

ANNUAL REPORT 1998-99

FORTIS

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FORTIS FINANCIAL SERVICES LIMITED

Registered Office : G-16, Marina Arcade, Connaught Circus, New Delhi 110 001.

NOTICE

NOTICE is hereby given that the **Fourth Annual General Meeting** of Fortis Financial Services Limited will be held on Monday, August 30, 1999 at 10.00 a.m. at Shah Auditorium, 2 Raj Niwas Marg, Delhi - 110 054 to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Accounts for the period ended March 31, 1999 alongwith the Reports of Directors and Auditors.
2. To appoint a Director in place of Mr. Umesh K. Khaitan who retires by rotation and is eligible for re-appointment.
3. To appoint Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. M/s. R.A. Patel & Company, the retiring Auditors are eligible 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. Malvinder Mohan Singh who was appointed as an Additional Director of the Company by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 and Article 141 of the Articles of Association of the Company, with effect from June 28, 1999, and who holds office upto the date of this Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of a Director under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company liable to retire by rotation."

By Order of the Board

Ujjval Mehta

Company Secretary

Dated : July 30, 1999

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of the Special Business under Item No. 4 is appended hereto.
3. The Register of Members and Transfer Books of the Company will remain closed from August 27, 1999 to August 30, 1999 (both days inclusive).

4. Members desiring any information as regards accounts are requested to write to the Company atleast 10 days before the meeting at G - 16, Marina Arcade, Connaught Circus, New Delhi - 110 001 for the kind attention of Mr. Ujjval Mehta, Company Secretary.
5. Members/proxies should bring the attendance slips filled in for attending the meeting.
6. Members/proxies attending the Annual General Meeting are requested to note that the management of the Company has decided that no gifts / coupons shall be distributed.
7. Members are requested to note that the Company has discontinued the services of its Registrar & Share Transfer Agent - M/s. Karvy Consultants Limited w.e.f. September 15, 1998 and Share Transfer processing is being done in-house.
8. Members of erstwhile The Empire Finance Company Limited (EFCL), who have not surrendered their Share Certificates of EFCL are requested to surrender the same with the Company and get exchanged with Share Certificates of Fortis Financial Services Limited.

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956.

ITEM NO. 4

The Board of Directors have appointed Mr. Malvinder Mohan Singh as an Additional Director of the Company with effect from June 28, 1999 pursuant to Article 141 of the Articles of Association of the Company.

The Board of Directors considered that it would be in the interest of the Company to appoint him as a Director of the Company. The Company has received a notice alongwith deposit from a shareholder under Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Malvinder Mohan Singh as a Director of the Company.

Mr. Malvinder Mohan Singh is a B.A. (Honours) in Economics from St. Stephen College, Delhi University, has completed Graduation Course in International Business and Effective Business Communication from Harvard University, Cambridge, USA and holds a Master Degree in Business Administration from The Fuqua School of Business, Duke University, USA. He is presently working with M/s. Ranbaxy Laboratories Limited. He has earlier worked with M/s. American Express Bank, Fortis Financial Services Limited and Merrill Lynch, Singapore.

Mr. Malvinder Mohan Singh is to be considered as interested or concerned in the proposed resolution.

None of the other Directors of the Company is interested or concerned in the proposed resolution.

FORTIS FINANCIAL SERVICES LIMITED**BOARD OF DIRECTORS**

Mr. Vinay Kumar Kaul
Mr. Malvinder Mohan Singh
Mr. Umesh K. Khaitan
Mr. V. M. Bhutani

COMPANY SECRETARY

Mr. Ujjval Mehta

REGISTERED OFFICE

G-16, Marina Arcade,
Connaught Circus,
New Delhi - 110 001.

CORPORATE OFFICE

210, Taj Building,
Dr. D.N. Road,
Fort, Mumbai - 400 001.

BRANCH OFFICES

Calcutta :
24, R. N. Mukherjee Road,
Calcutta - 700 001.
Chennai :
8D, Century Plaza,
Anna Salai, Teynampet,
Chennai - 600 018.

BANKERS

Punjab & Sind Bank
Bank of India
UCO Bank
The United Western Bank Ltd.

ADVOCATES & SOLICITORS

Shah Desai Doijode & Phatarphekar
Mahesh Menon & Co.

AUDITORS

R.A. Patel & Co., Mumbai.

ANNUAL GENERAL MEETING

Venue : Shah Auditorium,
2, Raj Niwas Marg,
Delhi - 110 054

Date : August 30, 1999
Day : Monday
Time : 10.00 a.m.

DIRECTORS' REPORT

Your Directors present the fourth report of the Company together with Audited Accounts for the 15 month period ended March 31, 1999.

Financial Highlights

	Current Period (15 months)	Rs. Lacs Previous Year (12 months)
Gross Income	2677.26	3574.94
Cash Profit	167.08	709.53
Depreciation	1333.90	1313.58
Loss before Tax	(1179.36)	(604.05)
Provision under RBI prudential norms	413.91	303.19
Loss after Tax	(1593.27)	(907.24)
Appropriations		
Transfer from General Reserves	(421.69)	(439.04)
Balance brought forward from last year	Nil	468.20
Balance carried forward	(1171.58)	Nil

Dividend

In view of operational losses, the Board has not recommended any dividend for the period under review.

Operations

With the down turn in the industrial activity and the depressed capital market, the difficulties faced by the financial services sector have been steadily mounting for the past 2 to 3 years.

Adding to the problem created by the macro economic factors, the NBFC sector has been adversely affected by some of the changes brought about by RBI in the regulatory framework, negative attitude of the Bank/Institutions for providing long term funds, increased competition from Financial Institutions and Multinational Finance Companies. This has resulted in curtailment of the business activities and have severally affected income, profits and cash flows.

The above factors also affected the operations of your Company. Further, the Company has suffered due to a high default rate by Lease and Hire-purchase clients due to which the Company stayed away from all funded business activities. To combat this problem a special task force was set up to focus exclusively on recovery of overdues. In many cases legal remedies had to be resorted apart from re-scheduling of payment of overdues and waiver/concession of interest. All possible efforts are being made to recover our overdues as expeditiously as possible. The defaults are primarily because of economic conditions and it is expected that the clients shall pay their dues in the near future.

All out efforts have been made to reduce our operating costs. The Personnel and Administrative expenses have been reduced from Rs. 1.21 Crores and Rs. 1.44 Crores for the previous 12 month to Rs. 0.85 Crores and Rs 0.79 Crores respectively for the 15 month period ended March 31, 1999. A tight control is being maintained on expenses to ensure that the operational costs of the Company remain at the bare minimum.

Your company is pleased to advice that it has received a Certificate of Registration from the Reserve Bank of India to carry on business of a Non Banking Financial Institution.

The Company has initiated measures for Y2K compliances in all its Computer systems and expects to complete the work by September, 1999. There are no major financial implications on Company's performance on account of this.

Financial Year

The Financial year of the Company commencing from January 1, 1998 and ending on December 31, 1998 has been extended by a period of three months so as to enable the Company to avoid duplication of work in preparation of

separate accounts as on March 31 also for Income Tax purposes. Consequently, the financial year of the Company will end on March 31 each year.

Resource Mobilization

During this period, the credit rating of your company was changed to FB+ by CRISIL, from its previous rating of FA-. Keeping in view the down grading of credit rating and to reduce high cost borrowings, your company decided not to accept any fresh deposits or renew the existing deposits after maturity, from January 1998. During the period under review your Company has accordingly repaid its Public Deposit liability to the extent of Rs 42.15 Crores

Your company has been able to raise cheaper resources in the form of long term ICDs, debentures and term loans to the extent of Rs 50 Crores.

The Company has no overdue deposits as at March 31, 1999, other than those matured and unclaimed, aggregating to Rs. 126.23 Lacs, representing 945 deposit holders. Most of these deposits have since been refunded, and efforts are being made to refund the balance outstandings.

Subsidiary Company

The performance of Fortis Securities Limited, a wholly owned subsidiary of the Company, has been satisfactory. The thrust has been mainly in the development of business from Financial Institutions, Mutual Funds, Corporate Bodies and High Networth Individuals. This business is expected to contribute significantly to our bottom line in the years to come.

Directors

Mr. V.Shankar, Director, resigned with effect from June 28, 1999. The Directors place on record their appreciation for the valuable services rendered by him during his tenure as a Director.

Mr. Malvinder Mohan Singh has been appointed as Additional Director with effect from June 28, 1999.

Mr. Umesh K Khaitan, Director, retires by rotation in accordance with the Articles of Association of the Company and is eligible for re-appointment.

Auditors

M/s. R.A.Patel & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Disclosure of Particulars

Particulars under Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 on conservation of energy and technology absorption are not applicable since the Company is not a manufacturing Company.

Foreign Exchange Earnings and outgo

Earnings : Rs. Nil

Outgo : Rs. Nil

Particulars of Employees

As required under Section 217(2A) of the Companies Act, 1956, read with The Companies (Particulars of Employees) Rules, 1975, a statement giving the required information relating to employees covered thereunder is enclosed.

Acknowledgments

Your Directors appreciate the valuable co-operation and support extended by the Company's Bankers, Investors, Financial Institutions and the contribution of all the employees.

On behalf of the Board of Directors

Place : New Delhi
Date : June 28, 1999

V. M. Bhutani
Director

V. K. Kaul
Director

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AUDITORS' REPORT

To The Members of Fortis Financial Services Limited.

We have audited the attached Balance Sheet of **FORTIS FINANCIAL SERVICES LIMITED** as at March 31, 1999 and the annexed Profit and Loss Account for the period ended on that date and report that:

- (1) As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988, issued by Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the company.
- (2) Further to our comments in the Annexure referred to in paragraph (1) above, we report that:
 - (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 it appears from our examination of the books;
 - (c) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of accounts of the company;
 - (d) in our opinion the Balance Sheet and Profit and Loss Account complies 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 accounts read with notes 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 March 31, 1999; and
 - (ii) in the case of the Profit and Loss Account, of the loss of the Company for the period ended on that date.

For R.A. Patel & Co.
Chartered Accountants

Place : Mumbai
Dated : June 29, 1999

V.R. Patel
Proprietor

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ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 1 of our report of even date)

- (1) The Company has maintained adequate records showing full particulars including quantitative details and situation in respect of the Fixed Assets. The management has a phased programme of physically verifying leased assets and owned assets. In our opinion, the frequency and extent of this verification programme is reasonable. No significant discrepancies have been noticed on such verification.
- (2) None of the Fixed Assets has been revalued during the year.
- (3) The Company has not taken any loan from any of the Companies, Firms or other Parties listed in the register maintained under Section 301 and under the same management as defined under Sub Section (1B) of Section 370 of the Companies Act, 1956.
- (4) The Company has not granted any loan, secured or unsecured to Companies, firms or other Parties listed in the register maintained under Section 301 and under the same management as defined under Sub Section (1B) of Section 370 of the Companies Act, 1956.
- (5) Adequate provisions have been made against parties to whom loans or Advances in the nature of loans have been given by the Company, in respect of which are defaults in repayments of principle and interest. The company has taken reasonable steps in respect of defaulting clients for recovery of the same.
- (6) In our opinion, according to the information and explanations given to us there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of Plant and Machinery, equipment and other assets.
- (7) On the basis of information and explanation given to us, in respect of transactions entered into for the purchase and sale of goods materials and services rendered, with the parties whose names are entered in the register, maintained under section 301 of the companies Act, 1956 and aggregating during the year to Rs.50,000 or more, we are of the opinion that the transactions are made at prices which are reasonable having regard to the prevailing market price.
- (8) In respect of fixed deposits accepted from the public, the Company has complied with the provisions of Section 58A of the Companies Act, 1956, in so far as applicable to the Company and the provisions of the Non-Banking Financial Companies (Reserve Bank) Directions, 1977.
- (9) In our opinion, the Company has a reasonable internal audit system commensurate with the size of the company and nature of its business.
- (10) According to the records of the Company, and the information and explanations given to us, the Provident Fund and Employees State Insurance dues have been regularly deposited with the appropriate authorities.
- (11) As per the records of the company and according to the information and explanations given to us, no undisputed amount payable as at March 31, 1999 in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, for a period of more than six months from the date of becoming payable.
- (12) During the course of our examination of the books of accounts and according to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
- (13) The Company has maintained adequate documents and records in respect of loans and advances granted on the basis of security by way of pledge of shares, debentures and other securities.
- (14) As explained to us, the provisions of special statutes applicable to Chit Funds, Nidhi or Mutual Benefit Society are not applicable to the company.
- (15) The Company has maintained adequate records of its dealings in shares, securities, debentures and other investments and timely entries have been made therein. The securities, debentures and investments are in the name of the company or in the process of transfer to the company's name.
- (16) We are informed that, and in our opinion, the nature of the business is such that Clauses (iii), (iv), (v) and (vi) are not applicable to Stock on Hire and further Clauses (xii), (xiv), (xvi) and (xx) of paragraph 4(A) of the Manufacturing and Other Companies (Auditors' Report) Order, 1988, are not applicable.

**For R.A. Patel & Co.
Chartered Accountants**

Place : Mumbai
Dated : June 29, 1999

**V.R. Patel
Proprietor**

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BALANCE SHEET AS AT MARCH 31, 1999

	SCHEDULE	AS AT MARCH 31, 1999 (15 Months) Rs.	AS AT DECEMBER 31, 1997 (12 Months) Rs.
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	258,603,750	258,603,750
Reserves and Surplus	B	10,246,305	52,415,150
		268,850,055	311,018,900
Loan Funds			
Secured Loans	C	428,925,404	285,925,489
Unsecured Loans	D	452,938,330	749,166,259
		881,863,734	1,035,091,748
Total		1,150,713,789	1,346,110,648
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	1,021,227,255	1,106,962,775
Less : Depreciation		739,303,660	675,417,033
Net Block		281,923,595	431,545,742
Investments	F	120,733,878	264,724,953
Current Assets, Loans and Advances			
Current Assets	G	585,490,470	585,961,101
Loans and advances		134,256,171	151,303,452
		719,746,641	737,264,554
Less : Current Liabilities and Provisions			
Liabilities	H	89,996,998	90,019,108
Provisions		0	0
		89,996,998	90,019,108
Net Current Assets		629,749,643	647,245,446
Miscellaneous Expenditure	I	118,306,674	2,594,507
(to the extent not written off or adjusted)			
Total		1,150,713,789	1,346,110,648
SIGNIFICANT ACCOUNTING POLICIES & NOTES TO THE ACCOUNTS			
	N		

On behalf of the Board of Directors

 As per our report attached
 For R. A. Patel & Co.
 Chartered Accountants

 V.M.Bhutani
 Director

 V.K.Kaul
 Director

 V. R. Patel
 Proprietor

 Ujjval Mehta
 Company Secretary

 Place : Mumbai
 Date : June 29, 1999

 Place : New Delhi
 Date : June 28, 1999

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED MARCH 31, 1999

	SCHEDULE	FOR THE PERIOD 1.1.98 TO 31.3.99 (15 Months) Rs.	FOR THE YEAR 1.1.97 TO 31.12.97 (12 Months) Rs.
INCOME			
Lease Rentals		177,477,414	222,586,454
Hire charges		12,989,097	17,922,327
Interest and Discounting Income	J	26,157,615	64,492,076
Dividend income		3,280,764	3,006,021
Income from Investments / Assets		45,411,784	29,129,174
Other income	K	2,409,008	20,358,785
Total		267,725,679	357,494,836
EXPENDITURE			
Operating, Administrative and Other expenses	L	90,779,687	71,768,532
Interest and Finance charges	M	160,238,575	202,885,944
Depreciation		133,389,832	131,358,573
Miscellaneous expenses written off		1,253,955	11,886,777
Total		385,662,049	417,899,827
PROFIT/(LOSS) BEFORE TAX		(117,936,370)	(60,404,990)
Provision under RBI Prudential Norms		41,390,927	30,318,866
Provision for tax		0	0
PROFIT/(LOSS) AFTER TAX		(159,327,297)	(90,723,856)
Balance brought forward :		0	46,819,834
Balance as at 1.1.98			
PROFIT/(LOSS)		(159,327,297)	(43,904,022)
APPROPRIATIONS			
Transfer from General Reserve		42,168,845	43,904,022
BALANCE CARRIED TO BALANCE SHEET		(117,158,452)	(0)
SIGNIFICANT ACCOUNTING POLICIES & NOTES TO THE ACCOUNTS			
	N		

On behalf of the Board of Directors

As per our report attached
For R. A. Patel & Co.
Chartered Accountants

V.M.Bhutani
Director

V.K.Kaul
Director

V. R. Patel
Proprietor

Ujjval Mehta
Company Secretary

Place : Mumbai
Date : June 29, 1999

Place : New Delhi
Date : June 28, 1999