ELEVENTH

ANNUAL REPORT

KHANDWALA SECURITIES LIMITED

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ELEVENTH ANNUAL REPORT
2004

Board of Directors
Paresh J. Khandwala *(Chairman and Managing Director)*
Sreedhar Parande
Prakash Shah
Suresh Mehta *(w.e.f. 26th December 2003)*

Company Secretary
Sameer V. Upadhyay

Registered Office
Ground Floor, Vikas Building,
Green Street, Fort,
Mumbai - 400 023.

Auditors
RSM & Co.
Chartered Accountants,
Ambit RSM House,
Kamala Mill Compound,
Senapati Bapat Marg,
Lower Parel, Mumbai - 400 013.

Registrars & Transfer Agents
Karvy Computer Share Pvt. Limited
46, Avenue 4, Street No. 1,
Banjara Hills, Hyderabad - 500 034.

Bankers
Union Bank of India
Canara Bank
HDFC Bank Limited
Bank of Punjab

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NOTICE

Notice is hereby given that the Eleventh Annual General Meeting of the Members of Khandwala Securities Limited will be held at Garware Club House, D-Road, Churchgate, Mumbai 400 020 on Thursday, 26th August 2004 at 10.00 a.m. to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2004 and Profit and Loss Account for the period ended as at that date and the Report of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. S. M. Parande who retires by rotation and being eligible, offers himself for re-appointment.

SPECIAL BUSINESS:

3. **Appointment of Mr. S. K. Mehta as a Director**

   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. Mehta, who was appointed by the Board of Directors at the Board Meeting held on 26th December 2003 as an Additional Director under Section 260 of the Companies Act, 1956 and who holds office up to the date of this Annual General Meeting and in respect of whom the Company has received notice u/s 257 of The Companies Act, 1956 proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company and shall be liable to retire by rotation."

4. **Appointment of Mr. Pratik Khandwala Head – Investment Advisory Group (IAG)**

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

   "RESOLVED THAT pursuant to provisions of Section 314 and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby accords its consent to appoint Mr. Pratik Khandwala, son of Shri Paresh J. Khandwala, Chairman & Managing Director, holding and continuing to hold an office or place of profit in the Company as Head – Investment Advisory Group on the following terms and conditions under a contract of service for a period of Five Years with effect from 1st April 2003.

   Remuneration : Rs. 25,000/- - Rs. 5000/- – Rs. 45,000/- inclusive of Provident Fund, Medical Allowance, Leave Travel Allowance and all other perquisites as offered by Company and as may be available to other employees occupying similar posts / grades in the Company.

   RESOLVED FURTHER THAT the Company shall pay to or reimburse the Head - IAG all costs, charges and expenses that may have been or may be incurred by him for the purpose of or on behalf of the Company.

5. **Appointment of Mr. Pranav Khandwala General Manager – PMS & Equity**

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

   "RESOLVED THAT pursuant to provisions of Section 314 and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby accords its consent to appoint Mr. Pranav Khandwala, son of Shri Paresh J. Khandwala, Chairman & Managing Director, holding and continuing to hold an office or place of profit in the Company as General Manager – PMS & Equity, not being Manger within the meaning of provisions of Section 269 of The Companies Act, 1956, on the following terms and conditions under a contract of service for a period of Five Years with effect from 1st April 2003.

   Remuneration: Rs. 25,000/- - Rs. 5000/- – Rs. 45,000/- inclusive of Provident Fund, Medical Allowance, Leave Travel Allowance and all other perquisites as offered by Company and as may be available to other employees occupying similar posts / grades in the Company.

   RESOLVED FURTHER THAT the Company shall pay to or reimburse the General Manager – PMS & Equity all costs, charges and expenses that may have been or may be incurred by him for the purpose of or on behalf of the Company.

6. **Appointment of Statutory Auditor**

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

   "RESOLVED THAT M/s. Udyen Jain & Associates, Chartered Accountants, be and are hereby appointed as the Auditor of the Company who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as may be fixed by the Board of Directors of the Company, in place of M/s. RSM & Co., Chartered Accountants, the retiring auditors, who have requested not to consider the re-appointment."

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF / HERSELF AND THE PROXY NEED NOT BE A MEMBER.
2. The instruments of proxy should be deposited at the Registered Office of the Company not less than forty-eight hours before the time fixed for the Meeting.
3. Explanatory Statement as required by Section 173(2) of the Companies Act, 1956 in respect of Special Business under Item No. 3 to 6 of the Notice is annexed hereto.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from Friday, 20th August 2004 to Thursday, 26th August 2004 (both days inclusive) for transfer of Equity Shares.
5. Members are requested to bring their copy of the Annual Report as copies of the Report will not be distributed again at the Meeting.
6. Members are requested to bring their attendance slip, duly signed, so as to avoid any inconvenience.
7. Members desiring any information on the accounts at the Annual General Meeting are requested to write to the Company atleast seven days in advance, so as to enable the Company to keep the information ready.
8. Brief profile of director who is retiring by rotation in this meeting and eligible, offers himself for reappointment and also additional director seeking appointment, is enclosed with the Corporate Governance Report.

For and on behalf of Board of Directors
For **Khandwala Securities Limited,**

Paresh J. Khandwala
Chairman and Managing Director

Registered Office:
Ground Floor, Vikas Building,
Green Street, Fort,
Mumbai 400 023

Date : 28th June, 2004
Place : Mumbai

EXPLANATORY STATEMENTS PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item no. 3

Appointment of Mr. S. K. Mehta as a Director

Mr. Suresh K. Mehta was appointed as an Additional Director of the Company with effect from 26th December 2003 by the Board of Directors at its meeting held on the same day. As per Section 260 of the Companies Act, 1956 an Additional Director holds office upto the date of the ensuing Annual General Meeting. The Company has received notice under Section 257 of the Companies Act, 1956 from a member signifying their intention to propose the appointment of Mr. Suresh K. Mehta as a Director of the Company.

Mr. Mehta is 72, years of age. Suresh Mehta is a founder member of two firms β. V. Jewels and S. K. Jewellers. He was a president of Seepz Gem and Jewellery association for five years and was exhibition conveyer for international groups for Gem & Jewellers Export Promotion Council. He is also having excellent knowledge in the Capital Market and good contacts in the industry as well as HNI's, NRI's etc. Your Company will certainly have value addition by his appointment as a director.

Your directors recommend the resolution for your approval.

None of the directors are concerned or interested in the said resolution.

Item no. 4

Appointment of Mr. Pratik Khandwala Head – Investment Advisory Group (IAG)

Mr. Pratik Khandwala, 22, son of Mr. Paresh J. Khandwala, Chairman and Managing Director has completed commerce graduation from Mumbai University in the year 2002. He is working with your company since last four and half years and has taken experience in all the department of the Company. Based on the experience and knowledge he has explored about the financial market during his tenure, he has been given the responsibility of heading the Investment Advisory Group. He is appointed as Head – Investment Advisory Group on 1st April 2003.

Mr. Pratik Khandwala has independently begin with the Investment Advisory Group in the year 2003. Today, he has full-fledged department of 30 employees working under him. Investment Advisory Group provides advisory to HNI's, Corporates, Provident Fund, NRI and various other individual clients in the area of Insurance (Life as well as Non-life), Mutual Fund, RBI Relief Bond, Post Office Investment etc. He will hold office for the period of five years from the date of appointment.

Your directors recommend the resolution for your approval.

None of the directors except Mr. Paresh J. Khandwala are concerned or interested in the said resolution.

Item no. 5

Appointment of Mr. Pranav Khandwala General Manager – PMS & Equity

Mr. Pranav Khandwala, 22, son of Mr. Paresh J. Khandwala, Chairman and Managing Director has completed commerce graduation from Mumbai University in the year 2002. He is working with your company since last four years and has taken experience in all the departments of the Company. Based on the experience and knowledge he has explored about the financial market during his tenure, he was appointed in the Investment Banking Group. Presently he is working in capacity of General Manager – PMS & Equity since 1st July 2003. He is in charge of Portfolio Management Service (PMS) and dealing in equity market (cash as well as derivatives).

Item no. 6

Appointment of Statutory Auditors

M/s. RSM & Co., Chartered Accountant is the current Statutory Auditor of the Company. They have requested not to consider their re-appointment at the ensuing AGM of the Company and do not seek re-appointment due to pre-occupation.

Mr. Udyen Jain, Proprietor of the proposed Chartered Accountant Firm M/s. Udyen Jain & Associates proposed for their appointment as Statutory Auditor, are having financial company for their statutory audit and having vast experience in the field of & in capacity of Statutory Auditors. Since he has knowledge about the financial market very well, it would be beneficial to the Company if M/s. Udyen Jain & Associates, are appointed as auditors of the Company.

The Company has obtained a written certificate under the provisions of Section 224 (1-B) of the Companies Act, 1956, from M/s. Udyen Jain & Associates, Chartered Accountants stating that their appointment, if made, would be in accordance with the provisions of the said Section.

The said proposal has been considered by the Board of Directors and it recommends the Ordinary Resolution for your approval.

None of the Directors is, in any way, concerned or interested in the said resolution.

For and on behalf of Board of Directors
For **Khandwala Securities Limited,**

Paresh J. Khandwala
Chairman and Managing Director

Registered Office:
Ground Floor,
Vikas Building,
Green Street, Fort,
Mumbai 400 023

Date : 28th June, 2004
Place : Mumbai

MANAGEMENT'S DISCUSSION AND ANALYSIS

The RBI in its credit policy set the GDP growth rate for the year 2004-2005 at 6.5% to 7% which is much below the expectations and predication of the government. During the fiscal year 2003-2004, GDP growth rate recorded 8.2%. The Finance Minister announced a downward revision of fiscal deficit target to 4.8% from 5.6% for the current fiscal year. The lower deficit was mainly due to lower expenditure, higher tax revenue as well as higher disinvestments target. In the first month of the year 2004, BSE Sensex touched an all time high of 6150 during the first fortnight of the month. Positive announcements in the mini budget, favourable Exim policy and encouraging third quarter corporate results enabled the markets to touch an all time high. However, the latter part of the month saw a sharp correction as SEBI announced a proposal to ban issue of Participatory Notes (P-Notes) to unregulated entities. The BSE Sensex ended the month lower by 2.5% to close at 5696. The markets are likely to remain choppy in the short term given the large supply of domestic paper and impending performance of the new UPA (United Progressive Alliance) government. In the medium term, markets will stabilize and continue its up trend in line with the economic fundamentals, corporate performances and strong domestic growth.

India is the sixth largest economy in the world. Declining share of agriculture sector to 20% and increase in share of services sector to over 50% is likely to impart stability to GDP growth. The vibrant entrepreneurial spirit, reasonably sound financial system and availability of cheap credit keep India ahead of China. Mutual Fund industry has played an important role in stabilization of the Indian financial sector. Assets under management of Indian MF industry have registered a major rise to touch INR 1450 bn in the last one year. This has been mainly on the tax incentive and fund flow management side. Also a large segment of new investors have invested in mutual funds in the last one year.

The Finance Minister made some announcements, which were positive for the debt markets during the vote of account. He indicated that the inflation would remain in the range of 5-5.5%, the fiscal deficit for FY04 was at 4.8% while he indicated a fiscal deficit target of 4.4% of GDP for FY05. The government has also indicated a lower borrowing programme for the current fiscal. Liquidity in the system continues to remain comfortable with the average amounts in repo auctions currently at around INR 400 bn. However, inflation has continued to stay at around 6% since December, which is a cause of concern for the market players.In the budget for the year 2004-2005, Finance Minister removed the long term capital gain tax from the Securities and short term capital gain tax brought down to 10%. Finance Minister initially levied 0.15% securities transaction tax on all securities but subsequently exempted debt securities from it. The tax has also been then drastically reduced for non-delivery-based equity trades. This segment will now pay only 0.015% instead of 0.15% as declared in budget. Transaction Tax will be borne by buyer & seller equally. Equity base scheme of Mutual Fund are considered as security & hence proposed tax regime will also be applicable to it.

Macroeconomic outlook:

The growth story continues..........

India has been on a growth path since the opening of the economy in the early 1990's. And it continues to grow impressively. A GDP growth rate of about 7.5% is good enough a reason to look at the Indian markets as an investment destination vis-à-vis some of the other developing countries. Just to put things in perspective, in the decade to FY00, India has grown at an average GDP rate of 6% compared to Thailand, Korea or Indonesia, which have had a relatively lower average growth rate.

However, one major concern for India continues to remain the huge fiscal deficit. Notwithstanding the above, there has been some effort at tackling fiscal imbalances. On the total expenditure front, the scenario has improved, as the government was able to control it around the budgeted levels. However, the quality of expenditure raises some concerns. The developmental expenditure has come down from over 17% of GDP in early 1990's to the current levels of below 15% of GDP. In the same period, the non-developmental expenditure has risen from around 11% in 1990-01 to 15% of GDP (budget estimates for 2003-04). The government has been able to effectively utilize the benefits of the soft interest regime prevailing in the economy. While absolute debt has been on a continuous ascendancy, the total interest payments of the Central and State governments combined constitute a little over 6% of the GDP for the last three fiscals.

On the debt front, the government has started taking initiatives to pare and restructure the same at lower interest rates. It must be noted that last fiscal, government prepaid high-cost loans slightly less than $3 billion taken from World Bank and Asian Development Bank. Now, backed by the cushion of huge forex reserves to the tune of US$ 86 bn, there are reports that the government is planning to pre-pay more foreign loans, which will help it to keep a check on its interest outgo (nearly Rs 1.2 trillion) and the country's fiscal deficit. Moreover, the benefits of swapping of high-cost debts with state governments and buy-back of high interest bearing securities will further help the government to control its interest expenses. So, all in all, as of now, the government seems to be moving in the right direction!

On the revenues front, divestment was the biggest success of the previous (NDA) government. For the fiscal ended March 2004, it managed to garner Rs.165Bn, much more than what it had collected during the previous three fiscals. As the incumbent government finds it teeth and is able to formulate a policy for disinvestments, it should be able to get cracking in this regard.

Manufacturing in full gear:

Amidst all the din that the previous fiscal's growth was triggered predominantly by the boom in the agriculture sector and the perennial favourite, services, the stellar show of manufacturing was lost sight of.

	Apr'04	Apr'03	FY'04	FY'03	Feb'04	Feb'03
Manufacturing	9.3%	4.3%	7.2%	6.0%	6.7%	7.1%
Basic goods	7.5%	3.4%	5.4%	4.9%	9.7%	5.4%
Intermediates	9.3%	2.2%	6.2%	3.9%	5.7%	6.4%
Capital Goods	22.7%	6.9%	12.7%	10.5%	24.7%	5.1%

As can be seen from the table above, capital goods has stolen the show and continues to post a 20%+ growth for the third month running even during April 2004. This is a clear indicator that the long-term growth drivers are firmly in place and the Indian corporate sector has decided that the world is its oyster which has given it the new found confidence to foray further and faster. Indeed, this would give the Indian economy more solidity as the hitherto seen volatility in the manufacturing sector would get minimized, as the dependence on the domestic economy would get successively reduced.

Capital markets:

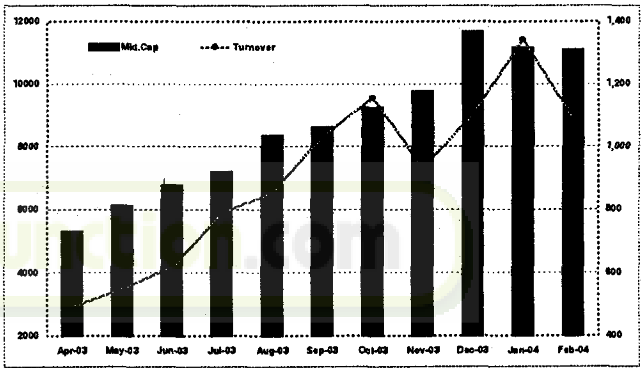
The Stock Exchange, Bombay (BSE), is the oldest Stock Exchange in Asia, much older than the Tokyo Stock Exchange founded in 1878. Besides, there are 24 Stock Exchanges in India. The increase in number of bourses attracted a large number of active stockbrokers during the last decade, whose number swelled from just 1,250 to over 5,000 spreads all over the country. In 1992, the then Finance Minister Mr. Manmohan Singh, permitted reputed foreign institutional investors (FIIs) such as pension funds, investment trusts and asset management companies among others, to invest in the Capital Markets. With the entry of the FIIs, the bourses witnessed frenzied activity and heightened trading volumes like never before.

Changes made during the last three years have been spectacular in terms of both the growth and structural development. Today, there are nearly 500 FIIs and nearly 100 India-specific offshore funds with combined investments exceeding $10 billion. Further, GDRs and convertible bond issues have raised over $ 10 billion overseas. The domestic Mutual Fund Industry continues to grow serving over 20 million investors. The real growth of the Indian Stock Markets took place during late 1980s and early 90s. The market capitalization increased from about $ 1 billion (3% of the GNP) to about $ 150 billion (15% of the GNP) at the end of the decade. A substantial contribution to this has come from the listing of PSU giants after 1992. During the same period, the number of shareholders have grown from about 1 to 50 million, resulting in India today, having the largest shareholding population in the world, second only to the USA, which is growing at the rate of 20% per annum. India has about 7,000 listed companies, more than any other country in the world.

The equity cult emanated due to the emergence and growth of a strong middle class, whose asset preference pattern revealed a measure of both knowledge and sophistication. There has also been a qualitative shift in the composition of investors, from high net worth individuals to the knowledgeable and rapidly growing middle class. The BSE has a comprehensive central insurance policy for all its members to cover themselves against risk arising out of fake or stolen shares, transit risk, computer risk, etc. The Trade Guarantee Fund Scheme (TGF) has become operational since May 1997 with an initial corpus of Rs. 1.72 billion, which was later enhanced to Rs. 3.15 billion.

The trading volume has grown six fold over the past six years from Rs. 501bn in 1994-95 to Rs. 3.07trillion during 2001-02. During the past one year, it has doubled. The advent of the NSE changed the entire edifice of secondary market transactions, making them more transparent, faster and unified in nature. Though not in super-cession of the existing Exchanges, with its adequate infrastructure and automated floorless trading and settlement procedures, the NSE has become a trendsetter for other Exchanges.

Turnover and Market Capitalization on NSE (Rs. bn) in the Cash Segment



Both turnover and market capitalisation have more than doubled during the fiscal ended March 2004.

Building a value-creating business model within KSL:

In the rapidly evolving Financial Industry, service providers have to continuously enhance their capabilities and strengthen existing competencies. Khandwala Securities Limited (KSL) has a clear vision of the future - to provide value added services by constantly exploring and implementing innovative solutions that drive long term value for our clients. KSL has been at the forefront of ushering proactive change and will continue to do so in the future. The Company has built a value creating business model to enable it to achieve its vision whereby your company has begin with Investment Advisory Group(IAG). The business model in the form of IAG is pivoted around the addition of new service lines, development of vertical expertise and the strengthening of skill sets across the company's various departments. This model enhances KSL's capabilities, making it responsive and flexible, while delivering service-effective solutions to clients.

Penetrating and growing strategic accounts:

We intend to continue to grow our business by diversifying our existing client base with the addition of new strategic clients like High Net worth Individuals, NRI's, Corporates, Financial Institutions, Mutual Funds etc. and enhancing our existing relationships with them. We aim to achieve this by effectively leveraging our sales and marketing team and expanding the scope of our engagements through our service delivery excellence, innovative engagement models, industry experience and breadth of services.

Enhancing our service offerings:

We aim to deepen our existing customer relationships and enter into new clientele relationships through new and enhanced service offerings. We have recently commenced with the Investment Advisory Group department who provides the continuous financial investment solutions to the various cadre of client base. Their major role is to cultivate the new clients and to provide non-stop service to determine their financial needs and to provide end-to-end solutions to their financial needs.

Ability to manage large client base:

We have successfully demonstrated the ability to mange large client relationships. This is reflected in the long duration of our relationships with some of our large clients including institutional clients. In our client engagements, we leverage our industry experience with our high quality service, project management capabilities and breadth of technical expertise. Our ability to rapidly service client's requirements enables us to respond effectively to the demands of our large clients. In addition, for strategic clients, and identified senior executive has the responsibility for the overall client relationship and leads periodic reviews with the clients.

Internal Control System

The Company maintains a system of internal control, including suitable monitoring procedures. Your Company regularly conducts a review to assess the financial and operating controls at various departments of the Company. Any significant issue is required to be brought to the attention of the Audit Committee of the Board. The Statutory Auditors and the Head of Accounts are invited to attend the Audit Committee meetings.

Industry knowledge and experience:

We have extensive experience in the Equity Broking, Investment Banking, Mutual Fund and Insurance areas. This allows us to accurately define and deliver client base services that address the business challenges faced by our customers in these industries. With the convergence of corporate strategy, clients will increasingly demand in depth industry experience. KSL is convinced that it can strengthen its core competence through a disciplined focus on a few select domains. A strong focus on a select few verticals is expected to translate into a distinctive competitive differentiation vis-à-vis others.

DIRECTORS' REPORT

The Members,
Khandwala Securities Ltd.

Dear Shareholder,

Your director's are pleased to present the Eleventh Annual Report with the Audited Accounts of your Company for the period ended 31st March 2004.

Financial Highlights **(Rs. in millions)**

	Period ended March 31, 2004	Year ended September 30, 2002
Total Income	**84.40**	90.15
Interest & other Financial Charges	**20.29**	43.30
Depreciation	**12.08**	12.69
(Loss) / Profit before Tax	**(133.71)**	(60.15)
Provision for Tax (including Interest Tax)	**(1.46)**	6.30
(Loss) / Profit after Tax	**(135.17)**	(66.45)
Appropriations		
Dividend on Preference Shares	**3.40**	4.33
Provision for Corporate Tax on Dividend	**0.00**	0.44
Transfer to General Reserve	**0.00**	0.00
(Deficit) / Surplus carried forward	**(90.60)**	47.96
Reserves & Surplus	**47.57**	91.96

Listing

The Company's equity shares are listed on The Stock Exchange, Mumbai, The National Stock Exchange of India Ltd., Madras Stock Exchange. Your company has delisted their shares from Hyderabad Stock Exchange and The Stock Exchange, Ahmedabad during the year. Applicable listing fees have been paid upto date to all the stock exchanges where the company's shares are listed.

Extension of Financial Year

Your Company had proposed to extend the financial year-end to March 2004, which was granted by The Registrar of Companies, Maharastra vide their letter dated 23rd September 2003. Hence, your company has now reverted to regular accounting period of April to March to circumvent two audits during the year and various other practical problems.

Membership of The Stock Exchange, Mumbai for Capital Market Segment:

Your company during the period under review, made an application for acquiring membership of Bombay Stock Exchange (BSE) for which we have received an in-principal approval from SEBI. Your company has initiated the process to make an application to BSE for getting their membership card.

Capital Restructuring during the period

During the period under review your company issued 3,30,000 7% Cumulative Convertible Preference Shares of Rs. 100/- each to creditors against the amount due to them. Your Company has also issued 1,50,000 7% Cumulative Redeemable Preference Shares of Rs. 100/- each to creditor to whom amount was due. For issue of these shares, authorised share capital of the Company was raised to Rs. 23 crores and Preference Share Capital clause was also restructured and divided into Convertible and Redeemable Preference Shares. During the period of 18 months your Company entered into a one time settlement (OTS) vide agreement dated 16th January, 2004, with Bank of Punjab Limited, from where your company had taken a loan, whereby bank extinguish the whole debt against the possession of 27th Floor, World Trade Centre premises of your Company. The effect of the same is appearing in the audited accounts for the period ended 31st March 2004.

Preferential Allotment of Equity Shares

During the period under review your company made two preferential allotment of total 4,20,000 equity shares to persons acting in concert for meeting the requirement of minimum Promoters Holding as per the bye laws of membeship department of National Stock Exchange of India Limited. Listing procedure for the aforesaid preferential allotment is completed.

Directors

Mr. Mahesh Gandhi resigned from the designation of Director w.e.f. 20th March 2003 due to pre-occupation in his own company. Mr. Samir S. Doshi resigned from the designation of Director w.e.f. 16th April 2004 due to pre-occupation. Your Directors place on record their sincere appreciation for the services rendered and for dedicative efforts made by Mr. Gandhi and Mr. Doshi during their tenure as Director.

Mr. Rohit Chand and Mr. S. K. Mehta were appointed as an Additional Director of the Company in the Board Meeting held on 26th December 2003. Due to pre occupation with the various other companies in New Delhi, Mr. Rohit Chand tendered his resignation w.e.f. 5th May 2004. As per the provisions of Section 260 of the Companies Act, 1956. Mr. S. K. Mehta holds office up to the date of the ensuing Annual General Meeting. It is proposed for his appointment as director in this meeting. Mr. S. M. Parande, Director, retiring by rotation in this meeting, being eligible, offers himself for reappointment. Resolution to that effect is given in detail in the notice enclosed with this report.

Business Opportunity Review

Primary Market

After a prolonged period of lull, we saw the resurgence of the primary markets, with the public sector companies stealing the limelight. We also witnessed the largest IPO ever conducted in the history of the Indian capital markets, which was of ONGC, raising a billion dollar from global investors. Thus, the Indian equity market has begun its efforts to broad base itself and moving towards becoming truly international in terms of depth and breadth of the equity markets.

It is worthwhile to note that though the number of offerings in the last 18 months were only 26, the amount raised was a whopping Rs. 200 billion plus. This indicates the movement of Indian businesses towards size and market share dominance. This also resulted in the retail investor being attracted back into the Indian primary markets. Thus, the last 18 months saw overall creation of shareholders wealth through primary market offerings with a return of 7.3%. Government primary market offers provided 7% net overall returns during the period, and the private sector offerings provided 8.5% returns to the investors. This indicates the fledging entrepreneurship of the Indian professionals, a trend that could harvest bountiful of opportunities for India in future.

Secondary Market

As the global economies revived and expectations of a better year 2004, the equity market investments began to look upbeat. Low inflation, interest rates and expected high growth rates in India GDP growth resulted into a sustained market rally for the Indian equity markets. This lead to the BSE Sensex touching its all-time high of 6249 on 11th January 2004 and the spate of offerings by the government and others were timed at around the same time. Pursuing the valuations commanded in these boom times, offerings were aggressively priced; bringing some short term overhangs for the secondary equity markets.

Domestic equity markets over the said 18 months period (October 01, 2002 – March 31, 2004) had a phenomenal bull run. This was exactly as per our expectations. BSE Sensex, the benchmark index, appreciated by 89 per cent from 2960 to 5591. PSU index out performed all other sectors, with an phenomenal return of 119 per cent. Healthcare was another noticeable sector with 71 per cent return. Banks also gave 53 per cent returns (June 24, 2003 – March 31, 2004). The two sectors that under performed were FMCG (-3 per cent) and IT (32 per cent).

In terms of business activity, the concentration was from the Foreign Institutional Investors, with Indian institutions playing a neutral stance. The Indian retail investor has begun to move to the corporative investment modes seeking investments through mutual funds. The emergence of private insurance companies also resulted in an new avenue of capital flow that could accrue into the equity markets in a big way. In fact, the Indian economic GDP for 3QFY04 clocked a magnificent 10.4% YoY growth.

All in all, the business environment was negative and gloomy in October 2002, while in March 2004, again it was once of concerns and anxiety of what the new central government policies could be. The markets were concerned on raising international input prices of crude, which could cripple global growth momentum and assess the implications of global security concerns.

Debt Market

Bond funds have outperformed, as interest rates continued to move southwards. Debt market saw a huge volatility during the year when the sentiments remained bullish. Central bank announced various cuts in the key interest rate such as bank rate, repo rate and cash reserve ratio. Liquidity continued to be the main key driver in the current reporting period (October 02 to March 04). The daily average volume on the wholesale debt market came down from Rs 4245.70 Crores on October 2002 to 3952.25 Crores in March 2004.

In the current scenario the economic confidence looks good however the only fear is high inflation and fiscal deficit. Interest rate scenario seems moving in a reverse trend from soft to hard in a coming days, which will have a great impact on the debt market. Market has performed range bound in last six to eight month's time. With the global interest rate raising a reversal trend will affect the long run the bond market rally and the volumes are expected to be low in the current fiscal year in spite of good monsoons. During the recent budget, FII investment limit for debt funds was raised to $ 1.75 bn. from $ 1 bn.

YOUR COMPANY'S PERFORMANCE

Secondary Equity Market Operations

Domestic equity markets over the said 18 months (October 2002 – March 2004) had a phenomenal bull run. Sensex, the benchmark index, appreciated by 89 per cent from 2960 to 5591. PSU index out performed all other sectors. We had recommended heavy investments for our investors into this segment, which has resulted in a healthy performance for their portfolios.

There were active swings in the economic momentum and your company was able to perceive these opportunities in advance and create gains for our business. During this period your company achieved the turnover of Rs. 2029.59 crores as volumes in the cash segment and Rs 1024.41 crores in the F&O segment.

It was a phase of business rejuvenation for your company as limited cash availability resulted in under-exploiting the opportunity available, but still was sufficient to enable us to move out of the past business constraints. These were as per our plans for reviving the overall operations and consolidations of our existing operations. We are happy to state that your company now seems poised to move over the challenges of the Year 2001 equity market crash and begin rebuild this critical business element with more focus, speed and dynamism.

Investment Banking Group (IBG)

During the eighteen-month period under review, IBG earned Rs. 5.35 million as compared to Rs. 14.98 million during the trailing year. Considering the business challenges presented within our company, it was definitely a commendable performance, and as per expectations. There was also a complete restructuring of this group and its operations and business focus. We have focused on roles related to corporate advisory. We actively pursued opportunities in the areas of Mergers and Acquisitions, and merchant banking. Though we were able to rope onto good business opportunities, the dwindling market conditions during the later part of the period, limited our abilities to build more revenues into this business segment.

IBG now is again in its fully geared mode and is now hunting to rope in new business by providing services across Initial Public Offerings (IPO's), Corporate Advisory, Restructuring, Private Placements, Strategic Partnerships and Mergers and Acquisitions (M&A's) (local as well as cross-border). Some assignments initiated during the period would be completed in subsequent accounting periods with the resulting gains reflected in those corresponding periods.

Clients being serviced during the period under review include private as well as public sector undertakings. Industries being addressed during the period included: Auto ancillary, Engineering, Electronic Storage, Gems and Jewellery, Media, Not for Profit, Power, Publishing and Software.

Besides the above, IBG is aggressively engaging along with prospective clients across various industries to translate knowledge and relationships into value for them. These efforts are expected to bear fruits in the ensuing years.