MD	✓		BKC	✓
CS	✓		DPY	NA
RO	✓		DIV	NA
TRA	NA		AC	✓
AGM	✓	✓	SHI	✓
YE	✓	✓		

DCM FINANCIAL SERVICES LTD.

BOARD OF DIRECTORS

Dr. Bharat Ram (Chairman)

Vivek Bharat Ram (Vice Chairman)

O.P. Gupta

SECRETARY

Sunil Katariya

BANKERS

Punjab & Sind Bank

AUDITORS

M/s. V. Sahai & Co.,
Charatered Accountants
G-68, Connaught Circus,
New Delhi -110 001

REGISTERED OFFICE

75, Amrit Nagar,
NDSE Part-I,
New Delhi - 110 003

CONTENTS

NOTICE

Notice is hereby given that the Eighth Annual General Meeting of the Members of DCM Financial Services Ltd. will be held on Tuesday, the 9th day of March, 1999 at 9.00 a.m. at C-12A, Village Asola, New Delhi to transact the following business:

1. To receive, consider and adopt the Audited Accounts for the 15 months period ended on 30th June, 1998 and report of the Auditors' and Directors' thereon.
2. To appoint a Director in place of Mr. Vivek Bharat Ram, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint Auditors' and to fix their remuneration.

By Order of the Board

Place : New Delhi
Dated : 6.02.1999 **Company Secretary**

Notes :

1. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. PROXIES IN ORDER TO BE EFFECTIVE MUST BE LODGED AT THE REGISTERED OFFICE OF THE COMPANY AT LEAST 48 HOURS BEFORE THE TIME OF THE MEETING.**
2. The Register of Members and Share Transfer Books of the Company shall remain closed from 6th March, 1999 to 9th March, 1999 (both days inclusive)
3. Shareholders/Proxy holders are requested to produce at the entrance, the attached admission slip duly completed and signed, for admission to the meeting.
4. The Company has already transferred, unclaimed dividend for the financial year 1994-95 to the General Revenue Account of the Central Government as required by the Companies Unpaid dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978. Those shareholders who have so far not claimed or collected their dividend for the said financial year may claim their dividend from the Registrar of Companies, NCT of Delhi & Haryana, New Delhi, by submitting application in the prescribed form.

DIRECTORS' REPORT

Your Directors' present the 8th Annual Report of the Company together with the Audited Accounts for the 15 months period ended 30th June, 1998.

OPERATIONS

The fifteen months under review have been extremely challenging for the NBFC industry and your Company. During this period negligible business was conducted partly because the Company was facing a liquidity crisis caused by the disruption in the flow of funds into the Company and partly due to restrictions imposed by the RBI from January, 1998. In September, 1997 the then whole time Director resigned and many other senior executives also left the Company. It was around the same time that the mis-match in liquidity hit it's peak and the Company started defaulting in payment of liabilities. The Board was left with the task of rebuilding the team and putting a restructuring plan in place.

The economic environment within the Country and the Region did not help matters. The RBI introduced stringent rules and norms to increase control and monitoring of Companies in the Financial Services Sector. In January, 1998 RBI imposed a ban on your Company prohibiting it from conducting any business activities and directed it to use it's resources only for payment of depositors.

Several extraneous and internal factors which contributed to this sudden and sharp change in the financial health of the Company are summarised below:

External Factors:

1. Down grading of a large number of Finance Companies by Rating Agencies led to an overall drop in investor confidence.
2. Reduced availability of long term funds leading to a dependance on high cost short term funds. This was caused by the negative attitude of the Banks/Institutions towards the NBFC industry.
3. Low GDP, industrial growth, sagging markets, low investor confidence, and the South East Asian crisis contributed to a slow down in industrial activity affecting the financial services sector negatively.
4. Low off take by the primary and secondary markets due to the recession and low confidence levels.
5. Increased competition from Banks and Multinational Finance Companies which are able to offer better rates and work on lower spreads.

Internal Factors :

1. The Company has suffered due to a high default rate by Hire Purchase/Leasing clients-Corporate clients in particular. As a result the inflow of funds was not sufficient to meet the claims of it's depositors. Some of these defaults are only because of economic conditions and the Corporate customers are expected to pay their dues in the long term.
2. Short term borrowings were used for Long term lending on the assumption that short term funds would keep flowing in to support long term lending. The reduced inflow of funding from the market and the RBI ban on operations had made it impossible for the Company to raise the liquidity required to meet commitments.
3. Due to the depressed capital markets funding was not forthcoming from Banks and other Financial Institutions.

RESTRUCTURING EXERCISE

The Restructuring includes inter alia the following :

1. A vigorous recovery drive has been launched to recover the depositor's money blocked with the defaulting debtors. More than 4000 legal notices have been issued and more than 1400 complaints under section 138 of The Negotiable Instruments Act have been filed. A further 2500 notices are in the process of being issued. In addition several recovery suits/summary suits/winding up petitions have also been filed before various courts all over India.
2. Expenses have been cut drastically. The total staff strength has been reduced by more than 30% and further reductions are planned in a phased manner.
3. As per the directions of the Honourable Company Law Board the Fixed Deposit liability has been rescheduled with substantially lower interest liability for the post maturity period.
4. The Company had proposed a revised schedule for payment to the debenture holders and the requisite number of Debenture holders have approved the proposed plan. The Trustees are now required to prepare the Supplementary Deed so that the Company can proceed with the implementation of the Plan.
5. Negotiations are under way with large creditors to seek financial relief as well as time for repayment. In any case, payments to such creditors will be a function of the legal recovery process.
6. The Promoters of the Company have given a commitment to the Honourable Company Law Board that Rs. 15 crores will be injected over a period of time to help the Company turn around.
7. Non fund based business avenues (including providing services for other financial intermediaries) for generating revenue are being explored by the Company so as to gradually get back into business once the restructuring is in place.

FINANCIAL RESULTS :

	Current Year	Previous Year
Gross Income	**2557.63**	4716.43
Gross Profit	**(1643.75)**	1890.50
Depreciation	**1189.69**	913.59
Profit before tax	**(2833.44)**	976.91
Provision for tax	—	116.00
Profit before NPA provision/ income reversal	**(2833.44)**	860.91
Provision for Delinquency/ NPA/Diminution in value of Investments	**1505.71**	80.00
Net profit for the year	**(4339.15)**	780.91
Prior period adjustment	**1209.29**	—
Provision for previous year's income reversal	**239.41**	—
Net Profit	**(5787.86)**	780.91
Profit brought forward from the previous year	**660.45**	483.41
Profit available for appropriation	**(5127.41)**	1264.32
Appropriations		
Dividend (incl. tax on dividend)	—	321.72
Transfer to Debenture Redemption Reserve	—	8.75
Transfer to General Reserve	—	117.17
Transfer to Special Reserve	—	156.23
Surplus/(Loss) carried to Balance Sheet	**(5127.41)**	660.45

Loss for the 15 months period stands at Rs. 28.33 crores before providing for Non-Performing Assets but after reversing income of Rs. 5.67 crores as per RBI guidelines and providing depreciation of Rs. 11.90 crores.

During the year ended 31st March, 1997 certain accounting methods were adopted which led to profits being over reported.

This has been brought to the notice of your Directors and Auditors during the period under review and rectified and the net impact of this correction is Rs.12.09 crores as reflected in the attached Profit & Loss Account as "Prior Period Adjustment".

In addition Rs. 2.39 crores of income pertaining to the previous year has been reversed to comply with rules prescribed by the Reserve Bank of India. Your Directors have decided to provide Rs. 13.31 crores for NPA on the basis of realistic recovery estimates even though the RBI rules require higher provisioning. The reported loss for the period does not take into account earnings by way of interest including overdue and penal interest, earned by the Company from defaulting customers. Successful realisation of even part of this amount in future could add considerably to the Company's bottom line/cash flow.

DIVIDEND

In view of losses suffered, the Directors regret their inability to recommend Dividend for the period under review.

DIRECTORS

Mr. Dhruv Prakash and Dr. Parvinder Singh resigned from the Board of Directors during the year.

Mr. Vivek Bharat Ram retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

SUBSIDIARY COMPANY

The accounts of the Subsidiary Company are provided in the annexure to this Report along with the statement prepared pursuant to Section 212 of the Companies Act, 1956.

AUDITORS' REPORT

The Auditors' Report on the Accounts of the Company is attached.

The Directors' observations on the Auditors' Report are as under:

1. Non provision of Interest on certain liabilities covered under notes 2(b) & (d), 3(d),4,5 and 22 : In respect of interest on liabilities other than Fixed Deposits and Debentures, it has been observed that Company's lenders have a long term relationship with the Company on recurring basis and during the last couple of years these lenders have earned interest from the Company at high market rates. In view of the current financial crisis of the Company, negotiations have been started with some of the lenders for relief in interest payment. The negotiations have been favourable and in some case the Company has been able to obtain more than full waiver of interest liability. It is expected that while small depositors are accepting payment of interest @ 10% p.a. the large credit liabilities would also be restructured successfully without any interest liability for the 15 months period under review, because they have already earned average interest at a rate higher than that payable to small investors.
2. Non-maintenance of minimum liquid assets covered under note 3(c) : Due to the liquidity crisis and default in payment to Fixed Depositors, the liquid assets held by the Company were used for payment to depositors. Thereafter, the Company has made application to the RBI as well as the Honourable Company Law Board for exemption from maintaining minimum liquid assets for a period of 5 years.
3. Under provision for Non Performing Assets under notes 6(b), 13 & 14 : The Company has experienced that recoveries have been made even from the assets which are classified as Non Performing as per the Prudential Norms. Accordingly to give a more realistic picture of the receivables of the Company it will be appropriate that the provision for non performing assets may be made more realistic. The Directors' view is that assessment of recoverables should depend on the estimate of the Recovery Officers, Opinion of lawyers handling the Recovery matters, financial position of the defaulting customers and payment by the customer, howsoever small it may be, as it is a clear indication of intent. In addition to the above, the Company is also required as per Prudential Norms to make prescribed provisioning in respect of Book Assets of the Company. However, it was noted that the Company has an almost equal amount of Current Liabilities for which claims have not been made on the Company. Balances under Book Assets as well as Current Liabilities are mainly carry overs from the previous year. In view of the possibility of set-off it is felt that no provisioning be made for Book Assets at this stage.
4. Stock on Hire and unreconciled Sub Ledger balances covered under Note 7(a) & 18 :The Company has always maintained subsidiary ledgers with party wise details on memoranda basis for marketing purposes and as such records have been pending reconciliation with general ledger since the previous year. This has been brought to the notice of your Directors and Auditors during the period under review. In the absence of reconciled opening party wise details the reconciliation could also not be done during this accounting period. On instructions from the Directors, physical verification of stock on hire is under process.
5. Reinstatement of Margin Money/Security Deposit covered under note 7(b) : The above note is self explanatory.
6. Bank Balances covered under note 10 : the Company had maintained over 100 Bank accounts all over India mainly for FD collection. Since the Company has stopped accepting Fixed Deposits, reconciliation and closure of these accounts is under process.
7. Unpaid Dividend covered under note 12 : The final dividend approved at the last AGM remains unpaid due to the restrictions placed by the RBI as well as the financial crisis that the Company has been facing. The Directors are hopeful that the Company will pay the dividend once the Restructuring Exercise is completed.
8. Balance confirmation/Claim acknowledgement covered under notes 15 & 16 : As the Company is under litigation for a majority of receivables and payables, and the matters are subjudice, confirmations and acknowledgements are not feasible.
9. Lack of proper Internal Controls covered under para 9 of the MAOCARO Report : The position on unreconciled sub-ledger balances has been explained earlier in our report. The Computerised accounting software of the Company was developed in house and lacked data security systems and controls. The Company did have Internal Auditors during the period who could not detect the flaws in the computer systems of the Company. The Directors have subsequently appointed another firm of Chartered Accountant as internal auditors who are submitting reports regularly to an appointed committee.

These weaknesses in the computer systems hae now been identified and brought to the notice of the Directors and Auditors and are being rectified. It has also been brought to the notice of the Directors that security documentation in certain lendings was weak and strict action against defaulting customers which should have been taken was avoided. Investigation is being conducted in respect of all defaulting borrowers and action has been/will be initiated against ex-employees where negligence in discharge of fiduciary responsibilities is found.

M/s. V. Sahai & Co., Chartered Accountants, auditors of the Company retire at the conclusion of the ensuing Annual General Meeting. They have furnished a Certificate to the effect that their re-appointment, if made, will be within the limits specified under Section 224(1B) of the Companies Act, 1956.

PERSONNEL

In accordance with Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, the particulars of employees are set out in the attached annexure forming part of the report

ACKNOWLEDGEMENTS

Your Directors wish to thank the Financial Institutions Banks, Creditors-Debenture Holders and Fixed Depositors in particular-and shareholders for their continued support and assistance. Your Directors also wish to place on record their deep appreciation for the sincerity and dedication shown by the employees in the implementation of the Restructuring Exercise.

For & on behalf of the Board of Directors

Place New Delhi
Dated 6.02.1999

Chairman

ANNEXURE TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956

Name of the Employee	Age (Yrs.)	Qualification	Exp (Yrs.)	Date of Employment	Designation/ Nature of Duty	Remuneration Received (Rs.)	Last Employment and Designation
A. EMPLOYED THROUGHOUT THE FINANCIAL YEAR AND IN RECEIPT OF REMUNERATION NOT LESS THAN RS. 3,00,000							
Sunil Katariya	32	M Com., FCS LLB	9	13.06.94	Company Secretary	4,42,204	M/s. Onida Finance Ltd Company Secretary
B. EMPLOYED FOR PART OF THE YEAR AND IN RECEIPT OF REMUNERATION NOT LESS THAN RS. 25,000 PER MONTH							
Ajay Maggo	32	B Com (Hons) CA	9	05.05.97	Asst General Mgr Finance & Accounts	3,26,880	M/s. Phoenix International Finance Ltd. Vice President
Anand G Ahluwalia	42	M A	12	17.12.93	Asst General Mgr Merchant Banking	2,86,951	State Bank of India Branch Manager
Binod Choudhary	38	MBBE ME (Ind.) BE (Mech)	12	22.05.96	General Manager Marketing	2,88,240	M/s Value Research Director-Marketing
Dhruv Prakash	46	M Sc PGDBM	24	01.04.94	President-Whole Time Director	3,31,500	M/s. DCM International Ltd. Exec. Director-Finance
R C Rawal	40	LLB CA	10	01.12.97	Sr Vice President Marketing	3,11,220	M/s Continental Auto Services General Manager (Commercial)
T S Brar	42	B Com., MBA	18	07.10.97	President & CEO	7,94,800	M/s. Teji Brar Financial Services Ltd Managing Director

AUDITORS' REPORT

The Shareholders,
DCM Financial Services Limited,
New Delhi.

We have audited the attached balance sheet of DCM Financial Services Ltd. as at June 30, 1998 and the profit and loss account for the period of 15 months ending on that date and report that:-

1. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A & D) of the Companies Act, 1956, we enclose as an annexure a statement on the matters specified in paragraphs 4 & 5 of the said Order.

2. Further to our comments in the annexure referred to in paragraph 1 above :

   (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

   (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of these books;

   (c) The balance sheet and profit & loss account referred to in this report are in agreement with the books of account;

   (d) The profit & loss account and balance sheet comply with the accounting standards referred to in sub-section (3C) of section 211 of The Companies Act, 1956.

   (e) In our opinion and to the best of our information and according to the explanations given to us, the said balance sheet and profit and loss account subject to Notes 2(b) & (d), 3(d), 4, 5 and 22 on non-provision of interest on short term loans, interest charged by a bank, bill rediscounting, ICD's, short term overdraft and deferred payment liability, Note 3(c) on non-maintainence of minimum liquid assets, Note 6(b) on provision for loss on investment/ securities, Note 7(a) on details of stock on hire, Note 7(b) on re-instatement of margin money/ security deposit, Note 10 on bank balances, Note 12 on unpaid dividend, Note 13 on non-provision on NPA's, Note 14 on reversal of income unrealised on NPA's, Note 15 on balance confirmation, Note 16 claims not acknowledged as débts, Note 18 on unreconciled sub-ledger balances and para 9 of our report on MAOCARO annexed hereto on lack of internal controls read with the Accounting Policies, para II of MAOCARO relating to non filing of fixed deposit returns and the remaining Notes appearing thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view:-

      (i) in the case of the balance sheet of the state of affairs of the company as at June 30, 1998; and

      (ii) in the case of the profit & loss account of the loss for the period of 15 months ending on June 30, 1998.

For V. Sahai & Co.
Chartered Accountants

Place : New Delhi
Dated : February 6, 1999

(Mahesh Sahai)
Partner

Annexure referred to in paragraph 1 of the Auditor's Report to the Shareholders of DCM Financial Services Limited on the accounts for the period 15 months ending on June 30, 1998

1. The company had entrusted the preparation of the fixed assets register to an outside agency and a proper record showing full particulars, including quantitative details and in most cases the situation of fixed assets has been prepared. A portion of the fixed assets, including assets given on lease, have been verified physically by firms of Chartered Accountants and no major discrepancies have been observed.

2. The fixed assets have not been revalued during the year.

3. Physical verification of stocks of shares and securities in trade has been conducted by the management at the end of the year. Physical verification of a part of stocks on hire has been conducted by firms of Chartered Accountants and as per certificate given by them no material discrepancies on physical verification of the assets verified by them were noticed.

4. In our opinion and according to the information and explanations given to us, procedures for physical verification of stocks of shares and securities in trade followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.

5. Discrepancies noticed on physical verification of stocks of shares and securities in trade as compared to book records have been dealt with in the books of account.

6. On the basis of our examination of the records we are of the opinion that the valuation of shares and securities in trade is fair and proper and in accordance with normally accepted accounting principles and is on the same basis as in the previous period. Since physical verification of stocks on hire was conducted partly we are unable to comment on whether its valuation has been correctly done, or not.

7. As per certificate given by the Secretary of the company there are no companies under the same management as defined under sub-section (1B) of section 370 of the Companies Act, 1956 and therefore the questions contained in paras (vii) and (viii) of para 4A are not applicable and have therefore not been commented upon.

8. In respect of loans and advances in the nature of loans given by the company the repayment of principal and interest has not, in many cases, been in accordance with stipulated terms. However, according to the information