

**14th
ANNUAL
REPORT
2003-2004**

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ATHENA FINANCE

Friends Indeed

ATHENA FINANCIAL SERVICES LIMITED

ATHENA FINANCIAL SERVICES LIMITED

BOARD OF DIRECTORS

Mr. M.I. Kochar
Mr. S.S. Nahar
Mr. D.M. Shingavi
Mr. S.D. Joshi
Mr. M.S. Nair
Mr. R. Ramkumar

Company Secretary

Ms. Samita Lahiri

BANKERS

Allahabad Bank
Bombay Mercantile Co-Operative Bank Ltd.
Bank of Baroda
Bank of Maharashtra
Bharat Overseas Bank Ltd.
Bank of India
Cosmos Co-Operative Bank Limited
Canara Bank
Corporation Bank
Development Credit Bank Ltd.
IDBI Bank Ltd.
Punjab National Bank
State Bank of India
State Bank of Hyderabad
State Bank of Mysore
The Bank of Rajasthan Ltd.
Tamilnad Mercantile Bank Ltd
The Catholic Syrian Bank Ltd.
The United Western Bank Ltd
The Jammu & Kashmir Bank Ltd..
Union Bank of India
UTI Bank Ltd.

AUDITORS

M/s Lakhani & Company
Chartered Accountants
Mumbai

REGISTERED OFFICE

4704, Pune Mumbai Road
Pimpri Chowk, Pimpri
Pune – 411 018

14th ANNUAL REPORT 2003-04**NOTICE**

NOTICE is hereby given that the **Fourteenth** Annual General Meeting of the Members of the Company will be held on Thursday, the 30th day of September, 2004 at 9.00 A.M. at D-1 Block, Plot No.18/2, Chinchwad, Pune – 411 019 to transact the following business :

ORDINARY BUSINESS :

1. To consider and adopt Directors' Report, Audited Balance Sheet as at 31.03.2004 and Profit and Loss Account for the year ended as on that date and the Auditors' report thereon.
2. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS :

3. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. M.I. Kochar who was appointed as Director in casual vacancy pursuant to Article 91 of the Articles of Association of the Company and provisions of Section 262 of the Companies Act, 1956 be and is hereby appointed as Director of the Company, liable to retire by rotation.

RESOLVED FURTHER THAT subject to the provisions of Sections 198, 269, 310, 311, 312, 317, 385, 386, 387 and 388 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, or any statutory modifications thereto or amendments thereof for the time being in force consent of the Company be and is hereby accorded to the appointment of Mr. M.I. Kochar as 'Manager' of the Company as defined under section 2(24) of the Companies Act, 1956, designated as 'Sr. Vice President' for a period of five years from 29th May, 2004.

RESOLVED FURTHER THAT Mr. M. I. Kochar shall be entitled to reimbursement of all reasonable expenses incurred by him in connection with and for the purposes of business of the Company.

RESOLVED FURTHER THAT Mr. M. I. Kochar shall perform all such functions/ duties, as may be assigned to him from time to time by the Board of Directors of the Company.

RESOLVED FURTHER THAT the aforesaid appointment may be terminated by giving three months notice in writing.

4. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. S.S. Nahar who was appointed as Director in casual vacancy pursuant to Article 91 of the Articles of Association of the Company and provisions of Section 262 of the Companies Act, 1956 be and is hereby appointed as Director of the Company, liable to retire by rotation."

5. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. R. Ramkumar who was appointed as Director in casual vacancy pursuant to Article 91 of the Articles of Association of the Company and provisions of Section 262 of the Companies Act, 1956 be and is hereby appointed as Director of the Company, liable to retire by rotation."

6. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. D.M. Shingavi who was appointed as Director in casual vacancy pursuant to Article 91 of the Articles of Association of the Company and provisions of Section 262 of the Companies Act, 1956 be and is hereby appointed as Director of the Company, liable to retire by rotation."

7. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. S.D. Joshi who was appointed as Director in casual vacancy pursuant to Article 91 of the Articles of Association of the Company and provisions of Section 262 of the Companies Act, 1956 be and is hereby appointed as Director of the Company, liable to retire by rotation."

8. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. M.S. Nair who was appointed as Director in casual vacancy pursuant to Article 91 of the Articles of Association of the Company and provisions of Section 262 of the Companies Act, 1956 be and is hereby appointed as Director of the Company, liable to retire by rotation."

ATHENA FINANCIAL SERVICES LIMITED**NOTES**

- 1) Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, setting out material facts concerning the items of Special business is annexed hereto.
- 2) **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE SAID MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.**
- 3) Register of Members and Share Transfer Books of the Company will remain closed from Thursday the 16th day of September, 2004 to Thursday, the 30th day of September, 2004 (both days inclusive).
- 4) Members desirous of obtaining any information concerning the accounts or operations of the Company are requested to write to the Company at least 10 days before the date of the Annual General Meeting so that the information may be made available to the meeting.
- 5) Members are requested to advise immediately any change in their address / residential status to the Company's Registered Office, Pune or M/s. Intime Spectrum Registry Ltd., Mumbai quoting their registered Folio Number. Shareholders holding shares in dematerialised form are requested to address their communication to their respective Depository Participants only.
- 6) The members, who have not encashed their Dividend Warrants for the year 1996—97 and thereafter, are requested to approach the Company immediately for revalidation of their unclaimed Dividend Warrants as in accordance with the provisions of Section 205C of the Companies Act, 1956, the amount of unpaid / unclaimed dividend would be transferred to the Investor Education and Protection Fund at the end of seven years respectively and no claims shall lie against the Fund or the Company in respect of individual amounts thereafter.

BY ORDER OF THE BOARD OF DIRECTORS
FOR ATHENA FINANCIAL SERVICES LIMITED

Place : Pune
Date : 07.07.2004

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SAMITA LAHIRI
COMPANY SECRETARY

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956**Item No.3**

Mr M I Kochar has been appointed as a Director in the casual vacancy caused by the resignation of Mr VSR Swamy pursuant to Article 91 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956. The Company has received notice under the provisions of Sec.257 of the Companies Act, 1956, from a member signifying his intention to propose Mr M. I. Kochar for the office of the Director of the Company.

The Board has also approved his appointment as Manager under section 269 of the Companies Act, 1956, designated as Sr. Vice President as per the terms mentioned in the aforesaid resolution for a period of five years w.e.f. 29.05.2004.

Mr M I Kochar is a M Com from Pune University. He has to his credit experience of more than 33 years, out of which more than 25 years has been with the Kinetic group. During his 25 years tenure with the Kinetic group he has been engaged in many important assignments including being in charge of the Public Issue of Kinetic Motor Company Limited (KMCL). He has been involved as the Internal auditor of both Kinetic Engineering Limited (KEL) as well as KMCL, has been in charge of the Sales accounts department of both KEL as well as KMCL and Branch Auditor and System Auditor of erstwhile Kinetic Lease and Finance Limited and Kinetic Finance Limited. For the last 3 years he is in charge of the Internal Audit department of the Company. He is also a member of Shareholders' Grievance Committee of the Company.

Mr M I Kochar does not hold any membership or directorship of any other Committee/ Company. None of the Directors except Mr M I Kochar may be deemed to be concerned or interested in the passing of the said resolution. The Board of Directors recommends his appointment as Director designated as Sr. Vice President.

This may be treated as an abstract pursuant to Section 302 of the Companies Act, 1956.

Item No.4

Mr S S Nahar has been appointed as a Director in the casual vacancy caused by the resignation of Mr A P Bhagwat pursuant to Article 91 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956. The Company has received notice under the provisions of Sec.257 of the Companies Act, 1956, from a member signifying his intention to propose Mr S S Nahar for the office of the Director of the Company.

Mr S S Nahar has over 34 years experience in Kinetic Group, out of which he has worked as Internal Auditor in Jaya Hind Sciaky Limited for 4 years. Since 1987, he is the Internal Auditor of Kinetic Engineering Limited. He is considered as an expert in System Audit. He is also a member of both Remuneration Committee as well as Shareholders' Grievance Committee of the Company.

Mr S S Nahar does not hold any membership or directorship of any other Committee/ Company. None of the Directors except Mr S S Nahar may be deemed to be concerned or interested in the passing of the said resolution. The Board of Directors recommends his appointment as Director of the Company

Item No.5

Mr R Ramkumar has been appointed as a Director in the casual vacancy caused by the resignation of Mr Nagendra Rao pursuant to Article 91 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956. The Company has received notice under the provisions of Sec.257 of the Companies Act, 1956, from a member signifying his intention to propose Mr R Ramkumar for the office of the Director of the Company.

Mr R Ramkumar is a Hons. B Com graduate from Calcutta University. He is also a Fellow member of both the Institute of Company Secretaries of India as well as the Institute of Cost and Works Accountants of India, besides being CAIIB. He is with Kinetic Engineering Limited for last more than 10 years. Before Kinetic, he was with other reputed concerns like Escorts group, JK Singhania group Pennars and Bank of Baroda. During his association with Kinetic, he was involved in takeover of Honda shareholding in Kinetic Motors, takeover of co-promoters' shares in all the three finance companies of the group and formation of various group companies. He is also a member of both Audit as well as Shareholders' Grievance Committees of the Company.

Mr R Ramkumar does not hold any membership or directorship of any other Committee/Company. None of the Directors except Mr R Ramkumar may be deemed to be concerned or interested in the passing of the said resolution. The Board of Directors recommends his appointment as Director of the Company

Item No.6

Mr D M Shingavi has been appointed as a Director in the casual vacancy caused by the resignation of Air Chief Marshal H Moolgavkar(Retd.) pursuant to Article 91 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956. The Company has received notice under the provisions of Sec.257 of the Companies Act, 1956, from a member signifying his intention to propose Mr D M Shingavi for the office of the Director of the Company.

Mr D M Shingavi has over 35 years experience in Kinetic Group. He is considered an expert in all functions of Audit. His experience includes over 8 years in Jaya Hind Industries Limited and more than 25 years in both Kinetic Engineering Limited as well as Kinetic Motor Company Limited. He is also a member of Audit Committee of the Company.

Mr D M Shingavi does not hold any membership or directorship of any other Committee/Company. None of the Directors except Mr D M Shingavi may be deemed to be concerned or interested in the passing of the said resolution. The Board of Directors recommends his appointment as Director of the Company

Item No.7

Mr S D Joshi has been appointed as a Director in the casual vacancy caused by the resignation of Mr V R Saboo pursuant to Article 91 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956. The Company has received notice under the provisions of Sec.257 of the Companies Act, 1956, from a member signifying his intention to propose Mr S D Joshi for the office of the Director of the Company.

Mr S D Joshi is M Com and a member of the Institute of Cost and Works Accountants of India (AICWA). He has over 22 years of experience of which 18 years are in Kinetic Engineering Limited. His work experience includes handling General Accounts, Finance, Internal Audit, Sales Accounts and ERP implementation. He is also a member of both Audit as well as Remuneration Committee of the Company.

Mr S D Joshi does not hold any membership or directorship of any other Committee/Company. None of the Directors except Mr S D Joshi may be deemed to be concerned or interested in the passing of the said resolution. The Board of Directors recommends his appointment as Director of the Company

Item No.8

Mr M S Nair has been appointed as a Director in the casual vacancy caused by the resignation of Mr Ajay Raina pursuant to Article 91 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956. The Company has received notice under the provisions

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of Sec.257 of the Companies Act, 1956, from a member signifying his intention to propose Mr M S Nair for the office of the Director of the Company.

Mr M S Nair is a Master in Personnel Management from Pune. He is with Kinetic Engineering Limited since 1977 and has worked in various departments including Nagar works, Corporate Office, Central Planning, HR and Administration. He brought about a performance oriented culture in Kinetic and during his tenure various human resource policies took shape and formulation. He is also a member of Remuneration Committee of the Company.

Mr M S Nair does not hold any membership or directorship of any other Committee/Company. None of the Directors except Mr M S Nair may be deemed to be concerned or interested in the passing of the said resolution. The Board of Directors recommends his appointment as Director of the Company

BY ORDER OF THE BOARD OF DIRECTORS
FOR ATHENA FINANCIAL SERVICES LIMITED



SAMITA LAHIRI
COMPANY SECRETARY

Place : Pune
Date : 07.07.2004

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DIRECTORS' REPORT

To
The Members
Athena Financial Services Limited

Your Directors present the **Fourteenth** Annual Report of the business and operations of the Company together with the audited accounts for the year ended 31st March, 2004.

Change of Name :

In line with the resolution approved by the members of the Company in the Annual General Meeting held on 29th November, 2003, the name of the Company has been changed from Kinetic Finance Limited to Athena Financial Services Limited to reflect the broad based activities to be carried out by the Company.

The fresh certificate of Incorporation consequent upon change of name of the Company to Athena Financial Services Limited has since been obtained from the Registrar of Companies, Pune.

Financial Results :

The financial results of your Company for the year ended 31st March, 2004 as compared to the previous period have been summarised below:

	31.03.2004 (Rs. In crores)	31.03.2003 (Rs. in crores)
Gross Income	17.21	70.58
Gross Profit/(Loss) before Provision for Tax	(95.28)	1.21
Provision for Tax	-	0.09
Net Profit/(loss)	(96.71)	1.10
Balance brought forward from Previous year	1.01	0.13
Appropriations :		
Statutory Reserve Fund	-	0.22
Balance carried to Balance Sheet	(95.70)	1.01

The year under review :

The Gross Income for the year under review is Rs. 17.21 crores as compared to Rs. 70.58 crores in the previous year. Your Company during the year has incurred a loss of Rs. 96.71 crores as compared to profit of Rs. 1.10 crores in the previous year.

Out of the total income of Rs. 17.21 crores, insurance income amounts to Rs.2.89 crores. During the year under review your Company has processed 98077 policies.

Due to losses incurred your Directors do not recommend any dividend.

However as per the terms and conditions of 11% Redeemable Cumulative Preference Shares of Rs.10/- each, the accumulated dividend would be paid in the year of profit.

As you are aware your Company is an NBFC registered with Reserve Bank of India and has been carrying out hire purchase activities for more than twelve years through a network of 400 dealers all over the country and staff strength of more than 600 employees. The main business of your company has been hire purchase financing of Kinetic two wheelers with focus on the retail segment. Though the operations of your company have been profitable in the past, your Company at present has suffered a major setback mainly due to the following reasons :

A Competition from banks :

There has been a shrinkage in the lending business of your Company due to stiff competition from the banking sector and big finance companies. The situation has become worse in the last couple of years with more and more nationalised banks entering the retail sector and targeting the retail as well as various consumer loan sector. In addition, your Company also faces huge competition from the new age private sector banks, who have also been very aggressive in all kinds of retail loans. The new age banks and other nationalised banks have also ventured into rural and semi urban towns for retail financing as retail financing and specially vehicle financing has been identified as a major thrust area.

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B Lower rates of Interest :

Your directors would also like to mention here that a major source of funding of your Company had been from these nationalised banks, who themselves are offering loans to retail consumers at much lower rates than the rates at which your Company gets credit facilities from these very Banks. Interest rates have fallen substantially in the last two years for all types of consumer loans with intense competition among the various players in the financial sector. Moreover, the various discount schemes and other promotional offers attached with the financing of various two-wheelers has virtually made your Company uncompetitive in terms of interest rates offered vis-à-vis other aggressive players. Low down payments and low interest rates offered by competitors have also compelled the consumers to shift preferences for other financing options.

C Resale price of second hand vehicles :

With the introduction of newer models by almost every two-wheeler manufacturer, the market size for second hand two-wheelers has also grown substantially over the years. Simultaneously, there has been a very substantial fall in the value of those second hand two-wheelers which are repossessed and sold, leading to much higher losses in such cases. As a result of this, even though your Company has been taking legal action and repossessing the two-wheelers financed in case of defaults, the amount of realisation from sale of these repossessed vehicles have been declining and your Company has been incurring substantial losses on sale of these two-wheelers.

D Launch of new models :

The introduction of number of models in the two-wheeler sector and fierce competition among the various brands have significantly changed the market dynamics in the last one and half years and has constantly been putting threats on the recovery of loan portfolio. The introduction of new models at same or reduced prices as compared to utility value of existing models has led to more and more consumers going for newer models at the cost of earlier two-wheelers financed which has resulted in a high level of default in recovery of hire purchase instalments covering old models of two wheelers. As a result of these factors, a large number of loan accounts of your Company have become stressed and the overdues have increased substantially.

E Shift in Business model :

Though your Company had changed the business model from fund based to a non fund based, the new business model has not produced the desired results till now and as a result, there has been drastic reduction in the income of your Company and your Company is currently operating at figures below break-even.

F Expenditure cut by Government Bodies :

Your Company's operations have also suffered due to expenditure cut and other cost cutting measures adopted by various Government bodies specially municipalities and health departments, who are the institutional customers of your Company. Most of these Government Institutional customers have been under tremendous economic squeeze due to their own precarious financial conditions and have thus defaulted on the instalment payments of your Company.

G Lending in remote places :

Your Company was earlier operational in about 400 locations including small remote locations resulting in high cost of lending and collection thereby making business from these areas as unviable, besides this, increasing instances of bad debts due to general economic slowdown, change in the lending habits of consumers, entry of newer models in two wheeler segment and decline in resale value of repossessed vehicles have also contributed to the dip in the fortunes of your Company.

Steps taken by the Company :

A Closure of Fund based business :

Your Company in the last one and half years has consistently reduced its dependence on fund based business. Your Company has also tightened the financing norms under the tie-up business and has stopped financing outside city limits and to customers without banking habits in order to significantly reduce the credit risk on the loan disbursal portfolio.

B Closure of operations at unviable locations :

Your Company had, in the past, operations at around 400 locations all over India, which has now been reduced to about 150 centres in view of identification of certain locations as small and unviable. Though your company would save on operating costs at these centres, it would incur additional expenditure on various initiatives taken by your Company for strengthening of its collection mechanism.

C Collection and Recovery Initiatives :

With the change in business dynamics and increasing finance available for retail finance products, the overdue portfolio increases in the normal course of business. Your Company, recognizing the need to reduce the higher overdues has been making sustained efforts towards recovery of the same and has taken various measures for speedy collection of overdues. Your Company has strengthened its collection

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team by reorganizing its manpower for effective collection of overdues and set up a specialized task force for speedy recovery and disposal of cases. Specific allocations of responsibilities have been made segment wise to effectively monitor the collection process.

D Reduction of expenditure :

Your Company has taken steps to reduce administrative and other operational costs. Your Company has undertaken an extensive exercise to control the overall cost and has finalised the expenditure budget for all the branches as well as the corporate office. All the branches / regional offices of your Company have been given specific cost budgets. Your Company has also significantly reduced its manpower costs.

E Corporate Debt Restructuring :

With the change in the business mix your Company has faced transitional pressure on the quantum of income, quality of existing assets and its bottomline. Your Company has borrowed from banks and financial institutions by way of working capital limits, term loans and non convertible debentures. Due to poor recovery of loan instalments, asset liability mismatch and interest rate mismatch it has become difficult for your Company to continuously service its liabilities. Since your Company apprehends that recovery from its existing assets and income from new ventures may not be sufficient to service its present level of borrowings at the current interest rate and repayment schedule and as the interest rates need to be realigned in tune with falling interest rate regime particularly in retail financing, your Company had submitted a Restructuring proposal based on the cash flows expected out of the realizations of hire purchase receivables and income from various non fund activities. This Corporate Debt restructuring proposal alongwith reduction/waiver of interest was submitted to the consortium member banks and other lenders as early as November, 2003. This restructuring would enable your Company to service its obligations without any major sacrifice proposed on the existing liabilities from any lender. Due to non availability of adequate cash flow your Company could not pay the non convertible debenture holders the principal and interest on due dates and on maturity. Your Company has requested the non convertible debentureholders to approve the Corporate Debt Restructuring proposal and the same is under consideration.

In view of large number of lenders and multiple mode of finance availed by your Company it was felt that Corporate Debt Restructuring (CDR) mechanism would be the best alternative.

The Corporate Debt Restructuring proposal would give your Company time to reorganize and pay the liabilities and also allows continuation of the joint venture arrangement and income generation. Your Company is looking for a positive response from the debentureholders, banks and other lenders to safeguard the interest of all the stakeholders.

Current Operations and Future prospects :

As you are aware your Company has entered into a Joint Venture agreement with Associates Financial Services Ltd. (AIFSL), Kinetic Engineering Limited (KEL) and Kinetic Motor Company Ltd. (KMCL) on 8th November 2002 primarily to shift the focus of your Company from fund based business to fee based business. As per the agreement, at mutually decided locations your Company would source business of financing two wheelers manufactured by Kinetic Engineering Limited and Kinetic Motor Company Limited by leveraging its existing infrastructure and such financing would be funded by Associates India Financial Services Limited as per agreed credit norms thereby leveraging off the distribution strengths of the Kinetic group. This joint venture arrangement is expected to give a boost to company's sagging bottomline. However the two wheeler market in India has become highly competitive in the last 2-3 years with aggressive marketing by all the two wheeler companies to retain or increase their market share making it increasingly difficult for your company to source business of financing two wheelers manufactured by Kinetic Engineering Limited and Kinetic Motor Company Limited.

Your Company has started distributing various retail finance products including car loans, credit cards, personal loans, consumer durable loans etc. thereby significantly widening the revenue stream. Your company has one of the largest retail finance networks in the country with skilled manpower at these locations, which could be tapped as an extension of business procurement of other retail products in addition to two-wheelers for the JV arrangement.

In order to capitalise on your Company's inherent advantages over other players in terms of captive business for insurance of all vehicles financed and/or sold through the network of dealer locations, your Company has entered into an Administration and Service Agreement with Bajaj Allianz General Insurance Company Ltd. to function as service providers. This new business as service providers for insurance related activities is a natural extension and complementary for your Company. During the Financial year 2003-04 your Company has processed 98077 insurance policies with net income of Rs. 2.01 crores from sale of these policies. It is expected that the income from the insurance sector would be a major income earner for your Company in the future.

The above steps taken by your company is expected to yield results in the future.

Fixed Deposits :

As on 31st March, 2004 your Company has no Fixed Deposit outstanding on its books for which provision has not been made in the escrow account. Since your Company does not have any Fixed Deposit outstanding on its books your Company has been listed category "B" Company i.e. a Non Public Deposit taking company by Reserve Bank of India.

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Management Discussion and Analysis Report :

Management Discussion and Analysis Report, pursuant to Clause 49 of the Listing Agreement entered into with the Stock Exchanges forms a part of this report and the same is annexed as Annexure A.

Directors' Responsibility Statement :

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, your Directors confirm that :

- i) in the preparation of the annual accounts for the year ended 31.03.2004, the applicable accounting standards have been followed
- ii) appropriate accounting policies have been selected and applied consistently and that in judgements and estimates due care has been taken that the same are 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 loss of the Company for the year ended as on that date.;
- iii) proper and sufficient care has been taken 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;
- iv) the annual accounts for the year ended 31st March, 2004 have been prepared on a "going concern" basis.

Directors

In view of the challenges before your Company and the resignation of all the directors of the erstwhile Board, the entire Board of your Company has been restructured with the introduction of six new directors who have vast experience and expertise in their respective areas. Mr. M. I. Kochar, Mr. R. Ramkumar, Mr. S. S. Nahar, Mr. D. M. Shingavi, Mr. S.D.Joshi and Mr. M. S. Nair have been appointed as directors in casual vacancies under section 262 of the Companies Act, 1956. The Board of Directors of your Company wish to place on record their appreciation for the enormous contributions made to the Company by the members of the erstwhile Board. Accordingly the Audit Committee, Remuneration Committee and the Shareholder Grievance Committee of your Company have also been reconstituted with the new directors.

Mr. M.I. Kochar has been appointed as a "Manager" under section 269 of the Companies Act, 1956 designated as Senior Vice President w.e.f 29th May, 2004. Appropriate resolutions proposing the appointment of Mr. M. I. Kochar, Mr. R. Ramkumar, Mr. S. S. Nahar, Mr. D. M. Shingavi, Mr. S.D.Joshi and Mr. M. S. Nair as directors of the Company and proposed appointment of Mr. M.I. Kochar as "Manager" under section 269 of the Companies Act, 1956 designated as Senior Vice President appear in the notice of the Annual General Meeting and your Directors' recommend their adoption.

Auditors :

M/s Lakhani & Co., Chartered Accountants, Mumbai Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and being eligible, have given their consent for reappointment.

The observations of the Auditors in para 4 of the Auditors Report dated 7th July, 2004 have been explained as follows :

At the time of entering into a hire purchase agreement the following accounts are opened in the books of account of the company such as stock on hire account which represents the instalments not fallen due, sundry debtors account representing the instalments fallen due but for which money has not been received, unmatured finance charges which represents the future income of the transaction which is not due and security deposit / advance EMI account representing the sum kept by the hirer as security for the agreement.

As long as the client is regular in paying the Equated Monthly Instalments (EMI) all these accounts gets adjusted at the end of the tenure and the accounts are closed. In the absence of regular payments when the account become irregular as per the guide lines issued by Reserve Bank of India (RBI) the company has to stop billing of the future instalments and booking interest on such agreements.

The company for the last five years has entered into approximately five lacs agreements. In view of such a large number of agreements entered into the defaulted accounts could not be reconciled fully. The Company has taken all efforts during the year to complete the reconciliation and has reconciled a major portion of these accounts. In the remaining cases the Company has transferred all related accounts of an individual party to sundry debtors account. The balance in sundry debtors accounts represents the net amount receivable from the hirers.

The losses identified during the year have been adequately dealt with. On completion of the full reconciliation during the current year the identified losses will be provided.

All the financial players in the retail business insist on taking of Post Dated Cheques (PDC) from the hirers at the time of entering into the agreement. Hence there is no practice in the industry to periodically obtain any balance confirmation or asset confirmation from the hirers. As the number of transactions run into lacs and the clients are distributed across the length and breadth of the country, it is practically not possible for any company to obtain the same in full.

The company has filed over 45000 cases against the defaulting hirers across the country. In all such cases the PDCs and the agreements are kept with the respective branches, advocates and courts.