



LETTER OF OFFER

August 04, 2011

(For the Equity Shareholders of the Company Only)

VELAN HOTELS LIMITED

The Company was originally incorporated as 'Velan Hotels Private Limited' in the state of Tamil Nadu on March 21, 1990 under the Companies Act, 1956. The name of the Company was changed to 'Velan Hotels Limited' upon conversion into Public Limited Company and a fresh certificate of incorporation was obtained on November 24, 1992. The Corporate Identity Number of the Company is L55101TZ1990PLC002653.

Registered Office: 41, Kangeyam Road, Tirupur – 641 604

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ISSUE OF 2,67,37,500 EQUITY SHARES OF ₹10/- EACH FOR CASH AT A PREMIUM OF ₹13 PER SHARE (I.E. AT A PRICE OF ₹ 23 PER SHARE) AGGREGATING TO ₹ 6149.62 LACS ON RIGHTS BASIS TO THE EXISTING EQUITY SHAREHOLDERS OF THE COMPANY IN THE RATIO OF 69 EQUITY SHARES FOR EVERY 20 EQUITY SHARES (I.E. 69:20 HELD ON THE RECORD DATE I.E. 09/08/2011). THE ISSUE PRICE IS 2.3 TIMES THE FACE VALUE OF THE EQUITY SHARE

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 risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or the adequacy of this document.

The attention of investors is drawn to the statement of Risk Factors beginning on page no. vi of this Letter of Offer.

ISSUER'S ABSOLUTE RESPONSIBILITY

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

LISTING

The existing Equity shares of the Company are listed on Bombay Stock Exchange Limited (BSE, The Designated Stock Exchange). The Company has received in-principle approval from BSE vide their letter no. DCS/PREF/NP/IP-RT/1018/10-11 dated February 04, 2011 for listing of the equity shares being issued in terms of this Letter of Offer.

LEAD MANAGERS TO THE ISSUE

REGISTRAR TO THE ISSUE

KEYNOTE

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ISSUE PROGRAMME

ISSUE OPENS ON:	LAST DATE FOR REQUEST FOR SPLIT APPLICATION FORMS :	ISSUE CLOSSES ON:
Wednesday, August 24, 2011	Friday, September 02, 2011	Saturday, September 10, 2011

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DEFINITIONS/ABBREVIATIONS

CONVENTIONAL / GENERAL TERMS

Term	Description
Act	The Companies Act, 1956 and subsequent amendments thereto
Depositories Act	The Depositories Act, 1996 as amended from time to time
Depository	A Depository registered with SEBI under the SEBI (Depositories & Participant) Regulations, 1996 as amended from time to time
FY/ Financial year or Fiscal Year	The twelve months ended March 31 st of a particular year
Security Certificate	Equity Share Certificate
Security(ies)	Equity Share(s)
SE/ Stock Exchange(s)	Bombay Stock Exchange Limited

ISSUE RELATED TERMS

Term	Description
Articles	Articles of Association of Velan Hotels Limited
ASBA	Application Supported by Blocked Amount
Bankers to the issue	The bankers to the issue being Axis Bank Limited and Dhanlaxmi Bank Limited
Board	Board of Directors, of Velan Hotels Limited
BSE, Designated Stock Exchange	Bombay Stock Exchange Limited
CAF	Composite Application Form
Directors	Directors on the Board of Velan Hotels Limited
Equity Shareholders	Equity Shareholders of the Company whose name appear as: <ul style="list-style-type: none"> ✓ Beneficial Owners as per the list furnished by the depositories in respect of Equity Shares held in electronic form and ✓ On the Register of Members of the Company in respect of the Equity Shares held in Physical form
Equity Shares	Equity Shares of the Company of ₹10/- each
Lead Manager/ LM	Lead Manager to the Issue i.e. Keynote Corporate Services Limited
Issue/ Rights Issue	Issue of 2,67,37,500 equity shares of ₹ 10/- each at a premium of ₹ 13/- per share aggregating ₹ 6149.62 lacs on rights basis to the existing equity shareholders of the Company in the ratio of 69 equity shares for every 20 equity shares (i.e. 69:20) held on 09/08/2011
Issue Price	₹ 23/- per Equity Share
Issuer/ Company/ Velan Hotels/our/ we	Velan Hotels Limited
Letter of Offer/ LOO/ Offer Document	This Letter of Offer dated 04/08/2011 circulated to the Equity Shareholders and filed with the Stock Exchanges containing <i>inter alia</i> the Issue price and the number of equity shares to be issued and other incidental information.
Promoters of the Company	Mr.E.V.Muthukumara Ramalingam, Mr.M.R.Gautham, Mrs.M.Sasikala, and M/s. Shree Vallee Enterprises Pvt Ltd
Statutory Auditors of the	M/s. P.S Krishnan & Co (formerly known as M/s Krishnan &

Term	Description
Company	Associates), having office located at 40A-Appachinagar Main Road Tirupur 641 607. The registration Number of the Firm is FRN 001532S
SCSBs	Self Certified Syndicate Banks

COMPANY / INDUSTRY RELATED TERMS

Term	Description
ARR	Average Room Rental which is calculated by dividing the total room revenue by the number of rooms occupied
Developable Area	The total area which we develop in each of our projects, including carpet area, common area, service and storage area, car parking and other open areas on which we may undertake any development.
DTCP	Department of Town and Country Planning
ESIC	Employees State Insurance Corporation
ETP	Effluent Treatment Plant
F&B	Food and Beverage
FHRAI	Federation of Hotel and Restaurant Associations of India
FSI	Floor Space Index, which means the quotient of the ratio of the combined gross floor area of all floors, excepting areas specifically exempted, to the total area of the plot.
GBP	Great Britain Pound
HRACC	Hotel Restaurant Approval and Classification Committee
IPP	Independent Power Producer
ITDC	India Tourism Development Corporation
LPA	Local Planning Authority
KW	Kilowatt.
KWh	Kilowatt-Hour.
KV	Kilovolt.
MNRE	Ministry of New and Renewable Energy
MW	Megawatt
Occupancy Rate	Total number of rooms occupied divided by the total number of rooms available.
Occupancy Level	The combined Saleable Area of the occupied units of a project as a percentage of the total Saleable Area of the project available for lease
REC	Renewable Energy Certificate.
RPO	Renewable Purchase Obligation.
Saleable Area	The part of the developable area relating to our economic interest in each property and for which the respective owner or tenant is obliged to pay or for which we estimate that respective owner or tenant will pay.
SEB	State Electricity Board.
SERC	State Electricity Regulatory Commission.
TDR	Transferable Development Rights, which means, when in certain circumstances, the development potential of land may be separated from the land itself and may be made available to the owner of the land in the form of transferable development rights.
TNEB	Tamil Nadu Electricity Board.
USD	United States Dollar

Term	Description
W/m ²	Watts per Square Meter.
WEG	Wind Electricity Generator, also known as a wind turbine.

ABBREVIATIONS

Abbreviations	Full Form
AGM	Annual General Meeting
AY	Assessment Year
CDSL	Central Depository Services (India) Limited
CLB	Company Law Board
DCA	Department of Company Affairs
DIN	Director Identification Number
DP	Depository Participant
EGM	Extraordinary General Meeting
EPS	Earnings Per Share
FCNR Account	Foreign Currency Non Resident Account
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999 read with rules and regulations there under and amendments thereto
FI	Financial Institution
FII (s)	Foreign Institutional Investors registered with SEBI under applicable laws.
GOI	Government of India
MCA	Ministry of Corporate Affairs
MOU	Memorandum of Understanding
NA	Not Applicable
NAV	Net Asset Value
NR	Non Resident
NRE Account	Non Resident External Account
NRI(s)	Non Resident Indians
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited
NOF	Net Owned Funds
PAN	Permanent Account Number
PAT	Profit After Tax
PBDT	Profit Before Depreciation and Tax
PBIDT	Profit Before Interest Depreciation and Tax
PBT	Profit Before Tax
P/E Ratio	Price/Earnings Ratio
ROC	Registrar of Companies
ROI	Return on Investment
RBI	Reserve Bank of India
SCRR	Securities Contracts (Regulations) Rules, 1957 as amended from time to time.
SEBI	Securities and Exchange Board of India
SEBI (ICDR) Regulations, 2009/ICDR	Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009
UREM	Unregistered Equitable Mortgage



CERTAIN CONVENTIONS; USE OF MARKET DATA

In this Letter of Offer, unless the context otherwise requires, all references to one gender also refers to another gender and the word "Lakh" or "Lac" means "one hundred thousand" and the word "million" means "ten lac" and the word "Crore" means "ten million" and the word "One hundred crore" means "Billion". In this Letter of Offer, any discrepancies in any table between total and the sum of the amounts listed are due to rounding-off.

Throughout this Letter of Offer, all figures have been expressed in Rupee(s), Lacs or crores as stated at appropriate places. All references to "India" contained in this Letter of Offer are to the Republic of India.

For additional definitions used in this Letter of Offer, see the section "Definitions and Abbreviations" on page i of this Letter of Offer. Industry data used throughout this Letter of Offer has been obtained from industry publications and other authenticated published data. 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 the Company believes that the industry data used in this Letter of Offer is reliable, it has not been independently verified. Similarly, internal Company reports, while believed by the Company to be reliable, have not been verified by any independent sources.

CURRENCY OF PRESENTATION

In this Letter of Offer, all references to "Rupees" and "₹" are to the legal currency of India.

FORWARD-LOOKING STATEMENTS

This Letter of Offer contains certain “forward-looking statements”. These forward looking statements can generally be identified by words or phrases such as “aim”, “anticipate”, “believe”, “expect”, “estimate”, “intend”, “objective”, “plan”, “project”, “shall”, “will”, “will continue”, “will pursue” or other words or phrases of similar import. Similarly, statements that describe the objectives, plans or goals also are forward-looking statements.

All forward looking statements are subject to risks, uncertainties and assumptions about the Company that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations include, among others:

- ◆ General economic and business conditions in India and other countries.
- ◆ Regulatory changes relating to our industry / sector in India and our ability to respond to them;
- ◆ Fluctuation in operating costs;
- ◆ The ability to successfully implement the strategy, growth and expansion plans and technological changes;
- ◆ The monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, changes in domestic and foreign laws, regulations and taxes.
- ◆ Occurrence of natural disaster or calamities;
- ◆ Changes in political conditions in India.

For further discussion of factors that could cause actual results to differ, please see the section titled “Risk Factors” beginning on page no vi of this Letter of Offer. 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, the Directors, any member of the Lead Manager team 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.

Part-I

SECTION I - RISK FACTORS

An investment in equity shares involves a high degree of risk. The investors should carefully consider all of the information in this Letter of Offer, in evaluating the Company and its business, including the risks and uncertainties described below, before making any investment decision. If any of the following risks actually occur, the business, financial condition and results of operations could suffer, the trading price of the Equity Shares could decline, and the investors might lose all or part of their investment.

Unless specified or quantified in the relevant risk factors below, the financial or other implications of any of the risks described in this section cannot be quantified

Materiality

The risk factors have been determined on the basis of their materiality. The following factors have been considered for determining the materiality:

- Some events may not be material individually, but may be found material collectively.
- Some events may have material impact qualitatively instead of quantitatively.
- Some events may not be material at present but may have material impact in the future.

The risk factors are as envisaged by the management. Wherever possible, the financial impact of the risk factors has been quantified.

A. INTERNAL RISK FACTORS

1. *The implementation of the expansion project of the company is at a preliminary stage and any delay in the implementation of the project may increase the capital cost and also affect returns from the project.*

The objects of the issue as envisaged by the company is to set up a mall, multiplex with service apartment, a convention hall, renovate the existing hotel at Tirupur and setup a power plant. We cannot assure you that we will be able to execute our expansion plans as contemplated in the section titled "Objects of the Issue" beginning on page 19 of this Letter of Offer. Our capital expenditure plans are subject to a number of variables, including possible cost overruns; development delays or defects in construction; receipt of governmental approvals; and changes in management's views of the desirability of current plans. We may not be able to execute our expansion plans as contemplated. Due to time and/or cost overruns the anticipated benefit of such plans to our revenues and profitability may decline. To the extent that completed and/or planned capital expenditures do not produce anticipated or desired revenue or cost-reduction outcomes, our profitability and financial condition will be adversely affected.

2. *We have made applications to various authorities for various approvals required for the expansion projects which are currently pending. We may not be able to obtain, renew or maintain our statutory and regulatory permits and approvals required to operate our businesses on time or at all.*

We have various projects which are in various stages of development, implementation and construction and we are in the process of making the applications to regulatory authorities

in connection with these projects. There can be no assurance that the consents or other approvals required from third parties, which include central, state and local governmental bodies, in connection with the construction and development of these projects will be issued or granted to us in a timely manner or at all. We may be dependent on third parties, including local authorities, to facilitate in obtaining these approvals and also provide such services. Any delay or failure by any third party to provide such additional services (where we depend on them) or a failure to obtain any required consents and approvals on acceptable terms or in a timely manner may affect our ability to execute or complete the projects.

As on date of this letter of offer, the building approvals for the multiplex has been submitted and clearance are being awaited from Local Planning Authority (LPA) & Department of Town and Country Planning (DTCP) .

Applications for consent under Section 21 of the Air (Prevention and Control of Pollution) Act, 1981 and Section 25/26 of the Water (Prevention and Control of Pollution) Act, 1974 have been submitted with Tamil Nadu Pollution Control Board, Tirupur and necessary fees in this regard has been paid. The consents are yet to be received.

3. The success of our Mall and Multiplex project depends on our ability to attract suitable retailers and customers.

The success of our project depends on our ability to recognize and respond to the changing trends in India's retail sector. We believe that in order to draw consumers away from traditional shopping environments such as small local retail stores, we need to create demand for our malls where customers can take advantage of a variety of retail options, such as large department stores, in addition to amenities such as onsite parking and cinema complexes.

Further, to help ensure our malls' success, we must secure suitable anchor tenants and other retailers as they play a key role in generating customer traffic. A decline in retail spending or a decrease in the popularity of the retailers' businesses could cause retailers to cease operations or experience significant financial difficulties that in turn could harm our ability to continue to attract successful retailers and visitors to our mall.

4. The land for the proposed projects as envisaged in the objects of the issue has been purchased from the promoters of the company and it is yet to be registered in the name of the company.

The land for the proposed projects as envisaged in the objects of the issue has been purchased from the promoters of the company Mr. E.V. Muthukumara Ramalingam and Mr. M.R. Gautham and the same is yet to be registered in the name of the company. An amount of ₹ 3632.93 lacs out of the proceeds of the issue is being utilized towards consideration payable to the promoters towards the cost of the land.

5. The promoters of the company do not have experience in the field of running a multiplex and service apartment.

The promoters of the company do not have experience in the field of running a multiplex and service apartment. The project cost for the proposed project is substantial in relation to its current size of operations. Although the promoters have an experience in hospitality industry, their ability to handle multiplex, mall, service apartments remain to be demonstrated.

Management proposal: The multiplex business model is on lease rental basis and no expertise is required to be established by the existing promoters/ Managerial personnel. The management does not foresee any difficulty in running such business successfully.

6. *We rely on the financial stability of our tenants, in particular, our key tenants.*

The demand for our retail space units may be adversely affected by the financial stability of our tenants and prospective tenants, which may depend on general economic conditions. In the event of a default by a tenant prior to the expiry of a lease, we may suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and reletting the property. If we are unable to re-let or renew lease contracts promptly, if the rentals upon such re-leasing or renewals are significantly lower than the expected value or if reserves, if any, for these purposes prove inadequate, our results of operations, financial condition and the value of our real estate could be adversely affected.

7. *Our Promoters have limited experience in power generation business and are implementing this kind of project in power sector for the first time.*

Our Promoters have very limited experience in power generation business, though our promoters have been operating a biomass-based boiler, we cannot assure you that we will be able to effectively implement this project and manage our growth, which may adversely affect our business operations and financial condition. We are subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that we will not achieve our objectives and that the value of your investment in the Equity Shares could decline substantially.

Management perception

The company is currently operating a biomass based boiler providing steam for the air conditioning units at the hotel property at Tirupur and is confident to implement the power project successfully.

8. *Our biomass business is influenced by biomass prices, which are seasonal and subject to fluctuations*

Our biomass business is subject to the volatile price movement of biomass in the markets in which we operate and is dependent on factors affecting such price movement, including regional supply and demand, seasonality, rain, climate change, crop productivity, labor shortages and alternative uses for biomass fuel. The biomass market in any given region could exhibit significant fluctuations in supply, demand and prices from year to year. If biomass prices increase, we may not be able to pass on the price increases to our customers immediately due to fixed tariff arrangements, in particular with respect to long term PPAs, and the profitability of our biomass business could be materially and adversely affected.

9. *We rely on various third party suppliers for our biomass requirements and we are subject to risks from biomass supply delays or failures attributable to such suppliers.*

We cannot assure you that we will always have sufficient biomass fuel to operate our power plants, or that in the case of biomass supply delays or failures attributable to our suppliers, we will be adequately compensated. We will purchase biomass fuel from various small and unorganized suppliers. If a biomass supplier fails or is unable to deliver biomass to us as scheduled or if the biomass supply to one or more of our operating power plants is delayed or otherwise disrupted, we may not be able to make alternative arrangements, either in a timely manner or at all, and such alternative arrangements may be more costly to us. If our biomass fuel supplies are delayed or disrupted, we may not be able to produce power in

sufficient quantities to cover our costs or at all. The occurrence of any of the foregoing events could materially and adversely affect our business, financial condition and results of operations.

Management perception

The company is already sourcing biomass for the past five years for its biomass based boiler and does not foresee any difficulty in procuring the same in the future.

10. We may not be able to achieve the Plant Load Factor's (PLFs) we expect at our biomass plants within our projected timeframes, within anticipated budgets, or at all.

PLFs for our biomass power plants depend on various factors including time in operation since commissioning, type of equipment and quality of fuel. Newly operational biomass power plants require a stabilization period of six to twelve months before target PLFs will be achieved. We may experience key equipment failure, which may force us to reduce plant operations or shut down a plant completely. We cannot assure you that our target PLFs will be achieved in the anticipated timeframe, within anticipated budgets, or at all, or that projections or estimates relating to our PLFs will correspond with our future installed capacity and, accordingly, our PLFs and expenditures in the future could differ from current expectations.

11. We may not be able to adapt to changing biomass fuel availability.

Many biomass plants change fuels significantly over the years, as opportunities arise, old fuel sources dry up or agricultural patterns shift. In many instances, these changes are unpredictable. We may not be able to adapt our biomass plants to take advantage of changes in local fuel supply in certain cases, which could lower our profit margin and reduce our operational efficiency.

12. Changes in technology may impact our business by making our power plants less competitive or obsolete.

Our future success will depend in part on our ability to respond to technological advances and emerging power generation industry standards and practices on a cost-effective and timely basis. Changes in technology and high fuel costs may make other generation plants more competitive than ours or may require us to make additional capital expenditures to upgrade our facilities. In addition, there are other technologies that can produce electricity, most notably fuel cells, micro turbines, windmills and photovoltaic (solar) cells. If we are unable, for technical, legal, financial or other reasons, to adapt in a timely manner to changing market conditions, customer requirements or technological changes, our business and our financial performance could be adversely affected.

13. Our revenues in the hotel business are seasonal in nature.

Our revenues in the hotel business are generally higher during the 6 months period (April-September) of each fiscal year as compared to the entire fiscal year. Any disturbances/disruptions during the period may lead to reduction in our revenues and can have a material adverse impact on our financial performance. As a result, the quarter to quarter comparison of historical results may not be accurate or a meaningful indicator of our performance.

14. The company's indebtedness and the conditions and restrictions imposed by financing agreements could restrict the ability to conduct our business operations.

There are certain restrictive covenants in the agreements which we have entered into with certain banks for short term and long term borrowings. Terms loans from banks are secured by mortgage/ hypothecation of related immovable/ movable assets of the company, both present and future. The covenants in certain cases, among other things require us to obtain permission of the banks for any change in its capital structure, formulate any scheme of amalgamation or restructuring, undertake any major capital expenditure, extend loans or guarantees, or advance, lend, or place deposits with any other concern, declare dividends, undertake guarantee obligations on behalf of other persons and enter into any borrowing arrangements with any banks /financial institutions / company and change in composition of company's board of directors.

15. Unsecured loans taken by us can be recalled by the lenders at any time, which may affect our business and financial condition.

As on March 31, 2011 we have outstanding unsecured loans from Sri.E.V.Muthukumara Ramalingam, Managing Director, Sri.M.R.Gautham, Executive Director and M/s. Shree Vallee Enterprises Pvt Ltd to the extent of ₹ 68.67 lacs along with accrued interest which has been taken in a normal course of business. Such unsecured loans may be recalled by the lenders at any time which may affect our business and financial condition.

16. We are required to comply with various standards as prescribed by the HRACC from time to time. Failure to adhere to such requirements may result in the declassification of any of our hotels and consequently, adversely affect our business.

In order to obtain and maintain a star classification for our hotel properties, we are required to fulfill and continually comply with certain standards as prescribed by the HRACC. Such standards may relate to the quality of facilities and services provided. Failure to adhere to such requirements may result in the declassification of any of our hotels and consequently, adversely affect our business.

17. Our results of operations could be adversely affected by strikes, work stoppages or increased wage demands by our employees or any other kind of disputes with our employees.

We cannot assure that we will not experience disruptions to our operations due to disputes or other problems with our work force, which may adversely affect our business and results of operations. We may be unable to negotiate acceptable collective bargaining agreements with those who have chosen to be represented by unions, which could lead to union-initiated work stoppages, including strikes, which could adversely affect our business and results of operations. We may enter into contracts with independent contractors to complete specified assignments and these contractors are required to source the labour necessary to complete such assignments. Although we do not propose to engage those labourers directly, it is possible under Indian law that we may be held responsible for wage payments to labourers engaged by contractors should the contractors default on wage payments. Any requirement to fund such payments may adversely affect our business, financial condition and results of operations.

18. *We are dependent on our management team for success whose loss could seriously impair our ability to continue to manage and expand business efficiently. The loss of service of the senior management could seriously impair the ability to continue to manage and expand the business efficiently.*

Our success largely depends on the continued services and performance of our management and other key employees that have been associated with company for past several years. These personnel have been the driving force behind the success of our business and brand till date. Their acumen, efforts and dedication have contributed mainly to the growth of Company. We believe that the loss of service of these personnel could seriously impair the ability to continue to manage and expand the business efficiently.

19. *The success of our hotel business is dependent on supply chain management*

We strive to keep optimum inventory at our hotel to control our working capital requirements. A strong supply chain management system is essential to ensure availability of required goods at hotel. Food and grocery items require efficient supply chain management as this involves items which are perishable or have limited shelf life. Inefficient supply chain management could adversely affect the results from operations.

20. *Increased competition in the hotel sector may adversely affect the operation of our hotel.*

We compete for guests with other hotels in a highly competitive industry. Our success would be dependent on our ability to compete in areas such as room rates, quality of accommodation, service levels, and brand recognition among others. We face competition from existing hotel players and will also have to compete with any new hotel properties coming up in the city. There can be no assurance that new or existing competitors will not significantly lower rates or offer greater convenience, services or amenities or significantly expand or improve facilities in the market in which we operate. Such developments would affect our ability to compete with them and have a negative impact on our profitability and financial condition.

B. EXTERNAL RISK FACTORS

1. *Changes in the policies of Government of India and the political situation in India may affect the operations of the company.*

A significant change in India's economic liberalization and deregulation policies could affect business and economic conditions in India. Taxes and levies affect the cost and prices of the company's business. Any change in the policies, regulations and other levies regulated or imposed by either Central or State Government of India may have an adverse impact on the company's business.

2. *The hotel industry is subject to significant regulations.*

We are subject to numerous laws and regulations in all of the jurisdictions in which we operate, including those relating to the preparation and sale of food and beverages, safety norms, health, excise and entertainment licensing laws. Our properties are also subject to laws and regulations governing relationships with employees in such areas as minimum wage and maximum working hours, overtime, working conditions, hiring and terminating of employees and work permits. In event of non-compliance with the regulations, our licenses may be rejected or their renewals halted. Such adverse developments would have a negative impact on our profitability and financial condition.

3. *The hotel industry is cyclical and sensitive to changes in the economy and this could have a significant impact on our operations and financial results.*

The hotel sector may be unfavorably affected by such factors as changes in the global and domestic economies, changes in local market conditions, excess hotel supply or reduced demand for hotel rooms and associated services, competition in the industry, changes in interest rates, the availability of finance and other similar factors. Since demand for hotels is affected by economic growth in India as well as globally, a global or domestic recession could lead to a down-turn in the hotel industry. Such adverse developments in the hotel industry in India or in the cities where our hotels are located would have a negative impact on our profitability and financial condition. Any slowdown in the Indian economy or future volatility in global commodity prices could adversely affect the business.

4. *Acts of violence or war, in India or other neighboring countries, could adversely affect Indian and worldwide economic markets, result in a loss of business confidence, and adversely affect our business, profitability and financial condition.*

Acts of violence or war, including an increase in the terrorist activities in India or other neighboring countries, may affect Indian and worldwide economic markets. These acts may also result in a loss of business confidence and have other consequences that could adversely affect our business, profitability and financial condition through reduction in business activity and business travel. Increased volatility in economic markets can have an adverse impact on the economies of India and other countries. In the recent past, India-Pakistan relations, the attack on the Mumbai Hotels & Railway stations in 2008 and the subsequent travel advisories issued by western nations have affected the hotel industry in India. The threat of additional terrorist attacks and other acts of violence or war also have a direct impact on international travel and may have an adverse impact on our ability to attract international guests.

5. *Our operations could be affected by natural calamities at or in the vicinity of our properties.*

Our operations are dependent on our ability to protect our properties from any natural calamity such as fire, earthquakes, and floods, natural and similar events. The occurrence of a natural disaster or other unanticipated problems at our hotels can cause interruptions in our operations. Any damage or failure that causes interruptions in our operations could have a negative impact on our profitability and financial condition. Our results have been and will continue to be significantly affected by other factors outside the Company's control, such as political unrest etc, all of which may affect the level of travel and business activity.

6. *The Company's business is exposed to the effects of exchange rate fluctuations.*

The Company's assets, earnings and cash flows are influenced by fluctuations in exchange rates of other currencies against the rupee, and more particularly by movements in the US dollar. Any such fluctuations in exchange rates may affect company's operations and financial conditions.

7. *The power generation business is subject to extensive environmental laws and regulations and potential environmental liabilities, which could result in significant costs and liabilities.*

The power generation business in India is subject to extensive laws and regulations imposed by government authorities, including the Ministry of Environment and Forests and the state pollution control board, in the ordinary course of operations with regard to the environment, including environmental laws and regulations relating to air and water quality, solid waste disposal and other environmental considerations. Possible future developments, including the promulgation of more stringent environmental laws and regulations and the timing of future enforcement proceedings that may be taken by environmental authorities could affect the

costs and the manner in which we conduct our business and could require us to make substantial additional capital expenditures.

In addition, our licenses and permits are subject to renewal. While we anticipate that renewals will be given as and when sought, there is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith.

Environmental laws and regulations require us to incur certain costs, which could be substantial, to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment. Governmental regulations establishing environmental protection standards are continually evolving, and, therefore, the character, scope, cost and availability of the measures we may be required to take to ensure compliance with evolving laws or regulations cannot be predicted. To the extent that environmental liabilities are greater than our insurance coverage we are unsuccessful in recovering anticipated insurance proceeds under the relevant policies, our results of operations and financial condition could be materially and adversely affected.

8. *After this Issue, the price of our Equity Shares may be highly volatile, or an active trading market for our Equity Shares may not develop.*

The prices of our Equity Shares on the Indian stock exchanges may fluctuate after this Issue as a result of several factors, including:

- Volatility in the Indian and global securities market or in the Rupee's value relative to the U.S. dollar, the Euro and other foreign currencies;
- Our profitability and performance;
- Perceptions about our future performance or the performance of Indian hospitality companies in general;
- Performance of our competitors in the Indian hotel industry and the perception in the market about investments in the hotel industry;
- Adverse media reports on the Company or the Indian hotel industry;
- Changes in the estimates of our performance or recommendations by financial analysts;
- Significant developments in India's economic liberalization and deregulation policies; and
- Significant developments in India's fiscal and environmental regulations.

There can be no assurance that an active trading market for our Equity Shares will develop or be sustained after this Issue, or that the prices at which our Equity Shares are initially traded will correspond to the prices at which our Equity Shares will trade in the market subsequent to this Issue. Our share price is likely to be volatile and may decline post listing.

PROMINENT NOTES

1. The net worth of the Company as on 31st March, 2011 is ₹ 1657.85 lacs.
2. The Book value per share as on 31st March, 2011 is ₹ 21.39.
3. The average cost of acquisition of Equity Shares by our Promoters, is as follows:

Name of Promoter	Average cost of acquisition of shares
Mr.E.V.Muthukumara Ramalingam	₹ 15.43
Mr.M.R.Gautham	₹ 11.55
Mrs. M. Sasikala	₹ 10.00
M/s. Shree Vallee Enterprises Pvt. Ltd.	₹10.00

4. Except as disclosed in the sections titled "Management" beginning on page no 53 of this Letter of Offer, there is no interest of promoters/directors/ key management personnel other than reimbursement of expenses incurred or normal remuneration or benefits.
5. The following are the transactions with related parties as on 31/03/2011 in terms of Accounting Standard 18 issued by the ICAI

(Amount ₹ in Lacs)

Sl. No	Name of Party	Relationship	Nature of Transaction	Amount	Amount outstanding As on 31.03.11	A mount W-off/w-back during the period
1.	E.V.Muthukumara Ramalingam	Key Management Personnel	Remuneration	5.94	Nil	Nil
2.	M.R.Gautham	Key Management Personnel	Remuneration	2.79	Nil	Nil
3.	Shree Vallee Enterprises Pvt.Ltd	Associated Concern	Interest	11.93	13.14	Nil
4.	Shree Vallee Enterprises Pvt.Ltd	Associated Concern	Finance Receipts	Nil	52.94	55.55
5.	E.V.Muthukumara Ramalingam	Key Management Personnel	Finance Receipts	168.09	1.38	228.11
6.	E.V.Muthukumara Ramalingam	Key Management Personnel	Lease Rent	3.53	Nil	Nil

6. There has been no financing arrangement whereby the Promoter Group, the Directors of the Company and their relatives have financed the purchase by any other person of securities of the Company other than in the normal course of business of the financing entity during the period of six months immediately preceding the date of filing of the Letter of Offer with SEBI.
7. All information shall be made available by the LM and the Company to the public and investors at large and no selective or additional information would be available only to a section of the investors in any manner whatsoever.
8. Investors are free to contact the Lead Manager for any complaints/ information/ clarification pertaining to this Issue. For contact details of the Lead Manager, please refer to the cover page of this Offer Document.
9. The Company satisfies the following conditions as prescribed under Regulation 57(2) (b) of Part E of Schedule VIII of the ICDR Regulations.
 - a) The Company has been filing periodic reports, statements and information in compliance with the listing agreement for the last three years immediately preceding the date of filing this letter of offer with the designated stock exchange.



- b) The reports, statements and information referred to sub-clause (a) above are available on the website of Bombay Stock Exchange Limited (BSE) one of the recognized stock exchange with nationwide trading terminals
 - c) The Company has investor grievance – handling mechanism which includes meeting of the share transfer & Shareholder’s or Investor’s Grievance Committee at frequent intervals, appropriate delegation of power by the board of directors of the Company as regards share transfer and have clearly laid down systems and procedures for timely and satisfactory redressal of investor grievances.
10. There are no investor complaints pending as on the date of this offer document.
11. The Lead Manager and the Company shall update this Letter of Offer and keep the shareholders/public informed of any material changes till the listing and trading commencement.

Section II- INTRODUCTION

THE ISSUE

The Board of Directors of the Company had pursuant to a resolution passed under Section 81(1) of the Companies Act at its meeting held on 16th July, 2010 approved this issue. Further, the Shareholders of the Company have, at the AGM held on 6th September, 2010 authorized the issue.

The committee of Directors at their meeting held on 18/07/2011 decided the following terms of the issue:

Type of Issue	Type of Instrument	No. of equity shares	Face Value (₹)	Issue Price (₹)	Consideration
Rights Issue	Equity Shares	2,67,37,500	10/-	23/-	Cash

ISSUE BREAK-UP

Particulars	Issue Size
Equity Shares offered (Issue Size)	2,67,37,500 Equity Shares aggregating to ₹ 6149.62 Lacs
Entitlement Ratio	The Equity Shares are being offered on rights basis to the existing Equity Shareholders of the Company in the ratio of 69 Equity Shares for every 20 Equity Shares held as on 09/08/2011
Market Lot	The market lot for the Equity Shares in dematerialized mode is one. In case of physical certificates, the Company would issue equity shares in the marketable lot of 100 equity shares or one certificate for the Equity Shares allotted to one folio ("Consolidated Certificate") as the case may be.
Equity shares outstanding prior to the Issue	77,50,000 Equity Shares
Equity shares outstanding after the issue	3,44,87,500 Equity Shares

USE OF PROCEEDS:

Please see section titled "Objects of the Issue" on page no. 19 of this Offer Document

BOOK CLOSURE & OTHER DETAILS

PARTICULARS	DATE(S)
Book closure	August 10, 2011 to August 12, 2011
Purpose	a) Rights entitlement b) Dividend c) Annual General Meeting
Ex-Right	August 08, 2011

ISSUE SCHEDULE

ISSUE OPENS ON	LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS	ISSUE CLOSES ON
Wednesday August 24, 2011	Friday 02 September, 2011	Saturday September 10, 2011

SUMMARY OF FINANCIAL, OPERATING AND OTHER DATA

Please read the following data in conjunction with the detailed Auditors' Report commencing on page no. 62 under the heading 'FINANCIAL INFORMATION'

Summary of Statement of Assets and Liabilities for the year ended March 31, 2011

(Amount in ₹ Lacs)

Particulars	Year Ended 31.03.2010	Year Ended 31.03.2011
A Fixed Assets		
Gross Block	3,526.07	5,334.82
Less: Depreciation	949.25	1,037.14
Net Block	2,576.82	4,297.68
Less: Revaluation Reserve	660.05	653.06
Net Block After Adjustment for revaluation reserve	1,916.77	3,644.62
B Investments		
TOTAL	1,916.77	3,644.62
C Current Assets, Loans and Advances		
Inventories	67.14	79.82
Sundry Debtors	24.95	29.55
Cash and Bank Balances	117.05	49.86
Loans and Advances	145.26	832.46
Total	354.40	991.69
D Liabilities and Provisions		
Secured Loans	690.36	2,204.07
Unsecured Loans	193.52	68.67
Current Liabilities and Provisions	251.52	424.08
Liability for Deferred payment	253.66	281.65
Total	1,389.06	2,978.47
E: Grand Total (A+B+C-D) = E	882.11	1,657.84
F: Net Worth Represented by		
Share Capital	775.00	775.00
Equity Share Advances		726.65
Reserves	767.16	809.26
Less: Revaluation Reserve	660.05	653.06
Reserves (Net of Revaluation reserves)	107.11	156.20
Total	882.11	1,657.85
G Misc. Expend. to the Extent not written off or adjusted		
H: Surplus(+) or Deficit (-) in Profit & Loss Account		
Networth (F-G-H)	882.11	1,657.85

Note:

- The amount of debtors do not include any related party transactions.
- Liability for deferred payments includes provision for income tax payable on account of timing difference with reference to depreciation. The said requirement is in accordance with Accounting Standard 22 issued by ICAI.

Statement of Profit and Loss Account

(Amount in ₹ Lacs)

Particulars	Year Ended 31.03.2010	Year Ended 31.03.2011
INCOME		
Sales -		
of Products manufactured by the company	1,268.02	1,460.41
of Products traded in by the Company	-	-
Other income	65.61	19.16
Increase/ Decrease (-) in Inventories		
Total	1,333.63	1,479.57
EXPENDITURE		
Consumption of Supplies	311.39	341.86
Employee Cost	212.51	248.15
Other Expenses	311.50	301.61
Administration Expenses	111.35	199.12
Selling & Distribution and Other Expenses	57.40	39.49
Total	1,004.15	1,130.23
Earnings Before Depreciation, Interest & Tax	329.48	349.34
Depreciation	70.53	81.94
Interest	83.51	80.6
Net Profit Before Tax and Extraordinary Items	175.44	186.76
Taxation		
Current Tax (Including Fringe Benefit Tax)	-	38.90
Deferred Tax	61.81	27.99
Net Profit before Extraordinary Items	113.63	119.87
Extraordinary items	-	-
Net Profit after extraordinary items	113.63	119.87
Adjustments on account of prior period expenses	1.27	3.23
Adjusted profit	112.36	116.64

The following are the components of other income for the financial year 2010 and 2011
(Amount in ₹ Lacs)

Particulars	Financial Year 2009-10	Financial Year 2010-11
Interest receipts	2.68	4.06
Foreign Exchange Fluctuations income	38.12	--
Misc. Income	7.88	4.59
Sundry Balances written back	12.87	7.93
Discount on Purchase	0.52	--
Profit on sale of assets		0.04
Rent- Beauty Parlour	3.00	2.00
Rent- Business Center	0.54	0.54
Total	65.61	19.16

Statement of Cash Flow

(Amount in ₹ Lacs)

Particulars	Year Ended 31.03.2010	Year Ended 31.03.2011
01. Cash Flow from Operations		
(01) Net Profit before Tax	175.44	186.76
(02) Adjustment for		
(a) Depreciation	70.54	81.94
(b) Interest Expenses	83.51	80.64
(c) Other Income	(1.27)	(3.23)
(c) Loss on Sales of Fixed Assets	0.03	(0.05)
(d) Interest Income		
(e) Dividend Received		
(f) Sale of Investments		
(g) Revaluation Reserve	152.81	159.30
	28.25	346.06
(03) Operating Profit before working Capital Changes		
(04) Adjustment for Increase/ Decrease in		
(b) Trade & Other Receivables	50.20	(689.68)
(a) Inventories	(15.85)	(12.68)
(d) Sundry Creditors	25.99	161.52
(e) Miscellaneous Expenses/Deferred Rev. Exp		
(f) Increase in Bank Borrowings	60.34	(540.84)
(05) Cash Generation from Operation	388.59	(194.78)
(06) Less the Following		
(a) Tax Paid/ Provided	19.56	33.81
(b) Extraordinary items		
(c) Misc. receipts		
(d) Deferred sales Tax Liability	19.56	33.81
(07) Net Cash from Operating Activities	369.03	(228.59)
02. Cash Flow from Investing Activities		
(01) Purchase or Sale of Fixed Assets		
(a) Purchase of fixed assets, Including CWIP	349.48	1809.84
(b) Sale Proceeds of Fixed assets	(0.60)	(0.10)
(02) Interest Received		
(03) Dividend Received		
(04) Purchase or Sale of Investments		
(a) Purchase		
(b) Sales		
(05) Purchase or Sale of Goodwill		
(a) Additions		
(b) Deletion		
(05) Net Cash Flow from Investing Activities	348.88	1809.74
03. Cash Flow from Financing Activities	20.15	(2038.33)
(01) From Term Loan/ Deferral Loan		
(a) Obtained		
(b) Re-Paid	(247.49)	(1517.37)
(02) From Capital		
(a) Additions		(726.65)

Particulars	Year Ended 31.03.2010		Year Ended 31.03.2011	
(b) Withdrawn				
(03) From Unsecured Loans				
(a) Obtained	(1.60)			
(b) Re-Paid			128.52	
(04) From Short (Bank Borrowings)	36.18			
(05) Interest Paid	83.51		80.64	
(06) Dividend and Tax Thereon	42.48		63.71	
(07) Minority Interest				
(08) Net Cash Flow from Investing Activities		(86.92)		(1971.15)
04. Net Increase/ Decrease in Cash & Cash Equivalents (04= 01+02+03)		107.07		(67.18)
05. Cash & Cash Equivalent- Opening Balance		9.98		117.05
06. Cash & Cash Equivalent- Closing Balance		117.05		49.87
07. Net Increase/ Decrease in Balances				

GENERAL INFORMATION

Dear shareholder(s),

Pursuant to the resolutions passed by the Board of Directors of the Company at their meeting held on 16th July 2010 it has been decided to make the following offer to the Equity Shareholders of the Company, with a right to renounce:

The resolution in respect of the rights issue was approved by the shareholders of the company in the AGM of the company held on 6th September, 2010.

The committee of Directors at their meeting held on 18/07/2011 decided to make the following offer to the existing shareholders of the Company:

Issue of 2,67,37,500 Equity Shares of ₹ 10/- each for cash at a premium of ₹ 13/- per equity share (Issue Price of ₹ 23/-) aggregating to ₹ 6149.62 lacs on rights basis to the existing Equity Shareholders of the Company in the ratio of 69 Equity Shares for every 20 Equity Shares held on 09/08/2011. The face value of the Equity Shares is ₹ 10/- per share and the Issue price is 2.3 times the face value.

For further details please refer to “Terms of the Issue” beginning on page 88 of this Letter of Offer.

Name of the Company	: Velan Hotels Limited
Registered Office	: 41, Kangeyam Road, Tirupur – 641 604 Tamil Nadu Tel: +91-0421-2424426-30; Fax: +91-0421-2424434; Email: investorrelations@velanhotels.com; Website: www.velanhotels.com
Company Identification Number	: L55101TZ1990PLC002653
Registration Number	: 181-2653
Contact person:	: Mr. M. Srinivasan, Company Secretary & Compliance Officer
Registrar of Companies	: Stock Exchange Building, II Floor, 683 Trichy Road, Singanallur Post, Coimbatore 641 005, Tamil Nadu, India

Other Locations / Offices

Velan Hotel Greenfields: Hotel with Restaurant	: 41, Kangeyam Road, Tirupur – 641 604 Tamil Nadu
Velan Hotel : Hotel with Restaurant	: Bedford, Ritz Road, Coonoor 643 101 Tamil Nadu
Velan Uthara : Restaurant	: Avinashi Road. Behind IDBI Bank Ltd, Tirupur- 641 602 Tamil Nadu
The Velan Food Park : Restaurant	: Ram Nagar, Coimbatore-641 009 Tamil Nadu

IMPORTANT

1. This Issue is applicable to such Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company at the close of business hours on the Record Date.
2. Your attention is drawn to the section on risk factors starting from page no. vi of this Letter of Offer.
3. Please ensure that you have received the CAF with this Letter of Offer.
4. Please read the Letter of Offer and the instructions contained herein and in the CAF carefully before filling in the CAFs. The instructions contained in the CAF are an integral part of this Letter of Offer and must be carefully followed. An application is liable to be rejected for any non compliance of the Letter of Offer or the CAF.
5. All enquiries in connection with this Letter of Offer or CAFs should be addressed to the Registrar to the Issue, quoting the Registered Folio number/ DP and Client ID number and the CAF numbers as mentioned in the CAFs.

6. The Lead Manager and the Company shall make all information available to the Equity Shareholders and no selective or additional information would be available for a section of the Equity Shareholders in any manner whatsoever including at presentations, in research or sales reports etc. after filing of the Letter of Offer with SEBI.
7. All the legal requirements as applicable till the filing of the Letter of Offer with the Designated Stock Exchange have been complied with.

BOARD OF DIRECTORS

The Board of Directors of the company comprises of:

Name of the Director	Designation	Status
Mr.E.V.Muthukumara Ramalingam	Managing Director	Executive and Non-Independent
Mr.M.R.Gautham	Executive Director	Executive and Non-Independent
Mr.P.Ganesan	Director	Non-Executive and Independent
Mr.T.Gopalakrishnan	Director	Non-Executive and Independent
Dr.Namasivayam Karthikeyan	Director	Non-Executive and Independent

For details of the Board of Directors of Velan Hotels Limited, please refer to the chapter titled "Management" on page no. 53 of this Letter of Offer.

ISSUE MANAGEMENT TEAM

Company secretary and compliance officer

Mr. M. Srinivasan

Company Secretary & Compliance Officer

41, Kangeyam Road, Tirupur – 641 604

Tel: +91-0421-2424426

Fax: +91-0421-2424434

Email: investorrelations@velanhotels.com

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

Lead Manager to the Issue

KEYNOTE

KEYNOTE CORPORATE SERVICES LIMITED

4th Floor, Balmer Lawrie Building,
5, J. N. Heredia Marg, Ballard Estate,
Mumbai – 400 001

SEBI Regn No: INM 000003606

Tel : +91-022-3026 6000-3; Fax: + 91- 022 -22694323

Website: www.keynoteindia.net

E-mail: mbd@keynoteindia.net

Contact Person: Ms. Swati Sinha Shrivastav

Registrar to the issue



S.K.D.C. CONSULTANTS LIMITED

Kanapathy Towers, 3rd Floor 1391/A1,
Sathy Road, Ganapathy
Coimbatore - 641 006

Tel : 91-422-6549995,2539835-36

Fax: + 91-422-2539837

E-mail: info@skdc-consultants.com

Website: www.skdc-consultants.com

SEBI Regn. No.: INR 000000775

Contact Person: Mr. K Jayakumar

Legal Advisors to the Company

Mr. Cibi Vishnu, Advocate

Advocate I Solicitor, England & Wales (Non-Practising)
No.1B, "Rajam Mansion", 4th Street Luz Avenue,
Mylapore, Chennai-600004

Tel: +91-044-24998283;

Fax: +91-044-24998283

Email : cibivishnu@gmail.com

Contact Person: Mr. Cibi Vishnu

Statutory Auditors to the Company (Peer Review Auditor)

M/s. P.S.Krishnan & Co.,

Chartered Accountants
40 A Apachi Nagar Main Road,
Tirupur 641 607
Tamil Nadu - India

Tel: +91-0421-2227526/27; **Fax:** + 91-421-2227516

Email address: psktup@yahoo.co.in

Contact Person: Mr. G.Krishnamurthi, Auditor

Bankers to the Company

Union Bank of India

Bedford,
Coonor
Tamil Nadu-India
Tel: +91-0423 2221391
Fax: +91-0423 2230391
www.unionbankofindia.co.in

Axis Bank Ltd

3 Court Street
Tirupur 641 601
Tamil Nadu-India
Tel: +91-0421-2237211;
Fax: +91-0421-2237214
www.axisbank.com

Andhra Bank

Coimbatore Main Branch
17 Mill Road
Coimbatore 641 001
Tel: +91-0422-2300504
Fax: +91-0422-2393511
www.andhrabank.in

Allahabad Bank

342 Palladam Road
Thennampalayam,
Tirupur 641 604
Tel: +91-0421-2214420
Fax: +91-0421-2214443
www.allahabadbank.com

Bankers to the Issue

Dhanlaxmi Bank Limited

Janmabhoomi Bhavan,
Janmabhoomi Marg,
Mumbai 400 001
Phone: 022- 22022535/ 022- 61541857
Fax: 022- 22871637/ 022 61541725
Mail: venkatraghavan.ta@dhanbank.co.in
Contact person: Mr. Venkataraghavan T.A.
Website: www.dhanbank.com

Axis Bank Limited

3 Court Street,
Tirupur 641 601
Phone: 0421 – 2237211/12/12
Fax: 0421-2237214
Mail: tirupur.operationshead@axisbank.com
Contact person: Mr. K.Kanagasabapathy
Website: www.axisbank.com

SELF CERTIFIED SYNDICATE BANKS

As on date following banks are registered with SEBI for collection of ASBA forms:

1.	Axis Bank Ltd	23.	Allahabad Bank
2.	State Bank of Hyderabad	24.	Karur Vysya Bank Ltd.
3.	Corporation Bank	25.	The Federal Bank
4.	State Bank of Travancore	26.	Indian Bank
5.	IDBI Bank Ltd.	27.	Central Bank of India
6.	State Bank of Bikaner and Jaipur	28.	Oriental Bank of Commerce
7.	YES Bank Ltd.	29.	Standard Chartered Bank
8.	Punjab National Bank	30.	J. P. Morgan Chase Bank, N.A
9.	Deutsche Bank	31.	Nutan Nagrik Sahakari Bank Ltd.
10.	Union Bank of India	32.	UCO Bank
11.	HDFC Bank Ltd.	33.	Canara Bank
12.	Bank of Baroda	34.	United Bank of India
13.	ICICI Bank Ltd	35.	Syndicate Bank
14.	Vijaya Bank	36.	South Indian Bank
15.	Bank of Maharashtra	37.	Indian Overseas Bank
16.	State Bank of India	38.	Tamilnad Mercantile Bank Ltd.
17.	Andhra Bank	39.	City Union Bank Ltd.
18.	HSBC Ltd.	40.	BNP Paribas
19.	Kotak Mahindra Bank Ltd.	41.	The Kalupur Commercial Co-Operative Bank Ltd.
20.	Bank of India	42.	Bank of America N.A.
21.	CITI Bank	43.	The Lakshmi Vilas Bank Ltd.
22.	IndusInd Bank	44.	State Bank of Patiala

APPLICATIONS SUPPORTED BY BLOCKED AMOUNT (ASBA): Eligible Equity Shareholders may apply through the ASBA process. ASBA can be availed by all the Eligible Equity Shareholders. The Eligible Equity Shareholders are required to fill the ASBA form and submit the same to their bank which in turn will block the amount in the account as per the authority contained in ASBA form and undertake other tasks as per the specified procedure. On allotment, amount will be unblocked and account will be debited only to the extent required to pay for allotment of shares. Hence, there will be no need of refunds etc. ASBA form can be submitted to several banks, the list of such banks are given in the ASBA form and is available on website of SEBI at www.sebi.gov.in.

For more details on the ASBA process, please refer to the details given in ASBA form and also please refer to the section “Terms of the Issue” beginning on page 88 of this Letter of Offer.”

The list of banks that have been notified by SEBI to act as SCSBs for the Applications Supported by Blocked Amount (“ASBA”) Process are available at the SEBI website (URL reference: [http:// www.sebi.gov.in](http://www.sebi.gov.in)). Details relating to designated branches of SCSBs collecting the ASBA forms are available at the above mentioned link.

All grievances relating to the ASBA process may be addressed to the Registrar to the Issue, with a copy to the SCSB, giving full details such as name, address of the applicant, number of Equity Shares applied for, Amount blocked, ASBA Account number and the Designated Branch of the SCSB where the CAF was submitted by the ASBA Investors.

INTER SE ALLOCATION OF RESPONSIBILITIES

Keynote Corporate Services Limited is the sole Lead Manager to this issue, however the list of major responsibilities of Keynote Corporate Services Limited inter alia, is as follows:

Sr. No.	Activity	Responsibility
A.	Capital Structuring with relative components and formalities such as composition of Structuring of the offer document.	Keynote
B.	Drafting and design of the offer document and of the advertisement or publicity material including newspaper advertisement and brochure or memorandum containing salient features of the offer document.	Keynote
C.	Selection of various agencies connected with issue, such as registrars to the issue, printers, advertising agencies, etc.	Keynote
D.	Marketing of the issue, which shall cover, <i>inter alia</i> , formulating marketing strategies, preparation of publicity budget, arrangements for selection of (i) ad-media, (ii) centres for holding conferences of shareholders, investors, etc., (iii) bankers to the issue, (iv) collection centres as per schedule III of ICDR, distribution of publicity and issue material, Letter of Offer.	Keynote
E.	Post-issue activities, which shall involve essential follow-up steps including follow-up with bankers to the issue and Self Certified Syndicate Banks to get quick estimates of collection and advising the issuer about the closure of the issue, based on correct figures, finalisation of the basis of allotment or weeding out of multiple applications, listing of instruments, dispatch of certificates or demat credit and refunds and coordination with various agencies connected with the post-issue activity such as Registrar to the issue, Bankers to the issue, Self Certified Syndicate Banks, etc.	Keynote

CREDIT RATING/DEBENTURE TRUSTEE

This being Rights Issue of equity shares, neither Credit Rating nor appointment of Debenture Trustee is required.

MONITORING AGENCY

Since the Issue size does not exceed ₹ 50,000 Lacs, the appointment of a monitoring agency as per Regulation 16 of the SEBI Regulations is not required. The Board of Directors of the Company will monitor the use of the proceeds of this Issue.

APPRAISING ENTITY

Not Applicable

MINIMUM SUBSCRIPTION

- i. If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within fifteen days from the date of closure of the issue.
- ii. If there is delay in the refund of subscription by more than 8 days after the Company becomes liable to pay the subscription amount (i.e. fifteen days) after closure of the issue, the Company will pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.



UNDERWRITING/ STANDBY SUPPORT

This issue of equity shares is not being underwritten and/or no standby support is being sought for the said issue.

Impersonation

As a matter of abundant caution, attention of the Investors is specifically drawn to the provisions of subsection (1) of Section 68A of the Act which is reproduced below:

“Any person (a) who makes in a fictitious name an application to a Company for acquiring, or subscribing for, any shares therein, or otherwise induces a Company to allot, or register any transfer of shares therein to him, or (b) any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years”

PRINCIPAL TERMS OF LOANS AND ASSETS CHARGED AS SECURITY AS ON 31/03/2011

Sr. No.	Name of the Bank	Date of Sanction	Amount sanctioned (₹ in Lacs) and rate of interest (%)	Amount o/s as on 31/03/11 (₹ in lacs)	Repayment Terms	Security
Term Loan						
1	Allahabad Bank (Funding on Multiple Banking basis with Andhra Bank)	07/12/2010	<p>TL 1 - 642.00 (Takeover of Foreign Currency Term Loan from Bank of Bahrain & Kuwait with term loan o/s of ₹ 642.00 lacs)</p> <p>BR+4.25 %</p> <p>TL 2- 3,325.00 (for part financing the proposed expansion project of the company)</p> <p>BR+4.25 %</p> <p>Bank Guarantee of Rs. 150.00</p>	636.67	49 Equitable Monthly Installments	<p>Primary for both TL 1 & TL 2</p> <ul style="list-style-type: none"> • First pari- passu charge on all the fixed assets including land and building of company to Velan Hotel Green fields, Tirupur and Velan Hotel, Coonoor both present and future excluding solar water heater & street lighting equipments already hypothecated to Canara Bank • First pari- passu charge on the project land at S F No. 37 Part, 41 Part, Door Number 41, Kangeyam Road, Tirupur Town, Tirupur Taluk, and all the project assets are related to the expansion cum diversion project (Mall, Multiplex, Service apartments, convention center, renewable energy & renovation of hotels) both present and future <p>Collateral for both TL 1 & TL 2</p> <p>Second charge on the current assets of the Company</p> <p>Personal Guarantee of promoters</p>
2	Andhra Bank (Funding on Multiple Banking)	15/11/2010	TL 1 – Rs. 3,325.00 (for part financing the proposed	775.77	34 quarterly installments after construction period; i.e. repayment	<p>Primary</p> <p>Charge on the fixed assets of the Company at:</p> <p>– Velan Hotel Greenfields,</p>



	basis with Allahabad Bank)		expansion project of the company.) BR+4.25 % Bank Guarantee of Rs. 150.00		commences from Quarter-ending September 2012	<p>Tirupur</p> <ul style="list-style-type: none"> - Velan Hill Resort Hotel, Coonoor - Velan Esplanade Mall at Tirupur - Velan Esplanade Multiplex with service apartments - Velan Manchester Hall III (convention center) - Land of 55,300 sq ft earmarked for renewable energy plant - Additional building of Velan Hotels with a land area of 18,621 sq ft <p>Collateral:</p> <p>Second charge on the current assets of the Company</p> <p>Personal Guarantee of promoters</p>
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Sr. No.	Name of the Bank	Date of Sanction	Amount sanctioned (₹ in Lacs)	Amount o/s as on 31/03/11 (₹ in lacs)	Rate of interest (%)	Repayment Terms	Security
Others							
1	Sundaram Finance Ltd.	27/06/2009	10.00	6.71	15.01 %	48 monthly installments	Hypothecation of vehicle
		29/09/2010	4.00		11.90 %	24 monthly installments	
2	Canara Bank	15/03/2010	11.25	9.99	12.50 %	60 monthly installments of ₹ 25,790/- each commencing from 3 months of disbursement of loan	Mortgage of solar equipments at Velan Hotel, Coonoor
	TOTAL			2204.07			

CAPITAL STRUCTURE OF THE COMPANY

Details as on the date of Letter of Offer	Aggregate Value at Nominal Price (₹)	Aggregate Value at Issue Price (₹)
A. Authorized Capital 3,50,00,000 Equity Shares of ₹ 10/- each	35,00,00,000	35,00,00,000
B. Issued, Subscribed & Paid-up Capital 77,50,000 Equity Shares of ₹ 10/- each, fully paid – up	7,75,00,000	7,75,00,000
C. Present Rights Issue 2,67,37,500 Equity shares of ₹ 10/- each for cash at premium of ₹ 13 /- per Equity Share	26,73,75,000	61,49,62,500
D. Post Issue Capital 3,44,87,500 Equity shares of ₹ 10/- each	34,48,75,000	69,24,62,500
E. Share Premium Account Before the offer After the offer		Nil 34,75,87,500

Notes to Capital Structure:**1. Promoters' Contribution and Lock-in for the present issue**

The present issue being a rights issue, provisions of promoters' contribution and lock-in are not applicable.

2. The details of Locked-in, pledged and encumbered shares of Promoter and Promoter Group

Name of the Promoter/Promoter Group	Total Number of shares as on date of letter of offer	Number of shares pledged as on date of letter of offer
Mr. E.V. Muthukumara Ramalingam	27,85,566	41,883
Mr. M.R. Gautham	3,25,220	92,050
Mrs. M. Sasikala	3,95,770	1,00,000

Except as mentioned above none of the Equity Shares held by the Promoters and / or Promoter Group are pledged / locked-in / encumbered.

3. Present Rights Issue:

Type of Instrument	Ratio	Face Value (₹)	No. of shares	Issue Price (₹)	Consideration
Equity Shares	69:20 (69 Equity share for every 20 equity shares held)	10/-	2,67,37,500	23/-	Cash

4. Pre & Post issue shareholding pattern of the Company assuming full subscription in the present rights issue is given below:-

Sl. No	Category of Shareholder	No. of shareholders (Pre issue)	Pre-issue		Post-issue		Shares pledged or otherwise encumbered	
			Number of Shares	%	Number of Shares	%	Number of Shares	% of pre issue capital
(A)	Shareholding of Promoter and Promoter Group							
1	Indian							
(a)	Individuals/ Hindu Undivided Family	11	41,25,926	53.24	1,83,60,371	53.23	2,33,933	3.02
(b)	Central Government/ State Government(s)/Government company	-	-	-	-	-		
(c)	Bodies Corporate	1	2,41,500	3.12	10,74,675	3.11		
(d)	Financial Institutions/ banks	-	-	-	-	-		
(e)	Any Other (specify – Trust & Foundation)	-	-	-	-	-		
	Sub- Total (A)(1)	12	43,67,426	56.35	1,94,35,046	56.35	2,33,933	3.02
2	Foreign							
(a)	Individuals (Non-Resident Individuals/ Foreign non Individuals)	-	-	-	-	-		
(b)	Bodies Corporate	-	-	-	-	-		
(c)	Institutions	-	-	-	-	-		
(d)	Any other (specify)	-	-	-	-	-		
	Sub-Total (A)(2)	-	-	-	-	-		
	Total Shareholding of Promoter and Promoter Group (A)= (A)(1)+(A)(2)	12	43,67,426	56.35	1,94,35,046	56.35		
(B)	Public shareholding							
1	Institutions							
(a)	Mutual Funds/ UTI	2	7,000	0.09	31,150	0.09		
(b)	Financial Institutions/ Banks	-	-	-	-	-		
(c)	Central Government/ State Government(s)	-	-	-	-	-		
(d)	Venture Capital Funds	-	-	-	-	-		
(e)	Insurance Companies	-	-	-	-	-		
(f)	Foreign Institutional Investors	-	-	-	-	-		
(g)	Foreign Venture Capital Investors	-	-	-	-	-		
(h)	Any Other (specify) (Foreign National)	-	-	-	-	-		
	Sub-Total (B)(1)	2	7,000	0.09	31,150	0.09		
2	Non-institutions							
(a)	Bodies Corporate	141	3,01,951	3.90	13,43,682	3.89		
(b)	Individuals-							
	i. Individual shareholders holding nominal share capital up to ₹ 1 lakh.	8,650	21,99,746	28.38	97,88,870	28.38		
	ii. Individual shareholders holding nominal share capital in excess of ₹ 1 lakh.	30	7,16,905	9.25	31,90,227	9.25		

Sl. No	Category of Shareholder	No. of shareholders (Pre issue)	Pre-issue		Post-issue		Shares pledged or otherwise encumbered	
			Number of Shares	%	Number of Shares	%	Number of Shares	% of pre issue capital
(c)	Individuals (Non-Resident Individuals/ Foreign non Individuals)	10	30,165	0.39	1,34,234	0.38		
(d)	Overseas Corporate Bodies	1	1,000	0.01	4,450	0.01		
(e)	Clearing Members	40	95,515	1.23	425042	1.23		
(f)	Hindu Undivided Family	53	30,292	0.39	134799	0.39		
	Sub-Total (B)(2)	8,925	33,75,574	43.65	15021304	43.55		
	Total public shareholding (B)= (B)(1)+(B)(2)	8,927	33,82,571	43.65	1,50,52,454	43.64		
	TOTAL (A)+(B)	8,939	77,50,000	100.00	3,44,87,500	100.00	2,33,933	3.02
(c)	Shares held by Custodians and against which Depository Receipts have been issued	-	-	-	-	-		
	GRAND TOTAL (A)+(B)+(C)	8,939	77,50,000	100.00	3,44,87,500	100.00	2,33,933	3.02

The total number of shareholders of the Company as on 30/06/2011 is 8,939.

5. The pre- issue and post issue shareholding of Promoter and Promoter Group are as follows:

Particulars	Present		Post Rights	
	No. of equity shares of ₹ 10/- each	% of present capital	No. of equity shares of ₹ 10/- each	% of post issue capital
a) Promoters				
Mr. E.V. Muthukumara Ramalingam	27,85,566	35.94	1,23,95,769	35.94
Mr. M.R. Gautham*	6,97,920	9.01	31,05,744	9.01
Mrs. M. Sasikala	3,95,770	5.11	17,61,177	5.11
SUB - TOTAL	38,79,256	50.06	1,72,62,689	50.06
b) Immediate relatives of promoters/ directors (Spouse, Parent, Child, Brother, Sister):				
Ms. M Pallavi	1,63,950	2.11	7,29,578	2.11
Ms. Sharmada Gautham	32,170	0.42	1,43,157	0.42
Mr. M Sivasubramainam	50	0.00	223	0.00
Mr. Arun G	20,500	0.26	91,225	0.26
Mr Vishnu G	14,000	0.18	62,300	0.18
Ms. Muthulakshmi & Lakshmi Balasubramaniam	15,500	0.20	68,975	0.20
Ms Muthulakshmi G	500	0.01	2,225	0.01
SUB - TOTAL	2,46,670	3.19	10,97,682	3.19
c) Company in which 10% or more of the share capital is held by the promoter/his immediate relative, firm or HUF in which the promoter or his immediate relative is a member.				
	2,41,500	3.11	10,74,675	3.11

Particulars	Present		Post Rights	
	No. of equity shares of ₹ 10/- each	% of present capital	No. of equity shares of ₹ 10/- each	% of post issue capital
M/s. Shree Vallee Enterprises Pvt. Ltd.				
d) Company in which the Company mentioned in (c) above holds 10% or more of the share capital				
e) HUF in which aggregate share of the promoter and his immediate relatives is equal or more than 10% of the total.				
GRAND TOTAL	43,67,426	56.35	1,94,35,046	56.35

*Includes equity shares of deceased promoter Mr. R.V.E. Venkatachalam.

The entities belonging to the Promoter/Promoter Group have undertaken to subscribe to their rights entitlement in full and collectively to subscribe to the unsubscribed portion from public shareholders. It will be ensured that in the event of such subscription by the promoters, their post rights issue holding in the Company does not result in the public shareholding of the Company falling below the requisite levels as prescribed under clause 40A of the Listing Agreement.

Presuming no subscription is received from other shareholders and promoters(s)/promoter group as mentioned above subscribing to the unsubscribed portion as mentioned above, their shareholding may increase to 90.19 % of the post rights issue equity capital of the Company. As a result of this subscription and consequent allotment, the promoters/promoter group may acquire shares over and above their entitlement in the issue which may result in their shareholding in the Company being above their current holding. This subscription and acquisition of additional equity shares by the Promoters/Promoter Group, if any, will not result in change of control of the management of the Company and shall be exempt from the requirements of making a public offer in terms of provision to Regulation 3(1)(b)(ii) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997.

The promoter and promoter group of VHL have towards the construction of the proposed Mall and Multiplex as envisaged in the objects of the issue infused funds in the company by way of Share Capital Advance. To the extent of ₹ 594.65 lacs brought in by SVEPL and ₹ 3911.27 lacs brought in by the other promoters/ promoter group equity shares in the issue will be issued without any cash consideration. The amount of funds brought in by the promoter and promoter group entity would be adjusted towards their rights entitlement and any subscription to the unsubscribed portion in the Rights Issue. The balance if any payable to the promoter and promoter group entity would be paid back out of the proceeds of the Rights issue.

The details of the Share capital advance brought in by the promoter and promoter group entity as on 01/07/2011 is as given hereinunder :

Name of the entity	Amount brought in as share capital advance (₹ in lacs)
Sri.E.V.Muthukumara Ramalingam	2210.35
Sri.M.R.Gautham	1081.26
Smt.M.Sasikala	314.04
Smt.G.Sharmada	175.53
Smt.M.Pallavi	130.09
Shree Vallee Enterprises Pvt Ltd	594.65
Total	4505.92

6. Details of shares acquired by promoters and promoter group in the last one year immediately preceding the date of filing the letter of offer with the designated stock exchange and SEBI is as mentioned below:

Sl. No.	Date of Allotment/Transfer	Nature of consideration	No. of Equity Shares	Face Value (₹)	Issue/Acquisition Price (₹)
Mr. E. V. Muthukumara Ramalingam					
1	11/06/2010	Bought	5000	10	32.00

7. The details of the shareholders holding more than one percent of the share capital of the Company as on 30/06/2011 are as follows:

Sl. No.	Name of the Shareholder	No. of Shares	Shares as % of Total No. of Shares
1	Mr. E.V. Muthukumara Ramalingam	27,85,566	35.94
2	Mrs. M. Sasikala	3,95,770	5.11
3	Mr. M.R. Gautham*	6,97,920	9.01
4	M/S Shree Vallee Enterprises Pvt. Ltd	2,41,500	3.11
5	Mr. P.S. Kathiresan	1,95,500	2.52
6	Mrs. M. Pallavi	1,63,950	2.11

*Includes equity shares of deceased promoter Mr. R.V.E. Venkatachalam

8. The Company has not issued any warrant, option, convertible loan, debenture or any other securities convertible at a later date into equity, which would entitle the holders to acquire further equity shares of the Company.
9. Equity shares of the Company are being traded in compulsory dematerialized mode. The market lot of the equity shares in dematerialized mode is 1 (one)
10. The Company/Promoters/Directors/Lead Manager have not entered into buy back or similar arrangements for purchase of securities issued by the Company.
11. As on the date of filing the letter of offer there are no partly paid up shares in the Company.
12. All the securities offered through this issue shall be made fully paid up or forfeited within twelve months from the date of allotment of securities.
13. At any given time there shall be only one denomination for the shares of the Company and the disclosures and accounting norms specified by SEBI from time to time will be complied with.
14. The Company shall not make any further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or public issue or in any other manner during the period commencing from the submission of the Letter of Offer to SEBI for the Rights Issue till the equity shares referred in the Letter of Offer have been listed or application money refunded, if any.
15. Further, presently the Company does not have any proposal, intention, negotiation or consideration to alter the capital structure by way of split/ consolidation of the denomination of the shares/ issue of shares on a preferential basis or issue of bonus or rights or public issue of Equity Shares or any other securities within a period of six months from the date of opening of the present issue.
16. As on date the Lead Manager and their associates do not hold any equity shares in Velan Hotels Limited

OBJECTS OF THE ISSUE

The objects of the Right Issue are to part finance the cost of funding of the following:

- 1) Setting up of Velan Esplanade Mall.
- 2) Setting up of Esplanade Multiplex with service apartments
- 3) Setting up of a Convention Hall at Tirupur
- 4) Setting up of a Bio-mass based power plant (Co-Gen Energy Project) of 2.7 MW capacity
- 5) Renovation of Velan Hotel Greenfields, Tirupur and addition of a restaurant and sports bar therein
- 6) Renovation and expansion of Velan Hotel at Coonoor and addition of 6 rooms
- 7) Contingencies
- 8) Pre-operative & Preliminary expenses
- 9) Margin money for Working Capital Gap
- 10) Meet the issue expenses of the rights issue
- 11) General Corporate Expenses

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

Rationale of the project:

The company owns and manages a Three Star hotel – Velan Hotel Greenfields, at Kangeyam Road, Tirupur, Velan Hotel at Coonoor, Velan Uthara Restaurant – Tirupur and The Velan Food Park in Coimbatore.

There is a significant demand for a Mall, Multiplex and entertainment hub in the city. Moreover, there is immense popularity of multiplexes and organized retail across the globe as well as India. The company proposes to capitalise on this trend by developing a mall, multiplex next to the existing premises.

Velan Hotels has been the venue for all major fairs and exhibitions. The larger exhibitions are at present held in the huge land available next to the hotel by erecting temporary structures. There has been a request and demand from participants that if there is a permanent exhibition and convention centre, they will save cost of erecting and dismantling the structures. For Velan, a permanent convention centre will ensure retaining the existing customers by offering better facilities, which will also result in higher revenues. Hence, it was decided to construct a convention centre in the land adjacent to the hotel.

At present the entire air condition needs for Velan Hotel is run by a bio-mass plant, which is very cost effective. With this experience, the company proposes to set up a 2.7 M.W bio-mass based power plant adjacent to the existing hotel. This will meet the power and also the air conditioning needs of existing hotels and proposed new projects viz., Malls, Multiplex & convention centre entirely. This energy plant will bring down the cost of power drastically which will push up the profitability of the hotel. There will be continuous availability of power without any interruptions. The surplus power will be sold to the TNEB grid which is another revenue stream for the company.

The project also envisages additions and renovation of the existing hotels in Tirupur and Coonoor. This will ensure upgradation of facilities to meet the competition.

Cost of the project

(₹ In lacs)

Project Component	Mall	Multiplex	Convention centre	Renewable energy	Additions/renovation	Total Cost
Land and site development						3955.38
Building & civil works	1511.73	1713.76	529.70	187.19	151.52	4093.91
Plant & Machinery	408.11	464.11	62.00	2049.36	-	2983.58
Miscellaneous fixed assets	37.53	70.15	80.63	-	165.02	353.33
Total (A)						11386.20
Contingencies						222.92
Pre-operative & Preliminary expenses						832.81
Margin for working capital						54.44
Total (B)						1110.17
Total Project Cost(A+B)						12496.37
Issue Expenses						60.00
General Corporate purpose						441.25
Total Cost						12997.62

Means of finance

Particulars	Amount (₹ In lacs)
Proceeds of the Rights Issue	6149.62
Term loan from banks	6650.00
Internal accruals	198.00
Total project cost	12997.62

The proposed project of the company has been appraised by Andhra Bank and Allahabad Bank and towards part financing of the integrated project of construction of the shopping mall, multiplex, convention centre, setting up of power plant and for renovation and expansion of the existing hotels, the company has been sanctioned credit limits from Andhra Bank and Allahabad Bank. The details of the sanctions are as under:

Name of the bank	Date of sanction	Sanctioned amount (₹ in lacs)	Proposed limits to be availed (₹ in lacs)
Allahabad Bank	07.12.2010	Fund based : Term loan 1 : 642.00 Term loan 2: 3325.00 Non fund based: 150.00	Fund based : Term loan 1: 642.00 Term loan 2: 3325.00 Non fund based: 150.00
Andhra Bank	15.11.2010	Fund based : Term loan 1: 629.00 Term loan 2: 4221.00 Non fund based: 150.00	Fund based : Term loan 1: Nil.* Term Loan 2 : 3325.00 Non fund based: 150.00

*The company is not proposing to avail the term loan I of ₹ 629 lacs as sanctioned by Andhra bank for the takeover of loan from Bank of Bahrain and Kuwait since the same has been substituted through the loan of ₹ 642 lacs from Allahabad Bank.

The detailed terms and conditions of sanction are as given hereinunder. Refer page 12 for principal terms of loans and assets charged as security towards the funds availed:

Sr. No.	Name of the Bank	Date of Sanction	Amount sanctioned (₹ in Lacs)	Rate of interest (%)	Repayment Terms	Security
1	Allahabad Bank	07/12/2010	<p>TL 1 - 642.00 (Takeover of Foreign Currency Term Loan from Bank of Bahrain & Kuwait with term loan o/s of ₹ 642.00 lacs)</p> <p>TL 2- 3,325.00 (for part financing the proposed expansion project of the company.)</p> <p>Bank Guarantee of ₹ 150.00</p>	<p>BR+4.25%</p> <p>BR+4.25%</p>	<p>50 Equitable Monthly Installments and the same will be coterminous with BBK sanction</p> <p>34 quarterly installments after construction and moratorium period of 1.5 years</p>	<p>Primary</p> <ul style="list-style-type: none"> • First pari- passu charge on all the fixed assets including land and building of company to Velan Hotel Green fields, Tirupur and Velan Hotel, Coonoor both present and future excluding solar water heater & street lighting equipments already hypothecated to Canara Bank • First pari- passu charge on the project land at S F No. 37 Part, 41 Part, Door Number 41, Kangeyam Road, Tirupur Town, Tirupur Taluk, and all the project assets are related to the expansion cum diversion project (Mall, Multiplex, Service apartments, convention center, renewable energy & renovation of hotels) both present and future <p>Collateral Second charge on the current assets of the Company</p>
2	Andhra Bank*	15/11/2010	<p>TL 1 – 629.00 (Takeover of the account from Bank of Bahrain & Kuwait with term loan o/s of ₹ 629.00 lacs)</p>	<p>BR+4.25%</p> <p>BR+4.25%</p>	<p>50 Equitable Monthly Installments and the same will be coterminous with BBK sanction</p> <p>34 quarterly installments after a holiday period of one quarter from the Date of Commence</p>	<p>Primary</p> <p>Charge on the fixed assets of the Company at:</p> <ul style="list-style-type: none"> – Velan Hotel Greenfields, Tirupur – Velan Hill Resort Hotel, Coonoor – Velan Esplanade Mall at Tirupur – Velan Esplanade Multiplex with service apartments – Velan Manchester Hall

			TL 2-₹ 4,221.00 (for part financing the proposed expansion project of the company) Bank Guarantee of ₹ 150.00	ment of commercial operation	(convention center) – Land of 55,300 sq ft earmarked for renewable energy plant – Additional building of Velan Hotels with a land area of 18,621 sq ft Collateral: Second charge on the current assets of the Company Personal Guarantee of promoters
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The restrictive covenants governing the above said loans are as under. During the currency of the bank finance, the company shall not, without bank's permission in writing:

- effect any change in company's capital structure
- formulate any scheme of amalgamation
- implement any scheme of expansion or acquire fixed assets
- make investments/ advances or deposit amounts with any other concern
- enter into borrowing arrangements with any bank/ financial institutions/ company
- undertake guarantee obligations on behalf of any other company
- declare dividends for any year expect out of profits relating to that year
- change in composition of company's board of directors.

Break-up of the cost of project

Land and Site development: The company proposes to set up the projects on a plot of land admeasuring 2,44,642 sq. ft adjacent to its existing hotel Velan Hotel-Greenfields at Tirupur. The land which was owned by the promoters namely Shri E.V. Muthukumara Ramalingam and his son Shri. M.R.Gautham has been purchased by the company but the same is yet to be registered in the name of the company. The plots of land are classified as Commercial Area Class I and the guideline value of the land is estimated at ₹1485 per sq.ft. The total cost of land works out to ₹ 3632.93 lacs. It is estimated that an amount of ₹ 314.45 lacs would be incurred by the company for the registration of the land and a further sum of ₹ 8.00 lacs is estimated to be incurred on the site development. The details of the proposed land area to be utilized for each project are as tabled hereinunder:

Sl. No.	Project	Land Area (sq. ft)
1.	Velan Esplanade mall	49400
2.	Velan Esplanade multiplex and service apartment	85020
3.	Convention centre	36300
4.	Co-gen plant	55300
5.	Hotel addition / renovation	18622
	Total	244642

The company has appointed M/s. NRM Constructions for the construction of the building for the various projects as mentioned above. M/s. NRM Constructions is not related to any of the promoters/ directors of the company.

The detailed project wise breakup of the other items of the cost is as given herein under:

1. Construction of Velan Esplanade Mall :

The company proposes to construct a mall with a total built up area of about 1,27,378 sq ft. The mall would house stores offering branded clothing, textiles and fashion accessories, health and beauty care, business centre and other signature outlets. The proposed mall plan would also have a food court and 2 Food and beverage outlets. The company has entered into memorandum of understanding with retail players like Reliance Trends Ltd., Naihaa (Naidu Hall), Reliance Footprints, Reliance Vision Express and Dominos for setting up their outlets at the mall. The company also proposes to open a Spa centre – Velan Spa at one of the outlets of the mall.

Building and civil works

The company proposes to construct a super structure with a built up area of approx 1,28,000 sq. ft. The details of the area under construction with the cost of construction for each floor as given by M/s. NRM Constructions vide their quotation dated 20/09/2010 is as under :

Sr. No	Particulars	Area (Sq. Ft)	Amount (₹ in lacs)
1	Basement Floor	29,922	406.34
2	Ground Floor	29,330	273.65
3	First Floor	20,815	194.20
4	Second Floor	23,213	216.58
5	Third Floor	24,720	230.51
6	Fourth Floor – With sky roofing	29,300	190.45
	Total	1,27,378	1,511.73

Plant & Machinery

The total cost of the plant and machinery to be acquired as estimated by the company based on the quotations obtained from various suppliers is ₹ 408.11 Lacs. No second hand equipment is proposed to be purchased. The detailed break up is given herein under:

Sr. no	Description	Quantity/ Numbers	Name and Place of Suppliers	Amount (₹ lacs)	Date of Quotation
1.	Elevators & Escalator	8 Nos.	Johnson Lifts Private Limited, Chennai	124.25	20/09/2010
2.	Electrical Installation	Service provider for Electrical installation work.	Electronics and Controls Corporation, Coimbatore	92.65	20/09/2010
3.	Air-Conditioners	4 Nos.	Utility Projects & Services Pvt Ltd, Bangalore	110.50	20/09/2010
4.	Gen-Sets	2 Nos.	Sri Ganapaty Traders, Erode	39.61	20/09/2010
5.	Building Management Systems	Service Provider for main security and systems integration	Venba Building Management Systems	20.00	21/09/2010
	Total			408.11	

Miscellaneous fixed assets

A total amount of ₹ 37.53 lacs has been provided for the various miscellaneous fixed assets such as furniture, fittings and interiors for the common area and fire fighting system.

Present status of Construction of Velan Esplanade Mall

The building and civil work pertaining to the Velan Esplanade Mall is presently complete and the company has spent an amount of ₹ 1523.76 lacs upto 04/07/2011 on the same. Further an amount of ₹ 303.13_lacs has been spent on the plant and machinery being installed in the Velan Esplanade Mall. The above mentioned costs have been funded through internal accruals, loans from banks and funds brought in by the promoters and promoter group of VHL.

State Bank of India (SBI) had sanctioned a loan to Shree Vallee Enterprises Pvt. Ltd (SVEPL) one of the promoters of VHL, ₹ 10 crores vide their sanction letter dated 12.06.2008 to meet the expenses relating to the Mall Complex as proposed now by Velan Hotels Ltd. Out of the said sanction of ₹ 1000 lacs, SVEPL had availed of loan to the extent of ₹ 750 lacs. The mall complex has been taken over in the books of VHL during February 2011. The loan of SVEPL has since been repaid to SBI through the proceeds of the fresh loan sanctioned by Allahabad Bank and Andhra Bank to Velan Hotels Ltd.

Apart from the above, SVEPL has also brought in an amount of ₹ 594.65 lacs. Funds have been infused in SVEPL from time to time from April 2007 onwards. The funds so infused have been used for the construction of the mall complex of VHL and has been accounted for in the books of VHL as on 03/02/2011 as share application money from SVEPL. The details of the year wise break up of infusion of funds by SVEPL for the construction of mall is as given below:

	Period of infusion of funds	Amount in lacs (₹)
1.	01/04/2007 – 31/03/2008	63.00
2.	01/04/2008 – 31/03/2009	355.00
3.	01/04/2009 – 31/03/2010	33.00
4.	01/04/2010 – 31/12/2010	143.65
	TOTAL	594.65

The funds brought in by SVEPL in its books have been utilized in the same period in which they have been brought in for the construction of mall as given in the table above.

The amount of funds brought in by SVEPL would be adjusted towards the rights entitlement of SVEPL and any subscription to the unsubscribed portion in the Rights Issue. The balance if any payable to SVEPL would be paid out of the proceeds of the Rights issue.

2. Construction of Esplanade Multiplex with service apartments

The company would be utilizing an area of 85,020 sq ft for a built-up area of 1,26,780 sq. ft for the Esplanade Multiplex. The multiplex would house a 6 screen 2212 seater movie hall with all the modern amenities. The Ground Floor of the multiplex building would consist of 20 Serviced Apartments with a bar and a food outlet. The façade of this building would house shops in a total area of 6652 sq ft. The service apartments would each have one bedroom, a kitchenette, a drawing-room and a sit-out. Ideally suited for long-staying overseas guests.

Building and civil works

The company proposes to construct a super structure with a built up area of approx 1,26,780 sq. ft. The details of the area under construction with the cost of construction for

each floor as given by M/s. NRM Constructions vide their quotation dated 20/09/2010 is as under :

Sl. No	Particulars	Area (Sq. Ft)	Amount (₹ in lacs)
1	Basement Floor	42,260	612.77
2	Ground Floor	42,260	570.51
3	First Floor : Multiplex: 12 Metre High	42,260	530.48
	Total	1,26,780	1,713.76

Plant & Machinery

The total cost of the plant and machinery to be acquired for installation at the Esplanade multiplex as estimated by the company based on the quotations obtained from various suppliers is ₹ 464.11 Lacs. The detailed break up is given herein under:

Sr. no	Description	Quantity/ Numbers	Name and Place of Suppliers	Amount (₹ Lacs)	Date of Quotation
1.	Elevators & Escalator	4 Nos.	Johnson Lifts Private Limited, Chennai	67.80	20/09/2010
2.	Electrical Installation	Service provider for Electrical installation	Electronics and Controls Corporation, Coimbatore	85.75	20/09/2010
3.	Air-Conditioner	3 Nos.	Utility Projects & Services Pvt Ltd, Bangalore	95.03	20/09/2010
4.	Interiors for Serviced Apartments	Service provider for Interiors	Kreative & Creation Interiors, Chennai	190.34	21/09/2010
5.	Interiors for F&B Outlets	--	Kreative & Creation Interiors, Chennai	25.19	21/09/2010
	Total			464.11	

Miscellaneous fixed assets

An amount of ₹70.15 lacs has been provided for the various miscellaneous fixed assets such as furniture and fittings and interiors with respect to fire systems, common area interiors and landscaping.

3. Set-up a Convention Hall of 32,000 sq ft at Tirupur.

The company proposes to construct an air-conditioned convention hall of 32,000 sq ft adjacent to the present 3 star hotel of the company at Tirupur. The Convention Hall shall have a seating capacity of 1250-1400 pax seating/500 pax seated dining, provision for conducting machinery expos and amenities like high roofing, air-conditioning, elevator access and spacious car- parking.

Building and civil works

The company proposes to construct a super structure with a built up area of approx 32,000 sq. ft. The details of the area under construction with the cost of construction for each floor as given by M/s. NRM Constructions vide their quotation dated 20/09/2010 is as under :

Sr. No	Particulars	Area (Sq. Ft)	Amount (₹ in lacs)
1	Ground Floor	16000	280.00
2	First Floor	16000	249.70
	Total	32000	529.70

Plant & Machinery

The total cost of the plant and machinery to be acquired for installation at the Convention Centre as estimated by the company based on the quotations obtained from various suppliers is ₹ 62.00 lacs. The total cost includes the transportation and erection charges. The detailed break up is given herein under:

Sl. no	Description	Quantity/ Numbers	Name and Place of Suppliers	Amount (₹ Lacs)	Date of Quotation
1.	Electrical Installation	Service provider for Electrical installation work	Electronics and Controls Corporation, Coimbatore	12.00	20/09/2010
2.	Air-Conditioner	1 No.	Utility Projects & Services Pvt Ltd, Bangalore	50.00	20/09/2010
	Total			62.00	

Miscellaneous fixed assets

An amount of ₹ 80.63 lacs has been provided for the various miscellaneous fixed assets such as furniture and fittings and interiors with respect to fire systems.

4. Bio-mass based Co-Gen Energy Project (Renewable energy project)

The company proposes to set up a Combined Heat and Power (CHP) plant of 2.7 MW electricity generations through producer gas, using Standard Indian Institute of Science, Bangalore Gasification technology. The renewable energy project is designed to meet the complete power and air-conditioning needs of the existing 3-star hotel, mall and multiplex at Tirupur. The bio-mass based power plant is to be located within the hotel complex so that the power generated can be directly used without wheeling and banking. More importantly the waste heat recovered will support 800 tons of refrigeration, leading to saving of about 1 MW of power, approx 70,00,000 units per year. The power generated over and above the captive requirement for the hotel, mall, multiplex and convention centre is to be sold to the TNEB grid.

The company has entered into a Biomass Energy Purchase Agreement with Tamilnadu Generation and Distribution Corporation (TANGEDCO) vide agreement dated 26/05/2011, wherein TANGEDCO has agreed to buy Biomass Energy from the company at the rates notified by Tamilnadu Electricity Regulatory Commission (TNERC) from time to time. The agreement is valid for a minimum period of 20 years from the date of execution.

The company has chosen to set up a bio mass based power plant as the capital cost involved is low and the raw material for the production of energy is abundantly available. The by-products of the bio-mass based power plant are wood, charcoal and activated carbon which can further be utilized in various other forms of energy. The renewable energy plant shall be constructed on the land area of 55,300 sq ft with built up area of 18,000 sq ft. The advantage of biomass based power over other modes of power can be summarized as below:

Advantage of Biomass based Power Generation vs other Renewable energy sources				
Parameters	Wind*	Hydel*	Solar*	BIOMASS
Capital cost	High	High	Very high	Low
Adequacy for Captive Use	Inadequate	Inadequate.	Inadequate.	Total captive use feasible. Maximum Demand can be surrendered.
Availability	Seasonal	Seasonal	Daytime	In abundance
Location	Few (Geographical constraints)	Few (Geographical constraints)	Terrace with Adequate Sunlight	Any where
Cost of Fuel	Nil		Nil	Low. Can be further reduced with captive energy plantations
By Products	Nil		Nil	Wood Charcoal, Activated Carbon. Thermal energy equal to 150% of power
Consistency and Plant Load factor	Highly seasonal and Inconsistent Load Factor 20 to 30%			Uniform Generation throughout the year Load Factor >75%
Grid connection	Generated power generally connected to rural feeder -Unreliable grid availability			Power generated has nearly unity power factor, continuous and therefore fed to reliable state grid 11/110 Kv. Available 24x7

The estimated power consumption of the company after the proposed expansion is 650 lac units per annum. The average cost of power per unit if purchased conventionally from TNEB is around ₹ 6.80 and the average cost of generation of power by the company is 4.80 per unit. Thus the savings to the company would be of around ₹ 2 per unit of power consumed with the air conditioning requirements being entirely met through the heat generated which is a by-product of the power plant.

The detailed break up of the cost of setting up the power plant is as given hereinunder :

Building and civil works

Based on the estimates given by NRM constructions, the construction of the shed for the proposed bio mass plant would cost around ₹187.19 lacs. The details of the area under construction as given by M/s. NRM Constructions vide their quotation dated 20/09/2010 is as under:

Sl. No	Particulars	Area (Sq. Ft)
1	Main Factory Building	12000
2	Raw Material Storage	6000
	Total	18000

Plant & Machinery

The total cost of the plant and machinery to be acquired has been estimated at ₹2049.36 lacs. No second hand equipment is proposed to be purchased. The detailed break up is given herein under:

Sr. no	Description	Quantity/ Numbers	Name and Place of Suppliers	Amount (₹ lacs)	Date of placement of order
1.	HT and MV Electrical Installation	Service provider for electrical installation work.	Genmech Systems, Coimbatore	148.44	17/05/2011
2.	Design of Plants, Engineering, Plant Constructions, operation and maintenance(Supply of Producer Gas Gensets (Type-JMS-320-GS-SL-415V and JMS-620-GS-SL-415V)	2 Nos. (1 each)	Clarke Energy India Pvt Ltd (GE Jenbacher)	927.88	28/03/2011
3.	Supply of Bio-mass Gasifier and associated equipment	2 Nos – 1600 kg/hr	Bioresidue Energy Technologies Pvt Ltd	604.38	17/05/2011
4.	Supply & installation of Heat Recovery System	1 No.	Voltas Ltd.	368.66	22/03/2011
	Total			2049.36	

5. Renovate Velan Hotel Greenfields and addition of a restaurant and sports bar at Tirupur

The company proposes to renovate 18 deluxe rooms at the Tirupur Hotel, renovate the coffee shop, bar and the signature restaurant. A sports-bar and a fresh food outlet are proposed to be introduced at this hotel as well. The total cost of renovation as estimated by the company is ₹ 176.97 lacs and the details of the cost is as given hereinunder :

Building & Civil Works at Tirupur

Particulars	Amount (₹ in lacs)
To renovate 18 rooms at the existing hotel	24.58
To renovate the Windows (signature restaurant)	6.90
To renovate Bhavani - coffee shop	3.88
To renovate Rainbow bar	6.90
To construct another food-outlet	8.97
To construct a Sports Bar	6.86
Other miscellaneous construction expense	20.00
TOTAL	78.09

Miscellaneous fixed assets

An amount of ₹ 98.88 lacs has been provided for the various miscellaneous fixed assets such as furniture and fittings and interiors at the hotel in Tirupur

6. Renovation of Velan Hotel at Coonor and addition of 6 rooms

The company proposes to renovate 10 deluxe rooms at the Coonor Hotel and add 6 rooms at the hotel to meet the increase demands fuelled by the business opportunities provided by the Sports Authority of India in selecting the Coonor hotel as their destination for high-altitude training. The total cost of renovation and addition of rooms as estimated by the company is ₹ 139.57 lacs and the details of the cost is as given hereinunder

Building & Civil Works at Coonoor

Particulars	Amount (₹ in lacs)
To renovate 10 rooms at the existing hotel	48.70
To construct 6 additional rooms at Coonoor	15.73
Other miscellaneous construction expense	9.00
TOTAL	73.43

Miscellaneous fixed assets

An amount of ₹ 66.14 lacs has been provided for the various miscellaneous fixed assets such as furniture and fittings and interiors at the hotel in Coonoor

7. Contingencies

The Company has made provision for contingencies at the rate of 3% of the capital expenditure to be incurred on all the projects that includes Building and civil works, Plant and Machinery, and Miscellaneous Fixed Assets amounting to ₹222.92 lacs.

8. Pre-operative and preliminary expenses

An amount of ₹ 832.81 lacs has been provided to meet the preliminary and preoperative expenses that include expenses such as Consultancy fees, Architect Fee, Project Appraisal Fee, Fee for Building Plan Approval, Leasing Commission, Travel, Boarding & Lodging, Incidental Expenses and Interest during the period of construction etc.

Margin money for Working capital

(₹ In Lacs)

Particulars	2011-12 (Estimates)
(A) Current Assets	
Inventories	84.22
Sundry Debtors	240.07
Other current assets	160.15
Total Current Assets	484.44
(B) Current Liabilities	
Sundry Creditors	74.76
Other current liabilities	191.92
Total Current Liabilities	266.68
Working Capital Gap (A)-(B)	217.76
Margin Money to be financed through the rights issue	54.44
Bank Finance	124.50

Basis of estimation of working capital requirement

Particulars	No. of days
Inventories	80
Sundry Debtors	60
Sundry Creditors	45

The present working capital requirements of the company are met through the internal accruals. The company shall make application to the banks for working capital requirement for the power plant at an appropriate time.

9. Issue expenses

The breakup of estimated issue expenses is as under:

Particulars	Expense (₹ in Lacs)	Expense (% of the total expenses)	Expense (% of the Issue size)
Fees of Intermediaries	20.00	33.33	0.33
Fees to other Intermediaries including Registrar, legal counsel and Advisor	20.00	33.33	0.33
Printing & Distribution	10.00	16.67	0.16
Statutory Advertising and Marketing	4.00	6.67	0.07
Miscellaneous Expenses	6.00	10.00	0.10
Total Issue Expenses	60.00	100.00	0.98

10. General Corporate Purpose

The Company proposes to utilize a sum of ₹ 441.25 lacs for general corporate purposes that include meeting exigencies which the company in ordinary course of business may face including expenses relating to brand building exercise or any other purpose as approved by the Board.

SCHEDULE OF IMPLEMENTATION

Particulars	Commencement	Completion
Land & Site development	Already Commenced	
Construction of :		
Esplanade Mall	Already Commenced	October 2011
Esplanade Multiplex	February 2011	June 2012
Convention Hall	February 2011	June 2012
Bio-mass based power plant	February 2011	January 2012
Renovation / additions of restaurant at Tirupur Hotel	January 2011	October 2011
Renovation / additions of rooms at Coonoor Hotel	January 2011	October 2011

YEAR WISE BREAK-UP OF THE PROCEEDS TO BE USED

Particulars	₹ in Lacs		
	Amount Spent till 01.07.2011	Amount to be spent during 2011-2012	Total
Land & Site development	3628.79	326.59	3955.38
Esplanade Mall	1826.89	130.49	1957.38
Esplanade Multiplex	177.18	2070.84	2248.02
Convention Hall	76.54	595.79	672.33
Bio-mass based power plant	492.46	1744.09	2236.55
Renovation / additions at Tirupur / Coonoor Hotel Properties	242.41	74.13	316.54
Sub - total	6444.27	4941.93	11386.20
Contingencies	0.00	222.92	222.92
Pre-Operative & Preliminary Expenses	320.09	512.72	832.81
Margin for Working Capital	0.00	54.44	54.44
Issue Expenses	37.00	23.00	60.00
General Corporate Purpose	--	441.25	441.25
Total	6801.36	6196.25	12997.62

Mr. P. Easvaramoorthy, Chartered Engineer has made an independent valuation of the progress on civil work made on the project upto 30/06/2011 and has certified the same vide certificate dated 04/07/2011. The details of the same are as under:

Project Component (Civil work)	Value (₹ in lacs)
Mall	1523.76
Convention Hall	46.43
Addition / Renovation at Coonoor and Tirupur Hotel	112.56

SOURCES AND DEPLOYMENT OF FUNDS

As per the certificate dated July 21, 2011 of Mr. S.S.Ravichandran, Chartered Accountant the company has deployed an amount of ₹ 6801.36 lacs till July 01, 2011. The details of the same are as under:

Particulars	Amount (₹ in lacs)	Amount (₹ in lacs)
DEPLOYMENT OF FUNDS		
Land and site development		3628.79
Building & Civil Works		1705.89
Plant and Equipment		431.42
Advances to Suppliers and Contractors		491.76
Pre-Operative Expenses		85.04
Preliminary Expenses		235.05
Misc.Fixed Assets		223.41
Total		6801.36
SOURCES OF FUNDS		
Andhra Bank Term Loan		1050.22
Allahabad Bank Term Loan		1049.52
Share Advance :		
Sri.E.V.Muthukumara Ramalingam	2210.35	
Sri.M.R.Gautham	1081.26	
Smt.M.Sasikala	314.04	
Smt.G.Sharmada	175.53	
Smt.M.Pallavi	130.09	
M/s.Shree Vallee Enterprises Pvt Ltd	594.65	
		4505.92
Internal accruals		195.70
Total		6801.36

The Share Advance brought in by the Promoters and Promoter group, would be adjusted towards their rights entitlement and any subscription to the unsubscribed portion in the Rights Issue. The balance if any payable to these entities would be paid out of the proceeds of the Rights issue.

BRIDGE LOAN

The company has not raised any bridge loan which will be repaid from the issue proceeds.

INTERIM USE OF FUNDS

Pending utilization for the purposes described in "objects of the issue" above, the Company intends to temporarily invest the funds in high quality interest or dividend bearing liquid instruments including deposits with banks for the necessary duration. Such investments would be in accordance with any investment criteria approved by our Board of Directors from time to time.



BASIC TERMS OF THE ISSUE

The Equity shares being offered are subject to the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company, the terms of this Letter of Offer and other terms and conditions as may be incorporated in the Allotment advice and other documents /certificates that may be executed in respect of the issue. The Equity shares shall also be subjected to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, GOI, RBI, ROC and /or other authorities as in force on the date of issue and to the extent applicable.

STATEMENT OF TAX BENEFITS

STATEMENT OF POSSIBLE TAX BENEFITS AVAILABLE TO THE COMPANY AND ITS SHAREHOLDERS. AS PER THE CERTIFICATE ISSUED BY THE INTERNAL AUDITORS OF THE COMPANY

To,
The Board of Directors
Velan Hotels Limited
No:41 Kangeyam Road,
Tirupur – 641 604

I Mr. K.Madhan, Chartered Accountant the Internal Auditor of Velan Hotels Limited having its registered office at No:41, Kangeyam Road, Tirupur-641 604. I hereby certify that under the current tax laws, the following tax benefits inter-alia, will be available to the Company and the members of the Company. However a member is advised to consider in his/her/its own case the tax implications of an investment in the Equity Shares, particularly in view of the fact that certain recently enacted legislation may not have direct legal precedent or may have a different interpretation on the benefits, which an investor can avail.

As per the existing provisions of the Income Tax Act, 1961 (henceforth referred to as the I.T. Act) and other laws, as applicable for the time being in force, the following tax benefits and deductions are and will, inter-alia be available to Velan Hotels Limited and its shareholders.

General tax benefits available:

These general tax benefits are available to all Companies or to the Shareholders of any Company, as the case may be, after fulfilling certain conditions as required in the relevant Act.

Special tax benefits available:

There are no Special Tax Benefits available to the company or to the shareholders of the company.

A. Benefits to the Company

1. Dividends exempt under section 10(34) and 10(35) of the IT Act.

Dividend (whether interim or final) received by the Company from its investment in shares of another domestic Company would be exempted in the hands of the Company as per the provisions of section 10(34) read with section 115-O of the IT Act. In terms of section 10(35) of the IT Act, any income received from units of a Mutual Fund specified under section 10(23D) of the IT Act is exempt from tax, subject to such income not arising from the transfer of units in such Mutual Fund.

2. Computation of capital gains

Capital assets are to be categorised into short-term capital assets and long-term capital assets based on the period of holding. All capital assets except shares held in a Company or any other security listed in a recognised stock exchange in India or units of Unit Trust of India ('UTI') or Mutual Fund units specified under section 10(23D) of the IT Act or zero coupon bonds are considered to be long-term capital assets, if they are held for a period exceeding thirty-six months. Shares held in a Company or any other security listed in a recognised stock exchange in India or Units of UTI or Mutual Fund units specified under section 10(23D) of the IT Act or zero coupon bonds are considered as long-term capital assets, if these are held for a period exceeding twelve months.

As per the provisions of section 10(38) of the IT Act, long term capital gain arising to the Company from transfer of a long term capital asset being an equity share in a Company listed on a recognized stock exchange in India, shall be exempt from tax, if such sale is entered into on or after October 1, 2004, and the transaction is chargeable to Securities Transaction Tax ('STT').

As per the provisions of section 112 of the IT Act, long-term capital gains other than those covered under section 10(38) of the IT Act are subject to tax at a rate of 20% (plus applicable surcharge and cess). However, proviso to section 112(1) specifies that if the long-term capital gains other than those covered under section 10(38) of the IT Act arising on transfer of listed securities or units or zero coupon bond, calculated at the rate of 20% with indexation benefit exceeds the capital gains computed at the rate of 10% without indexation benefit, then such capital gains are chargeable to tax at the rate of 10% without indexation benefit (plus applicable surcharge and education cess).

However, from Assessment Year 2007-2008, such long-term capital gains will be included while computing book profits for the purpose of payment of Minimum Alternate Tax ("MAT") under the provisions of section 115JB of the IT Act.

As per provisions of section 111A of the IT Act, short term capital gains arising from transfer of short term capital asset, being an equity share in a Company or a unit of an equity oriented mutual fund shall be taxable at the rate of 15% (plus applicable surcharge and education cess), if such sale is entered into on or after October 1, 2004 and the transaction is chargeable to STT.

3. Securities Transaction Tax

In terms of STT, transactions for purchase and sale of the securities in the recognized stock exchange by the shareholder will be chargeable to STT. As per the said provisions, any delivery based purchase and sale of equity share in a Company through the recognized stock exchange is liable to securities transaction tax @ 0.125% of the value payable by both buyer and seller individually.

The non-delivery based sale transactions are liable to tax @ 0.025% of the value payable by the seller.

4. Exemption of capital gains arising from income tax

As per the provisions of section 54EC of the IT Act and subject to the conditions specified therein capital gains arising to a Company on transfer of a long-term capital asset other than those covered under section 10(38) of the IT Act shall not be chargeable to tax to the extent such capital gains are invested in National Highway Authority of India (NHAI) or Rural Electrification Corporation (REC) notified bonds within six months from the date of transfer. If only part of such capital gain is invested, the exemption shall be proportionately reduced. The IT Act has restricted the maximum investment in such bonds up to ₹ 5 million per assessee during any financial year.

5. 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. In accordance with and subject to the provisions of section 32 of the Income tax Act, the Company will be allowed to claim depreciation on specified tangible and intangible assets as per the rates specified. Besides normal depreciation, the Company, in terms of section 32(1)(iia), Subject to Conditions as Stated Therein shall be entitled to claim Additional depreciation @ 20% of actual cost on new plant and machinery for the period of one year after acquired on or after 31st March, 2005.

7. In accordance with and subject to the provisions of section 35D of the Income tax Act, the Company will be entitled to amortise, over a period of five years, all expenditure in connection with the proposed public issue Shares subject to the overall limit specified in the said section.
8. Under Section 115 JAA (1A) of the Act, tax credit shall be allowed of any tax paid (MAT) under Section 115 JB of the Act. Credit eligible for carry forward is the difference between MAT paid and the tax computed as per the normal provisions of the Act. Such MAT credit shall not be available for set-off beyond 10 years succeeding the year in which the MAT becomes allowable.
9. Unabsorbed depreciation if any, for an Assessment Year (AY) can be carried forward and set off against any source of income in subsequent AYs, as per section 32 of the Act, subject to the (2) of section 72 and sub-section (3) of section 73 of the Act.

Carry forward and Set off of Business Loss

10. Business losses if any, for any AY can be carried forward and set off against business profits for eight subsequent AYs.
11. Section 48 of the Act, which prescribes the mode of computation of capital gains, provides for deduction of cost of acquisition/improvement and expenses incurred in connection with the transfer of a capital asset, from the sale consideration to arrive at the amount of capital gains. However, in respect of long term capital gains, it offers a benefit by permitting substitution of cost of acquisition / improvement with the indexed cost of acquisition/improvement, which adjusts the cost of acquisition / improvement by a cost inflation index as prescribed from time to time.
12. As per section 71 read with section 74, Short-term capital loss arising during a year is allowed to be set-off against short-term as well as long-term capital gains of the said year. Balance loss, if any, should be carried forward and set-off against short-term as well as long-term capital gains for subsequent 8 years.
13. As per section 71 read with section 74, Long-term capital loss arising during a year is allowed to be set-off only against long-term capital gains. Balance loss, if any, should be carried forward and set-off against subsequent year's long-term capital gains for subsequent 8 years.

B. Benefits to the Resident shareholders of the Company under the IT Act

1. Dividends exempt under section 10(34) of the IT Act

Dividend (whether interim or final) received by a resident shareholder from its investment in shares of a domestic Company would be exempt in the hands of the resident shareholder as per the provisions of section 10(34) read with section 115-O of the IT Act.

2. Any income of minor children (Maximum two children) clubbed with the total income of the parent under section 64(1A) of the Income Tax Act 1961, will be exempt from tax to the extent of ₹ 1500 per minor child under section 10(32) of the Income Tax Act 1961.

3. Computation of capital gains

Capital assets are to be categorised into short-term capital assets and long-term capital assets based on the period of holding. All capital assets [except shares held in a Company or any other security listed in a recognised stock exchange in India or units of UTI or Mutual Fund units specified under section 10(23D) of the IT Act and zero coupon bonds] are considered to be long-term capital assets, if they are held for a period exceeding thirty-six months. Shares held in a Company or any other security listed in a recognised stock exchange in India or units of UTI or Mutual Fund units specified under section

10(23D) of the IT Act and zero coupon bonds are considered as long-term capital assets, if these are held for a period exceeding twelve months.

As per the provisions of section 48 of the IT Act, the amount of capital gain shall be computed by deducting from the sale consideration, the cost of acquisition and expenses incurred in connection with the transfer of a capital asset. However, in respect of long-term capital gains arising to a resident shareholder, a benefit is permitted to substitute the cost of acquisition/ improvement with the indexed cost of acquisition/ improvement. The indexed cost of acquisition/ improvement, adjusts the cost of acquisition/ improvement by a cost inflation index, as prescribed from time to time.

As per the provisions of section 10(38) of the IT Act, long term capital gain arising to a resident shareholder from transfer of a long term capital asset being an equity share in a Company listed on a recognized stock exchange in India, shall be exempt from tax, if such sale is entered into on or after October 1, 2004, and the transaction is chargeable to STT.

As per the provisions of section 112 of the IT Act, long-term capital gains [other than those covered under section 10(38) of the IT Act] are subject to tax at a rate of 20% (plus applicable surcharge and cess). However, proviso to section 112(1) specifies that if the long-term capital gains [other than those covered under section 10(38) of the IT Act] arising on transfer of listed securities or units or zero coupon bond, calculated at the rate of 20% with indexation benefit exceeds the capital gains computed at the rate of 10% without indexation benefit, then such capital gains are chargeable to tax at the rate of 10% without indexation benefit (plus applicable surcharge and education cess).

As per provisions of section 111A of the IT Act, short term capital gains arising from transfer of short term capital asset, being an equity share in a Company or a unit of an equity oriented mutual fund shall be taxable @ 15% (plus applicable surcharge and education cess), if such sale is entered into on or after October 1, 2004 and the transaction is chargeable to STT. Further, short term gains as computed above which are not liable to STT would be subject to tax at a rate of 30% (plus applicable surcharge and cess).

4. Exemption of capital gains arising from income tax

As per the provisions of section 54EC of the IT Act and subject to the conditions specified therein capital gains arising to a resident shareholder on transfer of a long-term capital asset other than those covered under section 10(38) of the IT Act shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer. If only part of such capital gain is invested, the exemption shall be proportionately reduced.

However, if the resident shareholder transfers or converts the notified bonds into money (as stipulated therein) within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable in such year. The bonds specified for this section are bonds issued on or after April 1, 2007 by NHAI and REC. The IT Act has restricted the maximum investment in such bonds up to ₹ 5 million per assessee during any financial year.

Further, as per the provisions of section 54F of the IT Act and subject to conditions specified therein, long-term capital gains other than a capital gains arising on sale of resident house and those covered under section 10(38) of the IT Act arising to an individual or Hindu Undivided Family ('HUF') on transfer of shares of the Company will be exempted from capital gains tax, if the net consideration from such shares are used for either 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. If only a part of the net consideration is so reinvested, the exemption shall be proportionately reduced.

However, if the resident shareholder transfers the residential house property within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable in such year.

5. Under section 36(1)(xv) of the Act, the securities transaction tax paid by the shareholder in respect of the taxable securities transactions entered into in the course of his business would be eligible for deduction from income chargeable under the head "Profit and gains of business or profession" arising from taxable securities transactions.

C. Benefits to the Non-resident shareholders of the Company other than Foreign Institutional Investors and Foreign Venture Capital Investors

1. Dividends exempt under section 10(34) of the IT Act

Dividend (whether interim or final) received by a non-resident shareholder from its investment in shares of a domestic Company would be exempt in the hands of the non-resident shareholder as per the provisions of section 10(34) read with section 115-O of the IT Act.

2. Any income of minor children (Maximum two children) clubbed with the total income of the parent under Section 64(1A) of the Income Tax Act 1961 will be exempt from tax to the extent of ₹ 1,500 per minor child per year in accordance with the provisions of section 10(32) of the Income Tax Act 1961.

3. Computation of capital gains

Capital assets are to be categorised into short-term capital assets and long-term capital assets based on the period of holding. All capital assets [except shares held in a Company or any other security listed in a recognised stock exchange in India or units of UTI or Mutual Fund units specified under section 10(23D) of the IT Act and zero coupon bonds] are considered to be long-term capital assets, if they are held for a period exceeding thirty-six months. Shares held in a Company or any other security listed in a recognised stock exchange in India or units of UTI or Mutual Fund units specified under section 10(23D) of the IT Act and zero coupon bonds are considered as long-term capital assets, if these are held for a period exceeding twelve months.

As per the provisions of section 48 of the IT Act, the amount of capital gain shall be computed by deducting from the sale the consideration, the cost of acquisition and expenses incurred in connection with the transfer of a capital asset. Under first proviso to section 48 of the IT Act, the taxable capital gains arising on the transfer of capital assets being shares or debentures of an Indian Company need to be computed by converting the cost of acquisition, expenditure in connection with such transfer and full value of the consideration received or accruing as a result of the transfer into the same foreign currency in which the shares were originally purchased. The resultant gains thereafter need to be reconverted into Indian currency. The conversion needs to be done at the prescribed rates prevailing on dates stipulated. Hence, in computing such gains, the benefit of indexation is not available to non-resident shareholders.

As per the provisions of section 10(38) of the IT Act, long term capital gain arising to a non-resident shareholder from transfer of a long term capital asset being an equity share in a Company listed on a recognized stock exchange in India, shall be exempt from tax, if such sale is entered into on or after October 1, 2004, and the transaction is chargeable to STT.

As per the provisions of section 112 of the IT Act, long-term capital gains (other than those covered under section 10(38) of the IT Act) are subject to tax at a rate of 20% (plus applicable surcharge and cess). However, proviso to section 112(1) specifies that if the long-term capital gains [other than those covered second proviso to section 48 and under section 10(38) of the IT Act] arising on transfer of listed securities or units or zero coupon

bond, calculated at the rate of 20% with indexation benefit exceeds the capital gains computed at the rate of 10% without indexation benefit, then such capital gains are chargeable to tax at the rate of 10% without indexation benefit (plus applicable surcharge and education cess).

As per provisions of section 111A of the IT Act, short term capital gains arising from transfer of short term capital asset, being an equity share in a Company or a unit of an equity oriented mutual fund shall be taxable @ 15% (plus applicable surcharge and education cess), if such sale is entered into on or after October 1, 2004 and the transaction is chargeable to STT.

4. Exemption of capital gain from income-tax

As per the provisions of section 54EC of the IT Act and subject to the conditions specified therein capital gains arising to a non-resident shareholder on transfer of a long-term capital asset (other than those covered under section 10(38) of the IT Act) shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer. If only part of such capital gain is invested, the exemption shall be proportionately reduced.

However, if the non-resident shareholder transfers or converts the notified bonds into money (as stipulated therein) within a period of three years from the date of their acquisition, the amount of capital gains exempted earlier would become chargeable in such year. The bonds specified for this section are bonds issued on or after April 1, 2007 by NHAI and REC. The IT Act has restricted the maximum investment in such bonds up to ₹ 5 million per assessee during any financial year.

Further, as per the provisions of section 54F of the IT Act and subject to conditions specified therein, long-term capital gains (other than a capital gains arising on sale of resident house and those covered under section 10(38) of the IT Act) arising to an individual or HUF on transfer of shares of the Company will be exempted from capital gains tax, if the net consideration from such shares are used for either purchase of residential house property (subject to prior approval from Reserve Bank of India) 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.

5. Non resident taxation

Under section 115-I of the IT Act, the non-resident Indian shareholder has an option to be governed by the provisions of Chapter XIIA of the IT Act viz. "Special Provisions Relating to Certain Incomes of Non-Residents" which are as follows:

- a) Under section 115E of the Act, where the total income of a non-resident Indian includes any income from investment or income from long term capital gains of an asset, other than a specified asset, such income shall be taxed at a concessional rate of 20 percent. Also, where shares in the company are subscribed to in convertible foreign exchange by a non-resident Indian, long term capital gains arising to the non resident Indian shall be taxed at a concessional rate of 10 per cent. The benefit of indexation of cost would not be available.
- b) Under provisions of section 115F of the IT Act, long-term capital gains [in cases not covered under section 10(38) of the IT Act] arising to a non-resident Indian from the transfer of shares of the Company subscribed to in convertible foreign exchange will be exempt from income tax, if the net consideration is reinvested in specified assets within six months of the date of transfer. If only part of the net consideration is so reinvested, the exemption will be proportionately reduced. However the amount so exempted will be chargeable to tax subsequently, if the specified assets are

transferred or converted into money within three years from the date of their acquisition.

- c) In accordance with the provisions of Section 115G of the Income Tax Act 1961, Non Resident Indians are not obliged to file a return of income under Section 139(1) of the Income Tax Act 1961 if their only source of income is income from investments or long term capital gains earned on transfer of such investments or both, provided tax has been deducted at source from such income as per the provisions of Chapter XVII-B of the Income Tax Act 1961.
 - d) In accordance with the provisions of Section 115H of the Income Tax Act 1961, when a Non Resident Indian become assessable as a resident in India, he may furnish a declaration in writing to the Assessing Officer along with his return of income for that year under Section 139 of the Income Tax Act 1961 to the effect that the provisions of Chapter XII-A shall continue to apply to him in relation to such investment income derived from the specified assets for that year and subsequent assessment years until such assets are converted into money.
6. As per the provisions of section 115 I of the I.T. Act, a Non-Resident Indian may elect not to be governed by the provisions of Chapter XII-A for any assessment year by furnishing his return of income for that year under Section 139 of the Income Tax Act 1961, declaring therein that the provisions of Chapter XII-A shall not apply to him for that assessment year and accordingly his total income for that assessment year will be computed in accordance with the other provisions of the Income Tax Act 1961.
7. Under section 36(1)(xv) of the Act, the securities transaction tax paid by the shareholder in respect of the taxable securities transactions entered into in the course of his business would be eligible for deduction from income chargeable under the head "Profit and gains of business or profession" arising from taxable securities transactions.

8. Tax Treaty Benefits

Under section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the double tax avoidance agreement (tax treaty) entered between India and the country of fiscal domicile of the non-resident, if any, to the extent they are more beneficial to the non-resident. Thus, a non-resident (including NRIs) can opt to be governed by the provisions of the Act or the applicable tax treaty, whichever are more beneficial.

D. Benefits to Foreign Institutional Investors ('FII')

1. Dividends exempt under section 10(34) of the Act

Dividend (whether interim or final) received by a FII from its investment in shares of a domestic Company would be exempt in the hands of the FII as per the provisions of section 10(34) read with section 115-O of the Act.

2. Long term capital gains exempt under section 10(38) of the Act.

As per the provisions of section 10(38) of the Act, long term capital gain arising to the FII from transfer of a long term capital asset being an equity share in a Company listed on a recognized stock exchange in India, shall be exempt from tax, if such sale is entered into on or after October 1, 2004, and the transaction is chargeable to STT.

3. Capital gains

As per the provisions of section 115AD of the Act, FIIs are taxed on the capital gains income at the following rates:

Rate of tax

Nature of Income	(%)*
Long-term capital gains	10
Short-term capital gains	30

* Plus applicable surcharge and cess

The benefits of foreign currency fluctuation protection and indexation as provided by section 48 of the Act are not available to a FII.

As per provisions of section 111A of the Act, short term capital gains arising from transfer of short term capital asset, being an equity share in a Company or a unit of an equity oriented mutual fund shall be taxable at the rate of 15% (plus applicable surcharge and education cess), if such sale is entered into on or after October 1, 2004 and is chargeable to STT.

If the income realized from the disposition of equity shares is chargeable to tax in India as 'business income', Business profits in the hands of FII may be subject to tax @ 30%* (other than foreign company)/ 40%* (in case of foreign company). However, the benefit of Double Taxation Avoidance Agreement (DTAA) can be examined in such a case.

- Under section 36(1)(xv) of the Act, the securities transaction tax paid by the shareholder in respect of the taxable securities transactions entered into in the course of his business would be eligible for deduction from income chargeable under the head "Profit and gains of business or profession" arising from taxable securities transactions.

5. Tax Treaty Benefits

Under section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the tax treaty to the extent they are more beneficial to the non-resident. Thus, a non-resident, including FIIs can opt to be governed by the provisions of the Act or the applicable tax treaty, whichever are more beneficial.

E. Benefits to the Mutual Funds

- Dividends exempt under section 10(34) of the Act.

Dividend (whether interim or final) received by a Mutual Fund from its investment in shares of a domestic Company would be exempt in the hands of the Mutual Fund as per the provisions of section 10(34) read with section 115-O of the Act.

- As per the provisions of section 10(23D) of the Act

Any income of Mutual Funds registered under the Securities and Exchange Board of India Act, 1992 ('SEBI') or regulations made there under, Mutual Funds set up by public sector banks or public financial institutions or Mutual Funds authorised by the Reserve Bank of India, would be exempt from income tax, subject to the prescribed conditions.

F. Benefits to the Venture Capital Companies / Funds

- Dividends exempt under section 10(34) of the Act

Dividend (whether interim or final) received by a Venture Capital Company ('VCC')/ Venture Capital Funds ('VCF') from its investment in shares of another domestic Company would be exempt in the hands of the VCC/VCF as per the provisions of section 10(34) read with section 115-O of the Act.

- In case of a shareholder being a Venture Capital Company/ Fund, as per the provisions of Section 10(23FB) of the Income Tax Act 1961, any income of Venture Capital Companies/ Funds registered with the SEBI, would be exempt from Income Tax, subject to the conditions specified in the said subsection.



G. Benefits under the Wealth Tax Act, 1957

Asset as defined under section 2(ea) of the Wealth-tax Act, 1957 does not include shares in companies and hence, shares are not liable to wealth tax.

Notes

1. All the above benefits are as per the current tax laws as amended by the Finance Act, 2010 and will be available only to the sole/ first named holder in case the shares are held by joint holders.
2. In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the double taxation avoidance agreements, if any, between India and the country in which the non-resident has fiscal domicile.
3. In view of the individual nature of tax consequences, each investor is advised to consult his/ her own tax advisor with respect to specific tax consequences of his/ her participation in the scheme.
4. Tax implications of an investment in the Equity Shares, particularly in view of the fact that certain recently enacted legislations may not have direct legal precedent or may have a different interpretation on the benefits which an investor can avail.
5. My views expressed herein are based on the facts and assumptions indicated above. No assurance is given that the revenue authorities/courts will concur with the views expressed herein. My views are based on the existing provisions of law and its interpretation, which are subject to change from time to time. I do not assume responsibility to update the views consequent to such changes.

For K. Madhan,
Chartered Accountants

Sd/-

K.Madhan

(M. No.216391)

Place: Tirupur
Date: 20.09. 2010

KEY INDUSTRY REGULATIONS AND POLICIES

The following description is a summary of the relevant regulations and policies as prescribed by the central / state governments that are applicable to the Company in India. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below are not exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to be a substitute for professional legal advice.

Legislations related to Power Sector

I. Renewable energy

Ministry of New and Renewable Energy (“**MNRE**”) is the Central Government ministry with a mandate for formulating schemes and policies for the research, development, commercialization and deployment of renewable energy systems / devices for various applications in rural, urban, industrial and commercial sector. The MNRE has issued a number of guidelines and schemes on power generation through renewable sources, including a ‘Special Programme on Small Wind Energy and Hybrid Systems’, ‘Scheme for Promotion of Grid Interactive Power Generation Projects’ based on ‘Renewable Energy Technologies and Guidelines for Implementation of Biomass Power Projects-2009-10’. To facilitate financing, Indian Renewable Energy Development Agency Limited (“**IREDA**”) was established with the primary aim of complementing the MNRE. The agency functions under the administrative control of the MNRE.

Further, MNRE has issued directions to State governments to formulate energy policies while factoring in the importance of renewable energy, and accordingly, policy documents relating to renewable sources of energy exist in most Indian states. State level nodal agencies have been setup for the implementation of central and state schemes for the promotion of renewable energy. Following the policy guidelines circulated by MNRE, various states have come up with their own policies formulated according to the terms of reference of the MNRE.

Electricity Act, 2003 (“**Electricity Act**”) provides the legislative framework for certain aspects of renewable energy in India. As per the Electricity Act, ‘National Electricity Policy’ and ‘Tariff policy’ shall be prepared by the Central Government in consultation with the State Government and the Central Electricity Authority, an authority established under the Electricity Act, for development of power for the optimum utilization of renewable sources of energy. Also, the Central Government shall after consultation with the State Governments, prepare and notify a national policy, permitting stand alone systems including those based on renewable sources of energy and non-conventional sources of energy for rural areas. State Electricity Regulatory Commissions (“**SERCs**”), have also been established under the Electricity Act, and are responsible for the promotion of generation of electricity from renewable sources of energy at the state level, *inter alia*, by providing suitable measures for connectivity with the grid and fixing preferential tariffs. They also fix ‘Renewable Purchase Obligations’ which are the minimum levels of renewable energy which a distribution licensee must purchase.

The ‘National Electricity Policy’ (“**NEP**”) was notified by the Central Government on February 12, 2005, in compliance with Section 3 of the Electricity Act, 2003. The policy seeks to address, *inter alia*, the following issues viz. rural electrification, generation, transmission, distribution, technology development, and research and development, financing power sector programmes including private sector participation, environmental issues, and cogeneration and non-conventional energy sources. The NEP calls for utilizing the potential of nonconventional energy resources, mainly small hydro, wind and bio-mass. The aim is to ensure that these resources can be exploited fully to create additional power generation capacity. With a view to increase the overall share of non-conventional energy sources in the electricity mix, NEP seeks to make efforts to encourage private sector participation through suitable promotional measures. The Central Government has also

provided for 'Generation Based Incentives', which *inter alia* contain subsidies and tax cuts for 'Independent Power Producers' engaging in power production through renewable sources of energy.

Further, the Central Electricity Regulatory Commission ("CERC"), established under the Electricity Act, and has notified the Central Electricity Regulatory Commission (Terms and Conditions for Recognition and Issuance of Renewable Energy Certificate for Renewable Energy Generation) Regulations, 2010 in fulfillment of its mandate to promote renewable sources of energy and development of market in electricity. The regulation provides for producers of renewable energy to receive certificates which can be sold to distribution companies, open access consumers and captive power plants, who will in turn have the option of purchasing these 'Renewable Energy Certificates' to meet their 'Renewable Energy Purchase Obligations', as specified by the SERC.

II. Generation of electricity

The Electricity Act is the primary legislation governing, *inter alia*, the generation of electricity in India. It is a central unified legislation relating to generation, transmission, distribution, trading and use of electricity and was enacted to replace the multiple legislations that governed the Indian power sector. The Electricity Act provides for a multi buyer, multi seller system as opposed to the earlier structure which permitted only a single buyer to purchase power from power generators. It also provides for greater flexibility and grants the respective electricity regulatory commission greater freedom in determining tariffs, without being constrained by rate-of-return regulations. Transmission, distribution and trade of electricity are regulated activities under the Electricity Act which require licenses from the appropriate electricity regulatory commission, unless exempted by the appropriate government. It was amended in 2007 to exempt captive power generation plants from licensing requirements for supply to any licensee or consumer.

As far as generation of electricity is concerned, under the Electricity Act, any generating company may establish, operate and maintain generating stations without obtaining a license if it complies with prescribed technical standards relating to grid connectivity. The generating company is required to establish, operate and maintain generating stations, tie-lines, sub-stations and dedicated transmission lines connected therewith. Further, the generating company may supply electricity to any licensee or even directly to consumers, subject to availing open access to the transmission and distribution systems and payment of transmission charges, as may be determined by the relevant regulatory commission. Such regulatory commission is empowered, *inter alia*, to determine the tariff for supply of electricity from the generating company to a distribution licensee, for transmission of electricity, wheeling of electricity and retail sale of electricity

III. Kyoto protocol and carbon credits

The Kyoto Protocol is a protocol to the International Framework Convention on Climate Change with the objective of reducing Green House Gas ("GHG") that cause climate change. The Kyoto Protocol was agreed on December 11, 1997 at the third conference of the parties to the treaty when they met in Kyoto, and entered into force on February 16, 2005. The Kyoto Protocol defines legally binding targets and timetables for reducing the GHG emissions of industrialized countries that ratified the Kyoto Protocol. Governments have been separated into developed nations (who have accepted GHG emission reduction obligations) and developing nations (who have no GHG emission reduction obligations).

The protocol includes 'Flexible Mechanisms' which allow developed nations to meet their GHG emission limit by purchasing GHG emission reductions from elsewhere. These can be bought either from projects which reduce emissions in developing nations under the Clean Development Mechanism ("CDM") or the 'Joint Implementation' scheme or from developed nations with excess allowances.

Pursuant to Article 12 of the Kyoto Protocol, the CDM allows emission-reduction (or emission removal) projects in developing countries to earn certified emission reduction (“CER”) credits, each equivalent to one tonne of carbon dioxide. These CERs can be traded and sold, and used by industrialized countries to meet part of their emission reduction targets under the Kyoto Protocol. The procedure for obtaining certification was laid down in a ‘Decision of the Conference of Parties’ in 2005 (the apex decision making body under the Kyoto Protocol), and it involves submitting proposals to the ‘Designated National Authority’, which must register the project before it can be submitted to the relevant authority under the executive board of the United Nations Framework Convention on Climate Change. The designated authority in India is the National Clean Development Mechanism Authority, under the Ministry of Environment and Forests. Once a proposal has been approved by the ‘Designated National Authority’, an accredited third party institution, a ‘Designated Operational Entity’, validates the project and submits the proposal to the ‘Executive Board’, which is a body set up under the Kyoto Protocol to monitor CDM projects at the international level.

Legislations related to Real Estate Sector

I. Land Acquisition Act, 1894 (the “Land Acquisition Act”)

Land holdings are subject to the Land Acquisition Act which provides for the compulsory acquisition of land by the Central Government or appropriate State Government for public purposes, including planned development and town and rural planning. A person having an interest in such land has the right to object to such compulsory acquisition and has the right to compensation. Some states have their own land acquisition statutes and the Company has to abide by State legislations in those states in which it conducts its business.

II. Transfer of Property Act, 1882 (the “TP Act”)

The TP Act establishes the general principles relating to transfer of property in India. It forms a basis for identifying the categories of property that are capable of being transferred, the persons competent to transfer property, the validity of restrictions and conditions imposed on the transfer and the creation of contingent and vested interest in the property. It also provides for the rights and liabilities of the vendor and purchaser in a transaction of sale of land.

III. Registration Act, 1908 (the “Registration Act”)

The Registration Act has been enacted with the objective of providing public notice of the execution of documents affecting, *inter alia*, the transfer of interest in immovable property. The purpose of the Registration Act is the conservation of evidence, assurances, title and publication of documents and prevention of fraud. It details the formalities for registering an instrument. Section 17 of the Registration Act identifies documents for which registration is compulsory and includes, among other things, any non-testamentary instrument which purports or operates to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest, whether vested or contingent, in any immovable property of the value of one hundred rupees or more, and a lease of immovable property for any term exceeding one year or reserving a yearly rent. A document will not affect the property comprised in it, nor be treated as evidence of any transaction affecting such property (except as evidence of a contract in a suit for specific performance or as evidence of part performance under the TP Act or as collateral), unless it has been registered. Evidence of registration is normally available through an inspection of the relevant land records, which usually contains details of the registered property. Further, registration of a document does not guarantee title of land.

IV. Indian Stamp Act, 1899 (the “Stamp Act”)

Under the Stamp Act, 1899 stamp duty is payable on instruments evidencing a transfer or creation or extinguishment of any right, title or interest in immovable property. Stamp duty must be paid on all instruments specified under the Stamp Act at the rates specified in the schedules to the Stamp Act. The applicable rates for stamp duty on instruments chargeable with duty vary from state to state. Instruments chargeable to duty under the Stamp Act, which are not duly stamped, are incapable of being admitted in court as evidence of the transaction contained therein and it also provides for impounding of instruments that are not sufficiently stamped or not stamped at all. However, the instruments which have not been properly stamped can, in certain cases, be validated by paying a penalty of up to 10 times of the proper duty or deficient portion thereof payable on such instruments.

V. Indian Easements Act, 1882 (the “Easement Act”)

An easement is a right which the owner or occupier of land possesses for the beneficial enjoyment of that land and which permits him to do or to prevent something from being done, in or upon, other land not his own. Under the Easements Act, a license is defined as a right to use property without any interest in favor of the licensee. The period and incident may be revoked and grounds for the same may be provided in the license agreement entered in between the licensee and the licensor.

VI. Building Consents

Each state and city has its own set of laws, which govern planned development and rules for construction (such as floor area ratio or floor space index limits). The various authorities that govern building activities in states are the town and country planning department, municipal corporations and the urban arts commission.

The municipal authorities regulate building development and construction norms. The Urban Arts Commission advises the relevant State Government in the matter of preserving, developing and maintaining the aesthetic quality of urban and environmental design in some states and also provides advice and guidance to any local body with respect to building or engineering operations or any development proposal which affects or is likely to affect the skyline or the aesthetic quality of the surroundings or any public amenity provided therein.

Under certain State laws, the local body, before it accords its approval for building operations, engineering operations or development proposals, is obliged to refer all such operations to the Urban Arts Commission and seek its approval for the project. Additionally, certain approvals and consents may also be required from various other departments such as the Airports Authority of India and the Archaeological Survey of India.

VII. State Laws

State legislations provide for the planned development of urban areas and the establishment of regional and local development authorities charged with the responsibility of planning and development of urban areas within their jurisdiction. Real estate projects have to be planned and developed in conformity with the norms established in these laws and regulations made there under and require sanctions from the government departments and developmental authorities at various stages.

Some of the applicable laws will be:

- Tamil Nadu Shops and Establishment Act
- Tamil Nadu Public Buildings (Licensing) Act 1965

Legislations related to Hotel Industry

I. Tourism Policy of the Government of India

In order to develop tourism in India in a systematic manner, position it as a major engine of economic growth and harness its direct and multiplier effects for employment and poverty eradication in an environmentally sustainable manner, the National Tourism Policy was formulated in the year 2002 (the "Tourism Policy"). Broadly, the Tourism Policy attempts to:-

- Position tourism as a major engine of economic growth;
- Harness the direct and multiplier effects of tourism for employment generation, economic development and providing impetus to rural tourism;
- Focus on domestic tourism as a major driver of tourism growth.
- Position India as a global brand to take advantage of the burgeoning global travel trade and the vast untapped potential of India as a destination;
- Acknowledge the critical role of the private sector with the government working as a pro-active facilitator and catalyst;
- Create and develop integrated tourism circuits based on India's unique civilization, heritage, and culture in partnership with the state governments, private sector and other agencies; and
- Ensure that the tourist to India gets physically invigorated, mentally rejuvenated, culturally enriched, spiritually elevated and "feels India from within".

II. Classification of Hotels

Under the Tourism Policy of the Government of India, hotels may, at their option, obtain classification in a star category by applying to the Ministry of Tourism, Government of India in the following categories: Five Star Deluxe, Five Star, Four Star, and Three Star. The Hotel and Restaurant Approval and Classification Committee inspects and assesses the hotels based on various criteria including the quality of facilities and services provided at the hotel. Upon the hotel obtaining the qualifying mark prescribed for a particular status of star classification, and based on a recommendation of the Hotel and Restaurant Approval and Classification Committee, the hotel is given the relevant star classification by the Ministry of Tourism, Government of India. Various approved projects are eligible for various concessions and facilities that are announced by the Government from time to time besides, getting worldwide publicity through the India Tourism offices located in India and abroad.

III. Registration of Tourist Trade Act

Every state in India has in general a Registration of Tourist Trade Act (the "Tourist Trade Act"). The Tourist Trade Act requires all hotels, travel agents, tour operators, tourist guides, tourist taxi operators and dealers of notified articles and other persons engaged in tourist activities in each particular state to register themselves under the Tourist Trade Act. Under the Tourist Trade Act of each state, some officers of the Tourism Department have been vested with magisterial powers, including the power of compounding in case of cheating, overcharging, harassment, pestering, touting, etc. faced by tourists.

IV. The Prevention of Food Adulteration Act, 1954

The Prevention of Food Adulteration Act is a Central legislation and provides provisions for the prevention of adulteration of food. The Gujarat State Government has adopted the Central Act which requires any person/ entity manufacturing / storing / selling food articles to be registered under the provisions of the Act.

V. Public Performance License

The Copyright Act, 1957 specifies that for the purposes of public performance of Indian or international music a public performance license must be obtained. All those who play pre-recorded music in the form of gramophone records, music cassettes or compact discs in

public places have to obtain permission for sound recordings. In India, Phonographic Performance Limited (“PPL”) is the sole authority to administer the broadcasting, telecasting and public performance rights on behalf of the music industry. PPL, which is registered with the Government of India, has among its members almost all major music publishing companies in India. These companies have assigned their performing rights in sound recordings to PPL by virtue of which it is the sole designated authority to issue public-performance licenses in the country.

VI. Registration under the Tourist Trade Act (the “Tourist Trade Act”)

Every state in India has in general Tourist Trade Act. The Tourist Trade Act requires all hotels, travel agents, tour operators, tourist guides, tourist taxi operators and dealers of notified articles and other persons engaged in tourist activities in each particular state to register themselves under the Tourist Trade Act. Under the Tourist Trade Act of each state, some officers of the Tourism Department have been vested with magisterial powers, including the power of compounding in case of cheating, overcharging, harassment, pestering or touting faced by tourists.

Legislations related to Overall Business

I. Labour Related Legislation

a. Employees Provident Funds and Miscellaneous Provisions Act, 1952

The Employees Provident Funds and Miscellaneous Provisions Act, 1952 (the “PF Act”) is a labour legislation which ensures compulsory provident fund, family pension fund and deposit linked insurance in factories and other establishments for the benefits of the employees. The rate of contribution has been fixed at 12%. Presently an employee at the time of joining the employment and getting wages up to ₹6,500 is required to become a member of the employees provident fund organization (the “EPFO”), established in accordance with the provisions of the PF Act. An employee is eligible for membership of fund from the very first date of joining such an establishment.

The PF Act *inter alia* provides for:

- Grant of exemption from the operation of the schemes framed under the PF Act to an establishment, to a class of employees and to an individual employee, on certain conditions;
- Appointment of an inspector to secure compliance under the PF Act and the schemes framed there under;
- Mode of recovery of monies due from employers.

The funds established under the PF Act vest in and are administered by the Central Board of Trustees constituted under the PF Act and functions within the overall regulatory control of the Central Government.

b. Payment of Bonus Act, 1965

The Payment of Bonus Act, 1965 (the “Bonus Act”) provides for payment of bonus irrespective of profit and makes payment of minimum bonus compulsory to those employees who draw a salary or wage up to ₹ 3,500 per month and have worked for a minimum period of 30 days in a year. The Bonus Act has created a right in every employee to receive a bonus and it has become an implied term in a contract of employment. Bonus is calculated on the basis of the salary or wage earned by the employee during the accounting year. The minimum bonus to be paid to each employee is either 8.33% of the salary or wage or ₹100, whichever is higher, and must be paid irrespective of the existence of any allocable surplus or profits. If the allocable surplus or profit exceeds minimum bonus payable, then the employer must pay bonus proportionate to the salary or wage earned during that period, subject to a maximum of 20% of such salary or wage.

Contravention of the Bonus Act by a company is punishable with imprisonment up to six months or a fine.

c. Industrial Disputes Act, 1947

The Industrial Disputes Act, 1947 (the “ID Act”) provides the machinery and procedure for the investigation and settlement of industrial disputes and certain safeguards to the workers. The ID Act aims to improve the service conditions of industrial labour. When a dispute exists or is apprehended, the appropriate government is empowered to refer the dispute to an authority mentioned under the ID Act in order to prevent the occurrence or continuance of the dispute. Reference may be made to a labour court, tribunal or arbitrator, as the case may be, to prevent a strike or lock -out while a proceeding is pending. Wide powers have been given to the labour courts and tribunals under the ID Act while adjudicating a dispute to grant appropriate relief such as modification of contract of employment or to reinstate workmen with ancillary relief.

II. Environmental Laws, Rules & Regulations

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

The issue of management, storage and disposal of hazardous waste is regulated by the Hazardous Waste Management Rules, 1989 made under the Environment Protection Act. Under these rules, the PCBs are empowered to grant authorization for collection, treatment, storage and disposal of hazardous waste, either to the occupier or the operator of the facility. In addition, the Ministry of Environment and Forests looks into Environment Impact Assessment (EIA). The Ministry receives proposals for expansion, modernization and setting up of projects and the impact which such projects would have on the environment is assessed by the Ministry before granting clearances for the proposed projects.

III. Other Regulations

In addition to the laws, rules and regulations outlined in the aforesaid sections, various rules and regulations of jurisdictions other than India, where the Company has its operations are also applicable to the Company.

- ❖ The standard of Weights and Measures (Enforcement) Act, 1985
- ❖ Tamil Nadu Fire Service Act, 1985
- ❖ The Indian Boilers Act, 1923
- ❖ Tamil Nadu Public Building (Licensing) Act, 1965
- ❖ Tamil Nadu Catering Establishments Act, 1958
- ❖ The Tamil Nadu Liquor (License and Permit) Rules, 1981
- ❖ Employees State Insurance Act, 1948
- ❖ The Factories Act, 1948
- ❖ The Petroleum Act, 1934 read with the Petroleum Rules, 2002



Section III – ABOUT COMPANY

HISTORY AND CORPORATE STRUCTURE OF THE COMPANY

Velan Hotels Private Limited was originally incorporated in the state of Tamil Nadu on March 21, 1990 under the Companies Act, 1956 as a private limited company with the purpose of building and operating hotels. The name of the Company was changed to Velan Hotels Limited upon conversion into a Public Limited Company vide fresh certificate of incorporation dated November 24, 1992.

The hotel at Tirupur, Velan Hotel Greenfields, was commenced in 1992 as a 3-star business hotel catering to the overseas and hosiery based travelers coming to Tirupur to conduct their business as buyers of garments or sellers of garmenting machinery. The hotel was commissioned as a 70 room hotel with a bar, a restaurant and a 24-hr coffee shop apart from small conferencing facilities.

After the success of Velan hotel Greenfields, company felt the need to establish a premier hotel chain in Tier II cities in Tamil Nadu and South India. Accordingly, Velan Hotels Limited acquired a resort hotel at Coonoor (Near Ooty), The Nilgiris. To fund this acquisition Velan hotels Ltd came out with an Initial Public Offering of Shares in 1994. The Coonoor property was made functional as 'Velan Hotel, Coonoor' in 1996 with 20 rooms, a restaurant and a bar.

The company, in 1998, seeing an opportunity to get added revenues from the existing operational set-up at Velan Hotel Greenfields, Tirupur decided to open up a stand-alone restaurant at North Tirupur and named it as 'Velan Uthara'.

The operations of the company were consolidated and routinized thereafter. In 2004, the first major refurbishment at Velan Hotel Greenfields at Tirupur was carried out and new energy efficient plant & machinery were added to reduce costs. The company's profitability made a turnaround from 2006 onwards and the first dividend payout was announced in 2008. Velan Hotel Greenfields has chaired all the hotel association meetings at Tirupur and Velan Hotel, Coonoor has been a key member in the Nilgiris Hoteliers Association.

In the year 2008, the company started work on a multi-tier food outlet at the centrally located area of Ram Nagar in Coimbatore. This four format restaurants outlet was commenced in 2009. In 2009 the company relocated Velan Uthara to a larger space to cope with the increase in footfalls. In the year 2009, 6 new deluxe rooms were added to Velan Hotel, Coonoor to meet the increased seasonal demand at this tourist destination which has also been adopted by national level athletes for high-altitude training.

The company has identified an opportunity in the entertainment business at Tirupur. Hence, 'The Velan Esplanade' has been planned as a mall and multiplex complex. 2,54,000 sq ft built-up area development is planned to be leased out with large corporate in the retail industry signing up spaces. The superstructure work at the Velan Esplanade site is near completion.

The planned development of the mall / multiplex / convention centre added to the existing hotel implies a large requirement of energy in the form of electricity and chilling. To meet the energy requirement of the company, a Bio-Mass plant is underway to ensure the electricity needs and the chilling requirement, with the excess produce of electricity being planned to be supplied to the TNEB grid.

Insurance :

The company has insured all its property comprehensively against the losses on account of natural calamities, fire and accidental damage as well as catastrophic losses.

Competition:

Velan Hotels Ltd. is an established hotel in operation for over 18 years. The hotel in Tirupur was commenced in 1992 as a 3 star business hotel catering to overseas and hosiery industry based travelers. Pursuant to the success of hotel in Tirupur, the company established a resort hotel in Coonoor, The Nilgiris. VHL competes for guests with other hotels and operates in a highly competitive industry. The Velan hotels Tirupur has a typical resort style set-up serving quality and standardized global cuisine with updated business facilities. Velan Hotel at Coonoor is very competitively priced hotel. The Coonoor hotel has also been selected for high altitude training by the Sports Authority of India. The hotel at Coonoor also attracts regular corporate clients to conduct weekend seminars as well as regular guests during the summer season. Velan Hotel at Coimbatore is a multi-tier food outlet and is the only food outlet of this sort and placed in the centre of the city. The pricing strategy and the quality of service helps the company win over competition and this attract repeat guests.

Major events of the company

Year	Milestone achieved
1990	The company was incorporated as Velan Hotels Private Limited Company, with the purpose of building and operating hotels.
1992	Velan Hotel Greenfields, Tirupur, was commenced in 1992 as a 3-star business hotel
1994	Company was converted into a Public Limited Company. Company came out with its maiden Public Issue
1996	Commencement of Velan Hotel, Coonoor
1998	Commencing business at Velan Uthara, stand-alone restaurant at North Tirupur
2008	Company declares First dividend payout.
2009	Relocated Velan Uthara to a new larger premises
	Commenced business at The Velan Food Park, Coimbatore
	Additional 6 deluxe rooms added at Velan Hotel, Coonoor
2010	Site - work started on The Velan Esplanade Mall/Multiplex

Changes in the Registered Office of the Company

There has been no change in the registered office of the company since 1992.

MAIN OBJECTS OF THE COMPANY

The main objects of the company are as follows:

1. To manage, administer, own and to carry on the business of running hotels, motels, holiday camps, guest houses, restaurants, canteens, caterers, cafes, taverns, pubs, bars, beer houses, refreshment rooms and lodging or apartments, housekeepers, night clubs, casinos, discotheques, swimming pools, health clubs, baths, dressing rooms, licensed victuallers, wine, beer and spirit merchants, exporters, importers and manufacturers of aerated, mineral and artificial waters and other drinks, purveyors, caterers for public amusements generally.
2. To equip and furnish any property for the purpose of letting or hiring the same to visitors or guests whether in single or double rooms, suites, chalets, cottages or otherwise
3. To purchase, take on lease, hire, erect or otherwise acquire, establish and equip, act as collaborators, technicians, financiers or any other hotels, motels holiday camps, restaurants, canteens, cafes, pubs, bars, refreshment rooms, casinos etc. in India or in any other part of the world.

The Other Objects clause (Clause III-C) of the MOA of the Company was amended vide special resolution passed by the members of the Company under Section 17 of the Act at

the EGM held on June 12, 2010, to include new areas of business in sub-clauses 12 and 13. The said sub-clauses 12 and 13 are extracted hereunder:

12. To carry on in India or elsewhere the business to generate, receive, produce, improve, buy, sell, resell, acquire, use, transmit, accumulate, employ, distribute, develop, handle, protect, supply and to act as agent, broker, representative, consultant, collaborator, or otherwise to deal in electric power, wind power in all its branches at such place or places as may be permitted by appropriate authorities by establishments of thermal plants, gasification power plant, hydel power plants, atomic plants, wind power plants, co generation, bio mass, solar plants, Bio-mass Gasifier power plants and other power plants based on any source of energy as may be developed or invented in future and also to produce electricity by non conventional method with the use of agricultural by products such as coco peat, coir, fiber and to construct, lay down, establish, operate and maintain power generation plants and stations based on conventional and non-conventional energy systems such as hydel, wind, wave, bio gas, bio fuels, vegetable oils, solar, steam, LSHS diesel, furnace oil, coal gas, hydro carbon, LPG, bio mass generated gas and all kinds of fuel facilities that are owned or leased or operated under any such arrangement including the energy saving devices and all kinds of civil engineering works”
13. To carry on the business of builders, constructors, contractors, developers, demolishers, levelers, scrapers of shopping complex, commercial complex, residential units, halls, community halls, marriage halls, hotel complexes, hospitals, theatres, multiplexes, drainage facility, roads bridges, flyovers, highways, godowns, hangers, bus stands, rail way stations, shipyards, airports, platforms, subways underground facilities for road/rail/sea transport, pipelines all other infrastructural and other civil engineering works.

The Company has passed a special resolution under Section 149(2A) of the Act at the EGM held on June 12, 2010, to commence the business activities specified under sub-clauses 12 and 13 of the Other Objects clause (Clause III-C).

CHANGES IN THE MEMORANDUM

Dates on which some of the main clauses of the Memorandum of Association of the Company has been altered citing the details of Amendments as under:

Date of Approval	Amendment
31/05/1991	The Authorised Capital of the Company was increased from ₹ 50.00 Lacs divided into 50,000 equity shares of ₹ 100/- each to ₹ 150 Lacs divided into 1,50,000 equity shares of ₹ 100 /- each
15/06/1992	The name of the Company changed to Velan Hotels Limited upon conversion into Public Limited Company from Private Limited Company
21/12/1992	The Authorised Capital of ₹ 150 Lacs divided into 1,50,000 equity shares of ₹ 100 /- each was sub-divided into ₹150 Lacs divided into 15,00,000 equity shares of ₹ 10 /- each
01/02/1993	The Authorised Capital of the Company was increased from ₹ 150 Lacs divided into 15,00,000 equity shares of ₹ 10/- each to ₹ 250 Lacs divided into 25,00,000 equity shares of ₹ 10 /- each
25/05/1994	The Authorised Capital of the Company was increased from ₹ 250 Lacs divided into 25,00,000 equity shares of ₹ 10/- each to ₹ 850 Lacs divided into 85,00,000 equity shares of ₹ 10 /- each
12/06/2010	The Authorised Capital of the Company was increased from ₹ 850 Lacs divided into 85,00,000 equity shares of ₹ 10/- each to ₹ 1,550 Lacs divided into 1,55,00,000 equity shares of ₹ 10 /- each
12/06/2010	Alteration of Other object clauses of Memorandum of Association
06/09/2010	The Authorised Capital of the Company was increased from ₹ 1,550 Lacs divided into 1,55,00,000 equity shares of ₹ 10/- each to ₹ 3,500 Lacs divided into 3,50,00,000 equity shares of ₹ 10 /- each



SHAREHOLDER'S AGREEMENTS

The company has not entered into any shareholders agreements.

STRATEGIC AND FINANCIAL PARTNERS

At present the company has no strategic and financial partners.

MANAGEMENT

The details of the board of directors of the company are given below:

Name, Age, Designation, Father's name, Address, Occupation, Qualification and DIN	Date of Appointment/ Re- Appointment	Date of Expiration of Appointment	Other Directorships
<p>Mr.E.V.Muthukumara Ramalingam Age: 57 years Designation: Managing Director S/o: Late Mr. R.V.E.Venkatachalam Address: No. 1, K.P.Pudur, Tirpur 641 604 Occupation: Industrialist Qualification : B.Com</p> <p>DIN No. 00046166</p> <p>(Executive and Non-Independent)</p>	30/06/2010	Five years from the date of re-appointment	<ul style="list-style-type: none"> ➤ Shree Vallee Enterprises Pvt. Ltd. ➤ Sarju International Ltd ➤ Velan Agri-Energy India Pvt. Ltd.
<p>Mr.M.R.Gautham Age: 33 years Designation: Executive Director S/o: Mr. E.V.Muthukumara Ramalingam Address: No. 1, K.P.Pudur, Tirpur 641 604 Occupation: Industrialist Qualification : Graduate Commerce & Finance, University of Western Australia, Perth</p> <p>DIN No. 00046187</p> <p>(Executive and Non-Independent)</p>	30/11/2006	Five years from the date of re-appointment	<ul style="list-style-type: none"> ➤ Shree Vallee Enterprises Pvt. Ltd. ➤ Velan Agri-Energy India Pvt. Ltd.
<p>Mr.P.Ganesan Age: 68 years Designation: Director S/o: Mr. Palanisamy Address: 5-Sheriff Colony, Main Road, Tirpur 641 604 Occupation: Industrialist Qualification : Diploma in Textile Technolgy from Bolton Institute of Technology, London, United Kingdom</p> <p>DIN No. 00845525</p> <p>(Non Executive and Independent)</p>	06/09/2008	Retirement by Rotation	<ul style="list-style-type: none"> ➤ M/s. Shiva Hi-Tech Infrastructure Ltd.

Name, Age, Designation, Father's name, Address, Occupation, Qualification and DIN	Date of Appointment/ Re-Appointment	Date of Expiration of Appointment	Other Directorships
Mr.T.Gopalakrishnan Age: 62 years Designation: Director S/o: Mr. T.R.Thyagarajan Address: No.22, 48th street, Ashok Nagar, Chennai 600 083 Occupation: Financial & Corporate Advisor Qualification : CA DIN No. 00137223 (Non Executive and Independent)	24/09/2009	Retirement by Rotation	➤ Susira Industries Limited
Dr. Namasivayam Karthikeyan Age: 52 years Designation: Director S/o: Mr. Palvana Sundaram Namasivayam Address: No. 1 Park Street, Kilpauk Garden, Chennai 600 010 Occupation: Professional Qualification : Phd in Human Resources & Organistaional Behavior from Cornell University, Ithaca, USA DIN No. 00137223 (Non Executive and Independent)	06/09/2010	Retirement by Rotation	Nil

Details of Current and Past Directorship in listed companies that have been suspended / delisted from Stock Exchanges

None of the directors of the company have been directors in any other listed company(ies) which have been suspended from the stock exchanges.

Shri. R.V.E. Venkatachalam who was a director in the company since July 22, 1991 expired on July 26, 2011. He had been an active business man since 1950 and a philanthropist who had helped many social organizations. Consequent to his demise, the composition of the Board of Directors has undergone a change.

Brief details about the present directors of the company

Shri E.V. Muthukumara Ramalingam (alias) E.V. Guhan, aged 57, is a commerce graduate from Madras University. He is a director since incorporation of the company. He started his career as a bus fleet operator and diversified into finance business and later into hospitality business. Under his able leadership, the company has been growing step by step and expanding its network from where it started in 1991.

Shri M.R. Gautham, aged 33 years with an active business involvement of over 12years. He is a Commerce and Finance Graduate from the University of Western Australia. He has been involved in the company since 1998. He has been instrumental in all the expansion plans of the company. He is responsible for the day-to-day activities of both Velan Hotels and Shree Vallee Enterprises Pvt Ltd.

Shri P Ganesan, aged 68 years, is a Textile Technologist from UK with over 33 years experience in the field of Yarn Manufacture and hosiery garments. He was the Managing



Director of Velan Textiles Pvt. Ltd. a company engaged in the business of spinning and weaving.

Shri T Gopalakrishnan aged 62 years, is a Chartered Accountant and a Project Management Consultant with over 30 years experience in the field of Banking, Foreign Exchange, Project Financing, Project Co-ordination and execution, Mergers and Acquisitions and Restructuring.

Dr. Namasivayam Karthikeyan aged 52 years, holds a Doctorate in Organisational Behaviour and Human Resources from Cornell University, Ithaca, USA and is presently an Associate Professor at Penn State University, USA in Department of Human Resources Development. He is a hotel project Management Consultant, who has been involved with the Hotel Project during its implementation and presently the Board has the advantage of his wide experience in the HR field.

RELATIONSHIP AMONG DIRECTORS

There is no inter-se relationship between Directors other than Mr. E.V.Muthukumara Ramalingam (**Managing Director**) and Mr. M.R.Gautham (**Executive Director**). Mr. E.V.Muthukumara Ramalingam is the father of Mr. M.R.Gautham.

Apart from the above there is no relationship between any of the directors.

CHANGES IN BOARD OF DIRECTORS DURING THE LAST THREE YEARS

There are no changes in the Board of Directors of the Company in the last three years except to the extent that Shri. R.V.E. Venkatachalam the director of the company expired on 26/07/2011.

There is no arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which the directors was selected as a director or member of senior management.

None of our directors are associated in any company during the period of five years (prior to the date of this Letter of Offer) whose shares have been / were suspended from being traded on the nationwide stock exchanges.

None of our directors are associated in any company (ies) which have been delisted from the stock exchange(s)

Number of equity shares held by the Board of Directors:

Name	No. of Equity shares held
Mr.E.V.Muthukumara Ramalingam	2785566
Mr.M.R.Gautham*	697920
Mr.P.Ganessan	33050
Mr.T.Gopalakrishnan	100
Dr. Namasivayam Karthikeyan	NIL

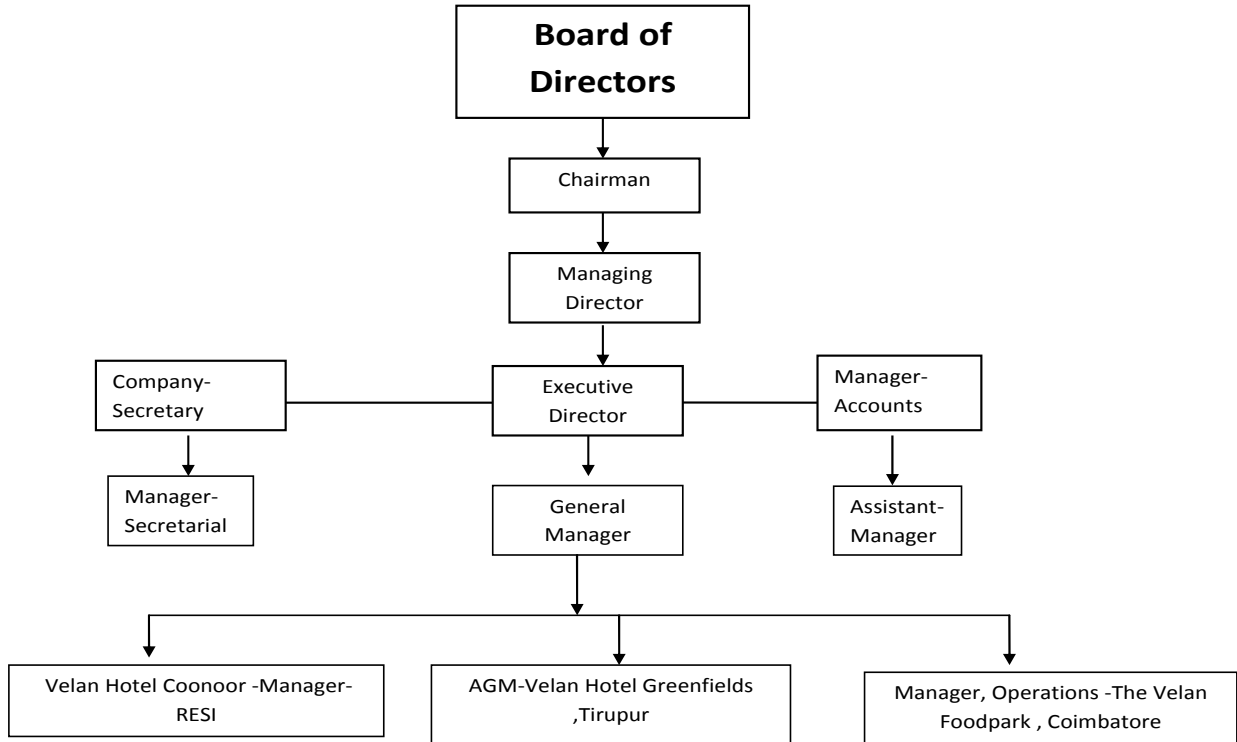
*Includes equity shares of deceased promoter Mr. R.V.E. Venkatachalam

Business interest:

None of the group companies/ joint venture companies have business interest in the issuer company. Further, there are no businesses of any of the group companies/ joint venture companies that have common pursuits.



Organization Chart



Arrangements with major shareholders, customers, suppliers or others

There is no arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any of the directors were selected as director or member of senior management.

As on date of filing of the offer document there is no service agreement entered into by the directors with the Company providing benefits upon termination of employment except of Mr.E.V.Muthukumara Ramalingam (Managing Director) and Mr.M.R.Gautham (Executive Director)

Compensation to Managing Director:

1. Mr.E.V.Muthukumara Ramalingam (Managing Director)

Mr.E.V.Muthukumara Ramalingam has been reappointed as Managing Director of the company with effect from 01/07/2010 a period of five years

Salary	Salary – ₹50000/- per month in the scale of 50000- 2000-60000. The annual increment will be effective from 1 st July 2011. Any revisions in the same has to be fixed by the Board of Directors in their meeting
Medical Reimbursement	Reimbursement of expenses incurred for self and family subject to a ceiling of one month's salary in a year or five months salary over a period of five years.
Leave Travel Concession	Leave travel concession for self and family, once in a year incurred in accordance with rules of the company.
Personal Accident Insurance	Personal accident insurance of an amount, the premium of which shall not exceed ₹ 1,00,000/-
Provident Fund	a. company's contribution towards Provident Fund as per rules of the company b. Contributions to Provident Fund shall not be included in computation of ceiling on perquisites to the extent these either singly or put together are not taxable under the Income –Tax Act, 1962
Gratuity	Gratuity payable a rate not exceeding half a month's salary for each completed year of service at the end of the tenure.
Earned Leave	On full pay and allowances as per Rules of the Company, but not exceeding one month's leave for every eleven months of service
Any other Benefits	Such other benefits and perquisites as are available to Senior Executives of the Company. Telephone at residence and a car with driver for Company's Business.
Reimbursement of Expenses, including entertainment expenses	The above remuneration is as per the Notification No. GSR 48 dated 01/02/1995 issued by department of Company Affairs, Government of India permitting profit making companies to pay remuneration by way of salary and other allowances to Managerial Personnel not exceeding 5% of its net profit for one managerial person and / or 10% of the net profits for more than one managerial personnel.
Commission	An amount equal to 1% of the Net Profits of the Company. The above is subject here under to the fact that the aggregate of total remuneration payable shall not exceed 5% of the Net Profit of the Company calculated in accordance with sections 198,309,349 and 350 of the Companies Act, 1956

3. Mr.M.R.Gautham (Executive Director)

Salary	Salary – ₹20000/- per month in the scale of 20000-1000--25000. The annual increment will be effective from 1 st January, 2008. Any revisions in the same has to be fixed by the Board of Directors in their meeting
Medical Reimbursement	Reimbursement of expenses incurred for self and family subject to a ceiling of one month's salary in a year or five months salary over a period of five years
Leave Travel Concession	Leave travel concession for self and family, once in a year incurred in accordance with rules of the company.
Personal Accident Insurance	Personal accident insurance of an amount, the premium of which shall not exceed ₹ 1,00,000/-
Provident Fund	a. company's contribution towards Provident Fund as per rules of the company b. Contributions to Provident Fund shall not be included in computation of ceiling on perquisites to the extent these either singly or put together are not taxable under the Income –Tax Act, 1962
Gratuity	Gratuity payable a rate not exceeding half a month's salary for each completed year of service at the end of the tenure.
Earned Leave	On full pay and allowances as per Rules of the Company, but not exceeding one month's leave for every eleven months of service
Any other Benefits	Such other benefits and perquisites as are available to Senior Executives of the Company. Telephone at residence and a car with driver for Company's Business.
Reimbursement of Expenses, including entertainment expenses	The above remuneration is as per the Notification No. GSR 48 dated 01/02/1995 issued by department of Company Affairs, Government of India permitting profit making companies to pay remuneration by way of salary and other allowances to Managerial Personnel not exceeding 5% of its net profit for one managerial person and / or 10% of the net profits for more than one managerial personnel.
Commission	An amount equal to 1% of the Net Profits of the Company. The above is subject here under to the fact that the aggregate of total remuneration payable shall not exceed 5% of the Net Profit of the Company calculated in accordance with sections 198,309,349 and 350 of the Companies Act, 1956

DETAILS OF BORROWING POWER

Subject to the provisions of Section 292 and 293 of the Act, the Board may, from time to time, at its discretion and by means of the resolution passed at its meeting accept deposits from members either in advance of call or otherwise and generally, raise or borrow or secure the payment of, any sum or sums of ₹ 75 Crores for the purpose of the Company.

INTEREST OF PROMOTERS/ DIRECTORS

All the Directors of the company may be deemed to be interested to the extent of remuneration, commission and fees, if any, payable to them for attending meetings of the Board and reimbursement of expenses. All the directors may also be deemed to be interested to the extent of equity shares, if any, already held by them and /or by their friends /relatives in the Company that may be subscribed for or allotted to them in

The present offer and also to the extent of any dividend payable to them and other distributions in respect of the said equity shares. All the directors may also be deemed to be interested to the extent of normal transactions, if any, with the company. The Directors may also be regarded as interested in the equity shares, if any, held or that may be allotted to the companies, firms and trust in which they are interested as directors, members, partners and or trustees.

Qualification shares

There are no qualification shares to be held by the directors of the company.

Corporate Governance

The Company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the listing agreement and circular no. SEBI/CFD/DIL/CG/2004/12/10 dated October 29, 2004 issued by Securities and Exchange Board of India (SEBI) as amended from time to time.

Committees of the Board

At present, there are three committees constituted by the Board- the Audit Committee, the Remuneration Committee and the Share Transfer & Shareholder's / Investor's Grievance Committee. The Board at the time of constitution of each committee fixes the terms of reference for each committee and also delegates powers from time to time. Various recommendations of the committees are submitted to the Board for approval.

1. Audit Committee

The primary role of the audit committee is overseeing the financial reporting process and disclosure of financial information, reviewing the financial statements before submission to the Board, reviewing adequacy of internal control systems and reviewing findings of internal investigations besides recommending appointment/ removal of statutory auditors, internal auditors and fixing their remuneration. The committee holds discussions with the statutory auditors and internal auditors periodically.

a) Composition

The following directors of the company constitute the Audit Committee.

Sr.No	Name of the Director	Designation	Status
1	Mr.P.Ganesan	Chairman	Independent & Non-executive
2	Dr. Namasivayam Karthikeyan	Member	Independent & Non-executive
3	Mr.T.Gopalakrishnan	Member	Independent & Non-executive

b) Terms of Reference

The composition, powers, role and terms of reference of the Committee is in consonance with the requirements mandated under Section 292A of the Companies Act, 1956 and Clause 49 of the listing Agreement(s). In addition to this function, the responsibilities of the Board also include but are not limited to the following functions:

- Overseeing of our Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the external auditors that is the statutory auditors, the fixation of audit fees.
- Approval for payment to statutory auditors for any other services rendered by the statutory auditors.
- Reviewing, with the management, the annual financial statements before submission to the Board for approval, focusing primarily on;
 - Changes, if any, in accounting policies and practices and reasons for the same.
 - Major accounting entries based on estimates, sufficient and credible and on exercise of judgment by management.
- Significant adjustments made in the financial statements arising out of the audit findings.

- Compliance with listing and other legal requirements relating to financial statements
- Disclosure of any related party transactions.
- Qualifications in the draft audit report and
- Any related party transactions that is, transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives etc that may have potential conflict with the interest of the Company at large
- Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
- To review with the management, the statement of uses, application of funds raised through an issue, the statements of funds utilized for purposes other than those stated in the offer document / notice and making appropriate recommendations to the Board to take up steps in this matter.
- Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure over age and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow-up thereon
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post audit discussion to ascertain any of concern.
- To look into the reasons for substantial defaults in the payment to the depositors, shareholders (in case of non-payment of declared dividend) and creditors and
- Reviewing the Company's financial and risk management policies.

c) Committee meetings

The Committee met 5 times during the financial year 2009-10 on 21/04/2009, 25/07/2009, 21/08/2009, 29/10/2009 and 28/01/2010. The Audit Committee has been reconstituted on 29/07/2011.

The attendance of the Members at the meetings is stated below.

Member	Meetings attended
Mr. P. Ganesan	5
Mr. R.V. E. Venkatachalam	5
Mr. T. Gopalakrishnan	5

The Chairman of the Committee Mr. P. Ganesan was present at the Annual General Meeting held on 6th September, 2010.

2. Shareholders'/ Investors' Grievance & Share Transfer Committee

a) Composition

The following directors of the Company constitute the shareholders'/Investor's Grievance Committee:

Sr. No	Name of the Director	Designation	Status
1	Dr. Namasivayam Karthikeyan	Chairman	Non- Executive & Independent
2	Mr. E.V.Muthukumara Ramalingam	Member	Executive & Non- Independent
3	Mr. M.R.Gautham	Member	Executive & Non-Independent

The company has appointed Mr. M. Srinivasan, Company Secretary as the Compliance Officer.

b) Terms of reference

- Transfer, transmission, transition, dematerialization, rematerialisation of securities issued by the Company
- Splitting, consolidating, issuing duplicate share certificates on such term as may be beneficial to the interest of the Company; and
- Redressal of investor / shareholders' complaint relating to transfer / transmission / demat / remat of shares, non receipt of Balance Sheet / Notice / Dividend and other mails and review the system of communication to shareholders and other services to the shareholders / investors and look after such other matter relating to the interest of shareholders/investors as may be referred by the Board of Directors from time to time.

c) Committee meetings

The Share Transfer & Shareholders'/Investors' Grievances Committee met 37 times in financial year 2009-10 which approved the share transfer and reviewed the grievances/complaints received and the action taken on the grievances / complaints. The Committee has been reconstituted on 29/07/2011.

Complaints' status: 01.04.2010 to 30.06.2011

- Number of shareholders' complaints received during the period : 4
- Number not solved to the satisfaction of shareholders : Nil
- Number of pending complaints : Nil

The business transacted at the Share Transfer & Shareholders'/Investors' Grievances Committee meetings are placed before the Board regularly.

All the members of the Committee attended all the meetings held during the year. None of the Directors has taken leave of absence.

3. Remuneration Committee

a) Composition

The remuneration committee has been constituted as under.

Sr. No	Name of the Director	Designation	Status
1	Mr.P.Ganesan	Chairman	Non-Executive & Independent
2	Mr.T.Gopalakrishan	Member	Non-Executive & Independent
3	Dr. Namasivayam Karthikeyan	Member	Non-Executive & Independent

b) Terms of reference

The role of the Remuneration Committee is to give recommendations to the Board regarding the company's policy and specific remuneration packages of the Managing Director / Whole-time Directors from to time including pension rights and any compensation payments.

c) Committee Meetings.

The Remuneration Committee had not met in the financial year ended 31 March, 2010. The Committee met on 30/06/2010 to consider re-appointment of Sri. E. V. Muthukumara Ramalingam, Managing Director.

FINANCIAL INFORMATION

Auditor's Report

Auditors' Report to the Board of Directors of VELAN HOTELS LIMITED on the Financial Statements

To,
The Board of Directors,
VELAN HOTELS LIMITED,
Add:41 KANGAYAM ROAD
TIRUPUR – 641 604

Dear Sirs,

We have examined the attached Financial Information's of VELAN HOTELS LIMITED No:41, Kangeyam Road,Tirupur-641604 as approved by the Board of Directors of the Company, prepared in terms of the requirements of Part 1 of Schedule VI to the Companies Act, 1956 ('the Act') and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2009 (ICDR Regulation 2009) as amended from time to time issued by the SEBI (SEBI Guidelines) and in terms of our engagement letter dated 20-09-2010 in connection with the proposed rights issue of equity shares of the Company.

1. Financial Information's as per Audited Financial Statement :

We have examined the attached Statement of Assets and Liabilities of the Company as at 31st March, 2010 and 31st March, 2011 (Annexure I), the Statement of Profit and Loss (Annexure II) and the Statement of Cash Flows (Annexure III) together referred to as "Summary Statements".

The statements have been extracted by the Management from the Audited Financial Statement for the financial year ended on 31st March, 2010 and 31st March, 2011.

2. Based on our examination of these summary statements we state that :

- (a) The 'summary statements' have to be read in conjunction in the significant accounting policies mentioned in Annexure IV. There has been no change in the accounting policy during the period covered in this report.
- (b) And there are no extra-ordinary items that need to be disclosed separately in the accounts and qualification in the Auditors' Report on the Financial Statements requiring adjustments to the summary statements.

3. Other Financial Information:

We have also examined the following other financial information set out in Annexures prepared by the management and approved by the Board of Directors relating to the Company for the year ended 31st March, 2010 and 31st March, 2011 and Statement of Accounting Ratios included in Annexure V.

In our opinion the financial information contained in Annexure I to III,V and Annexure IV - Notes on Accounts of this report read along with Significant Accounting policies, changes in Significant Accounting Policies and Notes (Refer Annexures) prepared after making adjustments and regrouping as considered appropriate have been prepared in accordance with SEBI (ICDR) regulations, 2009.



4. We further state that:

- a) In our opinion, the 'Financial Information as per Audited Financial Statement', and 'Other Financial Information' for the financial year ended on 31st March 2010 and 31st March 2011 have been prepared in accordance with Accounting Standards issued by ICAI and Indian GAAPs.
 - b) The summary statements (1) Statement of Assets and Liabilities of the Company (2) Statement of Profit and Loss of the Company and (3) Statement of Cash Flows of the Company for the year ended on 31st March 2010 and 31st March 2011 are after making adjustments and regrouping as in our opinion were appropriate and morefully described in Significant Accounting Policies.
 - c) This report is intended solely for your information and for inclusion in the Letter of Offer in connection with the proposed Rights Issue of the Company and not to be used, referred to or distributed for any other purpose without our prior written consent.
5. We confirm that our firm M/s. **P.S.KRISHNAN & CO**, Chartered Accountants, has been subjected to Peer Review Process of The Institute of Chartered Accountants of India and holds a valid Certificate No.4735 dated **20.07.2010**, issued by "Peer Review Board" of ICAI.

PLACE: TIRUPUR
DATE : 29.06.2011

For **P.S.KRISHNAN & CO.**,
CHARTERED ACCOUNTANTS
FRN 001532S

Sd/-
(G.KRISHNAMURTHI)
PARTNER,
MEMBERSHIP NO:23896

Annexure-I - Statement of Assets and Liabilities

(Amount in ₹ Lacs)

Particulars	Year Ended 31.03.2010	Year Ended 31.03.2011
A Fixed Assets		
Gross Block	3,526.07	5,334.82
Less: Depreciation	949.25	1,037.14
Net Block	2,576.82	4,297.68
Less: Revaluation Reserve	660.05	653.06
Net Block After Adjustment for revaluation reserve	1,916.77	3,644.62
B Investments	--	
TOTAL	1,916.77	3,644.62
C Current Assets, Loans and Advances		
Inventories	67.14	79.82
Sundry Debtors	24.95	29.55
Cash and Bank Balances	117.05	49.86
Loans and Advances	145.26	832.46
Total	354.40	991.69
D Liabilities and Provisions		
Secured Loans	690.36	2,204.07
Unsecured Loans	193.52	68.67
Current Liabilities and Provisions	251.52	424.08
Liability for Deferred payment	253.66	281.65
Total	1,389.06	2,978.47
E: Grand Total (A+B+C-D) = E	882.11	1,657.84
F: Net Worth Represented by		
Share Capital	775.00	775.00
Equity Share Advances		726.65
Reserves	767.16	809.26
Less: Revaluation Reserve	660.05	653.06
Reserves (Net of Revaluation reserves)	107.11	156.20
Total	882.11	1,657.85
G Misc. Expend. to the Extent not written off or adjusted		
H: Surplus(+) or Deficit (-) in Profit & Loss Account		
Networth (F-G-H)	882.11	1,657.85

Annexure-II - Statement of Profit and Loss Account

(Amount in ₹ Lacs)

Particulars	Year Ended 31.03.2010	Year Ended 31.03.2011
INCOME		
Sales -		
of Products manufactured by the company	1,268.02	1,460.41
of Products traded in by the Company	-	-
Other income	65.61	19.16
Increase/ Decrease (-) in Inventories		
Total	1,333.63	1,479.57
EXPENDITURE		
Consumption of Supplies	311.39	341.86
Employee Cost	212.51	248.15
Other Expenses	311.50	301.61
Administration Expenses	111.35	199.12
Selling & Distribution and Other Expenses	57.40	39.49
Total	1,004.15	1,130.23
Earnings Before Depreciation, Interest & Tax	329.48	349.34
Depreciation	70.53	81.94
Interest	83.51	80.64
Net Profit Before Tax and Extraordinary Items	175.44	186.76
Taxation		
Current Tax (Including Fringe Benefit Tax)	-	38.90
Deferred Tax	61.81	27.99
Net Profit before Extraordinary Items	113.63	119.87
Extraordinary items	-	-
Net Profit after extraordinary items	113.63	119.87
Adjustments on account of prior period expenses	1.27	3.23
Adjusted profit	112.36	116.64

Annexure-III - Statement of Cash Flow

(Amount in ₹ Lacs)

Particulars	Year Ended 31.03.2010	Year Ended 31.03.2011
01. Cash Flow from Operations		
(01) Net Profit before Tax	175.44	186.76
(02) Adjustment for		
(a) Depreciation	70.54	81.94
(b) Interest Expenses	83.51	80.64
(c) Other Income	(1.27)	(3.23)
(c) Loss on Sales of Fixed Assets	0.03	(0.05)
(d) Interest Income		
(e) Dividend Received		
(f) Sales of Investments		
(g) Revaluation Reserve	152.81	159.30
	328.25	346.06
(03) Operating Profit before working Capital Changes		
(04) Adjustment for Increase/ Decrease in		
(b) Trade & Other Receivables	50.20	(689.68)
(a) Inventories	(15.85)	(12.68)
(d) Sundry Creditors	25.99	161.52
(e) Miscellaneous Expenses/Deferred Rev. Exp		
(f) Increase in Bank Borrowings	60.34	(540.84)
(05) Cash Generation from Operation	388.59	(194.78)
(06) Less the Following		
(a) Tax Paid/ Provided	19.56	33.81
(b) Extraordinary items		
(c) Misc. receipts		
(d) Deferred sales Tax Liability	19.56	33.81
(07) Net Cash from Operating Activities	369.03	(228.59)
02. Cash Flow from Investing Activities		
(01) Purchase or Sale of Fixed Assets		
(a) Purchase of fixed assets, Including CWIP	349.48	1809.84
(b) Sale Proceeds of Fixed assets	(0.60)	(0.10)
(02) Interest Received		
(03) Dividend Received		
(04) Purchase or Sale of Investments		
(a) Purchase		
(b) Sales		
(05) Purchase or Sale of Goodwill		
(a) Additions		
(b) Deletion		
(05) Net Cash Flow from Investing Activities	348.88	1809.74
03. Cash Flow from Financing Activities	20.15	(2038.33)
(01) From Term Loan/ Deferral Loan		
(a) Obtained		
(b) Re-Paid	(247.49)	(1517.37)
(02) From Capital		
(a) Additions		(726.65)

Particulars	Year Ended 31.03.2010		Year Ended 31.03.2011	
(b) Withdrawn				
(03) From Unsecured Loans				
(a) Obtained	(1.60)			
(b) Re-Paid			128.52	
(04) From Short (Bank Borrowings)	36.18			
(05) Interest Paid	83.51		80.64	
(06) Dividend and Tax Thereon	42.48		63.71	
(07) Minority Interest				
(08) Net Cash Flow from Investing Activities		(86.92)		(1971.15)
04. Net Increase/ Decrease in Cash & Cash Equivalents (04= 01+02+03)		107.07		(67.18)
05. Cash & Cash Equivalent- Opening Balance		9.98		117.05
06. Cash & Cash Equivalent- Closing Balance		117.05		49.87
07. Net Increase/ Decrease in Balances				

Annexure IV

Significant accounting policies

Notes on accounts

1. Estimated amount of the contracts remaining to be executed on capital account and not provided for : Not ascertainable.(Previous Year not ascertainable)
2. Contingent Liabilities not provided for in the books of accounts Rs.Nil. (Previous year Rs. Nil)
3. a).Depreciation is provided under straight line method on Fixed Assets on a pro-rata basis at the rates specified in Schedule XIV to the Companies Act, 1956.
b).Depreciation on assets revalued is calculated on its revalued figure on Straight Line Method at the rates specified in Schedule XIV to the Companies Act, 1956.
4. Expenditure on employees who are in receipt of remuneration of not less than Rs. 60,00,000/- per annum (previous year Rs. 24,00,000/- per annum) when employed throughout the year or Rs. 5,00,000/- per month (previous year Rs. 2,00,000/- per month) when employed for part of the year is nil (previous year Rs. Nil.)
5. Previous year figures have been regrouped and/or reclassified wherever necessary.
6. The figures have been rounded off to the nearest rupee.
7. Balances in Sundry Debtors, Creditors and Loans & Advances are subject to confirmation and reconciliation and are stated at the book balance thereof.
8. In the opinion of the Management, the Current Assets, Loans & Advances will fetch the amount as stated, if realized in the ordinary course of its business.
9.
 - i. Quantitative details of turnover, opening and closing stock, purchase and consumption have not been furnished, in view of general exemption u/s.211 vide Press Note No: 2/2011 dt 08.02.2011 issued by Ministry of Corporate Affairs, Government of India.
 - ii. Income of the Company includes the following :

Particulars	2010-11	2009-10
	(₹)	(₹)
Guest Accommodation	75543002	66838864
Foods & Beverage Sales	57234994	45166063
Wine & Liquor	9621118	9173596
Telephone Receipts	709937	2420624
Others	4848240	9763707
	<u>147957291</u>	<u>133362854</u>
Opening Stock		
Provisions, & Supplies	6346970	4957796
Wine & Liquor	366539	176967
	<u>6713509</u>	<u>5128163</u>
ii) Closing Stock		
Provisions & Supplies	7714797	6346970
Wine & Liquor	267191	366539
	7981988	6713509

iii) Consumption		
Provisions & Supplies	31377490	28447887
Wine & Liquor	2808502	2691236
	<u>34185992</u>	<u>31139213</u>

v) Break-up of consumption of Provisions and Stores & Supplies into imported and Indigenous.

	2010- 2011		2009-2010	
	Value	Percentage	Value	Percentage
	₹	%	₹	%
PROVISIONS & SUPPLIES				
Imported	Nil	Nil	Nil	Nil
Indigenous	34185992	100%	3,11,39,123	100%

10. TERM LOANS :

1. Allahabad Bank, Andhra Bank , & Bank of Bahrain and Kuwait(upto the date of Closure)

Secured by way of Hypothecation of entire fixed assets of the Company both existing and future, Equitable Mortgage of hotel properties at Tirupur and Coonor and Hypothecation of entire current assets of the Company. The loan is also personally guaranteed by the Chairman, Managing Director & Executive Director of the company.

2. Sundaram Finance Limited

Secured by way hypothecation of Vehicle of the Company.

11.

Earning in Foreign Exchange (As reported by the management to the Department of Tourism but not verified by the Auditors

Rs. 490.12

Rs. 538.91Lacs

12. CIF Value of Imports

Capital Goods

Rs. Nil

Rs. 11.95 Lacs

Others (Forex Loan)

Rs. 783.55 Lacs

Rs.828.00 Lacs

13. The Company has called for details from trade parties regarding applicability of the provisions of Micro, Small and Medium Enterprises Development Act,2006, however no reply has been received from any of the parties, in view of the above no disclosure is made regarding liability under Micro, Small and Medium Enterprises Development Act,2006.

14. A sum of Rs.594000/- has been paid to Sri E.V.Muthukumararamlingam, Managing Director of the company as remuneration and a sum of Rs.279000/- has been paid to Sri. M.R. Gautham, Executive Director of the company as remuneration.

15. During the year, a sum of Rs.3700000/-has been provided in the books of accounts towards income tax.

16. **Earning per share :**

- Basic earnings per share are calculated by dividing the net profit attributable to the share holders by the weighted average number of ordinary shares outstanding during the year.
- The following reflects the income and share data used by the company for this calculation of basic earnings per share :-

		31.03.2011	31. 03. 2010
		₹	₹
Net Profit for the year		18675986	1,75,43,652
Net Profit for the year attributable to equity share holders.	(A)	11664498	1,12,36,011
No. of equity shares (In Numbers)	(B)	7750000	77,50,000
Earnings per share		1.51	1.45
Nominal value per share		10/-	10/-

17. Net Deferred Tax in respect of the year ending 31st March 2011 debited to Profit and Loss Account and Net Deferred Tax Liability as on 31st March, 2011 are computed as below :

A. DEFERRED TAX LIABILITY

₹in Lacs

S.No	Particulars	Opening Balance	Provided during the year	Closing Balance
1	Depreciation on account of difference in Depreciation under income tax and books of accounts	279.11	2.54	281.65
	TOTAL (A)	279.11	2.54	281.65

B. DEFERRED TAX ASSETS

₹in Lacs

S.No	Particulars	Opening Balance	Reversed during the year	Closing Balance
1	Unabsorbed Depreciation	25.44	25.44	0.00
	TOTAL (B)	25.44	25.44	0.00
	Net Deferred Tax Liability (A - B)	253.67	27.98	281.65

18. The Company is exclusively engaged in the business of Hoteling. This, in context of Accounting Standard 17 on Segment Reporting issued by The Institute of Chartered Accountants of India (ICAI) is considered to constitute one single primary segment and accordingly no segment information as required under Accounting Standard 17 is furnished.

19. Related Party Transactions.

The following are the transactions with related parties in terms of Accounting Standard 18 issued

(Rs. In Lacs)

Sl. No	Name of Party	Relationship	Nature of Transaction	Amount	Amount outstanding As on 31.03.11	Amount W-off/w-back during the period
1.	E.V.Muthukumara Ramalingam	Key Management Personnel	Remuneration	5.94	Nil	Nil
2.	M.R.Gautham	Key Management Personnel	Remuneration	2.79	Nil	Nil
3.	Shree Vallee Enterprises Pvt.Ltd	Associated Concern	Interest	11.93	13.14	Nil
4.	Shree Vallee Enterprises Pvt.Ltd	Associated Concern	Finance Receipts	Nil	52.94	55.55
5.	E.V.Muthukumara Ramalingam	Key Management Personnel	Finance Receipts	168.09	1.38	228.11
6.	E.V.Muthukumara Ramalingam	Key Management Personnel	Lease rent	3.53	Nil	Nil

SIGNIFICANT ACCOUNTING POLICES

1. Basis of Presentation :

The financial statements have been prepared under the historical cost convention, on an accrual basis and in accordance with generally accepted accounting principles generally accepted in India (Indian GAAP) and comply with mandatory Accounting Standards notified by the Central Government of India under the Companies (Accounting Standard) Rules 2006 and the relevant provisions of the Companies Act, 1956 to the extent applicable except for certain fixed assets which have been revalued. The Accounting is on the basis of a going concern concept.

2. Revenue Recognition :

Income from guest accommodation is recognized on a day to day basis after the guest checks into the hotel. Sale of food and beverage is recognized at the point of serving those items to the guest. Sales exclude amount recovered towards taxes.

3. Foreign Currency Transactions :

Foreign Currency Transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate prevailing at the time of transaction. Closing balances of current assets and current liabilities are converted at the rates of exchange prevailing at the end of the year. Any increase/decrease arising out of the above is adjusted to the profit and loss account.

4. Fixed Assets

Fixed Assets are stated at historical cost of acquisition, which is inclusive of freight, installation charges and other incidental expenses or at revalued amounts wherever such assets have been revalued.

5. Depreciation

- a. Depreciation is provided under straight line method on assets on pro-rata basis at the rates specified in Schedule XIV to the Companies Act, 1956.
- b. Depreciation on assets revalued in the year is calculated on its revalued figure on Straight Line Method at the rates specified in Schedule XIV to the Companies Act, 1956. The additional charge of depreciation on account revaluation is deducted from revaluation reserve and credited to the Profit and Loss Account.

6. Valuation of Inventory :

Provisions and Supplies are valued at cost or net realizable value. Cost Include all direct costs and applicable overheads to bring the goods to the present location and condition. Wherever the net realizable value is less than such cost, the net realizable value is adopted for valuation.

7. Employee Benefits

1. Defined Contribution Plan

Contributions to Provident and other Statutory Funds are recognized in the Profit & loss account

2. Defined Benefit Plan

Company's liabilities towards gratuity and leave encashment are determined on actuarial valuation basis. Obligation is measured at the year end as present value of future cash flows using a discounted rate.

8. Contingencies and events occurring after the date of Balance sheet

Events, where material, occurring after the date of the balance sheet are considered upto the date of approval of accounts

9. Contingent Liabilities

Contingent liabilities are not provided for in the books of accounts. However these have been disclosed by way of a note.

10. Net Profit for the period, Prior period items and changes in Accounting Polices

Prior period adjustments and extraordinary items having material impact on the financial affairs of the company are disclosed separately.

11. Borrowing Cost

Borrowing costs are capitalized as part of qualifying fixed assets when it is possible that they will result in future economic benefits. Other borrowing costs are expensed.

12. Taxation

Current tax is determined as the amount of tax payable in respect of taxable income for the year based on applicable tax rates and laws. Deferred Tax is recognized subject to consideration of prudence in respect of deferred tax assets, on timing difference, being the difference between taxable income and accounting income that originates in one period and are capable of reversal in one or more subsequent periods. At the year end, deferred tax assets and deferred tax liabilities are netted of in the balance sheet.

Annexure - V - Accounting and Other Ratios (Standalone)

Particulars	Year Ended 31.03.2010	Year Ended 31.03.2011
01. Earnings Per Share (₹)	1.45	1.51
02. Net Assets value per share (₹)	11.38	21.39
03. Return on networth (%)	12.74	7.04
04. Weighted Average Number of Equity Shares	77,50,000	77,50,000

Formula:		
1. Earnings per share(₹)	=	Net profit attributable to equity shareholders Weighted average number of equity shares outstanding during the period
2. Net Asset Value per share (₹)	=	Net Worth excluding revaluation reserve at the end of the period/year Weighted average number of equity shares outstanding during the period
3. Return on Net Worth (%)	=	Net profit attributable to equity shareholders Net Worth excluding revaluation reserve at the end of the period/year

Annexure - VI - Statement of Capitalisation

Particulars	(Amount in ₹ Lacs)	
	Year Ended 31.03.2011	As Adjusted Post Issue
01. Borrowings :		
(01) Short-term Debt	--	---
(02) Long Term debt	2204.07	7240.00
(03) Total Debt	2204.07	7240.00
02. Shareholders' Funds		
(01) Share Capital	775.00	3448.50
(02) Equity Share Advance	726.65	2700.87
(03) Reserves	809.26	809.26
(04) Total Shareholders' Funds	2310.91	6958.63
03. Ratio		
(01) Long term debt/ Equity Ratio	0.95	1.04
(02) Total Debt/ Equity Ratio	0.95	1.04

CERTAIN OTHER FINANCIAL INFORMATION

Working results of the company for the period from April 01, 2011 to June 30,2011

(Amount in ₹ Lacs)

Particulars	For the period
	01 April, 2011 to 30 June 2011
Sales	365.67
Other Income	3.10
Total Income	368.77
Estimated Gross Profit (before depreciation & Taxes)	62.09
Provision for depreciation	22.23
Provision for Taxes	13.73
Estimated Net profit	26.13

CHANGES IN ACCOUNTING POLICIES

There has been no change in accounting policies since past three years.

MATERIAL CHANGES AND COMMITMENTS, IF ANY AFFECTING FINANCIAL POSITION OF THE COMPANY

Except as disclosed in the section entitled “material developments” beginning on page 80 of this Letter of offer there are no material changes and commitments, if any affecting financial position of the Company.

STOCK MARKET DATA FOR SHARES OF THE COMPANY

The equity shares of the company are listed on The Bombay Stock Exchange Ltd. (BSE).

The stock market data for the equity shares on the **BSE** are as follows

Preceding 3 Years

Year	High (₹)			Low (₹)			Average price (₹)	Total volume (no. of shares)
	High (₹)	Date	Volume on date of high (no. of shares)	Low (₹)	Date	Volume on date of low (no. of shares)		
2008	19.60	03/01/2008	28900	6.50	18/11/2008	740	13.05	9,37,162
2009	38.73	19/11/2009	126825	6.00	09/02/2009 & 04/03/2009	119 & 578	22.37	35,82,855
2010	67.40	23/02/2010	110360	19.20	10/12/2010	10704	43.30	66,54,963

Preceding 6 Months

Months	High (₹)			Low (₹)			Average Price (₹)	Total Volume (No. of shares)
	High (₹)	Date	Volume on date of High (No. of shares)	Low (₹)	Date	Volume on date of low (No. of shares)		
January 2011	30.40	04/01/2011	65134	20.55	13/01/2011	6641	25.48	169945
February 2011	26.50	04/02/2011	34609	20.30	28/02/2011	8239	23.40	164405
March 2011	24.65	04/03/2011	7035	16.50	30/03/2011	7624	20.58	146434
April 2011	21.95	20/04/2011	5282	17.05	01/04/2011	15307	19.50	121411
May 2011	18.90	02/05/2011 & 03/05/2011	2163 6995	14.25	13/05/2011	3993	16.58	87687
June 2011	19.00	28/06/2011	8479	14.05	24/06/2011	1414	16.53	87993

Week end price of equity Shares of Velan Hotels Limited on the BSE.

Week ended	High (₹)	Low(₹)	Close(₹)
15/07/2011	21.50	18.00	20.95
08/07/2011	17.35	16.70	16.75
01/07/2011	17.30	16.65	17.00
24/06/2011	15.85	14.05	15.20

The market price of the equity shares of the Company at BSE as on 18/07/2011, the date on which the Board of Directors decided the ratio and the issue price of the current offer was ₹ 22.65.

The equity shares of the company shall be traded ex-rights from 08/08/2011 in terms of the notice issued by Bombay Stock Exchange Ltd.

The issue price of ₹ 23/- per equity share has been arrived at in consultation between the company and the lead manager to the issue.

SECTION V- LEGAL AND OTHER INFORMATION

OUTSTANDING LITIGATIONS AND DEFAULTS

Except as described below, there are no outstanding litigations, suits or civil proceedings, or criminal proceedings, or prosecutions or tax liabilities, irrespective of whether specified in Schedule XIII of the Act, against the Company or the Directors, or the Subsidiary or the Promoters or group companies, and there are no defaults, non-payment or overdues of statutory dues, overdues to banks / financial institutions, defaults against banks / financial institutions, defaults in dues payable to holders of any debentures, bonds, or fixed deposits, and arrears on preference shares issued by the Company, defaults in creation of full security as per terms of issue/ other liabilities, proceedings initiated for economic/ civil/ and other offences (including past cases where penalty may or may not have been awarded) that would result in a material adverse effect on the business. None of the aforesaid persons/ companies is on RBI's list of wilful defaulters. No disciplinary action has been taken by the SEBI/ Stock exchanges against the Company, Directors of the Company and Promoters. Further the company confirms that that there are no pending matters which have arisen in the immediately preceding 10 years involving issues of moral turpitude or criminal liability on the part of the company, material violations of statutory regulations by the company and economic offences where proceedings have been initiated against the company

Litigation involving the Company

A. CASES FILED BY THE PROMOTERS/ DIRECTORS OF THE COMPANY

Mr.R.V.E Venkatachalam is the Appellant in an appeal pending before the Hon'ble High Court of Madras pertaining to ownership dispute over a house property in Coonoor. The Title is under dispute by 2 of the 4 appellants. The remaining 2 parties have cleared the Title in favor of Mr. R V E Venkatachalam. The lower court ordered in favor of the appellants.

GOVERNMENT APPROVALS OR LICENSING ARRANGEMENTS

The Company has received the necessary consents, licenses, permissions and approvals from the Governments and various Governmental agencies required for our present business and except as mentioned below, no further materials approvals are required for the present business.

On the basis of the indicative list of approvals as given below, the Company is permitted to carry on business activities and no further approvals from any Government authorities are required by the company to undertake the business of the Company. It must be distinctly understood that, in granting these licenses, the Government of India does not take any responsibility for Company's financial soundness or for the correctness of any of the statements made or opinions expressed in this behalf.

Approvals relating to the Business

(a) Taxation Related Approvals

Description	Reg. No. / Ref. No & Date	Authority
Permanent Account Number	AAACV8449H	Commissioner of Income Tax, Chennai
Tax Deduction Account Number under the Income Tax Act, 1961	CMBV03512F	Income Tax Authority
Service Tax Registration under Section 69 of the Finance Act, 1994 (32 of 1994)	AAACV8449HST001	Commissioner of Service Tax
Value Added Tax Act, 2006 FORM D [Rule 5(1) (a)]	33872401042 with effect from 01.01.2007	Commercial Tax Department, Government of Tamil Nadu

(b) Hotel approvals

VELAN HOTEL-COONOOR

Sr No	License Name	License No.	Date of renewal	Validity period	Name of Authority
1.	FL-3 Licence issued under The Tamil Nadu Liquor (License and Permit) Rules 1981	17/97-98	Fees for Application/License/Privilege have been paid for the year 2011-12 on 24/02/2011	31/03/2012	Commissioner of Prohibition & Excise
2.	Public Building License	1/2010	25/05/2010	31/05/2013	Tahsildar, Coonoor
3.	Fire & Rescue Service License	14168/21/2010	28/10/2010	27/10/2011	Divisional Officer, Fire-Rescue Services,

Sr No	License Name	License No.	Date of renewal	Validity period	Name of Authority
					Coimbatore- Nilgiris Division, Coimbatore
4	Catering certificate	Registration No.124	19/07/2011	31/12/2011	Assistant Inspector of Labour, Coonoor

VELAN HOTEL -TIRUPUR

Sr No	License Name	License No.	Date of Renewal	Validity period	Name of Authority
1.	FL-3 License issued under The Tamil Nadu Liquor (License and Permit) Rules 1981	10/93-94	22/06/2011	31/03/2012	Commissioner of Prohibition & Excise
2.	Public Building License	61/2008	31/05/2011	30/06/2014	Tahsildar, Tirupur
3.	Fire & Rescue Service License	K.Dis.No.78 40/CI/2011	17/06/2011	17/06/2012	Director, Office of the Director of Fire & Rescue Service, Chennai.
4.	License to Import and Store Petroleum in Installation	P/SC/TN/15/ 3(P37267)	10/02/2010	31/12/2012	Joint Controller of Explosives, South Circle Office, Chennai.
5.	Boiler License	S- 306/CC/201 0-2011	28/03/2011	27/09/2011	Deputy Director of Boiler, Coimbatore Circle
6.	Consent to operate u/s 25 of the Water(Prevention and Control of Pollution)Act, 1974	CONSENT ORDER NO.10382	03/07/2008	31/03/2010. Applied for renewal for further period of two years.	District Environmental Engineer, Tamil Nadu Pollution Control Board, Tirupur.
7.	Consent for Existing operation of the plant u/s 21 of the Air (Prevention and Control of Pollution)Act, 1981	CONSENT ORDER NO.7425	03/07/2008	31/03/2010. Applied for renewal for further period of two years.	District Environmental Engineer, Tamil Nadu Pollution Control Board, Tirupur.
8	Catering certificate	Registration No.46	05/01/2011	31/12/2011	Assistant Inspector of Labour-I, Tirupur
9	D&O Trade License	Receipt No.101142 4	18/02/2011	31/03/2012	Tirupur Corporation
10	PFA License	Receipt No.101142 6	18/02/2011	31/03/2012	Tirupur Corporation

Sr No	License Name	License No.	Date of Renewal	Validity period	Name of Authority
11	Sanitary Certificate	Ref No.049442/10/H2	20/10/2010	19/10/2011	City Health Officer, Tirupur City Corporation.
12	Certificate of Verification	TN 524	05/02/2010	05/02/2012	Assistant Controller / Inspector of Legal Metrology, Circle-I, Tirupur
13	Star Classification order		11/09/2008	28/09/2013	India Tourism-Chennai, Govt.of India, Southern Regional Office, Chennai

Approvals pending as on date of filing of this Letter of offer are as follows:

- The building approvals for the multiplex has been submitted and clearance are being awaited from Local Planning Authority (LPA) & Department of Town and Country Planning (DTCP)
- Applications for consent under Section 21 of the Air (Prevention and Control of Pollution) Act, 1981 and Section 25/26 of the Water (Prevention and Control of Pollution) Act, 1974 have been submitted with Tamil Nadu Pollution Control Board, Tirupur and necessary fees in this regard has been paid.

MATERIAL DEVELOPMENTS AFTER THE DATE OF THE LAST BALANCE SHEET

There are no material developments after the date of the latest balance sheet that are likely to materially affect the performance and the prospects of the Company. The Company has not discontinued any of its existing business nor commenced any new business during past year.

ADVERSE EVENTS

There are no adverse events affecting the operations of the Company occurring within one year prior to the date of filing of the Letter of Offer with the Stock Exchange.

SECTION VI - REGULATORY AND STATUTORY DISCLOSURES

AUTHORITY FOR THE PRESENT ISSUE

Pursuant to the resolutions passed by the Board of Directors of the Company at their meeting held on 16th July 2010 it has been decided to make the following offer to the Equity Shareholders of the Company, with a right to renounce:

The resolution in respect of the rights issue was approved by the shareholders of the company in the AGM of the company held on 6th September, 2010.

The committee of Directors at their meeting held on 18/07/2011 decided the following terms of the issue:

Type of Issue	Type of Instrument	No. of equity shares	Face Value (₹)	Issue Price (₹)	Consideration
Rights Issue	Equity Shares	2,67,37,500	10/-	23/-	Cash

PROHIBITION BY SEBI

The Company, its Promoters, Directors or any of the Company's associates or group companies with which the Directors of the Company are associated as Directors or Promoters have not been prohibited from accessing the capital market under any order or direction passed by SEBI.

There are no regulatory action initiated/ taken against the issuer company, promoter group companies and the promoters in their individual capacity by various agencies/ regulatory bodies

ELIGIBILITY FOR THE ISSUE

Velan Hotels Limited is an existing listed Company. It is eligible to offer this Rights Issue in terms of Chapter IV of ICDR Regulations 2009.

The promoters, their relatives, The Company, Group companies are not detained as willful defaulters by RBI/Government authorities and there are no violations of securities laws committed by them in the past or pending against them.

The Company is in compliance as prescribed under Regulation 57(2) (b) of Part E of Schedule VIII of the ICDR Regulations. It satisfies the following conditions

- The Company has been filing periodic reports, statements and information in compliance with the listing agreement for the last three years immediately preceding the date of filing this letter of offer with the designated stock exchange.
- The reports, statements and information referred to sub-clause (a) above are available on the website of Bombay Stock Exchange Limited (BSE) one of the recognized stock exchange with nationwide trading terminals
- The Company has investor grievance – handling mechanism which includes meeting of the Shareholder's or Investor's Grievance Committee at frequent intervals, appropriate delegation of power by the board of directors of the Company as regards share transfer

and have clearly laid down systems and procedures for timely and satisfactory redressal of investor grievances.

The company has complied with the following during the financial year immediately preceding the date of the letter of offer:

- a. Provisions of the Listing Agreement with respect to reporting and compliance under Clauses 35, 40a, 41 and 49
- b. Provisions of the SEBI (substantial acquisitions of shares and takeovers) Regulations, 1997, with respect to reporting in terms of Regulation 8(3) pertaining to disclosure of changes in shareholding and Regulations 8A pertaining to disclosure of pledged shares.
- c. Provision of SEBI (Prohibition of insider trading) regulations, 1992, with respect to reporting in terms of Regulations 13.

DISCLAIMER CLAUSE

AS REQUIRED, A COPY OF THIS DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI).

"IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF DRAFT LETTER OF OFFER TO SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE OFFER DOCUMENT. LEAD MANAGER, KEYNOTE CORPORATE SERVICES LIMITED HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT LETTER OF OFFER, 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 KEYNOTE CORPORATE SERVICES LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED 27/12/2010 WHICH READS AS FOLLOWS :

- 1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATIONS LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIAL IN CONNECTION WITH THE FINALISATION OF THE DRAFT LETTER OF OFFER 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, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS OTHER PAPERS FURNISHED BY THE COMPANY, WE CONFIRM THAT:**
 - a) THE DRAFT LETTER OF OFFER FILED WITH THE BOARD IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
 - b) ALL THE LEGAL REQUIREMENTS TO THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. FRAMED/ISSUED BY THE BOARD, THE CENTRAL GOVERNMENT**

AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND

- c) **THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE AND SUCH DISCLOSURES ARE IN ACCORDANCE WITH THE REQUIREMENTS OF THE COMPANIES ACT, 1956, THE SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 AND OTHER APPLICABLE LEGAL REQUIREMENTS.**
- 3. WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT LETTER OF OFFER ARE REGISTERED WITH THE BOARD AND THAT TILL DATE SUCH REGISTRATION IS VALID.**
- 4. WE HAVE SATISFIED OURSELVES ABOUT THE CAPABILITY OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS – NOT APPLICABLE AS THE ISSUE IS NOT UNDERWRITTEN.**
- 5. WE CERTIFY THAT WRITTEN CONSENT FROM PROMOTERS HAS BEEN OBTAINED FOR INCLUSION OF THEIR SPECIFIED SECURITIES AS PART OF PROMOTERS’ CONTRIBUTION SUBJECT TO LOCK-IN AND THE SPECIFIED SECURITIES PROPOSED TO FORM PART OF PROMOTERS’ CONTRIBUTION SUBJECT TO LOCK-IN SHALL NOT BE DISPOSED/ SOLD/ TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT LETTER OF OFFER WITH THE BOARD TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE DRAFT LETTER OF OFFER. – NOT APPLICABLE AS THE PRESENT ISSUE IS A RIGHTS ISSUE.**
- 6. WE CERTIFY THAT REGULATION 33 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUES OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009, WHICH RELATES TO SPECIFIED SECURITIES INELIGIBLE FOR COMPUTATION OF PROMOTERS CONTRIBUTION, HAS BEEN DULY COMPLIED WITH AND APPROPRIATE DISCLOSURES AS TO COMPLIANCE WITH THE SAID REGULATION HAVE BEEN MADE IN THE DRAFT LETTER OF OFFER – NOT APPLICABLE AS THE PRESENT ISSUE IS A RIGHTS ISSUE.**
- 7. WE UNDERTAKE THAT SUB-REGULATION (4) OF REGULATION 32 AND CLAUSE (C) AND (D) OF SUB-REGULATION (2) OF REGULATION 8 OF THE SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 SHALL BE COMPLIED WITH. WE CONFIRM THAT ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT PROMOTERS’ CONTRIBUTION SHALL BE RECEIVED AT LEAST ONE DAY BEFORE THE OPENING OF THE ISSUE. WE UNDERTAKE THAT AUDITORS’ CERTIFICATE TO THIS EFFECT SHALL BE DULY SUBMITTED TO THE BOARD. WE FURTHER CONFIRM THAT ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT PROMOTERS’ CONTRIBUTION SHALL BE KEPT IN AN ESCROW ACCOUNT WITH A SCHEDULED COMMERCIAL BANK AND SHALL BE RELEASED TO THE ISSUER ALONG WITH THE PROCEEDS OF THE PUBLIC ISSUE. - NOT APPLICABLE AS THE PRESENT ISSUE IS RIGHTS ISSUE.**
- 8. WE CERTIFY THAT THE PROPOSED ACTIVITIES OF THE ISSUER FOR WHICH THE FUNDS ARE BEING RAISED IN THE PRESENT ISSUE FALL WITHIN THE “MAIN OBJECTS” LISTED IN THE OBJECT CLAUSE OF THE MEMORANDUM OF ASSOCIATION OR OTHER CHARTER OF THE ISSUER AND THAT THE ACTIVITIES WHICH HAVE BEEN CARRIED OUT UNTIL NOW ARE VALID IN TERMS OF THE OBJECT CLAUSE OF ITS MEMORANDUM OF ASSOCIATION.**
- 9. WE CONFIRM THAT NECESSARY ARRANGEMENTS HAVE BEEN MADE TO ENSURE THAT THE MONIES RECEIVED PURSUANT TO THE ISSUE ARE KEPT IN A SEPARATE BANK ACCOUNT AS PER THE PROVISIONS OF SUB SECTION (3) OF SECTION 73 OF THE COMPANIES ACT, 1956**

AND THAT SUCH MONIES SHALL BE RELEASED BY THE SAID BANK ONLY AFTER PERMISSION IS OBTAINED FROM ALL THE STOCK EXCHANGES MENTIONED IN THE DRAFT LETTER OF OFFER. WE FURTHER CONFIRM THAT THE AGREEMENT ENTERED INTO BETWEEN THE BANKERS TO THE ISSUE AND THE ISSUER SPECIFICALLY CONTAINS THIS CONDITION.

10. WE CERTIFY THAT A DISCLOSURE HAS BEEN MADE IN THE DRAFT LETTER OF OFFER THAT THE INVESTORS SHALL BE GIVEN AN OPTION TO GET THE SHARES IN DEMAT OR PHYSICAL MODE.
11. WE CERTIFY THAT ALL APPLICABLE DISCLOSURES MANDATED IN SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 HAVE BEEN MADE IN THE ADDITION TO DISCLOSURES WHICH, IN OUR VIEW, ARE FAIR AND ADEQUATE TO ENABLE THE INVESTOR TO MAKE A WELL INFORMED DECISION.
12. WE CERTIFY THAT THE FOLLOWING DISCLOSURES HAVE BEEN MADE IN THE DRAFT LETTER OF OFFER:
 - a) AN UNDERTAKING FROM THE ISSUER THAT AT ANY GIVEN TIME THERE SHALL BE ONLY ONE DENOMINATION FOR THE SHARES OF THE COMPANY AND
 - b) AN UNDERTAKING FROM THE ISSUER THAT IT SHALL COMPLY WITH SUCH DISCLOSURE AND ACCOUNTING NORMS SPECIFIED BY THE BOARD FROM TIME TO TIME.
13. WE UNDERTAKE TO COMPLY WITH THE REGULATIONS PERTAINING TO THE ADVERTISEMENT IN TERMS OF SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 WHILE MAKING THE ISSUE.
14. WE ENCLOSE A NOTE EXPLAINING HOW THE PROCESS OF DUE DILIGENCE HAS BEEN EXERCISED BY US IN VIEW OF THE NATURE OF CURRENT BUSINESS BACKGROUND OF THE ISSUER, SITUATION AT WHICH THE PROPOSED BUSINESS STANDS, THE RISK FACTORS, PROMOTERS' EXPERIENCE, ETC.
15. WE ENCLOSE A CHECKLIST CONFIRMING REGULATIONWISE COMPLIANCE WITH THE APPLICABLE PROVISIONS OF SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009, CONTAINING DETAILS SUCH AS THE REGULATION NUMBER, ITS TEXT, THE STATUS OF COMPLIANCE, PAGE NUMBER OF THE DRAFT LETTER OF OFFER WHERE THE REGULATION HAS BEEN COMPLIED WITH AND OUR COMMENTS, IF ANY.

THE FILING OF THE OFFER DOCUMENT DOES NOT, HOWEVER, ABSOLVE THE ISSUER FROM ANY LIABILITIES UNDER SECTION 63 OR SECTION 68 OF THE COMPANIES ACT, 1956 OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP, AT ANY POINT OF TIME, WITH THE LEAD MANAGER ANY IRRREGULARITIES OR LAPSES IN OFFER DOCUMENT".

CAUTION STATEMENT / DISCLAIMER CLAUSE OF THE ISSUER AND THE LEAD MANAGER

The Issuer Company and the Lead Manager accept no responsibility for statements made otherwise than in this Offer Document or in the advertisement or in any other material issued by or at the instance of the Company and the Lead Manager and any one placing reliance on any other source of information would be doing so at his/her/their own risks.

DISCLAIMER IN RESPECT OF JURISDICTION

This offer is being made in India to persons resident in India (including Indian nationals resident in India who are majors, Hindu Undivided Families, 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, or any other Trust law and who are authorized under their constitution to hold and invest in shares), Foreign Collaborators and to NRIs, OCBs and FIIs as defined under the Indian laws. This Offer Document does not, however, constitute an offer to sell or an invitation to subscribe to securities issued hereby in any jurisdiction other than India. Any person into whose possession this Offer Document comes is required to inform himself about and to observe any such restrictions. Any dispute arising out of this Offer will be subject to the jurisdiction of appropriate court(s) in Tirupur, State of Tamil Nadu, India 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 Offer Document has been submitted to the SEBI. Accordingly, the equity shares represented thereby may not be offered or sold, directly or indirectly, and this Offer Document may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of Offer Document nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Velan Hotels Limited since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

DESIGNATED STOCK EXCHANGE

The Designated Stock Exchange for the purpose of the Issue will be the BSE.

DISCLAIMER CLAUSE OF THE BSE

“Bombay Stock Exchange Limited (“the Exchange”) has given vide its letter no. DCS/PREF/NP/IP-RT/1018/10-11 dated February 04, 2011 permission to the Company to use the Exchange’s name in this Letter of Offer as this Company’s securities are proposed to be listed at this Exchange. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner:

- i. Warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or
- ii. Warrant that this Company’s securities will be listed or will continue to be listed on the Exchange; or
- iii. Take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this Company;

and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise 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”.

FILING

A copy of this Letter of Offer has been filed with **SEBI** at Securities and Exchange Board of India, D' Monte Building, 3rd Floor, 32 D' Monte Colony, TTK Road, Alwarpet, Chennai – 600018 and with **Bombay Stock Exchange Limited (BSE)** at Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001.

EXPENSES OF THE ISSUE

The total expenses of the issue are estimated to be ₹ -60 lacs All expenses with respect to the issue would be met out of the proceeds of the issue. The split of issue expenses is as under:

Particulars	Expense (₹ in Lacs)	Expense (% of the total expenses)	Expense (% of the Issue size)
Fees of Intermediaries	20.00	33.33	0.33
Fees to other Intermediaries including Registrar, legal counsel and Advisor	20.00	33.33	0.33
Printing & Distribution	10.00	16.67	0.16
Statutory Advertising and Marketing	4.00	6.67	0.07
Miscellaneous Expenses	6.00	10.00	0.10
Total Issue Expenses	60.00	100.00	0.98

INVESTOR GRIEVANCE REDRESSAL SYSTEM

The investor grievances against the Company are handled by the Registrars and Transfer Agent in consultation with the secretarial department of the Company. To handle the grievances received, the Company has appointed Mr. M. Srinivasan, as the company Secretary. He will supervise redressal of complaints received from the investors at the office of the Company as well as the Registrars to the Rights Issue and ensure timely settlement.

Status of Complaints

a. No. of shareholders complaints outstanding as of June 30, 2011	:	Nil
b. Total number of complaints received during the period from April 1, 2010 to June 30, 2011	:	4
c. Total number of complaints received during the period from April 1, 2007 to June, 2011	:	12
d. Status of the complaints	:	All are resolved
e. Time normally taken for disposal of various types of investor grievances	:	7 to 10 Days

Investors may contact the Compliance Officer / Registrar to the Issue in case of any pre-Issue/ post -Issue related problems such as non-receipt of letters of allotment/share certificates/demat credit/refund orders etc. There contact details are as follows:

Mr. M. Srinivasan, Company Secretary & Compliance Officer
 41, Kangeyam Road,
 Tirupur – 641 604 Tamil Nadu
 Tel: +91-0421-2424426-30;
 Fax: +91-0421-2424434;
 Email: investorrelations@velanhotels.com;

The contact details of the Registrar and Share Transfer agent to the Company are as follows:

S.K.D.C. CONSULTANTS LIMITED

Kanapathy Towers, 3rd Floor 1391/A1,
 Sathy Road, Ganapathy
 Coimbatore - 641 006
 Tel : 91-422-6549995,2539835-36
 Fax: + 91-422-2539837
 E-mail: info@skdc-consultants.com
 Website: www.skdc-consultants.com
 Contact Person: Mr. K Jayakumar

All grievances related to the offer may be addressed to the Registrar to the Rights Issue quoting the application No. (Including prefix), Number of equity shares applied for, amount paid on application, date, Bank and branch/ Collection center where application was submitted.

The normal time taken by the Company for redressal of investor grievance is given below:-

Sl. No	Type of Request	Normal Time Taken (No of Days)
1	Issue of Duplicate Share Certificate	21 *
2	Transfer of shares	10
3	Transmission of shares	10
4	Demat/remat of shares	7
5	Non receipt of dividend	7
6	Non receipt of Annual Report	1
7	Change of residential address/ Bank mandate	Same Day
8	Consolidation/split of share certificates/ Remat	10

* includes 15 days notice period.

SECTION VII - OFFERING INFORMATION

A.TERMS OF THE ISSUE

The Equity Shares, now being issued, are subject to the terms and conditions contained in this Letter of Offer, the enclosed Composite Application Form (“CAF”), the Memorandum and Articles of Association of our Company, the provisions of the Companies Act, approvals from the RBI, guidelines or regulations issued by SEBI, approvals from the Stock Exchanges where Equity Shares of our Company are listed, FEMA, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate, the provisions of the Depositories Act, to the extent applicable and any other legislative enactments and rules as may be applicable and introduced from time to time.

Ranking of equity shares

The new Equity Shares proposed to be issued shall rank in all respects pari-passu with existing fully paid up Equity Shares.

Mode of payment of dividend

The dividend is paid to all the eligible shareholders as per the provisions of Companies Act.

Face value & issue price

The Face Value of Equity Shares of the Company is ₹10/-. The Equity Shares of ₹ 10/- each are being issued at a premium of ₹ 13/- each i.e.; at a price of ₹ 23 /- in the present rights issue.

Rights of the Equity Shareholders

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll in person or by proxy;
- Right to receive offers for shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right to free transferability of shares; and
- Such other rights as may be available to a shareholder of a listed public company under the Companies Act and Memorandum and Articles of Association.

Market lot

The market lot for the Equity Shares held in the demat mode is one share. In case of physical certificate, the Company would issue one certificate for the Equity Shares allotted to one person (“Consolidated Certificate”). In respect of consolidated certificate, the Company will, only upon request from the equity shareholder, split & return such consolidated certificate into smaller denomination within 7 days time in conformity with the clause 3 of the Listing Agreement. No fee would be charged by the Company for splitting the consolidated certificate.

Basis for the Issue

The Equity Shares are being offered for subscription for cash to the Eligible Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in electronic form and on the Register of Members of our Company in respect of the Equity Shares held in the physical form at the close of business hours on the Record Date i.e. 09/08/2011, fixed in consultation with the Designated Stock Exchange.

Nomination

In terms of Section 109A of the Act, nomination facility is available in case of Equity Shares. The applicant can nominate any person by filling the relevant details in the CAF in the space provided for this purpose.

The sole Equity Shareholder or first Equity Shareholder, along with other joint Equity Shareholders (being individual(s) may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares. Person(s), being a nominee, becoming entitled to the Equity Shares by reason of the death of the original Equity Shareholder(s), shall be entitled to the same rights to which he would be entitled if he/she were the registered holder of the Equity Shares. Where the nominee is a minor, the Equity Shareholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Equity Share(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale/disposal of the Equity Share by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. When two or more persons hold the Equity Share(s), the nominee shall become entitled to receive the shares only on the demise of all the holders.

Fresh nominations can be made only in the prescribed form available on request at the office of the Company located at Tirupur or such other place at such addresses as may be notified by the Company. The applicant can make the nomination by filling in the relevant portion in the CAF. Only one nomination would be applicable for one folio. Hence, in case the shareholder(s) has (have) already registered the nomination with the Company, no further nomination need to be made for Equity Shares to be allotted in this Issue under the same folio.

In case the allotment of Equity Shares is in dematerialized form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with respective Depository Participant of the applicant would prevail. If the applicant requires to change the nomination, they are requested to inform their respective Depository Participant.

Minimum subscription

- i) If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within fifteen days from the date of closure of the Issue.
- ii) If there is a delay in the refund of subscription by more than 8 days after the Company becomes liable to pay the subscription amount (i.e. fifteen days after closure of the issue), the Company shall pay interest for the delayed period at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.

Disposal of odd lots

The Company has not made any arrangements for the disposal of odd lot Equity Shares arising out of this Issue. The Company will issue certificates of denomination equal to the number of Equity Shares being allotted to the Equity Shareholder.

Restrictions on transfer and transmission of shares and on their consolidation/ splitting

There are no restrictions on transfer and transmission and on their consolidation/splitting of shares issued pursuant to this issue.

General terms of the Issue

Market Lot

The Equity Shares of our Company are tradable only in dematerialized form. The market lot for Equity Shares in dematerialized mode is 1 Equity Share. In case of holding of Equity Shares in physical form, our Company would issue to the allottees 1 (one) certificate for the Equity Shares allotted to each folio ("Consolidated Certificate"). In respect of consolidated certificates, our Company will upon receipt of a request from the respective holder of Equity Shares, split such consolidated certificates into smaller denominations within three weeks time from the receipt of the request in respect thereof.

Joint Holders

Where two or more persons are registered as the holders of any Equity Shares, they shall be deemed to hold the same as joint holders with the benefit of survivorship subject to the provisions contained in the Articles.

Nomination

In accordance with Section 109A of the Companies Act, only individuals applying as sole applicants/ joint applicants can nominate, non-individuals including society, trust, body corporate, partnership firm, holder of power of attorney cannot nominate. In accordance with Section 109A of the Companies Act, the sole or first holder, along with other joint holders, may nominate any one person in whom, in the event of the death of sole holder or in case of joint holders, death of all the holders, 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 the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/ transfer/ alienation of equity share(s) by the person nominating. 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 our Company's Registered Office or to our Company's Registrar and Transfer Agents. The Applicant can make the nomination by filling in the relevant portion of the CAF. In accordance with Section 109B of the Companies Act, any person who becomes a nominee by virtue of the provisions of Section 109A of the Companies Act, 1956, shall upon the production of such evidence as may be required by the Board, elect either:

- to register himself or herself as the holder of the Equity Shares; or
- 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.

Only one nomination would be applicable for one folio. Hence, in case the Equity Shareholder(s) has already registered the nomination with our Company, no further nomination needs to be made for Equity Shares to be allotted in this Issue under the same folio.

In case the allotment of Equity Shares is in dematerialized form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with the respective Depository Participant ("DP") of the Investor would prevail. Any Investor desirous of changing the existing nomination is requested to inform its respective DP.



B. ISSUE PROCEDURE

BASIS OF THE OFFER

The Equity Shares are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company in respect of Equity Shares held in the physical form at the close of business hours on the Record Date. The Company has in consultation with the Designated Stock Exchange fixed the Record Date for determining the shareholders who are entitled to receive this offer for Equity Shares on a rights basis. The Equity Shares are being offered for subscription in the ratio of 69 Equity Shares for every 20 Equity Shares held by the Equity Shareholders. The shareholders whose names appear as beneficial owners as per the list furnished by the depositories in respect of the Equity Shares held in electronic form and on the register of members of the Company in respect of the equity shares held in physical form on 09/08/2011 at the close of business hours shall be entitled to the Equity Shares in the rights issue.

OPTION TO SUBSCRIBE

Applicants to the Equity Shares of the Company issued through this Rights Issue shall be allotted the securities in dematerialized (electronic) form at the option of the applicant. The Company has signed a tripartite agreement with National Securities Depository Limited (NSDL) and SKDC Consultants Limited, and with Central Depository Services (India) Limited (CDSL) and SKDC Consultants Limited which enables the Investors to hold and trade in securities in a dematerialized form, instead of holding the securities in the form of physical certificates. The ISIN number allotted to the company is INE548D01014

RIGHTS ENTITLEMENT

As your name appears as beneficial owner in respect of the shares held in the electronic form or appears in the register of members as an equity shareholder of the Company on the Record Date, you are entitled to this Rights Offer. The number of Equity Shares to which you are entitled is shown in Block I of Part A of the enclosed CAF and as shown in part A of the enclosed CAF.

FRACTIONAL ENTITLEMENT

Fractional entitlement if any will be rounded off to the next higher integer and the share required for the same to be adjusted from one of the promoter's entitlement.

JOINT-HOLDERS

Where two or more persons are registered as the holders of any Equity Shares, they shall be deemed (so far as the Company is concerned) to hold the same as joint-holders with benefits of survivorship subject to provisions contained in the Articles.

OFFER TO NON-RESIDENT EQUITY SHAREHOLDERS/APPLICANTS

Applications received from NRIs for allotment of Equity Shares shall be, inter alia, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 1999 (FEMA) in the matter of refund of application moneys, allotment of Equity Shares, issue of letter of allotment/share certificates, payment of interest, dividends, etc. The Equity Shares purchased by NRIs shall be subject to the same conditions including

restrictions in regard to the reparability as are applicable to the original shares against which Equity Shares are issued.

By virtue of Circular No. 14 dated September 16, 2003 issued by the RBI, overseas corporate bodies (“OCBs”) have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs) Regulations, 2003. The circular stipulates that an OCB shall not be eligible to purchase equity or preference shares or convertible debentures offered on right basis by an Indian company, and no Indian company shall offer equity or preference shares or convertible debentures on right basis to an OCB. Accordingly, OCBs shall not be eligible to subscribe to the Equity Shares. The RBI has however clarified in its circular, A.P. (DIR Series) Circular No. 44, dated December 8, 2003 that OCBs which are incorporated and are not under the adverse notice of the RBI are permitted to undertake fresh investments as incorporated non-resident entities in terms of Regulation 5(1) of RBI Notification No.20/2000-RB dated May 3, 2000 under FDI Scheme with the prior approval of Government if the investment is through Government Route and with the prior approval of RBI if the investment is through Automatic Route on case by case basis. Thus, OCBs desiring to participate in this Issue must obtain prior approval from the RBI. On providing such approval to the Bank at its registered office, the OCB shall receive this Letter of Offer and the CAF.

Applications received from the NRIs for the allotment of Equity Shares shall, among other things, be subject to conditions as may be imposed, from time to time, by the RBI, in the matter of refund of application moneys, allotment of Equity Shares, issue of letters of allotment/ certificates/ payment of dividends etc.

NOTICES

All notices to the Equity Shareholder(s) required to be given by the Company shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and one Regional language daily and/or, will be sent by ordinary post to the registered holders of the Equity Share(s) from time to time.

UTILIZATION OF ISSUE PROCEEDS

The funds received against this Issue will be kept in a separate bank account and our Company shall utilize the funds collected in the Rights Issue only after the basis of allotment is finalized.

UNDERTAKINGS BY OUR COMPANY

Our Company undertakes that:

1. the complaints received in respect of the Issue shall be attended to expeditiously and satisfactorily.
2. all steps for completion of the necessary formalities for listing and commencement of trading at all Stock Exchanges where the securities are to be listed will be taken within seven working days of finalization of basis of allotment.
3. the funds required for making dispatch of refund orders/allotment letters/certificates as per the mode(s) disclosed shall be made available to the Registrar to the issue.
4. where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 15 days of closure of the issue, as the case may be,

giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund.

5. adequate arrangements shall be made to collect all ASBA applications and to consider them similar to Non-ASBA applications while finalizing the basis of allotment
6. the certificates of the securities/ refund orders to the non-resident Indians shall be dispatched within the specified time.
7. no further issue of securities affecting equity capital of our Company shall be made till the securities issued/offered through the Letter of Offer Issue are listed or till the application money are refunded on account of non-listing, under-subscription etc.
8. our Company accepts full responsibility for the accuracy of information given in this Letter of Offer and confirms that to best of its knowledge and belief, there are no other facts the omission of which makes any statement made in this Letter of Offer misleading and further confirms that it has made all reasonable enquiries to ascertain such facts.
9. all information shall be made available by the Lead Manager and the Issuer to the Investors at large and no selective or additional information would be available for a section of the Investors in any manner whatsoever including at road shows, presentations, in research or sales reports etc.
10. our Company shall comply with such disclosure and accounting norms specified by SEBI from time to time.

PROCEDURE FOR APPLICATION

For Equity Shareholders wishing to apply through the newly introduced ASBA process for rights issues, kindly refer section titled "Procedure for Application through the Applications Supported By Blocked Amount ("ASBA") Process beginning on page no. 99 of this Letter of Offer.

In case the original CAF is not received by the Investor or is misplaced by the Investor, the Investor may request the Registrar to the Issue, for issue of a duplicate CAF, by furnishing the registered folio number, DP ID Number, Client ID Number and their full name and address.

The CAF consists of four parts:

- Part A: Form for accepting the Equity Shares and for applying for additional Equity Shares;
- Part B: Form for renunciation;
- Part C: Form for application for renunciation;
- Part D: Form for request for split Application forms.

APPLICATION BY MUTUAL FUNDS

In case of a mutual fund, a separate application can be made in respect of each scheme of the mutual fund registered with SEBI and such application in respect of more than one scheme of the mutual fund will not be treated as multiple applications provided that the applications clearly indicate the scheme concerned for which the application has been made. Applications made by AMCs or custodians of a mutual fund shall clearly indicate the name of the concerned scheme for which the application is being made.

ACCEPTANCE OF THE ISSUE

You may accept the Issue and apply for the Equity Shares offered, either in full or in part, by filling Part A of the enclosed CAF and submit the same along with the application money payable to the Bankers to the Issue or any of the collection branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board of our Company in this regard. Investors at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn at par on a local bank at Coimbatore / demand draft payable at Coimbatore to the Registrar to the Issue by registered post. Such applications sent to anyone other than the Registrar to the Issue are liable to be rejected.

OPTIONS AVAILABLE TO THE ELIGIBLE EQUITY SHAREHOLDERS

The CAF will clearly indicate the number of Equity Shares that the Eligible Equity Shareholder is entitled to. If the Eligible Equity Shareholder applies for an investment in Equity Shares, then he can:

- Apply for his Rights Entitlement of Equity Shares in part;
- Apply for his Rights Entitlement of Equity Shares in part and renounce the other part of the Equity Shares;
- Apply for his Rights Entitlement of Equity Shares in full;
- Apply for his Rights Entitlement in full and apply for additional Equity Shares;
- Renounce his Rights Entitlement in full.

RENUNCIATION

This Issue includes a right exercisable by you to renounce the Equity Shares offered to you either in full or in part in favor of any other person or persons. Your attention is drawn to the fact that our Company shall not allot and/or register the Equity Shares in favor of more than 3 persons (including joint holders), partnership firm(s) or their nominee(s), minors, HUF, any trust or society (unless the same is registered under the Societies Registration Act, 1860 or the Indian Trust Act or any other applicable law relating to societies or trusts and is authorized under its constitution or bye-laws to hold Equity Shares).

Any renunciation from Resident Indian Shareholder(s) to Non-resident Indian(s) or from Non-resident Indian Shareholder(s) to Resident Indian(s) or from Non-resident Indian shareholder(s) to other Nonresident Indian(s) is subject to the Renouncer(s) / Renounee(s) obtaining the necessary approvals including the permission of the RBI under the FEMA and such permissions should be attached to the CAF. Applications not accompanied by the aforesaid approvals are liable to be rejected.

By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, Overseas Corporate Bodies ("OCBs") have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs) Regulations, 2003. Accordingly, the Eligible Equity Shareholders of our Company who do not wish to subscribe to the Equity Shares being offered but wish to renounce the same in favour of renounee shall not renounce the same (whether for consideration or otherwise) in favour of OCB(s).

Part 'A' of the CAF must not be used by any person(s) other than those in whose favour this offer has been made. If used, this will render the application invalid. Submission of the enclosed CAF to the Bankers to the Issue at its collecting branches specified on the reverse of the CAF with the form of renunciation (Part 'B' of the CAF) duly filled in shall be conclusive evidence for our Company of the person(s) applying for Equity Shares of the CAF to receive

allotment of such Equity Shares. The Renounees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares. Part 'A' of the CAF must not be used by the Renounee(s) as this will render the application invalid. Renounee(s) will have no further right to renounce any Equity Shares in favour of any other person.

The right of renunciation is subject to the express condition that the Board shall be entitled in its absolute discretion to reject the request for Allotment to Renounee(s) without assigning any reason thereof.

PROCEDURE OF RENUNCIATION

To renounce all the Equity Shares offered to an Eligible Equity Shareholder in favour of one Renounee

If you wish to renounce the offer indicated in Part 'A', in whole, please complete Part 'B' of the CAF. In case of joint holding, all joint holders must sign Part 'B' of the CAF. The person in whose favour renunciation has been made should complete and sign Part 'C' of the CAF. In case of joint renounees, all joint renounees must sign this part of the CAF.

To renounce in part/or renounce the whole to more than one person(s)

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer under this Issue in favour of two or more Renounees, the CAF must be first split into the requisite number of forms.

Please indicate your requirement of split forms in the space provided for this purpose in Part 'D' of the CAF and return the entire CAF to the Registrar to the Issue so as to reach them latest by the close of business hours on the last date of receiving requests for split forms, 02/09/2011 . On receipt of the required number of split forms from the Registrar, the procedure as mentioned in the paragraph above shall have to be followed.

In case the signature of the Eligible Equity Shareholder(s), who has renounced the Equity Shares, does not agree with the specimen registered with our Company, the application is liable to be rejected.

RENOUNCEE(S)

The person(s) in whose favour the Equity Shares are renounced should fill in and sign Part 'C' of the CAF and submit the entire CAF to the Bankers to the Issue on or before the Issue Closing Date along with the application money in full. The Renounee cannot further renounce.

CHANGE AND/ OR INTRODUCTION OF ADDITIONAL HOLDERS

If you wish to apply for Equity Shares jointly with any other person(s), not more than three, who is / are not already a joint holder with you, it shall amount to renunciation and the procedure as stated above for renunciation shall have to be followed. Even a change in the sequence of the name of joint holders shall amount to renunciation and the procedure, as stated above shall have to be followed. However, this right of renunciation is subject to the express condition that the Board shall be entitled in its absolute discretion to reject the request for allotment from the Renounee(s) without assigning any reason thereof.

Instructions for options

Please note that:

- Part 'A' of the CAF must not be used by any person(s) other than the Eligible Equity Shareholders to whom the Letter of Offer has been addressed. If used, this will render the application invalid.
- A request for split forms should be made for a minimum of 1 (one) Equity Shares or, in multiples thereof and one split form for the balance Equity Shares, if any.
- A request by the Investor for the split Application form should reach our Company on or before 02/09/2011.
- Only the Eligible Equity Shareholders to whom the Letter of Offer has been addressed shall be entitled to renounce and to apply for split application forms. Forms once split cannot be split further.
- Split form(s) will be sent to the Investor(s) by post at the Investors' risk.

Additional Equity Shares

You are eligible to apply for additional Equity Shares over and above the number of Equity Shares you are entitled to, provided that you have applied for all the Equity Shares offered without renouncing them in whole or in part in favour of any other person(s). Applications for additional Equity Shares shall be considered and allotment shall be made at the sole discretion of the Board, in consultation, if necessary, with the Designated Stock Exchange and in the manner prescribed in the paragraph titled "Basis of Allotment" beginning on page no. 106 of this Letter of Offer.

If you desire to apply for additional Equity Shares, please indicate your requirement in the place provided for additional Equity Shares in Part A of the CAF. The Renounee applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares.

Where the number of additional Equity Shares applied for exceeds the number available for allotment, the allotment would be made on a fair and equitable basis in consultation with the Designated Stock Exchange.

You may exercise any of the following options with regard to the Equity Shares offered, using the enclosed CAF:

Sr. No.	Options Available	Action Required
1.	Accept the whole or part of your Rights Entitlement without renouncing the balance.	Fill in and sign Part A (<i>All joint holders must sign</i>).
2.	Accept your Rights Entitlement in full and apply for additional Equity Shares.	Fill in and sign Part A including Block III relating to the acceptance of Rights Entitlement and Block IV relating to additional Equity Shares (<i>All joint holders must sign</i>).
3.	Renounce your Rights Entitlement in full to one person (<i>Joint Renounees are considered as one</i>).	Fill in and sign Part B (<i>all joint holders must sign</i>) indicating the number of Equity Shares renounced and hand it over to the Renounee. The Renounee must fill in and sign Part C (<i>All joint Renounees must sign</i>).

Sr. No.	Options Available	Action Required
4.	<p>Accept a part of your Rights Entitlement and renounce the balance to one or more Renouncee(s).</p> <p>OR</p> <p>Renounce your Rights Entitlement to all the Equity Shares offered to you to more than one Renouncee.</p>	<p>Fill in and sign Part D (<i>all joint holders must sign</i>) requesting for Split Application Forms. Send the CAF to the Registrar to the Issue so as to reach them on or before the last date for receiving requests for Split Application Forms. Splitting will be permitted only once.</p> <p>On receipt of the Split Application Form take action as indicated below.</p> <p>For the Equity Shares you wish to accept, if any, fill in and sign Part A.</p> <p>For the Equity Shares you wish to renounce, fill in and sign Part B indicating the number of Equity Shares renounced and hand it over to the Renouncee. Each of the Renouncees should fill in and sign Part C for the Equity Shares accepted by them.</p>
5.	Introduce a joint holder or change the sequence of joint holders	This will be treated as a renunciation. Fill in and sign Part B and the Renouncee must fill in and sign Part C.

Investors must provide information in the CAF as to their savings bank / current account number and the name of the bank with whom such account is held, to enable the Registrar to print the said details in the refund orders after the names of the payee(s). Failure to comply with this may lead to rejection of the application. Bank account details furnished by the Depositories will be printed on the refund warrant in case of Equity Shares held in electronic form.

Investors must write their CAF Number at the back of the cheque/demand draft.

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the Investor, the Registrar to the Issue will issue a duplicate CAF on the request of the Investor who should furnish the registered folio number / DP and Client ID number and his / her full name and address to the Registrar to the Issue. Please note that the request for a duplicate CAF should reach the Registrar to the Issue within 7 (seven) days from the Issue Opening Date. Please note that those who are making the application in the duplicate CAF should not utilize the original CAF for any purpose including renunciation, even if it is received / found subsequently. If the Investor violates any of these requirements, he / she shall face the risk of rejection of both the CAFs.

Application on Plain Paper

An Eligible Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Issue on plain paper, along with a demand draft, net of bank and postal charges payable at Coimbatore which should be drawn in favor of “**Velan Hotels Limited – Rights Issue**” and the Eligible Equity Shareholders should send the same by registered post directly to the Registrar to the Issue.

If any shareholder makes an application on application form as well as on plain paper, both his applications shall be liable to be rejected at the option of the issuer.

The envelope should be super scribed “**Velan Hotels Limited – Rights Issue**” and should be postmarked in India. The application on plain paper, duly signed by the Investors including joint holders, in the same order as per specimen recorded with our Company, must reach the office of the Registrar to the Issue before the Issue Closing Date and should contain the following particulars:

- Name of the Issuer, being Velan Hotels Limited;
- Name and address of the Eligible Equity Shareholder including joint holders;
- Registered Folio Number / DP and Client ID no.;
- Number of Equity Shares held as on Record Date;
- Number of Equity Shares entitled;
- Number of Equity Shares applied for;
- Number of additional Equity Shares applied for, if any;
- Total number of Equity Shares applied for;
- Total amount paid at the rate of ₹ 23/- per Equity Share ;
- Separate cheques / DDs are to be attached for amounts to be paid for Equity Shares;
- Particulars of cheque / demand draft / Savings / Current Account Number and name and address of the bank where the Eligible Equity Shareholder will be depositing the refund order;
- PAN of the Investor, and for each Investor in case of joint names, irrespective of the total value of the Equity Shares applied for pursuant to the Issue;
- Signature of the Equity Shareholders to appear in the same sequence and order as they appear in the records of our Company.

Please note that those who are making an application otherwise than on an original CAF shall not be entitled to renounce their rights and should not utilize the original CAF for any purpose including renunciation even if it is received subsequently. If the Investor violates any of these requirements, he / she shall face the risk of rejection of both the applications. Separate cheque / DDs are to be attached for amounts to be paid for Equity Shares. Our Company shall refund such application amount to the Investor without any interest thereon.

PROCEDURE FOR APPLICATION THROUGH THE APPLICATIONS SUPPORTED BY BLOCKED AMOUNT (“ASBA”) PROCESS

SEBI, by its circular dated August 20, 2009, introduced in rights issue - application supported by blocked amount wherein the application money remains in the ASBA Account until allotment. Mode of payment through ASBA in Rights Issue became effective on August 20, 2009. Since this is a new mode of payment in Rights Issues, set forth below is the procedure for applying under the ASBA procedure, for the benefit of the shareholders.

This section is only to facilitate better understanding of aspects of the procedure which is specific to ASBA Investors. ASBA Investors should nonetheless read this document in entirety. Shareholders who are eligible to apply under the ASBA Process are advised to make their independent investigations and ensure that the number of Equity Shares applied for by such Shareholder do not exceed the applicable limits under laws or regulations

Our Company and the Lead Manager are not liable for any amendments or modifications or changes in applicable laws or regulations, which may occur after the date of this Letter of Offer. Equity Shareholders who are eligible to apply under the ASBA Process are advised to make their independent investigations and ensure that the number of Equity Shares applied

for by such Equity Shareholders does not exceed the applicable limits under laws or regulations. The lists of banks that have been notified by SEBI to act as SCSB for the ASBA Process are provided on <http://www.sebi.gov.in/pmd/scsb.pdf>. For details on designated branches of SCSBs collecting the CAF, please refer the above mentioned link.

ASBA Process

An ASBA Investor can submit his application through CAF/plain paper, either in physical or electronic mode, to the SCSB with whom the bank account of the ASBA Investor or bank account utilized by the ASBA Investor is maintained. The SCSB shall block an amount equal to the application amount in the ASBA Account specified in the CAF, physical or electronic, on the basis of an authorization to this effect given by the account holder at the time of submitting the CAF. The application data shall thereafter be uploaded by the SCSB in the web enabled interface of the Stock Exchanges as prescribed under circular issued by SEBI - SEBI/CFD/DIL/DIP/38/2009/08/20 dated August 20, 2009 or in such manner as may be decided in consultation with the Stock Exchanges. The amount payable on application shall remain blocked in the ASBA Account until finalization of the Basis of Allotment and consequent transfer of the amount against the allocated Equity Shares to the separate account opened by our Company for Rights Issue or until failure of the Issue or until rejection of the ASBA application, as the case may be. Once the basis of Allotment is finalized, the Registrar to the Issue shall send an appropriate request to the Controlling Branch for unblocking the relevant ASBA Accounts and for transferring the amount allocable to the successful ASBA Investors to the separate account opened by our Company for Rights Issue. In case of withdrawal/failure of the Issue, the blocked amount shall be unblocked on receipt of such information from the Registrar to the Issue. SEBI vide their circular - CIR/CFD/DIL/1/2011 dated April 29, 2011 has been decided that non-retail investors i.e. Qualified Institutional Buyers and Non-Institutional Investors, making application in public/rights issue shall mandatorily make use of ASBA facility.

The Lead Manager, our Company, its directors, affiliates, associates and their respective directors and officers and the Registrar to the Issue shall not take any responsibility for acts, mistakes, errors, omissions and commissions etc. in relation to applications accepted by SCSBs, Applications uploaded by SCSBs, applications accepted but not uploaded by SCSBs or applications accepted and uploaded without blocking funds in the ASBA Accounts. It shall be presumed that for applications uploaded by SCSBs, the amount payable on application has been blocked in the relevant ASBA Account.

Equity Shareholders who are eligible to apply under the ASBA Process:

The option of applying for Equity Shares in the Issue through the ASBA Process is available to all Equity Shareholders of our Company on the Record Date.

CAF

The Registrar will dispatch the CAF to all Equity Shareholders as per their entitlement on the Record Date for the Issue. Equity Shareholders desiring to use the ASBA Process are required to submit their applications by selecting the ASBA Option in Part A of the CAF only. Application in electronic mode will only be available with such SCSB who provides such facility. The Equity Shareholder shall submit the CAF/plain paper application to the SCSB for authorizing such SCSB to block an amount equivalent to the amount payable on the application in the said bank account maintained with the same SCSB. The Equity Shareholder shall submit the CAF to the SCSB for authorizing such SCSB to block an amount equivalent to the amount payable on the application in the said bank account maintained with the same SCSB.

Equity Shareholders applying under the ASBA Process are also advised to ensure that the CAF is correctly filled up, stating therein the bank account number maintained with the

SCSB in which an amount equivalent to the amount payable on application as stated in the CAF will be blocked by the SCSB.

Acceptance of the Issue

You may accept the Issue and apply for the Equity Shares offered, either in full or in part, by filling Part A of the CAF sent by the Registrar, selecting the ASBA process option in Part A of the CAF and submit the same to the SCSB before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board of Directors of our Company in this regard.

Mode of payment

ASBA is mandatory for all QIBs and for all applicants who apply for shares for an amount exceeding ₹ 2.00 Lacs. The Shareholder applying under the ASBA Process agrees to block the entire amount payable on application (including for additional Equity Shares, if any) with the submission of the CAF, by authorizing the SCSB to block an amount, equivalent to the amount payable on application, in a bank account maintained with the SCSB. After verifying that sufficient funds are available in the bank account provided in the CAF, the SCSB shall block an amount equivalent to the amount payable on application mentioned in the CAF until it receives instructions from the Registrar.

Upon receipt of intimation from the Registrar, the SCSBs shall transfer such amount as per Registrar's instruction allocable to the Shareholders applying under the ASBA Process from bank account with the SCSB mentioned by the Shareholder in the CAF. This amount will be transferred in terms of the SEBI ICDR Regulations into the separate bank account maintained by our Company as per the provisions of section 73(3) of the Companies Act, 1956. The balance amount remaining after the finalization of the basis of allotment shall be either unblocked by the SCSBs or refunded to the investors by the Registrar on the basis of the instructions issued in this regard by the Registrar to the Issue and the Lead Manager to the respective SCSB.

The Shareholders applying under the ASBA Process would be required to block the entire amount payable on their application at the time of the submission of the CAF.

The SCSB may reject the application at the time of acceptance of CAF if the bank account with the SCSB details of which have been provided by the Shareholder in the CAF does not have sufficient funds equivalent to the amount payable on application mentioned in the CAF. Subsequent to the acceptance of the application by the SCSB, our Company would have a right to reject the application only on technical grounds.

Options available to the Shareholder applying under the ASBA Process

The summary of options available to the Shareholders is presented below. You may exercise any of the following options with regard to the Equity Shares offered, using the CAF received from Registrar:

Sr. No.	Option Available	Action Required
1.	Accept whole or part of your entitlement without renouncing the balance.	Fill in and sign Part A of the CAF (All joint holders must sign)

Sr. No.	Option Available	Action Required
2.	Accept your entitlement in full and apply for additional Equity Shares	Fill in and sign Part A of the CAF including Block III relating to the acceptance of entitlement and Block IV relating to additional Equity Shares (All joint holders must sign)
3.	Renounce your Rights Entitlement in full to one person (<i>Joint Renounees are considered as one</i>).	Fill in and sign Part B (<i>all joint holders must sign</i>) indicating the number of Equity Shares renounced and hand it over to the Renounee. The Renounee must fill in and sign Part C (<i>All joint Renounees must sign</i>).

The Shareholder applying under the ASBA Process will need to select the ASBA option process in the CAF and provide required details as mentioned therein. However, in cases where this option is not selected, but the CAF is tendered to the SCSB with the relevant details required under the ASBA process option and SCSB blocks the requisite amount, then that CAF would be treated as if the Shareholder has selected to apply through the ASBA process option.

Additional Equity Shares

The Equity Shareholder is eligible to apply for additional Equity Shares over and above the number of Equity Shares that he is entitled too, provided that he have applied for all the shares offered without renouncing them in whole or in part in favour of any other person(s). Applications for additional shares shall be considered and allotment shall be made at the sole discretion of the Board, in consultation with the Designated Stock Exchange and in the manner prescribed under “**Basis of Allotment**” on page no. 106 of this Letter of Offer.

If you desire to apply for additional shares, please indicate your requirement in the place provided for additional Securities in Part A of the CAF.

Renunciation under the ASBA Process

Renounees can participate in the ASBA Process.

Last date of Application

The last date for submission of the duly filled in CAF is 10/09/2011. The Issue will be kept open for a minimum of 15 (fifteen) days and the Board or any committee thereof will have the right to extend the said date for such period as it may determine from time to time but not exceeding 30 (thirty) days from the Issue Opening Date i.e. 24/08/2011. If the CAF together with the amount payable is not received by the SCSB on or before the close of banking hours on the aforesaid last date or such date as may be extended by the Board of Directors, the offer contained in this Letter of Offer shall be deemed to have been declined and the Board / Committee of Directors shall be at liberty to dispose off the Equity Shares hereby offered, as provided under “**Basis of Allotment**” on page no. 106 of this Letter of Offer.

Option to receive Securities in Dematerialized Form

INVESTORS UNDER THE ASBA PROCESS MAY PLEASE NOTE THAT THEY HAVE AN OPTION OF GETTING ALLOTMENT IN DEMATERIALIZED FORM.

Issuance of Intimation Letters

Upon approval of the basis of Allotment by the Designated Stock Exchange, the Registrar to the Issue shall send the Controlling Branches, a list of the ASBA Investors who have been allocated Equity Shares in the Issue, along with:

- The number of Equity Shares to be allotted against each successful ASBA;
- The amount to be transferred from the ASBA Account to the separate account opened by our Company for Rights Issue, for each successful ASBA;
- The date by which the funds referred to in para above, shall be transferred to separate account opened by our Company for Rights Issue; and
- The details of rejected ASBAs, if any, along with reasons for rejection to enable SCSBs to unblock the respective ASBA Accounts.

General instructions for Shareholders applying under the ASBA Process

- (a) Please read the instructions printed on the CAF carefully.
- (b) Application should be made on the printed CAF / plain paper and should be completed in all respects. The CAF found incomplete with regard to any of the particulars required to be given therein, and / or which are not completed in conformity with the terms of this Letter of Offer are liable to be rejected. The CAF / plain paper application must be filled in English.
- (c) The CAF / plain paper application in the ASBA Process should be submitted at a Designated Branch of the SCSB and whose bank account details are provided in the CAF and not to the Bankers to the Issue/Collecting Banks (assuming that such Collecting Bank is not a SCSB), to our Company or Registrar or Lead Manager to the Issue.
- (d) All applicants, and in the case of application in joint names, each of the joint applicants, should mention his/her PAN number allotted under the Income-Tax Act, 1961, irrespective of the amount of the application. CAFs / plain paper application without PAN will be considered incomplete and are liable to be rejected.
- (e) All payments will be made by blocking the amount in the bank account maintained with the SCSB. Cash payment is not acceptable. In case payment is affected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon.
- (f) Signatures should be either in English or Hindi or in any other language specified in the Eighth Schedule to the Constitution of India. Thumb impression and Signatures other than in English or Hindi or any of the other languages not contained in the 8th Schedule of the Constitution of India must be attested by a Notary Public or a Special Executive Magistrate under his/her official seal. The Equity Shareholders must sign the CAF /plain paper application as per the specimen signature recorded with our Company/Depositories.
- (g) In case of joint holders, all joint holders must sign the relevant part of the CAF / plain paper application in the same order and as per the specimen signature(s) recorded with our Company. In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant.
- (h) All communication in connection with application for the Securities, including any change in address of the Equity Shareholders should be addressed to the Registrar to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole applicant Shareholder, folio numbers and CAF number.

Do's:

- (a) Ensure that the ASBA Process option is selected in part A of the CAF and necessary details are filled in. In case of non-receipt of the CAF, the application can be made on plain paper with all necessary details as required under the para "Application on plain paper" appearing under the procedure for application under ASBA.

- (b) Ensure that you submit your application in physical mode only. Electronic mode is only available with certain SCSBs and not all SCSBs and you should ensure that your SCSB offers such facility to you.
- (c) Ensure that the details about your Depository Participant and beneficiary account are correct and the beneficiary account is activated as Equity Shares may be allotted in the dematerialized form.
- (d) Ensure that the CAF / plain paper application is submitted at the SCSBs whose details of bank account have been provided in the CAF / plain paper application.
- (e) Ensure that you have mentioned the correct bank account number in the CAF / plain paper application.
- (f) Ensure that there are sufficient funds (equal to {number of Equity Shares applied for} X {Issue Price per Equity Shares as the case may be}) available in the bank account maintained with the SCSB mentioned in the CAF / plain paper application before submitting the CAF to the respective Designated Branch of the SCSB.
- (g) Ensure that you have authorised the SCSB for blocking funds equivalent to the total amount payable on application mentioned in the CAF / plain paper application, in the bank account maintained with the respective SCSB, of which details are provided in the CAF / plain paper application and have signed the same.
- (h) Ensure that you receive an acknowledgement from the SCSB for your submission of the CAF / plain paper application in physical form.
- (i) Each applicant should mention their Permanent Account Number (“PAN”) allotted under the Income Tax Act.
- (j) Ensure that the name(s) given in the CAF / plain paper application is exactly the same as the name(s) in which the beneficiary account is held with the Depository Participant. In case the CAF is submitted in joint names, ensure that the beneficiary account is also held in same joint names and such names are in the same sequence in which they appear in the CAF / plain paper application.
- (k) Ensure that the Demographic Details are updated, true and correct, in all respects.

Don'ts:

- (a) Do not apply on duplicate CAF after you have submitted a CAF / plain paper application to a Designated Branch of the SCSB.
- (b) Do not pay the amount payable on application in cash, money order or by postal order.
- (c) Do not send your physical CAFs / plain paper application to the Lead Manager to Issue / Registrar / Collecting Banks (assuming that such Collecting Bank is not a SCSB) / to a branch of the SCSB which is not a Designated Branch of the SCSB / Company; instead submit the same to a Designated Branch of the SCSB only.
- (d) Do not submit the GIR number instead of the PAN as the application is liable to be rejected on this ground.
- (e) Do not instruct their respective banks to release the funds blocked under the ASBA Process.

Grounds for Technical Rejection for ASBA Process:

In addition to the grounds listed under “**Grounds for Technical Rejection**” beginning on page no. 112 of this Letter of Offer, applications under ASBA Process may be rejected on following additional grounds:

- (a) Application for entitlements or additional shares in physical form.
- (b) DP ID and Client ID mentioned in CAF / plain paper application not matching with the DP ID and Client ID records available with the Registrar.
- (c) Sending CAF / plain paper application to the Lead Manager / Issuer / Registrar / Collecting Bank (assuming that such Collecting Bank is not a SCSB) / to a branch of a SCSB which is not a Designated Branch of the SCSB / Company.

- (d) Insufficient funds are available with the SCSB for blocking the amount.
- (e) Funds in the bank account with the SCSB whose details are mentioned in the CAF / plain paper application having been frozen pursuant to regulatory orders.
- (f) Account holder not signing the CAF / plain paper application or declaration mentioned therein.
- (g) Application on split form.

Depository account and bank details for Shareholders applying under the ASBA Process

IT IS ADVISABLE FOR ALL THE SHAREHOLDERS APPLYING UNDER THE ASBA PROCESS TO RECEIVE THEIR EQUITY SHARES IN DEMATERIALIZED FORM. ALL SHAREHOLDERS APPLYING UNDER THE ASBA PROCESS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE CAF / PLAIN PAPER APPLICATION. SHAREHOLDERS APPLYING UNDER THE ASBA PROCESS MUST ENSURE THAT THE NAME GIVEN IN THE CAF / PLAIN PAPER APPLICATION IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE CAF / PLAIN PAPER APPLICATION IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE CAF / PLAIN PAPER APPLICATION.

Shareholders applying under the ASBA Process should note that on the basis of name of these Shareholders, Depository Participant's name and identification number and beneficiary account number provided by them in the CAF / plain paper application, the Registrar to the Issue will obtain from the Depository demographic details of these Shareholders such as address, bank account details for printing on refund orders / advice and occupation ("Demographic Details"). Hence, Shareholders applying under the ASBA Process should carefully fill in their Depository Account details in the CAF / plain paper application.

These Demographic Details would be used for all correspondence with such Shareholders including mailing of the letters intimating unblock of bank account of the respective Shareholder. The Demographic Details given by Shareholders in the CAF / plain paper application would not be used for any other purposes by the Registrar. Hence, Shareholders are advised to update their Demographic Details as provided to their Depository Participants. By signing the CAF / plain paper application, the Shareholders applying under the ASBA Process would be deemed to have authorised the Depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

Letters intimating allotment and unblocking or refund (if any) would be mailed at the address of the Shareholder as per the Demographic Details received from the Depositories. Refunds, if any, will be made directly to the bank account in the SCSB and which details are provided in the CAF and not the bank account linked to the DP ID. Shareholders applying under the ASBA Process may note that delivery of letters intimating unblocking of bank account may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Shareholder in the CAF / plain paper application would be used only to ensure dispatch of letters intimating unblocking of bank account.

Note that any such delay shall be at the sole risk of the Shareholders applying under the ASBA Process and none of the SCSBs, Company or the Lead Manager shall be liable to compensate the Shareholder applying under the ASBA Process for any losses caused to such Shareholder due to any such delay or liable to pay any interest for such delay.

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Shareholders (including the order of names of joint holders), the DP ID and the beneficiary account number, then such applications are liable to be rejected.

Disposal of Investor Grievances

All grievances relating to the ASBA may be addressed to the Registrar to the Issue, with a copy to the SCSB, giving full details such as name, address of the applicant, number of Equity Shares applied for, Amount blocked on application, account number of the ASBA Bank Account and the Designated Branch or the collection centre of the SCSB where the CAF / plain paper application was submitted by the ASBA Investors.

Last date of Application

The last date for submission of the duly filled in CAF is 10/09/2011. The Issue will be kept open for 15 days and the Board / Committee will have the right to extend the said date for such period as it may determine from time to time but not exceeding 30 days from the Issue Opening Date.

If the CAF together with the amount payable is not received by the Bankers to the Issue / Registrar to the Issue on or before the closure of banking hours on the aforesaid last date or such date as may be extended by the Board, the offer contained in the Letter of Offer shall be deemed to have been declined and the Board shall be at liberty to dispose off the Equity Shares hereby offered, as provided in the paragraph titled "**Basis of Allotment**" on page no. 106 of this Letter of Offer.

INVESTORS MAY PLEASE NOTE THAT THE EQUITY SHARES CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.

Basis of Allotment

Subject to the provisions contained in the Letter of Offer, the Articles of Association of our Company and the approval of the Designated Stock Exchange, the Board will proceed to allot the Equity Shares in the following order of priority:

- (a) Full allotment to those Equity Shareholders who have applied for their Rights Entitlement either in full or in part and also to the Renouncee(s) who has / have applied for Rights Equity Shares renounced in their favour, in full or in part.
- (b) Allotment to the Eligible Equity Shareholders who having applied for all the Equity Shares offered to them as part of the Issue and have also applied for additional Equity Shares. The allotment of such additional Equity Shares will be made as far as possible on an equitable basis having due regard to the number of Equity Shares held by them on the Record Date, provided there is an under-subscribed portion after making full allotment in (a) and (b) above. The allotment of such additional Equity Shares will be at the sole discretion of the Board in consultation with the Designated Stock Exchange, as a part of the Issue and not preferential allotment.
- (c) Allotment to Renouncees who having applied for all the Equity Shares renounced in their favour, have applied for additional Equity Shares provided there is surplus available after making full allotment under (a), (b) and (c) above. The allotment of such Equity Shares will be on a proportionate basis at the sole discretion of the Board in consultation with the Designated Stock Exchange, as a part of the Issue and not preferential allotment.
- (d) Allotment to any other person as the Board may in its absolute discretion deem fit provided there is surplus available after making full allotment under (a), (b), (c) and (d) above.

After taking into account allotment to be made under (a) and (b) above, if there is any unsubscribed portion, the same shall be deemed to be 'unsubscribed' for the purpose of

regulation 3(1)(b) of the Takeover Code which would be available for allocation under (c), (d) and (e) above.

After considering the above Allotment, any additional Equity Shares shall be disposed off by the Board, in such manner as they think most beneficial to our Company and the decision of the Board in this regard shall be final and binding. In the event of oversubscription, Allotment will be made within the overall size of the Issue.

Our Company expects to complete the allotment of Equity Shares within a period of 15 days from the date of closure of the Issue in accordance with the listing agreement with the BSE and NSE. In case of delay in allotment our Company shall, as stipulated under Section 73(2A) of the Act, be required to pay interest on the same at a rate of 15 per cent p.a.

Allotment / Refund

Our Company will issue and dispatch letter of allotment / share certificates / demat credit and / or letters of regret along with refund orders or credit the allotted Equity Shares to the respective beneficiary accounts, if any, within a period of fifteen (15) days from the Issue Closing Date. If such money is not repaid within eight days from the day our Company becomes liable to pay it, our Company shall pay that money with interest as stipulated under Section 73 of the Companies Act.

Investors residing in the 68 cities specified by SEBI pursuant to its circular dated February 1, 2008, will get refunds through ECS (Electronic Clearing Service) only except where Investors are otherwise disclosed as applicable / eligible to get refunds through direct credit and RTGS provided the MICR details are recorded with the Depositories or our Company.

In case of those Investors who have opted to receive the Equity Shares in dematerialized form using electronic credit under the depository system, an advice regarding their credit of the Equity Shares shall be given separately. Investors to whom refunds are made through electronic transfer of funds will be sent a letter through registered/ speed post intimating them about the mode of credit of refund within a period of fifteen (15) days from the Issue Closing Date.

In case of those Investors who have opted to receive the Equity Shares in physical form, our Company will issue the corresponding share certificates under Section 113 of the Companies Act or other applicable provisions, if any.

In case of ASBA Investors, the Registrar to the Issue shall instruct the SCSBs to unblock the funds in the relevant ASBA Account to the extent of the refund to be made within 15 days of the Issue Closing Date.

Any refund order exceeding ₹ 1,500 would be sent by registered post / speed post to the sole / first Investor's registered address. Refund orders up to the value of ₹ 1,500 would be sent under registered/speed post. Such refund orders would be payable at par at all places where the applications were originally accepted. The same would be marked 'Account Payee only' and would be drawn in favour of the sole / first Investor. Adequate funds would be made available to the Registrar to the Issue for this purpose.

Payment of Refund

Mode of making refunds

The payment of refund, if any, would be done through various modes in the following order of preference:

1. *ECS/NECS* – Payment of refund would be done through ECS/NECS for Investors having an account at any centre where such facility has been made available. This mode of payment of refunds would be subject to availability of complete bank account details including the MICR code as appearing on a cheque leaf, from the Depositories. The payment of refunds is mandatory for Investors having a bank account at the centers where ECS/NECS facility has been made available by the RBI (subject to availability of all information for crediting the refund through ECS/NECS), except where the Investor, being eligible, opts to receive refund through NEFT, direct credit or RTGS.

The list of banks that have been notified by SEBI to act as SCSB for the ASBA Process are provided on <http://www.sebi.gov.in/pmd/scsb.html>. For details on designated branches of SCSB collecting the CAF, please refer the above mentioned SEBI link.

2. *NEFT (National Electronic Fund Transfer)* – Payment of refund shall be undertaken through NEFT wherever the Investors' bank has been assigned the Indian Financial System Code (IFSC), which can be linked to a Magnetic Ink Character Recognition (MICR), if any, available to that particular bank branch. IFSC Code will be obtained from the website of RBI as on a date immediately prior to the date of payment of refund, duly mapped with MICR numbers. Wherever the Investors have registered their nine digit MICR number and their bank account number while opening and operating the demat account, the same will be duly mapped with the IFSC Code of that particular bank branch and the payment of refund will be made to the Investors through this method. Our Company in consultation with the Lead Manager may decide to use NEFT as a mode of making refunds. The process flow in respect of refunds by way of NEFT is at an evolving stage and hence use of NEFT is subject to operational feasibility, cost and process efficiency. In the event that NEFT is not operationally feasible, the payment of refunds would be made through any one of the other modes as discussed herein.
3. *Direct Credit* – Investors having bank accounts with the Bankers to the Issue shall be eligible to receive refunds through direct credit. Charges, if any, levied by the relevant bank(s) for the same would be borne by our Company.
4. *RTGS (Real Time Gross Settlement)* – Investors having a bank account at any of the centres where such facility has been made available and whose refund amount exceeds ₹ 1 lakh, have the option to receive refund through RTGS. Such eligible Investors who indicate their preference to receive refund through RTGS are required to provide the IFSC code in the CAF. In the event the same is not provided, refund shall be made through ECS. Charges, if any, levied by the Refund Bank(s) for the same would be borne by our Company. Charges, if any, levied by the Investors' bank receiving the credit would be borne by the Investor.
5. For all other Investors, including those who have not updated their bank particulars with the MICR code, the refund orders will be dispatched under registered/ speed post for value up to ₹ 1,500 and through speed post / registered post for refund orders of ₹ 1,500 and above. Such refunds will be made by cheques, pay orders or demand drafts drawn in favour of the sole / first Investor and payable at par.

Printing of Bank Particulars on Refund Orders

As a matter of precaution against possible fraudulent encashment of refund orders due to loss or misplacement, the particulars of the Investor's bank account are mandatorily required to be given for printing on the refund orders. Bank account particulars will be printed on the refund orders/refund warrants which can then be deposited only in the account specified. Our Company will in no way be responsible if any loss occurs through these instruments falling into improper hands either through forgery or fraud.

Allotment advice / Share Certificates / Demat Credit

Allotment advice / share certificates / demat credit will be dispatched to the registered address of the first named Investor or respective beneficiary accounts will be credited within 15 (fifteen) days, from the Issue Closing Date.

Option to receive the Equity Shares in Dematerialized Form

The Investors have an option to get the Equity Shares in physical or demat form.

Our Company has signed a tripartite agreement dated 13/09/2007 with NSDL and the Registrar to our Company and a tripartite agreement dated 07/05/2001 with CDSL and the Registrar to our Company, which enables the Equity Shareholders to hold and trade in Equity Shares in a dematerialized form, instead of holding the Equity Shares in the form of physical certificates

In this Issue, the allottees who have opted for the Equity Shares in dematerialized form will receive the Equity Shares in the form of an electronic credit to their beneficiary account with a Depository Participant. The CAF shall contain a space for indicating the number of Equity Shares applied for in demat and physical form or both. Investors will have to give the relevant particulars for this purpose appropriately in the CAF. Applications, which do not accurately contain this information, will be given the Equity Shares in physical form. No separate applications for Equity Shares in physical and / or dematerialized form should be made. If such applications are made, the application for physical Equity Shares will be liable to be rejected.

The Equity Shares will be listed on the BSE.

The procedure for availing of the facility for allotment of the Equity Shares in this Issue in the electronic form is as under:

- Open a beneficiary account with any Depository Participant (care should be taken that the beneficiary account should carry the name of the holder in the same manner as is exhibited in the records of our Company. In the case of joint holding, the beneficiary account should be opened carrying the names of the holders in the same order as with our Company). In case of Investors having various folios in our Company with different joint holders, the Investors will have to open separate accounts for such holdings. *Those Investors who have already opened such beneficiary account (s) need not adhere to this step.*
- For the Eligible Equity Shareholders already holding Equity Shares of our Company in dematerialized form as on the Record Date, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their Equity Shares pursuant to this Issue by way of credit to such account, the necessary details of their beneficiary account should be filled in the space provided in the CAF. It may be noted that the allotment of Equity Shares arising

out of this Issue may be made in dematerialized form even if the original Equity Shares of our Company are not dematerialized. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the Equity Shareholders and the names are in the same order as in the records of our Company.

- Responsibility for correctness of information (including Investor's age and other details) filled in the CAF *vis-a-vis* such information with the Investor's depository participant, would rest with the Investor. Investors should ensure that the names of the Investors and the order in which they appear in the CAF should be the same as registered with the Investor's Depository Participant.
- Equity Share allotted to an Applicant in the electronic account form will be credited directly to the Applicant's respective beneficiary account(s) with depository participant.
- Applicants should ensure that the names of the Applicants and the order in which they appear in the CAF should be the same as registered with the Applicant's depository participant.
- Non-transferable allotment advice/refund orders will be directly sent to the Applicant by the Registrar to this Issue.
- If incomplete / incorrect beneficiary account details are given in the CAF the Investor will get the Equity Shares in physical form.
- The Equity Shares pursuant to this Issue allotted to Investors opting for dematerialized form, would be directly credited to the beneficiary account as given in the CAF after verification. Allotment advice, refund order (if any) would be sent directly to the Investor by the Registrar to the Issue but the Investor's depository participant will provide to him the confirmation of the credit of such Securities to the Investor's depository account.
- Renouncees will also have to provide the necessary details about their beneficiary account for allotment of Equity Shares in this Issue. In case these details are incomplete or incorrect, the application is liable to be rejected.
- It may be noted that Equity Shares in electronic form can be traded only on the Stock Exchanges having electronic connectivity with NSDL or CDSL.
- Dividend or other benefits with respect to the Equity Shares held in dematerialized form would be paid to those Equity Shareholders whose names appear in the list of beneficial owners given by the Depository Participant to our Company as on the date of the book closure.

General instructions for Investors

- (a) Please read the instructions printed on the enclosed CAF carefully.
- (b) Applications should be made on the printed CAF, provided by our Company and should be completed in all respects. The CAF found incomplete with regard to any of the particulars required to be given therein, and / or which are not completed in conformity with the terms of the Letter of Offer are liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any. The CAF must be filled in English and the names of all the Investors, details of occupation, address, father's / husband's name must be filled in block letters.

- (c) The CAF together with the cheque / demand draft should be sent to the Bankers to the Issue / Collecting Banks or to the Registrar to the Issue and not to our Company or the Lead Manager to the Issue. Investors residing at places other than cities where the branches of the Bankers to the Issue have been authorised by our Company for collecting applications, will have to make payment by Demand Draft payable at Coimbatore of an amount net of bank and postal charges and send their application forms to the Registrar to the Issue by Registered Post. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.
- (d) Applications for any value made by the Investor, or in the case of joint names, each of the joint Investors, should mention his / her Permanent Account Number allotted under the Income-Tax Act, 1961, irrespective of the amount of the application. **CAFs without PAN will be considered incomplete and are liable to be rejected.**
- (e) Investors are advised that it is mandatory to provide information as to their savings / current account number and the name of the bank with whom such account is held in the CAF to enable the Registrar to the Issue to print the said details in the refund orders, if any, after the names of the payees. Applications not containing such details are liable to be rejected. For Eligible Equity Shareholders holding Equity Shares in dematerialized form, such bank details will be drawn from the demographic details of the Eligible Equity Shareholder in the records of the Depository.
- (f) All payments should be made by cheque / DD only. Cash payment is not acceptable. In case payment is affected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon.
- (g) Signatures should be either in English or Hindi or in any other language specified in the Eighth Schedule to the Constitution of India. Signatures other than in English or Hindi or any of the other languages not contained in the 8th Schedule of the Constitution of India and thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/her official seal. The Eligible Equity Shareholders must sign the CAF as per the specimen signature recorded with our Company or the Depositories.
- (h) In case of an application under power of attorney or by a body corporate or by a society, a certified true copy of the relevant power of attorney or relevant resolution or authority to the signatory to make the relevant investment under this Issue and to sign the application and a copy of the memorandum and articles of association and / or bye laws of such body corporate or society must be lodged with the Registrar to the Issue giving reference to the serial number of the CAF and folio numbers / DP ID and Client ID Number. In case the above referred documents are already registered with our Company, the same need not be furnished again. In case these papers are sent to any other entity besides the Registrar to the Issue or are sent after the Issue Closing Date, then the application is liable to be rejected. In no case should these papers be attached to the application submitted to the Bankers to the Issue.
- (i) In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with our Company. Further, in case of joint Investors who are Renounees, the number of Investors should not exceed three. In case of joint applicants, reference, if any, will be made in the first Investor's name and all communication will be addressed to the first Investor.
- (j) Application(s) received from Non-Resident / NRIs, or persons of Indian origin residing abroad for allotment of Equity Shares shall, *inter alia*, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of equity shares, subsequent issue and allotment of equity

shares, interest, export of share certificates, etc. In case a Non-Resident or NRI Equity Shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.

- (k) All communications in connection with applications for the Equity Shares, including any change in addresses of the Eligible Equity Shareholders should be addressed to the Registrar to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole Investor, folio numbers and CAF number. Please note that any intimation for change of address of the Eligible Equity Shareholders, after the date of allotment, should be sent to the Registrar to the Issue, in the case of Equity Shares held in physical form and to the respective Depository Participant, in case of Equity Shares held in dematerialized form.
- (l) Split forms cannot be re-split.
- (m) Only the person or persons to whom the Equity Shares have been offered and not Renouncee(s) shall be entitled to obtain split forms.
- (n) Investors must write their CAF number at the back of the cheque / demand draft.
- (o) Only one mode of payment per application should be used. The payment must be by cheque / demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub-member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.
- (p) A separate cheque / demand draft must accompany each CAF. Outstation cheques / demand drafts or postdated cheques and postal / money orders will not be accepted and applications accompanied by such cheques / demand drafts / money orders or postal orders will be rejected. The Registrar will not accept payment against application if made in cash. (For payment against application in cash please refer point (f) above)
- (q) No receipt will be issued for application money received. The Bankers to the Issue / Collecting Bank / Registrar will acknowledge receipt of the same by stamping and returning the acknowledgment slip at the bottom of the CAF.

Grounds for Technical Rejections

Investors are advised to note that applications are liable to be rejected on technical grounds, including the following:

- Amount paid does not tally with the amount payable for;
- Bank account details (for refund) are not given and the same are not available with the DP (in the case of dematerialized holdings) or the Registrar (in the case of physical holdings);
- Age of first Investor not given while completing Part C of the CAFs;
- PAN not mentioned for application of any value;
- In case of application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
- If the signature of the existing shareholder on the CAF does not match with the records available with our Company and/or the Depositories and in case of application by Renouncees, if the signature of the Renouncers do not match with the records available with their Depositories;
- Application forms are not submitted by the Investors within the time prescribed as per the application form and the Letter of Offer;

- Applications not duly signed by the sole / joint Investors;
- Applications by OCBs unless accompanied by specific approval from RBI permitting the OCBs to participate in the Issue.
- In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Investors (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity;
- Applications where our Company believes that the CAF is incomplete or acceptance of such CAFs may infringe applicable legal or regulatory requirements;
- Multiple applications
- Applications by renouncees who are persons not competent to contract under the Indian Contract Act, 1872, including minors; and
- Duplicate Applications, including cases where an Investor submits CAFs along with a plain paper application.

Mode of payment for Resident Eligible Equity Shareholders / Investors

- All cheques / demand drafts accompanying the CAFs should be crossed '**A/c Payee only**' and drawn in favour of "**Velan Hotels Limited - Rights Issue**".
- Investors residing at places other than places where the bank collection centres have been opened by our Company for collecting applications, are requested to send their applications together with Demand Draft for the full application amount, net of bank and postal charges crossed '**A/c Payee only**' and drawn in favour of "**Velan Hotels Limited - Rights Issue**" payable at Coimbatore directly to the Registrar to the Issue by registered post so as to reach them on or before the Issue Closing Date. Our Company or the Registrar to the Issue will not be responsible for postal delays or loss of applications in transit, if any.

Mode of payment for Non-Resident Eligible Equity Shareholders / Investors

Our Company is making this Issue of Equity Shares on a rights basis to the Eligible Equity Shareholders of our Company and will dispatch the Letter of Offer / Abridged Letter of Offer and the CAF to the Eligible Equity Shareholders who have provided an Indian address. Further, please refer to the paragraphs titled 'Availability of duplicate CAF' and 'Application on Plain Paper'.

As regards the application by non-resident Eligible Equity Shareholders / Investors, the following conditions shall apply:

Application with repatriation benefits

Payment by NRIs/ FIIs/ foreign investors must be made by demand draft / cheque payable at Coimbatore-or funds remitted from abroad in any of the following ways:

- By Indian Rupee drafts purchased from abroad and payable at Coimbatore or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or
- By cheque / demand draft on a Non-Resident External Account (NRE) or FCNR Account maintained in Coimbatore; or
- By Rupee draft purchased by debit to NRE / FCNR Account maintained elsewhere in India and payable in Coimbatore; or
- FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.

- All cheques / demand drafts submitted by non-residents applying on repatriable basis should be drawn in favour of **“Velan Hotels Limited - Rights Issue – NR”** payable at Coimbatore and crossed ‘A/c Payee only’ for the amount payable.

A separate cheque or bank draft must accompany each application form. Investors may note that where payment is made by drafts purchased from NRE/FCNR accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/FCNR account should be enclosed with the CAF. In the absence of the above the application shall be considered incomplete and is liable to be rejected.

In the case of non-residents who remit their application money from funds held in FCNR / NRE Accounts, refunds and other disbursements, if any shall be credited to such account details of which should be furnished in the appropriate columns in the CAF. In the case of NRIs who remit their application money through Indian Rupee Drafts from abroad, refunds and other disbursements, if any will be made in US Dollars at the rate of exchange prevailing at such time subject to the permission of RBI. Our Company will not be liable for any loss on account of exchange rate fluctuation for converting the Rupee amount into US Dollars or for collection charges charged by the Investor’s Bankers.

Application without repatriation benefits

As far as non-residents holding shares on non-repatriation basis is concerned, in addition to the modes specified above, payment may also be made by way of cheque drawn on Non-Resident (Ordinary) Account maintained in Coimbatore or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Coimbatore. In such cases, the allotment of Equity Shares will be on non-repatriation basis.

All cheques / demand drafts submitted by non-residents applying on non-repatriation basis should be drawn in favour of **“Velan Hotels Limited - Rights Issue”** payable at Coimbatore and must be crossed ‘A/c Payee only’ for the amount payable. The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

If the payment is made by a draft purchased from an NRO account, an Account Debit Certificate from the bank issuing the draft, confirming that the draft has been issued by debiting the NRO account, should be enclosed with the CAF. In the absence of the above, the application shall be considered incomplete and is liable to be rejected.

New demat accounts shall be opened for Eligible Equity Shareholders who have had a change in status from resident Indian to NRI.

Note:

- In cases where repatriation benefit is available, interest, dividend, sales proceeds derived from the investment in Equity Shares can be remitted outside India, subject to tax, as applicable according to Income Tax Act, 1961.
- In case Equity Shares are allotted on non-repatriation basis, the dividend and sale proceeds of the Equity Shares cannot be remitted outside India.
- The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

- In case of an application received from non-residents, allotment, refunds and other distribution, if any, will be made in accordance with the guidelines/ rules prescribed by RBI as applicable at the time of making such allotment, remittance and subject to necessary approvals.

Our Company is not responsible for any postal delay / loss in transit on this account and applications received through mail after closure of the Issue are liable to be rejected. Applications through mail should not be sent in any other manner except as mentioned above. The CAF along with the application money must not be sent to our Company or the Lead Manager or the Registrar except stated otherwise. The Investors are requested to strictly adhere to these instructions.

Renounees who are NRIs / FIIs / Non Residents should submit their respective applications either by hand delivery or by registered post with acknowledgement due to the Registrar to the Issue only at the below mentioned address alongwith the cheque / demand draft payable at Coimbatore so that the same are received on or before the closure of the Issue.

Investment by FIIs

In accordance with the current regulations, the following restrictions are applicable for investment by FIIs:

The issue of Equity Shares under this Issue to a single FII should not exceed 10% of the post-Issue paid up capital of our Company. In respect of an FII investing in the Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total paid-up capital of our Company or 5% of the total issued capital in case such sub-account is a foreign corporate or an individual. In accordance with foreign investment limits applicable to our Company, the total FII investment cannot exceed 24% of the total paid-up capital of our Company. With the approval of the board and the shareholders by way of a special resolution, the aggregate FII holding can go up to 100%. As of date, the FII investment in our Company is limited to 24% of the total paid-up capital of our Company.

Investment by NRIs

Investments by NRIs are governed by the Portfolio Investment Scheme under Regulations 5 and 6 of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.

Disposal of application and application money

The Board reserves the right to reject applications in case the application concerned is not made in terms of this Letter of Offer. In case an application is rejected in full the whole of the application money received will be refunded to the first named applicant and where an application is rejected in part, the excess application money will be refunded to the first named applicant within 15 days from the date of closure of the subscription list in accordance with Section 73 of the Act. If there is delay of refund of application money by more than 8 days after our Company becomes liable to pay (i.e. forty-two days after the closure of Issue), the Company will pay interest for the delayed period at the rate prescribed under sub-Section (2) and (2A) of Section 73 of the Act.

The subscription monies received in respect of this Issue will be kept in a separate bank account and the Company will not have access to nor appropriate the funds until it has

satisfied the Stock Exchange with suitable documentary evidence that minimum subscription of 90% of the application money for the Issue has been received.

No acknowledgment will be issued for the application monies received by our Company. However, the Bankers to the Issue at its collection branches to the Issue receiving the CAF as applicable as per the terms of this Letter of Offer, will acknowledge its receipt by stamping and returning the acknowledgment slip at the bottom of each CAF. Except for the reasons stated under "Grounds for Technical Rejections" on page no. 112 of this Letter of Offer and subject to valid application, acknowledgement of receipt of application money given by the collection agent shall be valid and binding on issuer and other persons connected with the Issue.

Letters of allotment or refund orders

Company shall ensure dispatch of refund orders, if any, by under the registered post or speed post or through modes as mentioned in section, Terms of the Issue clause "Mode of Payment" as stated below, as applicable, only at the sole or First Applicant's sole risk within 15 days of closure of the Rights Issue, and adequate funds for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the Issue by the issuer.

In case of those shareholders who have opted to receive their Right Entitlement Shares in dematerialized form by electronic credit under the depository system, an advice regarding the credit of the Equity Shares shall be given separately.

For Non-Resident Applicants, refunds, if any, will be made as under:

- ☞ Where applications are accompanied by Indian Rupee Drafts purchased abroad and payable at Coimbatore, India, refunds will be made in convertible foreign exchange equivalent to Indian Rupees to be refunded. Indian Rupees will be converted into foreign exchange at the rate of exchange, which is prevailing on the date of refund. The exchange rate risk on such refunds shall be borne by the concerned applicant and our Company shall not bear any part of the risk.
- ☞ Where the applications made are accompanied by NRE/FCNR/NRO cheques, refunds will be credited to NRE/FCNR/NRO accounts respectively, on which such cheques are drawn and details of which are provided in the CAF.

Interest in case of delay in allotment /despatch

If there is delay in the refund of subscription by more than 8 days after our Company becomes liable to pay the subscription amount (i.e. fifteen days) after closure of the issue, our Company will pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.

Undertaking

Our Company undertakes that:

- A) The complaints received in respect of the Issue shall be attended to by the issuer company expeditiously and satisfactorily.
- B) All steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed are taken within seven working days of finalization of basis of allotment.



- C) 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 issuer.
- D) Where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant after closure of the issue, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund;
- E) Adequate arrangements shall be made to collect all Applications Supported by Blocked Amount (ASBA) and to consider them similar to non-ASBA applications while finalizing the basis of allotment.
- F) At any given time there shall be only one denomination for the shares of our Company
- G) It shall comply with such disclosure and accounting norms specified by SEBI from time to time.

The Issuer and Lead Manager shall update the Letter of Offer and keep the investors informed of any material changes till the listing and trading commences.

Important

- Please read this Letter of Offer carefully before taking any action. The instructions contained in the accompanying Composite Application Form (CAF) are an integral part of the conditions of this Letter of Offer and must be carefully followed; otherwise the application is liable to be rejected.
- All enquiries in connection with this Letter of Offer or accompanying CAF and requests for Split Application Forms must be addressed (quoting the Registered Folio Number/ DP and Client ID number, the CAF number and the name of the first Equity Shareholder as mentioned on the CAF and super scribed “**Velan Hotels Limited - Rights Issue**” on the envelope) to the Registrar to the Issue at the following address:

S.K.D.C. CONSULTANTS LIMITED

Kanapathy Towers, 3rd Floor 1391/A1,
Sathy Road, Ganapathy
Coimbatore - 641 006

Tel : 91-422-6549995,2539835-36

Fax: + 91-422-2539837

E-mail: info@skdc-consultants.com

Website: www.skdc-consultants.com

SEBI Regn. No.: INR 000000775

Contact Person: Mr. K Jayakumar

- It is to be specifically noted that this Issue of Equity Shares is subject to the section titled “**Risk Factors**” beginning on page vi of this Letter of Offer.
- The Issue will remain open for at least 15 days. However, the Board will have the right to extend the Issue period as it may determine from time to time but not exceeding 30 days from the Issue Opening Date.

SECTION VIII - OTHER INFORMATION

MATERIAL CONTRACTS AND DOCUMENTS

The Contracts referred to in para (A) below (not being contracts entered into in the ordinary course of the business carried on by the Company which are or may be deemed material, have been entered into by the Company.

The contracts together with the documents referred to in paragraph (B) below, copies of all of which have been attached to the copy of this Letter of Offer may be inspected at the Registered Office of the Company between 11.00 a.m. - 4.00 p.m. on any working day from the date of this Letter of Offer until the closing of the subscription list.

A. MATERIAL CONTRACTS

1. Copy of Memorandum of Understanding dated 11/12/2010 between Velan Hotels Limited and Keynote Corporate Services Limited, Lead Manager to the Issue.
2. Copy of Memorandum of Understanding dated 27/09/2010 between Velan Hotels Limited and SKDC Consultants Ltd., Registrar to the Issue.
3. Copy of tripartite agreement dated 13/09/2007 between Velan Hotels Limited, National Securities Depository Limited (NSDL) and SKDC Consultants Ltd.
4. Copy of tripartite agreement dated 07/05/2001 between Velan Hotels Limited, Central Depository Services (India) Limited (CDSL) and SKDC Consultants Ltd.

B. DOCUMENTS FOR INSPECTION

1. Memorandum and Articles of Association of Velan Hotels Limited as amended from time to time.
2. Board Resolution dated 16/07/2010 and 18/07/2011 passed by the Board of Directors of the Company in respect of the Rights Issue
3. Copies of Annual Reports of the Company for the last 5 accounting periods i.e. 2005-06, 2006-07, 2007-08 , 2008-09 and 2009-10.
4. Audit Report dated 29/06/2011 issued by Statutory Auditors of the Company P.S. Krishnan & Co. on financial statements of the Company for the Financial Year ended March 31, 2011 and March 31, 2010.
5. Copy of letter dated 20/09/2010 received from K. Madhan Chartered Accountants regarding tax benefits accruing to the Company and its shareholders.
6. Copy of certificate dated 21/07/2011 received from N.Saravanan Chartered Accountants regarding sources and deployment of funds.
7. Legal Due Diligence report dated 23/09/2010 by Cibi Vishnu, Advocate in respect of Letter of Offer.
8. Copy of valuation certificate dated 04/07/2011 issued by Shri P Easvaramoorthy for the civil work completed as on 30/06/2011



9. Copy of Biomass Power Purchase Agreement entered into by the company and TANGEDCO dated 26/05/2011.
10. Due Diligence Certificate dated 27/12/2010 to SEBI from Keynote Corporate Services Limited, Lead Manager to the Issue.
11. Consent letters from Directors, Lead Manager to the Issue, Statutory Auditors of the Company, Legal Advisors to the Issue, Registrar to the Issue, Company Secretary and Compliance Officer to act in their respective capacities and for inclusion of their names in the Letter of Offer.
12. Copy of SEBI Observation letter no. SRO/04107/8/10/OW/17512/2011 dated 01/06/2011 and compliance thereof.



PART III

DECLARATION

No Statement made in this Letter of Offer contravenes any of the provisions of the Companies Act, 1956 and the rules made there under. All the legal requirements connected with the issue as also the guidelines, instructions, etc issued by SEBI, Government and any other competent authority in this behalf, have been duly complied with. The Board of Directors further certify that all the disclosures in this Letter of Offer are true and correct.

By the Board of Directors of Velan Hotels Limited

Sd/-
E.V. Muthukumara Ramalingam
Managing Director

Sd/-
M. R. Gautham
Executive Director

Sd/-
T. Gopalakrishnan
Director

Sd/-
P. Ganesan
Director

Sd/-
Namasivayam Karthikeyan
Director

Sd/-
M. Srinivasan
Company Secretary

Place: Tirupur
Date: 04/08/2011