



12TH ANNUAL REPORT
2002-2003

DCM FINANCIAL SERVICES LTD.

BRANCHES

AHMEDABAD

1 NN Complex,
Opp. BVD School,
Shah Alam Tolnaka,
Maninagar,
Ahmedabad-380028.

BARODA

811-Centre Point,
R.C. Dutt Road,
Alakapuri,
Baroda-390005.

BANGALORE

4th Floor,
Ganesh Towers,
No. 111, Infantry Road,
Bangalore-560001.

CHANDIGARH

Kothi No. 1307,
Sector-19B,
Chandigarh-160019.

CHENNAI

Aman Complex
1st Floor, New No. 85
Koddambakkam
High Road, Nungambakkam
Chennai-600034.

INDORE

119, Vaibhav Chamber,
Usha Ganj, Jora Compound,
Indore-452001.

KANPUR

No. 2, 1st Floor, 14/123-A,
Mall Gopala Chambers,
Kanpur-208001.

LUCKNOW

306, Chintel House,
16-Station Road, Lucknow-226019.

VARANASI

Room No. 16, 4th Floor,
Kuber Complex, Rathyatra
Varanasi-221010.



BOARD OF DIRECTORS

Arif Baig	Chairman
S.K. Sharma	Director
O. P. Gupta	Director

V.P. (LEGAL) & COMPANY SECRETARY

Sunil Katariya

AUDITORS

M/s. V. Sahai & Co.,
Chartered Accountants,
G-68, Connaught Circus,
New Delhi-110001.

REGISTERED OFFICE

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

SHARE TRANSFER AGENT (Physical & Electronic)

MCS Ltd.
W-40, Okhla Industrial Area,
Phase-II, New Delhi-110020

CONTENTS

Notice	2-3
Directors' Report	4-12
Auditors' Report	13-15
Balance Sheet	16
Profit & Loss Account	17
Schedules	18-40
Subsidiary Company	41-50
Consolidated Financial Statement	51-70

NOTICE



Notice is hereby given that the Twelfth Annual General Meeting of the Members of the Company will be held on Tuesday, December 30, 2003 at The Executive Club, 439, Village Shahoorpur, P.O. Fatehpur Beri, New Delhi – 110 030 at 9.30 a.m. for transacting the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at June 30, 2003 and Profit and Loss Account for the fifteen months period ended on that date, together with the reports of the Auditors and the Board of Directors thereon.
2. To appoint Auditors and to fix their remuneration.
3. To consider appointment of Mr. O. P. Gupta as Director who retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re- appointment.

SPECIAL BUSINESS

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. K. Sharma, Additional Director who holds office upto the date of the Twelfth Annual General Meeting, be and is hereby appointed as Director of the Company whose term of office shall be liable to determination by retirement of Directors by rotation.

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

RESOLVED THAT in accordance with the provision of Section 205 and other applicable provisions, if any, of the Companies Act, 1956 and the directions and orders given by the Reserve Bank of India (herein after referred to as "RBI"), the consent of the members of the Company be and is hereby accorded to revoke/recall/annul the unpaid final dividend @ 13.5%, for the period ended on March 31, 1997, declared by the members of the Company at the Annual General meeting held on September 10, 1997.

RESOLVED FURTHER THAT if any amount has been disbursed to the shareholders pursuant to the declaration

of dividend be recovered from the recipients and that the Company do take all requisite steps for this purpose.

**BY THE ORDER OF THE BOARD
FOR DCM FINANCIAL SERVICES LTD.,**

Place: New Delhi

Dated: December 3, 2003

Arif Baig

(Chairman)

NOTES :

1. Explanatory Statement, pursuant to section 173(2) of the Companies Act, 1956, in respect of the special business is annexed and forms part of the notice.
2. **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 FIXED FOR COMMENCEMENT OF THE MEETING.**
3. The Register of Members and Share Transfer Books of the Company shall remain closed from December 20, 2003 to December 30, 2003 (both days inclusive).
4. Members/Proxy holders are requested to produce at the entrance the enclosed admission slip duly completed and signed, for admission to the meeting.
5. Members are requested to notify any change in their address, immediately to the Company's Share Registrars and Transfer Agents at the address mentioned below:

**MCS LTD.
Sri Venkatesh Bhawan,
W-40, Okhla Industrial Area, Phase – II,
New Delhi – 110020.
Tel: 26384909 Fax: 26384907**
6. In accordance with SEBI directions, shares of the Company can only be traded in demat mode. Accordingly it is in member own interest to get their shares dematerialized at the earliest.



NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956**Item No. 4**

Mr. S. K. Sharma was appointed as an Additional Director on the Board of the Company w.e.f July 31, 2003, and holds office upto the date of this Annual General Meeting. Notice in writing has been received from a shareholder proposing Mr. Sharma as a candidate for the office of Director liable to retire by rotation, along with the requisite deposit.

Mr. Sharma is a science graduate. He is of 65 years of age and has got his retirement as senior manager from a nationalized Bank. Mr. Sharma is also very active socially and is involved in promoting the game of chess, with the credit of organizing two international chess tournaments near Delhi, during the past two years.

The Board recommends the appointment of Mr. Sharma.

EXCEPT FOR MR. SHARMA, NO OTHER DIRECTOR IS CONCERNED OR INTERESTED IN THE SAID RESOLUTION.

Item No. 5

The General Body of the Company at the Annual General Meeting held on September 10, 1997, had declared a final dividend @ 13.5 % on the paid up equity share capital of the Company.

However due to asset-liability mismatch and consequent scarcity of resources and cash crunch being faced by your Company, like other finance companies similarly placed, during that time, the said final dividend remained unpaid.

Subsequently the Reserve Bank of India (RBI) had also vide its Order dated December 30, 1997, restrained the Company from making any payments without the Bank's permission. Further on the clarification sought by the Company on the RBI's restraint Order dated December 30, 1997, the Bank vide its letter dated May 15, 1999, had categorically stated that the restraint order of December 30, 1997, includes the restraint on payment of Final Dividend @ 13.5% for the period ended March 31, 1997. The said prohibition is still continuing. This prohibition is not likely to be withdrawn unless the Company's liabilities on account of Fixed Deposits, Debentures etc., are repaid/settled. You are also aware that the Company's Scheme of Arrangement and reorganization of the share capital of the company is pending by way of Review Application before the Hon'ble Delhi High Court.

Accordingly in view of the Restraint Order passed by the Reserve Bank of India and the depleting financial resources of the Company, your Board recommends for revoking/recalling/annulling of the unpaid final dividend @ 13.5%, pertaining to the period ended on March 31, 1997.

The same is being placed before you for your valuable consideration and approval.

NO DIRECTOR IS CONCERNED OR INTERESTED IN THE SAID RESOLUTION.

**BY THE ORDER OF THE BOARD
FOR DCM FINANCIAL SERVICES LTD.,**

**Place: New Delhi
Dated: December 3, 2003**

**Arif Baig
(Chairman)**

DIRECTORS' REPORT

Your Directors present the Twelfth Annual Report of the Company together with the Audited Accounts for the 15 months period ended on June 30, 2003.

FINANCIAL RESULTS

The financial results for the period under review are for a period of fifteen months while for the previous year it was for a period of twelve months are as follows:

PARTICULARS	CURRENT YEAR 15 Months (Rs. in lacs)	PREVIOUS YEAR 12 Months (Rs. in lacs)
Gross Income	130.89	160.42
Profit/(Loss) before depreciation	(547.96)	(571.72)
Depreciation	53.64	79.83
Profit/(Loss) before tax	(601.60)	(651.55)
Provision for tax written back	-	131.44
Profit/(Loss) before Extra ordinary items	(601.60)	(520.11)
Prior period adjustment	3.54	36.23
Investment Provision Written Back	62.53	46.26
Net Profit/(Loss)	(667.67)	(510.08)
Profit/(Loss) brought forward from previous year	(10055.88)	(9545.80)
Surplus /(Loss) carried to Balance Sheet	(10723.55)	(10055.88)

The principle of complete disclosure continued to be followed for a true and fair picture of the affairs of the Company. Accordingly a sum of Rs. 3.54 lacs is reflected in the attached Profit & Loss Account as "Prior Period Adjustment". No further provision for NPA is considered necessary as your Directors are of the view that provision for NPA should be made on the basis of realistic estimates of recovery even though the RBI rules require higher provisioning. The recovery estimate does not take into account earnings by way of interest including costs, overdue and penal interest, which may accrue to the Company from defaulting customers. Successful realization of even part of this amount in future could add to the Company's bottom line.

The Board of Directors have made conscious efforts for drawing the financial statements on the basis of sound, accepted and conservative accounting principles. This no doubt has resulted into losses being on the higher side since the revenues generated have to provide for prior period adjustments and provisions also but at the same time it has ensured true and fair financial statements of the Company. As you are aware that due to restrictions imposed by the

Reserve Bank of India, the Company could not take up any new business activity.

COMPANYS' AFFAIRS / OPERATIONS / MATERIAL DEVELOPMENTS

The Statement of Company Affairs, operations, opportunities and threats, performance on the recoveries front and developments in the Scheme of Arrangement filed by the Company before the Hon'ble High Court of Delhi at New Delhi, have been elaborately and explicitly explained and dealt with in the Management Discussion and Analysis Report (which forms part of this report) and accordingly not provided herewith for the sake of brevity.

AUDITORS' REPORT

The Auditors' Report on the Accounts of the Company is attached. The Directors' observation on the Auditors' Report are as under: -

1. Provision of interest on certain liabilities covered under notes 2 (c) & (f), 3 (a), 4(c) and 5 is in accordance with the scheme of restructuring filed by the Company before the Hon'ble Delhi High Court, which provides for waiver and cancellation of interest and the same is pending by way of review application before the Hon'ble Court.
2. The default in repayment to depositors as mentioned in note 4 (a) is comprehensively covered by the Scheme of Arrangement filed before the Hon'ble High Court of Delhi and pending by way of Review Application. Note 4 (b) is under reconciliation.
3. Maintenance of minimum liquid assets covered under note 4 (d): 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 Hon'ble Company Law Board for exemption from maintaining minimum liquid assets for a period of 5 years and also to condone the default. In any case considering the situation faced by the company and legal cases against the Company, scarce resources had to be first utilized for repayment to creditors rather than for buying SLR securities. For this purpose the regulating authorities have been



DIRECTORS' REPORT

kept informed.

4. Dividend covered under Note 6 : The final dividend declared at the seventh Annual General Meeting is proposed to be annulled and the enabling resolution for the same has been sent to the members for their approval.
5. Provision on Non Performing Assets as per RBI norms under Note 7 : Keeping in line with the philosophy and experiences during the years, that recoveries have been made even from the assets which were classified as Non Performing as per the Prudential Norms of RBI, no additional provision has been made for NPAs in the financial period under review. This is to give a more realistic picture of the receivable of the Company and will also put more stress on recovery. Accordingly it is deemed expedient that the provision for non performing assets may be made at a realistic level. The Director's view is that assessment of recoverable should depend on the estimate of the recovery matters, financial position of the defaulting customers and payment by the Customer in the subsequent years and the present negotiations/ commitment with/ by the customers.
6. Going Concern Basis – Note 10 : In light of the scheme of restructuring pending by way of Review Application before the Hon'ble Delhi High Court, which has already been approved by an overwhelming majority of the requisite class of creditors, present and voting, the Company has plans for future business and income generation. Accordingly it is not only prudent but also imperative to draw the financial statement basis on such Going Concern basis. The Scheme seeks to restructure relying on debt equity swaps and profits earned by engaging in new IT education and training business leading to progressive reduction in the debt of the Company. The Scheme of Arrangement would not only enable the Company to wipe out its debts but will also enable it to reduce carry forward losses create profits. Further in accordance with amended Section 217 (2AA) of the Companies Act, 1956, the financial statement are required to be made on going concern basis.
8. Balance confirmation – Note 11(a): As the

Company is under litigation for a majority of receivable payables, and the matters are sub-judice, confirmations and acknowledgments are not feasible.

9. Note 17 on Contingent liabilities: The Company is contesting claims lodged against it not acknowledged as debts including claims on account of securitization transaction and underwriting obligations. Rest of the contingent liabilities are being addressed through the Scheme.

All the other notes are self-explanatory.

AUDITOR'S

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.

DIVIDEND

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

As the members are aware that the General Body of the Company at the Meeting held on September 10, 1997, had declared a final dividend @ 13.5 % on the paid up equity share capital of the Company.

However due to asset-liability mismatch and consequent scarcity of resources and cash crunch being faced by the Company during that time, the said final dividend remained unpaid.

The Reserve Bank of India (RBI) had also vide its Order dated December 30, 1997, restrained the Company from making any payments without the Bank's permission. Further on the clarification sought by the Company on the RBI's restraint Order dated December 30, 1997, the Bank vide its letter dated May 15, 1999, had categorically stated that the restraint order of December 30, 1997, includes the restraint on payment of Final Dividend @ 13.5% for the period ended March 31, 1997.

DIRECTORS' REPORT

Accordingly in view of the Restraint Order passed by the Reserve Bank of India and the depleting financial resources of the Company, the Board is seeking your approval for revoking/recalling/annulling the unpaid final dividend @ 13.5%, pertaining to the period ended on March 31, 1997, at the forthcoming Twelfth Annual General Meeting.

DIRECTORS

Effective October 13, 2003, Mr. R. D. Sharma, Director, relinquished his duties from the Board on account of personal reasons.

Mr. S. K. Sharma was appointed as Additional Director on the Board of the Company w.e.f. July 31, 2003. Mr. Sharma is a science graduate. He is of 65 years of age and has got his retirement as senior manager from a nationalized Bank. Mr. Sharma is also very active socially and is involved in promoting the game of chess, with the credit of organizing two international chess tournaments near Delhi, during the past two years.

Mr. Sharma holds office upto the date of this Annual General Meeting. Notice in writing has been received from a shareholder proposing Mr. Sharma as a candidate for the office of Director liable to retire by rotation, along with the requisite deposit.

The Board recommends the appointment of Mr. Sharma.

The Board places on record its sincere appreciation and gratitude for the direction and support provided by Mr. R. D. Sharma to the Company.

Mr. O.P.Gupta retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

LISTING AGREEMENT COMPLIANCES

The securities of the Company were suspended by the Stock Exchange at Delhi in October, 1998 due to alleged non redressal of Investor's grievances. The Company has made representation to the said Exchange that all such grievances were on account of non payment of Dividend and Debentures, which are now proposed to be paid through the scheme pending by way of Revision Petition in the Hon'ble Delhi High Court. However the Company has yet to receive any reply from the Exchange.

The Company is presently listed at Stock Exchanges at Ahmedabad, Calcutta, Chennai, Delhi, Jaipur, Mumbai and the National Stock Exchange. Due to Financial constraints, the Company is in arrears of listing fees to the Stock Exchanges at Ahmedabad, Calcutta, Chennai, Delhi and Jaipur.

The Company allotted 33,43,067 no. of Equity Shares of Rs. 10/- each to the Promoter company on cash basis and two Banks being the creditors of the company, pursuant to the Scheme of Restructuring filed under section 391 to 394 of the Companies Act, 1956, pending before the Hon'ble High Court of Delhi at New Delhi. The Scheme proposes allotment of shares to the extent of fifty percent of the principal dues of the creditors (Fixed Depositors, ICD/BRD holders, Debenture holders etc.). Accordingly The Company has initiated the process of listing of the shares and has filed listing applications with the all the seven stock exchanges, where the shares of the Company are presently listed. Correspondences have been exchanged with stock exchanges and the applications are pending approval of the respective Exchanges

CORPORATE GOVERNANCE AND MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis Report and report on Corporate Governance forms an integral part of this report. The Certificate from the Auditors of the Company certifying compliance of the conditions of corporate governance as stipulated in Clause 49 of the Listing Agreements with the Stock Exchanges is also annexed to the Report on Corporate Governance.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is confirmed that for the fifteen months period ended on June 30, 2003:

- (i) In the preparation of the financial statements, the Company has followed the applicable Accounting Standards except for non payment of interest and discounting charges since the scheme of restructuring filed by the Company envisages waiver of Interest.
- (ii) Such accounting policies have been selected and applied consistently and made judgments



DIRECTORS' REPORT

and estimates that 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 period aforementioned and of the profit or loss of the Company for that period.

- (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 financial statements has been prepared on a going concern basis.

SUBSIDIARY COMPANY

The accounts of the subsidiary Company for the period ended on June 30, 2003 are provided in the annexure to this Report along with the statement in pursuance of section 212 of the Companies Act, 1956.

FIXED DEPOSITS

During the period under review, the Company had not invited any fixed deposits. Unclaimed/Unpaid deposits as on 30th June 2003 are Rs. 4.66 Cr (6781 depositors) and Rs. 59.58 Cr (53115 depositors) respectively. Since the fixed deposit liability of the Company is proposed to be settled in the manner and in accordance with the scheme of the restructuring filed by the Company, due to liquidity and tenor mismatch, depressed capital markets and large defaults by corporate and other borrowers resulting in liquidity crisis and asset liability mismatch.

PARTICULARS ON CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION

In view of the nature of operations of the Company, no particulars are furnished in respect of conservation of energy and technology up gradation.

FOREIGN EXCHANGE EARNING AND OUTGO

There has been no foreign exchange income and outgo for the period of this report.

PERSONNEL

During the year ended June 30, 2003, there was no employee drawing remuneration in excess of the amount prescribed under section 217(2A) of the Companies Act, 1956, read

with Companies (Particulars of employees) Rules, 1975 and Department of Company Affairs Notification no. GSR 288 (E) dated April 17, 2002 followed by a clarification through circular no. 16/2002 dated June 25, 2002.

ACKNOWLEDGEMENTS

Yours Directors wish to thank the Banks specially the Reserve Bank of India, Central Bank of India, Punjab & Sind Bank, IndusInd Bank, Department of Company Affairs, Creditors, Shareholders, Debenture holders, fixed depositors and its Solicitors 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 at all levels.

For & on behalf of the Board of Directors

Place : New Delhi

Date : 3rd December, 2003

Arif Baig

Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

a. Industry Structure and Developments

The year 2002-03 witnessed a marked improvement in the key sectors of the economy notwithstanding drought conditions affecting rural economy considerably. The improved performance of the economy in general and capital and financial markets in particular resulted in financial markets emerging from the trough it faced during last few years.

The Indian Economy, on the whole, has shown that it is capable of achieving high growth rates in response to the implementation of appropriate economic reforms policies. Liberalization and deregulation have heightened healthy competition among corporate players, which will only intensify with financial liberalization under the WTO regime, and the Industries/Companies in India will have to benchmark themselves against the global corporate giants. In this backdrop once the re-structuring scheme of your Company which is pending by way of Review Application before the Division Bench of the Hon'ble High Court of Delhi for approval, your Company should be in a position to make good use of promising economic conditions to carry this journey forward on the path of revival.

b. Opportunities and Threats / Risks and Concerns / Outlook

The menace of increasing non-performing assets is a

DIRECTORS' REPORT

continuing threat for the industry and the Company is also not free from that. The Review Application under the Scheme of the Company is in advance stages and on approval of the Scheme, not only the Company would become debt free but will also enable it to commence new business activities, where already a start has been made and also restart the non-fund based business permissible. The Approval of the Scheme shall also provide opportunities to the executive management to look for constructive activities. The Company is planning to make a niche in the IT sector, once the route is cleared upon sanction of the Company's Scheme of Restructuring.

However due to factors beyond its control, the Scheme has yet not been sanctioned which has adversely effected new business avenues and opportunities. Delay in the sanction of the Scheme is increasing the volume, efforts and cost associated with the litigation process. Presently the Company cannot do any business in view of the restrictions imposed by the Reserve Bank of India (RBI). The RBI vide its letter no. DNBS.ND.No.679/P7W/05.01.0515/2003-04 dated October 01, 2003, has appointed an Observer to the Company w.e.f. October 01, 2003. As already mentioned, that post approval of the Scheme, the Company shall also explore possibilities in field of Information Technology, non-fund based business and other activities.

c. Segment-wise / product-wise performance

As mentioned the Company is currently not carrying any business activity. The efforts of the Company are concentrated towards recovering the past dues from the defaulting customers. The division of the recoveries operations between segment and/or product wise is not possible and therefore not provided with.

Your Company vehemently continued its aggressive drive launched by it against its debtors for recovery of past overdue, by following specialized and professional approach. The Company had put in a sincere and committed effort and had explored all the possible and probable ways including civil and criminal litigations, negotiations, settlement and arbitration route, to recover its monies from both retail as well as corporate clients. The Company has been successful in recovering monies from some of the large defaulting debtors. With the passage of time, the rate of recovery in terms of volumes is slowly depleting, when compared with previous years. But pending the Company's Scheme of

Restructuring, the recoveries are still the major source of revenue for the Company and it is expected that the recoveries would see an upsurge with some of large accounts, likely to materialize soon. The fall in the income from leasing and hire purchase was primarily due to lapse of tenure of many of the cases.

d. Internal control systems and their adequacy

The Company has an effective system of accounting and administrative controls which ensures that all assets are safeguarded and protected against loss against unauthorized use or disposition. The Company has a well defined organization structure with clear functional authority limits for approval of all transactions

The Company has a strong reporting system which evaluates and forewarns the management on issue related to compliance. The performance of the Company is regularly viewed by the Board of Directors to ensure that it is in keeping with the overall corporate policy and in line with pre-set objectives.

The Company updates its internal control systems from time to time, enabling it to monitor employee adherence to internal procedures and external regulatory guidelines.

e. Financials performance with respect to operational performance

The efforts are towards recovery of dues from past and present creditors. The total Income dropped to Rs. 130.89 lacs as compared to last financial period. The fall in the income from leasing and hire purchase was primarily due to lapse of tenure of many of the cases. As a result of these, the total Loss for the year was Rs. 601.60 lacs after providing for depreciation of Rs. 53.64 lacs.

f. Material developments in Human Resources / Industrial Relations Front, including number of people employed

The relations with the employees remained cordial during the year.

The total number of employees in the Company was 33 as on June 30, 2003.