

LETTER OF OFFER

For Equity Shareholders
of the Company Only



HBL NIFE POWER SYSTEMS LIMITED

(Registration No. 01-6745)

(Originally Incorporated as SAB NIFE Power Systems Limited on August 29, 1986 under the Companies Act, 1956. It received the Certificate for Commencement of Business on September 22, 1986)
[The Company's name was changed to HBL NIFE Power Systems Limited w.e.f April 26, 2000]

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For Private circulation to the Equity Shareholders of the Company Only

LETTER OF OFFER

ISSUE OF 22,07, 232 EQUITY SHARES OF RS. 10/- EACH FOR CASH AT A PREMIUM OF RS. 90/- (ISSUE PRICE OF RS. 100/-) PER EQUITY SHARE AGGREGATING RS. 2207.23 LAKHS TO THE EXISTING EQUITY SHAREHOLDERS ON RIGHTS BASIS IN THE RATIO OF 1 (ONE) EQUITY SHARE FOR EVERY 10 (TEN) EQUITY SHARES HELD ON RECORD DATE I.E. JUNE 7, 2006. THE FACE VALUE OF THE EQUITY SHARE IS RS.10/- PER SHARE AND THE ISSUE PRICE IS 10 TIMES THE FACE VALUE

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 the issuer and the issue including the risks involved. The equity shares offered in the 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 Letter of Offer. Investors are advised to refer to "Risk Factors" on Page i to xviii of this Letter of Offer before making an Investment in this Issue.

ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for and confirms that this Letter of Offer contains all information with regard to HBL Nife Power Systems Limited and the Issue, which is material in the context of the Issue, that the information contained in this Letter of Offer 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 Letter of Offer as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING ARRANGEMENTS

The existing Equity Shares of the Company are listed on Bombay Stock Exchange Limited, Mumbai (BSE – 'Designated Stock Exchange') and The Hyderabad Stock Exchange (HSE). Accordingly the Company proposes to list the equity shares on BSE and HSE. The company has received in principle approvals from BSE and HSE vide letters dated April 10, 2006 and April 12, 2006 respectively.

LEAD MANAGER TO THE ISSUE	REGISTRAR TO THE ISSUE
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ISSUE PROGRAMME

ISSUE OPENS ON	LAST DATE FOR RECEIPT OF REQUESTS FOR SPLIT APPLICATION FORMS	ISSUE CLOSURES ON
June 29, 2006	July 14, 2006	July 29, 2006

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I. DEFINITIONS, ABBREVIATIONS AND TECHNICAL TERMS**Conventional / General Terms**

Act	The Companies Act, 1956 and amendments thereto
AGM	Annual General Meeting
AS	Accounting Standards as issued by the Institute of Chartered Accountants of India
CAGR	Compound Annual Growth Rate
CY	Calendar Year
EGM	Extra Ordinary General Meeting
EPS	Earnings Per Share
FY / Financial Year or Fiscal Year	The twelve months ended March 31st of a particular year
GDP	Gross Domestic Product
GIR Number	General Index Registry Number
GoI	Government of India
HUF	Hindu Undivided Family
IT Act	Income Tax Act, 1961 and amendments thereto
MOU	Memorandum of Understanding
NAV	Net Assets Value
P/E Ratio	Price/ Earnings Ratio
PAN	Permanent Account Number
PAT	Profit After Tax
PBDT	Profit Before Depreciation and Tax
PBIDT	Profit Before Interest, Depreciation and Tax
PBT	Profit Before Tax
ROI	Return on Investment
Security Certificate	Equity Share Certificate
Security(ies)	Equity Share(s)

Issue Related Terms

Articles	Articles of Association of HBL Nife Power Systems Limited
Board	Board of Directors of HBL Nife Power Systems Limited
BSE / Designated Stock Exchange	Bombay Stock Exchange Limited, Mumbai
CAF	Composite Application Form
Directors	Directors on the Board of HBL Nife Power Systems Limited
Equity Shareholders	Equity Shareholders of the Company whose names appear as:
	- Beneficial Owners as per the list furnished by the depositories in respect of Equity Shares held in electronic form and
	- On the Register of Members of the Company in respect of the Equity Shares held in physical form

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Equity Shares	Equity Shares of the Company of Rs. 10/- each
FFSIL/ Lead Manager/ LM	Lead Manager to the Issue i.e. Fortune Financial Services (India) Limited
HSE	Hyderabad Stock Exchange
Issue / Rights Issue	Issue Of 22,07, 232 Equity Shares of Rs. 10/- each for Cash at a premium of Rs. 90/- (Issue Price -Rs. 100/-) per Equity Share aggregating Rs. 2207.23 Lakhs to the existing Equity Shareholders on Rights Basis in the Ratio of 1 (One) Equity Share for every 10 (Ten) Equity Shares held on Record Date i.e. June 7, 2006 as per this Letter of Offer
Issue Closing Date	The date on which the issue closes for subscription i.e. June 29, 2006
Issue Opening Date	The date on which the Issue opens for subscription i.e. July 29, 2006
Issue Period	The period between the Issue Opening Date and Issue Closing Date and includes both these dates
Issue Price	The price at which the equity shares will be issued by the Company under this Letter of Offer i.e. Rs. 100/- per share
Issuer / Company / HBL Nife	HBL Nife Power Systems Limited
Letter of Offer /LOF/ Offer Document	This Letter of Offer circulated to the Equity Shareholders and filed with the Stock Exchanges containing <i>inter alia</i> the Issue price and the number of equity shares to be issued, issue price and other incidental information
Memorandum	Memorandum of Association of HBL Nife Power Systems Limited
Promoter(s)	Promoters shall have the same meaning as ascribed to it under the SEBI Guidelines and which has been particularly detailed in the disclosure in this Letter of Offer
Record Date	June 7, 2006
Registrar	Registrar to the Issue, Karvy Computershare Private Limited
Rights Entitlement	The number of Equity Shares that an Equity Shareholder is entitled to under this Letter of Offer in proportion to his/her/its existing shareholding in the Company as on the Record Date June 7, 2006
ROC	Registrar of Companies at Hyderabad, Andhra Pradesh located at 2 nd Floor, CPWD Building, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad 500 195

Company / Technical and Industry Related Terms

Ah	Ampere Hours
Automotive batteries	Batteries used in motor vehicles
DAUG, Germany	Deutsche Automobil Gesellschaft, Germany
DC Power Systems	Direct Current Power Systems
LMLA batteries	Low Maintenance Lead Acid Batteries
NiCad (PP/ FP/ SP) batteries	Nickel Cadmium (Pocket Plate / Fiber Plate / Sintered Plate) batteries
Primary batteries	Non Rechargeable batteries
Secondary batteries	Rechargeable batteries
UPS	Uninterrupted Power Supply
VRLA batteries	Valve Regulated Lead Acid batteries

Abbreviations

APCPDCL	Andhra Pradesh Central Power Distribution Company Limited
AY	Assessment Year
CDSL	Central Depository Services (India) Limited
CLB	Company Law Board
DAUG	Deutsche Automobil Gesellschaft, Germany
DCA	Department of Company Affairs
Depositories Act	The Depositories Act, 1996 as amended from time to time
Depository	A Depository registered with SEBI under the SEBI (Depositories & Participant) Regulations, 1996 as amended from time to time
DP	Depository Participant
FCNR Account	Foreign Currency Non Resident Account
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999 read with rules and regulations there under and amendments thereto
FI	Financial Institution
FII(s)	Foreign Institutional Investors registered with SEBI under applicable laws
FIPB	Foreign Investment Promotion Board, Department of Economic Affairs, Ministry of Finance, Government of India
NA	Not Applicable
NR	Non Resident
NRE Account	Non Resident External Account
NRI(s)	Non-Resident Indian(s)
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited
RBI	The Reserve Bank of India
SBI	State Bank of India
SCRR	Securities Contracts (Regulation) Rules, 1957 as amended from time to time
SE / Stock Exchange (s)	BSE and HSE
SEBI	Securities and Exchange Board of India
SEBI (SAST) Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997
SEBI Act	Securities and Exchange Board of India Act, 1992 as amended from time to time
SEBI Guidelines	Means the extant Guidelines for Disclosure and Investor Protection issued by Securities and Exchange Board of India, constituted under the Securities and Exchange Board of India Act, 1992 (as amended), called Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000
SIA	Secretariat of Industrial Assistance
WOS	Wholly Owned Subsidiary

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In this Letter of Offer, all references to “Rupees” “Rs.” are to the legal currency of India, all references to “U.S. Dollars”, and “US\$” are to the legal currency of the United States, all references to “Nepalese Rupees”, and “NPRS” are to the legal currency of the Kingdom of Nepal, all references to “Malaysian Ringitts”, and “RM” are to the legal currency of the Malaysia, all references to “Pound Sterling”, and “GBP” are to the legal currency of the United Kingdom.

References to the singular also refers to the plural and one gender also refers to any other gender, wherever applicable, and the words “Lakh” or “Lac” means “100 thousand” and the word “million” or “mn” means “10 lakh” and the word “crore” means “10 million” or “100 lakhs” and the word “billion” means “1,000 million” or “100 crores”.

Any discrepancies in any of the tables between the total and the sums of amounts listed are due to rounding off.

Any percentage amounts, as set forth in “Risk Factors”, “Business”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Letter of Offer, unless otherwise indicated, have been calculated on the basis of the financial statements prepared in accordance with Indian GAAP and wherever not covered are declared by the company.

II. RISK FACTORS

1. Forward-looking Statements:

This Letter of Offer contains certain “forward-looking statements”. These forward looking statements can generally be identified by words or phrases such as “expect”, “estimate”, “intend”, “may”, “plan”, “project”, “shall”, “will” or other words or phrases of similar import. Similarly, statements that describe Company’s objectives, strategy, plans or goals are also forward-looking statements.

All forward looking statements are subject to risks, uncertainties and assumptions about the Company 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 the expectations include, among others:

- General economic and business conditions;
- Company’s ability to successfully implement its strategy and its growth and expansion plans;
- Increasing competition in the non automotive battery industry;
- Increases in labour costs, raw materials prices, freight rates, prices of plant & machineries and insurance premia;
- Manufacturers’ defects or mechanical problems with Company’s plant & machineries;
- Changes in the value of the Indian rupee and other currencies;
- Cyclical or seasonal fluctuations in the operating results due to prevailing market conditions;
- Amount that the Company is able to realize from the clients;
- Changes in laws and regulations that apply to the non automotive battery industry;
- Changes in fiscal, economic or political conditions in India;
- Social or civil unrest or hostilities with neighboring countries or acts of international terrorism;
- Changes in the foreign exchange control regulations, interest rates and tax laws in India.

For further discussion of factors that could cause Company’s actual results to differ, please see the section entitled “Risk Factors” included in this Letter of Offer. In the light of inherent risks and uncertainties, the forward looking statements, events and circumstances discussed in this Letter of Offer might not occur and are not guarantees of future performance.

Neither the Company, its Directors and Officers, any member of the Issue Management Team nor any of their respective affiliates has 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, for purposes of the Issue, the Company and the Lead Manager to the Issue will ensure that investors in India are informed of material developments relating to the business until such time as the grant of listing and trading permission by the Stock Exchanges.

A) RISK ENVISAGED BY MANAGEMENT AND MANAGEMENT PERCEPTIONS THEREOF

An investment in equity shares involves a high degree of risk. Investor(s) should consider carefully the following risks factors, together with other information contained in this Letter of Offer before making any investment decision. Unless specified or quantified in the relevant risk factors mentioned below, the Company is not in a position to ascertain the financial and other implications of any of the other risks mentioned below. If any of the following risks actually occur, the Company’s business, financial condition and results of operations could suffer, the trading price of the Company’s equity shares could decline and investors may lose all or part of the investment.

Market data used throughout this Letter of Offer was obtained primarily from internal company reports. The information contained in this Letter of Offer has been obtained from sources believed to be reliable, but their accuracy and completeness and underlying assumptions are not guaranteed and their reliability cannot be assured. Although, the Company believes that the market data used in this Letter of Offer is reliable, it has not been independently verified. Similarly, internal Company reports and data, while believed to be reliable, have not been verified by any independent source.

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Risk Factors Internal to the Company

1. HBL Nife has received a notice for non-compliance of The SEBI (Substantial Acquisition and Take Over) Regulations, 1997 for violation of Regulations 6 (2), 6(4) for the year 1997 and Regulation 8 (3) for year 1998 to 2002 vide Letter no. CFD/DCR/RC/TO/26660/04 dated November 29, 2004, wherein a penalty of Rs.1,75,000/- is demanded. The Company has consented to pay the said penalty vide its letter dated December 23, 2004 as and when demanded.

SEBI vide its order dated August 4, 2000 has agreed to a monetary penalty of Rs. 5,00,000/- under Section 15I of the SEBI Act, 1992 on HBL Limited (since merged with the company) and Dr. A.J. Prasad (Promoter) for Share Warrants issued in October 1998 for technical violation of Regulation 11(1) of the SEBI (SAST) Regulations, 1997.

HBL Nife had proposed a buyback of equity shares in the year 2002; SEBI vide its letter no. PMD/SNB/18013/2002 dated September 16, 2002 had advised not to proceed with the offer due to the offer not being in compliance with Clause 40 A of the listing agreement.

2. HBL Nife had proposed a Rights Issue in the ratio of 1:15 in January 2005, the Draft Letter of Offer for the same was filed with SEBI in June 2005, however, the same was withdrawn in September, 2005.

Managements Perception: The Draft Letter of Offer for the rights issue envisaged in January 2005 had to be withdrawn due to the same not meeting the extant listing requirements on post issue non-promoter holding being less than the minimum prescribed. The company subsequently made a preferential allotment on October 28, 2005 resulting in dilution of promoter shareholding to 76.51%. The current rights issue through this Letter of Offer shall enable the company to meet the requirements of clause 40A of the Listing Agreement.

3. The following Equity Shares of the Company are awaiting Listing on the Stock Exchanges due to non-compliance with the minimum public shareholding criterion.

No. of Equity Shares	Details	Issued in	% of Pre Issue Equity Share Capital
11,02,430	Conversion of preferentially allotted share warrants (net of cancellation of 2,466,270 Equity Shares consequent to merger)	May 1999	4.99%
1,25,38,593	Merger Scheme passed by Honorable High Court of Andhra Pradesh for merger of (net of cancellation of 15,31,900 Equity Shares) HBL Limited with the Company	March 2000	56.81%
20,00,000	Preferential Allotment	October 2005	9.06%
1,56,41,023	Total	-	70.86%

HBL Nife currently is not meeting the conditions for continuous listing and the minimum public shareholding is less than the prescribed minimum of 25%. The current rights issue and the accompanied renunciation by the promoters shall result in the post issue shareholding pattern being in compliance with clause 40A of the listing agreement.

4. The Securities issued and allotted under the Rights Issue shall not be listed and would not be available for trading unless and until:-
 - i. the company complies with continuous listing requirements with regards to the minimum non promoter holding as required under clause 40A of the Listing Agreement; and
 - ii. all the securities issued by the company under Conversion of Warrants, Scheme of Merger and Preferential Issue are listed.

Managements Perception: The Company is in the process of taking adequate steps to list the shares issued on Conversion of Warrants, Scheme of Merger and Preferential Issue.

5. **Dr. A.J. Prasad, the Chairman and Managing Director of the Company was detained in USA in October 1995. He was offered a nolocontendere (no contest), along with a fine of US\$ 3,000 in return for being allowed to come back to India that was accepted in December 1996. In lieu of the above matter Dr. A.J. Prasad as an individual is not entitled to any export licence for munitions list items from USA and travel to USA till December, 2006.**

Managements Perception: The matter against Dr. A.J. Prasad was a case of mistaken identity and the offence has not been admitted or proved in any court of law. Dr. A.J. Prasad had chosen to agree to the nolocontendere offered. Also, this shall not affect the business of the HBL Nife in any manner.

6. **HBL Nife Power Systems Limited is not the registered owner of 'HBLNIFE' trademark. The company is facing an increasing threat of litigation for use of the name 'Nife' abroad in crucial export markets that may spill over to India. These litigations may have an effect on the marketability of the products and consequently the financial performance of the Issuer.**

Managements Perception: The Company had acquired the current name consequent to merger of SAB Nife Power Systems Limited and HBL Limited in the year 2000. It has applied for the registration of 'HBL NIFE' trade mark with the requisite regulatory authorities in India and is hopeful of being awarded the same. The denial of the trade mark registration by the Indian authorities might have an adverse effect on the business and performance of the company. Internationally it may have to desist from the use of 'Nife' name. However, exports account for 16.93% of its consolidated gross sales.

7. **SAFT AB (earlier known as SAB Nife AB) has initiated legal proceedings for infringement of its trade mark against the company's subsidiary HBL Nife (UK) Limited in the Royal Court of Chancery Division, London and where in HBL Nife was mentioned as 2nd defendant.**

On February 8, 2006 the Royal Court of Chancery Division, London passed an order against the Company's subsidiary and the Company stating the following:

- Restraining the defendants against infringement of UK trademark;
- Defendants to change the corporate name of the subsidiary that does not include 'nife';
- Defendants to remove or obliterate the use of any or each of the trade marks from any; website;
- Defendants to make a payment of £2,00,000 in the Court on account of costs and damages out of which a sum of £ 1,50,000 be paid by the defendants by 4pm on March 9, 2006. The aforementioned amount of £2,00,000 would be required by the defendants to be paid in the event they fail to appeal from the order along with payment of the claimants costs of application amounting to £ 2,000 by March 8, 2006

Managements Perception: The Company is in the process of filing the appeal along with the condonation of delay but as of date has not filed an appeal against the order nor made any payments in the Court.

8. **HBL Nife's name figures in the Volckers Report**

The Company's name figures in Volckers report. It has entered into certain contracts that were shipped to Iraq. The Company might be liable for civil / criminal damages or might have to incur substantial litigations costs to defend itself from being implicated in the report.

Managements Perception: HBL Nife has supplied two consignments to Government of Iraq:

Year	Contract Value
1999	US\$ 443,072
2001	€ 66,466

The Company had entered into the above transaction with agents and has paid the requisite commission vide normal banking channels. The Company has entered into the above for supply of batteries as purely commercial contracts and has limited knowledge of the operations of agents / principal through which it deals. The Company has supplied the said goods in the normal course of business and has received the inward remittance from normal banking channels and has paid the agreed commission by normal banking channels. Implication of the Company in the above transactions has been clarified to the enquiry committee.

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9. Revenues and profitability are dependent on a number of factors, and may vary significantly from quarter to quarter. Therefore, historical financial results may not be an accurate indicator of future performance.

Managements Perception: Growth, both organic and inorganic or in domestic and international sales has varied from year to year in recent years and may vary significantly in the future from year to year. The sales for the FY 2004-05 were substantially higher than fiscal 2003-04. The Company has reported a profit of Rs. 2571.63 Lacs for the 9 month period ending on December 31, 2005.

The revenues and profitability are dependent on a number of factors, such as:

- Flotation of tenders by the user industries and Company's ability to be empanelled;
- Introduction of new pricing policies by competitors;
- Availability of the requisite raw material at competitive prices so as to supply at the desired/ contracted rates to the user industries;
- Freight rates that affect the landed costs of imported raw materials;
- HBL Nifes ability to complete mergers and acquisitions and also successfully integrate such entities or create green facilities in time to derive the maximum benefits from expansion;
- Ability to respond to changes in laws;
- The growth rate of the domestic market and competition from Indian and non-Indian power systems / batteries manufacturers;
- Effect of global regulatory / environmental changes on products manufactured;
- Actions, strikes, lobbying by workers;
- Currency exchange rate fluctuations;
- Fluctuations in interest rates; and
- General economic and political conditions.

As a result of the foregoing uncertainties, the period-to-period comparisons of historical and continuing business results of operations may not be an accurate or meaningful indicator of future performance.

10. Dependence on few suppliers may adversely affect the availability of key input at reasonable prices thus affecting the margins and may have an adverse effect on the business, financial condition and results of operations.

Raw materials constitute around 59.82% and 54.32 % of the Companys net sales for FY 2004-05 and FY 2003-04 respectively. The company sources a variety of raw materials from local vendors as well as imports. Discontinuation of production by these companies or a failure of the supplier to adhere to the delivery schedule can hamper production schedule and has the potential to affect the revenues, hamper business and results of operations. This dependence may also adversely affect the availability of key inputs at reasonable prices thus affecting the margins and may have an adverse effect on the business, financial condition and results of operations.

Managements Perception: The vendors from whom HBL Nife sources its raw materials requirements are established players. The Company has been sourcing its requirements from these players and has well-established business relationships; there have been no past instances to believe that such problems may arise in future. Also, the key raw materials in case there is a shortage / disruption in supply can be sourced from international markets.

11. Risk of Receivables puts a restrain in the ability of the company to manage its cashflows.

The Company has around Rs. 12,892.15 Lakhs as receivables for the 9 month period ended on December 31, 2005 that constitutes around 45.43 % of Net Sales for the FY 2004-05. Also, significant proportions of company's sales are on credit, which always carries a business risk of any receivable turning bad. In such an eventuality the working of the company and its financials would be adversely affected.

Managements Perception: The Company is in a specialized market and supplies to Defence, Railways and Telecom companies amongst others wherein the credit periods are uncertain but realizations are more or less assured. The Company in the past has not encountered any problem in receiving its debts from its customers. Given the companies reputation for its quality, continuing business relationship and unique position that it commands the company does not fore see any problem on this account. The debtors turnover ratio of the company for the 6 month period ended on September 30, 2005 is 102 days that is per industry norms. The Company has provided only Rs. 8.33 Lakhs as provision for doubtful debts during the past 3 completed financial years.

12. Average Collection period of Company's sales to telecom / communications sector is comparatively high. This reduces the return on capital for shareholders.

The average period for which the sale invoice remains outstanding may increase out realization risk, which could adversely affect profitability.

Managements Perception: Telecom/ Communications segment constitutes 48.95% of the Company's revenues for 6 month period ended September 30, 2005. The Company deals with reputed companies in with good track record and does not foresee any problems in collection of the same. The average credit period allowed by the company to the customers in this segment is well within the industry norms and is followed by competitors as well.

13. There has been no appraisal for requirement of funds as well as monitoring and the company has not entered into any definitive agreements to utilise the proceeds of the Issue. The entire issue proceeds are intended to raise long term working capital requirements

The requirement of funds has not been appraised by any bank / institution / independent agency. Also, deployment of funds raised through the issue is completely at the discretion of the company and will not be monitored by any independent agency. Further, the management will have significant flexibility in applying the proceeds of the Issue.

Managements Perception: The Company intends to raise resources for meeting its long term working capital requirements that shall augment its long-term resources and net worth. The deployment of funds would be judiciously exercised and monitored by the Board of Directors. Pending utilization in the objects of the issue, the proceeds of the Rights Issue will be deposited in a bank account as stated under the undertaking given for utilization of Issue proceeds on page no. 156 of this Letter of Offer.

14. Certain Restrictive Covenants of the Lenders as per the Sanction Letters require prior approval of the Lenders in altering the Capital Structure of the Company. These covenants of the lenders may alter the flexibility of the management to pursue growth plans and it might have to take prior approvals for such plans.

The Company has availed credit facilities with the Banks and there are certain restrictive covenants in the sanction letters for term loans and working capital loans, among other things, which require the company to obtain the approval of the lenders or provide restrictions, namely for, permission for expansion, change in capital structure, change in management, disposal of assets, declaring dividends at a time while the company is in default, undertaking material diversification in the business etc.

Managements Perception: It is a normal practice for Financial Institution / Banks lending money to have restrictive covenants. This however does not impair business working with discipline and prudent financial norms. The company has over a period of time has been meeting its financial commitments well in time and looking into tapping the niche market with new products. The Company has obtained all the requisite consents for the current rights issue.

15. Dependence on Technology from Licence Agreement might adversely affect the sales of the company and consequently reduce its profitability.

The Company has a Licence Agreement with DAUG, Germany for technology to manufacture NCFP batteries. It has entered into a Licence Agreement for providing technology for the manufacture of Nickel Cadmium Fibre Plate batteries (NCFP). 5.1% of the revenues of the HBL Nife is derived from the sales of NCFP batteries for 6 month period ending September 30, 2005. The annulment / lapse / non renewal of the technology agreement shall have an effect on the performance and profitability of the company.

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Management Perception: HBL Nife pays Licence fee at 4% to DAUG, Germany on the production of NCFP batteries the said agreement is entered in and is valid till February 2011. The agreement has been renewed regularly and the company does not foresee any problem on this account. Also, the sales of NCFP batteries constitute only 5.1% of its revenues. The agreement is renewable after expiry of initial agreement ending 2011 and hence the company does not foresee any problem on this account. Moreover as the percentage of Contribution is not very high for creating any imbalance in the profitability, incase of termination from either side.

16. The telecom/ communication sector constitutes 48.95% of the Company's revenue for the 6 month period ended September 30, 2005. Any down turn may adversely affect profitability and consequently results of operations.

The company is dependent on Telecom/ Communication sector and it constitutes 48.95% of its 6 month period ending September 30, 2005. The upturn in the demand for telecom batteries might not continue in future. Any down turn in the demand for telecom batteries would adversely affect the operations of the company.

Managements Perception: The Company's products find its utility in 5 broad segments viz Aviation, Communication, Defence, Industry and Railways apart from others. The revenue contribution from these segments other than Communication is equally important. The Company constantly endeavors to develop and tap newer markets/ segments. It does not foresee any slag in the orders from the communications segment as the current teledensity in India at the end of February 2006 is only 12.28 per 100 population as compared to the world average of about 29 at the end of year 2003. Also with the current growth pattern in the telephone connection in India, the company does not envisage any problems in foreseeable future.

17. The Company derives 64.95% of its total revenues from Top 10 Customers as on September 30, 2005. The dependence on these customers may lead to a substantial reduction in revenues and consequently profits in case the order flow slows down or stops.

The Top 10 customers constitute around 64.95% of the Total Sales of the Company for half year ended September 30, 2005.

Managements Perception: The Telecom sector individually constitutes 48.95% of the total revenues. The Top 10 Customers of the Company are spread across varied sectors viz Telecom, Defence and Railways. The Company being an Industrial supplier, dependence on a few customers is inherent in the business profile. Also company receives repetitive orders from government establishments because of the entry barriers in product approvals.

18. The Customers may terminate supply contracts before completion or choose not to renew contracts, which may adversely affect profitability.

Managements Perception: The Company manufactures and sells against specific orders or based on pre-approvals of proto types. The Company has a very specialized domain and is one of the major players in the segment in which it operates. It sells to OEMs with a pre-approved proto type and it is not foreseen that any rejections occur. It gets repeated orders from customers because of its strict adherence to quality and delivery schedules and also an efficient after sales service.

19. Increase in input cost could reduce profitability as revenues are governed by contracted prices.

The upward trend in the input cost could affect the profitability of the company, especially in cases where the selling prices are negotiated in advance.

Managements Perception: The major inputs required for the manufacture of company's products i.e. active materials, separators, electrolyte, hardware, electronic components are all in the competitive domain. The suppliers of raw materials broadly follow the industry trend and their pricing policy is in tune with the developments in the markets. The Company being a bulk consumer has an inherent bargaining power and has over a period of time built continued business relationships with the vendors. It endeavors to keep the procurement prices at lowest possible levels. Also the Company is in a position to pass on the burden of increased input prices to the customers.

20. The Company has to maintain high inventory levels that has carrying cost and thus have a negative effect on Return on Net worth and profitability.

Managements Perception: The Company maintains higher inventory to avoid production losses because of non-availability of raw materials and also to gain by way of the increase in input costs. The increased inventory is a timely phenomenon based on the price fluctuation and demand and supply of the raw material. Due to the nature of the industry the Company is operating in, it has to maintain stocks / inventory levels of 3-4 month for critical inputs. To ensure continuity in production and meet the customer requirements on timely basis the company keeps critical inputs in its inventory. The maintaining of inventory helps the company to procure and execute the order in shorter lead-time.

21. Introduction of new and technologically better products by competitors can adversely affect the operations of the company. Competitors may launch superior products that are better than the companys products and lead to a reduction in company's market share or have an effect on the pricing scenario leading to a reduction in realizations and consequently diminishing of profits for the company.

Managements Perception: Most of the industrial batteries manufactured by the company are type approved by the Customers before any commercial lots can be sold. There is a pre-tender qualification for any Vendor to comply with the requirements particularly in sectors like Defence, Telecom, Railways, Petroleum, Oil and Power, etc, wherein the company operates. Since most of the customers from these sectors have a pre-tender qualification, entry into business with newer technologies / products will also require the compliance of pre-tender qualifications which is time consuming. Usage of any new technology or introduction of any new battery product to the above sectors can also be handled by the Company with in house development.

22. Competition from existing established companies and future entrants into the industry may affect HBL Nife's performance.

Managements Perception: Company with its experience in the industry will adopt appropriate strategies to meet the competition.

23. Long Gestation Periods for Products.

The Products that the Company manufactures are application specific and approvals by various government agencies are required before commercialization. The Orders and Revenues translate only post the approval and there is a risk of rejection for products under development.

Managements Perception: The Company has a qualified and experienced technical team. It has over the years been successful in obtaining the requisite approvals and is prudent about the investments and commitment to Research and Development activities. The company has been successfully working on the risk reward matrix of its products under development and the experience and insight generated over the years and an understanding of the market dynamics helps it in mitigating the risks associated. Over a period of time the company has achieved the desired approvals that to an extent assure of the future revenue streams, however these are subject to market dynamics. The company has over a period of time developed a methodology to deal with such contingency to be in a position to recover its cost.

24. The Company does not have firm arrangements for the Marketing of its finished products.

Managements Perception: The Company has a Marketing Department and does not have supply chain distribution system by having a Distributor / retail net work. Besides, the Company also gets direct enquiries for supplies because of its experience and existence in this line of business, adherence to quality and after sales service.

25. Production bottlenecks can affect the performance of the Company.

Production bottlenecks can affect the operating schedule and consequently delayed delivery can affect the flow of future orders. This might adversely impact the performance of the Company.

Managements Perception: The processes for the manufacture of various batteries are standardized. The company has established systems and procedures to adhere to the best production practices.

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26. Cordial relationship with the workers / employees is crucial for smooth functioning of operations.

The Company being an Industrial Battery manufacturer, and having a large work force, cordial relationship with workers / employees is essential

Managements Perception: The Company has maintained cordial relations with its workers / employees. Also a sizeable chunk of the workers are retained on a contract basis. No major disturbance in industrial relations has occurred in immediate past. Management does not foresee such an eventuality in future too.

27. Mishaps or accidents at facilities could lead to property damage, production loss and accident claims.

The Company being an Industrial Battery manufacturer, mishaps / accidents at facilities could lead to property damage, production loss and accident claims.

Managements Perception: Although this is a major area of concern for manufacturing industries in general, adequate precautions have been taken to preempt the production losses and safe working conditions are ensured to minimize such contingencies to the lowest level. The processes for the manufacture are standardized and certified. Also, the property of the Company is adequately insured against fire and other perils.

28. Certain Unregistered Title deeds for properties owned / rented / leased by the Company carry a risk of eviction; the Company may lose these premises if any eviction proceedings succeed against the Company. Such eviction may adversely affect the business, operations and profits of the Company.

The following properties though owned or uses or paid by the company are yet to be registered in the name of the company:

- **Allotment of land at Vishakapatnam.** By its letter dated June 1, 2005, the Development Commissioner of Vishakapatnam has allotted 76,150 sq. mtrs. of space in Plot No.Q6 to Q10, R1 to R10 and S1 to S9 w.e.f. June 1, 2005 for establishing a factory to manufacture nickel cadmium, silver zinc and lead acid batteries. The Company is the process of executing these documents.
- **Allotment of Industrial plot at Industrial Estate at Ranipur, Haridwar.** State Industrial Development Corporation of Uttaranchal Ltd. has vide its letter dated April 12, 2004 allotted plot No.1 in Sector 8A admeasuring about 11,700 sq. mtrs. The Company has already paid Rs.32.76 Lakhs being 50% of the amount payable for 11,700 sq mtrs of land. Lease agreement has not been executed as of date.
- **Allotment of Plot No.425 in Phase 8 admeasuring about 4050 sq. mtrs in Industrial Estate at IMT Manishar** is issued by Haryana State Industrial Development Corporation Ltd. dated December 13, 2004 and accepted by the Company for establishment of project to manufacture AVIONICS equipments. The Company has paid Rs.25.31 Lakhs towards 25% price of the said plot. The lease agreement has not been executed.
- **Allotment of land at TTC Industrial Area by MIDC.** MIDC by its letter dated November 29, 2004 allotted land admeasuring 3954 sq.mtrs comprising of Plot No.A-A.791/7 in TTC Industrial Area at a premium of Rs.83.03 Lakhs for setting up of Industrial Unit of Power pack. Company has paid Rs.83.03 Lakhs as occupancy premium amount. The Lease Agreement has yet to be executed.
- **Rental Deed dated November 26, 2005 has been entered by and between the Company and Ms. Kavita Prasad** for leasing out mezzanine floor together with two room flat at Sy.no.26, Kubera Towers, Trimulgherry, Secunderabad - 500 015 admeasuring about 3250 sq feet at a monthly rental of Rs.30,000 w.e.f January 1, 2006 for a period of 2 years and 11 months with a proviso for increase in rent by 10% at the end of 24 months. The Company has paid security deposit of Rs. 1,00,000. The lease has not been registered as of date.

29. Dependence on Rights Issue Proceeds.

The funding of operations is to be done from the rights issue proceeds. Delay in rights issue/ failure of the rights issue may have an impact on the performance / operations of the company.

Managements Perception: The Rights Issue is meant for funding the long term working capital of the company. During the year 2004-05 there has been an expansion and there is an immediate business need

for long term funds. In case the rights issue does not materialize the company would have to depend on short term arrangements from the regular bankers which would have a cost bearing on the profitability for the year.

30. Royalty Agreement with Promoter, Dr. A.J. Prasad.

The Company has entered into a Royalty Agreement with promoter Dr A. J. Prasad, for providing technology for the manufacture of Silver zinc and silver based batteries.

Management Perception: HBL Nife pays royalty to Dr. A J Prasad at the rate of 3% on the sales of Silver zinc / Silver based batteries. The proportion of Silver Zinc batteries' sales in the total sales of the Company is less than 10%. Also, the current Royalty Agreement with Dr. A.J. Prasad is valid thru March 31, 2009 and the Company does not foresee any problems in renewing the same.

31. Promise vis-à-vis Performance.

The Company through its maiden public issue had raised Rs. 343 Lacs by accessing the capital market in the year 1992. It was planned to acquire plant & machinery for the manufacture of UPS and lead acid batteries (outlay Rs. 94 Lacs), however midway through the company had a re-look at venturing into the UPS and Lead Acid batteries segment and modified the project outlay.

Management Perception: The Company thru the maiden public issue had raised Rs. 343 Lacs from the public (including preferential allotment to Swedfund) by accessing the capital market in the year 1992. Out of the above Rs. 94 Lacs were intended for establishing facilities for the manufacture of Uninterrupted Power Systems (UPS) of 10 KvA and above and also to widen its range of storage batteries to include Sealed Lead Acid Batteries. However midway the company realized that the volumes would not be sufficient and a re-look at the project was required. The company realized that there was not enough demand in the market for the Lead Acid Batteries and UPS > 10 KvA and also that the already existing players were unable to optimally utilize their capacities due to lack of stable demand. Accordingly it modified the outlay on the purchase of machinery and its project outlay. Given the circumstances it was thought prudent not to invest share holders money in high risk business and instead apply the funds to build its inventory and assure continued sourcing of good quality Nickel Cadmium (NiCad) Pocket Plate Batteries and Power Electronic Chargers to have an edge over competitors, in terms of availability of the existing product line. Accordingly the money was used in the working capital of the existing line of business as the raw material availability was a concern. (Please also refer to Promise vis-à-vis Performance for more details on page no. 138).

32. Projected Performance vis-à-vis Actual Results.

The Company had made certain projections in the prospectus while approaching the capital markets in the year 1992 which were not fully achieved.

Managements Perception: The short fall in meeting the projected turnover was due to the modifications in the capital outlay on the introduction of Lead Acid Batteries and UPS > 10 KvA. The actual capital expenditure outlay did not adhere to the planned outlay and so the projected turnover and profitability estimates could not be met. Major contributing factors for such deviation were the market for the proposed products were not ready with requisite volumes and the available volumes did not justify the planned investments. At the same time the company did make attempts to grow stronger in the existing product lines. Further the intense competition and downturn in the industrial batteries segment also contributed to the company not meeting its projected numbers. The Company was not able to meet the projections, because of delay in getting the public issue proceeds, the general economic slowdown and the influx that the economy was going thru in the early days of liberalisation. Also some temporary incidences affected the performance of the Company and it was not able to meet the Projections. (Please also refer to Promise vis-à-vis Performance for more details on page no. 138)

33. One of the subsidiaries of the company Bhagirath Energy Systems Limited, Nepal is being wound up

The operations of Bhagirath Energy Systems Ltd, Nepal (BES) a 100% subsidiary of the company are being voluntarily wound up. The necessary approval for buying back the entire machinery, stores and other materials lying with BES are being obtained before winding up the company and repatriation of the capital from Nepal to India. Pending completion of buy back as above and securing certain refunds from the HMG, Nepal by BES the estimated loss of Rs. 29.47 lacs on account of investment made by the company was

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provided for in the accounts of 2003-04 and 2004-05. The company has negative reserves of 43.90 Lacs NPRS as on March 31, 2005.

Managements Perception: The operations of Bhagirath Energy Systems Ltd, Nepal (BES) a 100% subsidiary of the company became unviable with the changes in duty structure in India and the sourcing of the raw materials by the company and therefore it has been decided to wind up the subsidiary.

34. The UK subsidiary of the company HBL Nife (UK) Limited has contingent liability of £ 2,50,000 however the networth of the subsidiary as on March 31, 2005 is only £ 46,722.

The operations of HBL Nife (UK) Limited yielded a profit of £ 74,409 for the FY 2004-05. However a suit has been filed with Royal Court of Chancery Division, UK that seeks damages of around £ 2,02,000. The Issuer is second respondent in the case and might have to bear the liability for the subsidiary.

Managements Perception: HBL Nife (UK) Limited is the 100% subsidiary of the company. The Company is in the process of filing the appeal along with the condonation of delay but as of date has not filed an appeal against the order nor made any payments in the Court.

35. Unsecured Loans from Promtoer group:

HBL Nife has been advanced Rs. 512.00 Lakhs by Directors / Beaver Engineering Private Limited by way of Unsecured Loans. The said loans are at 10% interest cost and are repayable on demand.

36. Losses by Subsidiaries / Group / Associate Companies.

The following Subsidiaries / Group / Associate companies made losses for the year ended March 31, 2005:

Name of the Company	Relationship	Currency	Amount
HBL NIFE (M) Sdn. Bhd., Malaysia	Subsidiary	Malaysian Ringgit	(119,434)
HBL Elta Avonics Limited	Group Company	Indian Rupees in Lakhs	(2.79)
Kairos Engineering Limited	Controlled Company	Indian Rupees in Lakhs	(4.48)

Managements Perception: The losses by subsidiaries were due to the Companies being in formative years of their existence and business.

37. Litigation

Following are the litigations against the Company, its promoters, directors and group companies

I) Litigation involving the Company

Securities Law Case: As per Risk Factor no. 1

Filed Against the Company:

Central Excise: 1 Case; Amount involved: Rs. 62.11 Lakhs; Interest Rs. 32.64 Lakhs and Penalty Rs. 0.10 Lakhs

Sales Tax: 3 Cases; Amount involved: Rs. 9.75 Lakhs

Factories Act: 1 Case; filed by deputy inspector of factories; Amount involved Rs. 0.10 Lakhs

Civil Litigation: 3 Cases; Amount involved Rs. 68.90 Lakhs

Labour Dispute: 2 Cases; Amount involved Rs. 2.09 Lakhs

Other disputes: The companys name figures in the volckers report

HBL Nife (UK) Limited has a litigation that has the issuer as 2nd defendant. The courts in UK have passed an order against the subsidiary for recovery to the tune of £ 2,02,000.

Filed by the Company:

Writ Petition: 1 Case; Amount involved Rs. 100.00 Lakhs

Sales Tax: 1 Case; Amount involved Rs. 2.02 Lacs

Income Tax: 1 Case; Amount involved Rs. 38.26 Lacs

II) Litigations involving Promoters/ Directors

As per Risk Factor No. 2 above

Besides the above, there are no outstanding litigations against the Promoters/ Directors

III) Litigations involving Subsidiaries

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SAFT AB (earlier known as SAB Nife AB) has initiated legal proceedings for infringement of its trade mark against the company's subsidiary HBL Nife (UK) Limited in the Royal Court of Chancery Division, London and where in HBL Nife was mentioned as 2nd defendant.

On February 8, 2006 the Royal Court of Chancery Division, London passed an order against the Company's subsidiary and the Company stating the following:

- Restraining the defendants against infringement of UK trademark;
- Defendants to change the corporate name of the subsidiary that does not include 'nife';
- Defendants to remove or obliterate the use of any or each of the trade marks from any; website;
- Defendants to make a payment of £2,00,000 in the Court on account of costs and damages out of which a sum of £ 1,50,000 be paid by the defendants by 4pm on March 9, 2006. The aforementioned amount of £2,00,000 would be required by the defendants to be paid in the event they fail to appeal from the order along with payment of the claimants costs of application amounting to £ 2,000 by March 8, 2006

However the Company is in the process of filing the appeal along with the condolence of delay but as of date has not filed an appeal against the order nor made any payments in the Court.

IV) Litigations involving Group Companies

There are no outstanding litigations against the Group Companies.

For further information, please refer to the heading "Outstanding Litigations or Defaults" in this Letter of Offer.

38. Contingent Liabilities of the Company as on December 31, 2005 are:

- Unexecuted portion of Letters of Credit opened by Banks Rs. 923.99.lacs (Previous year Rs.370.65 lacs).
- Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs. 4672.31 lacs (Previous year Rs. 3678.80 lacs).
- Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or concessional rate of duty pending fulfillment of export obligations Rs.2013.5 lacs (Previous year Rs. 1339.82 lacs) against which export obligation has been fulfilled to the extent of Rs.859.67 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.
- **Claims against the Company not acknowledged as debts:**
 - Excise Duty claim of Rs 94.85 lacs (previous year Rs. 94.85 lacs) towards differential duty on the supplies made to Ministry of Defence which is pending for disposal before Excise Authorities.
 - Sales Tax (CST) claims of Rs 11.77 lacs (previous year. 11.77 lacs).
- Other Claims against the company not acknowledged as debts Rs. 50.99 lacs (Previous year Rs. 50.99 lacs).

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- Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 822.20 lacs (Previous year Rs. 580.23 lacs)
- There is a claim by SAFT AKTIEBOLAG, Sweden on the Subsidiary Company HBL (UK) along with holding Company HBL NIFE POWER SYSTEMS LIMITED for Infringement of the Trade Mark “NIFE” in UK, which is contested in the Royal Court of Justice, London, UK. However the claim that is lodged is seeking a maximum of £.200,000/-towards the damages equal to INR 160 Lakhs. No provision is made as the same is contested upon

External Risk Factors

1. Globally competitive business environment.

The Company operates in a globally competitive business environment. Growing competition may force it to reduce the price of its products which may reduce its revenues and margins and / or decrease its market share, either of which could have a materially adverse effect on its business, financial condition and results of operations.

Management Perception: The Companies products are in the niche market segments. The policies and procedures of bigger customers particularly in Defence and Railway sectors are time consuming and act as entry barrier of sorts. The Company constantly endeavors to add newer markets and broadening the customer base, so as to reduce dependence on any specific customer or market.

2. The business of the Company is significantly affected by external factors.

The results of the Company have been and may be significantly affected by factors outside our control such as political unrest, cross-border hostilities, civil commotion and acts of terrorism either in India or outside India. Other factors include potential negative changes in environmental regulations, government regulations. The Company is also subject to the risk of loss of revenues and assets due to fire or natural disasters. The occurrence of all such event including natural disasters could interrupt the Company's business for significant periods.

Management Perception: These are Force Majeure conditions, which affect every business in general, the company has strategic plans by way of split locations to maintain the supply schedules in any eventuality.

3. Changes in the Government of India policies.

A significant change in India's economic liberalization and deregulation policies, including the non-automobile battery industry, could affect business and economic conditions in India generally and the business of the Company in particular. A significant change in the Indian governments or the state governments economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and the business and financial condition and prospects in particular of the Company.

Management Perception: The Government of India's Economic Policies are investor friendly and market oriented. It is expected that any policy change in future would not be materially threatening the domestic industry. Contrary the Export promotion policies will make Indian industry globally competitive and a larger market segment not restricted by national boundaries.

4. Risk relating changes in laws and regulations.

Management Perception: Any change in the laws and regulations governing the industry may adversely affect the business and financial condition of the Company. However, such changes would be applicable to all the players in the concerned industry hence there cannot be any specific threat to the company.

5. Regulatory, environmental and health and safety matters.

A number of government permits and approvals are required for the Company's operations. These permits and approvals include licenses for operation of the factories, registration under the Central and State Sales Tax Acts, environment clearances under the Water and Air (Prevention and Control of Pollution) Acts. The cost, liabilities and requirements associated with complying with these laws and regulations may be substantial and time consuming and may delay the commencement or continuation of production activities. Failure to comply with these laws and regulations or to obtain or renew the necessary permits and approvals may result in the loss of the right to operate the business.

Management Perception: There have been no major instances of non-compliance of any statutory requirements. The changes if any would be on a prospective basis and the company shall endeavour to adapt to the same.

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6. Changes in the emission norms may impact HBL Nife.

Government regulations regarding emission levels for manufacturing operations are likely to become more stringent. The cost for complying with these regulations can be significant. Thus, the company may be required to incur significant capital costs in future to meet the stringent norms.

Management Perception: The Company currently has clearances from the pollution department in connection with Air and Water pollution and the same are being renewed regularly after the inspection of the concerned departmental authorities.

7. HBL Nife derive substantial revenue from exports and accordingly face exchange rate risks.

HBL Nife generates a significant portion of its revenues in US dollars and other foreign currencies, and a significant portion of its expenses are incurred in Rupees. The strengthening of the Rupee, particularly with respect to the US dollar, could adversely impact its profitability. An adverse change in currency exchange rates will increase the cost of raw material / machinery imports.

Management Perceptions: The Company has appropriate risk measures in place to hedge the risk of foreign exchange fluctuations.

8. Volatility of share price.

After the Rights Issue, the price of the Equity Shares may be highly volatile and may fluctuate significantly due to many factors, including variations in the operations of the Company and changes in the regulatory environment. The prices of the Equity Shares may fluctuate as a result of several factors, including:

- volatility in the Indian and Global Securities market;
- results of operations and performance;
- perceptions about future performance or the performance of Indian power systems / battery manufacturers generally;
- performance of competitors in the Indian industry and the perception in the market about investments in alternate power systems;
- adverse media reports on the Company or the Indian Industry;
- changes in the estimates of performance or recommendations by financial analysts;
- significant developments in India's economic liberalisation and deregulation policies;
- changes in the applicable tax incentives;
- significant development in India's fiscal and environmental regulations.
- the exchange rate of USD or any other relevant currency; and
- general political and security environment in the country and across the globe.

Management Perception: The company or its management does not have any control on many of such factors and also this being a market driven phenomena based on the expectations of the investor coupled with other factors the company does not foresee any uncalled adversity.

9. Future offering resulting in dilution of the shareholding

Any future equity offering made by the Company may lead to dilution of the shareholding and / or may affect the market price of the Equity Shares of the Company.

Management Perception: Any future dilution would be as per the necessity of the business the company. The company's prospects from such an exercise would be the driving force.

10. An economic down turn in the key markets may negatively impair Company's operating results

Managements Perception: The Company has over a period of time substantially reduced its dependence on any specific market segment and continuously endeavors to spread to newer segments. Economic downturn in one segment may get neutralized by another segment.

11. Perils of Environmental Litigations.

Failure to comply with environmental laws and regulations could result in litigation and company's business may be adversely affected. It may incur substantial expense in complying with environmental laws and regulations. Also, currently unknown environmental problems or conditions may be discovered. The company is subject to significant national and state environmental laws and regulations, which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from its operations. Environmental laws and regulations in India have been increasing in stringency and it is possible that they will become significantly more stringent in the future.

Management Perception: Issuer follows the safety, health and an environment policy not only as laid down by the Indian authorities. All the clearances from concerned departments have been obtained.

12. Restricted domain of operations.

The Company manufactures non-automotive batteries for which there are a limited number of suppliers in India.

Management Perception: Restricted domain of non-automotive battery business constitutes a niche market segment, which has built in advantage of non-entry by non-specialized players in the industry.

13. Competition from existing established companies and future entrants into the industry may affect HBL Nife's performance.

Managements Perception: Company with its experience in the industry will adopt appropriate strategies to meet the competition.

14. Economic Slowdown.

Any economic slowdown may result in reduced spending generally. It can also put pressures on the realizations, resulting in reduced volumes/margins and may impair the financial results.

Management Perception: The Company is geared up to absorb any minor short term pressures of this nature.

15. Regulatory Environment.

Changes in regulatory environment may have an impact on the business of the Company.

Managements Perception: Such changes may have an impact on the industry as a whole.

16. 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 the company like war, terrorist attack etc. that might prevent us from performing our business obligations. Wars, natural disasters and terrorist attacks may adversely affect the markets, investor confidence, exchange rates and world economy in general and may result in loss of business and assets.

17. Stability of Policies & Political Situation.

A significant change in India's economic liberalization and deregulation policies could affect the business and economic conditions in India, which in turn could have an impact on the Indian companies with a concurrent effect on the market for the Company's products.

Managements Perception: The economic liberalization process is continuing in India and there is a reasonable consistency in the policies inspite of change in the governments and we have a reason to believe that it will continue through the foreseeable future.

18. Changes in Domestic Tax Laws.

Any changes in the tax laws prevailing in India particularly the income tax might lead to increased tax liability of the Company thereby putting pressures on profitability. Change in tax laws, particularly income tax, can have an impact on the post-tax profits of the Company.

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B) NOTES TO RISK FACTORS

- Investors are advised to refer 'Basis of Issue Price' section before investing in the issue.
- The net worth of the Company before the issue is Rs. 18439.52 Lakhs as at December 31, 2005 and the size of the Issue is Rs. 2207.23 Lakhs.
- The average cost per share to the promoters is Rs. 12.06 and the book value per share is Rs. 83.22 as on December 31, 2005.
- The promoters/directors/key managerial personnel of the Company are interested in the company to the extent of reimbursement of expenses incurred, normal remuneration or benefits, sitting fees and their respective shareholding in the company. (Please refer interest of Promoters / Directors discussed in this Letter of Offer on Page No. 46)
- The details of the related party transactions for the last three financial years and 9 month period ended on December 31, 2005 are as under.

Rs. In Lakhs

Beneficiary	Nature of Transaction	31.12.05	31.03.05	31.03.04	31.03.03
Beaver Engineering Ltd.	Interest Paid	22.34	18.32	6.32	8.56
	Funds borrowed	200.00	170.00	72.00	
	Funds returned			60.00	
	Purchase of share in Compact			18.07	
Compact Power Sources Pvt. Ltd.	Purchase of Goods				
	Sales of goods				15.08
	Rent Received				1.20
	Funds given				98.07
	Interest Received				10.89
	Investment in shares				
HBL NIFE (UK) Ltd.	Investment in shares	35.71			31.65
	Advance for investment in shares	61.42	35.88	35.88	
	Sale of goods	202.90	346.77	164.86	14.89
	Service received		18.87		
HBL Nife(M) Sdn Bhd.	Investment in shares				4.28
	Sale of goods	34.98	49.41	9.07	
	Service rendered		3.80		
	Advance for investment in Shares			28.20	
Bhagirath Energy Systems Pvt. Ltd.	Investment in shares				
	Purchase of Goods		2.30		259.44
	Purchase of assets		61.44		
	Sale of goods				7.65
	Funds given				
HBL Engineering Pte. Ltd.	Investment in shares				
HBL Nife Egypt SAE, Egypt	Capital goods transfer				21.83
	Investment in shares				2.45

Rs. In Lakhs

Beneficiary	Nature of Transaction	31.12.05	31.03.05	31.03.04	31.03.03
HBL ELTA Avionics Systems Pvt. Ltd.	Sale of Assets		15.74		
	Service rendered	5.22	31.01		
	Advance for investment in shares		5.00		
Kautilya Decision Support Systems. Pvt. Ltd	Purchase of Assets			1.12	
Kairos Engineering Ltd.	Service received	14.88	10.65	0.59	
	Purchase of goods				
	Purchase of Assets				
	Funds Borrowed				
	Funds given		0.50		3.70
	Sale of Goods				
	Rent received				0.60
	Advance for purchase			11.20	
Dr. A J Prasad	Funds Borrowed	20.00	30.00		
	Royalty Paid	25.58	49.32	40.73	59.43
	Remuneration Paid	83.38	90.13	7.88	36.87
	Interest Paid	2.68	1.32		
Ms. Kavita Prasad	Funds Borrowed		20.00		
	Rent Paid	1.80	2.40	2.40	2.40
	Interest Paid	1.51	0.88		
Mr. M S S Srinath	Remuneration Paid	5.88	7.02	5.56	5.41
	Interest Paid				2.85
Mr. Ashok Nagarkatti	Remuneration Paid	8.46	9.84		
Mr. P Satish Kumar	Remuneration Paid	5.24	6.05		
Mr. L C Gangarade	Remuneration Paid		3.28		

Details of Related Parties

Particulars	31.12.2005	31.03.2005	31.3.2004	31.3.2003
Holding Company	Beaver Engineering Ltd	Beaver Engineering Ltd	Beaver Engineering Ltd	Beaver Engineering Ltd
Subsidiaries	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal
	HBL Nife(UK) Limited, UK	HBL Nife(UK) Limited, UK	HBL Nife(UK) Limited, UK	Compact Power Sources Private Ltd, Hyderabad
	HBL Technologies (M) Sdn Bhd, Malaysia.	HBL Technologies (M) Sdn Bhd, Malaysia.	HBL Technologies (M) Sdn Bhd, Malaysia.	
Fellow Subsidiaries				Kautilya Decision Support Systems Pvt Ltd, Hyderabad

HBL NIFE POWER SYSTEMS LIMITED

Particulars	31.12.2005	31.03.2005	31.3.2004	31.3.2003
Controlled Companies	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad
				Dastan Systems Limited, Hyderabad
Proposed Subsidiaries				HBL Nife(UK) Limited, UK
				HBL Technologies (M) Sdn Bhd, Malaysia.
				HBL Nife Egypt, SAE, Egypt
Proposed Joint Venture	HBL ELTA Avionics Systems Private Limited	HBL ELTA Avionics Systems Private Limited		
Joint Venture				
Key Management Personnel	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad
	M S S Srinath	M S S Srinath	M S S Srinath	M S S Srinath
	Kavita Prasad	Kavita Prasad	Kavita Prasad	Kavita Prasad
	Ashok Nagarkatti	Ashok Nagarkatti	U M Rao	U M Rao
	P Satish Kumar	L C Gangrade	Gp. Capt. D Venkateswarulu(Retd)	Ashok Nagarkatti
		P Satish Kumar	Ashok Nagarkatti	L C Gangrade
			L C Gangrade	P Satish Kumar
			P Satish Kumar	

III. INTRODUCTION

A) Summary

Industry Summary

DC Power systems are used across the world for a variety of application where the traditional power supply system cannot be sustained/ supported. The domains that are encompassed in the DC power systems vary from Telecommunications, Aviation, Rail coaches and signaling to Oil Refineries, Power generating stations, Oil drilling and pipelines. These applications have grown significantly in the last two decade due to the embracement of newer technology and also because the conventional power sources are available only in a limited domain, beyond which the reliance on DC / alternative Power systems is unavoidable. With the march of technology and it's blending with the industrial applications there is a need for an efficient and reliable power supply sources at all times and place. DC Power systems provide a back up / alternative source of power for running and maintaining applications wherein loss of power supply is critical. There is a need for the power supply in remote and far-flung areas and at such places the dependence on DC power sources is complete.

DC power systems are also required in mobile (non-stationary) applications like Rail coaches, Aviation etc. In these applications the usage of conventional sources of power / electricity is not possible and DC power supplied thru batteries is to be relied upon. Defence applications too, require power for communications, aviation and naval application like propulsion of torpedoes. The application for DC power also finds place in Defence Research establishments like NSTL (Naval Science and Technological Laboratory), DRDO (Defence Research and Development Organization, DRDL (Defence Research and Development Laboratory) amongst others.

Business Summary

HBL Nife is an acknowledged leader in the field of specialized batteries and DC power systems in India and is a well know name in the industrial world. Over the years, the company has diversified into various products in the industrial battery industry. It primarily caters to the following Industries:

Industry	Applications
Aviation	Air Craft Engine starting, Emergency systems
Railway	Train lighting and Air-conditioned coaches, Signaling and communications
Defence	Wireless communication in Army, Battle Tanks Engine starting
Telecom	Back up power, basic GSM and CDMA technologies at telephone exchanges and at MSCs (Main Switching Centers) and BTH (Towers)
Oil, Gas and Power	Back up power in drilling and refining, backup power in gas pipe lines and standby powers for generators and at transmission and distribution

Company also offer sophisticated microprocessor controlled battery chargers thereby offering a complete DC system packages, including battery-monitoring systems

The company is headquartered at Hyderabad with factories at Ranga Reddy District and Mahabub Nagar District in Andhra Pradesh. It provides sales & service support with a branch network located at Noida, Mumbai, Kolkata, Chennai, Bangalore, Udhampur, Lucknow, Guwahati, Bhopal, Ranchi, and Pune.

The product focus of batteries and electronics and customer focus on five sector i.e. Aviation, Industry, communication, Railway and Defence gives HBL NIFE an opportunity to meet diverse customer needs where its core competence is constantly upgraded to keep pace with changing technology. With the widest spectrum of batteries under a single roof HBL Nife offers a techno-economically feasible choice among all the non-automotive battery manufacturers in India as well as globally.

Issue Details

Issue of 22,07,232 Equity Shares of Rs. 10/- each for cash at a premium of Rs. 90/- (Issue Price Rs. 100/-) per Equity Share aggregating Rs. 2207.23 Lakhs comprising of:

Ratio of Rights Entitlement	One Equity Share for Every Ten Equity Shares held
Record Date	June 7, 2006
Total Equity Shares under Letter of Offer	22,07,232 Equity Shares of Rs.10/- each
Equity Shares outstanding prior to the Issue	2,20,72,323 Equity Shares of Rs. 10/- each
Equity Shares outstanding after the Issue*	2,42,79,555 Equity Shares of Rs. 10/- each
Use of Issue proceeds	Please see section entitled "Objects of the Issue" on page no. 16 of this Letter of Offer for additional information.

*assuming full subscription

Objects of the Issue: The funds raised thru the current Issue shall be used to meet long term working capital requirements and to meet the Issue expenses. The Issue shall also lead to compliance with the continuous listing requirement of Stock Exchanges for minimum public shareholding of 25%.

HBL NIFE POWER SYSTEMS LIMITED

Summary of Consolidated Financial, Operating and Other Data

I. Summary of Revenues, Expenses and Profitability

(Rs. in Lacs)

PARTICULARS	Period / Year Ended				
	Audited				
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Income					
Sales:					
Domestic Sales	21855.67	26750.49	15457.97	18355.72	15280.90
Export Sales	5131.27	4891.90	3296.37	2023.51	2200.17
Job wok &Others	2040.41	1501.16	738.27	208.87	129.28
Gross Sales	29027.35	33143.55	19492.61	20588.10	17610.35
Less: Excise Duty & Sales Tax	3683.99	4195.25	2335.97	2694.80	2448.44
Net Sales	25343.36	28948.30	17156.64	17893.30	15161.91
Other Income	90.81	218.84	209.34	164.11	150.36
Total	25434.17	29167.14	17365.98	18057.41	15312.27
Expenditure					
Material cost	15094.33	17366.09	9394.17	9054.67	7587.89
Manufacturing cost	1527.80	1770.72	1148.63	1142.29	943.96
Employees cost	2033.63	2628.59	2301.12	2469.81	2159.07
Administrative and Selling Cost	2757.11	3087.09	2161.12	2325.23	2044.68
Finance Cost	968.78	969.88	679.00	908.44	896.78
Depreciation	489.74	572.69	506.13	431.34	362.30
Total	22871.39	26395.06	16190.17	16331.78	13994.68
Net Profit before extraordinary items and tax	2562.78	2772.08	1175.81	1725.63	1317.59
Extraordinary items		116.82		361.52	
Adj. for loss of Subsidiary on windingup		17.30			
Minority Interest - C/Y share of loss		(0.74)	(3.54)		
Profit before Tax	2562.78	2638.70	1179.35	1364.11	1317.59
Current Tax	674.00	525.00	175.00	300.00	225.00
Deferred Tax (refer Annexure – III)	69.75	192.63	164.45	69.50	(22.50)
Fringe benefit Tax	56.57				
Income Tax & Wealth tax adj. Relating to previous year	99.35	26.57	41.29	(17.00)	12.22
Excess Depreciation written back					(15.28)
Prior Period Items(refer Annexure- III)	20.09	(12.91)	3.64	(5.84)	0.32
Adjusted Profit after tax	1683.20	1881.59	802.25	1005.77	1118.47
Brought forwarded Profit/ (Loss) from Pre Year	889.01	550.73	625.59	412.96	794.49
Reserval of Minority Interest of Last year				44.30	
Reversal of Loss of Subsidiary			86.76	2.22	
Others					
APPROPRIATIONS					
Reserve written back			(17.35)		
General Reserve		1200.00	709.50	500.00	1500.00
Proposed Dividend		301.08	240.86	301.08	
Tax on Proposed Dividend		42.23	30.86	38.58	
Profit/ (Loss) transferred to Balance Sheet	2572.21	889.01	550.73	625.59	412.96

II. Summary of Assets and Liabilities
(Rs. in Lacs)

PARTICULARS	Period / Year Ended				
	Audited				
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Sources of Funds					
Shareholders Funds					
1. Share Capital	2207.23	2007.23	2007.23	2007.23	2007.23
2. Minority Interest			0.74		
3. Reserves and Surplus	16231.56	9648.23	8096.83	7630.31	6915.07
Loan Fund					
Secured Loans	10774.51	9283.23	4964.50	5737.55	5150.20
Unsecured Loans	2230.77	1938.16	1328.17	1254.14	956.35
Deferred taxes					
Deferred Income tax	740.83	671.08	478.45	314.00	244.50
Total	32184.90	23547.93	16875.92	16943.23	15273.35
Application of Funds					
Fixed Assets	14394.65	12728.93	11083.30	9676.96	8105.76
Less: Depreciation	3636.50	3148.08	2588.44	2114.97	1689.32
Net Fixed Assets (1)	10758.15	9580.85	8494.86	7561.99	6416.44
Capital works in progress(2)	1539.43	763.54	502.97	807.79	767.17
Investments(3)	2450.32	10.32	18.32	22.50	170.47
Current Assets, Loans and Advances					
Inventories	7359.39	5359.40	3347.14	3516.10	3113.53
Receivables	12987.07	11435.95	6529.10	5579.96	6256.89
Cash & Bank Balances	1760.44	1416.18	1248.82	1768.05	1033.29
Loans & Advances	2128.06	1089.46	878.34	785.13	863.40
Total	24234.96	19300.99	12003.40	11649.24	11267.11
Less: Current Liabilities and Provisions					
Current Liabilities	6522.72	5678.95	3865.80	2759.34	3407.96
Provisions	346.27	484.67	385.74	499.43	152.80
Total	6868.99	6163.62	4251.54	3258.77	3560.76
Net Current Assets (4)	17365.97	13137.37	7751.86	8390.47	7706.35
Miscellaneous expenditure (to the extent not written off)					
Deferred revenue expenditure (5)	71.03	55.85	107.91	160.48	212.92
Total	32184.90	23547.93	16875.92	16943.23	15273.35

HBL NIFE POWER SYSTEMS LIMITED

B) General Information



HBL Nife Power Systems Limited

(Registration No. 01-6745)

Registered Office: 8-2-601, Road # 10, Banjara Hills, Hyderabad - 500 034
Tel: +91-40-2335 5575; **Fax:** +91-40-2335 5048; **E-mail:** rightsissue@hblnife.com
Website: <http://www.hblnife.com> **Contact Person:** Mr. Evani Sudhakar

(Incorporated as SAB NIFE Power Systems Limited on August 29, 1986 under the Companies Act, 1956. It received the Certificate for Commencement of Business on September 22, 1986)

[The name of the Company was changed to HBL Nife Power Systems Limited w.e.f April 26, 2000]

Registrar of Companies: 2nd Floor, CPWD Building, Kendriya Sadan, Sultan Bazar, Koti, Hyderabad 500 195.
Tel No.: +91-40-2465 7937/ 2465 2807; Fax No. +91-40-2465 2807

Dear Shareholder(s),

Pursuant to the resolution passed by the Board of Directors of the Company at its meeting held on September 27, 2005 and the shareholders approval obtained at its Extra Ordinary General Meeting dated October 24, 2005 it has been decided to make the following offer to the Equity Shareholders of the Company:

ISSUE OF 22,07, 232 EQUITY SHARES OF RS. 10/- EACH FOR CASH AT A PREMIUM OF RS. 90/- (ISSUE PRICE OF RS. 100/-) PER EQUITY SHARE AGGREGATING RS. 2207.23 LAKHS TO THE EXISTING EQUITY SHAREHOLDERS ON RIGHTS BASIS IN THE RATIO OF 1 (ONE) EQUITY SHARE FOR EVERY 10 (TEN) EQUITY SHARES HELD ON RECORD DATE I.E. JUNE 7, 2006. THE FACE VALUE OF THE EQUITY SHARE IS RS.10/- PER SHARE AND THE ISSUE PRICE IS 10 TIMES THE FACE VALUE

Issue Schedule

Issue Opening Date	June 29, 2006
Last Date for receiving requests for split forms	July 14, 2006
Issue Closing Date	July 29, 2006

Board of Directors of the Company

The Board of the Directors of HBL Nife, as on date, is as under:

Sr. No.	Name	Representing	Type of Directorship
1.	Dr A J Prasad	Promoter	Chairman & Managing Director
2.	Mr. Ashok Nagarkatti	Non-promoter	Executive Director
3.	Mr. Poruri Ganapati Rao	Independent	Director
4.	Dr. Bernd T Gans	Independent	Director
5.	Ms. Kavita Prasad	Non-Independent	Director
6.	Dr. (Ms.) Desai Chitra Rao	Independent	Nominee Director

Brief Profile of Executive Directors

Dr. A. J. Prasad, Chairman & Managing Director of the company is a Graduate in engineering from IIT Kharagpur and has a master degree in management from the Massachusetts Institute of Technology, and a Doctorate from Columbia University in International Business. He has substantial experience in teaching (at Administrative Staff Collage of India and Abroad) and is an expert in Technology management. He promoted Hyderabad Batteries Private Limited in 1977 as a small-scale industry for the manufacture of batteries for industrial use. After years of research, he has developed technology for batteries especially Silver Zinc Batteries for use in Defence, Industry, Railways and electricity boards. In 1986 he promoted SAB NIFE Power Systems Limited in collaboration with SAB NIFE AB, Sweden for the manufacturing of Nickel Cadmium Pocket Plate Batteries. Later HBL Limited was merged with SAB NIFE Power Systems Limited thereby making the entity a complete solution provider of specialized batteries for the various applications and related electronics.

Mr. Ashok Nagarkatti, Director-battery technology of the company is a Master in Chemical Engineering from IIT, Mumbai. He worked as Senior Scientific Assistant in regional research laboratory, Hyderabad during the year 1973-74, then worked as Senior Scientific Officer in DRDL. He Joined Hyderabad Batteries Private Limited in 1981 and designed and developed various specialized batteries and looked after technical activities for the development and manufacture of maintenance free lead acid batteries, Lithium Thionyl Chloride Batteries, Nickel Cadmium Aircraft Batteries, Reserve Silver Oxide Zinc Missile and Torpedo Batteries, Carbon Zinc Batteries, etc. From 1987 to till date he is executive director of HBL NIFE Power Systems Limited looking after technical aspects of the Company.

Compliance Officer and Company Secretary

Mr. Evani Sudhakar

Company Secretary

HBL Nife Power Systems Limited

Investor Services Department
Sy. No. 26, Kubera Towers
Trimulgherry X Road, Secunderabad 500 015.
Tel: +91-40-2779 1641
Fax: +91-40-2779 5419
E-mail: rightsissue@hblnife.com

Bankers to the Company

State Bank of India

Commercial Branch,
Ashoka, My Home Chamber
S P Road
Secunderabad 500 003

State Bank of Hyderabad

Industrial Finance Branch
Topaz, Amrutha Hills
Pubjagutta
Hyderabad 500 082

IDBI Bank Limited

Mahavir House
Basheer Bagh Square
Hyderabad 500 029

State Bank of Indore

P B No. 29, 4-1-971,
974Abids Road
Hyderabad 500 001

Auditors to the Company

M/s. Satyanarayana & Co.

Chartered Accountants
5-5-88/5, Amar Mansion
Ranigunj, Secunderabad 500 003
Tel: +91-40-2771 8902
Fax: +91-40-2771 5028
Email: satco@sol.net.in

Issue Management Team:

Lead Manger to the Issue

Fortune Financial Services (India) Limited

(SEBI Regd. No.: INM000000529)
K.K. Chambers, 2nd Floor
Sir P.T. Marg, Fort, Mumbai - 400 001
Tel: +91-22-2207 7931
Fax: +91-22-2207 2948
E-mail: mbd@ffsil.com
Contact Person: Diptesh Shah

Registrar to the Issue

Karvy Computershare Private Limited

(SEBI Regd. No.: INR000000221)
46, Avenue 4, Street No.1, Banjara Hills|
Hyderabad - 500 034
Tel: +91-40-2343 1546/49
Fax: +91-40-2343 1551
E-mail: hblrights@karvy.com
Website: <http://www.karvy.com>
Contact Person: M.S. Madhusudhan

HBL NIFE POWER SYSTEMS LIMITED

Legal Advisor to the Issue

Kaushal Shah & Associates

Advocates and Solicitors

Chamber 10 A, Central Bank Building, Fort

Mumbai 400 023

Tel: +91-22-2265 4925

Fax: +91-22-2269 2917

E-Mail: kaushal@ksaattorneys.com

Web: <http://www.ksaattorneys.com>

Contact Person: Kaushal Shah

Bankers to the Issue

IDBI Bank Limited

Mahavir House, Basheerbagh Square

Hyderabad 500 029.

Tel No. +91-40-5574 6000

Fax No. +91-40-2322 0373

Contact Person: Mr. Uma Manohar

Credit Rating / Debenture Trustee

This being an equity issue, no appointment of credit rating agency or debenture trustee is required.

Appraisal

The requirement of funds for the proposed expansion has not been appraised. Also, deployment of funds raised through the issue is completely at the discretion of the company and will not be monitored any independent agency.

Underwriting

The Issue is not underwritten

Investors are advised to contact the Registrars to the Issue / Compliance Office in case of any pre-issue / post-issue related problems such as non-receipt of Letter of Offer or Letter of Allotment or Share Certificates / Refund Orders/ Demat Credit.

C) Capital Structure of the Company

The Capital Structure of the Company as on June 7, 2006 (RecordDate) is as follows:

Number of Shares	Description of Shares	Nominal Value (Rs.)	Aggregate Value (Rs.)
A. Authorised Capital			
25,000,000	Equity Shares of Rs. 10/- each	250,000,000	250,000,000
B. Issued, Subscribed and Paid up Capital			
22,072,323	Equity Shares of Rs. 10/- each fully paid up.	220,723,230	729,102,035
14,070,493	Of the above shares, Equity Shares are issued under a scheme of Merger		
C. Present Rights Issue in terms of this Letter of Offer			
2,207,232	Equity Shares of Rs. 10/- each at a Premium of Rs. 90/- per share on a Rights basis to the existing shareholders of the Company in the ratio of 1 (One) Equity Shares for every 10 (Ten) Equity Shares held as on the Record date June 7, 2006	22,072,320	220,723,200
D. Subscribed and Paid up Capital after the Rights Issue (assuming full subscription)			
24,279,555	Equity Shares of Rs. 10/- each fully paid up	242,795,550	949,825,235
E. Share Premium Account			
	- Before the Rights Issue	508,378,805	
	- After the Rights Issue	707,029,685	

- The Equity Shareholders do not hold any warrant, option or convertible loan or any debenture, which would entitle them to acquire further Equity Shares.
- HBL Nife Power Systems Limited had issued Share Warrants on October 29, 1998, on preferential basis to be converted into equity shares of Rs.10/- each. The same were converted into 3,568,700 Equity Shares at a premium of Rs.5.15 per share between January and October 1999. However, consequent to merger of HBL Limited (one of the allottees of such preferential allotment) with the Company 2,466,270 Equity Shares out of the said issue were cancelled
- Mr. Ch. Seshagiri Rao, Partner M/s. Satnarayana & Co. - Statutory Auditors of HBL Nife Power Systems Limited have Issued a Certificate dated November 11, 2005 confirming that the Company has complied with relevant statutory formalities framed and prescribed under SEBI Guidelines, The Companies Act, 1956 for issue of 20,00,000 Equity Shares on Preferential basis in accordance with resolution passed at the Extraordinary General Meeting held on 24th October 2005 by the Members of the Company.

Notes forming part of the Capital Structure:

1. Details of increase in Authorised Share Capital

Sr. No.	Date of Resolution	Increase in Authorized Capital		
1	On Incorporation	1,000,000		
2	February 23, 1987	1,000,000	To	15,000,000
3	April 29, 1989	15,000,000	To	25,000,000
4	January 4, 1991	25,000,000	To	35,000,000
5	October 21, 1991	35,000,000	To	70,000,000
6	September 4, 1998	70,000,000	To	100,000,000
7	September 23, 1999	100,000,000	To	210,000,000
8	February 10, 2005	210,000,000	To	250,000,000

HBL NIFE POWER SYSTEMS LIMITED

2. Build up of Equity Share Capital

Details of the Equity Share Capital Structure of the Company since inception are as follows:

Date of Allotment & Date when fully paid up	No. of Shares	Face Value (Rs.)	Issue Price (Rs.)	Consideration	Mode	Cumulative Shares	% of Post Issue Capital
September 8, 1986	70	10	10	Cash	MoA/ AoA	70	0.00%
December 12, 1987	455,000	10	10	Cash	Allotment to Promoters	455,070	1.87%
December 17, 1987	325,460	10	10	Cash	Allotment to Promoter's Associates and Others	780,530	1.34%
July 27, 1988	519,540	10	10	Cash	Allotment to Fls & Collaborators	1,300,070	2.14%
December 21, 1989	134,000	10	10	Cash	Allotment to Promoter's Associates	1,434,070	0.55%
July 13, 1990	585,930	10	10	Cash	Allotment to Promoter's Associates	2,020,000	2.41%
August 6, 1991	623,000	10	10	Cash	Rights Issue	2,643,000	2.57%
December 2, 1991	357,000	10	10	Cash	Rights Issue	3,000,000	1.47%
April 18, 1992	3,431,300	10	10	Cash	Public Issue	6,431,300	14.13%
January 25, 1999	1,109,430	10	15.15	Cash	Conversion of Share Warrants	7,540,730	4.57%
March 27, 1999	1,639,270	10	15.15	Cash	Conversion of Share Warrants	9,180,000	6.75%
October 10, 1999	820,000	10	15.15	Cash	Conversion of Share Warrants	10,000,000	3.38%
May 11, 2000 May 11, 2000	14,070,493 (3,998,170)	10 -	- -	Other than Cash -	Shares Allotted on Amalgamation & Cancellation of Shares of Merged companies holding	20,072,323	41.48%
October 28, 2005	2,000,000	10	255	Cash	Preferential Allotment	22,072,253	8.24%

The Company had issued Share Warrants on October 29, 1998, on preferential basis to be converted into equity shares of Rs.10/- each. The same were converted into 35,68,700 Equity Shares at a premium of Rs.5.15 per share between January and October 1999. However, consequent to merger of HBL Limited (one of the allottees of such preferential allotment) with the Company 2,466,270 Equity Shares out of said the issue were cancelled. Post cancellation of cross holdings 1,102,430 Equity Shares representing 4.99% of the pre issue share capital are awaiting listing on the Stock Exchanges. However the same have not been listed till date for non-compliance with continuous listing requirements under listing agreement.

The Company has issued 12,538,593 net of cancellation of 15,31,900 Equity Shares pursuant to the order of the High Court of Andhra Pradesh as consideration for merger with HBL Limited representing 56.81% of the pre-issue share capital and the same are awaiting listing on the Stock Exchanges. However, the same have not been listed till date for non-compliance with continuous listing requirements under listing agreement. Also, the above 15,31,900 Equity Shares though cancelled are currently technically listed on the stock exchanges.

The Company has issued 2,000,000 Equity Shares by way of preferential allotment to investors on October 28, 2005 representing 9.06% of the pre-issue Equity Share Capital that are awaiting listing on stock exchanges for non compliance with continuous listing requirements. The Company has received the in principle approval for the same vide BSE letter dated October 21, 2005 and HSE letter dated October 26, 2005. However, the same have not been listed till date for non-compliance with continuous listing requirements under listing agreement.

By virtue of the Scheme of Amalgamation approved by High Court of Judicature at Hyderabad (Andhra Pradesh) on March 8, 2000 amalgamated / merged HBL Limited and Pinaki Technologies Limited with the company (then SAB NIFE Power Systems Limited). Shareholders of HBL Ltd were allotted shares in the ratio 6.90 equity shares of Rs.10 each of the Company for one equity share of Rs.10 held in HBL Ltd. Shareholders of Pinaki Technologies Limited were allotted shares

in the ratio of 2.5 equity shares of Rs.10 each of the Company for one equity share of Rs.10 held in Pinaki Technologies Limited. The following shareholders were allotted shares in the company as a consequence of the above merger in lieu of shareholding in the merged companies:

1. HBL Limited

Sr. No.	Name of the Allottee	No. of Shares Allotted
1	Dr. A.J. Prasad	821,790
2	A. Uma Devi	4,140
3	M. Kavita Prasad	17,940
4	Beaver Engineering Limited	11,872,243
5	MSS Srinath	690
6	P. Satish Kumar	345
7	K.V. Ramlinga Reddy	345
	Total	12,717,493

2. Pinaki Technologies Limited

Sr. No.	Name of the Allottee	No. of Shares Allotted
1	Dr. A.J. Prasad	677,750
2	A. Uma Devi	125
3	M. Kavita Prasad	337,625
4	Advay Bhagirath	337,500
	Total	1,353,000

3. Details of Promoters and Promoter Group shareholding as on June 7, 2006 is as follows:

Sr. No.	Name of Promoter / Promoter Group Shareholder	No. of Shares (of Rs. 10/- each)	% of post issue capital
1	Dr. A. J. Prasad	1,863,340	7.67%
2	Beaver Engineering Limited	13,392,243	55.16%
3	Ms. Kavita Prasad	403,465	1.66%
4	Master Advay Bhagirath	337,500	1.39%
5	Dr. A. J. Prasad (HUF)	745,200	3.07%

The build up of the above Promoter Group Shareholding is as under:

a. Dr. A.J. Prasad

Sr. No.	Date of Allotment/ Acquisition / Transfer	No. of Shares Allotted / Acquired	Consideration	Face Value	Issue / Acquisition Price	% to Post Issue Capital
1	September 8, 1986	10	Cash	10/-	10.00	0.00%
2	December 12, 1987	160,000	Cash	10/-	10.00	0.66%
3	December 17, 1987	20,000	Cash	10/-	10.00	0.08%
4	July 13, 1990	4,930	Cash	10/-	10.14	0.02%
5	May 18, 1992	500	Cash	10/-	10.00	0.00%
6	November 14, 1996	5,020	Transfer	10/-	10.00	0.02%
7	July 14, 1998	10	Transfer	10/-	10.00	0.00%

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Sr. No.	Date of Allotment/ Acquisition / Transfer	No. of Shares Allotted / Acquired	Consideration	Face Value	Issue / Acquisition Price	% to Post Issue Capital
8	August 14, 1998	100	Transfer	10/-	10.00	0.00%
9	January 25, 1999	109,430	Cash / Conversion of Share Warrants	10/-	15.15	0.45%
10	January 17, 2000	1,000	Transfer	10/-	10.00	0.00%
11	May 11, 2000	76,590	Amalgamation of HBL Limited with the Company	10/-	10.00	0.32%
12	May 11, 2000	677,750	Amalgamation of Pinaki Technologies Limited with the Company	10/-	10.00	2.79%
13	October 18, 2003	400,000	Transfer	10/-	27.46	1.65%
14	November 15, 2003	408,000	Transfer	10/-	27.46	1.68%
	Total	1,863,340				7.67%

b. Beaver Engineering Limited

Sr. No.	Date of Allotment/ Acquisition / Transfer	No. of Shares Allotted / Acquired	Consideration	Face Value	Issue / Acquisition Price	% to Post Issue Capital
1	October 10, 1999	820,000	Cash / Conversion of Share Warrants	10/-	15.15	3.38%
2	May 11, 2000	11,872,243	Amalgamation of HBL Limited with the Company	10/-	10.00	48.90%
3	October 18, 2003	400,000	Transfer	10/-	27.46	1.65%
4	November 15, 2003	300,000	Transfer	10/-	27.46	1.24%
	Total	13,392,243				55.16%

c. Ms. Kavita Prasad

Sr. No.	Date of Allotment/ Acquisition / Transfer	No. of Shares Allotted / Acquired	Consideration	Face Value	Issue / Acquisition Price	% to Post Issue Capital
1	December 15, 1996	19,000	Transfer	10/-	10.00	0.08%
2	March 15, 1997	3,000	Transfer	10/-	10.00	0.01%
3	March 2, 1998	15,500	Transfer	10/-	10.00	0.06%
4	May 14, 1998	10,300	Transfer	10/-	10.00	0.04%
5	August 14, 1998	100	Transfer	10/-	10.00	0.00%
6	May 11, 2000	17,940	Amalgamation of HBL Limited with the Company	10/-	-	0.07%
7	May 11, 2000	337,625	Amalgamation of Pinaki Technologies Limited with the Company	10/-	-	1.39%
	Total	403,465				1.58%

d. Master Advay Bhagirath

Sr. No.	Date of Allotment/ Acquisition / Transfer	No. of Shares Allotted / Acquired	Consideration	Face Value	Issue / Acquisition Price	% to Post Issue Capital
1	May 11, 2000	337,500	Amalgamation of Pinaki Technologies Limited with the Company	10/-	10.00	1.39%
	Total	337,500				1.39%

e. Dr. A.J. Prasad (HUF)

Sr. No.	Date of Allotment/ Acquisition / Transfer	No. of Shares Allotted / Acquired	Consideration	Face Value	Issue / Acquisition Price	% to Post Issue Capital
1	May 11, 2000	745,200	Amalgamation of HBL Limited with the Company	10/-	10.00	3.07%
	Total	745,200				3.07%

4. Lock in Requirements

20,00,000 Equity Shares allotted on a preferential allotment on October 28, 2005 are under lock in for a period of 1 year from the date of allotment as per SEBI (DIP) Guidelines, 2000. Other than the said shares no shares are under lockin.

However the following shares of the company are not listed on the stock exchanges due to non compliance with continuous listing requirements.

No. of Equity Shares	Details	Issued in	% of Pre Issue Equity Share Capital
11,02,430	Conversion of preferentially allotted share warrants (net of cancellation of 2,466,270 Equity Shares consequent to merger)	May 1999	4.99%
1,25,38,593	Merger Scheme passed by Honorable High Court of Andhra Pradesh for merger of (net of cancellation of 15,31,900 Equity Shares) HBL Limited with the Company	March 2000	56.81%
20,00,000	Preferential Allotment	October 2005	9.06%
1,56,41,023	Total		70.86%

5. Current Shareholding pattern of the Company

Shareholding pattern of the Company as on June 7, 2006 including details of holding of Promoters Group and the subscription / renunciation by the Promoters is as follows:

Shareholding pattern (Pre and Post Issue):

Sr. No.	Category	Pre-Issue as on December 31, 2005		New Equity Shares proposed to be allotted	Post-Issue Holding	
		No. of Shares	% of holding		No. of Shares	% of holding
A.	Promoter's Holding					
1	Promoters					
	- Indian Promoters	16,741,748	75.85	974,175	17,715,923	72.97
	- Foreign Promoters	Nil	Nil	Nil	Nil	Nil

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Sr. No.	Category	Pre-Issue as on December 31, 2005		New Equity Shares proposed to be allotted	Post-Issue Holding	
		No. of Shares	% of holding		No. of Shares	% of holding
2	Persons Acting in Concert	145,965	0.66	14,596	160,561	0.66
	Sub-Total	16,887,713	76.51	988,771	17,876,484	73.63
B.	Non-Promoter holding					
3	Institutional Investors					
a.	Mutual Funds and UTI	-	-	-	-	-
b.	Banks, Financial Institutions, Insurance Companies (Central/ State Government Institutions/ Non-government Institutions)	50,500	0.23	5,050	55,550	0.23
c.	FII's	2,762,354	12.52	276,235	3,038,589	12.52
	Sub-Total	2,812,854	12.74	281,285	3,094,139	12.74
4	Others					
a.	Private Corporate Bodies	456,737	2.07	745,674	1,202,411	4.95
b.	Indian Public	1,467,768	6.65	146,777	1,614,545	6.65
c.	NRIs / OCBs	45,751	0.21	4,575	50,326	0.21
d.	Any Other	401,500	1.82	40,150	441,650	1.82
	Sub-Total	2,371,756	10.75	937,176	3,308,932	13.63
	GRAND TOTAL	22,072,323	100.00	2,207,232	24,279,555	100.00

Note: It is assumed that all shareholders will subscribe to their entire rights entitlement, however the post issue promoter shareholding is based on the declaration that promoters shall be renouncing 7,00,000 Equity Shares in favour of the following investors as per undertaking dated October 18, 2005 submitted to BSE:

Name of the Renounee	No. of Shares to be renounced
Reliance Infrastructure Limited	5,00,000
Jet Age Securities Limited, Kolkata	2,00,000
Total Renouneement by Promoters as per undertaking	7,00,000

The post issue shareholding under 'private corporate bodies' includes the implementation of the above undertaking.

6. Top Ten Shareholders

- a. Particulars of top ten shareholders as on June 15, 2006 (being the date of filing of the Letter of Offer with the Stock Exchanges)

Sr. No.	Name of Shareholder	No. of Shares (of Rs.10/- each)	% of post issue capital
1	Beaver Engineering Limited	13,392,243	60.67%
2	A.J. Prasad	1,863,340	8.44%
3	FID Funds (Mauritius) Ltd.	912,232	4.13%
4.	L G Asian Plus Limited	800,000	3.62%
5	Dr. A.J. Prasad (HUF)	745,200	3.38%
6	The India Fund Inc.	600,000	2.72%
7	M Kavita Prasad	403,465	1.83%
8	UTI Investment Advisory Services Limited (AIF)	400,000	1.81%
9	Advay Bhagirath	337,500	1.53%
10	HSBC Financial Services (Middle East) Limited	200,000	0.91%
-	Sonata Investments Limited	200,000	0.91%

- b. Particulars of top ten shareholders as on June 15, 2004 (two years prior to the date of filing of the Letter of Offer with the Stock Exchanges)

Sr. No.	Name of Shareholder	No. of Shares (of Rs.10/- each)	% of post issue capital
1	Beaver Engineering Limited	13,392,243	66.72%
2	A.J. Prasad	1,863,340	9.28%
3	Dr. A.J. Prasad (HUF)	745,200	3.71%
4	M Kavita Prasad	403,465	2.01%
5	Advay Bhagirath	337,500	1.68%
6	Jamson Securities Private Limited	200,000	1.00%
7	Jagdish Amritlal Shah	200,000	1.00%
8	Sun Investment and Trading Private Limited	149,175	0.74%
9	M S S Srinath	109,690	0.55%
10	Manjulal Jagdish Shah	60,650	0.30%

- c. Particulars of top ten shareholders as on June 2, 2006 (10 days prior to the date of filing of the Letter of Offer with the Stock Exchanges)

Sr. No.	Name of Shareholder	No. of Shares (of Rs.10/- each)	% of post issue capital
1	Beaver Engineering Limited	13,392,243	60.67%
2	A.J. Prasad	1,863,340	8.44%
3	FID Funds (Mauritius) Limited	908,368	4.12%
4	LG Asian Plus Limited	800,000	3.62%
5	Dr. A.J. Prasad (HUF)	745,200	3.38%
6	The India Fund Inc.	600,000	2.72%
7	M Kavita Prasad	403,465	1.83%
8	UTI Investment Advisory Services Limited (AIF)	400,000	1.81%
9	Advay Bhagirath	337,500	1.53%
10	Sonata Investments Limited	200,000	0.91%

7. The present Issue being a Rights Issue, as per clause 4.10.1(c) of extant SEBI guidelines, the requirement of promoters' contribution is not applicable.
8. The Company has not availed of any bridge loans to be repaid from the proceeds of the issue
9. The Company, Promoters, Directors and Lead Managers to the Issue have not entered into any buy-back, standby or similar arrangements for any of the securities being issued through this Letter of Offer. However the Promoters have undertaken to renounce 7,00,000 Equity Shares in favour of Investors mentioned on Page No. 39.
10. The Equity Shares offered through this Issue shall be made fully paid-up or may be forfeited within twelve months from the date of allotment.
11. The Average cost of promoter shareholding is Rs. 12.06 Per Equity Share.
12. The Company has 7,768 Shareholders as on June 7, 2006
13. The terms of Issue to Non-Resident Equity Shareholders/ Applicants have been presented under the "Terms of the Issue" Section of this Letter of Offer.
14. At any given time, there shall be only one denomination of the Equity Shares. The Company shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.

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15. During the last six months, there have been no transactions on the stock exchange in the shares of the Company by the promoter / promoter group / directors.
16. The equity shares allotted/held by the promoter / promoter group are fully paid up and are not under any lock in except 1,90,130 Equity Shares of the Promoter Dr. A.J. Prasad that are pledged to State Bank of India as collateral security for the loans advanced. Also, the promoters of the Company have given an undertaking to Banks/ Lenders for non-disposal of their shareholding without prior approval of IDBI Limited for the loan / limits sanctioned to the Company. On October 29, 1998, HBL Nife Power Systems Limited issued share warrants on preferential basis to be converted into equity shares of Rs.10/- each. The same were converted into 35,68,700 Equity Shares at a premium of Rs.5.15 per share at various points of time as per the share capital history. However, consequent to merger of HBL Limited (one of the allottees of such preferential share) with the Company 24,66,270 Equity Shares out of said the issue were cancelled. Post cancellation of cross holdings 11,02,430 Equity Shares representing 4.99% of the pre issue share capital are awaiting listing on the Stock Exchanges. Also, The Company has issued 1,25,38,593 Equity Shares (net of cancellation of 15,31,900 Equity Shares) pursuant to the order of the High Court of Andhra Pradesh and as consideration for merger with HBL Limited representing 56.81% of the pre issue share capital and the same are awaiting listing on the Stock Exchanges. The pre-merger holding of HBL Limited in the Company to the tune of 15,31,900 Equity Shares have been cancelled pursuant to the merger are awaiting confirmation of cancellation from the Stock Exchanges. An undertaking that the said shares have been cancelled has been submitted to the Stock Exchanges.
17. The Shareholders of the Company do not hold any warrant, options, convertible loan or any debenture, which would entitle them to acquire further Shares of the Company.
18. The Company has not re-valued its assets since inception.
19. The Company has not granted Equity Options to its employees.
20. The Company has not issued any equity shares out of revaluation reserves or for consideration other than cash except as described in "Build up of Equity Share Capital" above.
21. No shares have been allotted on firm basis or through private placement in the last three years nor has the company bought back its equity shares in the last six months. However the Company has made a preferential allotment of 20,00,000 Equity Shares to Investors in October 28, 2005.
22. No further issue of capital by way of issue of bonus Equity Shares, Preferential Allotment, Rights Issue or Public Issue or in any other manner which will affect the capital of the Company, shall be made during the period commencing from the filing of the Letter of Offer with the SEBI till the Equity Shares issued under this Letter of Offer have been listed or application moneys are refunded on account of the failure of the Issue.

However, If business needs of the Company so require, the Company may alter the capital structure by way of split/ consolidation of the denomination of the shares/ issue of shares on a Preferential basis or Issue of Bonus or Rights or Public Issue of shares or any other Securities during the period of six months from the date of listing of the Equity Shares issued under this Letter of Offer or from the date the application moneys are refunded on account of failure of the Issue, after seeking and obtaining all the approvals which may be required for such alteration. Also if the Company goes in for Acquisition and Joint Ventures, the Company might consider raising additional capital to fund such activity or use shares as currency for acquisition and/or participation in such Joint Ventures. As on date, the Company does not have any intention to alter the equity capital structure by way of split/ consolidation of the denomination of the shares or a preferential issue or an issue of bonus or rights or public issue of shares or any other securities for a period of six months from the date of opening of the present Issue.

23. The Promoters have confirmed that they intend to subscribe to the full extent of their entitlement in the Issue subject to the renunciation of 7,00,000 Equity Shares as per the undertaking made to BSE dated October 18, 2005.

The Board of Directors intend to deal with unsubscribed portion, if any, of Equity Shares in the Issue in terms of the provisions of Companies Act, 1956 and SEBI Guidelines in the best interest of the company such that at least 90% of the Issue Size is subscribed. As a result of this subscription and consequent allotment, the Promoters may acquire Equity Shares over and above their entitlement in the Issue, which may result in their shareholding in the Company being above their current shareholding and against the provisions of clause 40 A of the listing agreement. This subscription and acquisition of additional Equity Shares by the Promoters / Promoter Group, if any, will not result in change of control of the management of the Company and shall be exempt in terms of provision to Regulation 3(1)(b)(ii) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997.

However, since one of the objects of the issue is to comply with the stipulations of minimum non-promoter holding of 25%, the promoters further undertake to meet such requirements or subject themselves to such stipulations as the designated stock exchanges chooses to impose in such an eventuality. As such, other than meeting the requirements indicated in Objects of the Issue (refer "Particulars of the Issue"), there is no other intention/purpose for this Issue,

including any intention to de-list the Company, even if, as a result of allotments to the Promoters / Promoter Group through this Issue, the Promoter / Promoter Groups shareholding in the Company exceeds their current shareholding.

The Promoters have confirmed that in case the Rights Issue of the Company is completed with their subscribing to Equity Shares over and above their entitlement and as a result, if the public shareholding in the Company after the Rights Issue falls below the “permissible minimum level” on the basis of which the securities of the Company continue to be listed they will either individually or jointly with other Promoters either (a) buy out the remaining shareholders at the price of the Issue and shall de-list the Company or (b) make an offer for sale of their holdings so that the public shareholding is raised to the “permissible minimum level” within a period of 3 months from the date of allotment in the proposed Issue, as per the requirements of sub-clause 17.1 and 17.2 of SEBI (Delisting of Securities) Guidelines, 2003 or as per any amendment thereto or any other period as may be directed by SEBI or any appropriate authority. In this context, the promoters of HBL Nife Power Systems Limited have provided following undertaking:

“We hereby undertake that, in case the Rights Issue of HBL Nife Power Systems Limited is completed with the promoters subscribing to equity shares over and above their entitlement and as a result, if the public shareholding in the Company after the Rights Issue falls below the “permissible minimum level” as specified in the listing condition or listing agreement, we will either individually or jointly with other promoters make an offer for sale of our holdings so that the public shareholding is raised to the “permissible minimum level” within a period of 3 months from the date of allotment in the proposed Issue, as per the requirements of sub-clause 17.1 and 17.2 of SEBI (Delisting of Securities) Guidelines, 2003 or as per any amendment thereto or any other period as may be directed by SEBI or any appropriate authority.”

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D) Particulars of the Issue

a) Objects of the Issue

The rights issue of equity shares is being made for the following purposes:

1. To meet the continual listing requirement of the Stock Exchanges.
2. To meet the long term fixed working capital requirements of the company
3. To meet expenses of the issue

b) Cost of Project and Means of Finance

The cost of Project and means of finance are as under:

(Rs. in Lakhs)

Cost	Amount	Finance	Amount
Long Term Working Capital requirements	2150.00	Equity - Rights Issue	2207.23
Rights Issue Expenses	57.23		
Total	2207.23		2207.23

1. To meet the continuous listing requirements of the Stock Exchanges

The company is currently not in compliance with Clause 40A of the listing agreement that requires a minimum of 25% public shareholding. It is envisaged that the post issue shareholding shall meet the requirements of clause 40A.

2. To meet the Long Term Working Capital Requirements of the Company

The working capital requirement arises primarily from inventory, sundry debtors and the planned reduction in creditors & other current liabilities. The Company anticipates that it would require additional Rs. 2150 Lakhs for working capital requirements. The entire additional working capital requirements are planned to be funded by the current rights issue and there is no tie up envisaged with any bank for the same. The long term working capital computations are based on the assumptions of working capital requirements and funds movement.

a. Assessment of working capital requirements:

The Company intends to raise funds to meet part of its long-term working capital requirements and to augment the financial resources for its ongoing / present and future business requirements.

The company meets its current working capital requirements through the banking channels and from internal accruals. The following table depicts the sanctioned limits (Table 1) and also the availed limits (Table 2) from the Banks / Financial Institutions.

Schedule of Sanctioned Limits as on December 31, 2005

Table 1

(Rs. in Lakhs)

Name of the FI/ Bank	Term Loan	Working Capital		Total
		Fund Based	Non-Fund Based	
IDBI (Project Loan)	2340.00	-	-	2340.00
IDBI - Corporate Loan	400.00	-	-	400.00
SB Indore - Corporate Loan	1200.00	-	-	1200.00
SBI - Corporate Loan	3000.00	-	-	3000.00
SBH – Corporate Loan	1500.00	-	-	1500.00
HDFC, New Delhi	30.00	-	-	30.00
HDFC, Hyderabad	30.00	-	-	30.00
State Bank of India	-	5500.00	6950.00	12450.00
State Bank of Hyderabad	-	1115.00	1300.00	2415.00
IDBI Bank	-	750.00	1050.00	1800.00
State Bank of Indore	-	735.00	1200.00	1935.00
SBI Factors	-	300.00	-	300.00
Total	8500.00	8400.00	10500.00	27400.00

Schedule of Availed Limits as on December 31, 2005 (Audited)

Table 2

(Rs. in Lakhs)

Name of the FI/ Bank	Term Loan	Working Capital		Total
		Fund Based	Non-Fund Based	
IDBI (Project Loan)	702.00			702.00
IDBI Corp Loan	281.00			281.00
SB Indore Corp Loan	949.92			949.92
SBI Corp. Loan	2120.93			2120.93
State Bank of Hyderabad	94.63			94.63
HDFC New Delhi	17.20			17.20
HDFC Hyderabad	27.98			27.98
State Bank of India		4420.95	6950.00	11370.95
State Bank of Hyderabad		665.46	1300.00	1965.46
IDBI Bank		585.99	1050.00	1635.99
State Bank of Indore		448.06	120.00	1648.06
SBI Factors		319.09	–	319.02
Total	4193.91	6739.48	10500.00	21133.39

The Long Term Working Capital requirement arises due to the business dynamics and also the parameters under which the business operates. The business dynamics call for long term locking of funds in various components either due to the margins for the Bank Guarantees or due to delay in releasing the security deposits or the balance payments being held up till the implementation/ commissioning. The requirement for such Bank Guarantee provision is for a period of 180 days or more. Also, the long holdings/ locking of funds is partly due to the compulsion to extend long credit periods so as to maintain realizations. The above locking of funds illustrates that such fixed working capital requirement has to be met from long-term funds only. Table 3 below explains the gap in working capital requirement that is existing at the current level of business operation.

Working Capital Gap: Internal Accruals vis-a-vis Bank Borrowings

Table 3

(Rs. in Lakhs)

Particulars	Actual March 31, 2005	Actual September 30, 2005	Actual December 31, 2005	Projected March 31, 2007
Stocks	5318.72	7270.82	7307.90	8415.00
Receivables	11562.30	11943.42	12892.15	12445.00
Other Current Assets	2329.08	3384.79	3863.84	3245.00
Total Current Assets	19210.10	22599.03	24063.89	24105.00
Less: Creditors	5278.64	6531.22	5745.30	6102.00
Other current liabilities	393.03	828.25	752.14	1174.00
Total Current Liabilities excluding Bank borrowings	5671.67	7359.47	6497.44	7276.00
Working Capital Gap	13538.43	15239.56	17566.45	16829.00
Less: Bank Borrowings	6738.65	7281.38	6439.48	8100.00
Balance Working Capital Gap	6799.78	7958.18	11126.97	8729.00
Less: Internal Accruals				6579.00
Rights Issue Proceeds				2150.00

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Age-wise analysis of Debtors

Currently debtors exceeding 120 days are financed by internal accruals as the bank finance is not available for debtors beyond 120 days while computing the working capital requirements for the company.

Table 4

(Rs. in Lakhs)

Particulars	March 31, 2005 Audited (A)	September 30, 2005 Audited (B)	Additional (A-B)	Change %
Gross Sales	32575.07	17477.68	17477.68	53.65
Sundry Debtors	11562.30	11943.42	381.12	3.29
Sundry Debtors exceeding 180 days	1966.57	2723.20	756.63	-
% of debtors exceeding 180 days	17.01	22.79	4.33	-

The above table depicts a fixed locking of funds as is evident from the Sundry Debtors for the period ending March 31, 2005 and September 30, 2005 wherein the lockin of funds is around Rs 11,562.30 Lakhs. Such lockin of funds when compared to the Sundry Debtors exceeding six months is also around Rs 1,966.57 Lakhs, which has increased marginally by Rs. 756.63 Lakhs over an increased turnover of Rs 17,477.68 Lakhs. An additional Rs. 17477.68 Lakhs of sale leads to an increase in debtors to the tune of 3.29% however the debtors exceeding 180 days increases by 4.33% implying a need for additional long term working capital requirement.

Company sells its products to varying customer segments like as Railways, Defence, Telecom that account for over 50% of its domestic turnover. The working capital cycle for these customer groups demands financing for longer periods that needs long term fixed working capital finance.

This long term fixed working capital requirement has created the need for long-term funds and hence the increased working capital has been arrived at on the basis of norms as indicated in table 5.

Turnover Ratios

Table 5

Particulars	31 st March 2005		31 st March 2007	
	Times	Days	Times	Days
Raw Material Stocks	5.77	63	4.79	76
Finished Goods	328.58	1	220.87	2
Sundry Debtors	3.59	102	3.11	117
Sundry Creditors	4.09	89	4.56	80

Conditionality of the Financial Institutions:

The current working capital sanctions specifically with regard to debtors has the following conditionality:

- Working capital limits sanctioned by the banks / financial institutions do not take into account receivable beyond 120 days.
- Such receivables beyond 120 days are to be financed by the company itself.
- In spite of such financing of receivables beyond 120 days as mentioned above, it does not qualify for consideration as margin money thereby creating further burden on cash reserves.

The line of business of the company necessitates dealings with Government of India departments / companies in sectors such as Defence, Railways and Communications etc. where the credit periods allowed are longer and in fact extending long credits is a norm. Despite increase in turnover over the years, the company has to commit funds to the extent of Rs. 2,000-2,700 Lakhs to such customers.

Financial Indicators
Table 6
(Rs. in Lakhs)

Particulars	31.03.2004	31.03.2005	30.09.2005	31.12.2005	Post Rights
Current Assets	12052.93	19210.1	22599.03	24063.90	24806.26
Liquid Assets	7790.48	12800.1	13637.59	14555.04	15844.82
Current Liabilities	4251.95	6153.55	7957.42	6863.80	7957.42
Current Ratio (No of Times)	2.83	3.12	2.84	3.50	3.12
Liquid Ratio (No of Times)	1.83	2.08	1.71	2.12	1.99
Cash Ratios (No of Times)	0.28	0.20	0.17	0.13	0.26
Cash / Current assets	0.10	0.06	0.06	0.07	0.16

Release of long-term funds for working capital requirements shall lead to a improvement in the funds availability and consequent utilization. The improvement in liquid and the cash ratio would indirectly help the company in participating in the tied sector like Defence, Railways and Telecom. The above improvement in the ratios shall also help the Company in reducing the cost of borrowed funds for its future working capital renewals.

b. Funds Movement

The movement of funds also has a bearing on the liquidity required for the operations of the company. The following table spells out the investment policy adopted by the company for the FY 2004-05. The cash movement by way of application and sources is categorized into the various activities (as per the requirement of Clause 32 of the Listing Agreement).

Investment Policy of 2003-04 and 2004-05
Table 7
(Rs.in Lakhs)

Particulars	Operating Activities		Investing Activities		Financing Activities	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004	31.03.2005	31.03.2004
Sources	5609.10	3382.48	22.89	112.43	4928.71	138.69
Applications	7986.15	1364.55	2013.46	1408.53	531.09	1398.86
Net outflow	(2377.05)	2017.93	(1990.57)	(1296.10)	4397.62	(1260.17)

During the previous two financial years there has been an expansion in the capital outlay with reduced dependence on long term borrowings accompanied with reliance on internal accruals and surplus in working capital arrangements. This has resulted in a considerable strain on liquidity.

The rationality of such policy is because of boom in sectors such as telecom. Since the company's business is partially market driven and partially policy driven such capital expansion projects were not initially budgeted and hence could not be taken up with the usual planning and gestation period. However, the capacities had to be made available at shorter notice for making the organization qualify for the initial shortlistings and thus a major portion of the capital outlay had to be met without any budgetary outlay leading to a strain on resources. The deficit in the operating and investing activity has thus been financed by the financing activity and correction is aimed at by this rights issue.

The issue is to be seen in the light of the long term fixed working capital required on a regular basis and also the ploughing back of the liquidity to short-term requirements from the long term sources.

An analysis of the Table 7 above brings out that the operating activity for the year 2004-05 has resulted in a deficit of Rs. 2377.05 Lakhs, which was financed by proceeds from working capital borrowings to the tune of Rs. 3382.20 Lakhs and from other sources aggregating to Rs. 49.08 Lakhs. The surplus of working capital borrowing has been utilized towards financing the long-term investment to the tune of approximately Rs 1059.05 Lakhs as under:

Rs.in Lakhs

Particulars	Amount
Working capital borrowings for the Year 2004-05 (including others)	3436.10
Less: Deficit in operating activity for the Year 2004-05	2377.05
Utilized towards Long term Financing activity	(A) 1059.05
Net out flow due to investing activity for the Year 2004-05	1990.57
Less: Long Term borrowings for the Year 2004-05	931.52
Excess outflow being refinanced	(B) 1059.05

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The Company intends to refinance fixed long-term working capital to restore semblance and utilize long-term funds for long-term purposes.

3. To meet Expenses of the Rights Issue:

The expenses involved in the present rights issue include inter-alia traveling, issue management fees, printing and distribution expenses, legal fees (if any), statutory advertisement expenses and listing fees payable to the stock exchanges etc. The total issue expenses are estimated to be approximately 2.59% of the total proceeds of the present rights issue.

The Main Objects clause of the Memorandum of Association of the Company enables the Company to undertake the activities which the Company has been carrying on till date.

Appraisal

The future funds requirement are Company's own estimates and have not been appraised by any bank / financial institution.

Interim Use of Proceeds

Pending any use as described above, the Company intends to invest the proceeds of this Issue in high quality, interest/dividend-bearing short-term/long-term liquid instruments including deposits with banks for the necessary duration. These investments would be authorised by the Company's Board or a duly authorised committee thereof.

Basic Terms of the Issue

The Equity Shares, now being issued, are subject to the terms and conditions of this Letter of Offer, the enclosed Composite Application Form ("CAF"), the Memorandum and Articles of Association of the Company, the approvals from the GoI, FIPB and RBI, if applicable, the provisions of the Companies Act, 1956, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/ or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or Security Certificate and rules as may be applicable and introduced from time to time.

Ranking of the Equity Shares

The Equity Shares shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari-passu in all respects including dividends with the existing Equity Shares of the Company.

Face value and Issue Price

Each Equity Share shall have the face value of Rs.10/- and is being offered at a price of Rs. 100/- each [including Share Premium of Rs. 90/- per equity share]

Authority for the Present Issue

The Issue is being made pursuant to the resolution passed by the Board of Directors of the Company at its meeting held on September 27, 2005 and by the Shareholders at the Extra Ordinary General Meeting held on October 24, 2005.

This Offer is being made to the existing Equity Shareholders of the Company (hereinafter referred to as "shareholders") whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company at the close of the business hours on the Record date i.e. June 7, 2006

Issue of 22,07, 232 Equity Shares of Rs. 10/- each for cash at a premium of Rs. 90/- (Issue Price Rs. 100/-) per Equity Share aggregating Rs. 2207.23 Lakhs to the existing equity shareholders on rights basis in the ratio of 1 (one) Equity Share for every 10 (ten) Equity Shares held on Record Date i.e. June 7, 2006. The face value of the Equity Share is Rs.10/- per Share and the Issue Price is 10 times the face value

Basis of the Issue

The Equity Shares are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company in respect of Equity Shares held in the physical form at the close of business hours on the Record Date i.e. June 7, 2006 fixed in consultation with the BSE (the Designated Stock Exchange).

The Equity Shares are being offered for subscription in the ratio of 1 Equity Share for every 10 Equity Shares held by the Equity Shareholders.

Approvals for the Offer

The Offer is being made in terms of Guidelines issued by the Securities and Exchange Board of India and in accordance with the Companies Act, 1956 and Listing Agreement entered into with the Stock Exchanges.

Rights Entitlement

As your name appears as beneficial owner in respect of shares held in Electronic Form or appears in the Register of Members as an Equity Shareholder of the Company on the Record Date i.e. June 7, 2006, you are entitled to the number of Equity Shares made under this Offer as shown in part A of the enclosed Composite Application Form

Fractional entitlement

If the shareholding of any of the Equity Shareholders is not in multiple of ten, then the fractional entitlement of such holders shall be ignored. Shareholders holding less than ten shares will be offered one new Equity Share out of those new Equity Shares available after consolidation of the fractional entitlements. Shareholders whose fractional entitlements are being ignored would be given preferential allotment of one additional share each if they apply for additional shares.

Despatch of Refund Orders

Refund orders above the value of Rs.1,500 will be dispatched by Registered Post/ Speed Post to the sole/ first applicant's registered address. However, refund orders for value not exceeding Rs.1,500 shall be sent to the applicants under Postal Certificate. Further, adequate funds would be made available to the Registrar to the Issue for the dispatch of Letters of allotment/ securities certificates and refund orders

Interest in Case of Delay in Dispatch of Allotment / Refund Orders

The company agrees that:

- a. As far as possible allotment of securities offered to the public shall be made within 30 days of the closure of the rights issue.
- b. It shall pay interest @15% per annum if the allotment has not been made and the refund orders have not been dispatched to the investors within 30 days from the date of the closure of the issue.

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E) Basis of Issue Price

The following factors have been considered while arriving at the Issue price of Rs 100/- per Equity Share.

Qualitative Factors:

- An established, profit making company
- Company is focused on Specialized Batteries and electronics related to that
- Market leader in Manufacturing of specialized batteries
- Proven track record and established clientele

Quantitative Factors:

1. **Standalone Adjusted Earnings Per Share (EPS)** on standalone basis weighted on face value of Rs 10/- as per Accounting Standard 20

Financial Year	EPS (Rs.)	Weight
2002-03	5.10	1
2003-04	4.33	2
2004-05	9.13	3
April 1, 2005 to December 31, 2005*	8.04	-
Weighted Average	6.86	

* Not Annualised

Earnings Per Share (EPS) of face value Rs. 10/- each for FY 2004-05 is Rs. 9.13 as per Indian GAAP.

2. **Standalone Price Earning Ratio (PE Ratio)** in relation to the Issue Price of Rs. 100/-

Particulars	PE Ratio (Times)
Based on the FY 2004-05 EPS of Rs. 9.13 per share	10.95
Industry P/E*	
- Highest	24.9
- Lowest	8.8
- Average	12.8

(*) Based on "Capital Market" Vol. XXI/07 dated June 05-18, 2006 for Dry Cell Industry

3. **Standalone Return on Net Worth**

Financial Year	RONW (%)	Weight
2002-03	10.69	1
2003-04	8.63	2
2004-05	15.76	3
April 1, 2005 to September 30, 2005	9.02	-
Weighted Average	12.54	

4. **Minimum return on total net-worth after issue needed to maintain Pre-Issue EPS of Rs. 9.13 is 10.77%**

5. **Standalone Net Asset Value (NAV) Per Share**

Particulars	NAV (Rs.)
As on March 31, 2005	57.91
As on December 31, 2005	83.22
Post - Rights Issue (Assuming 100% Subscription)*	84.75
Issue Price	100.00

*Preferential Allotment of 20,00,000 Equity Shares @ Rs. 255/- per share has been accounted for in calculating the post issue NAV.

Comparison of historic financial ratios of the Company with the peer group

Company	Industry* Per Share	Book Value (Rs.)	RONW (%)	EPS (Rs.)	PE Ratio
HBL Nife Power Systems Limited	Dry Cell	53.8	16.9	8.6	24.9
Peer Group:					
Exide Industries Limited	Auto Ancillary	67.2	20.2	13.4	19.8
Amara Raja Batteries Limited	Electric Equipment	158.6	4.9	7.4	17.4
High Energy Batteries (I) Limited	Electric Equipment	99.9	23.0	20.7	51.0
Panasonic Batteries	Dry Cell	93.9	6.4	0.1	-
Nippo Batteries	Dry Cell	299.6	9.6	27.3	15.8
Eveready Industries India Limited	Dry Cell	73.7	8.8	11.0	8.8

(* Based on "Capital Market" Vol. XXI/07 dated June 05-18, 2006 for Dry Cell Industry

Financial ratios given in the table above is as per date provided as per the source document and does not reflect the position as on the date of this Letter of Offer

"Capital Market" provides data on 4 companies as part of the Dry Cell Industry, including HBL Nife; however, HBL Nife is not a dry cell manufacturer but manufacturers DC Power Systems / Industrial batteries / Non-Automotive batteries. The peer group above has been expanded to include other Industrial battery/ DC Power Systems / Non Automotive battery manufacturers though being covered under industries mentioned under 'Industry' column in the table and extracted from the source but necessarily forming part of the peer group of HBL Nife."

The Face Value of the Equity Shares is Rs.10/- per Equity Share and the Issue Price is Rs. 100/- each. The Issue Price is 10 times of the Face Value

The Lead Manager believes that the Issue Price of Rs. 100/- is justified in view of the above qualitative and quantitative parameters. The investors may want to peruse the risk factors and the financials of the Company including important profitability and return ratios, as set out in the Auditors' report and forming part of this Letter of Offer to have a more informed view of the investment proposition.

Working Results and Other Information

Information as required to be given vide Ministry of Finance, Government of India Circular No. F2/SE/76 dated February 5, 1977 as amended vide their circular of even number dated March 8, 1977 is not required as the last audited accounts are till December 31, 2005 and the company is yet to declare results (un-audited or otherwise) for the quarter ending after December 31, 2005:

- Save as stated in the letter of offer, there are no material changes and commitments affecting the financial position of the Company since the period ended on December 31, 2005 being the last date up to which audited information is incorporated in the letter of offer.
- Current Market Price (cum rights) of the equity shares of the Company on BSE during the period September 27, 2005 to May 30, 2006 were:
 - Highest: Rs. 309.68 on March 1, 2006
 - Lowest: Rs. 221.96 on October 17, 2005
 - Closing Market price of the Equity Shares on BSE as on May 31, 2006, was Rs. 255.35 (Ex Rights)

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F) Tax Benefits

The Company has been advised by M/s. Satyanarayana & Co., Chartered Accountants, and the Auditor of the Company vide their report dated April 15, 2006 that under the current direct tax laws, the tax benefits *interalia* will be available to the Company and the shareholders of the Company.

STATEMENT OF POSSIBLE TAX BENEFITS

A. Under the Income-tax Act, 1961 (“the Act”)

1. BENEFITS AVAILABLE TO THE COMPANY

Deduction U/Sec. 80IB (5)(ii)

As per the provisions of Section 80IB(5)(ii) of the Act, the Company is eligible to claim a benefit with respect to profit derived from an Industrial undertaking located in industrially backward district. The benefits under this clause shall be 100% of the Profits & Gains derived for 3 Assessment Years beginning with the initial assessment year and thereafter 30% of the Profits and Gains of such undertaking. Accordingly the Company is eligible for deduction under Section 80IB(5)(ii) @ 30% of eligible profits for the remaining period i.e. for the Accounting Years 2005-06 subject to availability of profits from such undertakings.

Dividends exempt under Section 10(34)

Dividends received by the company from other domestic companies are exempt in the hands of Company as per the provisions of Section 10 (34) of the Act.

2. BENEFITS AVAILABLE TO RESIDENT SHAREHOLDERS

- (1) Under section 10(34) of the Act, any income by way of dividends referred to in section 115-O (i.e. dividends declared, distributed or paid on or after 1 April 2003 by the Company) is exempt from tax.
- (2) Under section 10(38) of the Act, any income arising from the transfer of a long-term capital asset, being an equity share in the company is exempt from tax where the transaction of sale of such equity share or unit is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under that Chapter.
- (3) If the long-term specified asset is transferred or converted (otherwise than by transfer) into money at any time within a period of three years from the date of acquisition, the amount of capital gains on which tax was not charged earlier shall be deemed to be income chargeable under the head “Capital Gains” of the year in which the specified asset is transferred or converted (otherwise than by transfer) into money.
- (4) Under section 54ED of the Act, and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act) on the transfer of the shares of the Company, after the shares are listed, will be exempt from tax if the gains are invested in equity shares forming part of an eligible issue of capital, within a period of six months after the date of such transfer. “Eligible issue of capital” means an issue of equity shares which satisfies the following conditions, namely –
 - a. the issue is made by a public company formed and registered in India;
 - b. the shares forming part of the issue are offered for subscription to the public.

In such a case, the cost of such equity shares will not qualify for tax rebate under section 88.

- (5) Under section 111A of the Act, short term capital gains arising from the transfer of a capital asset, being an equity share in the company shall be taxed at a rate of 10% (plus applicable surcharge and education cess) where the transaction of sale of such equity share is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under that Chapter.
- (6) Under section 112 and other relevant provisions of the Act, long term capital gains, (in cases not covered under section 10(38) of the Act), arising on transfer of shares in the Company, shall be taxed at a rate of 20% (plus applicable surcharge and education cess) after indexation as provided in the second proviso to section 48. The amount of such tax shall however, not exceed 10% (plus applicable surcharge and education cess) without indexation, if the transfer is made after listing of the shares of the Company.

3. Non Resident Shareholders [Other than FIs and foreign companies]

- (1) A non-resident Indian (i.e. an individual being a citizen of India or person of Indian origin who is not a ‘resident’) has an option to be governed by the provisions of Chapter XII-A of the Act, viz. “Special Provisions Relating To Certain Incomes of Non-Residents” which are as follows:-

- (a) Under section 115E of the Act, where shares in the company are acquired or subscribed for in convertible foreign exchange by a non-resident Indian, capital gains arising to the nonresident Indian on transfer of shares held for a period exceeding 12 months shall (in cases not covered under section 10(38) of the Act) be concessionaly taxed at the rate of 10% (plus applicable Surcharge and education cess).
 - (b) Under section 115G of the Act, it shall not be necessary for a Non-Resident Indian to furnish his return of income if his income chargeable under the Act consists of only investment income or long term capital gains or both arising out of specified assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted there from.
- (2) Under section 10(34) of the Act, any income by way of dividends referred to in section 115-O (i.e. dividends declared, distributed or paid on or after 1 April 2003 by the Company) is exempt from tax.
 - (3) Under section 10(38) of the Act, any income arising from the transfer of a long-term capital asset, being an equity share in the company is exempt from tax where the transaction of sale of such equity share is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under that Chapter.

4. Foreign Institutional Investors (FIIs)

- (1) Under section 10(34) of the Act, any income by way of dividends referred to in section 115-O (i.e. dividends declared, distributed or paid on or after 1 April 2003 by the Company) is exempt from tax.
- (2) Under section 10(38) of the Act, any income arising from the transfer of a long-term capital asset, being an equity share in the company is exempt from tax where the transaction of sale of such equity share or unit is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under that Chapter.
- (3) Under section 54ED of the Act and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act) on the transfer of the shares of the Company, after the shares are listed, will be exempt from capital gains tax if the capital gains are invested in equity shares forming part of an eligible issue of capital, within a period of six months after the date of such transfer. "Eligible issue of capital" means an issue of equity shares which satisfies the following conditions, namely –
 - (a) the issue is made by a public company formed and registered in India;
 - (b) the shares forming part of the issue are offered for subscription to the public.

In such a case, the cost of such equity shares will not qualify for tax rebate under section 88.

- (4) Under section 111A and other relevant provisions of the Act, short term capital gains arising from the transfer of a capital asset, being an equity share in a company shall be taxed at a rate of 10% (plus applicable surcharge and education cess) where the transaction of sale of such equity share is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under the Chapter.
- (5) Under section 115AD of the Act, FIIs will be taxed at 10% (plus applicable surcharge and education cess) on long-term capital gains(in cases not covered under section 10(38) of the Act) and at 30% (plus applicable surcharge and education cess) on short-term capital gains arising on the sale of the shares of the Company.

However the short term capital gains referred to in section 111A of the Act shall be taxable at the rate of 10% (plus applicable surcharge and education cess).

B. Under the Wealth Tax Act, 1957

Shares of the company will not be treated as an asset within the meaning of section 2(ea) of the Wealth Tax Act, 1957, hence the shares will not be liable to wealth-tax.

IV. ABOUT HBL NIFE

A) Industry Overview

DC Power systems are used across the world for a variety of application where the traditional power supply system cannot be sustained/ supported. The domains that are encompassed in the DC power systems vary from Telecommunications, Aviation, Rail coaches and signaling to Oil Refineries, Power generating stations, Oil drilling and pipelines. These applications have grown significantly in the last two decade due to the embracement of newer technology and also because the conventional power sources are available only in a limited domain, beyond which the reliance on DC / alternative Power systems is unavoidable. With the march of technology and it's blending with the industrial applications there is a need for an efficient and reliable power supply sources at all times and place. DC Power systems provide a back up / alternative source of power for running and maintaining applications wherein loss of power supply is critical. There is a need for the power supply in remote and far-flung areas and at such places the dependence is on DC power sources is complete

DC power systems are also required in mobile (non-stationary) applications like Rail coaches, Aviation etc. In these applications the usage of conventional sources of power / electricity is not possible and DC power supplied thru batteries is to be relied upon. Defence applications too, require power for communications, aviation and naval application like propulsion of torpedoes. The application for DC power also finds place in Defence Research establishments like NSTL (Naval Science and Technological Laboratory), DRDO (Defence Research and Development Organization, DRDL (Defence Research and Development Laboratory amongst others.

The Company is manufacturing specialized batteries and electronics products. The end users of its products are in various sectors i.e. Communications, Railways, Defence, Oil and Natural Gas, Petroleum, Steel, General industry, etc. Most of these segments are core sector of country's economy. Given the background of inadequacies and shortcomings associated with the power supply situation, every end user requires reliable, consistent and clean power source for running the establishments. Thus back up power requirements are rapidly growing to cater the increasing requirements of the above segments. Further advent of latest technologies deployed by many sectors like Telecom, Info com, Information technology, rail and road transport and manufacturing units having sophisticated computer numerically operated equipment requires continuous and reliable power supply which necessarily has to be met through to back up power only.

In remote areas where the mains power supply is not at all available i.e. railways, defence, communications, oil exploration etc. have to depend on back up power supply only. Thus this sector of business all over the world works out to several billion US dollars. Among these countries like China, India, and South East Asian countries where the requirements of rapidly growing population is also very high.

Being in a very vital sector of business and past track record from last 20 years the future for this sector is quite encouraging. Market demand for the products is increasing very rapidly. Liberalized policies of Government of India from 1991 onwards opened up foreign direct investments in several sectors i.e. Telecom, Infocom, IT, Transport, etc. This has achieved very satisfactory level of foreign direct investments. Financial sector reforms also will contribute for further growth of economy in several sectors in the years to come. This will increase the demand for technology driven sectors where the usage of back up power is very essential which will be a catalyst for the growth of the company's business both in terms of volume and value, which will contribute to consistent growth of business of all the products including electronics products.

B) Business Overview

Overview of the Market / business:

A) Industrial batteries

In the Indian market substantial growth is being noticed in almost all the segments in which the Company's products are marketed..

- i. **Telecom Sector:** This sector is experiencing maximum growth in volume and reach from a tele-density of less than 5 per hundred at the turn of the century, it has already crossed 12.28 per 100* and the target is of reaching 25 per 100 in three years. With the foreign direct investment (FDI) cap liberalized, major consolidation in the market has already taken place and global leaders in technology, equipment and project technology are directly undertaking the expansion of the projects, thereby making tele-communications sector stable and effective in terms of the future growth. Nearly 2% of the telecom capacity expansion project costs account for batteries and stand by power.

* *Telecom Regulatory Authority of India Press Release No. 22/2006 dated March 7, 2006*

- ii. **Power Sector:** The power sector is a major user of batteries and DC power systems right from the main generating plants, power supply back up to auxiliaries, material handling, UPS, control and instrumentation; switch yards, substation and switch gears in generation, transmission and distribution.

The present country's installed capacity of 112,000 MW* is to cross to MW 200,000 by 2012*. The advanced power development and reforms programme (APDRP) of government already under implementation is helping to add capacity / improve generation even in existing plants apart from setting up of new green field projects. The Electricity Act, 2003 has liberalized the norms to ensure private power plants can be quickly implemented in short gestation periods..

As the Battery back up in the main power plant areas need to be highly reliable, nickel cadmium batteries find extensive use in this segment.

With the additional investments planned in this sector of Rs.200 crores per annum, the battery purchase is envisaged to cater to the growth apart from the replacement demands for existing plants.

* Ministry of Power, www.powermin.nic.in

B) Other Industrial Segments

- i. Fast growth is expected in the Solar Power (Non-conventional energy) segment to achieve electrification of remote and non-grid areas as well as to encourage use of green, non-polluting power. As each solar street light, home light and power plant needs batteries to store and supply the power, the potential in this area is also substantial with the Government planning to electrify 100,000* villages through the MNES programmes and private enterprises also coming into the sector.
- ii. The other high growth industrial segment is the UPS. The large growth in automation and IT in all spheres is driving the UPS segment growth. The heart of each UPS is a battery bank which keeps the stand-by power stored. The value of batteries in an UPS range from 20–50%. The UPS market today was Rs.1,400 crores in year in 2003-2004**.
- iii. Road transport sector is also a growing segment where the company is making a selective and focused entry to supply high quality pure lead tin batteries to the vehicles of RTCs. The Company is also working with developers of electrical vehicles to design advanced technology batteries for these future products.
- iv. **Railways:** The Railways segment has grown well with expansion in tracks and routes. This translates into increasing requirement of batteries for train lighting, AC coaches, signaling and communications. With more and more types of batteries being approved by RDSO, the growth in this segment for the Company is more than 30% per annum.
- v. **Defence:** The defence segment has been a prized customer for the Company with several specialized, tailor made batteries being supplied to the Army, Navy and the Air Force. The Company is most dependable supplier to Defence for critical application areas like torpedoes, missiles, aircraft starting, ground power units etc. where no other major manufacturers can cater. Specially designed Silver Oxide Zinc, Nickel Cadmium Sintered Plate, Lithium and other chemical combinations are used for such defence applications.

The Company has a niche in this market and with growing defence expenditure and entry of private sector now being regulated; this segment is a valuable business and growth area for the Company.

* Ministry of Non-Conventional Energy Sources

** MAIT: Manufacturers Association of Information Technology

C) Export Markets

The global market for batteries is also growing by almost 10% with much higher growth in the Asia Pacific region. Increases in capital spending and in manufacturing enterprises in the industrializing parts of the world are driving growth.

In the developed economies, non-lead acid (alkaline) rechargeable batteries are out pacing the lead acid secondary batteries. HBL Nife's technology driven Nickel cadmium batteries are very well here to meet this trend. With growing acceptance of the Company's NiCad products all over the world, consistent growth is expected and the company is planning to meet this increasing demand through capacity expansion and product / technology improvement programmes.

D) Electronics Products

The Company is an established supplier of industrial chargers, distribution boards etc. to industrial customers all over India and overseas. Several Project Customers prefer system suppliers for complete DC Power Systems and the Company is well placed to cater to this demand. Integrated Power Supply systems (IPS) which are multi voltage charging and power supply systems are very popular with the Railways and the Company is leading supplier of this product.

Railway signaling is a major growth area, which the company is focused to capitalize. The Railways have allocated a special budgetary fund of Rs.5,000 crores* to upgrade signaling systems in 5 years apart from their regular budgets. Safety becoming a critical aspect in railway operations, the investment in this area will increase manifold in future.

HBL NIFE POWER SYSTEMS LIMITED

The Company has developed several advanced technology electronics products to cater to this high growth segment. The Company is working closely with IRISSET, RDSO and other agencies with development orders and regular orders already coming in for several electronics products like Data loggers, train charting systems, high frequency track circuits, solid state interlocks, digital axle counters, etc. The Company has undertaken execution of railway signaling contracts on turn key contract basis with supply of batteries and electronics products as a part of the terms of contract. This area will grow very rapidly since the railways have embarked upon the modernization programmes of signaling systems all over the country in a phased manner. This is a substantial future growth area and also contributes to the diversification / introduction of new technology driven electronic systems in large volumes.

* *Railway Budget 2002*

E) Defence Electronics

The Company being trusted supplier of various specialized batteries to Defence has been encouraged to develop several electronics products used for electronic warfare, radar, microwave, proximity fuzes, radios, thermal imagers etc. With liberal investment in R&D, new product development, tie-ups with research institutions and sheer technological enterprise, the Company has been successful in developing advanced electronics products suitable and acceptable to the Defence applications and is poised for assumed growth in this specialized market of limited competition.

The information in this section has been extracted from publicly available documents from various sources and has not been independently verified by the Company or the Lead Manager.

Outlook – The Road Ahead

The Company has a diversified portfolio of products. It has carefully developed strengths in areas of limited competition and focused on direct marketing to chosen customers / market segments. The direct sales approach through a network of more than 10 branches in India and 2 overseas subsidiaries with a growing team of sales and service engineers has enabled the company to own selected customers and become their preferred supplier. This has resulted high and sustainable sales growth of the Company from the major expansion of business growth of these customers.

Developing new products tailored for such customers will ensure business growth from new products as well as increase the share of existing product sales. This strategy will drive the overall growth of the Company.

The highest growth areas of the Company in the next few years will be:

- i. **Telecom:** The lead acid battery business in this segment has doubled last financial year and further expected to re-double in two years. The countrywide net work of the Company with dedicated teams for the telecom customers and matching production capabilities will ensure dominance in this segment.
- ii. **Exports & NiCad Business:** With the Company being able to establish acceptance and growth from quality buyers from several sectors and Asian countries for its Nickel Cadmium batteries, very quick growth in this area is assured.

This global demand growth of NiCad Batteries will be firmly strengthened by the rising domestic demand for the Power and Oil and gas segments where NiCad batteries are preferred over all other types. With limited competition in this product area both in India (only two suppliers HBL Nife and AMCO) and overseas (SAFT, Alcad Hoppecke), the future is indeed bright and promising. Increased capacities and with export suited exclusive manufacturing facilities within shortest gestation period will spur this growth and can double the existing NiCad business in next two to three years.
- iii. **Electronics:** The thrust and focused attention in the Railway Signaling and Defence Electronics Products will ensure high turnover levels for the company in the years to come

Details of the Business of the Issuer

a. Details of existing Factory Sites

- i. Lalgadi, Malakapete Allabad Village, District Rangareddy in State of Andhra Pradesh.
- ii. Village Kothur and Nandigaon, Kothur Mandal, District Mahaboobnagar in State of Andhra Pradesh
- iii. At Phase III VSEZ, Duvyava, Vishakapatnam

b. Plant and Machinery, Technology, Process etc

Nickel Cadmium Pocket Plate (NCPP) batteries

The technology was originally provided by SAB NIFE AB, Sweden the financial-technical collaborator and then co-promoter of the Company for the manufacture of NCPP batteries. The Agreement executed effective from November 26, 1986 between the company and SAB NIFE A.B. Sweden has already come to an end. The said agreement provided for a transfer of technology clause on expiration of the term of the agreement. The Company currently has

an in-house Research & Development center that has developed solutions for adapting the available technology to Indian environment. The Company currently is self-reliant on the technological needs for the NiCad Pocket Plate batteries.

Nickel Cadmium Fibre Plate (NCFP) batteries

Licence Agreement dated February 24, 2001 with Deutsche Automobile GESSLSCHAEFT, Germany (DAUG) for Nickel Cadmium Fibre plate batteries, as per the terms a lump sum payment of € 53250 net of taxes is payable. Further, the terms of the agreement provide for a royalty @ 4 % of the 'net sales price' for a period of 10 years commencing February, 2001. Agreement has been approved by RBI under FT 2001 HYR 054/2000-01 dated February 20, 2001. This Agreement is for sealed nickel cadmium cells for a period of 10 years with effect from First down payment. Licence can be terminated by 4 week's notice of any breach or any change in majority control of the Company.

Silver Zinc batteries

Royalty Agreement between the Company and Dr. A. J. Prasad promoter of the company for the supply of the requisite know how for a period of 5 years from April 1, 2004. The royalty payable is 3% on sales of silver zinc batteries. The Agreement has been approved by the Shareholders on September 23, 2004.

c. Collaborations, any performance guarantee or assistance in marketing by the collaborators

The Company currently does not have any Collaboration Agreement. There is no performance guarantee or assistance in marketing by any Licencor / Know how provider as the same are technology / know how use agreement. The Company has Licence / Royalty Agreement for the following:

Nickel Cadmium Fibre Plate (NCFP) batteries

The Company entered into a Licence agreement with DAUG, Germany for Nickel Cadmium Fibre plate batteries. The terms of the agreement provide for a lump-sum payment and a royalty @ 4 % of the 'net sales price' for a period of 10 years commencing February, 2001.

Silver Zinc batteries

The Company has an agreement with Dr. A.J. Prasad for the supply of the requisite know how and pays royalty @ 3% of sales for this category.

Besides the above, the Company is self reliant on technology for all the other products manufactured by it including Pure Lead VRLA batteries, Tubular Lead Acid batteries (Gel), Lithium batteries, Thermal batteries etc.

d. Infrastructure facilities for raw materials and utilities like water, electricity etc.**Raw Materials**

Major raw material required for the manufacture of NiCad batteries are Nickel plated cold rolled steel strips, Nickel Hydroxide, Cadmium Hydroxide, Potassium Hydroxide (KOH), Polypropylene for Cell containers, Copper, Steel etc.

The Company has evolved a system for bulk purchases of the specialized and valuable materials and a separate team tracks the movement of prices on regular basis, while basic inputs are purchased from local market. There is no problem in the availability of the requisite quantity of raw material and the company is having regular suppliers with long standing relationships for meeting its requirements. The requirements of the raw material are estimated according to the orders in hand and past experience of the demand. Also, it is not possible to estimate the annual quantitative requirement of raw material.

Utilities for the Existing setup and ongoing projects independent of Rights Issue:**Power:**

Shameerpet works: The facility has a contracted load of 1250 KvA, from APCPDCL

Nandigoan works: The facility has a contracted load of 1650 KvA from APCPDCL

Water:

Shameerpet works: Water is required at the plant for various processes and treatment of effluents along with drinking and sanitation. Company has adequate arrangements to meet its requirements.

Nandigoan works: Water is required at the plant for various processes and treatment of effluents along with drinking and sanitation. The facility has 2 bore wells to meet its requirements besides it sources average of daily 1.5 Lac liters of water from other sources. Also the company has a wastewater treatment plant wherein the water used during the manufacturing process is treated and re-cycled for re-use.

Effluent Treatment:

The Company has installed the required effluent treatment equipments at its factories and has the requisite approvals.

HBL NIFE POWER SYSTEMS LIMITED

e. Products / Services of the Company

i. Nature of Products/ services and end users

The Company manufactures a host of batteries in the Industrial segment. The products include Pure Lead VRLA batteries, NiCad batteries, Tubular Lead Acid batteries (Gel), Lithium batteries, and Thermal batteries amongst others. It caters to a variety of industries and end users ranging from Aviation, Communication, Defence, Railways, and the Industrial segment. NiCad batteries to be manufactured out of the current project is an existing product of the company and is used in Railways, Defence and Industrial applications like oil refineries etc.

The Company primarily caters to the following Industries:

Industry	Applications
Aviation	Air Craft Engine starting, Emergency systems
Railway	Train lighting and Air-conditioned coaches, Signaling and communications
Defence	Wireless communication in Army, Battle Tanks Engine starting
Telecom	Back up power, basic GSM and CDMA technologies at telephone exchanges and at MSCs (Main Switching Centers) and BTH (Towers)
Oil, Gas and Power	Back up power in drilling and refining, backup power in gas pipe lines and standby powers for generators and at transmission and distribution

ii. Market including details of the Competition, past production figures for the industry, existing installed capacity

Competition

In India, there are 4-5 companies who can be considered as competitors. Among them – HEB, Exide and Amara Raja Batteries are the major ones, besides AMCO and Kirloskar can be claimed as distant competitors. It is pertinent to note that Exide and Amara Raja specialize in manufacture of automotive batteries, wherein the HBL Nife has no presence. The company is not in automotive sector and focuses on the industrial sector of specialized batteries and electronics covering major segments of industry. Also, unlike competitors, the company has basket of products that caters to variety of end user requirements varied across industries.

The company has been consistently investing in modernizing and expanding capacities so as to achieve economies of scale.

Past Production figures and existing Installed Capacity

The Industrial batteries industry is highly specialized and is catered to by a few select players who have presence in automotive industry as well. The capacities are broad and interchangeable, so definitive information on the activities of the competitors is not publicly available. Also HBL Nife operates in a niche market and makes products as per the specifications of the customers who are generally industrial customers. There are no published data available to the Company for past production figures, existing installed capacity, past trends and future prospects regarding exports, demand & supply forecasts. However, the details of existing installed capacity of the competitors and the verticals they operate in as on March 31, 2005 is as under:

Name of the Company / Peer	Product	Unit	Installed Capacity	Production
Exide Industries	Storage Batteries	No.s	14859772	14129347
High Energy Batteries	Silver Zinc Batteries-High Eng	No.s	-	-
	Nickel Cadmium Battery Cells	No.s	300000	140398
	Silver Zinc Batteries/Cell-Oth	N.A.	2400000	2364752
Amara Raja Batteries	VRLA Battery Cells	No.s	1775000	1230974
HBL Nife Power Systems Limited	VRLA Battery Cells	AH	24000000	207379000
	Nicl./Cadm. Pocket Plate Batt.	AH	24000000	24983000
	Monoblock Batteries	AH	-	-
	Silver Zinc Batteries	No	-	21166
	Tubular Batteries	AH	-	-

Source: Capitaline

The verticals that HBL Nife operates in are strictly not comparable with peers due to specialized domain that HBL Nife operates in.

iii. Approach to marketing and marketing setup

DC Power systems are in use across industries and there is a growing export market. The predominant demand for NiCad batteries is from exports and company has an existing marketing setup with overseas subsidiaries.

As regards the other products and supplies to Defence and Railways, the Company functions in a market, wherein the suppliers are few and the products to be supplied need a pre approval and to that extent there cannot be a threat of new players entering into the market and associated price pressure. The Company adopts direct marketing approach thru its branches located at all important customer locations. These branches forward the information of the orders to the Centralized Sales Department at Hyderabad that coordinates the sales efforts of all the branches and arrange necessary follow up bank guarantees, earnest money deposits, samples etc. The Centralized sales Department is headed by General Manager (CSD) and is supported by his subordinates, which functions under direct supervision of Chairman (Executive) considering the importance and sensitive nature of the Department. HBL Nife supplies to Government of India, Ministry of Defence, Railways, Other Government Departments/ PSUs and also to the Private Clients. The Company is also registered Defence Vendor and authorized Railway supplier. While, Public Sector Undertakings and Government Departments invite tenders through public notice, tender from private sector are negotiated. The Company obtains tender document from Public Sector Undertakings / Government Department on the basis of such public notice and has been successfully doing so. To procure contracts from Private Clients, the Company on continuous basis collects market information and makes presentation to the existing and prospective customers. The Company's past track record and its association with the industry for more than two decades also helps in getting orders. The Company has also been successfully bagging repeat orders from its reputed existing client base.

The Company has wide spread customer base, the top 10 customers of the company for the 6 month period ended on September 30, 2005 are as under:

Rs. in lacs.

Sr. No.	Name of the Customer	Amount	% of sales
1	Nortel Networks	3,808.68	25.06%
2	Ministry of Railways	1,568.00	10.32%
3	Reliance Industries	1,011.80	6.66%
4	Saft Power Systems Iberica	996.78	6.56%
5	BSNL	707.73	4.66%
6	Nokia India Limited	458.19	3.01%
7	Motorola (India) P Limited	443.87	2.92%
8	Railway signaling Works Contacts	361.00	2.38%
9	Ministry of Defence	323.11	2.13%
10	Solid State Controls	192.41	1.27%
	Total	9,871.57	64.95%

The Company's global presence is evident in the fact that the Company is continually expanding its facilities to meet the increasing demand of quality products.

iv. Export possibilities and export obligations

As on December 31, 2005 Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or concessional rate of duty pending fulfillment of export obligations Rs.2013.5 lacs (Previous year Rs. 1339.82 lacs) against which export obligation has been fulfilled to the extent of Rs.859.67 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.

Business Strategy

The Company's Business Strategy is to develop globally competitive business in manufacturing and services by taking advantage from the cluster of scientific / technology institutions and qualified, trained technical personnel available in India. Further the existing businesses to be integrated deploying innovative technology and by widening the product range within the business segments. Also the Company believes in a high degree of in house components thus reducing the dependability on outside vendors at the same time it gives the company the requisite flexibility to make to order as per customer's specification and thus providing enhanced customer satisfaction.

HBL NIFE POWER SYSTEMS LIMITED

SWOT Analysis

Strengths, Weaknesses, Opportunities and Threats

Strengths

- A major player in Industrial batteries segment in India
- In house technology development
- Established, well networked branch network and service team
- Dedicated and committed promoters
- Financial strength - provides ability to procure raw material at competitive rates

Weaknesses

- Not present in Automotive batteries segment

Opportunities

- Being listed, the company is able to raise funds easily
- Communications / telecom boom in India, shall lead to an increased demand of companys products

Threats

- Any change in the current environmental regulations can adversely affect the company
- Change in duty structure rendering imports competitive vis-à-vis the domestic manufactured batteries
- Change in the procurement systems by Ministry of Defence and Railways

Quality Assurance

Sophisticated machinery and use of superior and thorough quality checks ensure that each battery produced meets the specifications and adhere to established quality certifications.

Future Prospects

The Company specializes in batteries that are used in industries ranging viz Defence, Petrochemicals, Power Generation, Aviation, Railways and Telecommunications. In view of the huge market for batteries and export opportunities, the company is aiming at focusing more on value added products which helps the Company occupy a strong position in the Indian and the World Market.

Capacity and Capacity Utilization

Government of India liberalized the Industrial Policy in 1991 majority of the manufacturing products were de-licensed restricting compulsory requirement of licence for few products in the sectors of Railways, Defence, Atomic Energy, etc. The creation of capacity and utilization therefore is presently based on availability of volumes from the markets which should justify the investments and there are no statutory restrictions.

The past capacity utilization for the various types of batteries manufactured by HBL Nife is as under:

Sr. No.	Installed Capacity	Capacity Utilization		
		2004-05	2003-04	2002-03
1	Batteries			
	VRLA batteries	86%	81%	87%
	Mono block batteries	53%	8%	30%
	Tubular batteries	-	51%	-
	NCPP/FP	104%	92%	63%
	NCSP	-	20%	23%
	Silver Zinc Battery	41%	34%	48%
Lithium	50.2%	92.6%	67.3%	
2	Electronics			
	Railway Electronic Products	-	-	-
	Embedded Systems	-	-	-
	Power Electronics	45.6%	26.6%	24%

Competitive Strengths

In line with the corporate policy, HBL Nife is not in automotive Sector. It is in the industrial sector of specialized batteries and electronics covering major segments of industry. Unlike competitors, it has a basket of products that caters to variety of end user requirements and thus giving it a competitive edge over the peers in the industry. It primarily caters to the following Industries and Applications:

Industry	Applications
Aviation	Air Craft Engine starting, Emergency systems
Railway	Train lighting and Air-conditioned coaches, Signaling and communications
Defence	Wireless communication in Army, Battle Tanks Engine starting
Telecom	Back up power, basic GSM and CDMA technologies at telephone exchanges and at MSCs (Main Switching Centers) and BTH (Towers)
Oil, Gas and Power	Back up power in drilling and refining, backup power in gas pipe lines and standby powers for generators and at transmission and distribution

Insurance

All Company's fixed and current assets are adequately insured covering all major risks and also complying with the requirements of Term Lenders and Banks from whom the company has availed financial assistance. There are policies covering fire, earthquake, transit risk policies. At present the Company does not have any consequential loss policy.

Property

Land and Buildings

The Company has Land admeasuring 40 acres at Shameerpet, Ranga Reddy district and 20 acres in Nandigoan and 12 acres at Bhoothpur Mahabub Nagar districts that houses the factories. The Company has manufacturing facilities for at Shameerpet and Nandigoan and Flats at Navi Mumbai and Noida that houses the branches. Besides the Company has offices that are either rented or are on leased.

Purchase of Property

Except as stated in this Letter of Offer and save in respect of the property purchased or acquired or to be purchased or acquired in connection with the business or activities contemplated by the objects of the issue (if any), there is no property which the Company has purchased or acquired or proposes to purchase or acquire which is to be paid for wholly or partly out of the proceeds of the present issue or the purchase or acquisition of which has not been completed on the date of this Letter of Offer, other than property in respect of which Contracts for the purchase or acquisitions were entered into in the ordinary course of business and the contracts were not entered into in contemplation of the issue nor is the issue contemplated in consequence of the contracts or the amount of purchase money is not material.

Particulars of Transactions in the Last Two Years where Vendor was Promoter / Director: Nil, however, Pursuant to the scheme of amalgamation of the company and Compact Power Systems (Pvt) Ltd (CPS) approved by the share holders at the annual general meeting held on August 23, 2003, and subsequently sanctioned by Hon'ble High Court of Andhra Pradesh vide orders dated February 27, 2004 the Assets & Liabilities of Compact Power Systems Pvt. Ltd were transferred at their existing carrying amounts as on April 1, 2003 and vested in the company w.e.f. April 1, 2003. The operations of Transferor Company include manufacture, purchase, sales, import & export and deal in cap lamps, batteries for industries etc. Prior to the merger the company held 61% in the company and the balance shareholding was held by Beaver Engineering Limited (31%-holding company and Promoter of HBL Nife Power Systems Limited) and Ms. Uma Devi (8%-wife of Dr. A.J. Prasad, Promoter of HBL Nife Power Systems Limited Dr. A.J. Prasad). As provided in the scheme of amalgamation the company acquired 35,300 shares at Rs.65/- in cash for every one share of Rs.100/- each fully paid-up and held by the remaining share holders of CPS.

Except as stated in the 'Objects of the Issue' in this Letter of Offer and save in respect of the property purchased or acquired or to be purchased or acquired in connection with the business or activities contemplated by the objects of the issue, there is no property which the Company has purchased or acquired or proposes to purchase or acquire which is to be paid for wholly or partly out of the proceeds of the present issue or the purchase or acquisition of which has not been completed on the date of this Letter of Offer, other than property in respect of which

- Contracts for the purchase or acquisitions were entered into in the ordinary course of business and the contracts were not entered into in contemplation of the issue nor is the issue contemplated in consequence of the contracts or
- The amount of purchase money is not material.

Except as stated in the Letter of Offer, the Company has not purchased any property in which any of its promoters and/ or directors have direct or indirect interest in any payment made thereof. The Company has no plans, at present, to acquire any running business out of the proceeds of this issue.

HBL NIFE POWER SYSTEMS LIMITED

C) Key Industry Regulation

Over the past few years, the Indian government has removed many of the barriers hindering the growth of Indian Industry. The remaining restrictions that perpetuate the lack of scale and poor operational and organizational performance of Indian manufacturers which discourage investment are being re-looked along with an enhanced emphasis being given to infrastructure.

Apart from all the corporate laws, local laws and other related regulations, the following are the key regulations in respect of the industry in India:

1. The Water (Prevention & Control of Pollution) Act, 1974.
2. The Air (Prevention & Control of Pollution) Act, 1981.
3. The Hazardous Wastes (Management of Handling) Rules, 1989.

Indian Environment Regulations:

The three major statutes in India that seek to regulate and protect the environment against pollution related activities in India are the Water (Prevention and Control of Pollution) Act, 1974, the Air (Prevention and Control of Pollution) Act, 1981 and the Environment Protection Act, 1986. The basic purpose of these statutes is to control, abate and prevent pollution. In order to achieve these objectives, Pollution Control Boards (PCBs) are vested with diverse powers to deal with Water and Air Pollution have been set up in each state. The PCBs are responsible for setting the standards for maintenance of clean air and water, directing the installation of pollution control devices in industries and undertaking investigations to ensure that industries are functioning in compliance with standards prescribed. These authorities also have the power of search, seizure and investigation if the authorities are aware of or suspect pollution. All industries and factories are required to obtain consent orders from PCBs, which are indicative of the fact that the factory or industry in question is functioning in compliance with the pollution control norms laid down. These are required to be renewed annually.

The management, storage and disposal of hazardous waste is regulated by the Hazardous waste Management Rules, 1989 made under the Environment Protection Act, 1986. Under these rules, the PCBs are empowered to grant authorization for collection, treatment, storage and disposal of hazardous waste, either to the occupier or the operator of the facility.

Others:

Besides the above the other laws affecting the business of the Company are Sales Tax, Excise, Customs duty, Income Tax etc.

D) History and Corporate Structure of HBL NIFE

a. History and Major Events

HBL Nife Power Systems Limited was originally incorporated in August 29, 1986 (Registration No.01-6745 of 1986-87) with registered Office at 8-2-601, Road # 10, Banjara Hills, Hyderabad 500 034 under the name and style of SAB NIFE Power Systems Limited by Dr. A J Prasad. It received the certificate to commence business on September 22, 1986. Hyderabad Batteries Limited (HBL) an entity of Dr. A.J. Prasad (Promoter) acquired the status of a co-promoter along with SAB NIFE AB, Sweden as the joint venture partner and financial collaborator. The Company was setup with an object to manufacture various types of batteries and electronic products. Commercial production commenced in August 1988.

SAB NIFE Power Systems Limited came out with a public issue of 30 Lacs Equity Shares of Rs. 10/- each at par (excluding the Stock Option issued to Employees) in February 1992 to part finance its expansion and diversification plans. In April, 2000 the Company merged with itself HBL Limited (one of the promoter of SAB NIFE Power Systems Limited) along with another associate company Pinaki Technologies Limited. The merger was with an objective of complementing the then existing product range and to establish a manufacturing facility for switch mode rectifiers at Kothur, Mahaboobnagar District Andhra Pradesh. Post merger in order to represent the new focus of the company it was renamed as HBL Nife Power Systems Limited

During 2001-02 the company acquired controlling interest in Compact Power Sources Private Limited, which was engaged in manufacturing of Cap Lamps and Batteries for mining industry. The said company was eventually amalgamated / merged with HBL Nife Power Systems Limited vide court order in February 2004.

Currently HBL Nife manufactures large capacity nickel cadmium batteries and power electronics equipment like rectifiers, battery chargers and uninterrupted power systems.

HBL Nife Power Systems Limited – Highlights

- A leading player in industrial and specialized batteries, DC Power Systems and other Electronic Products.
- A technology focused manufacturer of several ranges of specialized application batteries i.e. Nickel cadmium (Pocket, Fibre, and Sintered Plate), Silver Oxide Zinc, Lithium, Thermal, Lead Acid (VRLA, TUBULAR, LMLA) etc.
- The customer segment in India include Telecom, Railways, Defence, Power, non-conventional energy (solar), petroleum, oil and gas, uninterrupted power supply systems process and core industrial users.
- Products are exported to countries in Asia, Europe and the Americas. Exports are growing at over 40% with increasing business from existing markets / customers as well as from new territories.
- Apart from Batteries and DC Power Systems (chargers, distribution boards, etc.), the company has developed several advanced electronic products for Indian railways and reached an advanced stage for completion of defence electronics product development. The company has made substantial investments in process development for its core products as well as the new electronic products with exclusive specialist qualified man power for in-house Technology development.
- Development orders, approvals and release of commercial orders from railways and defence sectors for some of the signaling and electronic products of the Company has paved the way for additional increase in growth and major diversification in the next few years.
- With its country wide sales and effective service net work, the Company is one of the largest supplier in the booming telecom sector as well as for specialized alkaline application battery segments.

Focus Areas of Business

Presently, the thrust areas of the Company to which it caters are:

- Communications / Telecom
- Defence
- Railways
- Power
- Petroleum, Oil & Gas
- Non-Conventional Energy (Solar)
- Uninterrupted Power Supply Systems

HBL NIFE POWER SYSTEMS LIMITED

b. Main Objects of the Company

The Object Clause of the Memorandum of Association (MoA) of the Company enables it to undertake the activities for which the funds are being raised in the present Issue. Furthermore, the activities the Company has been carrying out until now is in accordance with the objects of the MoA. The main objects of the Company inter-alia are:

1. To Manufacture, assemble, purchase, import, export and otherwise deal in India or abroad in all types of cells, batteries, energy storage devices, conversion and generation devices, appliances, gadgets, equipments and products, including power packs, power supplies, generators, solar panels, chargers and sub-assemblies, components, parts and accessories thereof.
2. To manufacture, assemble, purchase, sell, import, export or otherwise deal in India or abroad in all electrical, electronic, electro mechanical and metallurgical appliances, devices and sub-assemblies, accessories, parts and components thereof.
3. To manufacture in India or abroad products based on electrolytic, electro-thermal and electro-chemical processes, including sintered products and products based on powder metallurgy technology.
4. To establish, provide, maintain an operate plants in India or abroad for the extraction, refining and electro-plating of metals and alloys by electrolytic processes.
5. To acquire, develop or supply engineering services, know-how, technology, process designs, patents, equipment, plant and machinery in India or abroad for the manufacture and/or supply of all kinds of energy systems, electric or electronic devices and also undertake the provisions of related technical, marketing and engineering consultancy services.
6. To buy, sell, manufacture, refine, manipulate, treat, prepare, import and export and deal in all kinds of chemical, industrial, medical, pharmaceutical and other preparations, substances, apparatus, and articles, compounds, cements, oil paints, pigments and varnishes, drugs, dyes and dye-wares, paint and colour grinders, spirits, alcohol and other alkaloids, synthetics and substitutes.
7. To design, manufacture, install, erect, repair, alter, amend, improve, maintain, remove, exchange, replace, import, export, sell, purchase, license, lease, hire-purchase and to act as agents in India or in any part of the world for all types of special purpose industrial machinery, products made-up of composite material, computer hardware, engines, equipment, components and its related accessories and services.
8. To undertake the designing and development of systems and application software either for its own use or for sale in India or for export outside India and to design and develop such systems and application software for or on behalf of manufacturers, owners and users of computer systems and digital/electronic equipments in India or elsewhere in the world.
9. To set up and run electronic data processing centers and to carry on the business of data processing, word processing, software consultancy, systems studies, management consultancy, techno-economic feasibility studies of projects, design and development of management information systems, share/debenture issues management and/or registration and share/debenture transfer agency.
10. To carry on the business of manufacturing, producing, generating power from all or any of the available sources such as Thermal, Hydel, Gas, Wind, Co-generation, Solar, Petroleum or from any other possible sources conventional or non-conventional and in particular to construct, lay, own, establish, fix and carryout all necessary power stations, cables, wire lines, accumulators, lamps and works and other elections whatsoever as may be necessary or required for generation, accumulation of power for captive consumption or for distribution, marketing, supplying of power in India or elsewhere to any of the industries, firms, electricity boards, government of semi government bodies, public or private companies and also for private or public purpose.
11. To act as a Export House and to carry on the business of merchants, traders, manufacturer's representatives, commission agents, selling agents, brokers and to export, import, indent, buy, sell or otherwise deal in all kinds of goods, products, articles, merchandise either manufacture by the company or otherwise.

The main objects clause and objects incidental or ancillary to the main objects clause of the Memorandum and Articles of Association of the Company enables the Company to undertake the existing activities and the activities for which the funds are being raised through the present issue.

c. Subsidiaries of the Company

The Company has 3 subsidiaries.

Bhagirath Energy Systems Private Limited, Sanagaon, Lalitpur, Nepal

The Company was incorporated in October 2001 and started commercial operation in the month of May 2002. Company is wholly owned subsidiary of HBL Nife Power Systems Limited. The Company was engaged in the business of execution of the orders placed by the holding company i.e. HBL Nife Power Systems Limited. The Board of Directors of the Company comprised of:

1. M S S Srinath
2. N Balasubrahmanyam

The Shareholding structure of this Company is as follows:

Category of Shareholder	% Holding
HBL Nife Power Systems Limited	100
Others	Nil

Audited Liquidators Accounts:

The Financial highlights of the last three years / periods are as follows:

Nepalese Rupees. in Lacs

Particulars	March 31, 2005	March 31, 2004	December 31, 2002
Total Income	-*	117.11	297.99
Profit After Tax/ (Loss)	-*	(31.16)	(10.75)
Share Capital	172.16	172.16	172.16
Reserves and Surplus	(43.90)	(38.95)	(10.75)
Earnings Per Share (in NPRs.)	-	-	-
Book Value (in NPRs.)	74.50	77.37	93.75
Face value per Share (in NPRs.)	100	100	100

* During the year 2004-2005, the Company has not functioned due to voluntary winding up proceedings, the liquidator was appointed w.e.f. March 16, 2004.

There are no litigations pending by or against the Company.

HBL Nife (UK) Limited, UK

The Company was incorporated as a private limited company by shares on April 30, 2002 with Company number 4427297. It commenced trading on June 14, 2002. The Company is engaged in the business of trading of batteries and systems. The Board of Directors of the Company comprise of:

1. Ms. Kavita Prasad
2. Robert Ian Deakin
3. Michael Thomas Duncely
4. S Mikkilineni
5. Ashok Nagarkatti

The Shareholding structure of this Company is as follows:

Category of Shareholder	% Holding
HBL Nife Power Systems Limited	100
Others	Nil

HBL NIFE POWER SYSTEMS LIMITED

Audited Financial Highlights:

The Financial highlights of the years / periods since incorporation are as follows:

In GBP (£)

Particulars	31 st March, 2005	31 st March, 2004	31 st March, 2003
Total Income	622,298	237,679	-*
Profit After Tax / (Loss)	74,409	(60,019)	(14,111)
Share Capital	47,000	47,000	1,000
Reserves and Surplus	278	(74,130)	(14,111)
Earnings Per Share (in)	1.58	-	-
Book Value (in)	1.01	-	-
Face value per Share (in)	1.00	1.00	1.00

* During the year 2002-2003, the Company has not recorded any Revenues.

The Litigations by and against the company are mentioned under Litigations on Page No. 132 under Outstanding Litigations and Material Developments.

HBL Nife (M) Sdn. Bhd., Malaysia

(formerly known as HBL Technologies (M) Sdn .Bhd.)

The Company was incorporated in with company no. 486701 H on June 23, 1999 in Malaysia. The Company is engaged in the business of Manufacturing of Nickel batteries. The Board of Directors of the Company comprise of:

1. Kamaluddin Bin Saidon
2. M S S Srinath
3. Kavita Prasad
4. Partha Pratim Paul

The Shareholding structure of this Company is as follows:

Category of Shareholder	% Holding
HBL Nife Power Systems Limited	80
Kamaluddin Bin Saidon	20

Audited Financial Highlights:

The Financial highlights of the last three years are as follows:

Malaysian Ringitts (RM)

Particulars as on	March 31, 2005	March 31, 2004	March 31, 2003 [^]
Total Income	5,56,119	12,089	-*
Profit After Tax / (Loss)	(119,434)	(143,985)	(12,784)
Share Capital	200,000	200,000	2
Share Application Money	-	-	33,862
Reserves and Surplus	(283,668)	(164,234)	(20,249)
Earnings Per Share (in RM)	(0.60)	-	-
Book Value (in RM)	-	0.28	-
Face value per Share (in RM)	1.00	1.00	1.00

* During the year 2002-2003, the Company has not recorded any Revenues.

[^] The company became a subsidiary during the Financial Year 2003-04.

There are no litigations pending by or against the Company.

Shareholders Agreement

The Company confirms that no shareholders agreement exists.

Other Agreements

Other than as stated in the Letter of Offer, and the agreements entered into in the ordinary course of the business carried on or intended to be carried on by the Company, the Company has not entered into any other Agreement / Contract. However, the Promoters of the Company have submitted an Undertaking with BSE dated October 18, 2005 wherein it is contemplated to renounce 7,00,000 Equity Shares out of the proposed rights issue to the following investors:

Name of the Renounee	No. of Shares to be renounced
Reliance Infrastructure Limited	5,00,000
Jet Age Securities Limited, Kolkata	2,00,000
Total Renouncement by Promoters as per the above undertaking	7,00,000

Strategic Partners / Financial Partners

The Company currently has no strategic partner / financial partner.

HBL NIFE POWER SYSTEMS LIMITED

E) Management

a. Board of Directors

The Company is managed by a Board of Directors comprising qualified and experienced professionals.

Name, DoB, Address, Occupation, Date of appointment and expiry of the current term	Other Directorships & Partnerships
<p>Dr. A. J. Prasad - Chairman & Managing Director Son of Mr. AMV Prasad Row DoB: November 3, 1945 (60 Years) 8-2-601, Road No.10, Banjara Hills, Hyderabad – 500 034 Occupation: Business Date of Appointment: June 1, 2003 Expiry of Current Term: May 31, 2008</p>	<p>Beaver Engineering Limited HBL Elta Avionics Systems Private Limited</p>
<p>Mr. Ashok Nagarkatti - Director Son of Mr. Surendranath Nagarkatti DoB: May 20, 1950 (55 Years) Flat No. 53, Maheshwari Residency, Adarsh Nagar, Hyderabad - 500 029 Occupation: Employment Date of Appointment: April 1, 2005 Expiry of Current Term: March 31, 2010 (Subject to retire by rotation in AGM 2005-06)</p>	<p>Kairos Engineering Limited HBL Nife (UK) Limited, UK</p>
<p>Mr. Poruri Ganapati Rao - Director Son of Mr. PVR Koteswaram DoB: September 1, 1955 (50 Years) H. No. 2-2-12/2, Flat No. 401, Bindu Residency DD Colony, Hyderabad - 500 034 Occupation: Chartered Accountant Date of Appointment: April 25, 2005 Expiry of current term: Annual General Meeting 2008-09</p>	<p>Nil</p>
<p>Dr. Bernd T Gans - Director Son of Mr. Edmand O Gans DoB: December 15, 1940 (65 Years) Heinrich Marschner, STR 38 B 85591, Veterstetten, Germany Occupation: Employment Date of Appointment: September 23, 2004 Expiry of current term: Annual General Meeting 2007-08</p>	<p>Nil</p>
<p>Ms. Kavita Prasad - Director Daughter of Dr. A.J. Prasad DoB: December 11, 1971 (34 Years) 8-2-601, Road No.10, Banjara Hills, Hyderabad - 500 034 Occupation: Business Date of Appointment: May 11, 2000 Expiry of current term: Annual General Meeting 2007-08</p>	<p>Beaver Engineering Limited Kairos Engineering Limited HBL Nife (M) Sdn. Bhd.HBL Nife (UK) Limited, UK</p>
<p>Dr. (Ms.) Desai Chitra Rao - Director (IDBI Nominee) Daughter of MK Narayana Sharma DoB: July 14, 1950 (55 Years) Quarter No. 1, JNIDB, Gachibowli, Hyderabad - 500 019 Occupation: Employment with IDBI Date of Appointment: May 13, 2003 Expiry of current term: Not liable to retire by rotation</p>	<p>Nil</p>

Details of Borrowing Powers

The Shareholders at the Annual General Meeting held on September 23, 2004 had approved and authorised The Board of Directors of HBL Nife Power Systems Limited under section 293(1) (d) of the Companies Act, 1956 to borrow money from time to time up to a limit not exceeding in aggregate an amount of Rs. 100 Crores (Rupees One Hundred Crores Only) notwithstanding that the money to be borrowed by the Company together with the money already borrowed by the company (apart from temporary loans obtained from the Company's bankers from time to time in the ordinary course of business) will exceed the aggregate of the paid up capital of the Company and its free reserves i.e. to say reserves not set apart for any specific purpose.

Brief Profile of Executive Directors

Dr. A. J. Prasad, Chairman & Managing Director of the company is a Graduate in engineering from IIT Kharagpur and has a master degree in management from the Massachusetts Institute of Technology, and a Doctorate from Columbia University in International Business. He has substantial experience in teaching (at Administrative Staff Collage of India and Abroad) and is an expert in Technology management. He promoted Hyderabad Batteries Private Limited in 1977 as a small-scale industry for the manufacture of batteries for industrial use. After years of research, he has developed technology for batteries especially Silver Zinc Batteries for use in Defence, Industry, Railways and electricity boards. In 1986 he promoted SAB NIFE Power Systems Limited in collaboration with SAB NIFE AB, Sweden for the manufacturing of Nickel Cadmium Pocket Plate Batteries. Later HBL Limited was merged with SAB NIFE Power Systems Limited thereby making the entity a complete solution provider of specialized batteries for the various applications and related electronics.

Mr. Ashok Nagarkatti, Director-battery technology of the company is a Master in Chemical Engineering from IIT, Mumbai. He worked as Senior Scientific Assistant in regional research laboratory, Hyderabad during the year 1973-74, then worked as Senior Scientific Officer in DRDL. He Joined Hyderabad Batteries Private Limited in 1981 and designed and developed various specialized batteries and looked after technical activities for the development and manufacture of maintenance free lead acid batteries, Lithium Thionyl Chloride Batteries, Nickel Cadmium Aircraft Batteries, Reserve Silver Oxide Zinc Missile and Torpedo Batteries, Carbon Zinc Batteries, etc. From 1987 to till date he is an executive director of HBL Nife Power Systems Limited looking after technical aspects of the Company.

Ms. Kavita Prasad, Director of the Company is a Graduate in Commerce and did a postgraduate diploma from NIIT in computer application.

Dr. Bernd T Gans, Director of the Company was Vice-president (Merger & Acquisitions) of M/s. Daimler Chrysler, Stuttgart, Germany and has vast experience in the field of Mergers & Acquisitions.

Mr. P. Ganapati Rao is appointed as an Additional Director of the Company w.e.f April 25, 2005 and is a practicing Chartered Accountant, partner in M/s. CKS Associates, a leading Chartered Accountancy firm in Hyderabad.

Dr. (Ms.) D Chitra Rao is Nominee Director of IDBI; she is a Senior Manager of IDBI and serving as Director of IDBI's Jawaharlal Nehru Institute of Development Banking, Gouchibowli, Hyderabad

b. Compensation of Managing Directors / Whole Time Directors

Details of Compensation paid and benefits in kind granted to the Managing Director and Whole Time Director are as follows:

1. Dr A J Prasad
2. Mr. Ashok Nagarkatti

The terms and conditions governing the reappointment of Dr A J Prasad, as per the resolution passed by the shareholders on August 23, 2003; Mr. Ashok Nagarkatti Board of Directors Approval on March 25, 2005 (ratified by Shareholders in AGM 2004-05 on September 24, 2005) laying down the principal terms and conditions set out below

The breakup of remuneration paid to Whole time Directors is as follows:

Name of Director & Designation	Period of appointment	Salary	Perquisites & Allowances
Dr A J Prasad Chairman and Managing Director	June 1, 2003 - May 31, 2008	6,00,000 per annum + Commission+ Royalty	House Rent Allowances or Provision of House Accommodation subject to a maximum monthly rent at 60% of the basic salary over and above 10% payable by the Managing Director The Expenditure incurred by the company on gas, electricity, water and furnishing will be valued as per the Income Tax Rules, 1962. This shall however be subject to a ceiling of 10% of the Salary.

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Name of Director & Designation	Period of appointment	Salary	Perquisites & Allowances
			<p>Leave Travel Allowance: Actual traveling expenses incurred for self and dependents, not exceeding one month basic salary for every year of service.</p> <p>Medical Reimbursement: Membership or the subscription paid to any hospital and/or doctor's schemes or an insurance company in India, an all hospital and medical expenses incurred for self and family subject to ceiling of one month's salary in a year or five month's salary over a period of five years.</p> <p>Club Fees: Fees of clubs subject to maximum of two clubs, excluding admission and the life membership fees.</p> <p>Personal Accident Insurance: Premium not to exceed Rs. 4,000 per annum. Companies Contributions to Provident Fund and Superannuation fund to the extent of either singly or put together are not taxable under the Income Tax Act. Gratuity payable shall not exceed half a month's salary for each completed years of service.</p> <p>Encashment of Leave at the end of the tenure will not be included in the computation of perquisites.</p> <p>The company shall provide a car with driver and telephone facility at the residence of the managing director. Provision of a car with driver for use on company's business and telephone facility at the residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the company to the managing director.</p> <p>Notwithstanding anything contained above, where, in any financial year during the currency of tenure of managing director, the company has no profits or its profits are inadequate, it may pay the managing director remuneration by way of salary and perquisites not exceeding the limits specified above as minimum remuneration under section II of Part II of Schedule XIII of the Companies Act, 1956. he is entitled to leave on full pay and allowances as per the rules of the company.</p> <p>The Appointment is subject to termination with a notice of 6 months from either side. Commission subject to overall limits laid down in section 198 and 309 as percent of profits of the Company for the year calculated as: Numerical value of percentage of commission shall be half of the numerical value of the EPS for the year.</p>
<p>Mr. Ashok Nagarkatti Director</p>	<p>April 1, 2005 - March 31, 2010</p>	<p>7,14,480/- per annum;</p> <p>City Compensatory Allowance: Rs.12,000/- per annum</p>	<p>House Rent Allowances or Provision of House Accommodation subject to a maximum monthly rent at 50% of the basic salary.</p> <p>Local Conveyance for official duties will be reimbursed by the company not exceeding Rs. 90,000 per annum</p> <p>Leave Travel Allowance: Actual traveling expenses incurred for self and dependents, not exceeding one-month basic salary per annum</p>

Name of Director & Designation	Period of appointment	Salary	Perquisites & Allowances
			Reimbursement of Medical Expenses incurred by self and dependents not exceeding Rs. 15,000/- per annum Magazine Allowances for purchase of magazines by the employee not exceeding Rs 30,000/- per annum. Reimbursement of a servant salary to be appointed at home not exceeding Rs. 3000/- per month. Company's contribution to Provident Fund and Gratuity as per the rules of the Company. Provision of Car for use on company's business and a telephone at residence will not be considered as perquisites.

Besides the above Dr. A.J. Prasad is in receipt of Royalty @ 3% of the Sales of Silver Zinc and Silver based batteries as per the terms of the agreement approved by Shareholders in the Annual General Meeting held on September 29, 2004.

Non-Whole time Directors

Non-executive Directors are currently paid sitting fees of Rs. 1,000/- for attending each meeting of the Board / committees.

c. Compliance with Corporate Governance Requirements:

Good corporate governance is a pre-requisite for enhancing shareholder's long-term value. The company's policies and practices are aimed at efficient conduct of business and effectively meeting its obligations to shareholders. HBL Nife has been consistently improving transparency and accountability to all its shareholders. The Company complies with the current requirements relating to corporate governance, under the Listing Agreement entered into with the Stock Exchanges. HBL Nife firmly believes that good corporate practices underscore its drive towards competitive strength and sustained performance. These practices are also powerful tool for building trust and long-term relationship with stakeholders of the Company. Company's thrust on transparency, integrity, accountability and disclosure has enabled it to accomplish best Corporate Governance practices.

I. Composition of the Board of Directors

The Board of Directors of the Company consists of 6 directors and has an optimum combination of executive and non-executive Directors as envisaged in Clause 49 of the Listing Agreement. Accordingly not less than 50% of the Board of Directors comprises of non-executive and independent Directors. The company has three non-executive directors on the board.

The Composition of the Board of the Directors, as on date, is given below:

Sr. No	Name	Representing	Type of Directorship*
1.	Dr A J Prasad	Promoter	Chairman & Managing Director
2.	Mr. Ashok Nagarkatti	Non-promoter	Executive Director
3.	Mr. Poruri Ganapati Rao	Independent	Director
4.	Dr. Bernd T Gans	Independent	Director
5.	Ms. Kavita Prasad	Non-Independent	Director
6.	Dr. (Ms.) Desai Chitra Rao	Independent	Nominee Director

* As per Clause 49 of the Listing Agreement

II. Audit Committee

Audit Committee constituted by Board of Directors consists of 3 directors, all of them being Non-executive and 2 of them being independent Directors. The Audit Committee provides directions to and reviews functions involving Accounts, Finance and Audit. The Committee evaluates internal audit policies, plans, procedures and performance and reviews the other functions through various internal audit reports and other year-end certificates issued by the statutory auditors. Quarterly and Annual Accounts will be reviewed by the Audit Committee, prior to their presentation to the Board along with the recommendations of the Audit Committee. Besides, Audit Committee will be authorized to exercise all such powers as are required under the amended Clause 49 of the Listing Agreement.

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Composition of Audit Committee:

Sr. No	Name of the Director	Designation	Nature of Directorship
1.	Mr. Poruri Ganpati Rao	Chairman	Independent Director
2.	Ms. Kavita Prasad	Member	Non-Independent Director
3.	Dr. (Ms.) Desai Chitra Rao	Member	Independent Director

The Audit Committee met 4 times during the course of this financial year ended on March 31, 2005 on June 28, 2004, July 28, 2004, October 21, 2004 and January 24, 2005. Further the committee has met 4 times during the current financial year 2005-06 till January 31, 2006.

The scope of the Audit Committee in companies is defined under Clause 49 of the Listing Agreement dealing with Corporate Governance and the provisions of the Companies Act, 1956. The broad terms of reference are:

- Reviewing with the management the internal control systems, observations of the auditors, half-yearly and annual financial statements before submission to the Board.
- Recommendation of matters relating to financial management and audit reports;
- The Committee is authorized to investigate into matters referred /delegated to it by the Board and, for this purpose, has full access to information / records of the Company including seeking external professional support, if necessary.

III. Remuneration of Directors

Details of remuneration paid / payable to directors for the financial year ended March 31, 2005 are as follows:

Rs in Lacs

Director	Loans and Advances from the Company	Sitting Fees#	Salary and Perquisites	Commission/ Royalty/ Others	Total
Dr A J Prasad	Nil	Nil	11.09	128.36	139.45
Mr. Ashok Nagarkatti	Nil	Nil	9.84	Nil	9.84
Mr. M.S. Ramakrishnan^	Nil	0.09	Nil	Nil	0.09
Dr. Bernd T Gans	Nil	Nil	Nil	Nil	Nil
Ms. Kavita Prasad	Nil	0.14	Nil	2.40	2.54
Dr. (Ms.) Desai Chitra Rao	Nil	0.13	Nil	Nil	0.13
Mr. P.Satish Kumar*	Nil	Nil	6.05	Nil	6.05

Includes sitting fees paid for Committee Meetings

^ Resigned w.e.f. April 25, 2005

* Resigned w.e.f November 30, 2005

IV. Board Procedures

The board of directors met on 10 times during the financial year ended on March 31, 2005 namely April 29, 2004; June 28, 2004; July 30, 2004; September 13, 2004; September 23, 2004; October 21, 2004; December 22, 2004; January 8, 2005; January 24, 2005 and March 25, 2005. The Company had more than 4 board meeting during the year, with a maximum time gap of four months between two meetings. For the current Financial Year 2005-06 the Company Board of Directors met 9 times as on January 31, 2006.

The Company confirms that all material information has been disclosed to the Board of Directors. Also, the Report of Corporate Governance certifies that the requirement of Board procedures have been complied as per Clause 49 of the Listing Agreement entered into with Stock Exchanges.

V. Management

The Management Discussion and Analysis report forms part of the annual report to the shareholders. This Management Discussion & Analysis includes discussion on the matters within the limits set by the company's competitive position and specified under Clause 49 of the listing agreement.

VI. Shareholders

The Company has declared the Quarterly results with in the expected time and the same have been reported to the Stock Exchanges as per the Listing Agreement. The Un-audited quarterly results were declared on the following dates and published in the national dailies and news papers as per Clause 49 of the Listing Agreement.

April 1, 2004 to June 30, 2004	July 30, 2004
July 1, 2004 to September 30, 2004	October 21, 2004
October 1, 2004 to December 31, 2004	January 24, 2005
Audited for FY-2004-05	June 29, 2005

Besides the Company has declared the following unaudited results for the current financial year 2005-06

April 1, 2005 to June 30, 2005	July 28, 2005
July 1, 2005 to September 30, 2005	October 28, 2005
October 1, 2005 to December 31, 2005	January 30, 2005

Investors Grievance Committee

A board committee under the chairmanship of a non-executive director has been formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee is designated as 'Shareholders/Investors Grievance Committee. The Committee inter alia, approves the transmission / transfer of shares, issue of new / duplicate share certificates & oversees and reviews all matters connected with the Securities transfer.

Quarterly results of the company are updated on company's website and are sent to the stock exchange on which the company is listed to put it on its own website.

Composition of Shareholders/ Investors Grievance Committee

Sr. No	Name of the Director	Designation	Nature of Directorship
1.	Ms. Kavita Prasad	Chairperson	Non-Independent Director
2.	P. Ganapathi Rao	Member	Independent
3.	Dr. D. Chitra Rao	Member	Independent (Nominee Director)

The committee is constituted in terms of the mandatory requirement of Clause 49 of the Listing Agreement to look into the redressal of grievances of investors like non receipt of share certificates, non-receipt of balance sheet, non-receipt of dividend warrants etc. During the financial year 2005-06, the company received 88 complaints from shareholders, all of which stand resolved as on March 31, 2006.

VII. Report on Corporate Governance

The company has a separate section on Corporate Governance in the annual report, with a detailed compliance report on Corporate Governance and the same forms part of the Annual Report sent to the shareholders.

VIII. Compliance

The Company has obtained the Compliance Certificate from the Auditors of the Company dated June 29, 2005 certifying compliance of conditions of corporate governance as stipulated in Clause 49 of the Listing Agreement and has been filed along with the Annual return to the Stock Exchanges. Also, the said Compliance certificate forms part of the Annual Report sent to all the shareholders.

Compliance with Listing Agreement

The Company is, listed on BSE and HSE and has complied with the requirements under the respective Listing Agreement of the above-mentioned stock exchanges other than the continuous listing requirement of minimum 25% public shareholding. It has paid the requisite annual listing fee to the BSE and HSE for the period 2005-2006. Also no disciplinary action has been initiated by the Stock Exchanges or SEBI against HBL Nife Power Systems Limited or Directors.

HBL Nife currently is not meeting the conditions for continuous listing and the minimum public shareholding is less than the prescribed minimum of 25%.The following Equity Shares of the Company are awaiting Listing on the Stock Exchanges due to non-compliance with the minimum public shareholding criterion

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No. of Equity Shares	Details	Issued in	% of Pre Issue Equity Share Capital
11,02,430	Conversion of preferentially allotted share warrants (net of cancellation of 2,466,270 Equity Shares consequent to merger)	May 1999	4.99%
1,25,38,593	Merger Scheme passed by Honorable High Court of Andhra Pradesh for merger of (net of cancellation of 15,31,900 Equity Shares) HBL Limited with the Company	March 2000	56.81%
20,00,000	Preferential Allotment	October 2005	9.06%
1,56,41,023	Total	-	70.86%

The current rights issue and the accompanied renunciation by the promoters shall result in the post issue shareholding pattern meeting the requirements of clause 40A of the listing agreement.

d. Shareholding of Directors

Shareholding and Other Details of Directors of the Company

Sr. No.	Name	Shares as on December 31, 2005	Compensation Paid as on September 30, 2005 (Rs. in Lakhs)	Service Contracts	Other Benefits as on September 30, 2005 (Rs. in Lakhs)
1.	Dr A J Prasad	1863340	3.36	5 Years	*
2.	Mr. Ashok Nagarkatti	1500	5.54	5 Years	0.05
3.	Ms. Kavita Prasad	403435	-	-	1.20 (Rent)
4.	Mr. P. Satish Kumar	10445	3.93	#	-

The other directors do not hold any Equity Shares.

* Commission as a percent of Net Profits shall be provided based on the profits computed as at the end of financial year. Also, the royalty is payable on yearly basis

resigned as director w.e.f. November 30, 2005

Shareholding and Other Details of Directors of the Company

Sr. No.	Name	Shares as on December 31, 2005	Compensation paid p.a. for FY 2004-05 (Rs. in Lakhs)	Service Contracts	Other Benefits for FY 2004-05 (Rs. in Lakhs)
1.	Dr A J Prasad	1863340	11.09	5 Years	128.36 (Commission and Royalty)
2.	Mr. Ashok Nagarkatti	1500	9.84	5 Years	Nil
3.	Ms. Kavita Prasad	403435	-	-	2.40 (Rent)

The other directors do not hold any Equity Shares.

Qualification Shares required to be held by Directors

The Articles of Association do not provide for any qualification shares to be held by the Directors. The other directors do not hold any Equity Shares

e. Interest of Directors

All the directors may be deemed to be interested to the extent of the sitting fees and other remuneration for the services rendered and the reimbursement of expenses, if any, payable to them under the articles. The directors may also be deemed to be interested to the extent of:

- a. The shares, if any, held by them or by the relatives or by firms or companies of which any of them is a partner and a director/member respectively. The shares, if any, out of the present issue that may be subscribed for and allotted to them or their relatives or any company in which they are directors/members of, to firms in which they are partners.
- b. Remuneration of Managing / Whole time Directors
- c. Benefits mentioned in the Letter of Offer and covered by the terms of the contract
- d. Renunciation premium if any received by the promoters on renunciation of their rights entitlement in order to meet the continuous listing requirements.
- e. In addition specifically the following are relevant:
 - i. Dr. A. J. Prasad is entitled to payment of royalty at 3% of the sales value of the silver zinc and silver based batteries and was paid 49.32 lakhs from April 1, 2004 till March 31, 2005
 - ii. Rent of Rs. 30,000 per month to Ms. Kavita Prasad for the Company taking on lease the premises at Sy.no.26, Kubera Towers, Trimulgherry, Secunderabad - 500 015
 - iii. Mr. MSS Srinath who is currently designated as 'president' is a son-in-law of Dr. A .J. Prasad the Promoter, Chairman and Managing Director of the Company

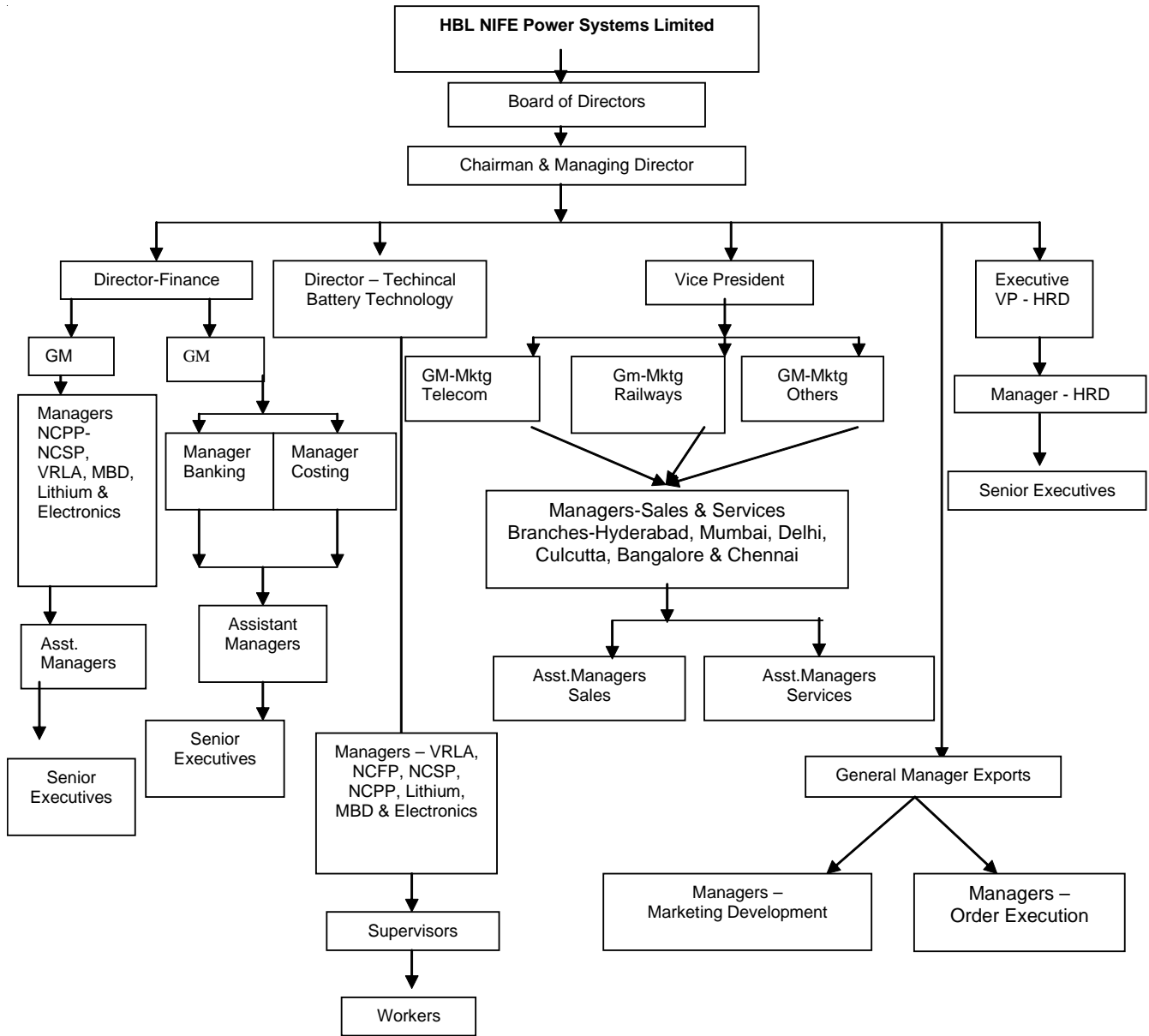
Particulars of nature and extent of the interest of every director in any property acquired within two years of the date of Letter of Offer or proposed to be acquired. Nil, however, the Company had amalgamated one of its subsidiary Compact Power Systems Limited by way of the Hon. High Court Order of Andhra Pradesh dated February 27, 2004 with itself and transferred the Machinery to existing factory. Prior to the merger the company held 61% in the company and the balance shareholding was held by Beaver Engineering Limited (31%-holding company and Promoter of HBL Nife Power Systems Limited) and Ms. Uma Devi (8%-wife of Dr. A.J. Prasad, Promoter of HBL Nife Power Systems Limited Dr. A.J. Prasad).

f. Changes in the Board of Directors during the Last Three Years

Name	Date of Appointment	Date of Resignation	Reason
Mr. L C Gangrade	May 11, 2000	July 30, 2004	Resigned
Gp. Capt. D Venkateswarlu (Retd.)	August 23, 2003	July 30, 2004	Resigned
Mr. T T Srinath	July 31, 2002	April 29, 2004	Resigned
Mr. U M Rao	May 11, 2000	August 23, 2003	Resigned
Mr. D Balasundaram	January 25, 1999	August 23, 2003	Resigned
Mr. M S Ramakrishnan	January 22, 2000	April 25, 2005	Resigned
Mr. Poruri Ganapati Rao	April 25, 2005	-	Appointed
Mr. P. Satish Kumar	January 31, 2002	November 30, 2005	Resigned and appointed as CFO

HBL NIFE POWER SYSTEMS LIMITED

g. Management Organisation Structure



h. Key Management Personnel

As on December 31, 2005 HBL Nife Power Systems Limited employees 1675 personnel's in the various capacities in addition to around 1000 contract labour. The key personnel who head all business units and management functions possess adequate qualifications and experience in their fields. The summarized data on existing Managerial personnel is given below:

Sr. No.	Name of the Employee	Qualification	Designation/ Nature of Duties	Age	Compensation Paid PA in Lakhs	Date of Joining	Total Experience	Last Employment and Designation
1	M.Raghavendra Reddy	B.E	D.G.M , Alkaline batteries Production incharge	37	4.80	8-Oct-90	15	Started career with the Company
2	P.H.Kameshwara Rao	B.E	D.G.M after sales and Service	41	5.40	30-Sep-91	18	Renewable Energy
3	S.Viswanathan	M.Sc (Che.)	D.G.M, Production Submerian Batteries	54	4.75	10-May-99	30	IndoDutchMetallo
4	T.Venu Gopal	M.Tech	D.G.M	44	5.40	17-Jun-98	22	Engine Valves Ltd
5	A.V.Rama Murthy	B.E	Manager-Marketing	41	5.04	13-Aug-02	20	Jevan Softtech, GM
6	P.Chandra Sekhar	B.Tech	D.G.M Production	46	5.50	24-Jun-02	22	IDL Industries Ltd
7	Y.Ram Kumar	M.Sc	D.G.M	51	4.60	29-Aug-86	26	Wockhart Ltd
8	Tarun Nanda	B.Com	GM	37	6.00	23-Dec-04	17	Surana Group
9	A.K.Sridharan	B.tech	Vice President-Production	56	6.00	11-Mar-02	35	Aquagel Chemicals Pvt Ltd
10	Evani Sudhakar	B.Sc,FCA, ACS	G.M. Finance & Company Secretary	46	8.00	19-Jul-05	22	Independent Consultant
11	Dr.R.Janakiraman	M.Sc Phd	G.M -R&D	57	5.40	12-Jun-00	36	Crompton Greaves Ltd
12	Dr.N.Devarajan	B.E,M.Sc Phd	Vice President	63	4.80	31-May-42	40	
13	V.S Gopalam	AMIE	Manager-Development	50	5.30	4-Jun-98	28	RES Ltd
14	G.Srinivas	B.Sc, MBA	Addl.G M-IBD	56	5.76	23-May-02	29	Dewan Group Nibus
15	P.V Reddy	B.com, MBA	Addl.G M-IBD	45	6.24	1-Aug-90	15	Started career with the Company
16	M.Kumara Raja	B.Com ,MBA	General Manager - Marketing	46	5.90	22-May-90	22	Garur Express courier service
17	Avnish Arora	B.E, MBA	General Manager	39	6.10	4-May-98	17	Accent Controls Ltd
18	K.Mahidar	B.Com,ACA	General Manager-Accounts	49	6.60	17-Feb-97	27	Sai raja systems Ltd - Manager Finance
19	VijayaBeri	B.Com (Hons)	Vice President	46	10.00	1-Aug-04	22	Delata Wellace Tech Ltd
20	M.S.S.Srinath	B.A (honours)	President	35	5.00	26-Sep-97	14	Karvy Consultants Ltd
21	Zubian Hussain	B.Sc,MBA	General Manager	45	6.12	26-Dec-83	22	Started career with the Company
22	P.S Prasad	B.Sc	General Manager	40	4.80	2-Dec-02	24	Aventel Software Ltd

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Sr. No.	Name of the Employee	Qualification	Designation/ Nature of Duties	Age	Compensation Paid PA in Lakhs	Date of Joining	Total Experience	Last Employment and Designation
23	Subodh Kumar	M.Sc(Tech)	General Manager	53	7.80	22-Jun-05	29	Tropicana Enterprises Pvt Ltd, D.G.M
24	R.K.Gopal Nanduri	M.Tech	General Manager	42	6.00	7-Jul-05	22	E.C.E Industries Ltd All India Marketing Manager
25	P. Satish Kumar	B.Com, FCA	Chief Finance Officer	45	6.05	1-Dec-05	20	Director Finance, HBL Nife
26	V Natraj	M.Sc	Manager-Marketing	35	4.32	1-Aug1-69	13	
27	P Srinivas Rao,	B.Tech	D G M – Purchase	35	4.00	30-Jun-69	7	Pennar Profile-Sr. Engineer
28	N Bala subramanyam,	PUC	G M – Commercial	51	4.59	21-May-53	27	Hyderabad Engineering Works Typist cum Clerk
29	T Sathyanarayana	B.Com	GM– RSWC Division	43	5.49	3-Mar-62	12	Advanced Data Systems Marketing Manager

The persons whose names appear as key management personnel are on the rolls of the Company as permanent employees. There is no arrangement or understanding with major shareholders, customers, suppliers or others pursuant to which any person was selected as director or member of senior management. None of the key managerial personnel have any relationship with the promoters or directors of the company other than Mr. M S S Srinath who happens to be the son in law of Dr. A.J. Prasad the Chairman and Managing Director.

Shareholding of Key Managerial Person as on December 31, 2005

Name	Number of Shares
P V Reddy	100
M Raghavendra Reddy	100
M Kumaraja	900
M S S Srinath	109690
P. Satish Kumar	10445
K.Mahidar	500

Besides the above no key management personnel hold any equity shares in the company.

Changes in the key managerial personnel in the last one year:

Name	Designation	Date of Appointment (Resignation)
P. Satish Kumar	Chief Financial Officer	December 1, 2005
V. Appa Rao	General Manager Finance and Accounts	(August 10, 2005)
Evani Sudhakar	General Manager Finance and Company Secretary	July 19, 2005

Bonus / Profit Sharing of key Managerial personnel:

Except the payment of salaries and perquisites, the company provides other benefits to the employees that are uniform to all the employees of the company and performance based ex-gratia payments.

i. Employees

The company as on December 31, 2005 has 1675 employees on its rolls out of which 819 are Managerial, 856 are supervisor cadre and production staff. Further it employs around 1000 labourers / workers on contract basis.

j. Employee stock option scheme

The Company does not have any Employee stock option plan.

k. Other benefits to Officers of the Issuer Company

Except the payment of salaries and perquisites, the company provides other benefits to the employees that are uniform to all the employees of the company including subsidised food and transportation facility etc. and performance based ex-gratia payments.

HBL NIFE POWER SYSTEMS LIMITED

F) Promoters

a. Individuals

Name and Age	Qualification and Experience	Directorships Held	Identifications	Photograph
Dr. A. J. Prasad (A.J.Prasad) (60 years)	Post-Graduate in Mechanical Engineering	Beaver Engineering Limited HBL Elta Avionics Systems Private Limited	Driving Licence No.: 00091/ 1/200012 (Valid upto 11.12.2005) Passport No.: Z 1253155 PAN: ACCPA1362B	

The Permanent account number, Bank account number and passport number have been submitted to the stock exchanges on which securities are proposed to be listed at the time of filing the Draft Letter of Offer with them.

There are no litigations, disputes towards tax liabilities or criminal / civil prosecution / complaint against Dr. A.J. Prasad, however: he was detained in USA in the October 1995 in a case of mistaken identity. He was offered a nolocontendere (no contest), along with a fine of US\$ 3,000 in return for being free to come back to India in December 1996 that was accepted and no offence has been admitted or proved in any court of law. In lieu of the above settlement Dr. A.J. Prasad as an individual is not entitled to any export licence for munitions list items from USA and travel to USA till December, 2006.

b. Companies

Beaver Engineering Limited

The Company was incorporated on March 30, 1992. It became a public limited company under section 43(A)/(1B) w.e.f July 1, 1992. The Registration number of the Company is 01-14050 of 1991-92. The company is an investment company and is one of the Promoters of HBL Nife Power Systems Limited. The Board of Directors comprises of Dr. A.J. Prasad, Ms. Kavita Prasad, Ms. Uma Devi, Mr. G.V. Rajiv, Mr. P. Satish Kumar and M.S.S. Srinath. The Registered Office of the Company is located at 8-2-601, Road No. 10, Banjara Hills, Hyderabad -500 034. The Permanent Account Number of the company is AAACB8206E.

The shareholding structure of this Company is as follows:

Name of the Shareholders	% Holding
Dr. A.J. Prasad	80.55%
Ms. Uma Devi	10.40%
Ms. Kavita Prasad	8.92%
Mr. D. Balasundaram	0.03%
Mr. P. Satish Kumar	0.03%
Mr. M. S. S. Srinath	0.03%
Mr. K.V. Ramalinga Reddy	0.03%
Total	100.00%

Financial Highlights

The Audited financial highlights for the last 3 years are as follows:

Rs. in Lacs

Particulars	March 31, 2005	March 31, 2004	March 31, 2003
Total Income	179.12	207.49	8.83
Profit After Tax	167.41	138.48	(13.31)
Share Capital	29.04	29.04	29.04
Reserves and Surplus	587.61	420.20	281.72
Earnings Per Share (in Rs.)	57.64	47.68	(4.58)
Book Value (in Rs.)	212.32	154.68	107.00
Face Value per Share (in Rs.)	10/-	10/-	10/-

There has been no change in management of Beaver Engineering Limited. The Company Registration Number, Permanent Account Number, Bank Account Number and the address of Registrar where Beaver Engineering Limited is registered have been submitted to the stock exchange on which securities are proposed to be listed at the time of filing the Draft Letter of Offer.

There are no litigations, disputes towards tax liabilities or criminal / civil prosecution / complaint against the promoter other than as mentioned in this Letter of Offer.

c. Common pursuits

There are no common pursuits amongst HBL Nife and other group companies since no other entity is engaged in the line of activity in which company is engaged. The subsidiaries of the company are either component suppliers or are marketing offices working in tandem with the policies of HBL Nife.

d. Interest of promoters

There are no interests of Promoters or payment or benefit to Promoters/ Directors except as mentioned in the Letter of Offer.

All the directors may be deemed to be interested to the extent of the sitting fees and other remuneration for the services rendered and the reimbursement of expenses, if any, payable to them under the articles. The directors may also be deemed to be interested to the extent of:

- a. The shares, if any, held by them or by the relatives or by firms or companies of which any of them is a partner and a director/member respectively. The shares, if any, out of the present issue that may be subscribed for and allotted to them or their relatives or any company in which they are directors/members of, to firms in which they are partners.
- b. Remuneration of Managing / Whole time Directors
- c. Benefits mentioned in the Letter of Offer and covered by the terms of the contract
- d. Renunciation premium if any received by the promoters on renunciation of their rights entitlement in order to meet the continuous listing requirements.

Particulars of nature and extent of the interest of every director in any property acquired within two years of the date of Letter of Offer or proposed to be acquired: Nil, however, the Company had amalgamated one of its subsidiary Compact Power Systems Limited by way of the Hon. High Court Order of Andhra Pradesh dated February 27, 2004 with itself and transferred the Machinery to existing factory. Prior to the merger the company held 61% in the company and the balance shareholding was held by Beaver Engineering Limited (31%-holding company and Promoter of HBL Nife Power Systems Limited) and Ms. Uma Devi (8%-wife of Dr. A.J. Prasad, Promoter of HBL Nife Power Systems Limited Dr. A.J. Prasad).

e. Payment or benefit to promoters of the Issuer Company

The company has renewed an agreement with Dr. A. J. Prasad, Chairman and Managing Director for providing technology for the manufacture of Silver Oxide and Zinc Batteries, which are one of the key businesses of the company. Accordingly, HBL Nife pays royalty @ 3% to Dr. A J Prasad on sale of Silver Oxide and Zinc Batteries. This agreement has been renewed w.e.f 1st April 2004 for a further period of 5 years. In addition to the above the promoters may receive any renunciation premium for renunciation of their rights entitlement in order to meet the continuous listing requirements and otherwise.

f. Related Party Transactions

The details of the related party transactions for the last three financial years and 9 month period ended on December 31, 2005 are as under.

Rs. In Lakhs

Beneficiary	Nature of Transaction	31.12.05	31.03.05	31.03.04	31.03.03
Beaver Engineering Ltd.	Interest Paid	22.34	18.32	6.32	8.56
	Funds borrowed	200.00	170.00	72.00	
	Funds returned			60.00	
	Purchase of share in Compact			18.07	
Compact Power Sources Pvt. Ltd.	Purchase of Goods				
	Sales of goods				15.08
	Rent Received				1.20
	Funds given				98.07

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Rs. In Lakhs

Beneficiary	Nature of Transaction	31.12.05	31.03.05	31.03.04	31.03.03
	Interest Received				10.89
	Investment in shares				
HBL NIFE (UK) Ltd.	Investment in shares	35.71		31.65	
	Advance for investment in shares	61.42	35.88	35.88	
	Sale of goods	202.90	346.77	164.86	14.89
	Service received		18.87		
HBL Nife(M) Sdn Bhd.	Investment in shares				4.28
	Sale of goods	34.98	49.41	9.07	
	Service rendered		3.80		
	Advance for investment in Shares			28.20	
Bhagirath Energy Systems Pvt. Ltd.	Investment in shares				
	Purchase of Goods		2.30		259.44
	Purchase of assets		61.44		
	Sale of goods			7.65	
	Funds given				
HBL Engineering Pte. Ltd.	Investment in shares				
HBL Nife Egypt SAE, Egypt	Capital goods transfer				21.83
	Investment in shares				2.45
HBL ELTA Avionics Systems. Pvt. Ltd	Sale of Assets		15.74		
	Service rendered	5.22	31.01		
	Advance for investment in shares		5.00		
Kautilya Decision Support Systems. Pvt. Ltd	Purchase of Assets			1.12	
Kairos Engineering Ltd.	Service received	14.88	10.65	0.59	
	Purchase of goods				
	Purchase of Assets				
	Funds Borrowed				
	Funds given		0.50		3.70
	Sale of Goods				
	Rent received				0.60
	Advance for purchase			11.20	
Dr. A J Prasad	Funds Borrowed	20.00	30.00		
	Royalty Paid	25.58	49.32	40.73	59.43
	Remuneration Paid	83.38	90.13	7.88	36.87
	Interest Paid	2.68	1.32		
Ms. Kavita Prasad	Funds Borrowed		20.00		
	Rent Paid	1.80	2.40	2.40	2.40
	Interest Paid	1.51	0.88		
Mr. M S S Srinath	Remuneration Paid	5.88	7.02	5.56	5.41
	Interest Paid				2.85
Mr. Ashok Nagarkatti	Remuneration Paid	8.46	9.84		
Mr. P Satish Kumar	Remuneration Paid	5.24	6.05		
Mr. L C Gangarade	Remuneration Paid		3.28		

Description and Name of Related Parties with respect to below mentioned transactions:

Details of Related Parties

Particulars	31.12..2005	31.03.2005	31.3.2004	31.3.2003
Holding Company	Beavers Engineering Ltd	Beavers Engineering Ltd	Beavers Engineering Ltd	Beavers Engineering Ltd
Subsidiaries	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal
	HBL Nife(UK) Limited, UK	HBL Nife(UK) Limited, UK	HBL Nife(UK) Limited, UK	Compact Power Sources Private Ltd, Hyderabad
	HBL Technologies (M) Sdn Bhd, Malaysia.	HBL Technologies (M) Sdn Bhd, Malaysia.	HBL Technologies (M) Sdn Bhd, Malaysia.	-
Fellow Subsidiaries	-	-	-	Kautilya Decision Support Systems Pvt Ltd, Hyderabad
Controlled Companies	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad
				Dastan Systems Limited, Hyderabad
Proposed Subsidiaries	-	-	-	HBL Nife(UK) Limited, UK
	-	-	-	HBL Technologies (M) Sdn Bhd, Malaysia.
				HBL Nife Egypt, SAE, Egypt
Proposed Joint Venture	-	-	HBL Elta Avionics Private Limited	-
Joint Venture	HBL Elta Avionics Private Limited	HBL Elta Avionics Private Limited	-	-
Key Management Personnel	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad
	M S S Srinath	M S S Srinath	M S S Srinath	M S S Srinath
	Kavita Prasad	Kavita Prasad	Kavita Prasad	Kavita Prasad
	Ashok Nagarkatti	Ashok Nagarkatti	U M Rao	U M Rao
	P Satish Kumar	L C Gangrade	Gp. Capt. D Venkateswarulu(Retd)	Ashok Nagarkatti
	-	P Satish Kumar	Ashok Nagarkatti	L C Gangrade
	-	-	L C Gangrade	P Satish Kumar
	-	-	P Satish Kumar	-

HBL NIFE POWER SYSTEMS LIMITED

G) Currency of Presentation

In this Letter of Offer, all references to “Rupees” “Rs.” are to the legal currency of India, all references to “U.S. Dollars”, and “US\$” are to the legal currency of the United States, all references to “Nepalese Rupees”, and “NPRS” are to the legal currency of the Kingdom of Nepal, all references to “Malaysian Ringitts”, and “MR” are to the legal currency of the Malaysia, all references to “Pound Sterling”, and “GBP” are to the legal currency of the United Kingdom.

Any percentage amounts, as set forth in “Risk Factors”, “Business”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Letter of Offer, unless otherwise indicated, have been calculated on the basis of our financial statements prepared in accordance with Indian GAAP.

For the convenience of the Shareholders, as far as possible the reporting unit has been maintained as Rupees in Lacs.

H) Dividend Policy

The declaration and payment of dividends is recommended by the Board of Directors and approved by the shareholders, at their discretion, and is dependent on a number of factors, including but not limited to profits, capital requirements and overall financial condition. The Board may also from time to time pay interim dividend.

The Summary of dividends declared by HBL Nife is as follows:

Period/Year Ended	30.09.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Face Value of Equity Share (Rs. per share)	10	10	10	10	10	10
Dividend including Dividend Tax (in Rs. Lacs)	N.A.	343.31	272.00	339.66	Nil	Nil
Dividend per Equity Share (Rs.)	N.A.	1.50	1.20	1.50	Nil	Nil
Dividend Rate (%)	N.A.	15%	12%	15%	-	-

The amounts paid as dividend in past is not indicative of the company’s dividend policy in future.

V. FINANCIAL STATEMENTS

It is confirmed that all notes to the accounts, significant accounting policies as well as auditors' qualifications (if any) have been incorporated

A.) Standalone Financial Information of Issuer Company

From:

Satyanarayana & Co.
Chartered Accountants
5-5-88/5, Amar Mansion
Ranigunj
Secunderabad 500 003

Auditors' Report

Standalone Financial Statements under Indian GAAP

15TH April, 2006

To
The Board of Directors
HBL Nife Power Systems Limited
8-2-601, Road No. 10,
Banjara Hills,
Hyderabad – 34.

Dear Sirs,

1. We have examined the Financial Information of HBL Nife Power Systems Limited ("The Company") annexed to this report which have been prepared in accordance with the requirements of:
 - Paragraph B (1) of Schedule II to the Companies Act, 1956 ("the Act");
 - The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 ("the Guidelines") issued by the Securities and Exchange Board of India ("SEBI") on January 19, 2000 in pursuance of Section 11 Securities and exchange Board of India Act, 1992; and
 - The terms of reference received from the Company, requesting us to carry out the work, proposed to be included in the Offer Document of the Company in connection with the proposed Right Issue.

Financial Information as per Audited Financial Statements

2. We have examined the attached restated summary statement of Assets and Liabilities of the Company as at 31st December, 2005(audited), and the company's last five financial year ended March 31,2005, 2004, 2003, 2002, 2001 (audited) and the attached restated summary statement of Profit & Loss Account for the nine months ended on 31st December, 2005(audited) and for the year ended 31st March, 2005, 2004, 2003, 2002, 2001 (audited) (summary statement) (See Annexure I & II) as prepared by the Company and approved by the Board of Directors. These profits have been arrived at after making such adjustments and regroupings as in our opinion is appropriate and more fully described in the notes appearing in Annexure III to this report. We have also examined and found correct the financial accounts of the company for the period from April 1 2005 to December 31st 2005 prepared and approved by the Board of Directors.

The summary statement for the years ended 31st March, 2005, 2004, 2003, 2002 and 2001 have been extracted from the Financial Statements for these years audited by us and approved by the Members in respective years. The summary statement for the period ended on 31.12.2005 has been extracted from the audited Financial Statements approved by the Board of Directors.

We have examined the above-referred Annexure and based on our examination of these summary statements we confirm that:

- a. There are no changes in accounting policies adopted by the Company during the periods covered under this report. However, the Company for the first time implemented Accounting Standard - 26 'Intangible Assets' and Accounting Standard - 29 'Provisions and Contingencies' in the financial statement for the period ended 31.12.2005 the impact of which is disclosed in the notes on accounts note No.12 and 13 attached to the financial statement for the period ended 31st December 2005;

HBL NIFE POWER SYSTEMS LIMITED

- b. The prior periods items have been adjusted in the summary statements in the year to which they relate;
 - c. The extraordinary items which need to be disclosed separately in the summary statements, are appropriately disclosed; and
 - d. There are no qualifications in the Auditors Report, which require any adjustments in the summary statements.
3. The summary of significant accounting policies adopted by the company together with the notes pertaining to the audited financial statements for the year ended March 31,2005 together with notes pertaining to period ended 31.12.2005 are enclosed as **Annexure IV** and **Annexure V** to this report
 4. The summary statements do not take into account or make any adjustments for the events subsequent to the Audit Reports dated 10th April, 2006, 29th June 2005, 28th June 2004, 20th June 2003, 25th May 2002 and 30th June 2001 on the financial statements for the nine months period ended 31st December 2005 and financial year ended on 31st March 2005, 31st March 2004, 31st March 2003, 31st March 2002 and 31st March 2001 respectively.

Other Financial Information:

We have examined the following financial Information proposed to be included in the offer document annexed to this report.

1. Restated Statement of cash flows is enclosed as **Annexure VI**;
2. Accounting ratios based on the restated profits relating to earnings per share, net asset value and return on net worth is enclosed in **Annexure VII**;
3. Capitalization statements as at December 31, 2005 is enclosed in **Annexure VIII**;
4. Statement of tax shelters is enclosed in **Annexure IX**;
5. Statement of possible tax benefits available to the Company, is enclosed in **Annexure X**;
6. Details of Loans appearing in **Annexure XI** to the report;
7. Details of other incomes appearing in **Annexure XII** of the report;
8. The rates of dividend paid by the Company for the year ended March 31, 2005, 2004, 2003, 2002 and 2001 are as shown in **Annexure XIII** to this report.
5. In our opinion, the "Financial information as per Audited Financial Statements" and "Other Financial Information" mentioned above have been prepared in accordance with Part II of Schedule II of the Act.
6. This report is intended solely for your information and for the inclusion in the Offer Document in connection with the proposed Right Issue of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **Satyanarayana & Co,**
Chartered Accountants

Ch. Seshagiri Rao
Partner
Membership No. 18523

Annexure – I

Summary Profit & Loss Account as restated

The Profit/ (Loss) of HBL Nife Power Systems Limited for the period from 1st April, 2005 to 31st December, 2005 and for the five financial years ended 31st March, 2005, 2004, 2003, 2002, 2001 after making adjustment of certain matters (refer Annexure III below) and read with significant accounting policies (refer annexure IV below) and notes to accounts (refer Annexure V below), are as set out below:

(Rs. in Lacs)

PARTICULARS	AUDITED					
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Income						
Sales:						
Domestic Sales	21855.67	25990.95	15451.61	18231.04	15181.33	16099.21
Export Sales	5020.87	4327.64	3047.88	1837.27	2200.17	1406.13
Job wok &Others	2040.41	2256.48	738.48	202.27	126.12	149.97
Gross Sales	28916.95	32575.07	19237.97	20270.58	17507.62	17655.31
Less: Excise Duty & Sales Tax	3683.99	4195.25	2335.97	2673.85	2444.46	2642.19
Net Sales	25232.96	28379.82	16902.00	17596.73	15063.16	15013.12
Other Income	90.06	218.84	209.34	164.03	150.33	213.82
Total	25323.02	28598.66	17111.34	17760.76	15213.49	15226.94
Expenditure						
Material cost	15130.96	16976.73	9181.92	8847.76	7513.41	8221.36
Manufacturing cost	1526.05	1764.47	1119.40	1120.71	934.10	808.75
Employees cost	2012.99	2606.55	2267.27	2442.57	2143.44	1855.32
Administrative and Selling Cost	2661.12	2988.92	2123.23	2291.55	2013.77	1540.26
Finance Cost	968.57	969.35	677.04	889.46	881.33	900.99
Depreciation	486.70	567.35	495.66	425.27	358.79	310.72
Total	22786.39	25873.37	15864.52	16017.32	13844.84	13637.40
Net Profit before extraordinary items and tax	2536.63	2725.29	1246.82	1743.44	1368.65	1589.54
Extraordinary items		136.29		361.52		
Profit before Tax	2536.63	2589.00	1246.82	1381.92	1368.65	1589.54
Current Tax	674.00	525.00	175.00	300.00	225.00	150.00
Income Tax & Wealth tax adj. Relating to previous year	99.35	26.56	41.29	(17.00)	12.22	28.70
Fringe benefit Tax	56.57					
Deferred Tax						
(refer Annexure – III)	69.75	192.63	164.45	69.50	(22.50)	267.00
Prior Period Items						
(refer Annexure- III)	20.09	(12.91)	3.65	(6.30)	(3.23)	4.28
Adjusted Profit after tax	1657.05	1831.90	869.73	1023.12	1150.70	1148.12
Brought forwarded Profit/ (Loss) from Pre Year	914.58	626.00	720.14	536.68	885.98	970.86
APPROPRIATIONS						
Reserve written back			(17.35)			
General Reserve		1200.00	709.50	500.00	1500.00	1233.00
Proposed Dividend		301.08	240.86	301.08		
Tax on Proposed Dividend		42.23	30.86	38.58		
Profit/ (Loss) transferred to Balance Sheet	2571.63	914.58	626.00	720.14	536.68	885.98

HBL NIFE POWER SYSTEMS LIMITED

Annexure - II

Summary Assets and Liabilities, as restated

The Assets and Liabilities of M/s. HBL Nife Power Systems Limited as at the Financial Period/year(s) ended December 31, 2005, March, 31, 2005, 2004, 2003, 2002 and 2001 after making adjustments of certain matters (refer Annexure III below) and read with significant accounting policies (refer Annexure IV below) and Notes to account (refer Annexure V below) are as set out below:

(Rs. in Lacs)

PARTICULARS	AUDITED					
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Sources of Funds						
Shareholders Funds						
1. Share Capital	2207.23	2007.23	2007.23	2007.23	2007.23	2007.23
2. Reserves and Surplus	16232.30	9672.46	8177.41	7726.03	6993.56	5847.14
Loan Fund						
Secured Loans	10774.51	9283.23	4964.50	5704.15	5087.87	5249.55
Unsecured Loans	2230.77	1938.15	1328.17	1245.34	944.73	743.11
Deferred taxes						
Deferred Income tax	740.83	671.08	478.45	314.00	244.50	267.00
Total	32185.64	23572.15	16955.76	16996.75	15277.89	14114.03
Application of Funds						
Fixed Assets	14358.90	12693.18	10980.26	9517.98	8021.77	6870.62
Less: Depreciation	3623.97	3138.53	2575.47	2095.11	1675.53	1314.93
Net Fixed Assets (1)	10734.93	9554.65	8404.79	7422.87	6346.24	5555.69
Capital works in progress (2)	1539.43	763.53	502.47	807.29	690.78	688.45
Investments (3)	2620.06	144.36	135.95	186.84	338.39	191.10
Current Assets, Loans and Advances						
Inventories	7307.90	5318.73	3316.98	3443.01	3065.56	2832.95
Receivables	12892.15	11562.30	6581.79	5564.41	6238.55	6111.48
Cash & Bank Balances	1662.88	1238.70	1208.69	1747.02	1031.21	950.37
Loans & Advances	2200.96	1090.38	945.47	881.26	885.29	718.61
Total	24063.89	19210.11	12052.93	11635.70	11220.61	10613.41
Less: Current Liabilities and Provisions						
Current Liabilities	6497.44	5671.67	3862.57	2716.03	3373.80	2776.02
Provisions	346.27	484.67	385.72	499.89	156.37	167.63
Total	6843.71	6156.34	4248.29	3215.92	3530.17	2943.65
Net Current Assets (4)	17220.18	13053.77	7804.64	8419.78	7690.44	7669.76
Miscellaneous expenditure (to the extent not written off)						
Deferred revenue expenditure (5)	16.81	55.85	107.91	159.98	212.04	9.03
Preliminary expenses	54.23					
Total	32185.64	23572.16	16955.76	16996.76	15277.89	14114.03

Annexure – III**Notes to Adjustments and Grouping****Deferred Taxes and Prior Period adjustments**

Accounting Standard – 22 on “Accounting for Taxes on Income” (AS-22) issued by the Institute of Chartered Accountants of India (ICAI) is mandatory in respect of accounting periods commencing on or after April 1, 2002. As per the said accounting Standard, deferred tax assets/liabilities as on April 1, 2002 was appropriated from the balances as appearing in general reserve. However, to maintaining uniformity these restated accounts have been increased wherein the deferred tax liability has been recognised in 31.3.2001. Similarly, Prior Period items have been adjusted in the year to which they relate. Accordingly, the summary Profit and Loss Account (Annexure I) is regrouped, with corresponding effect in the carrying amount of Reserves & Surplus and Deferred Tax Liability in the Summary of Assets & Liabilities (Annexure II), as per the adjustment/grouping below:

(Rupees In Lacs)

Particulars	Period / Year Ended					
	Audited					
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Profit / (Loss) before Tax	2536.63	2589.00	1246.82	1381.92	1368.65	1589.54
Prior Period Items	20.09	(12.91)	3.65	(6.30)	(3.23)	4.28
Adj. Profit/ Loss	2556.72	2576.09	1250.47	1375.62	1365.42	1593.82
Current Tax	674.00	525.00	175.00	300.00	225.00	150.00
Prior years tax adjustment	99.35	26.56	41.29	(17.00)	12.22	28.70
Deferred Tax	69.75	192.63	164.45	69.50	(22.50)	267.00
Fringe benefit Tax	56.57	0.00	0.00	0.00	0.00	0.00
Net Profit / (Loss)	1657.05	1831.90	869.73	1023.12	1150.70	1148.12
Adjusted Profit/(Loss) after Tax	1657.05	1831.90	869.73	1023.12	1150.70	1148.12

Annexure – IV

Accounting Policies and Notes on Accounts – for the year-ended 31.03.2005

A) Significant Accounting Policies

1. Basis for preparation of accounts:

The accounts have been prepared to comply in all material aspects with applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Indian Companies Act, 1956.

2. Fixed Assets:

- a) Fixed Assets are stated at Historical Cost, less accumulated depreciation. Cost of acquisition of Fixed Assets is inclusive of freight, duties (net of CENVAT), taxes and incidental expenses thereto and interest on direct borrowals up to commissioning, wherever applicable.
- b) Depreciation is provided in accordance with the rates and rules specified in Schedule XIV to the Companies Act, 1956, under Straight Line Method.
- c) Capital Work-in-Progress includes advances for capital items, capital items under erection and pre-operative expenses pending allocation on the assets to be commissioned.

3. Investments are carried at cost, except where the diminution in the value of investment, if any, is considered permanent. Dividends are accounted for when received.

4. Inventories are valued as under:

- a) Materials and Components, Consumables and Stores are valued at Weighted Average cost. Work in Progress is valued at Weighted Average Cost of materials plus cost of conversion. Finished Goods are valued at Weighted Average Cost of materials plus cost of conversion or market value whichever is lower.
- b) Cost of materials is net of CENVAT on all the items.
- c) The Excise and Customs duties payable on finished goods and bonded stocks are included for the purpose of valuation.
- d) Tools & Fixtures are valued at cost less amount charged off (at one third of the value each year).

5. Retirement Benefits:

Gratuity and Earned Leave Encashment are provided for as per Accounting Standard AS-15 issued by the Institute of Chartered Accountants of India. The Company has taken Group Gratuity Policy from LIC of India covering the Gratuity liability and premium is charged to Profit & Loss Account. Liability towards Leave encashment is determined on Actuarial valuation and charged to Profit & Loss Account.

6. Income Recognition:

Sales revenue is recognised on dispatch to customers as per terms of order. Gross Sales are inclusive of Excise duty and Sales tax collected. It does not include Inter-divisional Transfers.

Works contract receipts are accounted on the basis of bills submitted and accepted by the customers.

7. Foreign Currency Transactions:

- a) Import of Material / Capital Equipment are accounted at the exchange rates at which the actual payments are made.
- b) Assets and Liabilities arising out of foreign exchange transactions are translated at the exchange rates ruling on the date of Balance Sheet and are suitably adjusted to the appropriate Revenue / Capital account.
- c) Financial statements of the foreign branches are translated as under:

All revenue items are translated using the average rate of exchange, all monetary items are translated using closing rate of exchange and all non-monetary items are translated using exchange rate at the date of transaction.

8. Liquidated Damages / Warranty Claims:

Liquidated Damages levied by customers for delayed supplies are accounted as expenditure after avenues for waiver/reduction are exhausted or on acceptance by the Company. The Company's liability for warranty claims is charged to revenue in the year in which it is claimed by the customers.

9. Deferred Revenue Expenditure (DRE):

The expenditure incurred on Voluntary Retirement Scheme (VRS) is written off over five years in equal installments and on Technical Know-how fee is written off over six years in equal installments.

B) Notes Forming Part of Accounts for the Year Ended March 31, 2005**1. Secured Loans**

- a) Term Loans from IDBI and State Bank of Indore are secured by a first charge on the movable and immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi Malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and at Kothur and Nandigaon Villages, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The loan is also guaranteed by Managing Director and one Director in their personal capacity.

Term loan from HDFC New Delhi is secured by an exclusive charge on the Land and Building situated at Noida U.P. The loan is also guaranteed by the Managing Director of the Company in his personal capacity.

Term loan from HDFC Hyderabad is secured by an exclusive charge on the flat at Hyderabad. The loan is also guaranteed by Managing Director of the Company in his personal capacity.

- b) The Working Capital loans from the State Bank of India, State Bank of Hyderabad, State bank of Indore and IDBI Bank Ltd. are secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other Directors of the Company in their personal capacities.
- c) SBI Factors – The loan is secured by assignment of the Debtors Bills discounted with them and also guaranteed by Managing Director in his personal capacity.
- d) Vehicles Loans from Banks and Non Banking Finance Companies are secured by exclusive hypothecation of Vehicles acquired under the respective loan and guaranteed by one Director of the Company in his personal capacity.
2. Interest Free Sales Tax Loan of Rs.1646.16 lacs shown under Unsecured Loans represents the Sales Tax payable by the company, given as loan by Andhra Pradesh State Government to be repaid without interest after 14 years from the date of availment. The loan requires creation of a charge on the assets of the Company. Pending creation of the charge, the amount is shown under Unsecured Loans and will be regrouped under Secured Loans as and when charge is created.

3. Contingent Liabilities

All known and undisputed liabilities have been duly provided for, except the following:

- a) Unexecuted portion of Letters of Credit opened by Banks Rs.370.65 lacs (Previous year Rs.1069.35 lacs).
- b) Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs.3678.80 lacs (Previous year Rs. 2665.57 lacs).
- c) Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or Concessional rate of duty pending fulfillment of export obligations Rs.1339.82 lacs (Previous year Rs. 1292.71 lacs) against which export obligation has been fulfilled to the extent of Rs. 404.98 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.
- d) Claims against the Company not acknowledged as debts:
- Excise claims of Rs 94.85 lacs under dispute (previous year Rs. 94.85 lacs).
 - Sales Tax (CST) claims of Rs.11.77 lacs
- e) Other Claims against the company not acknowledged as debts Rs. 50.99 lacs (previous year Rs.58.90 lacs).
- f) Income Tax disputed liability Rs.38.26 lacs in appeal before CIT (Appeals) not provided for.
- g) Estimated amount of contracts remaining to be executed on capital account and not provided for Rs.580.23 lacs (previous year Rs.295.09 lacs).
4. The company has paid / provided Income Tax and Sales Tax as per the returns filed / assessments completed. The liabilities if any, in respect of the pending assessments will be accounted on completion of the assessments, which are presently not ascertainable.
5. Considering the deductions and exemptions available as per the provisions of the Income Tax Act, 1961 a provision of Rs.525 lacs is made in the accounts towards Income Tax for the year.

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6. Major components of deferred tax assets and liabilities arising on account of timing differences are:

(Rs. in Lacs)

Particulars		Deferred Tax			
		Current Year		Previous Year	
		Assets	Liabilities	Assets	Liabilities
1.	Depreciation		824.32		662.14
2.	Payments under VRS	35.83		51.50	
3.	Investments written off	20.13		19.64	
4.	Contribution to Valuable Employees Scheme	41.65		40.63	
5.	Others	55.64		71.92	
	Total	153.24	824.32	183.69	662.14

7. M/s Bhagirath Energy Systems Limited, (BES) a wholly owned subsidiary of the Company in Nepal is in the process of winding up. Provision in diminution in value of investment has been made based on Official Liquidator Certificate of available cash.
8. HBL Nife UK Ltd. A wholly owned subsidiary in UK has reported a profit of Rs.61.23 lacs for the year and accumulated losses of Rs.3.02 lacs up to 31-03-2005. This losses is considered temporary and hence no provision is made in the accounts for fall in the value of investment. Further a sum of Rs.32 lacs remitted towards Share Capital is shown under Loans and Advances pending allotment of Shares.
9. HBL Nife (M) SDN BHD. A subsidiary Company in Malaysia has reported a loss of Rs.14.45 lacs for the year and accumulated losses of Rs.34.67 lacs up to 31-03-2005. This loss is considered temporary and hence no provision is made in the accounts for fall in the value of investment. Further a sum of Rs.16 lacs remitted towards Share Capital is shown under Loans and Advances pending allotment of Shares.
10. Income includes the following recognized as accrued income
Rs.67.84 lacs on account of installation charges for which services have been rendered, based on contracted rates but not invoiced pending receipt of purchase orders and Rs.199.62 lacs on account of Job Works done for the customers, based on indicative prices, but not invoiced pending receipt of amendments to the Job Works Order.
11. Confirmation of Balances appearing under Sundry Debtors, Sundry Creditors, Advances to Suppliers and others have been sent by the Company. Some of the parties have replied confirming the balances.
12. Sundry debtors include Rs.199.57 lacs due from subsidiaries.
13. Loans and advances include Rs. 61.45 lacs (previous year Rs. NIL) due from Companies (Maximum amount due at any time during the year Rs. 61.45 lacs) in which Directors are interested. Such advances are made in the ordinary course of business / for Investment.
14. The disclosures are required under the Accounting Standard AS17 "Segment Reporting" and AS18 "Related Party Disclosure" issued by the Institute of Chartered Accountants of India are given in annexure.

Annexure to the Note No.14 under schedule No.20B

14 (a). The segment wise disclosure as required by the Accounting Standard AS-17 "Segment Reporting " issued by the Institute of Chartered Accountants of India is as under:

(Rs in Lacs)

Particulars	2004-2005		2003-2004	
<u>Segment Revenue</u>				
Batteries				
Exports	4269		3115	
Domestic Sales	24963	29232	14050	17165
Electronics				
Exports	190		178	
Domestic Sales	2003	2193	1545	1723
Unallocated		1376		565
Total		32801		19453
Less: Inter-segment Revenue		226		215
Gross Revenue		32575		19238
<u>Segment Result</u>				
Batteries		4966		2971
Electronics		(12)		60
Unallocated		216		(326)
Total		5170		2705
Less : Interest		967		677
Unallocable expenditure net of unallocable income		1614		781
Net Profit before taxes		2589		1247
<u>Segment Assets</u>				
Batteries		23569		16626
Electronics		1648		1542
Unallocated		4578		3036
add: investments and deferred revenue expenses				
Total Assets		29795		21204
<u>Segment Liabilities</u>				
Batteries		5686		3758
Electronics		649		580
Unallocated (includes Term Loans, Bank Loans, Hire Purchase Loans)		11041		6685
Share capital, reserves and surplus, deferred tax liability				
Total Liabilities		17376		11023
<u>Segment Capital expenditure during the year</u>				
Batteries		1496		1015
Electronics		14		66
Unallocated		465		76
Total		1974		1157
<u>Segment Depreciation</u>				
Batteries		434		372
Electronics		22		25
Unallocated		111		99
Total		567		496

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Note:

1. *Inter segment revenue is measured at the market prices at which the products are sold to external customers.*
2. *Battery segment consists of various types of batteries for defence, aviation, telecom and industrial application.*
3. *Electronics segment consists of various electronic products for telecom, railways and industrial application*
4. *Exports include deemed export sales also.*

14 (b). Disclosure of transactions with related parties as required by the accounting Standard AS-18 "Related party Disclosure" issued by the Institute of the Chartered Accountants of India as follows:

Holding Company	Beaver Engineering Ltd	
Subsidiaries	Bhagirath Energy Systems Ltd, Nepal	
	HBL Nife(UK) Limited, UK	
	HBL Technologies (M) Sdn Bhd, Malaysia.	
Controlled Companies	Kairos Engineering Ltd, Hyderabad	
Proposed Joint Venture	HBL ELTA Avionics Systems Private Limited	
Joint Venture		
Key Management Personnel	Dr. A J Prasad	Chairman & Managing Director
	M S S Srinath	President (Marketing)
	Kavita Prasad	Director
	Ashok Nagarkatti	Director
	L C Gangrade	Director*
	P Satish Kumar	Director

* LC Gangrade has been a Director on board till 30th July 2004.

Disclosure of transactions between the Company and Related Parties and the Status of outstanding balances as on 31st March 2005

(Rs. in Lakhs)

Sl. No	Beneficiary	Nature of transaction	During the year	Outstanding at the year end
1	Beaver Engineering Ltd.	Interest paid	18.32	
		Funds borrowed	170.00	242.00
2	HBL NIFE (UK) Ltd.	Advance for Investment	35.88	
		Sale of Goods	346.77	
		Services Received	18.87	201.55
3	HBL NIFE (M) Sdn. Bhd.	Sale of Goods	49.41	
		Services Rendered	3.80	45.92
4	Bhagirath Energy systems Pvt. Ltd.	Purchase of Assets	61.44	
		Purchase of goods	2.30	
5	HBL ELTA Avionics Systems Pvt. Ltd.	Advance for investment	5.00	
		Sale of Assets	15.74	
		Services Rendered	31.01	51.75

(Rs. in Lakhs)

Sl. No	Beneficiary	Nature of transaction	During the year	Outstanding at the year end
4	Kairos Engineering Ltd.	Services Received	10.65	9.70
		Funds given	0.50	
5	Dr. A J Prasad	Funds borrowed	30.00	30.00
		Remuneration Paid	90.13	
		Royalty Paid	49.32	
		Interest Paid	1.32	
	Ms. Kavita Prasad	Rent Paid	2.40	
		Interest Paid	0.88	
		Funds borrowed	20.00	20.00
	Mr. M S S Srinath	Remuneration paid	7.02	
	Mr. Ashok Nagarkatti	Remuneration paid	9.84	
	Mr. P Satish Kumar	Remuneration paid	6.05	
	Mr. L C Gangarade	Remuneration paid	3.28	

Annexure – V

Accounting Policies and Notes on Accounts for the period ended December 31, 2005

A) Significant Accounting Policies

1. Basis for preparation of accounts:

The accounts have been prepared to comply in all material aspects with applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Indian Companies Act, 1956.

2. Fixed Assets:

A. Fixed Assets are stated at Historical Cost, less accumulated depreciation. Cost of acquisition of Fixed Assets is inclusive of freight, duties and taxes (net of CENVAT and VAT), and incidental expenses thereto and interest on direct borrowals up to commissioning, wherever applicable.

B. Depreciation is provided in accordance with the rates and rules specified in Schedule XIV to the Companies Act, 1956, under Straight Line Method.

C. Capital Work-in-Progress includes advances for capital items, capital items under erection and pre-operative expenses pending allocation on the assets to be commissioned / capitalized

3. Investments:

Investments are carried at cost, except where the diminution in the value of investment, if any, is considered permanent by the management. Dividends are accounted for when received.

4. Inventories are valued as under:

Materials and Components, Consumables and Stores are valued at Weighted Average cost. Work in Progress is valued at Weighted Average Cost of materials plus cost of conversion. Finished Goods are valued at Weighted Average Cost of materials plus cost of conversion or Net realizable value whichever is lower.

Cost of materials is net of CENVAT /VAT on all the items.

The Excise and Customs duties payable on finished goods and bonded stocks are included for the purpose of valuation.

Tools & Fixtures are valued at cost less amount charged off (at one third of the value each year).

5. Retirement Benefits:

Gratuity and Earned Leave Encashment are provided for as per Accounting Standard AS-15 issued by the Institute of Chartered Accountants of India. The Company has taken Group Gratuity Policy from LIC of India covering the Gratuity liability and premium is charged to Profit & Loss Account. Liability towards Leave encashment is determined on Actuarial valuation and charged to Profit & Loss Account.

6. Income Recognition:

Sales revenue is recognised on dispatch to customers as per terms of order. Gross Sales are inclusive of Excise duty and Central Sales tax and service tax collected. It does not include Inter-divisional Transfers.

Works contract receipts are accounted on the basis of bills submitted and accepted by the customers.

7. Foreign Currency Transactions:

A. Import of Material / Capital Equipment are accounted at the exchange rates at which the actual payments are made.

B. Assets and Liabilities arising out of foreign exchange transactions are translated at the exchange rates ruling on the date of Balance Sheet and are suitably adjusted to the appropriate Revenue / Capital account.

8. Liquidated Damages:

Liquidated Damages levied by customers for delayed supplies are accounted as expenditure after avenues for waiver/ reduction are exhausted or on acceptance by the Company.

9. Provisions, Contingent Liabilities and Contingent Assets:

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Liabilities are not recognised but are disclosed in the notes. Contingent Assets are neither recognised nor disclosed in the financial statements.

10. Deferred Revenue Expenditure (DRE):

The expenditure incurred on Voluntary Retirement Scheme (VRS) is written off over five years in equal installments and on Technical Know-how fee is written off over six years in equal installments.

11. Intangible Assets (Accounting Standard 26):

Related costs of Development expenditure incurred on the new products is recognised as intangible assets to be amortized over expected benefit periods commencing from the year in which such products are put to commercial use/sale.

B) Notes Forming Part of Accounts for the period ended December 31, 2005**1. Secured Loans**

- a) Term Loan from IDBI, State Bank of Indore, State Bank of India and State Bank of Hyderabad are secured by a first charge on the movable and immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi Malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and at Kothur and Nandigaon Villages, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The loan is also guaranteed by two Directors in their personal capacity.

Term loan from HDFC New Delhi is secured by an exclusive charge on the Land and Building situated at Noida U.P. The loan is also guaranteed by the Managing Director of the Company in his personal capacity.

The term loan from HDFC Hyderabad is secured by an exclusive charge on the Flat at Hyderabad. The loan is also guaranteed by Managing Director of the Company in his personal capacity.

- b) The Working Capital loans from the State Bank of India, State Bank of Hyderabad and IDBI Bank Ltd and State Bank of Indore are secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other Directors of the Company in their personal capacities.
- c) SBI Factors- The loan is secured by assignment of debtor's bills discounted with them and also guaranteed by Managing Director in his personal capacity
- d) Vehicle Loans from Banks and Non Banking Finance Companies are secured by exclusive hypothecation of Assets acquired and guaranteed by one Director of the Company in his personal capacity.
2. (a). Interest Free Sales Tax Loan of Rs.1718.77 lacs shown under Unsecured Loans represents the Sales Tax payable by the company, given as loan by Andhra Pradesh State Government to be repaid without interest after 14 years from the date of availment. The loan requires creation of a charge on the assets of the Company. Pending creation of charge, the amount is shown under Unsecured Loans and will be regrouped under Secured Loans as and when charge is created.
- (b). Unsecured loans include Loan from Directors and Holding Company by way of an ICD at @10% interest per annum which is repayable on demand.

3. Contingent Liabilities

All known and undisputed liabilities have been duly provided for, except the following:

- a. Unexecuted portion of Letters of Credit opened by Banks Rs. 923.99 lacs (Previous year Rs.370.65 lacs).
- b. Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs.4672.31 lacs (Previous year Rs. 3678.80 lacs).
- c. Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or concessional rate of duty pending fulfillment of export obligations Rs.2013.5 lacs (Previous year Rs. 1339.82 lacs) against which export obligation has been fulfilled to the extent of Rs.859.67 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.

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- d. Claims against the Company not acknowledged as debts:
- Excise Duty claim of Rs 94.85 lacs (previous year Rs. 94.85 lacs) towards differential duty on the supplies made to Ministry of Defence which is pending for disposal before Excise Authorities.
 - Sales Tax (CST) claims of Rs 11.77 lacs (previous year. 11.77 lacs).
- e. Other Claims against the company not acknowledged as debts Rs. 50.99 lacs (Previous year Rs. 50.99 lacs).
- f. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 822.20 lacs (Previous year Rs. 580.23 lacs)
4. There is a claim by SAFT AKTIEBOLAG, Sweden on the Subsidiary Company HBL (UK) along with holding Company HBL NIFE POWER SYSTEMS LIMITED for Infringement of the Trade Mark "NIFE" in UK, which is contested in the Royal Court of Justice, London, UK. However the claim that is lodged is seeking a maximum of £. 2,00,000/-towards the damages equal to INR 160 Lakhs. No provision is made as the same is contested upon.
5. The company has paid / provided Income Tax as per the returns filed / assessments completed. The liabilities if any, in respect of the pending assessments will be accounted on completion of the assessments, which are presently not ascertainable.
6. Income tax for the Nine Months ended 31st December 2005 is provided on pro rata basis of profit based on best estimates of annual profit considering the deductions and exemptions on annualized basis available as per the provisions of the Income Tax Act, 1961. Accordingly a provision of Rs.674 Lakhs has been made towards Income tax for the period ended on 31-12-05.
7. Deferred Tax liability of Rs 69.75 lacs is provided proportionate to the period of the interim financial report based on the best estimate of annualized liability. Major components of deferred tax assets and liabilities arising on account of timing differences estimated by year end 31-03-2006

(Rs. In lacs)

Particulars		Deferred Tax			
		Current Period ended 31-12-05		Previous Year	
		Assets	Liabilities	Assets	Liabilities
1.	Depreciation		874.46		824.32
2.	Payments under VRS	18.76		35.83	
3.	Investments written off	17.89		20.13	
4.	Contribution to Valuable Employees Scheme	22.57		41.65	
5	Others	51.18		55.64	
	Total	110.39	874.46	153.24	824.32

8. M/s Bhagirath Energy Systems Private Limited, (BES) a wholly owned Subsidiary Company in Nepal is in the process of winding up. Provision of Rs. 29.48 lacs for diminution in the value of investment has been made based on the Official Liquidators certificate of available cash as on 31.3.2005. No further provision is considered necessary. During the period 1.4.2005 to 31.12.2005 BES has excess of income (interest) over expenses to the extent of Rs.13591/- As the company is under liquidation audited statements are not available as on 31-12-05.
9. As per the Audited financial statements compiled and certified by the auditors who have expressed a qualified opinion on the nature of the scope of work but simultaneously have expressed a true and fair opinion on the financial statements of HBL NIFE (UK) a wholly owned subsidiary in UK which has reported a profit of Rs.22.20 Lakhs for the period 1.4.2005 to 31.12.2005. Further a sum of RS. 57.37_Lakhs remitted towards share capital as on 31-12-2005 is shown under loans and advances pending allotment of shares.\

10. As per Audited financial statements upto 31-12-05, HBL Nife (M) SDN BHD a subsidiary company in Malaysia has reported a profit of Rs. 0.45 Lakhs for the period 1.4.2005 to 31.12.2005 and accumulated loss of Rs. 32.59 Lakhs up to 31.12.2005. This loss is considered temporary and hence no provision is made in the accounts for the fall in value of investment. Further a sum of Rs. 16.25 Lakhs remitted towards share capital is shown under loans and advances pending allotment of shares.
11. Income includes the following recognized as accrued income – Rs.11.15 Lakhs on account of Installation charges for services rendered, based on contracted rates but not invoiced pending receipt of purchase orders, Rs. 64.27 lacs on account of Job Works done for customers, based on indicative prices, but not invoiced pending receipt of amendments to the job work orders.
12. In compliance with Accounting Standard -29, the company has recognized for the first time in the financial statements a sum of Rs. 126.83 Lakhs towards provision for warranties, which has resulted in reducing the profit for the nine months ended on 31.12.2005 and the reserve as on 31.12.2005 by a similar amount.
13. The company has recognized an Intangible Asset of Rs. 254.82 Lakhs being the Development Cost of New Products as per accounting standard 26 and shown under Schedule 6. This treatment has the effect of increasing the profit for the period ended 31.12.2005 and reserves on 31.12.2005 by a similar amount. Amortization of such Intangible Assets will commence after the Products are put to commercial use/sale.
14. Balances shown under Sundry Debtors, Creditors for supplies/Others, Advances to Suppliers/Others, Advances from Customers and Claims recoverable are as appearing in books and are subject to confirmation/reconciliation and consequential adjustments.
15. Sundry debtors include Rs. 267.81 lacs (previous year Rs. 199.57 lacs) due from Subsidiary companies and Rs. NIL due from companies in which Directors are interested.
16. Loans and advances include Rs.62.35 Lakhs (previous year Rs. 61.45 lacs) (Maximum amount due at any time during the year Rs.60.29 lacs) due from Companies in which Directors are interested. Such advances are made in the ordinary course of business / for investment.
17. This being interim financial statements covering the period 1.4.2005 to 31.12.2005 these statements are prepared in form and content confirming to Schedule VI of Companies Act, 1956. Additional information pursuant to the requirement under Part- II & Part IV of Schedule VI of Companies Act, 1956 are not furnished. Comparative figures furnished are for financial year 2004-05 covering 12 months whereas figures for the current period are for 9 months and hence not comparable.

18. Disclosure required by Accounting Standard- 26 “intangible assets” are as follows:

Intangible asset	Raw materials Components, Stores and Spares	Revenue expenses	Total
Product Development Expenses	Rs.137.05 Lakhs	Rs.117.77 Lakhs	Rs.254.82 Lakhs

19. Disclosure required by Accounting Standard- 29 “Provisions, Contingent Liabilities, Contingent Assets”

Class of Provision	As on 1.4.2005	Provision made/ Increase in provision	Amounts used during the year	Carrying amount as on 31 st December 2005
Warranty	Nil	Rs.126.83 Lakhs	Nil	Rs.126.83 Lakhs

It is expected that these costs will be incurred in the next 18 to 24 months.

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20. The disclosure as required under Accounting Standards AS – 17 “ Segment Reporting “ and AS – 18 “ Related Party Disclosure “ issued by the Institute of Chartered Accountants of India are given in annexure.

(a). The segment wise disclosure as required by the Accounting Standard AS-17 “Segment Reporting “ issued by the Institute of Chartered Accountants of India is as under:

(Rs. in lacs.)

Particulars	31.12.2005		2004-2005	
<u>Segment Revenue</u>				
Batteries				
Exports	4662.00		4269.00	
Domestic Sales	22537.00	27199.00	24963.00	29232.00
Electronics				
Exports	330.00		190.00	
Domestic Sales	934.00	1264.00	2003.00	2193.00
Unallocated		581.00		1376.00
Less : Inter-segment Revenue		127.00		226.00
Gross Revenue		28917.00		32575.00
<u>Segment Result</u>				
Batteries		4901.00		4966.00
Electronics		61.00		(12.00)
Unallocated		182.00		216.00
Total		5144.00		5170.00
Less: Interest		969.00		967.00
Unallocable expenditure net of unallocable income		1638.00		1614.00
Net Profit before taxes		2537.00		2589.00
<u>Segment Assets</u>				
Batteries		26740.00		23569.00
Electronics		1554.00		1648.00
Unallocated		9598.00		4578.00
Total Assets		37892.00		29795.00
<u>Segment Liabilities</u>				
Batteries		5369.00		5686.00
Electronics		589.00		649.00
Unallocated (includes Term Loans, Bank Loans, Hire Purchase Loans)		13515.00		11041.00
Total Liabilities		19473.00		17376.00
<u>Segment Capital expenditure during the year</u>				
Batteries		1828.00		1496.00
Electronics		5.00		14.00
Unallocated		324.00		465.00
Total		2157.00		1975.00
<u>Segment Depreciation</u>				
Batteries		378.00		434.00
Electronics		18.00		22.00
Unallocated		91.00		111.00
Total		487.00		567.00

Note:

1. Inter segment revenue is measured at the market prices at which the products are sold to external customers.
2. Battery segment consists of various types of batteries for defense, aviation, telecom and industrial application.
3. Electronics segment consists of various electronic products for telecom, railways and industrial application
4. Exports include deemed export sales also.

(b). Disclosure of transactions with related parties as required by the accounting Standard AS-18 "Related party Disclosure" issued by the Institute of the Chartered Accountants of India as follows

Holding Company	Beaver Engineering Ltd	
Subsidiaries	Bhagirath Energy Systems Ltd, Nepal	
	HBL Nife(UK) Limited, UK	
	HBL NIFE (M) Sdn Bhd, Malaysia.	
Controlled Companies	Kairos Engineering Ltd, Hyderabad	
Proposed Joint Venture	HBL ELTA Avionics Systems Private Limited	
Key Management Personnel	Dr. AJ Prasad	Chairman & Managing Director
	M S S Srinath	President (Marketing)
	Kavita Prasad	Director
	Ashok Nagarkatti	Director
	P Satish Kumar	Director*

*Resigned as Director on 30th November, 2005

Disclosure of transaction between the Company and Related Parties and the Status of outstanding balances as on 31st December 2005

(Rs. in lacs.)

Sl. No	Beneficiary	Nature of transaction	During the year	Outstanding at the year end
1.	Holding company Beaver Engineering Ltd.	Interest paid	22.34	
		Funds borrowed	200.00	442.00
2.	Subsidiaries HBL NIFE (UK)	Investment in shares	35.71	199.22
		Purchase of goods		
		Purchase of Machinery		
	HBL NIFE (UK)	Advance for investment in Shares	61.42	73.62
		Services Received		
	HBL NIFE (UK)	Sale of Goods	202.90	267.81
	HBL (M) SDN BHD	Sale of Goods	34.98	
3.	Proposed Joint venture (HBL ELTA Avionics Systems Ltd.)	Advance for investment	-	5.00
		Sale of Assets		
		Services Rendered	5.22	47.67

HBL NIFE POWER SYSTEMS LIMITED

(Rs. in lacs.)

Sl. No	Beneficiary	Nature of transaction	During the year	Outstanding at the year end
4.	Controlled Companies (Kairos Engineering Ltd.)	Services Received	14.88	9.68
		Advance for Purchase		
5.	Key Management Personnel Dr A J Prasad	Funds borrowed-	20.00	70.00
	Dr A J Prasad,	Remuneration Paid	83.38	
	M S S Srinath	Remuneration Paid	5.88	
	Ashok Nagarkatti	Remuneration Paid	8.46	
	P Satish Kumar	Remuneration Paid	5.24	
	Dr. A J Prasad	Royalty Paid	25.58	-
	Ms. Kavita Prasad	Rent Paid	1.80	-
	Dr. A J Prasad	Interest Paid	2.68	-
	Ms. Kavita Prasad	Interest Paid	1.51	

As per Clause 6.10.3.5 of the SEBI (DIP) Guidelines.

Particulars	Sales (Rs. In Lacs.)	Purchases (Rs. In Lacs.)
Total Amount of Sales/Purchases	28916.95	16976.73
Sales/ Purchase between group Companies	243.10	14.88
Percentage to total sales purchase	0.84%	0.09%

Note:

Sales taken as gross sales Purchase has been taken as material cost

Sales/ Purchase between group Companies includes services rendered and received.

Notes to Accounts

1. Background Information

Registration Number : 01 – 6745
 Date of Incorporation : 29.08.1986
 Primary Business Segment : Manufacturing of Batteries and related electronics

2. Share Capital

(Rs. in Lacs)

Particulars	As At					
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Authorised						
Equity Shares						
Number- No	25000000	25000000	21000000	21000000	21000000	21000000
Face Value (Rs.)	10.00	10.00	10.00	10.00	10.00	10.00
Value (Rs. in Lakhs)	2500.00	2500.00	2100.00	2100.00	2100.00	2100.00
Issued, Subscribed & Paid Up						
Fully paid up in Cash						
Number- No	**22072323	20072323	20072323	20072323	20072323	20072323*
Value (Rs. in Lakhs)	2207.23	2007.23	2007.23	2007.23	2007.23	2007.23
Share Capital Suspense						
Number- No						
Value (Rs. in Lakhs)						
Total (Rs. in Lakhs)	2207.23	2007.23	2007.23	2007.23	2007.23	2007.23

* Includes 1,00,72,323 shares allotted consequent upon merger of HBL Limited and Pinaki Technologies Limited.

** Company has issued 20,00,000 lacs equity shares on preferential basis on 28th October 2005.

HBL NIFE POWER SYSTEMS LIMITED

3. Investments

(Rs. in Lacs)

Particulars	As At					
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Indian Lead Ltd	0.10	0.10	0.10	0.10	0.10	0.10
SBI Bond			-	-	-	5.25
In Subsidiary Companies						
Compact Power Sources P Ltd.			—	60.42	60.42	25.60
Bhagirath Energy Systems P Ltd	107.60	107.60	107.60	107.60	107.60	
Less: Diminution in value provided for.	(29.48)	(29.48)	(10.00)			
HBL Nife UK Ltd	71.59	35.88				
HBL Engineering Pte. Ltd Singapore					2.12	
HBL NIFE (M) BHD., Malaysia	20.03	20.03	20.03			
In other Companies						
IDBI Flexi Bonds			8.00	8.00	8.00	
Punjab Power Packs Ltd	1.22	1.22	1.22	1.22	1.22	1.22
Karios Engineering Ltd	9.00	9.00	9.00	9.00	9.00	9.00
Jedimetla Effluent Treatment Ltd			-	0.50	0.50	0.50
Rocket HBL, South korea			-	-	149.43	149.43
SBI Mutual Fund	2440.00					
Total	2620.06	144.35	135.95	186.84	338.39	191.10
of which investment in related parties	208.22	172.51	136.63	177.02	328.57	184.03

4. Sundry Debtors

(Rs. in Lacs)

Particulars	As At					
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Debts Exceeding Six Months	2676.89	1958.24	881.30	957.22	726.07	500.49
Other Debts	10215.26	9604.06	5700.49	4607.19	5512.48	5610.99
Total	12892.15	11562.30	6581.79	5564.41	6238.55	6111.48
Of which Related party out standings	171.86	199.57	139.56	23.19	8.21	

5. Loans & Advances & other Current Assets*(Rs. in Lacs)*

Particulars	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Adv. For investment pending allotment	78.61	52.90	80.48	38.88	0.00	2.12
Advance for purchases and others	1218.92	387.31	269.21	330.17	187.87	119.21
Other Advances	110.52	56.26	44.89	49.65	36.52	33.76
Excise and Customs deposit	53.51	112.08	73.48	48.66	126.84	176.53
Deposit with Govt. and others	323.17	237.46	276.03	240.79	235.21	204.32
Claims recoverable	326.55	201.60	153.72	123.64	182.07	99.27
Interest accrued	65.66	42.77	47.66	49.29	47.18	38.77
Advance Income Tax	24.01		0.00	0.18	69.60	44.63
Total	2200.95	1090.38	945.47	881.26	885.29	718.61
Of which related to related parties	57.38	61.45	79.98	136.38	31.94	2.12

6. Payments to SSI Units*(Rs. in Lacs)*

Particulars	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Amount Payable to SSI	494.65	241.34	764.75	669.27	501.40	525.51

HBL NIFE POWER SYSTEMS LIMITED

7. Related Party Transactions

(Rs. in Lacs)

Beneficiary	Nature of Transaction	31.12.05	31.03.05	31.03.04	31.03.03	31.03.02
Beaver Engineering Ltd.	Interest Paid	22.34	18.32	6.32	8.56	4.73
	Funds borrowed	200.00	170.00	72.00		60.00
	Funds returned			60.00		
	Purchase of share in Compact			18.07		
Compact Power Sources Pvt. Ltd.	Purchase of Goods					0.12
	Sales of goods				15.08	5.19
	Rent Received				1.20	0.20
	Funds given				98.07	20.81
	Interest Received				10.89	1.36
	Investment in shares					34.82
HBL NIFE (UK) Ltd.	Investment in shares	35.71			31.65	
	Advance for investment in shares	61.42	35.88	35.88		
	Sale of goods	202.90	346.77	164.86	14.89	
	Service received		18.87			
HBL Nife(M) Sdn Bhd.	Investment in shares				4.28	
	Sale of goods	34.98	49.41	9.07		
	Service rendered		3.80			
	Advance for investment in Shares			28.20		
Bhagirath Energy Systems Pvt. Ltd.	Investment in shares					107.60
	Purchase of Goods		2.30		259.44	
	Purchase of assets		61.44			
	Sale of goods				7.65	61.81
	Funds given					5.78
HBL Engineering Pte. Ltd.	Investment in shares					2.12
HBL Nife Egypt SAE, Egypt	Capital goods transfer				21.83	
	Investment in shares				2.45	
HBL ELTA Avionics Systems. Pvt. Ltd	Sale of Assets		15.74			
	Service rendered	5.22	31.01			
	Advance for investment in shares		5.00			

(Rs. in Lacs)

Beneficiary	Nature of Transaction	31.12.05	31.03.05	31.03.04	31.03.03	31.03.02
Kautilya Decision Support Systems. Pvt. Ltd	Purchase of Assets			1.12		
Kairos Engineering Ltd.	Service received	14.88	10.65	0.59		0.83
	Purchase of goods					29.23
	Purchase of Assets					83.57
	Funds Borrowed					3.70
	Funds given		0.50		3.70	
	Sale of Goods					1.27
	Rent received				0.60	0.60
	Advance for purchase			11.20		
Dr. A J Prasad	Funds Borrowed	20.00	30.00			
	Royalty Paid	25.58	49.32	40.73	59.43	17.97
	Remuneration Paid	83.38	90.13	7.88	36.87	36.70
	Interest Paid	2.68	1.32			
Ms. Kavita Prasad	Funds Borrowed		20.00			
	Rent Paid	1.80	2.40	2.40	2.40	2.40
	Interest Paid	1.51	0.88			
Mr. M S S Srinath	Remuneration Paid	5.88	7.02	5.56	5.41	4.86
	Interest Paid				2.85	3.3
Mr. Ashok Nagarkatti	Remuneration Paid	8.46	9.84			
Mr. P Satish Kumar	Remuneration Paid	5.24	6.05			
Mr. L C Gangarade	Remuneration Paid		3.28			

HBL NIFE POWER SYSTEMS LIMITED

Details of Related Parties

Particulars	31.12.2005	31.03.2005	31.3.2004	31.3.2003	31.3.2002
Holding Company	Beaver Engineering Ltd	Beaver Engineering Ltd	Beaver Engineering Ltd	Beaver Engineering Ltd	Beaver Engineering Ltd
Subsidiaries	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal	Bhagirath Energy Systems Ltd, Nepal
	HBL Nife(UK) Limited, UK	HBL Nife(UK) Limited, UK	HBL Nife(UK) Limited, UK	Compact Power Sources Private Ltd,	Hyderabad Compact Power Sources Private Ltd, Hyderabad
	HBL Technologies (M) Sdn Bhd, Malaysia.	HBL Technologies (M) Sdn Bhd, Malaysia.	HBL Technologies (M) Sdn Bhd, Malaysia.		HBL Engineering Pvt. Ltd.
Fellow Subsidiaries				Kautilya Decision Support Systems Pvt Ltd, Hyderabad	
Controlled Companies	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad
				Dastan Systems Limited, Hyderabad	
Proposed Subsidiaries				HBL Nife(UK) Limited, UK	
				HBL Technologies (M) Sdn Bhd, Malaysia.	
				HBL Nife Egypt, SAE, Egypt	
Proposed Joint Venture	HBL ELTA Avionics Systems Private Limited	HBL ELTA Avionics Systems Private Limited			
Joint Venture					Rocket HBL Ltd.,
Key Management Personnel	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad
	M S S Srinath	M S S Srinath	M S S Srinath	M S S Srinath	M S S Srinath
	Kavita Prasad	Kavita Prasad	Kavita Prasad	Kavita Prasad	Kavita Prasad
	Ashok Nagarkatti	Ashok Nagarkatti	U M Rao	U M Rao	
	P Satish Kumar	L C Gangrade	Gp. Capt. D Venkateswarulu(Retd)	Ashok Nagarkatti	
		P Satish Kumar	Ashok Nagarkatti	L C Gangrade	
			L C Gangrade	P Satish Kumar	
		P Satish Kumar			

8. The segment wise disclosure as required by the Accounting Standard AS-17 "Segment Reporting " issued by the Institute of Chartered Accountants of India is as under:

(Rs in Lacs)

Particulars	31.12.2005		2004-2005		2003-2004		2002-2003	
<u>Segment Revenue</u>								
Batteries								
Exports	4662.00		4269.00		3115.00		2616.00	
Domestic Sales	<u>22537.00</u>	27199.00	<u>24963.00</u>	29232.00	<u>14050.00</u>	17165.00	<u>16008.00</u>	18624.00
Electronics								
Exports	330.00		190.00		178.00		147.00	
Domestic Sales	<u>934.00</u>	1264.00	<u>2003.00</u>	2193.00	<u>1545.00</u>	1723.00	<u>1611.00</u>	1758.00
Unallocated		<u>581.00</u>		<u>1376.00</u>		<u>565.00</u>		<u>1.00</u>
Total		<u>29044.00</u>		<u>32801.00</u>		<u>19453.00</u>		<u>20383.00</u>
Less : Inter-segment Revenue		<u>127.00</u>		<u>226.00</u>		<u>215.00</u>		<u>112.00</u>
Gross Revenue		<u>28917.00</u>		<u>32575.00</u>		<u>19238.00</u>		<u>20271.00</u>
<u>Segment Result</u>								
Batteries		4901.00		4966.00		2971.00		4159.00
Electronics		61.00		(12.00)		60.00		(288.00)
Unallocated		<u>182.00</u>		<u>216.00</u>		<u>(326)</u>		<u>(261.00)</u>
Total		<u>5144.00</u>		<u>5170.00</u>		<u>2705.00</u>		<u>3610.00</u>
Less : Interest		969.00		967.00		677.00		889.00
Unallocable expenditure net of unallocable income		<u>1638.00</u>		<u>1614.00</u>		<u>781.00</u>		<u>1339.00</u>
Net Profit before taxes		<u>2537.00</u>		<u>2589.00</u>		<u>1247.00</u>		<u>1382.00</u>
<u>Segment Assets</u>								
Batteries		26740.00		23569.00		16626.00		14385.00
Electronics		1554.00		1648.00		1542.00		1275.00
Unallocated		<u>9598.00</u>		<u>4578.00</u>		<u>3036.00</u>		<u>4552.00</u>
Total Assets		<u>37892.00</u>		<u>29795.00</u>		<u>21204.00</u>		<u>20212.00</u>
<u>Segment Liabilities</u>								
Batteries		5369.00		5686.00		3758.00		2511.00
Electronics		589.00		649.00		580.00		530.00
Unallocated (includes Term Loans, Bank Loans, Hire Purchase Loans)		<u>13515.00</u>		<u>11041.00</u>		<u>6685.00</u>		<u>7432.00</u>
Total Liabilities		<u>19473.00</u>		<u>17376.00</u>		<u>11023.00</u>		<u>10473.00</u>
<u>Segment Capital expenditure during the year</u>								
Batteries		1828.00		1496.00		1015.00		969.00
Electronics		5.00		14.00		66.00		48.00
Unallocated		<u>324.00</u>		<u>465.00</u>		<u>76.00</u>		<u>595.00</u>
Total		<u>2157.00</u>		<u>1975.00</u>		<u>1157.00</u>		<u>1155.00</u>
<u>Segment Depreciation</u>								
Batteries		378.00		434.00		372.00		330.00
Electronics		18.00		22.00		25.00		25.00
Unallocated		<u>91.00</u>		<u>111.00</u>		<u>99.00</u>		<u>71.00</u>
Total		<u>487.00</u>		<u>567.00</u>		<u>496.00</u>		<u>426.00</u>

HBL NIFE POWER SYSTEMS LIMITED

Note:

1. Inter segment revenue is measured at the market prices at which the products are sold to external customers.
2. Battery segment consists of various types of batteries for defense, aviation, telecom and industrial application.
3. Electronics segment consists of various electronic products for telecom, railways and industrial application
4. Exports include deemed export sales also.

9. Earning per Shares (EPS) as per AS-20

Particulars	Period ended					
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002	31.03.2001
Earning per share (Rs.)	7.42	9.19	4.31	5.13	5.73	7.03

10. Contingent Liabilities:

Contingent Liabilities are not provided and are disclosed by way of notes:

a. Details of contingent liabilities as on 31.3.2005

- a. Unexecuted portion of Letters of Credit opened by Banks Rs.370.65 lacs (Previous year Rs.1069.35 lacs).
- b. Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs.3678.80 lacs (Previous year Rs. 2665.57 lacs).
- c. Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or Concessional rate of duty pending fulfillment of export obligations Rs.1339.82 lacs (Previous year Rs. 1292.71 lacs) against which export obligation has been fulfilled to the extent of Rs. 404.98 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.
- d. Claims against the Company not acknowledged as debts:-
 - Excise claims of Rs 94.85 lacs under dispute (previous year Rs. 94.85 lacs).
 - Sales Tax (CST) claims of Rs.11.77 lacs.
- e. Other Claims against the company not acknowledged as debts Rs. 50.99 lacs (previous year Rs.58.90 lacs).
- f. Income Tax disputed liability Rs.38.26 lacs in appeal before CIT (Appeals) not provided for.
- g. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs.580.23 lacs (previous year Rs.295.09 lacs).

b. Details of contingent liabilities as on 31.12.2005

- a. Unexecuted portion of Letters of Credit opened by Banks Rs. 923.99 lacs (Previous year Rs.370.65 lacs).
- b. Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs.4672.31 lacs (Previous year Rs. 3678.80 lacs).
- c. Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or concessional rate of duty pending fulfillment of export obligations Rs.2013.5 lacs (Previous year Rs. 1339.82 lacs) against which export obligation has been fulfilled to the extent of Rs.859.67 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.
- d. Claims against the Company not acknowledged as debts:-
 - Excise Duty claim of Rs 94.85 lacs (previous year Rs. 94.85 lacs) towards differential duty on the supplies made to Ministry of Defence which is pending for disposal before Excise Authorities.
 - Sales Tax (CST) claims of Rs 11.77 lacs (previous year. 11.77 lacs).
- e. Other Claims against the company not acknowledged as debts Rs. 50.99 lacs (Previous year Rs. 50.99 lacs).
- f. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 822.20 lacs (Previous year Rs. 580.23 lacs).
- g. There is a claim by SAFT AKTIEBOLAG, Sweden on the Subsidiary Company HBL (UK) along with holding Company HBL NIFE POWER SYSTEMS LIMITED for infringement of the Trade Mark "NIFE" in UK, which is contested in the Royal Court of Justice, London, UK. However the claim that is lodged is seeking a maximum of £.200,000/-towards the damages equal to INR 160 Lakhs. No provision is made as the same is contested upon

Annexure VI

Cash Flow Statement as per restated, unconsolidated financial statements

(Rs. in Lacs)

Particulars	Period ended					
	31.12.2005	31.03.2005	31.3.2004	31.3.2003	31.3.2002	31.3.2001
A. CASH FLOW FROM OPERATING ACTIVITIES						
Net profit before Tax and Extraordinary items	2536.63	2725.29	1246.82	1743.45	1368.65	1561.72
Adjustment for :-						
Depreciation	486.70	567.55	497.07	425.93	360.62	311.39
Interest paid on term loans	220.45	259.36	263.69	339.11	412.88	433.16
Rent Received				(1.80)	(0.80)	(3.00)
Dividend Income	-	-	-	-	-	-
Equipment Hire Charges Received				(15.06)	(25.80)	(14.90)
Profit on sale of Fixed Assets	(0.56)	(0.24)	(35.01)	-	-	-
Preoperative Expenses written off		(60.09)				
Loss on sale of fixed assets	0.22	3.91	56.34	1.72	-	-
Deferred revenue expenses w/o	39.05	52.06	52.06	52.06	61.09	9.03
Deposits written off		(56.72)				
Diminution in value of investments			(19.47)	10.00	-	
Provision for Bad and doubtful debts			8.33	-		
Provisions		191.84	(36.28)	0.81	(111.39)	72.21
Operating Profit before WC Changes	3282.48	3663.49	2063.02	2546.22	2065.25	2369.61
(Increase) / Decrease in Sundry Debtors	(1329.86)	(4980.50)	(1025.72)	674.14	(127.07)	(1075.02)
(Increase) / Decrease in Inventories	(1989.17)	(2001.75)	126.04	(377.46)	(232.61)	(477.48)
(Increase) / Decrease in Loans & Advances	(1160.58)	(144.91)	(64.21)	(65.39)	(141.70)	312.29
Increase / (Decrease) in Current Liabilities	876.18	1809.09	1122.13	(657.52)	690.55	(78.00)
Cash generated from Operations	(320.95)	(1654.58)	2221.26	2119.99	2254.41	1051.40
Expenditure on employee VEBF/ VRS	(1.00)	(23.30)	(11.45)	(278.61)		
Income Taxes Paid	(657.01)	(699.17)	(191.88)	(213.58)	(262.19)	(223.33)
Interest received on IT refunds	-	-	-	-	-	27.82
Deferred revenue expenditure incurred			-	-	(264.10)	
Net Cash flow from Operating activities	(978.96)	(2377.05)	2017.93	1627.80	1728.12	855.89
B. CASHFLOW FLOW FROM INVESTING ACTIVITIES						
Purchase of Fixed Assets	(2452.87)	(2005.05)	(1267.05)	(1640.80)	(1153.48)	(931.01)
Sale / (Purchase) of Investments	(2475.71)	(8.41)	40.89	68.63	(147.29)	(34.60)
Sale of Fixed assets	11.58	22.89	71.54	20.03	-	-
Net out flow on Amalgamation of Subsidiary (net of monetary interest).			(141.48)			-
Dividend received						
Rent Received			-	1.80	0.80	3.00
Equipment Hire Charges Received			-	15.06	25.80	14.90
Net Cash Flow from Investing Activities	(4917.00)	(1990.57)	(1296.10)	(1535.28)	(1274.17)	(947.71)
C. CASH FLOW FROM FINANCING ACTIVITY						
Proceeds from issue of share capital	200.00					
Share premium	4900.00					
Interest free sales tax loan received	72.62	395.29	87.53	300.61		
Investment Subsidy Received				45.77		
Proceeds from Long-term Borrowings	1790.45	931.52	(790.81)	(115.51)	84.31	278.50
Increase / (Decrease) in Unsecured Loans		214.70	(4.70)			
Proceeds from working capital borrowings	(299.17)	3387.20	51.16	731.79	(44.37)	158.75
Dividend paid	(343.31)	(271.73)	(339.66)			(359.45)
Interest Paid	(220.45)	(259.36)	(263.69)	(339.36)	(413.05)	(434.22)
Net Cash flow used in Financing Activity	6320.14	4397.62	(1260.17)	623.30	(373.11)	(356.42)
Net Increase in Cash and Equivalents (A+B+C)	424.18	30.00	(538.34)	715.82	80.84	(448.24)
Cash and Equivalents at the beginning of the period	1238.70	1208.70	1747.03	1031.21	950.37	1398.61
Cash and Equivalents at the end	1662.88	1238.70	1208.69	1747.03	1031.21	950.37

HBL NIFE POWER SYSTEMS LIMITED

Annexure-VII

Particulars	31.12.05	31.03.05	31.03.04	31.03.03	31.03.02	31.03.01
Earning Per share (EPS in Rs.)	8.04	9.13	4.33	5.10	5.73	5.72
Net Assets Value per share (NAV in Rs.)	83.22	57.91	50.20	47.69	43.79	39.09
Return on Net Worth (RONW) %	9.02	15.76	8.63	10.69	13.09	14.63
Weighted Average number of Equity Shares Outstanding during the year/ Periods	*20613331	20072323	20072323	20072323	20072323	20072323

Allotment of 20 lacs Equity share on 28.10.2005 taken into consideration for calculation-weighted number of shares, hence EPS for the period 31.12.05 is adjusted with.

EPS is on the basis of the restated PAT as per Annexure-I.

Earning Per Share	:	Restated PAT/ No of Shares
Net Asset Value Per share	:	Net Worth/ No of shares
Return on Net Worth	:	Restated PAT/Net Worth
Net worth	:	(Share Capital + Reserves & Surplus)-(Misc.Exp + Pre.Exp)

Annexure-VIII

Capitalization Statement

(Rs. in Lacs)

Debt	31.12.2005	Post Issue
Long term debt	4335.03	4335.03
Payable with in one year	512.00	512.00
Working Capital Loan	6439.48	6439.48
Short term debt	1718.77	1718.77
Total Debt	13005.28	13005.28
Share holders fund		
Share Capital	2207.23	2427.95
Investment subsidy	55.77	55.77
Share Premium Reserve	5083.79	7070.30
General Reserve	8500.00	8500.00
Capital Reserve	1.02	1.02
Prior Period Exp.	20.09	20.09
Profit and Loss Account	2571.62	2571.62
Total Share holders fund	18439.52	20646.75
Long term debt/Equity	0.71	0.63

(Changes after 31.12.2005 not considered for reporting post issue figures)

(Rs. in Lacs)

Particulars	31.12.05	Pre Issue	Additions (Rights Issue)	Post Issue
Share holders Funds				
Share Capital	2207.23	2207.23	220.72	2427.95
Share Premium A/c	5083.79	5083.79	1986.51	7070.3
General Reserve	8500.00	8500.00		8500.00
Profit and Loss Account	2571.62	2571.62		2571.62
Others	76.88	76.88		76.88
Total Share holders Funds	18439.52	18439.52	2207.23	20646.75

Annexure-IX**Tax Shield Statement***(Rs. in Lacs)*

Year Ending	31.03.2005	31.3.2004	31.3.2003	31.3.2002	31.3.2001
Normal Profit	2589.00	1246.82	1381.92	1368.65	1589.54
Tax rate	0.37	0.37	0.37	0.36	0.40
Tax on Normal Profit	947.31	456.24	507.86	488.61	628.66
Savings					
Timing diff of Dep.	-243.22	-204.36	-211.42	-200.27	-237.82
Export Earnings		-9.81	-16.33	-29.73	-21.71
80IA	-167.75	-34.58	-43.64	-161.09	-253.61
Permanent Diff	45.00	-13.36	86.09	105.38	46.28
Net Tax Paid	581.34	194.13	322.56	202.89	161.81
Tax Shield	365.97	262.11	185.3	285.72	466.86

Annexure-X

Statement of Possible Tax Benefits

A. Under the Income-tax Act, 1961 (“the Act”)

1. BENEFITS AVAILABLE TO THE COMPANY

Deduction U/Sec. 80IB (5)(ii)

As per the provisions of Section 80IB(5)(ii) of the Act, the Company is eligible to claim a benefit with respect to profit derived from an Industrial undertaking located in industrially backward district. The benefits under this clause shall be 100% of the Profits & Gains derived for 3 Assessment Years beginning with the initial assessment year and thereafter 30% of the Profits and Gains of such undertaking. Accordingly the Company is eligible for deduction under Section 80IB(5)(ii) @ 30% of eligible profits for the remaining period i.e. for the Accounting Years 2005-06 subject to availability of profits from such undertakings.

Dividends exempt under Section 10(34)

Dividends received by the company from other domestic companies are exempt in the hands of Company as per the provisions of Section 10 (34) of the Act.

2. BENEFITS AVAILABLE TO RESIDENT SHAREHOLDERS

- (1) Under section 10(34) of the Act, any income by way of dividends referred to in section 115-O (i.e. dividends declared, distributed or paid on or after 1 April 2003 by the Company) is exempt from tax.
- (2) Under section 10(38) of the Act, any income arising from the transfer of a long-term capital asset, being an equity share in the company is exempt from tax where the transaction of sale of such equity share or unit is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under that Chapter.
- (3) If the long-term specified asset is transferred or converted (otherwise than by transfer) into money at any time within a period of three years from the date of acquisition, the amount of capital gains on which tax was not charged earlier shall be deemed to be income chargeable under the head “Capital Gains” of the year in which the specified asset is transferred or converted (otherwise than by transfer) into money.
- (4) Under section 54ED of the Act, and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act) on the transfer of the shares of the Company, after the shares are listed, will be exempt from tax if the gains are invested in equity shares forming part of an eligible issue of capital, within a period of six months after the date of such transfer. “Eligible issue of capital” means an issue of equity shares which satisfies the following conditions, namely –
 - a. the issue is made by a public company formed and registered in India;
 - b. the shares forming part of the issue are offered for subscription to the public.

In such a case, the cost of such equity shares will not qualify for tax rebate under section 88.

- (5) Under section 111A of the Act, short term capital gains arising from the transfer of a capital asset, being an equity share in the company shall be taxed at a rate of 10% (plus applicable surcharge and education cess) where the transaction of sale of such equity share is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under that Chapter.
- (6) Under section 112 and other relevant provisions of the Act, long term capital gains, (in cases not covered under section 10(38) of the Act), arising on transfer of shares in the Company, shall be taxed at a rate of 20% (plus applicable surcharge and education cess) after indexation as provided in the second proviso to section 48. The amount of such tax shall however, not exceed 10% (plus applicable surcharge and education cess) without indexation, if the transfer is made after listing of the shares of the Company.

3. Non Resident Shareholders [Other than FIs and foreign companies]

- (1) A non-resident Indian (i.e. an individual being a citizen of India or person of Indian origin who is not a ‘resident’) has an option to be governed by the provisions of Chapter XII-A of the Act, viz. “Special Provisions Relating To Certain Incomes of Non-Residents” which are as follows:-

- a. Under section 115E of the Act, where shares in the company are acquired or subscribed for in convertible foreign exchange by a non-resident Indian, capital gains arising to the nonresident Indian on transfer of shares held for a period exceeding 12 months shall (in cases not covered under section 10(38) of the Act) be concessional tax at the rate of 10% (plus applicable Surcharge and education cess).
 - b. Under section 115G of the Act, it shall not be necessary for a Non-Resident Indian to furnish his return of income if his income chargeable under the Act consists of only investment income or long term capital gains or both arising out of specified assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted there from.
- (2) Under section 10(34) of the Act, any income by way of dividends referred to in section 115-O (i.e. dividends declared, distributed or paid on or after 1 April 2003 by the Company) is exempt from tax.
 - (3) Under section 10(38) of the Act, any income arising from the transfer of a long-term capital asset, being an equity share in the company is exempt from tax where the transaction of sale of such equity share is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under that Chapter.

4. Foreign Institutional Investors (FIIs)

- (1) Under section 10(34) of the Act, any income by way of dividends referred to in section 115-O (i.e. dividends declared, distributed or paid on or after 1 April 2003 by the Company) is exempt from tax.
- (2) Under section 10(38) of the Act, any income arising from the transfer of a long-term capital asset, being an equity share in the company is exempt from tax where the transaction of sale of such equity share or unit is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under that Chapter.
- (3) Under section 54ED of the Act and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act) on the transfer of the shares of the Company, after the shares are listed, will be exempt from capital gains tax if the capital gains are invested in equity shares forming part of an eligible issue of capital, within a period of six months after the date of such transfer. "Eligible issue of capital" means an issue of equity shares which satisfies the following conditions, namely –
 - (a) the issue is made by a public company formed and registered in India;
 - (b) the shares forming part of the issue are offered for subscription to the public.

In such a case, the cost of such equity shares will not qualify for tax rebate under section 88.

- (4) Under section 111A and other relevant provisions of the Act, short term capital gains arising from the transfer of a capital asset, being an equity share in a company shall be taxed at a rate of 10% (plus applicable surcharge and education cess) where the transaction of sale of such equity share is entered into on or after the date on which Chapter VII of the Finance (No. 2) Act, 2004 comes into force and the transaction is chargeable to securities transaction tax under the Chapter.
- (5) Under section 115AD of the Act, FIIs will be taxed at 10% (plus applicable surcharge and education cess) on long-term capital gains (in cases not covered under section 10(38) of the Act) and at 30% (plus applicable surcharge and education cess) on short-term capital gains arising on the sale of the shares of the Company.

However the short term capital gains referred to in section 111A of the Act shall be taxable at the rate of 10% (plus applicable surcharge and education cess).

B. Under the Wealth Tax Act, 1957

Shares of the company will not be treated as an asset within the meaning of section 2(ea) of the Wealth Tax Act, 1957, hence the shares will not be liable to wealth-tax.

HBL NIFE POWER SYSTEMS LIMITED

Annexure-XI

Details of Loans

A. DETAILS OF SECURED LOANS

(Rs.in Lacs)

	31.12.2005	31.3.2005	Particulars
Term Loan			
Industrial Development Bank of India	702.00	1053.14	Secured by a first charge on the movable and immovable assets and (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
HDFC New Delhi (Project Loan)	17.20	27.31	Secured by an exclusive charges on the Land and Building situated at Noida U.P. The loan is also guaranteed by the Managing Director of the Company in his personal capacity.
Corporate Loan- Industrial Development Bank of India	281.25	300.00	Secured by a first charge on the movable and immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
Corporate Loan- State Bank of Indore	949.92	1059.04	Secured by a first charge on the movable and immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
SBI Corporate Loan	2120.93	-	Secured by a first charge on the movable assets & immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
State Bank of Hyderabad – Corporate Loan	94.63		Secured by a first charge on the movable assets & immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
HDFC Hyderabad	27.98	20.00	Hypothecation of House situated at Begumpet purchased out of loan. The loan is also guaranteed by the Managing Director of the Company in his personal capacity.

Annexure-XI (Continued...)**Cash Credit Facility**

State Bank of India	3156.44	4128.35	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
State Bank of Hyderabad	597.02	598.39	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
State Bank of Indore	447.88	456.41	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
IDBI Bank	276.39	96.33	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity

Export Packing Credit

State Bank of India	761.63	488.10	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
State Bank of Hyderabad	68.45	51.46	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
IDBI	74.38	41.22	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
State Bank of Indore	0.18	151.53	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity

HBL NIFE POWER SYSTEMS LIMITED

Annexure-XI (Continued...)

Bills Discounted

IDBI Bank	235.22		Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
SBI Factors	319.02	266.85	All the present and future book debts of the company in respect of agreed customers shall stand hypothecated to the factor by way of first charge. The loans is also guaranteed by Managing Director of the company in his personal capacity
SBI Stand by line of Credit	502.87	460.00	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
From other (Under hire purchase scheme)	141.12	85.09	Secured by exclusive hypothecation of assets acquired under hire purchase scheme and guaranteed by one Director of the company in his personal capacity.
Total	10774.51	9283.23	

B. UNSECURED LOANS

(Rs. in Lacs)

Particulars	31.12.2005	31.3.2005	31.3.2004	31.3.2003	31.3.2002	31.3.2001
Interest Free Sales Tax Loans*	1718.77	1646.15	1250.87	1163.34	862.73	721.11
Inter Corporate Deposit Received	442.00	242.00	72.00	60.00	60.00	0.00
Unsecured Loans are from Directors (former)/ Promoters	70.00	50.00	-	22.00	22.00	22.00
From Others	0.00	0.00	5.30	-	-	-
Total	2230.77	1938.15	1328.17	1245.34	944.73	743.11
of which due to related parties	512.00	292.00	72.00	82.00	82.00	22.00

*Interest free sales tax loan shown under unsecured loans represents the sales tax payable by the company, given as a loan by Andhra Pradesh Government to be repaid without interest after 14 years from the date of availment. The loans require creation of charge on the assets of the company. Pending creation of charge the amount is shown under unsecured loans and will be regrouped under secured loans as when charge is created.

Unsecured loans include Loan from Directors and Holding Company as already stated under related party transaction (Annexure VII) at @10% interest per annum which is repayable on demand.

Annexure- XII**Details of Other Income***(Rs. in Lacs)*

Particulars	31.12.2005	31.03.2005	31.3.2004	31.3.2003	31.3.2002	31.3.2001
Interest Received	49.98	56.63	72.83	99.24	91.56	107.71
Rent received				1.80	0.80	3.00
Equipment Hire Charges received				15.06	25.81	14.90
Bad debts written off recovered	4.50			7.07		
Claims received	7.32	6.72	3.68		0.54	27.50
Misc. Income	3.65	4.99	7.25	0.70	9.25	4.70
Interest received on IT refunds			12.94	5.31		27.82
Foreign Exchange Variation	3.37	24.83				
Profit on sale of assets	0.56	0.25	35.00	0.56		
Profit on sale of Investment			0.31			
Excess provisions written back	10.28	31.39	24.25		22.37	28.19
Credit balances written back	10.40	94.04	53.08	34.29		
Total Other Income	90.06	218.85	209.34	164.03	150.33	213.82

Annexure-XIII**Rate of Dividend Paid**

Particulars	31.12.2005	31.3.2005	31.3.2004	31.3.2003	31.3.2002	31.3.2001
Rate of Dividend (%)	NA	15	12	15	-	-

HBL NIFE POWER SYSTEMS LIMITED

B) Consolidated Financial Information of HBL NIFE Power Systems Limited (HNPS)

From:

Satyanarayana & Co.
Chartered Accountants
5-5-88/5, Amar Mansion
Ranigunj
Secunderabad 500 003

Auditors' Report

15th April, 2006

To
The Board of Directors
HBL Nife Power Systems Ltd
Hyderabad

Dear Sirs,

1. We have examined the consolidated financial information of HNPS annexed to this report which have been prepared in accordance with the requirements of:
 - Paragraph B (1) of Schedule II to the Companies Act, 1956
 - The Securities & Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 issued by the SEBI on January 19,2000 in pursuance of Section 11 SEBI Act, 1992
 - The terms of reference received from the Company, requesting us to carry out the work, proposed to be included in the offer documents of the company in connection with the proposed Rights Issue.

Financial Information

2. We have examined the attached restated consolidated summary statements of assets and liabilities of the Company, HNPS and its subsidiaries as at 31st December, 2005, 31.03.2005, 31.03.2004, 31.03.2003 and 31.03.2002 and the related consolidated statement of Profit and Loss for the period ended 31st December, 2005 & year ended 31.03.2005, 31.03.2004,31.03.2003 and 31.03.2002 (Annexure I & II) as prepared by the company and approved by the Board of Directors. These profits have been arrived at after making such adjustments and regroupings as in our opinion appropriate and more fully described in the notes appearing in Annexure III to this report.

The summary statements for the years ended 31.03.2005, 31.03.2004, 31.03.2003 and 31.03.2002 have been prepared from the Restated Financial Statements of the Company and its subsidiaries and from financial statements of subsidiaries which have been audited by their respective auditors and in our opinion, is so far as it relate to the amounts included in respect of such subsidiaries, is based solely on the reports of their respective auditors. The financial statements of HBL NIFE (M) Sdn. Bhd., Malaysia have been audited by the local auditor whose report has been furnished to us and our opinion in so far as it relates to the amount included in respect of the subsidiary is based solely on the report of the other auditor. As per the Audited financial statements compiled and certified by the auditors who have expressed a qualified opinion on the nature of the scope of work but simultaneously have expressed a true and fair opinion on the financial statements of HBL NIFE (UK) a wholly owned subsidiary in UK. In respect of Bhagirath Energy Systems Private Limited, Nepal a wholly owned subsidiary which is under liquidation, a Statement of Affairs as on 31st December, 2005 has been furnished to us which was Unaudited and the same has been considered and included in the consolidated financial statements.

3. The consolidated summary statements do not take into account or make any adjustments for the events subsequent to audit reports dated 10th April, 2006, 29th June 2005, 28th June 2004, 20th June, 2003 and 31st July, 2002 on the financial statements for the financial periods ended on 30.09.2005, 31.03.2005, 31.03.2004, 31.03.2003 and 31.03.2002 respectively.
4. These consolidated summary statements have been extracted by the company's management from the consolidated financial statements of the company for the respective year, which have been prepared in accordance with the requirement of Accounting Standard (AS) 21 "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.
5. The summary of significant accounting policies adopted by the company along with the notes pertaining to the consolidated financial statements for the year ended March 31,2005 together with notes pertaining for the period ended 31st December, 2005. are enclosed as Annexure IV and V to this report

6. We have examined the above-referred Annexures and based on our examination of these summary statements we confirm that:
 - a. The prior periods items have been adjusted in the summary statements in the year to which they relate;
 - b. The extraordinary items which need to be disclosed separately in the summary statements, are appropriately disclosed; and
 - c. There are no qualifications in the Auditors Report, which require any adjustments in the summary statements.
7. The summary of significant accounting policies adopted by the company together with the notes pertaining to the audited financial statements for the year ended March 31,2005 together with notes pertaining to period ended 31.12.2005 are enclosed as **Annexure IV** and **Annexure V** to this report
8. The summary statements do not take into account or make any adjustments for the events subsequent to the Audit Reports dated 10th April, 2006, 29th June 2005, 28th June 2004, 20th June 2003, 25th May 2002 and 30th June 2001 on the financial statements for the nine months period ended 31st December 2005 and financial year ended on 31st March 2005, 31st March 2004, 31st March 2003, 31st March 2002 and 31st March 2001 respectively.

Other Financial Information:

We have examined the following financial Information proposed to be included in the offer document annexed to this report.

1. Restated Statement of cash flows is enclosed as **Annexure VI**;
2. Accounting ratios based on the restated profits relating to earnings per share, net asset value and return on net worth is enclosed in **Annexure VII**;
3. Capitalization statements as at December 31, 2005 is enclosed in **Annexure VIII**;
4. Details of Loans appearing in **Annexure IX** to the report;
5. Details of other incomes appearing in **Annexure X** of the report;
6. The rates of dividend paid by the Company for the year ended March 31, 2005, 2004, 2003, 2002 and 2001 are as shown in **Annexure XI** to this report.
9. In our opinion, the “Financial information as per Audited Financial Statements” and “Other Financial Information” mentioned above have been prepared in accordance with Part II of Schedule II of the Act.
10. This report is intended solely for your information and for the inclusion in the offer document in connection with the proposed Right issue of the company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **Satyanarayana & Co,**
Chartered Accountants

Ch. Seshagiri Rao
Partner
Membership No. 18523

HBL NIFE POWER SYSTEMS LIMITED

HBL NIFE POWER SYSTEMS LIMITED (Consolidated) Annexure – I

Summary Profit & Loss Account, as restated

The consolidated Profit/ (Loss) of HBL Nife Power Systems Limited for the period from 1st April, 2005 to 31st December, 2005 and the consolidated Profit and Loss Account for the financial years ended 31st March, 2005, 2004, 2003 and 2002 after making adjustment of certain matters (refer Annexure III below) and read with significant accounting policies (refer annexure IV below) and notes to accounts (refer Annexure V below), are as set out below:

(Rs. in Lacs)

PARTICULARS	Period / Year Ended				
	Audited				
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Income					
Sales:					
Domestic Sales	21855.67	26750.49	15457.97	18355.72	15280.90
Export Sales	5131.27	4891.90	3296.37	2023.51	2200.17
Job wok &Others	2040.41	1501.16	738.27	208.87	129.28
Gross Sales	29027.35	33143.55	19492.61	20588.10	17610.35
Less: Excise Duty & Sales Tax	3683.99	4195.25	2335.97	2694.80	2448.44
Net Sales	25343.36	28948.30	17156.64	17893.30	15161.91
Other Income	90.81	218.84	209.34	164.11	150.36
Total	25434.17	29167.14	17365.98	18057.41	15312.27
Expenditure					
Material cost	15094.33	17366.09	9394.17	9054.67	7587.89
Manufacturing cost	1527.80	1770.72	1148.63	1142.29	943.96
Employees cost	2033.63	2628.59	2301.12	2469.81	2159.07
Administrative and Selling Cost	2757.11	3087.09	2161.12	2325.23	2044.68
Finance Cost	968.78	969.88	679.00	908.44	896.78
Depreciation	489.74	572.69	506.13	431.34	362.30
Total	22871.39	26395.06	16190.17	16331.78	13994.68
Net Profit before extraordinary items and tax	2562.78	2772.08	1175.81	1725.63	1317.59
Extraordinary items		116.82		361.52	
Adj. for loss of Subsidiary on windingup		17.30			
Minority Interest - C/Y share of loss		(0.74)	(3.54)		
Profit before Tax	2562.78	2638.70	1179.35	1364.11	1317.59
Current Tax	674.00	525.00	175.00	300.00	225.00
Deferred Tax (refer Annexure – III)	69.75	192.63	164.45	69.50	(22.50)
Fringe benefit Tax	56.57				
Income Tax & Wealth tax adj. Relating to previous year	99.35	26.57	41.29	(17.00)	12.22
Excess Depreciation written back					(15.28)
Prior Period Items(refer Annexure- III)	20.09	(12.91)	3.64	(5.84)	0.32
Adjusted Profit after tax	1683.20	1881.59	802.25	1005.77	1118.47
Brought forwarded Profit/ (Loss) from Pre Year	889.01	550.73	625.59	412.96	794.49
Reserval of Minority Interest of Last year			44.30		
Reversal of Loss of Subsidiary			86.76	2.22	
Others					
APPROPRIATIONS					
Reserve written back			(17.35)		
General Reserve		1200.00	709.50	500.00	1500.00
Proposed Dividend		301.08	240.86	301.08	
Tax on Proposed Dividend		42.23	30.86	38.58	
Profit/ (Loss) transferred to Balance Sheet	2572.21	889.01	550.73	625.59	412.96

HBL NIFE POWER SYSTEMS LIMITED (Consolidated)

Annexure – II

Summary Assets And Liabilities, as restated

The Assets and Liabilities of M/s. HBL Nife Power Systems Limited (Consolidated) as at the Financial Period/ year(s) ended 31st December, 2005 and the consolidated Assets/Liabilities as at, March 31, 2005, March, 31, 2004, 2003 and 2002 after making adjustments of certain matters (refer Annexure III below) and read with significant accounting policies (refer Annexure IV below) and Notes to account (refer Annexure V below) are as set out below:

(Rs. in Lacs)

Particulars	Audited				
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Sources of Funds					
Shareholders Funds					
1. Share Capital	2207.23	2007.23	2007.23	2007.23	2007.23
2. Minority Interest			0.74		
3. Reserves and Surplus	16231.56	9648.23	8096.83	7630.31	6915.07
Loan Fund					
Secured Loans	10774.51	9283.23	4964.50	5737.55	5150.20
Unsecured Loans	2230.77	1938.16	1328.17	1254.14	956.35
Deferred taxes					
Deferred Income tax	740.83	671.08	478.45	314.00	244.50
Total	32184.90	23547.93	16875.92	16943.23	15273.35
Application of Funds					
Fixed Assets	14394.65	12728.93	11083.30	9676.96	8105.76
Less: Depreciation	3636.50	3148.08	2588.44	2114.97	1689.32
Net Fixed Assets (1)	10758.15	9580.85	8494.86	7561.99	6416.44
Capital works in progress(2)	1539.43	763.54	502.97	807.79	767.17
Investments(3)	2450.32	10.32	18.32	22.50	170.47
Current Assets, Loans and Advances					
Inventories	7359.39	5359.40	3347.14	3516.10	3113.53
Receivables	12987.07	11435.95	6529.10	5579.96	6256.89
Cash & Bank Balances	1760.44	1416.18	1248.82	1768.05	1033.29
Loans & Advances	2128.06	1089.46	878.34	785.13	863.40
Total	24234.96	19300.99	12003.40	11649.24	11267.11
Less: Current Liabilities and Provisions					
Current Liabilities	6522.72	5678.95	3865.80	2759.34	3407.96
Provisions	346.27	484.67	385.74	499.43	152.80
Total	6868.99	6163.62	4251.54	3258.77	3560.76
Net Current Assets (4)	17365.97	13137.37	7751.86	8390.47	7706.35
Miscellaneous expenditure (to the extent not written off)					
Deferred revenue expenditure (5)	71.03	55.85	107.91	160.48	212.92
Total	32184.90	23547.93	16875.92	16943.23	15273.35

HBL NIFE POWER SYSTEMS LIMITED

HBL NIFE POWER SYSTEMS LIMITED (Consolidated)

Annexure-III

Notes to Adjustments and Grouping

Deferred Taxes and Prior Period adjustments

Accounting Standard – 22 on “Accounting for Taxes on Income” (AS-22) issued by the Institute of Chartered Accountants of India (ICAI) is mandatory in respect of accounting periods commencing on or after April 1, 2002. As per the said accounting Standard, deferred tax assets/liabilities as on April 1, 2002 was appropriated from the balances as appearing in general reserve. However, to maintaining uniformity these restated accounts have been increased wherein the deferred tax liability has been recognized in 31.3.2001. Similarly, Prior Period items have been adjusted in the year to which they relate. Accordingly, the summary Profit and Loss Account (Annexure I) is regrouped, with corresponding effect in the carrying amount of Reserves & Surplus and Deferred Tax Liability in the Summary of Assets & Liabilities (Annexure II), as per the adjustment/grouping below:

(Rs. in Lacs)

Particulars	Period / Year Ended				
	Audited				
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Profit / (Loss) before Tax	2562.78	2638.70	1179.35	1364.11	1317.59
Prior Period Items	20.09	(12.91)	3.64	(5.84)	0.32
Adj. Profit/ Loss	2582.87	2625.79	1182.99	1358.27	1317.91
Current Tax	674.00	525.00	175.00	300.00	225.00
Fringe Benefit Tax	56.57				
Prior years tax adjustment	99.35	26.57	41.29	(17.00)	12.22
Deferred Tax	69.75	192.63	164.45	69.50	(22.50)
Excess Depreciation written back					(15.28)
Net Profit / (Loss)	1683.20	1881.59	802.25	1005.77	1118.47
Adjusted Profit/(Loss) after Tax	1683.20	1881.59	802.25	1005.77	1118.47

Annexure IV**Accounting Policies and Notes on Accounts as on 31.03.2005****A) Significant Accounting Policies****1. Basis for preparation of accounts:**

- a) The accounts of HBL Nife Power Systems Limited the Holding Company have been prepared to comply in all material aspects with applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Indian Companies Act, 1956.
- b) The accounts of foreign subsidiaries, M/s HBL Nife (UK) Limited, United Kingdom and HBL NIFE (M) SDN BHD, Malaysia have been prepared in compliance with the local laws and applicable Accounting Standards, and have been recast to comply with the accounting policies followed by the parent company, HBL Nife Power Systems Limited, for the limited purpose of Consolidation.
- c) Bhagirath Energy Systems Private Limited a wholly owned subsidiary company in Nepal is under voluntary winding up. Therefore, the statement of affairs of this company as certified by the official liquidators are directly consolidated into the Balance Sheet. No separate profit and loss is prepared as there are no operations except the transactions incidental to winding up of the company.

2. Principles of consolidation:

- a) The financial statements have been consolidated on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating intra-group balances and the unrealised profits/losses on intra-group transactions.
- b) In case of associates where the company, directly or indirectly through subsidiaries, holds more than 20% equity, investments in associates are accounted for using equity method in accordance with the Accounting Standard (AS)-23 – “ Accounting for investments in Associates in consolidated financial statements” issued by the Institute of Chartered Accountants of India.

3. Investments:

Investments other than in subsidiaries and associates have been accounted as per Accounting Standard 13 on Accounting for Investments.

4. The difference between the cost of investment in the associates and the share of net assets at the time of acquisition of shares in the associates is identified in the financial statements as Goodwill or Capital Reserve as the case may be.
5. As far as possible, the consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented in the same manner as the Company's separate financial statements. The accounts of the subsidiary companies, which are in respective currencies of the countries in which they are situate are translated using “Translation of the Financial Statements of Foreign Branches” under Accounting Standard AS-11, Accounting for the Effects of Changes in Foreign Exchange Rates, prescribed the Institute of Chartered Accountants of India.

6. Other significant Accounting Policies:

These are set out under “Significant Accounting Policies” as given in the Unconsolidated Financial Statements of M/s HBL Nife Power Systems Limited.

B) Notes Forming Part of Accounts for the Year Ended March 31, 2005

1. The Consolidated Financial Statements (CFS) are prepared in accordance with Accounting Standard (AS) 21 on Consolidated Financial Statements issued by the Institute of Chartered Accountants of India. The CFS comprises of the financial statements of HBL Nife Power Systems Limited, the Holding Company and the following subsidiary companies,

	Name of the Company	Country of Incorporation	% of Holding/ Voting Power
a.	Bhagirath Energy Systems Private Limited	Nepal	100.0
b.	HBL Nife (UK) Limited	United Kingdom	100.0
c.	HBL NIFE (M) SDN BHD	Malaysia	80.0

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2. Secured Loans

- a) Term Loans from IDBI and State Bank of Indore are secured by a first charge on the movable and immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi Malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and at Nandigaon Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The loan is also guaranteed by Managing Director and one Director in their personal capacity.
Term loan from HDFC New Delhi is secured by an exclusive charge on the Land and Building situated at Noida U.P. The loan is also guaranteed by the Managing Director of the Company in his personal capacity.
Term Loan from HDFC, Hyderabad is secured by an exclusive charge on the Flat at Hyderabad. The loan is also guaranteed by the Managing Directory of the Company in his personal capacity.
- b) The Working Capital loans from the State Bank of India, State Bank of Hyderabad, IDBI Bank Ltd. and State Bank of Indore are secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other Directors of the Company in their personal capacities.
- c) SBI Factors – The loan is secured by assignment of debtors bills discounted with them and also guaranteed by Managing Director in his personal capacity.
- d) Vehicle loans from Banks and Non Banking Finance Companies are secured by exclusive hypothecation of Vehicles acquired under the respective loans and guaranteed by one Director of the Company in his personal capacity.

3. Contingent Liabilities

All known and undisputed liabilities have been duly provided for, except the following:

- a. Unexecuted portion of Letters of Credit opened by Banks Rs.370.65 lacs (Previous year Rs.1069.35 lacs).
- b. Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs.3678.80 lacs (Previous year Rs.2665.57 lacs).
- c. Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or Concessional rate of duty pending fulfilment of export obligations Rs.1339.82 lacs (Previous year Rs. 1292.71 lacs) against which export obligation has been fulfilled to the extent of Rs. 404.98 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.
- d. Claims against the Company not acknowledged as debts:
- Excise claims of Rs.94.85 lacs under dispute (previous year Rs.94.85 lacs).
 - Sales Tax (CST) claims of Rs.11.77 lacs.
- e. Claims against the company not acknowledged as debts Rs. 50.99 lacs (previous year Rs.58.90 lacs).
- f. Income Tax disputed liability Rs.38.26 lacs in appeal before CIT (Appeals) not provided for.
- g. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs.580.23 lacs (previous year Rs.295.09 lacs).
4. a. For the subsidiaries, deferred tax has not been recognized being foreign WOS.
- b. Major components of deferred tax assets and liabilities arising on account of timing differences in respect of parent company are:

(Rs. In lacs)

Particulars	Deferred Tax			
	Current Year		Previous Year	
	Assets	Liabilities	Assets	Liabilities
1. Depreciation		824.32		662.14
2. Payments under VRS	35.83		51.50	
3. Investments written off	20.13		19.64	
4. Contribution to Valuable Employees Scheme	41.65		40.63	
5. Others	55.64		71.92	
Total	153.24	824.32	183.69	662.14

5. The disclosure as required under Accounting Standards AS – 17 “ Segment Reporting “ and AS –18 “ Related Party Disclosure “ issued by the Institute of Chartered Accountants of India are given in annexure.

a. The segment wise disclosure as required by the Accounting Standard AS-17 “Segment Reporting “ issued by the Institute of Chartered Accountants of India is as under:

(Rs in Lacs)

Particulars	2004-2005		2003-2004	
<u>Segment Revenue</u>				
Batteries				
Exports	4838		3370	
Domestic Sales	24963	29801	14050	17420
Electronics				
Exports	190		178	
Domestic Sales	2003	2193	1545	1723
Unallocated		1376		565
Total		33370		19708
Less : Inter-segment Revenue		226		215
Gross Revenue		33144		19493
<u>Segment Result</u>				
Batteries		4796		2900
Electronics		(12)		60
Unallocated		216		(326)
Total		5000		2634
Less : Interest		967		677
Unallocable expenditure net of unallocable income		1395		781
Net Profit before taxes		2638		1176
<u>Segment Assets</u>				
Batteries		22961		16626
Electronics		1648		1542
Unallocated		5103		3036
add: investments and deferred revenue expenses				
Total Assets		29712		21204
<u>Segment Liabilities</u>				
Batteries		5560		3761
Electronics		649		580
Unallocated (includes Term Loans, Bank Loans, Hire Purchase Loans)		11844		6685
Share capital, reserves and surplus, deferred tax liability				
Total Liabilities		18053		11026
<u>Segment Capital expenditure during the year</u>				
Batteries		1427		906
Electronics		14		65
Unallocated		465		77
Total		1906		1102
<u>Segment Depreciation</u>				
Batteries		440		382
Electronics		22		25
Unallocated		111		99
Total		573		506

HBL NIFE POWER SYSTEMS LIMITED

Note:

1. Inter segment revenue is measured at the market prices at which the products are sold to external customers.
 2. Battery segment consists of various types of batteries for defence, aviation, telecom and industrial application.
 3. Electronics segment consists of various electronic products for telecom , railways and industrial application
 4. Exports include deemed export sales also.
- b. Disclosure of transactions with related parties as required by the accounting Standard AS-18 "Related party Disclosure" issued by the Institute of the Chartered Accountants of India as follows

Holding Company	Beaver Engineering Ltd	
Controlled Companies	Kairos Engineering Ltd, Hyderabad	
Proposed Joint Venture	HBL Elta Avionics Private Limited	
Key Management Personnel	Dr. AJ Prasad	Chairman & Managing Director
	M S S Srinath	President (Marketing)
	Kavita Prasad	Director
	Ashok Nagarkatti	Director
	L C Gangarade	Director*
	Kamaluddin Bin Saidon	Director – HBL Nife (M) SDN BHD
	P Satish Kumar	Director

* LC Gangrade has been a Director on board till 30th July 2004.

(Rs. in Lakhs)

S.No	Beneficiary	Nature of transaction	During the year	Out Standing year end
1.	Holding company (Beaver Engineering Ltd.)	Interest paid	18.32	
2.	Controlled Companies (Kairos Engineering Ltd.)	Funds borrowed	170.00	242.00
		Services Received	10.65	9.70
3.	Proposed joint Venture (HBL ELTA Avionics Systems Pvt. Ltd.)	Advance for Purchase	0.50	
		Services rendered	31.01	
		Advance for Investment	5.00	
4.	Key Management Personnel	Sale of Assets	15.74	51.75
	Dr A J Prasad	Funds borrowed-	30.00	70.00
	Dr A J Prasad,	Remuneration Paid	90.13	
		Royalty Paid	49.32	
		Interest Paid	1.32	
	M S S Srinath	Remuneration Paid	7.02	
	Ashok Nagarkatti	Remuneration Paid	9.84	
	P Satish Kumar	Remuneration Paid	6.05	
	L C Gangarade	Remuneration Paid	3.28	
	Ms. Kavita Prasad	Rent Paid	2.40	
		Funds Borrowed	20.00	
		Interest Paid	1.32	

Annexure-V

Accounting Policies and Notes on Accounts as on 31st December, 2005

A) Significant Accounting Policies

1. Basis for preparation of accounts:

- a) The accounts for the period from 01.04.2005 to 31.12.2005 of HBL NIFE Power Systems Ltd, the Company have been prepared to comply in all material aspects with applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Indian Companies Act, 1956. The interim financial statements for the period from 01.04.2005 to 31.12.2005 have been audited by the Statutory Auditors of the Company.
- b) The accounts for the interim period from 01.04.2005 to 31.12.2005 of Foreign Subsidiary HBL Nife (M) SDN BHD, Malaysia have been prepared in compliance with the local laws and applicable accounting standards and have been audited by the local auditors of the subsidiary Company.
- c) As per the Audited financial statements compiled and certified by the auditors who have expressed a qualified opinion on the nature of the scope of work but simultaneously have expressed a true and fair opinion on the financial statements of HBL NIFE (UK) a wholly owned subsidiary in UK
- d) Bhagirath Energy Systems Private Limited, a wholly owned subsidiary in Nepal is under voluntary winding up and no separate audited statements are made for the interim period from 01.04.2005 to 31.12.2005. However, the statement of affairs of the subsidiary as on 31.12.2005 has been compiled making suitable adjustments for the transactions for the period from 01.04.2005 to 31.12.2005 to the statements of affairs of the subsidiary as of 31.03.2005 as certified by the official liquidators.

The financial statements / statement of affairs of the above subsidiary companies have been recast to comply with the Accounting policies followed by the Holding Company, for the limited purposes of consolidation.

2. Principles of consolidation:

The financial statements have been consolidated on a line-by-line basis by adding together the book values of like items of Assets, Liabilities, Income and Expenditure after eliminating intra Company balances and the unutilized profits/ losses if any on intra company transactions.

3. Investments

Investments other than in subsidiaries have been accounted as per Accounting Standard 13 on Accounting for Investments.

4. As far as possible, the consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented in the same manner as the Company's separate financial statements. The accounts of the subsidiary companies, which are in respective currencies of the countries in which they are situate are translated using "Translation of the Financial Statements of Foreign Branches" under Accounting Standard AS-11, Accounting for the Effects of Changes in Foreign Exchange Rates, prescribed by the Institute of Chartered Accountants of India.

5. Other Significant Accounting Policies:

These are set out under "Significant Accounting Policies" as given in the Unconsolidated Financial Statements of M/s HBL Nife Power Systems Limited.

B) Notes Forming Part of Accounts for the half year ended 31.12.2005:

1. The Consolidated Financial Statements (CFS) are prepared in accordance with Accounting Standard (AS) 21 on Consolidated Financial Statements issued by the Institute of Chartered Accountants of India. The CFS comprises of the financial statements of HBL Nife Power Systems Limited, the Holding Company and the following subsidiary companies.

Name of the Company	Country of Incorporation	% of Holding / Voting Power
a) Bhagirath Energy Systems Private Limited	Nepal	100
b) HBL Nife (UK) Limited	United Kingdom	100
c) HBL NIFE (M) SDN BHD	Malaysia	80

HBL NIFE POWER SYSTEMS LIMITED

2. Secured Loans

- a) Term Loan from IDBI, State Bank of Indore, State Bank of India and State Bank of Hyderabad are secured by a first charge on the movable and immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi Malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and at Kothur and Nandigaon Villages, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The loan is also guaranteed by two Directors in their personal capacity.

Term loan from HDFC New Delhi is secured by an exclusive charge on the Land and Building situated at Noida U.P. The loan is also guaranteed by the Managing Director of the Company in his personal capacity.

The term loan from HDFC Hyderabad is secured by an exclusive charge on the Flat at Hyderabad. The loan is also guaranteed by Managing Director of the Company in his personal capacity.

- b) The Working Capital loans from the State Bank of India, State Bank of Hyderabad and IDBI Bank Ltd and State Bank of Indore are secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other Directors of the Company in their personal capacities.
- c) SBI Factors- The loan is secured by assignment of debtor's bills discounted with them and also guaranteed by Managing Director in his personal capacity
- d) Vehicle Loans from Banks and Non Banking Finance Companies are secured by exclusive hypothecation of Assets and guaranteed by one Director of the Company in his personal capacity.

Interest Free Sales Tax Loan of Rs.1718.77 lacs shown under Unsecured Loans represents the Sales Tax payable by the company, given as loan by Andhra Pradesh State Government to be repaid without interest after 14 years from the date of availment. The loan requires creation of a charge on the assets of the Company. Pending creation of charge, the amount is shown under Unsecured Loans and will be regrouped under Secured Loans as and when charge is created.

Unsecured loans include Loan from Directors and Holding Company by way of an ICD at @10% interest per annum, which is repayable on demand.

3. Contingent Liabilities

All known and undisputed liabilities have been duly provided for, except the following:

- a. Unexecuted portion of Letters of Credit opened by Banks Rs. 923.99 lacs (Previous year Rs.370.65 lacs).
- b. Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs.4672.31 lacs (Previous year Rs. 3678.80 lacs).
- c. Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or concessional rate of duty pending fulfillment of export obligations Rs.2013.75 lacs (Previous year Rs. 1339.82 lacs) against which export obligation has been fulfilled to the extent of Rs. 859.67 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.
- d. Claims against the Company not acknowledged as debts:
- Excise Duty claim of Rs 94.85 lacs (previous year Rs. 94.85 lacs) towards differential duty on the supplies made to Ministry of Defence which is pending for disposal before Excise Authorities.
 - Sales Tax (CST) claims of Rs 11.77 lacs (previous year. 11.77 lacs).
- e. Other Claims against the company not acknowledged as debts Rs. 50.99 lacs (Previous year Rs. 50.99 lacs).
- f. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 822.20 lacs (Previous year Rs. 580.23 lacs)
4. There is a claim by SAFT AKTIEBOLAG, Sweden on the Subsidiary Company HBL (UK) along with holding Company HBL NIFE POWER SYSTEMS LIMITED for Infringement of the Trade Mark "NIFE" in UK, which is contested in the Royal Court of Justice, London, UK. However the claim that is lodged is seeking a maximum of £. 200,000/-towards damages equal to INR 160 Lacs. No provision is made as the same is contested upon.

5. For the subsidiaries, deferred tax has not been recognized being foreign WOS. Major components of deferred tax assets and liabilities arising on account of timing differences in respect of parent company are:

(Rs in Lacs)

Particulars	Deferred Tax			
	Current Year		Previous Year	
	Assets	Liabilities	Assets	Liabilities
1. Depreciation		824.32		662.14
2. Payments under VRS	35.83		51.50	
3. Investments written off	20.13		19.64	
4. Contribution to Valuable Employees Scheme	41.65		40.63	
5. Others	55.64		71.92	
Total	153.24	824.32	183.69	662.14

The company has paid / provided Income Tax as per the returns filed / assessments completed. The liabilities if any, in respect of the pending assessments will be accounted on completion of the assessments, which are presently not ascertainable.

6. The disclosure as required under Accounting Standards AS – 17 “Segment Reporting” and AS – 18 “Related Party Disclosure” issued by the Institute of Chartered Accountants of India are given in annexure.
- (a). The segment wise disclosure as required by the Accounting Standard AS-17 “Segment Reporting “ issued by the Institute of Chartered Accountants of India is as under:

(Rs. in Lakhs)

Particulars	31.12.2005		31.03.2005	
<u>Segment Revenue</u>				
Batteries				
Exports	4997		4838	
Domestic sales	22537	27534	24963	29801
Electronics				
Exports	330		190	
Domestic sales	934	1264	2003	2193
Unallocated		356		1376
Total		29154		33370
Less : Inter-segment Revenue		127		226
Gross Revenue		29027		33144
<u>Segment Result</u>				
Batteries		4924		4796
Electronics		61		(12)
Unallocated		185		216
Total		5170		5000
Less : Interest		969		967
Unallocable expenditure net of unallocable income		1638		1395
Net Profit before taxes		2563		2638

HBL NIFE POWER SYSTEMS LIMITED

(Rs. in Lakhs)

Particulars	31.12.2005	31.03.2005
<u>Segment Assets</u>		
Batteries	27797	22961
Electronics	1554	1648
Unallocated	9632	5103
Add: Investment and deferred revenue expenditure, P & L a/c		
Total Assets	38983	29712
<u>Segment Liabilities</u>		
Batteries	5759	5560
Electronics	589	649
Unallocated (includes Term Loans, Bank Loans, Hire Purchase Loans)	13546	11844
Total Liabilities	19894	18053
<u>Segment Capital expenditure during the year</u>		
Batteries	2124	1427
Electronics	5	14
Unallocated	324	465
Total	2453	1906
<u>Segment Depreciation</u>		
Batteries	384	440
Electronics	18	22
Unallocated	88	111
Total	490	573

Note:

1. Inter segment revenue is measured at the market prices at which the products are sold to external customers.
2. Battery segment consists of various types of batteries for defence, aviation, telecom and industrial application.
3. Electronics segment consists of various electronic products for telecom, railways and industrial application
4. Exports include deemed export sales also.

(b) Discloser of transactions with related parties as required by the accounting Standard AS-18 "Related party Disclosure" issued by the Institute of the Chartered Accountants of India as follows

Holding Company	Beaver Engineering Ltd	
Controlled Companies	Kairos Engineering Ltd, Hyderabad	
Proposed Joint Venture	HBL Elta Avionics Private Limited	
Key Management Personnel	Dr. AJ Prasad	Chairman & Managing Director
	M S S Srinath	President
	Kavita Prasad	Director
	Ashok Nagarkatti	Director
	P Satish Kumar	*Director
	Kamaluddin Bin Saidon	Director – HBL Nife (m) SDN BHD

* Resigned on the 30th November, 2005

(Rs. in Lakhs)

S.No	Beneficiary	Nature of transaction	During the year	Out Standing year end
1.	Holding company (Beaver Engineering Ltd.)	Interest paid Funds borrowed	22.34 200.00	442.00
2.	Controlled Companies (Kairos Engineering Ltd.)	Services Received Advance for Purchase	14.88	9.68
3.	Proposed joint Venture (HBL ELTA Avionics Systems Pvt. Ltd.)	Services rendered	5.22	5.22
4.	Key Management Personnel			
	Dr A J Prasad	Funds borrowed	20.00	70.00
	-do-	Remuneration Paid	83.38	
	-do-	Royalty Paid	25.58	
	-do-	Interest Paid	2.68	
	Ms. Kavita Prasad	Rent Paid	1.80	
	-do-	Interest Paid	1.51	
	M S S Srinath	Remuneration Paid	5.88	
	Ashok Nagarkatti	Remuneration Paid	8.46	
	P Satish Kumar	Remuneration Paid	5.24	

HBL NIFE POWER SYSTEMS LIMITED

Annexure-V

Notes to Accounts

1. Background Information

Registration Number : 01 – 6745
 Date of Incorporation : 29.08.1986
 Primary Business Segment : Manufacturing of Batteries and related electronics

2. Share Capital

(Rs. in Lakhs)

Particulars	As At				
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Authorized					
Equity Shares					
Number- No	25000000	25000000	21000000	21000000	21000000
Face Value	10.00	10.00	10.00	10.00	10.00
Value (Rs. in Lakhs)	2500.00	2500.00	2100.00	2100.00	2100.00
Issued, Subscribed & Paid Up					
Fully paid up in Cash					
Number- No	**22072323	20072323	20072323	20072323*	20072323
Value (Rs. in Lakhs)	2207.23	2007.23	2007.23	2007.23	2007.23
Share Capital Suspense					
Number- No					
Value (Rs. in Lakhs)					
Total (Rs. in Lakhs)	2207.23	2007.23	2007.23	2007.23	2007.23

* Includes 10072323 shares allotted consequent upon merger of HBL Limited and Pinaki Technologies Limited

** The Company has issued 20,00,000 equity share on preferential basis on 28.10.2005

3. Investments

(Rs. in Lacs)

Particulars	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Total	2450.32	10.32	18.32	22.50	168.25
of which investment in related parties	9.00	9.00	9.00	9.00	158.53

4. Sundry Debtors

(Rs. in Lacs)

Particulars	As At				
	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Debts Exceeding Six Months	2676.89	1885.41	881.30	947.69	733.92
Other Debts	10310.18	9550.54	5647.80	4632.27	5522.97
Total	12987.07	11435.95	6529.10	5579.96	6256.89

5. Loans & Advances & other Current Assets

(Rs. in Lacs)

Particulars	31.12.2005	31.03.2005	31.03.2004	31.03.2003	31.03.2002
Adv. For investment pending allotment	5.00	5.00	0.50	38.88	0.00
Advance for purchases and others	1218.92	387.31	269.20	203.40	161.10
Other Advances	110.52	222.95	54.76	50.09	37.09
Excise and Customs deposit	53.51	112.08	75.71	49.29	131.00
Deposit with Govt. and others	323.89	238.14	276.78	241.53	235.36
Claims recoverable	326.54	81.21	153.72	151.31	182.07
Interest accrued	65.66	42.77	47.67	49.35	47.18
Advance Income Tax	24.01	0.00	0.00	1.28	69.60
Total	2128.05	1089.46	878.34	785.13	863.40

6. Related Party Transactions

(Rs. in Lacs)

Beneficiary	Nature of Transaction	31.12.05	31.03.05	31.03.04	31.03.03	31.03.02
Beaver Engineering Ltd.	Interest Paid	22.34	18.32	6.32	8.56	4.73
	Funds borrowed	200.00	170.00	72.00		60.00
	Funds returned			60.00		
	Purchase of share in Compact			18.07		
HBL ELTA Avionics Systems. Pvt. Ltd	Sale of Assets		15.74			
	Service rendered	5.22	31.01			
	Advance for investment in shares		5.00			
HBL NIFE (UK) Ltd.	Investment in shares				31.65	
	Sale of goods				14.89	
HBL NIFE (M) Sdn Bhd.	Investment in shares				4.28	
HBL Nife Egypt SAE, Egypt	Investment in shares				2.45	
	Goods Transfer				21.83	
Kairos Engineering Ltd.	Service received	14.88	10.65	0.59		0.83
	Purchase of goods					29.23
	Purchase of Assets					83.57
	Funds Borrowed					3.70
	Funds given		0.50		3.70	
	Sale of Goods					1.27
	Rent received				0.60	0.60
	Advance for purchase			11.20		
Dr. A J Prasad	Funds Borrowed	20.00	30.00			
	Royalty Paid	25.58	49.32	40.73	59.43	17.97
	Remuneration Paid	83.38	90.13	7.88	36.87	36.70
	Interest Paid	2.68	1.32			
Ms. Kavita Prasad	Funds Borrowed		20			
	Rent Paid	1.8	2.4	2.4	2.4	2.4
	Interest Paid	1.51	0.88			
Mr. M S S Srinath	Remuneration Paid	5.88	7.02	5.56	5.41	4.86
	Interest Paid				2.85	3.3
Mr. Ashok Nagarkatti	Remuneration Paid	8.46	9.84			
Mr. P Satish Kumar	Remuneration Paid	5.24	6.05			
Mr. L C Gangarade	Remuneration Paid		3.28			

HBL NIFE POWER SYSTEMS LIMITED

Details of Related Parties

Particulars	31.12.2005	31.03.2005	31.3.2004	31.3.2003	31.3.2002
Holding Company	Beaver Engineering Ltd	Beaver Engineering Ltd	Beaver Engineering Ltd	Beaver Engineering Ltd	Beaver Engineering Ltd
Fellow Subsidiaries				Kautilya Decision Support Systems Pvt Ltd, Hyderabad	
Controlled Companies	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad	Kairos Engineering Ltd, Hyderabad
				Dastan Systems Limited, Hyderabad	
Proposed Subsidiaries				HBL Nife(UK) Limited, UK	
				HBL Technologies (M) Sdn Bhd, Malaysia.	
				HBL Nife Egypt, SAE, Egypt	
Proposed Joint Venture	HBL Elta Avionics Private Limited	HBL Elta Avionics Private Limited			
Joint Venture					Rocket HBL Ltd.,
Key Management Personnel	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad	Dr. AJ Prasad
	M S S Srinath	M S S Srinath	M S S Srinath	M S S Srinath	M S S Srinath
	Kavita Prasad	Kavita Prasad	Kavita Prasad	Kavita Prasad	Kavita Prasad
	Ashok Nagarkatti	Ashok Nagarkatti	U M Rao	U M Rao	
	P Satish Kumar	L C Gangrade	Gp. Capt. D Venkateswarulu (Retd)	Ashok Nagarkatti	
	Kamaluddin Bin Saidon	P Satish Kumar	Ashok Nagarkatti	L C Gangrade	
		Kamaluddin Bin Saidon	L C Gangrade	P Satish Kumar	
			P Satish Kumar		

7. Segment Reporting

The segment wise disclosure as required by the Accounting Standard AS-17 "Segment Reporting " issued by the Institute of Chartered Accountants of India is as under:

(Rs. in Lacs)

Particulars	31.12.2005		2004-2005		2003-2004		2002-2003		2001-2002	
<u>Segment Revenue</u>										
Batteries										
Exports	4997		4838		3370		2913		2182	
Domestic sales	22537	27534	24963	29801	14050	17420	16028	18941	13445	15627
Electronics										
Exports	330		190		178		147		223	
Domestic sales	934	1264	2003	2193	1545	1723	1611	1758	1869	2092
Unallocated		356		1376		565		1		78
Total		29154		33370		19708		20700		17797
Less : Inter-segment Revenue		127		226		215		112		186
Gross Revenue		29027		33144		19493		20588		17611
<u>Segment Result</u>										
Batteries		4924		4796		2900		4158		3639
Electronics		61		(12)		60		(288)		(438)
Unallocated		185		216		(326)		(261)		(137)
Total		5170		5000		2634		3609		3064
Less : Interest Unallocable expenditure net of unallocable income		969		967		677		906		896
		1638		1395		781		1339		851
Net Profit before taxes		2563		2638		1176		1364		1317
<u>Segment Assets</u>										
Batteries		27797		22961		16667		14539		13988
Electronics		1554		1648		1542		1275		1798
Unallocated		9632		5103		2918		4388		2704
Add: Investment and deferred revenue expenditure, P & L a/c										342
Total Assets		38983		29712		21127		20202		18832
<u>Segment Liabilities</u>										
Batteries		5759		5560		3761		2555		3013
Electronics		589		649		580		530		786
Unallocated (includes Term Loans,Bank Loans,Hire Purchase Loans)		13546		11844		6685		7474		5907
Add: Share Capital, Reserves & Surplus, Deferred Tax Liability										9126
Total Liabilities		19894		18053		11026		10559		18832
Batteries		2124		1427		960		997		917
Electronics		5		14		65		48		16
Unallocated		324		465		77		595		300
Total		2453		1906		1102		1640		1233
<u>Segment Depreciation</u>										
Batteries		384		440		382		336		249
Electronics		18		22		25		25		21
Unallocated		88		111		99		71		92
Total		490		573		506		432		362

HBL NIFE POWER SYSTEMS LIMITED

Note:

1. *Inter segment revenue is measured at the market prices at which the products are sold to external customers.*
2. *Battery segment consists of various types of batteries for defence, aviation, telecom and industrial application.*
3. *Electronics segment consists of various electronic products for telecom, railways and industrial application*
4. *Exports include deemed export sales also.*

8. Contingent Liabilities:

Contingent Liabilities are not provided and are disclosed by way of notes:

a. Details of contingent liabilities as on 31.3.2005

All known and undisputed liabilities have been duly provided for, except the following:

- a) Unexecuted portion of Letters of Credit opened by Banks Rs.370.65 lacs (Previous year Rs.1069.35 lacs).
- b) Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs.3678.80 lacs (Previous year Rs.2665.57 lacs).
- c) Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or Concessional rate of duty pending fulfilment of export obligations Rs.1339.82 lacs (Previous year Rs. 1292.71 lacs) against which export obligation has been fulfilled to the extent of Rs. 404.98 lacs and the process of discharging the Legal Undertakings by the concerned authorities is at various stages.
- d) Claims against the Company not acknowledged as debts:
 - Excise claims of Rs.94.85 lacs under dispute (previous year Rs.94.85 lacs).
 - Sales Tax (CST) claims of Rs.11.77 lacs.
- e) Claims against the company not acknowledged as debts Rs. 50.99 lacs (previous year Rs.58.90 lacs).
- f) Income Tax disputed liability Rs.38.26 lacs in appeal before CIT (Appeals) not provided for.
- g) Estimated amount of contracts remaining to be executed on capital account and not provided for Rs.580.23 lacs (previous year Rs.295.09 lacs).

b. Details of contingent liabilities as on 31.12.2005

All known and undisputed liabilities have been duly provided for, except the following:

- a. Unexecuted portion of Letters of Credit opened by Banks Rs. 923.99 lacs (Previous year Rs.370.65 lacs).
- b. Guarantees issued on behalf of the Company by Bankers for which the Company gave counter guarantees Rs.4672.31 lacs (Previous year Rs. 3678.80 lacs).
- c. Legal Undertakings given to Custom's Authorities for clearing the materials at Nil or concessional rate of duty pending fulfilment of export obligations Rs. 2013.75 lacs (Previous year Rs. 1339.82 lacs) against which export obligation has been fulfilled to the extent of Rs.859.67 Lacs and the process of discharging the Legal Undertakings by the concerned authorities are at various stages.
- d. Claims against the Company not acknowledged as debts:-
 - Excise Duty claim of Rs 94.85 lacs (previous year Rs. 94.85 lacs) towards differential duty on the supplies made to Ministry of Defence which is pending for disposal before Excise Authorities.
 - Sales Tax (CST) claims of Rs 11.77 lacs (previous year. 11.77 lacs).
- e. Other Claims against the company not acknowledged as debts Rs. 50.99 lacs (Previous year Rs. 50.99 lacs).
- f. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 822.20 lacs (Previous year Rs. 580.23 lacs)
- g. There is a claim by SAFT AKTIEBOLAG, Sweden on the Subsidiary Company HBL (UK) along with holding Company HBL NIFE POWER SYSTEMS LIMITED for Infringement of the Trade Mark "NIFE" in UK which is contested in the Royal Court of Justice, London, UK. However the claim that is lodged is seeking a maximum of £.200,000/-towards the damages equal to INR 160 Lacs. No provision is made as same is contested upon.

Annexure-VI

Cash Flow Statement, as per restated financial statements

(Rs. in Lakhs)

Particulars	Period ended			
	31.12.2005	31.03.05	31.03.04	31.03.03
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net profit before Tax and Extraordinary items	2562.78	2772.08	1179.34	1725.63
Adjustment for :-				
Depreciation	489.74	572.88	507.54	432.00
Interest	220.45	259.36	263.69	339.11
Rent Received			0.00	(1.80)
Dividend Income			-	-
Equipment Hire Charges Received				(15.06)
Exchange Variation	3.99	6.63		
Profit on sale of Fixed Assets	(0.56)	(0.24)	(35.01)	-
Loss of subsidiary under winding up		(17.30)		
Loss on sale of fixed assets	0.22	3.91	56.34	1.90
Preoperative Expenses written off		(60.09)		
Deposits written off		(56.72)		
Deferred revenue expenses w/o	39.05	52.06	52.06	52.44
Diminution in value of investments				-
Provision for Bad and doubtful debts	50.00		8.33	-
Provisions	47.98	191.82	(36.28)	0.81
Operating Profit before WC Changes	3413.64	3724.39	1996.01	2535.03
(Increase) / Decrease in Sundry Debtors	(1551.13)	(4906.85)	(957.47)	676.92
(Increase) / Decrease in Inventories	(2000.00)	(2012.26)	168.96	(402.57)
(Increase) / Decrease in Loans & Advances	(1090.67)	(211.12)	(93.21)	9.95
Increase / (Decrease) in Current Liabilities	780.33	1813.15	1106.46	(648.26)
Cash generated from Operations	(447.83)	(1592.69)	2220.75	2171.07
Expenditure on employee VEBF/ VRS	(1.00)	(23.30)	(11.45)	(278.61)
Income Taxes Paid	(657.01)	(699.17)	(193.06)	(214.67)
Interest received on IT refunds				
Deferred revenue expenditure incurred				
Net Cash flow from Operating activities	(1105.84)	(2315.16)	2016.24	1677.79
B. CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of Fixed Assets	(2441.62)	(1946.01)	(1211.10)	(1639.80)
Sale / (Purchase) of Investments	(2440.00)	8.00	4.18	68.64
Sale of Fixed assets	11.58	22.89	71.54	19.85
Net out flow on Amalgamation of Subsidiary (net of monetary interest).			(97.70)	
Dividend received				
Rent Received				1.80
Equipment Hire Charges Received				15.06
Net Cash Flow from Investing Activities	(4870.04)	(1915.12)	(1233.08)	(1534.45)

HBL NIFE POWER SYSTEMS LIMITED

(Rs. in Lakhs)

Particulars	Period ended			
	31.12.2005	31.03.05	31.03.04	31.03.03
C. CASH FLOW FROM FINANCING ACTIVITY				
Proceeds from issue of share capital	200.00	0.00		
Share Premium	4900.00			
Interest free sales tax loan received	72.62	395.29	87.53	300.61
Investment Subsidy Received		0.00		45.77
Proceeds from Long-term Borrowings	1790.45	931.52	(790.81)	(151.84)
Increase / (Decrease) in Unsecured Loans	220.00	214.70	(13.50)	
Proceeds from working capital borrowings	(299.17)	3387.20	17.74	738.94
Dividend paid	(343.31)	(271.72)	(339.66)	
Interest Paid	(220.45)	(259.36)	(263.69)	(342.06)
Net Cash flow used in Financing Activity	6320.14	4397.63	(1302.39)	591.42
Net Increase in Cash and Equivalents (A+B+C)	344.26	167.35	(519.23)	734.76
Cash and Equivalents at the beginning of the period	1416.18	1248.82	1768.05	1033.29
Cash and Equivalents at the end	1760.44	1416.17	1248.82	1768.05

Annexure-VII

Particulars	31.12.05	31.03.05	31.03.04	31.03.03	31.03.02
Earning Per share (EPS in Rs.)	8.17	9.37	4.00	5.01	5.57
Net Assets Value per shares (NAV in Rs.)	89.11	57.79	49.80	47.21	43.39
Return on Net Worth (RONW) %	9.16	16.22	8.02	10.61	12.84
Weighted Average number of Equity Shares outstanding During the year/ Periods	20613331	20072323	20072323	20072323	20072323

* Allotment of 20 lacs Equity share on 28.10.2005 taken into consideration for calculation weighted number of shares, hence the EPS for the period 31.12.05 is adjusted with.

EPS is on the basis of the restated PAT as per Annexure-I.

Earning Per Share : Restated PAT/ No of Shares

Net Asset Value Per share : Net Worth/ No of shares

Return on Net Worth : Restated PAT/Net Worth

Net worth : (Share Capital + Reserves & Surplus)-(Misc.Exp + Pre.Exp)

Annexure-VIII

Capitalization Statement

(Rs. in Lacs)

Debt	31.12.2005	Post Issue*
Long term debt	4335.03	4335.03
Payable with in one year	512.00	512.00
Working Capital Loan	6439.48	6439.48
Short term debt	1781.77	1781.77
Total Debt	13005.28	13005.28
Share holders funds		
Share Capital	2207.23	2427.95
Investment subsidy	55.77	55.77
Share Premium Reserve	5083.79	7070.30
General Reserve	8500.00	8500.00
Capital Reserve	1.02	1.02
Others	24.08	24.08
Profit and Loss Account	2566.91	2566.91
Total Share holders funds	18438.80	20646.03
Long term debt/Equity	0.71	0.63

* (Changes after 31.12.2005 not considered for reporting post issue figures)

(Rs. in Lacs)

Particulars	31.12.2005	Pre issue	Additions (Rights Issue)	Post Issue
Share holders Funds				
Share Capital	2207.23	2207.23	220.72	2427.95
Share Premium A/c	5083.79	5083.79	1986.51	7070.30
General Reserve	8500.00	8500.00		8500.00
Profit and Loss Account	2566.91	2566.91		2566.91
Others	80.87	80.87		80.87
Total Share holders Funds	18438.80	18438.80	2207.23	20646.03

HBL NIFE POWER SYSTEMS LIMITED

Annexure-IX

Details of Loans

A. DETAILS OF SECURED LOANS

(Rs.in Lacs)

	31.12.2005	31.3.2005	Particulars
Term Loan			
Industrial Development Bank of India	702.00	1053.14	Secured by a first charge on the movable and immovable assets and (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
HDFC New Delhi (Project Loan)	17.20	27.31	Secured by an exclusive charges on the Land and Building situated at Noida U.P. The loan is also guaranteed by the Managing Director of the Company in his personal capacity.
Corporate Loan-Industrial Development Bank of India	281.25	300.00	Secured by a first charge on the movable and immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
Corporate Loan-State Bank of Indore	949.92	1059.04	Secured by a first charge on the movable and immovable assets (both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
SBI Corporate Loan	2120.93	-	Secured by a first charge on the movable assets & immovable assets(both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
State Bank of Hyderabad – Corporate Loan	94.63	-	Secured by a first charge on the movable assets & immovable assets(both present and future) of the company, (save and except book debts and exclusive charges already created if any) situated at Lalgadi malakpet and Aliabad Villages, Shameerpet Mandal, Ranga Reddy Dist and Nandigoan Village, Mahbubnagar Dist. The loan is also secured by a second charge on the current assets of the company. The Loan is also guaranteed by two Directors in their personal capacity
HDFC Hyderabad	27.98	20.00	Hypothecation of House situated at Begumpet purchased out of loan. The loan is also guaranteed by the Managing Director of the Company in his personal capacity.

Annexure-IX (Continued...)
(Rs. in Lacs)

Cash Credit Facility			
State Bank of India	3156.44	4128.35	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
State Bank of Hyderabad	597.02	598.39	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
State Bank of Indore	447.88	456.41	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
IDBI Bank	276.39	96.33	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
Export Packing Credit			
State Bank of India	761.63	488.10	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
State Bank of Hyderabad	68.45	51.46	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
IDBI	74.38	41.22	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
State Bank of Indore	0.18	151.53	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
Bills Discounted			
IDBI Bank	235.22		Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity

HBL NIFE POWER SYSTEMS LIMITED

Annexure-IX (Continued...)

(Rs. in Lacs)

SBI Factors	319.02	266.85	All the present and future book debts of the company in respect of agreed customers shall stand hypothecated to the factor by way of first charge. The loans is also guaranteed by Managing Director of the company in his personal capacity
SBI Stand by line of Credit	502.87	460.00	Secured by a first charge on all the chargeable current assets and by a second charge on the fixed assets (both present and future) of the company. All the loans are also guaranteed by Managing Director and two other directors of the company in their personal capacity
From other (Under hire purchase scheme)	141.12	85.09	Secured by exclusive hypothecation of assets acquired under hire purchase scheme and guaranteed by one Director of the company in his personal.
Total	10774.51	9283.23	

B. Unsecured Loans

(Rs. in Lacs)

Particulars	HNPS	Consolidated			
		31.12.2005	31.03.2005	31.03.2004	31.03.2003
Interest Free Sales Tax Loans *	1718.77	1646.16	1250.87	1163.34	862.73
Inter Corporate Deposit Received	442.00	242.00	72.00	60.00	60.00
Unsecured Loans are from Directors (former)/ Promoters	70.00	50.00	30.20	33.62	
From Others			5.30	0.60	-
Total	2230.77	1938.16	1328.17	1254.14	956.35
of which due to related parties	512.00	292.00	72.00	90.20	93.62

* Interest free sales tax loan shown under unsecured loans represents the sales tax payable by the company, given as a loan by Andhra Pradesh Government to be repaid without interest after 14 years from the date of availment. The loan requires creation of charge on the assets of the company. Pending creation of charge the amount is shown under unsecured loans and will be regrouped under secured loans as when charge is created.

Unsecured loans include Loan from Directors and Holding Company as already stated under related party transaction (Annexure VII) at @10% interest per annum, which is repayable on demand.

HBL NIFE POWER SYSTEMS LIMITED (Consolidated)**Annexure-X****Details of Other Income***(Rs. in Lacs)*

Particulars	31.12.2005	31.03.2005	31.3.2004	31.3.2003	31.3.2002
Interest Received	50.73	56.63	72.83	99.31	91.59
Dividend Received					
Rent received				1.80	0.80
Equipment Hire Charges received				15.06	25.81
Bad debts written off recovered	4.50			7.07	
Claims received	7.32	6.72	3.68		0.54
Misc. Income	7.03	29.82	7.25	0.71	9.25
Interest received on IT refunds			12.94	5.31	
Foreign Exchange Variation					
Profit on sale of assets	0.56	0.25	35.00	0.56	
Profit on sale of Investment			0.31		
Excess provisions written back	10.28	31.39	24.25		22.37
Credit balances written back	10.40	94.04	53.08	34.29	
Total Other Income	90.81	218.85	209.34	164.11	150.36

Annexure-XI**Rate of Dividend Paid**

Particulars	31.12.2005	31.03.2005	31.3.2004	31.3.2003	31.3.2002
Rate of Dividend (%)	NA	15	12	15	-

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C) Financial Information of Group Companies

Companies under the same Management

The companies under the same management within the meaning of erstwhile Section 370 (1B) of the Companies Act, 1956 are as enumerated below:

Kairos Engineering Limited

The Company was incorporated on May 5, 1998 as Kairos Engineering Private Limited. It was issued a fresh certificate of Incorporation consequent on the conversion under section 33(1)/44 of the Companies Act, 1956 on March 23, 2001. The Registered Office of the Company is located at Plot No. 563, Road No. 31, Jubilee Hills, Hyderabad 500 033. The company currently is engaged in software development. The Board of Directors comprises of Mr. M S S Srinath, Ms. Kavita Prasad and Mr. P. Satish Kumar.

The shareholding structure of this Company is as follows:

Name of the Shareholders	% Holding
HBL Nife Power Systems Limited	45.00%
Beaver Engineering Limited	45.00%
Ms. Uma Devi	5.00%
Ms. Kavita Prasad	2.45%
Mr. M. S. S. Srinath	2.45%
Mr. P. Satish Kumar	0.05%
Mr. L.C. Gangrade	0.05%
Total	100.00%

Financial Highlights

The Audited financial highlights for the last 3 years are as follows:

Rs. in Lacs

Particulars	March 31, 2005	March 31, 2004	March 31, 2003
Total Income	11.14	16.20	2.47
Profit After Tax	(4.48)	(2.29)	(6.69)
Share Capital	20.00	20.00	20.00
Reserves and Surplus	1.41	5.89	8.18
Earnings Per Share (in Rs.)	(2.24)	(1.15)	(3.34)
Book Value (in Rs.)	10.70	12.95	14.09
Face Value per Share (in Rs.)	10/-	10/-	10/-

There are no litigations pending by or against Kairos Engineering Limited.

HBL Elta Avionics Systems Private Limited

The Company was incorporated on February 27, 2004 with objects to develop, design electronic equipments. The Registered Office of the Company is located at 8-2-601, Road # 10, Banjara Hills, Hyderabad 500 034. The Board of Directors comprises of Dr. A.J. Prasad and Gr. Cpt. D. Venkateswarulu (Retd.). The Company has entered into a joint venture agreement with Elta Avionics of Israel on January 19, 2005, however the same is yet to be implemented pending compliance of certain formalities. HBL Nife has made an advance for Share Application money to the tune of Rs. 5 Lacs that is pending allotment.

The shareholding structure of this Company is as follows:

Name of the Shareholders	% Holding
Dr. A.J. Prasad	90.00%
Gp. Cap. D. Venkateswarulu (Retd.)	10.00%
Total	100.00%

Financial Highlights

The Audited financial highlights for the last 1 year is as follows:

Rs. in Lacs

Particulars	March 31, 2005
Total Income	31.13
Profit After Tax	(2.79)
Share Capital	1.00
Reserves and Surplus	(2.79)
Earnings Per Share (in Rs.)	(27.92)
Book Value (in Rs.)	(17.92)
Face Value per Share (in Rs.)	10/-

There are no litigations pending by or against HBL Elta Avionics Systems Private Limited.

Common pursuits

There are no common pursuits amongst HBL Nife and other group companies since no other entity is engaged in the line of activity in which company is engaged. The subsidiaries of the company are either component suppliers or are marketing offices working in tandem with the policies of HBL Nife.

VENTURES WITH WHICH PROMOTERS HAVE DISASSOCIATED IN THE LAST 3 YEARS:

HBL Engineering Pte Limited, Singapore

As a part of export marketing plans, HBL Engineering Pte Limited was incorporated as a private company limited by shares in the year 1999 with registration number 199901903Rin Singapore. The subsidiary in Singapore was 99.9% owned by HBL Nife. The Company invested USD 5,000 in the Venture. The paid up capital of the subsidiary was Singapore Dollar 8,347. HBL Nife passed a resolution on January 30, 2003 to close down the subsidiary in Singapore due to unfavorable business conditions and it lost a sum of Rs.2.11 lacs. Ms. Kavita Prasad who was then the director of HBL Engineering Pte Limited has disassociated and resigned from the said directorship from the year 2002-2003.

HBL Nife Egypt SAE, Egypt

The Board of Directors in their meeting held on October 30, 2002 passed a resolution to set up a subsidiary in Egypt subject to necessary approvals from under the Indian and Egyptian Laws. The plans never took off and the venture was shelved.

Rocket HBL, South Korea

The Company had a 50:50 venture with Rocket Electric Company, Korea named as Rocket HBL. The total investment by Indian partners was USD 3,50,000. The Venture was incurring losses and so the management decided to dispose of the holding in the venture to Young Shin Venture Company Limited for a consideration equivalent to USD 1,42,258 in September-October 2002.

Dastan Systems Limited (formerly Ultra Force Batteries Limited)

The Company was incorporated on October 29, 1997 with Registration No. 01-28271 under the name and style of Ultra Force Batteries Limited and objects to carry on the business of all types of cells, batteries, energy storage devices, conversion and storage devices and to develop computer software etc. It was renamed to Dastan Systems Limited vide fresh certificate of incorporation dated January 15, 2001. It received the certificate to commence business on January 30, 2001. The Company was inoperative from the date of the incorporation. The Board of Directors of the Company comprised

HBL NIFE POWER SYSTEMS LIMITED

of Ms. Kavita Prasad and Mr. M S S Srinath. A Resolution was passed in the meeting of the Board of Directors to approach the Registrar of Companies to strike off the name of the Company under Section 560 of the Companies Act, 1956 on December 26, 2003. An application was filed with the Registrar of Companies on December 30, 2003. As on the date of the Application the Company had no dues towards Income Tax / Sales Tax / Central Excise Banks and Financial Institutions or any other Central or State Government Departments / Authorities or Local Authorities.

The shareholding structure of the Company as on the date of the Application was as follows:

Name of the Shareholders	% Holding
Ms. Kavita Prasad	14.29%
Mr. M. S. S. Srinath	14.29%
Ms. Uma Devi	14.29%
Dr. A.J. Prasad	14.29%
Mr. P. Satish Kumar	14.29%
Mr. K.V. Ramalinga Reddy	14.29%
Mr. Ashok Nagarkatti	14.29%
Total	100.00%

Financial Highlights

The Audited financial highlights for the last 3 financial periods are as follows:

in Rs

Particulars	01-04-2003 to 24-12-2003	March 31, 2003	March 31, 2002
Total Income	-	-	-
Profit After Tax	-	-	-
Share Capital (in Lacs)	700	700	700
Reserves and Surplus	(700)	(36,100)	(34,050)
Earnings Per Share (in Rs.)	-	-	-
Book Value (in Rs.)	-	-	-
Face Value per Share (in Rs.)	10/-	10/-	10/-

Kautilya Decision Support Systems Private Limited

The Company was incorporated on September 3, 1999 with Registration No. 01-32428 and had objects to carry on the business of software development and commercialization consultancy etc. since the Company was inoperative for a period, the Board of Directors of the Company comprising of Ms. Kavita Prasad and Mr. M S S Srinath passed a Resolution to approach the Registrar of Companies to strike off the name of the Company under Section 560 of the Companies Act, 1956 on December 26, 2003. An application was filed with the Registrar of Companies on December 30, 2003. As on the date of the Application the Company had no dues towards Income Tax / Sales Tax / Central Excise Banks and Financial Institutions or any other Central or State Government Departments / Authorities or Local Authorities.

The shareholding structure of the Company as on the date of the Application was as follows:

Name of the Shareholders	% Holding
Ms. Kavita Prasad	0.20%
Mr. M. S. S. Srinath	0.20%
Beaver Engineering Limited	99.60%
Total	100.00%

Financial Highlights

The Audited financial highlights for the last 3 financial periods are as follows:

in Rs Lacs

Particulars	01-04-2003 to 24-12-2003	March 31, 2003	March 31, 2002
Total Income	-	45.06	45.02
Profit After Tax	-	(0.29)	(1.77)
Share Capital	5.02	5.02	5.02
Reserves and Surplus	(5.02)	(20.08)	(19.79)
Earnings Per Share (in Rs.)	-	(0.57)	(3.52)
Book Value (in Rs.)	-	(30.00)	(29.43)
Face Value per Share (in Rs.)	10/-	10/-	10/-

Common Pursuit and Conflict of Interest vis-à-vis ventures disassociated

The promoters have disassociated from companies as mentioned above due to the non-viability and non-profitability in continuing with such establishments. Further, there have been no common pursuits / conflict of interest subsequent to the disassociation and there were no terms agreed other than disclosed above for any of the above disassociation.

DETAILS OF OTHER COMPANIES / FIRMS WITH WHICH PROMOTERS ARE ASSOCIATED: As stated above

LISTED VENTURES OF THE PROMOTERS: None other than the Issuer Company

D.) Changes in accounting policy in the last three years

There are no changes in accounting policies adopted by the Company during the periods covered under the report of Auditor forming part of this Letter of Offer.

E.) Management's Discussion and Analysis**Management's Discussion and Analysis of Financial Condition and Results of Operations as Reflected in the Financial Statements****a. Overview of the Business of HBL Nife**

DC Power systems are used across the world for a variety of application where the traditional power supply system cannot be sustained/ supported. The domains that are encompassed in the DC power systems vary from Telecommunications, Aviation, Rail coaches and signaling to Oil Refineries, Power generating stations, Oil drilling and pipelines. These applications have grown significantly in the last two decade due to the embracement of newer technology and also because the conventional power sources are available only in a limited domain, beyond which the reliance on DC / alternative Power systems is unavoidable. With the march of technology and it's blending with the industrial applications there is a need for an efficient and reliable power supply sources at all times and place. DC Power systems provides a back up / alternative source of power for running and maintaining applications wherein loss of power supply is critical. There is a need for the power supply in remote and far-flung areas and at such places the dependence is on DC power sources is complete.

DC power systems are also required in mobile (non-stationary) applications like Rail coaches, Aviation etc. In these applications the usage of conventional sources of power / electricity is not possible and DC power supplied thru batteries is to be relied upon. Defence applications too, require power for communications, aviation and naval application like propulsion of torpedoes. The application for DC power also finds place in Defence Research establishments like NSTL (Naval Science and Technological Laboratory), DRDO (Defence Research and Development Organization, DRDL (Defence Research and Development Laboratory amongst others.

The Company is manufacturing specialized batteries and electronics products. The end users of its products are in various sectors i.e. Communications, Railways, Defence, Oil and Natural Gas, Petroleum, Steel, General industry, etc. Most of these segments are core sector of country's economy. Given the background of inadequacies and shortcomings associated with the power supply situation, every end user requires reliable, consistent and clean power source for running the establishments. Thus back up power requirements are rapidly growing to cater the increasing requirements of the above segments. Further advent of latest technologies deployed by many sectors like Telecom, Info com, Information technology, rail and road transport and manufacturing units having sophisticated computer numerically operated equipment requires continuous and reliable power supply which necessarily has to be met through to back up power only.

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In remote areas where the mains power supply is not at all available i.e. railways, defence, communications, oil exploration etc. have to depend on back up power supply only. Thus this sector of business all over the world works out to several billion US dollars. Among this countries like China, India, and South East Asian Countries where the requirements of rapidly growing population is also very high.

Being in a very vital sector of business and past track record from last 20 years the future for this sector is quite encouraging. Market demand for the products are increasing very rapidly. Liberalised policies of Government of India from 1991 onwards opened up foreign direct investments in several sectors i.e. Telecom, Infocom, IT, Transport, etc. This has achieved very satisfactory level of foreign direct investments. Financial sector reforms also will contribute for further growth of economy in several sectors in the years to come. This will increase the demand for technology driven sectors where the usage of back up power is very essential which will be a catalyst for the growth of the company's business both in terms of volume and value, which will contribute to consistent growth of business of all the products including electronics products.

The product focus of batteries and electronics and customer focus on five sector i.e. Aviation, Industry, communication, Railway and Defense gives HBL Nife an opportunity to meet diverse customer needs where its core competence is constantly upgraded to keep pace with changing technology.

With the widest spectrum of electrochemistry under a single roof HBL Nife offers the most techno economically feasible choice among all the battery manufacturers all over the world. Company also offer sophisticated microprocessor controlled battery chargers thereby it become a company which offers a complete DC system packages, including battery-monitoring systems.

b. Significant developments subsequent to last financial statement

The Directors confirm that there have been no events or circumstances since the date of the last financial statements as disclosed in the Letter of Offer which materially or adversely affect or is likely to affect the trading or profitability of the company, or the value of its assets, or its ability to pay liabilities within next twelve months.

c. Factors that may affect Results of the Operations

Except as otherwise stated in this Letter of Offer, the Risk Factors given in this Letter of Offer and the following important factors could cause actual results to differ materially from the expectations include, among others:

- ♦ General economic and business conditions;
- ♦ Company's ability to successfully implement its strategy and its growth and expansion plans;
- ♦ Factors affecting industrial activity;
- ♦ Increasing competition in the industry;
- ♦ Increases in labour costs, raw materials prices, prices of plant & machineries and insurance premia;
- ♦ Manufacturers' defects or mechanical problems with Company's plant & machineries or incidents caused by human error;
- ♦ Changes in the value of the Indian rupee and other currencies, in particular, the U.S. Dollar;
- ♦ Cyclical or seasonal fluctuations in the operating results;
- ♦ Amount that the Company is able to realize from the clients;
- ♦ Changes in laws and regulations that apply to the industry;
- ♦ Changes in fiscal, economic or political conditions in India;
- ♦ Social or civil unrest or hostilities with neighboring countries or acts of international terrorism;
- ♦ Changes in the foreign exchange control regulations, interest rates and tax laws in India.

d. Discussion on Results of Operations

Summary of Revenues, Expenses and Profitability

(Rs. in Lacs)

Particulars	Audited			
	31.12.2005	31.03.2005	31.03.2004	31.03.2003
Net Sales	25232.96	28,379.82	16,902.00	17,596.73
Other Income	90.06	218.84	209.34	164.03
Total Income	25323.02	28,598.66	17,111.34	17,760.76
Total Expenses	21333.12	24,336.67	14,691.82	14,702.59
Net Profit before depreciation, Interest and Tax	3991.90	4,261.99	2,419.52	3,058.17
Finance Cost	968.57	969.35	677.04	889.46
Depreciation	486.70	567.35	495.66	425.27
Net Profit before Extraordinary Items & Tax	2536.63	2,725.29	1,246.82	1,743.44
Extraordinary items		136.29	-	361.52
Profit before Tax After Extra Ordinary Items	2536.63	2,589.00	1,246.82	1,381.92
Tax	899.67	746.98	377.09	358.80
Prior Period Expenditure	20.09			
Adjusted Profit After Tax	1636.96	1,842.02	869.73	1,023.12

e. Comparison of recent financial years with the previous financial years

Discussion on Results of Operations & comparison of recent financial year with the previous financial years

Period April 1, 2005 to December 31, 2005 vs. Financial Year 2004-05

Major Events

The Company has issued 20,00,000 lacs Equity shares on preferential basis to Foreign Institutional Investors and other Body Corporates on 28.10.2005

Sales

The company has registered a jump in its sales compared to last year. During the 9 months period ended December 31, 2005 the net sales of Rs.25232.96 Lakhs as compared to Rs. 28,379.82 Lakhs for financial year 2004-05. The company has registered export Sales of Rs. 5020.87 Lakhs during the 9 month period ending on December 31, 2005. Enhanced volume has contributed to increased revenues from Lead Acid batteries and NiCad batteries.

Other Income

The Other Income during the 6 months was substantially less at Rs. 90.06 lakhs as compared to Rs. 218.84 Lakhs for FY 2004-05. This is mainly on account of foreign exchange variation, excess provision written back and other constituents.

Expenditure

There is no material increase or decrees in expenditure to turnover ratios compared to last year figures as the company has taken cost reduction measures However, increased volumes have contributed in containing the impact of the same.

Finance Charges

The Financial Charges have increased compared with the previous year 2004-05 and stand at Rs. 968.57 Lakhs as compared to Rs. 969.35 Lakhs for FY 2004-05. This has primarily been because of increase in working capital borrowings. Additionally, the company has availed a corporate loan of around Rs. 1,710.59 Lakhs for meeting its requirements. Increase in volumes have also lead to an increased demand for cash and consequently pushed up the finance cost.

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Depreciations

Depreciation is provided in accordance with the rates and rules specified in Schedule XIV of the Companies Act, 1956, under Straight Line Method. The depreciation for the 9 months ended December 31, 2005 was Rs.486.70 Lakhs as compared to Rs. 567.35 for FY 2004-05.

Profit After Tax

The profit for the year 9 months ended on December 31, 2005 was marginally reduced on the account of increased tax payments due to crystallization of tax liability of the previous.

Financial Year 2004-05 vs. Financial Year 2003-04

Major Events

The company proposed to set up a new facility for manufacture of NCPP and NCFP battery at VSEZ, Vishakapatnam.

Sales

The company has registered a quantum jump in its sales compared to FY 2004-05. During FY 2004-05 the net sales of Rs. 28,379.82 Lakhs as compared to Rs. 16,902.00 for financial year 2003-04. The company has registered export Sales of Rs. 4,327.63 Lakhs during the FY 2004-05 as compared to Rs. 3,047.88 Lakhs for FY 2003-04. Enhanced volume has contributed to increased revenues from Lead Acid batteries and NiCad batteries.

Other Income

The Other Income during FT 2004-05 was marginally higher in FY 2004-05 at Rs. 218.84 Lakhs as compared to Rs. 209.34 for FY 2003-04. The marginal reduction was mainly on account of foreign exchange variation to the tune of Rs. 24.82 Lakhs.

Expenditure

There was a marginal improvement in operating ratio for FY 2004-05 as compared to FY 2003-04. However substantial increase in volumes led to an accompanied increase in total expenses and the operating ratio was marginally satisfying at 85.75 for FY 2004-05 as against 86.92 for FY 2003-04.

Finance Charges

The Financial Charges have increased substantially as compared with previous year 2003-04 and stand at Rs. 969.34 Lakhs for FY 2004-05 as compared to Rs. 677.04 Lakhs for FY 2003-04. This has primarily been because of increase in borrowings to the extent of Rs. 4,318.73 Lakhs for meeting its requirements. Increase in volumes have also lead to an increased demand for cash and consequently pushed up the finance cost.

Depreciations

Depreciation is provided in accordance with the rates and rules specified in Schedule XIV of the Companies Act, 1956, under Straight Line Method. The depreciation for FY 2004-05 was Rs. 567.35 Lakhs as compared to Rs. 495.65 for FY 2003-04. This has been because of addition of Fixed Assets during FY 2004-05 to the tune of Rs. 1,743.98 Lakhs.

Profit After Tax

The profit for the FY 2004-05 was substantially higher at Rs. 1,844.80 Lakhs as compared to Rs. 866.08 Lakhs for FY 2003-04. This was mainly on account of increased volume of business along with improvement in the operating margins.

Financial Year 2003-2004 vs. Financial Year 2002-2003

Major Events

In the year 2003-04 company amalgamated it's subsidiary company of M/s Compact Power Sources Private Limited.

Sales

Due to delayed receipt of orders from MOD and other major customers, the company's turnover has been less than the last year. However, the export turnover registered an increase of Rs.1210 lakhs over the previous year at Rs.3047 lakhs. The turnover was less than the preceding year due to reduced domestic demand..

Other Income

The Other Income during the year 2003-04 was higher by Rs.45.31 lakhs than the previous year 2002-03. This increase was because of the written backs of the Excess Provision made and Credit balances.

Expenditure

Due to severe competition the selling price of Lead Acid Batteries were under pressure, while Raw-material prices increased in both Domestic and International Markets. The net effect has been 4% increase in material cost to sales ratio.

Finance Charges

The finance cost for the year 2003-04 was reduced by Rs.212.41 lakhs compared with the financial year 2002-03. Because of the re-payment of the Loans taken for Projects helped the company to reduce the Interest costs.

Depreciations

Depreciation is provided in accordance with the rates and rules specified in Schedule XIV of the Companies Act, 1956, under Straight Line Method. The depreciation during the year 2003-04 was increased by Rs.70.39 lakhs compared with the previous year 2002-03. The increase was merely because of increase in value of Fixed Assets only.

Profit After Tax

Due to severe competition the selling price of Lead Acid Batteries were under pressure while raw-material prices increased in both domestic and international markets. The net effect has been 4% increased in the material cost to sales ratio. The combined effect of decrease in turnover and increase in material cost, is decrease in overall profit before tax by 15.74% over the previous year.

Financial Year 2002-2003 vs. Financial Year 2001-2002**Major Events**

During the year 2002-03 the company entered into foreign ventures and promoted overseas sales companies in UK and Malaysia.

In line with our endeavour to explore the possibilities to reap the benefits provided by the government, the company has established a new unit in Assam for manufacture and supply of batteries. The unit will have certain benefits of Excise Refunds, Sales Tax Holiday, Freight Rebates and Income Tax Exemption.

During the year the company also entered into a new area of business, that is taking up works contracts for Railway Signaling.

Sales

There is significant increase in the turnover of the company by 15% compared with the previous year. The Operating profit for the year also increased by 17% those showing the improvement in the Operating efficiency. Enhanced volume in domestic has contributed to increased revenues.

Other Income

The Other Income also increased than the previous year because of increase in Interest Received and Written backs of Credit balances.

Expenditure

The expenditure booked during the year 2002-03 was Rs. 14702.59 Lakhs compared with the previous year figures of Rs.12604.72. This increase was merely because of increase in the volume of turnover only. By comparison with the sales the amount was reduced by 0.2% than the previous year.

Finance Charges

The Finance Costs during the year 2002-03 was increased by Rs.8.13 lakhs compared with the previous year. This increase was because of increase in the Project Loans and Cash Credit Limits.

Depreciations

Depreciation is provided in accordance with the rates and rules specified in Schedule XIV of the Companies Act, 1956, under Straight Line Method. The depreciation during the year 2002-03 was increased by Rs.66.48 lakhs compared with the previous year 2001-02. The increase was merely because of increase in value of Fixed Assets only.

Profit After Tax

The profit after tax was reduced by Rs.127.58 lakhs compared with the previous year 2001-02. This decrease in the profit was because of the payment made to the Staff under VRS.

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An analysis of reasons for the changes in significant items of income and expenditure is given hereunder:

1. Unusual or infrequent events or transactions

There have been no events, to the best of our knowledge, other than as described in this Letter of Offer, which may be called "unusual" or "infrequent".

2. Significant economic changes that materially affected or are likely to affect income from continuing operations

There have been no significant changes in the laws governing the non-automotive batteries industry in the recent past.

3. Known trends or Uncertainties that have had or are expected to have a material adverse impact on sales, revenue or income from continuing operations

Other than as described in this Letter of Offer, to our knowledge, there are no known trends or uncertainties that have or had or are expected to have a materially adverse impact on revenue or income of the Company from continuing operations.

4. 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

The Company is continuously working to create efficient processes resulting in cost reduction and have a better control over its activities. Other than as described in this Letter of Offer, to our knowledge, there are no known factors, which will affect the future relationship between the costs and income, or which will have a material impact on the operations and finances of the Company.

5. The extent to which material increases in net sales or revenue are due to increased sales volume, introduction of new products or services or increased sales prices

The increase in turnover is mainly on account of increase in sales volume.

6. Total turnover of each major industry segment in which the Company operated

The Company is operating only in two segments namely Batteries and Electronics. However, there are no published data available to the Company for total turnover of the Industry.

7. Status of any publicly as announced new products a business segment:

The Company has envisaged setting up separate Industrial undertakings at Haridwar (Uttaranchal), Manesar (Haryana), MIDC (Navi Mumbai) for the manufacture of electronics products. Besides it plans to set up a plant for manufacture of NCPP Batteries at SEZ Vishakapatnam and Lead Acid Batteries at Vijaynagar apart from streamlining / augmenting capacities at its existing facilities.

The above projects are estimated to cost around Rs. 17,000 Lakhs. The same is to be funded partly by raising Rupee Term Loans from Banks/ Financial Institutions and partly from internal resources. The above projects are at various stages of statutory clearances. The financial closure of the same is yet to happen.

8. The extent to which the business is Seasonal

The business of the company is not seasonal. However there are significant variations in the quarterly revenues and profits because of various factors like general economic conditions etc.

9. Dependence on single or few suppliers / customers

The company sources all requirements of raw materials from diverse groups of suppliers in the domestic markets as well as imports and thus the companies operations are risk averse from supply side. Considering that the company operates in a specialized domain there is no threat of excessive dependence from any single customer. The company's products are sold to a wide group of customers and has repetitive orders including exports. The company does not foresee business risk arising from the customers.

10. Competitive conditions

The company expects the competition to intensity from other battery manufacturers more so as manufacturers the world over are finding India a low cost sourcing base. The company may also face competition from other established players in markets in which it has a presence. The company has a specialized and diversified product portfolio, with expertise in the battery and electronics segment along with strong existing relationships and marketing set up, it is hopeful of managing competitive conditions to its advantage.

VI. LEGAL AND OTHER INFORMATION

The company confirms that there are no other litigation, arbitration or administration proceedings are current, pending, or threatened which, if determined adversely to the Company would individually or in the aggregate have a material adverse effect on the condition (financial or otherwise), prospects, results of operations or general affairs of the Company or would materially affect, or restrain the Company from entering into, exercising its rights under, or performing or enforcing or complying with its obligations under the Agreements.

The company certifies that except as stated herein, there are no:

- Other pending litigations against the company.
- Outstanding litigations, defaults etc pertaining to matter likely to affect operations and finances of the company including prosecution under any enactment in respect of Schedule XIII of the Companies Act 1956 (1 of 1956).
- Such 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, and their names continue to be associated with particular litigation.
- Disciplinary action/ investigation has been taken by Securities and Exchange Board of India(SEBI)/ Stock Exchanges against the Company, its directors , promoters and their other business ventures (irrespective of the fact whether or not they fall under the purview of section 370(1B) of the Companies Act 1956.
- Cases against the Company or its Promoters of economic offences in which penalties were imposed on promoters.
- Pending litigations, defaults, non payment of Statutory dues, proceedings initiated for economic offences/civil offences, any disciplinary action taken by the Board /Stock Exchanges against the Company/Promoters and their business ventures/Directors other than those mentioned in this Offer Document and that no litigations have arisen after the issue of SEBI's Observation letter and the Company and its Directors take full responsibility of the information mentioned in the Offer Document.
- Major creditors having an outstanding balance for more than six months as on September 30, 2005 were Rs. 597.98 Lakhs.

A) Outstanding Litigations and Material Developments

In the opinion of the Company there have been no material developments after the date of latest balance sheet, which would have an impact on the performance and the prospects of the Company other than what has been set out in this Letter of Offer.

a. Outstanding Litigations involving HBL Nife

Filed against the Company

i. Criminal Law - Nil

ii. Securities Law

- ✦ HBL Nife has received a notice for non-compliance of The SEBI (Substantial Acquisition and Take Over) Regulations, 1997 for violation of Regulations 6 (2), 6(4) for the year 1997 and Regulation 8 (3) for year 1998 to 2002 vide Letter no. CFD/DCR/RC/TO/26660/04 dated November 29, 2004, wherein a penalty of Rs.1,75,000/- is demanded. The Company has consented to pay the said penalty vide its letter dated December 23, 2004 as and when demanded.
- ✦ SEBI vide its order dated August 4, 2000 has agreed to a monetary penalty of Rs. 5,00,000/- under Section 151 of the SEBI Act, 1992 on HBL Limited (since merged with the company) and Dr. A.J. Prasad (Promoter) for Share Warrants issued in October 1998 for technical violation of Regulation 11(1) of the SEBI (SAST) Regulations, 1997.
- ✦ HBL Nife had proposed a buyback of equity shares in the year 2002; SEBI vide its letter no. PMD/SNB/18013/2002 dated September 16, 2002 had advised not to proceed with the offer due to the offer not being in compliance with Clause 40 A of the listing agreement.
- ✦ HBL Nife had proposed a Rights Issue in the ratio of 1:15 in January 2005, the Draft Letter of Offer for the same was filed in June 2005, however, the same was withdrawn in September, 2005.

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- ✦ The following Equity Shares of the Company are awaiting Listing on the Stock Exchanges due to non-compliance with the minimum public shareholding criterion

No. of Equity Shares	Details	Issued in	% of Pre Issue Equity Share Capital
11,02,430	Conversion of preferentially allotted share warrants (net of cancellation of 2,466,270 Equity Shares consequent to merger)	May 1999	4.99%
1,25,38,593	Merger Scheme passed by Honorable High Court of Andhra Pradesh for merger of (net of cancellation of 15,31,900 Equity Shares) HBL Limited with the Company	March 2000	56.81%
20,00,000	Preferential Allotment	October 2005	9.06%
15,641,023	Total	-	70.86%

HBL Nife currently is not meeting the conditions for continuous listing and the minimum public shareholding is less than the prescribed minimum of 25%. The current rights issue and the accompanied renunciation by the promoters shall result in the post issue shareholding pattern being in compliance with clause 40A of the listing agreement.

iii. Statutory Laws including Tax disputes

Sr. No.	Filed by	Case No. & Authority	Background & Current Status	Amount Rs. in Lacs
Central Excise				
1.	Central Excise Department, Mumbai	STF/MOD/27/99/300 Dated March 30, 1999, High Court, Mumbai	Job work done through M/s. Modison under notification no. 214/86 CE, duty liability on the intermediate goods silver nitrate emerged out of job work and used in the manufacture of batteries cleared under exemption. Tribunal ordered in favour of the Company. However, CE, Mumbai appealed in the High Court	Duty –62.11 Interest – 32.64 Penalty – 0.10.
Sales Tax				
1.	Sales Tax Department, AP	L-III (2)/ 63/99-1 Dated April 27, 2000	The contention of the department is that the Rebate on Silver is Taxable Year 1992-93. The DC Appeals has ordered in favour of the Company. The department has gone in an appeal, Pending at STAT, A.P for Personal Hearing	3.35
2.	Sales Tax Department, AP	L-III (2)/ 63/99-1 Dated April 27, 2000	The contention of the department is that the Rebate on Silver is Taxable Year 1993-94 The DC Appeals has ordered in favour of the Company. The department has gone in an appeal, Pending at STAT, A.P for Personal Hearing	2.82
3.	Sales Tax Department, AP	T.A.No. 1101/4 of 2004	The contention of the department is that the Rebate on Silver is Taxable Year 1996-97 The DC Appeals has ordered in favour of the Company. The department has gone in an appeal, Pending at STAT, A.P for Personal Hearing	3.58
Factories Act				
1.	Deputy Chief Inspector of Factories, Nalgonda	STC No. 94 of 2004, Court of JFCM, Shadnagar, Mahaboobnagar.	Violation of Factories Act, Plans and Statutory requirement like medical officer, safety equipment etc. Warrant issued to Occupier/ Manager	0.10

Civil Laws

Sr. No.	Filed by	Case No. & Authority	Background & Current Status	Amount Rs. in Lacs
Civil Case				
1.	Sai Nath Powder Coating Works	O.S.104 of 2004, III Additional Chief Justice, City Civil Court, Hyderabad	Allegation of deducting excess amount charged for powder coating works by the company. Written statement to counter claim/ rejoinder to written statement filed by plaintiff on March 11, 2005	22.65+24% Interest + Costs
2.	Mr. K.I.VaraPrasad Reddy	CCCA No. 44 of 2004, High Court of Andhra Pradesh	An ex-employee of the Company claimed certain amounts post cessation of employment. The Company contested the said claims at 4 th Senior Civil Judge, City Civil Court at Hyderabad. The court ordered in favour of the petitioner. An amount equivalent to Rs. 13.13 lacs has been paid as deposit and the Company has preferred an appeal to High Court.	Rs. 26.25 lacs
3.	Punjab Powerpacks Limited	Not Available	The Auditors Report states "The Company made a counter claim in Courts for royalty, technical know-how fee and damages exceeding their claims. Pending settlement by the courts, the claims against the company as well as the company's counter claims have not been considered in the accounts"	Rs. 20 lacs

Labour Laws

Sr. No.	Filed by	Case No. & Authority	Background & Current Status	Amount Rs. in Lacs
Labour Cases				
1.	Vijay Bhaskar Reddy	ID No. 90 of 2004, Labour Court, Hyderabad	Reinstatement, overtime and Gratuity Pending at Counter / Evidence stage	1.00
2.	K. Shankar Rao	ID. No. 48/2001, Labour Court, Hyderabad	Case filed in year 2001, In May 2004 back Wages paid on reinstatement, also job offered at Noida	1.09

Others:
Volkers Report:

The Company's name figures in Volk's report. HBL Nife has supplied two consignments to Government of Iraq:

Year	Contract Value
1999	US\$ 443,072
2001	€ 66,466

The Company had entered into the above transaction with agents and has supplied the said goods in the normal course of business.

Intellectual Property Rights:

SAFT AB (earlier known as SAB Nife AB) has initiated legal proceedings for infringement of its trade mark against the company's subsidiary HBL Nife (UK) Limited in the Royal Court of Chancery Division, London and where in HBL Nife was mentioned as 2nd defendant.

On February 8, 2006 the Royal Court of Chancery Division, London passed an order against the Company's subsidiary and the Company stating the following:

- Restraining the defendants against infringement of UK trademark;
- Defendants to change the corporate name of the subsidiary that does not include 'nife';
- Defendants to remove or obliterate the use of any or each of the trade marks from any; website;

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- Defendants to make a payment of £2,00,000 in the Court on account of costs and damages out of which a sum of £ 1,50,000 be paid by the defendants by 4pm on March 9, 2006. The aforementioned amount of £2,00,000 would be required by the defendants to be paid in the event they fail to appeal from the order along with payment of the claimants costs of application amounting to £ 2,000 by March 8, 2006

However the Company is in the process of filing the appeal along with the condolence of delay but as of date has not filed an appeal against the order nor made any payments in the Court.

Filed by the Company

Criminal Law - Nil

Securities Law - Nil

Statutory Laws including Tax disputes

Sr. No.	Filed Against	Case No. & Authority	Background & Current Status	Amount Rs. in Lacs
Income Tax				
1.	Income Tax Department	Notice u/s 143 (3) of the Income Tax Act	The Company has appealed against Notice/ order dated March 16, 2005	38.26
Sales Tax				
1.	Sales Tax Department, AP	4400405/Tribunal	Rebate on Silver is Taxable Year 2000-2001	2.02

Civil Law - Nil

Labour Laws - Nil

Others

Sr. No.	Filed Against	Case No. & Authority	Background & Current Status	Amount Rs. in Lacs
Writ Petition				
1.	DMDE	Writ Petition No. 5164 of 2004, ANDHRA Pradesh High Court	The Company had alleged on DMDE for acting favoritism in awarding a contract to a competitor and not considering the lowest tender bid submitted by the Company	100.00

Amounts Owed to Small Scale Undertakings

The name of Small Scale Undertakings to whom the Company owes a sum exceeding Rs. 1 Lac which is outstanding more than 30 days, as on December 31, 2005 are as follows:

Rs in Lakhs

Name of the SSI	Amount
Agarwal Fastners Pvt Ltd	5.76
Bhagawan Timber Depot	34.89
BPR Safety Products	9.26
Delight Trading Corporation	22.97
Devi Toolings Systems	3.13
Diagram Fab Ltd	1.67
Durga Engg Works	9.65
Electro Machano	2.81
Flucon Polymers Pvt Ltd	1.73
Harika Packeges Pvt Ltd	2.42
Harinam Wires	27.16
Hyderabad Rasayan Udyog	3.49
Hygri Circuits	2.61
Jai Jalaram Traders	4.34

Rs in Lakhs

Name of the SSI	Amount
Kamadhenu Engraving Works	12.80
Lead Edge Papers Pvt Ltd	6.98
Mahalaxmi Engg Works	4.69
Manipal Industries	1.62
N B Engineering Works	4.18
N G Engineering Works	14.00
Navodaya Packing Industries	5.84
New Horizon Farm Enterprises	53.76
Orgachem Industries	2.25
Padamasri Engineering Works	14.29
Paramount Powders Pvt Ltd	41.45
Plastic Shilp Udyog	2.09
Power Oxides Pvt Ltd	4.76
Prasanna Dies & Components	23.63
Priya Engineering	1.04
Ramnish Electronics Pvt Ltd	2.27
Revathi Heaters & Controls	4.83
S V Industries	5.74
Sagar Tools & Components	5.95
Sajana Industrial Products	1.01
Sampat Industries	20.52
Shanmukha Engg Works	5.15
Shivanth Fibre Plast	13.64
Sree Deepika Engg Works	2.01
Sree Vijaya Industries	13.87
Sri Datta Engineering Works	5.72
Sri Balaji Traders	11.83
Sri Lakshmi Industries	2.41
Sri Lipi Graphics	1.69
Sri Rama Chem Process	5.94
Sri Sai Baba Rubber Moulding Works	5.85
Sri Sai Industrial Plastics	2.43
Sri Sai Ram Polymers	3.11
Sri Venkateshwara Coil Products	1.37
Standard Enterprises	2.48
Stypack Pvt Ltd	18.95
Sunitha Enterprises	6.05
Super Ole Filns Pvt Ltd	4.75
Suryashakti Components (P) ltd	1.85
Swathi Fibres	4.16
United Rubber Industries	3.16
Total	481.99

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Defaults: There has been no default in meeting statutory dues, institutional dues and others dues and claims of material nature against the Company. There is no pending litigation, default or dispute against the Company which are likely to affect the finances and operations of the Company.

Status of borrowings / loans from banks / FIs: The conduct of the account of the company with consortium banks is satisfactory.

b. Outstanding Litigations involving Subsidiaries

The Company has no outstanding litigations, involving any of its subsidiaries except the following:

- i. Bhagirath Energy Systems Private Limited, Nepal** is under Voluntary Winding up proceedings.
- ii. HBL Nife (U.K.) Limited**

SAFT AB (earlier known as SAB Nife AB) has initiated legal proceedings for infringement of its trade mark against the company's subsidiary HBL Nife (UK) Limited in the Royal Court of Chancery Division, London and where in HBL Nife was mentioned as 2nd defendant.

On February 8, 2006 the Royal Court of Chancery Division, London passed an order against the Company's subsidiary and the Company stating the following:

- Restraining the defendants against infringement of UK trademark;
- Defendants to change the corporate name of the subsidiary that does not include 'nife';
- Defendants to remove or obliterate the use of any or each of the trade marks from any; website;
- Defendants to make a payment of £2,00,000 in the Court on account of costs and damages out of which a sum of £ 1,50,000 be paid by the defendants by 4pm on March 9, 2006. The aforementioned amount of £2,00,000 would be required by the defendants to be paid in the event they fail to appeal from the order along with payment of the claimants costs of application amounting to £ 2,000 by March 8, 2006

However the Company is in the process of filing the appeal along with the condolence of delay but as of date has not filed an appeal against the order nor made any payments in the Court.

c. Outstanding Litigations involving Promoters and Group Companies

There are no outstanding litigations against the Promoters and Group Companies however the promoter of the company had a litigation in USA that was settled nolocontendere:

Dr. A.J. Prasad the Chairman and Managing Director of the Company was detained in USA in the year 1996 for alleged link with one Mr. Kota who was arrested in USA for attempting to sell some sensitive documents to KGB agent. The matter against Dr. A.J. Prasad was a case of mistaken identity and the offence has not been admitted or proved in any court of law. He was offered a nolocontendere (no contest), along with a fine of US\$ 3,000 in return for being allowed to come back to India that was accepted. In lieu of the above matter Dr. A.J. Prasad as an individual is not entitled to any export licence for munitions list items from USA and travel to USA till December, 2006.

d. Litigations post filing of the Draft Offer Document: Nil, No litigations have arisen post the filing of the Draft Letter of Offer.

Defaults: There are no defaults in meeting statutory dues, institutional dues and towards instrument holders like debentures, fixed deposits etc.

Material Developments since the Last Balance Sheet Date

The Directors confirm that there have been no events or circumstances since the date of the last financial statements as disclosed in the Letter of Offer which materially or adversely affect or is likely affect the trading or profitability of the company, or the value of its assets, or its ability to pay liabilities within next twelve months.

Parallel Expansion Program

1. Company has embarked upon parallel expansion program for its existing products. This include setting up of Tubular battery manufacturing unit at bhoothpur, expansion of VLRA and SLA batteries at Nandigaon, setting up a defence electronics facility near its existing facility at Shameerpet. Also the Company has plans to set up a service center in Navi Mumbai to cater to western and north-western regions requirement. Besides the Company has planned expenditure on line balancing equipment and modernization of its existing facilities.

The program is estimated to cost Rs. 42 crores. State Bank of India, Commercial Branch Secunderabad has sanctioned a corporate loan to the tune of Rs. 30 crores for the above requirements and margin for working capital. Company has been sanctioned the above limits by SBI sanction letter no. CB/SEC/KSV dated May 21, 2005.

2. Company has embarked upon parallel expansion program for its existing products primarily at SEZ Vishakapatnam and Vijayanagaram. It is also setting up an Integrated Power Supply Systems manufacturing facility at Haridwar along with a battery assembling unit.

The Company has made a preferential allotment of 2,000,000 Equity Shares @ Rs. 255 per shares (including Rs. 245/- per share as premium) on October 28, 2005 aggregating Rs. 51 crores part finance the above program. The Company is in the process of tying up the cost of the project.

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B) Government Approvals / Licensing Arrangements

Investment Approvals (FIPB/ RBI, etc.)

Vide notification dated May 03, 2000, bearing number FEMA/20/RB- 2000, RBI has granted general permission to Indian companies to issue rights/bonus Equity Shares to existing non-resident shareholders. The existing non-resident shareholders may apply for issue of additional Equity Shares and the Company may allot the same subject to the condition that the overall issue of Equity Shares to non-residents in the total paid up capital does not exceed the sectoral cap. In other words, nonresidents may subscribe for additional Equity Shares over and above Equity Shares offered on rights basis by the Company and renounce the Equity Shares offered in full or part thereof in favor of a person named by them. Residents may subscribe for additional Equity Share over and above the Equity Shares offered on rights basis by the Company and renounce the Equity Shares offered either in full or part thereof in favor of a person named by them. However, Vide notification dated October 03, 2003, bearing no. FEMA no. 101/2003-RB this facility would not be available to investors who have been allotted such Equity Shares as OCBs. OCBs may however renounce the Equity Shares offered in full or part thereof in favor of a person named by them other than an OCB.

All Government and Other Approvals

The Company has received the following Government Approvals that are material to the business:

Sr. No	Date of Approval	Department	Certificate/ Sanction Letter No.	Related to	Factory Location / Sanctioning Authority
1	April 9, 1987	DGTD	CI.E(13)/ Battery/86/427	Nickel Cadmium Batteries	Shameerpet (M)R R Dist. AP
2	August 20, 1996	SIA, New Delhi	LI: 488(92)/96-Amdt.	Alkaline Batteries	Shameerpet (M)R R Dist. AP
3	May 19, 1998 April 13, 2005	SIA, New Delhi	IEM No.975/IMO/98 ACK:52/SIA/IL	Power Electronics Products/ SMR	Nandigoan (V) Mahaboob Nagar (Dist) AP
4	December 31, 1999	-	IEM NO.2898/SIA/IMO/99 Products	Railway Electronics	Nandigoan Mahaboob Nagar (Dist) AP
5	June 26, 2001	-	LI NO. 84(2001)	Bullet Proof Jackets	Shameerpet (M) R R Dist. AP
6	January 23, 2002 April 1, 2005	-	LI NO.12(2002) ACK:47/SIA/IL/2005	Lead acid Batteries	Nandigoan(V) Mahaboob Nagar (Dist) AP
7	March 10, 2005	SIA, New Delhi	1084/SIA/IMO/2005	Lead Acid batteries	Bhootpur(V) Mahaboob Nagar (Dist)
8	September 27, 2005	-	DIL 57(2005)	Lead Acid Batteries / Parts	Nandigoan(V) Mahaboob Nagar (Dist) AP
9	September 27 2005	-	DIL 59(2005)	Alkaline Batteries	Shameerpet (M) R R Dist. AP

The Company has obtained consent under Section 21 of Air (Prevention and Control of Pollution) Act and the Rules there under for its plants at Lalgadi, Malakpet, Sameerpet in Andhra Pradesh to operate the industrial plant consent valid till September 2008. Consent is obtained u/s 25 and 26 of Water (Prevention and Control of Pollution) Act, for the above Plants for discharge of the effluents.

The Plant at Vishakapatnam – permission is given for 5 years. Environmental Audit is carried out by BVQI who has submitted its Report dated September 21, 2005 valid till February 24, 2007. BVQI has certified that the Environmental management systems of the Company has been audited and found to be in accordance with the requirements of the Standard ISO 14001 2004. Consent for 5 years from April 6, 2002 for operating facility for collection, receipts, treatment and storage of hazardous waste has also been obtained.

Permission under SEZ Scheme for manufacture of Nickel Cadmium, Silver zinc and lead batteries dated February 23, 2005 at Vishakapatnam Special Economic Zone in the State of Andhra Pradesh has been granted under SEZ Scheme. Company has valid registrations under Profession Tax, Central Sales Tax, State Sales Tax and VAT Registration in concerned States.

The Company has received all the necessary permissions and approvals from the Government and various Government agencies for the existing activities. No further approvals from any Government authority/Reserve Bank of India (RBI) are required by the Company to undertake the expansion activities, save and except those approvals, which may be required to be taken in the normal course of business from time to time. The Central Government / RBI accept no responsibility for the financial soundness or correctness of the statements made in the Letter of Offer.

VII. OTHER REGULATORY AND STATUTORY DISCLOSURES

A) Authority of the Present Issue

The present issue is being made pursuant to the Board Resolution passed at the Board meeting held on September 27, 2005, the shareholders approval obtained at the Extra Ordinary General Meeting held on October 24, 2005. The Letter of Offer has been finalized at the committee of Board of directors held on March 6, 2006.

B) Prohibition by SEBI

Company, Directors, Promoters, the directors and persons in control of promoters, group companies, other companies promoted by the promoters and companies with which our company's 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

C) Eligibility for the Issue

HBL NIFE Power Systems Limited is an existing Company under the Act, whose equity shares are listed on BSE and HSE. It is eligible to offer this Rights Issue in terms of Clause 2.4.1 (iv) of the SEBI (Disclosure and Investor Protection) Guidelines, 2000. The Company, its Promoter (s), its Directors or any of the Company's associates or group companies and companies in which the Directors of the Company are associated as Director(s) or Promoters, or Directors or Promoters in control of, the promoting Company, are currently not prohibited from accessing the capital market under any order or direction passed by SEBI. Further the Promoters, their relatives (as per Act), the Company, group companies, associate companies are not detained as willful defaulters by RBI / Government authorities.

D) Disclaimer Clause

SEBI Disclaimer Clause

AS REQUIRED, A COPY OF THIS LETTER OF OFFER HAS BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI).

"IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF OFFER DOCUMENT TO SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED 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 THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE OFFER DOCUMENT. LEAD MERCHANT BANKER, FORTUNE FINANCIAL SERVICES (INDIA) LIMITED HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE OFFER DOCUMENT ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN OFFER DOCUMENT, THE LEAD MERCHANT BANKER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MERCHANT BANKER FORTUNE FINANCIAL SERVICES (INDIA) LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED March 16, 2006 IN ACCORDANCE WITH 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 OFFER DOCUMENT PERTAINING TO THE SAID ISSUE;**
- 2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE 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 OFFER DOCUMENT FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPER RELEVANT TO THE ISSUE;**

HBL NIFE POWER SYSTEMS LIMITED

- 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;
- c. THE DISCLOSURES MADE IN THE OFFER DOCUMENT ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE;
- d. BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE LETTER OF OFFER ARE REGISTERED WITH SEBI AND TILL DATE SUCH REGISTRATION IS VALID; AND
- e. THE ISSUE IS NOT BEING UNDERWRITTEN”.

THE FILING OF OFFER DOCUMENT DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 OR 68 OF THE COMPANIES ACT, 1956 OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI, FURTHER RESERVES THE RIGHT TO TAKE UP, AT ANY POINT OF TIME, WITH THE LEAD MERCHANT BANKER(S) ANY IRREGULARITIES OR LAPSES IN OFFER DOCUMENT.”

The Board of Directors of the Company declare and confirm that no information/material likely to have a bearing on the decision of investors in respect of the shares/debentures/securities offered in terms of this Letter of Offer has been suppressed/withheld and/or incorporated in the manner that would amount to mis-statement / mis-representation and in the event of its transpiring at any point of time allotment/refund, as the case may be, that any information/material has been suppressed/with held and/or amounts to a mis-statement / mis-representation, the promoters / directors undertake to refund the entire application monies to all the subscribers to all the subscribers within 7 days thereafter without prejudice to the provisions of Section 63 of the Companies Act.

E) Caution

It should be noted that the Company and Lead Manager accepts no responsibility for statements made otherwise than in the Letter of Offer or in the advertisement or any other material issued by or at the instance of the Company and that anyone placing reliance on any other source of information would be doing so at his/her/their own risk.

All information shall be made available by the Lead Manager and the Issuer to the Equity Shareholders and no selective or additional information would be made available for a section of the Equity Shareholders or investors in any manner whatsoever including at presentations, in research or sales reports etc. after filing of the Draft Letter of Offer with SEBI. The Lead Managers and the Company shall update the Letter of Offer and keep the public informed of any material changes till the listing and trading commences.

F) Disclaimer in respect to Jurisdiction

This Rights Issue is made in India subject to Indian laws. This issue of Equity Shares is being made to persons resident in India and NRIs/FII etc subject to requisite approvals. This Letter of Offer does not however constitute an offer to sell or an invitation to subscribe to Equity Shares offered hereby in any other jurisdiction to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this Letter of Offer comes is required to inform himself/ herself about and to observe any such restrictions. Any dispute arising out of this issue will be subject to the jurisdiction of the appropriate courts in Hyderabad, India only.

G) Disclaimers of Stock Exchanges

The stock exchanges where the equity shares of the Company are listed have been forwarded copies of this Letter of Offer.

Disclaimer Clause of BSE being the Designated Stock Exchange

“The Bombay Stock Exchange Limited (“the Exchange”) has given vide its letter dated April 10, 2006 permission to the Company to use the Exchange’s name in this Letter of Offer as one of the stock exchanges on which this Company’s securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter granting the aforesaid permission to this Company. The Exchange does not in any manner

- i. warrant certify or endorse the correctness or completeness of any of the contents of this Letter of Offer, or
- ii. warrant that this Company’s securities will be listed or will continue to be listed on the Exchange, or
- iii. 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 Letter of Offer has been cleared or approved by the Exchange.

Every person who desires to apply for or otherwise acquire any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange 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 any other reason whatsoever”.

Disclaimer Clause of HSE

“The Hyderabad Stock Exchange Limited, Hyderabad (“the Exchange”) has given vide its letter no. HSE:LIST:2006:013 dated April 12, 2006 permission to the Company to use the Exchange’s name in this Letter of Offer as one of the stock exchanges on which this Company’s securities are proposed to be listed. HSE has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company.

HSE does not in any manner

- i. warrant, certify, or endorse the correctness or completeness of any of the contents of this Letter of Offer, or
- ii. warrant that the Company’s securities will be listed or will continue to be listed on the Exchange or
- iii. take any responsibility for the financial or other soundness of this Company, its promoters, its management, or any scheme, or project of this Company.

It should not, for any reason, be deemed or construed that the Letter of Offer has been cleared or approved by HSE. Every person who desires to apply for or otherwise acquire any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the HSE 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 any other reason whatsoever.

H) Filing

- i. The Draft Letter of Offer has been filed with the Head Office of SEBI at Mumbai and also with the Stock Exchanges at Mumbai and Hyderabad.
- ii. A copy of the documents referred to as Material Contracts and Documents in this Letter of Offer has been kept open for inspection at the Registered Office of the Company.
- iii. Copy of this Letter of Offer along with the relevant material documents have been filed with Stock Exchanges. All the legal requirements applicable till the filing of the Letter of Offer with Stock Exchanges have been complied with.

H) Listing

The existing Equity Shares of the Company are listed on BSE (Designated Stock Exchange) and HSE. The Equity Shares to be issued through this Issue would also be listed on the Stock Exchanges mentioned above. The Company has made applications for in-principle approval for listing to the said Stock Exchanges. The Company will make applications to these Stock Exchanges for permission to deal in and for an official quotation in respect of the Equity Shares arising out of the Issue. The in-principle approvals from these stock exchanges are yet to be received for listing of the equity shares.

If the permission to deal in and for an official quotation of the securities is not granted by Designated Stock Exchange mentioned above, within six weeks from the Issue Closing Date, the Company shall forthwith repay, without interest, all monies received from applicants in pursuance of this Letter of Offer. If such money is not paid within eight days after the Company becomes liable to repay it, then the Company and every Director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money with interest as prescribed under the Section 73 of the Act.

I) Consents

Consents in writing of the Directors, Auditors, Bankers to the Company, Bankers to the Issue, Registrar, Lead Managers, Company Secretary to act in their respective capacities have been obtained and filed along with a copy of the Offer Document with SEBI, as required under section 60 of the Act and such consent have not been withdrawn upto time of delivery of the Letter of Offer.

M/s. Satyanarayana & Co., Chartered Accountants, Auditors of the Company have also given their consent to the inclusion of their report as appearing hereinafter in the form and context in which appears in this Letter of Offer and also of the tax benefits accruing to the Company and to the members of the Company and such consent and report have not been withdrawn up to the time of signing this Letter of Offer.

The Company has obtained the consent of Lenders for the Proposed Rights Issue as required in terms of their respective sanction letters.

Except as above and as stated in this Letter of Offer, the Company has not obtained any other expert opinion.

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J) Expenses of the Issue

The expenses of the Issue payable by the Company inclusive of fees payable to the Lead Managers, other intermediaries to the Issue, stamp duty, printing, publication, advertising and distribution expenses, bank charges, fees payable to the Registrars to the Issue, listing fees, brokerage and other miscellaneous expenses are estimated to be approximately 2.59% of the total proceeds of this Issue.

Sr. No.	Nature of Expenses	Amount (Rs. in Lacs)	% of Issue Expenses	% of Issue Size
1	Lead Managers Fee	10.00	17.47%	0.45%
2	Legal Counsel Charges	3.00	5.24%	0.14%
3	Registrars Fee	1.35	2.36%	0.06%
4	Printers, Postage, Dispatch Expenses	22.88	39.98%	1.04%
5	Advertisement & Publicity Expenses	10.00	17.47%	0.45%
6	SEBI Fee, Listing Expenses, Taxes, Reimbursement of Out of Pocket Expenses and Miscellaneous Expenses	10.00	17.47%	0.45%
	Total	57.23	100.00%	2.59%

K) Details of Fee payable

Lead Manager to the Issue

The total fees payable to the Lead Managers is as per the Memorandum of Understanding signed with the Lead Manager, a copy of the same is available for inspection at the Registered Office of the Company. The Lead Managers will be reimbursed for all relevant out-of-pocket expenses including such as cost of travel, stationery, postage and communication expenses.

Registrar to the Issue

The fees payable to the Registrar to the Issue is set out in the relevant document, copies of which are available for inspection at the Registered Office of the Company. The Registrar will be reimbursed for all relevant out-of-pocket expenses including such as cost of travel, stationery, postage, stamp duty, communication expenses. Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post.

L) Underwriting commission, brokerage and selling commission

No underwriting commission, brokerage and selling commission will be paid for this Issue.

M) Previous Public or Rights Issue

The Company has not made any public issue of equity/debentures during the past five years. The details of issue of capital has been outlined in the paragraph on the build up of the share capital under the capital structure.

N) Previous Issue of Shares Otherwise than for Cash

The Company has not issued any shares for consideration other than by cash other than by way of capitalisation of reserves other than mentioned in this Letter of Offer on Page no. 8.

O) Commission and Brokerage on Previous Issues

Except as stated in the Offer Document, no sum has been paid or is payable as commission or brokerage for subscribing to or procuring or agreeing to procure subscription for any of the equity shares of the Company since its inception. Also, the company has not made any rights or public issue in the last five years.

P) Previous Issue of Capital during Last Three Years

HBL NIFE has not made any capital issue during the last three years. Also there are no other listed companies under the same management within the meaning of erstwhile section 370(1) (B) of the Companies Act, 1956.

Q) Promises vis-à-vis Performance

The Company through its maiden public issue had raised Rs. 343 Lacs by accessing the capital market in the year 1992. It was planned to acquire plant & machinery for the manufacture of UPS and lead acid batteries (outlay Rs.94 Lacs), however midway through the company had a re-look at venturing into the UPS and Lead Acid batteries segment and modified the project outlay.

Rs .in Lacs

Cost of Project	Amount
Site Development and Building	47.00
Plant and Machinery	94.00
Know-how fees and training	25.00
Preliminary Expenses	25.00
Miscellaneous Fixed Assets	5.00
Pre-operative Expenses	24.00
Contingency	15.00
Incremental margin for Working Capital	65.00
Total	300.00

Rs .in Lacs

Means of Finance	Amount
Public Issue	273.00
Additional Equity Subscription by Swedfund	27.00
Total	300.00

The Company thru the maiden public issue had raised Rs. 343 Lacs from the public (including firm / preferential allotment to Swedfund International AB, Sweden (a government body for development of industry in developing countries) by accessing the capital market in the February 1992. Out of the above Rs. 94 Lacs were intended for establishing facilities for the manufacture of Uninterrupted Power Systems (UPS) of 10 KvA and above and also to widen its range of storage batteries to include Sealed Lead Acid Batteries. However midway the company realized that the volumes would not be sufficient and a re-look at the project was required. The company realized that there was not enough demand in the market for the Lead Acid Batteries and UPS > 10 KvA and also that the already existing players were unable to optimally utilize their capacities due to lack of staple demand. Accordingly it modified the outlay on the purchase of machinery and its project outlay. Given the circumstances it was thought prudent not to invest share holders money in high risk business and instead apply the funds to build its inventory and assure continued sourcing of good quality Nickel Cadmium Pocket Plate Batteries and Power Electronic Chargers to have an edge over competitors, in terms of availability of the existing product line. Accordingly the money was used in the working capital of the existing line of business. It is pertinent to note that the deployment of the rest of the funds were as per the offer document.

Projected Performance vis-à-vis Actual Results

The Company had made certain projections in the prospectus while approaching the capital markets in the year 1992 which were not fully achieved.

Rs. in Lacs

Particulars	1992	1993	1994	1995
Capacity Utilization				
Batteries Division	40%	50%	60%	60%
Electronics Division	-	30%	45%	60%
Sales	1050.00	1873.00	2415.00	2695.00
Profit After Tax	28.00	162.00	291.00	299.00
Cash Profits	52.00	186.00	315.00	303.00

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As against the projections the company has achieved the following:

Rs. in Lacs

Particulars	1992	1993	1994	1995
Capacity Utilization				
Batteries Division	24.48%	33.34%	30.78%	26.84%
Electronics Division	44.30%	123.80%	121.90%	32.80%
Sales	773.84	1244.24	1521.47	1261.74
Profit After Tax	(26.33)	59.54	103.27	10.84
Cash Profits	7.42	89.32	146.41	55.37

The short fall in meeting the projected turnover was due to the modifications in the capital outlay on the introduction of Lead Acid Batteries and UPS > 10 KVA. The actual capital expenditure outlay did not adhere to the planned outlay and so the projected turnover and profitability estimates could not be met. Major contributing factors for such deviation was the market for the proposed products were not ready with requisite volumes and the available volumes did not justify the planned investments. At the same time the company did make attempts to grow stronger in the existing product lines. Further the intense competition and downturn in the industrial batteries segment also contributed to the company not meeting its projected numbers.

FY 1992

The Earnings estimate for the FY 1992 were way off the mark because of the delay in the receipt of IPO proceeds and consequently delay in the implementation of the project. Also the two rupee devaluations during the same period added a lot of uncertainty and business transactions did not materialize, also there was a cut back on the government orders because of the difficult phase our economy was going thru. In essence the estimates of operations could not be met.

FY 1993

The Earnings estimates for the FY 1993 were satisfactory considering the then prevailing environment. The Company was successful in obtaining a few export orders. The drag on the top line was the general restriction on government spending on projects to which market the company catered.

FY 1994

The Company achieved a turnover of Rs. 1521 Lacs and a growth in turnover and profitability as opposed to the generally grim economic situation prevailing then.

FY 1995

The Company experienced difficulty in procuring the raw materials, which led to a loss of nearly 3 months production. This resulted in lower sales than anticipated.

On the whole the Company was not able to meet the projections, because of delay in getting the public issue proceeds, because of the general economic slowdown and the influx that our economy was going thru in the early days of liberalisation. Also some temporary incidences affected the performance of the Company and it was not able to meet the Projections.

Listed Ventures of the Promoters

Besides HBL Nife there are no other listed ventures of the Promoters

R) Outstanding Debentures or Bonds and Redeemable Preference Shares and Other Instruments

Outstanding Debentures or Bonds and Redeemable Preference Shares and Other Instruments issued by HBL NIFE Outstanding as on the Date of Letter of Offer and Terms of Issue:

HBL Nife Power Systems Limited has not made any public or rights Issue of Debentures, Redeemable Preference Shares, Public deposits or any other instruments.

S) Stock Market Data

The existing Equity Shares of the Company are listed on Bombay Stock Exchange Limited, (BSE) the Designated Stock Exchange and The Hyderabad Stock Exchange Limited (HSE).

As per Bombay Stock Exchange Limited, (BSE)

Price for the last three years

Year	High			Low			Average Price for the Year (Rs.)
	Date	Price in Rs	Volume (Nos)	Date	Price in Rs	Volume (Nos)	
2003	July 28, 2003	51.05	35935	January 23, 2003	20.00	1040	35.40
2004	December 31, 2004	131.55	44415	May 18, 2004	18.70	4240	42.27
2005	October 3, 2005	310.00	16515	January 11, 2005	121.00	65426	198.86

Source: <http://www.bseindia.com>

Price for the last six months

Month	High			Low			Total Volume for the Month
	Date	Price in Rs	Volume (Nos)	Date	Price in Rs	Volume (Nos)	
December 2005	December 12, 2005	300.00	22984	December 26, 2005	251.70	2183	300213
January 2006	January 3, 2006	309.90	60194	January 31, 2006	252.00	3791	205577
February 2006	February 7, 2006	265.40	15207	February 20, 2006	225.00	9346	194079
March 2006	March 10, 2006	276.36	19231	March 14, 2006	219.09	6083	278111
April 2006	April 3, 2006	272.27	9013	April 25, 2006	245.64	5693	115682
May 2006	May 31, 2006	268.50	1436	May 22, 2006	229.09	21847	183366

Source: <http://www.bseindia.com>

The high and low prices of the Company's shares as quoted on the Bombay Stock Exchange Limited, Mumbai (BSE) immediately after the Board of Directors approved the Rights issue at the meeting held on September 27, 2005 was as follows:

Date	Volumes	High (Rs.)	Low (Rs.)
September 23, 2005	46486	245.00	220.00
September 26, 2005	126869	264.95	241.05
September 27, 2005	90996	291.40	270.00

Source: <http://www.bseindia.com>

Volume of shares traded in the last six months

Month	Volume (No.s)
December 2005	300213
January 2006	205577
February 2006	194079
March 2006	278111
April 2006	115682
May 2006	183366

Source: <http://www.bseindia.com>

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The Hyderabad Stock Exchange Limited, Hyderabad (HSE)

There has been no trading in the equity shares of the Company on HSE during the last three years, as confirmed by the Company.

Compliance with Listing Agreement:

The Company is, listed on BSE and HSE and has complied with the requirements under the respective Listing Agreement of the above-mentioned stock exchanges, other than the continuous listing requirement of minimum 25% public shareholding. The current issue is envisaged to meet the said requirements. Also the Company has been allowed time of 6 months vide BSE letter dated March 17, 2005 to bring the public shareholding to 25%. It has paid the requisite fee of the Stock Exchanges. Also no disciplinary action has been initiated by the stock exchanges or SEBI against HBL NIFE or Directors.

T) Investor Grievances and Redressal Mechanism

Redressal Mechanism:

The company has appointed the registrar to the issue, to handle the investor grievances in coordination with the Compliance Officer of the Company. All grievances relating to the present issue may be addressed to the Registrar with a copy to the Compliance Officer, giving full details such as name, address of the applicant, number of equity shares applied for, amount paid on application and bank and branch. The company would monitor the work of the registrar to ensure that the investor grievances are settled expeditiously and satisfactorily.

The Registrar to the issue, namely, Karvy Computershare Private Limited will handle investors grievances pertaining to the issue. A fortnightly status report of the complaints received and redressed by them would be forwarded to the company. The company would also be co-ordinating with the registrar to the issue in attending to the grievances to the investor. The company assures that the Board of Directors in respect of the complaints, if any, to be received shall adhere to the following schedules:

Sr. No.	Nature of complaint	Time Table
1.	Non-receipt of refund	Within 7 days of receipt of complaint subject to production of satisfactory evidence
2.	Non Receipt of Share Certificate	Within 7 days of receipt of complaint subject to production of satisfactory evidence
3.	Transfer of Shares	Within 30 days
4.	Change of Address Notification	Within 7 days of receipt of information
5.	Any other complaint in relation to Rights issue	Within 7 days of receipt of complaint with all relevant details

Redressals of investors' grievance are given top priority by the Company. The Committee oversees redressal of complaints of shareholders/investors and other important investor related matters. In order to expedite the process of investor service, the Company Secretary, who is also the Compliance Officer, has been, delegated by the Board the power to approve share transfers and deal with matters, connected therewith. The Company has adequate arrangements for redressal of investor complaints as follows:

- a. Computerised record of correspondence
- b. Share transfer/ dematerialisation/ rematerialisation are handled by well equipped professionally managed Registrar and Transfer Agent, appointed by the Company in terms of SEBI's direction for appointment of Common Agency for physical as well as demat shares. The Registrars are constantly monitored and supported by qualified and experienced personnel of the Company.

During the year 2006-07, 11 investor complaints were received, all of which have been resolved/redressed. The company has appointed Mr. Evani Sudhakar as Compliance Officer who would directly deal with SEBI officer with respect, to implementation /compliance of various laws, rules, regulations and other directives issued by SEBI and matters related to investor complaints .The investors may contact the Compliance Officer in case of any pre-issue/post issue related problems.

Status of Complaints:

Particulars	Status
No. of Shareholders complaints as of March 31, 2006	Nil
Total number of complaints received and disposed during April 1, 2005 to March 31, 2006	88
Total number of Investor complaints received and disposed during the current financial year 2005-06	11 (as of May 30, 2006)
Status of complaints	All complaints received during the last financial year have been resolved
Time normally taken by the Company for disposal of various types of investor grievances	Most of the investor grievances have been attended to within 14 days.

Also there are no other listed companies under the same management within the meaning of erstwhile section 370(1) (B) of the Companies Act, 1956.

U) Changes in Auditors

There has been no change in the Auditors of the Company during the last three years.

V) Capitalization of Reserves or Profits during last 5 years

The Company has not capitalized any reserves during the past 5 years by way of Bonus Issue or otherwise.

W) Revaluation of Assets during the last 5 years

None of the Assets of the Company have been revalued in the last 5 years.

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VIII. ISSUE INFORMATION

The Equity Shares, now being issued, are subject to the terms and conditions of this Letter of Offer, the enclosed Composite Application Form ("CAF"), the Memorandum and Articles of Association of the Company, the approvals from the GoI, FIPB and RBI, if applicable, the provisions of the Companies Act, 1956, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/ or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or Security Certificate and rules as may be applicable and introduced from time to time.

Authority for the Present Issue

The Issue is being made pursuant to the resolution passed by the Board of Directors of the Company at its meeting held on September 27, 2005 and by the Shareholders at the Extra Ordinary General Meeting held on October 24, 2005.

Issue Schedule

Issue Opening Date	June 29, 2006
Last Date for receiving requests for split forms	July 14, 2006
Issue Closing Date	July 29, 2006

Basis of the Issue

The Equity Shares are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company in respect of Equity Shares held in the physical form at the close of business hours on the Record Date i.e. June 7, 2006 fixed in consultation with the BSE (the Designated Stock Exchange).

The Equity Shares are being offered for subscription in the ratio of 1 Equity Share for every 10 Equity Shares held by the Equity Shareholders.

Rights Entitlement

As your name appears as beneficial owner in respect of shares held in Electronic Form or appears in the Register of Members as an Equity Shareholder of the Company on the Record Date i.e. June 7, 2006, you are entitled to the number of Equity Shares made under this Offer as shown in part A of the enclosed Composite Application Form

Fractional entitlement

If the shareholding of any of the Equity Shareholders is not in multiple of ten, then the fractional entitlement of such holders shall be ignored. Shareholders holding less than ten shares will be offered one new Equity Share out of those new Equity Shares available after consolidation of the fractional entitlements. Shareholders whose fractional entitlements are being ignored would be given preferential allotment of one additional share each if they apply for additional shares.

The eligible Shareholders shall be entitled to the following:

1 (One) Equity Shares for Every 10 (Ten) Equity Shares held on the Record Date i.e. June 7, 2006

Option available to the Equity Shareholders

The Composite Application Form clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to.

If the Equity Shareholder applies for an investment in Equity Shares, then he / she can:

- ♦ Apply for his entitlement in part
- ♦ Apply for his entitlement in part and renounce the other part
- ♦ Apply for his entitlement in full
- ♦ Apply for his entitlement in full and also apply for additional Equity Shares

Renounees for Equity Shares can apply for the Equity Shares renounced to them and also apply for additional Equity Shares

Notices

All notices to the Equity shareholder(s) required to be given by the Company in connection with the Issue shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation, one regional language daily in Hyderabad being the place where the registered of the Company is situated and/or will be sent by ordinary post to the registered holders of the Equity Share(s) from time to time.

Issue of Duplicate Share Certificates

If any Equity Share certificate(s) is/are mutilated or defaced or the cages for recording transfers of Equity Shares are fully utilized, the Company against the surrender of such certificate(s) may replace the same, provided that the same will be replaced as aforesaid only if the certificate numbers and the distinctive numbers are legible. If any Equity Share certificate(s) is/are destroyed, stolen, lost or misplaced, then upon production of proof thereof to the satisfaction of the Company and upon furnishing such indemnity/surety and/or such other documents as the Company may deem adequate, duplicate Equity Share certificate(s) shall be issued.

Offer to Non-Resident Equity Shareholders/Applicants

Applications received from NRIs and other NR shareholders for allotment of Equity Shares shall be inter alia, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 1999 (FEMA) in the matter of refund of application moneys, allotment of Equity Shares, issue of Letter of Allotment / share certificates, payment of interest, dividends, etc. General permission has been granted to any person resident outside India to apply shares offered on rights basis by an Indian Company in terms of FEMA and the rules and regulations there under.

Vide Notification number FEMA 20/2000-RB dated May 3, 2000 and FEMA 76/2002-RB dated November 12, 2002 RBI has given permission to Indian companies to issue rights shares to existing non-resident shareholders. The existing non-resident shareholders may apply for issue of additional Equity Shares and the Company may allot the same subject to the condition that the overall issue of Equity Shares to non-residents in the total paid up capital does not exceed the sectoral cap. In other words, non-residents may subscribe for additional Equity Shares over and above Equity Shares offered on rights basis by the Company and renounce the Equity Shares offered in full or part thereof in favor of a person named by them. Residents may subscribe for additional Equity Share over and above the Equity Shares offered on rights basis by the Company and renounce the Equity Shares offered either in full or part thereof in favor of a person named by them. However, Vide notification dated October 03, 2003, bearing no. FEMA no. 101/2003-RB this facility would not be available to investors who have been allotted such Equity Shares as OCBs. OCBs may however renounce the Equity Shares offered in full or part thereof in favor of a person named by them other than an OCB. OCBs may however renounce the Equity Shares offered in full or part thereof in favor of a person named by them other than an OCB.

A) Terms of the Issue

No statement made in this Letter of Offer shall contravene any of the provisions of the Companies Act, 1956

Ranking of the Equity Shares

The Equity Shares shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari-passu in all respects including dividends with the existing Equity Shares of the Company.

Mode of payment of dividend

The Company shall pay dividend to shareholders as per the provisions of the Companies Act.

Face value and Issue Price

Each Equity Share shall have the face value of Rs.10/- and is being offered at a price of Rs. 100/- each [including Share Premium of Rs. 90/- per equity share]

Rights of the Equity shareholders

1. To receive dividend, if declared
2. To attend general meeting and exercise voting rights unless prohibited by law.
3. To vote either personally or by proxy.
4. To receive offer for rights shares and allotted bonus shares, if announced.
5. The right to free transferability.
6. Such other rights as may be available to the shareholders of a listed public company under the Companies Act and the Memorandum of Association of the Company.

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Market lot

The Equity Shares of the Company are tradable only in dematerialized form. The market lot for the Equity Shares in dematerialized mode is one. In case of physical certificates, the Company would issue one certificate for the Equity Shares allotted to one folio ("**Consolidated Certificate**").

In respect of the Consolidated Certificate, the Company will upon receipt of a request from the Equity Shareholder, be returning the share certificates issued for the entire holding, duly split as desired by the shareholders.

Nomination facility

In terms of Section 109A of the Act, nomination facility is available in case of Equity Shares. The applicant can nominate any person by filling the relevant details in the CAF in the space provided for this purpose.

A sole Equity Shareholder or first Equity Shareholder, along with other joint Equity Shareholders being individual(s) may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares. A Person, being a nominee, becoming entitled to the Equity Shares by reason of the death of the original Equity Shareholder(s), shall be entitled to the same advantages to which he would be entitled if he were the registered holder of the Equity Shares. Where the nominee is a minor, the Equity Shareholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Equity Share(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale of the Equity Share by the person nominating. A transferee will be entitled to make a fresh nomination in the manner prescribed. When the Equity Share is held by two or more persons, the nominee shall become entitled to receive the amount only on the demise of all the holders. Fresh nominations can be made only in the prescribed form available on request at the registered office of the Company or such other person at such addresses as may be notified by the Company. The applicant can make the nomination by filling in the relevant portion of the CAF.

Only one nomination would be applicable for one folio. Hence, in case the Shareholder(s) has already registered the nomination with the Company, no further nomination needs to be made for Equity Shares to be allotted in this Issue under the same folio. In case the allotment of Equity Shares is in dematerialised form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with respective DP of the applicant would prevail. If the applicant requires to change the nomination, they are requested to inform their respective DP.

Joint Holders

Where two or more persons are registered as the holders of Equity Shares, they shall be deemed (so far as the Company is concerned) to hold the same as joint-tenants with benefits of survivorship subject to provisions contained in the AoA.

Minimum Subscription

The Current Issue is not underwritten:

- i. If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within 30 days from the closure of the Issue.
- ii. If there is any delay in the refund of subscription by more than 8 days after the company becomes liable to pay the subscription amount (i.e. forty two days after closure of the issue), the company will pay interest for the delayed period, at rates prescribed under sub-section (2) and (2A) of Section 73 of the Companies Act, 1956.

Arrangement for Disposal of Odd Lots

The Company has not made any arrangements for the disposal of odd lot equity shares arising out of this Issue. The Company will issue certificates of denomination equal to the number of equity shares being allotted to the Equity Shareholder.

Restrictions on transfer and transmission of shares and on their consolidation/ splitting: The current issue being a rights issue there are no restriction on transfer and transmission of share and on there consolidation or splitting.

However, 20,00,000 Equity Shares allotted on a preferential allotment on October 28, 2005 are under lock in for a period of 1 year from the date of allotment as per SEBI (DIP) Guidelines, 2000. Other than the said shares no shares are under lockin.

Also, the following shares of the company are not listed on the stock exchanges due to non compliance with continuous listing requirements.

No. of Equity Shares	Details	Issued in	% of Pre Issue Equity Share Capital
11,02,430	Conversion of preferentially allotted share warrants (net of cancellation of 2,466,270 Equity Shares consequent to merger)	May 1999	4.99%
1,25,38,593	Merger Scheme passed by Honorable High Court of Andhra Pradesh for merger of (net of cancellation of 15,31,900 Equity Shares) HBL Limited with the Company	March 2000	56.81%
20,00,000	Preferential Allotment	October 2005	9.06%
1,56,41,023	Total	-	70.86%

B) Issue Procedure

This Offer is being made to the existing Equity Shareholders of the Company (hereinafter referred to as "shareholders") whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company at the close of the business hours on the Record date i.e. June 7, 2006

Issue of 22,07, 232 Equity Shares of Rs. 10/- each for cash at a premium of Rs. 90/- (Issue Price Rs. 100/-) per Equity Share aggregating Rs. 2207.23 Lakhs to the existing equity shareholders on rights basis in the ratio of 1 (one) Equity Share for every 10 (ten) Equity Shares held on Record Date i.e. June 7, 2006. The face value of the Equity Share is Rs.10/- per Share and the Issue Price is 10 times the face value

Terms of payment

100% of the issue price per Equity Share shall be payable on application. Where an applicant is allotted lesser number of equity shares than he/she has applied for, the excess amount paid on application, if any remaining thereafter will be refunded to the applicant.

Option available to the Equity Shareholders

The Composite Application Form clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to.

If the Equity Shareholder applies for an investment in Equity Shares, then he / she can:

- ♦ Apply for his entitlement in part
- ♦ Apply for his entitlement in part and renounce the other part
- ♦ Apply for his entitlement in full
- ♦ Apply for his entitlement in full and also apply for additional Equity Shares

Renounees for Equity Shares can apply for the Equity Shares renounced to them and also apply for additional Equity Shares.

Option to Receive Rights Equity Shares in Dematerialised Form

Applicants to the Equity Shares of the Company issued through this Rights Issue shall be allotted the securities in dematerialised (electronic) form at the option of the applicant. The Company and Karvy ComputerShare Private Limited, the Registrar to the Company, have signed a tripartite agreement with CDSL on April 10, 2000 and with NSDL on April 25, 2000, which enables the investors to hold and trade in securities in a dematerialised form, instead of holding the securities in the form of physical certificates. The ISIN No. allotted to the Company is INE292B01013

In this Rights Issue, the allottees who have opted for Equity Shares in dematerialised form will receive their Equity Shares in the form of an electronic credit to their beneficiary account with a depository participant. Investor will have to give the relevant particulars for this purpose in the appropriate place in the CAF. Applications, which do not accurately contain this information, will be given the securities in physical form. No separate applications for securities in physical and dematerialised form should be made. If such applications are made, the application for physical securities will be treated as multiple applications and is liable to be rejected. In case of partial allotment, allotment will be done in demat option for the shares sought in demat and balance, if any, will be allotted in physical shares.

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Procedure for availing this facility for allotment of Equity Shares in this Issue in the electronic form is as under:

1. Open a Beneficiary Account with any Depository Participant (care should be taken that the Beneficiary Account should carry the name of the holder in the same manner as is exhibited in the records of the Company. In case of joint holding, the Beneficiary Account should be opened carrying the names of the holders in the same order as with the Company). In case of Investors having various folios in the Company with different joint holders, the investors will have to open separate accounts for such holdings. *Those Equity Shareholders who have already opened such Beneficiary Account (s) need not adhere to this step.*
2. For Equity Shareholders already holding Equity Shares of the Company in dematerialized form as on Record Date, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their Rights Equity Shares by way of credit to such account, the necessary details of their beneficiary account should be filled in the space provided in the CAF. It may be noted that the allotment of securities arising out of this Issue may be made in dematerialized form even if the original equity shares of the Company are not dematerialized. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the Equity Shareholders and the names are in the same order as in the records of the Company.
3. Responsibility for correctness of applicant's age and other details given in the CAF vis-à-vis those with the applicant's Depository Participant would rest with the applicant. Applicants should ensure that the names of the applicants and the order in which they appear in CAF should be same as registered with the applicant's Depository Participant.
4. If incomplete / incorrect Beneficiary Account details are given in the CAF the applicant will get Equity Shares in physical form.
5. The Rights Equity Shares allotted to investors opting for dematerialized form, would be directly credited to the Beneficiary Account as given in the CAF after verification. Allotment advice, Refund Order (if any) would be sent directly to the applicant by the Registrar to the Issue but the applicant's Depository Participant will provide to him the confirmation of the credit of the Rights Equity Shares to the applicant's Depository Account.
6. Renouncees will also have to provide the necessary details about their Beneficiary Account for allotment of securities in this Issue. In case these details are incomplete or incorrect, the application is liable to be rejected.

Dividend or other benefits with respect to the Equity Shares held in dematerialised form would be paid to those shareholders whose names appear in the list of beneficial owners given by the depositories to the Company as on book closure/ record dates.

Option to receive the Rights Equity Shares in Demat form

Applicants have the option to subscribe and hold the equity shares either in electronic form or in physical form. Applicants must indicate in the application from the number of shares they wish to receive in dematerialised form and physical form out of the total number of shares applied for. In case of partial allotment, shares will first be allotted in dematerialised form and the balance shares, in excess of the applicants request for equity shares in demat form will be allotted in physical form. Shareholders opting to receive equity shares in physical form will be issued a consolidated shares certificate for all the equity shares allotted to them in this offer.

INVESTORS MAY PLEASE NOTE THAT THE EQUITY SHARES OF THE COMPANY CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.

How to Apply

Resident Equity Shareholders

Application should be made only on the enclosed CAF provided by the Company. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Managers or by the Registrar to the Issue or by the Company at any offices except in the case of postal applications as per instructions given in the Letter of Offer.

Non-resident Equity Shareholders

Applications received from the Non-Resident Equity Shareholders for the allotment of Equity Shares shall, inter alia, be subject to the conditions as may be imposed from time to time by the Reserve Bank of India, in the matter of refund of application moneys, allotment of Equity Shares, issue of Letters of Allotment/ certificates/ payment of dividends etc.

The CAF consists of four parts:

Part A: Form for accepting the Equity Shares offered and for applying for additional Equity Shares

Part B: Form for renunciation

Part C: Form for application for renounees

Part D: Form for request for split application forms

Acceptance of the Rights Issue

You may accept the Offer and apply for Equity Shares offered, either in full or in part by filling Block III of Part "A" of the enclosed CAF and submit the same along with the application money payable to the "Bankers to the Issue" or any of the branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board thereof in this regard. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn on a local bank at Hyderabad /demand draft payable at Hyderabad to the Registrar to the Issue by registered post.

Renunciation

As an Equity Shareholder, you have the right to renounce your entitlement for the Equity Shares in full or in part in favour of one or more person(s). Such renounees can only be Indian Nationals / Limited Companies incorporated under and governed by the Act, statutory corporations / institutions, trusts (unless registered under the Indian Trust Act,) minors (through their legal guardians), societies (unless registered under Societies Registration Act, 1860 or any other applicable laws) provided that such trust / society is authorized under its constitution / bye laws to hold equity shares in a company and cannot be a partnership firm, more than three persons including joint-holders, HUF, foreign nationals (unless approved by RBI or other relevant authorities) or to any person situated or having jurisdiction where the offering in terms of the Letter of Offer should be illegal or require compliance with securities law of such jurisdiction or any other person not approved by the Board.

Any Renunciation from Resident Indian Shareholder(s) to Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to other Non-Resident Indian(s) is subject to the renouncer(s)/ renounee(s) obtaining the approval of the FIPB and / or necessary permission of RBI under the Foreign Exchange Management Act, 1999 (FEMA) and other applicable laws and such permission should be attached to the CAF. Applications not accompanied by the aforesaid approval are liable to be rejected.

By Virtue of Circular No. 14 dated September 16, 2003 issued by the RBI, Overseas Corporate Bodies (OCBs) have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to OCBs) Regulations, 2003. Accordingly the existing Equity Shareholders of the Company who do not wish to subscribe to the Equity Shares being offered but wish to renounce the same in favour of renounees shall not renounce the same (whether for consideration or otherwise) in favour of OCBs.

The right of renunciation is subject to the express condition that the Board shall be entitled in its absolute discretion to reject the request for allotment to renounee(s) without assigning any reason thereof.

Procedure for renunciation

To renounce the whole offer in favour of one renounee

If you wish to renounce the offer indicated in Part A, in whole, please complete Part B of the CAF. In case of joint holding, all joint holders must sign Part B of the CAF. The person in whose favour renunciation has been made should complete and sign Part C of the CAF. In case of joint renounees, all joint renounees must sign this part of the CAF.

To renounce in part/or renounce the whole to more than one person(s)

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renounees, the CAF must be first split into requisite number of forms. Please indicate your requirement of split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrar to the Issue so as to reach them latest by the close of business hours on the last date of receiving requests for split forms. On receipt of the required number of split forms from the Registrar, the procedure as mentioned in paragraph above shall have to be followed.

In case the signature of the Equity Shareholder(s), who has renounced the Equity Shares, does not agree with the specimen registered with the Company, the application is liable to be rejected.

Renounee(s)

The person(s) in whose favour the Equity Shares are renounced should fill in and sign Part C of the Application Form and submit the entire Application Form to the Bankers to the Issue on or before the Issue Closing Date along with the application money.

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Change and/ or introduction of additional holders

If you wish to apply for Equity Shares jointly with any other person or persons, not more than three, who is/are not already joint holder with you, it shall amount to renunciation and the procedure as stated above for renunciation shall have to be followed. Even a change in the sequence of the name of joint holders shall amount to renunciation and the procedure, as stated above shall have to be followed.

However, this right of renunciation is subject to the express condition that the Board of Directors of the Company shall be entitled in its absolute discretion to reject the request for allotment from the renouncee(s) without assigning any reason thereof.

Please note that:

- Part A of the CAF must not be used by any person(s) other than those in whose favour this offer has been made. If used, this will render the application invalid.
- Only the person to whom this Letter of Offer has been addressed to and not the renouncee(s) shall be entitled to renounce and to apply for Split Application Forms. Forms once split cannot be split again.
- Split form(s) will be sent to the applicant(s) by post at the applicant's risk.

Additional Equity Shares

You are eligible to apply for additional Equity Shares over and above the number of Equity Shares you are entitled to, provided that you have applied for all the Equity Shares offered without renouncing them in whole or in part in favour of any other person(s). Applications for additional Equity Shares shall be considered and allotment shall be made in the manner prescribed elsewhere in the Letter of Offer under the section "Basis of Allotment". The renouncees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares.

In case of application for additional Equity Shares by non-resident Equity Shareholders, the allotment of additional securities will be subject to the permission of the Reserve Bank of India.

Where the number of additional Equity Shares applied for exceeds the number available for allotment, the allotment would be made on a fair and equitable basis in consultation with the Designated Stock Exchange. The summary of options available to the Equity Shareholder is presented below. You may exercise any of the following options with regard to the Equity Shares offered, using the enclosed CAF:

Option Available Action Required

Sr. No.	Option Available	Action Required
1.	Accept whole or part of your entitlement without renouncing the balance.	Fill in and sign Part A (<i>All joint holders must sign</i>)
2.	Accept your entitlement in full and apply for additional Equity Shares	Fill in and sign Part A including Block III relating to the acceptance of entitlement and Block IV relating to additional Equity Shares (<i>All joint holders must sign</i>)
3.	Renounce your entitlement in full to one person (<i>Joint renouncees are considered as one</i>).	Fill in and sign Part B (<i>all joint holders must sign</i>) indicating the number of Equity Shares renounced and hand it over to the renouncee. The renouncees must fill in and sign Part C (<i>All joint renouncees must sign</i>)
4.	Accept a part of your entitlement and renounce the balance to one or more renouncee(s) OR Renounce your entitlement to all the Equity Shares offered to you to more than one renouncee	Fill in and sign Part D (<i>all joint holders must sign</i>) requesting for Split Application Forms. Send the CAF to the Registrar to the Issue so as to reach them on or before the last date for receiving requests for Split Forms. Splitting will be permitted only once. On receipt of the Split Form take action as indicated below: For the Equity Shares you wish to accept, if any, fill in and sign Part A. For the Equity Shares you wish to renounce, fill in and sign Part B indicating the number of Equity Shares renounced and hand it over to the renouncees. Each of the renouncees should fill in and sign Part C for the Equity Shares accepted by them.
5.	Introduce a joint holder or change the sequence of joint holders	This will be treated as a renunciation. Fill in and sign Part B and the renouncees must fill in and sign Part C

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Issue will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID no. and his / her full name and address to the Registrar to the Issue. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. If the applicant violates any of these requirements, he/ she shall face the risk of rejection of both the applications as well as forfeiture of amounts remitted along with the applications.

Applicants residing at places other than designated collection centers

Applicants residing at places other than the cities where the bank collection centers have been opened should send their completed CAF by registered post to the Registrars to the Issue along with bank drafts net of demand draft and postal charges payable at Hyderabad in favour of "HBL Nife - Rights Issue" crossed "A/c Payee only" so that the same are received on or before closure of the Issue. The Company shall not be liable for any postal delays and applications received through mail after the closure of the Issue are liable to be rejected and returned to the applicants. Applications by mail should not be sent in any other manner except as mentioned above.

All CAFs duly completed together with cash/cheque/demand draft must be submitted before the closure of the Issue to the Bankers to the Issue named herein or to any of its collection centers mentioned on the reverse of the CAF. The CAF along with application money must not be sent to the Company or the Lead Managers to the Issue or the Registrars to the Issue except as mentioned above.

The applicants are requested to strictly adhere to these instructions. Failure to do so could result in the applications being liable to be rejected, and the Company, the Lead Managers and the Registrars to the Issue will not have any liability to such applicants. In case the original CAF is not received by the shareholder or is lost, misplaced, he/she may request the Registrars to the issue for a duplicate CAF by furnishing the registered folio number/DP ID/Client ID number and their full name and address. In case the original and duplicate CAFs are lodged for subscription, allotment will be made on the basis of the duplicate CAF and the original CAF will be ignored.

Applications under Power of Attorney

In case of applications made under a power of attorney or by limited companies or bodies corporate or registered societies or mutual funds or trusts, certified true copy of the relevant power of attorney or relevant resolution or authority to make the investment and sign the application, as the case may be, along with a copy of the memorandum and articles of association and/or bye-laws must be lodged with the Registrar giving reference of the serial number of the CAF after submission of the CAF to the Bankers to the Issue or any of their collection centers, failing which the applications are liable to be rejected.

In case the above-referred documents are already registered with the Company, the same need not be furnished again. However, the serial number of registration or reference of the letter, vide which these papers were lodged with the Company/R&T Agents must be mentioned just below the signature(s) on the CAF. In no case should these papers be attached to the application submitted to the Bankers to the Issue or at its collection centers.

Application on Plain Paper

An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Rights Issue on plain paper, along with an Account Payee Cheque drawn on a local bank at Hyderabad/ Demand Draft payable at Hyderabad which should be drawn in favour of the Company and send the same by registered post directly to the Registrar to the Issue.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Company, must reach the office of the Registrar to the Issue before the Date of Closure of the Issue and should contain the following particulars:

- ◆ Name of Issuer
- ◆ Name and address of the Equity Shareholder including joint holders
- ◆ Registered Folio Number/ DP and Client ID no.
- ◆ Number of Equity Shares held as on Record Date i.e. June 7, 2006
- ◆ Certificate numbers and Distinctive numbers, if held in Physical form
- ◆ Number of Rights Equity Shares entitled
- ◆ Number of Rights Equity Shares applied for out of entitlement

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- ♦ Number of additional Equity Shares applied for, if any
- ♦ Total number of Equity Shares applied for
- ♦ Total amount paid @ Rs. 100/ - per Equity Share
- ♦ Particulars of Cheque/ Draft enclosed
- ♦ In case of non-resident shareholders, NRE/FCNR/NRO account number, name and address of the bank and branch
- ♦ If the payment is made by drafts purchased from NRE/FCNR accounts as the case may be, an account debit certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/FCNR account.
- ♦ If the payment is made by a draft purchased from an NRO account, an account debit certificate from the bank issuing the draft, confirming that the draft has been issued by debiting the NRO account.
- ♦ Savings/Current Account Number and name and address of the bank where the Equity Shareholder will be depositing the refund order
- ♦ PAN/GIR number and Income Tax Circle/Ward/District where the application is for Equity Shares of a total value of Rs.50,000 or more for the applicant and for each applicant in case of joint names, and
- ♦ Signature of Equity Shareholders to appear in the same sequence and order as they appear in the records of the Company.

Payments in such cases, should be through a cheque/ demand draft payable at Hyderabad be drawn in favour of the Bankers to the Issue marked "A/c Payee" and marked "IDBI Bank Ltd. – HBL Nife Rights Issue".

Please note that those who are making the application otherwise than on original CAF shall not be entitled to renounce their Rights and should not utilize the original CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications as well as forfeiture of amounts remitted along with the applications.

Last date of Application

The last date for submission of CAF is July 29, 2006. The Board/Committee of Directors will have the right to extend the said date for such period as it may determine from time to time but not exceeding sixty days from the date the Issue opens.

If the CAF together with the amount payable is not received by the Bankers to the Issue/ Registrar on or before the close of banking hours on the aforesaid last date or such date as may be extended by the Board/ Committee of Directors, the offer contained in this Letter of Offer shall be deemed to have been declined and the Board/ Committee of Directors shall be at liberty to dispose off the Equity Shares hereby offered, as provided under the heading "Basis of Allotment".

Printing of Bank Particulars on Refund Orders or Refund through Electronic Clearing System

As a matter of precaution against possible fraudulent encashment of refund orders due to loss or misplacement, the particulars of the applicant's bank account are mandatorily required to be provided for printing on the refund orders or for refunds through Electronic Clearing System. Bank account particulars will be printed on the refund orders, which can then be deposited only in the account, specified. In case where the securities are requested in dematerialized form - the bank account details of the applicant would be taken from the data provided by him to the depository. The Company will in no way be responsible if any loss occurs through these instruments falling into improper hands either through forgery or fraud.

Impersonation

As a matter of abundant caution, attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, 1956 (hereinafter referred to as the Act) which is reproduced below:

"Any person who -

- i. makes in a fictitious name an application to a Company for acquiring or subscribing for any shares therein, or**
- ii. 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."

Basis of Allotment

1. Subject to provisions contained in this Letter of Offer, the Articles of Association and approval of the Designated Stock Exchange, the Board will proceed to allot the Equity Shares in the following order of priority:

- a. Full allotment to those Equity Shareholders who have applied for their rights entitlement either in full or in part and also to the renounee(s) who has/ have applied for Equity Shares renounced in their favour, in full or in part.
 - b. Shareholders whose fractional entitlements are ignored would be given preferential allotment of one additional share each if they apply for additional shares.
 - c. Allotment to the Equity Shareholders who having applied for all the Equity Shares offered to them as rights and have also applied for additional Equity Shares. The allotment of such additional Equity Shares will be made as far as possible on an equitable basis having due regard to the number of Equity Shares held by them on the Record Date, provided there is an under-subscribed portion after making full allotment in (a) above. The allotment of such Equity Shares will be at the sole discretion of the Board/Committee of Directors in consultation with the Designated Stock Exchange, as a part of the Rights Issue.
 - d. Allotment to the renounees who having applied for the Equity Shares renounced in their favour have also applied for additional Equity Shares, provided there is an under-subscribed portion after making full allotment in (a) and (b) above. The allotment of such additional Equity Shares will be made on a proportionate basis at the sole discretion of the Board/ Committee of Directors but in consultation with the Designated Stock Exchange, as a part of the Rights Issue.
2. The Company shall not retain any over subscription.
 3. The Issue will become undersubscribed after considering the number of Equity Shares applied as per entitlement plus additional Equity Shares. The undersubscribed portion shall be applied for only after the close of the issue. In case the minimum subscription is not received the promoters of the company shall subscribe to such unsubscribed portion to achieve the minimum subscription. If any person presently in control of the Company desires to subscribe to such undersubscribed portion and if disclosure is made pursuant to SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, such allotment of the undersubscribed portion will be governed by the provisions of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997.
 4. After taking into account the allotments made under 1(a), 1(b) and 1(c) above, if there is still any under subscription, the unsubscribed portion shall be disposed off by the Board or Committee of Directors authorized in this behalf by the Board upon such terms and conditions, through such securities (Equity Shares) and to such person/persons and in such manner as the Board / Committee of Directors may in its absolute discretion deem fit, as part of the rights issue and not preferential allotment.

Procedure and time of schedule for allotment and issue of certificates:

The Company will issue and dispatch letters of allotment/ securities certificates and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any within a period of six weeks from the Date of Closure of the Issue. If such money is not repaid within 8 days from the day the Company becomes liable to pay it, the Company shall pay that money with interest as stipulated under Section 73 of the Act.

Letters of allotment/ securities certificates/ refund orders above the value of Rs.1,500 will be dispatched by Registered Post/ Speed Post to the sole/ first applicant's registered address. However, refund orders for value not exceeding Rs.1,500 shall be sent to the applicants under Postal Certificate. Such cheques or pay orders will be payable at par at all the centers where the applications were originally accepted and will be marked "A/c payee" and would be drawn in the name of the sole/ first applicant. Adequate funds would be made available to the Registrar to the Issue for the dispatch of Letters of allotment/ securities certificates and refund orders.

In case the Company issues Letters of allotment, the corresponding Security Certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Company Law Board under Section 113 of the Companies Act, 1956 or other applicable provisions, if any. Allottees are requested to preserve such Letters of Allotment, which would be exchanged later for the Security Certificates.

Allotment / Refund

The Company shall give credit to the beneficiary account with Depository Participants within two working days from the date of the allotment of Equity Shares. Applicants having bank accounts at any of the 15 centres where clearing houses are managed by the Reserve Bank of India (RBI) will get refunds through Electronic Credit Service (ECS) only, except where applicant is otherwise disclosed as eligible to get refunds through direct credit or Real Time Gross Settlement (RTGS). In case of other applicants, the Company shall ensure despatch of refund orders, if any, of value up to Rs. 1,500 by "Under Certificate of Posting", and shall dispatch refund orders of Rs. 1,500 and above, if any, by registered post or speed post. Applicants to whom refunds are made through Electronic transfer of funds will be sent a letter (refund advice) through "Under Certificate of Posting" intimating them about the mode of credit of refund within 15 days of closure of Issue.

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The Company shall ensure despatch of refund orders/refund advice, 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 shareholder's sole risk within 30 days of the 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 by the Issuer.

Shareholders should note that on the basis of name of the shareholders, Depository Participant's name, Depository Participant- Identification (DP ID) number and Beneficiary Account Number provided by them in the Composite 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. Hence, Shareholders 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 shareholders at the shareholders sole risk and neither the Lead Manager nor the Company nor the Refund Banker nor the Registrar shall have any responsibility and undertake any liability for the same.

In accordance with the requirements of the Stock Exchanges and SEBI Guidelines, the Company undertakes that:

Despatch of refund orders/ refund advice shall be done within 30 days from the Issue Closing Date; and the Company shall pay interest at 15% per annum (for any delay beyond the 30-day time period as mentioned above), if allotment is not made, refund orders/ credit intimation are not despatched and in case where a refund is made through electronic mode, the refund instructions have not been given to the clearing system, and demat credit within the 30-day time prescribed above, provided that the beneficiary particulars relating to such shareholder as given by the shareholder is valid at the time of the upload of the electronic transfer. The Company will provide adequate funds required for the cost of despatch of refund orders/ refund advice/ allotment advice to the Registrar to the Issue. Save and except refunds effected through the electronic mode i.e ECS, direct credit or RTGS, refunds will be made by cheques, pay orders or demand drafts drawn on the Refund Bank and payable at par at places where applications are received. The bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the shareholders.

Payment of Refund

Applicants should note that on the basis of name of the applicants, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Composite Application Form, the Registrar to the Issue will obtain from the Depositories, the applicant's bank account details including nine digit MICR code. **Hence, applicants 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 applicants at the applicants sole risk and neither the Lead Managers nor the Company shall have any responsibility and undertake any liability for the same.

In case of shareholder applying for physical shares, refunds will be made on the basis of the bank account details provided by them in the Composite Application Form.

Mode of Making Refunds

The payment of refund, if any, would be done through various modes in the following order of preference

- I. ECS - Payment of refund would be done through ECS for applicants having an account at any of the 15 centers where clearing houses for ECS are managed by Reserve Bank of India, namely Ahmedabad, Bangalore, Bhubneshwar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram. This mode of payment of refunds would be subject to availability of complete bank account details including the nine digit Magnetic Ink Character Recognition (MICR) code as appearing on a cheque leaf, from the depository. The payment of refund through ECS is mandatory for applicants having a bank account at any of the 15 centers named hereinabove, except where applicant is otherwise disclosed as eligible to get refunds through direct credit or RTGS
- II. Direct Credit – Applicants having their bank account with the Refund Banker, i.e. **IDBI Bank Ltd.** shall be eligible to receive refunds, if any, through direct credit. The refund amount, if any would be credited directly to the eligible applicant's bank account with the Refund Banker.
- III. RTGS – Applicants having a bank account at any of the 15 centers detailed above, and whose application amount exceeds Rs, 1 million, shall be eligible to exercise the option to receive refunds, if any, through RTGS. All applicants eligible to exercise this option shall mandatorily provide the IFSC code in the Composite Application Form. In the event of failure to provide the IFSC code in the Composite Application Form, the refund shall be made through the ECS or direct credit, if eligibility disclosed.

Please note that only applicants having a bank account at any of the 15 centres where clearing houses for ECS are managed by the RBI are eligible to receive refunds through the modes detailed in I,II and III hereinabove.

For all the other applicants, including applicants who have not updated their bank particulars alongwith the nine digit MICR Code, the refund orders would be despatched “Under Certificate of Posting” for refund orders of value up to Rs. 1,500 and through Speed Post/Registered Post for refund orders of Rs. 1,500 and above.

As regards allotment/ refund to Non-Residents, the following further conditions shall apply

In case of Non-Residents, who remit their application monies from funds held in NRE/ FCNR accounts, refunds and/ or payment of interest/ dividend and other disbursement, if any, shall be credited to such accounts, details of which should be furnished in the CAF. Subject to the approval of the RBI, in case of non-residents, who remit their application monies through Indian Rupee draft purchased from abroad, refund and/ or payment of dividend/ interest and any other disbursement, shall be credited to such accounts (details of which should be furnished in the CAF) and will be made net of bank charges/ commission in US Dollars, at the rate of exchange prevailing at such time. The Company will not be responsible for any loss on account of exchange fluctuations for converting the Indian Rupee amount into US Dollars. The Equity Share certificate(s) will be sent by registered post at the Indian address of the non-resident applicant.

Letters of Allotment / Equity Share certificates

Letter(s) of Allotment/ Equity Share certificates or Letters of Regret and refund orders will be dispatched to the registered address of the first named applicant or respective beneficiary accounts will be credited within six weeks, from the date of closure of the subscription list. In case the Company issues Letters of Allotment, the relative Equity Share certificates will be dispatched within three months from the date of allotment. Allottees are requested to preserve such Letters of allotment (if any) to be exchanged later for Equity Share certificates. Export of Letters of Allotment (if any)/ Equity Share certificates to non-resident allottees will be subject to the approval of RBI; if necessary.

Interest in case of delay on Allotment/ Dispatch

The company agrees that:

- a. As far as possible allotment of securities offered to the public shall be made within 30 days of the closure of the rights issue.
- b. It shall pay interest @15% per annum if the allotment has not been made and the refund orders have not been dispatched to the investors within 30 days from the date of the closure of the issue.

Underwriting and Standby Arrangement

The Present Rights Issue is not underwritten, however the promoters have confirmed that they intend to subscribe to the promoters entitlement in full either through self or by renouncing the said holding in favour of entities as disclosed in this Letter of Offer on page no. 39. Also, to comply with the minimum public shareholding criterion

In case the minimum subscription is not received the promoters of the company shall subscribe to such under subscribed portion to achieve minimum subscription. The acquisition of additional securities or subscription to the shortfall shall be exempt in terms of proviso to Regulation 3(1) (b) (ii) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. Further this acquisition will not result in change of control of the management of the company.

Undertaking by the Company

- ♦ That the complaints received in respect of the Issue shall be attended to by the issuer company expeditiously and satisfactorily.
- ♦ That all steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed shall be taken within seven working days of finalization of the basis of allotment.
- ♦ That the issuer company shall apply in advance for the listing of equities on the conversion of debentures / bonds, if applicable.
- ♦ That the funds required for dispatch of refund orders/allotment letters/certificates by registered post shall be made available to the Registrar to the Issue by the Issuer Company.
- ♦ That no further issue of securities shall be made till the securities offered through this Letter of Offer are listed or till the application moneys are refunded on account of non-listing, under subscription, etc.
- ♦ That necessary cooperation with the credit rating agency (ies) shall be extended in providing true and adequate information till the debt obligations in respect of the instrument are outstanding, if applicable.
- ♦ The Company, its promoters, any of the Company's associates of group companies and other Companies with which directors of the Company are associated as directors or promoters have neither been suspended by SEBI or been

HBL NIFE POWER SYSTEMS LIMITED

prohibited from accessing the capital market nor has any disciplinary action been taken by any order or direction passed by SEBI.

- ♦ At any given time that there shall be only one denominator of the shares of the Company and the company shall comply with such disclosures and accounting norms specified by SEBI from time to time.
- ♦ All information shall be made available to the Lead Managers and the issuer 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 shows, presentations, in research of sales reports etc.

Utilisation of Issue Proceeds

The Board of Directors declares that:

- i. The funds received against this Issue will be transferred to a separate bank account other than the bank account referred to sub-section (3) of Section 73 of the Act.
- ii. Details of all moneys utilized out of the Issue shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such money has been utilized.
- iii. Details of all such unutilized moneys out of the Issue, if any, shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the form in which such unutilized moneys have been invested.
- iv. The funds received against this Rights Issue will be kept in a separate bank account and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Issue has been received by the Company.

Restrictions on foreign ownership

The FDI limit applicable to the industry, in which the company is operating, is 100 % under the automatic route.

General instructions for applicants

- a. Please read the instructions printed on the enclosed CAF carefully.
- b. Application should be made on the printed CAF, provided by the Company and should be completed in all respects. The CAF found incomplete with regard to any of the particulars required to be given therein, and/ or which are not completed in conformity with the terms of this Letter of Offer are liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any. The CAF must be filled in English and the names of all the applicants, details of occupation, address, father's / husband's name must be filled in block letters.
- c. The CAF together with cheque / demand draft should be sent to the Bankers to the Issue / Collecting Bank or to the Registrar and not to the Company or Lead Managers to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorized by the Company for collecting applications will have to make payment by Demand Draft payable at Hyderabad and send their application forms to the Registrar to the Issue by REGISTERED POST. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.
- d. Applications for a total value of Rs.50,000 or more, i.e. where the total number of securities applied for multiplied by the Issue price, is Rs.50,000 or more the applicant or in the case of application in joint names, each of the applicants, should mention his/ her permanent account number allotted under the Income-Tax Act, 1961 or where the same has not been allotted, the GIR number and the Income-Tax Circle / Ward / District. In case where neither the permanent account number nor the GIR number has been allotted, the fact of non allotment should be mentioned in the CAFs. Forms without this information will be considered incomplete and are liable to be rejected.
- e. The payment against the application should not be effected in cash if the amount to be paid is Rs.20,000 or more. In case payment is effected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon. Payment against the application if made in cash, subject to conditions as mentioned above, should be made only to the Bankers to the Issue.
- f. Signatures should be either in English or Hindi or in any other language specified in the 8th Schedule of the Constitution of India. Signatures other than in English or Hindi and thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/ her official seal. The Equity Shareholders must sign the CAF as per the specimen signature recorded with the Company.
- g. In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with the Company. Further, in case of joint applicants who are renounees, the

number of applicants should not exceed three. In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant.

- h. Application(s) received from Non-Residents / NRIs, or persons of Indian origin residing abroad for allotment of Equity Shares shall, inter alia, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of Equity Shares, subsequent issue and allotment of Equity Shares, interest, export of Equity Share certificates, etc. In case a Non-Resident or NRI Equity Shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.
- i. All communication in connection with application for the Equity Shares, including any change in address of the Equity Shareholders should be addressed to the Registrar to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole applicant Equity Shareholder, folio numbers and CAF number. Please note that any intimation for change of address of Equity Shareholders, after the date of allotment, should be sent to the Registrar and Transfer Agents of the Company (i.e. Karvy Computershare Private Limited) in the case of equity shares held in physical form and to the respective DP, in case of equity shares held in dematerialised form.
- j. Split forms cannot be re-split.
- k. Only the person or persons to whom Equity Shares have been offered and not renouncee(s) shall be entitled to obtain split forms.
- l. Applicants must write their CAF number at the back of the cheque / demand draft.
- m. Only one mode of payment per application should be used. The payment must be either in cash or by cheque / demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.
- n. A separate cheque / draft must accompany each CAF. Outstation cheques / demand drafts or post-dated cheques and postal / money orders will not be accepted and applications accompanied by such cheques / demand drafts / money orders or postal orders will be rejected. The Registrar will not accept payment against application if made in cash. (For payment against application in cash please refer point (f) above)
- o. No receipt will be issued for application money received. The Bankers to the Issue / Collecting Bank/ Registrar will acknowledge receipt of the same by stamping and returning the acknowledgement slip at the bottom of the CAF.
- p. An applicant which is a mutual fund can make a separate application in respect of each scheme of the fund and such applications shall not be treated as multiple applications. The application made by the asset management company or custodians of a mutual fund shall clearly indicate the name of the concerned scheme for which application is being made.
- q. **Mode of payment for Resident Equity Shareholders/ Applicants** All cheques / drafts accompanying the CAF should be drawn in favour of the Collecting Bank (specified on the reverse of the CAF), crossed "A/c Payee only" and marked "IDBI Bank Ltd. - HBL Nife Rights Issue". Applicants residing at places other than places where the bank collection centers have been opened by the Company for collecting applications, are requested to send their applications together with Demand Draft for the full application amount favouring the Bankers to the Issue, crossed "A/c Payee only" and marked "IDBI Bank Ltd. - HBL Nife Rights Issue" payable at Hyderabad directly to the Registrar to the Issue by registered post so as to reach them on or before the Issue Closing Date. The Company or the Registrar will not be responsible for postal delays or loss of applications in transit, if any.
- r. **Mode of payment for Non-Resident Equity Shareholders/ Applicants** As regards the application by non-resident Equity Shareholders, the following further conditions shall apply:

Payment by Non-Residents must be made by demand draft / cheque payable at Mumbai or funds remitted from abroad in any of the following ways:

1. Application with repatriation benefits

- a. By Indian Rupee drafts purchased from abroad and payable at Mumbai or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or
- b. By cheque / draft on a Non-Resident External Account (NRE) or FCNR Account maintained in Mumbai; or
- c. By Rupee draft purchased by debit to NRE/ FCNR Account maintained elsewhere in India and payable at Mumbai; or
- d. FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.

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2. Application without repatriation benefits

As far as non-residents holding shares on non-repatriation basis is concerned, in addition to the modes specified above, payment may also be made by way of cheque drawn on Non-Resident (Ordinary) Account maintained in Mumbai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Mumbai.

In such cases, the allotment of Equity Shares will be on non-repatriation basis.

All cheques /drafts submitted by non-residents should be drawn in favour of the Bankers to the Issue and marked "IDBI Bank Ltd. – HBL Nife Rights Issue – NR" payable at Mumbai and must be crossed "A/c Payee only" for the amount payable. The CAF duty completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

Applicants may note that where payment is made by drafts purchased from NRE/ FCNR/ NRO accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/ FCNR/ NRO account should be enclosed with the CAF. Otherwise the application shall be considered incomplete and is liable to be rejected.

Note:

In case where repatriation benefit is available, interest, dividend, sales proceeds derived from the investment in Equity Shares can be remitted outside India, subject to tax, as applicable according to Income Tax Act, 1961. In case Equity Shares are allotted on non-repatriation basis, the dividend and sale proceeds of the Equity Shares cannot be remitted outside India. The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on the aforesaid Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

In case application received from Non-Residents, allotment, refunds and other distribution, if any, will be made in accordance with the guidelines/ rules prescribed by RBI as applicable at the time of making such allotment, remittance and subject to necessary approvals.

Disposal of application and application money

No acknowledgment will be issued for the application moneys received by the Company. However, the Bankers to the Issue / Registrar to the Issue receiving the CAF will acknowledge its receipt by stamping and returning the acknowledgment slip at the bottom of each CAF.

In case an application is rejected in full, the whole of the application money received will be refunded. Wherever an application is rejected in part, the balance of application money, if any, after adjusting any money due on Equity Shares allotted, will be refunded to the applicant within six weeks from the close of the Issue.

For further instruction, please read the Composite Application Form carefully.

Important

1. Subscription received against this issue would be kept in separate bank accounts and the Company would not have access to such funds unless it has received a minimum subscription of 90% of the issue, and the permission of Bombay Stock Exchange Limited, Mumbai (being the Designated Stock Exchange) to use the amount of subscription received. The Company will obtain the permission of Bombay Stock Exchange Limited, Mumbai by producing sufficient documentary evidence of subscription to the extent of 90% after closure of the issue, to utilize the funds collected as per the present issue.
2. The Issue shall be kept open for a minimum period of 30 (thirty) days but not exceeding 60 (sixty) days.
3. Please ensure that CAF is received with this Letter of Offer.
4. Please read this Letter of Offer and instructions contained in the accompanying Composite Application Form (hereinafter referred as the "CAF") carefully before filling in the CAF. The instructions contained in the CAF are an integral part of this Letter of Offer and must be followed carefully; otherwise the application is liable to be rejected.
5. It is to be specifically noted that this Issue of Equity Shares is subject to Risk Factors appearing on Page 'i to xviii' of this Letter of Offer.
6. All the legal requirements as applicable till the filing of the Letter of Offer with the Designated Stock Exchange have been complied with

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7. All inquiries/communication in connection with this Letter of Offer and the accompanying CAF including requests for Split Application Forms should be addressed (quoting the name of the Sole/First Shareholder, the registered folio number / DP Number and Client ID Number., the CAF number as mentioned in the CAF and super scribed “**HBL Nife – Rights Issue**” on the envelope) to the Registrars to the issue at the following address:

KARVY COMPUTERSHARE PRIVATE LIMITED

46, Avenue 4, Street No.1, Banjara Hills

Hyderabad - 500 034

Tel: +91-40-2343 1546/49

Fax: +91-40-2343 1551

E-mail: hblrights@karvy.com

Website: <http://www.karvy.com>

Contact Person: M. S. Madhusudan

Under no circumstances should any request be sent to the Lead Manager(s) to the issue or to the Company.

8. In terms of Section 6(3)(b) of the Foreign Exchange Management Act 1999, the RBI has given general permission to Indian Companies to offer securities to a person resident outside India on a rights basis subject to terms and conditions stipulated under Para 6 of the notification no. FEMA 20/2000-RB dated 3rd May 2000.
9. As per the regulation 6(2) of the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations 2000, framed under the Foreign Exchange Management Act, 1999 general permission has been granted to Indian companies to offer securities on a rights basis to persons resident outside India.

Vide Notification number FEMA 20/2000-RB dated May 3, 2000 and FEMA 76/2002-RB dated November 12, 2002 RBI has given permission to Indian companies to issue rights shares to NRIs. Hence company does not need an in-principle approval for the issue of shares to NRIs on repatriation basis within the sectoral cap (if any) prescribed under FEMA

HBL NIFE POWER SYSTEMS LIMITED

IX. OTHER INFORMATION

The following contracts and agreements referred to (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or contracts entered into more than two years before the date of this Letter of Offer) which are/or may be deemed to be material have been entered into by or on behalf of the Company. Copies of these contracts together with copies of documents referred under Material Documents below all of which have been attached to the copy of this Letter of Offer and which have been delivered to the Stock Exchanges and may be inspected at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day from the date of this Letter of Offer until the date of closing of subscription list.

MATERIAL CONTRACTS

1. Memorandum of Understanding dated March 6, 2006 between Company and the Lead Manager to the Issue, Fortune Financial Services (India) Limited.
2. Offer from Karvy Computershare Private Limited dated November 29, 2005 enumerating the broad terms and conditions for agreeing to act as Registrars to the Rights Issue and agreed by the company vide acceptance letter dated March 7, 2006.
3. Copy of tripartite agreement entered into between CDSL, the Company and the Registrar of the Issue, Karvy Computershare Private Limited dated April 10, 2000.
4. Copy of tripartite agreement entered into between NSDL, the Company and the Registrar of the Issue, Karvy Computershare Private Limited dated March 28, 2000.

MATERIAL DOCUMENTS

1. Memorandum of Association and Articles of Association of the Company
2. Certificate of Incorporation dated August 29, 1986 and Certificate for Commencement of Business on September 22, 1986
3. Copy of special resolution passed u/s 81 (1A) on October 24, 2005 authorizing the Rights Issue of equity shares
4. Copies of applications for 'in-principle' approval made to Bombay Stock Exchange Limited, Mumbai (BSE); and The Hyderabad Stock Exchange Limited, Hyderabad (HSE).
5. Letters from Bombay Stock Exchange Limited, Mumbai (BSE) dated April 10, 2006 and The Hyderabad Stock Exchange Limited, Hyderabad (HSE) dated April 12, 2006 respectively granting the 'in-principle' approval to the Rights Issue.
6. Copies of Auditors Reports
 - a. Report mentioned in Letter of Offer -dated April 15, 2006.
 - b. Report on tax benefits dated April 15, 2006, 2006.
7. Consent letters from the Directors, CFO, Lead Manager, Bankers to the Company, Bankers to the Issue, Auditors, Registrar to the Issue, Legal Advisor, Company Secretary and Compliance Officer to act in their respective capacities and for inclusion of their names in the Letter of Offer
8. Legal Clearance Certificate from Kaushal Shah & Associates, Advocates and Solicitors – Legal Advisor to the Issue
9. Royalty Agreement for silver zinc batteries with Dr. A.J. Prasad, approved by the Shareholders in AGM held on September 23, 2004.
10. Licence Agreement for Nickel Cadmium Fibre Plate batteries entered into between Deutsche Automobil Gesellschaft, Germany dated February 24, 2001
11. Copy of members' resolution dated August 23, 2003 for appointment and fixation of remuneration of Dr. A. J. Prasad as Chairman and Managing Director and dated September 24, 2005 for appointment and fixation of remuneration of Mr. Ashok Nagarkatti as Whole time Directors.
12. Power of Attorney(s) executed by the Directors in favour of Dr. A.J. Prasad for signing and making correction in the Letter of Offer on their behalf
13. Copies of Annual Reports for the last five accounting periods, i.e., FYs 2000-2001, 2001-2002, 2002-2003, 2003-2004 and 2004-2005

14. Copy of consent letters dated June 3, 2006 from State Bank of India; June 6, 2006 from State Bank of Hyderabad; State Bank of Indore from June 6, 2006 and May 10, 2006 from IDBI Bank Limited confirming no objection to the Rights Issue.
15. Copy of Chartered Accountants Certificate dated November 21, 2005 confirming compliance with DIP Guidelines for Preferential Allotment made on October 28, 2005.
16. Due diligence certificate dated March 16, 2006 issued by Lead Manager to the Issue, Fortune Financial Services (India) Limited.
17. Copy of undertaking dated October 18, 2005 for renunciation of 7,00,000 Equity Shares in favour of investors.
18. SEBI observation letter No.CFD/DIL/PB/AC/67152/2006 dated May 17, 2006.

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Declaration

This is to confirm that all the relevant provisions of the Companies Act, 1956 and the guidelines issued by the Government have been complied with and no statement made in this Letter of Offer is contrary to the provisions of the Companies Act, 1956 and rules made there under. All the legal requirements connected with this said offer as also the guidelines, instructions etc., issued by SEBI, the Government and any other competent authority in this behalf have been duly complied with.

Undertaking

We the Directors of HBL Nife Power Systems Limited, declare and confirm that no information/material likely to have a bearing on the decision of the investor in respect of the equity shares offered in terms of this Letter of Offer have been suppressed/withheld and/or incorporated in a manner that would amount to misstatement/misrepresentation and in the event of it 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 misstatement/misrepresentation, we undertake to refund the entire application moneys to all the subscribers within seven days thereafter, without prejudice to the provisions of Section 63 of the Act.

Since the date of last financial statement disclosed in this Letter of Offer, there have been no circumstances that materially and adversely affects or is likely to affect the profitability of the Company or the value of its assets or its ability to pay off its liabilities within a period of next twelve months.

The Directors and Mr. P. Satish Kumar (Chief Financial Officer) of the Company certify that all disclosures made in the Letter of Offer are true and correct.

Signed by:

Sr. No.	Name	Signature
1.	Dr A J Prasad	
2.	Mr. Ashok Nagarkatti	
3.	Mr. Poruri Ganapati Rao	
4.	Dr. Bernd T Gans	
5.	Ms. Kavita Prasad	
6.	Dr. (Ms.) Desai Chitra Rao	
-	Mr. P. Satish Kumar (CFO)	

Place : Hyderabad

Date : June 17, 2006