

DRAFT PROSPECTUS

Please read Section 60B of the Companies Act, 1956
(The Draft Prospectus will be updated upon ROC filing
and become a Prospectus on the date of filing with the ROC)



STEEL CITY SECURITIES LIMITED

(Incorporated as a public limited company on February 22, 1995 under the Companies Act, 1956 with the Registrar of Companies, Andhra Pradesh, Hyderabad and obtained certificate of commencement of business on April 20, 1995.)
Registered Office: 49-52-5/4, Shanthipuram, Visakhapatnam-530016, Andhra Pradesh
Tel No:+91-891-2549675-79/2762581-84; Fax No:+91-891-2720135/2762586.
Website:www.steelcitynettrade.com; Email:ipo@steelcitynettrade.com
Contact person: Mr. Ch.Prasad, Company Secretary

ISSUE OF 61,19,088 EQUITY SHARES OF RS. 10 EACH AT A PRICE OF RS. [●] FOR CASH AGGREGATING TO RS. [●] MILLION (REFERRED TO AS THE "ISSUE") INCLUDING RESERVATION FOR PERMANENT EMPLOYEES OF THE COMPANY OF 4,90,000 EQUITY SHARES OF RS.10 EACH AT A PRICE OF RS. [●] FOR CASH AGGREGATING TO RS. [●] MILLION AND RESERVATION FOR NRIs AND/OR FIIs OF 5,00,000 EQUITY SHARES OF RS.10 EACH AT A PRICE OF RS. [●] FOR CASH AGGREGATING TO RS. [●] MILLION AND RESERVATION FOR SCHEDULED BANKS, FIs AND/OR MUTUAL FUNDS OF 5,00,000 EQUITY SHARES OF RS.10 EACH AT A PRICE OF RS. [●] FOR CASH AGGREGATING TO RS. [●] MILLION. THE NET OFFER TO THE PUBLIC IS OF 46,29,088 EQUITY SHARES OF RS. 10 EACH AT A PRICE OF RS. [●] FOR CASH AGGREGATING TO RS. [●] MILLION (REFERRED TO AS THE "NET ISSUE"). THE ISSUE WOULD CONSTITUTE 33.08% OF THE FULLY DILUTED POST ISSUE PAID-UP CAPITAL OF OUR COMPANY.

PRICE BAND: Rs. 60 TO Rs. 65 PER EQUITY SHARE

THE ISSUE PRICE WOULD BE 6 TIMES OF THE FACE VALUE AT THE LOWER END OF THE PRICE BAND AND 6.5 TIMES OF THE FACE VALUE AT THE HIGHER END OF THE PRICE BAND.

RISK IN RELATION TO FIRST ISSUE

This being the first issue of the Equity Shares of Steel City Securities Limited (our "Company") there has been no formal market for the Equity Shares of our Company. The face value of the shares is Rs. 10/- per share and the issue price is [●] times of the face value. The Issue Price (as determined and justified by our Company in consultation with Lead Manager) should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active and/or sustained trading in the Equity Shares of our Company nor regarding the price at which the Equity Shares will be traded after listing.

GENERAL RISKS

Investment 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 risk 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 the SEBI guarantee the accuracy or adequacy of this Draft Prospectus. Specific attention of the investors is invited to the statement of Risk Factors beginning on page no. [●] to [●] of this Draft Prospectus.

ISSUER'S ABSOLUTE RESPONSIBILITY

Steel City Securities Limited having made all reasonable inquiries, accepts responsibility for and confirms that this Prospectus contains all information with regard to Steel City Securities Limited and the Issue, which is material in the context of the Issue, that the information contained in this Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Prospectus 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 Equity Shares issued through this Prospectus are proposed to be listed on the Bombay Stock Exchange Limited, Mumbai and the National Stock Exchange of India Limited. We have received in-principle approval from these Stock Exchanges for listing of our Equity Shares pursuant to letters dated _____, 2006 and _____, 2006 respectively. The Bombay Stock Exchange Limited, Mumbai is the Designated Stock Exchange.

LEAD MANAGER TO THE ISSUE



Stratcap Securities (India) Private Limited
(A wholly owned subsidiary of Strategic Capital Corporation Ltd.)
Strategic House, 44 Mint Road,
Fort, Mumbai – 400 001.
Tel: +91-22-56349946-49
Fax: +91-22-22642393
Email:iposteelcity@strategicindia.net
Website:www.strategicindia.net
Contact person: Mr. Anil Bhattar

REGISTRAR TO THE ISSUE



Aarthi Consultants Private Limited
1-2-285,
Domalguda,
Hyderabad – 500 029.
Tel: +91-40-2764 2217, 276 34445
Fax: +91-40-2763 2184
Email:info@aarthiconsultants.com
Website:www.aarthiconsultants.com
Contact person:Mr. G. Bhasker

ISSUE PROGRAMME

ISSUE OPENS ON : _____ 2006

ISSUE CLOSSES ON : _____ 2006

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DEFINITIONS AND ABBREVIATIONS

Definitions

Term	Description
"Our Company" or "Steel City Securites Limited" or "us" or "SCSL" or "we"	Unless the context otherwise requires, refers to, Steel City Securities Limited, a public limited company incorporated under the provisions of the Companies Act having its registered office at 49-52-5/4, Shanthipuram, Visakhapatnam – 530 016, Andhra Pradesh, India.
"Our subsidiaries"	Unless the context otherwise requires, refers to Steel City Commodities Private Limited (SCCPL).
"Our Associated Company"	Unless the context otherwise requires, refers to Steel City Insurance Agencies Private Limited (SCIAPL).

Issue related terms

Act	The Companies Act, 1956
Applicant	Any prospective investor who makes an application for shares in terms of this Prospectus
Application Form	The form in terms of which the investors shall apply for the Equity Shares of the Company
Articles	The Articles of Association of Steel City Securities Limited
Auditors	The statutory auditors of the Company M/s Sudhakar & Kumar Associates, Chartered Accountants, Visakhapatnam, Andhra Pradesh
Bankers to the Issue	
Board of Directors	The Board of Directors of our Company or a committee thereof
Companies Act	The Copmanies Act, 1956
Depository	A depository registered with SEBI under the SEBI (Depositories and Participant) Regulations, 1996 as amended from time to time
Depository Act	The Depository Act, 1996 as amended from time to time
Depository Participant	A Depository participant as defined under the Depositories Act
Designated Stock Exchange	Designated Stock Exchange shall mean BSE
Director (s)	Director(s) of our Company unless otherwise specified
Equity Shares	Equity shares of our Company of face value of Rs. 10/- each unless otherwise specified in the context thereof
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time, and the Rules and Regulations framed there under.
FII	Foreign Institutional Investor as defined under SEBI (Foreign Institutional Investors) Regulations, 1995 registered with SEBI and as defined under FEMA (Transfer or Issue of security by a person resident outside India) Regulations, 2000 and under other applicable laws in India.
Fiscal or FY or Financial Year	Period of 12 months ended March 31 of that particular year
Indian GAAP	Generally accepted accounting principles in India
Insider Trading Regulations	SEBI (Prohibition of Insider Trading) Regulations, 1992 as amended, including instructions and clarifications issued by SEBI from time to time
Insurance Act	Insurance Act, 1938, as amended from time to time
IRDA	Insurance Regulatory and Development Authority constituted under the



	IRDA Act
IRDA Act	Insurance Regulatory and Development Authority Act, 1991, as amended from time to time
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 Prospectus
IT Act	The Income Tax Act, 1961, as amended from time to time
Lead Manager	Lead Manager to the Issue viz. Stratcap Securities (India) Private Limited
Memorandum / Memorandum of Association	The Memorandum of Association of Steel City Securities Limited
Non Resident	A person who is an NRI, an FII and is not a person resident in India
NRI/ Non-Resident Indian	A person resident outside India, as defined under FEMA and who is a citizen of India or a Person of Indian Origin under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000
Promoters	Mr. G. Sree Rama Murthy, Mr. G. Raja Gopal Reddy, Mr. K. Satyanarayana and Mr. Satish Kumar Arya
Prospectus/Offer Document	Refers to this document, in terms of which the present Issue of Equity Shares are proposed to be made, to be filed with Registrar of Companies (ROC), Andhra Pradesh, Hyderabad.
Public Issue Account	Account opened with the Banker(s) to the Issue to receive money from the Escrow Account for the Issue on the designated date
Registered Office of the Company	49-52-5/4, Shanthipuram, Visakhapatnam – 530 016, Andhra Pradesh
Registrar / Registrar to Issue	Registrar to the Issue, viz Aarthi Consultants Private Limited
Retail Applicants	Individual Applicants (including HUFs and NRIs) who have not applied shares for an amount more than or equal to Rs. 1,00,000/-
RoC	Registrar of Companies, Andhra Pradesh, Hyderabad
SEBI	The Securities and Exchange Board of India constituted under the SEBI Act
SEBI Act	Securities and Exchange Board of India Act, 1992, as amended from time to time
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI as amended including instructions and clarifications issued from time to time
Stock Exchange(s)	The Bombay Stock Exchange Limited, Mumbai and National Stock Exchanges of India Limited
Underwriters	The underwriters who are underwriting this Issue
Underwriting Agreement	The agreement among the underwriters and our company for underwriting



ABBREVIATIONS

Abbreviation	Full Form
ADB	Asian Development Bank
AGM	Annual General Meeting
AMFI	Association of Mutual Funds of India
ARFMA	AMFI Registered Mutual Fund Advisor
ARN	AMFI Registration No. allotted by AMFI
AS	Accounting Standards as issued by the Institute of Chartered Accountants of India
BSE	The Bombay Stock Exchange Limited, Mumbai
CAGR	Compounded Annual Growth Rate
CAMS	Computer Age Management Services Private Limited
CBCE	Central Board of Customs and Excise
CDSL	Central Depository Services (India) Limited
CTCL	Computer to Computer Link
D/E	Debt Equity Ratio
DP	Depository Participant
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ECS	Electronic Clearing Services
EGM	Extra-ordinary General Meeting
EPS	Earnings Per Equity Share
FCNR Account	Foreign Currency Non Resident Account
FIs	Financial Institutions
FIIs	Foreign Institutional Investors (as defined under SEBI (Foreign Institutional Investors) Regulations, 1995 registered with SEBI under applicable laws in India
FIPB	Foreign Investment Promotion Board, Ministry of Finance, Govt. of India
FVCI	Foreign Venture Capital Investor registered with SEBI under the SEBI (Foreign Venture Capital Investor) Regulation, 2000
FY	Financial Year
F&O	Futures & Options
GIR Number	General Index Registry Number
Gol	Government of India
HUF	Hindu Undivided Family



INR	Indian National Rupee
IPO	Initial Public Offering
IT	Information Technology
LAN	Local Area Network
MCX	Multi Commodity Exchange
MF	Mutual Funds
NAV	Net Asset Value
NBFC	Non-Banking Finance Companies
NCDEX	National Commodities Derivative Exchange
NEFT	National Electronic Funds Transfer
NRE Account	Non Resident External Account
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Ltd.
NSE	National Stock Exchange of India Ltd.
ODIN	Open Dealer Integrated Network
P/E Ratio	Price/Earnings Ratio
PAN	Permanent Account Number
PAT	Profit After Tax
PBT	Profit Before Tax
PBIDT	Profit Before Interest, Depreciation and Tax
PPP	Purchasing Power Parity
RBI	Reserve Bank of India
ROC	Registrar of Companies
RONW	Return on Net Worth
RTGS	Real Time Gross Settlement
VCF	Venture Capital Fund registered with SEBI under the SEBI (Venture Capital) Regulations, 1996
VPN	Virtual Private Network
VSAT	Very Small Aperture Terminal
TWS	Trading Work Station



CERTAIN CONVENTIONS: USE OF MARKET DATA

In this Draft Prospectus, the terms “Steel City Securities Limited”, “Our Company”, “we”, “us”, and “our” unless the context otherwise indicates or implies, refers to Steel City Securities Limited, a public limited company incorporated under the Companies Act, 1956. Also, the terms “Subsidiary”, “Subsidiaries”, “our Subsidiaries”, “its Subsidiaries” refers to our subsidiary Steel City Commodities Private Limited (SCCPL).

In this Draft Prospectus, unless the context otherwise requires, all references to one gender also refers to another gender and the word “lac” means “one hundred thousand”, the word “Million (mn)” means “ten lac”, the word “crore” means “ten million” and the word “billion” means “one hundred crore”. In this Draft Prospectus, any discrepancies in any table between total and the sum of the amounts listed are due to rounding off. Throughout the Draft Prospectus, currency figures have been expressed in Rs. in Million unless otherwise stated.

For additional definitions used in this Draft Prospectus, see the section titled “Definiitons and Abbreviations” on page no. [●] of this Draft Prospectus.

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

Unless stated otherwise, the financial data in this Draft Prospectus is derived from our unconsolidated financial statements prepared in accordance with Indian GAAP and included elsewhere in this Draft Prospectus. Unless stated otherwise, references to consolidated financial information is to the consolidated financial information under Indian GAAP and included elsewhere in this Draft Prospectus. Our financial year commences on April 1 and ends on March 31. In this Draft Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding off.

All references to “Rupees” or “Rs.” are to Indian Rupees, the official currency of the Republic of India. For additional definitions, please see “Definitions and Abbreviations” on page no. [●]

All references to “India” contained in this Draft Prospectus are to the Republic of India, all references to the “US” or the “U.S.” or the “USA”, or the “United States” are to the United States of America, and all references to “UK” are to the United Kingdom.



FORWARD-LOOKING STATEMENTS

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

Actual results may differ materially from those suggested by the forward-looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to successfully implement our strategy, our growth and expansion, technological changes, our exposure to market risks, general economic and political conditions in India which have an impact on our business activities or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in the industry.

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

1. General economic and business conditions in India;
2. Our ability to successfully implement our growth strategy and expansion plans;
3. Our ability to respond to technological changes;
4. Changes in laws and regulations relating to the industry in which we operate;
5. Changes in political and social conditions in India;
6. The loss of our key employees and staff;
7. Our ability to successfully launch the new products;
8. Any adverse outcome in the legal proceedings in which our Company is involved; and
9. The loss or shutdown of operations of our Company at any times due to strike or labour unrest.

For further discussion of factors that could cause our actual results to differ, see the section titled “Risk Factors” beginning on page no. [●] of this Draft Prospectus. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither the Company, we, our Directors, the Lead Manager, nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Company and the Lead Manager will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.



SECTION I: RISK FACTORS

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

Note: Unless specified or quantified in the relevant risk factors below, we are not in a position to quantify the financial or other implication of any risks mentioned herein under:

INTERNAL TO THE COMPANY

1. SEBI has issued notices to the Company and proceedings in the matter are pending at SEBI.

- A.** Mrs. Indumathi, a client of Sri Sai Share Consultants, sub-broker at Srikakulam traded in shares of Eider Infotech Scrip from 5th-8th June, 2000 which SEBI suspected to be a Market Manipulation under Regulation 4 (a) (b) & (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. In the year 2003, SEBI investigated the Company for Market Manipulation regarding the aforesaid deals. SEBI, acting on the Chairman's order dated July 2, 2002 vide its letter A&E/44/2003 dated May 30, 2003 appointed Mr. S.V.Krishna Mohan as the Enquiry officer under Regulation 28 (1) of the SEBI (Stock Brokers and Sub Brokers) Rules and Regulations, 1992.

The Enquiry Officer in its report dated May 30, 2003 found the Company guilty of violating the provisions of Code of Conduct prescribed for stock brokers contained in Schedule II to Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992, clause A1, A2, and A4 of the Code and provisions of Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. The Enquiry Officer made the following observations:

- (i) BSE, on witnessing sharp movements and low volumes in the scrip price, reduced the circuit filter on the scrip from 8% to 4%.
- (ii) BSE also imposed additional volatility margin from time to time to curb the volatility in prices of the scrip.
- (iii) The trading terminals of the Member were misused to register series of transactions in the scrip so as to create artificial/ false market in the scrip.
- (iv) There were attempts made by the Trading Member (i.e. the Company) to falsely raise or depress the prices of the security for the purpose of inducing purchase or sale of the security by general investors.
- (v) The Company entered in to 4 cross deals for one share at a price higher/ lower than the last traded price. The Company has traded in the scrip during both the periods of investigation. As per the explanation given by the Company, these trades were entered at the sole discretion of their clients.
- (vi) NSE vide its letter dated November 23, 2000 penalized the Company for Rs. 1 Lakh as a disciplinary action. The Company has paid the fine to NSE.

The Enquiry Officer recommended that a minimum of 'censure' be considered against the Company. However, before taking any action on the report of the Enquiry Officer, the SEBI vide its letter IVD-3/PKB/DM/21442/2003 dated November 11, 2003 issued a show cause notice in terms of Regulation 13(2) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and imposing Penalty) Regulations 2003 as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed.

The Company vide its letter SCSL/ED/SEBI-2003-17 dated December 1, 2003 has replied in detail to the averments and prayed to SEBI to (i) kindly excuse the Company from the penalty of 'Censure',



and (ii) grant of a personal hearing to put forth submissions. The proceedings in the matter are pending before SEBI as on the date.

B. On June 19, 2003, NSE forwarded a letter from SEBI dated June 13, 2003 Ref No. SMD/DBA-I/POST-INSP/HG/11582/2003 to the Company, enclosing a copy of the Inspection Report pertaining to the various irregularities found in the books of accounts and other records of the Company. The SEBI in its Inspection Report found the Company in default of the following violations:

- (i) Violation of Rule 4(b) of SEBI (Stock and Sub-brokers) Rules and Regulations, 1992
- (ii) Clause A (5) and B (2) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock and Sub-brokers) Regulations, 1992.
- (iii) Non-compliance of SEBI's Circular No. SMD (B)/104/227775/93 dated October 29, 1993 and SMD/MDP/CIR/043/96 dated August 5, 1996 and SMD/Policy IECG/1-97 dated February 11, 1997.
- (iv) Violation of Rule 4 (b) of Schedule II specified under Regulation 7 of SEBI (Stock brokers and Sub-brokers) Regulations, 1992 and also SEBI Circular No. SMD-1/23341 dated November 18, 1993
- (v) Violation of Rule 4(b) and of provision of Para B (1) and Para A (5) of Schedule II specified under Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 as also of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 2003.
- (vi) Violation of Rule 4(b) and of Provision of Para C (4) of Schedule II specified under Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992
- (vii) Non-compliance of SEBI Circular SMD-1/3118 dated December 27, 1993, SMD/OPG/AA/1020/96 dated March 14, 1996 and SMD/Policy/CIR/03/98 dated January 16, 1998.

On receiving the copy of the Inspection Report, the Company vide its letter dated July 1, 2003 submitted its reply for each and every reference made thereunder. The SEBI appointed Shri Sandeep Deore as an Enquiry Officer to conduct an Enquiry in relation to the contravention of the rules and regulations in the books of Accounts vide ref no. ENQ/SD/15174/2004 dated June 13, 2004 in terms of the Regulation 13 of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. Further, the Company requested the Enquiry Officer for a personal hearing and on October 29, 2004, a hearing was held which was attended by the Director (Operations) of the Company.

The Enquiry Officer in his Enquiry Report dated April 29, 2005 stated that the Company prima facie appears to be guilty of the violation of following:

- (i) Violation of Section 12 of SEBI Act, 1992
- (ii) Violation of Rule 3 of the SEBI (Stock Brokers and Sub brokers) Regulations, 1992
- (iii) Violation of Regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992
- (iv) Violation of SEBI Circular No. SMD-1/23341 dated November 18, 1993
- (v) Violation of SEBI Circular No. SMD/OPG/AA/1020/96 dated March 14, 1996
- (vi) Violation of SEBI Circular No. SMD/MDP/CIR/043/93 dated August 5, 1996
- (vii) Violation of SEBI Circular No. SMD/POLICY/CIRCULAR/3-97/ dated March 31, 1997
- (viii) Violation of SEBI Circular No. SUB/BROK-CIR-02/2001 dated January 15, 2001
- (ix) Violation of SEBI Circular No. SMD/RP/POLICY/CIR-49/2001 dated October 22, 2001
- (x) Violation of Bye-laws, rules and regulations of the Stock Exchange

The Company replied to the Enquiry Officer in detail enclosing all the material facts and other documentary evidence. On conclusion of the hearing and the Enquiry, the Enquiry Officer imposed the penalty of 'censure' on the Company. However, before taking any action on the report of the Enquiry Officer, the SEBI vide its letter MIRSD/DPS-I/Enq/LDS/40770/2005 dated May 18, 2005 issued a show cause notice in terms of Regulation 13(2) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and imposing Penalty) Regulations, 2002 as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed.



The Company vide its letter SCSL/MD/SEBI/2005-8 dated June 7, 2005 has replied in detail to the averments and prayed to SEBI to kindly excuse the Company from the penalty of 'Censure'. The proceedings in the matter are pending before SEBI as on the date.

2. NSE and BSE have imposed the following penalties on the Company, since inception.

A. National Stock Exchange of India Limited

Date	Amount (in Rs.)	Reason
November 23, 2000	1,00,000/-	Penalty imposed by the Disciplinary Action Committee in regard to the Market Manipulation in the scrip of EIL.
July 12, 2001	35,000/-	Action in respect of violations observed during inspection pursuant to Circular no. NSE/F&A/2571 dated May 29, 2001
March 16, 2004	11,600/-	Action in respect of violations observed during the course of F & O regular inspection (2002-03) pursuant to Circular no. NSE/F&A/2571 dated May 29, 2001
March 1, 2005	48,300/-	Action in respect of violations observed during the course of F & O regular inspection (2003-04) pursuant to Circular no. NSE/F&A/2571 dated May 29, 2001
June 30, 2005	5,000/-	Change in shareholding pattern without the approval of SEBI/ Exchange.

B. Bombay Stock Exchange Limited

Date	Amount (in Rs.)	Reason
February 28, 2002	6,200/-	Non-submission of Net Worth Certificate as on September 30, 2001 on or before November 30, 2001 vide SEBI notice No.101609/2001 dated October 13, 2001
January 30, 2005	25,000/-	Action in respect of violations observed during inspection
February, 2005	5,000/-	Penalty in respect of violation of Trading Limits

3. The details of various criminal and civil litigation proceedings pending either against or initiated by the Company are as under:

a) Criminal proceedings pending against the Company

i. Anoop Chand Naulakha Vs. Steel City Securities Limited

Basing on the Complaint filed by Mr. Anoop Chand Naulakha against our Sub-Broker M/S Yaswant Securities Pvt Ltd and the Company, the said Crime was registered by Mahankali Police Station, Secunderabad for offences of Section 420, 406 IPC r/w 156 (3) of Cr.P.C for a sum of Rs. 2,00,542. The Company has filed for a Discharge Petition before the XI Metropolitan Magistrate, Secunderabad and the same was dismissed. Now the company is filing a quash petition before the High Court of Andhra Pradesh at Hyderabad.

ii. Chaganti Hanumantha Rao Vs. Steel City Securities Limited

Basing on the Complaint filed by Mr. Chaganti Hanumnatha Rao against our sub-broker TPR share consultants, Anakapalli, the complainant used to deal with our sub- broker who has now absconded. The Complainant has filed this case against the sub-broker as well as the company.



The company has been included as Accused No. 3. Mr Rao has claimed Rs. 4,00,000 worth of deliveries from all the accused together. The said Crime was registered by Anakapalli Town Police Station, Anakapalli for offences of Section 420 and 34 of Indian Penal code. The case is still is pending before the Anakapalli Magistrate Court.

b) Civil proceedings pending against the Company

i. Dara Mohan Raju Vs. Steel City Securities Limited and others

A suit was filed by Mr. D. Mohan Raju against Steel City Securities Limited and others for recovery of an amount of Rs. 4,22,342/- with subsequent interest at 6% p.a. from the date of the suit till realisation and with costs. The suit was decreed ex-parte. Later on, the Company had preferred an appeal to set aside the ex-parte decree passed against the Company and others. The Hon'ble High Court of Andhra Pradesh admitted the appeal and stayed the Lower Court proceedings on a condition that the Company shall deposit an amount of Rs. 2,50,000/-. As per the said order, the Company deposited an amount of Rs. 2,50,000/- in the Court of II Additional District Judge Vijayawada, Andhra Pradesh. The present appeal is still pending before the High Court of Andhra Pradesh.

ii. Manoj Kumar Daftari Vs. Steel City Securities and Another

An arbitration case was filed by Mr. Manoj Kumar Daftari against M/s. Yashwant Securities Private Limited, a sub-broker of the Company and also against the Company for an amount of Rs. 1,11,602/-. The award was passed against the sub-broker and the Company. In order to comply with SEBI Circular No. SMDRP/POLICY/CIR-22/99 with regard to the implementation of Arbitration Awards, the Company deposited its shares as well as its sub-brokers' shares with the NSEIL and filed an appeal to set aside the Arbitration Award passed against them. The said appeal is pending before the Hon'ble Principal District Judge at Visakhapatnam.

iii. Anoop Chand Naulakha Vs. Steel City Securities Limited

An arbitration case was filed by Mr. Anoop Chand Naulakha against M/s. Yashwant Securities Private Limited, a sub-broker of the company and also against the company for an amount of Rs. 2,00,542/-. The award was passed against the sub-broker and the Company. In order to comply with SEBI Circular No. SMDRP/POLICY/CIR-22/99 with regard to the implementation of Arbitration Awards, the Company deposited its shares as well as its sub-brokers' shares with the NSEIL and filed an appeal to set aside the Arbitration Award passed against them. The said appeal is pending before the Hon'ble Principal District Judge at Visakhapatnam.

iv. Sunita Devi Naulakha Vs. Steel City Securities Limited

An arbitration case was filed by Ms. Sunita Devi Naulakha against M/s. Yashwant Securities Private Limited, a sub-broker of the company and also against the company for an amount of Rs. 1,24,530/-. The award was passed against the Sub-Broker and the Company. In order to comply with SEBI Circular No. SMDRP/POLICY/CIR-22/99 with regard to the implementation of Arbitration Awards, the Company deposited its shares as well as its sub-brokers' shares with the NSEIL and filed an appeal to set aside the Arbitration Award passed against them. The said appeal is pending before the Hon'ble Principal District Judge at Visakhapatnam.

v. M. Surya Prakasam Vs. Steel City Securities Limited and others

The said suit was filed by M.Surya Prakasan ("Plaintiff") against the Company and others for permanent injunction against the 2nd and 3rd respondent from making transfer or dematerialisation of the Plaintiff's 300 shares in ITC Limited. The Company has been included as



a fourth respondent as a proforma party and there is no relief sought against the Company. The suit is still pending before the Junior Civil Judge at Vizianagaram.

vi. K. Kameshwara Rao Vs. Steel City Securities Limited

The suit has been filed by K. Kameswara Rao (“Plaintiff”) against the Company and others for recovery of an amount of Rs. 1,49,025/-. The Plaintiff had given the said amount for purchase of shares to the sub-broker of the Company in Anakapalli. The sub-broker absconded without purchasing any shares for the plaintiff. The suit is still pending before the Senior Civil Judge at Anakapalli, Visakhapatnam District.

vii. S.V. Satyanarayana Vs. Steel City Securities Limited

The suit is filed by Mr. S.V.Satyanarayana (“Plaintiff”) against the Company and its Director for recovery of an amount of Rs. 96,000/- including interest at the rate of 24%. The plaintiff had filed the suit for fraudulently withdrawal of Rs.53,000/- from his bank account. The Company has filed a defamation case against the Plaintiff for an amount of Rs.10,00,000/-. The suit is still pending before the Principal Junior Civil Judge at Anakapalli, Visakhapatnam.

c) Civil and Criminal proceedings initiated by company but pending

Further, the Company is involved in legal proceedings and claims in relation to certain civil and criminal matters. These legal proceedings are pending at various levels of adjudication before various courts and tribunals. The Company cannot give any assurance that these legal proceedings will be decided in their favour. Any adverse decision may have significant effect on the business and results of operations. The Company has initiated 11 criminal cases against various individuals/parties, wherein a claim of Rs. 41,22,451/- (approximately) has been made by the Company. Further, there are 23 civil cases initiated by the Company for an amount aggregating around Rs.1,38,64,468/- (approximately).

For more details on the outstanding litigation against the Company, its Directors or its subsidiary, please refer to section titled “Outstanding Litigation, Material Developments and Other Disclosures” on page no. [•] of this Draft Prospectus.

4. The objects of the Issue for which funds are being raised have not been appraised by any bank or financial institution and therefore there is a risk in relating to the objects of the issue.

The funds being raised through the issue are proposed to be used for setting up of additional Centres and meeting working capital requirements. The proposed activities for which the funds are being raised have not been appraised and the funds requirements are based on management estimate. The orders for equipments and machinery for our proposed activities have not yet been placed and the locations/premises have not been identified and to be finalized. The application for working capital arrangement with the bankers is yet to make.

The proposed expansion will entail scaling up internal systems and addition of skilled personnel. We have already started the process of training front-end and back-end personnel. A more focused training system is being devised under the direct supervision of a Promoter-Director. We are confident of being able to manage this transition in growth.

For the deployment of funds pattern, please refer to the chapter on Objects of the Issue on page [•]. Further in terms of the requirement of the Companies Act, Listing Agreement, the Company shall be required to disclose in their Balance Sheet and the periodic returns about the unutilized proceeds of the issue under a separate head.



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- 5. The success of our online Internet based brokerage business depends on awareness about our e-broking portal, cost competitiveness and our relationship with Indian Internet enabled banks that are also our competitors.**

For our online trading business to be a success, we need to create awareness about our e-broking portal, cost competitiveness and also have relationships with Indian banks so that our customers/clients can easily and quickly execute online funds transfers to us to pay for purchases of stock. Since Indian banking regulations do not allow securities brokers to pay interest on customer deposit accounts, we will be unable to have interest bearing deposit accounts of our customers. To minimize our credit risk, we will not execute cash stock purchases for our customers/clients until they have transferred the requisite funds into one of our deposit accounts.

- 6. The Company's expansion plans are proposed to be funded by this current issue of shares. The failure of the current issue, would adversely impact the Company.**

The Company's expansion plans are proposed to be funded by this current issue of shares. For more information, see "Objects of Issue" on page no. [●] of this Draft Prospectus. The failure of the current issue would adversely impact the company as alternative arrangement of funds have been sought for the shortfall in the proceeds from this issue and not of failure of current issue.

- 7. Our Company has not entered into any agreements for the use of proceeds of this Issue for the intended purpose.**

Our Company may be unable to use the proceeds of the Issue for the intended purpose on account of delay in sanction for additional working capital facilities by the banks, location identification for new Centres etc. The failure to use the proceeds for the intended purposes would hamper our growth potential as envisaged in the existing businesses.

- 8. Our business is rapidly growing; any inability to manage this rapid growth could result in disruptions in our business and may result in reduced sales and profits.**

Our consolidated revenue grew at a CAGR of 74.08% over FY 2003 to FY 2005. However, there can be no assurance that our Company and our Subsidiary will be able to maintain the same pace of growth and expand the business by increasing our client base in the future as well as effectively service our clients' requirements. Any failure on our part to scale our infrastructure and management to meet the challenges of rapid growth could cause disruptions to our business and could be detrimental to our long-term business outlook.

- 9. There has been rise in our revenue in the last three financial years, which may not be sustainable in the future. Further, there has been a sharp rise in the receivables, provision for taxation and loan funds.**

The key driver for the growth in revenues has been growth in number of client relationships from 7,557 clients in FY 2003 to 36,311 clients in FY 2005, an increase of 480% in number of client relationships. Our Company and our subsidiary have been able to grow the client relationships by 29,058 clients in the last two years due to the expansion of our network to 225 centres in FY 2005 from 57 centres in FY 2003. Our revenues have grown at a CAGR of 74.08% from FY 2003 to FY 2005, from Rs. 65.35 million in FY2003 to Rs. 187.69 million in FY2005.

- 10. We and our subsidiary are rapidly growing and may require further infusion of funds to satisfy our capital needs, which we may not be able to procure. Any future equity offerings by us may lead to dilution of equity and may affect the market price of our equity shares.**

We may need to raise additional capital from time to time, dependent on business conditions and we may not be able to procure such additional funds due to factors beyond our control. The factors that would



require us to raise additional capital could be business growth beyond what the current balance sheet can sustain; additional capital requirements imposed due to changes in regulatory regime or new guidelines; or significant depletion in our existing capital base due to unusual operating losses. Any fresh issue of shares/convertible securities would dilute existing holding, and such issuance may not be done at terms and conditions, which are favorable to the then existing investors or us.

11. We are and have, in the past, been involved in certain legal proceedings, claims, enquiries, and investigations.

Except as described in page no [•] of Draft Prospectus, there are no outstanding litigations, suits or criminal or civil prosecutions against us, our Directors, our promoters or companies/firms promoted by our promoters that would have a material adverse effect on our business and there are no defaults, non-payment or over dues of statutory dues, institutional/ bank dues and dues payable to holders of any debentures, bonds and fixed deposits and arrears of preference shares that would have a material adverse effect on our business other than unclaimed liabilities by us or our directors, our promoters or companies promoted by our promoters. Further, we, our directors, our promoters or companies promoted by our promoters have not been declared as willful defaulter by RBI, have not been debarred from dealing in securities and/or accessing the capital markets by SEBI and no disciplinary action has been taken against them by SEBI or any stock exchanges.

12. Contingent Liabilities, Guarantees and Capital Commitments:

a) The contingent liabilities of Company as on March 31, 2005 and September 30, 2005 are as follows:

Nature of Contingent Liability	Rs. in Million	
	March 31, 2005	30-09-05
1. Corporate Guarantee provided by the company in favor of following banks for the credit facility extended by these banks to its Subsidiary i.e Steel City Commodities Private Limited.		
a. HDFC Bank Limited	11.50	21.50
b. Karnataka Bank Limited	17.00	37.00
c. Karur Vysya Bank Limited	-	20.00
2. Bank Guarantees extended by the following banks in favour of:		
a. HDFC Bank Ltd. favouring NSE/NSCCL	60.00	90.00
b. Karnataka Bank Ltd.favouring NSCCL/NSE	67.00	80.00
c. ING Vysya Bank Ltd favouring NSE/NSCCL	43.00	43.00

b) Our subsidiary, Steel City Commodities Private Limited as on March 31, 2005 and September 30, 2005 has extended Bank Guarantee in favour of MCX & NCDEX on the basis of Corporate Guarantee given by Steel City Securities Limited:

Nature of Contingent Liability	Rs. in Million	
	March 31, 2005	30-09-05
HDFC Bank Limited	11.50	21.50
Karnataka Bank Limited	17.00	25.00
Karur Vysya Bank Limited	-	20.00

13. Pending government / statutory approvals for our existing business

We and our subsidiaries require certain approvals, licenses, registrations and permissions for operating our business. For more information, see "Regulations & Policies and Government Approvals" on page no.



[•] of this Draft Prospectus. If we or our subsidiary fail to obtain any of these approvals or licenses, or renewals thereof, in a timely manner, or at all, our business may be adversely affected.

We have applied for registration of “Steel City” as trademark with Trade Mark Registry, Chennai vide application dated April 11, 2005 and have obtained provisional registration No. 1350172 in class 36.

14. Risk in relation to centre/networking offices

Our business is carried out through widely distributed centres either of our own or franchise and proposed plan is also to open more similar centres at many places across the country. Selection of the new offices in terms of combination of own and franchise basis, location of these offices may impact our business. Success of our business is highly dependent on optimizing retail locations. Failure in determining the right location can have an adverse impact on our business.

We have an exhaustive list of parameters such as viability of rent, potential clients base, judging competition from existence of other eminent players etc. for identification and finalisation of locations. In fact, identification of the proper location has been a major contributing factor in the success of our business. Our priority is to identify the proper locations in order to maximize our realisation. We have already gained rich experience during the course of expansion of our centres in the past since 1995.

15. Activities of the Company are highly regulated

The Company is registered with SEBI as a stockbroker on NSE, BSE for cash and future & option and subsidiary company is member of NCDEX and MCX. The activities and profitability of the Company may be affected on account of change in the regulatory environment. Such impact, if any, on the Company will be immediate and direct.

Besides SEBI, the broking activities of the Company and subsidiary company are also regulated by the stock exchanges on which it operates i.e. BSE, NSE, NCDEX and MCX. Any change in directorship, shareholding pattern etc. require prior approval of the exchanges.

Operating in highly regulated environment, the Company may be subject to penalties, fines for routine operational delays and minor regulatory deficiencies arising in the ordinary course of business.

16. Security breaches could damage our reputation and result in a liability to us.

Since we retain confidential customer information in our database, our facilities and infrastructure must remain secure. Despite the Implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, programming errors or similar disruptive problems. If our security measures are circumvented, the security of confidential and propriety information stored on our systems could be jeopardized, or our operations could be interrupted. The encrypted other technology we use may not be effective and at times can fail. A material security breach could damage our reputation or result in liability to us, and we do not carry insurance that protects us from this kind of loss. We have procured high-end servers, routers, hardware firewall, network monitoring tools to build redundant and professional network connectivity with strict defined policies to ensure against any security breaches and to access anytime anywhere without any malfunctions, delay and breakdowns. We have retained an external network auditors from Network Consultancy Group, Mumbai to evaluate performance, safeguard our setup from the insecure zone, future expandability, technology up-gradation, timely validation and conduct vulnerability test on our servers on an on going basis.

17. Downturns or disruptions in the securities and commodities markets and distribution of fixed income products could reduce transaction volumes, and could cause a decline in the business & impact our profitability.



A major portion of our revenues has been from stock broking activity which is dependent upon the capital markets operations. We have also added commodities broking through our subsidiary and now expects a significant portion of earning from commodities broking also. We have been engaged in the distribuion of financial products including marketing of initial public offerings and continue to add more business activities to diversify our revenue sources. Still, the income from stock broking would continue to account for a significant portion of our revenues in the foreseeable future. It is normal like other financial services firms that our Company and our subsidiary will be affected directly by national and global economic and political conditions, broad trends in business and finance, disruptions to the securities markets and changes in volume and price levels of securities and futures transactions. The revenues derived from stock broking for the FY 2004 and FY 2005 have been 109.66 and 165.92 million constituting nearly 88% of our total revenues. We have been able to earn profits even during a severe downturn and grow our business notwithstanding market conditions since inception.

18. Our business is dependent on systems and operations availability; any breakdowns in the transaction systems could lead to decline in our sales and profits.

Our Company and subsidiary is mainly dependent on technology and systems deployed for our operations and to perform the critical function of gathering, processing and communicating information efficiently, securely and without interruptions. We could face business risk due to failures in the control processes or technology systems that could constrain our ability to manage our business. Our operations demand for the system maintenance, regular & periodically up-gradation and proper check-in, risk management and integrity of our technology systems. We have installed our systems supplied by reputed and established suppliers. Further, We have developed our own software and deployed trained IT and system personnel, appointing system auditors for mitigating these technical difficulties and monitor our systems 24 hours a day, 7 days a week during the past and will continue to do so in future also. Our Company and our subsidiaries have installed back-up facilities including hardware systems, communication/ networking, and linkages with third party and software platform at our own offices. The critical systems including the transaction processing systems are housed in secure third party locations such as VSNL with restricted access and continuous ambient conditions for operations of such systems.

19. Our Business is dependent on relationships formed by our team at centres or franchisee with the clients; any events that harm these relationships including the loss of our centres' key member responsible for client relationship or franchisee will lead to decline in our sales and profits.

We operate from our various centres across different locations and our business is dependent on the team deployed at centres and franchisee of relationship managers who directly manage client relationships. Our Company and our subsidiary has policy of know your client well by maintaining basic information about the client. Our Directors undertakes periodically visit to all our centres, meeting the top clients personally, conducting seminars & investors awareness programs at different locations and inviting our clients for ensuring personal and direct interaction with these clients for ensuring direct and long-term relationship with our management. With this, we ensure that loss of any team member at centres doesn't affect the business. We can always appoint either new franchisee or our own office in the event of loss of franchisee.

20. We depend on our management team and the loss of team members may adversely affect our business.

Our Company and our subsidiary believe that they have a strong team of professionals to oversee the operations and growth of our businesses. If one or more members of our management team are unable or unwilling to continue in their present positions, such persons would be difficult to replace and our business would be adversely affected. We may lose our key management team to our clients or competitors. For details on our Key Managerial Personnel, please refer to paragraph "Key Managerial Personnel" on page no. [●]



21. We often extend credit to our clients for dealing in securities and any default by a client coupled with a downturn in the market, could result in substantial losses.

Our Company and our subsidiary require clients to deposit a minimum initial margin, and if the client is not able to pay the balance amount to us before the pay-in date of the exchange for the said transaction, we, at times extend credit to clients at market related interest rates for the purchase of shares. In case of highly volatile market or adverse movements in share price, it is possible that the clients may not honour their commitment, which may result in losses. Such an event would be detrimental to our business and profitability.

Our Company and our subsidiary follow internal risk management guidelines while extending credit, which include limits on leverage, quality of collateral, diversification, pre-determined margin call thresholds and predetermined thresholds to liquidate collateral. Our Company and our subsidiaries intend to continue investing in and improving our risk management systems.

By permitting customers to purchase securities on margin, we are subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held by us could fall below the amount of a customer's indebtedness. In the event of an occurrence of unforeseen magnitude, similar to May 17, 2004 could severely impact our business if we are unable to successfully limit our losses. Hence, bad debts are an inherent part of our business. Over the last 3 years and for the six-month period ended September 30, 2005 bad debts as a percentage of total unconsolidated revenues have been:

Financial Year	2002-03	2003-04	2004-05	30-09-05
Bad Debts as a % of total revenues	7.49%	1.85%	0.15%	0.17%

22. Risks attributable to derivatives trading by clients and possible inadequacy of risk management policies.

The Company's subsidiary offers their clients a facility to trade in derivative instruments in the commodities market, as currently permitted in India. Since these derivative instruments involve leveraged positions on the underlying assets, these are riskier to deal with as compared to the other financial instruments. The investors or market intermediaries are exposed to greater risk in dealing with such instruments. The Company's subsidiaries are exposed to greater risk in dealing with derivative instruments since they deal with such instruments on behalf of their clients. The Company's subsidiary may face financial losses if they fail to manage risk of their clients' dealing in derivative instruments.

The Company and its subsidiary have developed advanced technology systems to manage the risks involved in dealing with derivative instruments on behalf of their clients. These systems involve minimum human intervention and are dependent on technology systems generated risk alerts and other data points for efficient risk management. Also, the Company's subsidiaries take adequate margins from their clients as specified by the exchange before dealing in derivative instruments.

23. Our strategy to enter into the sale of diversified financial services and products exposes us to additional risks.

Our Company and our subsidiary are rapidly expanding our business offerings and these additional products might expose us to new business risks for which we may not have the capability or the systems to manage.

24. Our operating history makes it easier to evaluate our business.

Our operating history, which is relevant to an evaluation of our business. You must consider the risks and difficulties frequently encountered by companies in the early stages of development.



25. We may be liable to third parties for information retrieved from the Internet.

Third parties may sue for defamation, negligence, copyright or trademark infringement, personal injury or other matters based on information available on our Internet portal. These types of claims have been brought, sometimes successfully, against online services in the United States and Europe. Others could also sue us for the content and services that are accessible from our Internet portal through links to other websites or through content and materials that may be posted by our users in chat rooms or bulletin boards. We do not carry insurance to protect us against these types of claims, and Indian law in this area is undeveloped. Further, our business is based on establishing the Steel City as a trustworthy and dependable provider of information and services. Allegations of impropriety, even if unfounded, could damage our reputation, disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses.

26. We operate on leased premises and all our offices are not on ownership basis but taken on contractual agreement basis which are in the nature of leave and license agreements. Any deficiency in the title / ownership rights/ development rights of the owners leading to disputes may impede our operations.

All the offices/centres except at Hyderabad through which we operate our business are taken by us on lease through leases/leave and license agreements with third parties. We may in future also enter into such transactions with third parties. Any adverse impact on the title /ownership rights/ development rights of our landlords from whose premises we operate our offices or breach of the contractual terms of such leave and license agreements may impede our Company's effective operations. Furthermore, all such leave and license agreements that have been entered into between our Company and third parties are neither registered nor adequately stamped. In the event, these leases are not renewed, our operations and in turn profitability will be adversely impacted.

27. Our group company namely Steel City Insurance Agencies Private Limited has incurred losses during the past years.

Steel City Insurance Agencies Private Limited, a group company has incurred loss during the past 2 years. The accumulated losses of SCIAPL for the past 3 years are as under:

Financial Year	Rs. in Million		
	2002-03	2003-04	2004-05
Loss / (Profit) incurred during the year	0.11	0.05	(0.01)
Accumulated Losses	0.11	0.16	0.15

28. Issue of shares in the last 12 months

The Company has issued and allotted bonus shares in the ratio of 7:1 to all the existing shareholders on December 2, 2005. Thus the actual cost of acquisition for the shareholders holding shares as on that date get reduced.

29. Our promoters and Promoter Group will hold 58.32% of the post issue equity shares, and will effectively control our company and may have interests which conflicts with those of our other shareholders or shareholders of our equity shares.

Our Promoter and Promoter Group together will hold 58.32% of post-Issue Equity Shares. As a result of their shareholding they will have the ability to influence most matters, which require the approval of our shareholders. In addition they collectively have the ability to block any special resolution by our shareholders, including the alterations of our Articles of Association, issuance of additional shares of capital stock, commencement of any new line of business and similar significant matters.



30. Error in Punching

Some of the orders by our clients are placed over the phone. We sometimes face the risk of making errors in punching the orders. The entire risk is borne by us.

31. Competition from Other Prominent or New Entrants Companies

We may face competition from other companies presently engaged in the similar business or activities as also new entrants that may enter in the market in the future. The Company 'Steelcity Securities' was incorporated in the year 1995 and in a matter of about ten years; we have established ourself as a prominent player in the market. As on date, we have networking of 225 centres including franchise, client base of 36,311 and registered depository services clients of 46,712.

32. Restrictive covenants

We are subject to usual and customary restrictive covenants in agreements that we have entered into with our banks for availing bank guarantees. These restrictive covenants require us to seek the prior permission of the banks for various activities, including amongst others, alteration of the capital structure, raising of fresh capital, incurring expenditure on new projects, entering into any merger / amalgamation / restructuring, change in management etc. However, these restrictive covenants may affect some or all of the rights of our shareholders, including those mentioned on page no. [●] of this Draft Prospectus.

We have obtained a No Objection Certificates from our bankers i.e. The Karnataka Bank Ltd., HDFC Bank Ltd. vide their letters dated July 12, 2005 respectively and Karur Vyasa Bank Ltd. vide their letter dated December 8, 2005.

EXTERNAL RISK FACTORS

1. Competition.

Our Company and our subsidiaries face significant competition from companies seeking to attract clients' financial assets, including traditional and online brokerage firms, mutual fund companies and institutional players, having wide presence and a strong brand name. As our Company and our subsidiaries enter newer markets, we are likely to face additional competition from those who may be better capitalized, have longer operating history, have greater retail and brand presence, and better management than us. If we are unable to manage our business it might impede our competitive position and profitability. Our Company and our subsidiaries have competed successfully in the past with companies that were larger in sales and infrastructure than us, and have acquired considerable market share. We intend to continue competing vigorously to capture more market share and adding more management personnel to manage our growth in an optimal way.

2. The success of our online trading activity also depends on the acceptance and growth of electronic commerce and online trading in India, which is uncertain and, to a large extent, beyond our control, besides competition from existing reputed companies in online trading market.

The online trading activity as develops in India, many companies are already in this activity and further many more may be attracted to this industry such as banks, insurance companies, providers of online financial and information services and others. Further, proposed activities are designed to facilitate electronic commerce and online trading in India, although there is virtually no electronic commerce or online trading currently being conducted in India. If the usage of Internet in India for electronic commerce does not substantially increase and the legal infrastructure and network infrastructure in India are not further developed, we may not get the expected results from the investment in the online trading activities and further increase competition may result in reduced operating margins, loss of future market share and diminished value in our services.



3. Legal and Compliance Risk.

Legal and compliance risk refers to the possibility that we will be bound, by a court, arbitration panel or regulatory authority, not to have complied with an applicable legal or regulatory requirement. We may be subject to lawsuits or arbitration claims by clients, employees or other third parties in the different jurisdictions in which we conduct our business. In addition, our Company and our subsidiaries are subject to extensive regulation by the SEBI, NSE, BSE, NCDEX, MCX, NSDL, CDSL, RBI, IRDA and other state and market regulators in India. New laws/rules and changes in any law and application of current laws/rules could affect our manner of operations and profitability. We may incur substantial costs related to litigation if we are subject to significant legal action.

4. Terrorist attacks and other acts of violence or war involving India and other countries could adversely affect the financial markets, resulting in a loss of business confidence and adversely affecting the business, results of operations and financial condition.

Terrorist attacks and other acts of violence or war, including those involving India or other countries and other such acts, could adversely affect Indian and worldwide financial markets. Such acts may also result in a loss of business confidence and have other consequences that could adversely affect our business, results of operations and financial condition. Travel restriction as a result of such attacks or otherwise may have adverse impact on the ability to operate effectively. Increased volatility in the financial markets can have an adverse impact on the economics of India and other countries including economic recession.

5. Regional conflicts in South Asia could adversely affect the Indian economy, disrupt the operation and cause our business to suffer.

South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel and transportation more difficult. Such regional tensions could create a greater perception that investments in Indian companies involve a higher degree of risk. This, in turn, could have a material adverse effect on the market for Indian companies, including our equity shares and on the market for our services.

6. Our performance is linked to the stability of policies and the political situation in India.

The role of the central and state governments in the Indian economy affecting producers, consumers and regulators has remained significant over the years. The Government of India has pursued policies of economic liberalization, including relaxing restriction on the private sector. The current Government of India has announced policies and taken initiatives that supports the continued economic liberalization policies that had been pursued by the previous government. There is no assurance that these liberalization policies will continue in the future. Protests against privatization could slow down the pace of liberalization and deregulation. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in the securities could change as well. A significant change in India's economic liberalization and deregulation policies could disrupt our business and economic conditions in India. Any political instability could delay the Indian economic reforms and could have an adverse effect on the market for the Equity Shares and on the market for our services.

7. After this Issue, the prices of our Company's equity shares may be volatile, or an active trading market for our Company's equity shares may not develop.

The price of our Company's equity shares on Indian stock exchanges may fluctuate after this Issue as a result of several factors, including:

- Volatility in the Indian and global securities market
- The results of operations and performance;



- Market for investment in the banking sector;
- Performance of the Indian Economy;
- Perceptions about our Company's future performance or the performance of Indian financial services companies;
- Performance of our Company's competitors in the Indian financial services and market perception of investments in the Indian financial services sector;
- Significant development in the regulation of financial services market/banking sector;
- Adverse media reports on our Company or on the Indian financial services industry;
- Change in the estimates of our Company's performance or recommendations by financial analysts;
- Significant development in India's economic liberalization and deregulation policies; and
- Significant development in India's fiscal and environmental regulations.
- There has been no public market for our Company's equity shares till now and the prices of our Company's equity shares may fluctuate after this Issue. There can be no assurance that an active trading market for the equity shares will develop or be sustained after this Issue, or that prices at which our Company's equity shares are initially offered will correspond to the prices at which our Company's equity shares will trade in the market subsequent to this Issue. Our Company's share price could be volatile and may also decline.

NOTES TO RISK FACTORS

1. Public Issue of 61,19,088 Equity Shares of Rs. 10/- each at a price of Rs. [●] for cash aggregating Rs. [●] million (hereinafter referred to as "the Issue or Offer").
2. The average cost of acquisition of Equity Shares of Rs. 10/- each by our Promoters, is as follows:

Name of our Promoters	Avg. cost of acquisition of share (Rs.)
Mr. G. Sree Rama Murthy	1.79
Mr. G. Rajagopal Reddy	3.55
Mr. K. Satyanarayana	3.53
Mr. Satish Kumar Arya	5.31

3. The Net worth of our company as on September 30, 2005 (Consolidated) is Rs. 177.67 million.
4. Book value of the Equity Shares of the Company as on September 30, 2005 (Consolidated) is Rs.114.79 per Equity Share.
5. The Company has issued 1,08,33,298 Equity Shares of Rs. 10/- each as bonus shares by capitalization of free reserves, details of which are mentioned in the the notes to Capital Structure.
6. Investors should note that in case of over subscription in the Issue, allotment shall be made on proportionate basis in consultation with BSE, the Designated Stock Exchange. Please refer to paragraph titled "Basis of Allotment" on page no. [●] of this Draft Prospectus.
7. For Related Party Transactions, please refer to the section entitled "Related Party Transactions" on page no. [●] of this Draft Prospectus.
8. All information shall be made available by the Lead Manager and the Company 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.



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9. Investors are free to contact the Lead Manager for any information / clarification / complaints pertaining to this Issue who will be obliged to provide the same to the investors. For contact details of the Lead Manager, please refer to the cover page of this Draft Prospectus.

 10. Investors are advised to refer the paragraph on “Basis for Issue Price” on page no. [●] of this Draft Prospectus before making an investment in this Issue.



SECTION II: INTRODUCTION

Summary

You should read the following summary together with the risk factors and the more detailed information about the Company and their financial statements included in this Draft Prospectus on page no [•].

Unless otherwise indicated, all financial and statistical data relating to the industry in the following discussion is derived from internal Company reports & data, industry publication and estimates. This data has been reclassified in certain respects for purposes of presentation. For more information, see “Certain Conventions; Forward Looking Statements; Market Data” in this Draft Prospectus.

Securities Market Overview

The importance of securities market can be witnessed from the fact that the managers of the economy have been assiduously promoting the securities market as an engine of growth to provide an alternative but efficient means of resource mobilization and allocation. Further, the global financial environment is undergoing rapid transformation. Geographical boundaries have disappeared. Information and capital move at the speed of light. The days of insulated and isolated financial markets are over. The success of any capital market largely depends on its ability to align itself with the global order.

To help achieve the national aspirations and to keep pace with the changing times, the securities markets in India have also gone through various stages of liberalisation bringing about fundamental and structural changes in the market design and operations. These have led to broader investment choices, drastic reduction in transaction costs, improvement in efficiency, transparency and safety as also increased integration with the global markets. All this has been enabled by the opening up of the economy for investment and trade, decontrol of interest and exchange rates and the setting up of sound regulatory institutions.

These reforms have boosted the confidence of investors (domestic and international) in the Indian securities market. There are three parameters to ascertain the level of investor confidence – investments by FIIs, growth of mutual fund subscriptions to IPOs and increase in the number of accounts with the depositories.

India and stock market are on a roll. BSE sensex rose 41% in 2005 while CNX Midcap Index and Nifty rose appx. 35%. We are now more than 2.5 years into a bull market and expect the same to continue due to continuous growth in corporate profits, re-rating of PE multiples leading to superior investors return and visibility and sustainability of economic growth. The comfort of Foreign investors in the Indian equity market could further spur the growth. After US\$ 6.6 billion and US\$ 8.52 billion net inflow in 2003 and 2004 respectively, FIIs invested US\$ 10.7 billion in the Indian equity market in 2005. In the year 2004-05, the Indian companies raised about 210 billion through overseas capital market offerings. The volume of issuance in the primary market increased from Rs. 57.32 billion in 2002-03 to Rs. 221.45 billion and Rs. 255.26 billion in 2003-04 and 2004-05 respectively. BSE market capitalisation has risen from Rs. 15,396 billion in November, 2004 to 23,230 billion in November 2005 registering growth of 50.88%.

Thus there is a great demand for the securities, public shares issued in the market. In the years to come the growth in the securities market will be manifold in view of the liberalisation of the economy and delicensing of several industry and there is a great boom in the foreign direct investment and also for the investment of the public in the private sector. The investment in the private sector through the mechanism of securities is bound to call for spread of the securities market all over the country. In view of the several steps taken by the government for the Investor Protection the growth in the securities market is assured. This growth in the securities market calls is on account of the share transactions being done through internet besides, the demat form of operations.



Company Overview

We are the member of NSE and BSE carrying the business of broking in shares and securities in this company and commodities broking in our separate subsidiary company having membership of NCDEX and MCX. We offer dematerialization services as an ancillary services being depository participant of NSDL and CDSL. Besides, we are also engaged in the distribution of financial products i.e. mutual fund, fixed income, initial public offering marketing and corporate debt in our company and life insurance through our group company.

Our Background and Services

The Company was incorporated in 1995 with a view to undertake stock broking activity and obtained the Trading Membership of National Stock Exchange of India Limited (NSE) on its Capital Market Segment. The first VSAT for its Trading Work Station (TWS) at Hyderabad was installed in December 1995 and the second at Visakhapatnam in April 1996. We are one amongst the early broking companies who started share broking services to big and small retail clients by putting centres at towns, semi-urban and other cities. In the beginning, we have put up our centres in southern states of India and later into other parts across the country.

The company has been expanding its activities over a period of 10 years as under:

- Obtaining BSE membership in both cash and F&O segment
- Depository participant of NSDL and CDSL
- Offering commodities broking by obtaining membership of NCDEX and MCX
- Distribution of financial and insurance products
- Addition of more centres
- Launching of our first online e-broking portal as www.steelcitynettrade.com in short period

In summary, we are presently engaged in the shares and commodities broking, offering dematerialisation services and distribution of financial and insurance products.

We are carrying our business operations from our registered, corporate office at Visakhapatnam and through various centres across the country. We, as a part of our growth strategy, have been adding all related and ancillary services along with our main brokerage services and now, we are providing all the above services under one roof. Our success is mainly on account of increasing number of brokerage & ancillary services clients and centres including franchisees. As on November 30, 2005, we are having prestigious client base of 36,311 brokerage clients, 46,712 DP clients and 225 centres across 97 Cities/Towns of India.

Mr. G. Sree Rama Murthy, Mr. G. Raja Gopal Reddy, Mr. K. Satyanarayana and Mr. Satish Kumar Arya having wide experience of stock market operations are the key promoters of our company.

The unconsolidated total income of the Company has grown from Rs. 123.72 million in FY 2004 to Rs. 187.69 million in FY 2005 and net profit of Rs. 21.97 million in FY 2004 to Rs. 32.88 million in FY 2005 and consolidated total income of company has grown from Rs. 123.75 million in FY 2004 to Rs. 198.03 in FY 2005 and net profit of Rs. 21.53 million in FY 2004 to Rs. 35.87 million in FY 2005.

Our Growth Strategy

The Company is one of the early broking companies, which started full services to big & small retail clients going to their doorstep in Towns, Semi-urban Towns, who utilized the financial market services fully welcoming the ONLINE services at their own place. The Opportunities are infinite across the villages, towns, cities and metros and remain untapped by the existing companies engaged in the similar field and segment. We have assessed the vast potential in the retail segment due to technology revolution and thus, focused in rendering our brokerage services in these places by putting up more centres and also adding more financial



products over a period of time since inception. Retail section has been the major driver of the business for the last couple of years.

Since the beginning, we pursued the most economical model in every aspect of machinery, manpower & installations, so that we can compete without compromise on quality of the services. We have adopted business model of offering integrated services with cost effective means by using the same infrastructure for all the services and technology integration.

Immediate Future Plans:

After having already established business operations of over the past 10 years in retail broking and other ancillary services, we have planned for further expansion in terms of the following:

- 100 additional centres to be opened in India and specially at the locations where the potential exists
- Thrust on distribution of financial products by leveraging on high net worth individual and other brokerage clients to support the overall growth
- Adding general insurance products distribution in addition to present life insurance products
- Tapping scope in Commodity Futures market through all the centres situated across India as many of the present centres are not offering commodities brokerage services
- Launching internet online trading to provide access and reach to all the location in India and abroad and having interfacing with company depository services
- In near future, we have plans to open branches in Singapore, Malaysia, Dubai, London, New York and to enroll with almost prominent Institutions to provide institutional broking services

For more details of our competitive advantages / strengths and business strategy please refer to section titled “Business Overview” on page no. [●] of this Draft Prospectus.

Objects of Issue

The objects of the issue are as follows:

- To open our own additional centres
- Investment in Technology and office infrastructure
- To meet the fund requirement for Company’s operations viz. augmenting additional working capital, margin trade finance and general business purpose
- To list our shares on Stock Exchanges – BSE & NSE

The main objects clause of the Memorandum 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.

Our requirement of funds and means of finance

Our requirements of funds for the aforesaid objectives are as under:

Rs. in Million	
Activities	Amount
Opening of additional business centres	80.70
Investment in technology and office infrastructure	32.00
Augmenting working capital requirement	312.04
Issue expenses	38.00
Total	462.74



Means of Finance

	Rs. in Million
Public Issue	[•]
Internal Accruals	[•]
Total	[•]

Appraisal

The requirement of funds for which the present public issue is being made has not been appraised by Bank or Financial Institution and solely based on the estimate made by our management. The Company has assessed the fund requirements based upon the past experience and quotation received wherever required.

Schedule of utilization of funds

We intend to utilize the issue proceeds towards the above-mentioned objectives by September 2006. For more details on schedule of utilization of funds, please refer to section titled "Object of Issue" on page no. [•] of this Draft Prospectus.

Issue Details

Equity Shares offered	61,19,088 Equity Shares of Rs. 10/- each for cash at a premium of Rs. [•] per Equity Share
Of Which:	
a. Reserved for allotment on competitive basis to Permanent Employees of our Company including Whole-time Directors	4,90,000 Equity Shares of Rs. 10/- each for cash at a premium of Rs. [•] per Equity Share
b. Reserved for allotment on competitive basis to NRIs and/or FIIs, applying on repatriation basis	5,00,000 Equity Shares of Rs. 10/- each for cash at a premium of Rs. [•] per Equity Share
c. Reserved for allotment on competitive basis to Scheduled Banks, FIs and/or Mutual Funds	5,00,000 Equity Shares of Rs. 10/- each for cash at a premium of Rs. [•] per Equity Share
Net Issue to the Public	46,29,088 Equity Shares of Rs. 10/- each for cash at a premium of Rs. [•] per Equity Share
Equity Shares outstanding prior to the Issue	1,23,80,912 Equity shares of Rs. 10/- each
Equity Shares outstanding after the Issue	1,85,00,000 Equity shares of Rs. 10/- each



SUMMARY FINANCIAL DATA

The statutory financial statements of the Company prepared in accordance with Indian GAAP for the years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the six month period ended September 30, 2005 were audited by M/s Sudhakar & Kumar Associates, Chartered Accountants.

Summary of unconsolidated Financial Data under Indian GAAP

The following summary of unconsolidated financial data of the Company has been prepared in accordance with Indian GAAP, the Companies Act, 1956 and the SEBI Guidelines and restated as described in the Auditor's Report of M/s. Sudhakar & Kumar Associates, Chartered Accountants dated October 28, 2005 in the section entitled "Financial Information". You should read this financial data in conjunction with the Company's restated financial statements for each of Fiscal 2001, 2002, 2003, 2004, 2005 and for the six month period ended September 30, 2005 including the Notes thereto and the Reports thereon, which appears under Para on "Auditors Report" in the section titled "Financial Statements" starting on page [•] in this Draft Prospectus.

Summary of Profit and Loss Account as restated, unconsolidated

Particulars / For the year ended March 31	Rs. in Million					
	2001	2002	2003	2004	2005	30-09-05
Income:						
Income from Broking	141.27	51.81	54.17	109.66	165.92	112.45
Income from Depository Services	1.02	1.46	4.51	10.26	12.09	5.84
Other Income	9.45	9.72	6.67	3.80	9.68	3.71
Total Income	151.74	62.99	65.35	123.72	187.69	122.00
Expenditure:						
Expenditure on Trading Operations	16.93	12.03	10.72	14.06	14.94	6.27
Employee Cost (Incl. Managerial Remuneration)	17.28	11.03	11.04	19.85	22.89	11.44
Administration & Other Expenses	37.82	32.49	36.32	49.94	93.86	61.90
Interest	0.58	1.32	0.71	0.59	1.24	1.20
Depreciation & Amortisation	3.91	4.29	4.29	4.36	5.23	3.51
Total Expenditure	76.53	61.16	63.08	88.80	138.16	84.32
Profit/(Loss) before tax & prior Period and extra ordinary Items	75.22	1.83	2.27	34.91	49.53	37.67
Provision for taxation						
Current Tax	29.23	0.58	1.11	12.76	14.54	11.25
Deferred Tax	-	-	(0.23)	0.19	1.47	1.25
Net Profit/(Loss) after tax but before prior Period and extra ordinary items	45.98	1.24	1.39	21.96	33.52	25.17
Extra Ordinary Items	-	-	-	-	-	-
Prior Period Expense	-	0.01	0.64	(0.01)	0.65	-
Net Profit/(Loss) for the year	45.98	1.23	0.75	21.97	32.88	25.17
Adjustments on account of changes in accounting policies						
1. Impact of prior period items	-	-	-	-	-	-
2. Changes in accounting policies	-	-	-	-	-	-
Total Impact of Adjustments	-	-	-	-	-	-
Net Profit/(Loss), as restated	45.98	1.23	0.75	21.97	32.88	25.17
Profit / (Loss) brought forward from previous Year	32.84	59.00	60.11	60.79	80.56	110.58
Profit from transferors on amalgamation	-	-	-	-	0.42	-
Profit / (Loss) available for appropriation	78.82	60.23	60.86	82.76	113.86	135.74
Dividend & Dividend Tax	15.22	-	-	-	-	-
Transfer to /(from) General Reserve	4.60	0.12	0.07	2.20	3.28	2.52
Balance carried to Balance Sheet	59.00	60.11	60.79	80.56	110.58	133.23



Summary of Assets and Liabilities as restated, unconsolidated

Particulars / As on March 31,	Rs. in Million					
	2001	2002	2003	2004	2005	30-09-05
Fixed Assets						
(i) Gross Block	48.45	51.58	42.90	53.89	78.56	85.83
Less: Depreciation	10.10	14.37	15.69	19.89	24.80	28.00
Net Block	38.36	37.20	27.21	34.00	53.76	57.83
(ii) Capital Work in Progress	-	-	-	-	-	-
Net Block	38.36	37.20	27.21	34.00	53.76	57.83
Investments	10.92	10.90	12.70	13.76	6.78	6.79
Current Assets, Loans and Advances						
Receivables	19.14	10.77	11.83	28.21	74.82	93.56
Cash and Bank Balances	87.09	62.04	66.10	106.94	161.42	209.06
Loans and Advances	49.20	15.61	17.94	27.95	39.22	70.34
Total Current Assets, Loans and Advances	155.43	88.42	95.87	163.10	275.46	372.96
Total Assets	204.71	136.52	135.78	210.86	336.00	437.57
Liabilities & Provisions						
Secured Loans	10.40	3.18	2.30	6.92	4.44	12.12
Unsecured Loans	-	5.28	1.30	5.96	7.44	15.44
Total Loan Funds	10.40	8.46	3.61	12.88	11.88	27.56
Current Liabilities	82.85	44.01	51.31	83.47	156.30	221.09
Provisions	29.23	0.58	1.11	12.76	14.54	11.25
Total Current Liabilities & Provisions	112.08	44.59	52.42	96.23	170.84	232.34
Total Liabilities	122.48	53.05	56.03	109.11	182.72	259.90
Networth	82.22	83.47	79.76	101.75	153.28	177.67
Represented By:						
Share Capital						
Paid-up Equity Share Capital	12.48	12.48	12.48	12.48	15.48	15.48
Reserves and Surplus:						
Security Premium	2.56	2.56	2.56	2.56	10.56	10.56
General Reserve	8.24	8.36	3.96	6.16	9.80	12.32
Capital Reserve	-	-	-	-	7.19	7.19
Profit and Loss Account	59.00	60.11	60.79	80.56	110.58	133.23
Shareholders fund	82.28	83.51	79.79	101.76	153.61	178.78
Less: Miscellaneous Expenditure	0.06	0.04	0.03	0.01	0.34	1.12
Total	82.22	83.47	79.76	101.75	153.28	177.67



Summary of consolidated Financial Data under Indian GAAP

The following summary of consolidated financial data of the Company has been prepared in accordance with Indian GAAP, the Companies Act, 1956 and the SEBI Guidelines and restated as described in the Auditor's Report of M/s. Sudhakar & Kumar Associates, Chartered Accountants dated October 28, 2005 in the section entitled "Financial Information". You should read this financial data in conjunction with the Company's restated financial statements for each of Fiscal 2001, 2002, 2003, 2004, 2005 and for the six month period ended September 30, 2005, including the Notes thereto and the Reports thereon, which appears under Para on "Auditors Report" in the section titled "Financial Statements" starting on page [•] in this Draft Prospectus.

Summary of Profit and Loss Account as restated, consolidated

Particulars / For the year ended March 31	Rs. in Million					
	2001	2002	2003	2004	2005	30-09-05
Income:						
Income from Broking	141.27	51.81	54.17	109.67	176.08	134.79
Income from Depository Services	1.02	1.46	4.51	10.26	12.09	5.83
Other Income	9.45	9.72	6.67	3.82	9.86	4.39
Total Income	151.74	62.99	65.35	123.75	198.03	145.01
Expenditure:						
Expenditure on Trading Operations	16.93	12.03	10.72	14.08	15.80	6.40
Employee Cost (Including Managerial Remuneration)	17.28	11.03	11.04	19.85	23.09	11.70
Administration & Other Expenses	37.82	32.49	36.32	50.35	98.53	72.99
Interest	0.58	1.32	0.71	0.59	1.24	1.20
Depreciation & Amortisation	3.91	4.29	4.29	4.39	5.32	3.60
Total Expenditure	76.53	61.16	63.08	89.26	143.98	95.89
Profit/(Loss) before tax & prior Period And extra ordinary Items	75.22	1.83	2.27	34.49	54.05	49.12
Provision for taxation						
Current Tax	29.23	0.58	1.11	12.76	15.98	15.11
Deferred Tax	-	-	(0.23)	0.19	1.56	1.33
Net Profit/(Loss) after tax but before prior Period and extra ordinary items	45.98	1.24	1.39	21.54	36.51	32.68
Extra Ordinary Items:	-	-	-	-	-	-
Prior Period Expense	-	0.01	0.64	(0.01)	0.65	-
Net Profit/(Loss) for the year	45.98	1.23	0.75	21.53	35.87	32.68
Adjustments on account of changes in accounting policies	-	-	-	-	-	-
1. Impact of prior period items	-	-	-	-	-	-
2. Changes in policy	-	-	-	-	-	-
Total Impact of Adjustments	-	-	-	-	-	-
Net Profit / (Loss), as restated	45.98	1.23	0.75	21.53	35.87	32.68
Profit / (Loss) brought forward from previous Year	32.84	59.00	60.11	60.79	80.12	112.82
Profit from transferors on amalgamation	-	-	-	-	0.42	-
Profit / (Loss) available for appropriation	78.82	60.23	60.86	82.32	116.41	145.51
Dividend & Dividend Tax	15.22	-	-	-	-	-
Transfer (to)/from General Reserve	4.60	0.12	0.07	2.20	3.58	3.27
Balance	59.00	60.11	60.79	80.12	112.83	142.23
Less: Minority Interest	-	-	-	(0.36)	0.55	1.70
Balance carried to Balance Sheet	59.00	60.11	60.79	80.48	112.28	140.53



Summary of Assets and Liabilities as restated, consolidated

Particulars / As on March 31	Rs. in Million					
	2001	2002	2003	2004	2005	30-09-05
Fixed Assets						
(i) Gross Block	48.45	51.58	42.90	53.94	79.18	86.69
Less: Depreciation	10.10	14.37	15.69	19.89	24.86	28.12
Net Block	38.36	37.20	27.21	34.05	54.32	58.57
(ii) Capital Work in Progress	-	-	-	-	-	-
Net Block	38.36	37.20	27.21	34.05	54.32	58.57
Investments	10.92	10.90	12.70	12.76	0.16	0.17
Current Assets, Loans and Advances						
Receivables	19.14	10.77	11.83	28.22	76.56	102.46
Cash and Bank Balances	87.09	62.04	66.10	109.80	185.88	273.04
Loans and Advances	49.20	15.61	17.94	30.21	47.80	80.86
Total Current Assets, Loans and Advances	155.43	88.42	95.87	168.23	310.24	456.36
Total Assets	204.71	136.52	135.78	215.04	364.72	515.10
Liabilities & Provisions						
Secured Loans	10.40	3.18	2.30	6.92	4.44	12.12
Unsecured Loans	-	5.28	1.30	5.96	7.44	15.44
Total Loan Funds	10.40	8.46	3.61	12.88	11.88	27.56
Current Liabilities	82.85	44.01	51.31	83.63	178.20	281.99
Provisions	29.23	0.58	1.11	12.76	15.98	15.11
Total Current Liabilities & Provisions	112.08	44.59	52.42	96.39	195.18	297.10
Total Liabilities	122.48	53.05	56.03	109.27	207.06	324.66
Net Worth	82.22	83.47	79.76	105.77	157.66	190.43
Represented By:						
Share Capital						
Paid up Capital	12.48	12.48	12.48	12.48	15.48	15.48
Reserves and Surplus:						
Security Premium	2.56	2.56	2.56	2.56	10.56	10.56
General Reserve	8.24	8.36	3.96	6.16	10.10	13.30
Capital Reserve	-	-	-	-	7.19	7.19
Profit and Loss Account	59.00	60.11	60.79	80.48	112.28	140.02
Shareholders fund	82.28	83.51	79.79	101.68	155.61	186.56
Less: Miscellaneous Expenditure	0.06	0.04	0.03	0.10	0.43	1.19
Minority Interest	-	-	-	4.19	2.49	5.06
Total	82.22	83.47	79.76	105.77	157.66	190.43



GENERAL INFORMATION

STEEL CITY SECURITIES LIMITED

Registered and Corporate Office: 49-52-5/4, Shanthipuram, Visakhapatnam – 530 016

Tel No: +91-891-2549675-79/2762581-84; Fax No: +91-891-2720135/2762586.

Website: www.steelcitynettrade.com; Email: ipo@steelcitynettrade.com

Registered with the Registrar of Companies, Andhra Pradesh, Hyderabad

Company Registration Number: 01-19521

AUTHORITY FOR THE PRESENT ISSUE

The current Issue has been authorised by shareholders vide a special resolution adopted pursuant to Section 81 (1A) of the Companies Act, 1956, at Extraordinary General Meeting held on July 04, 2005 and pursuant to a resolution of the Board dated June 07, 2005.

The Company has also received approval from NSE and BSE vide their letter no. _____ respectively for change in the shareholding pattern pursuant to the Issue.

PROHIBITION BY SEBI

We, our subsidiaries, our Directors, our Promoters, any of the associates of our group Companies, other Companies/entities promoted by our Promoters, and Companies/entities with which our Directors are associated as Directors or Promoters, have not been prohibited from accessing the capital markets under any order or direction passed by SEBI. None of our Directors or the persons in control of our Promoter Companies have been prohibited from accessing the capital markets or restrained from buying/selling/dealing in securities under any order or direction passed by SEBI.

ELIGIBILITY FOR THE ISSUE

Our Company is eligible for the Issue in accordance with Clause 2.2.1 of the SEBI Guidelines as explained under with eligibility criteria calculated in accordance with financial statements under Indian GAAP:

- a) Our Company has net tangible assets of approximately Rs. 30 million in each of the preceding three full financial years of which not more than 50% is held in monetary assets and is in compliance/in accordance with Clause 2.2.1(a) of the SEBI Guidelines;
- b) Our Company has a track record of distributable profits in accordance with Section 205 of Companies Act, 1956, for at least three of the immediately preceding five years and is in compliance/in accordance with with Clause 2.2.1(b) of the SEBI Guidelines;
- c) Our Company has a net worth of over Rs. 10 million in each of the three preceding full financial years; and is in compliance/in accordance with with Clause 2.2.1(c) of the SEBI Guidelines;
- d) The proposed issue size is not expected to exceed five times the pre-Issue net worth of our Company and is in compliance/in accordance with with Clause 2.2.1(e) of the SEBI Guidelines;

Our net profit, dividend, net worth, net tangible assets and monetary assets derived from the Auditor's Report included in this Draft Prospectus under the section "Financial Statements under Indian GAAP", as at September 30, and for the last five years ended FY 2005 are set forth below:



	Rs. in Million					
For the year ended March 31,	2001	2002	2003	2004	2005	30-09-05
Net tangible assets ^{"1"}	92.63	91.93	87.62	119.06	171.69	213.01
Monetary assets ^{"2"}	20.47	14.64	25.67	56.90	73.65	103.19
Net profits, as restated	45.98	1.23	0.75	21.97	32.88	25.17
Net worth, as restated	82.22	83.47	79.76	101.75	153.28	177.67

1. Net tangible assets is defined as the sum of fixed assets (including capital work in progress and excluding revaluation reserves), trade investments, current assets (excluding deferred tax assets) less current liabilities (excluding deferred tax liabilities and long term liabilities)
2. Monetary assets include cash on hand and bank and quoted investments excluding bank balance in the form of fixed deposits pledged with banks for obtaining bank guarantees. Detailed figures are given on page no. [•] in the Draft Prospectus.

DISCLAIMER CLAUSE

AS REQUIRED, A COPY OF THE PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE PROSPECTUS 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 PROSPECTUS. THE LEAD MANAGER, STRATCAP SECURITIES (INDIA) PRIVATE LIMITED, HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURES AND INVESTOR PROTECTION) GUIDELINES IN FORCE 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 THE PROSPECTUS, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, STRATCAP SECURITIES (INDIA) PRIVATE LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED FEBRUARY 17, 2006 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992 WHICH READS AS FOLLOWS:

1. **WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE PROSPECTUS 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 Prospectus forwarded to SEBI is in conformity with the documents, materials and papers relevant to the issue;**
 - b) **All the legal requirements connected with the said issue as also the guidelines, instructions, etc. issued by SEBI, the government and any other competent authority in this behalf have been duly complied with; and**
 - c) **The disclosures made in the Prospectus are true, fair and adequate to enable the investors to make a well-informed decision as to the investment in the proposed issue.**
3. **WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID.**
 4. **WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFILL THEIR UNDERWRITING COMMITMENTS.**

THE FILING OF THE PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 AND SECTION 68 OF THE ACT OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY AND 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 MANAGER, ANY IRREGULARITIES OR LAPSES IN THE PROSPECTUS.

CAUTION

Our Company and the Lead Manager accept no responsibility for statements made otherwise than in the Draft Prospectus or in the advertisements or any other material issued by or at instance of the above mentioned entities and anyone placing reliance on any other source of information would be doing so at his or her own risk.

The Lead Manager accepts no responsibility, save to the limited extent as provided in the Underwriting Agreement to be entered into between the Underwriters and us and the Memorandum of Understanding among the Lead Manager and our Company.

All information shall be made available by the Lead Manager and us to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports or at bidding centres etc.

DISCLAIMER IN RESPECT OF JURISDICTION

This Issue is being made in India to persons resident in India (including Indian nationals resident in India who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorized to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), Trusts registered under the Societies Registration Act, 1860, as amended from time to time, or any other Trust law and who are authorized under their constitution to hold and invest in shares) and to NRIs, FIIs and Foreign Venture Capital Funds Registered with SEBI. This Draft Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to 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 Draft Prospectus comes is required to inform him or herself about and to observe any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of appropriate court(s) in Visakhapatnam only.



No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Draft Prospectus has been filed with SEBI for observations and SEBI has given its observations and the Draft Prospectus has been filed with RoC as per the provisions of the Companies Act, 1956. Accordingly, the Equity Shares, represented thereby may not be issued, directly or indirectly, and this Draft Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Draft Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

DISCLAIMER CLAUSE OF THE BOMBAY STOCK EXCHANGE LIMITED

As required, a copy of this Draft Prospectus has been submitted to BSE. The Bombay Stock Exchange Limited, Mumbai ('BSE') has given, vide its letter-dated _____, 2006, permission to the Company to use the Exchange's name in this Draft Prospectus as one of the stock exchanges on which this Company's securities are proposed to be listed. The Exchange has scrutinized this Draft Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company.

The Exchange does not in any manner –

- warrant, certify or endorse the correctness or completeness of any of the contents of this Draft Prospectus; or
- warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or
- 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 to mean that this Draft Prospectus has been cleared or approved by BSE. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against 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 for any other reason whatsoever.

DISCLAIMER CLAUSE OF THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED

As required, a copy of this Draft Prospectus has been submitted to National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has given, vide its letter dated _____, 2006, permission to the Issuer to use the Exchange's name in this Draft Prospectus as one of the stock exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinized this Draft Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Draft Prospectus has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Draft Prospectus, nor does it warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Issuer, its promoters, its management or any scheme or project of this Issuer.

Every person who desires to apply for or otherwise acquire any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claims 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 for any other reason whatsoever.



FILING

A copy of the Draft Prospectus, along with the documents required to be filed under section 60B of the Companies Act, 1956 has been registered with the Registrar of Companies, Andhra Pradesh, Hyderabad on _____ 2005 and a copy of the Draft Prospectus required to be filed under Section 60B of the Companies Act, 1956 has been delivered for registration with the Registrar of Companies, Andhra Pradesh, Hyderabad on _____ 2005. A copy of the Draft Prospectus has been filed with the Corporation Finance Department of SEBI, at Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai - 400 021.

LISTING

Applications have been made to BSE and NSE for permission to deal in and for an official quotation of the Equity Shares of our Company. BSE shall be the Designated Stock Exchange with which the basis of allotment will be finalized.

If the permission to deal in and for an official quotation of the Equity Shares is not granted by any of the Stock Exchanges mentioned above, we shall forthwith repay, without interest, all moneys received from the applicants in pursuance of this Draft Prospectus. If such money is not repaid within eight days after the date on which we become liable to repay it (i.e. from the date of refusal or within 70 days from the date of Issue Closing Date, whichever is earlier), then the Company, and every Director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money, with interest at the rate of 15% per annum on application money, as prescribed under Section 73 of the Companies Act.

Our Company shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at both the Stock Exchanges mentioned above are taken within seven working days of finalization and adoption of the Basis of Allotment for this Issue.

IMPERSONATION

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, 1956, which is reproduced below:

“Any person who:

- a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or**
- b) 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.”

MINIMUM SUBSCRIPTION

If the Company does not receive the minimum subscription of 90% of the net offer to public including devolvement of Underwriters, if any, within 60 days from the Issue Closing Date, the company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days, the Company and every Director of the Company who is an officer in default, becomes liable to repay the amount, alongwith interest as prescribed under Section 73 of the Companies Act, 1956.

WITHDRAWAL OF THE ISSUE

The Company in consultation with the Lead Manager, reserves the right not to proceed with the Issue at anytime after the Issue Opening Date but before allotment without assigning any reason thereof.



LETTERS OF ALLOTMENT OR REFUND ORDERS

The Company shall give credit to the Beneficiary Account with Depository Participants within two working days from allotment of Equity Shares. The Company shall ensure dispatch of refund orders through electronic transfer of funds by using ECS, Direct Credit, RTGS or NEFT at the designated locations and other than designated locations, if any, of value up to Rs.1,500 by "Under Certificate of Posting", and shall dispatch refund orders above Rs.1,500 if any, by registered post or speed post at the sole or first applicant's sole risk.

In accordance with the Companies Act, 1956, the requirements of the Stock Exchanges and SEBI Guidelines, we further undertake that:

- a) Allotment of Equity Shares shall be made only in dematerialized form within 30 days from the Issue Closing Date;
- b) Dispatch of refund orders shall be done within 30 days from the Issue Closing Date; and
- c) The Company shall pay interest at 15% per annum (for any delay beyond the 30 day time period as mentioned above), refund orders are not dispatched and/or demat credits are not made to investors within the 30 day time prescribed above.

The Company will provide adequate funds required for dispatch of refund orders or allocation advice to the Registrar to the Issue.

Refunds will be made by cheques, pay orders or demand drafts drawn on a bank appointed by the Company, as Refund Bankers and payable at par at places where bids are received. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the applicants.

ISSUE PROGRAM

ISSUE OPENS ON	,2006
ISSUE CLOSES ON	,2006

REGISTERED OFFICE OF THE COMPANY

STEEL CITY SECURITIES LIMITED

49-52-5/4, Shanthipuram,
Visakhapatnam – 530 016.
Tel No: (0891) 2549675-79/2762581-84
Fax No: (0891) 2720135/2762586
Email: ipo@steelcitynettrade.com

ISSUE MANAGEMENT TEAM

LEAD MANAGER TO THE ISSUE

STRATCAP SECURITIES (INDIA) PRIVATE LIMITED

(A wholly owned subsidiary of Strategic Capital Corporation Limited)

SEBI REGISTRATION NO: INM000009488

MAPIN UIN: 100015180

Strategic House, 44 Mint Road, Fort,
Mumbai – 400 001.

Tel: (022) 56349946 – 49

Fax: (022) 22642393

Email: iposteelcity@strategicindia.net



REGISTRAR TO THE ISSUE

AARTHI CONSULTANTS PRIVATE LIMITED

SEBI REGISTRATION NO: INR000000379

MAPIN UIN: 100021535

1-2-285, Domalguda,

Hyderabad – 500 029.

Tel: (040) 2764 2217, 2763 4445

Fax: (040) 2763 2184

E-mail: info@arthiconsultants.com

LEGAL ADVISORS TO THE ISSUE

M/S CRAWFORD BAYLEY & CO.

Advocates, Solicitors & Notaries

State Bank of India, 4th Floor,

N. G. N. Vaidya Marg, Fort,

Mumbai – 400 023.

Tel: (022) 2266 3713

Fax: (022) 2266 3978

Email: sanjay.asher@crawfordbayley.com

COMPLIANCE OFFICER

CH. PRASAD

Company Secretary

Steel City Securities Limited

49-52-5/4, Shanthipuram,

Visakhapatnam – 530 016,

Tel No: (0891) 2549675-79/2762581-84

Fax No: (0891) 2720135/2762586

Email: ipo@steelcitynettrade.com

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

AUDITORS TO THE COMPANY

M/S SUDHAKAR & KUMAR ASSOCIATES

Chartered Accountants

10-1-12, Krishnakamal Enclave,

2nd Floor, Asilmetta Junction,

Visakhapatnam – 530 003.

Tel: (0891) 2755814/2759083

INTERNAL AUDITORS TO THE COMPANY

M/S RAO & MANOJ ASSOCIATES

Chartered Accountants

D.No.49-27-4/1, 2nd Floor,

Madhuranagar,



Visakhapatnam – 530 016.
Tel: (0891) – 2550937 / 2799473

YSN MURTHY

Chartered Accountant
Flat No.202, D.No.49-52-1/3,
Cherukuri Elegancy,
Shanthipuram,
Visakhapatnam – 530 016.
Tel: (0891) – 2797528/2763978

LEGAL ADVISORS TO THE COMPANY

M/S V. S. RAJU AND ASSOCIATES

Advocates and Advisors
106, Dhanunjaya Towers,
Main Road, Banjara Hills,
Hyderabad – 500 034.
Tel: (040) - 23397154/55668807

COMPANY LAW ADVISORS TO THE COMPANY

M/S ASN ASSOCIATES

Company Secretaries
4/3rd Floor, Rednam Regency,
D.No. 47-10-10, 2nd Lane,
Dwarakanagar,
Visakhapatnam – 530 016.
Tel: (0891) – 2529246 / 2712695

BANKERS TO THE COMPANY

1) HDFC Bank limited

Main Road,
Dwarakanagar
Visakhapatnam – 530 016.
Tel: (0891) – 5571153

2) The Karnataka Bank Limited

CBM Compound
Ramatakies Junction
Visakhapatnam – 530 003.
Te: (0891) – 2575073

3) The Karur Vysya Bank Limited

Hirawat Centre,
Dabagardens,
Visakhapatnam – 530 020.
Tel: (0891) – 2745152

4) ING Vysya Bank Limited

1st floor, Super Bazar Buildings
Main Road
Visakhapatnam – 530 001
Te: (0891) – 2563388



5) State Bank of Indore

Door No. 47-50-14/15,
Opp. TSR Complex,
Dwarakanagar
Visakhapatnam – 530 016.
Tel: (0891) – 5567008

BROKERS TO THE ISSUE

All members of the recognized Stock Exchanges would be eligible to act as Brokers to the Issue.

BANKERS TO THE ISSUE

[•] Bankers to the Issue will be finalized before the final Offer document is filed with the Registrar of Companies, Hyderabad, Andhra Pradesh.

CREDIT RATING

As this is an issue of equity shares, there is no credit rating for this issue.

TRUSTEES

As this is an issue of equity shares, the appointment of Trustees is not required.

UNDERWRITING

After the determination of the Issue Price but prior to filing of the Prospectus with ROC, our Company will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered the issued through this Issue. The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

(This portion has been intentionally left blank and will be filled in before filling of the Draft Prospectus with ROC)

Name and Address of the underwriter	Date of agreement	Amount underwritten (Rs. million)
	[•]	[•]
	[•]	[•]

The above-mentioned amount is indicative underwriting and would be finalized after pricing and actual allocation. The above underwriting agreement is dated _____, 2006. In the opinion of the Board of Directors of our Company (based on a certificate given to them by the underwriters), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act. The above Underwriting Agreement has been accepted by the Board of Directors of our Company at their meeting held on _____, 2006 and our Company has issued letters of acceptance to the Underwriters.

In the event of any default, the respective underwriter in addition to other obligations to be defined in the Underwriting Agreement, will also be required to procure / subscribe to the extent of the defaulted amount. For further details in this regard, please refer to “Statutory & Other Information” on page no. [•] of this Draft Prospectus.



CAPITAL STRUCTURE OF THE COMPANY

	Number of Shares	Nominal Value (Rs. in Million)	Aggregate Value (Rs. in Million)
A	Authorised Capital		
	2,50,00,000 Equity Shares of Rs. 10/- each	250.00	250.00
B	Issued, Subscribed and Paid-up Capital		
	1,23,80,912 Equity Shares of Rs. 10/- each	123.81	123.81
C	Present Issue to the Public in Terms of this Prospectus		
	61,19,800 Equity Shares of Rs. 10/- each at a premium of Rs. [●] per share	61.19	[●]
D	Out of which:		
	4,90,000 Equity Shares of Rs. 10/- each at a premium of Rs. [●] per share are reserved for employees (including Wholetime Directors) of the Company on a competitive basis.	4.90	[●]
	5,00,000 Equity Shares of Rs 10/- each at a premium of Rs [●] per Equity Shares are reserved for allotment on competitive basis to NRIs and/or FIIs, applying on repatriation basis.	5.00	[●]
	5,00,000 Equity Shares of Rs 10/- each at a premium of Rs [●] per Equity Shares are reserved for allotment to Scheduled Banks, FIs and/or Mutual Funds on competitive basis.	5.00	[●]
E	Net offer to the Public through this Prospectus		
	46,29,800 Equity Shares of Rs. 10/- each at a premium of Rs. [●] per share	46.29	[●]
F	Paid-up Capital after the Present Issue		
	1,85,00,000 Equity Shares of Rs. 10/- each	185.00	[●]
G	Share Premium Account		
	Before the Issue		10.56
	After the Issue		[●]

Details of Increase in Authorized / Paid-up Capital

S. No.	Increased From	Increased To	Date of Meeting	Kind of Meeting
1.	Rs. 30 million divided into 30,00,000 Equity Shares of Rs.10/- each.	-- NA --	Incorporation	N.A.
2.	Rs. 30 million divided into	Rs. 120 million divided	March 26, 2005	EGM



	30,00,000 Equity Shares of Rs.10/- each.	into 1,20,00,000 Equity Shares of Rs.10/- each.		
3.	Rs. 120 million divided into 1,20,00,000 Equity Shares of Rs.10/- each.	Rs. 250 million divided into 2,50,00,000 Equity Shares of Rs.10/- each.	July 04, 2005	EGM

NOTES TO CAPITAL STRUCTURE

1. Share Capital History of the Company

Date on which Equity Shares were allotted and made fully paid up	No. of Equity Shares	Cumulative Shares	Face Value (Rs.)	Issue Price (Rs.)	Consideration (cash, bonus, consideration other than cash)	Reason for allotment (bonus, swap etc.)	Share Premium (Rs. in Million)
At the time of incorporation	700	700	10/-	10/-	Cash	Subscription to MOA	0.00
24.06.1995	10,50,000	10,50,700	10/-	10/-	Cash	Allotment to promoters, relatives, friends and associates	0.00
24.12.1999	1,97,065	12,47,765	10/-	23/-	Other than Cash	Issued for acquisition of land	2.56
25.03.2005	4,96,914	17,44,679	10/-	10/-	Other than Cash	Allotment to shareholders of SCHL and SCCPL consequent upon amalgamation of SCHL & SCCSPL with SCSL	8.00
25.03.2005	(1,97,065)	15,47,614	10/-	10/-	NA	Cancellation of share holdings of SCHL & SCCPL in SCSL consequent upon their amalgamation with SCSL	
02.12.2005	1,08,33,298	1,23,80,912	10/-	10/-	Cash	Bonus 7:1 (out of profit and loss a/c balance)	

2. Promoters Contribution and lock-in Period:

Name of the Promoter	Date on which Equity Shares were allotted / transferred and made fully paid-up	Number of Equity Shares	Face Value (Rs.)	Issue /Transfer Price in (Rs.)	Consideration (cash, bonus, consideration other than cash)	Percentage of Pre- Issue paid-up capital	Percentage of Post- Issue paid-up capital including	Lock-in Period
G. Sree Rama Murthy	22.02.1995	100	10/-	10/-	Cash	0.00%	0.00%	1 Year
	24.06.1995	1,68,800	10/-	10/-	Cash	1.36%	0.91%	1 Year
	11.07.1996	57,400	10/-	10/-	Cash	0.46%	0.31%	1 Year
	10.08.1996	42,900	10/-	10/-	Cash	0.35%	0.23%	1 Year
	19.09.1996	40,300	10/-	10/-	Cash	0.33%	0.22%	1 Year
	24.09.1996	35,100	10/-	10/-	Cash	0.28%	0.19%	1 Year
	10.10.1996	1,96,400	10/-	10/-	Cash	1.59%	1.06%	1 Year
	22.09.1997	19,500	10/-	10/-	Cash	0.16%	0.11%	1 Year
	22.09.1997	-6,500	10/-	10/-	Cash	-0.05%	-0.04%	1 Year
	20.11.1997	-13,000	10/-	10/-	Cash	-0.11%	-0.07%	1 Year
	10.02.1998	-23,400	10/-	10/-	Cash	-0.19%	-0.13%	1 Year
	02.03.1998	1,07,300	10/-	10/-	Cash	0.87%	0.58%	1 Year
	02.03.1998	-1,300	10/-	10/-	Cash	-0.01%	-0.01%	1 Year
	02.05.1998	9,100	10/-	10/-	Cash	0.07%	0.05%	1 Year
	18.01.1999	1,300	10/-	10/-	Cash	0.01%	0.01%	1 Year
	18.01.1999	-6,500	10/-	10/-	Cash	-0.05%	-0.04%	1 Year
	15.10.1999	-11,700	10/-	10/-	Cash	-0.09%	-0.06%	1 Year
11.04.2005	74,780	10/-	49.81/-	Other than Cash	0.60%	0.40%	1 Year	
02.12.2005	29,19,294	10/-	Nil	Bonus	23.58%	15.78%	1 Year	
02.12.2005	19,14,766	10/-	Nil	Bonus	15.47%	10.35%	3 Year	
Sub-total		55,24,640				44.62%	29.86%	



G. Raja Gopala Reddy	22.02.1995	100	10/-	10/-	Cash	0.00%	0.00%	1 Year
	24.06.1995	1,28,800	10/-	10/-	Cash	1.04%	0.58%	1 Year
	02.09.1998	-1,300	10/-	10/-	Cash	-0.01%	-0.01%	1 Year
	15.10.1999	4,000	10/-	10/-	Cash	0.03%	0.02%	1 Year
	29.04.2002	-1,300	10/-	10/-	Cash	-0.01%	-0.01%	1 Year
	02.06.2003	-1,300	10/-	10/-	Cash	-0.01%	-0.01%	1 Year
	09.12.2004	-1,300	10/-	10/-	Cash	-0.01%	-0.01%	1 Year
	11.04.2005	1,46,946	10/-	44.44/-	Other than Cash	1.19%	0.66%	1 Year
	02.12.2005	11,60,720	10/-	Nil	Bonus	9.38%	6.27%	1 Year
	02.12.2005	7,61,802	10/-	Nil	Bonus	6.15%	4.12%	3 Year
Sub-total		21,97,168				17.75%	11.88%	
K. Satyanarayana	22.02.1995	100	10/-	10/-	Cash	0.00%	0.00%	1 Year
	24.06.1995	1,28,800	10/-	10/-	Cash	1.04%	0.58%	1 Year
	11.04.2005	1,42,780	10/-	44.72/-	Other than Cash	1.15%	0.64%	1 Year
	02.12.2005	11,48,294	10/-	Nil	Bonus	9.27%	6.21%	1 Year
	02.12.2005	7,53,466	10/-	Nil	Bonus	6.09%	4.07%	3 Year
Sub-total		21,73,440				17.55%	11.75%	
Satish Kumar Arya	24.06.1995	1,300	10/-	10/-	Cash	0.01%	0.01%	1 Year
	11.04.2005	96,080	10/-	42.92/-	Other than Cash	0.78%	0.43%	1 Year
	02.12.2005	4,11,694	10/-	Nil	Bonus	3.33%	2.23%	1 Year
	02.12.2005	2,69,966	10/-	Nil	Bonus	2.18%	1.46%	3 Year
Sub-total		7,79,040				6.29%	4.21%	
Total		1,06,74,288				86.22%	57.70%	

- i. Shares held by the person other than the Promoters, prior to this Issue, which are subject to lock in as per the relevant provisions of Chapter IV of the existing SEBI Guidelines, may be transferred to any other person holding shares which are locked in, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 as applicable.
 - ii. Shares held by Promoter(s) which are locked in as per the relevant provisions of Chapter IV of the SEBI Guidelines, may be transferred to and amongst Promoter / Promoter group or to a new promoter or persons in control of our Company, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of Securities and Exchange Board of India (Substantial Acquisition of shares and Takeovers) Regulations, 1997, as applicable.
- 3. Aggregate number of equity shares purchased or sold by the Promoters / Promoter Group and the directors of the company during a period of six months preceding the date of filing of this Draft Prospectus with SEBI**

No equity shares have been purchased or sold by the Promoters / Promoter Group and the Directors of the Company during a period of six months preceding the date of filing of this Draft Prospectus with SEBI except the allotments of shares by the Company as per the following table:

Name of Promoters / Directors	Date of allotment	Reason for allotment	No. of Shares	Price Per Share (Rs.)
G. Sree Rama Murthy	02.12.2005	Bonus	48,34,060	-
G. Raja Gopal Reddy	02.12.2005	Bonus	19,22,522	-
K. Satyanarayana	02.12.2005	Bonus	19,01,760	-
Satish Kumar Arya	02.12.2005	Bonus	6,81,660	-
G. Staya Rama Prasad	02.12.2005	Bonus	9,100	-
Ch. Murali Krishna	02.12.2005	Bonus	9,100	-
M. H. Jagannadha Rao	02.12.2005	Bonus	9,100	-
M. Raghuram	02.12.2005	Bonus	9,100	-



4. Details of capitalisation of reserves by the Company in the past

Except the below, the company has not capitalised the reserves in the past:

Date of Allotment of Bonus Shares	Date of approval to the Bonus Issue	Ratio of Bonus Issue	No. of Equity Shares of Rs. 10/- each issued as Bonus	Amount of Profit & Loss A/c capitalized (Rs. in Million)
02.12.2005	04.07.2005	7 : 1	1,08,33,298	108.33

5. The Pre-Issue & Post-Issue Shareholding pattern of our Promoters' Group is as under

	Particulars	Pre-Issue		Post-Issue	
		No of shares	% to Total	No of shares	% to Total
a.	Promoters	1,06,74,288	86.22	1,06,74,288	57.70
b.	Immediate Relatives of the Promoter	1,15,728	0.93	1,15,728	0.62
c.	Companies in which 10% or more of the Share Capital is held by the Promoters / an immediate relative of the Promoters / a firm or HUF in which the Promoters or any one or more of their immediate relatives is a member	-	-	-	-
d.	Companies in which Company mentioned in c. above holds 10% or more of the share capital	-	-	-	-
e.	HUF or firm in which the aggregate share of the promoters and his immediate relatives is equal to or more than 10% of the total share capital	-	-	-	-
f.	All persons whose shareholding is aggregated for the purpose of disclosing in the prospectus as "Shareholding of the Promoter's Group".	-	-	-	-
	Total	1,07,90,016	87.15	1,07,90,016	58.32

6. Shareholding pattern of our Company before and after the Issue

Name of the Shareholders	Pre-Issue		Post-Issue	
	No of shares	% to Total	No of shares	% to Total
Promoters Group	1,07,90,016	87.15	1,07,90,016	58.32
Directors other than Promoters	41,600	0.33	41,600	0.23
<u>Others:</u>				
Employees	1,98,384	1.61	1,98,384	1.07
Corporate Bodies	18,400	0.15	18,400	0.10
Public & Other Shareholders	13,32,512	10.76	74,51,600	40.28
Grand Total	1,23,80,912	100.00	1,85,00,000	100.00



7. Particulars of top ten shareholders

a) Particulars of top ten shareholders on the date of filing the Prospectus with the ROC

S.No.	Name of Shareholders	No. of Shares held (Rs. 10/- each fully paid-up)
01.	G. Sree Rama Murthy	55,24,640
02.	Guduru Raja Gopal Reddy	21,97,168
03.	K. Satyanarayana	21,73,440
04.	Satish Kumar Arya	7,79,040
05.	M. Murali	47,728
06.	N. Ramu	47,728
07.	V. Srinivas	39,728
08.	B. Krishna Rao	39,728
09.	G. Krishna Murthy	39,728
10.	B. Appa Rao	39,728

b) Particulars of top ten shareholders 10 days prior to the date of filing the Prospectus with the ROC

S.No.	Name of Shareholders	No. of Shares held (Rs. 10/- each fully paid-up)
01.	G. Sree Rama Murthy	55,24,640
02.	Guduru Raja Gopal Reddy	21,97,168
03.	K. Satyanarayana	21,73,440
04.	Satish Kumar Arya	7,79,040
05.	M. Murali	47,728
06.	N. Ramu	47,728
07.	V. Srinivas	39,728
08.	B. Krishna Rao	39,728
09.	G. Krishna Murthy	39,728
10.	B. Appa Rao	39,728

c) Particulars of top ten shareholders 2 years prior to the date of filing the Prospectus with the ROC

S.No.	Name of Shareholders	No. of Shares held (Rs. 10/- each fully paid-up)
01.	G. Sree Rama Murthy	6,15,800
02.	G. Raja Gopal Reddy	1,29,000
03.	K. Satyanarayana	1,28,900
04.	M/s. Steel City Holding Limited	1,97,065
05.	Nunna Satya Kumar	1,400
06.	Nadendla Gopal Rao	1,400
07.	Siram Suryanarayana	1,300
08.	G. Lakshman Kumar	1,300
09.	Smt G. Jyothi	1,300
10.	D.V.V.S.P.Varma	1,300



7. The total number of members of our Company as on the date of filing of offer document is 151.
8. Our Company has not availed or raised any bridge loan against the proceeds of this issue.
9. Our Company, the Promoters, Directors and the Lead Manager to the Issue have not entered into any buy-back, standby or similar arrangements for purchase of Equity Shares of the Company being issued through this Draft Prospectus from any person.
10. Our Company has reserved 4,90,000 Equity Shares for allotment on competitive basis to Permanent Employees (including Whole-time Directors) of our Company and 5,00,000 Equity Shares for allotment on competitive basis to NRIs and/or FIIs (applying on repatriation basis) and 5,00,000 Equity Shares for allotment on competitive basis to Scheduled Bank, Financial Institutions and/or Mutual Funds on competitive basis. Application by Employees and Executive Directors of our Company can also be made in the "Net Offer to the Public" and such application shall not be treated as multiple applications. Unsubscribed portion in any reserved category may be added to any other reserved category. The unsubscribed portion, if any, after such inter-se adjustments amongst the reserved categories shall be added back to the Net Issue to the Public.
11. In case of under-subscription in the Net Offer to the Public portion, spillover to the extent of under-subscription shall be permitted from the reserved categories to Net Offer to the Public portion.
12. As per SEBI guideline, a minimum of 50% of the Net Issue to the Public are reserved for allotment to individual investors applying Equity Shares of or for a value of not more than Rs. 1,00,000/-. The balance Net Offer to the Public are reserved for Non-Institutional Investors applying for Equity Shares of a value more than Rs 1,00,000/-.
13. An over-subscription to the extent of 10% of this Issue size can be retained for the purpose of rounding off to the nearer multiple of 1, while finalizing the Basis of Allotment.
14. As on date of filing this Draft Prospectus, there are no outstanding warrants, options or rights to convert debentures, loans or other financial instruments, which would entitle them to acquire further shares in our Company. The shares locked in by the Promoters are not pledged to any party. The Promoter may pledge the Equity Shares with banks or FIs as additional security for loan whenever availed by them from banks or FIs.
15. There would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, right issue or in any other manner during the period commencing from submission of the Draft Prospectus with SEBI until the Equity Shares offered through this Draft Prospectus have been listed.
16. There shall be only one denomination for the Equity Shares of our Company, subject to applicable regulations and we shall comply with such disclosure and accounting norms specified by SEBI, from time to time.
17. The Equity Shares offered through this Public Issue shall be made fully paid up on allotment.
18. We presently do not have any intention or proposal to alter our capital structure for a period of six months from the date of opening of the Issue, by way of split / consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into exchangeable, directly or indirectly, for our Equity Shares) whether preferential or otherwise or if we enter into acquisition or joint ventures, we may consider raising additional capital to fund such activity or use Equity Shares as currency for acquisition or participation in such joint ventures.
19. Our Company has not revalued its assets since inception.
20. Our Company has not made any public issue since its incorporation.



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21. An applicant cannot make a application for more than the number of Equity Shares offered through this Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.
 22. Our Company undertakes that at any given time, there shall be only one denomination for the shares of our Company and the Company shall comply with such disclosure and accounting norms specified by SEBI from time to time.
 23. Since the entire money of Rs. [●] per share (Rs. 10/- face value + Rs. [●] premium) is being called on application, all the successful applicants will be issued fully paid-up shares.



OBJECTS OF THE ISSUE

The net proceeds of the issue after deducting underwriting, management fees, selling fees and all other issue related expenses payable by us is estimated at Rs. [•] million. The objects of the issue are to expand the business operations, opening of new centres, augmenting working capital and listing the shares of our company on the stock exchanges and to enable us to consolidate our competitive position by upgrading office infrastructure and investing in technology.

The objects of the issue are as follows:

- To open our own additional centres
- Investment in Technology and office infrastructure
- To meet the fund requirement for Company's operations viz. augmenting additional working capital, margin trade finance and general business purpose
- To list our shares on Stock Exchanges – BSE & NSE

The main objects clause of the Memorandum 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.

Our requirement of funds and means of finance

Our requirements of funds for the aforesaid objectives are as under:

	Rs. in Million
Activities	Amount
Opening of additional business centres	80.70
Investment in technology and office infrastructure	32.00
Augmenting working capital requirement	312.04
Issue expenses	38.00
Total	462.74

Means of Finance

	Rs. in Million
Public Issue	[•]
Internal Accruals	[•]
Total	[•]

Appraisal

The requirement of funds for which the present public issue is being made has not been appraised by Bank or Financial Institution and solely based on the estimate made by our management. The Company has assessed the funds requirement based upon the past experience and quotation received wherever required.



Schedule of utilization of funds

We intend to utilize the issue proceeds towards the above mentioned capital expenditure programme by September, 2006. The quarter wise break-up of our utilization of funds is as given below:

Activities	Already Incurred # 31.12.05	Quarter wise break-up			Total
		March, 06	June, 06	Sept, 06	
Opening of additional business centres	--	--	40.35	40.35	80.70
Investment in technology upgradation and office infrastructure	--	--	32.00	--	32.00
Augmenting working capital	--	--	312.04	--	312.04
Issue Expenses	2.07	24.63	11.30	--	38.00
Total	2.07	24.63	395.69	40.35	462.74

The amount already incurred is from internal accruals as certified by M/s Sudhakar & Kumar Associates, Chartered Accountants vide their certificate dated January 5, 2006.

In case, funds raised through the issue are lower than our total budgeted requirements, than we intend to meet it through additional internal accruals. As per our unconsolidated audited financial statements as on September 30, 2005, we had cash and bank balances of Rs. 103.19 millions excluding the banks deposit for availing bank guarantees. The same can be utilized for meeting any shortfall in the proceeds of this Issue.

In the event that the funds raised through this Issue are higher than our total budgeted requirements, we intend to use the surplus funds so available for margin trade finance and opening of more business centres in addition to the present planned centres.

Interim use of funds

Pending utilization in the project, the proceeds of the issue will be utilised for margin trade finance or invested in high quality interest bearing liquid instruments including Bank Deposits and/or Gilt Edged Government Securities, either directly or through Mutual Funds. Such investments would be authorised by the Board of a Committee thereof, duly empowered in this regard. The above fund requirement is based on our current business plan approved by our Board of Directors.

Details of requirement of funds

The details of funds requirement estimated by the Company are given below:

1. Setting up of new centres

Our centres play an important role in expanding our operations by customer targeting and service locally. At present, we have a network of 225 centres all over in India. We plan to set up 100 additional centres across India for our different businesses including securities & commodities broking, insurance, commodities and distribution of mutual funds and other investment products. The locations are selected based upon the following:

- Potential business expected to be generated and
- The extent of competition from existing similar companies offering such services.

The Company proposes to acquire additional space ranging from 800 to 1500 sq. ft. on long-term lease basis, for each new centre.



The cost of setting up centres is based upon the area proposes to be acquired, lease rentals prevailing in the location, office equipment and communication system including furnishing and other accessories. Considering all the locations identified, we have worked out the cost of setting up the centre based on the following assumptions:

Items of Expenses	Basis of cost estimates
Advance for Premises	Rs.50, 000/- to Rs.1, 50,000/-
Furniture & Fixtures	As per requirement of location
Computer & VSAT including software	1 VSAT, 5 Computer Terminals, UPS and batteries
Office Equipment & Electrical	Telephone, Fax, Modem, Air-conditioners etc.
Start-up Expenses	3 months operating expenses

There will be regional variances on costing but the all India average would work out to Rs. 0.807 million per centre. Some centres will be smaller and there would be larger centres depending upon the products to be offered from each centre. These larger centres will be catering to larger base of customers and local level administration and control. We propose to set up additional 100 centres and the total cost of setting up is estimated at Rs. 80.70 million till September 2006.

2. Investment in Technology and office infrastructure

We have high-spread of VSAT Network to trade in all National Exchanges like NSE, BSE, MCX and NCDEX with cash, derivative and commodity segments and have also deployed VPN and RAS Network to trade in all Exchanges with all segments in a single VSAT Connectivity. We are also launching our e-broking portal "www.steelcitynettrade.com" for Internet trading to extend our business, service and products at global level. Besides our trading business needs continuous investments in technology. Our servers for Internet based trading will be hosted at Visakhapatnam, Andhra Pradesh. We also plan to upgrade our existing trading and database servers for routing of orders and trades in high volumes, settlements processing and customer relationship management. To handle complete solution of online back office support, we are implementing three-tier architecture with cluster-based technology to ensure storage of valuable transactions. This solution is to have load balancing on different data base performances and to minimize the downtime. The total estimated technology related expenditure is Rs. 32 million to be deployed upto June 2006 in the following manner:

			Rs. in Million
S. No.	Items	Qty.	Total
1	Bandwidth charges for VPN	100	1.80
2	Redundancy Bandwidth Charges for VPN	LS	0.31
3	VSAT Equipment	100	12.00
4	Network Devices	LS	1.67
5	Network Security Components	1	0.16
6	High-end Servers	17	2.28
7	Integrated on Back-office	1	2.50
8	Power backup Units (UPS)	60	3.48
9	Power backup Units (Batteries)	600	2.40
10	Network Consultancy Charges		0.44
11	Licensed Software		1.00
12	Taxes and Duties		1.50
13	Misc. items & start-up expenses i.e. seminars, advertisement etc.		2.46
	Total		32.00



3. Funds requirement for company's operations

The Company, i.e. Steel City Securities Limited, has an average daily turnover of over Rs. 1400 million and its subsidiary Company i.e. Steel City Commodities Private Limited has an average daily turnover of over Rs. 800 million with the funds at present available with the Company and with very minimal margin trade finance support extended to its clients. We propose to utilize a portion of funds raised from this issue for margin trade finance carrying suitable interest rate and thereby increasing volume of operations coupled with the setting up of additional 100 centres across the country. This increased level of operations would require even additional working capital including additional bank guarantees from bankers. At present, the Company's sanctioned working capital is in the form of bank guarantee of Rs. 213.20 million and in principle sanction of BGs in place are Rs. 20 million from company's bankers. We also propose to utilize the sum of Rs. 32.04 million for meeting normal working capital requirement, repayment of unsecured loan of promoters group and acquisition of balance 24,000 equity shares of Rs. 10/- each of Steel City Insurance Agencies Pvt. Ltd. to make it a wholly owned subsidiary company. We proposes to utilize an aggregated sum of Rs. 312.04 million for the following objectives:

Sr. No.	Activities	Rs. in Million
1	Margin Money for additional bank guarantees	100.00
2	Margin funding	180.00
3	Meeting normal working capital requirement	32.04
	Total	312.04

4. Issue Expenses

The Issue expenses are estimated to be Rs. 38.00 million which will include the fees payable to the intermediaries such as Lead Manger, Registrar to the Issue, Legal Advisor to the Issue and payment of underwriting and selling commission, brokerage, publicity and advertisement expenses, printing and stationery cost, postage and dispatch expenses, etc. The break-up of issue expenses is as under:

Activity	Rs. in Million
Issue Management Fee, Underwriting and Selling Commission	19.50
Registrar Fee and other expenses (postage of refunds etc.)	3.00
Advertising and Marketing Expenses	8.00
Printing and Stationery	6.00
Other Exp. (Legal fees, Listing fee, Auditors fee, etc.)	1.50
Total	38.00

We shall make necessary application to our bankers for sanction of additional bank guarantees in due course. We have neither entered into any definitive agreements for the use of proceeds of this Issue nor placed any orders with any suppliers. We are yet to receive quotations from suppliers.



BASIS FOR ISSUE PRICE

QUALITATIVE FACTORS

We are strategically positioned to leverage our strength in the domestic market, due to our competitive strengths that include the following:

- **Centres Networking and strong client base**

We are one of the leading stock broking firm and built-up network of 225 centres with a presence at 97 Cities/Towns across in India serving the clients from single location in 1995 and further expansion of 100 centres is under offing in India. As on date, we have strong broking client base of 36,311.

- **Integrated Services**

We are member of BSE, NSE for capital segment, future and options and membership of NCDEX and MCX through our subsidiary company. We offer various products and services ranging from shares and securities broking, commodities broking, depository services, future and options, wholesale debt, insurance and initial public offering distribution, equity research etc. to meet the customers requirement at one source.

- **Depository Services**

We are Depository participant of NSDL and CDSL and as on date, we have built up a prestigious base of registered DP clients for NSDL and CDSL is 46,712.

- **Online Internet Trading Platform**

We have invested in building a technology platform by developing e-broking portal, www.steelcitynettrade.com, which is expected to be launched shortly. Its main features include support for both cash market and derivatives, common integrated risk management for both segments, feature rich browser based terminal and electronic payment interface to participating retail bank and interface with our depository services. With this we will be able to increase our reach and clients and which in turn will enhance our income.

- **Technology**

We are having own VPN (Virtual Private Network) for trading facilities at any place for trading in NSE, BSE, Commodity futures at most economical cost, operation and controls. We also have own communication network across all branches/centres to transmit data for complete on-line process and operations of all sections. We are having 106 VSATs and 60 CTCL connection installed at all centres.

- **Risk Management Systems**

We have strong surveillance support to control our Risk Management having Software “DERIWATCH” to monitor the risk parameters based on the market volatility and volumes. With this software support, we are able to identify the risky positions of the clients and their percentage of the risk is evaluated to take immediate decision to stop/suspend the particular client further trading. The same has also been implemented for Commodity segment with “COMMOWATCH”.

- **Research**

To meet the challenges in Market and business promotion, we have Research and Development wing to give analytical reports on the market, Fundamental and Technicals on Segment/Industry/Script wise reports for the benefit of our client’s Long-term & Short-term investments. To derive these analysis



reports, we have bought support softwares like **Capital Line 2000, Technical Package and Mumbai based daily Trend-watch**. Apart from these, we are very keen to provide Trading tolls like (**Reuters, Mumbai – Leaders in Worldwide news agency**) Latest Worldwide News, Instant charts, Quotes, International Indices, Bullion Markets, History of specific instruments etc. This support is being extended to all our locations at the same time.

- **Reputed Service Providers**

We have implemented Virtual Private Network with the support of HCL Comnet Ltd., who is the No. 1 service provider in the country for VSAT and Bandwidth solutions. We have tied-up with BSNL and BHARTI service providers for Bandwidth usage to maintain zero downtime. In this Network all remote users are connecting to CTCL Server, where mandatory validations will be done in regards to their User Identity, Margin, Turn Over, and Exposure limits. Having this Network, the Risk Management is covering all stages and no abnormal deals can be taken place. This network is really giving us a great opportunity to improve our business potential and having the advantage of all trading segments is under one-roof.

We have appointed Network Auditors from NCG (Network Consultancy Group), Mumbai to evaluate performance, safeguard our setup from the insecure zone, future expandability, technology upgradation, better suggestions, timely validations etc. All these will be audited on half-yearly basis to certify the Systems integrity and performance.

- **Experienced Promoters**

Our promoters are experienced in stock broking and have been managing the company's affairs for the past 10 years since incorporation.

- **Trained Operating Team**

The operating team is well experienced in the respective area of operations to diligently discharge their job responsibility thus ensuring better management and smooth operations of the company's affairs. We keep NCFM (**NSE's Certification in Financial Markets**) qualified person in the trading operations and also conduct training programs on NCFM for our staff to comply with the SEBI and Exchange guidelines. We also conduct functional training programs for newly joined employees before commencement of branch operations.

- **In-house Software Development**

Our team has developed an in-house back-office software i.e. "**STEELPACK**" to support all our operations like Trading, Depository, Finance, Payroll, FTP, Digital Contract Notes and Centres reports etc. We have designed our package to handle the incremental growth of database in three-tier architecture on the Oracle and Visual Basics platforms.

- **Operational and Financial Track Record**

The company is profit making and registering overall growth in its operations. It has registered growth of 60% and 66.6% in total income and net profit respectively during the FY 2005 as compared to FY2004. The consolidated total income of the Company has grown from Rs. 123.75 million in FY 2004 to Rs. 198.03 million in FY 2005 and net profit from Rs. 21.53 million in FY 2004 to Rs. 35.87 million in FY 2005.



QUANTITATIVE FACTORS

Information presented in this section is derived from our audited consolidated financial statements.

1. Adjusted Earning per share (EPS)

Year	Rupees	Weight
2002-2003	0.60	1
2003-2004	17.25	2
2004-2005	23.17	3
Weighted average	17.44	

2. Price Earning (P/E) ratio in relation to issue price of Rs. [•]

- a. Based on the year ended March 31, 2005, EPS is Rs. 23.17.
- b. P/E based on year ended March 31, 2005 is [•]
- c. Industry P/E
 - i. Highest 125.30
 - ii. Lowest 0.30
 - iii. Industry Composite 17.80

(Source: Capital Market Vol. XX/24, January 30 – February 12, 2006 (Finance & Investment))

3. Average Return on Net worth

For the Financial Year	RONW (%)	Weight
2002-2003	0.94	1
2003-2004	20.36	2
2004-2005	22.75	3
Weighted Average	18.32	

4. Minimum Return on Increased Net Worth required to maintain Pre-Issue EPS

Minimum return on increased Net worth after issue needed to maintain pre-issue EPS of Rs. [•]

5. Net Asset Value (NAV) per Equity Share

A.	As on 31 st March 2005	Rs. 101.85
B.	As on 30 th September, 2005	Rs. 123.02
C.	After issue	[•]
D.	Issue Price	[•]



6. Comparison of Accounting Ratios

The comparable ratios of the Companies which are to some extent similar in business are as given below:

Company	EPS (Rs)	P/E Ratio	RONW (%)	NAV (Rs)
SCSL	23.17	[•]	22.75	101.85
Peer Group				
Indiabulls Financial Services Ltd.	1.50	53.4	12.50	22.00
IL&FS Investmart Ltd.	7.50	16.0	44.00	44.90
Geojit Financial Services Ltd.	5.40	21.8	38.30	20.30
India Infoline Limited	4.00	30.4	42.70	14.70

(Source: Capital Market Vol. XX/24, January 30 – February 12, 2006 (Finance & Investment))



SECTION III: INDUSTRY INFORMATION

INDUSTRY

A. Introduction

The Securities market is a place where suppliers and users of capital meet to share each other's vision and aspirations and where a balance is sought to be achieved between the diverse interests of market participants. Securities decouple individual acts of saving from those of investment over time, space and entity and thus allow savings to occur without a concomitant investment. Moreover, availability of yield bearing securities makes present consumption, inducing people to save more. The composition of savings changes, with less saving held in the form of idle money or unproductive assets simply because more divisible and liquid assets are available.

The securities market avoids allocation of savings to low yielding enterprises and hence forces them to improve performance. It continuously monitors their performance through movement of their share prices in the market and the threat of takeover. This improves efficiency of resource use and thereby significantly increases the return on investment. As a result, savers and investors are constrained not by individual abilities but by the economy's ability to invest and save, which inevitably enhances savings and investment in the economy. Thus the securities market converts a given stock of investible resources into a larger flow of goods and services and promotes economic growth.

Market – Economy Link

Two renowned economists, Levine and Zervos investigated the empirical link between stock market behaviour and long-run economic growth. Their findings suggest that stock market development is positively associated with economic growth and that instrumental variable procedures indicate a strong connection between predetermined components of the stock market and economic growth in the long run. They studied whether measures of stock market liquidity including size, volatility and integration with world capital markets are correlated with current and future rates of economic growth, capital accumulation, productivity improvements and saving rates. They found evidence to show that stock market liquidity, as measured by the value of stock trading relative to the market size and size of the economy, is positively and significantly correlated with current and future rates of economic growth, capital accumulation and productivity growth. In fact, there are theoretical and empirical studies that have established causal robust (statistically significant) two-way relationship between developments in the securities market and economic growth.

In 2005, three themes emerged strongly, which we believe offer significant growth opportunities of our economy. These include consumption growth, infrastructure spending and India arbitrage advantage in terms of human intelligence.

Confidence build-up

These reforms have boosted the confidence of investors (domestic and international) in the Indian securities market. There are three parameters to ascertain the level of investor confidence – investments by FIIs, growth of mutual fund subscriptions to IPOs and increase in the number of accounts with the depositories. After US\$ 6.6 billion and US\$ 8.52 billion net inflow in 2003 and 2004 respectively, FIIs invested US\$ 10.7 billion in the Indian equity market in 2005. In 2004-05, the mutual fund mobilized resources of about Rs. 8,397 billion as against Rs. 5,902 billion representing an increase of 42%. The assets at their disposal increased from Rs. 1,396 billion in March 2004 to Rs. 1,496 billion in March 2005. In the year 2004-05, the Indian companies raised about 210 billion through overseas capital market offerings. The volume of issuance in the primary market increased from Rs. 57.32 billion in 2002-03 to Rs. 221.45 billion and Rs. 255.26 billion in 2003-04 and 2004-05 respectively.

Sharp rise in market indicators

The benchmark indices, namely the Sensex and the S&P CNX Nifty generated astounding returns of 40.58% and 34.08% respectively in 2005. The market capitalization of BSE grew from Rs. 15,396 billion at the end of



November, 2004 to Rs. 23,230 billion at the end of November, 2005 registering growth of over 50%. The market capitalization of NSE in cash segment grew from Rs. 11,210 billion for 2003-2004 to Rs. 15,856 billion for 2004-05 registering growth of 41% and Rs. 21,668 billion at the end of November, 2004.

(Source: www.nseindia.com, www.bseindia.com, www.amfiindia.com and www.primdatabase.com)

B. Overview of the Indian Economy

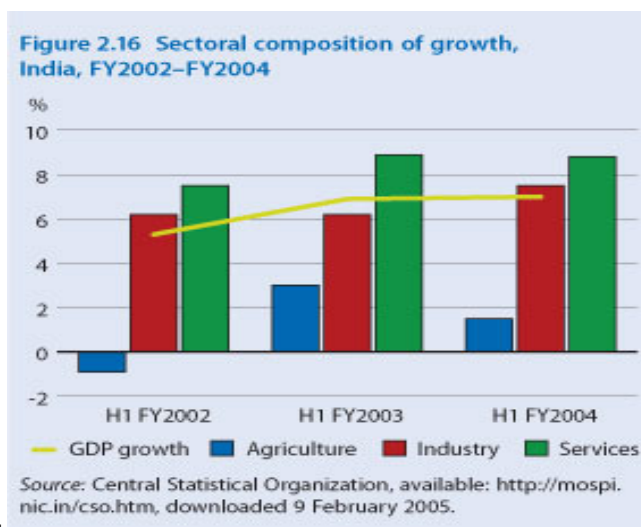
As per macroeconomic assessment of 2004 of India, conducted by Asian Development Outlook, 2005 in FY 2004 (ended March 31, 2005), the economy remained buoyant. GDP grew by 7.0% during the first 2 quarters of FY 2004, following 8.5% growth in FY 2003. For the year FY 2005, the GDP growth is estimated at 6.9%. This strong expansion is on account of marked improvements in investment as reflected in the leading macro indicators, such as production and imports of capital goods, production of commercial vehicles, and non-food credit off-take. Moreover, strong growth in consumer durables in FY 2004 also indicates a pickup in consumption demand.

Major Economic Indicators, India, 2004-2007, (%)

Item	2004	2005	2006	2007
GDP Growth	6.5	6.9	6.1	7.0
GDI/GDP	26.5	26.5	27.0	27.5
Inflation (WPI)	6.0	4.2	3.0	3.5
Money Supply (M3) growth	14.6	14.5	12.5	13.9
Fiscal balance / GDP	-9.1	-8.8	-8.5	-8.0
Merchandise Export growth	23.2	14.1	13.8	13.2
Merchandise Import growth	39.0	19.7	15.4	14.4
Current account / GDP	-1.0	-1.0	-1.4	-1.9

Bullish expectations, driven by buoyant growth and rising corporate profits, are reflected in the recent boom in stock prices. After declining quite sharply during April-May 2004 in the run-up to elections (and the formation of a new coalition Government), the market has rebounded to reach record levels of market capitalization. Despite fluctuations during the year, the Sensex market index closed at 7,193.85 on June 30, 2005 to record a 50.01% increase for 52 weeks of FY 2004. The volatility of the index during December 2004 and January 2005 reflects the movements in portfolio investments by foreign institutional investors, primarily on account of expectations of an increase in the US Federal Funds rate.

The Sectoral composition of growth of Indian for the FY 2002 to FY 2004 is depicted below:





Outlook for 2005 – 2007 and medium term trend

GDP is expected to expand by 6.9%, up from 6.5% in FY 2004 and Industry is predicted to grow at a lower rate of 6.7% and services sector growth is estimated at 7.7%. In FY 2006, GDP growth is predicted to decline to 6.1%, mainly on account of a further decline in the growth of industry and services to 5.2% and 7.3% respectively. The revival of industry and service growth in FY 2007 will drive up overall expansion to 7.0%. Inflation is forecast to decline to 4.2% in FY 2005, down from 6.0% in FY 2004, and then to 3.0% and 3.5% in the following 2 years.

Expansion in investment, especially in infrastructure holds the key to sustain high growth over the long run. The investment rate increased to 26.3% of GDP in FY 2003 and is estimated to have increased to 26.5% in FY 2004. However, the current rate of infrastructure investment at 3.5% of GDP is way below the 8.0% of GDP target for FY 2005 made by the Expert Group on the Commercialisation of Infrastructure Projects. The external sector is expected to remain buoyant. Growth of merchandise exports is forecast to be 14.1% in FY2005, 13.8% in FY 2006, and 13.2% in FY 2007. This is despite the strengthening of the rupee-dollar exchange rate over FY 2005-FY 2006. Merchandise import growth is likely to be 19.7% in FY 2005 and around 15% in the following 2 years. The current account will continue to post a deficit, forecast in the range of 1.0%-1.9% of GDP over FY 2005-FY 2007.

India has had a long experience with a rising and robust household savings rate. Right now, we are at a savings rate of about 28 per cent. Rising incomes and shifting demographics are likely to drive up the household savings rate through the next ten years. Our fiscal consolidation efforts will reduce the extent of public sector dissaving. We are likely to be able to absorb significant private foreign capital flows through our modern institutional capacity in the currency regime, on the stock market, and through FDI. Thus, India is very likely to experience a growing investment rate from 2005.

(Source: www.asiandevelopmentbank.com)

C. Indian Financial Sector & Capital Markets

The Indian Financial Sector has seen a dramatic change in the last few years. The investors have regained confidence and the economy of the country is booming. The reasons being, the establishment and empowerment of the SEBI, screen-based nation-wide trading, dematerialization and electronic transfer of securities, rolling settlement and derivatives trading. As a result both the regulatory framework and efficiency of trading and settlement have improved.

With the economic boom, a large amount of savings and investments is expected due to increase in the income level and the population. Hence many new financial services companies are entering the Indian markets and providing various financial services to the retail and corporate sector. The existing financial services companies are competing with the new entrants by upgrading their infrastructure facilities and expanding their distribution channels.

The Bombay Stock Exchange Limited and National Stock Exchange have over 7,199 (Nov-05) and 1,025 (Nov-05) listed companies respectively. The average daily turnover of the BSE and NSE has increased over the time. The turnover is as follows:

Year / Month	Average daily turnover for that period (Rs. in Million)	
	NSE	BSE
2001-02	20,780	12,450
2002-03	24,620	12,502
2003-04	43,280	19,796
2004-05	45,060	20,536
Apr-05	41,360	18,100



May-05	39,460	19,702
June-05	48,430	25,417
July-05	61,500	30,940
Aug-05	66,240	34,514
Sept-05	69,230	38,710
Oct-05	60,400	29,550
Nov-05	54,790	26,350

(Source: www.nseindia.com and www.bseindia.com)

Trends in the Capital Market

Over the past 10 years, Indian Capital Markets have seen a major consolidation. The NSE market turnover of our company for both capital and F&O segment has increased from Rs. 94,270 million for FY 2003 to Rs. 1,89,272 million for FY 2005 and Rs. 28,826 million for the month, November 2005.

The % of market share of Top Brokers (NSE) are as under:

Year / Month	Volume (%) of Top Brokers				
	5	10	25	50	100
2001-02	7	12	24	36	53
2002-03	10	16	29	42	59
2003-04	12	17	30	44	61
2004-05	14	20	35	49	65
Apr-05	14	22	37	52	67
May-05	15	23	38	52	68
June-05	15	23	38	53	68
July-05	15	23	38	53	69
Aug-05	16	23	37	51	68
Sept-05	16	23	38	52	68
Oct-05	16	25	40	55	71
Nov-05	16	24	40	55	70

(Source: www.nseindia.com)



The details of NSE turnover in Capital and F&O segment are as under:

Rs. in Million

YEAR / MONTH	NSE TURNOVER (CAPITAL SEGMENT)	SCSL'S TURNOVER (CAPITAL SEGMENT)	NSE TURNOVER (BOTH CAPITAL AND F&O)	SCSL'S TURNOVER (BOTH CAPITAL AND F&O)
2001-02	5,131,670	1,04,811	6,150,920	1,04,811
2002-03	6,179,890	85,890	10,578,520	94,270
2003-04	10,995,350	1,07,915	32,301,470	1,87,423
2004-05	11,400,710	95,822	36,870,570	1,89,272
Apr-05	827,180	8,204	2,786,800	13,433
May-05	868,020	8,699	2,951,770	14,781
June-05	1,113,970	10,741	3,826,390	20,965
July-05	1,230,080	13,046	4,311,742	27,943
Aug-05	1,457,313	14,925	5,180,386	33,319
Sep-05	1,453,932	15,739	5,451,494	35,426
Oct-05	1,208,099	11,488	5,544,700	28,595
Nov-05	1,095,785	11,320	5,054,313	28,826

(Source: Company, www.nseindia.com)

D. Internet Stock Trading Market

Internet stock-trading in India is a new phenomenon and began as recently as January 2000. Although there are quite a few e-brokers, the industry is still in a nascent stage. However, there has been a steady growth in Internet trading volumes. It can be attributed to growing sophistication of retail investors, reduction in the cost of a personal computer, higher tele-density, availability of reliable Internet connectivity and sophistication of Internet trading products.

At the end of March, 2005 there are 78 trading members on the Capital Market segment provided internet based trading facilities to investors. The members of the exchange in turn had registered 8,49,696 clients for web based access as on March 2005. The following table gives the growth of internet trading:

Year	Enabled Members	Registered Clients	Trading Volume (Rs. in Million)	% of total trading volume of NSE
2001-02	82	231,899	81,388.1	1.59
2002-03	80	346,420	153,607.6	2.48
2003-04	70	463,560	379,450.8	3.45
2004-05	78	849,696	810,338.1	7.11

(Source: www.nseindia.com)

E. Commodity Exchange

With the setting up of the commodities exchanges, the dynamics in the Commodities trading has also revolutionized. The market is developing at a very fast pace with the setting up of Multi Commodity Exchange (MCX), National Commodities and Derivatives Exchange (NCDEX) and National Multi Commodity Exchange of India Ltd. (NMCE). As a result, more awareness is being created across India with a lot of investors participating in the commodities market. Some of the commodities where trading takes place is Gold, Silver, Copper, Castor Seed, Gram (Chana), Soya Oil, Sugar, Rubber etc.



Rs. in Million

Year / Month	MCX Turnover	SCCPL Turnover on MCX	NCDEX Turnover	SCCPL Turnover on NCDEX
2002-03	-	-	-	-
2003-04	23,174.90	-	14,902.50	-
2004-05	16,65,263.90	18,500	26,63,355.80	3,973
April-05	5,29,878.87	4,939	5,80,378.90	1,524
May-05	6,00,520.36	6,047	5,44,601.80	1,294
June-05	8,39,803.26	7,859	6,69,650.80	2,019
July-05	9,73,333.75	8,759	7,46,999.90	2,637
Aug-05	1,22,688.36	8,604	9,96,917.00	3,509
Sep-05	1,62,627.07	10,611	10,37,128.00	3,151
Oct-05	76,309.96	10,869	10,11,129.90	6,618
Nov-05	76,234.78	10,695	10,18,600.80	8,818

(Source: Company, MCX, NCDEX)

F. Indian Mutual Fund Industry

The Indian Mutual Fund Industry has remarkable grown in the last few years. After the mutual fund industry came under the purview of SEBI, new regulations have attracted various private players including global players to enter the Indian market. There are 30 funds and 466 schemes and total asset under management is Rs. 2,055,602 million (including fund of funds) as on November, 2005. The monthwise summary of asset under management (including fund of funds) is as under:

Rs. in Million

Month	Asset Under Management
January-05	1,523,156
February-05	1,534,220
March-05	1,498,442
April-05	1,591,553
May-05	1,686,632
June-05	1,653,324
July-05	1,767,107
Aug-05	1,964,196
Sept-05	2,015,236
Oct-05	2,010,554
Nov-05	2,055,602

(Source: www.amfindia.com)

G. Insurance Sector

After the liberalization of the Indian insurance sector, many global insurance players have entered the Indian market in the form of joint ventures with Indian companies. Some of the prominent names being Prudential (UK), Standard Life (UK), Sun Life Financial (Canada), AIG (US), Group ING (Netherlands), Max New York, Allianz Old Mutual Plc., amongst others. The entry of new players and increased competition led the market leader Life Insurance Corporation (LIC) to respond by launching new products and improving service standards.



India, with a vast middle class population presents a huge untapped potential for insurance players. Saturation of markets in many developed economies has made India an attractive destination for global insurance majors.

Insurer	Market Share as a % of premium		
	2002-03	2003-04	2004-05
Bajaj Allianz	0.37%	0.96%	3.39%
ING Vysya	0.10%	0.39%	1.11%
AMP Sanmar	0.04%	0.15%	0.36%
SBI Life	0.42%	1.08%	1.91%
Tata AIG	0.31%	0.96%	1.18%
HDFC Standard	0.76%	1.12%	1.92%
ICICI Prudential	2.15%	4.02%	6.25%
Birla Sunlife	0.77%	2.41%	2.45%
Aviva	0.08%	0.41%	0.76%
OM Kotak Mahindra	0.21%	0.66%	1.48%
Max New York	0.40%	0.70%	0.89%
Met Life	0.05%	0.13%	0.22%
Sahara Life	-	0.00%	0.01%
Private Total	5.66%	13.01%	21.93%
LIC	94.34%	86.99%	78.07%
Total	100.00%	100.00%	100.00%

(Source: IRDA Journal)

The key changes observed in the insurance sector over the past few years:

- Increased penetration levels by customizing products to suit investor needs.
- The entrance of new private players & the improved awareness levels, many companies have opened up offices, not only in metros but also in Tier II cities to enlarge their target population.
- Instead of bundled products, customers are now offered basic products with a plethora of riders to choose from based on their requirements & customize their policy & the premiums.
- A host of intermediaries like banks, post office, Non-Government Organizations (NGO), brokers and the Internet have also been inducted in as channel partners apart from the traditional insurance agents.

H. Key participants in the Financial Market

The Capital market essentially has four types of participants viz.

- Issuer of Securities
- Financial Intermediaries
- Regulators and
- Investors



The Issuers and Investors are the consumers of services rendered by the intermediaries and the investors are consumers (they subscribe for/and trade in securities) of securities issued by this Issuer as well. Those who deal in securities need an assurance that it is safe to do so and the laws framed in relation to the Capital markets, which in turn are enforced by the regulator, provide this reassurance. The regulator exercises control over the market and market practices through rules, regulations and guidelines for market participants and intermediaries. Intermediaries play an important role in the Capital market by providing a critical link between the various market participants. The level of intermediation and efficacy of the regulatory framework often determine the efficiency of the market.

I. Financial Product Distribution

The distribution of financial products has changed with the advent of private players into the market. Newer and more innovative channels of distribution like the Internet are now seen. The players in distribution are:

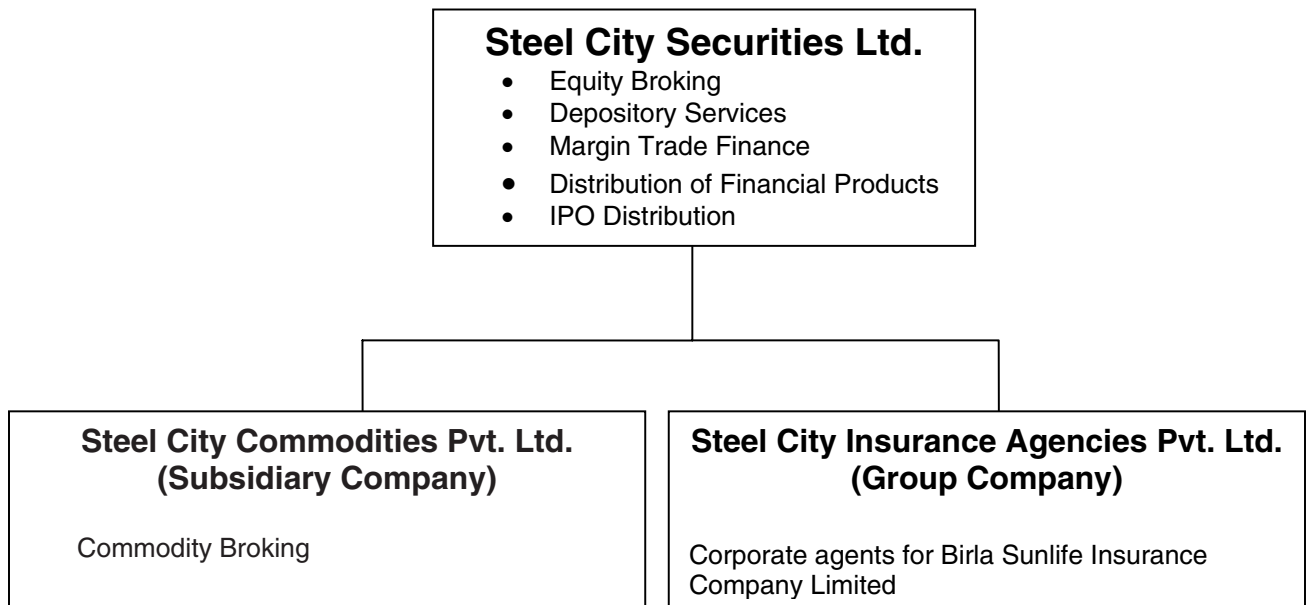
- Small local unorganized outlets
- Established distribution companies with pan India presence
- Distribution arms of banks/finance companies

As financial products become more complex, the role of financial advisor becomes critical.

The other emerging trend is the “one stop” concept instead of dealing with multiple specialists. Customers tend to have strong relations with one distributor who can satisfy all their investment needs ranging from mutual funds to bonds and fixed deposits.



BUSINESS OVERVIEW



A) Introduction:

The Promoters were well familiar with stock market much before 1995, observing closely the quality of services provided to the investors by the Intermediaries & Exchanges in this country. Once NSE was floated, the Promoters in 1995, visualized the best opportunity to provide prompt, transparent, committed stock broking services to the Investors and floated a Company in the name and style “Steel City Securities Limited” and obtained Membership of National Stock Exchange of India Limited. The Promoters have incorporated separate companies for separate business activities for complying with the respective exchange guidelines.

B) Organization Goal:

To be at the top providing the best, prompt, transparent, committed, highest quality of services to all retail, high net worth, institutional clients at every place in the country all the time.

C) Business Philosophy:

As a matter of policy, the company engages in no proprietary trading at all whatsoever and 100% concentration is given on providing best facilities to all clients at all places spreading the presence of the Company all over the country. The Company embarked upon setting up the centres to meet the client requirement of trading in equity shares of companies listed on NSE and BSE together with depository services and commodities trading.

D) Business

We carry out the business of Online Stock Broking Services in the Capital Market Segment and also in commodities through our subsidiary company namely Steel City Commodities Private Limited. We also offer dematerialization services being depository participants of NSDL and CDSL. We are also in the distribution of financial products such as mutual fund, fixed income and marketing of IPOs for our retail clients.



E) Background and Evolution

The Company was incorporated on February 22, 1995 and obtained the Trading Membership of National Stock Exchange of India Limited (NSE) on its Capital Market Segment. The first VSAT for its Trading Work Station (TWS) at Hyderabad was installed in December, 1995 and the second at Visakhapatnam in April 1996. We are one amongst the broking companies, started stock broking services to big and small retail clients by putting centres at towns, semi-urban and other cities. In the beginning, we have put up our centres in southern states of India and later into other parts across the country.

Steel City Holding Limited (SCHL) was incorporated on August 22, 1995 as a public limited company under the Companies Act, 1956 as a group concern under the same management with the objective to carry on the business of share broker or sub-broker or dealer to obtain membership of the one or more stock exchanges and to deal with securities, stocks, bonds, debentures whether convertible or otherwise issued to or to be issued by any Public Limited Companies or Private Limited Companies registered under the Companies Act, 1956. SCHL was not carrying any business activity and finally, amalgamated with SCSL in 2005.

To expand the business activities by providing access of the Stock Exchange, Mumbai (BSE), the promoters have incorporated Steel City Capital Services Private Limited (SCCSPL), a group concern of the Company under the same Management on October 23, 1997. SCCSPL commenced initially its operations as sub-broker and subsequently obtained membership of the Stock Exchange, Mumbai (BSE). It has commenced operations of Futures and Options in the year 2001. SCCSPL has obtained approval from SEBI for F&O trading and Trading or Clearing Member from SEBI in the year 2001 and 2004 respectively and finally amalgamated with Steel City Securities Limited in the year 2005.

In the year 2000, the Company has received approval from SEBI for Depository Participant of National Securities Depository Limited and commenced depository services. In the year 2002, it has received approval from SEBI even for Depository Participant of Central Depository Services (India) Limited.

In the year 2002, we decided to add distribution of insurance products in order to add this services in addition to all other ancillary services and distribution of financial products under one roof. Accordingly, Steel City Insurance Agencies Private Limited (SCIAPL) was incorporated as a subsidiary of company on August 20, 2002 as a private limited company under the Companies Act, 1956 with the objective to carry on inter alia or otherwise deal in all kinds of Insurance and Assurance business. SCIAPL is a Corporate Agent of Birla Sun Life Insurance Ltd. In the year 2004, it has disinvested 60% of its shareholding with few individual investors and presently holding 40% of its equity share capital.

Subsequently, In the year 2002 itself, the Company has incorporated on October 07, 2002, Steel City Commodities Private Limited (SCCPL) as a one of the group company under the same management with a view to commence commodities broking. It has obtained Membership of National Commodity and Derivatives Exchange of India Limited (NCDEX) and Multi Commodity Exchange of India Ltd. (MCX) in the year 2004 and commenced operations in commodities broking. In the year 2004-05, SCCPL has become subsidiary by way of transfer of its holding from SCCSPL and SCHL consequent upon their amalgamation with the Company.

We are carrying our business operations from our registered, corporate office at Visakhapatnam and through various centres across the country.

In the year 2004, the Company has decided to consolidate its operations for better, efficient and cost effective services to the clients, both the subsidiaries company of Steel City Securities Ltd., namely SCHL and SCCSPL have been amalgamated with the Company with effect from April 01, 2004 vide the High Court Order March 24, 2005.

The Company is ready to launch its online e-broking portal as **www.steelcitynettrade.com**. The Company has already completed necessary formalities in this regard and expected to be online shortly. It would provide besides investment advice from an experienced team of research analysts, real time stock quotes, market



news and price charts with multiple tools for technical analysis. It will have interface with our dematerialization operations.

Mr. G. Sree Rama Murthy, Mr. G. Raja Gopal Reddy, Mr. K. Satyanarayana and Mr. Satish Kumar Arya having wide experience of stock market operations are the key promoters of our company.

Financial Performance (Unconsolidated)

Particulars	For the year ended 31 st March			Rs. in Million
	2003	2004	2005	Six month period ended 30-09-05
Income from Broking	54.17	109.66	165.92	112.45
Income from Depository Services	4.51	10.26	12.09	5.83
Other Income	6.67	3.80	9.68	3.71
Total Income	65.35	123.72	187.69	122.00
Profit After Tax	0.75	21.97	32.88	25.17

Financial Performance (Consolidated)

Particulars	For the year ended 31 st March			Rs. in Million
	2003	2004	2005	Six month period ended 30-09-05
Income from Broking	54.17	109.66	165.92	112.45
Income from Depository Services	4.51	10.26	12.09	5.83
Income from Commodities Broking	0.00	0.01	10.16	22.34
Other Income	6.67	3.82	9.86	4.39
Total Income	65.35	123.75	198.03	145.01
Profit After Tax	0.75	21.53	35.87	32.68

Yearwise milestones of our Evolution

Year	Activity / Milestone
1995	<ul style="list-style-type: none"> The company was incorporated Obtained the Membership in National Stock Exchange of India Limited in October and commenced equity broking Installed 1st VSAT and Started the Operations in Hyderabad in December
1996	<ul style="list-style-type: none"> The company has become successful in starting its operations at Visakhapatnam installing the 2nd VSAT in April Changed the registered office of company on April 15, 1996
1999	<ul style="list-style-type: none"> Foray in distribution of financial products Set up 10th centre during the year
2000	<ul style="list-style-type: none"> SEBI's Approval as Depository Participant of National Securities Depository Limited Own In-house back office software developed named "STEEL PACK"
2001	<ul style="list-style-type: none"> Obtained Membership of BSE by Steel City Capital services Pvt. Limited Maintained 3,353 DP client accounts
2002	<ul style="list-style-type: none"> SEBI's Approval as Depository Participant of Central Depository Services (I) Limited



	<ul style="list-style-type: none"> Started the operations of Futures & Options segment in May Incorporated Steel City Insurance Agencies Private Limited in August Maintained 7,617 DP client accounts Set up the 50th Centre
2003	<ul style="list-style-type: none"> Commenced distribution of insurance products Maintained 22,678 DP client accounts
2004	<ul style="list-style-type: none"> Membership of Multi commodity exchange of India Limited and National Commodity & Derivatives Exchange Limited Started the operations of Mutual Funds in February Maintained 37,497 DP client accounts Set up the 100th Centre
2005	<ul style="list-style-type: none"> Maintaining 46,712 DP client accounts as on date. Set up more than 200 centres. Applied for Registration of Trademark and obtained T.M.No. 1350172 and also the said TradeMark is accepted for registration. Accredited with ISO 9001:2000 certification with the scope of "Service Provision for Stock/Securities Market Operations, Depository Participant Services, Other Allied and Customer Support Services" from AQA International, LLC, USA, ANAB Accreditation No. 010694, Certificate No. 5825 dated November 1, 2005 valid from November 1, 2005 to November 1, 2008. Commenced the Procedure for empanelment of the company in various Institutions Launching internet e-broking portal as www.steelcitynettrade.com

Present Infrastructure and Facilities – key drivers

VSAT Network

We have country wide VSAT Based Trading Terminals installed to access and trade in all segments like Capital Market, Future & Options, and Commodity of NSE, BSE, MCX and NCDEX. We also have facility for remote user to trade via dial-up and Leased Line to access CTCL servers installed at nearest Branch locations. All Exchanges have provided free Trading software (**NEAT, BOLT and TWS**) to trade via VSAT, incase of remote users, client has to buy CTCL software license to access Trading Screen. The CTCL software Vendor (Financial Technologies) has been empanelled by the respective Exchanges and it is mandatory.

Technology

In order to maintain a high-end technology as per Indian climate conditions, we have opted for Extended- C band VSAT equipment to ensure zero downtime in Network Connectivity at all our remote locations. As a part of Hardware, we have procured all our servers from IBM, No. 1 brand in Server range with better support and warranty. All our Trading TWS (Trading Work Station) maintain branded machines only to ensure better performance and uptime.

Office Environment

We have adequate office space at our branch locations for having a better and healthy Trading environment. We have taken every step to facilitate like Centrally Air-conditioned rooms, comfortable seating, Bigger display Monitors for Market-watch screen, TV outlets, Daily News Papers and periodicals, Telephones, Free Internet, Reuters Market watch, Ready access for Technical package, UPS (60 nos.) with more backup hours, Inverters (5 nos.), Generators (15 nos.) etc. The standard of ambience is being maintained at corporate office as well as branch locations.



Office space

Our business and all centres across the country are controlled from our offices at Visakhapatnam. As of now, we are having multiple offices for our trading, back office, accounts, research and customer services. The details of office premises presently:

- Corporate Office at Visakhapatnam 3271 sft.
- Trading Floor at Visakhapatnam 3271 sft.
- Depository Floor at Visakhapatnam 3258 sft.
- Commodity Floor at Visakhapatnam 4000 sft.
- Own office at Secunderabad 3000 sft.
- Centres location ranging from 400 – 1000 sft.

Research and Development

To meet the challenges in Market and business promotion, we have Research and Development wing to give analytical reports on the market, Fundamental and Technical on Segment/Industry/Script wise reports for the benefit of our client's Long-term & Short-term investments. To derive these analysis reports, we have bought support softwares like **Capital Line 2000, Technical Package and Mumbai based daily Trend-watch**. Apart from these, we are very keen to provide Trading tolls like (**Reuters, Mumbai – Leaders in Worldwide news agency**) Latest Worldwide News, Instant charts, Quotes, International Indices, Bullion Markets, History of specific instruments etc. This support is being extended to all our locations at the same time.

Business Promotion

To market our products, we conduct Road Shows, Workshops, awareness programmes, Interactive sessions, and Training Sessions on a regular basis at different locations. We also conduct training programmes on NCFM (**NSE's Certification in Financial Markets**) for our staff to comply with the SEBI and Exchange guidelines.

Service Providers

We have implemented Virtual Private Network with the support of HCL Comnet Ltd., who is the No. 1 service provider in the country for VSAT and Bandwidth solutions. We have tied-up with BSNL and BHARTI service Providers for Bandwidth usage to maintain zero downtime. In this Network all remote users are connecting to CTCL Server, where mandatory validations will be done in regards to their User Identity, Margin, Turn Over, and Exposure limits. Having this Network, the Risk Management is covering all stages and no abnormal deals can be taken place. This network is really giving us a great opportunity to improve our business potential and having the advantage of all trading segments under one-roof.

Manpower

We have experienced and well-qualified personnel, handling greater responsibilities, work flow, communication, compliance, correspondence, implementation, auditing, maintenance, documentation etc. As per Exchange guidelines we keep NCFM qualified persons in the trading operations. We also conduct functional training programs for newly joined employees before commencement of branch operations. We have developed extensive in-house training package. The Company has an excellent reward policy by offering performance based incentives in addition to salary. At present we are having total manpower strength of 343 inclusive of 292 permanent employees and 51 on probation.

Back-office

We have our own Back-office software to meet our post trading reports and statements and available to all our remote locations via Internet and FTP (File Transfer Protocol). To maintain this ongoing development of Back-office software, we have high-end professionals at all levels.



Software Development

We have in-house developed software “Steelpack” for complete back office centralised operations. The ongoing software development is to integrate our service support towards branch and franchisees. We have following responsibilities to maintain the automation of our office

- Revisions as per new features
- Web development
- Mock Testing
- Parallel Testing
- Evaluations
- Database Tuning
- Performance Tuning

Network Auditors

We have appointed Network Auditors from NCG (Network Consultancy Group), Mumbai to evaluate performance, safeguard our setup from the insecure zone, future expandability, technology upgradation, better suggestions, timely validations etc. All these will be audited on half-yearly basis to certify the Systems integrity and performance.

On-site Network Support

We have also appointed on-site Network Engineer on 24/7 basis to monitor Network Traffic, Bandwidth utilization, virus protection, router functioning, firewall behavior, security, identifying the bad network traffic, regular backups, housekeeping etc.

Risk Management

Risk is an integral part of financial services business. During the last decade the Exchanges and SEBI have introduced sweeping measures to enhance integrity levels in the capital markets. Recognizing the fact that there is no substitute for internal discipline and control, the Company, in addition to adapting to the changes driven by regulator and exchanges, has built-in additional safety measures to mitigate risks.

A) System

To control our Risk Management, we have bought Software “**DERIWATCH**” to monitor the risk parameters based on the market volatility and volumes. With this software support, we are able to identify the risky positions of the clients and their percentage of the risk is evaluated to take immediate decision to stop/suspend the particular client further trading. The same has also implemented for Commodity segment with “**COMMOWATCH**”.

B) Process and procedure

- The Company has well laid down policies and guidelines for compliance and risk management and constituted a Risk Management Committee comprising of senior level personnel who constantly review the risk management mechanism of the Company vis-à-vis changing dynamics of risk in the business. The Committee focuses extensively on mitigation of trade risk, settlement risk, compliance risk, financial risk, technology risk etc. Risk policies are regularly updated to keep in line with changing market dynamics.
- The Company, having recognized technology as its key business enabler, has implemented state of the art technology to meet its operational and business needs. It has also created a high-end private network with the capability to provide for well controlled, centralized, and scalable



business operations. The Company was amongst the first to introduce and deploy centralised order management and risk surveillance system for all business that emanates from its network of terminals spread throughout the country.

- The Client Registration is the first step in the operational cycle, and this process commences with the formal registration of each client. The Central Processing Cell (CPC) at HO handles client registration. On receipt of completed applications along with necessary documents, client code is generated from the system. A system-generated notification of account opening is automatically sent to the client on generation of a client code, and concerned branches have the facility to view the status of client registration with respect to all the forms sent by them.
- Post generation of a Client Code, the Risk Management cell ensures that judicious exposure limits are set-up in line with the deposits and margins collected from the client in various acceptable forms. The Company has in place an effective real time On-line Risk Management System (RMS), which facilitates decisions, like additional margin calls, square off, close out etc. These are constantly reviewed to keep abreast of the changing needs of the market scenario. Every order of a client goes through an automatic validation process against the available limits and order gets routed to exchange only if the order is within the predefined limits. On reaching the limit prescribed client account gets frozen and only orders that would bring down the position would be permitted by the system.
- The Company extensively uses technology for supporting monitoring of the positions of traders, impact of volatility, concentration of positions in few scrips. Mark to Market positions of the clients are monitored on a real-time basis, and appropriate decisions such as margin calls, square offs are taken. The branches have also been provided access to all the necessary data to allow for timely decisions in this regard. Calls for fresh or additional margins are made when client Mark to Market (MTM) losses reach the stipulated level. This ensures that client's exposure is completely covered, and any potential loss to the Company is mitigated at the earliest. For ease of operations, and tighter real time risk management, we are maintaining their DP accounts, being Depository Participant of CDSL and NSDL to be used exclusively for its registered clients.
- At the end of the trading day, the trades downloaded from the exchanges are reconciled with in-house data. Thereafter, these trades are processed for generating contract notes and bills. Funds Obligations and Securities Obligations are calculated after which the branches can access the relevant information for the purpose of interacting with customers for issuing contract notes, collection of pay-in obligations, securities obligation, pay-out of funds and securities and also statement of accounts.
- Receivables of the clients are closely monitored to ensure timely collection. Branches ensure that client cheques are deposited into the designated account after making an entry in the system. The deposit details are accessible to Accounts Department, and the RM Cell at HO. The accounts are reconciled at periodic intervals and cases of any late payments, bounced cheques are tracked closely, and viewed very seriously, and appropriate action is taken, including suspension of client code. In order to facilitate easy flow of funds, and also gear itself for a T+1 environment, Centralized Collection Management system is being implemented. In order to improve timeliness and operational efficiency of payments, the Company has opted for remote issuance of cheques and pay orders. Pay-in, payout of funds and securities are carried out in a time bound manner.
- The Company pro-actively reviews its existing procedures to enhance their effectiveness, usefulness, and timeliness. Further, all operational activities are subject to audits at frequent intervals. The Audit Committee, having independent directors reviews all these reports, and appropriate corrective and preventive steps are initiated.



Business Model

The products / services covered provide a wide range of financial products catering to different segments. In the retail segment, the focus is to cater to middle and upper segments of clients by advising them and offering a complete range of products available with the company. The focus is to target retail and institutional customers by providing quality and cost effective services backed by strong knowledge and research capabilities together with technology integration.

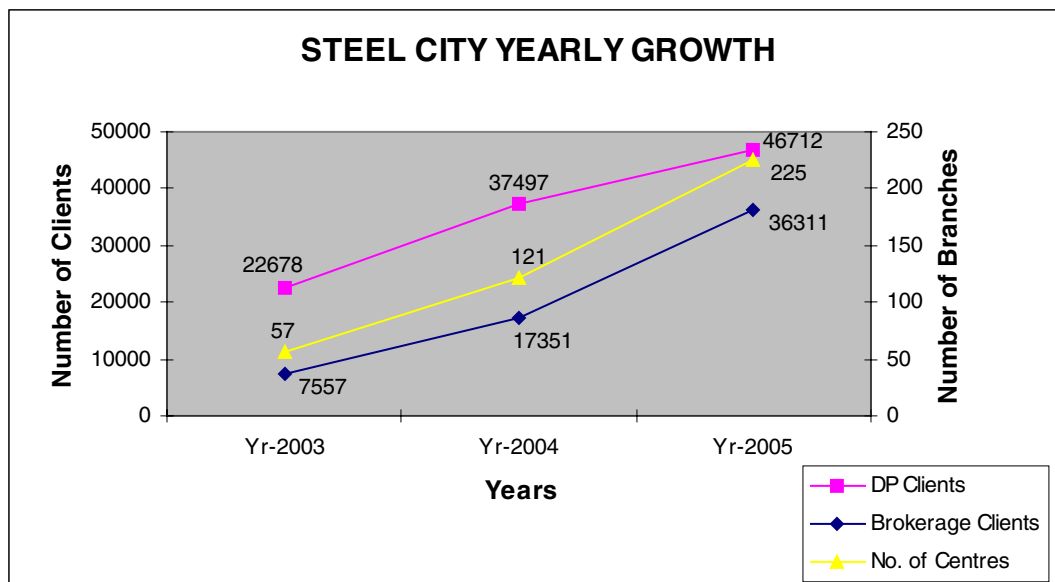
The Company embarked upon setting up an integrated brokerage house providing all the related and ancillary services using its existing centres, networks and client relationships to address the requirement of its clients for all the services and products.

The Company started its operations in 1995 with an objective of focusing on the retail broking of equity and distribution of financial products such as mutual funds, fixed income and insurance products. As a strategy, we have started with one branch in 1995 and as on November, 2005 we have 225 centres and now further decided to expand the reach to achieve the objective of servicing retail customers. The table below outlines the growth of network and clients:

	2003	2004	2005
No. of Centres added during year	13	64	104
No. of Registered Clients added during year			
• Broking clients	7,253	9,794	18,960
• Depository services	15,061	14,819	9,215

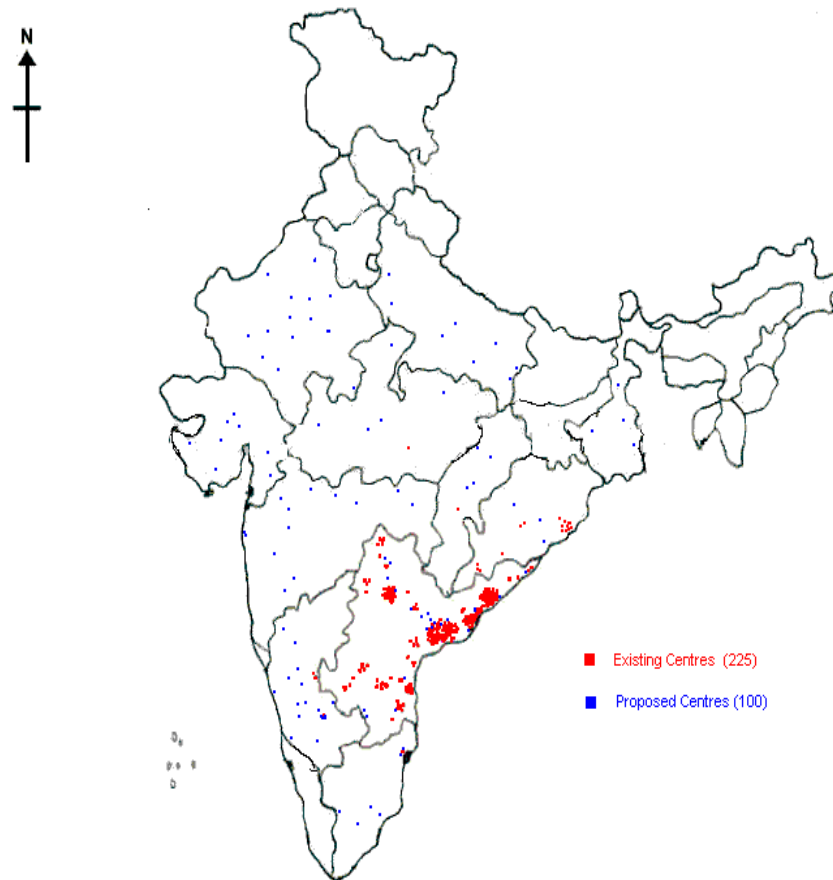
After creating the necessary backbone of retail distribution infrastructure and building a critical mass of clients, the Company decided to leverage its deep understanding of broking and distribution of financial products, launching its e-broking portal as www.steelcitynettrade.com. The Company has developed a business model on the lines of a universal broker, which utilizes its knowledge of financial products, ability to offer wide range of products backed by its network, network and technology to service the clients.

Growth of our Client base – Broking and Depository Services and Centres



Geographical Distribution of Centres

As on November 30, 2005, we have 225 centres India. We propose to set up an additional 100 centres in various cities to have a network of 325 centres across the country by September, 2006.



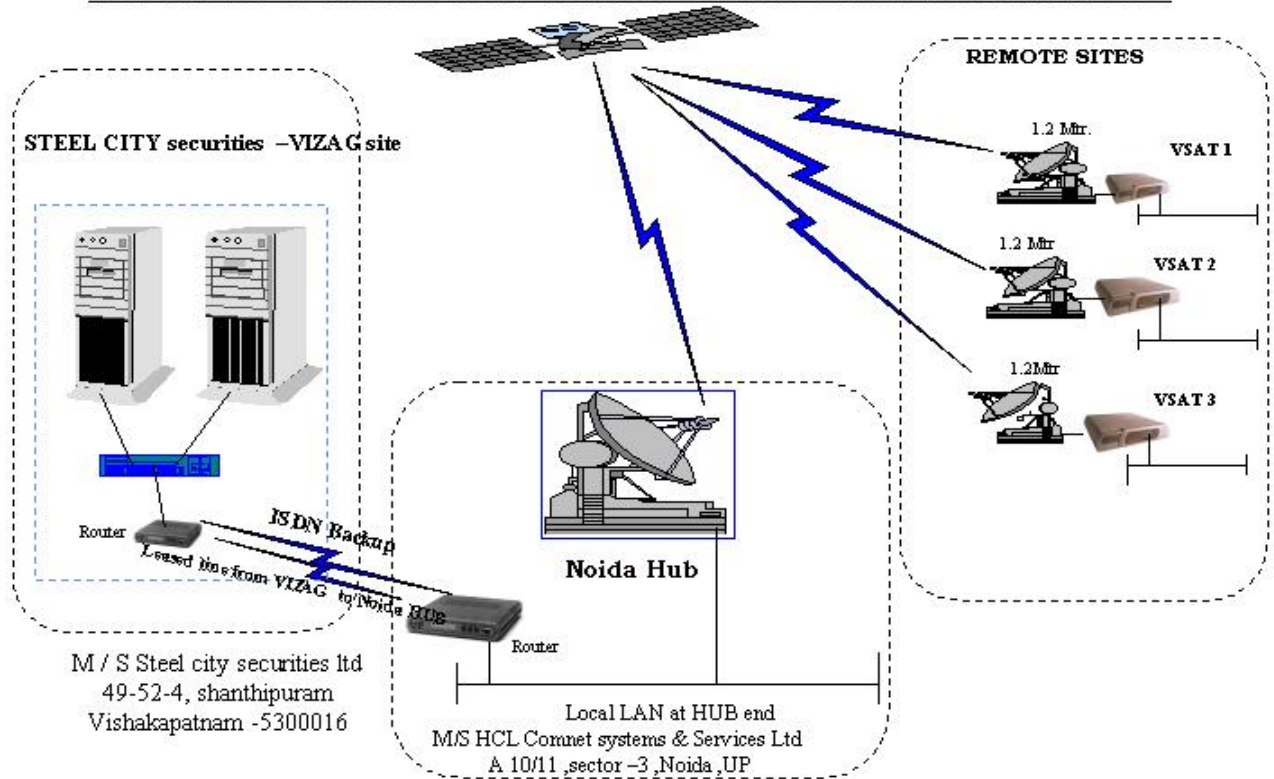
PRODUCTS AND SERVICES

A) Equity brokerage services

We are member of NSE and BSE and offer secondary market broking services to our various retail customers. As on date, we have a registered client base of 36,311 nos. We offer equity and derivatives broking services through dedicated dealers and managers. All our centres are connected via VSAT, VPN and CTCL. Brokerage services are provided to active trades, retail investors and high networth investors with advisory assistance by our dedicated dealers and managers located at our centres based on technical, fundamental and market research carried out by our research team. The retail customer acquisition has seen accelerated growth owing to wide spread branch and franchisee network of the Company. All our customers are connected with our network and the network system is depicted below:



STEEL CITY SECURITIES LL & ISDN and VSAT NETWORK SCHEMATIC



a) Exchange Network

We are having accessibility to trade in four different exchanges namely National Stock Exchange (NSE), Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange (MCX) and National Commodity & Derivative Exchange (NCDEX). Presently two major service providers are existing in the country, one is HCL Comnet Ltd. and other is Huges Escorts Ltd (HECL). HCL has got wide range of expandability and reliability with rugged Technology as per the Indian Climate Conditions. HECL has also got high spread of Network throughout the country. The present VSAT Network throughout the country is being operated by Extended-C Band and KU-Band Technology. These two technologies are most ideal for Stock Broking.

Connectivity: The Exchanges have installed VSAT with the support of HCL Comnet and HUGES at most of our centres. All end users are being connected via Indian satellite to access NSE/BSE/MCX/NCDEX Trading Servers installed at Mumbai.

Accessibility: In each VSAT location, we have 5 to 7 Terminals to trade in different Exchanges as per client request. All four exchanges have provided free software like NEAT (National Exchange for Automated Trading), BOLT (Bombay Online Trading), MCX (Trader Workstation) and NCDEX (National Commodity and Derivative Exchange). These Front-end Trading screens are called as Market watch, through which Client can place orders between 9.50am to 3.30pm daily in Capital Market, Futures & Options and Commodities segments. Since Commodity Market has dependency on International Bullion Markets, the Live Market-Watch is available up to 11.50pm daily. On functional side all four softwares are user-friendly to handle the client order requests. Client can also cancel or modify their order requests as per their will and market conditions. All four exchanges



are working from Monday to Friday and no Trading activity is done on Saturdays and Sundays. In case of Commodity segment, the exchange is open for trading from Monday to Friday and on Saturday till 2.00pm.

Maintenance: VSAT downtime has been maintained by the HCL Comnet and HUGES. They have region wise support to attend the downtime immediately within 4 to 6 hours. Inventory of spares is also maintained at the region level.

b) Virtual Private Network (VPN):

We have facilities for our clients to trade in all three segments (Cash, F&O and Commodity) in a single VSAT connectivity through CTCL (Computer to Computer Link) software. This Network is basically for better surveillance and more functional features comparing to the Exchange provided software. Since Exchanges do not provide any CTCL software, we have approached CTCL Software Vendors empanelled by the Exchanges. There are many CTCL Software Vendors available in the Market today. This Network is maintained by the HCL Comnet from NOIDA (UP). HCL Comnet has their own HUB at NOIDA to provide Interactive and Broadcast Bandwidth to connect between Central and Remote sites.

Connectivity: We have our Branches and Franchisee locations in entire Andhra Pradesh, Karnataka and Orissa. In these locations we have installed VSAT with the support of HCL Comnet. All end users are being connected via Indian Satellite to access CTCL Trading Server installed at Visakhapatnam.

Accessibility: In each VSAT location we have 3 Terminals to trade in different Exchanges as per client request. SCSL has bought licensed CTCL software ODIN (Open Dealer Integrated Network) from Financial Technologies Limited, Mumbai. This Front-end can support Multiple Market watch screens, through which client can place orders between 9.50am to 3.30pm daily in Capital Market, Futures & Options and Commodities segments. Since Commodity Market has dependency on International Bullion Markets, the Live Market-Watch is available up to 11.50pm daily. On functional side all four software are user-friendly to handle the client order requests. Client can also cancel or modify their order requests as per their will and market conditions. All four exchanges are working from Monday to Friday and no Trading activity is done on Saturdays and Sundays. In case of Commodity segment, the exchange is open for trading from Monday to Friday and on Saturday till 2.00pm.

Maintenance: VSAT downtime is maintained by the HCL Comnet. They have region wise support to attend the downtime immediately within 4 to 6 hours. Inventory of spares is also maintained at the region level.

c) Remote Access Service (RAS)

This is a low-cost solution to encourage our clients to connect to Trading Server via DIAL-UP (Through local Telephone or Broad Band Lines). This Network is well supported for the clients within the 20 to 40 km radius. Order confirmation speed is marginally slow in comparison with VSAT Connectivity.

Connectivity: We have RAS users at many centres. In these locations we have installed RAS-ROUTERS. All end users are being connected via telephone or Broad Band Lines to access CTCL Trading Server installed at all our Branches and Franchisee locations.

Accessibility: In each RAS location we have Terminal to trade in different Exchanges as per client request, SCSL has bought licensed CTCL software ODIN (Open Dealer Integrated Network) from Financial Technologies Limited, Mumbai. This Front-end can support Multiple Market watch screens, through which client can place orders between 9.50am to 3.30pm daily in Capital Market, Futures & Options and Commodities segments. Since



Commodity Market has dependency on International Bullion Markets, the Live Market-Watch is available up to 11.50pm daily. On functional side all four software are user-friendly to handle the client order requests. Client can also cancel or modify their order requests as per their will and market conditions. All four exchanges are working from Monday to Friday and no Trading activity is done on Saturdays and Sundays. In case of Commodity segment, the exchange is open for trading from Monday to Friday and on Saturday till 2.00pm.

Maintenance: RAS downtime is maintained by the SCSL. We have sufficient Technical support to attend the downtime immediately.

e) Back- office

We have In-house Back-Office Software maintained by our Software Team. We have 24/7 basis support to all our clients wherever they are. All post trading reports can be downloaded through Internet.

B) Depository Services

We are having NSDL and CDSL Depository segments to attract our clients to open their DEMAT accounts at one stop. We are ready with the trade anywhere to integrate our DP server with the Online Back-Office platform to serve more transparently. At present, we have strong base of 46,712 registered depository participants' clients and continue to increase the number of registered DPclients services due to increase in no. of centres, internet trading and quality service.

C) Commodities Brokerage Services

We are having accessibility to trade in two different exchanges being member of Multi Commodity Exchange (MCX) and National Commodity & Derivative Exchange (NCDEX). We also offer commodities broking through our subsidiary company i.e. Steel City Commodities Private Limited. SCCPL offer this service to its client as integrated broking services using its infrastructure for equity broking. It has an advantage of using its existing infrastructure and other support and back-up office for effective and efficient execution of these activities.

D) Margin Trade Finance

We being engaged in the equity broking services and one of the key elements for enhancing the volume is availability of margin amount. At present, the Company is marginally extending this facility due to limited resources. We are permitted for margin trade finance as per SEBI guidelines, which *inter alia* permits brokers with a minimum networth of Rs. 30 million to offer margin-trade financing facility to its customers after seeking prior approval from the stock exchange. The Company has networth of Rs. 153.28 million as on March 31, 2005 and is in a position to offer this facility to its customers and for the same, it has already put in place all the necessary systems and procedures. This would enable it to increase its trade volumes, number of clients and at the same time additional earning from this specific activity.

E) Distribution of Financial Products

We are also in the activities of distribution of mutual funds, IPO marketing and now plan to use our strength of network, customers specially high networth individuals and corporates with high liquidity for distribution of financial products including fixed income products such as bonds, corporate debentures, corporate fixed deposits etc. The Company uses its relationship with its clients for marketing IPOs where it acts as broker and also uses its centres for mobilizing retail subscription.

The retail segment is set to grow for number of reasons such as significant portion of their saving comprising of financial assets, parked in bank fixed deposits, postal schemes etc, which would now require an assets reallocations as these instruments no longer yield attractive returns. Reforms in financial sector have opened up new avenues for investments. Investors generally lack a perspective on planning for the future and need to



allocate their saving and earning in the right proportion to address their current and future needs. Currently, there are very few and nominal investors who invest in the equity market and it is expected that number will increase in due course. With a robust capital market, remaining investors in the population class will look for a shift to equity related instruments. Over the years, investors parked their surplus investments in high yielding debt instruments with the steep reduction in interest rate, leading to a reduction in the yield on fixed deposits and bank deposits. Investors need to look at alternate options, which provide greater returns.

F) Distribution of Insurance products

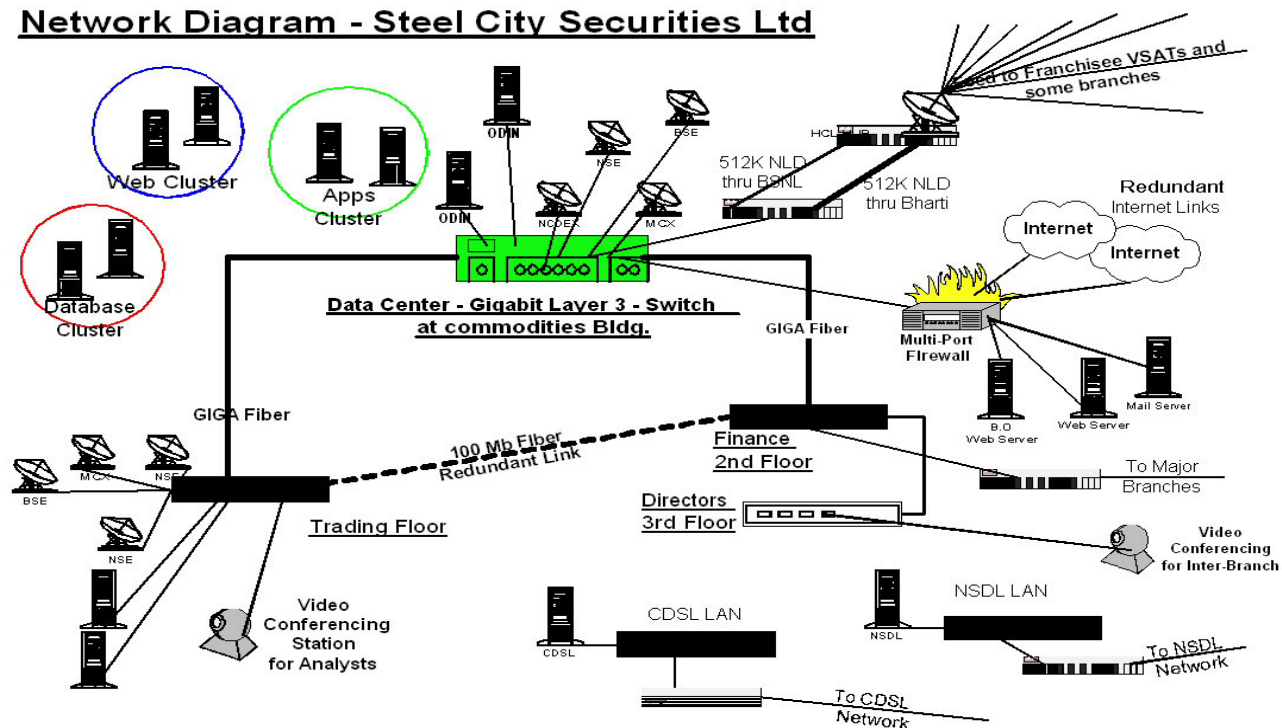
We are also in the distribution of life insurance products through our group concern Steel City Insurance Agencies Private Limited being corporate agent of Birla Sunlife Insurance Limited. We have decided to expand this activity and propose to make it a wholly owned subsidiary. We propose to act as insurance broker and for which necessary approvals would be obtained in due course.

Internet Trading – new initiative

We are gearing up with the trade anywhere on the Globe to expand our clientele network by launching our internet trading portal as www.steelcitynettrade.com, which is ready to launch. This entity is to capture NRI clients as well as remote clients. We are already on the testing pad to evaluate the security, reliability and accessibility.

- Connectivity: All end user have their own internet account with the local ISP (Internet Service Provider) to access Internet Trading Server installed at Visakhapatnam.
- Accessibility: Each User can trade in different Exchanges as per the request. SCSL provides two types of licensed software: Browser based and Application based. This Front-end can support Multiple Market watch screens with Bank Interface. Client can place orders between 9.50am to 3.30pm daily in Capital Market, Futures & Options and Commodities segments. Since Commodity Market has dependency on International Bullion Markets, the Live Market-Watch is available up to 11.50pm daily. On functional side all four software's are user-friendly to handle the client order requests. Client can also cancel or modify their order requests as per their will and market conditions. All four exchanges are working from Monday to Friday and no Trading activity is done on Saturdays and Sundays. In case of Commodity segment, the exchange is open for trading from Monday to Friday and on Saturday till 2.00pm.
- Maintenance: Zero maintenance for end user and better to have multiple Internet Accounts with two different Internet Service Providers.

Network Diagram - Steel City Securities Ltd



This is an Indicative Diagram only due to space constraints. Actual numbers are more than shown

SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> Integrated online trading in terms of brokerage services in equities, derivatives, commodities and depository services Presence at 97 Cities/Towns as on date through 225 centres with plans of opening 100 additional centres Strong brokerage and depository services clientele base created over the past 10 years of operations In-house developed back-office software, own communication network, economic model of operations etc. Our first e-broking portal is ready to launch shortly. 	<ul style="list-style-type: none"> Insignificant presence in overseas and institutional segment Awareness about our e-broking portal is yet to be created among masses Yet to obtain approval of Trademark for developing into brand
Opportunities	Threats
<ul style="list-style-type: none"> Additional centres will increase the clientele base and in-turn will increase revenue Retail sector is expected to grow due to reduction in interest rate and opting for new opportunities in equity and related instruments Rapid penetration of Internet and computers will be instrumental in increasing e-broking business 	<ul style="list-style-type: none"> Competition from existing and new entrants Downturn or volatility of securities and commodities market Slowdown of Indian and global economy Change in government and economic policies including personal taxation may affect our volume and fund mobilisation



Our Competitive Advantages / Strengths

In summary, we are presently engaged in the shares and commodities broking besides offering dematerialization services and distribution of financial products. The main features or competitive advantages can be enumerated as under:

- We have membership of NSE, BSE in both cash and F&O segment and our subsidiary i.e. SCCPL is having membership of NCDEX and MCX.
- We have presence in urban, semi-urban, towns and villages by building-up network of 225 centres and plans to add more such centres to increase our client base and tap the vast potential prevailing at these areas in India.
- We have as on date strong client base of 36,311 for shares and commodities brokerage services, who are major contributory to the growth of company's operations.
- We have, as on date, built-up a prestigious base of 46,712 registered DP clients for NSDL and CDSL being depository participant of NSDL & CDSL.
- We also distribute various financial products in addition to above brokerage services to leverage on our existing centres and relationship with our high networth individuals and corporate clients for brokerage services.
- Our group Company, SCIPL, is corporate agent of Birla Sun Life Insurance Limited and offers life insurance products.
- We have our own VPN (Virtual Private Network) for trading facilities, which provide for trading in NSE, BSE, Commodity Futures at most economical cost/operation/controls.
- We also have our own in-house developed software package viz. "Steelpack" for complete Back Office centralized operations at Headquarters for all segments. Our own system team undertakes maintenance and day-to-day changes.
- Own communication network across all branches/centres to transmit data. Complete on-line process/operation of all sections. The company is having 113 VSATs and 48 CTCL connections installed at 225 Centres in Andhra Pradesh, Orissa, Tamil Nadu and Karnataka. There are over 500 Computer Trading Terminals put together connected to these VSATs at the Centres.
- Internet trading facility for any client anywhere transactions with following main features is expected to launch in short period:
 - Support for Cash Market, Derivatives and Commodities
 - Common Integrated Risk Management for both segments
 - A feature rich browser based terminal
 - Desktop based installable terminal for the highly active trader
 - Electronic Payment Interface to participating Retail Bank
 - Equity Research and Analysis
 - Support for Non-Resident Indian Customers
 - Multiple Tick by Tick Charts and Technical Analysis
 - Streamlining Quotes
 - Multiple and fully customizable market watches and multiple order books.
- Committed manpower of 343 and constant training of new manpower.



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- The digital contracts notes are being sent to clients through e-mail to save time.
 - We propose to further strengthen “Training Centre” on Capital/Commodity Markets and create strength & manpower for the future expansion purpose.
 - We have already applied for Registration of Trademark “Steelcity” and obtained T.M. No. 1350172 & also the said Trademark is accepted for registration.
 - We have obtained ISO 9001:2000 certification to QMS implementation and accredited with ISO 9001:2000 certification with the scope of “Service Provision for Stock/Securities Market Operations, Depository Participant Services, Other Allied and Customer Support Services” from AQA International, LLC, USA, ANAB Accreditation No. 010694, Certificate No. 5825 dated November 1, 2005 valid from November 1, 2005 to November 1, 2008.

Our Business Strategy

- **Tapping business potential at Towns/Village:**

Business strategy of the Company is its own innovation and a pioneer in the country. This is the first Stock Broking unit started full services to big & small retail clients going to their doorstep in Towns, Semi-urban Towns who utilized the financial market services fully welcoming the ONLINE services at their own place. The Opportunities are infinite across the villages, towns, cities, metros, and states of the Country, which enjoys the agriculture as its backbone flourishing everywhere not limited to some pocket(s)/groups. In such scenario, every office/shop/factory/house everywhere anywhere is a potential point for installation of ONLINE services of all the financial products.

- **Greater emphasis on broking & services:**

The Company visualized this at its inception and pursued the same and is now following that philosophy with more conviction due to the success in 10 years. The Company’s policy is not to do any own business/trading but to concentrate only on providing financial market services ONLINE to the clients. Thus, the Company provided undeterred best services, reliable & dependable, all the time and attracted large clients everywhere whenever it installed ONLINE services of the market.

- **Training – an imperative factor:**

The Company rightly understood another prime factor, that of manpower when since 1996 onwards VSATs, ONLINE installations were spreading from metros to other cities, towns but the trained manpower was not available for growth of this new trend of facilities of the market. The Company has taken a policy decision to train young fresh graduates for the trading terminals operation, Back office, in all sections for manning their installations. This endeavor trained numerous persons who helped the growth possible in a most economical way.

Realizing importance of trained and well behaved manpower with greater understanding of financial market, the Company has trained and motivated the manpower in order to meet the future challenges entering every segment/sector/product that the market offers utilizing every opportunity and will put-up in front its best performance. It has been providing periodical training for existing and for new employee. All the divisions or operations are headed by individuals holding Certificate of NSE Certification in Financial Market (NCFM).

- **Increase the number of Client Relationships:**

We are focused on increasing the number of client relationships through a wide network of offices throughout India and having more number of relationship managers to service these relationships. We



plan to grow our business by growing the number of client relationships. During a downturn of the markets we believe that increased number of client relationships will add stability to our earnings.

- **Economic model of operations:**

Since the beginning the Company pursued the most economical model in every aspect of machinery, manpower & installations, so that it can compete with any one anywhere without any compromise on quality of the services. The same culture will be adhered to in future also to reap in best rewards. This cost effective model/operation will be a 'Life-Saver' even if the markets go downwards or business drops. The Company most successfully faced the dark days of the market and gained invaluable exposure, experience, capabilities to meet future growth with full confidence.

We have utilized the technologies available and have constantly invested in products and innovations to provide an enhanced experience to our customers. The benefits of such infrastructure include integrated customer trading account with depository services; electronic gateway for instant funds transfer to and from the bank to the brokerage account; and comprehensive client systems that track all activity in various segments. We believe that technology and systems are one of our key competitive edges in terms of lowering our operating costs; managing the business; reducing risk and providing an enhanced experience to the clients with superior service standards.

- **Multiple Channels – Enhance Customer Experience and Opportunities to Interact with us:**

Our clients can access our products and services through 225 centres spread across cities; through operator assisted call centres; or through our website www.steelcitynettrade.com; or through their respective relationship managers or through marketing associates. These multiple channels provide flexibility to the clients and allow them to utilize their existing business relationship with us through any channel from any part of India. Our strategy is to provide the most convenient, efficient and value added channel to the client at the lowest possible cost, and allow the clients with choice and varied access points. We believe that our multiple channel strategy has been particularly effective in the affluent segment where many sophisticated clients like to have a close-by office they can access and yet have the flexibility of Internet account management, transactions and electronic funds transfer and settlement.

- **Relationship Manager driven sales model, provide high quality service and exploit cross-sell opportunities:**

Our clients benefit from the personal attention and advice of the trained and motivated relationship managers. All our relationship managers are qualified and educated professionals, who have been extensively trained in-house to provide the products and services to the clients. These relationship managers are encouraged to develop long-term relationships with the clients and can access a variety of resources within our Company, such as insurance specialists, research services and others to add value to our clients. Most of our clients are provided services through Relationship Managers irrespective of the channel they use.

- **Brokerage, Products and Service Offerings:**

Our retail equity business primarily covers secondary market equity broking. It caters to the needs of individual Indian and corporate investors. We offer broker assisted trade execution and automated online investing and trading facilities to our customers. Automated online investing and trading includes automated order placement and execution of market and limit equity orders; and advanced trading platforms for active traders. All investors have full access to real-time quotes, personalized portfolio tracking, charting and quote applications, real-time market commentary, real-time quotes and news. We also offer a broad range of products and service offerings through SCCPL and SCIAPL to address our clients' varying investment and financial needs.



- **Online Automated Channel:**

Our Clients will be able to obtain financial information and execute trades on an automated basis through our online channel using products offerings like broking, distribution of mutual funds, life insurance products and other fixed deposits etc. This channel is designed to provide added convenience for clients and minimize our costs of responding to and processing routine client transactions. Additionally, our online trading system is designed for the high volume trade and provides enhanced trade information and order execution integrated software-based trading platforms. While most client transactions are completed through the online channel, we continue to stress the importance of blending the power of the Internet with personal service to create a full-service client interface.

We will offer an online portal where the clients can execute securities purchase and sales transactions through the Internet. This covers the Equity, Debt & Derivatives segment in the Indian Securities market. With an objective of assisting our customers taking investment decisions, the portal also provides financial information on various listed companies. For executing a transaction, clients can directly log on to our website without requiring any assistance from offline intermediaries.

- **Thrust on Retail Sector:**

The retail segment is set to grow for number of reasons such as significant portion of their saving comprising of financial assets is parked in bank fixed deposits, postal schemes etc, which would now require assets reallocation as these instruments no longer yield attractive returns. Reforms in financial sector have opened up new avenues for investments. Investors generally lack a perspective on planning for the future and need to allocate their saving and earning in the right proportion to address their current and future needs. Currently, there are very few and nominal investors who invest in the equity market and it is expected that number will increase in due course. With a robust capital market, remaining investors in the population class will look for a shift to equity related instruments. Over the years, investors parked their surplus investments in high yielding debt instruments with the steep reduction in interest rate, leading to a reduction in the yield on fixed deposits and bank deposits. Investors need to look at alternate options, which provide greater returns.

- **Immediate Future Plans:**

After having already established business operations of over the past 10 years in retail broking and other ancillary services, major contributory to the growth of company, we have planned for further expansion in terms of the following:

- 100 additional centres to be opened in India and specially at the locations where the potential exists
- Leveraging on high networth individual and other brokerage clients for distribution of financial products in order to make this activity also as one of sizeable revenue earning activity to support the overall growth
- Adding general insurance products distribution in addition to present life insurance products
- Tapping scope in Commodity Futures market through all the centres situated across India as many of the present centres are not offering commodities brokerage services
- Launching internet online trading to provide access and reach to all the locations in India and abroad and having interface with company depository services
- In near future, we have plans to open branches in Singapore, Malayasia, Dubai, London, New York and to enroll with almost prominent Institutions to provide institution broking services



Our Company offers to our clients a wide range of financial services and products allowing the clients to leverage their relationship with us and get products suiting their varied needs. This strategy allows us to gain “Share of Wallet” of the clients’ consumption of financial services. We offer the client a comprehensive product offering and are able to increase our revenues per client by selling different products to the same client. We offer equity, debt and derivatives brokerage, IPO distribution, mutual funds and insurance products. Our strategy is to increase the number of client relationships and then leverage those client relationships into offering in a whole suite of financial products.

COMPETITION

We face competition from small local brokers (traditional) and pan India brokers like Indiabulls Securities Limited, ICICI Web Trade Limited, Geojit Financial Services Limited, Kotak Securities Ltd., S S Kantilal Ishwarlal Securities Pvt. Ltd., India Infoline Limited and IL&FS Investsmart Limited. As we also propose to enter to new locations and newer markets, we are likely to face additional competition from those who may be better capitalized, have longer operating history, have retail and brand presence and better management than us. If we are unable to manage our business it might impede our competitive position and profitability.

Our strengths are our online trading platform, existing client relationship, risk management system and customer services with competitive charges. Our Company and our subsidiary have competed successfully in the past and have been able to acquire considerable market share. We intend to continue competing vigorously to capture more market share and adding more management skills to manage our continual growth.



HISTORY AND OTHER CORPORATE MATTERS

Overview

The Company was incorporated on February 22, 1995 as a public limited company under the Companies Act, 1956 with Registration No. 01-19521 and obtained certificate of commencement of business on April 20, 1995 from the Registrar of Companies, Andhra Pradesh at Hyderabad. The Company was incorporated with a view to carry on the business of stock broking and obtained the Trading Membership of National Stock Exchange of India Limited (NSE) on its Capital Market Segment. The first VSAT for its Trading Work Station (TWS) at Hyderabad was installed in December 1995 and the second at Visakhapatnam in April 1996. We are the one amongst the broking companies, started stock broking services to big and small retail clients by putting centres at towns, semi-urban and other cities. In the beginning, we have put up our centres in southern states of India and later into other parts across the country.

Steel City Holding Limited (SCHL) was incorporated on August 22, 1995 as a public limited company under the Companies Act, 1956 as a group concern under the same management with the objective to carry on the business of share broker or sub-broker or dealer to obtain membership of the one or more stock exchanges and to deal with securities, stocks, bonds, debentures whether convertible or otherwise issued to or to be issued by any Public Limited Companies or Private Limited Companies registered under the Companies Act, 1956. SCHL was not carrying any business activity and finally, amalgamated with SCSL in 2005.

Steel City Capital Services Private Limited (SCCSPL), a group concern of the Company under the same Management was incorporated on October 23, 1997. SCCSPL commenced initially its operation as sub-broker and subsequently obtained membership of the Stock Exchange, Mumbai (BSE). It has then commenced operations of Future and Options in the year 2001. SCCSPL has obtained approval from SEBI for F&O trading and Trading or Clearing Member from SEBI in the year 2001 and 2004 respectively and finally amalgamated with Steel City Securities Limited in the year 2005.

Steel City Insurance Agencies Private Limited (SCIAPL) was incorporated as a subsidiary of company on August 20, 2002 as a private limited company with the objective to carry on or otherwise deal in all kinds of Insurance and Assurance business. SCIAPL is a Corporate Agent of Birla Sun Life Insurance Ltd. In the year 2004, it has disinvested 60% of its shareholding with few individual investors and presently holds 40% of its equity share capital.

Steel City Commodities Private Limited (SCCPL) was incorporated on October 07, 2002 as one of the group company under the same management with a view to commence commodities broking. It has obtained Membership of National Commodity and Derivatives Exchange of India Limited (NCDEX) and Multi Commodity Exchange of India Ltd. (MCX) in the year 2003-04 and commenced operations in commodities broking. In the year 2004-05, SCCPL has become subsidiary by way of transfer of its holding from SCCSPL and SCHL consequent upon their amalgamation with the Company.

In the year 2004, both SCHL and SCCSPL have been amalgamated with the Company with effect from April 01, 2004 vide the High Court Order dated March 24, 2005.

Changes in Registered Office

Particulars	Date of Meeting	Type of Meeting
The Registered Office of the Company has been shifted from 49-52-5/3, Shanthipuram, Visakhapatnam 530016 to 49-52-5/4, Shanthipuram, Visakhapatnam 530016.	April 15, 1996	Board Meeting



Changes in Name

The name of the Company, Steel City Securities Limited has not been changed since incorporation.

Main Objects of the Company

The main objects of the Company as contained in our Memorandum of Association are reproduced below:

1. To carry on Investment business and to purchase, acquire, hold and dispose of or otherwise invest in shares, debentures stocks, bonds, obligations and securities, issued or guaranteed by any Company constituted or carrying on business, in India or elsewhere and debenture stocks, bonds, obligations and securities issued or guaranteed by any Government, State dominion, sovereign ruler, commissioner public body or authority, supreme, municipal, local or otherwise whether in India or elsewhere.
2. To carry on business as consultants and advisors in marketing personnel, taxation, technology, projects setting up, loan syndication, project appraisal, research and development including rendering of services such as share brokers, sub-brokers, dealers, underwriters, merchants, bankers, registrars to issue and share transfer agents, portfolio manager and all allied matters including sponsoring and setting up of mutual fund and venture capital fund.
3. To carry on the business of investment Company and to invest in, acquire, subscribe, hold, alter, resell and deal in investments in any shares, stocks, bonds, securities, debentures whether convertible or otherwise issued or to be issued by any public limited companies or private limited companies registered under the Companies Act, 1956 or any statutory modification or re-enactment thereof and/or any companies carrying on business in India and subject to such approval as may be necessary according to the law for the time being in force, to invest moneys of the Company in shares, debentures and other securities of any company registered abroad and/or any statutory corporations and to invest in securities of Central Government and State Governments in India, public bodies or authorities anywhere and to carry on all and every other business which is generally carried on by investment companies.
4. To apply for and become in India or abroad member of any Stock Exchange, Securities & Exchange Board of India, Over The Counter Trading and Exchange of India, National Stock Exchange and any other similar authority, body or institution as may be established from time to time and also to carry on and act as stock brokers, C, F & O, mutual funds, clearing members, margin trading, primary dealers and syndicate members and to do all incidental acts and things necessary for the attainment of foregoing objects.
5. To conduct depository participant services; dematerialization and dematerialization of shares, bonds, debt market, Government securities and other related instruments, set up depository participant centres, Custodial services at various regions in India and abroad and also to perform all related services.
6. To conduct the business of purchase, sale, distribution and transfer of shares, debts, instruments and hybrid financial instruments and to perform all related, incidental, allied and ancillary services.
7. To provide all kinds of financial consultancy services including debt market, investment advisory services on the Internet or otherwise, publish books, periodicals and CD ROMs and any other related information.
8. To hold investments in various step-down subsidiaries for investing, holding, acquiring, purchasing otherwise the equity shares, debentures, bonds, mortgages, obligations and securities of any kind issued or guaranteed by the Company.
9. To carry on the business of portfolio management services, investment advisory services, asset management services, mutual fund services and to act as brokers of real estate and financial instruments.



10. To receive funds, deposits and investments from Government Agencies, Financial Institutions and corporate bodies, advances and loans, conduct advisory services related to banking activities, project financing, funding, mergers and acquisition activities, fund management and activities related to money market operations.
11. To undertake, conduct, study, carry on, promote any kind of research, investigation, survey, developmental work on economy, industries, corporate, business houses, financial institutions, foreign financial institutions, capital markets on matters related to investment decisions primary and secondary equity market, debentures, bonds, venture, mutual funds, capital funding proposals, competitive analysis, preparation of corporate/industry profiles and trade/invest in researched securities and to establish Institution of Capital Market and Treasury Management to create awareness among the investing public and to generate qualified managerial force.
12. To engage, undertake software and internet services, data processing, IT enabled services, software products & development services, selling advertisement space on the site, web designing, consulting and related services, e-commerce of all types including e-broking, market research relating to all kinds of securities and capital market.

The present business of our Company is as per the main objects of our Company.

Changes in Memorandum of Association

Shareholders Approval	Nature of Amendment
July 10, 2002	Amendment to the Main Objects Clause III (B)
November 29, 2004	Amendment to the Main Objects Clause III (B)
March 26, 2005	Increasing Authorized Share Capital from Rs. 30 Million to Rs. 120 Million.
May 02, 2005	Amendment to the Main Objects Clause III (A), (B) & (C)
July 04, 2005	Increasing Authorized Share Capital from Rs. 120 Million to Rs. 250 Million.

Key Events of the Company

Year	Activity / Milestone
1995	<ul style="list-style-type: none"> • The company was incorporated • Obtained the Membership in National Stock Exchange of India Limited in October and commenced equity broking • Installed 1st VSAT and Started the Operations in Hyderabad in December
1996	<ul style="list-style-type: none"> • The company has become successful in starting its operations at Visakhapatnam installing the 2nd VSAT in April • Changed the registered office of company on April 15, 1996
1999	<ul style="list-style-type: none"> • Foray in distribution of financial products • Set up 10th centre during the year
2000	<ul style="list-style-type: none"> • SEBI's Approval as Depository Participant of National Securities Depository Limited • Own In-house back office software developed named "STEEL PACK"
2001	<ul style="list-style-type: none"> • Obtained Membership of BSE by Steel City Capital services Pvt. Limited • Maintained 3,353 DP client accounts
2002	<ul style="list-style-type: none"> • SEBI's Approval as Depository Participant of Central Depository Services (I) Limited • Started the operations of Futures & Options segment in May • Incorporated Steel City Insurance Agencies Private Limited in August • Maintained 7,617 DP client accounts • Set up the 50th Centre
2003	<ul style="list-style-type: none"> • Commenced distribution of insurance products • Maintained 22,678 DP client accounts



<p>2004</p>	<ul style="list-style-type: none"> • Membership of Multi commodity exchange of India Limited and National Commodity & Derivatives Exchange Limited • Started the operations of Mutual Funds in February • Maintained 37,497 DP client accounts • Set up the 100th Centre
<p>2005</p>	<ul style="list-style-type: none"> • Maintaining 46,712 DP client accounts as on date. • Set up more than 200 centres. • Applied for Registration of Trademark and obtained T.M.No. 1350172 and also the said TradeMark is accepted for registration. • Accredited with ISO 9001:2000 certification with the scope of “Service Provision for Stock/Securities Market Operations, Depository Participant Services, Other Allied and Customer Support Services” from AQA International, LLC, USA, ANAB Accreditation No. 010694, Certificate No. 5825 dated November 1, 2005 valid from November 1, 2005 to November 1, 2008. • Commenced the Procedure for empanelment of the company in various Institutions • Launching internet e-broking portal as www.steelcitynettrade.com

Contracts & Agreements

The various contracts and agreements entered by M/s. Steel City Securities Limited, M/s. Steel City Commodities (Pvt.) Limited and M/s. Steel City Capital Services (Pvt.) Limited in regard to the various services are as follows:

1. Agency Agreements for Futures Commodities Trading

As M/s. Steel City Securities Limited, M/s. Steel City Commodities (Pvt.) Limited and M/s. Steel City Capital Services (Pvt.) Limited follow a standard format of agreements entered in regard to Futures Commodities Trading, the general terms and conditions are:

- (i) M/s. Steel City Commodities Private Limited (“Company”) is a trading member on Commodities Futures Trading System of National Commodity and Derivatives Exchange (NCDEX) TM ID No. 00079.
- (ii) The Company is appointing agents as the Business Development Agents with trading terminal connection of NCDEX through VSAT/leased line/VPN/WAN/LAN/Internet for commodities futures market segment.
- (iii) The agent shall, at its own cost, charges and expenses, paying all deposits necessary, install all the equipment, computers, printers, VSAT, software, Acs, premises, electrical facilities, communications etc.
- (iv) If the agent failed to pay the pay-in obligation continuously or if the agent left the premises without payment of pay-in due, the Company shall be deemed to be the absolute owner of the premises, equipment, NCDEX terminals, connections etc.
- (v) The agent shall be fully responsible for collection of all initial margin monies from the clients/customers relating to each and every transaction and to remit and forward the same to the Company promptly and without default or delay and deficiency.
- (vi) The Company shall have all the rights and every liberty to stop the trading facilities at any moment without any notice when:
 - (a) the given limits/exposures are exceeded,
 - (b) if the required amounts are not paid



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- (c) if any obligation not completed
 - (d) if the agent operations are not prudent, businesslike or proper.
- (vii) A fixed brokerage as mutually decided by the parties for all the traded commodities, will be deducted from the total collected brokerage and the remaining amount will be paid to the agent. The share of their commission for each month will be paid on or before the 20th day of the following month.
 - (viii) The Company shall collect from the clients, service tax @ 10.20% or such other percentage as may be fixed by the government
 - (ix) Either party shall be entitled to terminate this agreement under normal routine working conditions and settle his accounts at will without giving any reasons to the other party, by giving one months' notice in writing to the other party.
 - (x) This agreement is subject to the jurisdiction of Visakhapatnam only.
 - (xi) Any dispute or difference arising out of this agreement shall be settled through arbitration. The venue of arbitration shall be at Visakhapatnam.

2. Agreements for Integrated Facilities and Services

As the Company follows a standard format of agreements entered by it for Integrated Facilities and Services, the general terms and conditions of the agreement are as follows:

- (i) M/s. Steel City Commodities Private Limited, M/s. Steel City Capital Services (Pvt.) Limited, M/s, Steel City Commodities (Pvt) Limited ("Company") is a member of multi Commodity Exchange of India Limited (MCX) and National Commodity and Derivative Exchange of India Limited (NCDEX) providing Commodities Futures Trading System of National Commodity and Derivatives Exchange (NCDEX).
- (ii) The Company has established an integrated Virtual Private Network (VPN) combining all their services/facilities. The Company is appointing subbrokers with trading terminal connection of NSE/BSE/SEBI/MCX/FMC/MCX/NCDEX through VSAT/leased line/VPN/WAN/LAN/Internet.
- (iii) The subbroker shall, at its own cost, charges and expenses, paying all deposits necessary, install all the equipment, computers, printers, VSAT, software, Acs, premises, electrical facilities, communications etc.
- (iv) If the subbroker failed to pay the pay-in obligation continuously or if the subbroker left the premises without payment of pay-in due, the Company shall be deemed to be the absolute owner of the premises, equipment, NCDEX terminals, connections etc.
- (v) The subbroker shall be fully responsible for collection of all initial margin monies from the clients/customers relating to each and every transaction and to remit and forward the same to the Company promptly and without default or delay and deficiency.
- (vi) The Company shall have all the rights and every liberty to stop the trading facilities at any moment without any notice when:
 - (a) the given limits/exposures are exceeded,
 - (b) if the required amounts are not paid
 - (c) if any obligation not completed
 - (d) if the subbroker operations are not prudent, businesslike or proper.



- (vii) A fixed brokerage as mutually decided by the parties for all the traded securities, will be deducted from the total collected brokerage and the remaining amount will be paid to the agent. The share of their commission for each month will be paid on or before the 20th day of the following month.
- (viii) The Company shall collect from the clients, service tax @ 10.20% or such other percentage as may be fixed by the government
- (ix) Either party shall be entitled to terminate this agreement under normal routine working conditions and settle his accounts at will without giving any reasons to the other party, by giving one month's notice in writing to the other party.
- (x) This agreement is subject to the jurisdiction of Visakhapatnam only.

3. Agency Agreements for Commodities Trading Segment

As the Company follows a standard format of agreements entered by it for Commodities Trading Segment, the general terms and conditions of the agreement are as follows:

- (i) M/s. Steel City Commodities Private Limited ("Company") is a trading member and clearing member on Commodities Futures Market Segment of Multi Commodities Exchange TM ID NO. 10545 (MCX). The Company is appointing Agents as the Business Development Agents with trading terminal connection of MCX through VSAT/leased line/VPN/WAN/LAN/Internet for commodities trading segment.
- (ii) The agent shall, at its own cost, charges and expenses, paying all deposits necessary, install all the equipment, computers, printers, VSAT, software, Acs, premises, electrical facilities, communications etc.
- (iii) If the agent failed to pay the pay-in obligation continuously or if the agent left the premises without payment of pay-in due, the Company shall be deemed to be the absolute owner of the premises, equipment, MCX terminals, connections etc.
- (iv) The agent shall be fully responsible for collection of all initial margin monies from the clients/customers relating to each and every transaction and to remit and forward the same to the Company promptly and without default or delay and deficiency.
- (v) The Company shall have all the rights and every liberty to stop the trading facilities at any moment without any notice when:
 - (e) the given limits/exposures are exceeded,
 - (f) if the required amounts are not paid
 - (g) if any obligation not completed
 - (h) if the agent operations are not prudent, businesslike or proper.
- (xii) A fixed brokerage as mutually decided by the parties for all the traded commodities, will be deducted from the total collected brokerage and the remaining amount will be paid to the agent. The share of their commission for each month will be paid on or before the 20th day of the following month.
- (vi) The Company shall collect from the clients, service tax @ 10.20% or such other percentage as may be fixed by the government.
- (vii) Either party shall be entitled to terminate this agreement under normal routine working conditions and settle his accounts at will without giving any reasons to the other party, by giving one month's notice in writing to the other party.
- (viii) This agreement is subject to the jurisdiction of Visakhapatnam.



- (ix) The agent shall provide an interest free deposit of Rs. 25,000/- to the Company, which shall be refundable after 6 months of closing of this agreement and it will not be adjusted for any day to day obligations of the Agent.

4. Agreements for Cash Market and F&O Segment

As the Company follows a standard format of agreements entered by it for Cash Market and F&O Segment, the general terms and conditions of the agreement are as follows:

- (i) M/s. Steel City Securities Limited (“Company”) is a trading member and clearing member on the Capital Market Segment and Futures & Options Segment of National Stock Exchange of India Limited (NSE). The Company is appointing subbrokers with trading terminal connection of NSE through VSAT/leased line/ VPN/WAN/LAN for Cash Market Segment and F&O Market Segment.
- (ii) The Company is appointing subbrokers as the Business Development Agents with trading terminal connection of NCDEX through VSAT/LL/Dial-up/LAN/Internet for commodities futures market segment.
- (iii) The sub brokers shall, at its own cost, charges and expenses, paying all deposits necessary, install all the equipment, computers, printers, VSAT, software, Acs, premises, electrical facilities, communications etc.
- (iv) If the sub brokers failed to pay the pay-in obligation continuously or if the agent left the premises without payment of pay-in due, the Company shall be deemed to be the absolute owner of the premises, equipment, NCDEX terminals, connections etc.
- (v) The sub brokers shall be fully responsible for collection of all initial margin monies from the clients/customers relating to each and every transaction and to remit and forward the same to the Company promptly and without default or delay and deficiency.
- (vi) The Company shall have all the rights and every liberty to stop the trading facilities at any moment without any notice when:
- (a) the given limits/exposures are exceeded,
 - (b) if the required amounts are not paid
 - (c) if any obligation not completed
 - (d) if the agent operations are not prudent, businesslike or proper.
- (vii) The subbroker shall collect Initial Margin @15% on Index futures, @20% on Options writing, @22% to 25% initial margin on Stock Futures transactions.
- (viii) The subbroker shall ensure that a minimum gross commission of Rs 5,000/- is generated for every One Crore of turnover done on the NSE terminals subject to a 2 paise minimum per share.
- (ix) The Company shall collect from the clients, service tax @ 10.20% or such other percentage as may be fixed by the government
- (x) Either party shall be entitled to terminate this agreement under normal routine working conditions and settle his accounts at will without giving any reasons to the other party, by giving one months’ notice in writing to the other party.
- (xi) This agreement is subject to the jurisdiction of Visakhapatnam only.



5. Stock Brokers and Sub Brokers Agreements

As the Company follows a standard format of agreements entered by the Stock Brokers and Sub Brokers, the general terms and conditions of the agreement are as follows:

- (i) Steel City Securities Limited (“Stock broker”) is a member of the National Stock Exchange of India Limited (NSE) and holds a certificate of registration granted under Rule 4 of the SEBI (Stock Brokers and Subbrokers) Rules, 1992 bearing SEBI Registration No. INB23-0806132.
- (ii) The subbroker being appointed is an entity desiring to start business as a sub broker in shares and securities and is hereby eligible for making an application for seeking registration of the Stock Exchange and for grant of Certificate of Registration.
- (iii) The stock broker and the sub broker agree that irrespective of the date of the agreement, the subbroker shall commence business only after receipt of the registration certificate from SEBI, continue business during currency of the certificate and will stop business as a sub broker from the date of termination of the agreement.
- (iv) The stock broker and the sub broker agree that they shall not commit transactions on behalf of each other without the previous consent of each other, in excess of the amount mutually agreed upon in writing.
- (v) The stock broker and the sub broker agree to share the brokerage/commission between them in terms of their mutual understanding. Provided however, that the brokerage/commission payable to the sub broker shall not exceed one and one half percent of the value of transactions carried out by the sub broker for clients.
- (vi) The stock broker and the sub broker shall be entitled to terminate this agreement without giving any reasons to the other party after giving one months’ notice in writing.
- (vii) This agreement shall forthwith stand terminated, if:
 - (a) the stock broker for any reason ceases to be a member of the stock exchange including by cessation of membership by reason of the stock broker’s death, resignation, expulsion or
 - (b) having being declared a defaulter, or
 - (c) if the certificate issued by the Board is cancelled.
- (viii) On termination of the agreement by the stock broker, it shall be the duty of the stock broker to collect and forward the registration certificate of the sub broker to SEBI through the stock exchange along with all the fees in arrears in respect of the sub- broker’s registration.

6. Stock Broker Client Agreement

As the Company follows a standard format of agreements entered by the Stock Brokers and Clients, the general terms and conditions of the agreement are as follows:

- (i) The stock broker and client agreement comprises of following details:
 - (a) Individual Client Registration form
 - (b) Stock Broker Client Agreement
 - (c) Addendum to Member Constituent Agreement
 - (d) Risk Disclosure Document
 - (e) Investors rights and obligations
 - (f) Undertaking
 - (g) Xerox copies of proof of identity and address



- (ii) Steel City Securities Limited (“Stock broker”) is registered as the stockbroker of the Exchange with SEBI registration number INB230806132 in the Capital market/ Cash Segment and SEBI Registration number INF230806132 in Futures and Options Segment.
- (iii) This agreement shall forthwith terminate, if:
 - (a) the stock broker for any reason ceases to be a member of the Stock Exchange including cessation of membership by reason of stock broker’s death, resignation or expulsion, or
 - (b) the certificate issued by the Board is cancelled.
- (iv) The stock broker and the client shall be entitled to terminate this agreement without giving any reasons to the other party, after giving notice in writing of not less than one month to the other parties.

7. Agency Agreements for Capital Market Segment

As the Company follows a standard format of agreements entered for the Capital Market Segment the general terms and conditions of the agreement are as follows:

- (i) Steel City Securities Limited (“Company”) is a trading member and clearing member on the Capital Market Segment and Futures & Options Segment of National Stock Exchange of India Limited (NSE). The company is appointing agents as its Business promoting development agents with trading terminal connection of NSE through VSAT/leased line/VPN/WAN/LAN for capital market segment.
- (ii) The agent shall, at its own cost, charges and expenses, paying all deposits necessary, install all the equipment, computers, printers, VSAT, software, Acs, premises, electrical facilities, communications etc.
- (iii) If the agent failed to pay the pay-in obligation continuously or if the agent left the premises without payment of pay-in due, the Company shall be deemed to be the absolute owner of the premises, equipment, MCX terminals, connections etc.
- (iv) The agent shall be fully responsible for collection of all initial margin monies from the clients/customers relating to each and every transaction and to remit and forward the same to the Company promptly and without default or delay and deficiency.
- (v) The Company shall have all the rights and every liberty to stop the trading facilities at any moment without any notice when:
 - (a) the given limits/exposures are exceeded,
 - (b) if the required amounts are not paid
 - (c) if any obligation not completed
 - (d) if the agent operations are not prudent, businesslike or proper.
- (vi) The agent shall collect initial margin of Rs. 10,000/-. The initial margins may be increased/reviewed as per the guidelines.
- (vii) A fixed brokerage as mutually decided by the parties for all the traded securities, will be deducted from the total collected brokerage and the remaining amount will be paid to the agent. The share of their commission for each month will be paid on or before the 20th day of the following month.
- (viii) The agent shall collect from the clients, service tax @ 10.20% or such other percentage as may be fixed by the government.
- (ix) The agent shall provide an interest free deposit of Rs. 1,00,000/- to the Company, which shall be refundable after 6 months of closing this agreement, and it will not be adjusted for any day to day obligations of the Agent.



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- (x) The agent shall ensure that a minimum gross commission of Rs. 5,000/- is generated for every one crore of turnover done.
 - (xi) Either party shall be entitled to terminate this agreement under normal routine working conditions nad settle his accounts at will without giving any reasons to the other party, by giving one months' notice in writing to the other party.
 - (xii) This agreement is subject to the jurisdiction of Visakhapatnam only.

8. Franchisee Agreements

As the Company follows a standard format of agreements entered for the Franchisees, the general terms and conditions of the agreement are as follows:

- (i) M/s. Steel City Securities Limited (“Company”) is a member of the National Stock Exchange of India Limited (“NSE”) registered with SEBI having Registration no. INB230806132. The company intends to appoint its franchisees to operate as registered sub-broker to transact on NSE trading facilities of the Company.
- (ii) The franchisee shall bear all costs, deposits, expenses, charges, transport, fees etc. for all equipments, VSAT, installations, operations, maintenance of such facilities etc.
- (iii) The franchisee shall bear all costs, deposits, charges, expenses, for the maintenance of the premises and supply of infrastructural facilities.
- (iv) The franchisee shall bear all the costs, expenses of the personnel like representative/staff for the purpose of operating the terminal connection including their travel, conveyance, accommodation, costs etc.
- (v) The franchisee shall bear any obligations, costs, charges, penalties etc. which may arise consequent to any power failure, communication failures, operational mistakes, Hardware/software errors or disruptions, transmission disturbance.
- (vi) The franchisee shall follow all rules, regulations, procedures etc. as prescribed by NSE/SEBI and also safety and control procedures and measures.
- (vii) The franchisee shall study, understand and follow the provisions, circulars, instructions etc. of NSE/SEBI on their own from time to time and shall be fully responsible and liable for any implications consequent to non-adherence of the same.
- (viii) The franchisee shall keep an interest free deposit of Rs. 1 Lakh only with the Company as security, which will be returned after one year of termination of this agreement.
- (ix) The Company shall conduct frequent or periodic audits of all the franchisees in all respects including payments, deliveries, transactions etc once in 2 months.
- (x) The Company shall have all the rights and every liberty to stop the trading facilities at any moment without any notice when:
 - (a) the given limits/exposures are exceeded,
 - (b) if the required amounts are not paid
 - (c) if any obligation not completed
 - (d) if the agent operations are not prudent, businesslike or proper.



- (xi) A fixed brokerage as mutually decided by the parties for all the traded commodities, will be deducted from the total collected brokerage and the remaining amount will be paid to the agent. The share of their commission for each month will be paid on or before the 20th day of the following month.
- (xii) Any dispute arising out of any matters between both the parties shall be got adjudicated through the procedure of arbitration by appointing one arbitrator by mutual consent
- (xiii) This agreement is subject to the jurisdiction of courts of Visakhapatnam only.

9. Exclusive Trading Terminal User (ETTU) Agreements

As the Company follows a standard format for all the agreements entered by it in regard to the ETTU, the general terms and conditions are as follows:

- (i) M/s. Steel City Securites Limited (“Company”) is a member of the National Stock Exchange of India Limited (NSE) registered with SEBI having its registered no. INB230806132.
- (ii) The company intends to appoint sub-broker who is interested in installing ETTU NSE trading terminals of the Company.
- (iii) The ETTU shall bear all costs, deposits, expenses, charges, transport, fees etc. for all equipments, VSAT, installations, operations, maintenance of such facilities etc.
- (iv) The ETTU shall bear all costs, deposits, charges, and expenses, for the maintenance of the premises and supply of infrastructural facilities.
- (v) The ETTU shall bear all the costs, expenses of the personnel like representative/staff for the purpose of operating the terminal connection including their travel, conveyance, accommodation, costs etc.
- (vi) The ETTU shall bear any obligations, costs, charges, penalties etc. which may arise consequent to any power failure, communication failures, operational mistakes, hardware/software errors or disruptions, transmission disturbance.
- (vii) The ETTU shall follow all rules, regulations, procedures etc. as prescribed by NSE/SEBI and also safety and control procedures and measures.
- (viii) The ETTU shall study, understand and follow the provisions, circulars, instructions etc. of NSE/SEBI on their own from time to time and shall be fully responsible and liable for any implications consequent to non-adherence of the same.
- (ix) The ETTU shall keep an interest free deposit of Rs. 50,000 with the Company as security, which shall be returned after one year of termination of this agreement.
- (x) The Company shall have all the rights and every liberty to stop the trading facilities at any moment without any notice when:
 - (a) the given limits/exposures are exceeded,
 - (b) if the required amounts are not paid
 - (c) if any obligation not completed
 - (d) if the agent operations are not prudent, businesslike or proper.
- (xi) A fixed brokerage of mutually decided for all commodities, will be deducted from the total collected brokerage and the remaining amount will be paid to the agent. The share of their commission for each month will be paid on or before the 20th day of the following month.
- (xii) This agreement is subject to the jurisdiction of courts of Visakhapatnam only.



OUR MANAGEMENT

Board of Directors

Our Company is currently managed by a Board of Directors comprising of eight Directors. Mr. G. Sree Rama Murthy is our Chairman and Managing Director.

The following table sets forth the details regarding our Board of Directors as on the date of filing of this Draft Prospectus.

S. No.	Name and Address	Designation	Age	Directorship in other companies
1	Mr. G. Sree Rama Murthy 49-26-11, Madhuranagar, Visakhapatnam – 530 016.	Chairman and Managing Director	57	Steel City Commodities Private Limited
2	Mr. G. Raja Gopal Reddy 4-58-2/6, Andhra Bank Colony Lawsons Bay Visakhapatnam - 530 017.	Executive Director	48	Steel City Commodities Private Limited Steel City Insurance Agencies Private Limited
3	Mr. K. Satyanarayana 49-54-23, HIG-15, Green Park, Seethammadhara Visakhapatnam – 530 013.	Executive Director (Surveillance)	55	Steel City Commodities Private Limited Steel City Insurance Agencies Private Limited
4	Mr. Satish Kumar Arya 49-54-5/4(1), Himagiri Balaji Hills Visakhapatnam – 530 013.	Director – Operations	45	Steel City Commodities Private Limited Steel City Insurance Agencies Private Limited
5	Mr. G. Satya Rama Prasad 50-1-40/1, A.P.S.E.B. Colony, Seethammadhara, Visakhapatnam – 530 013.	Non-Executive Director	42	-
6	Mr. Ch. Murali Krishna 305, Vijaya Jyothi Acrade NH-5 Road Visakhapatnam – 530 013.	Non-Executive Director	43	-
7	Mr. M.H.Jagannadha Rao Hara Gopal Auto Motors Railway New Colony Visakhapatnam – 530 016.	Non-Executive Director	49	-
8	Mr. M.Raghuram 203, Vietla Towers 5, Palace Layout, Pedda Waltair, Visakhapatnam – 530 017.	Non-Executive Director	38	-



Brief Biography of the Directors

The details of our Promoters/Directors are as follows:

- Mr. G. Sree Rama Murthy, Chairman and Managing Director
- Mr. G. Raja Gopal Reddy, Executive Director
- Mr. K. Satyanarayana, Executive Director (Surveillance)
- Mr. Satish Kumar Arya, Director Operations

For details on the above, please refer to section titled “Our Promoters and their Background” on page no. [●] of this Draft Prospectus.

Mr. G. Satya Rama Prasad, Independent and Non-executive Director

Mr. G. Satya Rama Prasad, aged 42 years is a Commerce Graduate. He is having experience of more than 15 years in construction, execution of civil contracts and stock broking operations. He started his career in the year 1982 as civil contractor. He has undertaken and executed various civil contracts on behalf of Government of Andhra Pradesh in various parts of the State.

Mr. Cherukuri Murali Krishna, Independent and Non-executive Director

Mr. Cherukuri Murali Krishna, aged 43 years, a Commerce Graduate with LLB. He is having experience of 15 years in business development projects and stock market operations.

Mr. Malla Hara Jagannadha Rao, Independent and Non-executive Director

Mr. Malla Hara Jagannadha Rao, aged 49 years, is Post Graduate in Arts with Law Graduation. He is having business experience of more than 20 years. He had worked as Senior Inspector in M/s. Peerless General Insurance Company Limited from 1976 to 1996 and looking after the Andhra Pradesh, Tamil Nadu and Karnataka branches operations and had been awarded No. 1 position in South India. Besides, he is dealer of Indian Oil for the last 18 years and Yamaha Dealer for 20 years with 10 branches in Visakhapatnam.

Mr. Munnangi Raghu Ram, Independent and Non-executive Director

Sri Munnangi Raghu Ram, aged 38 years, is a Mechanical Engineering Graduate is a Mechanical Contractor and having experience of 5 years in execution of Structural Engineering Contracts. He is presently involved in the stock broking and securities trading since 1992.

Composition of our Board of Directors

We currently have 8 Directors on our Board, of which Mr. G. Sree Rama Murthy is Chairman and Managing Directors and Mr. G. Raja Gopal Reddy, Mr. K. Satyanarayana and Mr. Satish Arya are Executive Directors looking after the day-to-day operations of the Company. Other Members of our Board i.e. Mr. G. Satya Rama Prasad, Mr. Ch. Murali Krishna, Mr. M. H. Jagannadha Rao and Mr. M. Raghuram are Non-Executive and Independent Directors.

Compensation of Directors

1. Mr. G. Sree Rama Murthy, Chairman and Managing Director

Mr. G. Sree Rama Murthy has been Managing Director of our company since 1995 and has been re-designated as Chairman and Managing Director as per resolution passed in the EGM held on July 04, 2005.



In accordance with a resolution adopted at the general meeting of the shareholders held on March 24, 2004, Mr. G. Sree Rama Murthy is entitled for lump sum salary of Rs. 30,00,000/- per annum.

2. Mr. G. Raja Gopal Reddy, Executive Director

Mr. G. Raja Gopal Reddy has been the Executive Director of our company since 1997 and in accordance with a resolution adopted at the general meeting of the shareholders held on March 24, 2004, Mr. G. Raja Gopal Reddy is entitled for lump sum salary of Rs. 30,00,000/- per annum.

3. Mr. K. Satyanarayana, Executive Director (Surveillance)

Mr. K. Satyanarayana has been the Executive Director (Surveillance) of our company since 1999 and in accordance with a resolution adopted at the general meeting of the shareholders held on March 24, 2004, Mr. K. Satyanarayana is entitled for lump sum salary of Rs. 30,00,000/- per annum.

4. Mr. Satish Kumar Arya, Director (Operations)

Mr. Satish Kumar Arya has been the Director (Operations) of our company since 1997 and in accordance with a resolution adopted at the general meeting of the shareholders held on March 24, 2004, Mr. Satish Kumar Arya is entitled for lump sum salary of Rs. 18,00,000/- per annum.

Remuneration/Sitting Fee of our Non Executive Directors

Company has not been paying Remuneration and Sitting fees to any Non Executive Directors.

Borrowing Powers of Directors

The borrowing powers of Directors are determined by the special resolution passed in the Extra-ordinary General Meeting held on July 04, 2005 under section 293 (1) (d) of the Companies Act, 1956 and as per the said resolution, the Board of Directors are authorised to borrow any sum (s) of money from time to time at its discretion either from the Company's bankers or any other bank, financial institutions or any other lending institutions and juristic persons on such terms and conditions as may be considered suitable by Board of Directors up to a limit not exceeding in the aggregate of Rs. 400 million notwithstanding that the money to be borrowed together with the money already borrowed by the Company (apart from the temporary loans obtained from the Company's bankers in the ordinary course of its business) may exceed the aggregate of the paid-up capital of the Company and its free reserves i.e. the reserves not set apart for any specific purpose.

Save as stated otherwise in the section titled "Main Articles of Association of Steel City Securities Limited" on page no. [●] in this Draft Prospectus, the Directors of our Company do not have any borrowing powers.

Shareholding of our Directors in Company

The shareholding of our Directors as on date of filing of this Draft Prospectus with SEBI is as below:

Name of Director	Equity Shares of Rs. 10/- each (Nos.)
Mr. G. Sree Rama Murthy	55,24,640
Mr. G. Raja Gopal Reddy	21,97,168
Mr. K. Satyanarayana	21,73,440
Mr. Satish Kumar Arya	7,79,040
Mr. G. Satya Rama Prasad	10,400
Mr. Ch. Murali Krishna	10,400
Mr. M. H. Jagannadha Rao	10,400
Mr. M. Raghuram	10,400



Terms of Office of Directors

For details of the terms of office of our Directors, please refer to the section “Main Provisions of the Articles of Association of the Company” on page no. [●] of this Draft Prospectus.

Changes in the Board of Directors during the last 3 years

Name of Director	Date of Appointment	Date of Cessation / Resignation
Mr. Ch. Murali Krishna	27.10.2003	27.07.2004
Mr. N. Ramu	27.10.2003	27.07.2004
Mr. M. H. Jagannadha Rao	09.05.2005	-
Mr. M. Raghuram	09.05.2005	-
Mr. Ch. Murali Krishna	09.05.2005	-

Interest of Directors

All the Whole time Directors of the Company, with the exception of independent and non-executive Directors, are interested in their capacity as a whole time Director to the extent of remuneration paid to them for services rendered as officers or employees of the Company. As on the date of filing of this Draft Prospectus, the Company doesn't have policy of paying sitting fees to any Director for attending the Board or any other meeting of the Company.

The Directors may also be considered interested in Company to the extent of any equity of Company held by or to be allotted to them or their relatives and associates or held by the companies, firms and trusts in which they are interested as director, member, partner, and/or trustee, and to the extent of benefits arising out of such shareholding.

All Directors may be deemed to be interested in the contracts, agreements/arrangements entered into or to be entered into by the Company with any company/entity in which they hold directorships or any partnership firm in which they are partners. Except as stated otherwise in this Draft Prospectus, the Company has not entered into any contract, agreements or arrangement during the preceding two years from the date of the Draft Prospectus in which the directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements are proposed to be made to them.

Corporate Governance

The present status of corporate governance as extracted from annual report for the past financial years is as under:

In accordance with the latest Corporate practices, we have initiated the following measures in order to improve the Corporate Governance and to achieve better transparency in the corporate affairs:

- Advanced Planning Techniques and Strategic Supervision by the Board of Directors;
- Excellent Co-ordination at all levels of management, to achieve the desired objectives;
- Prompt execution of well laid policies based on professional techniques and expertise;
- Immediate attention towards customers' requirements and public relations;
- Cautious approach in operations, rendering services efficiently and effectively to the clients;
- To comply with the various statutory provisions and submitting the required information to the concerned authorities relating to the business affairs of the Company from time to time; and
- Adequate response towards Socio-economic responsibilities.

The provisions of the listing agreement to be entered into with the Stock Exchanges with respect to Corporate Governance will be applicable to our Company immediately upon the listing of our Company's Equity Shares on the Stock Exchanges. Our Company intends to comply with such provisions, including with respect to the appointment of independent directors to its Board and the constitution of the following Board Committees: the



Audit Committee, the Remuneration Committee; and the Investors Grievances Committee. Our Company undertakes to adopt the Corporate Governance Code as per Clause 49 of the listing agreement to be entered into with the Stock Exchanges prior to the listing.

We believe in adopting the best corporate governance practices, based on the following principles in order to maintain transparency, accountability and ethics:

- Recognition of the respective roles and responsibilities of Board and the management;
- Independent verification and assured integrity of financial reporting;
- Protection of shareholder's right and priority for investor relations; and
- Timely and accurate disclosure on all material matters concerning operations and performance of our Company.

The Board of Directors in their meeting held on May 14, 2005 has constituted the following committees as a measure to adopt better corporate governance practice:

1) Audit Committee

The terms of reference of Audit Committee are to comply with the requirements of Clause 49 of the listing agreement to be entered into with the Stock Exchanges. The Audit Committee consists of all non-executive and independent directors. The Audit Committee currently comprises of Mr. G. Satya Rama Prasad as the Chairman, Mr. Ch. Murali Krishna and Mr. M. Raghu Ram as members.

The general objective of the Audit Committee is to establish a transparent and effective system of internal monitoring and control, to review the annual plan of our Company and any special examination by internal audit and implementation of internal audit recommendations, to review quarterly, half yearly and annual financial statements before submission to the Board, and to conduct limited review report, together with coverage of the scope of activities prescribed under Section 292A of the Companies Act, 1956. The Audit Committee also considers and reviews ethical adherence and corporate governance principles.

2) Remuneration Committee

The Remuneration Committee consists of Mr. Ch. Murali Krishna as the Chairman, Mr. G. Satya Rama Prasad and Mr. M. H. Jagannadha Rao as members.

- Fixation of suitable remuneration package of all Managerial Personnel
- The Committee shall conduct discussions with HR Department, take appraisal of the Officers/Employees and Directors of the Company.

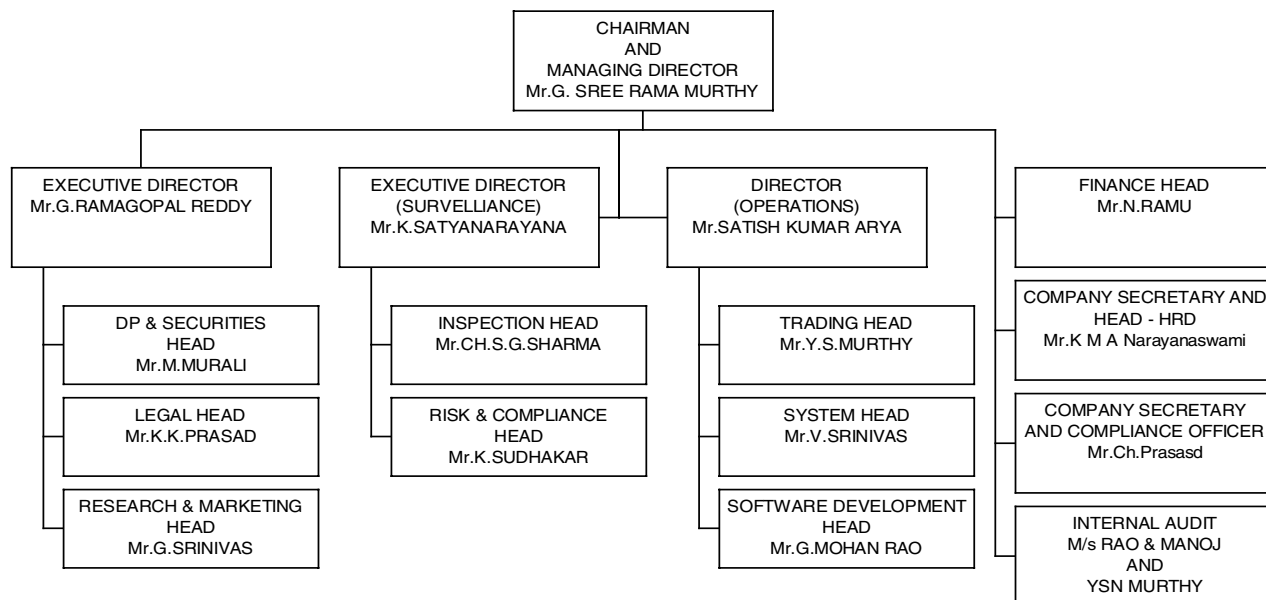
3) Shareholders'/Investors' Grievance Committee

The Shareholders'/Investors' Grievance Committee consists of Mr. M. H. Jagannadha Rao as Chairman, Mr. Ch. Murali Krishna and Mr. G. Satya Rama Prasad as members. The Shareholders'/Investors' Grievance Committee's scope and functions are to consider and review shareholders'/Investors' grievances and complaints, and to ensure that all shareholders'/Investors' grievances and correspondence are expeditiously reviewed and redressed to within two weeks of receipt, unless constrained by incomplete documentation and/or legal impediments and to investigate into any matter assigned to them and for this purpose, members of the Committee shall have full access to the information contained in the records of the Company and external professional advice, if necessary.



ORGANISATION STRUCTURE

BOARD OF DIRECTORS



Key Managerial Personnel

The details of our Key Managerial Personnel are as follows:

- Mr. G. Sree Rama Murthy, Chairman and Managing Director
- Mr. G. Raja Gopal Reddy, Executive Director
- Mr. K. Satyanarayana, Executive Director (Surveillance)
- Mr. Satish Kumar Arya, Director Operations

For details on the above, please refer to section titled “Our Promoters and their Background” on page no. [•] of this Draft Prospectus.

Ch. Prasad, Company Secretary and Compliance Officer

Ch. Prasad, 32 years is a qualified Company Secretary and Associate Member of The Institute of Company Secretaries of India and Graduate of Commerce from Nagarjuna University. He has work experience of 2 years in ASN Associates, Company Secretaries, Visakhapatnam. He joined in our Company on December 2, 2005 and he receives annual emoluments of Rs. 1,20,000/- and an incentive bonus based on the profitability of SCSL for his services.

K.M.A. Narayana Swami, Company Secretary & HRD HEAD

K.M.A. Narayanaswami, 61 years is a qualified Company Secretary, a Law Graduate from Delhi University and also Post Graduate Diploma in Personnel Management from National Institute of Personnel Management, Calcutta. He joined us on March 30, 2005. He has worked as a Joint General Manager (CA) and Company Secretary in Rastriya Ispat Nigam Ltd., (Visakhapatnam Steel Plant) for nearly 22 years. Prior to joining in Visakhapatnam Steel Plant he served in the Department of Company Affairs at New Delhi for 16 years. He has knowledge of the Statutory Regulations governing Private, Public and Government Companies. He is the Company Secretary and Heads the Secretarial Department. SCSL pays a fixed Gross annual salary Rs. 1,20,000 and an incentive bonus based on the profitability of SCSL for his Services.



N. Ramu, Senior Manager (Finance And Accounts)

N. Ramu, 34 years is the Head of Finance Department. He is a B.Com and an Associate Chartered Accountant from ICAI. He has work experience of 9 years. In August 1996 he joined in our Company and left us on September 30, 2001 to set up his own practice and he joined back on January 1, 2005. He receives annual emoluments of Rs. 2,28,600 and an incentive bonus based on the profitability of SCSL for his services.

M. Murali, Senior Manager (Operations)

M. Murali, 37 years, is the Head of D.P. and Securities. He is a Commerce graduate from Andhra University. He has work experience of 9 years. He joined us on April 1, 1996 and he is responsible for the operations of Depository Participant and Securities. He receives annual Emoluments of Rs. 2,25,072 and an incentive bonus based on the profitability of SCSL for his services.

V. Srinivas, Senior Manager-Systems

V.Srinivas, 40 years, is Head of Systems. He is a Commerce Graduate from Ranchi University. He has work experience of 8 years. He joined us on January 27, 1997. He is responsible for the entire operations of Systems Department. He receives annual Emoluments of Rs. 2,37,600 and an incentive bonus based on the profitability of SCSL for his services.

G. Mohana Rao, Software Project Leader

G. Mohana Rao, 33 years, is Head of Software Development. He holds Diploma in Electrical and Commercial Engineering (D.E.C.E.) from State Board of Technical Education & Training, Hyderabad. He has a work experience of 5 years. He joined us on April 1, 1999. He is responsible for the Software development. He receives annual Emoluments of Rs. 2,18,400 and an incentive bonus based on the profitability of SCSL for his services.

Y. Samba Murthy, Manager (Trading)

Y. Samba Murthy, 35 years is Head of Trading Department. He is a Post Graduate in Commerce from Andhra University and also a Law graduate from Andhra University. He has a work experience of 8 years. He joined us on March 1, 1999. He is responsible for the entire operations of Trading Department. He receives annual Emoluments of Rs. 1,38,000 and an incentive bonus based on the profitability of SCSL for his services.

K.V.S. Ramesh Babu, Manager (Systems)

K.V.S. Ramesh Babu, 29 years. He is a B.E. Civil and Microsoft Certified Systems Engineer (MCSE). He joined us on October 23, 2000. He is responsible for the operations of Systems Department. He receives annual Emoluments of Rs. 1,44,000 and an incentive bonus based on the profitability of SCSL for his services.

K. Sudhakar, Manager (Risk & Compliance)

K. Sudhakar 34 years, is Head of Risk and Compliance. He is an M.Com, from Andhra University. He joined us on March 1, 1997. He is responsible for Risk and Compliance. He receives annual Emoluments of Rs. 1,20,000 and an incentive bonus based on the profitability of SCSL for his services.

N.K.Narayan Reddy, Manager (Accounts)

N. Kamal Narayan Reddy, 32 years, is a B.Com, from Andhra University. He has work Experience of 3 years. He joined us on January 1, 2000. He is responsible for the operations of Accounts. He receives annual Emoluments of Rs. 1,26,000 and an incentive bonus based on the profitability of SCSL for his services.



Ch. Sridhar Babu, Manager (Commodities Trading)

Ch. Sridhar Babu, 33 years, is a B.com from Andhra University. He has work experience of 1 year. He joined us on February 1, 2004. He is responsible for the trading of commodities. He receives annual Emoluments of Rs. 96,000 and an incentive bonus based on the profitability of SCSL for his services.

K.V.S. Ramakrishna, Manager (D.P.)

K.V.S. Rama Krishna, 29 years, is a B.Com from Andhra University. He has work experience of 5 years. He joined us on January 1, 1999. He is responsible for D.P. operations. He receives annual Emoluments of Rs. 96,000 and an incentive bonus based on the profitability of SCSL for his services.

G. Srinivasa Rao, Manager (Research And Marketing)

G. Srinivasa Rao, 39 years who is Head of Research and Marketing, is a B.Com, from Andhra University and also a Law graduate from Andhra University. He has work experience of 11 years. He joined us on December 16, 2004. He is responsible for Research and Marketing. He receives annual Emoluments of Rs. 1,08,000 and an incentive bonus based on the profitability of SCSL for his services.

Ch. S.G.Sharma, Manager (Inspection)

Ch. S.G.Sharma, 49 years, is Head of Inspection Department, a B.Com graduate from Andhra University. He has work experience of 16 years. He joined us on June 1, 2000. He is responsible for the inspection of Branches and other centres. He receives annual Emoluments of Rs. 1,05,600 and an incentive bonus based on the profitability of SCSL for his services.

K. Krishna Prasad, Legal Officer

K. Krishna Prasad, 41 years, is Head of Legal Department, is a B.Sc. from Andhra University, Law Graduate from Andhra University and holds PG Diploma in Industrial Relations and Personnel Management (PGDIRPM), is Head of Legal Department. He has a work experience of 13 years. He joined us on March 9, 2002. He is responsible for Legal activities. He receives annual Emoluments of Rs. 86,400 and an incentive bonus based on the profitability of SCSL for his services.

All the key managerial personnel as mentioned above are permanent employees of our Company.

Shareholding of our Key Managerial Personnel

The shareholding of key managerial personnel as on date of filing of this Draft Prospectus with SEBI is as follows:

Name of Key Managerial Personnel	Equity Shares of Rs. 10/- each (nos.)
Mr. N. Ramu	47,728
Mr. M. Murali	47,728
Mr. V. Srinivas	39,728
Mr. G. Mohanarao	36,800
Mr. K.V.S. Ramesh Babu	26,400

Except as stated above, none of our key managerial personnel holds any Equity Shares in our Company.



Bonus and/or Profit sharing plan for our Key Managerial Personnel

The Company has an excellent reward policy by offering performance-based incentives in addition to salary. The management reviews the remuneration policy annually in order to make it employees friendly and as per market trend.

Changes in the Key Managerial Personnel of our Company in the last 3 years

Name of the Personnel	Designation	Date of Joining	Previous Employment
Ch. Prasad	Company Secretary & Compliance Officer	December 2, 2005	ASN Associates, Company Secretaries, Visakhapatnam.
K.M.A. Narayanaswami	Company Secretary & HRD Head	March 30, 2005	Visakhapatnam Steel Plant
N. Ramu	Senior Manager (Finance and Accounts)	January 1, 2005	Practicing as Chartered Accountant
Ch. Sridhar Babu	Manager (Commodities Trading)	December 1, 2004	Sandhya Marines Pvt. Ltd., Visakhapatnam
G. Srinivasa Rao	Manager (Research & Marketing)	December 16, 2004	Bhanavana investor Services (P.) Limited, Visakhapatnam
G. Mohan Rao	Software Project Leader	September 30, 2003	APEL, Visakhapatnam
Y. Samba Murthy	Manager (Trading)	September 30, 2003	Akshay Securities Private Limited, Visakhapatnam
N. Kamal Narayana Reddy	Manager (Accounts)	October 1, 2004	Rain Calcining Limited
Ch. S.G. Sharma	Manager (Inspection)	April 1, 2005	HEG Limited, Delhi



OUR PROMOTERS AND THEIR BACKGROUND

	<p>Mr. G. Sree Rama Murthy, Chairman and Managing Director</p> <p>Mr. G. Sree Rama Murthy, aged 56 years, is the first Director and Chairman cum Managing Director of the Company since 1995. He has been re-designated as Chairman and Managing Director in Extra-Ordinary General Meeting held on July 4, 2005. He is a B.E., M.Sc. (Engg.), M.I.E., F.I.V. He has total experience of over 30 years comprising of 20 years in the varied fields viz. project management, construction and infrastructure development projects and 10 years of experience in stock broking activities. He had initially served in the private sector from 1970-75 and handling special foundations and construction projects/contracts in many parts of the country. Subsequently, he had served the Infrastructure Corporation of Andhra Pradesh, a PSU as Civil Engineer from 1976-81 and involved in project management, implementation of systems & procedures and administration. From 1982-95, he has ventured in to own business of construction, civil and contract projects under the name and style of M/s. G.Sree Rama Murthy. From 1995 onwards, he has undertaken the stock broking as full time business and accordingly, formed the Company. He is looking after the planning, finance, implementing the strategy besides looking after day-to-day operations of the Company.</p> <p>Passport No.: B2159822 Driving License No.: DLRAP031179102002</p>
	<p>Mr. G. Raja Gopal Reddy, Executive Director</p> <p>Mr. G. Raja Gopal Reddy, aged 48 years, is first Director and Executive Director of the Company since 1997. He is MBA with post graduation in Business Management and pursuing B.L. qualified in two Modules i.e. Basic and F & O in NCFM. He is having more than 16 years of experience relating to stock market operations including 10 years of experience in managing the operations of company. He is looking after the depository operations, legal, business development, centres expansion, customer care and research & development. He is in-charge of all the centres operations and responsible for customer care and day-to-day operations of all the centres. He has traveled extensively in the various parts of country. He has been instrumental in conducting over 100 Investors Awareness Programmes and Seminars on Capital & Stock Market and Commodities Scenarios at various locations.</p> <p>Passport No.: A8997149 Driving License No.: 1367780</p>
	<p>Mr. K. Satyanarayana, Executive Director (Surveillance)</p> <p>Mr. K. Satyanarayana, aged 55 years, is first Director and Executive Director (Surveillance) of the Company since 1999. He is a B.E., M.Sc. (Engg.) and having total experience of 30 years in construction including 10 years of experience in stock markets being as Executive Director of the Company. From 1970 to 1983, he had served in the private sector and Government organisations, viz., Visakhapatnam Port Trust, Suvasa Nirman, etc., at different levels. From 1983 to 1994, he had executed contracts like construction of Residential Buildings, Roads, Bridges, Hospitals, Colleges etc. From 1995, he is associated with this company as one of the promoters. He is responsible for the surveillance requirement of operations and looking after inspection, risk compliance, systems and allied important activities.</p> <p>Passport No.: A8996984 Driving License No.: Not Applied For</p>



Mr. Satish Kumar Arya, Director - Operation

Mr. Satish Kumar Arya, aged 45 years, is Directors (Operations) of the Company since 1997. He is a Post Graduate in Business Management and has more than 25 years of experience including 12 years experience in stock market operations. He has served in Indian Navy on Board various ships and establishments for 15 years from June 1978 to June 1993. From 1993 onwards, he is involved in the stock broking operations and joined this company in 1996 as Director. He is looking after the screen based and online trading, software development, systems, training, co-ordination with stock exchanges and regulatory authorities. He has written many articles in well-known journals, conducted many training and investors awareness workshops and participated in various national and international seminars and chaired many seminars on financial markets. He is member of various committees formed by National Stock Exchange of India Limited, The Stock Exchange, Mumbai and Multi Commodity Exchange of India Limited.

Passport No.: F3350836
Driving License No.: 86/C/34127

The Permanent Account Number (“PAN”), Bank Account Number and Passport Number of our Promoters has been submitted to the stock exchanges, on which we propose to list our Equity Shares at the time of filling of this Draft Prospectus.

Promoter Group Companies

We have only “Steel City Insurance Agencies Private Limited (SCIAPL)” as our group company and except this company, the Promoters have no other group companies under the same management.

Steel City Insurance Agencies Private Limited (SCIAPL)

SCIAPL was incorporated on August 20, 2002 as a Private Limited Company under the Companies Act, 1956 with the objective to carry on or otherwise deal in all kinds of Insurance and Assurance business. SCIAPL is a Corporate Agent of Birla Sun Life Insurance.

The Board of Director of SCIAPL comprises:

- Mr. G.Raja Gopal Reddy - Director
- Mr. K.Satyanarayana - Director
- Mr. Satish Kumar Arya - Director
- Mr. B.Krishna Rao - Director

The shareholding pattern of SCIAPL as on the date of filing of this Draft Prospectus is as follows:

Name of Shareholder	Number of Equity Share
Steel City Securities Limited	16,000
Others	24,000
Total	40,000



The financial performance for the last three years is as follows:

For the Financial Year ended on March 31,	Rs. in Million except per equity shares data		
	2003	2004	2005
Total Revenues	0.22	0.13	0.02
Profit After Tax	(0.11)	(0.05)	0.01
Equity Share Capital	0.10	0.40	0.40
Reserves	(0.11)	(0.16)	(0.15)
Earning per shares (Rs.)	(11.40)	(1.14)	0.25
Net Assets Value per share (Rs.)	26.72	5.66	6.02

Erstwhile group companies

The Company was having the following companies up to March 31, 2004 as group companies, which have been amalgamated with the Company vide high court order dated March 24, 2005 effective from April 1, 2004.

➤ Steel City Capital Services Private Limited (SCCSPL)

SCCSPL was incorporated on October 23, 1997 as a Private Limited under the Companies Act, 1956 with the objective to apply for and become in India or abroad member of any Stock Exchange, the Securities & Exchange Board of India, Over the counter Trading and Exchange of India, National Stock Exchange and any other similar Authority, Body or Institution as may be established from time to time by Public Government Financial Institutions or any other persons or group of persons or organization recognized by SEBI from time to time in relation to the Primary and Secondary Capital Market operations.

SCCSPL is registered with SEBI for F & O Trading and Trading or Clearing Member in the years 2001 and 2004 respectively and finally Amalgamated with Steel City Securities Limited in the year 2005.

The Board of Director of SCCSPL comprises:

- Mr. G. Sree Rama Murthy
- Mr. G. Raja Gopal Reddy
- Mr. K. Satyanarayana
- Mr. Satish Kumar Arya

The shareholding pattern of SCCSPL as on the date of 31.12.2004, before amalgamation with SCSL was as under:

Name of Shareholder	Number of Equity Share
Promoter Directors of Steel City Securities Limited	17,36,600
Steel City Securities Limited	3,20,000
Steel City Holdings Limited	40,000
Others	1,55,000
Total	22,51,600



The financial performance for the last three years is as follows:

For the Financial Year ended on March 31,	Rs. in Million except per equity shares data		
	2002	2003	2004
Total Revenues	5.08	5.74	10.80
Profit after Tax	(2.37)	(1.03)	3.73
Equity Share Capital	19.52	22.52	22.52
Reserves	7.16	5.58	9.31
Earnings per share (Rs.) for Equity Share of Rs.10/-	(1.21)	(0.46)	1.66
Net Assets Value per share (Rs.)	15.12	12.43	14.11

➤ **Steel City Holdings Limited (SCHL)**

SCHL was incorporated on August 22, 1995 as a Limited under the Companies Act, 1956 with the objective to carry on the business of share broker or sub-broker or dealer to obtain membership of the one or more stock exchanges and to deal with securities, stocks, bonds, debentures whether convertible or otherwise issued to or to be issued by any Public Limited Companies or Private Limited Companies registered under the Companies Act, 1956.

The Board of Director of SCHL comprises:

- Mr. G. Sree Rama Murthy
- Mr. G. Raja Gopal Reddy
- Mr. K. Satyanarayana
- Mr. Satish Kumar Arya

The shareholding pattern of SCHL as on the date of 31.12.2004 before amalgamation with SCSL was as under:

Name of Shareholder	Number of Equity Share
Promoter Directors	3,39,800
Steel City Securities Limited	3,24,900
Others	16,000
Total	6,80,700

The financial performance for the last three years is as follows:

For the Financial Year ended on March 31,	Rs. in Million except per equity shares data		
	2002	2003	2004
Total Revenues	--	--	--
Profit after Tax	(0.01)	(0.01)	(0.01)
Equity Share Capital	6.81	6.81	6.81
Reserves	(0.02)	(0.02)	(0.02)
Earnings per share (Rs.) for Equity Share of Rs.10/-	(0.02)	(0.02)	(0.02)
Net Assets Value per share (Rs.)	9.63	9.63	9.62



Details of Amalgamation of above companies with Steel City Securities Limited

Steel City Capital Services Private Limited (SCCSPL) and Steel City Holdings Limited (SCHL) have been amalgamated with the Company. The details are as under:

- a) The Scheme of Amalgamation of SCCSPL and SCHL with the company with appointed dated of April 1, 2004 was approved by the shareholders in the court convened meeting held on 29-01-2005. The said scheme of Amalgamation was approved by the Hon'ble High Court of Andhra Pradesh on 24.03.2005. Accordingly, the erstwhile SCCSPL and SCHL, were transferred to and vested in the company. The Company has since made the necessary filings with the Registrar of the Companies, Andhra Pradesh.
- b) The amalgamation has been accounted for under the "Pooling of Interests" method as prescribed under Accounting Standard 14 issued by the Institute of Chartered Accountants of India. Accordingly, the assets, liabilities and other reserves of the erstwhile SCCSPL and SCHL as at 01-04-2004 i.e. appointed date, have been taken over at their respective Book Values.
- c) The SCCSPL being a Holding Company to Steel City Commodities Limited, in turn being a Holding Company (Steel City Securities Limited) to the Steel City Commodities Private Limited, no equity shares were issued by the company.
- d) Surplus arising on account of amalgamation of SCCSPL and SCHL with the company is Rs.0.72 million which was transferred to Capital Reserve A/c, as per the respective statute of scheme of amalgamation.
- e) The Company has issued in consideration of the transfer and vesting of the Undertaking of Steel City Capital Services Private Limited, 1 (one) Equity Share of Rs.10/- each fully paid up credited as fully paid up in Steel City Securities Limited, for every 5 (five) Equity Shares of Rs.10/- each fully paid up held in Steel City Capital Services Private Limited other than the shares held by the transferee company AND the Company has issued in consideration of the transfer and vesting of the Undertaking of the Steel City Holdings Limited, 1 (one) Equity Share of Rs.10/- each fully paid up in Transferee Company for every 3 (three) Equity Shares of Rs.10/- each fully paid up held by them in Steel City Holdings Limited other than the shares held by the transferee company. The cross investments made by the transferee companies by way of shares in Transferor Company shall stand cancelled.
- f) 2,99,849 Equity shares have been allotted (net shares after eliminating the cross holdings of 1,97,065 shares) as fully paid up, pursuant to a scheme of amalgamation, without payment being received in cash for the said shares.

Our Subsidiaries

We have only "**Steel City Commodities Private Limited (SCCPL)**" as our subsidiary.

SCCPL was incorporated on October 07, 2002 as a private limited company under the Companies Act, 1956 and commenced operation in 2004. The main object of Company is to carry on the business of commodities broking. SCCPL is member of NCDEX and MCX.

The Board of Directors of SCCPL comprises:

- Mr. G. Sree Rama Murthy
- Mr. G. Raja Gopal Reddy
- Mr. K. Satyanarayana
- Mr. Satish Kumar Arya



The shareholding pattern of SCCPL as on the date of filing of this Draft Prospectus is as follows:

Sr.No.	Name of Shareholder	No. of Equity Shares
1	Steel City Securities Limited	6,61,500
2	Promoter Directors of Steel City Securities Limited	1,93,500
	Total	8,55,000

The financial performance of the last three-year and for six period ended September 30, 2005 is as follows:

Particulars	Rs. in Million except per equity shares data			
	For the year ended March 31,			Six month period ended 30-09-05
	2003	2004	2005	
Total Revenues	--	0.024	10.34	23.02
Profit After Tax	(0.008)	(0.43)	3.00	7.51
Equity Share Capital	0.10	5.55	8.55	8.55
Reserves	(0.01)	(0.45)	2.55	10.05
Earning per shares (Rs.)	(0.81)	(0.79)	3.50	8.78
Net Assets Value per share (Rs.)	4.14	9.04	12.87	22.68

Interest of Promoters

All the Promoters may be deemed to be interested to the extent of remuneration and/or reimbursement of expenses payable to them for services rendered to us under the Articles. In addition to this all the promoter directors may be deemed to be interested to the extent of interest payable to them on the unsecured loan extended by them to the Company and repayment of unsecured loan from the issue proceeds.

Further, the Promoters are interested to the extent of equity shares that they are holding and or allotted to them out of the present Issue, if any, in terms of the Draft Prospectus and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares.

Except as stated otherwise in this Draft Prospectus, we have not entered into any contract, agreements or arrangements during the preceding two years from the date of this Draft Prospectus in which the Promoters Directors are directly or indirectly interested and no payments have been made to them in respect of these contracts, agreements or arrangements which are proposed to be made to them.

Payment or Benefit to Promoters

For details of payments or benefits paid to Promoter Directors, please refer to paragraph "Compensation to Directors" on page no. [●] of this Draft Prospectus.

Except as stated otherwise in this Draft Prospectus, no amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to any of our Promoters or officers except the normal remuneration for services rendered as directors, officers or employees.

Common Pursuit

Save as stated elsewhere in this Draft Prospectus, none of our subsidiary is engaged in similar businesses as our Company.



Companies of the Promoter/Promoter Group referred to BIFR/under winding-up/having negative networth

None of the companies promoted by our promoter or promoter group have been referred to BIFR or are under winding up or have negative networth.

Related Party Transaction

There have been no sales or purchases between companies in the promoter group except those transaction mentioned under the section titled “Related Party Transactions” on page no. [●] of this Draft Prospectus.

Companies under the same management

Except as stated elsewhere in this Draft Prospectus, there are no companies under the same management within the meaning of section 370 (1)(B) of the Companies Act, 1956.



RELATED PARTY TRANSACTIONS

The details of Related Party Transactions as per the Auditor's Report dated October 28, 2005 are as follows:

Six Months period ended September 30, 2005

(a) Related Party Transactions as on September 30, 2005.

Nature of relationship	Name of Party
(a) Related parties where control exists:	
Subsidiaries	Steel City Commodities Private Limited
Group company under same management	Steel City Insurance Agencies Private Limited
(b) Other related parties:	
Key Management Personnel	Mr. G Sree Rama Murthy
	Mr. G Raja Gopal Reddy
	Mr. K Satyanaryana
	Mr. Satish Kumar Arya

(b) Significant Transactions with Related Parties:

Nature of Transaction	Investment	Remunerati on	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance taken
Steel City Commodities Pvt.Ltd	0.00		78.50	42.76	42.76
Mr. G Sree Rama Murthy		0.20			
Mr. G Raja Gopal Reddy		0.17			
Mr. K Satyanaryana		0.17			
Mr. Satish Kumar Arya		0.14			
Total	0.00	0.68	78.50	42.76	42.76

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account.

(c) Amount due to/from related parties

Nature of Transaction	Rs. in Million
	Due to/(from)
Steel City Commodities Pvt.Ltd	0.00
Mr. G Sree Rama Murthy	11.25
Mr. G Raja Gopal Reddy	1.25
Mr. K Satyanaryana	2.95
Mr. Satish Kumar Arya	0.00
Total	15.45



Year ended March 31, 2005

(a) Related Party Transactions as on March 31, 2005.

Nature of relationship	Name of Party
(a) Related parties where control exists:	
Subsidiaries	Steel City Commodities Private Limited
Group company under same management	Steel City Insurance Agencies Private Limited
(b) Other related parties:	
Key Management Personnel	Mr. G Sree Rama Murthy
	Mr.G Raja Gopal Reddy
	Mr.K Satyanaryana
	Mr.Satish Kumar Arya

(b) Significant Transactions with Related Parties:

Nature of Transaction	Investment	Remunerati on	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance taken
Steel City Commodities Pvt.Ltd	5.62		28.50	17.13	17.13
Mr. G Sree Rama Murthy		1.80			
Mr.G Raja Gopal Reddy		2.04			
Mr.K Satyanaryana		1.80			
Mr.Satish Kumar Arya		1.08			
Total	5.62	6.72	28.50	17.13	17.13

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account.

(c) Amount due to/from related parties

Nature of Transaction	Rs. in Million
	Due to/(from)
Steel City Commodities Pvt.Ltd	0.00
Mr. G Sree Rama Murthy	7.44
Mr.G Raja Gopal Reddy	0.00
Mr.K Satyanaryana	0.00
Mr.Satish Kumar Arya	0.00
Total	7.44



Year ended March 31, 2004

(a) Related Party Transactions as on March 31, 2004

Nature of relationship	Name of Party
(a) Related parties where control exists: Group company under same management	Steel City Commodities Private Limited Steel City Insurance Agencies Private Limited Steel City Capital Services Private Limited Steel City Holdings Limited
(b) Other related parties: Key Management Personnel	Mr. G Sree Rama Murthy Mr.G Raja Gopal Reddy Mr.K Satyanaryana Mr.Satish Kumar Arya

(b) Significant Transactions with Related Parties:

Nature of Transaction	Investment	Remunerati on	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance taken
Steel City Commodities Pvt.Ltd	1.00				
Steel City Insurance Agencies Private Limited	0.06				
Steel City Capital Services Private Limited			10.00		
Steel City Holdings Limited					
Mr. G Sree Rama Murthy		1.80			
Mr.G Raja Gopal Reddy		1.80			
Mr.K Satyanaryana		1.80			
Mr.Satish Kumar Arya		0.96			
Total	1.06	6.36	10.00	0.00	0.00

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account.

(c) Amount due to/from related parties

Nature of Transaction	Rs. in Million
	Due to/(from)
Mr. G Sree Rama Murthy	5.96
Mr.G Raja Gopal Reddy	0.00
Mr.K Satyanaryana	0.00
Mr.Satish Kumar Arya	0.00
Total	5.96



Year ended March 31, 2003

(a) Related Party Transactions as on March 31, 2003

Nature of relationship	Name of Party
(a) Related parties where control exists:	
Group company under same management	Steel City Commodities Private Limited Steel City Capital Services Private Limited Steel City Holdings Limited
Subsidiary Company	Steel City Insurance Agencies Private Limited
(b) Other related parties:	
Key Management Personnel	Mr. G Sree Rama Murthy Mr.G Raja Gopal Reddy Mr.K Satyanaryana Mr.Satish Kumar Arya

(b) Significant Transactions with Related Parties:

Nature of Transaction	Investment	Remunerati on	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance taken
Steel City Commodities Pvt.Ltd					
Steel City Insurance Agencies Private Limited	0.01				
Steel City Capital Services Private Limited	1.70		10.00		
Steel City Holdings Limited					
Mr. G Sree Rama Murthy		0.72			
Mr.G Raja Gopal Reddy		0.84			
Mr.K Satyanaryana		0.84			
Mr.Satish Kumar Arya		0.42			
Total	1.71	2.82	10.00	0.00	0.00

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account.

(c) Amount due to/from related parties

Nature of Transaction	Rs. in Million
	Due to/(from)
Mr. G Sree Rama Murthy	0.67
Mr.G Raja Gopal Reddy	0.63
Mr.K Satyanaryana	0.00
Mr.Satish Kumar Arya	0.00
Total	1.30



SECTION IV: MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (AS PER UNCONSOLIDATED INDIAN GAAP)

You should read the following discussion of our financial condition and results of operations together with our audited unconsolidated and consolidated financial statements for the period ended March 2001, 2002, 2003, 2004, 2005 and the Six months period ended September 30th 2005 under Indian GAAP including the Schedules, Annexure and Notes thereto and the reports thereon, which appear in the Auditor's Report beginning on page no. [●] of this Prospectus. These financial statements are prepared in accordance with Indian GAAP, the Companies Act, 1956 and the SEBI Guidelines and restated as described in the Auditor's Report of M/s Sudhakar & Kumar Associates, Chartered Accountants, dated October 28, 2005 in the section titled "Financial Statements" at page no [●] of this Draft Prospectus. Unless otherwise stated, the financial information used in this section is derived from our audited unconsolidated financial statements under Indian GAAP, as restated.

Our fiscal year ends on March 31st of each year, so all references to a particular fiscal year are to the 12 months period ended March 31st of that year. In this connection, references to "We", "Us" or "Our" refer to "Steel City Securities Limited", "Steel City Commodities Private Limited" and "Steel City Insurance Agencies Private Limited".

OVERVIEW:

We are one of the early and leading companies in India providing online trading activities in stocks and commodities in the villages, semi-urban, towns and major cities. We are member of National Stock Exchange (NSE), the Bombay Stock Exchange Limited (BSE) for both segment i.e. cash and future & options. We carry on the business of the commodities broking through our subsidiary company i.e. Steel City Commodities Private Limited (SCCPL) being member of NCDEX and MCX. In order to expand our business and reach, we are ready to launch our Internet e-broking portal www.steelcitynettrade.com in next few days as all the formalities in this regard are already completed.

We are also involved in the depository services and are registered with SEBI as a depository participant of NSDL and CDSL. We derive a major part of our revenue by way of broking activity and DP operations in the company and commodities broking in our subsidiary. Besides, we are in the mutual fund distribution, initial public offering marketing and distribution of other financial products in the company and insurance products through our group concern namely Steel City Insurance Agencies Private Limited (SCIAPL). SCIAPL is corporate agent of Birla Sun Life Insurance Limited.

At present, we have Steel City Commodities Private Limited as our subsidiary engaged in the commodities broking and Steel City Insurance Agencies Private Limited as our group concern having distribution of insurance products.

We have started our operation by obtaining membership of NSE and later, in the year 2001, we have become member of BSE through our group company, which subsequently amalgamated with the Company. The Company had made significant capital investment in terms of obtaining memberships of various exchanges to provide all the broking services under one roof, technology and equipment as required for expansion of its business operations, a key element for growth of our business.

Our business operations are carried out through 225 centres at 97 Cities/Towns across India through VSAT, VPN and CTCL. Operations of the company is mainly funded through equity contribution from the promoters directors of the Company, plough back of cash generated from operations and bank guarantees obtained from the banks for meeting the margin requirement. The brief details of the funds raised are as under:

- In the year 1995, the Company has raised 10.5 million by issuing equity shares to the promoters and their friends and associates.



- The Company has since incorporation been deploying cash generated from its operations for meeting its capital investments and working capital requirement. It has invested sum of Rs.43.10 million for membership of NSE, BSE, NCDEX, MCX and Depository Services including equity investment in-group and subsidiary companies.
- Besides, it has invested huge sum of Rs.76.54 million in equipment, technology and creation of infrastructure for carrying out the operations smoothly and effectively. Our business requires continuous investment in technology in terms of either up-gradation or regular maintenance.
- The Company, in order to meet the margin requirement of the stock exchanges and therefore, has sought bank financing in the form of bank guarantees from Karnataka Bank Limited, HDFC Bank Limited and ING Vysya Bank Limited. As on September 30, 2005, we have been sanctioned aggregated bank guarantees of Rs. 213.00 million and additionally Rs. 66.50 million in SCCPL, our subsidiary company by these bankers.

Significant developments after September 30, 2005 that may affect the future results of operations of the company

The Company believes, no circumstances have arisen since the date of the last financial statements as disclosed in this Prospectus which materially and adversely affect or are likely to affect, operations or profitability (including subsidiary), or the value of assets or ability to pay liabilities within the next twelve months. There is no subsequent development after the date of the Auditor's Report, which Company believes, is expected to have a material impact on the Company and its operations.

Factors affecting results of Operation

There are many factors influencing our operations and affecting the business operations, profitability and cash flow. Based on our past experience, these factors are as under:

1. Stock market behaviour, capital market trends, legal and compliances risks
2. Economic conditions, business cycles and stability of policies
3. Increasing the client base with retention of existing clientele relationship
4. Continuous up-gradation, maintenance of systems for uninterrupted operations
5. Ability to control cost and attain high productivity
6. Meeting with the up-coming challenges in financial markets
7. Mitigating measures for competition from existing and new entrants in this segment

Besides above mentioned factors, there could be number of future developments and factors both internal and external affecting our results of operations, financial conditions and cash flow in future periods. In our opinion, these are few factors having influence on our business operations and consequently, financial conditions and cash flow:

Internal:

1. Ability to raise the capital and successfully implement the envisaged expansion plan
2. Ability to Increase in the number of clients base and cost competitiveness
3. Successful execution of our growth strategy including launching of our e-broking portal
4. Ability to provide additional services and information to our clientele by adding products for offering it to retail customers across locations
5. Overall performance of our subsidiary and depository services, significant contributory to our revenues in future
6. Growth in overall volumes due to above coupled with favourable capital market conditions



External:

7. Overall performance of capital and stock market in future
8. Facing the competitions from existing established and new reputed companies
9. Overall economic scenario, govt. policies and regulations affecting the Indian capital markets

For more information on these and other factors / developments, which have or may affect us financially, please refer to the other parts of this section titled “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” as well as the section titled “Risk Factors” on page no. [●] and the section titled “Business” on page no. [●] of this Red Herring Prospectus.

OUR SIGNIFICANT ACCOUNTING POLICIES

Preparation of financial statements in accordance with Indian generally accepted accounting principles, the applicable accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, require our management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of our assets and liabilities, disclosures of contingent liabilities and the reported amounts of revenues and expenses. These judgments, assumptions and estimates are reflected in our accounting policies, which are more fully described in “Financial Statements – Significant Accounting Policies” section of the Auditor’s Report appearing on page no. [●] in this Prospectus. Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant assumptions and estimates of our management. While we believe that all aspects of our financial statements should be studied and understood in assessing our current and expected financial condition and results, we believe that the following significant accounting policies warrant additional attention:

Significant Accounting Policies:**1. System of Accounting**

The Company adopts the accrual basis in the preparation of the accounts.

2. Income Recognition

Income from Trading Operations, which comprises of Brokerage, is accounted for up to the date of last settlement in the financial year.

3. Expenses

Expenses other than Deferred Revenue Expenses are accounted on accrual basis and provisions made for all known liabilities and losses on available information.

Deferred Revenue Expenses are charged to revenue over the period for which the benefit of such expenditure is likely to be enjoyed.

4. Fixed Assets

Fixed Assets are valued at cost less accumulated Depreciation.

5. Depreciation

Depreciation is provided under straight-line method at the rates prescribed under Schedule-XIV of the Companies Act, 1956.



6. Stoke-in-Trade (Shares)

Equity Shares are valued scrip wise at cost or market value whichever is lower.

7. Recognition of Trading Expenses

Trading losses arising out of communication & computer disruptions and other operational reasons are treated as trading expenses

8. Taxes on Income

Provision for current tax is made in accordance with the provisions of Income Tax Act, 1961.

Deferred Tax on account of timing difference between taxable and accounting income is provided using the tax rates and tax laws enacted or substantially enacted by the Balance Sheet Date.

9. Investments

- Investments that are intended to be held for more than a year are classified as Long-term Investments. All other investments are classified as current investments.
- Long-term investments are carried at cost.

10. Retirement Benefits

- The Company's contribution to Provident Fund is recognized on accrual basis.
- Leave encashment liability is provided on the basis of actual valuation made by the management at the end of each calendar year.

BUSINESS PERFORMANCE

Income:

Our income has 2 main components: Broking and DP Services. The following table sets forth the our revenue and of other income towards total income during each of financial years 2003, 2004, 2005 and Six month period ended on September 30, 2005:

Contribution of various revenue streams to total income:

Particulars	Financial Year ended March 31,						Rs. in Million	
	2003		2004		2005		Six Months Period Ended 30-09-05	
	Amount	In %	Amount	In %	Amount	In %	Amount	In %
Income:								
Income from Broking	54.17	82.89	109.66	88.64	165.92	88.4	112.45	92.17
Income from Depository Operations	4.51	6.9	10.26	8.29	12.09	6.44	5.84	4.79
Other Income	6.67	10.21	3.8	3.07	9.68	5.16	3.71	3.04
Total Income	65.35	100.00	123.72	100.00	187.69	100.00	122.00	100.00

Revenues

During the our fiscal year ended March 31, 2005 and six month period ended September 30, 2005 and also in the past 2 years our sources of revenue have been:

- Broking – shares
- Depository Services



Other Income

Other income primarily relates to income from interest on fixed deposits pledged with the banks as margin money for obtaining bank guarantees for our operations, commission on mutual funds distribution, commission on marketing of primary issues and amount of bad debt recoveries, which have been written off during the earlier years as bad debts etc. Other income comprised 10.21%, 3.07%, 5.16% and 3.04% of total income for financial years 2003, 2004, 2005 and Six months period ended on September 30, 2005 respectively.

Expenditure

The following table sets out Steel City Securities Limited expenses as a percentage of its total expenses for the fiscal years ended March 31, 2003, 2004, 2005 and six-month period ended on September 30, 2005:

Particulars	Financial Year ended						Rs. in Million Six Months Period Ended	
	March 31, 2003		March 31, 2004		March 31, 2005		30-09-05	
	Amount	In %	Amount	In %	Amount	In %	Amount	In %
Expenditure on Trading Operations	10.72	17.00	14.06	15.83	14.94	10.81	6.27	7.44
Employees Cost	11.04	17.50	19.85	22.35	22.89	16.57	11.44	13.57
Administrative & Other Expenses	36.32	57.60	49.94	56.24	93.86	67.94	61.90	73.41
Interest	0.71	1.10	0.59	0.66	1.24	0.90	1.20	1.42
Depreciation & Amortization	4.29	6.80	4.36	4.91	5.23	3.79	3.51	4.16
Total Expenditure	63.08	100.00	88.80	100.00	138.16	100.00	84.32	100.00

Expenses

Our expenses primarily consist of:

- Trading operations consisting of Transaction Charges and VSAT Charges;
- Employee costs;
- General and administrative costs including sub-brokerage; and
- Depreciation and amortization.

Transaction Charges consist of charges to both Stock Exchanges i.e. BSE, NSE including NSDL and CDSL for transactions done on behalf of our Clients.

VSAT Charges consist of charges for facilities provided by Stock Exchanges for executing the transactions through VSATs. These charges vary from exchange to exchange and also on the nos. of VSAT. NSE has a policy of collecting VSAT charges at a fixed amount of Rs. 1,10,000/- per VSAT per annum and BSE has different basis for collecting VSAT charges depending upon the ownership means.

Employee costs consist primarily of salaries and employment related benefits and also includes Managerial Remuneration. We hire *inter alia* a team of research analysts, software and hardware engineers, and support staff for accounts, human resources and administrative functions. As our operations grow, we expect that number as well as cost of employees will increase substantially.

General and administrative expenses primarily include our corporate and branch offices expenses for rent, repair of equipment, telephone, utilities, bad debts written off and other general overhead costs. We expect that such expenses will increase to be a significant portion of our total expenses.



Sub-brokerage expenses primarily consist of sub-brokerage earned and paid to our Registered Sub-brokers for the transactions done on behalf of their clients.

We **depreciate** our tangible assets including software under straight-line method at the rates prescribed under Schedule-XIV of the Companies Act, 1956.

Adjusted Profit/(Loss) after Tax

The adjusted profit/(loss) after tax consists of the net profit/(loss) after tax as per the audited statement of accounts, adjusted on account of the impact of material adjustments and prior period items i.e short/excess provision of income tax.

Our Results of Operations

The table below sets forth various line items from our restated financial statements for FY2003, FY2004, FY2005 and Six month period ended on September 30, 2005 as a percentage of Total Income.

Particulars	Financial Year ended March 31,						Rs. in Million Six months Period Ended	
	2003		2004		2005		30-09-05	
	Amount	In %	Amount	In %	Amount	In %	Amount	In %
Operating Revenues	58.68	89.79	119.92	96.93	178.01	94.84	118.29	96.96
Other Income	6.67	10.21	3.80	3.07	9.68	5.16	3.71	3.04
Total Revenue	65.35	100.00	123.72	100.00	187.69	100.00	122.00	100.00
Trading Cost	10.72	16.4	14.06	11.36	14.94	7.96	6.27	5.14
Personnel Cost	11.04	16.89	19.85	16.04	22.89	12.2	11.44	9.38
Administrative Cost	36.32	55.58	49.94	40.36	93.86	50.01	61.90	50.74
Depreciation	4.29	6.56	4.36	3.52	5.23	2.79	3.51	2.88
Finance Charges	0.71	1.09	0.59	0.48	1.24	0.66	1.20	0.98
Net Profit / (Loss) before Tax	2.27	3.47	34.91	28.22	49.53	26.39	37.67	30.88
Current Tax	1.75	2.68	12.75	10.31	15.19	8.09	11.25	9.22
Deferred Tax Liability / (Asset)	-0.23	-0.35	0.19	0.15	1.47	0.78	1.25	1.03
Net Profit / (Loss) after Tax	0.75	1.15	21.97	17.76	32.88	17.52	25.17	20.63

The six months period ended September 30, 2005

- **Total Income**

Total income of Steel City Securities Limited for Six-month period is Rs.122.00 million.

- **Other income**

Interest on fixed deposits was Rs. 2.41 million & Bad Debt recovery was Rs. 0.98 million and other income for the period as a whole was Rs. 3.71 million.

- **Expenditure on Trading Expenses**

Trading expenses for six months period ended September 30, 2005 was Rs. 6.27 million.

- **Employee cost**

Employee cost was Rs. 11.44 million for six months period ended September 30, 2005.

- **Administrative and other expenses**



These expenses stood at Rs. 61.90 million for six months period September 30, 2005.

- **Depreciation and Amortization**

Depreciation and Amortization cost was Rs. 3.51 million for six-month period September 30, 2005.

- **Operating Profit/(Loss)**

Operating profit was Rs. 41.18 million for six months period ended September 30, 2005.

- **Profit/(Loss) before tax**

The company made a Profit before tax of Rs. 37.67 million for six months period ended September 30, 2005.

- **Profit/(Loss) after tax**

Profit after tax was Rs. 25.17 million for six months period ended September 30, 2005.

Comparison of six months period ended September 30, 2005 with FY 2005

- **Total Income**

Total income of Steel City Securities Limited registered a growth of 30.00% to Rs.122.00 million in Six month period ended September 30, 2005 from Rs. 187.69 million in FY 2004-05. This was on account of increase in the no. of clients and our centres.

- **Other income**

Interest on fixed deposits for six month period September 30, 2005 is Rs. 2.40 million as compared Rs. 2.94 million for FY 2004-2005 as bank fixed deposits increased and in bad debt recoveries are from Rs. 0.98 million for the Six months period ended September 30, 2005 as compared to Rs. 3.75 million for the FY 2004-2005. Whole Other income is Rs.3.71million for six months period September 30, 2005 compared to Rs. 9.68 million in FY 2004-05.

- **Expenditure on Trading Expenses**

Trading expenses are Rs. 6.27 million for the Six months period September 30, 2005 as compared to Rs.14.94 million in FY 2004-05 recording decrease of 16.06% due to decrease on Transaction charges by NSEIL.

- **Employee cost**

Employee cost is Rs. 11.44 million for the Six months period September 30, 2005 as compared to Rs.22.89 million in FY 2004-05 with no change.

- **Administrative and other expenses**

These expenses are Rs. 61.90 million for the Six months period September 30, 2005 as compared to Rs.93.86 million in FY 2004-05 registering a raise of 31.90%, due to increase in sub-brokerage payment on account of increase in trading volumes and operations.

- **Depreciation and Amortization**



Depreciation and Amortization cost was Rs. 3.51 million for the Six months period September 30, 2005 as compared to Rs. 5.23 million in FY 2004-05 registering a raise of 34.23% on account of addition to the fixed assets.

- **Operating Profit/(Loss)**

Operating profit for Six months period September 30, 2005 was Rs. 41.18 million as compared to Rs. 54.76 million in FY 2004-2005, which was a significant growth when compared to the operating profit. The significantly improved operating performance was due to improved business climate.

- **Profit/(Loss) before tax**

The operations turned around with significant improvement in operating profit. The company made a Profit before tax of Rs. 37.67 for the Six months period September 30, 2005 as compared to Rs. 49.53 million in FY 2004-05.

- **Profit/(Loss) after tax**

Profit after tax was Rs.25.17 million for six months period September 30, 2005 as compared with profit of Rs. 32.88 million in FY 2004-05.

Comparison of FY 2005 with FY 2004

- **Total Income**

Total income of Steel City Securities Limited registered a growth of 51.71% to Rs.187.69 million in FY 2004-05 from Rs.123.72 million in FY 2003-04. This was on account of increase in the no. of clients and our centres.

- **Other income**

Interest on fixed deposits increased from Rs. 2.94 million to Rs. 3.82 million as bank fixed deposits increased and increase in bad debt recoveries are from Rs. 0.48 million to 3.75 million. Other income as a whole increased by 154.74% from Rs. 3.80 million in FY 2003-04 to Rs. 9.68 million in FY 2004-05.

- **Expenditure on Trading Expenses**

Trading expenses increased from Rs.14.06 million in FY 2003-04 to Rs.14.94 million in FY 2004-05 recording a raise of 6.26% due to increase in trading volumes.

- **Employee cost**

Employee cost increased from Rs.19.85 million in FY 2003-04 to Rs.22.89 million in FY 2004-05 recording a raise of 15.32%.

- **Administrative and other expenses**

These expenses increased from Rs.49.94 million in FY 2003-04 to Rs.93.86 million in FY 2004-05 registering a raise of 87.95%, due to increase in sub-brokerage payment on account of increase in trading volumes and operations.

- **Depreciation and Amortization**



Depreciation and Amortization cost was increased from Rs. 4.36 million in 2003-04 to Rs. 5.23 million in FY 2004-05 registering a raise of 19.95% on account of addition to the fixed assets.

- **Operating Profit/(Loss)**

Operating profit in FY 2004-05 was Rs. 54.76 million, which was a significant growth when compared to the operating profit of Rs. 39.27 million in FY 2003-04. The significantly improved operating performance was due to improved business climate.

- **Profit/(Loss) before tax**

The operations turned around with significant improvement in operating profit. The company made a Profit before tax of Rs. 49.53 million in FY 2004-05, as against a profit of Rs. 34.91 million in FY 2003-04.

- **Profit/(Loss) after tax**

Profit after tax was Rs. 32.88 million in FY 2004-05, as compared with the profit of Rs. 21.97 million in FY 2003-04.

Comparison of FY 2004 with FY 2003

- **Total Income**

Total income of Steel City Securities Limited registered a growth of 89.32% to Rs. 123.72 in FY 2003-04 versus Rs. 65.35 million in FY 2002-03. The increase in total income is on account of increase in brokerage income due to increase in no. of centres and registered clients.

- **Other income**

Interest on fixed deposits fell from Rs. 3.90 million to Rs. 2.94 million as bank fixed deposits rate was fallen and bad debt recoveries amount fallen from Rs. 1.73 million to 0.48 million. Other income as a whole fell by 43.03% from Rs. 6.67 million in FY 2002-03 to Rs. 3.80 million in FY 2003-04.

- **Expenditure on Trading expenses**

Trading expenses increased from Rs. 10.72 million in FY 2002-03 to Rs. 14.06 million in FY 2003-04 recording a raise of 31.16% due to increase in trading volumes.

- **Employee cost**

Employee cost increased from Rs. 11.04 million in FY 2002-03 to Rs. 19.85 million in FY 2003-04 recording a raise of 79.80%.

- **Administrative and other expenses**

These expenses increased from Rs.36.32 million in FY 2002-03 to Rs. 49.94 million in FY 2003-04 registering a raise 37.50%, due to increase in sub-brokerage payment.

- **Depreciation and Amortization**

Depreciation and Amortization cost was increase from Rs.4.29 million in 2002-03 to Rs.4.36 million in FY 2003-04 registering a raise 1.63% on account of addition to the fixed assets.

- **Operating Profit/(Loss)**



Operating profit in FY 2003-04 was Rs. 39.27 million, which was a significant growth when compared to the operating profit of Rs. 6.56 million in FY 2002-03. The significantly improved operating performance was due to improved business climate.

- **Profit/(Loss) before tax**

The operations turned around with significant improvement in operating profit. The company made a Profit before tax was Rs. 34.91 million in FY 2003-04, as against a profit of Rs. 2.27 million in FY 2002-03.

- **Profit/(Loss) after tax**

Consequently, profit after tax was Rs. 21.97 million in FY 2003-04 registering a whopping increase of almost 2829.33%, as compared with the profit of Rs. 0.75 million in FY 2002-03.

Comparison of FY 2003 with FY 2002

- **Total Income**

Total income of Steel City Securities Limited registered a growth of 3.75% to Rs. 65.35 in FY 2002-03 versus Rs. 62.99 million in FY 2001-02.

- **Other income**

Interest on fixed deposits fell from Rs. 4.72 million to Rs. 3.90 million as bank fixed deposits withdrawn to meet the working capital requirements and Bad Debt Recoveries are raised from Rs. 0.93 million to Rs. 1.73 million. Other income as a whole fell by 31.38% from Rs. 9.72 million in FY 2001-02 to Rs. 6.67 million in FY 2002-03.

- **Expenditure on Trading Expenses**

Trading expenses decreased from Rs. 12.03 million in FY 2001-02 to Rs. 10.72 million in FY 2002-03 recording a fall of 10.89% on account of transaction charges reduced by NSE.

- **Employee cost**

Employee cost was maintained at the same level of Rs. 11.03 million in FY 2001-02 to Rs. 11.04 million in FY 2002-03.

- **Administrative and other expenses**

These expenses increased from Rs. 32.49 million in FY 2001-02 to Rs. 36.32 million in FY 2002-03 registering a raise of 11.79%.

- **Depreciation and Amortization**

Depreciation and Amortization cost was maintained at the same level from Rs. 4.29 million in 2001-02 to Rs. 4.29 million in FY 2002-03.

- **Operating Profit/(Loss)**

Operating profit in FY 2002-03 was Rs. 6.56 million, when compared to the operating profit of Rs. 6.12 million in FY 2001-02.



- **Profit/(Loss) before tax**

The company made a Profit before tax was Rs. 2.27 million in FY 2002-03, as against a profit of Rs. 1.83 million in FY 2001-02.

- **Profit/(Loss) after tax**

Profit after tax was Rs. 0.75 million in FY 2002-03, as compared with the profit of Rs. 1.23 million in FY 2001-02.

Liquidity and Capital Resources

Liquidity

Our primary liquidity needs have historically been to finance our capital expenditure and to some extent our working capital needs. To fund these, we have relied on cash flows from operations and also bank guarantees from our bankers.

Cash Flows

The table below summarizes our cash flows for the year ended March 31, 2003, 2004, 2005 and six months period ended on September 30, 2005:

Stand alone	Rs. in Million			
	Year ended 31 March, 2003	Year ended 31 March, 2004	Year ended 31 March, 2005	Six months period ended 30-09-05
Cash at the Open	62.04	66.10	106.94	161.42
Net cash from operating activities	10.91	44.50	56.27	40.42
Net cash used in financing activities	(10.04)	8.68	8.76	14.48
Net cash from investing activities	3.19	(12.35)	(10.55)	(7.28)
Cash at the end	66.10	106.94	161.42	209.06

Figures in brackets represent cash outflow.

Indebtedness

Key terms of our outstanding indebtedness as on September 30, 2005 were as follows:

Rs. in Million				
S.No.	Source	Amount	Int. Rate	Repayment Terms
1	Loan from LIC Secured against: Keyman Insurance Policies	11.12	10.50	The loan is taken against key man insurance policies, hence there is no specified repayment terms.
2	Car Loan from HDFC Bank	1.01	5.98	Equated Monthly installments

Besides above, we are enjoying non-fund based working capital limits in the form of bank guarantees from our bankers i.e. Karnataka Bank Limited, HDFC Bank Limited and ING Vysya Bank Limited to the extent of 213.00 million secured on the fixed assets of company and personal guarantees of promoter directors of the Company.

Historical and Planned Capital Expenditures

We made additions to fixed assets, amounting to Rs. 4.92 million, Rs. 12.70 million, Rs. 15.74 million and Rs. 7.26 million for FY 2003, 2004, 2005 and six month period ended September 30, 2005



Our capital expenditure plan as per our objects for the current issue besides augmenting working capital is as under:

1. Opening of new centres
2. Investment in technology and up-gradation of office infrastructure

We offer information and advice, execution platform, after sales service and support for a wide range of investment products including equities, mutual funds, life insurance and commodities. For ease of administration and compliance, businesses linked to different product lines are carried on by subsidiary and group company. They also enable us to offer a wide range of financial services and products to our customers and cross selling opportunities. We intend to utilize the issue proceeds towards the above-mentioned capital expenditure program by September, 2006.

For more information on these including the proposed deployment pattern, please refer to the section titled "Objects of the Issue" on page no. [•] of this Prospectus.

Related Party Transactions

For details of related party transactions, please refer to the section entitled "Related Party Transactions" on page no. [•] of this Prospectus.

Financial Market Risks

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial market risks from changes in interest rates and inflation.

Interest rate risk

We have been enjoying non-fund based working capital limits and interest rate risk results from changes in interest rates though not significant but may affect our financial expenses. Further, increase in interest rate could affect the capital market sentiment, which ultimately affect our business volumes.

Effect of Inflation

We are not directly affected by inflation in any significant way. However inflation does affect investor sentiment about equity investing and business confidence, thereby affecting our business volumes.

Information required as per Clause 6.8 of SEBI Guidelines

1. Unusual or infrequent events or transactions

Except as stated elsewhere or in the Auditor's report in this Red Herring Prospectus, we are not aware of any unusual or infrequent events or transactions.

2. Significant economic/regulatory changes

The Company's business is highly dependent on the regulatory environment. All the activities carried out by the Company are regulated by SEBI and require prior registration in most of the cases. The operations are regulated and are subject to periodic review/ inspection from regulatory agencies and stock exchanges. Since the levels of operations are dependent on the general economic conditions, any changes in the economic conditions may affect the revenues and profitability of the Company. Other than as described in this Prospectus, particularly in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Company believes,



there are no significant economic / regulatory changes that materially affect or are likely to affect the income from continuing operations.

3. Known trends or Uncertainties

Other than as described elsewhere in this Prospectus, to the best of our knowledge, there are no known trends or uncertainties that have or had or are expected to have a material adverse impact on revenue or income of the Company from continuing operations.

4. Future relationship between costs and income

We are continuously working to create efficient processes resulting in cost reduction and have a better control over our supply chain. We expect to continue this effort of improving our technology initiatives and try and realize better margins in the future.

Other than as described elsewhere in this Prospectus, to the best of 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. Total turnover for the industry

Please refer to the discussions in the section titled “Industry” on page [•] of this Prospectus.

6. New Products or business segments

For details of new products or business segments, please refer to the section titled “Business” on page [•] of this Prospectus.

7. Our Strategy

For details of our strategy, please refer to the section titled “Business” on page [•] of this Prospectus.

8. Seasonality of business

Other than as described elsewhere in this Prospectus, to the best of our knowledge, there are no known factors, which are seasonal in nature and which we feel will have a material impact on the operations and finances of the Company.

9. Dependence on single or few suppliers / customers

Other than as described elsewhere in this Prospectus, to the best of our knowledge, we are not dependent on any single or few suppliers/customers.

10. Competitive Conditions

We believe that we are well positioned to enhance our position as stock, commodities broking and depository Services Company. On account of our competitive strengths, we feel that we are well positioned to serve our customers. Such strengths include:

- Established clientele base of broking (36,311) and DP services (46,712)
- Already having presence at 97 Cities/Towns through 225 centres
- All broking services under one roof i.e. NSE, BSE (cash & F&O segment), NCDEX and MCX
- Integrated technology platform
- Developed own in house backup software “Steel Pack”.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (AS PER CONSOLIDATED INDIAN GAAP)

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements for the period ended March 31, 2001, 2002, 2003, 2004, 2005 and Six month period ended on September 30, 2005 under Indian GAAP including the schedules, annexure and notes thereto and the reports thereon, which appear in the Auditors Report beginning on page [•] of this Prospectus. These financial statements are prepared in accordance with Indian GAAP, the Companies Act, 1956 and the SEBI Guidelines and restated as described in the Auditor's Report of M/s. Sudhakar & Kumar Associates dated October 28, 2005 in the section with the title "Financial Statements" on page [•] of this Red Herring Prospectus. Unless otherwise stated, the financial information used in this section is derived from our audited consolidated financial statements under Indian GAAP, as restated.

Our fiscal year ends on March 31 of each year, so all references to a particular fiscal year are to the 12-month period ended March 31 of that year. In this section, references to we, us or our, refer to Steel City Securities Limited and Steel City Commodities Private Limited, on a consolidated basis.

Overview

Our various services are offered through Steel City Securities Limited and its subsidiary viz. Steel City Securities Limited. We therefore believe the consolidated accounts provide a better view of the Company and its operations. We have amalgamated group companies namely Steel City Capital Services Private Limited and Steel City Holdings Limited with appointed date of April 1, 2004 vide high court order dated March 24, 2005. Therefore, financial figure for the FY 2005 of Steel City Securities Limited is inclusive of their operations.

We are one of the leading players in intermediary market space. We have membership of The Bombay Stock Exchange Limited (BSE) and The National Stock Exchange of India (NSE). We are also a depository participant with the National Securities Depository Limited (NSDL) and Central Depository Services (I) Limited (CDSL). We are authorized agent for all the major Mutual Funds in India. We offer services broking in equities and commodities. In order to expand our business and reach, we are ready to launch our Internet e-broking portal www.steelcitynettrade.com in next few days as all the formalities in this regard is already completed.

Our mainstay of revenue is brokerage income on secondary trading and stock market and commodity market through our centres online as well as offline customers and agency commission on Mutual Funds.

Several factors have affected our results of operations, financial conditions and cash flow significantly or there could be number of future developments and factors both internal and external affecting our results of operations, financial conditions and cash flow in future periods. For information on these factors having influence on our business operations and consequently, financial conditions and cash flow please refer to earlier section of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page [•] as well as the section titled "Risk Factors" on [•] and the section titled "Business" on page [•] of this Prospectus.

Significant Accounting Policies and Notes forming part of the Balance Sheet as at September 30, 2005 and Profit and Loss Account for the year ended September 30, 2005 are mentioned in the earlier section.

NOTES TO CONSOLIDATED RESTATED STATEMENT OF PROFIT & LOSS AND CONSOLIDATED RESTATED ASSETS AND LIABILITIES

BUSINESS PERFORMANCE

We generated a positive cash flow since inceptions. Our ability to continue generating positive cash flow from operations and achieve profitability is dependent on our ability to grow our broking, depository services and retail distribution of personal financial products and to achieve operating efficiencies. We expect that we will generate



revenues from our equity broking operations, depository services and retail personal financial product distribution business to generate significant growth. We also expect revenues from commodities broking.

However, we may not be able to sustain the growth in future or achieve positive cash flow or profitability in the future.

Income:

Our income has 3 main components: Equities brokerage, depository services and commodities broking. The following table sets forth the contribution of the different components of our revenue and of other income towards total income during each of financial years 2003, 2004, 2005 and six month period ended on September 30, 2005:

Particulars	Financial Year ended March 31,						Rs. in Million	
	2003		2004		2005		Six months Period Ended	
	Amount	In %	Amount	In %	Amount	In %	30-09-05	Amount
Income from Equity Broking	54.17	82.89	109.66	88.61	165.92	83.79	112.45	77.55
Income from Depository Operations	4.51	6.9	10.26	8.29	12.09	6.11	5.83	4.02
Income from Commodity Broking	0	0	0.01	0.01	10.16	5.13	22.34	15.41
Other Income	6.67	10.21	3.82	3.09	9.86	4.98	4.39	3.02
Total Income	65.35	100.00	123.75	100.00	198.03	100.00	145.01	100.00

Revenues

During the six months period ended on September 30, 2005, our sources of revenue have been:

- **Equities brokerage** comprises the income received from broking activities in the Cash and Derivatives segments of both the exchanges, i.e. BSE and NSE comprised 82.89%, 88.61%, 83.79% and 77.55% of total income for the financial years 2003, 2004, 2005 and six month period ended on September 30, 2005 respectively.
- **Depository Services** comprised 6.90%, 8.29%, 6.11% and 4.02% of total income for the financial years 2003, 2004, 2005 and six months period ended on September 30, 2005 respectively.
- **Commodity Brokerage** comprises the income received from broking activities of Multi Commodity Exchange (MCX), National Commodity & Derivatives Exchange (NCDEX) comprised 0.00%, 0.00% 5.13% and 15.41% of total income for the financial years 2003, 2004, 2005 and six months period ended on September 30, 2005 respectively.
- **Other Income** comprise of interest on fixed deposit, bad debts recoveries, commission on mutual funds distribution and marketing of primary issues and constituting 10.21%, 3.09% 4.98% and 3.02% of total income for the financial years 2003, 2004, 2005 and six months period ended on September 30, 2005 respectively.

From the six months period ended on September 30, 2005, we are having additional source of revenue from:

- Commodities broking income is the revenue generated by trading activities in the commodities exchange, NCDEX and MCX conducted by Steel City Commodities Private Limited. The activities of commodities broking commenced during the six month period ended September 30, 2005, where it contributed 15.41% to the total income.



- Equities broking income from BSE, generated by erstwhile group company i.e. Steel City Capital Services Private Limited included for the FY2005 in the total income of the company, consequent upon amalgamation of it with company.

Expenditure

The following table sets out expenses as a percentage of its total expenses for the fiscal years ended March 31, 2003, 2004, 2005 and six months period ended on September 30, 2005:

Particulars	Financial Year ended						Rs. in Million Six months Period Ended	
	31-Mar-03		31-Mar-04		31-Mar-05		30-09-05	
	Amount	In %	Amount	In %	Amount	In %	Amount	In %
Expenditure on Trading Operations	10.72	17.00	14.08	15.77	15.8	10.97	6.40	6.67
Employees Cost	11.04	17.50	19.85	22.24	23.09	16.04	11.70	12.20
Administrative & Other Expenses	36.32	57.58	50.35	56.41	98.53	68.43	72.99	76.12
Interest	0.71	1.13	0.59	0.66	1.24	0.86	1.20	1.25
Depreciation & Amortization	4.29	6.80	4.39	4.92	5.32	3.70	3.60	3.76
Total Expenditure	63.08	100.00	89.26	100.00	143.98	100.00	95.89	100.00

Expenses

Our expenses primarily consist of:

- Transaction Cost and VSAT Charges;
- Employees Cost;
- General and administrative costs includes sub-brokerage; and
- Depreciation and amortization.

Transaction Charges consist of charges to Stock Exchanges i.e. BSE, NSE, NCDEX, MCX, NSDL and CDSL fees for transactions done on behalf of our Clients.

VSAT Charges consist of charges for facilities provided by Stock Exchanges for executing the transactions through VSATs. These charges vary from exchange to exchange and also on the nos. of VSATs.

Employee cost consists primarily of salaries and employment related benefits and also includes managerial remuneration. To service a large number of broking customers, we require a team of managers, dealers and back-office staff. We also hire and plan to expand the teams for our new centres and marketing and selling mutual funds, fixed income products through our centres and for back office. We also have a significant number of technical staff, who help in maintaining and expanding the technology backbone for our online / offline trading in shares and commodity as well as for internally developed MIS software. As a result, we expect that employee cost will increase substantially as we continue to expand our retail network as well also the team of Manager, Dealers, Back office staff in anticipation of future growth in business.

General and administrative expenses primarily include our corporate and branch offices for rent, repair of equipment, telephone, utilities, bad debts written off and other general overhead costs. We expect that such expenses will increase to be a significant portion of our total expenses.

Sub-brokerage primarily consist of sub-brokerage paid to our registered Sub-brokers for the transactions done on behalf of their clients



We **depreciate** our tangible assets including software under straight-line method at the rates prescribed under Schedule-XIV of the Companies Act, 1956.

Adjusted Profit/(Loss) after Tax

The adjusted profit/(loss) after tax consists of the net profit/(loss) after tax as per the audited statement of accounts, adjusted on account of the impact of material adjustments and prior period items i.e short/excess provision of income tax

Our Results of Operations

The table below sets forth various line items from our restated consolidated financial statements for FY 2003, FY 2004, FY 2005 and six months period ended on September 30, 2005

Particulars	Financial Year ended March 31,						Six months Period Ended	
	2003		2004		2005		30-09-05	
	Amount	In %	Amount	In %	Amount	In %	Amount	In %
Operating Revenues	58.68	89.79	119.93	96.91	188.17	95.02	140.62	96.97
Other Income	6.67	10.21	3.82	3.09	9.86	4.98	4.39	3.03
Total Revenue	65.35	100.00	123.75	100.00	198.03	100.00	145.01	100.00
Trading Cost	10.72	16.4	14.08	11.38	15.8	7.98	6.40	4.41
Personnel Cost	11.04	16.89	19.85	16.04	23.09	11.66	11.70	8.07
Operating Cost	36.32	55.58	50.35	40.69	98.53	49.75	72.99	50.33
Depreciation	4.29	6.56	4.39	3.55	5.32	2.69	3.60	2.48
Finance Charges	0.71	1.09	0.59	0.48	1.24	0.63	1.20	0.83
Net Profit / (Loss) before Tax	2.27	3.47	34.49	27.87	54.05	27.29	49.12	33.88
Current Tax	1.75	2.68	12.75	10.3	16.63	8.4	15.11	10.42
Deferred Tax Liability / (Asset)	-0.23	-0.35	0.19	0.15	1.56	0.78	1.33	0.92
Net Profit / (Loss) after Tax	0.75	1.15	21.53	17.40	35.87	18.11	32.68	22.54

Revenue

The standalone revenue breakup of Steel City Securities Limited (SCSL), and its subsidiary Steel City Commodities Private Limited and the consolidated revenue mix of SCSL after restatement and adjustment as on September 30, 2005 is as given below:

Particulars	Rs. in Million		
	SCSL (Consolidated)	SCSL (Individual)	SCCP (Individual)
Income from Equity Broking	112.45	112.45	-
Income from Depository Operations	5.83	5.83	-
Income from Commodity Broking	22.34	-	22.34
Other Income	4.39	3.71	0.68
Total Income	145.01	122.00	23.02

Expenditure

The standalone expenditure breakup of issuer company and its subsidiary and the consolidated expenditure mix of SCSL after restatement and adjustment as on September 30, 2005 is as given below:



Particulars	Rs. in Million		
	SCSL (Consolidated)	SCSL (Individual)	SCCPL (Individual)
Expenditure on Trading Operations	6.40	6.27	0.13
Employees Cost	11.70	11.44	0.26
Administrative & Other Expenses	72.99	61.90	11.09
Interest	1.20	1.20	-
Depreciation & Amortisation	3.60	3.51	0.09
Total Expenditure	95.90	84.32	11.58

The Six months ended September 30, 2005

- **Total Income:**

The total income of the company comprising Equities Brokerage, Depository Services, Commodities Brokerage and Other income was at Rs. 145.01 million.

- **Equities brokerage:**

Equities brokerage income generated revenues of Rs. 112.45 million.

- **Depository Operations:**

Income generated from DP Services to the tune of Rs. 5.83 million.

- **Commodities brokerage:**

Income generated from Commodity brokerage to the tune of Rs. 22.34 million.

- **Other Income:**

Income generated from FDRs interest, Bad debts recoveries etc to the tune of Rs. 4.39 million.

- **Expenditure on Trading Operations:**

Expenditure on Trading Operations was Rs. 6.40 million.

- **Employees Cost:**

Employees Cost includes managerial remuneration were Rs. 11.70 million.

- **Administrative & Other Expenses:**

Administrative Expenditure was Rs. 72.99 million, which includes sub-brokerage.

- **Interest:**

Interest costs during this period is Rs. 1.20 million.

- **Depreciation & Amortisation:**

Depreciation and Amortization charge for this period were Rs. 3.60 million.



- **Profit before tax:**

Profit before tax was Rs. 49.12 million for the year six months period ended September 30, 2005

- **Profit after tax:**

Profit after tax was Rs. 32.68 million for the six months period ended September 30, 2005.

Comparison of Six months ended on September 30, 2005 with FY 2005 (Consolidated)

- **Total Income:**

Total income of the company registered growth of 46.45% to Rs. 145.01 million versus Rs. 198.03 million in FY 2004-05 primarily due to the growth witnessed by our broking business on the back of buoyant capital markets and our aggressive marketing efforts.

- **Equities brokerage and related income:**

Equity and Commodity Brokerage registered a growth of 53.10% from Rs. 176.08 million in FY 2004-05 to Rs. 134.79 million for the six months period ended on September 30, 2005. This was mainly due to increase in no. of clients, no. of centres and strong recovery in the Indian capital markets driven inter alia by good monsoon, industrial recovery and flow of FII funds into the Indian economy.

- **DP Services**

Income from DP Services was Rs. 5.83 million for the six months period ended on September 30, 2005 as against Rs. 12.09 million in FY 2004-05.

- **Other income:**

Other income primarily consist of interest on fixed deposit, bad debts recoveries and trade violation charges was Rs. 4.39 million for the six months period ended on September 30, 2005 as against Rs. 9.86 million in FY 2004-05.

- **Expenditure on Trading Expenses**

Trading expenses has come down from Rs. 15.80 million in FY 2004-05 to Rs. 6.40 million for the six months period ended on September 30, 2005 recording a fall of 18.99%.

- **Employee cost**

Employee cost has marginally increased from Rs. 23.09 million in FY 2004-05 to Rs. 11.70 million for the six months period ended on September 30, 2005 recording a raise of 1.34%.

- **Administrative and other expenses**

These expenses increased from Rs. 98.53 million in FY 2004-05 to Rs. 72.99 million for the six months period ended on September 30, 2005 registering a raise of 48.16%, due to increase in sub-brokerage payment.



- **Depreciation and Amortization**

Depreciation and Amortization cost increased from Rs. 5.32 million in FY 2004-05 to Rs. 3.60 million for the six months period ended on September 30, 2005 registering a raise of 35.34% due to addition in the fixed assets.

- **Operating Profit/(Loss)**

Operating profit for the six months period ended on September 30, 2005 was Rs. 52.72 million, which was a significant growth when compared to the full year operating profit of Rs. 59.37 million in FY 2004-05. The significantly improved operating performance was due to improved business climate.

- **Profit/(Loss) before tax**

The operations turned around with significant improvement in operating profit. The company made a profit before tax was Rs. 49.12 million for the six months period ended on September 30, 2005 against Rs. 54.05 million in FY 2004-05.

- **Profit/(Loss) after tax**

Profit after tax was Rs. 32.68 million for the six months period ended on September 30, 2005, as compared to Rs. 35.87 million in FY 2004-05.

Comparison of FY 2005 with FY 2004 (Consolidated)

- **Total Income:**

Total income of the company registered growth of 60.02% to Rs. 198.03 million versus Rs. 123.75 million in FY 2003-04 primarily due to the growth witnessed by our broking business on the back of buoyant capital markets and our aggressive marketing efforts.

- **Equities brokerage and related income:**

Equity and Commodity Brokerage registered a growth of 60.55% from Rs. 109.67 million in FY 2003-04 to Rs. 176.08 million in 2004-05. This was mainly due to increase in no. of clients, no. of centres and strong recovery in the Indian capital markets driven inter alia by good monsoon, industrial recovery and flow of FII funds into the Indian economy.

- **DP Services**

Income from DP Services grew from Rs. 10.26 million in FY 2003-04 to Rs. 12.09 million in FY 2004-05, registered a growth of 17.84%. The growth was on account of increase in no. of registered DP clients and increase in clients transaction due to above.

- **Other income:**

Other income prominently comprising trade violation charges, bad debts recoveries and interest on fixed deposits registered a growth of 158.12% growing from Rs. 3.82 million in FY 2003-04 to Rs. 9.86 million in FY 2004-05.

- **Expenditure on Trading Expenses**

Trading expenses Increased from Rs.14.08 million in FY 2003-04 to Rs.15.80 million in FY 2004-05 recording a raise of 12.22% due to increase in trading volumes.



- **Employee cost**

Employee cost increased from Rs. 19.85 million in FY 2003-04 to Rs. 23.09 million in FY 2004-05 recording a raise of 16.32%.

- **Administrative and other expenses**

These expenses increased from Rs. 50.35 million in FY 2003-04 to Rs. 98.53 million in FY 2004-05 registering a raise of 95.69%, due to increase in sub-brokerage payment.

- **Depreciation and Amortization**

Depreciation and Amortization cost increased from Rs. 4.39 million in 2003-04 to Rs. 5.32 million in FY 2004-05 registering a raise of 21.18% due to addition in the fixed assets.

- **Operating Profit/(Loss)**

Operating profit in FY 2004-05 was Rs. 59.37 million, which was a significant growth when compared to the operating profit of Rs. 38.88 million in FY 2003-04. The significantly improved operating performance was due to improved business climate.

- **Profit/(Loss) before tax**

The operations turned around with significant improvement in operating profit. The company made a Profit before tax was Rs. 54.05 million in FY 2004-05, as against a profit of Rs. 34.49 million in FY 2003-04.

- **Profit/(Loss) after tax**

Profit after tax was Rs. 35.87 million in FY 2004-05, as compared with the profit of Rs. 21.53 million in FY 2003-04.

Comparison of FY 2004 with FY 2003 (Consolidated)

- **Total Income**

Total income of registered a growth of 89.37% to Rs. 123.75 in FY 2003-04 versus Rs. 65.35 million in FY 2002-03.

- **Other income**

Interest on fixed deposits fell from Rs. 3.90 million to Rs. 2.96 million as bank fixed deposits rate was fallen and bad debt recoveries are fallen from Rs.1.73 million to Rs 0.48 million. Other income as a whole fell by 42.73% from Rs.6.67 million in FY 2002-03 to Rs. 3.82 million in FY 2003-04.

- **Expenditure on Trading Expenses**

Trading expenses increased from Rs. 10.72 million in FY 2002-03 to Rs. 14.08 million in FY 2003-04 recording a raise of 31.34% due to increase in Trading Volumes

- **Employee cost**

Employee cost increased from Rs. 11.04 million in FY 2002-03 to Rs. 19.85 million in FY 2003-04 recording a raise of 79.80%.



- **Administrative and other expenses**

These expenses increased from Rs. 36.32 million in FY 2002-03 to Rs. 50.35 million in FY 2003-04 registering a raise 38.63%, due to increase in sub-brokerage payment.

- **Depreciation and Amortization**

Depreciation and Amortization cost was increase from Rs. 4.29 million in 2002-03 to Rs. 4.39 million in FY 2003-04 registering a raise 2.33% due to addition in the fixed assets.

- **Operating Profit/(Loss)**

Operating profit in FY 2003-04 was Rs. 38.88 million, which was a significant growth when compared to the operating profit of Rs. 6.56 million in FY 2002-03. The significantly improved operating performance was due to improved business climate.

- **Profit/(Loss) before tax**

The operations turned around with significant improvement in operating profit. The company made a Profit before tax was Rs. 34.49 million in FY 2003-04, as against a profit of Rs. 2.27 million in FY 2002-03.

- **Profit/(Loss) after tax**

Profit after tax was Rs. 21.53 million in FY 2003-04, as compared with the profit of Rs. 0.75 million in FY 2002-03.

Comparison of FY 2003 with FY 2002 (Consolidated)

- **Total Income**

Total income registered a growth of 3.75% to Rs. 65.35 million in FY 2002-03 versus Rs. 62.99 million in FY 2001-02.

- **Other income**

Interest on fixed deposits fell from Rs. 4.72 million to Rs. 3.90 million as bank fixed deposits withdrawn to meet the working capital requirements and bad debt recoveries raised from Rs. 0.93 million to Rs. 1.73 million. Other income as a whole fell by 31.38% from Rs.9.72 million in FY 2001-02 to Rs. 6.67 million in FY 2002-03.

- **Expenditure on Trading Expenses**

Decreased from Rs.12.03 million in FY 2001-02 to Rs. 10.72 million in FY 2002-03 recording a fall of 10.89%.

- **Employee cost**

Employee cost was maintained at the same level of Rs.11.03 million in FY 2001-02 to Rs.11.04 million in FY 2002-03.

- **Administrative and other expenses**

These expenses increased from Rs. 32.49 million in FY 2001-02 to Rs. 36.32 million in FY 2002-03 registering a raise of 11.79%.



- **Depreciation and Amortization**

Depreciation and Amortization cost was maintained at the same level from Rs. 4.29 million in 2001-02 to Rs. 4.29 million in FY 2002-03.

- **Operating Profit/(Loss)**

Operating profit in FY 2002-03 was Rs. 6.56 million, when compared to the operating profit of Rs. 6.12 million in FY 2001-02.

- **Profit/(Loss) before tax**

The company made a Profit before tax was Rs. 2.27 million in FY 2002-03, as against a profit of Rs.1.83 million in FY 2001-02.

- **Profit/(Loss) after tax**

Profit after tax was Rs. 0.75 million in FY 2002-03, as compared with the profit of Rs. 1.23 million in FY 2001-02.

Liquidity and Capital Resources

Liquidity

Our primary liquidity needs have historically been to finance our capital expenditure and to some extent our working capital needs. To fund these costs, we have relied on cash flows from operations.

Cash Flows

The table below summarizes our cash flows for the year ended March 31, 2005 and six month period ended September 30, 2005

Consolidated	Financial Year ended March 31,			Rs. in Million
	2003	2004	2005	Six month period ended 30-09-05
Cash at the Open	62.04	66.10	109.80	185.88
Net cash from operating activities	10.91	46.43	77.97	80.21
Net cash used in financing activities	(10.04)	8.68	8.76	14.48
Net cash from investing activities	3.19	(11.40)	(10.65)	(7.52)
Cash at the end	66.10	109.80	185.88	273.04

Figures in brackets represent cash outflow

Indebtedness

Rs. in Million				
S.No.	Source	Amount	Int. Rate	Repayment Terms
1	Loan from LIC Secured against: Keyman Insurance Policies	11.12	10.50	The loan is taken against key man insurance policies, hence there is no specified repayment terms.
2	Car Loan from HDFC Bank	1.01	5.98	Equated Monthly installments



Besides above, we are enjoying non-fund based working capital limits in the form of bank guarantees from our bankers i.e. Karnataka Bank Limited, HDFC Bank Limited and ING Vysya Bank Limited to the extent of Rs. 213.00 million secured on the fixed assets of company and personal guarantees of promoter directors of the Company.

Further, Steel City Commodities Private Limited is sanctioned non-fund based working capital limits in the form of bank guarantees from Karnataka Bank Limited and HDFC Bank Limited aggregating to Rs. 28.50 million against the corporate guarantee of Steel City Securities Limited.

Historical and Planned Capital Expenditures

We made additions to Fixed Assets, amounting to Rs. 4.92 million, Rs. 12.75 million and Rs. 16.31 million for FY 2003, 2004 and 2005

Our capital expenditure plan as per our objects for the current issue besides meeting normal working capital is as under:

1. Opening of new centres
2. Investment in technology and up-gradation of office infrastructure

We offer information and advice, execution platform, after sales service and support for a wide range of investment products including equities, mutual funds, life insurance and commodities. For ease of administration and compliance, businesses linked to different product lines are carried on by subsidiary and group company. They also enable us to offer a wide range of financial services and products to our customers and cross selling opportunities. We intend to utilize the issue proceeds towards the above-mentioned capital expenditure program by September, 2006.

For more information on these including the proposed deployment pattern, please refer to the section titled "Objects of the Issue" on page no. [•] of this Prospectus.

Related Party Transactions

For details of related party transactions, please refer to the section entitled "Related Party Transactions" on page [•] of this Prospectus.

Financial Market Risks

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial market risks from changes in interest rates and inflation.

Interest rate risk

We have been enjoying non-fund based working capital limits and interest rate risk results from changes in interest rates though not significant but may affect our financial expenses. Further, increase in interest rate could affect the capital market sentiment, which ultimately affect our business volumes.

Effect of Inflation

We are not directly affected by inflation in any significant way. However inflation does affect investor sentiment about equity investing and business confidence, thereby affecting our business volumes.



Information required as per Clause 6.8 of SEBI Guidelines

1. Unusual or infrequent events or transactions

Except as stated elsewhere or in the Auditor's report in this Prospectus, we are not aware of any unusual or infrequent events or transactions.

2. Significant economic/regulatory changes

The Company's business is highly dependent on the regulatory environment. All the activities carried out by the Company are regulated by SEBI and require prior registration in most of the cases. The operations are regulated and are subject to periodic review/ inspection from regulatory agencies and stock exchanges. Since the level of operations are dependent on the general economic conditions, any changes in the economic conditions may affect the revenues and profitability of the Company. Other than as described in this Prospectus, particularly in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Company believes, there are no significant economic/regulatory changes that materially affect or are likely to affect the income from continuing operations.

3. Known trends or Uncertainties

Other than as described elsewhere in this Prospectus, to the best of our knowledge, there are no known trends or uncertainties that have or had or are expected to have a material adverse impact on revenue or income of the Company from continuing operations.

4. Future relationship between costs and income

We are continuously working to create efficient processes resulting in cost reduction and have a better control over our supply chain. We expect to continue this effort of improving our technology initiatives and try and realize better margins in the future.

Other than as described elsewhere in this Prospectus, to the best of 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. Total turnover for the industry

Please refer to the discussions in the section titled "Industry" on page [•] of this Prospectus.

6. New Products or business segments

For details of new products or business segments, please refer to the section titled "Business" on page [•] of this Prospectus.

7. Our Strategy

For details of our strategy, please refer to the section titled "Business" on page [•] of this Prospectus.

8. Seasonality of business

Other than as described elsewhere in this Prospectus, to the best of our knowledge, there are no known factors, which are seasonal in nature and which we feel will have a material impact on the operations and finances of the Company.



9. Dependence on single or few suppliers/customers

Other than as described elsewhere in this Prospectus, to the best of our knowledge, we are not dependent on any single or few suppliers/customers.

10. Competitive Conditions

We believe that we are well positioned to enhance our position as stock, commodities broking and depository services company. On account of our competitive strengths, we feel that we are well positioned to serve our customers. Such strengths include:

- Established clientele base of broking (36,311) and DP services (46,712)
- Already having presence at 97 Cities/Towns through 225 centres
- All broking services under one roof i.e. NSE, BSE (cash & F&O segment), NCDEX and MCX
- Integrated technology platform
- Developed own in house backup software "Steel Pack".



SECTION V: FINANCIAL STATEMENTS

UNCONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, AS RESTATED, (INCLUDING SUBSIDIARIES) FOR THE YEARS ENDED MARCH 31, 2001, 2002, 2003, 2004, 2005 AND SIX MONTH PERIOD ENDED SEPTEMBER, 2005

AUDITORS' REPORT

To,
The Board of Directors,
Steel City Securities Limited,
49-52-5/4, Shanthipuram,
Visakhapatnam – 530 016.

Dear Sirs,

We have examined the accounts of Steel City Securities Limited (SCSL) for the financial year ended March 31, 2005, being the last date up to which the accounts of the Company have been made and audited by us for the presentation to the members of the Company. We have also examined the accounts of the Company for the Six-month period ended September 30, 2005 prepared and approved by the Board of Directors of the Company and audited by us for the purpose of disclosure in the Offer Document being issued by the Company in connection with the public issue of 61,19,088 Equity Shares of the face value of Rs.10/- each. We have Audited accounts of SCSL for the financial years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the six-month period ended September 30, 2005 and the said financial information has been prepared in accordance with the requirements of:

1. Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 ("the Act"),
2. The Securities and Exchange Board of India (SEBI) (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 19, 2000 in pursuance of Section 11 of The Securities & Exchange Board of India Act, 1992 ("SEBI Guidelines"), and;
3. Our terms of reference received from the Company vide letter reference October 22, 2005 requesting us to make this report for the purpose of inclusion in the Draft Offer Document to be issued by the Company in connection with its Initial Public Offer of its Equity Shares ('the Issue'). The financial information has been prepared by the Company and approved by the Board of Directors of the Company and audited by us.

FINANCIAL INFORMATION AS PER AUDITED FINANCIAL STATEMENTS:

1. We have examined the attached summary statement of Profits and Losses as restated of the Company for the years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the six-month period ended September 30, 2005 as per **Annexure I**. These profits have been arrived at after charging all expenses including depreciation and after making such adjustments and regroupings as in our opinion are appropriate to reflect the significant accounting policies and significant notes being adopted by the Company as at 30th September 2005, more fully described in **Annexure III**.
2. The attached summary statement of assets and liabilities as restated, as at March 31, 2001, 2002, 2003, 2004, 2005 and for the six-month period ended September 30, 2005 as per **Annexure II**. These have been arrived at after making such adjustments and regroupings as in our opinion are appropriate to reflect the significant accounting policies and significant notes being adopted by the Company as at 30th September 2005 more fully described in **Annexure III**.



3. We have examined the following financial information relating to the Company and as approved by the Board of Directors for the purpose of inclusion in the Draft Offer Document to be issued by the Company in connection with its Initial Public Offer of its Equity Shares:
- (a) Cash flow statement, as restated for the financial years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the six-month period ended September 30, 2005 as per **Annexure IV**
 - (b) Details of Secured Loans and Unsecured Loans as appearing in **Annexure V** to this report
 - (c) Age-wise analysis of Sundry Debtors as appearing in **Annexure VI** to this report
 - (d) Statement of Loans and Advances as appearing in **Annexure VII** to this report
 - (e) Statement of Investments as appearing in **Annexure VIII** to this report
 - (f) Accounting Ratios as appearing in **Annexure IX** to this report
 - (g) Capitalization Statement as at 30.09.2005 as appearing in **Annexure X** to this report
 - (h) Statement of Tax Shelters as appearing in **Annexure XI** to this report
 - (i) We hereby confirm that the Company's other income does not exceed 20% of its total income for the period ended September 30, 2005
 - (j) The Company does not have any unsecured loans outstanding as on September 30, 2005 except from Directors of the Company as distinguished from movement of interest free temporary advances of funds with subsidiaries
 - (k) The Company has not declared dividend for the years 2001-02, 2002-03, 2003-04, 2004-2005 and also six months period ended September 30, 2005 except for the year 2000-2001 @ 100% of Rs.1,24,77,650/-
 - (l) Details of Bank Guarantees as appearing in **Annexure XII** to this report
 - (m) The disclosures with regard to related party transactions are reported in **Annexure XIII**
 - (n) We further confirm that there are no qualifications in the Auditor's Report and Change in Accounting Policies during the past 5 financial years and for the six-month period ended September 30, 2005.
4. As required by Para 6.18.3 of the SEBI Guidelines, with regard to restated summary financial statements of Company's subsidiary, which are not consolidated into Company's financial statements, we state as under:
- a. The financial statements of Steel City Commodities Private Limited (SCCPL) for the years ended March 31st, 2003, 2004, 2005 and for the six-month period ended September 30, 2005 have been examined and reviewed by us and these statements together with the significant accounting policies and significant notes adopted by the Company as at September 30, 2005 are enclosed in **Annexures XIV-A to XIV-E** to this report. We have accepted the financial statements of SCCPL drawn from accounts audited by other auditors, M/s. Ambika-Isha, Chartered Accountants for the financial years ended March 31st, 2003 and 2004.
5. In our opinion, the financial information of the Company and its subsidiary i.e. Steel City Commodities Private Limited attached to this report, read with respective significant accounting policies and significant notes as annexed to this report and after making adjustments and regrouping as considered



appropriate; have been prepared in accordance with Part II of Schedule II of the Act and the guidelines issued by SEBI.

6. This report is intended solely for your information and for inclusion in the Draft Offer Document to be issued by the Company in connection with its Initial Public Offer of its Equity Shares and is not to be used, referred to or distributed for any other purpose without our prior written consent.

Sudhakar & Kumar Associates
Chartered Accountants

Place: Visakhapatnam
Date: October 28, 2005

P Rama Krishna Rao
Partner
Membership No: 26820



INDEX OF STATEMENTS AND INFORMATION FORMING PART OF OUR REPORT ISSUED IN CONNECTION WITH COMPANY'S INITIAL PUBLIC OFFER

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Annexure XIII-D	Details of Bank Guarantees



Steel City Securities Limited

Annexure I: Summary statement of profits and losses, as restated

Particulars / For the year ended March 31	Rs. in Million					
	2001	2002	2003	2004	2005	30-09-05
Income:						
Income from Broking	141.27	51.81	54.17	109.66	165.92	112.45
Income from Depository Services	1.02	1.46	4.51	10.26	12.09	5.84
Other Income	9.45	9.72	6.67	3.80	9.68	3.71
Total Income	151.74	62.99	65.35	123.72	187.69	122.00
Expenditure:						
Expenditure on Trading Operations	16.93	12.03	10.72	14.06	14.94	6.27
Employee Cost (Incl. Managerial Remuneration)	17.28	11.03	11.04	19.85	22.89	11.44
Administration & Other Expenses	37.82	32.49	36.32	49.94	93.86	61.90
Interest	0.58	1.32	0.71	0.59	1.24	1.20
Depreciation & Amortisation	3.91	4.29	4.29	4.36	5.23	3.51
Total Expenditure	76.53	61.16	63.08	88.80	138.16	84.32
Profit/(Loss) before tax & prior Period and extra ordinary Items	75.22	1.83	2.27	34.91	49.53	37.67
Provision for taxation						
Current Tax	29.23	0.58	1.11	12.76	14.54	11.25
Deferred Tax	-	-	(0.23)	0.19	1.47	1.25
Net Profit/(Loss) after tax but before prior Period and extra ordinary items	45.98	1.24	1.39	21.96	33.52	25.17
Extra Ordinary Items	-	-	-	-	-	-
Prior Period Expense	-	0.01	0.64	(0.01)	0.65	-
Net Profit/(Loss) for the year	45.98	1.23	0.75	21.97	32.88	25.17
Adjustments on account of changes in accounting policies						
1. Impact of prior period items	-	-	-	-	-	-
2. Changes in accounting policies	-	-	-	-	-	-
Total Impact of Adjustments	-	-	-	-	-	-
Net Profit/(Loss), as restated	45.98	1.23	0.75	21.97	32.88	25.17
Profit / (Loss) brought forward from previous Year	32.84	59.00	60.11	60.79	80.56	110.58
Profit from transferors on amalgamation	-	-	-	-	0.42	-
Profit / (Loss) available for appropriation	78.82	60.23	60.86	82.76	113.86	135.74
Dividend & Dividend Tax	15.22	-	-	-	-	-
Transfer to /(from) General Reserve	4.60	0.12	0.07	2.20	3.28	2.52
Balance carried to Balance Sheet	59.00	60.11	60.79	80.56	110.58	133.23



Steel City Securities Limited

Annexure II: Summary Statement of Assets and Liabilities, as restated

Particulars / As on March 31,	Rs. in Million					
	2001	2002	2003	2004	2005	30-09-05
Fixed Assets						
(i) Gross Block	48.45	51.58	42.90	53.89	78.56	85.83
Less: Depreciation	10.10	14.37	15.69	19.89	24.80	28.00
Net Block	38.36	37.20	27.21	34.00	53.76	57.83
(ii) Capital Work in Progress	-	-	-	-	-	-
Net Block	38.36	37.20	27.21	34.00	53.76	57.83
Investments	10.92	10.90	12.70	13.76	6.78	6.79
Current Assets, Loans and Advances						
Receivables	19.14	10.77	11.83	28.21	74.82	93.56
Cash and Bank Balances	87.09	62.04	66.10	106.94	161.42	209.06
Loans and Advances	49.20	15.61	17.94	27.95	39.22	70.34
Total Current Assets, Loans and Advances	155.43	88.42	95.87	163.10	275.46	372.96
Total Assets	204.71	136.52	135.78	210.86	336.00	437.57
Liabilities & Provisions						
Secured Loans	10.40	3.18	2.30	6.92	4.44	12.12
Unsecured Loans	-	5.28	1.30	5.96	7.44	15.44
Total Loan Funds	10.40	8.46	3.61	12.88	11.88	27.56
Current Liabilities	82.85	44.01	51.31	83.47	156.30	221.09
Provisions	29.23	0.58	1.11	12.76	14.54	11.25
Total Current Liabilities & Provisions	112.08	44.59	52.42	96.23	170.84	232.34
Total Liabilities	122.48	53.05	56.03	109.11	182.72	259.90
Networth	82.22	83.47	79.76	101.75	153.28	177.67
Represented By:						
Share Capital						
Paid-up Equity Share Capital	12.48	12.48	12.48	12.48	15.48	15.48
Reserves and Surplus:						
Security Premium	2.56	2.56	2.56	2.56	10.56	10.56
General Reserve	8.24	8.36	3.96	6.16	9.80	12.32
Capital Reserve	-	-	-	-	7.19	7.19
Profit and Loss Account	59.00	60.11	60.79	80.56	110.58	133.23
Shareholders fund	82.28	83.51	79.79	101.76	153.61	178.78
Less: Miscellaneous Expenditure	0.06	0.04	0.03	0.01	0.34	1.12
Total	82.22	83.47	79.76	101.75	153.28	177.67



Steel City Securities Limited

Annexure III: Significant Accounting Policies and Notes forming part of the Restated Statement of Assets and Liabilities as at September 30, 2005.

A. Significant Accounting Policies:

1. System of Accounting

The Company adopts the accrual basis in the preparation of the accounts.

2. Income Recognition

Income from Trading Operations, which comprises of Brokerage, is accounted for up to the date of last settlement in the financial year.

3. Expenses

Expenses other than Deferred Revenue Expenses are accounted on accrual basis and provisions made for all known liabilities and losses on available information.

Deferred Revenue Expenses are charged to revenue over the period for which the benefit of such expenditure is likely to be enjoyed.

4. Fixed Assets

Fixed Assets are valued at cost less accumulated Depreciation.

5. Depreciation

Depreciation is provided under straight-line method at the rates prescribed under Schedule-XIV of the Companies Act, 1956.

6. Stock-in-Trade (Shares)

Equity Shares are valued script wise at cost or market value whichever is lower.

7. Recognition of Trading Expenses

Trading losses arising out of communication & computer disruptions and other operational reasons are treated as trading expenses

8. Taxes on Income

Provision for current tax is made in accordance with the provisions of Income Tax Act, 1961.

Deferred Tax on account of timing difference between taxable and accounting income is provided using the tax rates and tax laws enacted or substantially enacted by the Balance Sheet Date.

9. Investments

- i. Investments that are intended to be held for more than a year are classified as Long-term Investments. All other investments are classified as current investments.
- ii. Long-term investments are carried at cost.



10. Retirement Benefits

- i. The Company's contribution to Provident Fund is recognized on accrual basis.
- ii. Leave encashment liability is provided on the basis of actual valuation made by the management at the end of each calendar year.

B. Notes to accounts:

1. Contingent liability not provided for:
 - i. The Company has provided a Corporate Guarantee in favour of HDFC Bank Ltd., Karnataka Bank Limited and The Karur Vysya Bank Limited to the extent of Rs.21.50 million, 37.00 million and 20.00 million respectively for the credit facilities in the form of Bank Guarantees extended by these banks to its Subsidiary i.e. M/s. Steel City Commodities Private Limited.
 - ii. Bank Guarantees extended by The Karnataka Bank Ltd for Rs.80.00 million favouring NSCCL, HDFC Bank for Rs.50.00 million & 40.00 million favouring NSCCL and BSEIL respectively and ING Vysya Bank Ltd for Rs.43.00 million favouring NSE/NSCCL.
2. As none of the employees have completed the minimum length of service as required under the Gratuity Act, 1972, no provision for gratuity is required to be made.
3. Sundry Debtors exceeds 3 months are long over due and no provision is made in the accounts, as in the opinion of the management, they are good and recoverable. An amount of Rs. 0.21 million representing bad debts has been written off during the year as in the opinion of the management the same are not recoverable.
4. Interest paid on Unsecured Loans to Directors is Rs. 1.00 million.
5. Provision for Taxation has been made for the year to the extent of Rs.11.25 million after taking in to account difference between depreciation in the accounts and the depreciation allowable as per the Income Tax Act, 1961 and other deductions / additions allowable / disallowable under the Income Tax Act, 1961.
6. The Income Tax Assessments of the Company have been completed up to the accounting year 2003-2004 relevant to the assessment year 2004-2005.
7. During the year the company had purchased and sold shares wherever there was operational problem due to communication and computer disruptions, data entry operator's mistakes, share deliveries mismatch and other reasons, to come out of the long or short struck in positions. The trading in such shares resulted in a loss of Rs. 0.26 million
8. For leasehold buildings, electrical wiring, flooring, civil repairs, etc. are treated as current repairs.
9. Deferred Tax Liability / Asset:

As per the requirement of the Accounting Standard 22 on "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India, the net deferred Tax Liability charged to Profit and Loss Account during the year is Rs.1.25 million.



10. The Consent of members was accorded at EGM held on 04.07.2005 by the Company for Capitalisation by way of bonus shares in the ratio of 7:1, but the Company has to take prior permission of the concerned Stock Exchanges in accordance their Bye-laws, Rules and Regulations. So the Company has to allot the said bonus and form No.2 to be filed with ROC and the said bonus will be affected after complying with the consent provision and procedures in this regard. Hence bonus shares is not taken to account while preparing the Balance Sheet and Profit and Loss Account as at 30.09.2005
11. The company has numerous transactions with clients included in "Loans and Advances (Asset). The transactions continue to appear in the customer accounts till such time the same are matched and cleared and are subject to conformation. This is an ongoing process. The clearance of such open items is not likely to have a material impact on the outstanding or classification in the accounts.

12. Related party disclosures:

- i. Related party disclosures as on September 30, 2005

Nature of relationship	Name of Party
(a) Related parties where control exists:	
Subsidiaries	Steel City Commodities Private Limited
Associate / Group Concern	Steel City Insurance Agencies Private Limited
(b) Other related parties:	
Key Management Personnel	Mr. G Sree Rama Murthy Mr.G Raja Gopal Reddy Mr.K Satyanaryana Mr.Satish Kumar Arya

- ii. Significant transaction with related parties

Nature of Transaction	Investment	Remuneration	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance Taken
Steel City Commodities P Ltd.	0.00		78.50	42.76	42.76
Mr. G Sree Rama Murthy		0.20			
Mr. G Raja Gopal Reddy		0.17			
Mr. K Satyanaryana		0.17			
Mr. Satish Kumar Arya		0.14			
Total	0.00	0.68	78.50	42.76	42.76

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding / Subsidiary Company's Current Account

- iii. Amount due to/from related parties

Nature of Transaction	Rs. in Million	
	Due to / (from)	
Steel City Commodities Private Limited	0.00	
Mr. G Sree Rama Murthy	11.25	
Mr.G Raja Gopal Reddy	1.25	
Mr.K Satyanaryana	2.95	
Mr.Satish Kumar Arya	0.00	
Total	15.45	



13. Segment Reporting for the six month period ended 30th September 30, 2005.

Company is engaged in Broking and DP Services, which is related activity with the Broking, therefore there is no segment reporting applicable. We are providing primary segment information divided between these two main business activities.

Rs. in Million

S.NO	Particulars	Broking & Related Activities	Depository Services	Others	Total
I	Segment Revenue				
	External	112.45	5.84	3.71	122.00
	Inter-segment	0.00	0.00	0.00	0.00
	Total	112.45	5.84	3.71	122.00
II	Operating Profit	28.12	5.84	3.71	37.67
	Less: Income Tax & Deferred Tax				12.50
	Net Profit after Tax				25.17
III	Segment Assets				437.57
	Unallocated Corporate assets				0.00
	Total Assets				437.57
IV	Segment Liabilities				259.90
	Unallocated Corporate Liabilities				0.00
	Total Liabilities				259.90
V	Capital Expenditure				7.27
VI	Depreciation				3.20
VII	Non-Cash expenditure Other than depreciation				0.31

The company operates in only one geographic segment i.e. 'India'. Hence separate information on geographical segment is not required. The other segment, if any, constitutes income like interest on FDRs etc, which are not the regular income streams of the company and hence segment results, segment assets and segment liabilities are, accordingly disclosed. The accounting policies adopted for segment reporting are in line with the accounting policies adopted for preparation of financial information of the company.

14. Personal guarantees given for obtaining Bank Guarantees for Working Capital Loans from Banks of the company by the Managing Director, Executive Director, Executive Director (Surveillance) and others aggregated to Rs.39.78 million.
15. Fixed Deposits placed with HDFC Bank for Rs. 45.00 million with The Karnataka Bank Ltd for Rs. 40.00 million and with ING Vysya Bank Ltd for Rs. 20.87 million pledged against the Bank Guarantees issued by them.
16. Figures of the previous year have been regrouped wherever necessary, to confirm to the current year's presentation/classification.



Steel City Securities Limited

Annexure IV: Summary Cash Flow Statement

Rs. in Million

Particulars / For the year ended March 31,	2000-01	2001-02	2002-03	2003-04	2004-05	30-09- 05
Cash flows from operating activities						
Net profit before taxation and extraordinary item	75.22	1.83	2.27	34.91	49.53	37.67
Adjustments for:						
Depreciation	3.90	4.28	4.28	4.35	5.07	3.20
Interest expenses	0.58	1.32	0.71	0.59	1.24	1.20
Deferred Tax (Liability)/Asset	-	-	0.23	(0.19)	(1.47)	(1.25)
Preliminary Expense W/Off	0.01	0.01	0.01	0.01	0.16	0.31
Loss / (Profit) on Sale of Fixed Assets	0.08	-	0.72	0.14	0.20	-
Operating profit before working capital changes	79.79	7.44	8.22	39.82	54.73	41.13
(Increase) / Decrease in Receivables	(0.68)	8.37	(1.06)	(16.38)	(46.61)	(18.74)
(Increase) / Decrease in Loans & Advances	(24.43)	33.59	(2.33)	(10.01)	(11.27)	(32.22)
Increase / (Decrease) in Provisions	16.70	(28.65)	0.53	11.65	1.78	(3.29)
Increase / (Decrease) in Current Liabilities	(13.78)	(38.84)	7.30	32.16	72.83	64.79
Cash generated from operations	57.60	(18.09)	12.66	57.25	71.46	51.67
Tax (Paid) / Refund	(29.23)	(0.59)	(1.75)	(12.75)	(15.19)	(11.25)
Net cash from operating activities	28.37	(18.68)	10.91	44.50	56.27	40.42
Cash flows from investing activities						
Purchase of Fixed Assets	(12.43)	(3.12)	(4.92)	(12.70)	(15.74)	(7.27)
Sale of Fixed Assets	0.65	-	9.91	1.41	0.86	-
Paid for Trade Licences (i.e.BSE Membership)	-	-	-	-	(10.14)	-
Purchase of Investments	(7.02)	-	(1.80)	(1.06)	(5.62)	(0.01)
Sale of Investments	-	0.02	-	-	20.09	-
Net cash from investing activities	(18.80)	(3.10)	3.19	(12.35)	(10.55)	(7.28)
Cash flows from financing activities						
Proceeds from issuance of share capital	-	-	-	-	11.00	-
(Repayment) / Proceeds of long-term borrowings	4.26	(1.94)	(4.85)	9.27	(1.00)	15.68
Decrease of Reserves on account of Deferred tax Liability	-	-	(4.48)	-	-	-
Interest Paid	(0.58)	(1.32)	(0.71)	(0.59)	(1.24)	(1.20)
Dividend & Dividend tax Paid	(15.22)	-	-	-	-	-
Net cash used in financing activities	(11.54)	(3.26)	(10.04)	8.68	8.76	14.48
Net increase in cash and cash equivalents	(1.98)	(25.04)	4.06	40.83	54.48	47.63
Cash and Cash equivalents at beginning of period	89.07	87.09	62.04	66.10	106.94	161.42
Cash and Cash equivalents at end of period	87.09	62.04	66.10	106.94	161.42	209.06



Steel City Securities Limited

Annexure V: Details of secured Loans based on Statement of Assets and Liabilities, Restated

The following table represents the break-up of outstanding secured loans in respect of the issuer company Steel City Securities Limited as on 30th September, 2005.

Secured Loan

Rs. in Million

Particulars of Loans	Institution / Bank	Amount Sanctioned	Amount O/s	Rate of Int. (%)	Repayment Terms	Securities Offered
Term Loans from Financial Institutions and Banks	Life Insurance Corporation	15.78	11.12	10.50% p.a.	There is no specified repayment terms as the loan is availed against key man policies.	Secured by way of pledge of Keyman Insurance Polices
Hire Purchase	HDFC Bank	0.46	0.33		Monthly installment of Rs.0.0138 million	Secured by hypothecation of vehicle and also guaranteed by Managing Director
		0.95	0.68		Monthly installment of Rs.0.0422 million	
Total Secured Loans		17.19	12.12			

Unsecured Loans

The details of unsecured loans are as below:

Rs. in Million

Particulars	Six month period ended Sept. 30, 2005	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002	March 31, 2001
Loan from Promoter Group	15.44	7.44	5.28	1.30	5.96	-
Total Unsecured Loans	15.44	7.44	5.28	1.30	5.96	-

Details of Unsecured Loans Outstanding as at September 30, 2005

Rs. in Million

Particulars of Loan	Bank / Parties Name	Amount Sanctioned	Amount O/s	Rate of Int. (%)	Repayment Terms
Loan from Promoter Group (Related Parties)	Mr. G Sree Rama Murthy (Chairman & MD)	NA	11.25	18% p.a.	There is no specified repayment term for this loan.
Loan from Promoter Group (Related Parties)	Mr. G Raja Gopal Reddy (Executive Director)	NA	1.25	18% p.a.	There is no specified repayment term for this loan.
Loan from Promoter Group (Related Parties)	Mr. K Satyanaryana (Executive Director(s))	NA	2.95	18% p.a.	There is no specified repayment term for this loan.
Total Unsecured Loans			15.44		



Steel City Securities Limited

Annexure VI: Agewise Analysis of Sundry Debtors (i.e Receivables)

		Rs. in Million
Particulars		Six month period 30-09-05
Debts outstanding for a period exceeding three months:		5.92
Considered good		5.92
Considered doubtful		0.00
Other debts:		87.64
Considered good		87.64
Less: Provision for Doubtful debts		-
Total		93.56

Annexure VII: Statement of Loans and Advances

		Rs. in Million
S. No.	Particulars	Six month period 30-09-05
1	Advances recoverable in cash or kind or for value to be received	
	Considered good	7.14
	Considered doubtful	-
		7.14
	Less: Provision for Doubtful Advances	-
		7.14
2	Deposits	55.50
3	Advance Income Tax / Tax Deducted at Source	7.70
4	Income Tax refund receivable	-
5	Advance to subsidiary	-
6	Other loans & advances	-
		70.34
	Above Includes:	
	Loans / Advances to promoters / Promoter Group / directors	Nil

Annexure VIII: Statement of Investment

		Rs. in Million
Nature of Investment	Six month period 30-09-05	
Investment in Subsidiaries:		
Steel City Commodities Private Limited (6,61,500 Equity Shares of Rs. 10/- each)	6.62	
Investment in group companies under same management:		
Steel City Insurance Agencies Private Limited (16,000 Equity Shares of Rs. 10/- each)	0.16	
Others:		
Bombay Stock Exchange Limitd(10000 Equity Shares of Rs.1/- each)	0.01	
Total	6.79	

Figures in bracket refer to number of shares subscribed by the company.



Steel City Securities Limited

Annexure IX: Accounting Ratios based on Statement of Profits and Losses, and Assets and Liabilities.

Rs. in Million

S.No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	Six month period 30-09-05
1	Revenue	151.74	62.99	65.35	123.72	187.69	122.00
2	Profit After Tax & Adjustments	45.98	1.23	0.75	21.97	32.88	25.17
3	PAT to Revenue (2/1) (%)	30.30	1.95%	1.15%	17.76%	17.52%	20.63%
4	Earning Per Share:						
a)	Total No. of shares O/S at year end	1247765	1247765	1247765	1247765	1547614	1547614
b)	Weighted avg. O/S for Basic EPS (Nos)	1247765	1247765	1247765	1247765	1547614	1547614
c)	Weighted avg. O/S for Diluted EPS (Nos.)	1247765	1247765	1247765	1247765	1547614	1547614
5	Basic EPS	36.85	0.98	0.60	17.60	21.25	32.53*
6	Diluted EPS	36.85	0.98	0.60	17.60	21.25	32.53*
7	Return on Net Worth:						
a)	Shareholders Fund	82.22	83.47	79.76	101.75	153.28	177.67
b)	Net Asset Value Per Share	65.89	66.89	63.92	81.55	99.04	114.80
c)	Return on Net Worth: (%)	55.92	1.47	0.94	21.59	21.45	28.33*

* Annualised

Definitions used in arriving at above ratios:

S.No	Ratio	Definition
1	PAT to Revenue	Restated Profits after tax divided by Revenue
2	Earning Per Share (Basic)	Restated Profits after tax divided by weighted avg. Number of equity shares outstanding during the year/period
3	Earning per Share (Diluted)	Restated Profits after tax divided by weighted avg. Number of equity shares outstanding during the year/period duly adjusted for dilutive potential equity shares
4	Net Assets Value Per Share	Adjusted net worth divided by number of equity shares outstanding at year-end
5	Return on Net Worth	Restated Profits after tax divided by Adjusted net worth



Steel City Securities Limited

Annexure X: Capitalisation Statement

Particulars	Rs. in Million	
	Pre-issue	Pos-issue
Borrowing		
Long - Term debt	12.12	[•]
Short- Term debt	15.44	[•]
Total Debt	27.56	[•]
Shareholders' funds		
Equity Share Capital	15.48	[•]
Reserve and Surplus	161.94	[•]
	177.42	[•]
Less: Misc. Exp to the extent of Written off/adjusted	1.12	[•]
Total Shareholders' funds	176.30	[•]
Debt/equity ratio	0.16	

The post issue debt / equity ratio will be computed on the conclusion of the determination of issue price.

Note: The Shareholders of the Company have approved issue of bonus shares in the ratio of Seven Equity Shares of Rs.10/- for every One Equity Share in the EGM held on July 04, 2005 by capitalizing free reserves. The Share Capital of the Company post bonus issue stands at Rs.123.84 million.

Annexure XI: Statement of Taxation based on Profits and Losses

Particulars	Rs. in Million					
	2000-01	2001-02	2002-03	2003-04	2004-05	Six month period 30-09-2005
Profit / (Loss) before tax, as restated	75.22	1.83	2.27	34.91	49.53	37.67
Tax Rate (%)	39.55	35.70	36.75	35.88	36.59	33.00
Tax at Nominal Rate	29.75	0.65	0.83	12.53	18.12	12.43
Adjustments:						
Difference Between Tax depreciation and book depreciation	(3.32)	(0.30)	(0.18)	(0.52)	(10.30)	(3.79)
Other adjustments	0.25	0.11	0.83	0.27	0.59	0.22
Net Adjustments	(3.07)	(0.19)	0.65	(0.25)	(9.71)	(3.57)
Tax (Saving)/ increase thereon	(1.21)	(0.07)	0.24	(0.09)	(3.55)	(1.18)
Total taxation	28.54	0.58	1.07	12.44	14.57	11.25
Tax on Profits	28.54	0.58	1.07	12.44	14.57	11.25
Brought Forward Losses	-	-	-	-	-	-
Set off of Brought forward Losses	-	-	-	-	-	-
Net Tax Provided for the year / period	29.23	0.58	1.11	12.76	14.54	11.25
Carried Forward Losses	-	-	-	-	-	-
Tax Rate	39.55	35.70	36.75	35.88	36.59	33.00
Tax at actual rate of profit	29.75	0.65	0.83	12.53	18.12	12.43
Adjustments						
Permanent Differences:						
Income tax	-	-	-	-	-	-
Loss on Sale of Fixed Assets	0.08	-	0.72	0.14	0.20	-
Donation	0.17	0.04	0.11	0.12	0.39	0.22
Timing Difference:						
Depreciation & Amortisation	(3.32)	(0.30)	(0.18)	(0.52)	(10.30)	(3.79)
Other Adjustments	-	0.07	-	0.01	-	-
Net Adjustments	(3.07)	(0.19)	0.65	(0.25)	(9.71)	(3.79)
Tax (Saving)/ increase thereon	(1.21)	(0.07)	0.24	(0.09)	(3.55)	(1.18)
Total Taxation	29.23	0.58	1.11	12.76	14.54	11.25



Steel City Securities Limited

Annexure XII: Details of Bank Guarantees

The following table represents the break-up of outstanding Bank Guarantees in respect of the issuer company Steel City Securities Limited as on 30th September, 2005.

					Rs. in Million
Bank	Amount Sanctioned	Amount O/s	Rate of BG Commission P.A. (%)	Validity Period	Securities Offered
HDFC Bank Ltd Letter Ref. No.- Nil Dated – 27.09.05	90.00	90.00	1.00	12 months	Prime security of 50% cash margin and Personal Guarantee of Directors
The Karnataka Bank Ltd Letter Ref. No. ECRES No. III / 15, Dated – 17.01.05	80.00	80.00	1.50	12 months	Prime security of 50% cash margin and collateral security in terms of floating charge on the fixed assets of company and personal properties of Directors and personal guarantee of Directors
ING Vysya Bank Ltd Letter Ref. No. VSP/SME/2/2005-06 Dated – 28.03.05	43.20	43.00	1.50	12 months	Prime security of 40% cash margin and collateral security in terms of floating charge on the fixed assets of company and personal properties of Directors and personal guarantee of Directors
	213.20	213.00			

Note: 1. Exchanges Clearing Accounts be maintained with the HDFC Bank till the Bank Guarantee Limits exists.

2. BGs are renewed from time to time as per the discretion of the Banks



Steel City Securities Limited

Annexure XIII: Related Party Transactions

Six Months period ended September 30, 2005

(a) Related Party Transactions as on September 30, 2005.

Nature of relationship	Name of Party
(a) Related parties where control exists:	
Subsidiaries	Steel City Commodities Private Limited
Group company under same management	Steel City Insurance Agencies Private Limited
(b) Other related parties:	
Key Management Personnel	Mr. G Sree Rama Murthy
	Mr.G Raja Gopal Reddy
	Mr.K Satyanaryana
	Mr.Satish Kumar Arya

(b) Significant Transactions with Related Parties:

Nature of Transaction	Investment	Remunerati on	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance taken
Steel City Commodities Pvt.Ltd	0.00		78.50	42.76	42.76
Mr. G Sree Rama Murthy		0.20			
Mr.G Raja Gopal Reddy		0.17			
Mr.K Satyanaryana		0.17			
Mr.Satish Kumar Arya		0.14			
Total	0.00	0.68	78.50	42.76	42.76

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account.

(c) Amount due to/from related parties

Nature of Transaction	Rs. in Million
	Due to/(from)
Steel City Commodities Pvt.Ltd	0.00
Mr. G Sree Rama Murthy	11.25
Mr.G Raja Gopal Reddy	1.25
Mr.K Satyanaryana	2.95
Mr.Satish Kumar Arya	0.00
Total	15.45



Year ended March 31, 2005

(a) Related Party Transactions as on March 31, 2005.

Nature of relationship	Name of Party
(a) Related parties where control exists:	
Subsidiaries	Steel City Commodities Private Limited
Group company under same management	Steel City Insurance Agencies Private Limited
(b) Other related parties:	
Key Management Personnel	Mr. G Sree Rama Murthy
	Mr.G Raja Gopal Reddy
	Mr.K Satyanaryana
	Mr.Satish Kumar Arya

(b) Significant Transactions with Related Parties:

Nature of Transaction	Investment	Remunerati on	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance taken
Steel City Commodities Pvt.Ltd	5.62		28.50	17.13	17.13
Mr. G Sree Rama Murthy		1.80			
Mr.G Raja Gopal Reddy		2.04			
Mr.K Satyanaryana		1.80			
Mr.Satish Kumar Arya		1.08			
Total	5.62	6.72	28.50	17.13	17.13

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account.

(c) Amount due to/from related parties

Nature of Transaction	Rs. in Million
	Due to/(from)
Steel City Commodities Pvt.Ltd	0.00
Mr. G Sree Rama Murthy	7.44
Mr.G Raja Gopal Reddy	0.00
Mr.K Satyanaryana	0.00
Mr.Satish Kumar Arya	0.00
Total	7.44



Year ended March 31, 2004

(a) Related Party Transactions as on March 31, 2004

Nature of relationship	Name of Party
(a) Related parties where control exists: Group company under same management	Steel City Commodities Private Limited Steel City Insurance Agencies Private Limited Steel City Capital Services Private Limited Steel City Holdings Limited
(b) Other related parties: Key Management Personnel	Mr. G Sree Rama Murthy Mr.G Raja Gopal Reddy Mr.K Satyanaryana Mr.Satish Kumar Arya

(b) Significant Transactions with Related Parties:

Nature of Transaction	Investment	Remunerati on	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance taken
Steel City Commodities Pvt.Ltd	1.00				
Steel City Insurance Agencies Private Limited	0.06				
Steel City Capital Services Private Limited			10.00		
Steel City Holdings Limited					
Mr. G Sree Rama Murthy		1.80			
Mr.G Raja Gopal Reddy		1.80			
Mr.K Satyanaryana		1.80			
Mr.Satish Kumar Arya		0.96			
Total	1.06	6.36	10.00	0.00	0.00

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account.

(c) Amount due to/from related parties

Nature of Transaction	Rs. in Million
	Due to/(from)
Mr. G Sree Rama Murthy	5.96
Mr.G Raja Gopal Reddy	0.00
Mr.K Satyanaryana	0.00
Mr.Satish Kumar Arya	0.00
Total	5.96



Year ended March 31, 2003

(a) Related Party Transactions as on March 31, 2003

Nature of relationship	Name of Party
(a) Related parties where control exists:	
Group company under same management	Steel City Commodities Private Limited Steel City Capital Services Private Limited Steel City Holdings Limited
Subsidiary Company	Steel City Insurance Agencies Private Limited
(b) Other related parties:	
Key Management Personnel	Mr. G Sree Rama Murthy Mr.G Raja Gopal Reddy Mr.K Satyanaryana Mr.Satish Kumar Arya

(b) Significant Transactions with Related Parties:

Nature of Transaction	Investment	Remunerati on	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance taken
Steel City Commodities Pvt.Ltd					
Steel City Insurance Agencies Private Limited	0.01				
Steel City Capital Services Private Limited	1.70		10.00		
Steel City Holdings Limited					
Mr. G Sree Rama Murthy		0.72			
Mr.G Raja Gopal Reddy		0.84			
Mr.K Satyanaryana		0.84			
Mr.Satish Kumar Arya		0.42			
Total	1.71	2.82	10.00	0.00	0.00

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account.

(c) Amount due to/from related parties

Nature of Transaction	Rs. in Million
	Due to/(from)
Mr. G Sree Rama Murthy	0.67
Mr.G Raja Gopal Reddy	0.63
Mr.K Satyanaryana	0.00
Mr.Satish Kumar Arya	0.00
Total	1.30



Steel City Commodities Private Limited

Annexure XIII-A: Summary statement of profits and losses, as restated

Rs. in Million

Particulars / For the year ended March 31	2003	2004	2005	30-09-2005
Income:				
Income from Broking	-	0.01	10.15	22.34
Other Income	-	0.02	0.18	0.68
Total Income	-	0.02	10.34	23.02
Expenditure:				
Expenditure on Trading Operations	-	0.02	0.86	0.13
Employee Cost	-	-	0.20	0.26
Administration & Other Expenses	0.01	0.41	4.67	11.09
Interest	-	-	-	-
Depreciation & Amortisation	0.01	0.02	0.08	0.09
Total Expenditure	0.01	0.45	5.81	11.58
Profit/(Loss) before tax & prior period and extra-ordinary items	(0.01)	(0.43)	4.53	11.44
Provision for taxation				
Current Tax	-	-	1.44	3.86
Deffered Tax	-	0.01	0.09	0.08
Net Profit/(Loss) after tax but before prior period and extra ordinary items	(0.01)	(0.44)	3.00	7.51
Extra Ordinary Items:				
Prior Period Expense	-	-	-	-
Net Profit/(Loss) for the year	(0.01)	(0.44)	3.00	7.51
Adjustments on account of changes in Accounting policies				
1. Impact of prior period items	-	-	-	-
2. Changes in policy	-	-	-	-
Total Impact of Adjustments	-	-	-	-
Net Profit / (Loss), as restated	(0.01)	(0.44)	3.00	7.51
Profit / (Loss) brought forward from previous Year	-	(0.01)	(0.45)	2.24
Profit / (Loss) available for appropriation	(0.01)	(0.45)	2.55	9.75
Transfer to / (from) General Reserve	-	-	0.30	0.75
Balance carried to Balance Sheet	(0.01)	(0.45)	2.25	9.00



Steel City Commodities Private Limited

Annexure XIII-B: Summary statement of assets and liabilities, as restated

Particulars / As on March 31,	Rs. in Million			
	2003	2004	2005	30-09- 2005
Fixed Assets				
(i) Gross Block	-	0.05	0.62	0.85
Less: Depreciation	-	0.00	0.06	0.12
Net Block	-	0.05	0.56	0.73
(ii) Capital Work in Progress	-	-	-	-
Net Block	-	0.05	0.56	0.73
Intangible Assets	-	-	-	-
Investments	-	-	-	-
Current Assets, Loans and Advances				
Receivables	-	0.02	1.74	8.90
Cash and Bank Balances	-	2.86	24.45	63.98
Loans and Advances	-	2.26	8.60	10.53
Total Current Assets, Loans and Advances	-	5.14	34.79	83.41
Total Assets	-	5.19	35.35	84.14
Liabilities & Provisions				
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
Total Loan Funds	-	-	-	-
Current Liabilities	0.06	0.17	22.91	60.89
Provisions	-	0.00	1.44	3.86
Total Current Liabilities & Provisions	0.06	0.17	24.36	64.75
Total Liabilities	0.06	0.17	24.36	64.75
Net Worth	(0.06)	5.02	11.00	19.39
Represented By:				
Share Capital				
Paid-up Equity Share Capital	-	5.55	8.55	8.55
Share Application money	-	-	-	0.85
Reserves and Surplus:				
Security Premium	-	-	-	-
General Reserve	-	-	0.30	1.05
Profit and Loss Account	(0.01)	(0.45)	2.25	9.00
Shareholders fund	(0.01)	5.10	11.10	19.45
Less: Miscellaneous Expenditure	0.05	0.08	0.09	0.06
Total	(0.06)	5.02	11.00	19.39



Steel City Commodities Private Limited**Annexure XIII-C:****Significant Accounting Policies and Notes forming part of the Restated Statement of Assets and Liabilities as at September 30, 2005 and Restated Profit and Loss Statement for the six month period ended September 30, 2005.****A. Significant Accounting Policies:**

The financial statements are prepared on the basis of historical cost convention and are in accordance with the accounting principles generally accepted in India and are in line with the applicable laws as well as the relevant guidelines prescribed.

1. System of Accounting

The Company adopts the accrual basis in the preparation of the accounts.

2. Income Recognition

Income from Business Operations, which comprises of commission, is accounted on accrual basis.

3. Expenses

Expenses other than Deferred Revenue Expenses are accounted on accrual basis and provisions made for all known liabilities and losses on available information.

Deferred Revenue Expenses are charged to revenue over the period for which the benefit of such expenditure is likely to be enjoyed.

4. Fixed Assets

Fixed Assets are valued at cost less accumulated Depreciation.

5. Depreciation

Depreciation is provided under straight-line method at the rates prescribed under Schedule-XIV of the Companies Act, 1956.

6. Recognition of Trading Expenses

Trading losses arising out of communication & computer disruptions and other operational reasons are treated as trading expenses

7. Taxes on Income

Provision for current tax is made in accordance with the provisions of Income Tax Act, 1961.

Deferred Tax on account of timing difference between taxable and accounting income is provided using the tax rates and tax laws enacted or substantially enacted by the Balance Sheet Date.



8. Retirement Benefits

- i. The Company's contribution to Provident Fund is recognized on accrual basis.
- ii. Leave encashment liability is provided on the basis of actual valuation made by the management at the end of each calendar year.

B. Notes to accounts:

1. As none of the employees have completed the minimum length of service as required under the Gratuity Act, 1972, no provision for gratuity is required to be made.
2. Deposits include a sum of Rs.0.35 million and Rs.0.15 million placed with MCX & NCDEX respectively.
3. Provision for Taxation has been made for the year is made to the extent of Rs.3.86 million after taking in to account difference between depreciation in the accounts and the depreciation allowable as per the Income Tax Act, 1961 and other deductions / additions allowable / disallowable under the Income Tax Act, 1961.
4. The Income Assessments of the Company have been pending for the accounting year 2003-2004 relevant to the assessment year 2004-2005.
5. During the year the company had purchased and sold commodities wherever there was operational problem due to communication and computer disruptions, data entry operator's mistakes and other reasons, to come out of the long or short struck in positions. The trading in such commodities in a loss of Rs. 0.02 million
6. VSAT deposits includes a sum of Rs.0.15 million placed with MCX & NCDEX which would be adjusted against repairs and maintenance of VSAT's provided by the respective exchanges.
7. Deferred Tax Liability / Asset:

As per the requirement of the Accounting Standard 22 on "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India, the net deferred Tax liability charged to Profit and Loss Account during the year is Rs 0.07 million

8. The company has numerous transactions with clients included in "Loans and Advances (Asset). The transactions continue to appear in the customer accounts till such time the same are matched and cleared and are subject to conformation. This is an ongoing process. The clearance of such open items is not likely to have a material impact on the outstanding or classification in the accounts.
9. Related party disclosures:

a) Related party disclosures for the six-month period ended September 30, 2005

Nature of relationship	Name of party
(a) List of Related parties:	
Holding company	Steel City Securities Limited
(b) Other related parties:	
Key Management Personnel	Mr. G. Sree Rama Murthy Mr. G. Raja Gopal Reddy Mr. K. Satyanarayana Mr. Satish Kumar Arya



b) Significant Transaction with Related Parties

Rs. in Million

Nature of Transaction	Investment	Remuneration	Corporate Guarantee taken	Advances Returned	Advances taken
Steel City Securities Limited	-	-	78.50	42.76	42.76
Mr.G Sree Rama Muthy	-	-	-	-	-
Mr G Raja Gopal Reddy	-	-	-	-	-
Mr K Satisfyanaryana	-	-	-	-	-
Mr Satish Kumar Arya	-	-	-	-	-
Total	-	-	78.50	42.76	42.76

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account

c) Outstanding as at September 30, 2005

Rs. in Million

Nature of Transaction	Debtors	Creditors
Steel City Securities Limited	-	-
Mr.G Sree Rama Muthy	-	-
Mr G Raja Gopal Reddy	-	-
Mr K Satisfyanaryana	-	-
Mr Satish Kumar Arya	-	-
Total	-	-

10. Segment Reporting:

As the Company has engaged solely in commodity broking, Segment Reporting is not applicable. The company operates in only one geographic segment i.e. 'India'. Hence separate information on geographical segment is not required. The other segment, if any, constitutes income like interest on FDRs etc, which are not the regular income streams of the company and hence segment results, segment assets and segment liabilities are, accordingly disclosed. The accounting policies adopted for segment reporting are in line with the accounting policies adopted for preparation of financial information of the company.

11. The Company has extended Bank Guarantee in favour of MCX & NCDEX for Rs.66.50 million from The Karnataka Bank Ltd for Rs.25.00 million, HDFC Bank Ltd 21.50 Million and The Karur Vysya Bank Limited for Rs.20.00 million on the basis of Corporate Guarantee given by Steel City Securities Limited.
12. Fixed Deposits placed with HDFC Bank for Rs.8.25 million with The Karnataka Bank Ltd for Rs.12.50 million and with The Karur Vysya Bank Ltd for Rs.6.00 million pledged against the Bank Guarantees issued by them.
13. Figures of the Previous year have been regrouped wherever necessary, to confirm to the current year's presentation/classification.



Steel City Commodities Private Limited

Annexure XIII-D: Details of Bank Guarantees

The following table represents the break-up of outstanding Bank Guarantees in respect of the issuer subsidiary company Steel City Commodities Private Limited as on 30th September 2005.

Rs. in Million					
Bank	Amount Sanctioned	Amount O/s	Rate of BG Commission P.A (%)	Validity Period	Securities Offered
HDFC Bank Ltd Letter Ref. No.- Nil Dated – 29.06.05	21.50	21.50	1.00	12 months	Prime security of 40% cash margin and collateral security in terms of Corporate Guarantee of Steel City Securities Limited and personal guarantee of Directors.
The Karnataka Bank Ltd Letter Ref. No. GMS/(SMEFD) 74, Dated – 04.01.05, 20.07.05 & 19.08.05	37.00	25.00	1.50	12 months	Prime security of 50% cash margin for Rs. 25 Million and 30% cash margin for Rs. 12 Million and collateral security in terms of Corporate Guarantee of Steel City Securities Limited and personal guarantee of Directors.
The Karur Vysya Bank Limited, Ref No.GEN/BG/37/05-06 dt 23.07.2005	20.00	20.00	1.50	12 months	Prime security of 30% cash margin and collateral security in terms of Corporate Guarantee of Steel City Securities Limited and personal guarantee of Directors.
	78.50	66.50			

- Note: 1. Exchanges Clearing Accounts be maintained with the HDFC Bank till the Bank Guarantee Limits exists.
2. BGs are renewed from time to time as per the discretion of the Banks.



CONSOLIDATED FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, AS RESTATED, (INCLUDING SUBSIDIARIES) FOR THE YEARS / PERIOD ENDED MARCH 31, 2001, 2002, 2003, 2004, 2005 AND FOR THE SIX MONTH PERIOD ENDED SEPTEMBER 30, 2005

AUDITORS' REPORT

To,
The Board of Directors,
Steel City Securities Limited
49-52-5/4, Shanthipuram,
Visakhapatnam – 530 016

Dear Sirs,

As required for the purpose of certification of financial information to be incorporated in the offer document proposed to be issued by Issuer Company namely, Steel City Securities Limited in connection with its Initial Public Offer of Equity Shares, we state as under:

We have examined and initialled for identification purposes, the Consolidated Financial Information of **Steel City Securities Limited** (Parent Company) and its subsidiary i.e Steel City Commodities Private Limited (collectively referred to as the Group), as attached to this report. Of these, accounts Steel City Commodities Private Limited up to and including the two financial years ended on March 31, 2004 have been audited by other auditors M/s. Ambika-Isha, Chartered Accountants and the same have been accepted by us for the purpose of this certification. The accounts for financial year ended on March 31, 2005 and for the Six month period ended September 30, 2005 are audited by us.

1. The said financial information has been prepared in accordance with the requirements of:
 - a) Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 (“the Act”).
 - b) The Securities and Exchange Board of India (SEBI) (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 19, 2000 in pursuance of Section 11 of The Securities & Exchange Board of India Act, 1992 (“SEBI Guidelines”), and
 - c) Our terms of reference received from the company vide letter reference October 22, 2005 requesting us to make this report for the purpose of inclusion in the offer document to be issued by the Company in connection with its Initial Public Offer of its Equity Shares (‘the issue’). The financial information has been prepared by the company and approved by the Board of Directors of the company.
2. We have examined the attached consolidated summary statement of Profits and Losses as restated of the company for the years ended March 31, 2001, 2002, 2003, 2004, 2005 and for the six month period ended September 30, 2005 as per **Annexure I**. These profits have been arrived at after charging all expenses including depreciation and after making such adjustments and regroupings as in our opinion are appropriate to reflect the significant accounting policies and significant notes being adopted by the Company as at 30th September 2005, more fully described in **Annexure III**.
3. The attached consolidated summary statement of assets and liabilities as restated, as at March 31, 2001, 2002, 2003, 2004, 2005 and for the six month period ended September 30, 2005 as per **Annexure II**. These have been arrived at after making such adjustments and regroupings as in our opinion are appropriate to reflect the significant accounting policies and significant notes being adopted by the Company as at 30th September 2005, more fully described in **Annexure III**.



4. The preparation and presentation of these financial information is the responsibility of the Company's management. These Summary statements have been extracted from the financial statements of the group for the years / period audited either by us or by other auditors and have been adopted by the Board of Directors / Members for those respective years / period, as applicable.
5. Based on our examination of these consolidated summary statements, we state that:
 - i. The consolidated summary statements of the company have been restated with retrospective effect to reflect the significant accounting policies and significant notes being adopted by the company as at September 30, 2005, more particularly stated in **Annexure III** to this report.
 - ii. The significant changes and / or adjustments are as reported in **Annexure IV**.
 - iii. The consolidated cash flow statement of the company as restated as per **Annexure V**.
 - iv. There are no qualifications in the auditors' report that require any adjustment to the consolidated summary statements.
 - v. There are no changes in accounting policies that need to be disclosed separately in the summary statements.
 - vi. There are no extra-ordinary items that need to be disclosed separately in the summary statements.
6. This report is intended solely for your information and for inclusion in the offer document to be issued by the Company in connection with its Initial Public Offer of its Equity Shares and is not to be used, referred to or distributed for any other purpose without our prior written consent.

Sudhakar & Kumar Associates
Chartered Accountants

P Rama Krishna Rao
Partner
Membership No: 26820

Place: Visakhapatnam
Date: October 28, 2005

INDEX OF STATEMENTS AND INFORMATION FORMING PART OF OUR REPORT ISSUED ON CONSOLIDATED FINANCIAL STATEMENTS OF STEEL CITY SECURITIES LIMITED AND ITS SUBSIDIARY IN CONNECTION WITH COMPANY'S INTIAL PUBLIC OFFER

Annexure	Particulars
Annexure I	Statement of Consolidated Summary of Profits and Losses, as restated
Annexure II	Statement of Consolidated Summary of Assets and Liabilities, as restated
Annexure III	Significant Accounting Policies and Notes to Accounts to Consolidated financial Statements
Annexure IV	Statement Prior Period Adjustments
Annexure V	Consolidated Cash-flow Statement.



Steel City Securities Limited (Consolidated Financial Statements)

Annexure I: Statement of Consolidated Summary of Profits and Losses, as restated

Particulars / For the year ended March 31	Rs. in Million					
	2001	2002	2003	2004	2005	30-09-05
Income:						
Income from Broking	141.27	51.81	54.17	109.67	176.08	134.79
Income from Depository Services	1.02	1.46	4.51	10.26	12.09	5.83
Other Income	9.45	9.72	6.67	3.82	9.86	4.39
Total Income	151.74	62.99	65.35	123.75	198.03	145.01
Expenditure:						
Expenditure on Trading Operations	16.93	12.03	10.72	14.08	15.80	6.40
Employee Cost (Including Managerial Remuneration)	17.28	11.03	11.04	19.85	23.09	11.70
Administration & Other Expenses	37.82	32.49	36.32	50.35	98.53	72.99
Interest	0.58	1.32	0.71	0.59	1.24	1.20
Depreciation & Amortisation	3.91	4.29	4.29	4.39	5.32	3.60
Total Expenditure	76.53	61.16	63.08	89.26	143.98	95.89
Profit/(Loss) before tax & prior period and extra ordinary Items	75.22	1.83	2.27	34.49	54.05	49.12
Provision for taxation						
Current Tax	29.23	0.58	1.11	12.76	15.98	15.11
Deferred Tax	-	-	(0.23)	0.19	1.56	1.33
Net Profit/(Loss) after tax but before prior period and extra ordinary items	45.98	1.24	1.39	21.54	36.51	32.68
Extra Ordinary Items:						
Prior Period Expense	-	0.01	0.64	(0.01)	0.65	-
Net Profit/(Loss) for the year	45.98	1.23	0.75	21.53	35.87	32.68
Adjustments on account of changes in accounting policies						
1. Impact of prior period items	-	-	-	-	-	-
2. Changes in policy	-	-	-	-	-	-
Total Impact of Adjustments	-	-	-	-	-	-
Net Profit / (Loss), as restated	45.98	1.23	0.75	21.53	35.87	32.68
Profit / (Loss) brought forward from previous Year	32.84	59.00	60.11	60.79	80.12	112.82
Profit from transferors on amalgamation	-	-	-	-	0.42	-
Profit / (Loss) available for appropriation	78.82	60.23	60.86	82.32	116.41	145.51
Dividend & Dividend Tax	15.22	-	-	-	-	-
Transfer (to)/from General Reserve	4.60	0.12	0.07	2.20	3.58	3.27
Balance	59.00	60.11	60.79	80.12	112.83	142.23
Less: Minority Interest	-	-	-	(0.36)	0.55	1.70
Balance carried to Balance Sheet	59.00	60.11	60.79	80.48	112.28	140.53

The accompanying accounting policies and notes on accounts are an integral part of this statement.



Steel City Securities Limited (Consolidated Financial Statements)

Annexure II: Statement of Consolidated Assets and Liabilities, as restated

Particulars / As on March 31	Rs. in Million					
	2001	2002	2003	2004	2005	30-09-05
Fixed Assets						
(i) Gross Block	48.45	51.58	42.90	53.94	79.18	86.69
Less: Depreciation	10.10	14.37	15.69	19.89	24.86	28.12
Net Block	38.36	37.20	27.21	34.05	54.32	58.57
(ii) Capital Work in Progress	-	-	-	-	-	-
Net Block	38.36	37.20	27.21	34.05	54.32	58.57
Investments	10.92	10.90	12.70	12.76	0.16	0.17
Current Assets, Loans and Advances						
Receivables	19.14	10.77	11.83	28.22	76.56	102.46
Cash and Bank Balances	87.09	62.04	66.10	109.80	185.88	273.04
Loans and Advances	49.20	15.61	17.94	30.21	47.80	80.86
Total Current Assets, Loans and Advances	155.43	88.42	95.87	168.23	310.24	456.36
Total Assets	204.71	136.52	135.78	215.04	364.72	515.10
Liabilities & Provisions						
Secured Loans	10.40	3.18	2.30	6.92	4.44	12.12
Unsecured Loans	-	5.28	1.30	5.96	7.44	15.44
Total Loan Funds	10.40	8.46	3.61	12.88	11.88	27.56
Current Liabilities	82.85	44.01	51.31	83.63	178.20	281.99
Provisions	29.23	0.58	1.11	12.76	15.98	15.11
Total Current Liabilities & Provisions	112.08	44.59	52.42	96.39	195.18	297.10
Total Liabilities	122.48	53.05	56.03	109.27	207.06	324.66
Net Worth	82.22	83.47	79.76	105.77	157.66	190.43
Represented By:						
Share Capital						
Paid up Capital	12.48	12.48	12.48	12.48	15.48	15.48
Reserves and Surplus:						
Security Premium	2.56	2.56	2.56	2.56	10.56	10.56
General Reserve	8.24	8.36	3.96	6.16	10.10	13.30
Capital Reserve	-	-	-	-	7.19	7.19
Profit and Loss Account	59.00	60.11	60.79	80.48	112.28	140.02
Shareholders fund	82.28	83.51	79.79	101.68	155.61	186.56
Less: Miscellaneous Expenditure	0.06	0.04	0.03	0.10	0.43	1.19
Minority Interest	-	-	-	4.19	2.49	5.06
Total	82.22	83.47	79.76	105.77	157.66	190.43

The accompanying accounting policies and notes on accounts are an integral part of this statement.



Steel City Securities Limited (Consolidated Financial Statements)

ANNEXURE III:

Significant Accounting Policies and Significant Notes to the Consolidated Statement of Profits and Losses and Assets and Liabilities as at 30th September 30 2005, as Restated.

Significant Accounting Policies and Significant Notes forming part of the Restated Consolidated Statement of Assets and Liabilities as at September 30, 2005 of Steel City Securities Limited and its subsidiaries.

A. Significant Accounting Policies:

Accounting Convention

The preparation of consolidated financial statements in conformity with Indian generally accepted accounting policies requires management to make estimated and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Basis of preparation of financial statements

The accompanying consolidated financial statements have been prepared in accordance with Indian generally accepted accounting principles.

Principles of consolidation

The consolidated financial statements include the financial statements of M/s. Steel City Securities Limited and its Subsidiary, which are more than 50% owned and controlled. All the inter-company accounts and transactions and resulting unrealised profits or losses are eliminated on consolidation. The Company accounts for Investments by the equity method where its investment in the voting stock gives it the ability to exercise significant influence over the investee.

The consolidated financial statements for the year ended 30th September, 2005 have been prepared on the basis of the financial statements of M/s. Steel City Commodities Private Limited (Subsidiary)

1. System of Accounting

The Company adopts the accrual basis in the preparation of the accounts.

2. Income Recognition

Income from Trading Operations, which comprises of Brokerage, is accounted for up to the date of last settlement in the financial year.

3. Expenses

Expenses other than Deferred Revenue Expenses are accounted on accrual basis and Provisions made for all known liabilities and losses on available information.

Deferred Revenue Expenses are charged to revenue over the period for which the benefit of such expenditure is likely to be enjoyed.

4. Fixed Assets

Fixed Assets are valued at cost less accumulated Depreciation.



In respect of leased/rental assets, lease rentals payable during the year is charged to Profit and Loss Account.

5. Depreciation

Depreciation is provided under straight-line method at the rates prescribed under Schedule-XIV of the Companies Act, 1956.

6. Stoke-in-Trade (Shares)

Equity Shares/commodities are valued scrip wise at cost or market value whichever is lower.

7. Recognition of Trading Expenses

Trading losses arising out of communication and computer disruptions and other operational reasons are treated as trading expenses

8. Taxes on Income

Provision for current tax is made in accordance with the provisions of Income Tax Act, 1961.

Deferred Tax on account of timing difference between taxable and accounting income is provided using the tax rates and tax laws enacted or substantially enacted by the Balance Sheet Date.

9. Investments

- i. Investments that are intended to be held for more than a year are classified as Long-term Investments. All other investments are classified as current investments.
- ii. Long-term investments are carried at cost.

10. Retirement Benefits

- i. The Company's contribution to Provident Fund is recognized on accrual basis.
- ii. Leave encashment liability is provided on the basis of actual valuation made by the management at the end of each calendar year.

B. Notes to Consolidated Financial Statements:

1. Contingent Liability not provided for:
 - i. The Company has provided a Corporate Guarantee in favour of HDFC Bank Ltd, Karnataka Bank Limited and The Karur Vysya Bank Limited to the extent of Rs.21.50 million, 37.00 million and 20.00 million respectively for the credit facilities in the form of Bank Guarantees extended by these banks to its Subsidiary i.e M/s. Steel City Commodities Private Limited.
 - ii. The group has been sanctioned Bank Guarantees by The Karnataka Bank Ltd for Rs.117.00 million HDFC Bank for Rs.111.50 million, ING Vysya Bank Ltd for Rs.43.00 million and The Karur Vysya Bank Ltd for Rs.20.00 million favouring NSE / NSCCL / BSE / MCX / NCDEX.
2. Fixed Deposits placed with HDFC Bank for Rs.53.25 million with The Karnataka Bank Ltd for Rs.52.50 million, with ING Vysya Bank Ltd for Rs.20.87 million and with The Karur Vysya Bank Limited for Rs.6.00 million pledged against the Bank Guarantees issued by them.



3. As none of the employees have completed the minimum length of service as required under the Gratuity Act, 1972, no provision for gratuity is required to be made.
4. Sundry Deposits exceeds 3 months are long over due and no provision is made in the accounts, as in the opinion of the management, they are good and recoverable. An amount of Rs.0.36 million representing Bad Debts has been written off during the year as in the opinion of the management the same are not recoverable.
5. Interest paid on Unsecured Loans to Directors of Rs.1.00 million.
6. Provision for Taxation has been made for the year is made to the extent of Rs.15.11 million after taking in to account difference between depreciation in the accounts and the depreciation allowable as per the Income Tax Act, 1961 and other deductions / additions allowable / disallowable under the Income Tax Act, 1961.
7. During the year the company had purchased and sold shares & commodities wherever there was operational problem due to communication and computer disruptions, data entry operator's mistakes, share deliveries mismatch and other reasons, to come out of the long or short struck in positions. The trading in such shares in a loss of Rs. 0.28 million.
8. For leasehold buildings, electrical wiring, flooring, civil repairs, etc., is treated as current repairs.
9. Deferred Tax Liability / Asset:

As per the requirement of the Accounting Standard 22 on "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India, the net deferred Tax liability charged to Profit and Loss Account during the year is Rs.1.33 million.

10. The company has numerous transactions with clients included in "Loans and Advances (Asset). The transactions continue to appear in the customer accounts till such time the same are matched and cleared and are subject to conformation. This is an ongoing process. The clearance of such open items is not likely to have a material impact on the outstanding or classification in the accounts.
11. The Consent of the members was accorded at EGM held on 04.07.2005 by the Company for capitalisation by way of bonus shares in the ratio of 7:1, but the Company has to take their prior permission of the concerned Stock Exchanges in accordance their Bye-laws, Rules and Regulations. So the Company has to allot the said bonus and form no.2 to be filed with ROC and the said bonus will be effected after complying with the consent provision and procedures in this regard. Hence bonus shares is not taken to account while preparing the Balance Sheet and Profit and Loss Account as at 30-09-2005
12. Related Party Disclosures for the year ended 30th September, 2005:
 - a) Names of the Related Parties with whom Transactions have been entered during the year and description of Relationship:

Key Management Personnel	Directorship Held
Mr.G. Sree Rama Murthy	Steel City Securities Limited and its subsidiary company
Mr. G. Raja Gopal Reddy	Steel City Securities Limited, its subsidiary and group company
Mr. K. Satyanarayana	Steel City Securities Limited, its subsidiary and group company
Mr. S. K. Arya	Steel City Securities Limited, its subsidiary and group company
Mr. B. Krishna Rao	Steel City Insurance Agencies Private Limited



b) Significant transaction with related parties

Nature of Transaction	Investment	Remuneration	Corporate Guarantee	Rs. in Million	
				Advance returned	Advance Taken
SCCPL	0.00	-	78.50	42.76	42.76
Mr. G Sree Rama Murthy		0.20			
Mr.G Raja Gopal Reddy		0.17			
Mr.K Satyanaryana		0.17			
Mr.Satish Kumar Arya		0.14			
Total	0.00	0.68	78.50	42.76	42.76

Note: Transactions between group companies comprise of extension and return of temporary advances of funds as identified by the Company's management from the Holding/Subsidiary Company's Current Account

c) Amount due to / from related parties

Nature of Transaction	Rs. in Million	
	In Holding Company Due to/(from)	In Subsidiary Company Due to/(from)
SCCPL	00.00	00.00
SCSL	00.00	00.00
Mr. G Sree Rama Murthy	11.25	00.00
Mr.G Raja Gopal Reddy	1.25	00.00
Mr.K Satyanaryana	2.95	00.00
Mr.Satish Kumar Arya	00.00	00.00
Total	15.45	00.00

The Company has an Investment of Rs.6.62 million in equity shares in its subsidiary i.e. Steel City Commodities Private Limited. The Total Share Capital of subsidiary is Rs.8.55 million. The summary of Consolidated Financial Statements represents consolidation of accounts of the Company with its subsidiary, incorporated within India, as detailed below:

Subsidiary	Proportion of ownership interest					
	31/03/2001	31/03/2002	31/03/2003	31/12/2004	31/12/2005	30/09/2005
Steel City Commodities Pvt. Ltd.	NA	NA	NA	18.02	77.36	77.36

The Company has an Investment of Rs.0.40 million in equity shares in its subsidiary i.e Steel City Insurance Agencies Private Limited till Financial Year 2003. During the Financial Year 2004, it has disinvested 60% holding and thereby this Company ceases to be as subsidiary. Total shares of Steel City Insurance Agencies Private Limited is Rs.0.40 million. The summary of Consolidated Financial Statements does not include the financial of the Steel City Insurance Agencies Private Limited.

Group Company	Proportion of ownership interest					
	31/03/2001	31/03/2002	31/03/2003	31/12/2004	31/12/2005	30/09/2005
Steel City Insurance Agencies Pvt. Ltd.	NA	NA	100%	40%	40%	40%



13. Segment reporting: The group is engaged in the equity and commodities broking together with related business activities, hence segment information is not applicable. Segment information for primary business activities divided on the basis of revenue earning for the year ended 30th September, 2005 is as under:

Rs. in Million						
S. No	Particulars	Equity Broking	DP Services	Commodities Broking	Others	Total
I	Segment Revenue					
	External	112.45	5.83	22.34	4.39	145.01
	Inter-segment	0.00	0.00	0.00	0.00	0.00
	Total	112.45	5.83	22.34	4.39	145.01
II	Operating Profit	28.13	5.83	10.77	4.39	49.12
	Less: Income Tax & Deferred Tax					16.44
	Net Profit after Tax					32.68
III	Segment Assets					515.10
	Unallocated Corporate assets					0.00
	Total Assets					515.10
IV	Segment Liabilities					297.10
	Unallocated Corporate Liabilities					0.00
	Total Liabilities					297.10
V	Capital Expenditure					7.50
VI	Depreciation					3.26
VII	Non-Cash expenditure other than depreciation					0.34

The company / group operates in only one geographic segment i.e. 'India'. Hence separate information on geographical segment is not required. The other segment, if any, constitutes income like interest on FDRs etc, which are part the business and hence segment results, segment assets and segment liabilities are, accordingly disclosed. The accounting policies adopted for segment reporting are in line with the accounting policies adopted for preparation of financial information of the company.

14. Personal guarantees given for obtaining Bank Guarantees for Working Capital Loans from Banks of the company by the Chairman and Managing Director, other Whole time Directors and others aggregating to Rs. 39.78 million.
15. VSAT deposits include sum of Rs.0.15 million placed with MCX & NCDEX, which would be adjusted against repairs and maintenance of VSAT's provided by the respective exchanges.
16. Figures of the Previous year have been regrouped wherever necessary, to confirm to the current year's presentation/classification.
17. Current year figures are not comparable with the previous year figures on account of proportionate consolidation of subsidiary entity.



Steel City Securities Limited (Consolidated Financial Statements)

Annexure IV: Statement of Prior Period Adjustments

Rs. in Million

Adjustments [(income) / expenses] in the statement of Profit and Loss arising out of :	31/03/2001	31/03/2002	31/03/2003	31/03/2004	31/03/2005	30/09/2005
Impact of prior period items:						
Short /(Excess) tax provided for prior years	-	0.01	0.64	(0.01)	0.65	-

Cumulative effect of above [(increase) / decrease] in statement of Asset & Liabilities	31/03/2001	31/03/2002	31/03/2003	31/03/2004	31/03/2005	30/09/2005
(a) Current Assets	-	0.01	0.64	(0.01)	0.65	-
(b) Profit & Loss statement, as restated	-	0.01	0.64	(0.01)	0.65	-
Tax Impact of adjustments	-	0.01	0.64	(0.01)	0.65	-



Steel City Securities Limited (Consolidated Financial Statements)

Annexure V: Consolidated Cash Flow Statement

	Rs. in Million					
For the Financial Year ended on March, 31	2000-01	2001-02	2002-03	2003-04	2004-05	Six month period 30-09-2005
Cash flows from operating activities						
Net profit before taxation, and extraordinary item & Adjustments for:	75.22	1.83	2.27	34.49	54.05	49.12
Depreciation	3.90	4.28	4.28	4.35	5.13	3.26
Amortization	-	-	-	-	-	-
Provision for Gratuity	-	-	-	-	-	-
Interest expenses	0.58	1.32	0.71	0.59	1.24	1.20
Provision for Leave Encashment	-	-	-	-	-	-
Deferred Tax (Liability)/Asset	-	-	0.23	(0.19)	(1.56)	(1.33)
Preliminary Expense W/Off	0.01	0.01	0.01	0.04	0.19	0.34
Loss / (Profit) on Sale of Fixed Assets	0.08	-	0.72	0.14	0.20	-
Operating profit before working capital changes	79.79	7.44	8.22	39.42	59.25	52.59
(Increase) / Decrease in Receivables	(0.68)	8.37	(1.06)	(16.39)	(48.34)	(25.90)
(Increase) / Decrease in Loans & Advances	(24.43)	33.59	(2.33)	(12.27)	(17.59)	(34.16)
Increase / (Decrease) in Provisions	16.70	(28.65)	0.53	11.65	3.22	(0.87)
Increase / (Decrease) in Current Liabilities	(13.78)	(38.84)	7.30	36.77	98.06	103.66
Cash generated from operations	57.60	(18.09)	12.66	59.18	94.44	95.32
Tax (Paid)/ Refund	(29.23)	(0.59)	(1.75)	(12.75)	(16.63)	(15.11)
Net cash from operating activities	28.37	(18.68)	10.91	46.43	77.97	80.21
Cash flows from investing activities						
Purchase of fixed assets	(12.43)	(3.12)	(4.92)	(12.75)	(26.45)	(7.51)
Sale of Fixed Assets	0.65	-	9.91	1.41	0.86	-
Purchase of Investments	(7.02)	-	(1.80)	(0.06)	-	(0.01)
Sale of Investments	-	0.02	-	-	14.94	-
Net cash from investing activities	(18.80)	(3.10)	3.19	(11.40)	(10.65)	(7.52)
Cash flows from financing activities						
Proceeds from issuance of share capital	-	-	-	-	11.00	-
(Repayment) / Proceeds of long-term borrowings	4.26	(1.94)	(4.85)	9.27	(1.00)	15.68
Decrease of Reserves on account of Deferred tax Liability	-	-	(4.48)	-	-	-
Interest Paid	(0.58)	(1.32)	(0.71)	(0.59)	(1.24)	(1.20)
Dividend & Dividend tax Paid	(15.22)	-	-	-	-	-
Net cash used in financing activities	(11.54)	(3.26)	(10.04)	8.68	8.76	14.48
Net increase in cash and cash equivalents	(1.98)	(25.04)	4.06	43.70	76.08	87.17
Cash and Cash equivalents at beginning of period	89.07	87.09	62.04	66.10	109.80	185.88
Cash and Cash equivalents at end of period	87.09	62.04	66.10	109.80	185.88	273.04



SECTION VI: LEGAL AND REGULATORY INFORMATION

SUMMARY OF PROVISIONS OF RELEVANT LAWS APPLICABLE TO OUR BUSINESS

Steel City Securities Limited

SCSL is engaged in the business of screen based trading and is registered with SEBI as a stockbroker, trading and clearing member of NSE, member of BSE and as a depository participant with National Securities Depository Limited (“NSDL”) and Central Depository Services (India) Limited (“CDSL”). SCSL is also a member of the National Securities Clearing Corporation Limited.

1. The Securities and Exchange Board of India Act, 1992 (“SEBI Act”) provides for the establishment of a Board namely the SEBI to protect the interests of investors in securities and to promote the development of, and to regulate the securities market by such measures as it thinks fit. Such measures may inter alia provide for: -
 - a) regulating the business in stock exchanges and any other securities markets;
 - b) registering and regulating the working of stock brokers, sub-brokers, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner;
 - c) registering and regulating the working of the depositories, participants and other intermediaries;
 - d) prohibiting fraudulent and unfair trade practices relating to securities markets;
 - e) prohibiting insider trading in securities;
 - f) regulating substantial acquisition of shares and take-over of companies.

Pursuant to the SEBI Act, and the rules, regulations and guidelines issued by SEBI, a stockbroker, sub-broker and depository participant can buy, sell or deal in securities only after obtaining a certificate of registration from SEBI in accordance with the applicable regulations.

2. The Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Rules, 1992 read with the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 provides the eligibility criteria, procedure for obtaining the certificate of registration to carry on business as a stock broker and/or a sub-broker who is required to be affiliated to a stock broker registered under the aforesaid regulations. On registration, the stockbroker and sub-broker are required to adhere to a code of conduct prescribed under the above regulations.

Apart from registration of stockbrokers and sub-brokers, the regulations provide for registration of trading and clearing members. A trading member is a member of the derivatives exchange or derivatives segment of a stock exchange and who settles the trade in the clearing corporation or clearing house through a clearing member. A clearing member is a member of a clearing corporation or clearing house of the derivative exchange or derivatives segment of an exchange, who clears and settles transactions in securities. The code of conduct specified for stockbrokers are applicable *mutatis mutandis* to the trading and clearing members.

3. The Depositories Act, 1996 provides for regulation of depositories in securities and other related matters. Every person subscribing to securities offered by an issuer has the option either to receive the security certificates or hold securities with a depository. A depository after obtaining a certificate of commencement of business from SEBI can enter into an agreement with one or more participants as its agent. Any person, through a participant, may enter into an agreement with any depository for availing its services.

The depository is deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner. The depository does not have any voting rights or any other rights in respect of securities held by it. The beneficial owner of the securities is entitled to all the rights and benefits and is subjected to all the liabilities in respect of his securities held by a depository.



4. The Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 provides inter alia the eligibility criteria, procedure for obtaining the certificate of registration to carry on business as a depository participant, rights and obligations of the depository participants. On registration, the depository participant is required to adhere to a code of conduct prescribed under these regulations.
5. The Securities Contract (Regulation) Act, 1956 (“SCRA”) seeks to prevent undesirable transactions in securities by regulating the business of dealing in securities and other related matters. The SCRA provides for grant of recognition for stock exchanges by the Central Government. Every recognized stock exchange is required to have in place a set of rules relating to its constitution and bylaws for the regulation and control of contracts.

The bye-laws normally provide for inter alia (i) the opening and closing of markets and the regulation of the hours of trade; (ii) the fixing, altering or postponing of days for settlements; (iii) the determination and declaration of market rates, including the opening, closing highest and lowest rates for securities; (iv) the terms, conditions and incidents of contracts, including the prescription of margin requirements, if any, and conditions relating thereto, and the forms of contracts in writing; (v) the regulation of the entering into, making, performance, recession and termination of contracts, including contracts between members or between a member and his constituent.

If the securities of a public company are listed in any recognized stock exchange, the said company must comply with the conditions of the listing agreement entered into with the stock exchange. NSE and BSE of which SCSL is a member are such recognized stock exchanges.

6. The Insider Trading Regulations would be applicable to SCSL since SCSL is a person, which is deemed to be a connected person as defined under the said regulations. As per the Insider Trading Regulations, a person deemed to be a connected person includes an intermediary under the SEBI Act. Such intermediary includes a stockbroker, sub-broker and investment advisor.
7. SCSL as a member of the NSE and is required to adhere to the rules and regulations framed by the NSE. The National Stock Exchange of India Limited Bye-laws prescribes regulations relating to inter alia (i) norms, procedures, terms and conditions to be complied with for inclusion of securities in the official list of NSE securities; (ii) norms and procedures for admission of trading members (iii) forms and conditions of contracts to be entered into, and the time, mode and manner for performance of contracts between trading members inter se or between trading members and their constituents; (iv) determination of fees, system usage charges, deposits, margins and other monies payable to the NSE by trading members, participants and by issuers whose securities are admitted/to be admitted to dealings on the NSE and the scale of brokerage chargeable by trading members; (v) settlement of disputes, complaints, claims arising between trading members inter-se as well as between trading members and persons who are not trading members relating to any transaction in securities made on the NSE including settlement by arbitration (vi) norms and procedures for settlement and clearing of deals.
8. SCSL as a member of the BSE and is required to adhere to the rules and regulations framed by BSE. The rules, bye-laws and regulations of BSE prescribe norms relating to inter alia (i) listing conditions and requirements (ii) procedures for admission of trading members (iii) applications in respect of new issues or offer for sale (iv) terms and conditions of contracts to be entered into, performance of contracts between trading members inter-se or between trading members and their constituents (v) determination of fees, margin deposits and other monies payable to the BSE by trading members (vi) settlement of disputes arising between trading members inter-se as well as between trading members and persons who are not trading members relating to any transaction in securities made on the BSE including settlement by arbitration.
9. Internet Based Trading was approved by SEBI vide its Circular No. SMDRP / POLICY/CIR-06 /2000 dated January 31, 2000. The circular provides that SEBI registered stock brokers interested in providing



Internet based trading services must obtain formal permission of the concerned stock exchange. The stock exchange, before giving permission must ensure the fulfillment of certain minimum conditions such as a minimum net worth of Rs. 50,00,000/-, the system used by the broker has provision for security, reliability and confidentiality of data through use of encryption technology and has adequate backup systems and data storage capacity. The broker's web site providing the Internet based trading facility should contain information meant for investor protection such as rules and regulations affecting client broker relationship, arbitration rules investor protection rules etc. Certain mandatory security features are also prescribed in the circular for all Internet based trading systems. SCSL has been permitted to provide Internet based trading services.

10. SEBI (Merchant Bankers) Regulations 1992 read with SEBI (Merchant Bankers) Rules 1992 would be applicable to SCSL if SCSL is granted registration as a Merchant Banker by SEBI. SEBI (Merchant Bankers) Regulations 1992 read with SEBI (Merchant Bankers) Rules 1992 provides the eligibility criteria, procedure for obtaining the certificate of registration to carry on business as a Merchant Banker. Based on the capital adequacy requirement, SEBI grants categories ranging from Category I to Category IV. According to the category prescribed, the Merchant Bankers are permitted to carry out certain activities as are prescribed in these regulations. On registration, the Merchant Bankers are required to adhere to a code of conduct prescribed under the above regulations.

The SEBI (Prohibition of Insider Trading) Regulations, 1992

The provisions of the SEBI (Prohibition of Insider Trading) Regulations, 1992 ("Insider Trading Regulations") will be applicable to our Company immediately upon the listing of the Equity Shares on the Stock Exchanges. The Insider Trading Regulations provide that an insider cannot deal in securities of a company listed on any stock exchange when in possession of any unpublished price sensitive information or communication, counsel or procure directly or indirectly any unpublished price sensitive information to any person who while in possession of such unpublished price sensitive information shall not deal in securities. Further, a company cannot deal in the securities of another company or associate of that other company while in possession of any unpublished price sensitive information.

The term "insider" has been defined under the Insider Trading Regulation to mean *inter alia* any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to unpublished price sensitive information in respect of securities of a company or who has received or has had access to such unpublished price sensitive information.

The Insider Trading Regulations further provide that all listed companies and organizations associated with the securities market including *inter-alia* intermediaries as defined under the SEBI Act, asset management companies, trustees of mutual funds etc. should frame a code of internal procedures and conduct based on the Model Code of Conduct specified under the Insider Trading Regulations. Our Company has framed a code of internal procedures and conduct for the prevention of insider trading.

Mutual Funds Distribution

The Company is a direct selling agent of personal financial products including mutual funds, fixed deposits, corporate bonds, government bonds and other small saving instruments. The legal and regulatory framework applicable to intermediaries/agents/distributors for providing financial services like sale of mutual funds units are as follows:

SEBI Circular D/CIR No.10 / 310 / 01 dated September 25, 2001

As per the above-mentioned circular, SEBI, with a view to improving professional standards, has made it mandatory for all mutual funds to appoint agents/distributors who have obtained AMFI certification, with effect from November 1, 2001. also, the existing agents/distributors are expected to pass certification programme by March 31, 2003. in case of firms/companies, the requirement of certification is made applicable to the persons engaged in sales and marketing.



Guidelines for the Registration of Intermediaries dated January 15, 2003 by AMFI

The above-mentioned guidelines have been issued by AMFI in terms of SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002 read with SEBI Circular No. MFD/CIR/06/210/2002 dated June 26th 2002 with the primary objective of ensuring compliance by the Mutual Funds so that they do not use any unethical means to sell, market or induce any Investor to buy units of their scheme(s) and shall mobilize funds on the strength of professional fund management and good practices. In terms of the said circulars, SEBI had advised AMFI to formulate specific guidelines and modalities within these parameters, in consultation with SEBI to assist Assets Management Companies in following the code in letter and spirit. As such these guidelines are mandatory. Mutual funds are required to ensure compliance with these guidelines both by intermediaries distributing their products and through them, sub-brokers acting on behalf of such intermediaries.

Definitions & Guidelines for interpreting them

For the purpose of interpretation, the following definitions and explanations shall apply:

ARN: means AMFI Registration Number allotted by AMFI

ARMFA: means an intermediary who is registered with AMFI and stands for AMFI Registered Mutual Fund Advisors.

Brokerage: Shall include all amounts paid to an intermediary for selling the product of the mutual fund and shall include commissions on sale of mutual funds, incentives, consulting fees, contest awards that have monetary value, gifts, lump sum amounts.

Intermediary: shall mean all persons or entities involved in selling and distribution of mutual fund products including inter alia brokers, sub-brokers, sole proprietor firms, consultants, financial advisors, channel partners partnership firms, companies or called by any other name, but shall not include collection centres, where there is no element of advise, and it is only a counter for making forms available and collecting completed applications. While such collection centres need not obtain ARN, they would have to abide by the code of conduct, to the extent applicable and specifically with regard to the clause on rebating.

Investor: Any person or entity holding units under any scheme(s) of a mutual fund.

Principal Intermediary: Any Intermediary (whether individual or non-individual), who pays such brokerage or consideration to a sub-broker as defined below, shall be called the principal intermediary for the purposes of these guidelines, and with reference to the sub-broker(s)

Rebate: Any amount paid by a mutual fund or an Intermediary to an Investor, on account of any investment made by the investor in a mutual fund. Such payments shall include payments made in the nature of Brokerage as defined above.

Sub-Broker: shall mean all persons or entities, selling mutual fund units, but obtaining brokerage or other consideration through a Principal Intermediary All provisions of this Guidelines shall apply mutates mutanis to such an Intermediary, except where otherwise stated.

It is clarified that the terms Holding Company and Subsidiary Company used in the Guidelines shall have meanings respectively assigned to them in Section 4 of the Companies Act, 1956.

1. Registration of Intermediaries with AMFI

1.1 The SEBI circular has made registration of Intermediaries compulsory. This would mean that no person or any other entity would be entitled to sell units of mutual funds unless the Intermediary is



registered with AMFI. AMFI has made provision for issuing an AMFI Registration Number (ARN) and photo-identity card for Intermediaries who are not registered with AMFI with effect from the date of these Guidelines.

- 1.2 For Intermediaries already empanelled with mutual funds, being registered with AMFI shall become compulsory by March 31st, 2003. thereafter, no brokerage can be paid out to Intermediaries who are not registered with AMFI on fresh business canvassed by them until such time as they are registered.
- 1.3 All corporate Intermediaries shall ensure that employees engaged in sales and marketing of mutual funds are registered with AMFI and have obtained a photo identity card.
- 1.4 AMFI certification is the sole criteria for allotting an ARN to an individual Intermediary, other than those specifically exempted, who shall follow the procedure detailed in 2.1.2 below. Corporate Intermediaries can obtain an ARN by undertaking to ensure that all personnel engaged in sales and marketing pass the AMFI certification test and register with AMFI and obtain a photo-identity, with their corporate ARN, by March 31st, 2003 in the case of existing Intermediaries and their existing employees.
- 1.5 For corporate Intermediary entering the business of mutual fund sales after the date of these guidelines, and for persons hired by existing intermediaries, all such employees proposed to be engaged in the sales and marketing of mutual funds, shall have to be registered with AMFI. In the case of a fresh corporate entrant to the intermediation industry, this would mean that despite obtaining an ARN it would not be able to do the business till the first employee recruited for sales / marketing holds AMFI certification and all subsequent employees recruited for engaging in sales / marketing are also registered with AMFI and have obtained is / her photo identity card.

2. Procedure for Obtaining Registration

AMFI has currently authorized M/s Computer Age Management Services Pvt. Ltd. ("CAMS") to act as processing agent on its behalf. AMFI may, from time to time, authorize other organizations to undertake the task assigned only to CAMS.

Intermediaries are requested to apply in the prescribed form which can be obtained from the website or office of AMFI and website or any office of CAMS and can also be kept at the branch offices of members for the convenience of their distributors. In addition distributors may write to AMFI or CAMS and obtain the application form by post.

Application forms can be at the office of CAMS or sent by post to CAMS.

1. Individual Applicants:

1. An individual must complete the appropriate form and enclose a photograph of the size defined in the application form, and a self-certified copy of either the AMFI certificate or mark-sheet as proof of having passed the AMFI Certification Test.
2. The SEBI circular under reference has exempted senior citizens, i.e. individuals who have completed 60 years of age as on March 31, 2003. such applicant shall enclose proof of age and a recommendation from a member AMC(s), certifying that he/she has worked for 2 years as an intermediary and has canvassed a minimum business of Rs.2,00,000 over a period of the last 2 years.
3. The prescribed fees can be paid either by a demand draft or by a local cheque in favour of the "Association of Mutual Funds in India" payable at the location of the CAMS office to which the form is submitted. The prescribed fees are: For individual Intermediaries as well as for each employee of



a corporate Intermediary, the prescribed fees are Rs. 500/- (which may be amended from time to time by AMFI). This fee has to be paid every time the individual renews his / her registration.

2. Non-individual Applicants:

1. Non-individual applicants shall submit the form duly completed along with memorandum and articles of association in the case of companies, partnership deed in the case of partnership firms, society registration documents in the case of societies and trust deed in the case of trusts. The list of authorized signatories shall also be submitted.
2. The prescribed fees in the case of public limited companies are Rs. 15,000/- and in the case of others Rs.1,000/-. The non-individual applicant must however ensure that each employee engaged in sales or marketing has applied for and obtained a photo-identity card on or before March 31, 2003.
3. After March 31, 2003, no employee of an intermediary can engage in the sales and marketing of mutual fund products unless he / she has obtained a photo-identity card.

The documents shall be scrutinized and if found in order and if the prescribed fees have been realized, a certificate of registration or photo identity card as applicable shall be issued. These will be mailed directly to the applicant.

Steel City Commodities Private Limited

SCCPL is a Trading Member of National Commodity and Derivative Exchange Limited (NCDEX) and Multi Commodity Exchange Limited (MCX).

The Forward Contracts (Regulation) Act, 1952 provides, inter alia, for establishment of the Forward Markets Commission:

- to advise the Central Government in respect of the recognition of, or the withdrawal of recognition from, any association or in respect of any other matter arising out of the administration of this Act;
- to keep forward markets under observation and to take such action in relation to them as it may consider necessary in exercise of the powers assigned to it by or under this Act;
- to collect and whenever the Commission thinks it necessary publish information regarding the trading conditions in respect of goods to which any of the provisions of this Act is made applicable, including information regarding supply, demand and prices, and to submit to the Central Government periodical reports on the operation of this Act and on the working of forward markets relating to such goods;
- to make recommendations generally with a view to improving the organization and working of forward markets;
- to undertake the inspection of the accounts and other documents of [any recognized association, or registered association or any member of such association] whenever it considers it necessary; and
- to perform such other duties and exercise such other powers as may be assigned to be Commission by or under this Act, or as may be prescribed.

Steel City Insurance Agencies Private Limited

SCIAPL is engaged in the agency business for life insurance. SCIAPL is licensed under Section 42 of the Insurance Act, 1938.

1. The Insurance Act, 1938 ("Insurance Act") embodies the law relating to the business of insurance in India. Under section 40 of the Insurance Act no person shall pay or contract to pay any remuneration or reward whether by way of commission or otherwise for soliciting or procuring insurance business in India to any person except an insurance agent. Under the Insurance Act an "insurance agent" means an insurance



agent licensed under section 42 of the Act. Under section 42 of the Act, Insurance Regulatory & development Authority established under The Insurance Regulatory and Development Authority Act, 1991 is authorised in the manner determined by the regulations made by the Authority to issue to any person making an application in the manner determined by the regulations, a license to act as an insurance agent for the purpose of soliciting or procuring insurance business.

2. The Insurance Regulatory and Development Authority Act, 1991 provides for the establishment of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto.
3. The Insurance Regulatory and Development Authority (“IRDA”) (Licensing of Corporate Agents) Regulations, 2002 provide, inter-alia, for issue or renewal of license to corporate agents. As per Regulation 3 a person desiring to obtain or renew a license to act as a corporate agent or a composite corporate agent shall make an application to a designated person by the IRDA if its insurance executives possess the necessary qualifications and meet the criteria including having undergone necessary training as prescribed under the said Regulation and the Insurance Act, 1938.



OUTSTANDING LITIGATION, MATERIAL DEVELOPMENTS AND OTHER DISCLOSURES

There are no outstanding litigations against our Company, our subsidiaries, our Directors, our Promoters and our Promoter group disputes, tax liabilities, non payment of statutory dues, overdue to banks / financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by the Company, defaults in creation of full security as per terms of issue / other liabilities, proceedings initiated for economic / civil / any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against our company, our subsidiaries, our Directors and our Promoters, except the following:-

A. Outstanding litigation and contingent liabilities details of the Company

A.I. Contingent liabilities are as under:

- a) The contingent liabilities of Company as on March 31, 2005 and September 30, 2005 are as follows:

Nature of Contingent Liability	Rs. in Million	
	31-03-2005	30-09-2005
1. Corporate Guarantee provided by the company in favor of following banks for the credit facility extended by these banks to its Subsidiary i.e Steel City Commodities Private Limited.		
a. HDFC Bank Limited	11.50	21.50
b. Karnataka Bank Limited	17.00	37.00
c. Karur Vysya Bank Limited	-	20.00
2. Bank Guarantees extended by the following banks in favour of:		
a. HDFC Bank Ltd. favouring NSE/NSCCL	60.00	90.00
b. Karnataka Bank Ltd. favouring NSCCL/NSE	67.00	80.00
c. ING Vysya Bank Ltd favouring NSE/NSCCL	43.00	43.00

- b) Our subsidiary, Steel City Commodities Private Limited as on March 31, 2005 and September 30, 2005 has extended Bank Guarantee in favour of MCX & NCDEX on the basis of Corporate Guarantee given by Steel City Securities Limited:

Nature of Contingent Liability	Rs. in Million	
	31-03-2005	30-09-2005
HDFC Bank Limited	11.50	21.50
Karnataka Bank Limited	17.00	25.00
Karur Vysya Bank Limited	-	20.00

A.II. Income Tax Liabilities of our Company

There are no proceedings pending against our Company by the Income Tax Department.

A.III. Provident Fund & Employees State Insurance

There are no proceedings pending against our Company by Provident Fund & Employees State Insurance Departments.



A.IV. Outstanding Suits / Cases / Litigations against the Company

Civil Cases

1. Dara Mohan Raju Vs. Steel City Securities Limited and others

A suit was filed by Mr. D. Mohan Raju against Steel City Securities Limited and others for recovery of an amount of Rs. 4,22,342/- with subsequent interest at 6% p.a. from the date of the suit till realisation and with costs. The suit was decreed ex-parte. Later on, the Company had preferred an appeal to set aside the ex-parte decree passed against the Company and others. The Hon'ble High Court of Andhra Pradesh admitted the appeal and stayed the Lower Court proceedings on a condition that the Company shall deposit an amount of Rs. 2,50,000/-. As per the said order, the Company deposited an amount of Rs. 2,50,000/- in the Court of II Additional District Judge Vijayawada, Andhra Pradesh. The present appeal is still pending before the High Court of Andhra Pradesh.

2. Manoj Kumar Daftari Vs. Steel City Securities and Another

An arbitration case was filed by Mr. Manoj Kumar Daftari against M/s. Yashwant Securities Private Limited, a sub-broker of the Company and also against the Company for an amount of Rs. 1,11,602/-. The award was passed against the sub-broker and the Company. In order to comply with SEBI Circular No. SMDRP/POLICY/CIR-22/99 with regard to the implementation of Arbitration Awards, the Company deposited its shares as well as its sub-brokers' shares with the NSEIL and filed an appeal to set aside the Arbitration Award passed against them. The said appeal is pending before the Hon'ble Principal District Judge at Visakhapatnam.

3. Anoop Chand Naulakha Vs. Steel City Securities Limited

An arbitration case was filed by Mr. Anoop chand Naulakha against M/s. Yashwant Securities Private Limited, a sub-broker of the company and also against the company for an amount of Rs. 2,00,542/-. The award was passed against the sub-broker and the Company. In order to comply with SEBI Circular No. SMDRP/POLICY/CIR-22/99 with regard to the implementation of Arbitration Awards, the Company deposited its shares as well as its sub-brokers' shares with the NSEIL and filed an appeal to set aside the Arbitration Award passed against them. The said appeal is pending before the Hon'ble Principal District Judge at Visakhapatnam.

4. Sunita Devi Naulakha Vs. Steel City Securities Limited

An arbitration case was filed by Mr. Anoop chand Naulakha against M/s. Yashwant Securities Private Limited, a sub-broker of the company and also against the company for an amount of Rs. 1,24,530/-. The award was passed against the sub-broker and the Company. In order to comply with SEBI Circular No. SMDRP/POLICY/CIR-22/99 with regard to the implementation of Arbitration Awards, the Company deposited its shares as well as its sub-brokers' shares with the NSEIL and filed an appeal to set aside the Arbitration Award passed against them. The said appeal is pending before the Hon'ble Principal District Judge at Visakhapatnam.

5. M. Surya Prakasam Vs. Steel City Securities Limited and others

The said suit was filed by M.Surya Prakasan ("Plaintiff") against the Company and others for permanent injunction against the 2nd and 3rd respondent from making transfer or dematerialisation of the Plaintiff's 300 shares in ITC Limited. The Company has been included as a fourth respondent as a proforma party and there is no relief sought against the Company. The suit is still pending before the Junior Civil Judge at Vizianagaram.

6. K. Kameshwara Rao Vs. Steel City Securities Limited



The suit has been filed by K. Kameswara Rao (“Plaintiff”) against the Company and others for recovery of an amount of Rs. 1,49,025/-. The Plaintiff had given the said amount for purchase of shares to the sub-broker of the Company in Anakapalli. The sub-broker absconded without purchasing any shares for the plaintiff. The suit is still pending before the Senior Civil Judge at Anakapalli, Visakhapatnam District.

7. S.V. Satyanarayana Vs. Steel City Securities Limited

The suit is filed by Mr. S.V.Satyanarayana (“Plaintiff”) against the Company and its Director for recovery of an amount of Rs. 96,000/- including interest at the rate of 24%. The plaintiff had filed the suit for fraudulently withdrawal of Rs.53,000/- from his bank account. The Company has filed a defamation case against the Plaintiff for an amount of Rs. 10,00,000/-. The suit is still pending before the Principal Junior Civil Judge at Anakapalli, Visakhapatnam.

Criminal Cases

1. Anoop Chand Naulakha Vs. Steel City Securities Limited

Anoop Chand Naulakha (“Complainant”) has filed a complaint against the sub-broker of the Company M/s. Yaswant Securities Pvt Ltd. and the Company. The said complaint was registered by Mahakali Police Station, Secunderabad under section 420, 406 of IPC r/w 156(3) of CrPc. The Complainant had paid the money to the sub-broker to purchase shares for him. The Sub-broker in turn issued a computerised receipt for the amount received but did not transfer any shares in favour of the Complainant. The sub-broker has been absconding since then. The Company has filed a discharge petition before the XI Metropolitan Magistrate, Secunderabad and the same is pending.

2. Chaganti Hanumantha Rao Vs. Steel City Securities Limited

Chagati Hanumantha Rao (“Complainant”) has filed a complaint against the sub-broker of the Company, Tammeneeni Suryanarayana and the Company. The said complaint was registered by Anakapalli town Police Station, Anakapalli under section 420, 34 of IPC. The Plaintiff had given the said amount for purchase of shares to the sub-broker of the Company in Anakapalli. The sub-broker absconded without purchasing any shares for the plaintiff. The case is pending before the Anakapalli Magistrate Court.

Other disclosures

1. Notices issued by the Regulatory Body (SEBI) regarding Market Manipulation in scrip of EIL

Mrs. Indumathi, a client of Sri Sai Share Consultants, sub-broker at Srikakulam traded in shares of Eider Infotech Scrip from 5th -8th June 2000 which SEBI suspected to be a Market Manipulation under Regulation 4 (a) (b) & (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.

In the year 2003, SEBI investigated the Company for Market Manipulation regarding the aforesaid deals. SEBI, acting on the Chairman’s order dated July 2, 2002 vide its letter A&E/44/2003 dated May 30, 2003 appointed S.V.Krishna Mohan as the Enquiry officer under Regulation 28 (1) of the SEBI (Stock Brokers and Sub Brokers) Rules and Regulations, 1992.

The Enquiry Officer in its report dated May 30, 2003 found the Company guilty of violating the provisions of Code of Conduct prescribed for stock brokers contained in Schedule II to Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992, clause A1, A2, and A4 of the Code and provisions of Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. The Enquiry Officer made the following observations:



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- (i) BSE, on witnessing sharp movements and low volumes in the scrip price, reduced the circuit filter on the scrip from 8% to 4%.
 - (ii) BSE also imposed additional volatility margin from time to time to curb the volatility in prices of the scrip.
 - (iii) The trading terminals of the Member were misused to register series of transactions in the scrip so as to create artificial/ false market in the scrip.
 - (iv) There were attempts made by the Trading Member (i.e. the Company) to falsely raise or depress the prices of the security for the purpose of inducing purchase or sale of the security by general investors.
 - (v) The Company entered in to 4 cross deals for one share at a price higher/ lower than the last traded price. The Company has traded in the scrip during both the periods of investigation. As per the explanation given by the Company, these trades were entered at the sole discretion of their clients.
 - (vi) NSE vide its letter dated November 23, 2000 penalized the Company for Rs. 1 Lakh as a disciplinary action. The Company has paid the fine to NSE.

The Enquiry Officer recommended that a minor penalty of 'censure' be considered against the Company. However, before taking any action on the report of the Enquiry Officer, the SEBI vide its letter IVD-3/PKB/DM/21442/2003 dated November 11, 2003 issued a show cause notice in terms of Regulation 13(2) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and imposing Penalty) Regulations 2003 as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed.

The Company vide its letter SCSL/ED/SEBI-2003-17 dated December 1, 2003 has replied in detail to the averments and prayed to SEBI to:

- (i) kindly excuse the Company from the penalty of 'Censure', and
- (ii) grant of a personal hearing to put forth submissions.

The proceedings in the matter are pending before SEBI as on date.

2. Notices issued by the Regulatory Body (SEBI) regarding the contravention of Rules and Regulations observed during the inspection of books of accounts

On June 19, 2003, NSE forwarded a letter from SEBI dated June 13, 2003 ref No. SMD/DBA-I/POST-NSP/HG/11582/2003 to the Company, enclosing a copy of the Inspection Report pertaining to the various irregularities found in the books of accounts and other records of the Company. The SEBI in its Inspection Report found the Company in default of the following violations:

- (i) Violation of Rule 4(b) of SEBI (Stock and Sub-brokers) Rules and Regulations, 1992
- (ii) Clause A (5) and B (2) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock and Sub-brokers) Regulations, 1992.
- (iii) Non-compliance of SEBI's Circular No. SMD(B)/104/227775/93 dated October 29, 1993 and SMD/MDP/CIR/043/96 dated August 5, 1996 and SMD/Policy IECG/1-97 dated February 11, 1997.
- (iv) Violation of Rule 4 (b) of Schedule II specified under Regulation 7 of SEBI (Stock brokers and Sub-brokers) Regulations, 1992 and also SEBI Circular No. SMD-1/23341 dated November 18, 1993
- (v) Violation of Rule 4(b) and of provision of Para B(1) and Para A (5) of Schedule II specified under Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 as also of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 2003.
- (vi) Violation of Rule 4(b) and of Provision of Para C (4) of Schedule II specified under Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992
- (vii) Non-compliance of SEBI Circular SMD-1/3118 dated December 27, 1993, SMD / OPG / AA / 1020/96 dated March 14, 1996 and SMD/Policy/CIR/03/98 dated January 16, 1998.



On receiving the copy of the Inspection Report, the Company vide its letter dated July 1, 2003 submitted its reply for each and every reference made thereunder.

The SEBI appointed Shri Sandeep Deore as an Enquiry Officer to conduct an Enquiry in relation to the contravention of the rules and regulations in the books of Accounts vide ref no. ENQ/SD/15174/2004 dated June 13, 2004 in terms of the Regulation 13 of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. Further, the Company requested the Enquiry Officer for a personal hearing and on October 29, 2004, a hearing was held which was attended by the Director (Operations) of the Company.

The Enquiry Officer in his Enquiry Report dated April 29, 2005 stated that the Company prima facie appears to be guilty of the violation of following:

- (i) Violation of Section 12 of SEBI Act, 1992
- (ii) Violation of Rule 3 of the SEBI (Stock Brokers and Sub brokers) Regulations, 1992
- (iii) Violation of Regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992
- (iv) Violation of SEBI Circular No. SMD-1/23341 dated November 18, 1993
- (v) Violation of SEBI Circular No. SMD/OPG/AA/1020/96 dated March 14, 1996
- (vi) Violation of SEBI Circular No. SMD/MDP/CIR/043/93 dated August 5, 1996
- (vii) Violation of SEBI Circular No. SMD/POLICY/CIRCULAR/3-97/ dated March 31, 1997
- (viii) Violation of SEBI Circular No. SUB/BROK-CIR-02/2001 dated January 15, 2001
- (ix) Violation of SEBI Circular No. SMD/RP/POLICY/CIR-49/2001 dated October 22, 2001
- (x) Violation of Bye-laws, rules and regulations of the Stock Exchange

The Company replied to the Enquiry Officer in detail enclosing all the material facts and other documentary evidence. On conclusion of the hearing and the Enquiry, the Enquiry Officer imposed the penalty of 'censure' on the Company. However, before taking any action on the report of the Enquiry Officer, the SEBI vide its letter MIRSD/DPS-I/Enq/LDS/40770/2005 dated May 18, 2005 issued a show cause notice in terms of Regulation 13(2) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and imposing Penalty) Regulations 2002 as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed

The Company vide its letter SC SL/MD/SEBI/2005-8 dated June 7, 2005 has replied in detail to the averments and prayed to SEBI to kindly excuse the Company from the penalty of 'Censure'

The proceedings in the matter are pending before SEBI as on date.

B. Outstanding Suits / Cases/ Litigations filed by the Company

Civil Cases

1. M/s Steel City Securities Limited Vs. Nadendla Gopala Rao

The Appellant, a former Director of the Company entered into an agreement in December 1997 to act as a constituent of the Company wherein the Appellant could transact on the National Stock Exchange ("NSE") through the Company's terminal at Vishakapatnam subject inter alia to periodical settlement of accounts with a specified code number. The Company initiated Arbitration proceedings, being A.M.No.103/98, under bye-law 1(a) of Chapter 11 of the NSE rules claiming a sum of Rs.14, 13,051.29 (Rupees Fourteen Lakh Thirteen Thousand and Fifty one and 29 Paise) along with an interest of 24% per annum which it alleged was due from the Appellant. The Appellant disputed the jurisdiction of the proceedings and contented that there was no dispute on account of transactions on the NSE and that the dispute was purely one between the Company and him, hence must be decided in accordance with their agreement, which provides for appointment of



arbitrators by the parties. The Arbitral Tribunal dismissed the contentions of the Appellant and ordered the Appellant to pay the aforesaid claimed sum along with an interest of 18% per annum.

Aggrieved by the order, the Appellant filed a petition before the District Judge, Vishakapatnam being O.P NO.381/1999 under section 34 of the Arbitration and Conciliation Act, 1996. The Hon'ble District Judge dismissed the appeal and upheld the award of the arbitrator. The Appellant has preferred a second appeal before the Hon'ble High Court of Andhra Pradesh which is pending.

2. M/s Steel City Securities Limited Vs. Krishna Kumar

The Petitioner (Respondent in the Arbitration proceeding) is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Petitioner could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated Arbitration proceedings, being A.M.No. CH002/1998, under Chapter 11 of the NSE rules, alleging that the Petitioner had in several transactions incurred losses and claimed a sum of Rs.1, 63,128.17 (Rupees One Lakh Sixty Three Thousand One Hundred and Twenty Eight and Seventeen Paise) along with the interest. The Arbitral Tribunal, proceeded to determine the matter exparte as the Petitioner failed to appear before it despite been given several chances to do so, ordered the Petitioner to pay the Company the aforesaid claimed sum along with interest. The Company has filed an execution petition for recovery of the amount which is pending before the Principal District Judge.

Aggrieved by the order, the Petitioner has filed this present petition under section 34 of the Arbitration and Conciliation Act, 1996 before the Hon'ble District Judge, Vishakapatnam.

3. M/s Steel City Securities Limited Vs. G. Atchi Reddy & N. Srinivasa Reddy

The Appellants No.1 G. Atchi Reddy is a registered client of the Company, having entered into an agreement with the Company to transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Appellant No.2 is the authorised assistant of Appellant No.1. The Company filed suit before the District Judge, Vishakapatnam, being O.S No. 155/1998, praying to hold the Appellants 1 & 2 jointly and severally liable for a sum of Rs. 4,03,656.52 (Rupees Four Lakh Three Thousand Six Hundred and Fifty Six and Fifty Two Paise) on account of their failure to settle the accounts. The Hon'ble District Judge ordered the Appellants to pay the aforesaid claimed sum along with an interest of 24%.

Aggrieved by the order, the Appellants have appealed to the Hon'ble High Court of Andhra Pradesh. The High Court of Andhra Pradesh has stayed the execution of the decree of the District Judge pending disposal of the appeal.

4. M/s Steel City Securities Limited vs Bhoormal Jain

The Respondent is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Respondent could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated Arbitration proceedings, being A.M.No.CH01/1998, under Chapter 11 of the NSE rules, claiming a sum of Rs.1, 75,373.21 (Rupees One Lakh Seventy Five Thousand Three Hundred and Seventy Three) along with an interest which it alleged was due from the Respondent. The Arbitral Tribunal, proceeded to determine the matter exparte as the Respondent failed to appear before it despite been given several chances to do so, ordered the Respondent to pay the Company a sum of Rs. 1,45,373.21 (One Lakh Forty Five Thousand Three Hundred and Seventy Three and Twenty One Paise) along with an interest of 24%.

The execution petition being E.P No. 72/99 is pending before the Principal District Judge, Vishakapatnam.



5. M/s Steel City Securities Limited Vs. Vinod Kumar

The Petitioner (Respondent in the Arbitration proceedings) is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Petitioner could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company alleged that the Petitioner appointed one Mr.V.Ranganadham as his authorised assistant and that as a result of transactions carried out under the direction of Mr. V. Ranganadham has resulted in a claim of Rs.1, 55,019 (Rupees One Lakh Fifty Five Thousand and Nineteen). The Company initiated Arbitration proceedings, being A.M No.M-125/1998, to recover the abovementioned sum along with the interest. The Petitioner has denied appointing Mr.V.Ranganadham as his authorised assistant and alleged that Ranganadham had done business with the Company without his permission. The Petitioner disclaimed all liability arising out of transactions carried out under the directions of Ranganadham. The Arbitrator dismissing the submissions of the Petitioner upheld the claim of the Company.

Aggrieved by the order the Petitioner has filed a petition before the Hon'ble Court of Principal District Judge, Vishakapatnam under section 34 of the Arbitration and Conciliation Act, 1996 which is pending.

6. M/s Steel City Securities Limited Vs. A.T Rayudu & 3 others

The Petitioner (the Respondent in the Arbitration proceedings) is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Appellant could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated Arbitration proceedings, being A.M.No.CH056/2000, under Chapter 11 of the NSE rules alleging that the Petitioner has defaulted in payment upto the tune of Rs. 28,31,878.88 (Rs Twenty Eight Lakhs Thirty One Thousand Eight Hundred and Seventy Eight and Eighty Eight Paise) and claimed this sum alongwith the interest. The Petitioner denied any liability to pay the aforementioned sum and alleged that the Company had transacted using his membership without his notice. The Arbitral Tribunal holding the Company's claim as genuine, ordered the Petitioner to pay the aforesaid claimed sum along with an interest of 18% per annum.

Aggrieved by the order, the Petitioner has filed a petition under section 34 of the Arbitration and Conciliation Act, 1996 before the Principal District Judge, Vishakapatnam, which is pending.

7. M/s Steel City Securities Limited vs B.S Prabhavathi, P.Ravi & I.T.C LTD

The 1st Defendant is an investor and owned 300 shares in the 3rd Defendant's company. The Company agreed to purchase the said shares from the 1st Defendant. The 2nd Defendant undertook to guarantee the transaction without any damage to the Company. The Company has alleged that it had paid the sale consideration for the share certificates of the 3rd Defendants company, but however the same were returned back to the Company as 'bad delivered' since the signatures of the 1st Defendant contained in the transfer deed forms were different from the recorded specimen signatures. The Company further alleged that despite several requests to rectify the same, the 1st Defendant remained quiescent. The Company has filed this suit before the 1st Additional Junior Civil Judge, Vishakapatnam praying for an interim injunction restraining the 1st Defendant from transacting in any manner with the said 300 shares in the 3rd Defendant's company. The 1st Defendant has denied receiving any amount from the Company as the purchase consideration. The case is pending before the 1st Additional Junior Civil Judge.

8. M/s Steel City Securities Limited vs Bijoy Kumar Gourisriya

The Respondent is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Respondent could transact on the NSE through



the Company's NSE Trading terminal subject interalia to periodical settlement of accounts. The Company initiated Arbitration proceedings, being A.M.No.CH047/2001, under Chapter 11 of the NSE rules alleging that the Petitioner has defaulted in payment upto the tune of Rs. 28,31,878.88 (Rs Twenty Eight Lakhs Thirty One Thousand Eight Hundred and Seventy Eight and Eighty Eight Paise) and claimed this sum along with the interest of 24% per annum. The Arbitrator ordered the Respondent to pay the aforesaid claimed sum along with an interest.

Aggrieved by the order, the Respondent has filed a petition being O.P No. 186/2002 under section 34 of the Arbitration and Conciliation Act, 1996 before the City Civil Court, Madras which is pending. Further, the Company has filed an execution petition before the Hon'ble Principal District Judge, Vishakapatnam for executing the order of the Arbitrator.

9. M/s Steel City Securities Limited vs K.H Prasad Rao

The Respondent is a registered client of the Company for transacting in both the NSE Capital Market and NSE Futures & Options segment with the same client code. The Company initiated this Arbitration proceeding, under Chapter 11 of the NSE rules claiming a sum of Rs.56083.14 (Rupees Fifty Six Thousand and Eighty Three and Fourteen Paise) due from the Respondent towards his pay in obligation. The Respondent had, prior to the initiation of this proceeding, filed a suit before the District Consumer Dispute Redressal Forum, Nellore claiming a sum of Rs.78800 from the Company, but however accepted the jurisdiction of the Arbitrator and made a counter claim for the abovementioned amount. The Arbitrator dismissed the claim of the Company and the counter claim of the Respondent since neither party could substantiate or prove their claim beyond reasonable doubt.

Aggrieved by this order, the Company has filed a petition being A.O.P 149/2005 under section 34 of the Arbitration & Conciliation Act, 1996 before the Hon.ble Court of the Pricipal District Judge, Visakhapatnam that is pending.

10. M/s Steel City Securities Limited vs M/s Yashwant Securities Private Limited

The Respondent is a registered sub-broker with the Company and is allowed to transact on the Company's NSE Trading terminal. The Company initiated this Arbitration proceeding, under Chapter 11 of the NSE rules claiming a sum of Rs. 426528.21 (Rupees Four Lakh Twenty Six Thousand Five Hundred and Twenty Eight and Twenty One Paise) as due from the Respondent. The Company alleged that the cheques issued by the Respondent for the settlement of his dues were returned unpaid by the bankers with an endorsement "Insufficient Funds". The Respondent had prior to the initiation of this proceeding sent a letter to the Company demanding it to deliver shares and funds to some clients. The Company has refuted the claims of the Respondent contending the same to be without legal basis. The Arbitrator decided in favour of the Company and ordered the Respondent to pay the aforesaid claimed sum along with interest.

11. M/s Steel City Securities Limited vs P. Panduranga Prasad

The Respondent is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Respondent could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated this Arbitration proceeding under Chapter 11 of the NSE rules claiming a sum of Rs.5,17,029.49 (Rupees Five Lakh Seventeen Thousand and Twenty Nine and Forty Nine Paise) due from the Respondent towards his pay in obligation. The Company has alleged that the cheque issued by the Respondent for the settlement of his dues was returned by the bankers with an endorsement, "Account closed". The Company also filed a criminal case against the Respondent under Section 138 of the Negotiable Instruments Act, 1881. The Respondent denied any obligation to pay the Company and contended that he had paid all the 'pay in dues' as and when called for by cash and the same were not accounted for by the Company. The Arbitrator rejecting the arguments



of the Respondent, ordered him to pay the aforesaid claimed sum along with an interest of 18% per annum.

12. M/s Steel City Securities Limited vs M/s Aisvarya Capital Investments-Proptr. Mrs M. Vijaya

The Respondent was a registered sub-broker of the Company. The Company initiated this Arbitration proceeding, being A.M No.CH030/2002, under Chapter 11 of the NSE rules claiming a sum of Rs. 11,85,140.89 (Rupees Eleven Lakh Eighty Five Thousand One Hundred and Forty and Eighty Nine Paise) towards his pay in obligation. The Company alleged that the cheques issued by the Respondent were dishonoured as the Respondent's account was closed. The Respondent disputed the jurisdiction of the Arbitrator to entertain the proceeding. Further, the Respondent alleged that the Company manipulated the accounts. The Arbitrator dismissed the contentions of the Respondent and ordered the Respondent to pay the aforesaid claimed sum along with an interest of 18% per annum

The Company has also filed an Execution petition before the Chief Judge of the City Civil Court, Hyderabad that is pending.

13. M/s Steel City Securities Limited vs M/s Surya Securities

The Respondent is a registered client of the Company and having entered into an agreement with it to act as a constituent of the Company wherein the Respondent could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated this Arbitration proceeding under Chapter 11 of the NSE rules claiming a sum of Rs.12, 51,177.02 (Rupees Twelve Lakh Fifty One Thousand One Hundred and Seventy Seven and Two Paise) towards the Respondent's pay in obligation. The Respondent accepted liability to pay the amount claimed. In view of the Respondent's submission the Arbitrator ordered it to pay the aforesaid claimed sum along with an interest of 18%.

The Company has filed an Execution petition before the Chief Judge of the City Civil Court, Hyderabad which is pending.

14. M/s Steel City Securities Limited vs M/s Innovative Information Technology, M/s Tata-IBM Limited & others

The Company purchased an IBM 'Think Pad' computer with a 3 year warranty from the 1st Defendant. The 2nd and 3rd Defendants are manufacturers of the computer. The Company alleged that the computer was operating unsatisfactorily and that the floppy disk drive was not functioning. The Company further averred that even though the faulty floppy disk drive was replaced with a brand new one by the 1st Defendant, the substituted part was also not in order. The Company filed a complaint before the A.P State Consumer Dispute Redressal Commission Hyderabad interalia for replacement of the computer and compensation of Rs.10,40,000 (Rupees Ten Lakh Forty Thousand). The 2nd and the 3rd Defendants submitted that since they sold their stocks to distributors who in turn sell and distribute the computers through their own networks and hence pleaded pleaded privity of contract as a defence. They further contended that the Company was not a 'consumer' within the meaning of the Consumer Protection Act, 1986. The state forum rejecting the submissions of the 2nd and 3rd Defendants held that there was deficiency in the services provided by the 2nd and 3rd Defendants. However, on the point of quantum of damages the state forum held that the Company's claim to be unsustainable and awarded Rs.25,000 (Rupees Twenty Five Thousand) along with an interest of 12% per annum as damages.

Aggrieved by the order of the state forum on the quantum of damages, the Company has filed an appeal.



15. M/s Steel City Securities Limited vs K. Kumar Babu

The Respondent is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Appellant could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated this Arbitration proceeding under Chapter 11 of the NSE rules claiming a sum of Rs.1,04,365.43 (Rupees One Lakh Four Thousand Three Hundred and Sixty Five and Forty Three Paise) towards the Respondent's pay in obligation. The Arbitrator upheld the claim of the Company and ordered the Respondent to pay the aforesaid claimed sum along with an interest of 24% per annum.

16. M/s Steel City Securities Limited vs B.Butchi Reddy

The Respondent is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Appellant could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated this Arbitration proceeding under Chapter 11 of the NSE rules claiming a sum of Rs.93,267.27 (Rupees Ninety Three Thousand Two Hundred and Sixty Seven and Twenty Seven Paise). The Respondent denied the specific transaction giving raise to the aforesaid claim and alleged that the documents submitted by the Company have been forged. The Arbitrator accepting the defence put forth by the Respondent dismissed the claim of the Company.

17. M/s Steel City Securities Limited vs G.V Sivakumar Reddy

The Respondent is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Appellant could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated this Arbitration proceeding under Chapter 11 of the NSE rules claiming a sum of Rs.1,57,803.74 (One Lakh Fifty Seven Thousand Eight Hundred and Three and Seventy Four Paise) as being due from the Respondent. The Company alleged that the cheques issued by the Respondent for the settlement of his dues were returned by the bankers with an endorsement "Insufficient Funds". The Arbitrator upholding the claim of the Company, ordered the Respondent to pay the aforesaid sum along with an interest of 24% per annum.

The Company has filed an Execution Petition being E.P No.62/2002 before the Senior Civil Judge, Hyderabad, which is pending.

18. M/s Steel City Securities Limited vs Satish Kumar Kuna

The Respondent is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Appellant could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated Arbitration proceeding being A.M No.100/1998 under Chapter 11 of the NSE rules claiming a sum of Rs.1,08,933.28 (Rupees One Lakh Eight Thousand Nine Hundred and Thirty Three and Twenty Eight Paise). The Respondent denied the claim alleging discrepancies in the accounts. The Arbitrator dismissed the submissions of the Respondent as he did not bring any proof to counter the Company's claim and ordered him to pay the aforesaid claimed amount along with an interest of 15% per annum.

The Company has filed this Execution petition to execute the order of the Arbitrator in A.M No.100/1998, which is pending.

19. M/s Steel City Securities vs T.V Prasad

The Respondent is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Respondent could transact on the NSE through



the Company's terminal subject interalia to periodical settlement of accounts. The Company initiated this Arbitration proceeding under Chapter 11 of the NSE rules claiming a sum of Rs.1,48,768.11 (Rupees One Lakh Forty Eight Thousand Seven Hundred and Sixty Eight and Eleven Paise) as being due from the Respondent. The Arbitrator proceeded to determine the matter exparte, as the Respondent did not take part in the proceedings despite being given several chances to do so, and ordered the Respondent to pay the aforesaid claimed sum along with an interest of 18% per annum.

The Company has filed this Execution petition before the Senior Civil Judge, Hyderabad to execute the order of the Arbitrator, which is pending.

20. M/s Steel City Securities Vs. J. K Ranjan

The Petitioner (Respondent in the Arbitration proceeding) is a registered client of the Company, having entered into an agreement with it to act as a constituent of the Company wherein the Appellant could transact on the NSE through the Company's terminal subject interalia to periodical settlement of accounts. The Company has initiated Arbitration proceedings being A.M No.102/1998 for recovering a sum of Rs.7,83,388.10 (Rupees Seven Lakh Eighty Three Thousand Three Hundred and Eighty Eight and Ten Paise), which the Company alleged was due from the Petitioner. The Arbitrator, upholding the Company's claim, ordered the Petitioner to pay the aforesaid claimed sum along with an interest of 18% per annum.

Aggrieved by the order of the Arbitrator, the Petitioner has filed this petition before the Hon'ble Chief Judge, City Civil Court, Hyderabad, which is pending. The Company has also filed an Execution petition being E.P No.103/1998.

21. M/s Steel City Securities Limited Vs. A.V.Ramana & 10 Others

The Company has purchased property to the extent of 800 Square yards in Sethampeta Main Road. As there are disputes among the Respondents for their share in the above scheduled property the company has filed the suit against A.V.Ramana & 10 others for permanent Injunction restraining the defendants not to interfere with peaceful possession and enjoyment. The suit is still pending before the VII Fast Track Court at Visakhapatnam.

22. M/s Steel City Securities Limited Vs. S.V. Satyanarayana

The company has filed a suit against Mr. S.V. Satyanarayana for damages of Rs.10,00,000/. One Mr Hemanth who happens to be the Operator of Mr S.V.Satyanarayana had fraudulently withdrawn Rs 53,000 from Mr. S.V. Satyanarayana's bank Account in Federal Bank, Anakapalli Branch. The Respondent had used false and filthy language which has damaged the credibility of the Company. Hence the company has filed a suit for defamation against the Respondent. The suit is still pending before the I Additional Senior Civil Judge at Visakhapatnam.

23. M/s Steel City Securities Limited Vs. Mrs. Moly Joseph Tom

The Company has filed Arbitration case in the year 1999 against its Registered Client Mrs. Moly Joseph Tom for adjudication of a dispute for an amount of Rs. 2,60,924-54Ps. The Award was passed by the Hon'ble Arbitrator in favour the Company. The Respondent has not preferred any appeal.

Criminal Cases

1. M/s Steel City Securities Limited Vs. Venu Madhura

The Company has filed a criminal case against the Branch Manager, Mr. Venu Madhura, of Gajuwaka branch, Visakhapatnam. The accused is charged with the offence of cheating under



section 420 of the IPC. The accused speculated in securities and traded in markets, which is against the policy of the Company. The accused traded in the name of those customers whose accounts were least detected. He was in possession of the chequebook with two directors' signature. Whenever the Branch Manager ordered for payments to the clients, the accused, in case of a profit, use to encash it and in case of a loss, used to forward it on to the client. Since the client has denied any trading since a long time and has given a letter to that effect, the loss has been left with the Company. The Company has incurred a loss of Rs. 5.5 Lakhs. The case is pending before the VIII Metropolitan Magistrate Court at Gajuwaka, Visakhapatnam.

2. M/s Steel City Securities Limited Vs. A.V.S.S.N.G.V. Prasad

The Company has filed a criminal case against the Ex-Branch Manager of Ongole branch, Prakasam district. The accused is charged with the offence under sections 420, 468, 471 of the IPC. The accused, while discharging his duties had not deposited the client cheque for Rs. 1,50,000/- in the Bank and misled the Head office of the Company, by stating that he had deposited the out station cheque. Also, to prove his sincerity, he had created a fictitious bank deposit counterfoil by forging the Bank Manager initials and obtaining bank seal on the counterfoil. On enquiries made with the Bank, the authorities there also confirmed that there was no such cheque deposited. Further, the accused collected cash from clients and did not deposit the same in the Bank. Also, he has misappropriated the clients' money in various transactions and thereby causing loss to the Company. Consequently, the Company had terminated his services from August 16, 2003. Thus, the accused is charged with the offence of cheating and forgery and has caused a loss of Rs. 1,55,900/- to the Company. The case is pending before the III Metropolitan Magistrate Court at Visakhapatnam.

3. M/s Steel City Securities Limited Vs. M. Venkateswara Rao

The Company has filed a criminal case against the Ex-Branch Manager of Narasaraopet, Guntur District. The accused is charged with the offence of cheating and breach of trust. As per the policy of the Company, the Branch Manager was prohibited from being involved in any trading activity. However, the accused opened two fictitious client accounts by oral submission of client details from the documentation and misled the head office with malafide intentions. Because of this, the Company incurred a loss amounting to Rs. 1.68 lakhs and damage to the reputation of the Company. The present case is pending before the Magistrate Court at Narasaraopet.

4. M/s Steel City Securities Limited Vs. Moly Joseph Tom

The Company has filed this criminal case against Moly Joseph Tom, a registered client under section 138 of the Negotiable Instruments Act. The Company alleged that the cheque issued by the accused, to the Company, amounting to Rs. 16,852 was dishonoured. The present case is pending before the III Metropolitan Magistrate Court at Visakhapatnam.

5. M/s Steel City Securities Limited Vs. Riddhiman Securities

The Company has filed a criminal complainant against Riddhiman Securities ("Accused"), represented by its proprietor Mr. R.C. Jain, registered client for the offence committed under section 138 of the Negotiable Instruments Act for not honoring a cheque given to the Company for the amount of Rs. 85,000/-. The present case is pending before the XV Metropolitan Magistrate at Hyderabad.

6. M/s Steel City Securities Limited Vs. B. V. Prasad

The Company has filed a criminal complainant against B.V. Prasad ("Accused"), registered client for the offence committed under section 420 of IPC.



The Accused entered into an agreement with the Company by duly accepting the terms and averments made in the agreement and after duly knowing about the risks involved in trading in Derivatives Contracts in the share business. During the course of the business, the Company was to recover an amount of Rs. 56,927.20/- from the Accused. The Accused issued a cheque for Rs. 40,000/- in part payment of the due amount. On presenting the cheque by the Company, it was returned dishonored by the Bank for the reason of "Payment Stopped by the Drawer". Subsequently, the Company issued a notice to the Accused. The Accused issued the cheque in favour of the Company towards discharge of the legal enforceable debt dishonestly with intention of cheating the Company. The present case is pending before the XV Metropolitan Magistrate at Hyderabad.

7. M/s Steel City Securities Limited Vs. Aisvarya Capital Investments

The Company has filed three criminal cases (C.C. no. 277,344,345) under section 138 of the Negotiable Instruments Act, 1881 against M/s. Aisvarya Capital Investments represented by its proprietor Smt. M. Vijaya ("Accused"), a registered client of the Company for an aggregate amount of Rs. 6,40,000/-. The present cases are pending before the XV Metropolitan Magistrate Court at Hyderabad. The Company has also obtained an award against the accused in the Arbitration Case filed by the Company and the Execution petition filed is pending.

8. M/s Steel City Securities Limited Vs. Surya Securities

The Company has filed eight criminal cases (C.C. Nos. 637- 644) under section 138 of the Negotiable Instruments Act, 1881 against M/s. Surya Securities represented by its Proprietor Mr. P.D.V. Prasad ("Accused"), a registered client of the Company for not honoring the cheques given to the Company for an amount of Rs. 13,22,743. The present cases are pending before the XV Metropolitan Magistrate Court at Hyderabad. The Company has also obtained an Award against the Accused in the Arbitration case filed by the Company and the execution petition filed is pending.

9. M/s Steel City Securities Limited Vs. Jugal Kishore Ranjan

The Company had filed eight criminal cases before the Metropolitan Magistrate Hyderabad which were dismissed on the ground that the Company had taken cheques for amount greater than the amount due from the Accused to the Company. The Company has filed eight criminal appeals before the High Court of Andhra Pradesh at Hyderabad against the order of the Metropolitan Magistrate, Hyderabad. The present appeals are still pending before the High Court of Andhra Pradesh.

10. M/s Steel City Securities Limited Vs. P.N.V.B.S. Gupta

The Company has filed two criminal cases under section 138 of the Negotiable Instruments Act, 1881 against Mr. P.N.V.B.S. Gupta, a registered client for the offence committed for not honoring the cheque given to the Company by him for an amount of Rs. 6,10,000/-. The present cases are still pending before the III Metropolitan Magistrate Court at Visakhapatnam.

11. M/s Steel City Securities Limited Vs. D. Panduranga Prasad

The Company has filed a criminal complainant under section 138 of the Negotiable Instruments Act, 1881 against D.Panduranga Prasad ("Accused"), who is a constituent member of the Company for transacting business in shares. In the course of the said business transactions by the Accused, an amount of Rs. 5,17,029.49/- is due to the Company. The Accused issued a cheque in favour of the Company towards the payment of the outstanding amount. The said cheque on being presented to the Bank was returned unpaid with an endorsement "Account Closed". The Company got issued a legal notice to the Accused both to his office address and also residential address. The Accused received the legal notice at his office address but the notice sent to his residential address was



returned with an endorsement "Not Claimed". In spite of receipt of notice the accused hasn't paid the amount as demanded. The Case is still pending before the XV Metropolitan Magistrate at Hyderabad.

Outstanding suits/Litigation involving the company.

1. N. Krishna Rao Vs Steel city Securities Limited and others

An Insolvency Petition was filed by N. Krishna Rao who is the Registered Client of the Company. The Plaintiff had filed for declaring him as an Insolvent. The plaintiff has made the Company as one of the Respondents among 11 others. The amount involved in I.P. as a claim of the Company is Rs. 9,28,000/-. The said I.P. is still pending before the Hon'ble Senior Civil Judge at Anakapalli, Visakhapatnam District.

2. A. V. Ramana Vs Steel City Securities Limited and 11 Others

The Company has purchased a property to the extent of 800 Square yards at Sethampeta Main Road, Vishakapatnam. As there are disputes among the Plaintiff and 11 other Respondents for a share in the above scheduled property, the plaintiff has filed Partition and Injunction Suits against the company and 11 other Respondents. The Company has also filed the suit for permanent Injunction against A.V.Ramana & 10 others restraining them not to interfere with peaceful possession and enjoyment of the property by the Company. The suit filed by the A.V.Ramana is still pending before the VII Fast Track Court at Visakhapatnam.



GOVERNMENT / STATUTORY AND BUSINESS APPROVALS

Approvals for our proposed business

We do not require any approvals for our proposed projects as mentioned under the Objects of the Issue. Thus, we have neither applied nor received any approvals for the same.

Dividend Policy

The declaration and payment of dividends will be recommended by our Board of Directors and our shareholders, in their discretion, and will depend on a number of factors, including but not limited to our earnings, capital requirements, future business plans and overall financial conditions. The company has not paid any dividend in the last four fiscal years.

Approvals

The Company has received the necessary consents, licenses, permissions and approvals from the Government, BSE, NSE, NCDEX, MCX and other statutory authorities required for its present business and no further approvals are required for carrying on the present as well as the proposed business except as mentioned below.

M/S. STEEL CITY SECURITIES LIMITED

Sr. No.	Name and Address of the Authority	Approval/ License/ Permission No.	Date of Approval	Purpose
1.	The Registrar of Companies, Andhra Pradesh, Hyderabad	01-19521	22.02.1995	Certificate of Incorporation
2.	The Registrar of Companies, Andhra Pradesh, Hyderabad	-	20.04.1995	Certificate of Commencement of Business
3.	Assistant Commissioner of Labour Circle II Visakhapatnam	2734/VSP/ IV 10/ACL/-II- VSP/2003	12.06.1996 07.03.2003	Registration under A.P.Shops and Establishments Act, 1988
4.	Regional Provident Fund Commissioner, EPF Organisation, Bhavishyanidhi Bhavan, Vuda Layout, Marripalem Visakhapatnam	AP/31606	22.07.1997	Provident Fund
5.	The joint Director, ESI Corporation Sub- Regional office (AP) 14-20-27, Padmanabha Buildings, 2 nd Floor Gandhi Nagar Vijayawada-520003	62-32818-101	08.01.1996	Registration under Employees State Insurance for – Personnel Insurance Keyman Insurance Indemnity Insurance Insurance on Commodities
6.	The Deputy Commissioner	5/96-97	01.04.1996	Professional Tax



	Tax Officer Dondaparthi Circle Visakhapatnam			
7.	Association of Mutual Funds of India (AMFI), Mumbai	ARNI 7094	19.02.2004	Mutual Funds Distribution
8.	Commissioner of Income Tax, Andhra Pradesh	AACES 0970L	-	Income Tax
9.	Commissioner Customs and Central Excise, Visakhapatnam	VSP/STEEL CITY SECURITIES LIMITED/1/9 6	09.08.1996	Service Tax
10.	Securities and Exchange Board of India (SEBI), Mumbai	IN-DP- NSDL-191- 2001	18.01.2001	DP Operations
11.	Securities and Exchange Board of India (SEBI), Mumbai	IN-DP- CDSL-135- 2001	18.01.2001	DP Operations
12.	Securities and Exchange Board of India (SEBI), Mumbai	INF2308061 32	24.04.2002	F&O Trading
13.	Securities and Exchange Board of India (SEBI), Mumbai	INB2308061 32	17.10.1995	Trading & Clearing Member
14	Securities and Exchange Board of India (SEBI), Mumbai (Issued in view of Amalgamation of M/S. Steel City Capital services Pvt. Ltd.,)	INB0108061 32	12.08.2005	Trading & Clearing Member

BRANCHES- M/S. STEEL CITY SECURITIES LIMITED

Sr. No.	Name and Address of the Authority	Approval/ License/Per mission No.	Date of Approval	Purpose
1.	Assistant Labour Officer, Circle- VI Visakhapatnam	1596/VSP/- VI	29.03.1997	Registration under A.P.Shops and Establishments Act, 1988
2.	Assistant Labour Officer, Circle- II, Bhimavaram	RC/4157/II	10.07.1997	Registration under A.P.Shops and Establishments Act, 1988
3.	Assistant Labour Officer, Circle- VI, Vijayawada	RC/6005/VI	07.07.1997	Registration under A.P.Shops and Establishments Act, 1988
4.	Assistant Labour Officer, Circle- III, Vizianagaram	RC767/VZM- III	11.04.1997	Registration under A.P.Shops and Establishments Act, 1988
5.	Assistant Labour Officer, Tirupathi	3164	29.04.1997	Registration under A.P.Shops and Establishments Act, 1988



6.	Labour Officer Circle –II, Hyderabad	LO-II/HYD	May 1998	Registration under A.P.Shops and Establishments Act, 1988
7.	Assistant Labour Officer, Circle I, Nandyala	6403/NDL	13.12.2003	Registration under A.P.Shops and Establishments Act, 1988
8.	Assistant Labour Officer, Circle I, Kakinada	R.No. 10384/K1	16.02.2002	Registration under A.P.Shops and Establishments Act, 1988
9.	Assistant Labour Officer, Circle II, Kadapa	6535/CDP-II	25.10.2002	Registration under A.P.Shops and Establishments Act, 1988
10.	Assistant Labour Officer, Proddatur	6216	October 2002	Registration under A.P.Shops and Establishments Act, 1988
11.	Assistant Labour Officer, Narasaopet	6206	14.12.2004	Registration under A.P.Shops and Establishments Act, 1988
12.	Assistant Labour Officer, Peddapuram	6602	2005	Registration under A.P.Shops and Establishments Act, 1988
13.	Assistant Labour Officer, Circle – IX, Visakhapatnam	Alo- IX/VSP/2267	2005	Registration under A.P.Shops and Establishments Act, 1988
14.	Assistant Labour Officer, Guntur	11834/GT	17.08.2005	Registration under A.P.Shops and Establishments Act, 1988
15.	Assistant Labour Officer, Circle-II, Eluru	11578	20.08.2005	Registration under A.P.Shops and Establishments Act, 1988
16.	Assistant Labour Officer, Circle-I, Rajahmundry	90761 905543	16.11.2005 01.08.2005	Registration under A.P.Shops and Establishments Act, 1988
17.	Assistant Labour Officer, Circle-I, Ongole	10334/I	03.08.2005	Registration under A.P.Shops and Establishments Act, 1988
18.	Assistant Labour Officer, Circle-I, Chirala	8846	05.08.2005	Registration under A.P.Shops and Establishments Act, 1988
19.	Assistant Labour Officer, Chilakaluripet	2333	09.08.2005	Registration under A.P.Shops and Establishments Act, 1988
20.	Assistant Labour Officer, Circle-I, Anakapalle	7570/AKP-I	29.07.2005	Registration under A.P.Shops and Establishments Act, 1988
21.	Assistant Labour Officer, Nizamabad	3180/I	18.08.2005	Registration under A.P.Shops and Establishments Act, 1988
22.	Assistant Labour Officer, Hanamkonda	3897/ALO/H NK	24.08.2005	Registration under A.P.Shops and Establishments Act, 1988
23.	Assistant Labour Officer, Mehdipatnam, Hyderabad	ALO27/HYD/ 72/2005	16.08.2005	Registration under A.P.Shops and Establishments Act, 1988
24.	Assistant Labour Officer, Gudur	7242	16.08.2005	Registration under A.P.Shops and Establishments Act, 1988
25.	Assistant Labour Officer, Bapatla	9424 0762799	08.08.2005 03.08.2005	Registration under A.P.Shops and Establishments Act, 1988
26.	Assistant Labour Officer, Vuyyuru	8813/VUYU RU	28.07.2005	Registration under A.P.Shops and Establishments Act, 1988
27.	Assistant Labour Officer, Palakollu	8788	29.07.2005	Registration under A.P.Shops and Establishments Act, 1988
28.	Assistant Labour Officer, Tuni	RC8450/05	01.08.2005	Registration under A.P.Shops and Establishments Act, 1988
29.	Assistant Labour Officer, Gudivada	6256	05.08.2005	Registration under A.P.Shops and Establishments Act, 1988
30.	Assistant Labour Officer, Circle-V, Visakhapatnam	4242/VSP-V	07.07.2005	Registration under A.P.Shops and Establishments Act, 1988
31.	Assistant Labour Officer, Circle-3, Vijayawada	6352/III	31.08.2005	Registration under A.P.Shops and Establishments Act, 1988
32.	Assistant Labour Officer,	3863	06.08.2005	Registration under A.P.Shops



	Sattenapalle			and Establishments Act, 1988
33	Assistant Labour Officer, Circle-I, Anakapalli	6203/AKP-II	01.08.2005	Registration under A.P.Shops and Establishments Act, 1988
34	Assistant Labour Officer, Circle-I, Visakhapatnam	ALO-I / VSP / 8525 / VSP-I	29.07.2005	Registration under A.P.Shops and Establishments Act, 1988
35	Assistant Labour Officer, Circle-II, Nellore	12281 232068	16.08.2005 16.08.2005	Registration under A.P.Shops and Establishments Act, 1988

M/S. STEEL CITY COMMODITIES PRIVATE LIMITED

Sr. No.	Name and Address of the Authority	Approval/ License/Permis sion No.	Date of Approval	Purpose
1.	The Registrar of Companies, Hyderabad, Andhra Pradesh	01-39727/2002-03	17.10. 2002	Certificate of Incorporation
2.	Commissioner of Income Tax, Andhra Pradesh	AAHCS4125L	-	Income Tax Registration
3.	Commissioner Customs and Central Excise, Visakhapatnam	VSP/HQST/FCS/01/04	14.10.2004	Service Tax
4.	Multi Commodity Exchange (MCX) Mumbai	10545	17.03.2004	Commodities Broking
5.	National Commodities and Derivatives Exchange Limited (NCDEX), Mumbai	CO-03-00079	12.12.2003	Commodities Broking

M/S. STEEL CITY INSURANCE AGENCIES PRIVATE LIMITED

Sr. No.	Name and Address of the Authority	Approval/ License/Permis sion No.	Date of Approval	Purpose
1.	The Registrar of Companies, Hyderabad, andhra Pradesh	01-39473 OD 2002-03	20.08.2002	Certificate of Incorporation
2.	Commissioner of Income Tax , Andhra Pradesh	AAHCS4124M	-	Income Tax registration



STATEMENT OF TAX BENEFITS

Auditors' Report

To,
The Board of Directors
Steel City Securities Limited,
49-52-5/4, Shanthipuram,
Visakhapatnam – 530 016

Dear Sirs,

Sub: Statement of possible tax benefits available to the Company and its shareholders

We hereby certify that the enclosed 'Annexure' states the possible tax benefits available to Steel City Securities Limited ('the Company') and shareholders of the Company under the provisions of the Income Tax Act, 1961 and Wealth Tax Act, 1957 presently in force in India. Several of these benefits are dependent on the Company or its shareholders fulfilling conditions prescribed therein.

The benefits discussed in the Annexure are not exhaustive. This statement is only intended to provide general information to the investors and is neither designed nor intended to substitute individual professional tax advice.

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

1. The company or its shareholders will continue to obtain these benefits in future or
2. The conditions prescribed for availing the benefits have been / would be met with.

The contents of this 'Annexure' are based on information; explanations and representations obtained from the company and on the basis of our understanding of the business activities and the operations currently carried on by the company. While all reasonable care has been taken in the preparation of this opinion, Sudhakar & Kumar Associates accepts no responsibility for any errors or omissions therein or for any loss sustained by any person who relies on it.

Sudhakar & Kumar Associates

Chartered Accountants

By the hand of

Sd/-

P Rama Krishna Rao

Partner

Membership No: 26820

Place: Visakhapatnam

Date: October 28, 2005



Benefits under the Income Tax Act, 1961

To the Company

1. The company has substantial investment in one subsidiary companies engaged in commodities broking and one group company engaged in sale and distribution of insurance products. Under Section 10 (34) of the Income Act, 1961, any dividend declared and paid by the subsidiary, as also dividend received from any other domestic company, should the company decide to invest in shares of other companies, the same is exempt from tax if the same is as referred in Section 115-O.
2. All expenses incurred wholly and exclusively in the course of Company's business are tax exempted.
3. Under Section 10(38) of the Act, Long Term Capital Gains arising to the company from the sale of securities transacted through a recognized stock exchange in India, on or after October 1, 2004, the date on which such transaction is chargeable to Securities Transaction Tax, are exempted from tax.
4. Under Section 111A of the Act, Short Term Capital Gains arising to the Company from the sale of securities transacted through a recognized stock exchange in India, on or after October 1, 2004, will be taxable at the rate of 10% (plus surcharge and education cess).
5. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the Company would be entitled to exemption from tax on gains (in cases not covered under section 10(38) of the Act) arising from transfer of the long term capital asset if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long term specified asset is transferred or converted into money.
6. As per the provisions of Section 54ED of the Act and subject to the conditions specified therein, capital gains (in cases not covered under section 10(38) of the Act), arising from transfer of long term assets, being listed securities or units shall not be chargeable to tax to the extent such gains are invested in acquiring equity shares forming part of an eligible issue of share capital in the manner prescribed in the said section.

Eligible issue of share capital has been defined as 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
7. Under the provisions of Section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities or units (in cases not covered under section 10(38) of the Act) would be charged to tax at the concessional rate of 20% (plus applicable surcharge and education cess) after considering indexation benefits or at 10% (plus applicable surcharge and education cess) without indexation benefits in accordance with and subject to the provision of Section 48 of the Act, at the option of the shareholder. Under Section 48 of the Act, the long term capital gains arising out of sale of capital assets excluding bonds and debentures (except Capital Indexed Bonds issued by the Government) will be computed after indexing the cost of acquisition/ improvement.

To the Resident Members of the Company

1. Under Section 10 (32) of the Income Act, 1961, any income of minor children clubbed with the total income of the parent under Section 64 of the Act will be exempt from tax to the extent of Rs. 1500 per minor child per year.



2. Under Section 10 (34) of the Income Act, 1961, dividend as referred to in Section 115-O, declared and paid by the company to resident members of the Company is exempt from income tax.
3. Section 94 (7) of the Income Tax Act, 1961, provides that losses arising from the sale / transfer of shares purchased up to 3 months prior to the record date and sold within 3 months after such date will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder Under Section 10(34) of the Income Tax Act, 1961.
4. Under section 10 (38) of the Income Tax Act, 1961, any income arising from the transfer of a long-term capital asset, being an equity share in the company is exempt from tax where-
 - a) the transaction of sale of such equity share is entered into on or after 1 October 2004; and
 - b) such transaction is chargeable to securities transaction tax under Chapter VII of the Finance (No.2) Act, 2004.
5. Long term capital gains would accrue to the resident shareholder where the equity shares of the company are held for a period of more than 12 months prior to the date of transfer of the shares. In accordance with and subject to the provisions of Section 48 of the Income Tax act, 1961, in order to arrive at the quantum of capital gains, the following amounts would be deductible from the full value of consideration:
 - Cost of acquisition / improvement of the shares as adjusted by the cost inflation index notified by the Central Government and
 - Expenditure incurred wholly and exclusively in connection with the transfer of the shares.
6. Under Section 54 EC of the Income-tax Act, 1961, and subject to the conditions and to the extent specified therein, but subject to the exemption under section 10(38), long term capital gains arising on the transfer of shares of the Company will be exempt from capital gains tax, if the capital gains are invested for a period of 3 years in bonds issued by:
 - National Highways Authority of India
 - Rural Electrification Corporation Limited,
 - National Bank for Agriculture and Rural Development
 - National Housing Bank and
 - Small Industries Development Bank of India

within a period of 6 months after the date of such transfer. If only a part of consideration is invested, then the exemption shall be reduced proportionately. If the investment made is converted or transferred within a period of three years from the date of acquisitions then the same shall be taxable in the year of such transfer or conversion.
7. Under Section 54 ED of the Income-tax Act, 1961, and subject to the condition and to extent specified therein, but subject to the exemption under section 10(38), long term capital gains arising on the transfer of listed shares of Company will be exempt from capital gains tax if the capital gains are invested in shares forming part of an eligible issue of capital, within the period of 6 months after the date of such transfer. If only a part of consideration is invested, then the exemption shall be reduced proportionately.
8. Under Section 54 F of the Income-tax Act, 1961, long term capital gains arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the Company will be exempt from capital gain tax subject to other conditions mentioned in the said section and also subject to the exemption under section 10(38), if the sale proceeds from such shares are used for purchase of residential house



property within a period of one year before or two years after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.

9. Under section 88 E of the Income-tax Act, 1961, where the total income of an assessee in a previous year includes any income chargeable under the head “Profits and gains of business or profession”, arising from taxable securities transactions, he shall be entitled to a deduction, from the amount of income-tax on such income arising from such transactions, computed in the manner provided below, of an amount equal to the securities transaction tax paid by him in respect of the taxable securities transactions entered into in the course of his business during that previous year: The assessee must furnish along with the return of income evidence of payment of securities transaction tax in the prescribed form. The amount of deduction shall not exceed the amount of income tax on such income. The amount of income-tax on the income arising from the taxable securities transactions shall be equal to the amount calculated by applying the average rate of income-tax on such income. Explanation-For the purposes of this section, the expressions “taxable securities transaction” and “securities transaction tax” shall have the same meanings respectively assigned to them under Chapter VII of the Finance (No. 2) Act, 2004.
10. Under section 111 A of the Income Tax Act, 1961, where the total income of an assessee includes any short term capital gains from the transfer of a short-term capital asset, being an equity share in a company and-
- (a) the transaction of sale of such equity share or unit is entered into on or after 1st October 2004; and
 - (b) such transaction is chargeable to securities transaction tax under Chapter VII of the Finance (No. 2) Act, 2004, the tax payable by the assessee on the total income shall be the aggregate of-
 - i. the amount of income-tax calculated on such short-term capital gains at the rate of ten per cent; and
 - ii. the amount of income-tax payable on the balance amount of the total income as if such balance amount were the total income of the assessee:

Provided that in the case of an individual or a Hindu undivided family, being a resident, where the total income as reduced by such short-term capital gains is below the maximum amount which is not chargeable to income-tax, then, such short-term capital gains shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax and the tax on the balance of such short-term capital gains shall be computed at the rate of ten per cent.

Where the gross total income of an assessee includes any short-term capital gains referred to above, the deduction under Chapter VI-A shall be allowed from the gross total income as reduced by such capital gains. Where the total income of an assessee includes any short-term capital gains referred to in above, the rebate under section 88 shall be allowed from the income-tax on the total income as reduced by such capital gains.

11. Under Section 112 of the Income –tax Act, 1961, and other relevant provisions of the Act, but subject to the exemption under section 10(38), long term capital gains arising on transfer of shares in the Company i.e. if shares are held for a period exceeding 12 months shall be concessionally taxed at the flat rate of 20% (plus surcharge and education cess as applicable) (after indexation as provided in the second proviso to section 48) or at 10% (plus surcharge as applicable) (without indexation), at the option of the shareholder.



To the Non-Resident Indians/Non Residents (other than Foreign Institutional Investors)

1. Under Section 10 (32) of the Income Act, 1961, any income of minor children clubbed with the total income of the parent under Section 64 of the Act will be exempt from tax to the extent of Rs. 1500 per minor child per year.
2. Under Section 10 (34) of the Income Act, 1961, dividend as referred to in Section 115-O, declared and paid by the company to resident members of the Company is exempt from income tax.
3. Section 94 (7) of the Income Tax Act, 1961, provides that losses arising from the sale / transfer of shares purchased up to 3 months prior to the record date and sold within 3 months after such date will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholders.
4. Under section 10 (38) of the Income Tax Act, 1961, any income arising from the transfer of a long-term capital asset, being an equity share in a company is exempt from tax where-
 - (a) the transaction of sale of such equity share or unit is entered into on or after 1st October 2004; and
 - (b) such transaction is chargeable to securities transaction tax under Chapter VII of the Finance (No. 2) Act, 2004.
5. Under the first proviso to section 48 of the Income-tax Act, 1961, in case of a non-resident, in computing the capital gains arising from the transfer of shares of the Company acquired in convertible foreign exchange (as per exchange control regulations) protection is provided from fluctuations in the value of rupee in terms of foreign currency in which the original investment was made subject to non availability of Cost indexation benefit. Under Section 112 of the Income-tax Act, 1961, and other relevant provisions of the Act, but subject to the exemption under section 10(38), long term capital gains arising on transfer of shares in the Company i.e. if shares are held for a period exceeding 12 months shall be concessionally taxed at the flat rate of 10% (plus surcharge and education cess as applicable) (without indexation), on fulfilments of certain conditions.
6. A Non-Resident Indian (i.e. an individual being a citizen of India or person of Indian origin) has an option to be Governed by the provisions of Chapter XII-A of the Income-tax Act, 1961.
 - (a) Under Section 115 E of the Income Tax Act, 1961, capital gains arising to a non-resident on transfer of shares in the Company, subscribed to in convertible. Foreign Exchange and held for a period exceeding 12 months shall be concessionally taxed at the flat rate of 10% (Without indexation benefit) (Plus Surcharge and education cess as applicable).
 - (b) Under provisions of Sections 115 F of the Income Tax Act, 1961, long term capital gain arising to a non-resident Indian from the transfer of shares of the Company subscribed to in convertible foreign Exchange shall be exempt from income tax, if the net consideration is invested in specified assets within six months of the date of transfer. If only part of the net considerations is so invested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.
 - (c) Under provisions of section 115 G of the Income Tax Act, 1961, it shall not be necessary for a Non-Resident Indian to furnish his return of income under section 139(1) if his only source of income is investment income or long term capital gains or both arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted there from.
 - (d) Under section 115 H of the Income-Tax Act, 1961, a Non-Resident may elect to be governed by the provisions of Chapter XII-A for any Assessment Year by furnishing his Return of Income under



section 139 of the Income Tax Act declaring therein that the provisions of the chapter shall continue to apply to him in relation to the investment income derived from any foreign exchange asset, being an asset of the nature referred to in sub-clause (ii), (iii), (iv) or (v) of Clause (f) of Section 115C, for that assessment year and for every subsequent assessment year until the transfer or conversion (otherwise than by transfer) into money of such assets.

(e) Under section 115 I of the Income–Tax Act, 1961, a Non–Resident may elect not to be governed by the provisions of Chapter XII-A for any Assessment Year by furnishing his Return of Income under section 139 of the Income Tax Act declaring therein that the provisions of the chapter shall not apply to him for that assessment year and if he does so the provisions of this chapter shall not apply to him and instead the other provisions of the Act shall apply.

7. Under Section 54EC of the Income-tax Act, 1961, and subject to the conditions and to the extent specified therein, but subject to the exemption under section 10(38), long term capital gains arising on the transfer of shares of the Company will be exempt from capital gains tax, if the capital gains are invested for a period of 3 years in bonds issued by

- National Highways Authority of India
- Rural Electrification Corporation Limited
- National Bank for Agriculture and Rural Development
- National Housing Bank and
- Small Industries Development Bank of India

within a period of 6 months after the date of such transfer. If only a part of consideration is invested, then the exemption shall be reduced proportionately. If the investment made is converted or transferred within a period of three years from the date of acquisitions then the same shall be taxable in the year of such transfer or conversion.

8. Under Section 54ED of the Income-tax Act, 1961, and subject to the condition and to extent specified therein, but subject to the exemption under section 10(38), long term capital gains arising on the transfer of listed shares of Company will be exempt from capital gains tax if the capital gains are invested in shares forming part of an eligible issue of capital, within the period of 6 months after the date of such transfer. If only a part of consideration is invested, then the exemption shall be reduced proportionately.

9. Under Section 54F of the Income-tax Act, 1961, long term capital gains arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the Company will be exempt from capital gain tax subject to other conditions mentioned in the said section and also subject to the exemption under section 10(38), if the sale proceeds from such shares are used for purchase of residential house property within a period of one year before or two years after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.

10. Under section 88E of the Income-tax Act, 1961, where the total income of an assessee in a previous year includes any income chargeable under the head “Profits and gains of business or profession”, arising from taxable securities transactions, he shall be entitled to a deduction, from the amount of income-tax on such income arising from such transactions, computed in the manner provided below, of an amount equal to the securities transaction tax paid by him in respect of the taxable securities transactions entered into in the course of his business during that previous year: The assessee must furnish alongwith the return of income evidence of payment of securities transaction tax in the prescribed form. The amount of deduction shall not exceed the amount of income-tax on such income. The amount of income-tax on the income arising from the taxable securities transactions shall be equal to the amount calculated by applying the average rate of income-tax on such income. Explanation. -For the purposes of this section, the expressions “taxable securities transaction” and “securities transaction tax” shall have the same meanings respectively assigned to them under Chapter VII of the Finance (No. 2) Act, 2004.



11. In respect of non-residents, the tax rates and consequent taxation maintained above shall be further subject to any benefits available under the Double Taxation Avoidance Agreement, if any, between India and the country in which the non-resident has physical domicile. As per the provisions of Section 90 (2) of the Income Tax Act, 1961, the provisions of the Act would prevail over the provisions of Tax Treaty to the extent they are more beneficial to the non-resident.

To Foreign Institutional Investors (FIIs)

1. By virtue of Section 10(34) of the IT Act, dividend income referred to in Section 115-O of the Income Tax Act, 1961, are exempt from tax in the hands of the institutional investor.
2. Under section 10(38) of the Income Tax Act, 1961, any income arising from the transfer of a long-term capital asset, being an equity share in a company or a unit of an equity oriented fund is exempt from tax where-
 - a) the transaction of sale of such equity share or unit is entered into on or after 1st October 2004 ; and
 - b) such transaction is chargeable to securities transaction tax under Chapter VII of the Finance (No. 2) Act, 2004.
3. Section 94 (7) of the Income Tax Act, 1961, provides that losses arising from the sale / transfer of shares purchased up to 3 months prior to the record date and sold within 3 months after such date will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholders.
4. Under Section 115AD of the Income Tax Act, 1961, but subject to the exemption under section 10 (38), Foreign Institutional Investors will be charged to tax at 20% (plus surcharge as applicable) on income from securities (other than income by way of dividends referred to in section 115-O); at 10% (plus surcharge as applicable) on the long term capital gains arising from transfer of such securities and at 30% (plus surcharge as applicable) on short term capital gains arising from the transfer of such securities, such income being computed in the manner set out in that section. The amount of income-tax calculated on the income by way of short-term capital gains referred to in section 111A shall be at the rate of ten per cent.
5. Under Section 54EC of the Income-tax Act, 1961, and subject to the conditions and to the extent specified therein, but subject to the exemption under section 10(38), long term capital gains arising on the transfer of shares of the Company will be exempt from capital gains tax, if the capital gains are invested for a period of 3 years in bonds issued by
 - National Highways Authority of India
 - Rural Electrification Corporation Limited
 - National Bank for Agriculture and Rural Development
 - National Housing Bank and
 - Small Industries Development Bank of India

within a period of 6 months after the date of such transfer. If only a part of consideration is invested, then the exemption shall be reduced proportionately. If the investment made is converted or transferred within a period of three years from the date of acquisitions then the same shall be taxable in the year of such transfer or conversion.

6. Under Section 54ED of the Income-tax Act, 1961, and subject to the condition and to extent specified therein, but subject to the exemption under section 10(38), long term capital gains arising on the transfer of listed shares of Company will be exempt from capital gains tax if the capital gains are invested in shares forming part of an eligible issue of capital, within the period of 6 months after the date



of such transfer. If only a part of consideration is invested, then the exemption shall be reduced proportionately.

7. In respect of FII's, the tax rates and consequent taxation maintained above shall be further subject to any benefits available under the Double Taxation Avoidance Agreement, if any, between India and the country in which the non-resident has physical domicile. As per the provisions of Section 90 (2) of the Income Tax Act, 1961, the provisions of the Act would prevail over the provisions of Tax Treaty to the extent they are more beneficial to the FII's.

To the Mutual Funds

1. In terms of section 10 (23 D) of the Income-tax Act, 1961, all Mutual Funds set up by Public Sector Banks or Financial Institutions or Mutual Funds registered under the Securities and Exchange Board of India or authorized by the Reserve Bank of India, subject to the conditions specified therein, will be exempt from income tax on all their income, including income from Investment in the shares of the Company.

To Venture Capital Companies / Funds

1. Under section 10 (23FB) of the Income Tax Act, 1961, any income of a Venture Capital Companies / Funds registered with The Securities and Exchange Board of India, would be exempt from income tax, subject to certain conditions.

Benefits under the Wealth Tax Act, 1957

1. Shares of the Company held by the shareholder will not be treated as an asset within the meaning of section 2(ea) of Wealth Tax Act, 1957, and are not liable to Wealth Tax.

Note:

All the above benefits are as per the current tax law as amended by the Finance Act, 2004 and will be available only to the sole / first name holder in case the shares are held by the joint holder.

This is a summary only and not complete analysis or listing of all potential tax consequences of purchase, ownership and disposal of shares. The statements made above are based on the laws in force and as interpreted by the relevant taxation authorities as of date. Investors are advised to consult their own tax advisors with respect to tax consequences of their holdings base on their residential status and; the relevant double taxation conventions in case of investors other than resident investors.



OTHER REGULATORY DISCLOSURES

Stock Market Data for our Equity Shares

This being an initial public issue of our Company, the Equity Shares of our Company are not listed on any stock exchange.

Particulars Regarding Public Issues during the Last Five Years

We have not made any public issues during the last five years.

Companies Under the same Management

There are no companies except Steel City Insurance Agencies Private Limited under the management within the meaning of section 370(1B) of the Companies Act, 1956, other than the subsidiaries, details of which are provided in the section titled "Our Subsidiaries" on page no. [●] of this Draft Prospectus.

Mechanism for Redressal of Investor Grievances

The agreement between the Registrar to this Issue and us will provide for retention of records with the Registrar to this Issue for a period of at least one year from the last date of dispatch of the letters of allotment, demat credit and refund orders to enable the investors to approach the Registrar to this Issue for redressal of their grievances.

All grievances relating to this Issue may be addressed to the Registrar to this Issue, giving full details such as name, address of the applicant, number of Equity Shares applied for, amount paid on application and the bank branch or collection centres where the application was submitted.

We estimate that the average time required by us or the Registrar to this Issue for the redressal of routine investor grievances will be seven business days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, we will seek to redress these complaints as expeditiously as possible.

Our Company has appointed Mr. Ch.Prasad, Company Secretary as the Compliance Officer and he may be contacted at Steel City Securities Limited, 49-52-5/4, Shanthipuram, Visakhapatnam – 530 016, Andhra Pradesh.

Details of Borrowings in our Company

Please refer to section on "Financial Statements" page no. [●] of this Draft Prospectus for details of the borrowings in our Company.



SECTION VII: ISSUE INFORMATION

TERMS OF THE ISSUE

Authority for the Present Issue

Present Issue of Equity Shares has been authorized by shareholders vide a Special Resolution passed at the Extra-Ordinary General Meeting of the Company held on July 04, 2005. The Board of Directors of the Company had approved the present Issue of Equity Shares vide a resolution passed at their meeting held on, June 07, 2005.

The Company has also received approval from BSE and NSE vide their letter no. _____ respectively for change in the shareholding pattern pursuant to the Issue.

Principal Terms and Conditions of the Issue

The Equity Shares being issued are subject to the provisions of the Companies Act, Memorandum and Articles of the Company, the terms of this Draft Prospectus, Application Form, and other terms and conditions as may be incorporated in the Letters of Allotment/Equity Share Certificates or other documents that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws, guidelines, notifications and regulations relating to the Issue of capital and listing of Equity Shares offered from time to time by SEBI, Government of India, Stock Exchanges, RBI, Registrar of Companies and/or other authorities, as in force on the date of the Issue and to the extent applicable.

Ranking of Equity Shares

The Equity Shares being offered shall rank *pari passu* with the existing Equity Shares of the Company in all respects except the lock-in provisions applicable as per SEBI Guidelines in respect of existing Equity Shares as mentioned in the "Notes to Capital Structure". Allottees of the Equity Shares under this Issue will be entitled to dividends and other corporate benefits, if any, declared by the Company after the date of allotment.

Face Value and Issue Price

The Face Value of the Equity Shares is Rs.10/- per Equity Share and the Issue Price is [•] times of the Face Value. At any given point of time, there shall be only one denomination for the Equity Shares of the Company, subject to applicable laws.

Price Band

The equity shares being offered in the Price Band of Rs. 60/- to Rs. 65/- per Equity Share of Rs.10/- each. The final issue price shall be decided, and the prospectus shall be suitably updated, before filing the prospectus with the Registrar of Companies, Andhra Pradesh, Hyderabad.

Compliance with SEBI Guidelines

We shall comply with all disclosure and accounting norms as specified by SEBI from time to time.

Rights of the Equity Shareholders

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared.
- Right to attend general meetings and exercise voting rights, unless prohibited by law.



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- Right to vote on a poll either personally or by proxy.
 - Right to receive offer for rights shares and be allotted bonus shares, if announced;
 - Right to receive surplus on liquidation.
 - Right of free transferability; and
 - Such other rights, as may be available to a shareholder of a Public Ltd. Company under the Companies Act, 1956.

For further details on the main provisions of the Company's Articles of Association dealing with voting rights, dividend, forfeiture and lien, transfer and transmission and/or consolidation/splitting, please refer to "Main Provisions of Articles of Association of the Company" on page [•] of this Prospectus.

Market Lot and Trading Lot

In terms of Section 68 B of the Companies Act, 1956, the equity shares of the Company shall be allotted only in dematerialised form. As per SEBI guidelines, even the trading in the Equity Shares is compulsorily in dematerialized form, the market lot is one Equity Share. Allotment of Equity Shares will be done in multiples of one Equity Share, subject to a minimum allotment of 100 Equity Shares.

Jurisdiction

The jurisdiction for the purpose of this Issue is with competent courts / authorities in Visakhapatnam, Andhra Pradesh, India.

Nomination Facility to Investor

In accordance with Section 109A of the Act, the sole or first Applicant, along with other joint Applicants, may nominate any one person in whom, in the event of death of sole Applicant or in case of joint Applicants, death of all the Applicants, as the Case may be, the Equity Shares allotted, if any, shall vest. A person, being a nominee, entitled to the Equity Shares by reason of death of the original holder(s), shall in accordance with Section 109A of the Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale / transfer / alienation of Equity Share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed Form available on request at the Registered Office of the Company or at the Registrar and Share Transfer Agent of the Company.

In accordance with Section 109B of the Act, any person who becomes a nominee by virtue of the provisions of Section 109A of the Act, shall upon the production of such evidence as may be required by the Board, elect either:

- i. to register himself or herself as the holder of the Equity Shares; or
- ii. to make such transfer of the Equity Shares, as the deceased holder could have made

Further, the Board may, at any time, give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Note: Since the allotment of Equity Shares in the Issue will be made only in dematerialized mode there is no need to make a separate nomination with the Company. Nominations registered with respective



depository participant of the applicant would prevail. If the investor wants to change the nomination, they are requested to inform their respective depository participant.

Minimum Subscription

If the Company does not receive the minimum subscription of 90% of the net offer to public including devolvement of Underwriters within 60 days from the date of closure of the Issue, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days after the Company becomes liable to pay the amount, the Company shall pay interest prescribed under Section 73 of the Companies Act, 1956.

Arrangements for Disposal of Odd Lots

No odd lot of Equity Shares will arise out of this Issue, as the tradable lot is One (1) Equity Share.

Restrictions, if any, on Transfer and Transmission of Shares and on their Consolidation/Splitting

For a detailed description in respect of restrictions, if any, on transfer and transmission of shares and on their consolidation/splitting, please refer sub-heading “Main Provisions of the Articles of Association” of this Draft Prospectus.

Subscription by Non Residents/ NRIs/ FIIs/ Foreign Venture Capital Fund registered with SEBI / Multilateral and Bilateral Development Financial Institutions

As per the current provisions of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, there exist a general permission for the NRIs/ FIIs/ Foreign Venture Capital Fund registered with SEBI/ Multilateral and Bilateral Development Financial Institutions to invest shares of an Indian company by way of subscription in a public issue. However, such investments would be subject to other investment restrictions under RBI and/or SEBI regulations as may be applicable to such investors. Based on the above provisions, it will not be necessary for the investors to seek separate permission from the FIPB/ RBI for this specific purpose.

As per the policy of RBI, Overseas Corporate Bodies cannot participate in this Issue.

The Equity Shares have not been and will not be registered under the U.S. Securities Act 1933, as amended (the “Securities Act”) or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, “U.S. persons” (as defined in Regulation S of the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares will be offered and sold only (i) in the United States to “qualified institutional buyers”, as defined in Rule 144A of the Securities Act, and (ii) outside the United States in compliance with Regulation S and the applicable laws of the jurisdiction where those offers and sales occur.



ISSUE PROCEDURE

The issue is being made by fixed price process through issue of 61,19,088 equity shares of face value of Rs. 10/- each at a premium of Rs. [●] aggregating to Rs. [●] million.

Application may be made by:

1. Indian Nationals resident of India who are Adult Individuals in single name or joint names (not more than three)
2. Hindu Undivided Families through the Karta of the Hindu Undivided Family
3. Companies, Bodies Corporate and Societies registered under the applicable laws in India and authorised to invest in the Shares
4. Indian Mutual Funds registered with SEBI
5. Indian Financial Institutions & Banks
6. Venture Capital Funds / Foreign Venture Capital investors registered with SEBI
7. State Industrial Development Corporation
8. Insurance Companies registered with Insurance Regulatory and Development Authority;
9. Provident Funds with minimum corpus of Rs.25 crore;
10. Pension Funds with minimum corpus of Rs.25 crore;
11. Trusts who are registered under the Societies Registration Act, 1860 or any other trust law and are authorised under its constitution to hold and invest in shares
12. Commercial Banks and Regional Rural Banks. Co-operative Banks may also apply subject to permission from Reserve Bank of India
13. Permanent and Regular employees of the Company
14. Non-Resident Indians (NRIs) and on a repatriable/ non-repatriable basis
15. Foreign Institutional Investors (FIIs) on a repatriable/non repatriable basis

Applications not to be made by:

- a) Minors
- b) Partnership firms or their nominees
- c) Foreign Nationals (except NRIs)
- d) Overseas Corporate Bodies (OCBs)

Minimum and Maximum Application Size

Applications should be for a minimum of 100 Equity Shares and in multiples of 100 Equity Shares thereafter. An applicant in the net public category cannot make an application for that number of Equity Shares exceeding the number of Equity Shares offered to the public. In the case of reserved categories, a single applicant in the reserved category can make an application for a number of Equity Shares reserved but not exceeding the reservation.

Option to Subscribe

As on the date of this document, there are no pending options to subscribe to Equity Shares or convertible instruments pending conversion into Equity Shares of any kind. The applicant shall have the option to subscribe to Equity Shares to be dealt with in a depository. The investor shall have the option to either to receive the security certificates or to hold the Equity Shares in demat form with a depository. Shares shall be issued in physical form only at the option of the applicant.



Advertisement regarding Issue Price and Prospectus

Our Company will issue a statutory advertisement after the filing the Prospectus with the RoC. This advertisement in addition to the information that has to be set out in the statutory advertisement shall indicate the Issue Price along with a table showing the number of Equity Shares and the amount payable by an investor. Any material updates between the date of Draft Prospectus and the date of Prospectus will be included in such statutory advertisement.

Availability of Prospectus and Application Forms

The Memorandum Form 2A containing the salient features of the Prospectus together with Application Forms and copies of the Prospectus may be obtained from the Registered Office of the Company, Lead Manager to the Issue, Registrar to the Issue, Underwriters to the Issue and at the collection centres of the Bankers to the Issue, as mentioned on the Application Form.

NRIs / FIIs / Indian Mutual Funds & Indian and Multilateral Development Financial Institutions can obtain the Application Form from the Registered Office of the Company.

Applications under Power of Attorney

In case of applications under Power of Attorney or by Companies, Bodies Corporate, Societies registered under the applicable laws, trustees of trusts, Provident Funds, Superannuation Funds, Gratuity Funds; a certified copy of the Power of Attorney or the relevant authority, as the case may be, must be lodged separately at the office of the Registrar to the Issue simultaneously with the submission of the application form, indicating the serial number of the application form and the name of the Bank and the branch office where the application is submitted.

The Company in its absolute discretion reserves the right to relax the above condition of simultaneous lodging of the Power of Attorney along with the Application Form subject to such terms and conditions as it may deem fit.

Instructions for Applications by NRIs/FIIs (on Repatriable Basis)

1. As per Notification No. FEMA 20 / 2000 - RB dated May 03, 2000, as amended from time to time, under automatic route of Reserve Bank, the Company is not required to make an application for Issue of Equity Shares to NRIs/FIIs with repatriation benefits.
2. However, the allotment / transfer of the Equity Shares to NRIs/FIIs shall be subject to prevailing RBI Guidelines. Sale proceeds of such investments in Equity Shares will be allowed to be repatriated along with the income thereon subject to the permission of the RBI and subject to the Indian tax laws and regulations and any other applicable laws.
3. In case of application by NRIs on repatriation basis, the payments must be made through Indian rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non-Resident Ordinary (NRO) Account of Non-Resident Subscribers applying on a repatriation basis. Payment by bank drafts should be accompanied by bank certificate confirming that the bank draft has been issued by debiting to NRE or FCNR account.
4. In case of application by FIIs on repatriation basis, the payment should be made out of funds held in Special Non-Resident Rupee Account along with documentary evidence in support of the remittance like certificates such as FIRC, bank certificate etc. from the authorised dealer. Payment by bank drafts should



be accompanied by bank certificate confirming that the bank draft has been issued by debiting to Special Non-Resident Rupee Account.

5. Duly filled Application Forms by NRIs / FIIs will be accepted at designated branches of the Bankers to the Issue at Mumbai and New Delhi only.
6. Refunds/dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges / commission. In case of applicants who remit their application money from funds held in NRE / FCNR accounts, such payments shall be credited to their respective NRE / FCNR accounts (details of which shall be furnished in the space provided for this purpose in the Application Form), under intimation to them. In case of applicants who remit their money through Indian Rupee Drafts from abroad, such payments in Indian Rupees will be converted into U.S. Dollars or any other freely convertible currency as maybe permitted by RBI at the exchange rate prevailing at the time of remittance and will be dispatched by registered post, or if the applicants so desire, will be credited to their NRE / FCNR accounts, details of which are to be furnished in the space provided for this purpose in the Application Form. The Company will not be responsible for loss, if any, incurred by the applicant on account of conversion of Foreign Currency into Indian Rupees and vice versa.
7. Applications in this category may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for allotment under the reserved category. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians and shall not use the forms meant for reserved category.

Instructions for Applications by Indian Mutual Funds & Indian and Multilateral Development Financial Institutions

1. No Mutual Fund scheme shall invest more than 10% of its Net Asset Value in the Equity Shares or Equity related instruments of any company provided that the limit of 10% shall not be applicable for Investments in Index Funds or sector or Industry specific Fund. No Mutual fund should own more than 10% of any Company's paid up capital carrying voting rights.
2. The SEBI (Venture Capital) Regulations 1996 and the SEBI (Foreign Venture Capital) Regulations 2000 prescribe Investment restriction on Venture Capital Fund and Foreign Venture Capital Investors registered with SEBI. Accordingly holding by any Venture Capital Fund and Foreign Venture Capital Investor should not exceed 25% of the corpus of Venture Capital Fund and Foreign Venture Capital Investor. Equity Shares allotted to Venture Capital Funds and Foreign Venture Capital Investor through this Issue shall be locked in for a period of 1 year.
3. The issue of Equity Shares to a single FII should not exceed 10% of the post-issue paid-up capital of the Company. In respect of an FII investing in Equity Shares of the Company on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital of the Company. As of now, the aggregate FII holding in the Company cannot exceed 24% of the total issued capital of the Company. With the approval of the Board of Directors and the shareholders by way of a special resolution, the aggregate FII holding can go up to 100%. However, as of this date, no such resolution has been recommended for adoption.
4. A separate application must be made in respect of each scheme of an Indian Mutual Fund registered with SEBI and such applications will not be treated as multiple applications. The applications made by the Asset Management Company or Trustees / Custodians of a Mutual Fund shall clearly indicate the name of the concerned scheme for which application is being made.
5. Indian Mutual Funds & Indian and Multilateral Development Financial Institutions should apply in this Public Issue based upon their own investment limits and approvals.



6. Application forms together with cheques or bank drafts drawn in Indian Rupees for the full amount payable at the rate of Indian Rs. [•] per share must be delivered before the close of subscription list to such branches of the Bankers to the Issue at places mentioned in the application form.
7. A separate single cheque / bank draft must accompany each application form.

Terms of Payment

The entire Issue price of Rs. [•] per share is payable on application only. In case of allotment of lesser number of Equity Shares than the number applied, the Company shall refund the excess amount paid on application to the applicants.

General Instructions for Applicants

1. Applications must be made only on the prescribed Application Form and should be completed in BLOCK LETTERS in English as per the instructions contained herein and in the Application Form, and are liable to be rejected if not so made. The prescribed application forms will have the following colours:

For Public	:	White
For Employees	:	Pink
For NRIs or FIIs applying on repatriation basis	:	Blue

2. Thumb impressions and signatures other than in English / Hindi / Telugu or any other language specified in the 8th Schedule to the Constitution of India, must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under his/ her official seal.
3. Bank Account Details of Applicant The name of the Applicant, Depository Participant's name, Depository Participant's Identification (DPID) number and the Beneficiary number provided by the Depository participant must be mentioned correctly in the Application Form at the appropriate place. The Registrar will obtain the Demographic details such as Address, Bank account details and occupation from the depository participants. The refunds, if any, will be printed with the Bank details as given by the Depository participant.
4. Applicants should write their names and application serial number on the reverse of the instruments by which the payments are being made to avoid misuse of instruments submitted along with the applications for Equity Shares.
5. Applications by NRIs on non-repatriation basis can be made using the Form meant for Public out of the funds held in Non-Resident Ordinary (NRO) Account. The relevant bank certificate must accompany such forms. Such applications will be treated on par with the applications made by the public.

Payment Instructions for Resident Applicants

1. Payments should be made in cash or cheque or bank draft drawn on any Bank (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 Centres (indicated in the Application Form) where the Application is accepted. However, if the amount payable on application is Rs. 20,000/- or more, in terms of section 269SS of the Income-Tax Act, 1961; such payment must be effected only by way of an account payee cheque or bank draft. In case payment is effected in contravention of the conditions mentioned herein, the application is liable to be rejected and application money will be refunded and no interest will be paid thereon.
2. Money orders, postal orders, outstation cheques or bank drafts, cheques / draft drawn on Banks not participating in the "clearing" will not be accepted and applications accompanied with such instruments may be rejected.



3. A separate cheque / bank draft must accompany each application form.
4. The application must be made for a minimum of 100 Equity Shares and in multiple of 100 thereafter.
5. All cheques / bank drafts accompanying the application should be crossed “**A/c Payee Only**” and made payable to the Bankers to the Issue and marked: “**Steel City Securities Limited – Public Issue**”.
6. Investors will not have facility of applying through stockinvest instruments as RBI has withdrawn the stockinvest scheme vide notification no.DBOD.NO.FSC.BC.42/24.47.001/2003-04 dated November 05, 2003.

Payment Instructions for Employees

Reservation on competitive basis has been made in the public issue to the permanent employees including working directors of the Company. Reservation on competitive basis shall mean reservation wherein allotment of shares is made in proportion to the shares applied for.

1. Application must be made only:
 - a) On the prescribed Application Form (**PINK in colour**) accompanying this Prospectus and completed in full in BLOCK LETTERS in English, except signature(s) in accordance with the instructions contained herein and in the application form and is liable to be rejected if not so made;
 - b) For a minimum of 100 Equity Shares and in multiples of 100 thereafter;
 - c) In single name or joint names (not more than three), however first applicant should be permanent / regular employee of the Company.
2. A single applicant in the reserved category can make an application for a number of shares that are being issued to employees in terms of this issue.
3. Payments should be made in cash or cheque or bank draft drawn on any Bank (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 Centres (indicated in the Application Form) where the Application is accepted. However, if the amount payable on application is Rs. 20,000/- or more, in terms of section 269SS of the Income-Tax Act, 1961; such payment must be effected only by way of an account payee cheque or bank draft. In case payment is effected in contravention of the conditions mentioned herein, the application is liable to be rejected and application money will be refunded and no interest will be paid thereon.
4. Money orders, postal orders, outstation cheques or bank drafts, cheques / draft drawn on Banks not participating in the “clearing” will not be accepted and applications accompanied with such instruments may be rejected.
5. A separate cheque / bank draft must accompany each application form.
7. All cheques / bank drafts accompanying the application should be crossed “**A/c Payee Only**” and made payable to the Bankers to the Issue and marked: “**Steel City Securities Limited – Public Issue - Employees**”.
8. Application by Eligible Employees can also be made in the “Net Issue to the Public” Portion and such Applications shall not be treated as multiple Applications.



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9. Unsubscribed portion in any reserved category may be added to any other reserved category. The unsubscribed portion, if any, after such inter-se adjustment amount the reserved category shall be added back to the Net offer to the Public.

Payment Instruction for NRIs / FIIs (applying on Repatriable basis):

Reservation on competitive basis has been made in the public issue for the NRIs and FIIs competitive basis. Reservation on competitive basis shall mean reservation wherein allotment of shares is made in proportion to the shares applied for.

1. Application must be made only:
 - a. On the prescribed Application Form (**BLUE in colour**) accompanying this Prospectus and completed in full in BLOCK LETTERS in English, except signature(s) in accordance with the instructions contained herein and in the application form and is liable to be rejected if not so made;
 - b. For a minimum of 100 Equity Shares and in multiples of 100 thereafter;
 - c. In single name or joint names (not more than three).
2. A separate cheque / bank draft must accompany each application form.
3. All cheques / bank drafts accompanying the application should be crossed “**A/c Payee Only**” and made payable to the Bankers to the Issue and marked: “**Steel City Securities Limited – Public Issue - NR**”.
4. The remittance from abroad for the amount payable on application per share through approved banking channels or out of funds held on Non-Resident External (NRE) / Foreign Currency Non Resident (FCNR) account maintained with banks authorized to deal in foreign exchange in India, along with the certificate from the bank issuing the draft confirming that the draft has been issued by debit to NRE/FCNR account.
5. Application in this category cannot be made out of NRO accounts and such applications would be rejected. Applications out of NRO accounts can, however, be made in the category of Resident Indian Public.
6. A single applicant in the reserved category can make an application for a number of equity shares, which exceeds the reservation.
7. Application for the NRI category can be obtained from the Registered / Corporate Office of the Company, as mentioned on the front cover page of the Prospectus.

Payment Instruction for Scheduled Banks, Financial Institutions and/or Mutual Funds:

Reservation on competitive basis has been made in the public issue for the scheduled banks, financial institutions and mutual funds on competitive basis. Reservation on competitive basis shall mean reservation wherein allotment of shares is made in proportion to the shares applied for.

1. Application must be made only:
 - a. On the prescribed Application Form accompanying this Prospectus and completed in full in BLOCK LETTERS in English, except signature(s) in accordance with the instructions contained herein and in the application form and is liable to be rejected if not so made;
 - b. For a minimum of 100 Equity Shares and in multiples of 100 thereafter;
2. A separate cheque / bank draft must accompany each application form.



3. All cheques / bank drafts accompanying the application should be crossed “**A/c Payee Only**” and made payable to the Bankers to the Issue and marked: “**Steel City Securities Limited – Public Issue – Institution**”.

Submission of Completed Application Forms

All applications duly completed and accompanied by cash/ cheques/ bank drafts shall be submitted at the branches of the Bankers to the Issue (listed in the Application Form) before the closure of the Issue. Application(s) should not be sent to the office of the Company or the Lead Manager to the Issue.

Applicants residing at places where no collection Centres have been opened may submit / mail their applications at their sole risk along with application money due there on by Bank Draft to the Registrar to the Issue, Aarthi Consultants Pvt. Ltd., super scribing the envelope “**Steel City Securities Limited–Public Issue**” so as to reach the Registrar on or before the closure of the Issue. Such bank drafts should be payable at Hyderabad only.

The Company will not be responsible for postal / courier delays and loss in transit. The Company will not entertain any claims, damage or loss due to postal / courier delays or loss in transit.

No separate receipts will be issued for the application money. However, the Bankers to the Issue or their approved collecting branches receiving the duly completed application form will acknowledge receipt of the application by stamping and returning to the applicant the acknowledgement slip at the bottom of each application form.

Applications shall be deemed to have been received by the Company only when submitted to the Bankers to the Issue at their designated branches or on receipt by the Registrar as detailed above and not otherwise.

Other Instructions

1. **Joint Applications:** In case of Individuals Applications may be made in single or joint names (not more than three). In case of Joint Applications, refund, pay orders, dividend warrants etc. if any, will be drawn in favor of the first applicant and all communications will be addressed to the first applicant at her/his address as stated in the application form.
2. **Multiple Applications:** An applicant should submit only one application form (and not more than one) for the total number of Equity Shares applied for. Two or more applications in single or joint names will be deemed to be multiple applications if the sole and/ or first applicant is one and the same. The application form shall contain space for indicating number of shares subscribed for in demats and physical shares or both. No separate applications for demat and physical can be made. If such an application is made, the applications for physical shares will be treated as multiple applications. 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. NRIs/ FIIs applying on a repatriation basis or Indian Mutual Funds & Indian and Multilateral Development Financial Institutions shall not make an application in the public category and such applications made in both the categories i.e. reserved category and Public Category shall be treated as multiple applications. The Company reserves the right to accept or reject, in its absolute discretion, any or all-multiple applications. Unless the Company specifically agrees in writing with or without such terms and conditions it deems fit, a separate cheque/draft must accompany each application form.
3. **PAN / GIR Number:** Where an application is for a total value of Rs. 50,000/- or more, the applicant or in case of applications in joint names, each of the applicants should mention his/ her/ their Permanent Account Number (PAN) allotted under Income Tax Act, 1961 or where the same has not been allotted, the GIR Number and the IT Circle/ Ward/ District should be mentioned. In case where neither the PAN nor the GIR Number has been allotted, or the applicant is not assessed to Income Tax, the appropriate box provided for the purpose in the application form must be ticked. Applications without this will be considered incomplete and are liable to be rejected.



4. Equity Shares in Demat Form with NSDL or CDSL: As per the provisions of Section 68B of the Companies Act, 1956, the Equity Share of the Company can be held in a dematerialized form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through electronic mode). Successful allottees in this issue will be compulsorily allotted Equity Shares in dematerialized form. In this context, two tripartite agreements have been signed between the Company, the Registrar and the Depositories:

To enable all shareholders of the Company to have their shareholding in electronic form, the Company had signed the following tripartite agreements with the Depositories and the then Registrar and Share Transfer Agent, Aarhi Consultants Pvt. Ltd.:

- a) An agreement dated _____ with CDSL and Aarhi Consultants Pvt. Ltd.
b) An agreement dated _____ with NSDL and Aarhi Consultants Pvt. Ltd.

- An applicant has the option of seeking allotment of Equity Shares in electronic or in physical mode.
- Separate applications for electronic and physical shares by the same applicant shall be considered as multiple applications and would liable to be rejected.
- The applicant seeking allotment of shares in the electronic form must necessarily fill in the details (including the beneficiary account no. and Depository Participant's ID no.) appearing under the heading 'Request for Shares in Electronic Form'.
- An applicant who wishes to apply for shares in the electronic form must have at least one beneficiary account with any of the Depository Participants (DPs) of NSDL or of CDSL, registered with SEBI, prior to making the application.
- Shares allotted to an applicant in the electronic account will be credited directly to the respective beneficiary accounts (with the DP).
- For subscription in electronic form, names in the share application form should be identical to those appearing in the account details in the depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the depository.
- Non-transferable allotment letters/refund orders will be directly sent to the applicant by the Registrar to this Issue.
- Incomplete/incorrect details given under the heading 'Request for Shares in Electronic Form' in the application form shall be treated as an invalid application and shall be liable to be rejected.
- The applicant is responsible for the correctness of the applicant's demographic details given in the application form vis-à-vis those with his/her DP.
- It may be noted that the electronic shares can be traded only on the Stock Exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where the Equity Shares of the Company are proposed to be listed are connected with NSDL and CDSL.
- One time cost of dematerialization of shares would be borne by the Company. The one time cost refers to the demat charges for the shares opted for in this Issue by an investor in electronic form. Subsequent charges for dematerialization of physical shares held by the investors would have to be borne by the investor.
- Investors are advised to instruct their Depository Participants to accept the Equity Shares that may be allotted to them pursuant to this Issue.



Investors can contact the Compliance Officer in case of any Pre-Issue related problems. In case of Post-Issue related problems such as non-receipt of letters of allotment / share certificates / credit of securities in depositories beneficiary account / refund orders, etc., Investors may contact Compliance Officer or Registrar to the Issue.

For further instructions regarding application for the Equity Shares, investors are requested to read the application form carefully.

Basis of Allotment

A) For Reserved Categories

- 4,90,000 Equity Shares are reserved for allotment on competitive basis to Permanent Employees of our company including Whole-time Directors.
- 5,00,000 Equity Shares are reserved for allotment on competitive basis to NRIs and/or FIIs applying on repatriable basis.
- 5,00,000 Equity Shares are reserved for allotment on competitive basis to Scheduled Banks, FIs and Mutual Funds on competitive basis.
- Applications received in the each reserved categories shall be grouped to determine the total allotment under reserved categories.
- If the aggregate number of equity shares applied for in any of reserved category is less than or equal to reserved number of Equity Shares, full allotment shall be made to the applicants applied in that category and unsubscribed portion will be added back to the other reserved category and further unsubscribed portion, if any, after such inter se adjustments shall be added back to “Net Offer to the Public” category.
- If the aggregate number of equity shares applied in reserved category is more than reserved number of Equity Shares, the allotment shall be made on a proportionate basis as explained below under “Net offer to the Public portion”. However, in case of under-subscription in the Net Offer to the Public portion, spillover to the extent of under-subscription shall be permitted from reserved categories to Net Offer to the Public portion.
- Only permanent employees (including working directors) of the Company shall be eligible to apply under the reserved category for employees.

B) For Net Offer to the Public portion

- In the event of public issue of Equity Shares being over-subscribed, the allotment will be on a proportionate basis subject to minimum allotment being equal to the minimum application size of 100 Equity Shares as explained below:
 1. A minimum 50% of the net Issue to the Indian public will be made available for allotment in favour of those individual applicants who have applied for Equity Shares of or for a value of not more than Rs. 1,00,000/-. This percentage may be increased in consultation with the Designated Stock Exchanges depending on the extent of response to the Issue from investors in this category. In case allotments are made to a lesser extent than 50% because of lower subscription in the above category, the balance Equity Shares would be added to the higher category and allotment made on a proportionate basis as per relevant SEBI Guidelines. The Executive Director/Managing Director of the Designated Stock Exchange along with the post issue Lead Manager and the Registrar to the Issue shall be responsible to ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the guidelines.



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2. The balance of the Net Offer to Indian Public shall be made available to investors including corporate bodies/institutions and individual applicants who have applied for allotment of Equity Shares for a value of more than Rs. 1,00,000/-.
- The Unsubscribed portion of the net issue to any of the categories specified in 1 or 2 shall be made available for allotment to applicants in the other category, if so required.
 - Applicants will be categorized according to the number of Equity Shares applied for.
 - The total number of shares to be allotted to each category as a whole shall be arrived at on a proportionate basis i.e. the total number of shares applied for in that category (number of applicants in the category multiplied by the number of shares applied for) multiplied by the inverse of the over subscription ratio.
 - Number of the shares to be allotted to the successful allottees shall be arrived at on a proportionate basis i.e. total number of shares applied for by each applicant in that category multiplied by the inverse of the over subscription ratio.
 - All the applications where the proportionate allotment works out to less than 100 Equity Shares per applicant, the allotment shall be made as follows:
 - i. Each successful applicant shall be allotted a minimum of 100 Equity Shares; and
 - ii. The successful applicants out of the total applicants for that category shall be determined by draw of lots in such a manner that the total number of shares allotted in that category is equal to the number of shares worked out as per (i) above.
 - If the proportionate allotment to an applicant works out to a number that is more than 100, but is a fraction, then for a fraction equal to or higher than 0.50 shall be rounded off to the next integer. If that fraction is lower than 0.50, the fraction shall be ignored.
 - All applicants in such categories shall be allotted shares arrived at after such rounding off.
 - If the shares, allocated on a proportionate basis to any category is more than the shares allotted to the applicants in that category, the balance available shares for allotment shall be first adjusted against any other category, where the allocated shares are not sufficient for proportionate allotment to the successful applicants in that category.
 - The balance shares if any, remaining after such adjustment shall be added to the category comprising applicants applying for minimum number of shares.
 - As the process of rounding off to the nearest multiple of 1 (one) may result in the actual allotment being higher than the shares offered. However, the final allotment shall not exceed 10% of the net offer to public.
 - Allotment to FIIs / MFs / Venture Capital Funds / Foreign Venture Capital Investors / Insurance Companies would be subject to the limits / restrictions / regulations prescribed by respective regulatory authorities governing them.

Method of Proportionate Basis of Allotment

In the event of the Issue being over-subscribed, the basis of allotment shall be finalized by us in consultation with the Designated Stock Exchange. The Executive Director or Managing Director (or any other senior official nominated by them) of the Designated Stock Exchange along with the Lead Manager and the Registrar to the Issue shall be responsible for ensuring that the basis of allotment is finalized in a fair and proper manner.



Proportionate Allotment Procedure

Allotment shall be on proportionate basis within the specified categories, rounded off to the nearest integer subject to a minimum allotment being equal to the minimum application size i.e. 100 Equity Shares.

Letters of Allotment or Refund Orders

The Company shall give credit to the Beneficiary Account with Depository Participants within two (2) working days of finalisation of the basis of allotment of Equity Shares. The Company shall ensure dispatch of refund orders through electronic transfer of funds by using ECS, Direct Credit, RTGS or NEFT at the designated locations and other than designated locations, if any, of value up to Rs.1,500 by “Under Certificate of Posting”, and shall dispatch refund orders above Rs.1,500 if any, by registered post or speed post at the sole or first applicant’s sole risk. The Company shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges mentioned above are taken within 7 working days of finalization of the Basis of Allotment for the Issue.

In accordance with the Companies Act, the requirements of the Stock Exchange and the SEBI Guidelines, the Company further undertakes that:

- Allotment of Equity Shares will be made within 30 days from the Issue closing date
- Dispatch of refund orders will be done within 30 days from the Issue of closing date
- The Company shall pay interest @ 15% per annum (for delay beyond 30 day time as mentioned above), if refund orders are not dispatched and/or demat credit are not made to investors within the 30 day time prescribed above.

Refunds will be made by cheques or pay-orders drawn on the bank(s) appointed by the Company, as refund banker(s). Such instruments will be payable at par at the places where applications are accepted. Bank charges, if any, for encashing such cheques or pay orders will be payable by the applicant.

Disposal of Applications and Application Money

The Company reserves, in its own, absolute and uncontrolled discretion and without assigning any reason, the right to accept in whole or in part or reject any application. If an application is rejected in full, the entire application money received will be refunded to the applicant. If the application is rejected in part, excess of the application money received will be refunded to the applicant within 30 (thirty) days from the date of closure of the Issue. No interest will be payable on the application money so refunded. Refund will be made in favor of the sole/first applicant (including the details of his/her savings/current account number and the name of the bank with whom the account is held) to the Issue. Such refund orders will be payable at par at all the collection centres.

The subscription received in respect of Public Issue will be kept in a separate bank account and the Company shall not have access to such funds unless approvals for dealing from all the Stock Exchanges, where listing has been proposed and approval of the Designated Stock Exchange for utilization has been obtained.

The Company has undertaken to make adequate funds available to the Registrar to the Issue for complying with the requirements of dispatch of Allotment Letters/Refund Orders by Registered Post/Speed Post.

Grounds for Technical Rejections

Applicants are advised to note that applications are liable to be rejected among others on the following technical grounds:

1. Amount paid does not tally with the number of Equity Shares applied for;
2. Age of first applicant is not given;
3. Application by minor;



4. PAN or GIR number not given if application is for Rs. 50,000/- or more;
5. Application for Equity Shares which are not in multiples of [●];
6. Multiple applications;
7. In case of application under Power of Attorney or by limited companies, corporates, trust etc., relevant documents are not submitted;
8. Signature of the sole and/or joint applicants missing
9. Applicants depository account details not provided;
10. Applications by Overseas Corporate Bodies.

Despatch of Refund Orders

Our Company shall ensure dispatch of refund orders by following mode:

- a. In case of applicants residing at Ahmedabad, Bangalore, Bhubneshwar, Kolkatta, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvanthapuram - refunds shall be credited through electronic transfer of funds by using ECS, Direct Credit, RTGS or NEFT;
- b. In case of applicants residing at place those specified in (a) above and where the value of refund order is Rs. 1,500 or more, refund orders will be dispatched to the applicants by Registered Post;
- c. In case of applicants residing at place those specified in (a) above and where the value of refund order is less than Rs. 1,500, refund orders will be dispatched to the applicants "Under Certificate of Posting".

We shall make available, adequate funds to the Registrars to the Issue for this purpose.

Interest in case of Delay in Dispatch of Allotment Letters / Refund Orders

We agree that as far as possible allotment of securities offered to the public shall be made within 30 days of the closure of public issue. We further agree that our Company shall pay interest @15% per annum if the allotment letters/ refund orders have not been dispatched to the applicants, or if in a case where the refund or portion thereof is made in electronic manner, the refunds instructions have not been given to the clearing system in the disclosed manner, within 30 days from the date of the closure of the issue. However applications received after the closure of issue in fulfillment of underwriting obligations to meet the minimum subscription requirement, shall not be entitled for the said interest.

Interest on Excess Application Money

Our Company shall pay interest @ 15% per annum on the excess application money received by us, if the refund orders are not dispatched within 30 days from the date of closure of the subscription list as per the Guidelines issued by the Government of India, Ministry of Finance vide their letter No. F-8/6/SE/79 dated July 21, 1983 and as amended vide their letter No. F/14/SE/85 dated September 27, 1985 addressed to the Stock Exchanges and as further modified by SEBI's circular SMD/RCG/JJ/1819 /96 dated May 15, 1996.

Undertaking by The Company

Our Company undertakes:

- a. That the complaints received in respect of the Issue shall be attended to by the Company expeditiously and satisfactorily;
- b. That all steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the Equity Shares are to be listed are taken within 7 working days of finalization of the basis of allotment;



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- c. That the funds required for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the Issue by the Company;
 - d. That where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 30 days of closure of issue giving details of bank where refunds shall be credited along with amount and expected date of electronic credit of refund;
 - e. That the certificates of Equity Shares/refund orders to non-resident Indian applicants shall be dispatched within specified time;
 - f. That no further issue of Equity Shares shall be made till the Equity Shares offered through this Prospectus are listed or till the application moneys are refunded on account of non-listing, under-subscription, etc.

Utilisation of Issue Proceeds

The Board of Directors of our Company certifies that:

- a. All monies received out of this issue of shares to public shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of section 73 of the Act;
- b. Details of all monies utilized out of the issue referred to in sub-item (a) shall be disclosed under an appropriate separate head in the Balance Sheet of the Company indicating the purpose for which such monies had been utilized;
- c. Details of all unutilized monies out of the issue of shares, if any, referred to in sub-item (a) shall be disclosed under an appropriate separate head in the Balance Sheet of the Company indicating the form in which such unutilized monies have been invested;
- d. The utilization of monies received under promoter's contribution and reservations shall be disclosed under an appropriate head in the Balance Sheet of the Company indicating the purpose for which such monies have been utilized; and
- e. The details of all unutilized monies, out of the funds received under promoters contribution and reservations, shall be disclosed under a separate head in the Balance Sheet of the Company indicating the manner in which such unutilized monies have been invested.

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, 1956, which is reproduced below:

"Any person who:

- a. **makes in a fictitious name, an application to a Company for acquiring or subscribing for, any shares therein, or**
- b. **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."



SECTION VIII: OTHER INFORMATION

STATUTORY AND OTHER INFORMATION

Consents

Consents in writing of: (a) the Directors, the Company Secretary and Compliance Officer, the Auditors, Bankers to the Company and Bankers to this Issue; and (b) Lead Manager to the Issue, Bankers to the Issue, Registrars to the Issue and Legal Advisor to the Issue, Legal Advisors to the Company, Company Law Advisors to the Company and Underwriters, to act in their respective capacities, have been obtained and filed along with a copy of the Prospectus with the Registrar of Companies, Andhra Pradesh located at Hyderabad, as required under Sections 60 and 60B of the Companies Act and such consents have not been withdrawn up to the time of delivery of this Draft Prospectus for registration with the RoC.

M/s. Sudhakar & Kumar Associates, Chartered Accountants, our statutory auditors have given their written consent to the inclusion of their report in the form and context in which it appears in this Draft Prospectus and such consent and report has not been withdrawn upto the time of delivery of this Draft Prospectus for registration with the RoC.

M/s. Sudhakar & Kumar Associates, Chartered Accountants, have given their written consent to the tax benefits accruing to our Company and its members in the form and context in which it appears in this Draft Prospectus and has not withdrawn such consent up to the time of delivery of this Draft Prospectus for registration with the RoC.

Minimum Subscription

If the Company does not receive the minimum subscription of 90% of the net offer to public including devolvement of Underwriters, if any, within 60 days from the Issue Closing Date, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days, the Company and every Director of the Company who is an officer in default, becomes liable to repay the amount with interest prescribed under Section 73 of the Companies Act.

Withdrawal of this Issue

The Company in consultation with the Lead Manager, reserves the right not to proceed with the Issue anytime after the Issue Opening Date but before allotment without assigning any reason thereof.

Expert Opinion

Except as stated elsewhere in this Draft Prospectus, we have not obtained any expert opinions.

Changes in Auditors during the last three financial years and reasons thereof

There is no change in Auditors during the last three financial years.

Expenses of the Issue

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertisement and distribution expenses, stamp duty, bank charges, listing fees and miscellaneous expenses. The total expenses of the Issue are estimated to be approximately [•] of the Issue Size. All expenses with respect to the Issue would be met out of the proceeds of the Issue.



The estimated issue expenses are as under:

Activity	Rs. in Million
Issue Management Fee, Underwriting and Selling Commission	19.50
Registers fee and other expenses (Postage of refunds etc.)	3.00
Advertising and Marketing expenses	8.00
Printing and stationery and others (legal fee, listing fee, Auditors fees etc.)	7.50
Total	38.00

Fees Payable to the Lead Manager

The total fees payable to the Lead Manager will be as per the Memorandum of Understanding signed with us dated January 16, 2006 issued by our Company, a copy of which is available for inspection at our registered office.

Fees Payable to the Registrar to this Issue

The fees payable to the Registrar to this Issue will be as per Memorandum of Understanding dated December 02, 2005, a copy of which is available for inspection at our corporate office.

Adequate funds will be provided to the Registrars to the Issue to enable them to send refund orders or allotment advice by registered post.

Underwriting Commission, Brokerage and Selling Commission

The underwriting commission will be up to 1.50% of the issue size. The underwriting commission and the selling commission for the Issue is as set out in the Underwriting Agreement amongst underwriters is payable to the underwriters on the offer price of Equity Shares offered through this Prospectus to the public for subscription and underwritten in the manner mentioned in this Prospectus.

Brokerage for the issue will be up to 1.50% of the issue price of the Equity Shares, which would be paid by the Company on the basis of allotments made against the applications bearing the stamp of a member of any recognized Stock Exchange in India in the "Broker" column. Brokerage at the same rate will also be payable to the Bankers to the Issue in respect of the allotments made against applications procured by them provided the respective forms of application bear their respective stamp in the "Broker" column. In case of tampering or over-stamping of Brokers / Agents codes on the application form, the Company's decision to pay brokerage in this respect will be final and no further correspondence will be entertained in this matter.

Commission and Brokerage on Previous Issues

Except as stated elsewhere in this Draft Prospectus, 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.

Previous Rights and Public Issues

We have not made any previous rights and public issues during the last five years except as stated in the section titled "Capital Structure" on page [●] of this Draft Prospectus.

Classes of Shares

Our Company's Authorised Capital is Rs. 250 million, which is divided into 2.50 million Equity Shares of Rs. 10/- each.



Outstanding Debenture or Bond Issues

As on the date of filing of this Draft Prospectus, the Company does not have any outstanding Debenture or Bond Issue.

Outstanding Preference Shares

As on the date of filing of this Draft Prospectus, the Company does not have any outstanding preference shares.

Capitalization of Reserves or Profits

We have not capitalized its reserves or profits at any time, except as stated in the section titled "Capital Structure" on page no. [●] of this Draft Prospectus.

Issues otherwise than for Cash

Except as stated in the section titled "Capital Structure" on page [●] of this Draft Prospectus, we have not issued any Equity Shares for consideration otherwise than for cash.

Revaluation of Assets during the last five years

There has not been any revaluation of assets since incorporation.

Option to Subscribe

Equity shares being offered through this Draft Prospectus can be applied for in dematerialized form only.



Purchase of Property

As on the date of filling the offer document the company has following properties on lease and ownership basis:

A. LEASE DEEDS

S. No.	Particulars of the Lessor	Date of Agreement	Consideration	Address of the leased property	Negative Covenants, if any
1	Mr.K.Sesha Rao, residing at D. No 29-5, 2 nd floor, opposite LIC office Addanki-523201, Prakasam District (Andhra Pradesh)	18.02.2005	Rs.1,500 monthly, to be enhanced by 10% every 2 years.	D. No 29-5, 1 st floor, opposite LIC office ADDANKI-523201, Prakasam District (Andhra Pradesh).	
2	Mr. Kandagatla Samba Murty residing at 8-3-162, station road, Krishna Colony lane, Warangal-506002 (Andhra Pradesh)	01.12.2004	Rs. 4,500 monthly, to be enhanced by 15% every 3 years.	No.6-2-17 &18, Kakaji Colony, Hanumakonda, Warangal District-506001 (Andhra Pradesh).	
3	Mr. V.S.L Narayana residing at Hanumantha Rao Cloth Show Room, Main road, Vuyyuru-521165, Krishna District (Andhra Pradesh)	06.01.2005	Rs. 3,000 monthly, to be enhanced by 20% every 3 years.	Building No.8-133/1, Opposite Pinnamaneni Nursing Home, Katur road, Vuyyuru-521165.	
4	Mr. Kalla Satyanarayana Ravi residing at Sri Mahalakshmi Shopping complex, 1 st floor, NAD Kotha road, Visakhaptnam-530009.	24.02.2005	Rs. 3,000 monthly to be enhanced by 10% every 3 years.	Building No.58-1-252 Sri Mahalakshmi Shopping complex, 1 st floor, NAD Kotha road, Visakhaptnam-530009.	
5	Mr. P.P Gupta residing at Shop No. 196, M.G.C Market, R.R road, Chirala-523155 (Andhra Pradesh).	01.11.2003	Rs. 3,500 monthly to be enhanced by 15% every 3 years.	Building No-14-19-56, 1 st floor, R.R road, Chirala-523155 (Andhra Pradesh).	
6	Mr. K.M Rao residing at No.6-1-19, Bellapu Veedhi, Tuni-533401 (East Godhavri District).	19.07.2002	Rs. 1,500 monthly to be enhanced by 10% every 2 years.	No.6-1-19, Bellapu Veedhi, Tuni-533401 (East Godhavri District).	
7	Abdul Waheed residing at 3-1280, Co-operative Colony, Kadapa (Andhra Pradesh).	01.10.2003	Rs. 5,000 monthly, to be enhanced by 20% every 3 years.	S.A.H. Plaza, Palem Papayya street, Kadapa.	



8	M/s Sri Kanya Enterprises represented by its partner Smt. Uma Devi, residing at D.No. 43-11-54, Subbalakshmi Nagar, Railway New Colony, Vishakapatnam-530016.	22.09.2004	Rs.21,196 monthly.	D.No. 49-52-5/4, Shantipuram, Vishakapatnam-53006.	1.The lessee shall not sub-let the premises to 3 rd parties; 2. The lessee shall not alter the premises without prior consent from the lessor.
9	Mr. Jami Ragunandha Rao, residing at No. 2-30-19, 1 st floor, Plot No. 14, Sector-7, MVP Colony, Vishakapatnam-530017.	17.11.2004	Rs. 2,500 monthly to be enhanced by 10% every 3 years.	No. 2-30-19, 2 nd floor, Plot No. 14, Sector-7, MVP Colony, Vishakapatnam-530017.	1. The lessee shall not sub-let the premises to any 3 rd party; 2. The lessee shall not carry on any business other than share and commodity business.
10	Mr. G. Jagan Mohan Rao, residing at No-22-60, Main Road, Chilakaluripet, Guntur District (Andhra Pradesh) .	15.12.2004	Rs. 2,000 monthly to be enhanced by 20% every 3 years.	No-22-60, 1 st Floor, Main Road, Chilakaluripet, Guntur District (Andhra Pradesh).	
11	Mr. V. Madhava Rao, residing at No.74-850, Eastern Street, Kotha Road, Eluru-534001, West Godhavri District, Andhra Pradesh.	06.12.2003	Rs. 4,000 monthly to be enhanced by 20% every 3 years.	No.228-1-8/1, 1 st Floor, Sri Dhanam Complex, Kanukolanuvari, GNT Road, Eluru-534002, West Godhavri District, Andhra Pradesh.	
12	Mr. K.A Prasad, residing at Door No.4-1-48, Anjaneya Swamy Temple Street, Old Town, Narasaraopet, Guntur.	17.09.2002	Rs. 600 monthly to be enhanced by 20% every 2 years.	Shop No.117 1 st Floor, Mahatma Gandhi Cloth Street, Narasaraopet, Guntur District.	
13	Mr. A Sambasiva Rao, residing at No.3-1-41/1, Paturu, Sivalayam Veedhi, Narasaraopet, Guntur District	17.08.2002	Rs. 600 monthly to be enhanced by 20% every 2 years.	Shop No.116 1 st Floor, Mahatma Gandhi Cloth Street, Narasaraopet, Guntur District.	
14	Mr. J Muruli Krishna, residing at 79-8-17, Plot No.33, Prashanthi Estates, Rajahmundry-533101	09.04.2002	Rs. 3,750 monthly to be enhanced by 15% every 3 years.	No.7-27-4 Krishna Complex, Baru vari Street, T.Nagar, Rajahmundry-533101.	



15	M/s Lakshmi Sai Builders represented by its Managing Partner, Mr. Jagdish Kumar, residing at No.20-1-192, Sai Surya Towers,Market Centre, Ongole-523002	20.04.2003	Rs. 3,800 monthly to be enhanced by 15% every 3 years.	No.20-1-192, Sai Surya Towers,Market Centre, Ongole-523002.	
16	Mrs. Chinni Krishnaveni, residing at D.No. 16-1102, 2 nd Floor, Moon Land Apartments, Pogathota, Nellore-524001	24.09.2003	Rs. 6,500 monthly to be enhanced by 15% every 3 years.	D.No. 16-1102, 1 st Floor, Moon Land Apartments, Pogathota, Nellore-524001.	
17	Mr. K Rama Kesava Rao, residing at D.No. 3-101, Digamarru-534261, West Godhavari District & Ms. A.L Satyavathi Devi, residing at D. No 1-119, Burugapalli-534266 West Godhavari District.	03.07.2004	Rs. 2,800 monthly to be enhanced by 20% every 2 years.	D.No. 12-5-1, 1 st Floor, Sree Rampet, Palakol-534260, West Godhavari District	
18	Mr. Detaram Khyani & Mr. Om Prakash Khyani, residing at D.No.2-1-51, NizamaBad-503001	08.12.2004	Rs. 4,000 monthly to be enhanced by 15% every 3 years.	D.No.7-8-132, 2 nd Floor, Jawahar Complex, Devi Road, Nizamabad-503001.	1. The lesse shall not sub-let the premises to any 3 rd party; 2. The lessee shall not carry on any business other than share and commodity business
19	Mr.K Ranganath Reddy, residing at D.No W7/272, East Street, Gudur-524101, Nellore District.	24.12.2004	Rs. 2,500 monthly to be enhanced by 10% every 3 years.	D.No. 13/165, Co-operative Central Bank Ltd, Gangamma Temple Street, Gudur-524101, Nellore District	
20	Mr.K.V Suman Kumar, residing at D.No. 5-4-18,2/3, Bradipet, Guntur-522002	01.06.2002	Rs. 3,000 monthly to be enhanced by 20% every 3 years.	D.No. 6-9-15, 2 nd Floor, Tirumalesa Complex, 9 th Lane, Arundalpet, Guntur-522002.	
21	Mr. Charugundla Gandhi, residing at 27-16-101 & 102, 3 rd Floor, Gummadi	19.08.2003	Rs. 7,000 monthly, to be enhanced by 20% every 3	27-16-101 & 102, 2 nd Floor,Portion 1 & 3, Gummadi Commercial	



	Commercial Complex, Besent Road, Vijayawada-520002		years.	Complex, Besent Road, Vijayawada-520002	
22	Mr. T Satyanarayana, residing at D.No. 28-8-9, Satyanarayana Gold Complex, Shop No.6, Vishakapatnam-530001	11.12.2004	Rs. 2,000 monthly, to be enhanced by 10% every 3 years.	D.No. 28-8-9, Satyanarayana Gold Complex, Shop No.6, Vishakapatnam-530001.	
23	Mr. I.Gurumurthaiah, residing at D.No.25/174, Sanjeeva Nagar,Nandyal-518501.	01.03.2001	Rs. 4,000 monthly, to be enhanced by 15% every 2 years.	D.No.25/174, Sanjeeva Nagar, Nandyal-518501.	
24	Mr..P Pydi Reddy, residing at B-229, Phase II, NTPC Township, Deepanjali Nagar, Parawada Mandal, Vishakapatnam-531020.	25.08.2004	Rs.500 monthly, to be enhanced by 20% every 3 years	B-228, Phase II, NTPC Township, Deepanjali Nagar, Parawada Mandal, Vishakapatnam-531020.	
25	Mr.S Suryanarayana, residing at D.No.7-1-18,Station Road, Sattenapalli-522403, Andhra Pradesh.	10.12.2004	Rs. 1,000 monthly to be enhanced by 15% in May 2005.	D.No.18-6-64, Gundepudivari Street, Sattenapalli-522403, Andhra Pradesh.	
26	Mr. K.L.N Kumar, residing at Amanchavari Street,Anakapalli Mr. P Rajeswar Prasad residing at Sunkaravari Street, Anakapalli. Mr. G SeshuKumar, residing at Chintavari Street, Anakapalli. Mr. T Rammurthy Setty residing at Chintavari Street, Anakapalli.. Ms. B Kanthi Kumari, residing at Mallavarapuvvari Street, Anakapalli	15.06.2003	Rs. 3,000 monthly, to be enhanced by 20% every 3 years.	D.No 12-11-15,16, Chintavari Street, Anakapalli-530001, Vishakapatnam District.	
27	Mr. E Rajasekhar, residing at Holmspet, Proddatur, Andhra Pradesh.	25.08.2003	Rs. 2,000 monthly to be enhanced by 20% every 3 years.	D.No. 7-301, Holmspet, Proddatur, Andhra Pradesh.	



28	P.S.AppaRao S/O Potturi Kalidas	04.03.2005	Rs. 55,000 security deposit and Rs. 7,200 monthly to be enhanced by 10% annually.	House No. 6-9-25, 1st Flr., A & B Blocks IX Line Arundal pet Guntur	1. The party shall not sub lease the premises
29	V.Hanuman S/o V.Satyam Peddapuram E.G.Dist A.P.	13.03.2005	Rs.5000 Security Deposit and Rs. 1500 monthly rent and 15% enhancement every 3 years	Door. No.6-3-18, Venkata sai traders, 1 st Floor, Besides IOB, Peddapuram E.G.Dist A.P.	
30	M.Bramahiah S/O Chinniah Bapatla	05.11.2004	Rs. 7500 Deposit and Rs. 1250 rent p.m. and 15% enhancement every 3 years.	Door. No.8-3-31, Ground Floor, A.G.College Road , Bapatla	
31	K.Sathi Reddy S/O Late. Narasimha Reddy ASR Nagar, Hyderabad	15.04.2002	Rs. 2400 deposit and Rs. 1200 rent p.m. and there is no enhancement	Flat No. 402, Lakshmi Kalyan Apartments, Brindavan Colony, ASR Nagar, Hyderabad	
32	S.Thavudu S/O Late. Venkata Rao, Sunabeda	14.06.2002	Rs. 12900 deposit and Rs. 1400 rent p.m. enhance ment of Rs. 150 p.m. for every two years	Door No. 21-1, Dandigam Road, Salur	
33	B.Venkateswara Rao, S/O Late. B.Papa Rao, Vizianagaram	15.03.2007	Rs. 50000 deposit and Rs. 5200 rent p.m. and enhancement of 20% for every three years	Door No. 8-12-63, 1 st Floor, Sagar Hotel Mayuri Jn. Vizianagaram	
34	Lakshmi Sanyasamma W/O Krishnam Raju Kakinad	17.07.2001	Rs. 10,000 deposit and Rs. 3200 rent p.m. and enhancement of 20% for every twenty two months	2 nd Floor, Sri Shanmuka Subrahmanyeswara Enterprises, Subash Raod, Kakinada	



35	M/S Serai Mosque waqf, Islam pet Vijayawada	20.08.2003	Rs. 15000 deposit and Rs. 2500 rent p.m. and enhancement of 20% for every 3 years,	Door. No. 11-49-12, 4 th Floor, Room No.402B, Imdadghar building Opp. Post Office, Vijayawada-1	
36	N.Krishna Murthy, Vinod Babu S/O Krishna Murthy Tirupathi	12.03.1997	Rs. 75000 deposit and Rs. 6000 rent p.m.	1 st and 2 nd floor of 204, Tilak Road Tirupathi	
37	T.Ravi Kumar, S/O T.R.K.Murthy, Seethamma pet, Visakhapatnam	28.01.1997	Rs. 50000 deposit and Rs. 7400 rent p.m. and 15% enhancement for every two years.	Krishna Arcade, Old Gajuwaka Jn. Visakhapatnam	
38	Minhajuddin Khan, S/o Mohamood Jung, Hyderabad.	14.12.2004	Rs.30,000/- deposit and Rs.4,500/- rent p.m. and 8% enhancement every year.	12-2-825 & 826/456, Mehdipatnam, Opp: Rythu Bazar Hyderabad.	
39	U. V. Ramana Raju, S/o Subba Raju, Bhimavaram.	15.05.1997	Rs.50,000/- deposit, Rs.7,523/- rent p.m. and 25% enhancement every three years.	1 st Floor, D.No.27-16-5/1, U.V.S.M. Eye Hospital, Juvvalapalem Road, Bhimavaram – 534 202.	



B. SALE DEEDS

S. No	Particulars of the vendor	Address of the property	Description of Property
1.	<p>Mr. K Chandra Sekar Pradeep Ms. Greeshma Pradeep Mr. Dilip Kumar Ms. Babita Kumari Mr. Santosh Kumar Ms. Saroj Kumari</p> <p>Date of the agreement: 07.01.2004</p> <p>Purchase Consideration: Rs. 62,66,670/-</p>	<p>D.No. 50-81-18 Seethammapeta Resapuvanipalem Visakhapatnam</p>	<p>Plot of land measuring an extent of 800 sq. yds. together with RCC House measuring 900 sq. yds. bearing D. No. 50-81-18 Asst. No. 50703/A with Electrical Service Connection No. 20735 situated at Seethampeta Area covered by S.No. 32/3 part of Resapuvanipalem Village within the limits of the Municipal Corporation of Visakhapatnam bounded by:</p> <p>East: 80 feet wide road South: RCC slabbed house of P. Amruthavalli West: Apartments in the site of N. Atchi Raju North: shop belonging to Rajuguru and vacant site of Khadar Baba.</p> <p>Measurements: East: 5380 feet South: 142 feet West: 49 feet North: 138 feet]</p>
2	<p>Sri M.G. Shyam S/o Late Gopal Das And Jyothi Shyam W/o M.G. Shyam</p> <p>Date of Agreement 14.05.1999</p> <p>Purchase Consideration: Rs.26,77,320/-</p>	<p>Flat No.501 & 502, 5th Floor, Sonu's Manor, P.G. Road, Secunderabad.</p>	<p>Plinth Area : 2500 sft. Schedule: North: Road South: P.G. Road East: Road West: Sadguru Apartment Complex.</p>

Except as stated elsewhere in this draft prospectus, we have not purchased any property in which any of our promoters are Directors, have any direct or indirect interest in any payment made thereof.



MAIN PROVISIONS OF ARTICLES OF ASSOCIATION OF THE COMPANY

Pursuant to Schedule II of the Companies Act, 1956 and the SEBI guidelines, the important provisions of the Articles of Association of the Company relating to, *inter alia*, members voting rights, dividend, lien, forfeiture, restrictions on transfer and transmission of Equity Shares and debentures and process for modification of the same and on their consolidation and splitting are detailed below. Please note that the each provisions herein below is numbered as per the corresponding Article Number in the Articles of Association and defined terms herein have the meaning given to them in the Articles of Association.

SHARE CAPITAL

4. The Authorised Share Capital of the Company is Rs. 25,00,00,000/- (Rupees Twenty Five Crores Only) divided into 2,50,00,000 (Two Crores Fifty Lakhs Only) Equity Shares of Rs.10/- (Rupees Ten Only) each, with powers to increase and reduce the Capital of the Company and to divide the Shares in the Capital for the time being into several classes and attach thereto respectively such preferential, qualified or special rights, privileges or conditions as may be determined by or in accordance with the Regulations of the Company and to vary, modify or abrogate any such rights privileges or conditions in such manner as may, for the time being, be provided by the Regulations of the Company subject to the provisions of the Companies Act.

BOARD'S RIGHT TO ISSUE SHARES

5. The Board may, at its discretion, issue any part or parts of the unissued shares upon terms and conditions and with such rights and privileges annexed thereto as the Board at its discretion and subject to the provisions of Section 81 of the Act thinks fit.

ALLOTMENT

7. 1) The Board may, at any time increase the subscribed capital of Company by issue of new shares out of the unissued part of the Share Capital in the original or subsequently created capital, but subject to Section 81 of the Act and the following provisions, namely:
 - a) Where the offer and allotment of such shares are made within two years from the date of incorporation of the Company or within one year from the first allotment of shares made after incorporation, whichever is earlier the Board shall be at liberty to offer the shares and allot the same to any person or persons at their discretion.
 - b) In respect of offers and allotments, made subsequent to the date set out in clause (a) above, the Directors shall subject to the provisions of Section 81 of the Act and of sub clause (c) hereunder observe the following conditions:
 - i. Such new shares shall be offered to the persons who at the date of the offer, are holders of the Equity Shares of the Company, in proportion as nearly as circumstances admit, to the capital paid up on those shares at that date.
 - ii. The offer aforesaid shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days from the date of the offer within which the offer if not accepted will be deemed to have been declined.
 - iii. The offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person, and the notice referred to in clause (ii) shall contain a statement of this right.
 - iv. After the expiry of the time specified in the notice aforesaid, or earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board may dispose of them in such manner as it thinks most beneficial to the Company.
 - c) The Directors may, with the sanction of the Company in General Meeting, offer and allot shares to any person at their discretion, provided that such sanction is accorded either by



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- i. a special resolution passed at any General Meeting, or
 - ii. by an ordinary resolution passed at a General Meeting, by majority of the votes cast and with the approval of the Central Government in accordance with Section 81 of the Act.
- 2) Nothing in this clause shall apply to the increase in the subscribed capital of the Company caused by the exercise of an option attached to debentures issued or loans raised by the Company.
- i. to convert such debentures or loans into shares in the Company or
 - ii. to subscribe for shares in the Company, provided that the terms of issue of such debentures or the term of such loans include a term providing for such option and such term...
 - a) has been approved by a special resolution passed by the Company in General Meeting before the issue of the debentures or the raising of the loans and also.
 - b) either has been approved by the Central Government before the issue of the debentures on the raising of the loans or is in conformity with the rules, if any, made by the Government in this behalf.

VARIATION OF RIGHTS

9. The rights attached to each class of shares (unless otherwise provided by the terms of issue of the shares of that class) may, subject to the provisions of Sections 106 and 107 of the Act, be varied with the consent in writing of the holders of three fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting the provisions of these Articles relating to General Meetings shall *mutatis mutandis* apply except that the necessary quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of that class.

PROVISION FOR EMPLOYEES' STOCK OPTION

- 9A. a) Subject to the provisions of section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956, and subject to the Articles of Association, the Board may, from time to time, create, offer and issue to or for the benefit of the Company's employees including the Chairman, Vice-Chairman, the Managing Directors and the Whole time Directors such number of equity shares of the Company, in one or more tranches on such terms as may be determined by the Board prior to the issue and offer, in consultation with the authorities concerned and in accordance with such guidelines or other provisions of law as may be prevalent at that time but ranking *pari passu* with the existing equity shares of the Company.
- b) The issue price of such shares shall be determined by the Board in accordance with the laws prevalent at the time of the issue.
- c) In the alternative to equity shares, mentioned hereinabove, the Board may also issue bonds, equity warrants or other securities as may be permitted by law, from time to time. All such issues as above are to be made in pursuance of Employees' Stock Option (ESOP) scheme to be drawn up and approved by the Board.

ISSUE OF FURTHER SHARES PARI PASSU SHALL NOT AFFECT THE RIGHT OF SHARES ALREADY ISSUED.

10. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided for by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

NO ISSUE WITH DISPROPORTIONATE RIGHTS

11. The Company shall not issue any shares, not being Preference Shares, which carry voting rights in



the Company as to dividend, Capital or otherwise which are disproportionate to the rights attached to the holders of shares not being Preference Shares.

COMMISSION FOR PLACING SHARES, DEBENTURES, ETC.

12. 1. Subject to the provisions of Section 76 of the Act, the Company may on any issue of shares/debentures pay a commission to any person for subscribing or agreeing to subscribe (whether absolutely or conditionally) for any shares, debentures or debenture-stock of the Company or procuring or agreeing to procure subscriptions (whether absolute or conditional) for shares, debentures or debenture-stock of the Company, but so that the statutory conditions and requirements shall be observed and complied with, the amount or rate of commission shall not exceed five percent of the price at which the shares are issued in case of debentures, the rate of commission shall not exceed two and a half percent of the price at which the debentures are issued.
2. The Company may also, on any issue, pay such brokerage as may be lawful.

ISSUE OTHER THAN FOR CASH

13. 1. The Directors may allot and issue shares in the Capital of the Company as payment or part payment for any property sold or transferred, goods or machinery and appliances supplied or for services rendered to the Company or in or about the formation or promotion of the Company or the acquisition and or conduct of its business, and any shares which may be so allotted, may be credited as fully or partly paid up shares.
2. The said power vested in the Board by this Article shall not be exercised except by the unanimous consent of all the Directors or with the previous sanction of a special resolution passed at a General Meeting of the Company.

ISSUE OF SHARE CERTIFICATE

15. Every certificate of title to shares shall be issued under the seal of the Company. Every share certificate and every document of title to the shares whether on renewal of an existing share certificate or other document of title or issued for the first time shall be issued, under the authority of the Board of Directors and in accordance with the provisions of the Company's (Issue of Share Certificates) Rules, 1960 or any modification thereof and in accordance with the provisions of law or other rule having the force of law applicable thereto.

DEMATERIALISATION

- 16A. Dematerialization of Shares/ Securities
Notwithstanding anything contained in these Articles, the Company shall be entitled to dematerialise its existing shares, debentures and other securities, re-materialise its shares, debentures and other Securities held in the depositories and/or to issue its fresh shares, debentures and other securities in a dematerialised form pursuant to the Depositories Act, 1996 and rules framed thereunder if any.

Option for Investors

Every person subscribing to securities offered by the Company shall have the option to receive security certificates or to hold the securities with a depository. Such a person who is the beneficial owner of the securities can at any time opt out of a depository, if permitted by the law, in respect of any security in the matter provided by the Depositories Act, and the Company shall, in the manner and within the time prescribed, issue to the beneficial owner the required Certificates of Securities.

If a person opts to hold his security with a depository, the Company shall intimate such depository the details of allotment of the security, and on receipt of the information, the depository shall enter in its record the name of the allottee as the beneficial owner of the security.

Securities in Depositories to be in Fungible Form

All Securities held by a depository shall be dematerialised and be in fungible form. Nothing contained in Sections 153, 153A, 153B, 187B and 372A of the Act shall apply to a depository in



respect of the securities held by it on behalf of the owners. The provisions relating to progressive numbering shall not apply to the shares of the Company, which have been dematerialised.

Rights of Depositories and Beneficial Owners

- i. Notwithstanding anything to the contrary contained in the Act or these Articles, Depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of the beneficial owner.
- ii. Save as otherwise provided in (a) above, the depository as the registered owner of the securities shall not have any voting rights or any other rights in respect of the securities held by it.
- iii. Every person holding securities of the Company and whose name is entered as the beneficial owner in the records of the depository shall be deemed to be a member of the Company. The beneficial owner of securities shall be entitled to all the rights and be subject to all the liabilities in respect of his securities, which are held by a depository.

Transfer of Securities

Nothing contained in the Act or these Articles shall apply to a transfer of securities effected by a transferor and transferee both of whom are entered as beneficial owners in the records of a depository.

In the case of transfer of securities where the Company has not issued any certificate and where such securities are being held in an electronic and fungible form, the provisions of the Depositories Act, 1996 shall apply.

Service of Documents

Notwithstanding anything to the contrary contained in the Act or these articles, where securities are held in a depository, the records of the beneficial ownership may be served by such depository on the Company by means of electronic mode or by delivery of floppies or discs.

Allotment of Securities Dealt in a Depository

Notwithstanding anything in the Act, or these Articles, where securities are dealt with by a depository, the Company shall intimate the details thereof to the depository immediately on allotment of such securities.

Distinctive Numbers of Securities held in Depository

Nothing contained in the Act or these articles regarding the necessity of having distinctive numbers for securities issued by the Company shall apply to securities held with a depository.

Register and Index of Beneficial Owners

The register and index of beneficial owners maintained by a depository under the Depositories Act, 1996, shall be deemed to be the register and index of members and security holders for the purposes of these articles.

COMPANY'S LIEN ON SHARES AND ENFORCEMENT THEREOF



20. a) The Company shall have a first and paramount lien upon all the shares (other than fully paid shares) registered in the name of each member (whether solely, or jointly with others) and such lien shall extend to all dividends from time to time declared or accrued in respect of such shares. The Directors' may, however, at any time, declare any shares to be wholly or partly exempt from the provisions of this Article.
- b) For the purpose of enforcing such lien, the Board may sell the shares subject thereto in such manner as they think fit, but no sale shall be made until the expiration of 14 days after a notice in writing stating and demanding payment of such amount in respect of which the lien exists has been given to the registered holder of the shares for the time being in force, or to the person entitled to the shares by reason of the death, or insolvency of the registered holder.
- c) To give effect to such sale, the Board of Directors may authorise some person to transfer the shares sold to the purchaser thereof and the purchaser shall be registered as the holder of the shares comprised in any such transfer. The purchaser shall not be bound to see the application of the purchase money, nor shall his title to the shares be effect by any irregularity or invalidity in the proceeding in reference to the sale.
- d) 1) The net proceeds of any such sale shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable.
- 2) The residue, if any, shall, subject to like lien for sums not presently payable as existed upon the shares before the sale, be paid to the person entitled to the shares at the date of the sale.

SWEAT EQUITY SHARES

- 21B. Subject to the provisions of these Articles and in accordance with the provisions of the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 for the time being in force and any modifications thereof from time to time and Section 79A or other applicable provisions, if any, of the Companies Act, 1956 and of various other laws governing the issue, the Company may issue equity shares, and/or grant options convertible into equity shares under Scheme or Plan as may be framed in this regard or through a trust set up for this purpose or otherwise to the employees of the Company or such other persons entitled thereto.

CALLS

22. Subject to the provisions of Section 91 of the Act, the Board of Directors may from time to time make such calls as they think fit upon the members in respect of all moneys unpaid on the shares held by them respectively and not by the conditions of allotment thereof made payable at fixed times, and each member shall pay the amount of every call so made on him to the provisions and at the date, time and place or at the dates, times and places appointed by the Board of Directors.

PROCEDURE AS TO TRANSFER OF SHARES

30. 1. The instrument of transfer of any shares in the Company shall be executed both by the transferor and the transferee and the transferor shall be deemed to remain holder of the shares until the time of the transferee is entered in the register of members in respect thereof. The instrument of transfer shall be in respect of only one class of shares and should be in the form prescribed under Section 108 of the Act.
2. The Board of Directors shall not register any transfer of shares unless a proper instrument of transfer duly stamped and executed by the transferor and the transferee has been delivered to the Company along with the certificate relating to the shares and such other evidence as the Company may require to prove the title of the transferor or his right to transfer the shares. Provided that where it is proved to the satisfaction of the Board of Directors that an instrument of transfer signed by transferor and the transferee has been lost, the Company, may, if the Board of Directors think fit, on an application in writing made by the transferee and bearing the stamp



required on an instrument of transfer, register the transfer on such terms as to indemnity as the Board of Directors may think fit.

3. An application for the registration of the transfer of any share or shares may be made either by the transferor or by the transferee, provided that where such application is made by the transferor no registration shall in the case of partly paid shares be effected unless the Company gives notice of the application to the transferee and the Company shall, unless objection is made, by the transferee, within two weeks from the date of the notice, enter in the register the name of the transferee in the same manner and subject to the same conditions as if the application for registration was made by the transferee.
4. For the purpose of sub-clause (3), notice to the transferee shall be deemed to have been duly given if dispatched by prepaid registered post to the transferee at the address given in the instrument of transfer and shall be deemed to have been delivered in the ordinary course of post.
5. Nothing in clause (4) shall prejudice any power of the Board to register as a shareholder any person to whom the right to any share has been transmitted by operation of law.

TRANSMISSION OF REGISTERED SHARES

38.
 1. The executors or administrators of a deceased member (not being one of several joint holders) shall be the only person recognised by the Company, as having any title to the shares registered in the name of such member and in the case of death of any one or more of the joint holders of any registered shares, the survivors shall be only persons recognised by the Company as having any title to or interest in such shares.
 2. Nothing in clause (1) shall release the estate of a deceased joint holder from any liability in respect of any shares, which were jointly held by him with other persons.

CONVERSION OF SHARES

48. The Company may by ordinary resolution convert all or any of its fully paid up shares of any denomination into stock and vice versa.

BUY BACK OF SHARES

- 51A. Subject to the provisions of Section 77A, 77AA and 77B and any statutory amendments or re-enactments thereof and compliance of the provisions thereof by the Company, the Company is authorised to purchase its own shares or other specified securities.

ALTERATION AND CONSOLIDATION OF CAPITAL

52. The Company may, from time to time, but subject to the provisions of Section 94 of the Act, alter the conditions of its Memorandum as follows:
 - a) Increase its share capital by such amount as it thinks expedient by issuing new shares;
 - b) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares.
 - c) Convert all or any of its fully paid up shares into stock, and re-convert that stock into fully paid up shares of any denominations;
 - d) Sub-divide its shares, or any of them, into shares of smaller amount than is fixed by Memorandum, so however, that in the sub-division the proportion between the amount, if any unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced shares are derived.
 - e) Cancel any shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of shares so cancelled;
 - f) The resolutions whereby any share is sub-divided may determine that as between the holders of the shares resulting from sub-division one or more of such shares shall have some



preference or special advantage as regards dividend, capital, voting or otherwise over or as compared with the others.

REDUCTION OF CAPITAL ETC., BY COMPANY

54. The Company may, by special resolution reduce in any manner and with, subject to any incident authorised and consent required by law:
- a) its share capital
 - b) any capital redemption reserve amount or
 - c) any share premium account

STATUTORY MEETING

59. 1) The Company shall, within a period of not less than one month and not more than six months from the date, at which the Company is entitled to commence business, hold a general meeting of the members of the Company, which shall be called the statutory meeting.
- 2) The Board of Directors shall, not less than 21 days before the date on which the meeting is to be held; forward a report called the statutory report to every member of the Company. Provided that if the statutory report is forwarded later than is required above, it shall notwithstanding the fact, be deemed to have been duly forwarded if it is so agreed to by all the members entitled to vote at the meeting.
- 3) The Board of Directors shall comply with the provisions of Section 165 in connection therewith.

GENERAL MEETINGS

60. The Company shall, in addition to other meetings, hold a general meeting, which shall be styled at its Annual General Meeting at intervals and in accordance with the provisions specified below:
- a) The first annual general meeting of the Company shall be held within eighteen months of its incorporation, subject to Section 210(3) of the Act.
 - b) Thereafter, an annual general meeting of the Company shall be held once in every calendar year within 6 months after the expiry of each financial year, subject, however, to the power of the Registrar of Companies to extend the time, within which, such a meeting can be held for a period not exceeding 3 months and subject thereto not more than fifteen months shall elapse from the date of one annual general meeting and that of the next.
 - c) Every annual general meeting shall be called for at a time during the business hours on a day that is not a public holiday and shall be held either at the Registered Office of the Company or at some other place, within the city, town or village in which the registered office of the Company is situated.
 - d) Notice calling such meeting shall specify them as the Annual General Meetings.
 - e) All other meetings shall be referred to as Extra-ordinary General Meetings.

EXTRA ORDINARY GENERAL MEETINGS

61. The Board of Directors may, whenever think fit, convene an Extra-Ordinary General Meeting at such time and at such place, as they deem fit. Subject to such directions, if any, given by the Board, the Managing Director or the secretary may convene an Extra-Ordinary General Meeting.



EXTRA-ORDINARY GENERAL MEETINGS BY REQUISITIONS

62. a) The Board of Directors shall, on the requisition of such number of members of the Company as is specified below proceed duly to call an extra-ordinary general meeting of the Company and comply with the provisions of the Act in relation to meetings on requisition.
- b) The requisition shall settle out matters for consideration of which the meeting is to be called, shall be signed by the requisitionists and shall be deposited at the Registered Office of the Company or send to the Company by Registered Post addressed to the Company at its registered office.
- c) The requisition may consist of several documents in like form, each signed by one or more requisitionists.
- d) The number of members entitled to requisition a meeting with regard to any matter shall be such number of them as held at the date of the deposit or dispatch to the registered office of the requisition, not less than 1/10th of such of the paid up capital of the Company as at that carries the right of voting in regard to the matter set out in requisition.
- e) If the Board of Directors do not, within twenty-one days from the date of deposit of requisition with regard to any matters, proceed duly to call a meeting for the consideration of those matters on a date not later than forty-five days from the date of the deposit of the requisition, the meeting may be called by the requisitionists themselves or such of the requisitionists as represent wither majority in value of the paid-up share capital held by all of them or of not less than 1/10th of such paid up capital of the Company as is referred in sub-clause(d) above.

QUORUM

66. Minimum:
Five members personally present shall be a quorum for a general meeting and no business shall be transacted at any general meeting, unless the requisite quorum is present at the commencement of the business.
67. If quorum not present when meeting to be dissolved and when to be adjourned:
If within half an hour from the time appointed for the meeting, a quorum is not present, the meeting, if called upon by the requisition of members, shall be dissolved, in any other case, it shall stand adjourned to the same day in the next week at the same time and place or such other day and at such other time and place as the Board may determine and if at the adjourned meeting, a quorum is not present within half an hour from the time appointed for the meeting, the members present shall be a quorum.

Chairman of General Meeting:

The chairman of the Board of Directors shall preside as Chairman, at every Annual General Meeting of the Company.

ADJOURNMENT OF MEETING

70. The Chairman may, with the consent of any meeting, at which a quorum is present (and shall, if so directed by the meeting) adjourn that meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as nearly as may be in the case of original meeting. Save as aforesaid, it shall not be necessary to give any notice of adjournment or of the business to be transacted at an adjourned meeting.

VOTING RIGHTS OF MEMBERS

75. 1) Every member holding any Equity Shares shall have a right to vote in respect of such shares on every resolution place of before the meeting on a show of hands, every such member present in



person shall have one vote. On a poll, his voting right in respect of his Equity Shares shall be in proportion to his shares of the paid up capital in respect of the Equity Shares.

- 2) In the event of the Company issuing any Preference Shares, the holders of such Preference Shares shall have the voting rights set out in that behalf in Section 87 of the Act.

POSTAL BALLOT

- 75A. The provisions relating to passing of resolutions by postal ballot shall be followed as per the Companies Act, 1956, SEBI Regulations and other applicable laws, if any.

PROXIES

81. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint any person whether a member or not as his proxy to attend vote instead of himself, but the proxy so appointed shall not unless be a member have any right to speak at the meeting and shall not be entitled to vote except on a poll.

NUMBER OF DIRECTORS

87. Unless otherwise determined by a General Meeting, the number of Directors shall not be less than three and not more than twelve, including all kinds of Directors.

SHARE QUALIFICATION NOT NECESSARY

89. Any person whether a member of the Company or not may be appointed as a Director and no qualification by way of holding share shall be required of any Directors.

DIRECTORS' POWER TO FILL UP CASUAL VACANCY

90. Any casual vacancy occurring in the Board of Directors may be filled up by the directors, and the person so appointed shall hold office up to the date which the director in whose place he is appointed would have held office if it had not been vacated as aforesaid.

ADDITIONAL DIRECTORS

91. The Board of Directors shall have power at any time, and from time to time, to appoint one or more persons as Additional Directors, provided that the number of Directors and Additional Directors together shall not exceed the maximum number fixed. Any Additional Director so appointed shall hold office up to the date of the next Annual General Meeting, but he shall be eligible for election by the Company at that meeting.

ALTERNATE DIRECTORS

92. The Board of Directors may appoint an Alternate Director to act for a Director (hereinafter called the original Director) during the absence of the original Director for a period of not less than three months from the State in which the meetings of the Board are originally held. An Alternate Director so appointed shall vacate office, if and when the office of original Director so determined before he so returns to the State aforesaid, any provision for the automatic reappointment of retiring Director in default of another appointment shall apply to the original, and not to the Alternate Director.

NOMINEE DIRECTORS

94. At the option of the Corporation, such Corporation Directors shall not be required, to hold any qualification shares in the Company. Also at the option of the Corporation, such Corporation Director/s shall not be liable to retirement by rotation of Directors. Subject as aforesaid, the Corporation Director/s shall be entitled to the same rights and privileges and be subject to the same obligations as any other Directors of the Company.

DIRECTOR MAY CONTACT WITH COMPANY

99. 1) Subject to the provisions of the Act, the Directors including the Managing Director, if any shall not be disqualified by reason of their office as such from contracting with Company either as vendor, purchaser, lender, agent, broker or otherwise nor shall any contract or arrangement



entered into by or on behalf of the Company with any Director or the Managing Director or with any Company or partnership of or in which any Director or the Managing Director shall be a member or otherwise interested be avoided nor shall any Director or the Managing Director so contracting or being such member or so interested be liable to account to the Company for any profit realised by such contract or arrangement by reason only of such Director or the Managing Director holding that office or of the fiduciary relation thereby established, but the nature of the interest must be disclosed by him or them at the meeting of the Board in accordance with the provisions of Section 299 of the Act. Provided nevertheless that no Director shall take part in the discussion of or vote as a Director in respect of any contract or arrangement in which he is so interested as aforesaid and if he does so his vote shall not be counted, but he shall be entitled to be present at the meeting during the transaction of the business in relation to which he is precluded from voting although he shall not be counted for the purpose of ascertaining whether there is quorum of Directors present. The provision shall not apply to any contract by or on behalf of the Company to give to the Director or the Managing Director or any of them any security by way of indemnity against any loss which they or any of them suffer by becoming or being sureties for the Company Registered Office to any contract or arrangements entered into or to be entered into with a public Company, or a Private Company which is a subsidiary of Public Company in which the interest of the aforesaid consists solely in his being a Director of such Company and the holder of not more than shares of such number of value therein as is requisite to qualify him for appointment as a Director thereof, he having been nominated as such Director by the Company or in his being a member holding not more than 2% of its paid up share capital.

- 2) A Director may be or become a Director or Member of any Company promoted by this Company or in which this Company may be interested as vendor, shareholder or otherwise and no such Director, shall be accountable to the Company for any benefits received as a Director or member of such Company.

ROTATION OF DIRECTORS

101. Not less than two-thirds of the total number of the Directors including Directors nominated under Article 101 above of the Company for the time being holding office shall be Directors whose period of office is liable to be determined by retirement by rotation.
102. At every Annual General Meeting, one-third of such of the Directors as are liable to retire by rotation for the time being or if their number is not three or multiple of three, then the number nearest to one-third shall retire from office.

POWER TO REMOVE DIRECTORS BY ORDINARY RESOLUTION

106. Subject to the provisions of Section 284 of the Act, the Company may, by an ordinary resolution in General Meeting remove any Director before the expiration of his period of office, and may, by an ordinary resolution appoint another person instead; the person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last elected as Director.



PROCEEDINGS OF THE DIRECTORS

108. The Board of Directors shall meet at least once in every three calendar months for the dispatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit, provided that at least four such meetings shall be held in every year.
110. The quorum for a meeting of the Board shall be one-third of the total strength (any fraction contained in that one-third being rounded off as one) or two directors, whichever is higher provided that where at any time, the number of interested directors is equal to or exceeds two-thirds of total strength, the number of remaining directors, that is to say the number of directors who are not interested present at the meeting being not less than two, shall be the quorum during such time. The total strength of the Board shall mean the number of Directors actually holding office as directors on the date of the resolution of meeting, that is to say the total strength of Board shall mean the number of directors actually holding office as Directors on the date of the resolution of the meeting, that is to say the total strength of the Board after deducting therefrom the number of Directors, if any, whose places are vacant at that time.

RESOLUTION BY CIRCULATION

118. Save as otherwise expressly provided in the Act, a resolution in writing circulated in draft together with the necessary papers, if any, to all the Directors or to all the members of the Committee, then in India or not being less in number than the quorum fixed for the meeting of the Board or the Committee, as the case may be, and to all other Directors or members at their usual address in India and approved by such of the Directors as are then in India or by a majority of such of them as are entitled to vote on the resolution shall be valid and effectual as if it had been a resolution duly passed at a meeting of the Board or Committee duly convened and held.

BORROWING

128. 1. The Board of Directors may from time to time, but with such consent of the Company in General Meeting as may be required under Section 293, raise any moneys or sums of money for the purpose of the Company, provided that the moneys to be borrowed by the Company, apart from temporary loans obtained from the Company's banks in the ordinary course of business, shall not without the sanction of the Company at General meeting exceed the aggregate of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose and in particular, but subject to the provisions of the Section 292 of the Act, the Board may, from time to time, at their discretion, raise or borrow or secure the payment of any such sum of money for the purpose of the Company, by the issue of debentures, perpetual or otherwise, including debentures convertible into shares of this or any other Company or perpetual annuities and insecurity of any such money so borrowed, raised, or received, mortgage, pledge or charge the whole or any part of the property, assets or revenue of the Company, present or future, including its uncalled capital by special assignment or otherwise or to transfer or convert the same absolutely or trust and to give the tenders powers of sale and other powers as may be expedient and to purchase, redeem or pay off any such securities;

Provided that every resolution passed by the Company in General Meeting in relation to the exercise of the powers to borrow as stated above shall specify the total amount up to which moneys may be borrowed by the Board of Directors.

2. The Directors may, by a resolution at a Meeting of the Board delegate the above powers to borrow money otherwise than on debentures to a committee of Directors or the Managing Director, within the limit prescribed.
3. Subject to the provisions of the above sub-clause, the Directors may, from time to time, at their discretion, raise or borrow or secure the repayment of any sum or sums of money for the purpose of the Company, at such time and in such manner and upon such terms and conditions in all respects as they think fit, and in particular by promissory notes or by opening current accounts or by receiving deposits and advances with or without security, or by the issue of bonds, perpetual



or redeemable debentures or debenture-stock for the Company (both present and future) including its uncalled capital for the time being, or by mortgaging or charging or pledging any lands, buildings, goods or other property and securities of the Company, or by such other means as they may deem expedient.

TERMS OF DEBENTURE ISSUE

130. a) Any such debentures, debenture-stock, bonds or other securities may be issued at a discount, premium or otherwise, and with any special privileges as to redemption, surrender, drawings, allotment of shares of the Company, appointment of Directors or otherwise. Debentures, debenture-stocks, bonds or other securities with a right of conversion into or allotment of shares shall be issued only with the sanction of the Company in General Meeting.
- b) Any trust deed for the securing of any debenture-stock and/or any mortgage deed and/or other bond for securing payment of moneys borrowed by or due by the Company and/or any contract or any agreement made by the Company with any person, firm, body corporate, Government or authority who may render or agree to render any financial assistance to the Company by way of loans advanced or by guaranteeing of any loan borrowed or other obligations of the Company or by subscription to the share capital of the Company or provide assistance in any other manner, may provide for the appointment, from time to time by any such Mortgagee, lender, trustees or holders of debentures or contracting party as aforesaid, of one or more persons to be a Director or Directors of the Company. Such trust deed, mortgage deed, bond or contract may provide that the person appointing a Director as aforesaid may, from time to time, remove any Director so appointed by him and appoint any other person in his place and provide for filling up of any casual vacancy created by such person vacating office as such Director. Such power shall cease and terminate on the discharge or repayment of the respective mortgage, loan or debt or debenture or on the termination of such contract and any person so appointed as Director under mortgage or bond or debenture trust deed or other such contract shall cease to hold office as such Director on the discharge of the same. Such appointment and provision in such document as aforesaid shall be valid and effective as if contained in these presents.

The Director or Directors so appoint by or under a mortgage, deed, debenture trust deed or other bond or contract as aforesaid shall be called "Nominated Directors". The words "Nominated Director" shall mean the Director appointed as aforesaid and for the time being holding such office. The Nominated Director shall not be liable to retire by rotation or to be removed from office by the Company. Such mortgage deed or bond or trust deed or contract may contain such auxiliary provisions as may be arranged between the Company and mortgagee, lender, trustee or contracting party as the case may be and all such provisions shall have effect notwithstanding any of the other provisions herein contained but subject to the provisions of the Act.

APPOINTMENT OF MANAGING DIRECTORS/WHOLE TIME DIRECTORS



135. a) The Board may appoint Managing Director of the Company and shall hold office for a period of 5 years. He shall be eligible for re-appointment after expiry of the term, subject to the provisions of Section 269, 198, 309, 310, 316, 317 read with Schedule XIII to the Companies Act, 1956 from time to time subject to the approval of the shareholders in the general meeting.
- b) In the case of the vacancy, the Board may, from time to time, with such sanction of the Central Government, as may be required by law, appoint one or more persons to the office of the Managing Director or Managing Directors or Whole Time Director(s) i.e., Executive/Technical Directors
- c) The Directors may, from time to time, resolve that there shall be either one or more Managing Directors or Whole Time Directors.
- d) In the event of any vacancy arising in the office of a Managing Director or Whole-Time Director, if the Directors resolve to increase the number of Managing Directors or Whole-time Directors, the vacancy shall be filled by the Board of Directors and the Managing Director or a Whole Time Director so appointed shall hold the office for such period as the Board of Directors may fix and approved by the Central Government.
- e) If a Managing Directors or Whole-Time Director ceases to hold office as director, he shall ipso facto and immediately cease to be a Managing Director/whole-time Director.
- f) The managing director or whole time director shall not be liable to retirement by rotation as long as he holds office as managing director or whole time director.

RIGHT TO DIVIDEND

143. a) The profits of the Company, subject to any special rights thereto created or authorised to be created by these presents and subject to the provisions of these presents as to the reserve fund shall be appointed and paid proportionate to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.
- b) Where capital is paid up on any shares in advance of calls, upon the footing that the same shall carry interest, such capital shall not, while carrying interest, confer a right to participate in profits.

DIVIDENDS TO BE PAID OUT OF PROFITS ONLY

146. No dividend shall be payable, except out of the profits of the year and other undistributed profits, except as provided by Section 205 of the Act.

RESERVE FUNDS

147. 1. The Board may, before recommending any dividend set aside, out of the profits of the Company, such sums as it thinks proper as a reserve or reserves, which shall, at the discretion of the Board be applicable for any purpose to which the profits of the Company may be properly applied, including provisions for meeting contingencies or for equalising dividend and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Board may, from time to time, think fit.
2. The Board may also carry forward any profits, when it may think prudent not to divide, without setting them aside as Reserve.

PAYMENT BY CHEQUE OR WARRANT

150. 1. Any dividends, interest or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through post direct to the registered address of the holder or in case of joint holders, to the registered address of the holders, who is first named on the register of members or to such person and to such address as the holder or joint holders may, in writing, direct.
2. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent.



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3. Every such cheque or warrant shall be posted within Thirty days from the date of declaration of dividend.

DIVIDENDS NOT TO BEAR INTEREST

153. No dividend shall bear interest against the Company.

CAPITALISATION OF PROFITS

156. 1. The Company in General Meeting, may, on recommendation of the Board, resolve:
 - a) that it is desirable to capitalise any part of the amount for the time being standing to the credit of the Company's reserve accounts or the credit of the Profit and Loss Accounts or otherwise available for distribution; and
 - b) that such sum be accordingly set free for distribution in the manner specified in sub-clause (2) amongst the members who would have been entitled thereto, if distributed by way of dividend and in the same proportion.
 2. The sum aforesaid shall not be paid in cash, but shall be applied, subject to the provisions contained in sub-clause (3) either in or towards:
 - i) Paying up any amounts for the time being unpaid on shares held by such members respectively.
 - ii) Paying up in full, unissued shares of the Company to be allocated and distributed, credited as fully paid up on and amongst such members in the proportions aforesaid, or
 - iii) Partly in the way specified in sub-clause (i) and partly in that specified in sub-clause (ii).
 3. A share premium account and a capital redemption reserve account may, for the purpose of this regulation only, be applied in paying up of unissued shares to be issued to members of the Company as fully paid bonus shares.
 4. The Board shall give effect to the resolutions passed by the Company in pursuance of this regulation.
157. 1. Whenever such a resolution as aforesaid shall have been passed, the Board shall;
 - a) Make all appropriations and applications of the undivided profits resolved to be capitalised thereby and all allotments and issues of fully paid shares, if any, and
 - b) Generally do all acts and things required to give effect thereto.
 2. The Board shall have full power:
 - a) to make such provision, by the issue of fractional certificates or by payments in cash or otherwise as it thinks fit, in the case of shares becoming distributable in fraction; and
 - b) to authorise any person to enter on behalf of all the members entitled thereto into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up of any further shares, to which they may be entitled upon such capitalisation of (as the case may require) for the payment by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalised of the amounts or any part of the amounts remaining unpaid on the shares.
 3. Any agreement made under such authority shall be effective and binding on all such members.

ACCOUNTS

158. 1. The Board of Directors shall cause true accounts to be kept of all sums of money received and expended by the Company and the matters in respect of which such receipts and expenditure take place, of all sales and purchases of goods by the Company, and of all the assets, credited



and liabilities of the Company.

2. If the Company shall have a branch office, whether in India or outside, proper books of accounts relating to the transactions effected at the office shall be kept at the office, and proper summarised returns, made up to date at intervals of not more than three months, shall be sent by the branch office to the Company and registered office or to such other place in India, as the Board thinks fit, where the main books of the Company are kept.
3. All the aforesaid books shall give a fair and true view of the affairs of the Company or of its branch office, as the case may be, with respect to the matters aforesaid and explain its transactions.

ANNUAL RETURNS

167. The Company shall make the requisite Annual Returns in accordance with Sections 159 and 162 of the Act.

SECRECY

187. No member shall be entitled to inspect the Company's works without the permission of the Directors, or Managing Directors, or to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret, mystery of trade or secret process, which may relate to the conduct of the business of the Company and which in the opinion of the Directors it will be inexpedient in the interest of the Company to communicate to the public.



MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Company or contracts entered into more than two years before the date of filing of this Draft Prospectus) which are or may be deemed material have been entered or to be entered into by the Company. These contracts, copies of which have been attached to the copy of this Draft Prospectus have been delivered to the Registrar of Companies, Andhra Pradesh for registration and also the documents for inspection referred to hereunder, may be inspected at the Registered Office of the Company located at 49-52-5/4, Shanthipuram, Visakhapatnam – 530 016, Andhra Pradesh, India between 11.00 a.m. to 3.00 p.m. on any working day from the date of filing of the Draft Prospectus until the date of closing of the issue.

Material Contracts for Inspection

- 1) Memorandum of Understanding dated January 16, 2006 with Stratcap Securities (India) Private Limited, appointing them as Lead Manager to the Issue.
- 2) Memorandum of Understanding dated December 02, 2005 signed with Aarthi Consultants Private Limited, appointing them as Registrar to the Issue.
- 3) Letter dated June 29, 2005 appointing M/s Crawford Bayley & Co., as Legal Advisors to the Issue.
- 4) Tripartite Agreement dated [●] between the Company, Aarthi Consultants Private Limited and NSDL.
- 5) Tripartite Agreement dated [●] between the Company, Aarthi Consultants Private Limited and CDSL.

Material Documents For Inspection

- 1) Memorandum and Articles of Association of Steel City Securities Limited.
- 2) Certificate of Incorporation of the company dated February 22, 1995 and Certificate of Commencement of Business dated April 20, 1995.
- 3) Resolution passed under Section 81(1A) of the Act, at the EGM of the Company held on July 04, 2005 and Resolution passed by the Board of Directors at their meeting held on June 07, 2005 for the proposed IPO.
- 4) Copies of BSE and NSE approvals Letter dated _____, 2005 respectively for the change in shareholding pattern pursuant to the proposed IPO.
- 5) Consent from the Directors, Compliance Officer, Auditors, Lead Managers, Registrars to the issue, Bankers to the issue, Bankers to the Company, and Legal Advisors to the Company to act in their respective capacities.
- 6) Tax Benefit Certificate dated October 28, 2005 from M/s.Sudhakar & Kumar Associates, Auditors of the Company.
- 7) Auditor's Report dated October 28, 2005 included in the Draft Prospectus and copies of the Balance Sheet referred in the said report.
- 8) Copy of the Auditors Certificate dated January 05, 2006 regarding the Sources and Deployment of Funds as on December 31, 2005.



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- 9) No Objection certificate for the proposed IPO, issued by the Karnataka Bank Limited, HDFC Bank Limited and The Karur Vysya Bank Ltd.
 - 10) Copies of Listing Application made to the Bombay Stock Exchange Limited, Mumbai and National Stock Exchange.
 - 11) Copies of in-principal approvals from the Bombay Stock Exchange Limited, Mumbai and National Stock Exchange.
 - 12) SEBI Acknowledgement Card dated [●].

Any of the contracts or documents mentioned in this Draft Prospectus may be amended or modified at any time if so required in the interest of the company or if required by other parties, without reference to the shareholders subject to compliance of the provisions contained in the Companies Act and other relevant statutes.



DECLARATION

All the relevant provisions of the Companies Act, 1956, and the guidelines issued by the Government of India or the guidelines issued by the Securities and Exchange Board of India, as the case may be, have been complied with and no statement made in this Prospectus is contrary to the provisions of the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992 or Rules made thereunder or guidelines issued, as the case may be. We further certify that all the disclosures made in this Prospectus are true and correct.

We, the Directors of Steel City Securities Limited hereby declare and confirm that no information/ material likely to have a bearing on the decision of the investors in respect of the equity shares issued in terms of the Prospectus has been suppressed / withheld and/or incorporated in the manner that amounts to misstatement / misrepresentation.

Signed by all the Directors

Mr. G. Sree Rama Murthy

Chairman and Managing Director

Mr. G.Raja Gopal Reddy

Executive Director

Mr. K. Satyanarayana

Executive Director (Surveillance)

Mr. Satish Kumar Arya

Director Operations

Mr. G. Satya Rama Prasad

Independent and Non-executive Director

Mr. Ch. Murali Krishna

Independent and Non-executive Director

Mr. M.H.Jagannadha Rao

Independent and Non-executive Director

Mr. M.Raghuram

Independent and Non-executive Director

Mr. N. Ramu

Senior Manager (Finance And Accounts)

Place: Visakhapatnam

Date: _____, 2006

CHAIRMAN AND MANAGING DIRECTOR