectus, as approved by you and annexed to this report :
1. Statement of Cash Flow as appearing in **Annexure IV** to this report;
 2. Statement of Debtors enclosed as **Annexure V** to this report;
 3. Statement of Loans and Advances as appearing in **Annexure VI** to this report;
 4. Statement of Secured Loans as appearing in **Annexure VII** to this report;
 5. Statement of Unsecured Loans as appearing in **Annexure VIII** to this report;
 6. Statement of Operational Income as appearing in **Annexure IX** to this report;
 7. Statement of Other Income as appearing in **Annexure X** to this report;
 8. Statement of Contingent Liabilities as appearing in **Annexure XI** to this report;
 9. Statement of Accounting Ratios as appearing in **Annexure XII** to this report;
 10. Statement of Capitalization as at June 30th, 2006, as appearing in **Annexure XIII** to this report;
 11. Statement of Tax Shelter as appearing in **Annexure XIV** to this report;
 12. Statement of Dividend paid as appearing in **Annexure XV** to this report.
 13. Statement of Investments as appearing in **Annexure XVI** to this report.
 14. Statement of Related party Transactions as appearing in **Annexure XVII** to this report.



- C. a) In our opinion, the financial information of the Company as stated in Para A and B read with Significant Accounting Policies and Notes to Accounts as appearing in **Annexure III** to this report, after making adjustments / restatements and regroupings as considered appropriate and subject to certain matters as stated in Notes to the Statements, has been prepared in accordance with Part II of Schedule II of the Companies Act and the SEBI Guidelines.
- b) This report is intended solely for your information and for inclusion in the Offer Document in connection with the specific Public Offer of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **Rohtas & Hans**
Chartered Accountants

(Hans Jain)
Partner
Membership No. 82912
New Delhi : 07 - 09 - 2006



Annexure - I

STATEMENT OF RESTATED ASSETS AND LIABILITIES

(Rs. In Lac)

	Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
A.	Fixed Assets :						
	Gross Block	3,533.85	3,527.18	1,159.16	821.12	665.93	504.67
	Less : Depreciation	440.88	383.07	247.71	176.66	125.82	91.54
	Net Block	3,092.97	3,144.11	911.45	644.46	540.11	413.13
	Less: Revaluation Reserve	-	-	-	-	-	-
	Capital Work in Progress	1,234.86	592.96	-	-	-	-
	Total Fixed Assets	4,327.83	3,737.07	911.45	644.46	540.11	413.13
B.	Investments	12.01	12.01	25.57	23.47	36.11	34.34
C.	Current Assets, Loans & Advances						
	Inventories	9,063.65	8,067.18	3,631.06	3,549.65	2,348.38	1,911.46
	Sundry Debtors	3,781.25	3,664.23	1,282.25	630.29	881.87	944.37
	Cash and Bank Balances	427.07	654.02	153.40	113.22	159.31	113.06
	Loans and Advances	969.63	1,119.50	54.31	117.16	33.42	69.52
	Total Current Assets	14,241.60	13,504.93	5,121.02	4,410.32	3,422.98	3,038.41
D.	Liabilities & Provisions						
	Secured Loans	7,676.47	7,262.69	2,632.60	2,419.28	1,753.75	1,555.07
	Unsecured Loans	-	-	-	14.00	-	86.76
	Current Liabilities and Provisions	3,421.25	3,014.78	1,039.59	736.65	518.63	348.06
	Deferred Tax Provisions	310.52	285.52	219.11	116.65	80.24	50.50
	Total	11,408.24	10,562.99	3,891.30	3,286.58	2,352.62	2,040.39
E.	Networth (A+B+C-D)	7,173.20	6,691.02	2,166.74	1,791.67	1,646.58	1,445.49
F.	Represented by						
	Share Capital	1,568.79	1,568.79	334.93	334.93	334.93	334.93
	Reserves and Surplus	5,606.78	5,124.93	1,835.87	1,462.15	1,318.65	1,119.41
	Total	7,175.57	6,693.72	2,170.80	1,797.08	1,653.58	1,454.34
	Less : Miscellaneous Expenditure	2.37	2.70	4.06	5.41	7.00	8.85
	Networth	7,173.20	6,691.02	2,166.74	1,791.67	1,646.58	1,445.49

- The Fixed Assets have not been revalued during any of the reporting period.
- The Textile home furnishing business of Hanung Furnishings Private Limited and the Textile Processing business of Hanung Processors Private Limited were acquired by the company as on 29-10-2005 under a slump sale agreement dated 21.10.2005. Accordingly, the figures for 31-03-2006 are inclusive of the assets and liabilities taken over from those entities, as well as the revenues from the acquired business during the period 30.10.2005 to 31.03.2006, and so the figures for the year 2005 - 2006 are not comparable with those of the figures for the year 2004 - 2005.
- Adjustments made over Rs. 10.00 Lac to re-stated accounts:
A provision of Rs. 50.51 Lac towards deferred tax liability was made in 2002 - 2003 which pertained to the year 2001 - 2002 and it has accordingly been considered in the re-stated financials given above.
- The increase in Share Capital is due to the issue of bonus shares in the ratio of 1:1 and new allotment of shares to the above two companies against purchase consideration in lieu of cash in accordance with the slump sale agreement, as well as allotment made against cash consideration received from group companies and Bennett Coleman and Co. Limited in the year 2005 - 2006.



Annexure - II

STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT

(Rs. In Lac)

	Particulars	01.04.06 - 30.06.06	2005 - 06	2004 - 05	2003 - 04	2002 - 03	2001 - 02
A.	INCOME						
	Operational Income	5,471.16	14,667.75	8,044.50	7,051.04	6,614.12	5,819.40
	Other Income	163.63	343.98	36.45	24.78	6.94	7.92
	Increase / (Decrease) in Stocks	98.33	2,057.35	487.18	278.70	(86.53)	117.72
	Total Income	5,733.12	17,069.08	8,568.13	7,354.52	6,534.53	5,945.04
B.	EXPENDITURES						
	Material Consumed	4,081.91	12,302.57	6,192.64	5,616.35	4,816.13	4,126.74
	Staff Cost	108.55	348.29	199.94	168.88	139.63	141.39
	Other Manufacturing expenses	350.03	1,171.44	748.04	627.40	608.75	702.96
	Administration Expenses	68.56	236.36	175.04	206.09	166.73	195.23
	Selling and Distribution Expenses	130.67	381.38	257.76	247.20	268.81	161.84
	Total Expenses	4,739.72	14,440.04	7,573.42	6,865.92	6,000.05	5,328.16
C.	Profit Before Interest, Depreciation, Income Tax and Extra-ordinary items	993.40	2,629.04	994.71	488.60	534.48	616.88
	Interest and Finance Charges	205.60	536.41	256.84	237.16	245.53	307.74
	Depreciation	57.81	140.10	71.84	50.83	34.28	23.58
	Preliminary Expenses	0.34	1.35	1.35	1.59	1.85	1.85
D.	Net Profit before Tax and Extra-ordinary items	729.65	1,951.18	664.68	199.02	252.82	283.71
	Provision for Taxation	247.80	653.40	252.77	55.52	53.58	77.00
E.	Net Profit before Extra-ordinary items (net of tax)	481.85	1,297.78	411.91	143.50	199.24	206.71
	Extra-ordinary items (net of tax)	-	-	-	-	-	-
	Net Profit after Extra-ordinary items (available for appropriation)	481.85	1,297.78	411.91	143.50	199.24	206.71
	Dividend / Dividend Tax	-	74.54	38.19	-	-	55.36
F.	Balance carried to Balance Sheet	481.85	1,223.24	373.72	143.50	199.24	151.35

- The Fixed Assets have not been revalued during any of the reporting period.
- The Textile home furnishing business of Hanung Furnishings Private Limited and the Textile Processing business of Hanung Processors Private Limited were acquired by the company as on 29-10-2005 under a slump sale agreement dated 21.10.2005. Accordingly, the figures for 31-03-2006 are inclusive of the assets and liabilities taken over from those entities, as well as the revenues from the acquired business during the period 30.10.2005 to 31.03.2006, and so the figures for the year 2005 - 2006 are not comparable with those of the figures for the year 2004 - 2005.
- Adjustments made over Rs. 10.00 Lac to re-stated accounts:
A provision of Rs. 50.51 Lac towards deferred tax liability was made in 2002 - 2003 which pertained to the year 2001 - 2002 and it has accordingly been considered in the re-stated financials given above.
- The increase in Share Capital is due to the issue of bonus shares in the ratio of 1:1 and new allotment of shares to the above two companies against purchase consideration in lieu of cash in accordance with the slump sale agreement, as well as allotment made against cash consideration received from group companies and Bennett Coleman and Co. Limited in the year 2005 - 2006.



SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

1 Basis of Preparation of Financial Statements

The financial statements have been prepared on the historical cost convention basis. The Generally Accepted Accounting Principles (GAAP) and the Accounting Standards referred under section 211(3C) of the Companies Act, 1956 have been adopted by the Company and disclosures made in accordance with the requirements of schedule VI of the Companies Act, 1956 and the Indian Accounting Standards.

2 Fixed Assets

Fixed assets are stated at costs, which comprises of purchase consideration and other directly attributable cost of bringing the assets to its working condition for the intended use.

3 Depreciation

Depreciation on fixed assets is provided on straight-line method at the rates and in the manner as prescribed in Schedule XIV to the Companies Act, 1956.

4 Amortization of Miscellaneous Expenditure

Preliminary Expenses and Deferred Revenue Expenses are amortized pro-rata over a period of ten years.

5 Foreign Currency Transactions

Transactions in foreign currency are recorded at the rate of exchange in force on the date of the transactions. Current Assets and Current Liabilities denominated in foreign currency are translated at the exchange rate prevalent at the date of the Balance Sheet. The resultant gain / loss is recognized in the Profit & Loss Account, except in cases where they relate to the acquisition of fixed assets, in which case they are adjusted to the carrying cost of such assets. The Premium or discount arising at the inception of a Forward Contract is amortized as income or expense over the life of the contract, pro-rata on a monthly basis.

6 Research and Development

Revenue expenditure on Research & Development is included under the natural heads of expenditure. Capital expenditure on Research & Development is treated in the same manner as expenditure on other fixed assets.

7 Valuation of Inventory

- a. Closing stock of finished goods is valued at the lower of estimated cost or net realizable value.
- b. Closing stock of semi finished goods is valued at estimated cost.
- c. Inventory of raw material and packing material is valued at cost.

8 Investments

Investments are valued at costs unless there is a permanent fall in their value as at the date of Balance Sheet.

9 Retirement Benefits

Encashment of accrued leave salary and retirement benefits to employees are provided on accrual basis.

10 Contingent Liability

Liabilities though contingent, are provided for, if there are reasonable prospects of such liabilities maturing. The other contingent liabilities, which are not acknowledged as debt, are disclosed by way of Annexure - XI below.

11 Revenue Recognition

- a. Sales are inclusive of excise duty / customs duty and net of trade discounts. Export sales include goods invoiced against confirmed orders and cleared from excise and customs authorities.
- b. Export incentives receivable on exports made during the year, are recognized as income.
- c. Other items of revenue are recognized in accordance with the Accounting Standard (AS-9). Accordingly, wherever there are uncertainties in the ascertainment / realization of income such as interest from customers, the same is not accounted for.



12 Accounting for Taxes on Income

- a. Provision for current income tax is made on the basis of the estimated taxable income for the current accounting year in accordance with the Income Tax Act, 1961.
- b. Deferred tax assets and liabilities are accounted for on the basis of Accounting Standard (AS-22).

13 Borrowing Costs

Borrowing costs directly attributable to acquisition, construction and production of assets are capitalized as a part of the cost of such asset up to the date of completion. Other borrowing costs are charged to the Profit & Loss Account.

14 Impairment of Assets

The Company assesses at each Balance Sheet date whether there is any indication that any asset including goodwill, may be impaired. If any such indication exists, the carrying value of such assets is reduced to its estimated recoverable amount and the amount of such impairment loss is charged to Profit & Loss Account. If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exists, then such loss is reversed and the asset is restated to that effect.

15 Change in Accounting Policy

There is no change in accounting policy in the reporting years.

16 Take Over of Business under Slump Sale Agreement

- a) In pursuance of the agreement to sell and purchase dated 21.10.2005, the assets and liabilities of Hanung Furnishings Private Limited & Hanung Processors Private Limited as on 29-10-2005 have been taken over by the Company at book value. Accordingly, the balance sheet as on 31-03-2006 are inclusive of the assets and liabilities taken over from those entities, as well as the revenues from the acquired business during the period 30.10.2005 to 31.03.2006. The aforesaid purchase has been made against a purchase consideration of Rs. 9,52,09,300/- and Rs. 13,53,68,957/- paid respectively to Hanung Furnishings Private Limited and Hanung Processors Private Limited in the form of 24,98,276 and 35,52,059 equity shares of the Company, which have been issued to the respective companies in lieu of cash. Therefore, the total number of shares issued by the company as consideration is 60,50,335 equity shares of Rs.10/- each at the book value of the company on that date against the total purchase consideration of the two companies.
- b) The figures as at 31.03.2006 are not comparable with those as at 31.03.2005 because of take over of the business of Hanung Processors Private Limited and Hanung Furnishings Private Limited by the Company as on 29.10.2005 under the agreement of slump sale and accordingly, the balance sheet as on 31-03-2006 are inclusive of the assets and liabilities taken over from the aforesaid companies, while the Profit and Loss Account for the year ended 31-03-2006 includes the revenues from the acquired textile business during the period 30.10.2005 to 31.03.2006.
- c) The immovable properties, Bank loans and other claims or dues from various Government Departments acquired by the company under the agreement of slump sale are being registered in the name of the company. All the other assets and liabilities of Hanung Furnishings Private Limited and Hanung Processors Private Limited have been transferred to the company by possession, assignment or delivery.

- 17 In the opinion of the board, the current assets, loans and advances are approximately of the value stated, and are realizable in the ordinary course of business and adequate provision has been made for all known liabilities.



18 SEGMENT INFORMATION (AS 17)

The company was principally engaged in the business of manufacturing Soft Toys and related products. However, the Company has acquired the business of Textile home furnishings and Textile Processing from Hanung Furnishings Private Limited and Hanung Processors Private Limited respectively on 29-10-2005. Therefore, the information related to the two segments viz., Toys and Textiles are disclosed below :

(Rs. In Lac)

	Particulars	stuff toys		home furnishings		Total	
I.	Primary Segment Business	30-06-06	31-03-06	30-06-06	31-03-06	30-06-06	31-03-06
a	Segment Revenue						
	Sales to External Customers excluding Export Benefits	2,938.58	9,708.11	2,532.58	4,959.64	5,471.16	14,667.75
	Other Income including Export Benefits	2.33	26.40	161.30	317.58	163.63	343.98
	Total Segment Revenue	2,940.91	9,734.51	2,693.88	5,277.22	5,634.79	15,011.73
b	Segment Result						
	Profit before Financial Overheads, and Income Tax	528.73	1,713.59	406.52	774.00	935.25	2,487.59
	Less : Interest and Finance Charges	97.82	353.61	107.78	182.80	205.60	536.41
	Add : Unallocable Income	-	-	-	-	-	-
	Less : Unallocable Expenses	-	-	-	-	-	-
	Profit before Income Tax and exceptional Items	430.91	1,359.98	298.74	591.20	729.65	1,951.18
	Less : Exceptional Items (Prior Period Expenses / Income)	-	-	-	-	-	-
	Profit before Tax	430.91	1,359.98	298.74	591.20	729.65	1,951.18
	Provision for Current Tax	-	-	-	-	222.80	586.99
	Provision for Deferred Tax	-	-	-	-	25.00	66.41
	Profit after Tax	430.91	1,359.98	298.74	591.20	481.85	1,297.78
c	Segment Assets						
	Carrying Amount Allocated	1,535.98	1,571.74	1,556.99	1,572.37	3,092.97	3,144.11
	Unallocated Assets	-	-	-	-	15,488.47	14,109.90
	Total Assets	1,535.98	1,571.74	1,556.99	1,572.37	18,581.44	17,254.01
d	Segment Liabilities						
	Carrying Amount Allocated	279.88	131.72	63.23	25.18	343.11	156.90
	Unallocated Liabilities	-	-	-	-	11,065.13	10,406.09
	Total Liabilities	279.88	131.72	63.23	25.18	11,408.24	10,562.99
e	Cost of Fixed Assets Acquired						
	Allocated Fixed Assets Acquired	1.94	771.57	4.72	1,605.75	6.66	2,377.32
	Unallocated Fixed Assets Acquired	-	-	-	-	641.90	592.96
	Total Fixed Assets Acquired	1.94	771.57	4.72	1,605.75	648.56	2,970.28
f	Depreciation / Amortization						
	Allocated	23.03	89.53	35.12	51.92	58.15	141.45
	Unallocated	-	-	-	-	-	-
II.	Secondary Segment - Geographical						
	Export Revenues	2,486.04	9,382.97	1,577.53	4,477.70	4,063.57	13,860.67
	Domestic Revenues	454.87	351.54	1,116.35	799.52	1,571.22	1,151.06
	Total	2,940.91	9,734.51	2,693.88	5,277.22	5,634.79	15,011.73

1. The Company's operating facilities are located in India.
2. The Company's Net Fixed Assets and Other Liabilities are allocated.



19 RELATED PARTY TRANSACTIONS

As per AS-18, the Company's related parties and transactions with them are discussed below.

A. Related parties

- | | |
|--|--|
| (a) List of companies where control exists | N.A |
| (b) Associate Companies | <ol style="list-style-type: none"> 1. Hanung Furnishings Private Limited 2. Hanung Processors Private Limited 3. Parneet Softech Private Limited 4. C K Software Private Limited 5. Abhinav International Private Limited |
| (c) Key Management Personnel | <ol style="list-style-type: none"> 1. Mr. Ashok Kumar Bansal (Chairman & Managing Director) 2. Mrs. Anju Bansal (Whole Time Director) 3. Col. Ashok Malhotra (Executive Director) |
| (d) Relatives of Key Personnel Management | Not Applicable |

DETAILS OF RELATED PARTY TRANSACTION

The Company has entered into the following related party transactions. As on June 30th, 2006 such parties and transactions are identified as per Accounting Standard 18 issued by Institute of Chartered Accountants of India :

(Rs. In Lac)

Sl. No.	Nature Of Transaction	As On 30 - 06 - 2006 Associate Companies	Key Management Personnel
1	Purchase of Goods and Services	2.72	-
2	Advance Outstanding	80.99	-
3	Sundry Debtors	-	-
4	Managerial Remuneration	-	16.07



20 EARNINGS PER SHARE

	Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
	Face Value per Share	10	10	10	10	10	10
A	Weighted Average No of Equity Shares						
1	No of Equity Shares at the beginning of the Year / Period	15687925	3349275	3349275	3349275	3349275	3349275
2	No of Equity Shares at the end of the Year / Period	15687925	15687925	3349275	3349275	3349275	3349275
3	Weighted average no of Equity Shares outstanding during the period / Year (as per AS 22)	15687925	9741336	3349275	3349275	3349275	3349275
4	Adjusted No of Equity Shares	15687925	9741336	6698550	6698550	6698550	6698550
B	Net Profit after Tax available for Equity Share holders (Rs. In Lac)	481.85	1297.78	411.91	143.50	199.24	206.71
C	Basic and Diluted earning per share (Annualised)	12.29	13.32	12.30	4.28	5.95	6.17
D	Restatement of EPS for previous year due to bonus issue as on 29-08-2005	-	-	6.16	2.14	2.97	3.09

The Company does not have any dilutive potential equity shares. Consequently, the basic and diluted earning per share of the company remains the same.

21 The figures have been recast, regrouped and rearranged, where necessary to comply with SEBI guidelines.

22 There are no other material notes to this Report which has bearing on the Financial Status of the Company.



Annexure - IV

STATEMENT OF RESTATED CASH FLOW

(Rs. In Lac)

	Particulars	30 / 06 / 06	31 / 03 / 06	31 / 03 / 05	31 / 03 / 04	31 / 03 / 03	31 / 03 / 02
A	FUND FLOW FROM OPERATING ACTIVITIES						
	Profit before tax	729.65	1,951.18	664.68	199.02	252.82	283.71
	Adjustments for :						
	Depreciation	57.81	140.10	71.84	50.83	34.28	23.58
	Other amortizations	0.34	1.35	1.35	1.59	1.85	1.85
	Interest and Finance Charges	205.60	536.41	256.84	237.16	245.53	307.74
	Interest income	(4.34)	(9.12)	(5.35)	(10.53)	(6.54)	(7.21)
	Income from investments	-	(0.07)	(0.05)	-	(0.40)	(0.45)
	(Profit) / Loss on disposal of fixed assets / long term investments	-	-	8.53	(13.98)	-	-
	Operating profit before working capital changes	989.06	2,619.85	997.84	464.09	527.54	609.22
	Adjustments for changes in :						
	Inventories (Increase) / Decrease	(996.47)	(989.35)	(81.41)	(1,201.26)	(436.92)	(121.49)
	Debtors (Increase) / Decrease	(117.01)	(1,540.72)	(651.96)	251.58	62.50	(154.82)
	Advances (Increase) / Decrease	149.87	(567.47)	62.85	(95.47)	32.28	(22.37)
	Current liabilities and provisions Increase / (Decrease)	183.66	271.00	135.72	225.30	173.23	159.75
	Cash generated from operations	209.11	(206.69)	463.04	(355.76)	358.63	470.29
	Direct Taxes Paid	-	(68.75)	(21.28)	(14.66)	(22.68)	(13.60)
	Miscellaneous / Deferred / Extraordinary Expenditure	-	-	-	-	-	-
	Net cash flow from operating activities before extraordinary expenditure (A)	209.11	(275.44)	441.76	(370.42)	335.95	456.69
B	FUND FLOW FROM INVESTING ACTIVITIES						
	Payments for asset acquisition	(648.56)	(1,406.58)	(381.04)	(156.37)	(161.26)	(102.08)
	Proceeds on sale of fixed assets	-	4.56	32.99	1.30	-	5.16
	Sale / (Purchase) of investments	-	13.56	(1.41)	26.51	(1.77)	(6.20)
	Income from investments	-	0.07	0.05	-	0.40	0.45
	Net cash flow used in investing activities (B)	(648.56)	(1,388.39)	(349.41)	(128.56)	(162.63)	(102.67)



(Rs. In Lac)

	Particulars	30/06/06	31/03/06	31/03/05	31/03/04	31/03/03	31/03/02
C	FUND FLOW FROM FINANCING ACTIVITIES						
	Increase in Share Capital / Share Application Money	-	293.90	-	-	-	-
	Share Premium Raised	-	700.00	-	-	-	-
	Proceeds from Secured Loans (Net)	413.76	1,600.14	213.32	665.52	198.68	56.92
	Proceeds from Unsecured Loans (Net)	-	-	(14.00)	14.00	(86.76)	(27.55)
	Net Monetary Assets acquired vide agreement to sell & purchase dated 21.10.2005 *	-	154.99	-	-	-	-
	Interest and Finance Charges	(201.26)	(527.29)	(251.49)	(226.63)	(238.99)	(300.53)
	Dividend and Dividend Tax	-	(57.29)	-	-	-	(55.36)
	Net cash flow from financing activities (C)	212.50	2,164.45	(52.17)	452.89	(127.07)	(326.52)
	Net increase (decrease) in Cash and Cash equivalents (A+B+C)	(226.95)	500.62	40.18	(46.09)	46.25	27.50
	Cash and Cash equivalents at beginning of year	654.02	153.40	113.22	159.31	113.06	85.56
	Cash and Cash equivalents at end of the year	427.07	654.02	153.40	113.22	159.31	113.06
	Net Cash Inflow / (Outflow)	(226.95)	500.62	40.18	(46.09)	46.25	27.50

Note : * The company has acquired the business of its two promoter group companies vide an agreement to sell and purchase dated 21.10.2005 wherein all assets and liabilities have been taken over by the company on a going concern basis. The above monetary assets represent the cash and cash equivalents acquired by the company pursuant to this agreement.

However, the fixed assets valued at Rs. 1563.70 Lakh, the current assets valued at Rs. 4785.77 Lakh, secured loans amounting to Rs. 3029.96 Lakh and the current liabilities and provisions of Rs 1168.71 acquired by the company, as well as the equity shares of Rs. 605.04 Lakh issued at a premium of Rs. 1700.75 Lakh by the company pursuant to the sale and purchase agreement dated 21.10.2005 have been excluded from the aforesaid cash flow statement in terms of AS 3 issued by The Institute of Chartered Accountants of India.

Annexure - V

STATEMENT OF RESTATED SUNDRY DEBTORS - (UNSECURED AND CONSIDERED GOOD)

(Rs. In Lac)

Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
Exceeding Six Months	-	-	-	-	-	-
Other Debts	3,781.25	3,664.23	1,282.25	630.29	881.87	944.37
Total	3,781.25	3,664.23	1,282.25	630.29	881.87	944.37

The above include the following sundry debtors which are related to the Directors or Promoters or the Company.

Name of Related Party	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
Hanung Furnishings Pvt Ltd	N I L	N I L	N I L	201.46	45.51	N I L



Annexure - VI

STATEMENT OF RESTATED LOANS AND ADVANCES

(Rs. In Lac)

Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
Advance recoverable in cash or kind or for value to be received	650.34	833.50	8.04	95.10	4.10	32.45
Export Benefits receivable	127.09	91.23	21.76	-	-	-
Deposits	27.34	27.62	18.56	11.65	11.02	7.70
Excise Duty	135.10	147.40	-	-	-	-
Others	29.76	19.75	5.95	10.41	18.30	29.37
Total	969.63	1,119.50	54.31	117.16	33.42	69.52

The above include the following loans and advances given to the Promoters / Promoter Group or those related to the promoters.

Name of Related Party	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
Praneet Softech Pvt Ltd	80.94	80.94	N I L	90.26	N I L	N I L
Hanung Processors Pvt Ltd	0.05	N I L	N I L	N I L	N I L	N I L

Annexure - VII

I. STATEMENT OF SECURED LOANS

(Rs. In Lac)

Particulars of Loan	Bank	Nature of Loan	Sanctioned Amount	Outstanding as on 30.06.2006	Rate of Interest p.a. %	Terms of Repayment	Securities offered	Remarks
Working Capital Facility								
Facility (Under consortium arrangement with PNB as the lead bank)	Punjab National Bank	Packing Credit / P C F C	2,430.00	2,251.45	6.50		Secured by hypothecation of the company's entire current assets with 1st pari passu charge with other consortium member banks and collateral security of other specified immovable assets / guarantee of the company, promoters and their associates	It includes interest of last quarter
	Bank of Baroda	Packing Credit	725.00	610.54	7.50			
	Syndicate Bank	Packing Credit	995.00	930.13	7.50			
	State Bank of India	Packing Credit / P C F C	2,475.00	2,472.61	7.60			
Total W/C Limit	Total	(A)	6,625.00	6,264.73				



(Rs. In Lac)

Particulars of Loan	Bank	Nature of Loan	Sanctioned Amount	Outstanding as on 30.06.2006	Rate of Interest p.a. %	Terms of Repayment	Securities offered	Remarks
Term Loans								
Term Loan for Plant and Machinery	Punjab National Bank	Under TUF Scheme - I	80.00	32.42	11.25	The term loan shall be repaid in 14 equal quarterly installments of Rs. 5.72 lacs each w.e.f. 01.10.2004	First charge over the specified fixed assets of the company, Promoters and the Associates	
		Under TUF Scheme - II	5,400.00	403.94	8.75	The term loan shall be repaid in 28 equal quarterly installments of Rs. 192.85 lacs each w.e.f. 01.04.2007	First charge over the specified fixed assets of the company, Promoters and the Associates	Loan released by bank for new project as per requirement
Under TUFs	State Bank of India	Term Loan - I	425.00	293.75	10.25	The term loan shall be repaid in 25 quarterly instalments from 01.04.2004 as follows : a. First 4 quarterly instalments @ Rs. 9.10 lacs each; b. Next 8 quarterly instalments @ Rs.13.67 lacs each; c. Next 13 quarterly instalments @ Rs.21.48 lacs each	First charge over the specified fixed assets of the company, Promoters and the Associates ranked pari passu with other charges	
		Term Loan -II	100.00	80.71	10.25	The term loan shall be repaid in 25 equal quarterly instalments from 01.04.2005 of Rs. 4 lacs each.	First charge over the specified fixed assets of the company, Promoters and the Associates ranked pari passu with other charges	
		Term Loan -III	125.00	93.09	10.25	The term loan shall be repaid in 25 equal quarterly instalments from 01.12.2005 of Rs. 5 lacs each.		



(Rs. In Lac)

Particulars of Loan	Bank	Nature of Loan	Sanctioned Amount	Outstanding as on 30.06.2006	Rate of Interest p.a. %	Terms of Repayment	Securities offered	Remarks
	Syndicate Bank	Term Loan - I	275.00	193.37	11.50	The term loan shall be repaid in 28 quartely instalments from 31.12.2003 as follows : a. First 4 quarterly instaments @ Rs. 4.75 lacs each; b. Next 8 quarterly instalments @ Rs 9.00 lacs each; c. Next 4 quarterly instalments @ Rs. 10.00 lacs each; d. Next 12 quarterly instalments @ Rs. 12.00 lacs each	First charge over the specified fixed assets of the company, Promoters and the Associates ranked pari passu with other charges	
	Term Loan - II		1,500.00	281.40	8.75	The term loan shall be repaid in 28 quartely instalments wef October, 2007		
Term Loans	Total (B)		7,905.00	1,378.68				
Vehicle Loans								
Hire Purchase Loans	Kotak Mahindra Ban Limited	Vehicle Loan	-	3.07			Secured by hypothecation of specified vehicles against which the finance is obtained	
	Kotak Mahindra Limited	Vehicle Loan	-	18.23				
	Kotak Mahindra Primus Limited	Vehicle Loan	-	11.76				
Total Vehicle Loans	Total (C)		-	33.06				
Accrued Interest	Accrued Interest on Loans		-	-				
Accrued Interest	Total (D)		-	-				
Grand Total	(A+B+C+D)		14,530.00	7,676.47				

Note: There is no re-schedulement , prepayment, penalty, default etc on any of the above loans.



II. SUMMARISED STATEMENT OF SECURED LOANS

(Rs. In Lac)

Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
Working Capital (A)						
N S I C	-	-	-	-	-	97.74
P I C U P	-	-	-	-	-	18.83
I C I C I Bank Ltd	-	-	-	-	-	549.06
Punjab National Bank	2,251.45	2,308.59	979.55	794.20	758.15	879.77
Canara Bank	-	-	-	444.76	430.16	-
State Bank of India	2,472.61	2,488.20	-	589.82	549.31	-
Syndicate Bank	930.13	974.47	486.86	565.07	-	-
Union Bank of India	-	-	467.81	-	-	-
Bank of Baroda	610.54	722.33	645.72	-	-	-
Total (A)	6,264.73	6,493.59	2,579.94	2,393.85	1,737.62	1,545.40
Term Loan (B)						
State Bank of India	467.55	490.63	-	-	-	-
Syndicate Bank	474.77	195.17	-	-	-	-
Punjab National Bank	436.36	38.42	-	-	-	-
Total (B)	1,378.68	724.22	-	-	-	-
Vehicle Loan (C)						
Loans against Vehicles	33.06	40.37	49.72	23.65	16.13	7.96
Total (C)	33.06	40.37	49.72	23.65	16.13	7.96
Accrued Interest (D)						
Interest Accrued & Due	-	4.51	2.94	1.78	-	1.71
Total (D)	-	4.51	2.94	1.78	-	1.71
Grand Total (A+B+C+D)	7,676.47	7,262.69	2,632.60	2,419.28	1,753.75	1,555.07

Annexure - VIII

STATEMENT OF UN-SECURED LOANS

(Rs. In Lac)

Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
Directors	-	-	-	-	-	-
Others	-	-	-	14.00	-	86.76
Total	-	-	-	14.00	-	86.76



Annexure - IX

STATEMENT OF OPERATIONAL INCOME

(Rs. In Lac)

Particulars	Apr to Jun 2006	2005 - 06	2004 - 05	2003 - 04	2002 - 03	2001 - 02
Sales International	4,063.57	13,860.67	7,785.01	6,812.76	5,749.01	5,202.62
Sales Domestic	1,407.59	807.08	259.49	238.28	865.11	616.78
Total	5,471.16	14,667.75	8,044.50	7,051.04	6,614.12	5,819.40

Annexure - X

STATEMENT OF OTHER INCOME

(Rs. In Lac)

Particulars	Apr to Jun 2006	2005 - 06	2004 - 05	2003 - 04	2002 - 03	2001 - 02
D E P B Incentives	56.08	90.56	39.31	-	-	-
Job Work Income	103.21	243.83	-	-	-	-
Interest Received	4.34	9.12	5.35	10.53	6.54	7.21
Miscellaneous Income		0.40	0.26	0.27	-	0.26
Dividend Income	-	0.07	0.05	-	0.40	0.45
Profit (Loss) on Sale of Fixed Assets	-	-	(9.22)	0.12	-	-
Profit on Sale of Shares	-	-	0.70	13.86	-	-
Total	163.63	343.98	36.45	24.78	6.94	7.92

Annexure - XI

STATEMENT OF CONTINGENT LIABILITIES

(Rs. In Lac)

Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
Bank Guarantees and Letters of Credit	851.46	630.15	486.80	362.65	460.22	571.61
Bills Discounted	674.23	750.82	152.64	59.68	-	-
Capital Commitment	5.25	274.30	-	-	-	-
Total	1,528.79	1,655.27	639.44	422.33	460.22	571.61



Annexure - XII

STATEMENT OF ACCOUNTING RATIOS

(Rs in Lac)

Particulars	As at 30.06.2006	As at 31.03.2006	As at 31.03.2005	As at 31.3.2004	As at 31.3.2003	As at 31.3.2002
Net profit after Tax	481.85	1,297.78	411.91	143.50	199.24	206.71
Weighted Average No. of Equity Shares	156.88	97.41	33.49	33.49	33.49	33.49
Cash Earnings	787.80	2,092.63	737.87	251.44	288.95	309.14
Net Worth	7,173.20	6,691.02	2,166.74	1,791.67	1,646.58	1,445.49
Earnings per Share (Rs.) [Annualized]	12.29	13.32	12.30	4.28	5.95	6.17
Return on Net Worth (%) [Annualized]	26.87	19.40	19.01	8.01	12.10	14.30
Net Asset Value per Share (Rs.)	45.72	42.65	64.70	53.50	49.17	43.16
Cash Earnings per Share (Rs.) [Annualized]	20.09	21.48	22.03	7.51	8.63	9.23
No of Shares at end of Year	156.88	156.88	33.49	33.49	33.49	33.49

Notes:

- Earnings per share = Adjusted Profit after Tax / Weighted Average No. of Shares.
- Return on Net Worth (%) = Adjusted profit after Tax / Net Worth.
- Net Asset value per share = Adjusted Net Worth / No. of shares outstanding at the year end.
- Net Worth = Share Capital + Reserves - Miscellaneous expenditure to an extent not written off.

Annexure - XIII

STATEMENT OF CAPITALISATION

(Rs. In Lac)

Particulars	Pre - offer as at 30/06/2006	Post Issue Estimates *
Borrowing		
Short term Debt	6,264.73	
Long Term Debt	1,411.74	
Total Debt	7,676.47	
Shareholders' Funds		
Share Capital	1,568.79	
Share Premium	2,400.75	
General Reserves & Surplus	3,206.03	
Miscellaneous Expenditure not Written Off	(2.37)	
Total Shareholders funds	7,173.20	
Long term debt / Equity Ratio	0.20 : 1	

* Note: The Post Issue Capitalization can not be determined till the completion of the book building process.



Annexure - XIV

TAX SHELTER STATEMENT

(Rs in Lac)

Particulars	Apr to Jun 2006	Asst Year 2006 - 2007	Asst Year 2005 - 2006	Asst Year 2004 - 2005	Asst Year 2003 - 2004	Asst Year 2002 - 2003
Profit Before Tax (as per books) (P)	728.15	1,951.20	666.88	200.21	251.69	283.18
Total Tax %	33.66	33.66	36.60	35.88	36.75	35.70
Tax At Actual Rate on Book Profit	245.10	656.77	244.08	71.84	92.50	101.10
Adjustments :						
Permanent Differences						
Deduction U/S 80HHC	-	-	-	58.03	103.75	171.54
Others	-	(0.47)	(0.31)	-	-	-
Total (A)	-	(0.47)	(0.31)	58.03	103.75	171.54
Temporary Differences						
Difference between tax depreciation and book depreciation	69.97	249.46	273.65	88.88	83.12	41.37
Total (B)	69.97	249.46	273.65	88.88	83.12	41.37
Net Adjustments (A+B) = (C)	69.97	248.99	273.34	146.91	186.87	212.91
Tax Savings Thereon	23.55	83.81	100.04	52.71	68.67	76.01
Profit As Per IT Returns (P - C - Capital Gains)	658.18	1,702.21	393.54	53.30	64.82	70.27
Taxable Income As Per MAT	-	-	-	-	-	-
Tax As Per IT Returns *	221.54	572.96	143.82	19.12	23.82	25.09

Note : 1. The difference in the Tax is not in accordance with the prescribed tax rate due to capital gains tax in the AY 2005 - 06.
2. Information pertaining to the Asst Yrs 2002 - 03 to 2005 - 06 are as per the returns of income filed by the company.

Annexure - XV

STATEMENT OF DIVIDEND PAID FOR LAST 5 YEARS

	2005-2006 *	2004-2005	2003-2004	2002-2003	2001-2002
Rate of Dividend in %	10	10	-	-	15

* Final Dividend has been paid pro-rata on enhanced capital @ 5 % and interim dividend was paid post bonus issue @ 5 %



Annexure - XVI

STATEMENT OF INVESTMENTS

Quoted Investments as at 30.06.2006

Particulars	Punjab National Bank	Syndicate Bank	Bank of Baroda	Wipro Limited	PNB Principal Infrastructure & Serv. Indl. Fund	Total Rs.
No of Shares / Units	185	2593	2833	600	19559.902	
Cost	72,150/-	1,29,650/-	6,51,590/-	1,47,794/-	2,00,000/-	12,01,184/-
Market Value	85,914/-	1,29,520/-	5,63,200/-	3,08,250/-	1,95,599/-	12,82,483/-

Unquoted Investments : N I L

Annexure - XVII

RELATED PARTY TRANSACTIONS

The Company's related parties and transactions (in terms of AS-18) during the period of last 3 financial years are as follows:

	Financial Year 2005-06	Financial Year 2004-05	Financial Year 2003-04
I. Related Parties			
a. Associate Companies			
Hanung Processors Private Limited	Hanung Processors Private Limited	Hanung Processors Private Limited	Hanung Processors Private Limited
Hanung Furnishings Private Limited	Hanung Furnishings Private Limited	Hanung Furnishings Private Limited	Hanung Furnishings Private Limited
Abhinav International Private Limited	Abhinav International Private Limited	Abhinav International Private Limited	Abhinav International Private Limited
C.K. Software Private Limited	C.K. Software Private Limited	C.K. Software Private Limited	C.K. Software Private Limited
Praneet Softech Private Limited	Praneet Softech Private Limited	Praneet Softech Private Limited	Praneet Softech Private Limited
Hanung Toys Limited	Hanung Toys Limited	Hanung Toys Limited	Hanung Toys Limited
Omega Fabrics Private Limited	Omega Fabrics Private Limited	Omega Fabrics Private Limited	Omega Fabrics Private Limited
b. Key Management Personnel			
Mr. Ashok Kumar Bansal	Mr. Ashok Kumar Bansal	Mr. Ashok Kumar Bansal	Mr. Ashok Kumar Bansal
Mrs. Anju Bansal	Mrs. Anju Bansal	Mrs. Anju Bansal	Mrs. Anju Bansal
Col. Ashok Malhotra	-	-	-
Mr. Sanjeev Hota	-	-	-
c. Relatives of Key Management Personnel			
Mrs. Manisha Hota (Wife of Mr. Sanjeev Hota)	N.A.	N.A.	N.A.



d. Transactions with Related Parties

(Rs. in Lacs)

Nature of Transactions	Associates Companies			Key Management Personnel		
	F Y 2005-06	F Y 2004-05	F Y 2003-04	F Y 2005-06	F Y 2004-05	F Y 2003-04
Purchase of Goods & Services	58.90	844.23	52.94	3.36	-	-
Sale of Goods & Services	-	1042.59	203.77	-	-	-
Advances Outstanding & Receivable	80.94	-	291.72	-	-	-
Loans & Security Outstanding	-	-	14.00	-	-	-
Fixed Assets	-	-	2.75	-	-	-
Remuneration	-	-	-	42.00	13.80	13.80

CHANGES IN ACCOUNTING POLICIES IN THE LAST 3 YEARS

Except as stated in the section "Financial Information" beginning on page 107, there has been no change in the accounting policies in the last 3 years.



FINANCIALS OF THE OTHER VENTURES OF THE PROMOTERS

Praneet Softech Private Limited

Praneet Softech Private Limited was incorporated on April 29, 2002 and is engaged in the business of internet and internet based solution, e-commerce as business to business and business to consumer of products and other related services.

The Shareholding pattern of the company as on July 31, 2006 is set out below:

Sr. No.	Name of Director	No. of shares	% of Shareholding
1.	Ashok Kumar Bansal	5,25,000	46.88
2.	Anju Bansal	1,02,000	9.10
3.	Ashok Kumar Bansal (HUF)	4,93,000	44.02
	TOTAL	11,20,000	100.00

The shares of Praneet Softech Private Limited are not listed on any Stock Exchange.

Board of Directors:

The board of directors of Praneet Softech Private Limited comprises of the following:

1. Mr. Ashok Kumar Bansal
2. Mrs. Anju Bansal

Financial Performance:

(Rs. in lakh, except per share data)

Particulars	March 31, 2006	March 31, 2005	March 31, 2004	March 31, 2003
Equity share capital	112.00	1.00	1.00	1.00
Reserves and surplus*	-	-	-	-
Total Income	9.98	9.08	0.75	-
Profit after tax/ Loss	1.57	(1.21)	(2.44)	(0.04)
Earnings per share (face value Rs. 10/-) ** (Rs.)	0.14	(12.05)	(24.45)	(0.40)
Net Asset Value per share (Rs.)	9.65	(26.95)	(14.45)	9.09

* Excludes revaluation reserves

** Computed on the basis of earnings including extraordinary items

Omega Fabrics Private Limited

Omega Fabrics Private Limited was incorporated on May 20, 2002 and is engaged in the business of manufacture, import, export of all types of textiles and allied products.

The name of Omega Fabrics Private Limited has been deemed to be struck-off from the Register of Companies of RoC as the period of 3 months have expired without any cause being shown to the contrary, from the date of notice from ROC issued under Section 560 of the Companies Act, 1956 on the filing of application under the said section.

The Shareholding pattern of the company as on August 31, 2005 (i.e. the date of application under Section 560 of the Companies Act, 1956) is set out below:

Sr. No.	Name of Director	No. of shares	% of Shareholding
1.	Ashok Kumar Bansal	5000	50
2.	Sanjay Kapoor	5000	50
	TOTAL	10,000	100

The shares of Omega Fabrics Private Limited were not listed on any Stock Exchange.



Board of Directors:

The board of directors of Omega Fabrics Private Limited (as on the date of filing the application under Section 560 of the Companies Act, 1956) comprised the following:

1. Mr. Ashok Kumar Bansal
2. Mr. Sanjay Kapoor

Financial Performance:

(Rs. in lakh, except per share data)

Particulars	March 31, 2005	March 31, 2004	March 31, 2003
Equity share capital	1.00	1.00	1.00
Reserves and surplus*	-	-	0.06
Total Income	-	-	18.37
Profit after tax	(0.05)	(0.09)	0.06
Earnings per share (face value Rs. 10/-) ** (Rs.)	(0.45)	(0.96)	0.59
Net Asset Value per share (Rs.)	(1.11)	(0.66)	(0.29)

* Excludes revaluation reserves

** Computed on the basis of earnings including extraordinary items

Hanung Toys Limited

Hanung Toys Limited was incorporated on March 29, 1995 and is engaged in the business as manufacturers, sellers, distributors, dealers, stockists, importers, exporters, fabricators of all kinds of toys, stuff toys and equipment related to or connected therewith and deal in raw materials used for the same.

The name of Hanung Toys Limited has been deemed to be struck off from the Register of Companies of RoC as the period of 3 months have expired without any cause being shown to the contrary, from the date of notice from ROC issued under Section 560 of the Companies Act, 1956 on the filing of application under the said section.

The Shareholding pattern of the company as on August 31, 2005, (i.e. the date of application under Section 560 of the Companies Act, 1956), is as stated below:

Sr. No.	Name of Director	No. of shares	% of Shareholding
1.	Mr. Ashok Kumar Bansal	10	0.02
2.	Mrs. Anju Bansal	10	0.03
3.	Mr. Ashwani Singla	10,010	19.99
4.	Ashok Kumar Bansal (HUF)	10,010	19.99
5.	Master Abhinav Bansal	10,010	19.99
6.	Miss Aanchal Bansal	10,010	19.99
7.	Miss Ena Bansal	10,010	19.99
	TOTAL	50,070	100.00

The shares of Hanung Toys Limited were not listed on any Stock Exchange.

Board of Directors:

The board of directors of Hanung Toys Limited (as on the date of filing the application under Section 560 of the Companies Act, 1956) comprised the following:

1. Mr. Ashok Kumar Bansal
2. Mrs. Anju Bansal
3. Mr. Ashwani Singla



Financial Performance:

(Rs. in lakh, except per share data)

Particulars	March 31, 2005	March 31, 2004	March 31, 2003
Equity share capital	5.01	5.01	5.01
Reserves and surplus*	-	-	-
Sales	-	-	-
Profit after tax	(0.04)	(0.04)	(0.04)
Earnings per share (face value Rs. 10/-) ** (Rs.)	(0.07)	(0.07)	(0.07)
Net Asset Value per share (Rs.)	7.61	7.69	7.76

* Excludes revaluation reserves

** Computed on the basis of earnings including extraordinary items

There is no Promoter Group Company and the venture of the promoters, which has become sick within the meaning of the Companies Act. Additionally, there is no Group Company that was referred to erstwhile BIFR or under the process of winding up.

However, the two ventures of the Promoters viz. Omega Fabrics Private Limited and Hanung Toys Limited have filed the applications with RoC under Sec. 560 of the Companies Act, 1956, for striking off its names from the register of companies maintained by RoC.

There is no Promoter Group Company and the venture of the promoters, having the negative networth except Praneet Softech Private Limited, which has the negative networth of Rs. 2.69 lakh as on March 31, 2005 due to provision for Deferred Tax Liability.

Companies with which the Promoter has disassociated themselves in the last three years

The Promoters of our Company have not disassociated themselves from any company in last three years except that in case of two ventures of the Promoters viz. Omega Fabrics Private Limited and Hanung Toys Limited wherein applications have been filed with RoC under Sec. 560 of the Companies Act, 1956, for striking off its names from the register of companies.

Related party transaction with Group Companies

For details of transactions with the aforesaid companies, please refer to chapter titled "Related Party Transactions" beginning on page 105 of this Red Herring Prospectus. Except as stated in section titled "Financial Statements" beginning on page 107 of this Red Herring Prospectus, there are no related business transactions within the Group.

Conflict of Interest

We have three Group Companies viz. HFPL, HPPL and Abhinav International Private Limited having main objects and business similar to our Company. Interests of these companies may conflict with our Company's interest and/ or with each others.



MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations together with our audited financial statements (as restated) for the last 5 financial years ended on March 31, 2006 and three months ended on June 30, 2006, including the notes thereto and the reports thereon, which appear in section titled "Financial Statements" beginning on page 107 of this Red Herring Prospectus. You are also advised to read the section titled "Risk Factor" beginning on page x of this Red Herring Prospectus, which discusses a number of factors and contingencies that could impact our financial condition, results of operations and cash flows. The financial Statements are prepared in accordance with Indian GAAP, the Companies Act and the SEBI (DIP) Guidelines and restated as described in Auditors' Report of M/s. Rohtas & Hans, Chartered Accountants dated September 7, 2006. Our fiscal year ends on March 31 each year, so all references to a particular year are to the twelve-month period ended on March 31 of that year. Our historical financial performance may not be considered as indicative of future financial performance.

OVERVIEW OF BUSINESS

We are engaged in the manufacturing and exporting of stuff toys and home furnishing. Incorporated in the year 1990, we started our operations in 1993 by the taking over the business, as a going concern, of a partnership firm M/s. Hanung Toys (India) which was running a manufacturing unit for stuff toys in technical collaboration with a South Korean Company viz. Hanung Industrial Co. Ltd. Our promoters are Mr. Ashok. Kumar Bansal and Mrs. Anju Bansal. After the initial association of five years with the South Korean company for technical know-how, today we are independently operating in stuff toys manufacturing. Our toys manufacturing unit is established in the Noida Special Economic Zone (NSEZ) wherein the benefits of duty free imports and single window clearance for imports/exports are available.

Subsequently, our promoters have also ventured into the home furnishing and Textile Processing in the year 2002 through the Companies viz. Hanung Furnishings Private Limited and Hanung Processors Private Limited respectively. As a part of our business integration strategy, we have acquired the business of these two Promoter Group Companies through a Slump Sale arrangement vide an Agreement to Sell and Purchase, wherein all the assets and liabilities have been taken over by us on a going concern basis. For details, please refer section titled "History and Other Corporate Matters" beginning on page 82 of this Red Herring Prospectus.

Thus, our business units consist of toys manufacturing facility, home furnishing production facility and textile processing facility, all located in Noida. Today, we have approximately 450 sewing machines in our stuff toys unit with capacity of producing 1,10,00,000 pcs p.a. and around 250 sewing machines in our furnishing unit with the capacity of manufacturing 12,50,000 sets p.a. Also, in our textile processing unit, we have the capacity of 60,00,000 meters p.a. and have the '16 color 108 inches wide' printing machine.

At present, we are majorly dealing with the overseas markets viz. Europe, USA, Latin America and the Middle East and have been able to attract and retain known names. We have been serving these markets with both stuff toys and home furnishings and our customers are primarily large importers/ whole sellers that service the respective retailers in their country.

In USA, our major buyers are Britannica Home Fashions, CHF Industries, Spring Industries, Mohawk Home, The Bombay Company, Kojo Worldwide, Meijer and America Pacific. In Europe, our buyers include IKEA, Metro Group, ASDA (Walmart), A loja do gato preto, Carpenter, Francodim. In Latin America, we have Sodimac (Chile) as our Buyers. Though we do not have any long-term arrangement with these customers but we have been getting the repeat orders from them.

GEOGRAPHICAL SEGMENTATION OF EXPORTS IN LAST 3 YEARS

(Rs. in lakh)

	FY 2005-06		FY 2004-05		FY 2003-04	
	Amount	%	Amount	%	Amount	%
USA	11193.21	80.76	4567.98	58.68	3180.57	46.68
Europe	2209.62	15.94	2923.77	37.55	3315.25	48.66
Canada	291.72	2.10	222.72	2.86	167.26	2.45
Latin America	45.18	0.33	68.93	0.89	94.38	1.39
Australia	--	--	--	--	42.59	0.63
Other Countries	120.94	0.87	1.62	0.02	12.72	0.19

**During the FY 2005-06, HTTL has acquired the business of two of its Promoter Group Companies viz. HPPL and HFPL. Accordingly, the geographical segmentation for the FY 2005-06 has been depicted after taking into account the exports made in the textile processing as well as home furnishing business w.e.f. October 29, 2005.*



CUSTOMER SALES GROWTH IN THE LAST 3 YEARS

(Rs. in lakh)

Customers	FY 2005-06		FY 2004-05		FY 2003-04	
	Amount	%	Amount	%	Amount	%
Top 1	3840.19	26.18	1660.44	20.64	2459.58	34.88
Top 2	6946.48	47.36	2995.80	37.24	4394.68	62.33
Top 5	12305.54	83.90	4846.88	60.25	5305.00	75.24

**During the FY 2005-06, HTTL has acquired the business of two of its Promoter Group Companies viz. HPPL and HFPL. Accordingly, the customer sales growth for the FY 2005-06 has been depicted after taking into account the sales made in the textile processing as well as home furnishing business w.e.f. October 29, 2005.*

We have launched our domestic brands viz. "Play-n-Pets" and "Muskan" in stuff toys and "Splash" in home furnishing. Whereas "Play-n-Pets" and "Splash" are our registered trademarks, we have applied for the registration of other brands with the Registrar of Trademarks, New Delhi. Till now we have not been concentrating on the Domestic markets, however, we have developed the network of Distributors and retailers across the length and breadth of the Country.

The domestic distribution under three of our brands viz. "Play-n-Pets", "Muskan" and "Splash" is done through network of distributors and retailers. We cater to the demands of more than 100 Distributors for the Stuff toys under the brands "Play-n-Pets" and "Muskan" spread in all the four regions viz. North, South, West and East. Our Stuff toys are available across the country at more than 3000 retail stores and multi brand outlets including Kids Kemp, Lifestyle, Land Mark, Archies Ltd., Vishal Retails Pvt. Ltd., Big Bazar, Globus, Hyper City, Shoppers Stop, Piramyd, Wellspun, Odyssey, Pantaloon Central, Westside etc.

Similarly, in home furnishings, we supply our "Splash" range to more than 20 distributors who in turn cater to a network of more than 600 retailers spread across India.

We have international quality standard certifications like EN-71 (European Standards), ASTM (American Standards) and BS-5852 (British Standards). We have been awarded ISO 9001: 2000 for quality management systems to manufacture, supply and export of home furnishings and stuff toys.

Significant Developments subsequent to the last financial period

Except as detailed below, in the opinion of the Board of Directors, there have not arisen, since the date of the last financial statements any circumstances that materially or adversely affect or are likely to affect the profitability of our Company or our ability to pay material liabilities within the next twelve months:-

We have entered into two other agreements dated May 31, 2006 with The Walt Disney Company (India) Private Limited to use some of the Disney Characters ("licensed materials/ properties") in relation to our home furnishings products. The licensed materials/properties are Disney's Princess, standard characters, Disney Winnie the Pooh with any Winnie the pooh characters, Baby Daisy, Baby Donald, Baby Goofy, Baby Mickey, Baby Minnie, Baby Pluto, Baby Pooh. In consideration of the license granted, we are required to pay Royalties @13% of Sales payable monthly and Advance Guaranteed Royalty amounting to Rs. 3,25,000 and Rs. 1,62,500 upon the signing up of the agreements (already paid). The licenses have been granted for a period from April 1, 2006 to May 31, 2008 in one case and from April 1, 2006 to June 30, 2008 in other case.

For details of the agreement, please refer chapter titled "History and Other Corporate Matters" beginning on page 82 of this Red Herring Prospectus.

Factors that may affect Results of the Operations

- Changes in Government Policies relating to Textile Industry with regards to duties, taxes etc.
- Change in Indian Rupee in relation to major International currencies.
- Imposition of anti dumping duties by importing country.
- Change in fiscal, economic or political conditions in India.



Discussion on Results of Operations

A summary of our past financial results based on our Restated Accounts for the last four years and the three month period is as under:

(Rs in Lakh)

Particulars	2002-03	2003-04	2004-05	2005-06	01.04.06 - 30.06.2006 (3 Mths)
A. INCOME					
Operational Income	6614.12	7051.04	8044.50	14667.75	5471.16
% Increase in sales		6.61%	14.09%	82.33%	
Other Income	6.94	24.78	36.45	343.98	163.63
Total Income	6621.06	7075.82	8080.95	15011.73	5634.79
B. EXPENDITURE					
Raw Materials Consumed	4816.13	5616.35	6192.64	12302.57	4081.91
Increase/ (Decrease) in Stocks	86.53	(278.70)	(487.18)	(2057.35)	(98.33)
Net Cost of Raw Materials	4902.66	5337.65	5705.46	10245.22	3983.58
% on Operational Income	74.12%	75.70%	70.92%	69.85%	72.81%
Staff Cost	139.63	168.88	199.94	348.29	108.55
% on Operational Income	2.11%	2.40%	2.49%	2.37%	1.98%
Other Manufacturing Expenses	608.75	627.40	748.04	1171.44	350.03
% on Operational Income	9.20%	8.90%	9.30%	7.99%	6.40%
Administrartion Expenses	166.73	206.09	175.04	236.36	68.56
% on Operational Income	2.52%	2.92%	2.18%	1.61%	1.25%
Selling & Distribution Expenses	268.81	247.20	257.76	381.38	130.67
% on Operational Income	4.06%	3.51%	3.20%	2.60%	2.39%
Total Expenses	6086.58	6587.22	7086.24	12382.69	4641.39
% on Operational Income	92.02%	93.42%	88.09%	84.42%	84.83%
C. Profit Before Interest, Depreciation, Income Tax and Extra Ordinary Items	534.48	488.60	994.71	2629.04	993.40
Interest and Finance Charges	245.53	237.16	256.84	536.41	205.60
% on Operational Income	3.71%	3.36%	3.19%	3.66%	3.76%
Depreciation	34.28	50.83	71.84	140.10	57.81
Preliminary Expenses	1.85	1.59	1.35	1.35	0.34
D. Net Profit before Tax and Extra-ordinary items	252.82	199.02	664.68	1951.18	729.65
Provision for Taxation	53.58	55.52	252.77	653.40	247.80
E. Net Profit before Extra- ordinary items (net of tax)	199.24	143.50	411.91	1297.78	481.85
Extra ordinary items (net of tax)					
Net Profit after Extra-ordinary items (available for appropriation)	199.24	143.50	411.91	1297.78	481.85
% on Total Income	3.01%	2.03%	5.10%	8.65%	8.55%



Performance for the period ended June 30, 2006

For the first quarter ended on June 30, 2006, we have achieved a total income of Rs 5634.79 lac. The Profit before tax amounted to Rs 729.65 lakh and a profit after tax to the extent of Rs 481.85 lakh.

Comparison of Financial Year 2005-06 with Financial Year 2004-05

Major Highlights

- We have acquired the furnishings and processors business of Hanung Furnishings Private Limited and Hanung Processors Private Limited, our Promoter Group Companies, pursuant to the Agreement to Sell and Purchase which is effective from the midnight of October 29, 2005. The total purchase consideration for the sale and transfer of the business has been at the aggregate book value of all the movable and immovable assets less the aggregate book value of all the liabilities, loans and provisions as at the close of the business on October 29, 2005 standing in the audited financial statements of Hanung Processors Private Limited and Hanung Furnishings Private Limited which stood as Rs. 1353.69 lakh and Rs. 952.09 lakh, respectively. This purchase consideration has been settled by issue of ordinary equity shares at book value of Rs. 38.11 per share as per our Company's audited financial statements as at October 29, 2005

Accordingly, the figures for March 31, 2006, are inclusive of the assets and liabilities of those entities. However, sales and other items related to Profit and Loss Account of these two entities have been included w.e.f. October 30, 2005 only. Hence, the operating results do not include the operating profits of these two entities till October 29, 2005, which have been summarised below:

(Rs. in lakh)

Particulars	For the period April 1, 2005 to October 29, 2005	
	HFPL	HPPL
Total Income	2,282.36	2,671.20
Net Profit after tax	188.12	241.14

Operating Income

In the FY 2006, Operating Income of Rs. 14667.75 lac as compared to Rs. 8044.50 lac of the last Fiscal year ended March 31, 2005 has shown a growth of 82.33 %. This is mainly due to taking over of the textile processing and home furnishing business from two of our promoter group companies, addition of new customers and increase in orders received.

Other Income

Other Income showed an increase by Rs. 307.53 lac over fiscal year ended March 31, 2005 mainly due to taking over of the textile processing from one of our promoter group companies in which there were job work receipts and Duty Entitlement Pass Book receipts.

Net Cost of Raw Materials

In the current year, Raw Material costs comprised 69.85% of the Operational Income as compared to 70.92% in the Fiscal year ended March 31, 2005. The reduction was mainly due to better sourcing of raw materials.

Staff Cost

In the current period, Staff Cost comprises around 2.37 % of the Operational Income as compared to 2.49% in the Fiscal year ended March 31, 2005. The reduction in % is mainly due to higher sales volumes.

Other Manufacturing Expenses

Other Manufacturing Expenses comprises 7.99% of the Operational Income as compared to 9.30% in the Fiscal Year ended on March 31, 2005. The reduction is mainly because inward freight costs due to better sourcing of raw materials and higher sales volume.

Administration Expenses

Administration Expenses comprised 1.61% of the Operational Income as compared to 2.18% in the Fiscal year ended March 31, 2005. The reduction is mainly on account of higher sales volumes.



Selling and Distribution Expenses

In the FY 2006, a Selling and Distribution expenses comprised 2.60% of the Operational Income as compared to 3.20 % in the Fiscal year ended March 31, 2005. Outward freight costs reduced on account of better marketing strategies and higher sales volumes.

Total Expenses

In the current period, Total Expenses as compared to Operational Income was reduced to 84.42% from 88.09% as in Fiscal year ended March 31, 2005 mainly due to increase in sales volume resulting in economies of scale.

Interest and Financial Charges

In the current year, Interest Expenses comprised 3.66% of the Operational Income as compared to 3.19% in the Fiscal year ended March 31, 2005. This was due to acquisition of the textile processing and home furnishing business from two of our promoter group companies which are capital intensive in nature.

Net Profit after tax

In the FY 2006, there has been a net profit (as a % of Total Income) of 8.65% as compared to 5.10% in the Fiscal year ended March 31, 2005. This is due to the increase in Operating Income as well reduction in the operating costs. Both the benefits have resulted in the increase in the net profits.

Comparison of Financial Year 2004-05 with Financial Year 2003-04

Operating Income

In the FY 2005, Operating Income of Rs 8044.50 lac as compared to Rs 7051.04 lac of the last Fiscal year ended March 31, 2004 has shown a growth of 14.09 %. This is mainly due to the increase in export orders from the existing customers as well as addition of new customers.

Other Income

Other Income mainly showed an increase by Rs. 11.67 lac as compared to Fiscal year ended March 31, 2004 mainly due to DEPB incentives and interest on FDR were received by us during the year.

Net Cost of Raw Materials

In FY 2005, Raw Material costs comprised 70.92% of the Operational Income as compared to 75.70 % in the Fiscal year ended March 31, 2004. The reduction was mainly due to better sourcing of Raw material and Change in type and specifications of raw material by the clients.

Staff Cost

In FY 2005, Staff Cost of Rs 199.94 lac comprised around 2.49 % of the Operational Income as compared to Staff Costs of Rs 168.88 lacs comprising 2.40 % of Operational Income in the Fiscal year ended March 31, 2004. The increase is marginal.

Other Manufacturing Expenses

Other Manufacturing Expenses comprised 9.30% of the Operational Income as compared to 8.90% in the Fiscal Year ended March 31, 2004. The increase is marginal.

Administration Expenses

Administration Expenses comprised 2.18% of the Operational Income as compared to 2.92% in the Fiscal year ended March 31, 2004. The reduction is on account of better and higher sales volumes.

Selling and Distribution Expenses

In FY 2005, Selling and Distribution expenses comprised 3.20 % of the Operational Income as compared to 3.51 % in the Fiscal year ended March 31, 2004. In this year, customers were approached directly by us instead of participating in exhibitions resulting in reduction of our selling and distribution expenses.

Total Expenses

Total Expenses in FY 2005 as compared to Operational Income was reduced to 88.09% from 93.42% as in Fiscal year ended March 31, 2004 mainly due to reduction in raw material cost and other expenses as also indicated above.

**Interest**

In the FY 2005, Interest Expenses comprised 3.19 % of the Operational Income as compared to 3.36% in the Fiscal year ended March 31, 2004. The reduction is due to better interest rates obtained from Bankers.

Taxation

Tax expense in FY 2005 increased as Tax Benefit u/s 80 HHC of the Income Tax Act, 1961 were available to us till March 31, 2004.

Net Profit after tax

In FY 2005, there had been a net profit (as % of Total Income) of 5.10% as compared to 2.03% in the Fiscal year ended March 31, 2004. This is mainly due to the increase in sales coupled with lowering down of costs.

Comparison of Financial Year 2003-04 with Financial Year 2002-03**Operating Income**

In FY 2004, the Operating Income of Rs 7051.04 lacs as compared to Rs 6614.12 lacs of the last fiscal year ended March 31, 2003 has shown a growth of 6.61 %. This is mainly due to increased exports sales and adding of foreign buyers such as Wal-Mart UK, Springs (USA) and Metro Group (Europe).

Other Income

Other Income increased by Rs 17.84 lacs in the FY 2004 as compared to the Fiscal year ended March 31, 2003 mainly due to the profit earned on investments by our Company and increase in interest income on FDRs.

Net Cost of Raw Materials

In FY 2004, Net Raw Material costs comprised 75.70% of the Operational Income as compared to 74.12% in the Fiscal year ended March 31, 2003. To cater to the needs of the newly introduced foreign customers, more emphasis was laid on importing raw materials resulting in increased net cost of raw materials.

Staff Cost

In FY 2004, Staff Cost comprised around 2.40 % of the Operational Income as compared to 2.11 % in the Fiscal year ended March 31, 2003. The marginal increase was on account of increase in workforce.

Other Manufacturing Expenses

Other Manufacturing Expenses comprised 8.90% of the Operational Income as compared to 9.20% in the Fiscal Year ended March 31, 2003. The reduction was marginal.

Administration Expenses

The Administrative Expenses (as % of operational income) increased from 2.52% in FY 2003 to 2.92% in FY 2004 mainly due to increase in expenses on account of communication, rent and quality testing charges (as required by customers).

Selling and Distribution Expenses

The Selling and Distribution expenses reduced from 4.06% in FY 2003 to 3.51% of the Operational Income in the Fiscal year ended March 31, 2004. The reduction was on account of approaching the customer directly.

Total Expenses

Total Expenses increased from 92.02% in FY 2003 to 93.42% in Fiscal year ended March 31, 2004 mainly due to increase in material cost and administrative cost.

Interest

In FY 2004, Interest Expenses comprised 3.36 % of Operational Income as compared to 3.71% in the Fiscal year ended March 31, 2003. The reduction is mainly due to better interest rates availed by us.

Net Profit after tax

There had been a net profit (as % of Total Income) of 2.03% in FY 2004 as compared to 3.01% in the Fiscal year ended March 31, 2003. Although Total Income showed a growth rate of 6.61% but the total expenditure (excluding interest, depreciation/preliminary expenses and taxes) increased by 8.23% as compared to the Fiscal year ended March 31, 2003, resulting in decline in Net Profit.

Unusual or infrequent events or transactions

There are no unusual or infrequent events or transactions having significant impact on the operations of our Company

**Significant economic changes that materially affected or are likely to affect income from continuing operations**

- Changes in various benefits, privileges, concessions for being located in NSEZ and in Uttaranchal where we propose to set up the integrated home textile unit.
- Abolition of Quota Regime w.e.f Jan'05 is expected to bring growth in the volume of our Company.
- An additional incentive of 10% capital subsidy over and above the 5% interest subsidy under TUFS for the specified textile processing machinery. The additional 10% capital subsidy will be admissible on the investments made in the specified processing machinery during a period of one year from April 20, 2005 to April 19, 2006.

Known trends or uncertainties that have had or are expected to have a material adverse impact on sales, revenue or income from continuing operations

There are no known trends or uncertainties that have had or are expected to have a material adverse impact on sales, revenue or income from continuing operations

Future changes in relationship between costs and revenues, in case of events such as future increase in labour or material costs or prices that will cause a material change are known

Nil

The extent to which material increases in net sales or revenue are due to increased sale volumes, introduction of new products or services or increased sales prices

As explained in the detailed discussions above, the material increases in net sales or revenue are mainly due to increased export orders, consistent growth in sales volume and also due to the acquisition of business of our Promoter Group Companies pursuant to the Agreement to Sell and Purchase.

Total turnover of each major industry segment in which our Company operated

Prior to October 29, 2005, our Company was operating in only one Industry segment viz. stuff toys segment. Pursuant to the Agreement to Sell and Purchase the Business effective from the midnight of October 29, 2005, the industry segment in which we operate includes stuff toys Segment as well as Home Textile Segment. The total turnover of the stuff toys segment for the year ended March 31, 2006 and for the period ended June 30, 2006 is Rs. 9,734.51 lakh and Rs. 2,940.91 respectively. The total turnover of the home textile segment for the year ended March 31, 2006 and for the period ended June 30, 2006 is Rs. 5,277.22 lakh and Rs. 2,693.88 lakh respectively.

Status of any publicly announced new products or business segment

Our Company deals in various types of stuff toys and after acquiring the business of our Promoter Group Companies, we also deal in home furnishing. Apart from this, we have not announced any new product or business segment publicly.

The extent to which business is seasonal

The Business of our Company is not seasonal in nature.

Any significant dependence on a single or few suppliers or customers

We are not significantly dependent on any single or few suppliers. However our top five buyers accounted for 75.24% and 60.25% in FY 2004 and FY 2005 respectively of our total revenues. Also in FY 2006 (during which the business of two our promoter group companies have been acquired w.e.f. October 29, 2005), our top five buyers accounted for 83.9 % of our total revenues.

Competitive conditions

Our Competition in stuff toys segment has been primarily from China only as there are hardly any manufactures / exporters of high quality and large volumes for stuff toys in India.

As regards home furnishings, some of our Key Competitors are Alok Industries, Welspun, Creative Mobus and Shahi Exports etc. Also, countries like Mexico and Brazil, who have abundant and low-salaried labour as well as proximity to the largest market i.e. the U.S.A. have emerged as potential competitors in the last 2 years or so particularly with respect to shorter lead times and lower freight costs. China, Pakistan and Bangladesh have always been stiff competition as well.

However, as in the past, we have our own strategies worked out to counter competition by way of product differentiation viz., innovative fabric and value added techniques and designs, better quality and timely deliveries augmented, by state-of-the-art production facilities with experienced professionals manning them and better communication with the Customers. The recent imposition of restriction of exports from China to the U.S., will also help us grow our business in the Quota-free regime that India enjoys.



SECTION VI : LEGAL AND REGULATORY INFORMATION

OUTSTANDING LITIGATIONS, MATERIAL DEVELOPMENTS AND OTHER DISCLOSURES

There are no outstanding litigations against our Company, our Directors, our Promoters and our Promoter group or any disputes, tax liabilities, non payment of statutory dues, overdues to banks/ financial institutions, defaults against banks/ financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by our Company, defaults in creation of full security as per terms of issue/ other liabilities, proceedings initiated for economic/ civil/ any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of Part 1 of Schedule XIII of the Companies Act) against our Company, our Directors and our Promoters, except the following:

A. Outstanding litigation and contingent liabilities of our Company

1. Litigation involving Criminal Offences: Nil
2. Litigation/Disputes involving Securities related offences, including penalties imposed by SEBI or any other securities market regulator in India or abroad: Nil
3. Litigation involving Statutory and other offences, including penalties imposed by any regulatory authority in India or abroad (Present or past): Nil
4. Litigation involving Civil and Economic Offences: Nil
5. Litigation in relation to labour laws, and employee related cases: Nil
6. Litigation involving revenue authorities (customs/excise/sales tax/income tax/service tax): Nil
7. Litigation involving customers/suppliers/agents: Nil
8. Litigation in the nature of winding up petitions/ liquidation/ bankruptcy / closure filed by / against the company: Nil

Non payment of statutory dues or dues to Banks / Institutions: Nil

Overdue interest/ principal as on current date: Nil

There have been no defaults and there are no overdues in respect of bonds, debentures and fixed deposits (placed through public or private placement) and arrears in respect of cumulative preference shares or any other liabilities as on current date.

Further, there are no litigations/disputes/penalties or any proceedings known to be contemplated by government authorities.

There are no litigations against any other company whose outcome could have materially adverse effect on the position of the Company.

Outstanding Litigation against and by our Company

Cases filed against our Company

Civil Cases

Pavilion Investment Limited & Others v. Hanung Toys (India) Private Limited & another (High Court of Delhi, New Delhi, Civil Suit No. 1938/1999)

The High Court of Delhi has vide order dated May 26, 2006 held our Company liable to pay Pavilion Investment Limited the dues for the supply of raw materials amounting to of Rs. 53,16,750/- with cost and interest @ 12% from the date of presentation of the suit and 9% from the date of decree till recovery of the aforesaid amount..

Labour Cases

There are fourteen labour cases filed against our Company and the details of the same are as follows:

Mr. Amod Kumar v. Hanung Toys (India) Limited [Adjudication Case no. 117/2002, Presiding Officer, Labour Court II, Ghaziabad]

The plaintiff is an ex-worker of our Company employed in the sewing division as a tailor w.e.f. December 1, 1992. He had resigned on May 16, 1997 and collected all his dues including provident fund and ESIC. The plaintiff has claimed that he was forced to resign and hence has filed this plaint in the labour court. The Plaintiff has claimed for reinstatement of services along with full backwages. The case is currently at the written evidence stage and the next date of hearing is November 2, 2006.



Mr. Dharmendra v. Hanung Toys (India) Limited [Adjudication Case no. 115/2002, Presiding Officer, Labour Court II, Ghaziabad]

The plaintiff is an ex-worker of our Company employed in the sewing division as a tailor w.e.f. March 10, 1993. He had resigned on January 3, 1997 and collected all his dues including provident fund and ESIC. The plaintiff has claimed that he was forced to resign and hence has filed this plaint in the labour court. The Plaintiff has claimed for reinstatement of services along with full backwages. The case is currently at the written evidence stage and the next date of hearing is November 2, 2006.

Mr. Abdul Mazid v. Hanung Toys (India) Limited [Adjudication Case no. 1152/2003, Presiding Officer, Labour Court II, Ghaziabad]

The plaintiff is an ex-worker of our Company employed in the sewing division as a tailor w.e.f. April 12, 1995. He had resigned and collected all his dues including provident fund and ESIC on January 4, 1997. The plaintiff has claimed that he was forced to resign without any prior notice or reason and therefore has filed this plaint in the labour court. The above case has been filed under Section 2 (a) of the Uttar Pradesh Industrial Dispute Act, 1947. The Plaintiff has claimed for reinstatement of services along with full backwages. The case was listed for hearing on March 7, 2006 wherein the Presiding Officer had passed an order in favour of our Company. We are yet to receive a copy of the said order from the Labour Court.

Mr. Akbar Ali v. Hanung Toys (India) Limited [Adjudication Case no. 1153/2003, Presiding Officer, Labour Court II, Ghaziabad]

The plaintiff is an ex-worker of our Company employed in the sewing division as a tailor w.e.f. February 1, 1990. He had resigned and collected all his dues including provident fund and ESIC. The plaintiff has claimed that he was forced to resign without any prior notice or reason and therefore has filed this plaint in the labour court. The above case has been filed under Section 2 (a) of the Uttar Pradesh Industrial Dispute Act, 1947. The Plaintiff has claimed for reinstatement of services along with full backwages. The case was listed for hearing on March 7, 2006 wherein the Presiding Officer has passed an order in favour of our Company. We are yet to receive a copy of the said order from the Labour Court.

Mr. Chander Baan v. Hanung Toys (India) Limited [Adjudication Case no. 1154/2003, Presiding Officer, Labour Court II, Ghaziabad]

The plaintiff is an ex-worker of our Company employed in the sewing division as a tailor w.e.f. September 9, 1995. He had resigned and collected all his dues including provident fund and ESIC on December 30, 1996. The plaintiff has claimed that he was forced to resign without any prior notice or reason and therefore has filed this plaint in the labour court. The above case has been filed under Section 2 (a) of the Uttar Pradesh Industrial Dispute Act, 1947. The Plaintiff has claimed for reinstatement of services along with full backwages. The case is currently at the rejoinder stage and the next date of hearing is December 4, 2006.

Mr. Gopal Singh v. Hanung Toys (India) Limited [CPVS 54/2005, Presiding Officer, Labour Court, Ghaziabad]

The plaintiff is an ex-worker of our Company employed as an operator w.e.f. January 1, 1999. He had resigned and collected all his dues including provident fund and ESIC on July 20, 2005. The plaintiff has claimed that he was forced to resign without any prior notice or reason and therefore has filed this plaint in the labour court. The above case has been filed under Section 2 (a) of the Uttar Pradesh Industrial Dispute Act, 1947. The Plaintiff has claimed for reinstatement of services along with full backwages. The case is currently at written submission stage. The case has been referred to the labour court.

The Plaintiff has also filed a case under Section 15 (2) of the Payment of Wages Act, 1936 for reduction in his salary for no valid cause for the months of April 2005 to June 2005 amounting to Rs. 23, 316/- along with ten times damages. The last date of hearing was August 25, 2006.

Mr. Brijesh Kumar v. Hanung Toys (India) Limited [CPVS 53/2005, Presiding Officer, Labour Court, Ghaziabad]

The plaintiff is an ex-worker of our Company employed as an operator w.e.f. June 7, 1992. He had resigned and collected all his dues including provident fund and ESIC on July 20, 2005. The plaintiff has claimed that he was forced to resign without any prior notice or reason and therefore has filed this plaint in the labour court. The above case has been filed under Section 2 (a) of the Uttar Pradesh Industrial Dispute Act, 1947. The Plaintiff has claimed for reinstatement of services along with full backwages. The case is currently at written submission stage. The case has been referred to the labour court.

The Plaintiff has also filed a case under Section 15 (2) of the Payment of Wages Act, 1936 for reduction in his salary for no plausible cause for the months of March 2005 to June 2005 amounting to Rs. 31,470/- along with ten times damages. The last date of hearing was August 25, 2006.



Mr. Sunil Kumar v. Hanung Toys (India) Limited [CPVS 55/2005, Presiding Officer, Labour Court, Ghaziabad]

The plaintiff is an ex-worker of our Company employed as an operator w.e.f. July 8, 1998. He had resigned and collected all his dues including provident fund and ESIC on July 20, 2005. The plaintiff has claimed that he was forced to resign without any prior notice or reason and therefore has filed this plaint in the labour court. The above case has been filed under Section 2 (a) of the Uttar Pradesh Industrial Dispute Act, 1947. The Plaintiff has claimed for reinstatement of services along with full backwages. The case is currently at written submission stage. The case has been referred to the labour court.

The Plaintiff has also filed a case under Section 15 (2) of the Payment of Wages Act, 1936 for reduction in his salary for no plausible cause for the months of April 2005 to June 2005 amounting to Rs. 21,620/- along with ten times damages. The last date of hearing was August 25, 2006.

Mrs. Rampyari v. Hanung Toys (India) Limited [NSEZ CPVS 53/2005, Presiding Officer, Labour Court, Ghaziabad]

The plaintiff is the wife of a deceased ex-worker of our Company. This case has been filed under the Payment of Gratuity Act, 1979 and our Company has been issued a summons and written statements have not been filed yet. The case was listed for hearing on March 23, 2006.

Mr. Jagdish Prasad v. Hanung Toys (India) Limited [Adjudication No. 1115/03, Authority under the Industrial Disputes Act, 1947]

The plaintiff is an ex-worker of our Company employed in the sewing division as a tailor. He had resigned on December 29, 1996 and collected all his dues including provident fund and ESIC. The plaintiff has claimed that he was forced to resign and hence has filed this plaint in the said labour court. The Plaintiff has claimed reinstatement of services along with full backwages. However, vide order of the Deputy Labour Commissioner dated January 31, 2001; the case was transferred to the Industrial Tribunal. The case is currently at the worker evidence stage and the next date of hearing is November 25, 2006.

Mr. Deepak Kumar v. Hanung Toys (India) Limited [NSEZ/PWA66/05, Presiding Officer, Labour Court II, Ghaziabad]

The plaintiff is an ex-worker of our Company. He had resigned on August 17, 2005 and collected all his dues including provident fund and ESIC. The plaintiff has claimed that he was forced to resign and hence has filed this plaint in the labour court. The Plaintiff has claimed reinstatement of services along with full backwages. The case is currently at the worker / Company evidence stage and the next date of hearing is October 5, 2006.

Mr. Vijay Kumar v. Hanung Toys (India) Limited [NSEZ/PWA67/05/, Presiding Officer, Labour Court II, Ghaziabad]

The plaintiff is an ex-worker of our Company. He had resigned on August 17, 2005 and collected all his dues including provident fund and ESIC. The plaintiff has claimed that he was forced to resign and hence has filed this plaint in the labour court. The Plaintiff has claimed reinstatement of services along with full backwages. The case is currently at the worker / Company evidence stage and the next date of hearing is October 5, 2006.

Mr. Ladho Bano v. Hanung Toys (India) Limited [NSEZ/PGA/06/05/793, Presiding Officer, Labour Court II, Ghaziabad]

The plaintiff is the wife of a deceased ex-worker of our Company who was employed as an operator w.e.f. July 30, 1995 for a period of 8 years. The plaintiff has filed this case under the Payment of Gratuity Act, 1979 claiming gratuity of Rs. 18,700. The case is currently at the written statement stage and the last date of hearing was August 25, 2006.

Notices issued by our Company

Notice of Opposition to Application for Registration of a Trade Mark under section 21(1) of the Trade Marks Act, 1999 & rule 47 of the Trade Marks Rules, 2002 dated July 11, 2006, issued by our Company in respect of Application No. 1281846 in class 25 for the Trade Mark "Splash" made by K. M. Sangeeth, (a) Suraj Bharathan, G. Mothilal, P. V. Bijuraj, Geetha Sivanandan, P. N. Narayanan, Ayappa Prasad and Sadma Sunil Kumar.

Notice of Opposition to Application for Registration of a Trade Mark under section 21(1) of the Trade Marks Act, 1999 & rule 47 of the Trade Marks Rules, 2002 dated July 11, 2006, issued by our Company in respect of Application No. 920289 in class 25 for the Trade Mark "Splash" made by Amarlal Jhangaldas Wadhwa.

Cases filed by our Company

There are no cases filed by our Company.



Notices issued and penalties levied on the Company by Government Authorities

Show Cause Notice dated November 14, 2005 issued to our Company for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 5000/- has been paid by our Company for the same.

TOY UNIT

1. Notice issued by the Income Tax Department, New Delhi dated September 27, 2005 under section 143 (2) of the Income Tax Act, 1961 for the assessment year 2004-2005, whereby the Department had asked the Company to furnish details and additional documentation for their assessment of the accounts for the year 2004-2005. The requisite documents and information has been furnished to the Department for assessment. We are yet to hear from the Department with respect to the same.
2. Notice issued by the Trade Tax Department Noida dated March 17, 2005 and November 9, 2005 under section 28 (a) of the Uttar Pradesh Trade Tax Act, 1948 regarding missing of Form 31 (Import Declaration Form) for raw materials imported in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 2,50,000/-.
3. Notice issued by the Trade Tax Department Noida dated March 19, 2005 and November 9, 2005 under section 15 (1) (o) of the Uttar Pradesh Trade Tax Act, 1948 regarding error in Form 31 (Import Declaration Form) for import of raw materials in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 28,000/-.

PROCESSING UNIT

1. Notice issued by the Trade Tax Department, Noida dated July 27, 2005 under section 28 (k) of the Uttar Pradesh Trade Tax Act, 1948 regarding additional information and documents required for FY 2003-2004. The same were furnished and we await further orders of the Department.
2. Notice issued by the Trade Tax Department dated October 3, 2005 under section 28 (a) of the Uttar Pradesh Trade Tax Act, 1948 regarding error in Form 31 (Importer Declaration Form) for import of raw materials in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 18,400/-.

FURNISHINGS UNIT

1. Notice issued by the Trade Tax Department, Noida dated October 20, 2005 under section 28 (k) of the Uttar Pradesh Trade Tax Act, 1948 regarding additional information and documents required for FY 2003-2004. The same were furnished and we await further orders of the Department.
2. Notice issued by Trade Tax Department, Noida dated July 16, 2005 and November 9, 2005 under section 28 (a) of the Uttar Pradesh Trade Tax Act, 1948 regarding error in Form 31 (Import Declaration Form) for import of raw materials in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 84,000/-.
3. Notice issued by the Trade Tax Department, Noida dated September 10, 2005 under section 15 (1) (o) of the Uttar Pradesh Trade Tax Act, 1948 regarding missing Form 31 (Import Declaration Form) for import of raw materials in FY 2004-2005. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 37,500/-.
4. Notice issued by the Trade Tax Department, Noida dated September 19, 2005 under section 28 (a) of the Uttar Pradesh Trade Tax Act, 1948 regarding error in Form 31 (Import Declaration Form) for import of raw materials in FY 2005-2006. The said raw materials were seized by the Department and were released on payment of penalty of Rs. 6,000/-.

Contingent liabilities as on June 30, 2006 (as per the Report of our Auditor dated September 4, 2006)

(Rs. in lakh)

Particulars	As at 30.06.2006
Bank Guarantees and Letters of Credit	851.46
Bills Discounted	674.23
Capital Commitment	5.25
TOTAL	1,528.79



Litigation by and against our Promoters and Promoter Group

Other than what has been disclosed above there are no pending litigations in which the promoters are involved. Except as disclosed no defaults have been made to the financial institutions/ banks, non-payment of statutory dues and dues towards instrument holders like debenture holders, fixed deposits, and arrears on cumulative preference shares by the promoters and the companies/ firms promoted by the promoters.

Further, there are no cases of pending litigations, defaults, etc. in respect of companies/ firms/ ventures with which the promoters were associated in the past but are no longer associated.

Further, there are no litigations against the promoter involving violation of statutory regulations or alleging criminal offence.

There are no Pending proceedings initiated for economic offences against the promoters, companies and firms promoted by the promoters

Show Cause Notices and penalties levied against our Promoters and Directors

- Show Cause Notice dated November 14, 2005 issued to our Chairman-cum-Managing Director, Mr. Ashok Kumar Bansal for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 1000/- has been paid by our Chairman-cum-Managing Director, Mr. Ashok Kumar Bansal for the same.
- Show Cause Notice dated November 14, 2005 issued to our Whole-time Director, Mrs. Anju Bansal for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 1000/- has been paid by our Whole-time Director, Mrs. Anju Bansal for the same.
- Show Cause Notice dated November 14, 2005 issued to our ex-Director, Mr. Brij Lal Bansal for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 1000/- has been paid by our ex-Director, Mr. Brij Lal Bansal for the same.
- Show Cause Notice dated November 14, 2005 issued to our ex-Director, Mr. Ashwani Singla for contravention of the provisions under section 383 A of the Act for non-appointment of whole-time Company Secretary for the period between March 29, 1994 to August 1, 1999 and June 1, 2001 to September 5, 2005. A penalty of Rs. 1000/- has been paid by our ex-Director, Mr. Ashwani Singla for the same.

Our Directors and ex-Directors had filed a petition dated January 3, 2006 under Section 383A read with Section 621A of the Act against the above mentioned notices before the Company Law Board showing cause as to why we had not appointed a Whole-time Company Secretary for the said period and for compounding of the offences committed under section 383A of the Act.

The Company Law Board vide its order dated February 24, 2006 has allowed for the above mentioned offences to be compounded on payment of Rs. 5000/- by the Company and Rs. 1000/- by each the Managing Director, Whole-time Director and ex-Directors.

Litigation by and against our Directors

There are no pending litigations by or against our Directors involving violation of statutory regulations or alleging criminal offence. There are no pending proceedings initiated for economic offences against our Directors. There are no past cases in which penalties were imposed by the concerned authorities on our Directors. There are no pending litigations, defaults, payment of statutory dues, civil offences (including the past cases, if found guilty), any disciplinary action taken by SEBI / Stock Exchanges against our Directors.

Litigation against Group Companies / Associate Concerns: NIL

No disciplinary action / investigation has been taken by SEBI / Stock Exchanges against our Company, our Directors, Promoters, and other ventures promoted by our Promoters (irrespective of the fact whether or not they fall under the purview of Section 370 (1B) of the Companies Act, 1956)

Our Company, Promoters, Directors or any of the Company's Associates or Group Companies or other ventures of our Promoters and companies with which the Directors of our Company are associated as directors or promoters have not been prohibited from accessing the capital markets under any order or direction passed by SEBI and no penalty has been imposed at any time by any of the regulators in India or abroad.



Names of the parties to whom our Company owes any sum outstanding for more than 30 days but not overdue as per the information available with us are: Bhawna Printers, Chaudhary Labels Private Limited, Chenab Pack Private Limited, Deepak Packaging Industries, J J Foams Private Limited, Kavach Packaging, Malwa Leather Components Private Limited, M.K. Packaging Private Limited, NEPZ Pack Industries Private Limited, New Sonex Stationary Mart, Praveen Print-O-Pack Private Limited, Printografik, Sankalpa Overseas Private Limited, Sun Glow Manufacturing Private Limited, Sushila Textiles, Techno Tek Industries.

Material developments since the last balance sheet

We have entered into two other agreements dated May 31, 2006 with The Walt Disney Company (India) Private Limited to use some of the Disney Characters ("licensed materials/ properties") in relation to our home furnishings products. Other than what is mentioned herein, there are no material developments which have occurred since the date of the last financial statements disclosed (i.e. March 31, 2006) in this Red Herring Prospectus, the Board of Directors are not aware of any circumstances that materially or adversely affect or are likely to affect the profitability of the Company or the value of their consolidated assets or their ability to pay their material liabilities within the next 12 months other than as disclosed in this Red Herring Prospectus.



GOVERNMENT/STATUTORY AND BUSINESS APPROVALS

In view of the approvals listed below, our Company can undertake this Issue and its current business activities. Consequent to the acquisition of business of our Promoter Group Companies, Hanung Processors Private Limited and Hanung Furnishings Private Limited vide Agreement to Sell and Purchase, we have to obtain consents from clients to transfer many of our client contracts to HTTL. We also have to obtain various approvals from government agencies and local authorities to transfer certain assets, employees, permits and licenses in India. Additionally, we have to obtain approvals from other third parties to transfer other assets, including for example, software and product licenses. The process of obtaining client and third party consents and various other required approvals and consents has commenced after the completion of the acquisition of the business of our Promoter Group Companies, Hanung Processors Private Limited and Hanung Furnishings Private Limited vide Agreement to Sell and Purchase. Except for such consents and approvals, our Company has received the necessary consents, licenses, permissions and approvals from the Government and various Government agencies required for its present business and no further approvals are required for carrying on the present as well as the proposed business except as mentioned below.

Our Company has received the following Government approvals, licenses and permissions:

A. Incorporation:

- Certificate of Incorporation dated October 10, 1990 bearing Registration no. 55-41722.
- Fresh Certificate of Incorporation dated May 23, 1996 on account of change in name from "Hanung Toys (India) Private Limited" to "Hanung Toys (India) Limited".
- Fresh Certificate of Incorporation dated January 9, 2006 on account of change in name from "Hanung Toys (India) Limited" to "Hanung Toys and Textiles Limited".

B. Tax / Miscellaneous:

- Permanent Account Number AAACH0496A issued by the Director of Income Tax (Systems).
- Tax Deduction Account Number (TAN) DELH01745C issued by the Office of the Assistant Commissioner of Income Tax (TDS).
- Registration Certificate issued by the Uttar Pradesh Sales Tax Department bearing no. CST / ND-5061575 dated November 11, 1993.
- Registration Certificate issued by the Uttar Pradesh Sales Tax Department bearing no. UPTT / ND-0063020 dated March 31, 1993
- Certificate bearing Registration no. 12 100 27215 TMS certifying that Hanung Toys (India) Limited has established and applies a Quality Management System for manufacture, supply and exports of home furnishings, made-ups and soft/stuffed toys to meet the requirements according to ISO 9001 : 2000.
- In-principle approval of the Reserve Bank of India bearing no. EC.DELNEPZ / 205 / 08.01.75 / 96-97 dated February 6, 1997 to issue 33,33,000 equity shares to Magnus Capital Corporation Limited by way of private placement.
- Certificate of Foreign Inward Remittance bearing Serial no. 37 / 97 dated March 13, 1997 issued by ICICI Banking Corporation Limited.

C. Unit - I: Toys Unit

- Certificate of Registration as 100% Export Oriented Unit bearing no. 10 / 2001 - Proj dated May 14, 2001 issued by the Development Commissioner, Noida Export Processing Zone, Ministry of Commerce, Government of India.
- Certificate of Importer-Exporter Code (IEC) no. 0590000748 dated March 21, 2000 issued by the Joint Director General of Foreign Trade, Ministry of Commerce, Government of India.
- Fresh certificate of Registration-cum-membership bearing no. 46/NEPZ/REGN/03/91 dated March 20, 1997 issued in lieu of certificate issued on May 5, 1991 as manufacturer exporter issued by the Office of the Development Commissioner, NEPZ. This certificate is valid upto March 31, 2011.
- Approval bearing no. 09/04/90-Proj/9382 dated December 7, 2004 for inclusion of apron, pot holder and oven mitt in the list of items manufactured issued by the Office of the Development Commissioner, NSEZ.
- Certificate of Registration bearing no. G.M.D.I.C./GBN/MFG/Distt. Code-78/No.010 dated November 8, 2001 as manufacturer exporter issued by the Export Promotion Bureau, Government of Uttar Pradesh. This certificate is valid upto November 30, 2009.



- Consent from Uttar Pradesh Pollution Control Board bearing no. 369/air pollution/H-41/04 dated December 12, 2005 under Section 21 of the Air (Control and Prevention of Pollution) Act, 1981 valid upto December 31, 2006
- Consent from the Uttar Pradesh Pollution Control Board bearing no. 365/Consent/water pollution dated December 12, 2005 under Section 25/26 of the Water (Control and Prevention of Pollution) Act, 1974 valid upto December 31, 2006.
- Registration and license bearing no. GZB-2898 dated March 12, 2004 to work a factory issued by the Factories Inspector. This registration expired on December 31, 2006.
- Approved Manufacturing Practice Certificate dated September 27, 2004 issued by the Metro Group Buying HK Limited, for passing the Audit for quality control conducted by the Metro Group. The validity of this certificate is for two years from the date of issue.
- Certificate of Green Assessment for audit conducted on June 14, 2005 issued by Wal-Mart Global Procurement making the Company eligible for manufacturing and exporting stuffed toys to Wal-Mart. The validity of this assessment certificate is one year from the date of issuance.
- Ethical Certificate dated December 26, 2003 issued by the Intergroup Far East Limited for having successfully passed the Ethical Audit Process of Intergroup Far East Limited.
- Certificate of Registration bearing no. G.M.D.I.C./GBN/MFG/Distt.Code-78/No.010 dated November 8, 2004 issued by the Export Promotion Bureau as Manufacturer Exporter, valid for a period of 5 years from the date of issuance.

Licenses applied for:

- Application dated October 21, 2005 for renewal of factory license for the year 2006.

D. Unit II - Processors Unit

- Consent from Uttar Pradesh Pollution Control Board bearing no. N - 689/Consent (Air) Order / 2564 (iii) / 06 dated February 20, 2006 under Section 21 / 22 of the Air (Control and Prevention of Pollution) Act, 1981 valid upto December 31, 2006.
- Consent from the Uttar Pradesh Pollution Control Board bearing no. N - 775 / Consent (water) Order / 992 (ii) / 06 dated February 1, 2006 under Section 25 / 26 of the Water (Control and Prevention of Pollution) Act, 1974 valid upto December 31, 2006.
- Authorisation issued by the Uttar Pradesh Pollution Control Board bearing no. N-218-H-O-404(i)/04 dated February 3, 2006 under Rule 5 of the Hazardous Wastes (Management and Handling) Rules 1989 valid upto February 2, 2007.
- Registration and License to work the factory bearing registration no. NDA-2584 dated January 1, 2006 to work a factory with not more than 250 workers on any one day and using motive power not exceeding 1000 HP under the Factories Act, 1948 valid upto December 31, 2006.
- Issue of Code no. U.P 34644 under the Employees Provident Fund & Miscellaneous Provisions Act, 1952 issued by the Employees Provident Fund Organisation vide letter bearing no. 7316 dated August 12, 2004.
- Certificate of Standing orders for workman bearing no. 8198-99 / S.O.2 dated July 23, 2005 in accordance with Section 5(3) of the Industrial Employment (Standing Orders) Act, 1946 along with the Uttar Pradesh Industrial Employment (Standing Order) Rules, 1946.
- Registration Certificate issued by the Deputy Commissioner of Central Excise bearing no. CN.V(30) / registered / DIV / R-94 / 705102 / 2304 dated 09.04.2003 granting registration number AABCH1700QXM001.
- Inspection report bearing no. 2266 / VSN / Ghaziabad / Region / Sec-30 / Generator for the 320 and 180 KVA DG sets dated October 28, 2003.
- Inspection report bearing no. 2266 / VSN / Ghaziabad Region / HT for the 1x630 KVA Transformer dated October 28, 2003.
- Compliance certificate dated August 21, 2003 issued by the Fire Station Phase II, Noida ascertaining the safety measures adopted within the factory premises to be found satisfactory.
- Certificate bearing no. Noida / BC /BP / BP-6818 / 2981 dated June 23, 2003 issued by the Inspection Director appointed by the New Okhla Industrial Estate, Building Department for compliance with safety and regulatory conditions for the factory premises.
- Certificate of Registration bearing no. AABCH1700QXM001 dated April 9, 2003 for manufacture of excisable goods



- License to import and store petroleum in installation bearing no. P / HQ / UP / 15 / 4305 / (P5668) dated March 9, 2005 issued by the Department of Explosives, Ministry of Commerce and Industry, Government of India valid upto December 31, 2007.
- Preliminary Approval dated December 7, 2005 to work a boiler bearing registry number UP/6128 at the maximum working pressure of 10.54 Kg/cm² from December 7, 2005 to December 6, 2006; issued by the Assistant Director Of Boiler, Uttar Pradesh, Kanpur.

E. Unit IV - Furnishings Unit

- Issue of Code no. U.P 32396 under the Employees Provident Fund & Miscellaneous Provisions At, 1952 issued by the Employees Provident Fund Organisation vide letter bearing no. 7340 / Coverage / UP / 32396 dated November 27, 2003.
- Consent from Uttar Pradesh Pollution Control Board bearing no. 364 / Consent (air consent) / 05 dated December 12, 2005 under Section 21 of the Air (Control and Prevention of Pollution) Act, 1981 valid upto December 31, 2006.
- Consent from the Uttar Pradesh Pollution Control Board bearing no. 360 / Consent / water order / 05 dated December 12, 2005 under Section 25/26 of the Water (Control and Prevention of Pollution) Act, 1974 valid upto December 31, 2006.
- Registration-cum-membership certificate bearing no. (6)1 / 2 / 2002-Proj / 2002-2003 dated October 29, 2002 issued by the Office of the Development Commissioner, Noida Export Processing Zone, Department of Commerce, Ministry of Commerce and Industry, Government of India as a manufacturer and exporter. This license is valid upto March 31, 2007.
- Certificate of Importer-Exporter Code (IEC) no. 4102000585 dated September 9, 2003 issued by the Foreign Trade Development Officer.
- Registration-cum-membership certificate bearing no. MM / 26206 (2003)-H dated October 11, 2004 issued by the Cotton Textiles Export Promotion Council for "cotton madeups" as a manufacturer exporter. This registration is valid upto March 31, 2009.
- Surrender of original Central Excise registration certificate no. AABCH1059GXM002 subsequent to obtaining registration under Rule 9 of CE for the manufacture of excisable goods as vide notification 30 / 2004 dated July 9, 2004 there is no duty on goods we manufacture.
- Registration and License to work the factory bearing registration no. NDA-2834 dated January 1, 2006 to work a factory with not more than 250 workers on any one day and using motive power not exceeding 500 HP under the Factories Act, 1948 valid upto December 31, 2006.
- Membership Certificate dated April 1, 2004 issued to Hanung Furnishing Private Limited, Noida to the Export Promotion Council for EOUs and SEZ Units. Membership number of the Unit is 030222 / (6)1 / 2 2002 proj / 2002-2003 0053.

Investors may please note that Central Government/ RBI does not take any responsibility for the financial soundness or correctness of the statements disclosed in this Red Herring Prospectus.

F. Trademarks

Registered Trademarks:

Sr. No.	Date of Application	Trade Mark Number	Trademark Registered	Authority	Class Details	Date of Registration	Validity
1.	June 24, 1994	631905	Play-n-Pets	Registrar of Trademarks, New Delhi	28	May 12, 2005	10 years from the date of application
2.	July 8, 2004	1295013	Splash (label)	Registrar of Trademarks, New Delhi	24	October 24, 2005	10 years from the date of application (Subject to renewal)
3.	July 8, 2004	1295014	Splash (word)	Registrar of Trademarks, New Delhi	24	November 26, 2005	10 years from the date of application (Subject to renewal)



Trademark Pending for renewal:

Sr. No.	Expiry Date of the Trademark	Trade Mark Number	Trademark Registered	Date of Application for Renewal	Authority	Class Details
1.	June 24, 2004	631905	Play-n-Pets	August 17, 2005	Registrar of Trademarks, New Delhi	28

Pending Trademark Applications

Sr. No.	Application date	Application Number	Trademark Applied for	Authority	Class Details	Territory
1.	January 29, 1991	544296	Play-n-Pets	Registrar of Trademarks, New Delhi	28	India
2.	November 13, 1992	584729	Troll	Registrar of Trademarks, New Delhi	28	India
3.	June 24, 1994	631905	PLAY-N-PETS	Registrar of Trademarks, New Delhi	28	India
4.	August 9, 1994	636387	Hanung	Registrar of Trademarks, New Delhi	28	India
5.	March 19, 2002	1088399	Play-n-pets (logo)	Registrar of Trademarks, New Delhi	28	India
6.	July 8, 2004	1295012	Splash (label)	Registrar of Trademarks, New Delhi	16	India
7.	September 1, 2005	1381690	Muskan (Word)	Registrar of Trademarks, New Delhi	28	India
8.	September 1, 2005	1381691	Muskan (logo)	Registrar of Trademarks, New Delhi	28	India
9.	September 1, 2005	1381692	Play N Pets (word)	Registrar of Trademarks, New Delhi	18	India

Notices of Opposition issued by or against our Company in respect of the aforesaid Trade Marks

Notice of Opposition to Application for Registration of a Trade Mark under section 21(1) of the Trade Marks Act, 1999 & rule 47 of the Trade Marks Rules, 2002 dated July 11, 2006, issued by our Company in respect of Application No. 1281846 in class 25 for the Trade Mark "Splash" made by K. M. Sangeeth, (a) Suraj Bharathan, G. Mothilal, P. V. Bijuraj, Geetha Sivanandan, P. N. Narayanan, Ayappa Prasad and Sadma Sunil Kumar.

Notice of Opposition to Application for Registration of a Trade Mark under section 21(1) of the Trade Marks Act, 1999 & rule 47 of the Trade Marks Rules, 2002 dated July 11, 2006, issued by our Company in respect of Application No. 920289 in class 25 for the Trade Mark "Splash" made by Amarlal Jhangaldas Wadhwa.

For further information, please refer section titled "Outstanding Litigation, Material Developments and Other Disclosures" beginning on page 137 of this Red Herring Prospectus.

Consents / Licenses applied for the proposed home textile unit:

- Application dated August 21, 2006 for Registration / Voluntary Registration under Section 15 or Section 16 of the Uttaranchal Value Added Tax Ordinance, 2005.

Consents / Licenses to be obtained for the proposed home textile unit:

Following are the consents / licenses that we are required to apply for, for the proposed home textiles unit once the process of land acquisition is complete:

- Consent from Uttaranchal Pollution Control Board under Section 21 / 22 of the Air (Control and Prevention of Pollution) Act, 1981.
- Consent from the Uttaranchal Pollution Control Board under Section 25 / 26 of the Water (Control and Prevention of Pollution) Act, 1974.
- Authorisation issued by the Uttaranchal Pollution Control Board under Rule 5 of the Hazardous Wastes (Management and Handling) Rules 1989.



- Registration and License to work the factory under the Factories Act, 1948.
- Issue of Code under the Employees Provident Fund & Miscellaneous Provisions Act, 1952 issued by the Employees Provident Fund Organisation.
- Certificate of Standing orders for workman in accordance with Section 5(3) of the Industrial Employment (Standing Orders) Act, 1946 along with the Uttar Pradesh Industrial Employment (Standing Order) Rules, 1946.
- Registration Certificate issued by the Deputy Commissioner of Central Excise granting registration number.
- License to import and store petroleum in installation issued by the Department of Explosives, Ministry of Commerce and Industry, Government of India.

On completion of installation of all plant and machinery at the said unit, we would be required to get the following approvals:

- Inspection report for the DG sets.
- Inspection report for the KVA Transformer.
- Compliance certificate issued by the Fire Station, Uttaranchal ascertaining the safety measures adopted within the factory premises to be found satisfactory.



SECTION VII: OTHER REGULATORY AND STATUTORY DISCLOSURES

Authority for This Issue

The Board of Directors have, pursuant to a resolution passed at its meeting held on December 9, 2005, authorised the Issue, subject to the approval of the shareholders of our Company under Section 81 (1A) of the Companies Act.

Our shareholders have authorised the Issue by a special resolution adopted pursuant to Section 81 (1A) of the Companies Act, passed at the Extraordinary General Meeting held on January 24, 2006.

We have also obtained all necessary contractual approvals required for the Issue. For further information, see "Government/ Statutory and Business Approvals" on page 143 of this Red Herring Prospectus.

Prohibition by SEBI

Our Company, our Directors, our Promoters, other companies promoted by our Promoters and companies with which our Directors are associated as directors have not been prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI.

Further, our Promoters or their relatives have confirmed that they have not been detained as willful defaulters by the RBI or any other government authority and there are no violations of securities laws committed by them in the past or are pending against them. Our Company or entities of our Group do not appear on the RBI defaulter list, nor are there any violations of securities laws committed by them in the past or pending against them.

ELIGIBILITY FOR THIS ISSUE

As per clause 2.2.1 of SEBI (DIP) Guidelines an unlisted company may make an initial public offering (IPO) of equity shares or any other security, which may be converted into or exchanged with equity shares at a later date, only if it meets all the following conditions:

1. The company has net tangible assets of at least Rs. 3 crores in each of the preceding 3 full years (of 12 months each), of which not more than 50% is held in monetary assets:
Provided that if more than 50% of the net tangible assets are held in monetary assets, the company has made firm commitments to deploy such excess monetary assets in its business/project;
2. The company has a track record of distributable profits in terms of Section 205 of the Companies Act, 1956, for at least three (3) out of immediately preceding five (5) years;
Provided further that extraordinary items shall not be considered for calculating distributable profits in terms of Section 205 of Companies Act, 1956;
3. The company has a net worth of at least Rs. 1 crore in each of the preceding 3 full years (of 12 months each);
4. In case the company has changed its name within the last one year, atleast 50% of the revenue for the preceding 1 full year is earned by the company from the activity suggested by the new name; and
5. The aggregate of the proposed issue and all previous issues made in the same financial year in terms of size (i.e., offer through offer document + firm allotment + promoters' contribution through the offer document), does not exceed five (5) times of its pre-issue network as per the audited balance sheet of the last financial year.

In terms of a certificate issued by our Auditors, M/s Rohtas & Hans, Chartered Accountants, dated September 7, 2006 the Company satisfies the above financial eligibility criteria as detailed below:

(Rs. in lakh)

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
Net Tangible Assets	17254.01	6058.04	5078.25	3999.20	3485.88
Monetary Assets	654.02	153.40	113.22	159.31	113.06
Distributable Profits	1297.78	411.91	143.50	199.24	206.71
Net worth	6691.02	2166.74	1791.67	1646.58	1445.49

Note:

Net Tangible Assets: means the sum of all assets of the Company excluding 'intangible assets'.

Monetary Assets: means cash and Bank Balances.

Distributable Profits: means net profit after tax and extraordinary items.

In addition to these, the company shall ensure that the number of allottees getting Equity Shares is not less than one thousand in number.



DISCLAIMER CLAUSE

AS REQUIRED, A COPY OF THE DRAFT RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE DRAFT RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED TO MEAN THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THIS ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE DRAFT RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS, KARVY INVESTOR SERVICES LIMITED AND ANAND RATHI SECURITIES PRIVATE LIMITED, HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH THE SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES, 2000, IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGERS ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGERS, KARVY INVESTOR SERVICES LIMITED AND ANAND RATHI SECURITIES PRIVATE LIMITED, HAVE FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED MARCH 13, 2006 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992, WHICH READS AS FOLLOWS:

1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE DRAFT RED HERRING PROSPECTUS PERTAINING TO THE SAID ISSUE.
2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, IT'S DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THIS ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.

WE CONFIRM THAT:

- a) THE DRAFT RED HERRING PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THIS ISSUE;
- b) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND
- c) THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE.
3. WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID.
4. WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE NET WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS.
5. WE CERTIFY THAT WRITTEN CONSENT FROM SHAREHOLDERS HAS BEEN OBTAINED FOR INCLUSION OF THEIR SECURITIES AS PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN AND THE SECURITIES PROPOSED TO FORM PART OF THE PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN, WILL NOT BE DISPOSED/ SOLD/ TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT RED HERRING PROSPECTUS WITH SEBI TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THIS DRAFT RED HERRING PROSPECTUS.

THE FILING OF THE DRAFT RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 AND SECTION 68 OF THE COMPANIES ACT OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY AND OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED OFFER. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE BRLMS, ANY IRREGULARITIES OR LAPSES IN THE DRAFT RED HERRING PROSPECTUS.



General Disclaimer

Investors may note that our Company, our Directors and BRLMs accept no responsibility for statements made otherwise than in this Red Herring Prospectus or in the advertisements or any other material issued by or at instance of our Company and the BRLMs and anyone placing reliance on any other source of information would be doing so at his or her own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Memorandum of Understanding entered into between the BRLM and us and the Underwriting Agreement to be entered into between the Underwriters and us.

Our Company and the BRLMs shall make all information available to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports or at bidding centers etc.

Neither the Company nor the Syndicate is liable to the Bidders for any failure in downloading the Bids due to faults in any software/hardware system or otherwise.

Further, our Company and the BRLMs undertake to update the Red Herring Prospectus and keep the public informed of any material changes till the listing and trading commencement.

Disclaimer in Respect of Jurisdiction

This Issue is being made in India to persons resident in India (including Indian nationals resident in India who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks subject to RBI permission), trusts registered under the Societies Registration Act, 1860, as amended from time to time, or any other trust law and who are authorised under their constitution to hold and invest in shares) and to NRIs, FIIs and Foreign Venture Capital Funds Registered with SEBI. This Red Herring Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to shares Issued hereby in any other jurisdiction to any person to whom it is unlawful to make an Issue or invitation in such jurisdiction. Any person into whose possession this Red Herring Prospectus comes is required to inform himself or her self about and to observe any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of appropriate court(s) in Delhi only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Red Herring Prospectus has been filed with SEBI for observations and SEBI has given its observations and this Red Herring Prospectus has been filed with Registrar of Companies, NCT of Delhi and Haryana as per the provisions of the Companies Act. Accordingly, the Equity Shares, represented thereby may not be issued or sold, directly or indirectly, and this Red Herring Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Red Herring Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

A copy of the Draft Red Herring Prospectus had been filed with the Corporate Finance Department of SEBI, at B Wing, First Floor, Mittal Court, Nariman Point, Mumbai-400021 and SEBI vide its letter no CFD/DIL/SM/ISSUES/70506/2006 dated June 29, 2006 has given its comments.

A copy of the Red Herring Prospectus, along with documents required to be filed under Section 60B of the Act, would be delivered for registration to the Registrar of Companies, NCT of Delhi and Haryana, New Delhi and a copy of the Prospectus to be filed under Section 60 of the Act would be delivered for registration with the Registrar of Companies.

Disclaimer Clause of the Bombay Stock Exchange Limited

The Bombay Stock Exchange Limited ("BSE") has given by its letter No DCS/Sk/sm/dm/2006 dated May 5, 2006, permission to the Company to use BSE's name in this offer document as one of the stock exchanges on which the Company's securities are proposed to be listed. BSE has scrutinised this offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company. BSE does not in any manner:

1. Warrant, certify or endorse the correctness or completeness of any of the contents of this offer document; or
2. Warrant that this company's securities will be listed or will continue to be listed on BSE; or
3. Take any responsibility for the financial or other soundness of this company, its promoters, its management or any scheme or project of this company;

and it should not for any reason be deemed or construed that this offer document has been cleared or approved by BSE. Every person who desires to apply for or otherwise acquires any securities of this company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against BSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.



Disclaimer Clause of the National Stock Exchange of India Limited

As required, a copy of the Red Herring Prospectus has been submitted to the National Stock Exchange of India Limited ("NSE"). NSE has given vide its letters No. NSE/LIST/22328-J dated May 22, 2006, which was valid upto August 21, 2006 and further extension obtained vide letter bearing no. NSE/LIST/28075-R dated August 23, 2006 permission to the Company to use the NSE's name in this Red Herring Prospectus as one of the stock exchanges on which the Company's securities are proposed to be listed subject to, the Company fulfilling the various criteria for listing including the one related to paid up capital (i.e. the paid up capital shall not be less than Rs. 100 million and market capitalization shall not be less than Rs. 250 million at the time of the listing). NSE has scrutinised the Red Herring Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Red Herring Prospectus has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Company's securities will be listed or will continue to be listed on NSE; nor does it take any responsibility for the financial or other soundness of the Company, its promoters, its management or any scheme or project of the Company.

Every person who desires to apply for or otherwise acquire any securities of the Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against NSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription or acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

Undertaking from the Promoters and Directors

The Company accepts full responsibility for the accuracy of the information given in the Red Herring Prospectus and confirms that to the best of their knowledge and belief, there are no other facts, their omission of which make any statement in the Red Herring Prospectus misleading and they further confirm that they have made all reasonable inquiries to ascertain such facts. The Company further declares that the Stock Exchanges to which an application for official quotation is proposed to be made do not take any responsibility for the financial soundness of the Issue or for the price at which the Equity Shares are offered or for the correctness of the statement made or opinions expressed in the Red Herring Prospectus. The Promoters/Directors declare and confirm that no information/material likely to have a bearing on the decision of investors in respect of the Equity Shares offered in terms of the Red Herring Prospectus has been suppressed, withheld and/or incorporated in the manner that would amount to misstatement, misrepresentation and in the event of its transpiring at any point of time till allotment/refund, as the case may be, that any information/material has been suppressed /withheld and/or amounts to a misstatement/misrepresentation, the Promoters/ Directors undertake to refund the entire application monies to all the subscribers within 7 days thereafter without prejudice to the provisions of Section 63 of the Companies Act.

Filing

A copy of the Draft Red Herring Prospectus has been filed with the Corporation Finance Department of SEBI at Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai 400 021.

A copy of the Red Herring Prospectus, along with the documents required to be filed under Section 60B of the Companies Act, will be delivered to the Registrar of Companies, NCT of Delhi and Haryana at New Delhi and a copy of the Prospectus required to be filed under Section 60 of the Companies Act would be delivered for registration with Registrar of Companies, NCT of Delhi and Haryana.

Listing

Initial applications have been made to the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited for permission to deal in and for an official quotation of our Equity Shares. The Bombay Stock Exchange Limited ("BSE") shall be the Designated Stock Exchange.

If the permission to deal in and for an official quotation of our Equity Shares are not granted by any of the Stock Exchanges mentioned above, our Company will forthwith repay, without interest, all moneys received from the applicants in pursuance of this Red Herring Prospectus. If such money is not repaid within eight days after the day from which our Company become liable to repay it (i.e. from the date of refusal or within 70 days from the Bid/Issue Closing Date, whichever is earlier), then the Company, and every Director of the Company who is an officer in default shall, on and from such expiry of eight days, be jointly and severally liable to repay that money with interest as prescribed under Section 73 of the Companies Act.

We shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges mentioned above are taken within seven working days of finalisation and adoption of the Basis of Allotment for this Issue.



Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68 A of the Companies Act, which is reproduced below:

"Any person who:

- (a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or
- (a) otherwise induces a company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name,

shall be punishable with imprisonment for a term which may extend to five years."

Consents

Consents in writing of: (a) the Directors, the Company Secretary and Compliance Officer, the Auditors, Bankers to the Company and Bankers to this Issue; and (b) Book Running Lead Managers to this Issue, Registrar to this Issue and legal advisors to the Issue to act in their respective capacities, have been obtained and will be filed along with a copy of Red Herring Prospectus with the Registrar of Companies, NCT of Delhi and Haryana at New Delhi as required under Sections 60 the Companies Act and such consents have not been withdrawn up to the time of delivery of the Red Herring Prospectus for registration.

M/s. Rohtas & Hans, the Auditors of our Company have given their written consent to the inclusion of their report in the form and context in which it appears in this Red Herring Prospectus and such consent and report has not been withdrawn upto the time of delivery of this Red Herring Prospectus for registration with RoC.

M/s. Rohtas & Hans, the Auditors of our Company have given their written consent to the tax benefits accruing to our Company and our members in the form and context in which it appears in this Red Herring Prospectus and such consent and report has not been withdrawn upto the time of delivery of this Red Herring Prospectus for registration with RoC.

Expert Opinion

Except as stated below, we have not obtained any expert opinions:

- (1) M/s. Gherzi Eastern Limited has prepared the Techno Economic Feasibility Report for the proposed project and their written consent has been obtained for inclusion of their name in the offer document and for the inclusion of extracts from their report. Gherzi Eastern Limited has not withdrawn its consent as aforesaid till the date of filing of this document with the Registrar of Companies.
- (2) M/s. Rohtas & Hans, Chartered Accountants, have given their consent for inclusion of the Tax Benefits Certificate dated September 4, 2006 issued to the Company in the Offer Document and such consent has not been withdrawn till the date of filing of this document with the Registrar of Companies.

Expenses of the Issue

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. The estimated Issue expenses are as follows:

Particulars	Amount (Rs. in Lakh)	% of Total Issue Expenses	% of Total Issue Size
Issue Management	[●]	[●]	[●]
Registrar's fees	[●]	[●]	[●]
Printing of stationery including transportation	[●]	[●]	[●]
Advertisement and Marketing Expenses	[●]	[●]	[●]
Underwriting, Brokerage and Selling Commission	[●]	[●]	[●]
Other (legal fees, listing fees, etc.)	[●]	[●]	[●]
Total	[●]	[●]	[●]

Note: The expenses will be finalised after the issue price is determined.

Fees Payable to the BRLM

The total fees payable to the Book Running Lead Manager will be as per the Engagement Letter dated October 31, 2005 and Memorandum of Understanding signed with us dated March 9, 2006 issued by our Company, a copy of which is available for inspection at our corporate office.



Fees Payable to the Registrar to the Issue

The fees payable to the Registrar to the Issue will be as per the Memorandum of Understanding dated March 9, 2006, a copy of which is available for inspection at our corporate office.

Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post.

Underwriting Commission, Brokerage and Selling Commission

The underwriting commission and selling commission for the Issue is as set out in the Syndicate Agreement amongst the Company, the BRLM and Syndicate Members. The underwriting commission shall be paid as set out in the Syndicate Agreement based on the Issue Price and amount underwritten in the manner mentioned in section titled "Underwriting" in chapter titled "General Information" beginning on page 8 of this Red Herring Prospectus.

Previous Rights and Public Issues

We have not made any public issue since its inception.

Issues otherwise than for Cash

Date of Issue	No. of Shares	Issue Price (in Rs.)	Reasons for issue	Benefits accrued to the Company
March 29, 1994	1,09,750	100/-	Issued on acquisition of business by our Company	Due to backward integration, increase in profitability
January 15, 1996	10,98,200	NIL	Bonus Issue 1:1	N.A.
March 31, 1997	6,69,855	NIL	Bonus 1:4	N.A.
August 30, 2005	33,49,275	NIL	Bonus 1:1	N.A.
October 31, 2005	60,50,335	38.11	Pursuant to Agreement to Sell and Purchase	Acquisition of business of two of the Promoter Group Companies.

Commission and Brokerage on Previous Issues

Since this is the initial public offering of the Equity Shares, no sum has been paid as commission or brokerage in respect of the rights issue that was made in the past.

Particulars in Regard to the Company and Other Listed Companies under the Same Management within the meaning of Section 370(1)(B) of the Companies Act, 1956, which made any Capital Issue during last three years

There are no listed companies under the same management within the meaning of section 370 (1)(B) of the Companies Act that made any capital issue during the last three years.

Promises v. Performance

The company has not made any public issue of shares since its incorporation. There is no group company, which has made any public issues.

Outstanding Debentures or Bonds

As on the date of filing of this Red Herring Prospectus, the Company does not have any outstanding Debenture or Bond Issue.

Outstanding Preference Shares

As on the date of filing of this Red Herring Prospectus, the Company does not have any outstanding preference shares.

Stock Market Data for our Equity Shares

This being an initial public offering of our Company, no stock market data is available.

Option to Subscribe

Equity Shares being offered through this Red Herring Prospectus can be applied for in dematerialized form only.

Other Disclosures

Our Promoters, Promoter Group Companies, or the directors of our Promoter Group Companies or our Directors have not purchased or sold any securities of our Company during a period of six months preceding the date on which this Red Herring Prospectus is filed with RoC.



Mechanism for Redressal of Investor Grievances

The memorandum of understanding between the Registrar to this Issue and us will provide for retention of records with the Registrar to this Issue for a period of at least one year from the last date of dispatch of the letters of allotment, demat credit and refund orders to enable the investors to approach the Registrar to this Issue for redressal of their grievances.

All grievances relating to this Issue may be addressed to the Registrar to this Issue, giving full details such as name, address of the applicant, number of Equity Shares applied for, amount paid on application and the bank branch or collection center where the application was submitted.

Disposal of Investor Grievances by the Company

We estimate that the average time required by us or the Registrar to this Issue for the redressal of routine investor grievances will be seven business days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, we will seek to redress these complaints as expeditiously as possible.

Our Company has appointed Mr. Arvind Kumar Gupta, Company Secretary cum Finance Controller as the Compliance Officer and he may be contacted at Hanung Toys and Textiles Limited

108-109 NSEZ,
Noida - 201 305
Tel.: +91 120 256 7501 -04
Fax: +91 120 256 7505
Email: investor@hanung.com.

There are no listed Companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.

Changes in Auditors during the last three financial years and reasons therefore

There have been no changes of the auditors of our Company in the last three years.

Capitalisation of Reserves or Profits during the last five years

On August 30, 2005, the company has allotted 33,49,275 equity shares as bonus in the ratio of 1 share for every 1 share held in the company by capitalization of Rs. 96.60 lakhs out of the Share Premium account and Rs. 238.33 Lakhs out of the General Reserves.

Revaluation of Assets

The Company has not revalued its assets since inception.



SECTION VIII - ISSUE RELATED INFORMATION

TERMS OF THIS ISSUE

The Equity Shares being issued are subject to the provisions of the Companies Act, the Memorandum and Articles of the Company, the terms of this Red Herring Prospectus, Bid-cum-Application Form, the Revision Form, the CAN and other terms and conditions as may be incorporated in the allotment advice, and other documents/certificates that may be executed in respect of this Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to this Issue of capital and listing and trading of securities issued from time to time by SEBI, Government of India, Reserve Bank of India, Stock Exchanges, Registrar of Companies and/or other authorities, as in force on the date of this Issue and to the extent applicable.

Ranking of Equity Shares

The Equity Shares being issued shall be subject to the provisions of our Memorandum and Articles and shall rank pari passu in all respects with the other existing Equity Shares of the Company including rights in respect of dividend. The Allottees will be entitled to dividend or any other corporate benefits, if any, declared by the Company after the date of Allotment.

Mode of Payment of Dividend

We shall pay dividend to our shareholders as per the provisions of the Companies Act, 1956.

Face Value and Issue Price

The Equity Shares with a face value of Rs. 10 each are being issued in terms of this Red Herring Prospectus at a price band of Rs. 85/- to 95/- per share. At any given point of time, there shall be only one denomination for the Equity Shares of the Company, subject to applicable laws.

Compliance with SEBI Guidelines

We shall comply with all disclosure and accounting norms as specified by SEBI from time to time.

Rights of the Equity Shareholder

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act and Articles of Association of the Company.

For further details on the main provisions of the Company's Articles of Association dealing with voting rights, dividend, forfeiture and lien, transfer and transmission and/or consolidation/splitting, see "Main Provisions of the Articles of Association of the Company" beginning on page 181 of this Red Herring Prospectus.

Market Lot

In terms of Section 68B of the Companies Act, the Equity Shares of the Company shall be allotted only in dematerialized form. In terms of existing SEBI Guidelines, the trading in the Equity Shares of the Company shall only be in dematerialized form for all investors.

Since trading of our Equity Shares will be in dematerialized mode, the tradable lot is one equity share.

Allocation and allotment of Equity Shares through this Issue will be done only in electronic form in multiples of one Equity Shares to the successful Bidders subject to a minimum Allotment of 60 Equity Shares. For details of allocation and allotment, see "Other Regulatory and Statutory Disclosure" on page 148 of this Red Herring Prospectus.

Jurisdiction

The jurisdiction for the purpose of this Issue is with competent courts/authorities in New Delhi, India.



Nomination Facility to the Investor

In accordance with Section 109A of the Companies Act, the sole or first bidder, along with other joint bidder, may nominate any one person in whom, in the event of the death of sole bidder or in case of joint bidders, death of all the bidders, as the case may be, the Equity Shares transferred, if any, shall vest. A person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the equity share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to equity share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/ transfer/ alienation of equity share(s) by the person nominating.

In accordance with Section 109B of the Companies Act, any person who becomes a nominee by virtue of the provisions of Section 109A of the Companies Act, shall upon the production of such evidence as may be required by the Board, elect either:

- a. to register himself or herself as the holder of the Equity Shares; or
- b. to make such transfer of the Equity Shares, as the deceased holder could have made.

Further, the Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Since the allotment of Equity Shares in this Issue will be made only in dematerialized mode, there is no need to make a separate nomination with us. Nominations registered with respective depository participant of the applicant would prevail. If the investors require to change the nomination, they are requested to inform their respective depository participant.

Minimum Subscription

If the Company does not receive the minimum subscription of 90% of the Issue amount including devolvement of the Syndicate Member, if any, within 60 days from the Bid/Issue Closing Date, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after the Company becomes liable to pay the amount, the Company shall pay interest as per Section 73 of the Companies Act.

If the number of allottees in the proposed Issue is less than 1000 allottees, our Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 15 days after the Company becomes liable to pay the amount, the Company shall pay interest at the rate 15% per annum for the delayed period.

Withdrawal of the Issue

The Company in consultation with the BRLMs, reserves the right not to proceed with the Issue after the bidding. In case the Company decides so, it shall issue a public notice within two days of the closure of the bidding, indicating the reasons for withdrawal of the Issue in the newspapers in which the bid advertisement appeared earlier. The Company shall also inform the Stock Exchanges on which the Equity Shares were proposed to be listed.

Bidding Period / Issue Period

BID / ISSUE OPENS ON: September 28, 2006

BID / ISSUE CLOSSES ON: October 5, 2006

Bids and any revision in bids shall be accepted **only between 10 a.m. and 3 p.m.** (Indian Standard Time) during the Bidding Period as mentioned above at the bidding centers mentioned on the Bid-cum-Application Form except that on the Bid/Issue Closing Date, the Bids shall be accepted **only between 10 a.m. and 1 p.m.** (Indian Standard Time) or uploaded till such time as may be permitted by the BSE and NSE on the Bid/Issue Closing Date.

Arrangements for Disposal of Odd Lots

The Company's shares will be traded in dematerialized form only and therefore the marketable lot is one (1) share. Therefore, there is no possibility of odd lots.

Restriction on Transfer And Transmission of Shares

Nothing contained in the Articles of Association of the Company shall prejudice any power of the Company to refuse to register the transfer of any share.



No fee shall be charged for sub-division and consolidation of share certificates (physical form), debenture certificates and detachable warrants and for sub-division of letters of allotment and split, consideration, renewal and pucca transfer receipts into denomination corresponding to the market units of trading.

Application by Non Residents/NRIs/FIIs

There is no reservation for Non Residents, NRIs, FIIs and Foreign Venture Capital Funds and all Non Residents, NRI, FII and Foreign Venture Capital Fund applicants will be treated on the same basis with other categories for the purpose of allocation.

As per the policy of the RBI, Overseas Corporate Bodies cannot participate in the Issue.

The Equity Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account of benefit of, "U.S. Persons" (as defined in the Regulation S of the Securities Act), except pursuant to any exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.



ISSUE PROCEDURE

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein upto 50% of the Net Issue shall be available for allocation to QIBs on a proportionate basis, out of which 5% shall be available for allocation on a proportionate basis to Mutual Funds. Further, not less than 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders and not less than 15% of the Net Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Issue Price. It may be noted that the bids received in the Employee Reservation Portion shall not be considered for the purpose of determining the Issue Price through Book Building Process.

Bidders are required to submit their Bids through the members of the Syndicate. We, in consultation with the BRLMs reserve the right to reject any QIB Bid procured by any or all members of the Syndicate provided the rejection is at the time of receipt of such Bid and the reason for rejection of the Bid is communicated to the Bidder at the time of rejection of the Bid. In case of Non-Institutional Bidders and Retail Individual Bidders, the Company would have a right to reject the Bids only on technical grounds.

Investors should note that Equity Shares will be allotted to successful Bidders only in the dematerialized form. Bidders will not have the option of getting allotment of the Equity Shares in physical form. The Equity Shares on allotment shall be traded only in the dematerialised segment of the Stock Exchanges.

Illustration of Book Building and Price Discovery Process *(Investors should note that the following is solely for the purpose of illustration and is not specific to this Issue)*

Bidders can bid at any price within the price band. For instance, assuming a price band of Rs. 20 to Rs. 24 per share, issue size of 3,000 equity shares and receipt of five bids from bidders out of which one bidder has bid for 500 shares at Rs.24 per share while another has bid for 1,500 shares at Rs.22 per share. A graphical representation of the consolidated demand and price would be made available at the bidding centers during the bidding period. The illustrative book as shown below shows the demand for the shares of our Company at various prices and is collated from bids from various investors.

Number of equity shares Bid for	Bid Price (Rs.)	Cumulative equity shares Bid for	Subscription
500	24	500	16.67%
1000	23	1500	50.00%
1500	22	3000	100.00%
2000	21	5000	166.67%
2500	20	7500	250.00%

The price discovery is a function of demand at various prices. The highest price at which the issuer is able to issue the desired quantum of shares is the price at which the book cuts off i.e., Rs. 22 in the above example. The issuer, in consultation with the BRLMs will finalise the issue price at or below such cut off price i.e. at or below Rs. 22. All bids at or above this issue price and cut-off bids are valid bids and are considered for allocation in respective category.

Bid-cum-Application Form

Bidders shall only use the specified Bid-cum-Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Red Herring Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid-cum-Application Form and such options shall not be considered as multiple bids. Upon the allocation of Equity Shares, dispatch of the Confirmation of Allocation Note ("CAN"), and filing of the Prospectus with the Registrar of Companies, NCT of Delhi and Haryana, the Bid-cum-Application Form shall be considered as the Application Form. Upon completing and submitting the Bid-cum-Application Form to a member of the Syndicate, the Bidder is deemed to have authorised the Company to make the necessary changes in this Red Herring Prospectus and the Bid-cum-Application Form as would be required for filing the Prospectus with the Registrar of Companies, NCT of Delhi and Haryana and as would be required by Registrar of Companies, NCT of Delhi and Haryana after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed colour of the Bid-cum-Application Form for various categories is as follows:

Category	Colour of Bid-cum-Application Form
Indian public or NRI applying on a non-repatriation basis	White
Non-residents, NRIs, FIIs, Foreign Venture Capital Fund registered with SEBI, Multilateral and Bilateral Development Financial Institutions applying on repatriation basis	Blue
Eligible Employees	Pink



Who can Bid

1. Indian nationals resident in India who are majors, in single or joint names (not more than three);
2. Hindu Undivided Families or HUFs in the individual name of the Karta. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid-cum-Application Form as follows: "Name of sole or first Bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the Karta". Bids by HUFs would be considered at par with those from individuals;
3. Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in the Equity Shares;
4. Indian Mutual Funds registered with SEBI;
5. Indian Financial Institutions, commercial banks (excluding foreign banks), regional rural banks, co-operative banks (subject to RBI regulations, as applicable);
6. Venture Capital Funds registered with SEBI;
7. Foreign Venture Capital Investors registered with SEBI;
8. State Industrial Development Corporations;
9. Multilateral and bilateral development financial institutions;
10. Eligible NRIs and other Non Residents including FIIs on a repatriation basis or non-repatriation basis subject to applicable laws; and
11. Insurance companies registered with the Insurance Regulatory and Development Authority;
12. Provident funds with minimum corpus of Rs. 2500 lakh and who are authorised under their constitution to hold and invest in Equity Shares;
13. Pension funds with minimum corpus of Rs. 2500 lakh and who are authorised under their constitution to hold and invest in Equity Shares;
14. Trust/ society registered under the Societies Registration Act, 1860, as amended, or under any other law relating to trusts/ society and who are authorised under their constitution to hold and invest in Equity Shares; and
15. Scientific and/ or industrial research organizations authorised to invest in Equity Shares.

As per existing regulations, OCBs cannot Bid in this Issue.

Note: The BRLMs and Syndicate Members shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligation.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under the relevant regulations or statutory guidelines.

Option to Subscribe

Equity Shares being issued through this Red Herring Prospectus can be applied for in the dematerlised form only. Bidders will not have the option of getting the allotment in physical form. The Equity Shares on allotment shall be traded only in the dematerlised segment of the Stock Exchanges.

How to Apply - availability of forms, Red Herring Prospectus and mode of payment

APPLICATION BY MUTUAL FUNDS

As per the current regulations, the following restrictions are applicable for investments by Mutual Funds:

No mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No Mutual Fund under its scheme should own more than 10% of any company's paid-up capital carrying voting rights. These limits would have to be adhered to by the mutual funds for investment in the Equity Shares.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

Under the SEBI Guidelines, 5% of the QIB portion has been specially reserved for Mutual Funds.



APPLICATION BY NRIs

Bid cum Application forms has been made available for NRIs at the Corporate Office of the Company.

NRI applicants may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for allotment on repatriation basis. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) Account shall use the form meant for Resident Indians (white in colour). All instruments accompanying bids shall be payable in Mumbai only.

APPLICATION BY FIIs

As per current regulations, the following restrictions are applicable for investment by FIIs:

No single FII can hold more than 10% of the post-issue paid-up capital of the Company. In respect of an FII investing in the Equity Shares of the Company on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital or 5% of the total issued capital of the company in case such sub-account is a foreign corporate or an individual.

As of now, the aggregate FII holding in the company cannot exceed 24% of the total issued capital of the Company, with the approval of the Board of Directors and the shareholders by way of a special resolution, the aggregate FII holding can go up to 100%. However, as on this date no such resolution has been recommended to the shareholders of the Company for adoption.

Bids by NRIs or FIIs on Repatriation Basis

Bids and revision to bids must be made:

- On the bid-cum-application form or revision form, as applicable (Blue in colour), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- In a single or joint names (not more than three).
- Bids by NRIs for a Bid amount of up to less than Rs. 1,00,000 would be considered under the Retail Individual Bidders Portion for the purpose of allocation and Bids for a Bid amount of more than or equal to Rs. 1,00,000 would be considered under Non-Institutional Bidder Portion for the purposes of allocation; by FIIs or Foreign Venture Capital Fund, Multilateral and Bilateral Development Financial Institutions for a minimum of such number of Equity Shares and in multiples of 60 Equity Shares thereafter so that the Bid amount exceeds Rs. 1,00,000; for details, please refer to the sub-section titled "Maximum and Minimum Bid Size" in chapter titled "Issue Procedure" beginning on page 158 of this Red Herring Prospectus.
- In the names of individuals or in the names of FIIs or in the names of Foreign Venture Capital Fund, Multilateral and Bilateral Development Financial Institutions but not in the names of minors, firms or partnerships, foreign nationals or their nominees or OCB's.
- Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and / or commission. In case of Bidders who remit money payable upon submission of the Bid cum Application Form or Revision Form through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into US Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post/speed post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. Our Company will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

APPLICATION BY SEBI REGISTERED VENTURE CAPITAL FUNDS AND FOREIGN VENTURE CAPITAL INVESTORS

As per the current regulations, the following restrictions are applicable for investments by SEBI registered Venture Capital Funds and Foreign Venture Capital Investors:

The SEBI (Venture Capital) Regulations, 1996 and the SEBI (Foreign Venture Capital Investor) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed 25% of the corpus of the venture capital fund/ foreign venture capital investor. The aggregate holdings of venture capital funds and foreign venture capital investors registered with SEBI could, however, go up to 100% of our Company's paid-up equity capital.

The above information is given for the benefit of the Bidders. Our Company and the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may happen after the date of this Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that the number of Equity Shares bid for do not exceed the applicable limits under laws or regulations, and our Company and the BRLMs shall on no grounds whatsoever be liable for or responsible for any breach of applicable regulations by any investor or category of investors.



Maximum and Minimum Bid Size

(a) **For Retail Individual Bidders:** The Bid must be for a minimum of 60 Equity Shares and in multiples of 60 Equity Shares thereafter, subject to maximum Bid amount of Rs. 1,00,000. In case of revision of Bids, the Retail Bidders have to ensure that the Bid Amount does not exceed Rs. 1,00,000. In case the maximum Bid amount is more than Rs. 100,000 due to revision of the Bid or revision of price band or on exercise of the option, then the same would be considered for allocation under the Non-Institutional Bidders category. The Cut-off option is given only to the Retail Individual Bidders indicating their agreement to bid and purchase at the final Issue Price as determined at the end of the Book Building Process.

(b) **For Other Bidders (Non-Institutional Bidders and QIBs Bidders):** The Bid must be for a minimum of such Equity Shares such that the Bid Amount exceeds Rs. 1,00,000 and in multiples of 60 Equity Shares thereafter. A Bid cannot be submitted for more than the size of the Issue. However, the maximum Bid by a QIB should not exceed the investment limits prescribed for them by the regulatory or statutory authorities governing them. Under existing SEBI guidelines, a QIB Bidder cannot withdraw its Bid after the Bid/Issue Closing Date.

In case of revision of bids, the Non Institutional Bidders who are individuals have to ensure that the Bid Amount is greater than Rs. 1,00,000. In case the Bid Amount reduces to Rs. 1,00,000 or less due to a revision in Bids or revision of price band, the same would be considered for allocation under the Retail portion. Non Institutional Bidders and QIB Bidders are not allowed to Bid at 'Cut-Off'.

(c) **For Employee Reservation Portion:** The Bid must be for a minimum of 60 Equity Shares and in multiple of 60 Equity Shares. The maximum bid in this category cannot exceed 5,00,000 Equity Shares. Bidders in the Employee Reservation Portion applying for a maximum Bid in any of the Bidding Options not exceeding Rs. 1,00,000 may bid at "Cut-off".

No promoters or persons belonging to the promoter group are part of the employees for whom reservation has been made.

Information for Bidders

- (a) Our Company will file the Red Herring Prospectus with the Registrar of Companies, NCT of Delhi and Haryana atleast 3 days before the bid/ issue opening date.
- (b) The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid-cum-Application Form to potential investors.
- (c) Any investor (who is eligible to invest in our Equity Shares) who would like to obtain the Red Herring Prospectus and/ or the Bid-cum-Application Form can obtain the same from our corporate office or from any of the BRLMs/Syndicate Members.
- (d) Investors who are interested in subscribing for our Company's Equity Shares should approach any of the BRLMs or Syndicate Member or their authorised agent(s) to register their Bid.
- (e) The Bids should be submitted on the prescribed Bid-cum-Application Form only. Bid-cum-Application Forms should bear the stamp of the members of the Syndicate. Bid-cum-Application Forms, which do not bear the stamp of the members of the Syndicate, will be rejected.
- (f) The Members of the Syndicate shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement.
- (g) The Price Band has been fixed at Rs. 85/- to Rs 95/- per Equity share of Rs 10 each, Rs. 85/- being the lower end of the Price Band and Rs. 95/- being the higher end of the Price Band. The Bidders can bid at any price within the Price Band, in multiples of Re 1 (One).
- (h) The Company in consultation with the BRLMs, reserve the right to revise the Price Band, during the Bidding Period, in accordance with SEBI Guidelines. The higher end of the Price Band should not be more than 20% of the lower end of the Price Band. Subject to compliance with the immediately preceding sentence, the lower end of the Price Band can move up or down to the extent of 20% of the lower end of the Price Band disclosed in the Red Herring Prospectus.
- (i) In case of revision in the Price Band, the Bidding/ Issue Period will be extended for three additional days after revision of Price Band subject to a maximum of 10 working days. Any revision in the Price Band and the revised Bidding/ Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE, by issuing a public notice in two widely circulated newspapers (one each in English and Hindi) and also by indicating the change on the websites of the BRLMs and at the terminals of the Syndicate Members.
- (j) The Company in consultation with the BRLMs, can finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.



Method and Process of Bidding

- a) Our Company and the BRLMs shall declare the Bid/Issue Opening Date, Bid/Issue Closing Date and Price Band at the time of filing the Red Herring Prospectus with Registrar of Companies, NCT of Delhi and Haryana and also publish the same in one English national daily, and one Hindi national daily. This advertisement shall contain the minimum disclosures as prescribed under Schedule XX-A of the SEBI Guidelines. The BRLMs and Syndicate Members shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement.
- b) Investors who are interested in subscribing for our Equity Shares should approach any of the members of the Syndicate or their authorized agent(s) to register their Bid.
- c) The Bidding Period shall be a minimum of three working days and shall not exceed seven working days. In case the Price Band is revised, the revised Price Band and Bidding Period will be published in two national newspapers (one each in English and Hindi) by indicating on the websites of the BRLMs and at the terminals of the members of the Syndicate. The Bidding Period may be extended, if required, by an additional three working days, subject to the total Bidding Period not exceeding 10 working days.
- d) Each Bid-cum-Application Form will give the Bidder the choice to bid for up to three optional prices (for details refer to the paragraph entitled "Bids at Different Price Levels" below on page 162 of this Red Herring Prospectus) and specify the demand (i.e. the number of Equity Shares bid for) in each option. The price and demand options submitted by the Bidder in the Bid-cum-Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.
- e) The Bidder cannot bid on another Bid-cum-Application Form after his or her Bids on one Bid-cum-Application Form have been submitted to any member of the Syndicate. Submission of a second Bid-cum-Application Form to either the same or to another member of the Syndicate will be treated as multiple bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the paragraph "Build up of the Book and Revision of Bids" on page of 165 this Red Herring Prospectus.
- f) During the Bidding Period, Bidders may approach the members of the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients / investors who place orders through them and shall have the right to vet the Bids.
- g) Along with the Bid-cum-Application Form, all Bidders will make payment in the manner described under the paragraph "Terms of Payment" on page 164 of this Red Herring Prospectus.
- h) The Syndicate Member will enter each bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, ("TRS"), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid-cum-Application Form. It is the responsibility of the Bidder to obtain the TRS from the members of the Syndicate.

Bids at Different Price Levels and Revision of Bids

- (a) The Price Band has been fixed at Rs. 85/- to Rs. 95/- per Equity Share of Rs. 10 each, Rs. 85/- being the Floor Price and Rs. 95/- being the Cap Price. The Bidders can bid at any price within the Price Band, in multiples of Re 1. In accordance with SEBI Guidelines, the Company in consultation with the BRLMs can revise the Price Band by informing the Stock Exchanges, releasing a press release, disclosure on the website of the members of the Syndicate, if any and notification on the terminal of the members of the Syndicate. In case of a revision in the Price Band, the Issue will be kept open for a period of three additional working days after the revision of the Price Band, subject to the total Bidding Period not exceeding ten working days.
- (b) The Company in consultation with BRLMs can finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.
- (c) The Bidders can bid at any price within the Price Band. The Bidder has to bid for the desired number of Equity Shares at a specific price. **Retail Individual may bid at "Cut-off". However, bidding at "Cut-off" is prohibited for QIB or Non Institutional Bidders and such Bids from QIBs and Non-Institutional Bidders shall be rejected.**
- (d) The Company in consultation with the BRLMs can finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders
- (e) Retail Individual Bidders, who bid at the Cut-Off agree that they shall purchase the Equity Shares at the Issue price. Retail Individual Bidders bidding at Cut-Off shall submit the Bid-cum-Application form with cheque/ demand draft for the Bid



Amount based on the Cap of the Price Band in with the Syndicate Members. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders who bid at the Cut-Off Price (i.e. the total number of Equity Shares allocated in the Issue multiplied by the Issue Price), Retail Individual Bidders shall receive the refund of the excess amounts from the respective Refund Account.

- (f) The Price Band can be revised during the Bidding Period in which case the maximum revisions on either side of the Price Band shall not exceed 20% of the Cap Price and the Floor Price disclosed in the Red Herring Prospectus.
- (g) Any revision in the Price Band shall be widely disseminated including by informing the stock exchanges by issuing a public notice in two national languages (One each in English & Hindi), Hindi being regional language also indicating the change on the relevant websites and the terminals of the members of Syndicate.
- (h) In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall be within the range of Rs. 5,000 to Rs. 7,000. The Issuer Company in consultation with the BRLMs shall stipulate the minimum application size (in terms of number of shares) falling within the aforesaid range of minimum application value.
- (i) In case of an upward revision in the Price Band announced as above, Retail Individual Bidders, who had bid at Cut Off Price could either (i) revise their Bid or (ii) make additional payment based on the cap of the revised Price Band (such that the total amount i.e. original bid amount plus additional payment does not exceed Rs. 1,00,000, if the bidder wants to continue to bid at Cut-Off Price), with the members of the Syndicate to whom the original Bid was submitted. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs. 100,000, the Bid will be considered for allocation under the Non Institutional category in terms of this Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to revision, the number of Equity Shares bid for shall be adjusted downwards for the purpose of allocation, such that no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut off Price.
- (j) In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders who have bid at Cut Off price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the Refund Account.
- (k) During the Bidding/ Issue Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.
- (l) Revisions can be made in both the desired number of Equity Shares and the Bid price by using the Revision Form. Apart from mentioning the revised options in the revision form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being revised, in the Revision Form. The members of the Syndicate will not accept incomplete or inaccurate Revision Forms.
- (m) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate through whom he or she had placed the original Bid.
- (n) Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- (o) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Red Herring Prospectus. In case of QIB Bidders, the members of the Syndicate shall collect the payment in the form of cheque or demand draft for the incremental amount in the QIB Margin Amount, if any, to be paid on account of the upward revision of the Bid at the time of one or more revisions by the QIB Bidders.
- (p) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate.

It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.



Escrow Mechanism

Escrow Account for the Issue:

We shall open Escrow Accounts with one or more Escrow Collection Banks in whose favor the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the bid. Cheques or demand drafts received for the full Bid amount from Bidders in a certain category would be deposited in the Escrow Account. The monies in the Escrow Accounts shall be maintained by the Escrow Collection Banks for and on behalf of the bidders. The Escrow Collection Banks shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Banks shall transfer the monies from the Escrow Account to the Public Issue Account and the Refund Account with the Bankers to the Issue as per the terms of the Escrow Agreement. Payments of refunds to the Bidders shall also be made from the Escrow Account as per the terms of the Escrow Agreement and this Red Herring Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between the Escrow Collection Bank(s), our Company, the Registrar to the Issue, BRLMs to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Accounts

Each Bidder shall provide the applicable Margin Amount, and shall, with the submission of the Bid cum Application Form draw a cheque or demand draft for the maximum amount of his/her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (See "Payment Instructions" on page 171 and submit the same to the member of the Syndicate to whom the Bid is being submitted. The Bidder may also provide the applicable Margin Amount by way of an electronic transfer of funds through the RTGS mechanism. Each QIB shall provide their QIB Margin Amount only to a BRLMs. Bid-cum-Application Forms accompanied by cash/Stockinvest/money order shall not be accepted. The Margin Amount based on the Bid Amount has to be paid at the time of submission of the Bid cum Application Form.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders until such time as the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds equivalent to the size of the issue from the Escrow Account, as per the terms of the Escrow Agreement, into the Public Issue Account. The balance amount after transfer to the Public Issue Account shall be transferred to the Refund Account.

Each category of Bidders i.e. QIBs, Non-Institutional Bidders, Employee Reservation Portion and Retail Individual Bidders would be required to pay their applicable Margin Amount at the time of the submission of the Bid-cum-Application Form. The Margin Amount payable by each category of Bidders is mentioned under the heading "Issue Structure" on page 39 of this Red Herring Prospectus and shall be uniform across all the bidders in the same category. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Issue Price and the Margin Amount paid at the time of Bidding, shall be payable by the Bidder no later than the Pay-in-Date, which shall be a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs. If the payment is not made favoring the Escrow Account within the time stipulated above, the Bid of the Bidder is liable to be cancelled. However, if the applicable margin amount for bidder is 100%, the full amount of payment has to be made at the time of submission of the Bid-Cum-Application Form.

Where the Bidder has been allocated lesser number of Equity Shares than he or she had bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder in terms of this Red Herring Prospectus.

Electronic Registration of Bids

- (a) The members of the Syndicate will register the Bids using the on-line facilities of NSE and BSE. There will be at least one on-line connectivity in each city, where a Stock Exchange is located in India and where Bids are being accepted.
- (b) NSE and BSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the Syndicate Member and their authorised agents during the Bidding Period. Syndicate members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for book building on a regular basis. On the Bid Closing Date, the Members of the Syndicate shall upload the Bids till such time as may be permitted by the Stock Exchanges.
- (c) BSE and NSE will aggregate demand and price for Bids registered on their electronic facilities on a regular basis and display graphically the consolidated demand at various price levels. This information can be accessed on BSE's website at "www.bseindia.com" or on NSE's website at "www.nseindia.com".
- (d) At the time of registering each Bid, the Syndicate members shall enter the following details of the investor in the on-line system:



- Name of the investor (Investors should ensure that the name given in the Bid cum Application form is exactly the same as the Name in which the Depository Account is held. In case, the Bid cum Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form)
 - Investor Category such as Individual, Corporate or Mutual Fund, etc.
 - Number of Equity Shares bid for
 - Bid price
 - Bid-cum-Application Form number
 - Whether payment is made upon submission of Bid-cum-Application Form
 - Depository Participant Identification Number and Client Identification Number of the demat account of the Bidder
- (e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the Bidding options. It is the Bidder's responsibility to request and obtain the TRS from the members of the Syndicate. The registration of the Bid by the Syndicate Member does not guarantee that the Equity Shares shall be allocated either by the Syndicate Member or the Company.
- (f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.
- (g) Consequently, the members of the Syndicate has also the rights to accept the bid or reject it with out assigning any reasons , in case of QIBs. In case of Non-Institutional Bidders, Employee Reservation Portion and Retail Individual Bidders, Bids would not be rejected except on the technical grounds listed on Page 174 in this Red Herring Prospectus.
- (h) It is to be distinctly understood that the permission given by NSE and BSE to use their network and software of the Online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by our Company, BRLMs are cleared or approved by NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of our Company, our Promoters, our management or any scheme or project of our Company.
- (i) It is also to be distinctly understood that the approval given by NSE and BSE should not in any way be deemed or construed that this Red Herring Prospectus has been cleared or approved by the NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the NSE and BSE.
- (j) Bids not uploaded to the online IPO system of NSE/BSE shall not be considered for allocations / allotment.

Build Up of the Book and Revision of Bids

- (a) Bids registered by various Bidders through the members of the Syndicate shall be electronically transmitted to the NSE or BSE mainframe on a regular basis.
- (b) The book gets built up at various price levels. This information will be available with the BRLMs on a regular basis.
- (c) The Price Band can be revised during the bidding period, in which case the bidding period shall be extended further for a period of three days, subject to the total bidding period not exceeding three working days. The Cap on the price band shall not be more than 20% of the floor of the price band. Subject to compliance with the immediately preceding sentence, the floor of price band can move up or down to the extent of 20% of the floor of the price band disclosed in the red herring prospectus.
- (d) Any revision in the price band will be widely disseminated by informing the Stock Exchanges, by issuing a Public Notice in two national newspapers (one each in English and Hindi) and one local newspaper and also indicating the change on the relevant websites and the terminals of the members of the syndicates.
- (e) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the price band using the printed Revision Form, which is a part of the Bid-cum-Application Form.
- (f) Revisions can be made in both the desired number of Equity Shares and the bid price by using the Revision Form. Apart from mentioning the revised options in the revision form, the Bidder must also mention the details of all the options in his or her Bid-cum-Application Form or earlier Revision Form. For example, if a Bidder has bid for three options in the Bid-cum-Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate.



- (g) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) of the Bid, the Bidders will have to use the services of the same members of the Syndicate through whom he or she had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- (h) Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- (i) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Red Herring Prospectus. In case of QIBs, the members of the Syndicate shall collect the payment in the form of cheque or demand draft or electronic transfer of funds through RTGS for the incremental amount in the QIB margin, if any, to be paid on account of the upward revision of bid at the time of one or more revision by the QIB bidders.
- (j) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the Syndicate Member. **It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.**
- (k) Only bids that are uploaded to the online IPO system of NSE/ BSE shall be considered for allocation / allotment. In case of discrepancy of data between NSE or BSE and the Syndicate Member, the decision of the BRLMs based on physical records of Bid-cum-Application Forms shall be final and binding to all concerned.

Price Discovery and Allocation

- (a) After the Bid/Issue Closing Date, the BRLMs will analyze the demand generated at various price levels and discuss pricing strategy with us.
- (b) We in consultation with the BRLMs shall finalise the "Issue Price" and the number of Equity Shares to be allotted and the allocation to successful QIB Bidders. The allocation will be decided based on the quality of the Bidder determined broadly based by the size, price and time of the Bid
- (c) The allocation for QIBs, upto 50% of the Net Issue, of which 5% shall be reserved for Mutual Funds would be proportionate. The allocation to Non-Institutional Bidders and Retail Individual Bidders of not less than 15% and 35% of the Net Issue, respectively, would be on proportionate basis, in consultation with Designated Stock Exchange, subject to valid Bids being received at or above the Issue Price. There is a reservation for the Employees of our Company to the extent of 5,00,000 Equity Shares which would be allotted on the proportionate basis.
- (d) Under subscription, if any, in Non-Institutional and Retail categories would be allowed to be met with spill over from any of the other categories at the discretion of the Company and the BRLMs. However, if the aggregate demand by Mutual Funds is less than 5% of the QIB Portion, the balance Equity Shares from the portion specifically available for allocation to Mutual Funds in the QIB Portion will first be added to the QIB Portion and be allocated proportionately to the QIB Bidders in proportion to their Bids in accordance with the Basis of Allocation described in the section "Other Regulatory and Statutory Disclosures" beginning on page 148 of this Red Herring Prospectus.
- (e) Any under subscription in equity shares reserved for allocation to eligible employees would be treated as a part of the net offer to public and allocated in accordance with the basis of allotment described in the heading titled "Basis of Allotment" on page 176 of this Red Herring Prospectus.
- (f) The BRLMs, in consultation with us, shall notify the Syndicate Member of the Issue Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.
- (g) We in consultation with the BRLMs, reserve the right to reject any Bid procured from QIB Bidders, by any or all members of the Syndicate. Rejection of Bids made by QIBs, if any, will be made at the time of submission of Bids provided that the reasons for rejecting the same shall be provided to such Bidder in writing.
- (h) We reserve the right to cancel the Issue any time after the Bid/Issue Opening Date but before allotment without assigning any reasons whatsoever.
- (i) Allocation to QIBs, Non-residents, FIIs and NRIs applying on repatriation basis will be subject to the terms and conditions stipulated by the RBI while granting permission for allotment of equity shares to them.
- (j) In terms of SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bid after the closure of Bidding.
- (k) The allotment details shall be put on the website of the Registrar to the Issue.



Signing of Underwriting Agreement and RoC Filing

- (a) We, the BRLMs and the Syndicate Members shall enter into an Underwriting Agreement on finalisation of the Issue Price and allocation(s) to the QIB Bidders.
- (b) After signing the Underwriting Agreement, we would update and file the updated Red Herring Prospectus with Registrar of Companies, NCT of Delhi and Haryana, which then would be termed 'Prospectus'. The Prospectus would have details of the Issue Price, Issue Size, underwriting arrangements and would be complete in all material respects.

Filing of the Prospectus with Roc

The Company will file a copy of the Prospectus with the Registrar of Companies, NCT of Delhi and Haryana at New Delhi in terms of Section 56, Section 60 and Section 60B of the Companies Act.

Announcement of Pre-Issue Advertisement

Subject to Section 66 of the Companies Act, the Company shall after receiving final observations, if any, on this Red Herring Prospectus from SEBI, publish an advertisement, in the form prescribed by the SEBI DIP Guidelines in an English national daily with wide circulation and one Hindi National newspaper.

Advertisement regarding Issue Price and Red Herring Prospectus

A statutory advertisement will be issued by the Company after the filing of the Red Herring Prospectus with the Registrar of Companies, NCT of Delhi and Haryana in two widely circulated newspapers (one each in English and Hindi) and one local newspaper. This advertisement in addition to the information (in the format and contain the disclosures specified in Part A of Schedule XX-A of the SEBI Guidelines) that has to be set out in the statutory advertisement shall indicate the Issue Price. Any material updates between the date of Red Herring Prospectus and the Prospectus shall be included in the advertisement.

Issuance of Confirmation of Allocation Note

After the determination of Issue Price, the following steps would be taken

- (a) Upon approval of the Basis of Allotment by the Designated Stock Exchange, the BRLMs or Registrar to the Issue shall send to the Syndicate Member a list of their Bidders who have been allocated Equity Shares in the Issue. However, investors should note that we shall ensure that the demat credit of equity shares pursuant to allotment shall be made on the same date to all the investors in this issue.
- (b) The BRLMs or Syndicate Members would then send the CAN to their Bidders who have been allocated Equity Shares in the Issue. The dispatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allocated to such Bidder. Those QIB Bidders who have not paid the bid amount in full into the Escrow Account at the time of bidding shall pay in full the amount payable into the Escrow Account by the Pay-in Date specified in the CAN.
- (c) Bidders who have been allocated Equity Shares and who have already paid the margin amount for the said equity shares into the Escrow Account at the time of bidding shall directly receive the CAN from the Registrar to the Issue subject, however, to realization of their cheque or demand draft paid into the Escrow Account. The dispatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares to be allotted to such Bidder.

Notice to QIBs: Allotment Reconciliation and Revised CANs

After the Bid/Issue Closing Date, an electronic book will be prepared by the Registrar on the basis of Bids uploaded on the BSE/ NSE system. This shall be followed by a physical book prepared by the Registrar on the basis of Bid-cum-Application Forms received. Based on the electronic book or the physical book, as the case may be, QIBs may be sent a CAN, indicating the number of Equity Shares that may be allocated to them. This CAN is subject to the basis of final Allotment, which will be approved by the Designated Stock Exchange and reflected in the reconciled book prepared by the Registrar. Subject to SEBI Guidelines, certain Bid applications may be rejected due to technical reasons, non-receipt of funds, cancellation of cheques, cheque bouncing, incorrect details, etc., and these rejected applications will be reflected in the reconciliation and basis of Allotment as approved by the Designated Stock Exchange. As a result, a revised CAN may be required to be sent to QIBs and the allocation of Equity Shares in such revised CAN may be different from that specified in the earlier CAN. QIBs should note that they may be required to pay additional amounts, if any, by the Pay-in Date specified in the revised CAN, for any increased allocation of Equity Shares. The CAN will constitute the valid, binding and irrevocable contract (subject only to the issue of a revised CAN) for the QIB to pay the entire Issue Price for all the Equity Shares allocated to such QIB. The revised CAN, if issued, will supersede in entirety the earlier CAN.



Designated Date and Allotment of Equity Shares

- (a) We shall ensure the allotment of Equity Shares is done within 15 days of Bid/Issue Closing Date. After the funds are transferred from the Escrow Account to the Public Issue Account and the refund account on the Designated Date, we would ensure the credit to the successful bidders depositories account of the allotted Equity Shares to the allottees within two working days of the date of allotment. In case we fail to make allotment within 15 days of the Bid/ Issue Closing Date, interest would be paid to the investors @15% p.a.
- (b) All allottees will receive credit for the Equity Shares directly in their depository account. **As per SEBI Guidelines, equity Shares will be issued only in the dematerialized form to the allottees.** Allottees will have the option to re-materialize the Equity Shares so allotted, if they so desire, as per the provisions of the Companies Act and the Depositories Act.
- (c) Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be credited to their depository account to them pursuant to allotment in this Issue.

GENERAL INSTRUCTIONS

Do's:

- a) Check if you are eligible to apply;
- b) Complete the Bid-cum-Application Form(White or Blue or Pink in Colour, as the case may be) after reading all the instructions carefully;
- c) Ensure that the details about Depository Participant and beneficiary account are correct as Equity Shares will be allotted in the dematerialized form only;
- d) Ensure that the Bids are submitted at the bidding centers only on forms bearing the stamp of a member of the Syndicate;
- e) Ensure that you have been given a TRS for all your Bid options;
- f) Submit Revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- g) Ensure that the bid is within price band;
- h) Ensure that DP account is activated;
- i) Investors must ensure that the name given in the Bid-cum-Application Form is exactly the same as the name in which the Depository Account is held. In case, the Bid-cum-Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same sequence as they appear in the Bid-cum- Application Form;
- j) If your Bid is for Rs. 50,000 or more, ensure that you mention your PAN allotted under the I.T. Act and ensure that you have attached a copy of your PAN card with the Bid-cum-Application Form. In case the PAN has not been allotted, mention "Not Allotted" in the appropriate place. (See section titled "Issue Procedure - PAN" on page 173 of this Red Herring Prospectus).
- k) If you have mentioned "applied for" or "not applicable" in the Bid-cum-Application Form in the section dealing with PAN number ensure that you submit Form 60 or 61, as the case may be, together with permissible documents as address proof; and
- l) Ensure that demographic details (as defined hereinbelow) are updated, true and correct in all respects.

Dont's:

- a) Do not Bid for lower than the minimum Bid size;
- b) Do not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the price band;
- c) Do not Bid on another Bid-cum-Application Form after you have submitted a Bid to the member of the Syndicate;
- d) Do not pay the Bid amount in cash, through stockinvest, by money order or by postal order;
- e) Do not send Bid-cum-Application Forms by post; instead submit the same to members of the Syndicate only;
- f) Do not Bid at cut off price (for QIBs and non-institutional bidders);
- g) Do not fill up the Bid-cum-Application Form such that the Equity Shares bid for exceeds the Issue size and/ or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable regulations;



- h) Do not submit GIR number instead of PAN as Bid is liable to be rejected on this ground; and
- i) Do not submit the Bid without the QIB Margin Amount incase of a Bid by a QIB.

Instructions for Completing the Bid-cum-Application Form

Bidders can obtain Bid-cum-Application Forms and / or Revision Forms from the BRLMs or Syndicate Member.

Bids and Revisions of Bids

Bids and revisions of Bids must be:

- (a) Made only in the prescribed Bid-cum-Application Form or Revision Form, as applicable (white colour for resident Indians and blue for Non-residents including NRIs, FIIs, Foreign Venture Capital Fund/Multilateral and Bilateral Development Financial Institutions applying on repatriation basis and pink for eligible employees.)
- (b) Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid-cum-Application Form or in the Revision Form. Incomplete Bid-cum-Application Forms or Revision Forms are liable to be rejected.
- (c) The Bids from the Retail Individual Bidders must be for a minimum of 60 Equity Shares and in multiples of 60 thereafter subject to a maximum Bid amount of Rs. 100,000.
- (d) For Non-institutional and QIB Bidders, Bids must be for a minimum of such number of equity shares such that the Bid Amount exceeds Rs. 1,00,000 and in multiples of 60 Equity Shares thereafter. Bids cannot be made for more than the Issue size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- (e) In single name or in joint names (not more than three) and in the same order as their depository participant details.
- (f) Thumb impressions and signatures other than in the languages specified in the eighth schedule in the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

Bids by Employees of the Company

- 1. Bids by the Eligible Employees of the company shall be made only in the prescribed Bid-cum-Application Form or Revision Form, (i.e. Pink colour Bid-cum-Application Form marked "Employees"). Eligible Employees should mention their Employee ID at the relevant place in the Bid-cum-Application Form.
- 2. The sole/first bidder should be Employee of the Company.
- 3. Only Eligible Employees, who are Indian Nationals based in India and are physically present in India on the date of submission of the Bid-cum-Application Form and such person is an employee or Director during the period commencing from the date of filing of the Red Herring Prospectus with the RoC upto the Bid/Issue Closing Date would be eligible to apply in this Issue under the Employee Reservation portion on a competitive basis.
- 4. Employees of the Company will have to Bid like any other Bidder. Only those Bids, which are received at or above the Issue Price, would be considered for allocation under this category.
- 5. Eligible Employees who apply or bid for securities of or for a value of not more than Rs. 1,00,000 in any of the bidding options can apply at Cut-Off. This facility is not available to other eligible employees whose minimum bid amount exceeds Rs. 1,00,000.
- 6. The maximum bid in this category can be 5,00,000 Equity Shares.
- 7. If the aggregate demand in this category is less than or equal to 5,00,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Employees of the Company to the extent of their demand. Under-subscription in this category would be added to any other category.
- 8. If the aggregate demand in this category is greater than 5,00,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis subject to a minimum of 60 Equity Shares. For details on the method of proportionate basis of allotment, please refer to sub-section titled "Basis of Allocation" in chapter titled "Issue Procedure" beginning on page 158 of this Red Herring Prospectus.
- 9. Bid/ Application by Eligible Employees can be made also in the Net Issue and such bids shall not be treated as multiple bids.

Vide an undertaking dated March 2, 2006 the Promoters have confirmed that the Promoter Directors and relatives of the Promoters shall not participate in the Issue.



Bidder's Bank Details

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and beneficiary account number provided by them in the Bid-cum-Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details, including the nine digit Magnetic Ink Character Recognition ("MICR") code as appearing on a cheque leaf. These bank account details would be printed on the refund order, if any, to be sent to Bidders or used for sending the refund through direct credit or ECS. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Bank shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALIZED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID-CUM-APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID-CUM-APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN, WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID-CUM-APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID-CUM-APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant- Identification number and beneficiary account number provided by them in the Bid-cum-Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders or giving credit through ECS or direct credit and occupation ("Demographic Details"). Hence, Bidders should carefully fill in their Depository Account details in the Bid-cum-Application Form.

These demographic details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/allocation advice and printing of bank particulars on the refund order and the demographic details given by Bidders in the Bid-cum-Application Form would not be used for these purposes by the Registrar.

Hence, Bidders are advised to update their demographic details as provided to their Depository Participants and ensure that they are true and correct.

By signing the Bid-cum-Application Form, Bidder would have deemed to authorize the depositories to provide, upon request, to the Registrar to the Issue, the required demographic details as available on its records.

Refund orders/allocation advice/CANs would be mailed at the address of the Bidder as per the demographic details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid-cum-Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither the Escrow Collection Bank nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.

We in our absolute discretion, reserve the right to permit the holder of the power of attorney to request the Registrar that for the purpose of printing particulars on the refund order and mailing of the refund order / CANs / allocation advice / refunds through electronic transfer of funds, the Demographic Details given on the Bid-cum-Application Form should be used (and not those obtained from the Depository of the Bidder). In such cases, the Registrar shall use Demographic Details as given in the Bid-cum-Application Form instead of those obtained from the depositories.

Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and / or commission. In case of Bidders who remit money through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into US Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid-cum-Application Form. We will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.



Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the Memorandum and Articles of Association and/or Bye Laws must be lodged along with the Bid-cum-Application Form. Failing this, the Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefore.

In case of the Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, our Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason thereof.

In case of Bids made by insurance companies registered with the Insurance Regulatory and Development Authority, a certified copy of certificate of registration issued by Insurance Regulatory and Development Authority must be lodged along with the Bid-cum-Application Form. Failing this, our Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefore.

In case of Bids made by provident funds with minimum corpus of Rs. 2500 Lakh and pension funds with minimum corpus of Rs. 2500 Lakh, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid-cum-Application Form. Failing this, our Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefore.

In case of Bids made by Mutual Funds registered with SEBI, Venture Capital fund registered with SEBI and Foreign Venture Capital Fund registered with SEBI, a certified copy of the SEBI registration certificate must be submitted with the Bid-cum-Application Form. Failing this, our Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefore.

We, in our absolute discretion, reserve the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid-cum-Application form, subject to such terms that we may deem fit.

We, in our absolute discretion, reserve the right to permit the holder of the power of attorney to request the registrar that for the purpose of printing particulars on the refund order and mailing of the refund order / CANs/ Allocation Advice, the demographically details given on the Bid-cum-Application Form should be used (and not those obtained from the depository of the Bidder). In such cases, the registrar shall use demographically details as given in the Bid-cum-Application Form instead of those obtained from depositories.

Bids by Non-Residents, including Eligible NRIs and FIIs, on a repatriation basis

NRI, FIIs and Foreign Venture Capital funds Bidders to comply with the following:

- a) Individual NRI Bidders can obtain the Bid cum Application Forms from our Corporate Office or from members of the Syndicate or the Registrar to the Issue.
- b) NRI Bidders may please note that only such Bids as are accompanied by payment in free foreign exchange through approved banking channels shall be considered for allotment.
- c) NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the Bid Cum Application form meant for Resident Indians (white in colour).

Payment Instructions

We shall open an Escrow Account with the Escrow Collection Bank(s) for the collection of the Bid Amounts payable upon submission of the Bid-cum-Application Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

Payment into Escrow Account:

- (a) The Bidders shall along with the submission of the Bid-cum-Application Form draw a payment instrument for the Bid Amount in favour of the Escrow Account and submit the same to the members of the Syndicate.
- (b) In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the Equity Shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the Syndicate Member by the BRLMs.



- (c) The payment instruments for payment into the Escrow Account should be drawn in favour of:
- (i) In case of QIB Bidders: **"Escrow Account -HTTL- Public Issue-QIB"**
 - (ii) In case of Resident Bidders: **"Escrow Account- HTTL-Public Issue"**
 - (iii) In case of Non Resident Bidders: **"Escrow Account- HTTL - Public Issue-NR"**
 - (iv) In case of Eligible Employees: **"Escrow Account-HTTL-Public Issue-Eligible Employees"**
- (d) In case of Bids by NRIs applying on repatriation basis, the payments must be made through Indian Rupee Drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) Accounts, maintained with banks authorized to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of a Non-Resident Ordinary (NRO) Account of a Non-Resident bidder bidding on a repatriation basis. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting an NRE or FCNR Account.
- (e) In case of Bids by FIIs, the payment should be made out of funds held in a Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting the Special Rupee Account.
- (f) Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on Bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Account.
- (g) The monies deposited in the Escrow Account will be held for the benefit of the Bidders until Designated Date.
- (h) On the Designated Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Public Issue Account with the Bankers to the Issue.
- (i) On the Designated Date and no later than 15 days from the Bid/Issue Closing Date, the Escrow Collection Bank shall also refund all amounts payable to unsuccessful bidders and also the excess amount paid on Bidding, if any, after adjusting for allocation to the Bidders.

Payments should be made by cheque, or demand draft drawn on any bank (including a Co-operative bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the centre where the Bid-cum-Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/ stock invest/money orders/ postal orders will not be accepted. Investors in the QIB Category may also make payment by RTGS.

Payment by Stock invest

In terms of Reserve Bank of India Circular No. DBOD No. FSC BC 42/24.47.00/2003-04 dated November 5, 2003, the option to use the stock invest instrument in lieu of cheques or bank drafts for payment of bid money has been withdrawn. Hence, payment through stockinvest would not be accepted in this Issue.

Submission of Bid-cum-Application Form

All Bid-cum-Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the Syndicate Member at the time of submission of the Bid. At the time of submission of Bid-cum-Application Form and Revision Form, each member of the Syndicate shall collect the 10% or 100% Margin Amount as may be applicable.

No separate receipts shall be issued for the money payable on the submission of Bid-cum-Application Form or Revision Form. However, the collection center of the Syndicate Member will acknowledge the receipt of the Bid-cum-Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid-cum-Application Form for the records of the Bidder.

OTHER INSTRUCTIONS

Joint Bids in the case of Individuals

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the Bidder whose name appears first in the Bid-cum-Application Form or Revision Form ("First Bidder"). All communications will be addressed to the first Bidder and will be dispatched to his or her address.



Multiple Bids

A Bidder should submit only one Bid-cum-Application Form for bidding in this Issue. Two or more Bids will be deemed to be multiple Bids if the sole or first Bidder is one and the same.

Procedure for Application by Mutual Funds

In case of a Mutual Fund, a separate Bid can be made in respect of each scheme of the Mutual Fund registered with SEBI and such Bids in respect of more than one scheme of the Mutual Fund will not be treated as multiple bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

We reserve the right to reject, in our absolute discretion to accept or reject, all or any multiple Bids in any or all categories.

Permanent Account Number (PAN)

Where Bid(s) is/are for Rs. 50,000 or more, the Bidder or in the case of an Bid in joint names, each of the Bidders, should mention his/her Permanent Account Number (PAN) allotted under the I.T. Act. The copy of the PAN card or PAN allotment letter is required to be submitted with the Bid-cum-Application form. Applications without this information and documents will be considered incomplete and are liable to be rejected. **It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground.** In case the sole/first Bidder and joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention "Not Applicable" and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should mention "Applied for" in the Bid-cum-Application Form. Further, where the Bidder(s) has mentioned "Applied for" or "Not Applicable", the sole/first Bidder and each of the joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income-tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) Ration Card (b) Passport (c) Driving license (d) Identity card issued by any institution (e) Copy of the electricity bill or telephone bill showing residential address (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g) Any other documentary evidence in support of address given in the declaration.

It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61 as the case may be.

Unique Identification Number ("UIN")

With effect from July 1, 2005, SEBI had decided to suspend all fresh registrations for obtaining UIN and the requirement to contain/quote UIN under the SEBI MAPIN Regulations/Circulars vide its circular MAPIN/Cir- 13/2005. However, in a recent press release dated December 30, 2005, SEBI has approved certain policy decisions and has now decided to resume registrations for obtaining UINs in a phased manner. The press release states that the cut off limit for obtaining UIN has been raised from the existing limit of trade order value of Rs. 100,000 to Rs. 500,000 or more. The limit will be reduced progressively. For trade order value of less than Rs. 500,000, an option will be available to investors to obtain either the PAN or UIN. These changes are, however, not effective as of the date of the Red Herring Prospectus and SEBI has stated in the press release that the changes will be implemented only after necessary amendments are made to the SEBI MAPIN Regulations.

Therefore, MAPIN is not required to be quoted with the Bids.

Our Right to Reject Bids

In case of QIB Bidders, the Company, in consultation with the BRLMs may reject a bid placed by a qualified QIB for reasons to be recorded in writing, provided that such rejection shall be made at the time of submission of the Bid and the reasons therefore shall be disclosed to the QIB Bidders. In case of QIB Bidders, Non-Institutional Bidders, Retail Individual Bidders and Bidders under the Reservation for Existing Retail Shareholders Portion, we have a right to reject Bids based on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk. Bids made under the Reservation for Employee Reservation Portion by any person who is not an employee on date of filing the Red Herring Prospectus are also liable to be rejected.



Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected among others on the following technical grounds:

- 1) Amount paid doesn't tally with the amount payable for the highest value of Equity Shares bid for;
- 2) Bank account details (for refund) are not given;
- 3) Age of first Bidder not given;
- 4) In case of Partnership firms, Equity shares may be registered in the names of the individual partners and no firm as such, shall be entitled to apply.
- 5) NRIs, except Eligible NRIs.
- 6) Bids by persons not competent to contract under the Indian Contract Act, 1872, including minors, insane persons;
- 7) PAN photocopy /PAN communication/ Form 60 or Form 61 declaration along with documentary evidence in support of address given in the declaration, not given if Bid is for Rs. 50,000 or more and GIR number given instead of PAN number;
- 8) Bids for lower number of Equity Shares than specified for that category of investors;
- 9) Bids at a price less than lower end of the Price Band;
- 10) Bids at a price more than the higher end of the Price Band;
- 11) Bids at cut-off price by Non-Institutional Bidders and QIB Bidders;
- 12) Bids for number of Equity Shares which are not in multiples of 60;
- 13) Category not ticked;
- 14) Multiple bids as defined in this Red Herring Prospectus;
- 15) In case of Bid under power of attorney or by limited companies, corporate, trust etc., relevant documents are not submitted;
- 16) Bids accompanied by Stock Invest/ money order/postal order/cash;
- 17) Signature of sole and / or joint Bidders missing;
- 18) Bid-cum-Application Form does not have the stamp of the BRLMs or Syndicate Member;
- 19) Bid-cum-Application Form does not have Bidder's depository account details;
- 20) In case no corresponding record is available with the Depository that matches three parameters: name of Bidder (including sequence of names of joint holders), Depository Participant identification number and beneficiary account number;
- 21) Bid-cum-Application Forms are not delivered by the Bidders within the time prescribed as per the Bid-cum-Application Form, Bid/Issue Opening Date advertisement and this Red Herring Prospectus and as per the instructions in this Red Herring Prospectus and the Bid-cum-Application Form;
- 22) Bids for amounts greater than the maximum permissible amounts prescribed by the regulations.
- 23) Bids by OCBs
- 24) UIN Number not given for Body Corporates;
- 25) Bid by U.S. residents or U.S. persons other than "Qualified Institutional Buyers" as defined in Rule 144A of the U.S. Securities Act of 1933;

Equity Shares in Dematerialized Form with NSDL or CDSL

As per the provisions of Section 68B of the Companies Act, the Equity Shares in this Issue shall be allotted only in a dematerialized form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two agreements have been signed among us, the respective Depositories and the Registrar to the Issue:

- a) A tripartite agreement dated June 20, 2006 with NSDL, us and Karvy Computershare Private Limited, Registrar to the Issue;
- b) A tripartite agreement dated June 26, 2006 with CDSL, us and Karvy Computershare Private Limited, Registrar to the Issue.

The ISIN Number allotted to our Company by the Depositories is INE648H01013.



All Bidders can seek allotment only in dematerialized mode. Bids from any Bidder without relevant details of his or her Depository Account are liable to be rejected.

- a) A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- b) The Bidder must necessarily fill in the details (including the beneficiary account number and Depository Participant's identification number) appearing in the Bid-cum-Application Form or Revision Form.
- c) Equity Shares allotted to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder
- d) Names in the Bid-cum-Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- e) Non-transferable allotment advice or refund orders will be directly sent to the Bidder by the Registrar to this Issue.
- f) If incomplete or incorrect details are given under the heading 'Request for Equity Shares in electronic form' in the Bid-cum-Application Form or Revision Form, it is liable to be rejected.
- g) The Bidder is responsible for the correctness of his or her demographic details given in the Bid-cum-Application Form vis-à-vis those with his or her Depository Participant.
- h) It may be noted that Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where our Equity Shares are proposed to be listed have electronic connectivity with CDSL and NSDL.
- i) The trading of the Equity Shares of the Company would be in dematerialized form only for all investors in the demat segment of the respective Stock Exchanges.

As this Issue comprises of Fresh Issue, investors are advised to instruct their Depository Participants to accept the Equity Shares that may be allocated to them pursuant to this Issue.

In case of pre issue or post issue related problems such as non-receipt of letters of allotment/ refund orders etc., the investors can contact the Compliance Officer.

Communications

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or first Bidder, Bid-cum-Application Form number, details of depository participant ,number of Equity Shares applied for, date of bid cum application Form, name and address of the member of the syndicate where the bid was submitted and cheque or draft number and issuing bank thereof.

PRE-ISSUE AND POST ISSUE RELATED PROBLEMS

We have appointed Mr. Arvind Kumar Gupta, Company Secretary cum Finance Controller, as the Compliance Officer and he may be contacted in case of any pre-Issue or post-Issue-related problems. He can be contacted at the following address:

Mr. Arvind Kumar Gupta

Hanung Toys and Textiles Limited

108-109 NSEZ,

Noida - 201 305

Tel.: +91 120 256 7501-04

Fax: +91 120 256 7505

Email: investor@hanung.com

Disposal of Applications and Applications Money

We shall ensure dispatch of allotment advice, transfer advice or refund orders and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the allotment to the Stock Exchanges within two working days of date of finalisation of allotment of Equity Shares. We shall dispatch refund above Rs. 1,500, if any, by registered post or speed post at the sole or first Bidder's sole risk, except for Bidders who have opted to receive refunds through the ECS facility or RTGS or Direct Credit.

We shall use best efforts to ensure that all steps for completion of the necessary formalities for allotment and trading at all the Stock Exchanges where the Equity Shares are proposed to be listed, are taken within seven working days of finalisation of the basis of allotment.



In accordance with the Companies Act, the requirements of the Stock Exchanges and SEBI Guidelines, we further undertake that:

- allot Equity Shares only in dematerialised form within 15 working days of the Bid/Issue Closing Date;
- dispatch refund orders, except for Bidders who have opted to receive refunds through the ECS facility, within 15 working days of the Bid/Issue Closing Date would be ensured; and
- **Interest in case of delay in dispatch of Allotment Letters/ Refund Orders in case of public issues** - we shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment is not made and refund orders are not dispatched and/or demat credits are not made to investors within the 15 working day time prescribed above.

We will provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Issue.

No separate receipts shall be issued for the money payable on the submission of Bid cum Application Form or Revision Form. However, the collection centre of the Syndicate Member will acknowledge the receipt of the Bid-cum-Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder.

Basis of Allotment or Allocation

A. For Retail Individual Bidders

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this category. The allocation to all the successful Retail Individual Bidders will be made at the Issue Price.
- The Net Issue less allocation to Non-Institutional and QIB Bidders shall be available for allocation to Retail Individual Bidders who have bid in the Issue at a price, which is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 31,50,000 Equity Shares at or above the Issue Price, full allocation shall be made to the Retail Individual Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than 31,50,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of 60 Equity Shares and multiples of 1 Equity Shares thereafter. For the method of proportionate basis of allotment, refer below.

B. For Non-Institutional Bidders

- Bids received from Non Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this category. The allocation to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Net Issue less allocation to QIBs and Retail Portion shall be available for allocation to Non-Institutional Bidders who have bid in the Issue at a price, which is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 13,50,000 Equity Shares at or above the Issue Price, full allocation shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 13,50,000 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis up to a minimum of 60 Equity Shares and in multiples of 1 Equity Share thereafter. For the method of proportionate basis of allotment, refer below.

C. For QIB Bidders

- Bids received from the QIB Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all the QIB Bidders will be made at the Issue Price.
- The Net Issue less allocation to Non-Institutional Portion and Retail Portion shall be available for allocation to QIB Bidders who have bid in the Issue at a price, which is equal to or greater than the Issue Price.
- Allotment shall be undertaken in the following manner:
 - (a) In the first instance allocation to Mutual Funds for upto 5% of the QIB Portion shall be determined as follows;
 - (i) In the event that Mutual Fund Bids exceeds 5% of the QIB Portion, allocation to Mutual Funds shall be done on a proportionate basis for upto 5% of the QIB Portion.



- (ii) In the event that the aggregate demand for Mutual Funds is less than 5% of the QIB Portion then all Mutual Funds shall get full allotment to the extent of valid Bids received above the Issue Price.
- (iii) Equity Shares remaining unsubscribed, if any, not allocated to Mutual Funds shall be available to all QIB Bidders as set out in (b) below;
- (b) In the second instance allocation to all QIBs shall be determined as follows:
 - (i) In the event of the over-subscription in the QIB Portion, all QIB Bidders who have submitted Bids above the Issue Price shall be allotted Equity Shares on a proportionate basis for up to 95% of the QIB Portion.
 - (ii) Mutual Funds, who have received allocation as per (a) above, for less than the number of Equity Shares Bid for by them, are eligible to receive Equity Shares on a proportionate basis along with other QIB Bidders.
 - (iii) Under-subscription below 5% of the QIB Portion, if any, from Mutual Funds, would be included for allocation to the remaining QIB Bidders on a proportionate basis.
- (c) The aggregate allocation to QIB Bidders shall not be less than 45,00,000 Equity Shares.

Under-subscription, if any, in the Non-Institutional and Retail Individual categories would be allowed to be met with spill over from any other category at the sole discretion of the Company and the BRLMs.

D. For our Eligible Employees

- In case of under-subscription in the Net Issue, spillover to the extent of under-subscription shall be permitted from the Employee Reservation Portion.
- Bids received from the Employees at or above the Offer Price shall be grouped together to determine the total demand under this category. The allocation to all the successful Employees will be made at the Offer Price.
- If the aggregate demand in this category is less than or equal to 5,00,000 Equity Shares at or above the Offer Price, full allocation shall be made to the Employees to the extent of their demand.
- If the aggregate demand in this category is greater than 5,00,000 Equity Shares at or above the Offer Price, the allocation shall be made on a proportionate basis up to a minimum of 60 Equity Shares. For the method of proportionate basis of allocation, refer below.
- Only Eligible Employees are eligible to apply under the Employee Reservation Portion.

PROCEDURE AND TIME SCHEDULE FOR ALLOTMENT OF EQUITY SHARES AND DEMAT CREDIT OF EQUITY

The Issue will be conducted through a "100% book building process" pursuant to which the Underwriters will accept bids for the Equity Shares during the Bidding Period. The Bidding Period will commence on 28th September 2006 and expire on 5th October 2006. Following the expiration of the Bidding Period, our Company, in consultation with the BRLMs, will determine the issue price, and, in consultation with the BRLMs, the basis of allocation and entitlement to allotment based on the bids received and subject to the confirmation by the BSE/NSE. Successful bidders will be provided with a confirmation of their allocation and will be required to pay any unpaid amount for the Equity Shares within a prescribed time. The Prospectus will be filed with SEBI on [●] and the Registrar of Companies on [●] and will be made available to investors. SEBI Guidelines require our Company to complete the allotment to successful bidders within 15 days of the expiration of the Bidding Period. The Equity Shares will then be credited and allotted to the investors' demat accounts maintained with the relevant depository participant. Upon approval by the Stock Exchanges, the Equity Shares will be listed and trading will commence. This typically takes three trading days from the date of crediting the investor's demat account, subject to final approval by the Stock Exchanges.

Method of Proportionate Basis of Allotment

In the event the Issue is over-subscribed, the basis of allotment shall be finalised by the Company in consultation with the Designated Stock Exchange. The Executive Director or Managing Director (or any other senior official nominated by them) of the Designated Stock Exchange along with the BRLM and the Registrar to the Issue shall be responsible for ensuring that basis of allotment is finalised in a fair and proper manner. Allotment to Bidders shall be as per the basis of allocation as set out in this Prospectus under "Issue Structure".

- a) Bidders will be categorised according to the number of Equity Shares applied for.
- b) The total number of Equity Shares to be allotted to each category, as a whole shall be arrived at on a proportionate basis, which is the total number of Equity Shares applied for in that category (number of bidders in the category multiplied by number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.



- c) Number of Equity Shares to be allotted to the successful Bidders will be arrived at on a proportionate basis which is total number of Equity Shares applied for by each Bidder in that category multiplied by the inverse of the over-subscription ratio in that category subject to minimum allotment of 60 Equity Shares. The minimum allotment lot shall be the same as the minimum application lot irrespective of any revisions to the Price Band.
- d) In case the proportionate allotment to any Bidders is in fractions, then the same would be rounded off to nearest integer.
- e) In all bids where the proportionate allotment is less than 60 per Bidder, the allotment shall be made as follows:
 - Each successful Bidder shall be allotted a minimum of 60 Equity Shares; and
 - The successful Bidders out of the total Bidders for a category shall be determined by draw of lots in a manner such that the total number of Equity Shares allotted in that category is equal to the number of Equity Shares calculated in accordance with (b) above.

If the Equity Shares allocated on a proportionate basis to any category are more than the Equity Shares allotted to the Bidders in that category, the remaining Equity Shares available for allotment shall be first adjusted against any other category, where the allotted Equity Shares are not sufficient for proportionate allotment to the successful bidders in that category. The balance Equity Shares, if any, remaining after such adjustment will be added to the category comprising of bidders applying for minimum number of Equity Shares.

Letters of Allotment or Refund Orders

We shall give credit of Equity Share allotted to the beneficiary account with Depository Participants within 15 working days of the Bid Closing Date / Issue Closing Date. Applicants residing at 15 centres where clearing houses are managed by the Reserve Bank of India (RBI) will get refunds through ECS only (subject to availability of all information for crediting the refund through ECS) except where applicant is otherwise disclosed as eligible to get refunds through direct credit and RTGS. In case of other applicants, the Bank shall ensure dispatch of refund orders, if any, of value up to Rs. 1,500 by "Under Certificate of Posting", and shall dispatch refund orders above Rs. 1,500, if any, by registered post or speed post, except for Bidders who have opted to receive refunds through the ECS facility. Applicants to whom refunds are made through Electronic transfer of funds will be send a letter through ordinary post intimating them about the mode of credit of refund within 15 working days of closure of Issue.

We shall ensure dispatch of refund orders, if any, by "Under Certificate of Posting" or registered post or speed post or Electronic Clearing Service or Direct Credit or RTGS, as applicable, only at the sole or First Bidder's sole risk within 15 days of the Bid Closing Date/Issue Closing Date, and adequate funds for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the Issue by the issuer.

In accordance with the Companies Act, the requirements of the Stock Exchanges and the SEBI Guidelines, we further undertake that:

- Allotment of Equity Shares will be made only in dematerialised form within 15 working days from the Bid/Issue Closing Date;
- Dispatch of refund orders will be done within 15 working days from the Bid/Issue Closing Date;
- We shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment is not made, refund orders are not dispatched and/or demat credits are not made to investors within the 15 working day time prescribed above as per the guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No.F/8/S/79 dated July 31, 1983, as amended by their letter No.F/14/SE/85 dated September 27, 1985, addressed to the Stock Exchanges and as further modified by SEBI's clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.

We will provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Issue. Refunds will be made by cheques, pay-orders or demand drafts drawn on a bank appointed by us, as an Escrow Collection Bank and payable at par at places where Bids are received, except for Bidders who have opted to receive refunds through the ECS facility. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

Payment of Refund

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details including nine digit MICR code as appearing on a cheque leaf. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Refund Bank nor the Company nor the Registrar shall have any responsibility and undertake any liability for the same.



Mode of making refunds

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details including nine digit MICR code. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Bank shall have any responsibility and undertake any liability for the same.

The payment of refund, if any, would be done through various modes in the following order of preference

I. Direct Credit - For investors having their Bank Account with the Refund Banker, i.e. HDFC Bank Ltd., the refund amount would be credited directly to their Bank Account with the Refund Banker. Charges, if any, levied by the Refund Bank(s) for the same would be borne by the Company.

II. RTGS - Applicants having a bank account at any of the abovementioned fifteen centres and whose refund amount exceeds Rs. 1 million, have the option to receive refund through RTGS. Such eligible applicants who indicate their preference to receive refund through RTGS are required to provide the IFSC code in the Bid-cum-application Form. In the event the same is not provided, refund shall be made through ECS. Charges, if any, levied by the Refund Bank(s) for the same would be borne by the Company. Charges, if any, levied by the applicant's bank receiving the credit would be borne by the applicant

III. ECS - Payment of refund would be done through ECS for applicants residing at one of the 15 centres, namely Ahmedabad, Bangalore, Bhubaneshwar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram, where clearing houses for ECS are managed by Reserve Bank of India. This would be subject to availability of complete Bank Account Details including MICR code from the depository. The payment of refunds is mandatory for applicants having a bank account at any of the abovementioned fifteen centres, except where the applicant, being eligible, opts to receive refund through NEFT, direct credit or RTGS.

IV. NEFT (National Electronic Fund Transfer) - Payment of refund shall be undertaken through NEFT wherever the applicants' bank has been assigned the Indian Financial System Code (IFSC), which can be linked to a Magnetic Ink Character Recognition (MICR), if any, available to that particular bank branch. IFSC Code will be obtained from the website of RBI as on a date immediately prior to the date of payment of refund, duly mapped with MICR numbers. Wherever the applicants have registered their nine digit MICR number and their bank account number while opening and operating the demat account, the same will be duly mapped with the IFSC Code of that particular bank branch and the payment of refund will be made to the applicants through this method. The process flow in respect of refunds by way of NEFT is at an evolving stage and hence use of NEFT is subject to operational feasibility, cost and process efficiency

For all the other applicants excepts for whom payment of refund is possible through I, II and III, the refund orders would be dispatched "Under Certificate of Posting" for refund orders less than Rs. 1500 and through Speed Post/ Registered Post for refund orders exceeding Rs. 1500. Such refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Banks and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

Interest on Refund of excess Bid Amount

The Company shall pay interest at the rate of 15% per annum on the excess Bid Amount received if refund orders are not dispatched within 15 days from the Bid/Issue Closing Date as per the Guidelines issued by the GoI, Ministry of Finance pursuant to their letter No.F/8/S/79 dated July 31, 1983, as amended by their letter No. F/14/SE/85 dated September 27, 1985, addressed to the stock exchanges, and as further modified by SEBI's Clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.

Procedure and Time Schedule for Transfer of Equity Shares and Disposal of Applications and Application Money

The Company has a right to reject Bids on technical grounds only. In case a Bid is rejected in full, the whole of the Bid Amount will be refunded to the Bidder within 15 days of the Bid/Issue Closing Date. In case a Bid is rejected in part, the excess Bid Amount will be refunded to the Bidder within 15 days of the Bid/Issue Closing Date. The Company will ensure allotment of the Equity Shares within 15 days from the Bid/Issue Closing Date, and the Company shall pay interest at the rate of 15% per annum (for any delay beyond the periods as mentioned above), if Equity Shares are not allotted, refund orders are not dispatched and/ or demat credits are not made to investors within two working days from the date of allotment.

Interest in Case of Delay in Dispatch of Allotment Letters/Refund Orders

We agree that allotment of securities offered to the public shall be made not later than 15 days from the Bid/Issue Closing Date. We further agree that we shall pay interest at 15% per annum if the allotment letters/refund orders have not been dispatched to the applicants within 15 days from the Bid/Issue Closing Date or if in a case where refund or position thereof is made in an electronic manner, the refund instructions have not been given to the clearing system in a disclosed manner within 15 days from the Bid / Issue Closing Date, provided that the beneficiary particulars relating to such Bidders as given by the Bidders is valid at the time of the upload of the electronic transfer.



ISSUE PROGRAM

BID/ISSUE OPENS ON: September 28, 2006

BID/ISSUE CLOSES ON: October 5, 2006

Bids and any revision in Bids shall be accepted **only between 10 a.m. and 3 p.m.** (Indian Standard Time) during the Bidding Period as mentioned above at the bidding centres mentioned on the Bid cum Application Form except that on the Bid/Issue Closing Date, the Bids shall be accepted **only between 10 a.m. and 1 p.m.** (Indian Standard Time) or uploaded till such time as may be permitted by the BSE and NSE on the Bid/Issue Closing Date.

In case of revision in the Price Band, the Bidding/Issue Period will be extended for three additional working days after revision of Price Band. Any revision in the Price Band and the revised Bid/Issue Period, if applicable, will be widely disseminated by notification to the BSE and NSE, by issuing a press release, and also by indicating the change on the website of the BRLM and at the terminals of the Syndicate.

Undertaking by our Company

We undertake as follows:

- that the complaints received in respect of this Issue shall be attended to by us expeditiously and satisfactorily;
- that all steps will be taken for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed within seven working days of finalisation of the basis of Allotment;
- that funds required for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the Issue by us;
- that where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 15 working days of closure of the issue, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund
- that the refund orders or allotment advice to the Non Residents shall be dispatched within specified time; and
- that no further issue of Equity Shares shall be made till the Equity Shares offered through this Red Herring Prospectus are listed or until the Bid monies are refunded on account of non-listing, under-subscription etc.

Utilisation of Issue proceeds

Our Board of Directors certify that:

- all monies received out of the Issue shall be credited/transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Companies Act;
- details of all monies utilised out of Issue referred above shall be disclosed under an appropriate head in our balance sheet indicating the purpose for which such monies have been utilised;
- details of all unutilised monies out of the Issue, if any shall be disclosed under the appropriate head in our balance sheet indicating the form in which such unutilised monies have been invested; and
- we shall not have recourse to the Issue proceeds until the approval for trading of the Equity Shares from all the Stock Exchanges where listing is sought has been received.

Restrictions on Foreign Ownership of Indian Securities

Foreign investment in Indian securities is regulated through the industrial policy of Government of India, or the Industrial Policy and FEMA. While the Industrial Policy prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy, unless specifically restricted, foreign investment is freely permitted in all sectors of Indian economy to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. The government bodies responsible for granting foreign investment approvals are the Foreign Investment Promotion Board of the Government of India ("FIPB") and the RBI. Under present regulations, the maximum permissible FII investment in our Company is restricted to 24% of our total issued capital. This can be raised to 100% by adoption of a Board resolution and special resolution by our shareholders; however, as of the date hereof, no such resolution has been recommended to Board or our shareholders for adoption.

By way of Circular No. 53 dated December 17, 2003, the RBI has permitted FIIs to subscribe to shares of an Indian company in a public Issue without prior RBI approval, so long as the price of Equity Shares to be issued is not less than the price at which Equity Shares are issued to residents.

The transfer of Equity Shares of NRIs, FIIs, and Foreign Venture Capital Investors registered with SEBI and Multilateral and Bilateral Development Financial institutions shall be subject to the conditions as may be prescribed by the government of India or RBI while granting such approvals.



SECTION IX - MAIN PROVISIONS OF ARTICLES OF ASSOCIATION OF THE COMPANY

MAIN PROVISIONS OF ARTICLES OF ASSOCIATION OF HANUNG TOYS AND TEXTILES LIMITED

Pursuant to Schedule II of the Companies Act, 1956 and the SEBI guidelines, the important provisions of the Articles of Association of our Company relating to members voting rights, lien on Equity Shares and process for modification of such rights, forfeiture of Equity Shares, restrictions on transfer and transmission of Equity Shares and debentures and on their consolidation and splitting are detailed below.

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| Increase of capital by the Company and how carried into effect. | 4. The Company in General Meeting may, from time to time, increase the capital by the creation of new shares, such increase to be of such aggregate amount and to be divided into shares of such respective amount as the resolution shall prescribe. Subject to the provisions of the Act, any share of the original or increased capital shall be issued upon such terms and conditions and with such rights and privileges annexed thereto, as the General Meeting resolving upon the creation thereof, shall direct, and if no direction is given, as the Directors shall determine; and in particular, such shares may be issued with a preferential or qualified right to dividends, and in the distribution of assets of the Company, and with a right of voting at general meeting of the Company in conformity with Section 87 and 88 of the Act. Whenever the capital of the Company has been increased under the provisions of these Articles, the Directors shall comply with the provisions of Section 97 of the Act. |
| Reduction of Capital | 8. The Company may (subject to the provisions of Section 78, 80 and 100 to 105 inclusive, of the Act) from time to time by Special Resolution, reduce its share capital and any capital Redemption Reserve Account or Share Premium Account in any manner for the time being authorised by law and in particular capital may be paid off on the footing that it may called upon again or otherwise. This Article is not to derogate from any power the Company would have if it were omitted. |
| Sub-division and consolidation of shares | 9. Subject to the provisions of Section 94 of the Act, the Company, in General Meeting, may, from time to time, sub divide or consolidate its shares, or any of them or any part of them, and the resolution whereby any share is sub divided, may determine that as between the holder of the shares resulting from such sub division, one or more of such shares shall have some preference or special advantage as regards dividend, capital or otherwise over or as compared with the others or other. Subject to aforesaid, the Company, in General Meeting, may also cancel shares, which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. |
| Further Issue of capital | 13. (a) Subject to the provisions of the Act, where at any time after the expiry of two years from the formation of the Company or at any time after the expiry of one year from the allotment of shares made for the first time after its formation whichever is earlier, it is proposed to increase the subscribed capital of the Company by allotment of further shares, whether out of un issued share capital or out of increased share capital.,
i) then such further shares shall be offered to the persons who at the date of the offer, are holders of the equity shares of the Company, in proportion, as nearly as circumstances admit, to the capital paid up on these shares at the date.,
ii) such offer aforesaid, shall be made by a notice specifying the number of shares offered and limiting a time not being less than fifteen days from the date of the offer within which the offer, if not accepted, will be deemed to have been declined.
iii) such offer shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or in favor of any other person and the notice referred to above hereof shall contain this statement of this right to renounce the aforesaid shares. |



- iv) after the expiry of the time specified in the notice aforesaid or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board may dispose of them in such manner as they think most beneficial to the company.
- (b) Notwithstanding anything contained in the preceding sub clause (a) above, the company may offer the aforesaid further shares to any person and in any manner whatsoever.,
 - i) by passing a special resolution in a general meeting, or
 - ii) where no such special resolution is passed, if the votes cast (whether on a show of hands, or on a poll as the case may be) in favour of the proposal contained in the resolution moved in that general meeting (including the casting vote, if any, of the Chairman) by members who, being entitled so to do, vote in person, or where proxies are allowed, by proxy exceed the votes, if any, cast against the proposal by members so entitled and voting and the Central Government is satisfied, on an application made by the Board of Directors in this behalf, that the proposal is most beneficial to the company.
- (c) Nothing in sub-clause (iii) of 13 (a, (b) and (c) hereof above shall be deemed.,
 - (i) to extend the time within which the offer should be accepted., or
 - (ii) to authorise any person to exercise the right of renunciation for a second time, on the ground that the person in whose favor the renunciation was first made has declined to take the shares comprised in the renunciation.
- (d) Notwithstanding anything contained in sub clause (a) above, but subject, however, to Section 81 (3) of the Act, the Company may increase its subscribed capital on exercise of an option attached to the debentures issued or loans raised by the company to convert such debentures or loans into shares, or to subscribe for shares in the company, provided however that the terms of the debentures or loans include a term providing for such option is in conformity with the rules, if any made by the Central Government in this behalf and has either been approved by the Central Government, or has been approved by a special resolution in a General Meeting, before the issue of such debenture or loan.

Shares under control of Directors

- 14. Subject to the provisions of these Articles and of the Act, the shares (including any shares forming part of any increased capital of the company) shall be under the control of the directors, who may allot or otherwise dispose of the same to such persons in such proportion and on such terms and conditions and at such times as the directors think fit, and subject to the sanction of the company in a General Meeting, with full power to give any person the option to call for or be allotted shares of any class of the company, either (subject to the provisions of Sections 78 and 79 of the Act) at premium, or at par, or at a discount, and such option being exercisable for such time and for such consideration as the directors think fit and may issue and allot shares in the capital of the company on payment in full or part of any property sold and transferred, or for any services rendered to the company in the conduct of its business, and any shares which may so be allotted, may be issued as fully paid up shares, and if so issued, shall be deemed to be fully paid up shares, provided that the option or right to call for or allot shares, shall not be given to any person or persons without the sanction of the company in the General Meeting. The Board shall cause to be filed the returns as to allotment provided for in Section 75 of the Act.
- 15. The Board shall observe the restrictions as to allotment of shares to the public contained in Sections 69 and 70 of the Act, and shall cause to be made the returns as to allotment provided for in Section 75 of the Act.



Liability of Members

19. Every Member, or his heirs, executors, or administrator shall pay to the Company the portion of the capital represented by his share or shares which may, for the time being, remain unpaid thereon, in such amounts, at such time or times, and in such manner as the Board shall, from time to time in accordance with the Company's regulations, require or fix for the payment thereof.

Share Certificates

20. (a) Every Member shall be entitled, without payment, to one or more certificates in marketable lots, for all the shares of each class or denomination registered in his name, or if the directors so approve (upon paying such fee as the directors may determine from time to time) to several certificates, each for one or more of such shares and the company shall complete and have ready for delivery such certificates within three months from the date of allotment, unless the conditions of issue thereof otherwise provide, or within two months of the receipt of application of registration of transfer, transmission, sub-division, consolidation or renewal of any of its shares as the case may be. Every certificate of shares shall be under the seal of the company and shall specify the number and the distinctive numbers of shares in respect of which it is issued, and the amount paid-up thereon, and shall be in such form as the directors may prescribe and approve, provided that in respect of a share or shares held jointly by several persons, the company shall not be bound to issue more than one certificate, and delivery of a certificate of shares to one or several joint holders shall be construed as sufficient delivery to all such holders.
- (b) Any two or more joint allottees of a share shall, for the purpose of this Article, be treated as a single Member, and the certificate of any share, which may be the subject of joint ownership, may be delivered to anyone of such joint owners on behalf of all of them. For any further certificate the Board shall be entitled, but shall not be bound, to prescribe a charge not exceeding Rupee One. The Company shall comply with the provisions of Section 113 of the Act.
- (c) A Director may sign a share certificate by affixing his signature thereon by means of any machine, equipment or other mechanical means, such as engraving in metal or lithography, but not by means of a rubber stamp, provided that the Director shall be responsible for the safe custody of such machine, equipment or other material used for the purpose.
- (d) The Company shall not be bound to register more than 3 persons as the joint holders of any share except in the case of executors or trustees of a deceased member and in respect of a share held jointly by several persons, the Company shall not issue more than one certificate and the delivery of a certificate for a share to any one of several joint holders shall be sufficient delivery to all such holders.
- (e) Particulars of every share certificate issued shall be entered in the Register of Members against the name of the person to whom it has been issued indicating the date of issue.
- (f) The provisions stated above shall not be applicable to dematerialised Shares and shares held in fungible form with a Depository.

Renewal of Share Certificate

21. (a) No certificate of any share or shares shall be issued either in exchange for those which are sub divided or consolidated or in replacement of those which are defaced, torn or old, decrepit, worn out, or where the cages on the reverse for recording transfers have been duly utilised unless the certificate in lieu of which it is issued is surrendered to the Company.
- (b) When a new share certificate has been issued in pursuance of clause (a) of this Article, it shall state on the face of it and the stub or counterfoil to the effect that it is "issued in lieu of share certificate No. And sub divided/ replaced/on consolidation of shares".



- (c) If a share certificate is lost or destroyed, a new certificate in lieu thereof shall be issued only with the prior consent of the Board or its duly constituted Committee and on such terms, if any, as to evidence and indemnity as to the payment of out of pocket expenses incurred by the Company in investigating evidence, as the Board thinks fit.
- (cc) Every certificate under the article shall be issued without payment of fees if the Directors so decide, or on payment of such fees (not exceeding Rs. 2/- for each certificate) as the directors shall prescribe. Provided that no fee shall be charged for issue of new certificates in replacement of those which are old, defaced or worn out or where there is no further space on the back thereof for endorsement of transfer.
- (d) When a new share certificate has been issued in pursuance of clause (c) or (cc) of this Article, it shall state on the face of it and against the stub or counterfoil to the effect that it is "duplicate issued in lieu of share certificate No. " ". The word "Duplicate" shall be stamped or punched in bold letters across the face of the share certificate.
- (e) Where a new share certificate has been issued in pursuance of clause (a), (c) or (cc) of this Article, particulars of every such share certificate shall be entered in a Register of Renewal, and the particulars of the Duplicate Certificate shall be indicated against the name of the persons to whom the certificate is issued, along with the number and date of issue of the share certificate in lieu of which the new certificate is issued, and the necessary changes shall be indicated in the Register of Members by suitable cross reference in the "Remarks" Column.
- (f) All blank forms to be issued for issue of share certificates shall be printed and the printing shall be done only on the authority of a resolution of the Board. The blank forms shall be consecutively machine numbered and the forms and the blocks, engravings, facsimiles and hues relating to the printing of such forms shall be kept in the custody of the Secretary or of such other person as the Board may appoint for the purpose and the Secretary or the other person aforesaid shall be responsible for rendering an account of these forms to the Board.
- (g) The Managing Director of the Company for the time being or, if the Company has no Managing Director, every Director of the Company shall be responsible for the maintenance, preservation and safe custody of all books and documents relating to the issue of share certificates except the blank forms of shares certificates referred to in Sub Article (f).
- (h) Provided that notwithstanding what is stated above, the directors shall comply with such rules, regulations or requirements of any Stock Exchange or the rules made under the Act or rules made under Securities Contracts (Regulation) Act, 1956 or any other Act, or rules applicable thereof in this behalf. The provisions of these Articles shall mutatis mutandis also apply to debentures of the company.

Dematerialisation of Securities

- 25. Notwithstanding anything contained in these Articles, the Company shall be entitled to dematerialise its existing securities, rematerialise its securities held in the Depositories and / or offer its fresh securities in a dematerialised form pursuant to the Depositories Act, and the rules framed thereunder, if any.

Option to receive Securities certificates or hold Securities with Depository

- 26. Every person subscribing to or holding securities of the Company shall have the option to receive security certificates or to hold the securities with a Depository.
- 27. If a person opts to hold his security with a Depository, the Company shall intimate such Depository the details of allotment of the security, and on receipt of the information, the Depository shall enter in its records the name of the allottees as the Beneficial Owner of the security.



Securities in Depositories	28. All securities held by a Depository shall be dematerialised and be in fungible form. Nothing contained in Sections 153, 153A, 153B, 187B, 187C and 372A of the Act, shall apply to a Depository in respect of the securities held by it on behalf of the Beneficial Owner.
Rights of Depositories and Beneficial Owners	29. Notwithstanding anything to the contrary contained in the Act or these Articles, a Depository shall be deemed to be registered owner for the purpose of effecting transfer of ownership of security on behalf of the Beneficial Owner. 30. Save as otherwise provided in (a) above, the Depository, as the registered owner of the securities, shall not have any voting rights or any other rights in respect of the security held by it. 31. Every person holding securities of the Company and whose name is entered as the Beneficial Owner in the records of the Depository shall be deemed to be a member of the Company. The Beneficial Owner of securities shall be entitled to all the rights and benefits and be subject to all the liabilities in respect of his securities, which are held by a Depository.
Beneficial Owner deemed as absolute owner	32. Except as ordered by a Court of competent jurisdiction or as required by law, the Company shall be entitled to treat the person whose name appears on the Register of Members as the holder of any share or where the name appears as the Beneficial Owner of shares in the records of the Depository as the absolute owner thereof and accordingly shall not be bound to recognise any benami trust or equitable, contingent, future or partial interest in any share, or (except only as is by these Articles otherwise expressly provided) any right in respect of a share other than an absolute right thereto in accordance with these Articles, on the part of any other person whether or not it has express or implied notice thereof, but the Board shall be entitled at their sole discretion to register any share in the joint names of any two or more persons or the survivor or survivors of them.
Depository to furnish information	33. Every Depository shall furnish to the Company information about the transfer of securities in the name of the Beneficial Owner at such intervals and in such manner as may be specified by the bye-laws and the Company in that behalf.
Cancellation of certificates upon surrender by a person	34. Upon receipt of certificate of securities on surrender by a person who has entered into an agreement with the Depository through a Participant, the Company shall cancel such certificate and substitute in its records the name of Depository as the registered owner in respect of the said securities and shall also inform the Depository accordingly.
Option to opt out in respect of any security	35. If a Beneficial Owner seeks to opt out of a Depository in respect of any security, the Beneficial Owner shall inform the Depository accordingly. 36. The Depository shall, on receipt of information as above, make appropriate entries in its records and subsequently inform the Company. 37. The Company shall within thirty (30) days of the receipt of the intimation from the Depository and on fulfillment of such conditions and payment of such fees as may be specified by the regulations, issue the certificate of securities to the Beneficial Owner or the transferee as the case may be.
Service of Documents	38. Notwithstanding anything in the Act, or these Articles to the contrary, where securities are held in a Depository, the records of the beneficial ownership may be served by such Depository on the Company by means of electronic mode or by delivery of floppies or discs.
Provisions of Articles to apply to shares held in Depository	39. Except as specifically provided in these Articles, the provisions relating to joint holders of shares, calls, lien on shares, forfeiture of shares and transfer and transmission of shares shall be applicable to shares held in Depository so far as they apply to shares in physical form subject to the provisions of the Depository Act.



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| Allotment of Securities dealt with in a Depository | 40. Notwithstanding anything in the Act, or these Articles where securities are dealt with by a Depository, the Company shall intimate the details thereof to the Depository immediately on allotment of such securities. |
| Distinctive number of securities held in a Depository | 41. The shares in the capital shall be numbered progressively according to their several denominations provided, however, that the provision relating to progressive numbering shall not apply to the shares of the Company which are dematerialised or may be dematerialised in future or issued in future in dematerialised form. Every forfeited or surrendered share held in material form shall continue to bear the number by which the same was originally distinguished. |
| Register and Index of Beneficial Owners | 42. The Company shall cause to keep a Register and index of Members and a Register and index of Debenture holders in accordance with Section 151 and 152 of the Act, respectively, and the Depositories Act, with details of shares and debentures held in material/physical and dematerialised form in any media as may be permitted by law including in any form of electronic media. The Register and Index of Beneficial Owners maintained by a Depository under Section 11 of the Depositories Act, 1996 shall be deemed to be Register and Index of Members and Register and Index of Debenture holders, as the case may be, for the purpose of the Act. The Company shall have the power to keep in any state or country outside India a branch Register of Members resident in that state or country. |
| Register of Members | 43. The Company shall keep a Register of Transfers and shall have recorded therein fairly and distinctly particulars of every transfer or transmission of any share held in material form. |
| Interest may be paid out of capital | 46. Where any shares are issued for the purpose of raising money to defray the expenses of the construction of any work or building, or the provision of any plant, which cannot be made profitable for a lengthy period, the Company may pay interest on so much of that share capital as is for the time being paid up, for the period, at the rate and subject to the conditions and restrictions provided by Section 208 of the Act and may charge the same to capital as part of the cost of construction of the work or building, or the provision of plant. |
| Calls to carry Interest | 54. (a) If any Member fails to pay any call due from him on the day appointed for payment thereof, or any such extension thereof as aforesaid, he shall be liable to pay interest on the same from the day appointed for the payment thereof to the time of actual payment at such rate as shall from time to time be fixed by the Board but nothing in this Article shall render it obligatory for the Board to demand or recover any interest from any such Member.

(b) That any amount paid up in advance of calls on any share may carry interest but shall not in respect thereof confer a right to dividend or to participate in profits. |
| Company's lien on shares/ debentures | 59. The Company shall have a first and paramount lien upon all the shares / debentures (other than fully paid-up shares / debentures) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for all moneys (whether presently payable or not) called or payable at a fixed time in respect of such shares / debentures and no equitable interest in any share shall be created except upon the footing and condition that this Article will have full effect and such lien shall extend to all dividends and bonuses from time to time declared in respect of such shares / debentures.

60. Unless otherwise agreed the registration of a transfer of shares / debentures shall operate as a waiver of the company's lien if any, on such shares / debentures.

61. The Directors may at any time declare any shares/debentures wholly or in part to be exempt from the provisions of this clause. |



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| As to enforcing lien by sale | <p>62. For the purpose of enforcing such lien as aforesaid, the Directors may sell the shares subject thereto in such manner as they shall think fit, but no sale shall be made:</p> <p>(a) unless a sum in respect of which the lien exists is presently payable; and</p> <p>(b) until the expiration of seven days after a notice in writing, stating and demanding payment of such part of the amount in respect of which the lien exists and as is presently payable, has been given to the registered holder for the time being of the share or to the person entitled thereto by transmission, and default shall have been made by him in payment of the sum payable as aforesaid for seven days after such notice.</p> |
| Application of proceeds of sale | <p>63. The net proceeds of any such sale shall be received by the Company and applied in or towards payment of such part of the amount in respect of which the lien exists as is presently payable and the residue, if any, shall (subject to a like lien for sums not presently payable as existed upon the shares before the sale) be paid to the person entitled to the shares at the date of sale.</p> |
| If money payable on shares not paid notice to be given to Members | <p>64. If any Member fails to pay any call or installment of a call on or before the day appointed for the payment of the same or any such extension thereof as aforesaid, the Board may at any time thereafter, during such time as the call or installment remains unpaid, give notice to him requiring him to pay the same together with any interest that may have accrued and all expenses that may have been incurred by the Company by reason of such non payment.</p> |
| Form of notice | <p>65. The notice shall name a day (not being less than fourteen days from the date of the notice) and a place or places on and at which such call or installment and such interest thereon at such rate as the Directors shall determine from the day on which such call or installment ought to have been paid and expenses as aforesaid are to be paid. The notice shall also state that, in the event of the non payment at or before the time and at the place appointed, the shares in respect of which the call was made or installment is payable, will be liable to be forfeited.</p> |
| In default of payment, shares to be forfeited | <p>66. If the requirements of any such notice as aforesaid shall not be complied with, every or any share in respect of which such notice has been given, may at any time thereafter before payment of all calls or installments, interest and expenses due in respect thereof, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends declared or any other moneys payable in respect of the forfeited share not actually paid before the forfeiture.</p> |
| Register of Transfers | <p>75. The Company shall keep a "Register of Transfer" and therein shall be fairly and distinctly entered particulars of every transfer or transmission of any share in the material form.</p> |
| Form of Transfer | <p>76. The instrument of transfer shall be in writing and all the provisions of Section 108 of the Act, and or any statutory modification thereof for the time being shall be duly complied with in respect of all transfer of shares and their restrictions thereof.</p> <p>77. The Instrument of transfer duly stamped and executed by the Transferor and the Transferee shall be delivered to the Company in accordance with the provisions of the Act. The Instrument of Transfer shall be accompanied by such evidence as the Board may require to prove the title of Transferor and his right to transfer the shares and every registered Instrument of Transfer shall remain in the custody of the Company until destroyed by order of the Board. The Transferor shall be deemed to be the holder of such shares until the name of the Transferee shall have been entered in the Register of Members in respect thereof. Before the registration of a transfer, the certificate or certificates of the shares must be delivered to the Company.</p> |



Closure of Register of members of Debenture holders	78. The Board shall have power on giving not less than seven days' previous notice by advertisement in some newspaper circulating in the district in which the office of the Company is situate to close the Transfer Books, the Register of Members or Register of Debenture holder at such time or times and for such period or periods, not exceeding in the aggregate forty five days in each year, and thirty days at one time.
Director's power to refuse to register a transfer	79. Subject to the provisions of Section 111 of the Act, the Board may, at its own absolute and uncontrolled discretion and without assigning any reason, decline to register or acknowledge any transfer of shares (whether fully paid or not and notwithstanding that the proposed Transferee be already a member), but in such case it shall, within one month from the date on which the instrument of transfer was lodged with the Company, send to the Transferee and the Transferor notice of the refusal to register such transfer provided that the registration of a transfer shall not be refused on the ground that the Transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever except a lien on shares.
Notice of application when to be given	80. Where, in the case of partly paid share, an application for registration is made by the transferor, the company shall give notice of the application to the Transferee in accordance with the provisions of Section 110 of the Act.
Death of one or more joint-holders of shares	81. In the case of the death of any one or more of the persons named in the Register of Members as the joint holders of any share, the survivor or survivors shall be the only persons recognised by the Company as having any title to or interest in such share, but nothing herein contained shall be taken to release the estate of a deceased joint holder from an liability on shares held by him jointly with any other person.
Title to shares of deceased holders	82. In absence of a nomination recorded in accordance with Section 109A of the Act, read with Section 109B of the Act, which shall, in any event, have precedent, the executors or administrators of holders of a Succession Certificate or the legal representatives of a deceased member (not being one or two or more joint holders) shall be the only persons recognised by the Company as having any title to the shares registered in the name of such Member and the Company shall not be bound to recognise such executors or administrators or holders of a Succession Certificate or the legal representatives unless such executors or administrators or legal representatives shall have first obtained Probate or Letters of Administration or Succession Certificate as the case may be, from a duly constituted court in the Union of India; provided that in any case where the Board in its absolute discretion thinks fit, the Board may dispense with production of Probate or Letters of Administration or Succession Certificate, upon such terms as to indemnify or otherwise as the Board in its absolute discretion may think necessary and under Article 85 register the name of any person who claims to be absolutely entitled to the shares standing in the name of a deceased member, as a Member.
	83. No share shall in any circumstances be transferred to any minor, insolvent or person of unsound mind.
Transmission Clause	84. Subject to the provisions of the Act and Articles 82 and 83, any person becoming entitled to share in consequence of the death, lunacy, bankruptcy, insolvency of any Member or by any lawful means other than by a transfer in accordance with these Articles may, with the consent of the Board (which it shall not be under any obligation to give), upon producing such evidence that he sustains the character in respect of which he proposes to act under this Article or of such title as the Board thinks sufficient, either be registered himself as the holder of the share or elect to have some person nominated by him and approved by the Board registered as such holder; provided nevertheless, that if such person shall elect to have his nominee registered, he shall testify the election by executing in favour of his nominee an Instrument of Transfer in



accordance with the provisions herein contained, and until he does so, he shall not be freed from any liability in respect of the shares. This clause is hereinafter referred to as the "transmission clause".

85. A person entitled to a share by transmission shall, subject to the right of the Directors to retain such dividends or money as hereinafter provided, be entitled to receive, and may give a discharge for, any dividends or other moneys payable in respect of the share.
86. There shall be no fee paid to the Company, in respect of the transfer or transmission of any number of shares, registration of transfer, transmission, probate, succession certificate and letters of administration, certificate of death or marriage, power of attorney or similar other document..
87. The Company shall incur no liability or responsibility whatsoever in consequence of its registering or giving effect to an transfer of shares made or purporting to be made by any apparent legal owner thereof (as shown or appearing in the Register of Members) to the prejudice of persons having or claiming any equitable right, title or interest to or in the said shares, notwithstanding that the Company may have had notice of such equitable right, title or interest or notice prohibiting registration of such transfer, and may have entered such notice, or referred thereto, in any book of the Company, and the Company shall not be bound to be required to regard or attend to give effect to any notice which may be given to it of any equitable right, title or interest or be under any liability whatsoever for refusing or neglecting so to do, though it may have been entered or referred to in some book of the Company, but the Company shall nevertheless be at liberty to regard and attend to any such notice and give effect thereto if the Board shall so think fit.
88. The Directors shall have the same right to refuse to register a person entitled by transmission to any shares or his nominee as if he were the transferee named in the case of a transfer of shares presented for registration.
89. A person becoming entitled to a share by reason of the death or insolvency of the holder shall be entitled to the same dividend and other advantages to which he would be entitled if he were the registered holder of the shares, except that that he shall not, before being registered as a Member in respect of the shares, be entitled to exercise any right conferred by membership in relation to meetings of the Company PROVIDED THAT the directors shall, at any time, give notice requiring any such person to elect either to be registered himself or to transfer the shares and if the notice is not complied with within ninety days, the directors may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the shares until the requirements of the notice have been complied with.

The Company is not liable for disregard of notice prohibiting registration of transfer

Right of successors

Buy back of Shares

95. (a) Subject to the provisions of sections 77A, 77AA, 77B and 217 (2B) of the Act, the Company is hereby authorised to buy-back the Company's shares or other specified securities out of its free reserves or its securities premium account or from the proceeds of any shares or other specified securities; Provided that no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or the same kind of other specified securities.
(b) That option or right to call of shares shall not be given to any person except with the sanction of the Issuer in General Meetings.
96. The Company may, subject to the Act and these Articles, in general meeting, alter the conditions of its Memorandum as follows :
 - (a) Consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares.



- (b) Sub-divide its shares, or any of them, into shares of smaller amounts than those originally fixed by the Memorandum, subject nevertheless to the provisions of the Act and of these Articles. The resolution whereby any share is sub-divided may determine that as between the holders of the shares resulting from such sub-division, one or more of such shares shall have some preference or special advantage as regard dividend, capital or otherwise over or as compared with the others.
- (c) Cancel any shares, which, at the date of such general meeting, have not been taken or agreed to be taken by any Person, and diminish the amount of its share capital by the amount of the shares so cancelled.

- 97. Whenever the share capital of the Company, by reason of the issue of preference shares or otherwise, is divided into different classes of shares, all or any of the rights and privileges attached to each class may, subject to written consent or a Special Resolution under the provisions of Section 106 and the right of dissident Members comprising not less than 10% of the issued capital of that class to apply to the court to have a variation of Shareholders rights cancelled under section 107 of the Act and these Articles be varied, modified or dealt with, with the consent in writing of the holders of not less than three-fourths of the issued shares of that class, or with the sanction of a Special Resolution passed at a separate meeting of the holders of the issued shares of that class, and all the provisions contained in these Articles as to general meetings, (including the provisions relating to quorum at such meetings), shall mutatis mutandis apply to every such meeting.
- 98. The rights conferred upon the holders of the shares of any class, issued with preferred or other rights, shall not, unless otherwise expressly provided by the terms of the issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.
- 99. The Company shall not issue any shares, (not being preference shares), which carry voting right, or rights in the Company as to dividend, capital or otherwise, which are disproportionate to the rights attached to the holders (not being preference shares).
- 100. All equity shares shall be of the same class and shall rank *pari passu* and shall be alike in all respects and the holders thereof shall be entitled to identical rights and privileges including, without limitation, to identical rights and privileges with respect to dividend, voting rights, and the distribution of the assets in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company. If two or more persons are registered as joint holders of any shares, any of such persons may give effectual receipts for any dividends or other moneys payable in respect of such shares.
- 101. All further issues of shares or increases in the share capital of the Company shall require the prior approval of the Board.
- 102. The new shares shall be issued upon such terms and conditions and with such rights and privileges annexed thereto as the general meeting resolving upon the creation thereof shall direct and if no direction is given on the directions as the Board shall determine, and in particular such shares may be issued with a preferential or qualified right to dividends and in the distribution of assets of the Company and with special or without any voting rights.

Copies of Memorandum and Articles to be sent by the Company

- 103. A copy of the Memorandum and Articles of Association of the Company and other documents referred to in Section 39 of the Act shall be sent by the Company to every member at his request within seven days of the request on payment of the sum of Rupee One for each copy.

Borrowing Powers

- 104. Subject to the provisions of Sections 58A, 292 and 293 of the Act, the Board may, from time to time at its discretion by a resolution passed at a meeting of the Board, accept deposit from members either in advance of calls or otherwise



and generally raise or borrow or secure the repayment of any sum or sums of money for the purposes of the Company. Provided, however, where the moneys to be borrowed together with the moneys already borrowed (apart from temporary loans obtained from the Company's bankers in the ordinary course of the business) exceed the aggregate of the paid up capital of the Company and its free reserves (not being reserves set apart for any specific purpose) the Board shall not borrow such moneys without the consent of the Company in General Meeting. Subject to the provisions of the Act and of these Articles, the Board may, from time to time at its discretion, by a resolution passed at a meeting of the Board, receive deposits from its members, directors or their relatives and receive loans from its members, either in advance of call or otherwise, and generally raise or borrow money either in India or abroad by way of loans, overdrafts, cash credit or by issue of bonds denominated in various currencies, debentures or debenture stock with or without any option attached to it (perpetual or otherwise), commercial paper or in any other manner, from any bank, financial institution, company, Government or any authority or any other body for the purpose of the Company and may secure the payment of any sums of money so received, raised or borrowed.

105. Subject to the provisions of Article 105 hereof, the payment or repayment of moneys borrowed as aforesaid may be secured in such manner and upon such terms and conditions in all respects as the Ordinary Resolution shall prescribe including by the issue of debentures or debenture stock of the Company, charged upon all or any part of the property of the Company (both present and future), including its uncalled capital for the time being and debentures, debenture stock and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.

Terms of issue of Debentures

106. Any debentures, debentures stock or other securities may be issued at a discount, premium or otherwise and may be issued on condition that they shall be convertible into shares of any denomination, and with any privileges and conditions as to redemption, surrender, drawing, allotment of shares and attending (but not voting) at General Meetings, appointment of Directors and otherwise. Debentures with the right to conversion into or allotment of shares shall be issued only with the consent of the Company in general meeting accorded by a Special Resolution.

Register of mortgages, etc. to be kept

107. The Board shall cause a proper Register to be kept in accordance with the provisions of Section 143 of the Act of all mortgages, debentures and charges specifically affecting the property of the Company and shall cause the requirements of Section 118, 125 and 127 to 144 (both inclusive) of the Act in that behalf to be duly complied with.

Register and Index of Debenture holders

108. The Company shall, if at any time it issues debentures, keep a Register and Index of Debenture holders in accordance with Section 152 and 157 of the Act. The Company shall have the power to keep in any state or country outside India a branch Register of Debenture holders resident in that State or country.

Meeting of Members

117. The Company shall, within a period of not less than one month nor more than six months from which it is entitled to commence business, hold the Statutory Meeting of the members of the Company subject to and in accordance with the provisions of Section 165 of the Act.

Annual General Meeting and Annual Return

118. The Company shall in each year hold a General Meeting as its Annual General Meeting in addition to any other meetings in that year. All General Meetings other than Annual General Meetings shall be called Extra ordinary General Meetings. An Annual General Meeting of the Company shall be held within six months after the expiry of each financial year, provided that not more than fifteen months shall lapse between the date of one Annual General Meeting and that of the next. Provided that it will be permissible to hold its first Annual



General Meeting within a period of not less than eighteen months from the date of its incorporation; and if such meeting is held within that period it shall not be necessary for the Company to hold any Annual General Meeting in the year of its incorporation or in the following calendar year. Nothing contained in the foregoing provisions shall be taken as affecting the right conferred upon the Registrar under the provisions of Section 166 (i) of the Act to extend the time within which any Annual General Meeting may be held. Every Annual General Meeting shall be called for at a time during business hours, on a day that is not a public holiday, and shall be held at the office of the Company or at some other place within the city in which the office of the Company is situated as the Board may determine and the notice calling the Meeting shall specify it as the Annual General Meeting. The Company may in any one Annual General Meeting fix the time for its subsequent Annual General Meetings. Every member of the Company shall be entitled to attend either in person or by proxy and the Auditor of the Company shall have the right to attend and to be heard at any General Meeting, which he attends on any part of the business which concerns him as Auditor. At every Annual General Meeting of the Company there shall be laid on the table the Directors' Report and Audited Statement of Accounts, Auditors' Report (if not already incorporated in the Audited Statement of Accounts), the Proxy Register with Proxies and the Register of Directors' shareholdings which latter Register shall remain open and accessible during the continuance of the meeting. The Board shall cause to be prepared the Annual List of Members, Summary of the Share Capital, Balance Sheet and Profit and Loss Account and forward the same to the Registrar in accordance with Section 159, 161 and 220 of the Act.

Extraordinary General Meeting

119. The Board may, whenever it thinks fit, call an Extra ordinary General Meeting and it shall do so upon a requisition in writing by any Member or Members holding in the aggregate not less than one tenth of such of the paid up capital as at that date carries the right of voting in regard to the matter in respect of which the requisition has been made.

Requisition of Members to state object of Meeting

120. Any valid requisition so made by Members must state the object or objects of the meeting proposed to be called, and must be signed by the requisitionists and be deposited at the office provided that such requisition may consist of several documents in like form each signed by one or more requisitionists.

On receipt of requisition, directors to call Meeting and in default requisitionists may do so.

121. Upon the receipt of any such requisition, the Board shall forthwith call an Extra ordinary General Meeting and if they do not proceed within twenty one days from the date of the requisition being deposited at the office and cause a meeting to be called on a day not later than forty five days from the date of deposit of the requisition, the requisitions, or such of their number as represent either a majority in value of the paid up share capital held by all of them or not less than one tenth of such of the paid up share capital of the Company as is referred to in Section 169 (4) of the Act, whichever is less, may themselves call the Meeting, but in either case any Meeting so called shall be held within three months from the date of the delivery of the requisition as aforesaid.

Meeting called by requisitionists

122. Any Meeting called under the foregoing Articles by the requisitionists shall be called in the same manner, as nearly as possible, as that in which meeting are to be called by the Board.

Notice of Meeting

123. Save and except the Statutory Meeting, twenty one days' notice at the least of every General Meeting, Annual or Extra Ordinary, and by whomsoever called specifying the day, place and hour of Meeting, and the general nature of the business to be transacted thereat, shall be given in the manner hereinafter provided, to such persons as are under these Articles entitled to receive notice from the Company. Provided that in the case of an Annual General Meeting with the consent in writing of all the members entitled to vote thereat and in case of any other Meeting, with the consent of the Members holding not less than 95 per cent of such part of the paid up share capital of the Company as



gives a right to vote at the Meeting, a Meeting may be convened by a shorter notice. In the case of an Annual General Meeting if any business other than (i) the consideration of the Accounts, Balance Sheet and Reports of the Board of Directors and Auditors (ii) the declaration of dividend (iii) the appointment of Directors in place of those retiring, (iv) the appointment of, and fixing of the remuneration of the Auditors, is to be transacted, and in the case of any other Meeting in any event there shall be annexed to the notice of the Meeting a statement setting out all material facts concerning each such item of business including in particular the nature of the concern or interest, if any, therein of every Director, and the Manager (if any). Where any such item or special business relates to, or affects any other company, the extent of share holding interest in the other company of every Director, and the Manager, if any of the Company shall also be set out in the statement if the extent of such shareholding interest is not less than 2 percent of the paid up share capital of that other company. Where any item of business consists of the according of approval to any documents by the meeting, the time and place where the document can be inspected shall be specified in the statement aforesaid.

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| Omission to give notice not to invalidate a resolution passed | 124. The accidental omission to give any such notice as aforesaid to any of the Members, or the non receipt thereof shall not invalidate any resolution passed at any such Meeting. |
| Meeting not to transact business not mentioned in notice | 125. No General Meeting, Annual or Extra ordinary, shall be competent to enter upon, discuss or transact any business which has not been mentioned in the notice or notices upon which it was convened. |
| Quorum for the General Meeting | 126. Five Members present in person shall be a quorum for a General Meeting. The Quorum for the meeting shall be as provided in Section 174 of the Act. |
| Body Corporate deemed to be personally present | 127. A body corporate being a Member shall be deemed to be personally present if it is represented in accordance with Section 187 of the Act. |
| If quorum not present, meeting to be dissolved or adjourned | 128. If, at the expiration of half an hour from the time appointed for holding a Meeting of the Company, a quorum is not present, the Meeting, if convened by or upon the requisition of Members, shall stand dissolved and in any other case the Meeting shall stand adjourned to the same day in the next week or if that day is a public holiday, until the next succeeding day which is not a public holiday at the same time and place or to such other day and at such other time and place in the City or town in which the Office of the company is for the time being situate, as the Board may determine, and if at such adjourned meeting a quorum is not present at the expiration of half an hour from the time appointed for holding the Meeting, the Members present shall be a quorum, and may transact the business for which the meeting was called. |
| Chairman of General Meeting | 129. The chairman (if any) of the Directors shall be entitled to take the Chair at every General Meeting, whether Annual or Extra ordinary. If there be no such Chairman of the Directors, or if at any Meeting he shall not be present within fifteen minutes of the time appointed for holding such Meeting or if he shall be unable or unwilling to take the chair then the members present shall elect another Director as Chairman, and if no Director be present or if all the Directors present decline to take the Chair, then the Members present shall elect one of their number to be Chairman. |
| Business confined to election of Chairman whilst chair vacant | 130. No business shall be discussed at any General Meeting except the election of a Chairman, whilst the Chair is vacant. |
| Chairman with consent with adjourn | 131. The Chairman with the consent of the Members may adjourn any Meeting from time to time and from place to place where the Office is situated. But no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. |



Question at General Meeting how decided

132. At any General Meeting, a resolution put to the vote of the meeting shall be decided on a show of hands, unless before or on the declaration of the result of the show of hands, a poll is ordered to be taken by the Chairman of the meeting of his own motion or unless a poll is demanded by any member or members present in person or by proxy and holding shares in the company;
- (a) which confer a power to vote on the resolution not being less than one tenth of the total voting power in respect of the resolution or
 - (b) on which an aggregate sum of not less than Rupees 50,000 has been paid up.

133. The demand for a poll may be withdrawn at any time by the person or persons who made the demand.

134. Unless a poll is so demanded, a declaration by the Chairman that a resolution has, on a show of hands, been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Minutes Book of the Company shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against that resolution.

Chairman's casting vote

135. In the case of an equality of votes, the Chairman shall both on a show of hands and at a poll (if any) have a casting vote in addition to the vote or votes to which he may be entitled as a Member.

Poll to be taken, if demanded

136. If a poll is demanded as aforesaid, the same shall, subject to Article 136, be taken at such time (not later than forty eight hours from the time when the demand was made) and place in the City or town in which the Office of the Company is for the time being situate and either by open voting or by ballot, as the Chairman shall direct, and either at once or after an interval or adjournment or otherwise, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn at any time by the person or persons who made the demand.

Scrutineers at poll

137. Where a poll is to be taken, the Chairman of the meeting shall appoint two scrutineers to scrutinise the vote given on the poll and to report thereon to him. One of the scrutineers so appointed shall always be a Member (not being an officer or employee of the Company) present at the Meeting provided such a Member is available and willing to be appointed. The Chairman shall have power at any time before the result of the poll is declared to remove a scrutineer from office and fill vacancies in the office of scrutineer arising from such removal or from any other cause.

In what case poll taken without adjournment

138. Any poll duly demanded on the election of a Chairman of a Meeting or on any question of adjournment shall be taken at the Meeting forthwith.

Demand for poll not to prevent transaction of other business

139. The demand for a poll, except on the questions of the election of the Chairman and on an adjournment, shall not prevent the continuance of a Meeting for the transaction of any business other than the question on which the poll has been demanded.

Postal Ballot

Notwithstanding anything contained in the Articles of Association of the Company, the Company does adopt the mode of passing the resolutions by its members by means of a postal ballot (including voting by an electronic mode) pursuant to the provisions of Section 192 A of the Act, read with the Companies (Passing of the Resolution by Postal Ballot Rules), 2001, and any modifications or amendments made thereto from time to time.

Vote of Members

Member in arrears not to vote

140. No Member shall be entitled to vote either personally or by proxy at any General Meeting or Meeting of a class of shareholders either upon a show of hands or upon a poll in respect of any shares registered in his name on which any calls or other sums presently payable by him have not been paid or in regard to which the Company has, and has exercised, any right of lien.



Number of votes to which member entitled	141. Subject to the provisions of the Articles and without prejudice to any special privileges or restrictions as to voting for the time being attached to any class of shares for the time being forming part of the capital of the Company, every Member, not disqualified by the last preceding Article, shall be entitled to be present and to speak and vote at such Meeting and on a show of hands, every Member present in person shall have one vote and upon a poll the voting right of every Member present in person or by proxy shall be in proportion to his share of the paid up equity share capital of the Company. Provided, however, if any preference shareholder be present at any Meeting of the Company, save as provided in clause (b) of sub section (2) of Section 87, he shall have a right to vote only on resolutions placed before the Meeting which directly affect the rights attached to his preference shares.
Casting of votes by a Member entitled to more than one vote	142. On a poll taken at a meeting of the Company, a Member entitled to more than one vote, or his proxy or other person entitled to vote for him, as the case may be, need not, if he votes, use all his votes or cast in the same way all the votes he uses.
Vote of Member of unsound mind and minor	143. A Member of unsound mind or and in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee or other legal guardian in respect of any shares registered in his name and any such committee or guardian may, on poll, vote by proxy. If any Member be a minor, the vote in respect of his share or shares shall be by his guardian, or any one of his guardians, if more than one, to be selected in case of dispute by the Chairman of the Meeting.
Representation of body corporate	144. (A) (i) A body corporate (whether a Company within the meaning of the Act or not) may, if it is a member or creditor of the Company (including a holder of debentures) having a right to vote, may in pursuance of Sections 187 or 187A of the Act, authorise such person as it thinks fit by a resolution of its Board of Directors or other governing body to act as its representative at any meeting of the Company or of any class of Members of the Company or at any meeting of the creditors of the Company or debenture holders of the Company. (ii) A person authorised by resolution as aforesaid shall be entitled to exercise the same rights and powers (including the right to vote by proxy) on behalf of the body corporate which he represents as that body could exercise if it were an individual member, creditor, or holder of debentures of the Company. The production of a copy of the resolution aforesaid certified by a Director of such body corporate before the commencement of the meeting shall be accepted by the Company as sufficient evidence of the validity of the said representative appointment and his right to vote thereof. (B) (i) The President of India or the Governor of a State, if he is a member of the Company, may appoint such person as he thinks fit to act as his representative at any meeting of the Company or at any meeting of any class of members of the Company. (ii) A person appointed to act as aforesaid shall, for the purpose of this Act, be deemed to be a member of the Company and shall be entitled to exercise the same rights and powers (including the right to Vote by proxy) as the President or as case may be, the Governor could exercise as a member of the Company.
Votes of joint member	145. If there be joint registered holders of any shares, any one of such persons may vote at any meeting or may appoint another person (whether a Member or not) as his proxy in respect of such shares, as if he were solely entitled thereto but the proxy so appointed shall not have any right to speak at the Meeting, and if more than one of such joint holders be present at any Meeting, that one of the said persons so present whose name stands higher on the Register shall alone



	<p>be entitled to speak and to vote in respect of such shares, but the other or others of the joint holders shall entitled to be present at the meeting. Several executors or administrators of a deceased Member in whose names shares stand shall, for the purpose of these Articles, be deemed join holders thereof.</p>
Voting in person or by proxy	146. Subject to the provisions of these Articles, votes may be given either personally or by proxy. A body corporate being a Member may vote either by a proxy or by a representative duly authorised in accordance with Section 187 of the Act and such representative shall be entitled to exercise the same rights and powers (including the right to vote by proxy) on behalf of the body corporate which he represents as that body could exercise if it were an individual Member.
Votes in respect of shares of deceased and insolvent Member	147. Any person entitled under Article 85 to transfer any share may vote at any General Meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that forty eight hours at least before the time of holding the Meeting or adjourned Meeting, as the case may be, at which he proposes to vote he shall satisfy the Directors of his right to transfer such shares and give such indemnity (if any) as the Directors may require or the Directors shall have previously admitted his right to vote at such Meeting in respect thereof.
Appointment of proxy	148. Every proxy (whether a Member or not) shall be appointed in writing under the hand of the appointer or his attorney, or if such appointer is a corporation under the common seal of such corporation, or be signed by an officer or any attorney duly authorised by it, and any Committee or guardian may appoint such proxy. The proxy so appointed shall not have any right to speak at the Meeting.
Proxy either for specified meeting or for a period	149. An instrument of proxy may appoint a proxy either for the purpose of a particular Meeting specified in the instrument and any adjournment thereof or it may appoint for the purpose of every Meeting of the Company or of every Meeting to be held before a date specified in the instrument and every adjournment of any such Meeting.
Votes by members present or by proxy	150. A member present by proxy shall be entitled to vote only on a poll. However where such Member is a body corporate present by a proxy who is not himself a Member in which case such proxy shall also be eligible to vote on show of hands as if he were a Member.
Deposit of instrument of appointment	151. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, shall be deposited at the office not later than forty eight hours before the time for holding the meeting at which the person named in the instrument proposes to vote, and in default the instrument or proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve months from the date of its execution.
Form of proxy	152. Every instrument of proxy whether for a specified Meeting or otherwise shall as nearly as circumstances will admit, be in any of the forms set out in Schedule IX of the Act.
Validity of votes given by proxy notwithstanding death of member	153. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the proxy or of any authority or of any power of attorney under which such proxy was signed or the transfer of the share in respect of which the vote is given, provided that no intimation in writing of the death or insanity, revocation or transfer shall have been received at the office before the commencement of the meeting or adjourned meeting at which the proxy is used.
Time for objection to vote	154. No objection shall be made to the validity of any vote, except at any Meeting or poll at which such vote shall be tendered and every vote, whether given personally or by proxy, not disallowed at such Meeting or poll shall be deemed valid for all purposes of such Meeting or poll whatsoever.



Chairman of the meeting to be the Judge of the validity of every vote

155. The Chairman of any Meeting shall be the sole judge of the validity of every vote tendered at such Meeting. The Chairman present at the taking of a poll shall be the sole judge of the validity of every vote tendered at such poll. The decision of the Chairman shall be final, binding and conclusive.

Minutes of General Meetings and inspection thereof by Members

156. The Company shall cause minutes of all proceedings of every General Meeting to be kept within thirty days of the conclusion of every such Meeting and concerned entries thereof in books kept for that purpose with their pages consecutively numbered.

157. Each page of every such book shall be initialled or signed and the last page of the record of proceedings of each Meeting in such book shall be dated and signed by the Chairman of the same Meeting within the aforesaid period of thirty days or in the event of the death or inability of that Chairman within that period by a Director duly authorised by the Board for the purpose.

158. In no case the minutes of proceedings of a Meeting shall be attached to any such book as aforesaid by pasting or otherwise.

159. The minutes of each Meeting shall contain a fair and correct summary of the proceedings thereat.

160. All appointments of Officers made at any Meeting aforesaid shall be included in the minutes of the Meeting.

161. Nothing herein contained shall require or be deemed to require the inclusion in any such minutes of any matter which in the opinion of the Chairman of the Meeting (a) is or could reasonably be regarded as defamatory on any person, or (b) is irrelevant or immaterial to the proceedings, or (c) is detrimental to the interests of the Company. The Chairman of the meeting shall exercise an absolute discretion in regard to the inclusion or non inclusion of any matter in the minutes on the aforesaid grounds.

162. Any such minutes shall be evidence of the proceedings recorded therein.

163. The book containing the Minutes of proceedings of General Meetings shall be kept at the office of the Company and shall be open during business hours, for such periods not being less in the aggregate than two hours in each day as the Directors determine, to the inspection of any Member without charge.

Division of profits and dividends in proportion to amount paid up

223. The profits of the Company, subject to any special rights relating thereof created or authorised to be created by these Articles and subject to the provisions of these Articles, shall be divisible among the members in proportion to the amount of capital paid up or credited as paid up and to the period during the year for which the capital is paid up on the shares held by them respectively.

The Company in General Meeting may declare a dividend

224. The Company in general Meeting may declare dividends to be paid to Members according to their respective rights, but no dividends shall exceed the amount recommended by the Board, but the Company in General Meeting may declare a smaller dividend.

Dividends only to be paid out of profits

225. No dividend shall be declared or paid otherwise by the Company for any financial year out of profits for the year arrived at after providing for depreciation in accordance with the provisions of Section 205 of the Act except after the transfer to the reserves of the Company of such percentage of its profits for the year as may be prescribed or out of the profits of the Company for any previous financial year or years arrived at after providing for depreciation in accordance with these provisions and remaining undistributed or out of both provided that :

- (a) If the Company has not provided for depreciation for any previous financial year or years, it shall, before declaring or paying a dividend for any financial year, provide for such depreciation out of the profits of the financial year or out of the profits of any other previous financial year or years;



- (b) If the Company has incurred any loss in any previous financial year or years, the amount of loss or any amount which is equal to the amount provided for depreciation for that year or those years whichever is less, shall be set off against the profits of the Company for the years for which the dividend is provided to be declared or paid or against the profits of the Company for any previous financial year or years arrived at in both cases after providing for depreciation in accordance with the provisions of Sub section (2) of Section 205 of the Act or against both.

Provided further that, no dividend shall be declared or paid for any financial year out of the profits of the Company for the year arrived at after providing for depreciation as above, except after the transfer to the reserves of the Company of such percentage of its profits for that year as may be prescribed in accordance with Section 205 of the Act or such higher percentage of its profits as may be allowed in accordance with that Section.

Interim dividend

226. The Board may, from time to time, pay to the Members such interim dividend as in their judgement the position of the Company justifies.

Capital paid up in advance at interest not to earn dividend

227. Where Capital is paid in advance of calls, such capital may carry interest but shall not in respect thereof confer a right to dividend or participate in profits.
228. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.

Dividend, etc. to joint-holders

229. The Board may retain dividends payable upon shares in respect of which any person is, under Article 85, entitled to become a Member, or which any person under that Article is entitled to transfer, until such person shall become a Member, in respect of such shares or share duly transfer the same.
230. Any one of several persons who are registered as the joint holder of any share may give effectual receipts for all dividends or bonus and payments on account of dividends or bonus or other moneys payable in respect of such shares.

No Member to receive Dividend while indebted to the Company and Company's rights of reimbursement thereof

231. No Member shall be entitled to receive payment of any interest or dividend in respect of his share or shares, whilst any money be due or owing from him to the Company in respect of such share or shares or otherwise howsoever, either alone or jointly with any other person or persons, and the Board may deduct from the interest or dividend payable to any Member all sums of money so due from him to the Company.

Transfer of shares must be registered

232. A transfer of shares shall not pass the right to any dividend declared thereon before the registration of the transfer.

Provided, however, that where any instrument of transfer of shares has been delivered to the Company for registration and the transfer of such shares has not been registered, the company shall :

- (a) transfer the dividend in relation to such shares to the special account referred to in Section 205A unless the company is authorised by the registered holder of such shares in writing to pay such dividend to the transferee specified in such instrument of transfer, and
- (b) keep in abeyance in relation to such shares any offer of rights shares under clause (a) of sub section (1) of Section 81 and any issue of fully paid up bonus shares in pursuance of sub section (3) of section 205.

Unclaimed dividend

233. Any dividend which has not been claimed or the warrant in respect whereof has not been encashed within the period prescribed under Section 205A of the Act, shall be deposited in a special account as provided for in the said section 205A of the Act and the whole of the amount envisaged in clause (a) to (e) of sub-section (2) of section 205C of the Companies Act, 1956 remaining



unpaid or unclaimed for a period of seven years from the date they become payable by a company have been credited to the Investor Education and Protection Fund as per Section 205C of the Act and subject to any amendments that may be made thereto from time to time, **and no unclaimed or unpaid dividend shall be forfeited by the Board.**

No interest on dividend

234. No unpaid dividend shall bear interest as against the Company.

Dividend and call together

235. Any General Meeting declaring a dividend may, on the recommendation of the Directors, make a call on the Members of such amount as the meeting fixes but so that the call on each Member shall not exceed the dividend payable to him and so that the call be made payable at the same time as the dividend and the dividend may, if so arranged between the Company and the Member, be set off against the calls.

Capitalization

236. (a) The Company, in General Meeting, may resolve that any moneys, investments or other assets forming part of the undivided profits of the Company standing to the credit of the Reserve Fund, or any Capital Redemption Reserve Account, or in the hands of the Company and available for dividend for representing premium received on the issue of shares and standing to the credit of the Share Premium Account be capitalised and distributed amongst such of the shareholders as would be entitled to receive the same, if distributed by way of dividend and in the same proportions on the footing that they become entitled thereto as capital and that all or any part of such capitalised fund be applied on behalf of such shareholders in paying up in full either at par of at such premium as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be distributed accordingly or in or towards payment of the uncalled liability on any issued shares of debentures or debentures stock and that such distribution or payment shall be accepted by such shareholders in full satisfaction of their interest in the said capitalised sum, provided that a Share Premium Account and a Capital Redemption Reserve Account may, for the purposes of this Article only be applied in the paying of any unissued shares to be issued to members of the Company as fully paid bonus shares.

(b) A General Meeting may resolve that any surplus moneys arising from the realisation of any capital assets of the Company, or in investments representing the same, or any other undistributed profit of the Company not subject to charge for income tax be distributed among the members on the footing that they receive the same as capital.

(c) For the purpose of giving effect to any resolution under the preceding paragraphs of this Article the Board may settle any difficulty which may arise in regard to the distribution as it thinks expedient and in particular may issue fractional certificates, and may fix the value for distribution of any specific assets, and may determine that such cash payments shall be made to any members upon the footing of the value so fixed or that fraction of less value than Rs.10/ may be disregarded in order to adjust the rights of all parties, and may vest any such cash or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalised fund as may seem expedient to the Board. Where requisite a proper contract shall be delivered to the Registrar for registration in accordance with Section 75 of the Companies Act, 1956, and the Board may appoint any person to sign such contract on behalf of the persons entitled to the dividend or capitalised fund, and such appointment shall be effective.

Indemnity

256. Subject to Section 201 of the Act, every Director, Officer or Agent for the time being of the Company shall be indemnified out of the assets of the Company against all liability incurred by him in defending any proceedings, whether civil or criminal in which judgement is given in his favour or in which he is acquitted or discharged or in connection with any application under Section 633 of the Act in which relief is granted to him by the Court.



SECTION X - OTHER INFORMATION

MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Company or contracts entered into more than two years before the date of filing of this Red Herring Prospectus) which are or may be deemed material have been entered or to be entered into by the Company. These contracts, copies of which have been attached to the copy of the Red Herring Prospectus have been delivered to the Registrar of Companies, NCT of Delhi and Haryana for registration and also the documents for inspection referred to hereunder, may be inspected at the Corporate Office of our Company located at 108-109, NSEZ, Noida - 201 305 from 10.00 a.m. to 4.00 p.m. on working days from the date of filing of this Red Herring Prospectus until the Bid Closing Date / Issue Closing Date of this Issue.

Material Contracts for Inspection

1. Letter of Engagement dated October 31, 2005 from Karvy Investor Services Limited and Anand Rathi Securities Private Limited offering their services to act as BRLMs and Company's acceptance thereto.
2. Memorandum of Understanding dated March 9, 2006 between the Company and the BRLMs to this Issue.
3. Addendum to the Memorandum of Understanding dated September 11, 2006 between the Company and the BRLMs to this Issue.
4. Memorandum of Understanding dated March 9, 2006 between the Company and Karvy Computershare Private Limited as Registrar to the Issue.
5. Escrow Agreement dated September 14, 2006 between the Company, the BRLMs, Escrow Collection Banks and the Registrar to this Issue.
6. Underwriting Agreement dated [●] between the Company, BRLMs and the Syndicate Member.
7. Syndicate Agreement dated September 14, 2006 between the Company, BRLMs and the Syndicate Member.

Material Documents for Inspection

1. Certified true copies of the Memorandum and Articles of Association of the Company, as amended from time to time.
2. Certificate of Incorporation of the Company dated October 10, 1990.
3. Fresh Certificate of Incorporation issued due to change of name on conversion to public limited company dated May 23, 1996.
4. Certificate of Incorporation consequent to change of name dated January 9, 2006.
5. Copy of the resolution passed at the meeting of the Board of Directors held on December 9, 2005 approving the Public Issue.
6. Copy of Resolution of the Members of the Company passed at the Extra-Ordinary General Meeting held on January 24, 2006 pursuant to Section 81(1A) of the Companies Act.
7. Copies of the Annual Reports of the Company for the years ending on March 31, 2002; March 31, 2003; March 31, 2004, March 31, 2005 and March 31, 2006 and audited Financial Statements for three months ended on June 30, 2006
8. Copy of the Statement of Tax Benefits report dated September 4, 2006 issued by the Auditors, M/s. Rohtas & Hans, Chartered Accountants.
9. Copies of Annual Reports of the Group Companies for the year ended March 31, 2006, March 31, 2005, and March 31, 2004.
10. Report of the Auditors, M/s. Rohtas & Hans, Chartered Accountants dated September 7, 2006 as per Indian GAAP and included in this Red Herring Prospectus.
11. NOC from the Bankers to the Company viz. Punjab National Bank, Syndicate Bank, Bank of Baroda dated November 21, 2005 and State Bank of India dated March 6, 2006 for the Public issue of Equity Shares for this Issue
12. Consents letters of the (a) CMD and Directors, (b) Company Secretary cum Finance Controller and Compliance Officer, (c) Book Running Lead Managers to this Issue, (d) Legal Advisors, (e) Bankers to the Company, (f) Bankers to this Issue and (g) Registrars to this Issue, to include their names in the Red Herring Prospectus to act in their respective capacities.
13. Consent letters dated March 2, 2006 from M/s. Rohtas and Hans, Chartered Accountants, for inclusion of their names as the Auditors and of their reports on accounts in the form and context in which they appear in the Red Herring Prospectus.



14. Agreement to Sell and Purchase of business dated October 21, 2005 and Supplementary Agreement dated December 22, 2005 entered into with HPPL and HFPL for acquiring the business of these concerns on going concern basis.
15. Deed of Assignment dated March 1, 2006 for transfer of immovable properties subsequent to the purchase of business referred on point 14 above.
16. Certified true copies of the Special Resolutions dated October 31, 2005 and January 24, 2006 in relation to the appointment of CMD and WTDs also containing the terms and conditions of their appointments.
17. Power of Attorney dated September 11, 2006 executed by Directors of our Company in favour of Mr Arvind Kumar Gupta for signing and making necessary changes to the Red Herring Prospectus.
18. Shareholders' Agreement between Bennett, Coleman & Co. Limited and the Company dated February 11, 2006.
19. Advertising Agreement between Bennett, Coleman & Co. Limited and the Company dated February 11, 2006.
20. Lease Deed dated November 23, 2005 in relation to the registered office of the Company.
21. Agreement with The Walt Disney Company (India) Private Limited dated August 29, 2005, granting the use of some of the Disney Characters in relation to the stuff toys manufacturing.
22. Agreements with The Walt Disney Company (India) Private Limited dated May 31, 2006, granting the use of some of the Disney Characters in relation to the our home furnishings products.
23. Agreement with Percept Picture Company Private Limited dated January 11, 2006, and letter dated March 8, 2006 granting certain pre-approved manufacturing and selling rights in respect of characters used in the animated motion picture "Hanuman".
24. The Techno Economic Feasibility Report dated December 15, 2005 and the Supplementary to the same dated February 4, 2006 prepared and issued by M/s. Gherzi Eastern Limited in relation to the proposed Home Textile project of HTTL.
25. Following sanction letters for the debt portion of the total requirement of funds :
 - (a) Letter No. IBB: ND:HTTL dated February 13, 2006 from PNB sanctioning Rs. 5,400 lakh
 - (b) Letter No. OF-81/S.P. dated February 15, 2006 from OBC sanctioning Rs. 3,600 lakh
 - (c) Letter No. MCG/VB/2005-06-117 dated February 25, 2006 from SBI sanctioning Rs. 4,500 lakh
26. Copy of Consent letter dated March 7, 2006 from Punjab National Bank to act as a Monitoring Agency for the utilisation of the proceeds of this Issue.
27. Sale deeds dated March 7, 2006, April 13, 2006, April 22, 2006 and July 4, 2006 for acquisition of 22.69 acres of land near Roorkee in Uttaranchal.
28. Agreements dated March 7, 2006 for acquisition of 2.11 acres of land near Roorkee in Uttaranchal.
29. Certified True Copy of the Certificate dated September 7, 2006 by the Auditor of the Company certifying the deployment of funds towards the upcoming project at Lakeshwari, Roorkee.
30. Due diligence Certificate dated March 13, 2006 to SEBI from Karvy Investor Services Limited and Anand Rath Securities Limited
31. Legal Advisor's Due Diligence Certificate dated September 11, 2006.
32. Listing application dated September 11, 2006 filed with the NSE and the BSE, respectively.
33. In-principle listing approvals dated May 5, 2006 from BSE May 22, 2006 and August 23, 2006 from NSE.
34. Tripartite agreement between the NSDL, our Company and the Registrar dated June 20, 2006.
35. Tripartite agreement between the CDSL, our Company and the Registrar dated June 26, 2006.
36. SEBI observation letter no. CFD/DIL/SM/ISSUES/70506/2006 dated June 29, 2006 and Company's reply dated 11 September 2006.
37. The declaration by Compliance Officer for incorporation of all the SEBI observations wherever applicable.

Any of the contracts or documents mentioned in this Red Herring Prospectus may be amended or modified at any time if so required in the interest of the Company or if required by the other parties, without reference to the shareholders subject to compliance of the provisions contained in the Companies Act and other relevant statutes.



DECLARATION

We, the Directors of our Company, hereby declare that, all the relevant provisions of the Companies Act, 1956, and the guidelines issued by the Government of India or the guidelines issued by the Securities and Exchange Board of India, as the case may be, have been complied with and no statement made in this Red Herring Prospectus is contrary to the provisions of the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992 or rules made there under or guidelines issued, as the case may be. We further certify that all the disclosures and statements made in this Red Herring Prospectus are true and correct.

SIGNED BY ALL THE DIRECTORS OF HANUNG TOYS AND TEXTILES LIMITED

Ashok Kumar Bansal
Chairman-cum-Managing Director

Anju Bansal
Whole-Time Director

Colonel Ashok Malhotra
Whole-Time Director

Piyush Mittal
Independent Director

R.K. Pandey
Independent Director

Gulshan Rai Jain
Independent Director

Arvind Kumar Gupta
Company Secretary cum Finance Controller and Compliance Officer

Place: New Delhi

Date: September 14, 2006