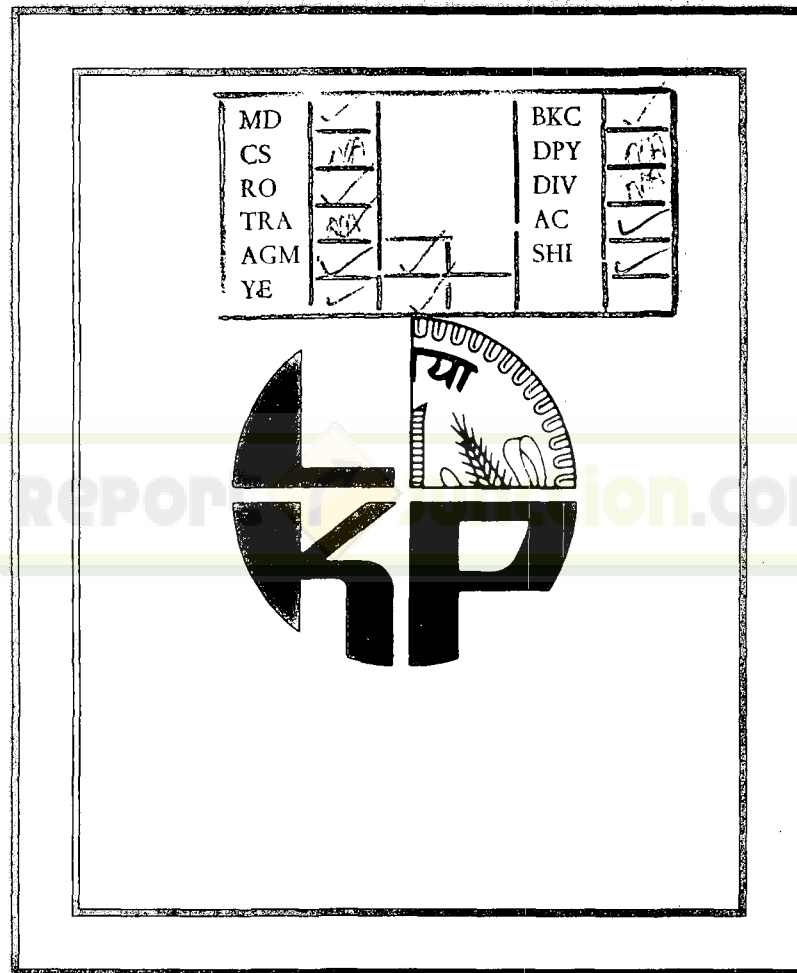


LKP Merchant Financing Ltd.



ANNUAL REPORT 1997-98

LKP MERCHANT FINANCING LTD.

Board of Directors :

Mr. M.R. Shroff	<i>Chairman</i>
Mr. M.V. Doshi	<i>Vice Chairman</i>
Mr. C.P. Mehta	
Mr. V.D. Desai	
Mr. P.C. Mehta	<i>Executive Director</i>

Auditors :

Ford, Rhodes, Parks & Co.,
Maharashtra Bank Bldg.,
45/47, Bombay Samachar Marg,
Mumbai - 400 023.

Bankers :

The Federal Bank Ltd.
Bank of Baroda
Allahabad Bank
Bank of Bahrain & Kuwait
State Bank of Travancore
Global Trust Bank Ltd.
The Catholic Syrian Bank Ltd.

*Annual General Meeting on 21st August, 1998
at 4.30 p.m. at M.C. Gbha Hall, Hargovindas
Building, 18/20, Kaikhushru Dubash Marg,
Mumbai - 400 001.*

Registered Office :

203, Embassy Centre,
Nariman Point,
Mumbai - 400 021.



NOTICE

NOTICE is hereby given that the 14th Annual General Meeting of the Members of LKP Merchant Financing Limited will be held at M.C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, Kaikhushru Dubash Marg, Mumbai 400 001 on Friday, the 21st August, 1998 at 4.30 p.m. to transact the following business :

Ordinary Business :

1. To consider and adopt the Directors' Report and Audited Balance Sheet and Profit and Loss Account for the year ended 31st March, 1998.
2. To elect a Director in place of Mr. C.P. Mehta, who retires by rotation and, being eligible, offers himself for reappointment.
3. To elect a Director in place of Mr. V.D. Desai, who retires by rotation and, being eligible, offers himself for reappointment.
4. To appoint Auditors and to fix their remuneration.

Special Business :

5. To consider and if thought fit, to pass, with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 81(1A) of the Companies Act, 1956, consent of the Company be and is hereby accorded to the Board of Directors to issue and offer securities of the Company which may be in the form of equity shares, preference shares, cumulative convertible preference shares, debentures which may be convertible partly or otherwise, warrants which may be attached to any of these securities on such terms and conditions as the Board may in its discretion deem fit to members of the public through Prospectus, by private placement to others such as Foreign Institutional Investors, Mutual Funds, Financial Institutions, Banks, Companies, Body Corporates, NRIs, Overseas Corporate Bodies and any other entity which is entitled to subscribe to shares in to these securities.

RESOLVED FURTHER THAT the total amount to be raised by issue of such securities shall not exceed Rs.10 crores inclusive of any premium that may be charged for, while issuing any of the securities.

RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board be and is hereby authorised on behalf of the Company to do all such acts, deeds, matters and things as it may at its discretion deem necessary or desirable for such purpose, including without limitation the entering into of underwriting, marketing, depository and custodian arrangements and with power on behalf of the Company to settle any questions, difficulties or doubt that may arise in regard to any such issue or allotment as it may, in its absolute discretion, deem fit."

NOTES :

- a) A Member, entitled to attend and vote at the meeting is entitled to appoint a proxy instead of himself, to attend and to vote on a poll and the proxy need not be a member.

- b) Proxy, in order to be effective, shall be deposited at any time at the Registered Office of the Company, but not less than 48 hours, before the commencement of the Meeting.
- c) The Register of Members and Share Transfer books will remain closed from 3rd August, 1998 to 21st August, 1998 (both days inclusive).
- d) Members are requested to
 - i) quote their Folio Numbers in all correspondence with the Company's Registrars and Transfer Agents, IIT Corporate Services Ltd., 61 Bombay Samachar Marg, Mumbai 400 001.
 - ii) notify to the Registrars and Transfer Agents on or before 3rd August, 1998 change in their address and their mandates, if any.

By Order of the Board of Directors

M.V. DOSHI

Vice-Chairman

Mumbai,
19th June, 1998

ANNEXURE TO THE NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 :

Item No. 5

As part of its fund raising programme to finance its future plans, the Company intends to raise a sum, not exceeding Rs.10 Crores, through an offer/private placement to Institutional Investors/ Foreign Institutional Investors, Indian Financial Institutions, Domestic Corporate Bodies and Mutual Funds by Issue of Equity Shares represented by Securities and/or Convertible Securities and/or other instruments or Securities. The detailed terms and conditions including combination of one or more instruments to be issued through the offer/private placement will be determined by the Board of Directors in consultation with the Advisors, Lead Manager(s) and Underwriters, as may be deemed to be in the best interest of the Company. Furthermore, private placement will enable the Company to meet its fund requirements without the need for resorting to frequent right issues as in the past.

The resolution is an enabling one which provides adequate flexibility and discretionary powers to the Board of Directors to finalise the terms of issue/offer/private placement in consultation with Lead Manager(s), Advisors and Underwriters on various matters including pricing of the issue which will be at a premium or discount as the Board in its absolute discretion may deem fit.

The Board recommends the resolution for approval of the members. None of the Directors is concerned or interested in the resolution.

By Order of the Board of Directors

M.V. DOSHI

Vice-Chairman

Mumbai,
19th June, 1998



Directors' Report

1. The Directors present the Fourteenth Annual Report and Audited Accounts of the Company for the year ended March 31, 1998.

2. FINANCIAL RESULTS	1997-98 (Rs. in Lacs)	1996-97 (Rs. in Lacs)
Profit/(Loss) Subject to Depreciation & Tax	(81.03)	38.35
Less : Depreciation	511.06	527.16
Provision for Non Performing Assets	24.84	25.24
Provision for Diminution in investments	68.25	391.16
Profit/(Loss) before tax	(685.18)	(905.21)
Less: Provision for taxation	—	—
Profit/(Loss) after tax	(685.18)	(905.21)
Profit brought forward from Previous year	11.42	617.88
Transfer from General Reserve	270.00	450.00
Amount available for Appropriation	(403.76)	162.67

Appropriations:

Proposed Dividend :

Preference	—	33.75
Equity	—	—
Transfer to Debenture Redemption Reserve	—	117.50
Profit/(Loss) for the year carried to Balance Sheet	(403.76)	11.42

3. DIVIDEND

In view of the losses incurred for the year ended 31st March 1998 the Board of Directors have not recommended any dividend for the year

4. PERFORMANCE REVIEW

Our working resulted in a loss. The financial services industry had yet another bad year. The problems have compounded by the very depressed state of the stock market and the total inactivity in the primary market. Hence apart from our operations being confined to a very low level, disinvestment of our portfolio of shares became exceedingly difficult. Further, recoveries were protracted and in several cases had to be rescheduled in view of severe liquidity constraints faced by the borrowers. All possible efforts are being made to recover loans and advances as expeditiously as possible.

The Real estate prices declined further from the low level last year and hence it was not possible to liquidate our investment in real estate.

In an otherwise difficult environment the Money Changing Division has fared well and shows promise for growth. We already have operations at fourteen locations in most major cities and have plans to open up six more this year.

5. PUBLIC DEPOSITS

The Company has repaid all the public deposit as of date and will not accept any further deposit without prior approval of the Statutory Authorities concerned.

6. EMPLOYEES

As required under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended the names and other particulars of employees are set out in the annexure forming part of this report.

7. DIRECTORS

Mr. C.P. Mehta and Mr. V.D. Desai retire by rotation and being eligible offer themselves for reappointment.

Mr. S.N. Talwar has resigned from the Board, and the Directors place on record their sincere appreciation and gratitude for the services rendered by him.

8. AUDITORS' REPORT

The Auditors' comments in their report dated 19th June, 1998, are dealt with by Note No.3, 4, 5, 6(c) & 6(d) of the report which are self explanatory.

9. M/s. Ford, Rhodes, Parks & Co., Chartered Accountants, Mumbai, retire and are eligible for reappointment.

For and on behalf of the Board of Directors

Mumbai
Date: 19th June, 1998

M.R. SHROFF
Chairman



ANNEXURE TO DIRECTORS' REPORT

Statement pursuant to Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended and forming part of Directors' Report for the year ended 31st March, 1998.

Name of Employee & Age (Years)	Designation/ Nature of duties	* Remuneration (in Rupees)	Qualifications	Date of commencement of employment & experience	Last employment held before joining this Company
(a) Employed throughout the year					
V. M. Krishna (38)	Regional Manager (South)	5,48,990/-	B.Com.	01.09.92 (16)	Thomas Cook (I) Ltd.
R. S. Venkatraman (35)	Branch Manager	4,93,675/-	B.Com.	01.09.92 (13)	Thomas Cook (I) Ltd.
R. Rajkumar (29)	Assistant Manager	4,05,082/-	B.Com.	01.09.92 (7)	Thomas Cook (I) Ltd.
G. Sharma (34)	Regional Manager (North)	4,75,890/-	B.Com.	18.12.93 (10)	Lloyed Steel Finance Ltd.
S. Chadha (36)	Branch Manager	6,70,575/-	B.Com.	01.02.94 (10)	Thomas Cook (I) Ltd.
(b) Employed for part of the year					
J. Rajkumar (33)	Deputy Branch Manager	3,13,700/-	B.Com.	01.09.92 (11)	Thomas Cook (I) Ltd.

* Gross Remuneration includes salary, taxable perquisites and contribution to the Provident Fund.

Mumbai
Date : 19th June, 1998

For and on behalf of the Board of Directors

M.R. SHROFF
Chairman



Auditors' Report

We have audited the attached Balance Sheet of LKP Merchant Financing Limited as at 31st March, 1998 and also the Profit & Loss Account of the Company for the year ended on that date annexed thereto and report that:

1. 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.
2. In our opinion proper books of accounts as required by law have been kept by the company so far as appears from our examination of the books.
3. The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.
4.
 - a) No provision has been made in respect of a dispute with a client about certain machinery leased and the clients claim against the company, (Note No.3)
 - b) Necessary approval to be obtained as required under section 372 of the Companies Act, 1956 for investments in shares of limited companies exceeding the limits in previous year, (Note No.4)
 - c) Necessary approval to be obtained as required under section 370 of the Companies Act, 1956 for certain loans and advances, (Note No.5), and ;
 - d) With respect to Unsecured Loans of Rs.1159.22 lakhs outstanding for a long period where there are no repayments/interest recovery as explained in Note No.6(c), we are unable to formulate an opinion on the recoverability of the amounts due.
5. Attention is drawn to Note No.6(d) regarding non-confirmation of balances of loans and advances and deposits.

Subject to matters stated in paragraph 4 above, in our opinion and to the best of our information and according to the explanations given to us the accounts read together with notes thereon, give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view:

- a) in the case of the Balance Sheet-of the state of affairs of the Company as at 31st March 1998
and
- b) in the case of the Profit and Loss Account - of the Loss for the year ended on that date.

As required by the Manufacturing and Other Companies (Auditors Report) Order, 1988, and on the basis of such checks as we considered appropriate, we further state on the matters specified in paragraphs 4 and 5 of the said Order as under:

1. The Company has maintained proper records to show full particulars including quantitative details and situation of fixed assets. The assets on lease, subject to Note No.3 to

the accounts have been physically verified by the management partially and where physical verification has not been carried out, certificates from the lessees have been obtained. All other Fixed Assets have been physically verified by the Management during the year. No discrepancies have been noticed on such verification.

2. None of the fixed assets have been revalued during the year.
3.
 - (i) The company does not have any stock of raw materials, stores, spare parts, finished goods and therefore clauses (iii),(iv),(v),(vi),(xii) and (xiv) of paragraph 4(A) are not applicable. However the Company has stock on hand comprising of shares and other securities, foreign currencies of full fledged money changing division and stocks on hire. Physical verification has been conducted by the Management at reasonable intervals in respect of stocks on hire and foreign currencies. Shares and securities have been physically verified at the year end.
 - (ii) In our opinion the procedure of physical verification of above stocks followed by the management are reasonable and adequate considering the size of the Company and the nature of its business.
 - (iii) There are no discrepancies noticed on physical verification.
 - (iv) In our opinion the valuation of above mentioned stocks are fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceeding years.

4. The company has taken loans from a company listed in the Register maintained under Section 301 of the Companies Act, 1956. In our opinion the rates of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Company.
5. The Company has granted unsecured loans to companies, listed in the register maintained under Section 301 of the Companies Act, 1956, and also under the same management as defined under sub-section (1B) of Section 370 of the Companies Act, 1956. The rate of interest wherever applicable and the other terms and conditions are prima facie not prejudicial to the interest of the Company.
6. The parties/employees to whom loans or advances in the nature of loans are given by the company have been repaying the principal amounts and interest as stipulated and are also regular in payment of the interest wherever applicable except loans of Rs. 1159.22 lakhs outstanding for a long period where there are no repayments/interest recovery as explained in note no. 6(c).
7. In our opinion and 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 equipments and other assets.
8. The Company has no transactions of purchase of goods and materials and sale of goods, materials and services during the year.
 9. The Company has accepted deposits from the public during the year and the provisions of Section 58A of the Companies Act, 1956 and the rules framed thereunder where applicable have been complied with.
 10. The Company's activities do not generate any by-products or scrap.
 11. In our opinion the company has an internal audit system commensurate with its size and nature of its business.
 12. As per the records of the Company the Provident Fund and ESIS dues have been regularly deposited with the appropriate authorities during the year.
 13. At the last day of the financial year, according to the books and records examined by us and the information and explanations given to us, there were no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty which were due for more than six months from the date they became payable.
 14. During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices, we have not come across any personal expenses which have been charged to Profit and Loss Account, nor have we been informed of any such case by the management.
 15. The service activities of the Company are such that the question of recording receipts, issues and consumption of materials and stores and allocation of materials and man-hours consumed to the relative jobs does not arise. Consequently, the authorisation and control on the issue of stores and allocation of stores and labour to jobs is not applicable.
 16. In our opinion, adequate documents and records are maintained by the Company for loans and advances granted on the basis of security by way of pledge of shares and debentures and similar other securities.
 17. We are informed that the provisions of any special statutes applicable to chit funds, nidhi or mutual benefit society, do not apply to the company.
 18. The Company has maintained proper records of transactions and contracts in respect of trading in shares, debentures and other securities and that timely entries have been made therein. All shares, debentures and other securities have been held by the Company in its own name.
 19. As per the information and explanations given to us and taking into consideration the nature of the business of the company, Clauses (xvi) & (xx) of paragraph 4(A) and Clauses (ii) & (iv) of the paragraph 4(B) of the Manufacturing and Other Companies (Auditors' Report) Order, 1988 are not applicable.

For **FORD, RHODES, PARKS & CO.**
Chartered Accountants

Mumbai
Date : 19th June 1998

A.D.SHENOY
Partner



BALANCE SHEET AS AT 31ST MARCH, 1998

	Schedule	Rs. in Lacs	Rs. in Lacs	As at 31-3-97 Rs. in Lacs
I. SOURCES OF FUNDS :				
1. Shareholders' Funds				
a. Share Capital	1	1,528.22		1,528.22
b. Reserves and Surplus	2	2,557.16		2,838.58
			4,085.38	4,366.80
2. Loan Funds				
a. Secured Loans	3	3,302.30		2,799.99
b. Unsecured Loans	4	1,253.58		1,653.98
			4,555.88	4,453.97
TOTAL			8,641.26	8,820.77
II. APPLICATION OF FUNDS :				
1. Fixed Assets	5			
a. Gross Block		3,971.33		3,889.61
b. Less : Depreciation		2,483.97		1,972.92
c. Net Block			1,487.36	1,916.69
d. Capital Work-in -Progress			239.58	343.64
			1,216.82	1,797.51
2. Investments	6			
3. Current Assets, Loans & Advances				
a. Stock on hand	7	712.50		567.46
b. Sundry Debtors	8	1,409.76		813.15
c. Cash & Bank Balances	9	396.29		402.38
d. Loans & Advances	10	4,140.55		3,730.65
		6,659.10		5,513.64
Less : Current Liabilities and Provisions				
a. Liabilities	11	1,431.52		833.18
b. Provisions	12	6.26		4.29
		1,437.78		837.47
Net Current Assets			5,221.32	4,676.17
4. Miscellaneous Expenditure	13		72.42	86.76
5. Profit & Loss Account-Debit Balance			403.76	—
TOTAL			8,641.26	8,820.77
NOTES TO THE ACCOUNTS	17			
ACCOUNTING POLICIES	18			
BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE	19			
SCHEDULES 1 TO 19 ANNEXED HERETO FORM PART OF THE BALANCE SHEET AND PROFIT & LOSS ACCOUNT				

As per our Report attached.

For FORD, RHODES, PARKS & CO.
Chartered Accountants

A.D. Shenoy
Partner

Mumbai
Dated : 19th June, 1998

Chairman
Vice-Chairman
Director

Executive Director

Mumbai
Dated : 19th June, 1998

M.R. Shroff
M.V. Doshi
V.D. Desai

P.C. Mehta



PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1998

	Schedule	Rs. in Lacs	Rs. in Lacs	Previous Year Rs. in Lacs
INCOME :				
Income from Leases			634.52	788.37
Income from Services Activities			108.03	134.99
Income from Other Financing Activities			986.21	795.09
Other Income	14		10.17	70.22
			<u>1,738.93</u>	<u>1,788.67</u>
EXPENDITURE :				
Establishment Charges	15	177.73		124.52
Administrative and Other Expenses	16	782.66		359.36
Interest and Finance Charges		845.23		1,252.10
Depreciation		511.06		527.16
Share & Debenture Issue Expenses written off		14.34		14.34
			<u>2,331.02</u>	<u>2,277.48</u>
(LOSS) BEFORE TAXATION AND NPAs			(592.09)	(488.81)
ADD : PROVISION FOR NON-PERFORMING ASSETS			24.84	25.24
ADD : PROVISION FOR DIMINUTION IN VALUE OF INVESTMENTS			68.25	391.16
(LOSS) AFTER TAXATION AND PROVISION FOR NPAs			(685.18)	(905.21)
LESS : TRANSFER FROM GENERAL RESERVE			270.00	450.00
BALANCE BROUGHT FORWARD FROM LAST YEAR			11.42	617.88
BALANCE PROFIT/(LOSS)			(403.76)	162.67
APPROPRIATIONS :				
Preference Shares Dividend (subject to deduction of Tax)			—	33.75
Transfer to Debenture Redemption Reserve			—	117.50
(LOSS)/BALANCE CARRIED TO BALANCE SHEET			(403.76)	11.42
			<u>(403.76)</u>	<u>162.67</u>
NOTES TO THE ACCOUNTS	17			
ACCOUNTING POLICIES	18			
BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE	19			
SCHEDULES 1 TO 19 ANNEXED HERETO FORM PART OF THE BALANCE SHEET AND PROFIT & LOSS ACCOUNT				

As per our Report attached.

For FORD, RHODES, PARKS & CO.
Chartered Accountants

A.D. Shenoy
Partner

Mumbai
Dated : 19th June, 1998

Chairman
Vice-Chairman
Director

Executive Director

Mumbai
Dated : 19th June, 1998

M.R. Shroff
M.V. Doshi
V.D. Desai

P.C. Mehta



SCHEDULES FORMING PART OF THE ACCOUNTS AS AT 31ST MARCH, 1998

	Rs. in Lacs	Rs. in Lacs	As at 31-3-97 Rs. in Lacs
SCHEDULE 1 – SHARE CAPITAL			
Authorised :			
(i) 2,00,00,000 (Previous Yr. 2,50,00,000) Equity Shares of Rs. 10/- each		2,000.00	2,500.00
(ii) 10,00,000 (Previous Yr. 5,00,000) Redeemable Cumulative Preference Shares of Rs.100/- each		1,000.00	500.00
		<u>3,000.00</u>	<u>3,000.00</u>
Issued :			
(i) 1,28,00,000 Equity Shares of Rs.10/- each		1,280.00	1,280.00
(ii) 2,50,000 13.5% Redeemable Cumulative Preference Shares of Rs.100/- each		250.00	250.00
		<u>1,530.00</u>	<u>1,530.00</u>
Subscribed & Paid up :			
(i) 1,28,00,000 Equity Shares of Rs.10/- each fully paid up	1,280.00		1,280.00
Less : Calls unpaid (Other than Directors)	<u>1.78</u>		<u>1.78</u>
		1,278.22	1,278.22
(ii) 2,50,000 13.5% Redeemable Cumulative Preference Shares of Rs.100/- each fully paid up		250.00	250.00
TOTAL		<u>1,528.22</u>	<u>1,528.22</u>
Note :			
1. The above Equity Shares include 22,50,000 Equity Shares allotted as Bonus Shares by capitalization of Share Premium Account.			
2. 2,50,000 13.5% Redeemable Cumulative Preference Shares are held by Housing Development Finance Corporation Limited.			
SCHEDULE 2 – RESERVES & SURPLUS			
Share Premium Account			
Balance as per last Balance Sheet	2,248.92		2,248.83
Add : Received during the year	<u>—</u>		<u>0.09</u>
		2,248.92	2,248.92
Debenture Redemption Reserve			
Balance as per last Balance Sheet	300.00		182.50
Add : Transfer from Profit and Loss Account	<u>—</u>		<u>117.50</u>
		300.00	300.00
Investment Allowance Reserve			
Balance as per last Balance Sheet		8.24	8.24
General Reserve			
Balance as per last Balance Sheet	270.00		720.00
Less : Transfer to Profit & Loss Account	<u>270.00</u>		<u>450.00</u>
		—	270.00
Balance in Profit & Loss Account		—	11.42
TOTAL		<u>2,557.16</u>	<u>2,838.58</u>