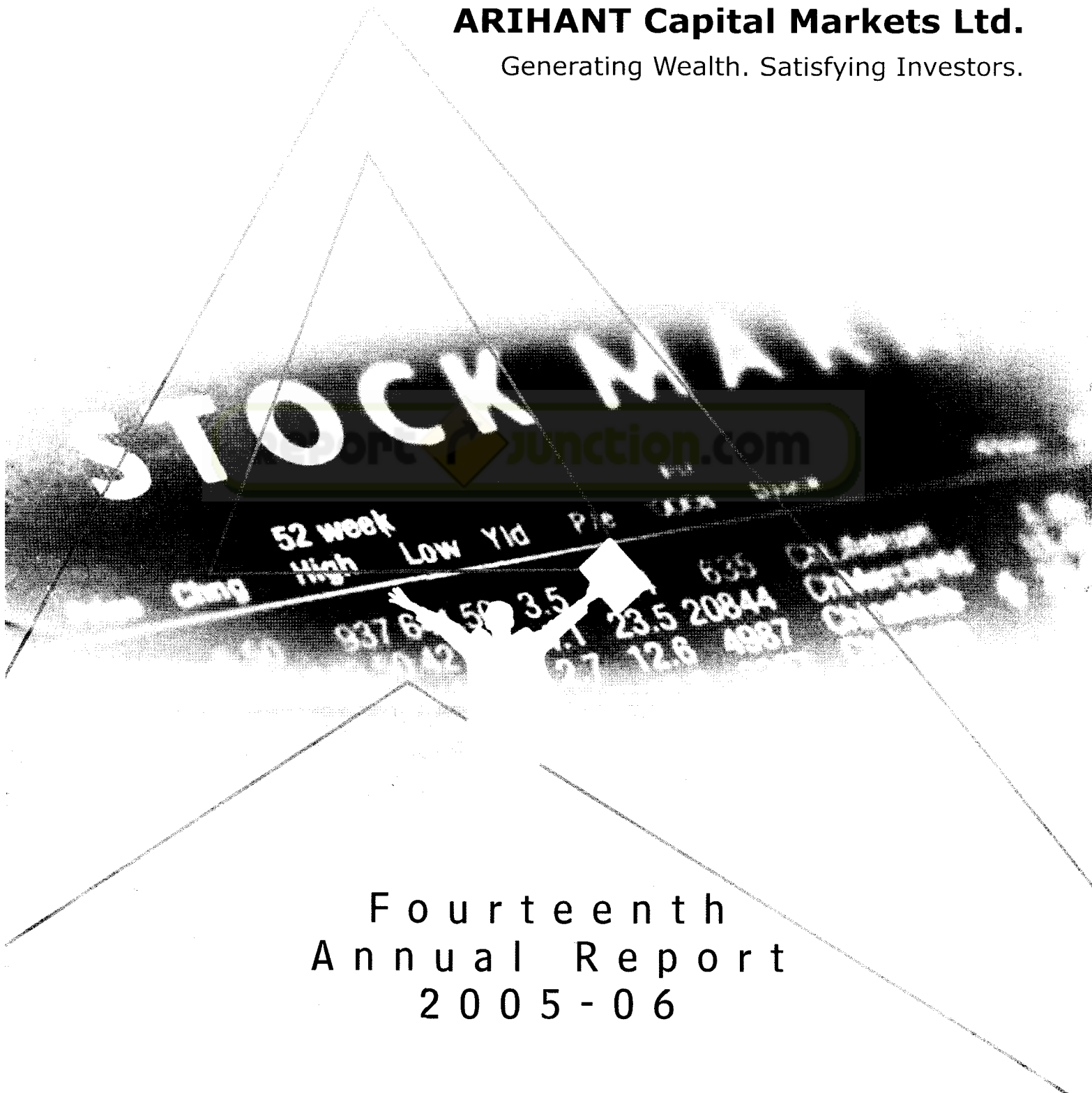


ARIHANT Capital Markets Ltd.

Generating Wealth. Satisfying Investors.



Fourteenth
Annual Report
2005-06



Services



Equity Broking - BSE and NSE



Internet -Trading



Commodities Trading - NCDEX & MCX



International Trading Platform



Initial Public Offerings (IPO) and IPO financing



Institutional Broking



Derivatives Futures and Options



Portfolio Management Services



Depository Services - NSDL, CDSL



Mutual Fund Investment

Research

Fundamental Equity Research

Stock recommendation at client level via SMS

Online market commentary

Technical Research

Strengths

Research based Advice

Techno-savvy

Professional Management

Trusted by 20000 + investors, 40 + institutions & 150 + business associates

Ethics with excellence

Transparency in dealings

Personalised services

Generating Wealth. Satisfying Investors.



Company Information

Board of Directors

Mr. Ashok Kumar Jain - Chairman & Managing Director

Mr. Sunil Kumar Jain

Mr. Akhilesh Rathi

Mr. Pramod Devpura

Mr. Sumit Behl - Company Secretary & Compliance Officer

Registered Office

E/5, Ratlam Kothi,

Indore 452 001 (M.P.)

Tel No. 0731-2519610

Fax No. 0731-3048915

Corporate Office

Kusum Bharti, Opp. Tata SSL,

Dutt Pada Road, Boriwali (East),

Mumbai 400 066 (Mah.)

Tel No. 022- 28702923, 28702925

Fax No.022- 28540898

Depository Division

F-1, Ahinsa Tower,

7, M.G. Road,

Indore 452 001 (M.P.)

Tel No. 0731 - 4068436-37, 3048944 -45

Fax No. 0731- 4069758

Auditors

M/s Sushil Banthia & Associates

Chartered Accountants

6th Floor, Silver Arc Plaza, 20/1, New Palasia,

Indore 452 002 (M.P.)

Registrar and Transfer Agent

Ankit Consultancy Private Ltd.

Alankar Point, Geeta Bhawan Circle,

Indore 452 001 (M.P.)

Tel No. 0731-2491298

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NOTICE

Notice is hereby given that the Fourteenth Annual General Meeting of the Members of **ARIHANT CAPITAL MARKETS LIMITED** will be held on Saturday, the 30th day of September 2006 at Hotel President Planet, 3, R.N.T. Marg, Indore 452 001 (M.P.) at 12.30 p.m. to transact the following business:

ORDINARY BUSINESS:

1. To consider, approve and adopt the Audited Balance Sheet as at 31st March 2006, Profit and Loss Account and Cash Flow Statement for the year ended on that date and the Reports of the Board of Directors and Auditors thereon
2. To declare dividend on equity shares for the year ended as on 31st March 2006.
3. To appoint a Director in place of Mr. Sunil Kumar Jain, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint auditors who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and fix their remuneration and in this regard to consider, and if thought fit, to pass with or without modification(s), the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT M/s Sushil Banthia & Associates, Chartered Accountants, be and are hereby appointed as Auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on a remuneration to be fixed by the Board of Directors, which shall be exclusive of traveling and other out of pocket expenses."

SPECIAL BUSINESS:

5. To consider and, if thought fit to pass, with or without modification(s), the following Resolution as a **Special Resolution**:
RESOLVED THAT subject to the provisions of Section 269 read with Sections 198, 309, 310 & Schedule XIII and other applicable provisions of the Companies Act, 1956, approval of the members be and is hereby accorded for the remuneration payable to Shri Ashok Kumar Jain as the Chairman & Managing Director of the Company for a period of 3 years commencing from 1st August 2006 and ending on 31st July 2009 on such terms and conditions as set out in this resolution and the annexed explanatory statement, forming part of this notice and attached with the notice convening 14th Annual General Meeting of the company.
"RESOLVED FURTHER THAT whole of the remuneration and commission payable as aforesaid shall be as per the terms and conditions recommended by the Remuneration Committee of the Board of Directors, provided however that the total remuneration, at any given point of time, shall not exceed the ceiling fixed in Part II of Schedule XIII of the Companies Act, 1956 amended up to date.
"RESOLVED FURTHER THAT said remuneration including commission, compensation, allowances and perquisites will also be payable as minimum remuneration in the event of absence or inadequacy of profits in any financial year during his tenure as the Executive Chairman & MD of the Company."

By the order of the Board of Directors

Sumit Behl

(Company Secretary)

Indore, 31st July, 2006

ARIHANT Capital Markets Ltd.

(2)

NOTES:

1. **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote at the meeting instead of himself and the proxy need not be a member of the Company.** The instrument appointing the proxy, however in order to be effective, should be deposited at the Registered office of the Company not less than 48 hours before the meeting.
2. The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 is annexed.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Saturday, 23rd September 2006 to Saturday, 30th September 2006 (both days inclusive) for the purpose of payment of Dividend on equity shares for the year ended 31st March, 2006, if approved at the Annual General Meeting of the Company, to the Share Holders whose name appear :
 - a) As beneficial owners as at the end of 22nd September, 2006 as per the list to be furnished by Depositories in respect of the shares held in electronic form ; and
 - b) As members in register of members of the Company after giving effect to all valid share transfer in physical form, which are lodged with the company/registrar and share transfer agent on or before 22nd September, 2006.
4. The Company is extending the Electronic Clearing Service (ECS) facility to the share holders, which will enable them to receive dividend through electronic mode. Under ECS arrangement, the dividend amount will be directly credited to the bank account of the share holders.
5. In all correspondence with the Company, members are requested to quote their folio numbers and in case the shares are held in the dematerialized form, they should quote their client ID and DP ID Number.
6. The Register of Directors' share holding maintained under section 307 of the Companies Act, 1956 will be available for inspection by the members at the Annual General Meeting.
7. Members, who hold shares in dematerialized form are requested to inform their client ID and DP ID numbers for easier identification for attendance at the meeting.
8. Shareholders are requested to note that if physical documents, viz. Demat Request Forms (DRF) and share certificates, etc. are not received from their DPs by the Company/ Registrar within a period of 14 days from the date of generation of the DRF for dematerialisation, the DRF will be treated as rejected/cancelled. Upon rejection/cancellation of the DRF, a fresh DRF has to be forwarded alongwith the share certificates by the DPs to the Company/Registrar. This note is only to caution shareholders that they should ensure their DPs do not delay in sending the DRF and share certificates to the Company registrar after generating the DRF.
9. Members desiring to have any information on the accounts are requested to write to the Company at least 10 days in advance before the date of the meeting so as to enable the Management to keep the information ready. Replies will be provided only at the Meeting. The Shareholders are requested to write to the Company Secretary or to the Registrar and Share Transfer Agent, M/s Ankit Consultancy Private Limited regarding transfer of shares and for resolving grievances.
10. Members are requested to notify to the Company or its Share Transfer Agent immediately of any change in address holding shares in Physical Form and to the Depository Participant in case of shares held in Demat Form.
11. Members, who are holding physical shares in more than one folio, are requested to intimate to the Company/Registrar and Share Transfer agent the details of all there folio numbers for consolidation into a single folio.
12. Members/Proxies are requested to bring their copy of Annual Report to the Meeting along with the Attendance Slip, duly filled in, for attending the Meeting.
13. Corporate Members intending to send their authorized representatives to attend the Annual General Meeting are advised to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Meeting.
14. The information pursuant to Clause 49 of the listing agreement and Schedule XIII of the Companies Act, 1956 with respect to the details of Directors seeking appointment/re-appointment at the forthcoming Annual General Meeting is annexed.



EXPLANTORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 5

Shri Ashok Kumar Jain, hitherto the Managing Director of the company, is being proposed to be the Whole Time Chairman & MD of the company and would be taking care of planning, policy making, strategy formation designing and management review activities of the Company for a period of three years. The Company continue to derive substantial benefit through his expertise and wise counsel and to better utilize his experience wisdom, the Board proposes this appointment. The detailed terms and conditions of the appointment of Shri Ashok Kumar Jain are set out as under:

Remuneration :

Salary : Rs. 2,00,000/- per month.

Special Pay/Incentive: Calculated with reference to the net profits of the Company for each financial year as may be fixed by the Board of Directors subject to a ceiling of Schedule XIII of the Companies Act, 1956 the quantum whereof to be decided by the Board of Directors of the Company.

Allowances & perquisites: Rent Free Accommodation, Gas, Electricity, Water, Medical Reimbursement for self and family, Club Fees, Medical Insurance, Personal Accident Insurance, Leave Travel Concessions, Motor Car for Company's Business, One month leave with full pay and allowances for every completed 11 months service etc. in accordance with the rules of the company, the monetary value of such perquisites not exceeding 150% of the Annual Salary and for this purpose perquisites shall be valued as per Income Tax Rules, in the absence of any such rules the perquisites shall be valued at the actual cost.

In the event of absence or inadequacy of profits of the Company during any financial year, Shri Ashok Kumar Jain will be entitled to receive the said remuneration as a minimum remuneration.

The proposed appointment is within the limits as envisaged in Part I and II of amended Schedule XIII of the Companies Act, 1956 and needs the approval of the members of the Company. Hence, your directors recommend this resolution.

Shri Ashok Kumar Jain is the main visionary and the brain behind the overall growth, development and future planning of the company and in the present outlook of the company, Shri Ashok Kumar Jain has a lion's contribution. The Board therefore recommends that Shri Ashok Kumar Jain should appropriately remunerated, as per prevailing environment in other companies of the industry.

Shri Ashok Kumar Jain and Shri Sunil Kumar Jain, brother of Shri Ashok Kumar Jain, are interested in the said resolution. However, other Directors of the Company may not be deemed as interested in the said resolution. A brief profile of Shri Ashok Kumar Jain is enclosed at the end of this notice.

By the order of the Board of Directors

Sumit Behl

(Company Secretary)

Indore, 31st July, 2006



ADDITIONAL INFORMATION ON DIRECTORS SEEKING REAPPOINTMENT AT THE ENSUING ANNUAL GENERAL MEETING

Name : Shri Sunil Kumar Jain
 Father's Name : Late Shri Magan Lal Jain
 Address : 110, Kanchan Bag, Indore-452001
 Date of Birth : 03rd May, 1968
 Nationality : Indian
 Date of Appointment : 25th June, 1992

A post-graduate in commerce from Indore, Mr. Sunil Kumar Jain is promoter Director of the Company. He is having vast experience of the capital market. He is having a 16 years rich experience of capital market in relation to technical and fundamental research. Company has benefitted from his rich experience & relationship in stock market since last 16 years. He is looking after day to day operations and retail broking division of the Company. He is also Director of Arihant Fincap Limited, Arihant Future and Commodities Limited and AKJ Securities Limited.

Report Junction.com

Name : Shri Ashok Kumar Jain
 Father's Name : Late Shri Magan Lal Jain
 Address : 11/3, Old Palasia, Indore - 452001
 Date of Birth : 01st March, 1954
 Nationality : Indian
 Date of Appointment : 25th June, 1992

Mr. Ashok Kumar Jain holds a Masters degree in Commerce (M.Com) and is a Chartered Accountant. He has over two decades of experience in the areas of financial services, infrastructure, asset management, financial planning, equity research, risk management, advisory and distribution, etc. Mr. Ashok Jain, is the founder promoter and associated with the Company since its incorporation and is the key instrument for Company. He is also Director of Arihant Fincap Limited, Arihant Future and Commodities Limited and AKJ Securities Limited.



Directors' Report

To the Members of

Arihant Capital Markets Limited

Your Directors have pleasure in presenting for your consideration and approval the Fourteenth Annual Report together with the Audited Financials statements of the Company for the year ended March 31st, 2006.

FINANCIAL RESULTS

(Amount in Lakhs)

| Particulars | For the year ended March 31 st , 2006 | For the year ended March 31 st , 2005 |
|---|---|---|
| Gross Income | 867.94 | 393.89 |
| Profit/(Loss) before Depreciation And Tax | 448.31 | 206.41 |
| Depreciation | 22.48 | 27.59 |
| Profit/(Loss) before Tax | 426.20 | 178.88 |
| Provision for Taxation | 98.31 | 42.99 |
| Net Profit after Taxation | 327.89 | 135.89 |
| Balance of Profit & Loss A/c b/f | 185.42 | 140.03 |
| Profit/(Loss) available for appropriation | 513.32 | 275.93 |
| Appropriations: | | |
| Transfer to General Reserve | 100.00 | 50.00 |
| Dividend (inclusive of dividend tax) | 60.76 | 40.50 |
| Balance carried to Balance Sheet | 352.56 | 185.43 |

DIVIDEND

Your Directors are pleased to recommend a dividend of Rs. 1.50 (15%) per equity share for the financial year ended 31st March 2006. The total dividend pay out including dividend distribution tax of Rs. 7.47 lakhs would absorb Rs. 60.76 lakhs of PAT [Previous year Rs. 1/- (10%) per equity share].

OPERATIONS

The fiscal year 2005-06 was a historic year for the Indian economy and markets. The benchmark BSE Sensex moved up 73.7% from 6493 to 11279. The Sensex broke all previous highs and crossed the 10,000 mark on 7th February 2006. Similarly the benchmark Nifty moved up 67.1% from 2036 to 3403 by touching the years high of 3418 on 30th March 2006. The average daily volumes in the Cash Segment grew from 65,824.90 millions in 2004-05 to 95,045.00 millions in 2005-06, an increase of 44.4%. On the derivative segment of NSE, the average daily volumes increased from Rs. 1,01,070.90 million in 2004-05 to Rs. 1,92,198.20 million in 2005-06, an increase of 90.2%.

During the year under review your Company has recorded a Gross Income of Rs. 867.95 Lakhs (previous year Rs. 393.89 Lakhs) up 120.35% through increased volumes and higher market share.

During the year your Company registered a 138.26% jump in Pretax Profit to Rs. 426.20 Lakhs (previous year Rs. 178.88 Lakhs).

Company is in process of expansion and introducing new features. The new features that are added up are Internet Trading, PMS, Membership of Central Depository Services (India) Limited and has established virtual private network through VSAT. The Company is in expansion mode and is on the way of opening new branches at different parts of the country. The Company has spread its wings to 90 locations across India. We are pleased to report that the number of registered sub brokers stood at 38 for BSE and the customer base has increased to more than 20000 as on 31st March, 2006, which shows the confidence of the investors in the management and services of the Company.

ARIHANT Capital Markets Ltd.



FUTURE OUTLOOK

Corporate India has provided good results for the year ended as on 31st March 2006. The economic scenario of the country continue to be bright and growing. Foreign Institutional Investors interest in India saw a significant increase during FY 05-06 and still continues. The Commodity Futures has provided additional awareness and stability to the capital and money markets in India. In the back drop of this scenario Capital Markets are expected to be buoyant and active for the coming year. The emerging scenario has also attracted other players who have announced their intention to enter this segment, which may lead to pressure on realization rates. Regulatory compliances continues to become more stringent and challenging. Your Company is well positioned to take on the challenges that lie ahead, including that of increased competition.

DIRECTORS

Mr. Sunil Kumar Jain, the director, retire by rotation at the ensuing Annual General Meeting of the Company and being eligible offers himself for re-appointment.

Mr. Kamal Kumar Jain, who was appointed as an additional director during the year has tendered his resignation, which was taken on record by the Board in its meeting held on 31st July, 2006. During the year Mr. Ashish Maheshwari, tendered his resignation from the directorship of the company, which was accepted by board in its meeting held on 31st July, 2006. The Board expresses its sincere gratitude to the services rendered by Mr. Ashish Maheshwari and Mr. Kamal Kumar Jain during their tenure as Directors of the Company.

AUDITORS AND AUDITORS' REPORT

The Statutory Auditors of the Company M/s Sushil Banthia & Associates, Chartered Accountants, Indore retires at the ensuing Annual General Meeting and have expressed their willingness to continue as Auditors, if re-appointed, at the ensuing Annual General Meeting.

The notes to the accounts referred to in the Auditors Report are Self-Explanatory and therefore, do not call for any further comments.

LISTING AT THE STOCK EXCHANGE

The Equity Shares of the Company continue to be listed at the Bombay Stock Exchange Limited, Mumbai. The Annual listing fees for the year 2006-07 have been paid to The Bombay Stock Exchange Limited, Mumbai.

The Delisting application filed by the Company with the Saurashtra Kutch Stock Exchange, Rajkot has been approved and the equity shares of the company have been delisted from the said Stock Exchange.

CORPORATE GOVERNANCE

The Company has been proactive in following the principles and practices of good corporate governance. The Company has ensured that the Corporate Governances requirements as stipulated in Clause 49 of the Listing Agreement with the Stock Exchange are duly complied with. A separate Statement on Corporate Governance and auditors certificate thereon is attached herewith forming part of this report.

AMALGAMATION

During the year the Company has initiated the process of amalgamation of Arihant Fincap Limited with itself. The Company has filed a petition before the Indore Bench of Hon'ble High Court of Madhya Pradesh. The company is awaiting the decision of the Hon'ble High Court which is expected soon.

FIXED DEPOSITS

Your Company has not accepted any deposits under Section 58-A of the Companies Act, 1956 and the RBI directions during the year under review and there were no outstanding deposits as at 31st March, 2006.

PARTICULARS OF EMPLOYEES

Disclosure of particulars of Employees as required under the provisions of section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended are not applicable to the company as none of the employee is drawing remuneration as required to be disclosed.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO

The information relating to energy conservation, technology absorption, foreign exchange earnings and outgo required u/s 217(1) of the Companies Act, 1956 is NIL as the Company has no activity relating to it.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis Report covering the matters listed in Clause 49 of the Listing Agreement for the year under review is given as a separate statement in the Annual Report.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2A) of the Companies Act, 1956, with respect to Directors Responsibility Statement, it is hereby confirmed:

- a) that in the preparation of the accounts for the financial year ended 31st March 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b) that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- c) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) that the Directors have prepared the accounts for the financial year ended 31st March 2006 on a going concern basis.

ACKNOWLEDGEMENT

Relationships with Shareholders, Investors, Stock Exchanges, Bankers, Securities and Exchange Board of India (SEBI), NSDL, CDSL other Regulatory authorities and investee companies remained excellent during the year under review. Your Directors are grateful for the support extended by them and look forward to receiving their continued support and encouragement.

The Board acknowledges with gratitude the commitment and dedication of the employees at all levels that has contributed to the growth and success of the Company.

On behalf of the Board of Directors

Sunil Kumar Jain

(Director)

Indore 31st July 2006