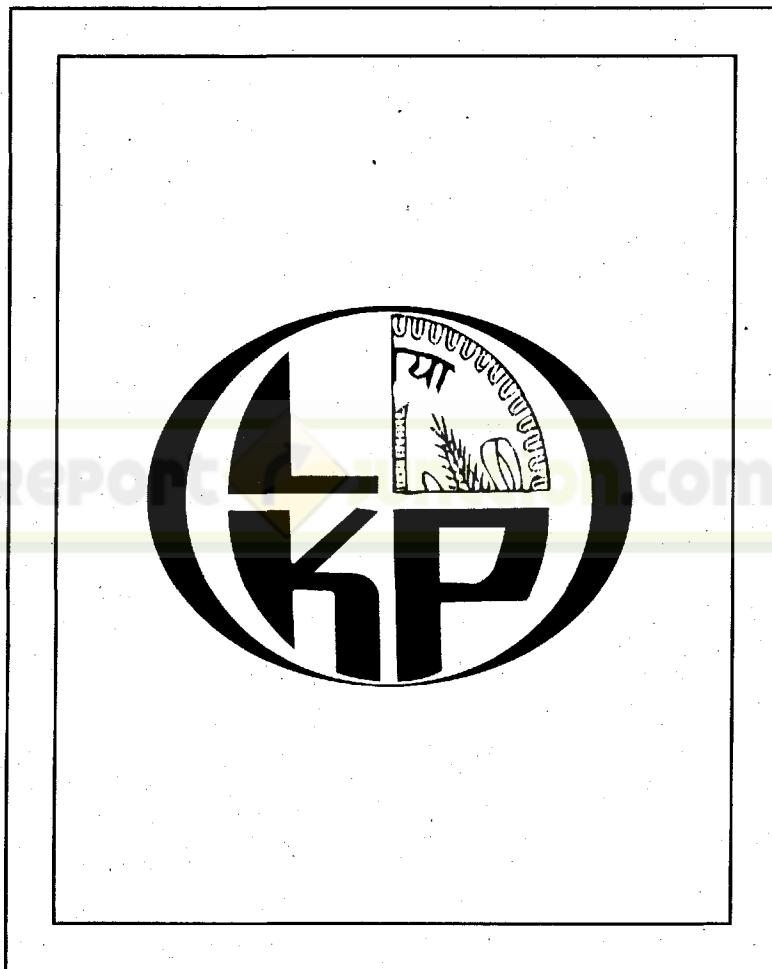


LKP Merchant Financing Limited



ANNUAL REPORT 2004-2005

LKP MERCHANT FINANCING LIMITED

Board of Directors :

Mr. M. V. Doshi *Executive Chairman*
Mr. M. S. Bhise
Mr. V. N. Suchanti

Company Secretary :

Mr. G B. Innani

Auditors :

Ford, Rhodes, Parks & Co.,
Bank of Baroda Building,
3rd Floor, Mumbai Samachar Marg,
Mumbai - 400 023.

Registered Office :

203, Embassy Centre,
Nariman Point,
Mumbai - 400 021.
Tel. : 2287 4785 / 2287 4786
Fax : 2287 4787

Registrar & Shares Transfer Agents :

Adroit Corporate Services Pvt. Ltd.
19, Jaferbhoy Industrial Estate,
1st Floor, Makavana Road,
Marol Naka,
Andheri (East),
Mumbai - 400 059.
Tel. : 28590942 / 28594060

**Annual General Meeting on 13th August, 2005 at
10.30 a.m. at M. C. Ghia Hall, Hargovindas Building,
18/20, Kaikhushru Dubash Marg, Mumbai - 400 001.**



LKP Merchant Financing Limited

NOTICE

NOTICE is hereby given that the Twenty First Annual General Meeting of the members of LKP Merchant Financing Limited will be held at M. C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, K. Dubash Marg, Mumbai 400 001 on Saturday, 13th August 2005 at 10.30 a.m. to transact the following business:

Ordinary Business:

1. To consider and adopt the Audited Balance Sheet and Profit and Loss Account for the year ended 31st March 2005 and Report of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Vineet N. Suchanti, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint the Auditors and to fix their remuneration.

Notes:

- (1) 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 of the Company.
- (2) 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.
- (3) The Register of Members and Share transfer books will remain closed from 6th August 2005 to 13th August 2005 (both days inclusive)
- (4) Any change in the address of the members may be intimated to the Company's Share Transfer Agents.

By Order of the Board of Directors

Mumbai

Date: 27th June 2005

(M. V. Doshi)

Executive Chairman

Report Junction.com



LKP Merchant Financing Limited

DIRECTORS' REPORT

The Directors present the Twenty First Annual Report and Audited Accounts of the Company for the year ended March 31, 2005.

FINANCIAL RESULTS	2004 - 2005 (Rs. in lacs)	2003 - 2004 (Rs. in lacs)
Profit subject to Depreciation & Tax	423.00	6.18
Less: Depreciation	27.28	19.37
Profit / (Loss) before tax	395.72	(13.19)
Provision for Tax	7.50	-
Profit / (Loss) after tax	388.22	(13.19)
(Loss) brought forward from previous year	(3732.34)	(3719.15)
Balance carried to Balance Sheet	(3344.12)	(3732.34)

DIVIDEND

In view of accumulated losses of the earlier years, the Board regrets its inability to recommend any dividend for the year.

PERFORMANCE REVIEW

The Company's income has increased substantially from Rs. 410.34 lacs to Rs. 750.26 lacs. The Company has earned net profit of Rs. 388.22 lacs as against net loss of Rs.13.19 lacs for the corresponding previous year. This increase in income has been possible because of substantial increase in the licence fees received from our subsidiary, LKP Forex Ltd.

The buoyant stock markets during the year under review, presented an opportunity for your Company which enabled your Company enhance its earnings from investment / trading activities. The Company continues its efforts to generate non-fund based business. Also your Company continues to make all efforts to recover overdues from the clients by negotiations or by resorting to legal recourse. Your Company's two wholly owned subsidiaries, LKP Forex Ltd. and LKP Securities Ltd. are doing well. Both companies have reported improved results. LKP Forex Ltd. has expanded its geographical reach by establishing 83 branches at 53 cities in India. Similarly, LKP Securities Ltd. has also increased its branch network. LKP Securities Ltd. operates through a network of branches in more than 15 cities of India. It is expected that both these subsidiaries will continue reflecting good growth for this year also.

The Company has initiated discussions with the bank and financial institution for arriving at an acceptable settlement of their out-standings.

FIXED DEPOSITS

The Company has no public deposits as of date and will not accept any deposits without prior approval of the Statutory Authorities concerned.

SUBSIDIARY COMPANIES

The Company is a holding Company for the two wholly owned subsidiaries viz. LKP Forex Ltd. & LKP Securities Ltd. Pursuant to section 212 of the Companies Act, 1956, the relevant Statement along with the Directors Report and the Audited Statement of Accounts are appended to this report.

STATUTORY DISCLOSURE

The Company did not have any employee falling within the scope of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

The provisions of Section 217(1)(e) of the Companies Act, 1956, relating to conservation of energy and technology absorption do not

apply to your Company. There is no foreign exchange earnings and outgo during the year under report.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. Vineet N. Suchanti retires by rotation and being eligible offers himself for reappointment.

AUDITORS' REPORT

As regards to the observation 3(e) and (f)(i) of Auditors in their report, the same are self explanatory.

The observation at (f) (ii) (a) and (b) in para 3 of their report are dealt with by Notes in Schedule 3 and Note 3 of Schedule 17 annexed to the Balance Sheet and Profit & Loss Account, which are self explanatory. The observation 3 (g) in their report, is self explanatory.

M/s. Ford, Rhodes, Parks & Co., Chartered Accountants, Mumbai, retire at the conclusion of the forthcoming Annual General Meeting. The Company has received a letter from them to the effect that their appointment, if made, would be within the prescribed limits under Section 224 (1-B) of the Companies Act, 1956. Your Directors recommend their re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217(2A-A) of the Companies Act, 1956, the Directors hereby confirm that :

- in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- the Directors have selected such accounting policies and applied them consistently and made judgement 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 year and of the profit of the Company for that period ;
- the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities to the best of their knowledge and ability;
- the Directors have prepared the annual accounts on a going concern basis.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard AS-21, the Consolidated Financial Statements are furnished herewith and form part of this Report and Accounts. These statements have been prepared on the basis of audited financial statements received from the Subsidiary Companies as approved by the respective Board of Directors.

CORPORATE GOVERNANCE

The Report on Corporate Governance along with a Certificate of compliance from the Auditors and Management Discussion and Analysis Report forms part of this Report.

ACKNOWLEDGEMENT

Your Directors would like to place on record their sincere appreciation to the Company's Bankers, Shareholders and Employees for their co-operation and support.

For and on behalf of the Board of Directors

Mumbai
Date: 27th June 2005

(M. V. Doshi)
Executive Chairman



LKP Merchant Financing Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Industry structure and developments

The Company is impacted by the volatility of the Stock Markets. The last few years have seen an increasing integration of the Indian economy with global markets. The last year also witnessed several measures taken by the market regulators to make structural changes in the financial market. These changes have continued to strengthen the system and have continued to improve the operations in the financial market.

Opportunities and Threats

As an Investment Company, it has opportunities available in the Capital market. The falling interest rates over the last few years have given your Company an opportunity to offer services to Corporates for restructuring their Balance Sheets. This also gives opportunity to syndicate debt from Financial Institutions and Banks. With industrial activities continue to grow, we are hopeful that our borrowers, against whom we have initiated legal actions for recovery of dues, will start making payments.

Investment business per se does not face threats but the various industries in which your Company has invested may face their specific threats.

Segment -wise Performance

The Company being engaged in investment activities and other financial services during the year under review, a holding Company and the requirement of segment-wise reporting is considered irrelevant.

Outlook

The outlook for the Company's business, depend on the performance of the Stock Markets, which is very difficult to comment upon. Your Company is the holding Company for LKP Forex Ltd. and LKP Securities Ltd., both of which are doing reasonably well, in the prevailing circumstances.

Risk & Concerns

As an Investment Company, there are inherent risks and concerns to the business. The Company like any other Company is exposed to specific risks that are particular to its business and the environment within which it operates.

Internal Control Systems and their Adequacy

The Company has satisfactory internal control system, the adequacy of which has been mentioned in the Auditors' Report.

Human Resources

There has been no material development on the Human Resource/ Industrial Relations front during the year. As on 31st March 2005 there are 7 people employed by the Company.

REPORT ON CORPORATE GOVERNANCE

1. Company's philosophy on Corporate Governance

The LKP Group, to which the Company belongs, is committed to ethical values and self discipline through standards of good governance aiming at efficient conduct of the business in meeting its obligations to the shareholders.

2. Board of Directors

Composition

The composition and category of Directors as on 31st March 2005 are as follows:

Category	Name of Directors	Designation
Promoter	Mr. M. V. Doshi	Executive Chairman
Independent	Mr. Milan S. Bhise	Director
Independent	Mr. Vineet N. Suchanti	Director

The Board has accordingly optimum combination of Executive and Non-Executive Directors and Independent and Non-Independent Directors. Non-Executive Directors of your Company have no pecuniary relationship or any transaction with your Company. Non-Executive Directors are not paid any remuneration.

Attendance at Board Meetings and last Annual General Meeting.

Director	No. of Board Meeting Attended	Whether Attended last AGM
Mr. M. V. Doshi	4	Yes
Mr. Milan S. Bhise	4	Yes
Mr. Vineet N. Suchanti	4	Yes

Other Board or Committee in which each Director is a member or chairman

Name of Director	Directorship in other companies	No. of committees in which Chairman/Member
Mr. M.V. Doshi	9	2
Mr. Milan S. Bhise	3	1
Mr. Vineet N. Suchanti	12	4

Profile of Director being appointed/re-appointed

Name	: Mr. Vineet N. Suchanti
Age	: 36 Years
Qualification	: MBA - U. S. A.
Expertise	: Vast experience in the field of Finance, Capital Market and Business Administration.
Particulars of Appointment/ Re-Appointment	: Mr. Vineet N. Suchanti was appointed as the Director w.e.f. 26 th July, 2001. Mr. Vineet N. Suchanti retires by rotation at the ensuing Annual General Meeting and is proposed to be re-appointed as the Director of the Company.
Other Directorships	: 1. Concept Assets Management Ltd. 2. Concept Capital Management Ltd. 3. Concept Holdings Ltd. 4. Keynote Advertising Ltd. 5. Keynote Capitals Ltd.



LKP Merchant Financing Limited

6. Keynote Corporate Services Ltd.
(Managing Director)
7. Keynote Finstock Ltd.
8. Starline Ispat & Alloys Ltd.
9. Plethora Investment Co. Ltd.
10. Keynote Commodities Ltd.
11. Concept Public Relations (I) Pvt. Ltd.
12. Eureka Capital Management Pvt. Ltd.

Chairman/Member of the Committees of Directors of Companies in which he is a Director

Name of the Company	Type of the Committee	Position held
i LKP Merchant Financing Ltd.	i Audit	Chairman
	ii Share Transfer	Member
	iii Investors Grievance	Member
ii Keynote Corporate Services Ltd.	i. Audit	Member
	ii. Investors Grievance	Member

Board Meeting

In financial year 2004-2005, the Board met four times. The Board meetings were held on 30th June 2004, 30th July 2004, 30th October 2004, and 31st January 2005.

3. Audit Committee

The Board has set up Audit Committee having two Independent Directors Mr. Milan S. Bhise and Mr. Vineet N. Suchanti are members. Mr. Vineet N. Suchanti is the Chairman of the Audit Committee.

Audit Committee meetings were held on 30th July 2004, 30th October, 2004 and 28th January, 2005. All the members have attended the aforesaid meetings. The Chairman and Statutory Auditors were the invitees to the above meetings

4. Remuneration of Directors

The Board has not set up a Remuneration Committee. The Executive Chairman has opted not to draw any remuneration from the Company. At present, Independent Directors are not paid any remuneration.

Sitting Fees

Directors	Board Meeting
1. Mr. Milan S. Bhise	Rs. 8000/-
2. Mr. Vineet N. Suchanti	Rs. 8000/-
3. Mr. M. V. Doshi	Nil

5. Shareholders Grievance Committee

The Board has set up Shareholders Grievance Committee having two Independent Directors Mr. Milan S. Bhise and Mr. Vineet N. Suchanti as members. Mr. Milan S. Bhise is the Chairman of the said Committee. Mr. Girish Innani, Company Secretary of the Company is compliance officer. There is no complaint which has remained un-redressed. No transfer of shares is pending as on date.

M/s. V. R. Associates, Practicing Company Secretaries is conducting Secretarial Audit for the Company.

6. General Body Meetings

The Particulars of last three years annual general meetings are as under:

Financial Year	Day	Date	Time
2003-2004	Saturday	11 th September, 2004	10.00 a. m.
2002-2003	Saturday	12 th July, 2003	10.00 a. m.
2001-2002	Saturday	15 th June, 2002	10.00 a. m.

Location:

Annual General Meetings for the years 2003-2004 and 2002-2003 were held at M. C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, K. Dubash Marg, Mumbai 400 001. Annual General Meeting for the year 2001-2002 was held at North Mini-Hall, Arcadia, Nariman Point, Mumbai 400 021.

Business

Year	Special Resolution
2003-2004	Nil
2002-2003	Nil
2001-2002	To shift register of members, index of members, share transfer registers etc.

During the last year, there was no business which had to be conducted through a postal ballot. At present, the Company does not have any resolution to be decided by the members by postal ballot.

7. Disclosure

1. There are no related party transactions made by the Company with its Promoters, Directors or Management, their subsidiaries or relatives other than that mentioned in notes to the accounts. The Register of Contracts containing the transactions in which Directors are interested is regularly placed before the Board for its approval.
2. During the last three years, there were no strictures or penalties imposed either by Securities and Exchange Board of India or the Stock Exchanges or any regulatory authority for non-compliance of any matter related to the capital market.

8. Means of Communication

1. The financial result of first quarter is published in Business Standard and Tarun Bharat, half yearly and third quarter in Financial Express and Tarun Bharat and annual financial results are published in The Economic Times and Maharashtra Times dailies. These are not sent individually to the shareholders.
2. The Company's results or official news are not displayed on a web site. There were no presentations made to the institutional investors or to the analysts.
3. The Management, Discussion and Analysis Report forms a part of this Annual Report.

9. General Shareholder Information

AGM Date, Saturday, 13th August 2005
Time and Venue at 10.30 a.m. at M. C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, K. Dubash Marge, Mumbai 400 001.

Financial Calendar April to March
Announcement of Audited/ Unaudited Results (tentative)
1st Quarter - Last week of July
2nd Quarter - Last week of October
3rd Quarter - Last week of January
4th Quarter - Last week of June



LKP Merchant Financing Limited

Book Closure	6 th August 2005 to 13 th August 2005 (Both days Inclusive)
Dividend payment date	Not applicable
Listing on Stock Exchange	The Stock Exchange, Mumbai (Code-507912). The Company has paid the listing fees for the period from 1 st April 2005 to 31 st March 2006. An appeal has been pending with Securities and Exchange Board of India against the Stock Exchange, Ahmedabad subsequent to their refusal for accepting voluntary delisting application.
Demat ISIN No. for Depositories	INE 724A01017

Market Price Data and Performance in comparison to BSE Sensex
High/Low of market price of the Company's shares traded in the Stock Exchange, Mumbai, and Performance in comparison to BSE Sensex during the financial year 2004 - 2005 is furnished below:

Month	& Year	Company's Share Price		No. of Shares	BSE Sensex	
		High	Low		High	Low
April	2004	3.48	2.58	38425	5979.25	5599.12
May	2004	3.45	2.40	36421	5772.64	4227.50
June	2004	3.25	2.12	50611	5012.52	4613.94
July	2004	2.85	2.10	32085	5200.85	4723.04
August	2004	3.26	2.21	48333	5269.22	5022.29
September	2004	4.15	2.50	132847	5638.79	5178.57
October	2004	3.96	2.51	58685	5803.82	5558.14
November	2004	5.80	2.97	240685	6248.43	5649.03
December	2004	6.88	3.70	453442	6617.15	6176.09
January	2005	6.40	4.71	231176	6696.31	6069.33
February	2005	11.00	5.01	1093482	6721.08	6508.33
March	2005	18.79	8.00	2824888	6954.86	6321.31

Registrar and Share Transfer Agents

M/s. Adroit Corporate Services Private Limited
19, Jafarbhoy Industrial Estate, 1st Floor,
Makawana Road, Marol Naka,
Andheri (East), Mumbai 400 059.

Share Transfer System

All the Share transfers received are processed by the Registrar and Transfer Agents and are approved by Share Transfer Committee which normally meets twice in a month. The Share Transfers are registered and returned within period of 22 days from the date of lodgment, if documents are complete in all respect.

Distribution of shareholding as on 31st March 2005

No of Shares	No of Holders	% to total	No of Share	% to total
1 to 500	7780	85.06	1179585	9.22
501 to 1000	623	6.81	499753	3.90
1001 to 2000	322	3.52	492382	3.85
2001 to 3000	116	1.27	295648	2.31
3001 to 4000	61	0.67	216627	1.69
4001 to 5000	49	0.54	233083	1.82
5001 to 10000	108	1.18	756124	5.91
10001 and above	87	0.95	9126798	71.30
	9146	100.00	12800000	100.00

Share holding pattern as on 31st March 2005

Category	No. of shares held	% of share holding
1 Indian Promoters/ Persons acting in concert	7202329	56.27
2 Mutual Funds and UTI	251400	01.97
3 Banks, Financial Institutions and Insurance Companies	3150	00.02
4 Private Corporate Bodies	607059	04.74
5 Indian Public	4379306	34.21
6 NRIs / OCBs	305321	02.39
7 Other (In transit)	51435	00.40
Total	12800000	100.00

Dematerialization of equity Shares and liquidity

As on 31st March 2005, 89.46 % of the Company's total shares represented by 1,14,50,675, shares were held in dematerialized form.

Out standing GDR/Warrants/Convertible Instruments

The Company has not issued any GDR/Warrants/Convertible Instruments.

Address for correspondence

LKP Merchant Financing Limited
112A, Embassy Centre,
Nariman Point,
Mumbai 400 021

For and on behalf of the Board of Directors

Mumbai

Date: 27th June 2005

(M. V. Doshi)
Executive Chairman

AUDITORS' CERTIFICATE

We have examined the compliance of the conditions of Corporate Governance by LKP Merchant Financing Limited for the year ended 31st March 2005 as stipulated in clause 49 of the Listing Agreement of the said Company had with The Stock Exchange, Mumbai.

The Compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the procedure and implementation thereof adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of the opinion on the financial statements of the Company.

In our opinion and to the best of our information and explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement, except that number of minimum non-executive Director (with majority of them being independent) in constitution of Audit Committee is lower than three members required under sub-clause (a) of the Item at paragraph II of Clause 49 of the Listing Agreement.

We state that in respect of investor grievances received during the year ended 31st March 2005, no investor grievances are pending against the Company as on 27th June 2005, as per the records maintained by the Company and presented to the Shareholders' Grievance committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted affairs of the Company.

For Ford, Rhodes, parks & Co.,
Chartered Accountants

(A. D. Shenoy)

Partner

Membership No 11549.

Place: Mumbai

Date: 27th June 2005


LKP Merchant Financing Limited

AUDITORS' REPORT

We have audited the attached Balance Sheet of LKP Merchant Financing Limited as at 31st March 2005 and also the Profit & Loss Account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1 The Company's accumulated losses as on 31st March 2005 have eroded the entire share capital and portion of the reserves. As the company is in the process of restructuring its business activities, the accounts are continued to be prepared on "going concern" basis (refer note no 6).

2 As required by the Companies (Auditors Report) Order, 2003, (as amended) issued by the Central Government of India in terms of section 227 (4A) of the Companies Act, 1956 (the Act) and on the basis of such checks, as we considered appropriate, we give in Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

3 Further to our comments in paragraph 1 and 2 above:

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b) In our opinion proper books of accounts as required by law have been kept by the company so far, as appears from our examination of the books.
- c) The Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
- d) In our opinion, the Balance Sheet and the Profit and Loss Account and Cash Flow Statement dealt with by the report are in compliance with the accounting standards referred to in section 211(3C) of the Companies Act, 1956.
- e) The company has failed to redeem its debentures and interest dues thereon. The same have become overdue for payment as at 31st March 2005. One of the directors of the company has been legally advised that defaults in repayment of above privately placed debentures to a financial institution and a bank are outside the scope of section 274 (1)(g) of the Companies Act, 1956. The written representation of the director has been taken on record by the Board of Directors. On the basis of written representations received from the directors, as on 31st March, 2005 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31st March, 2005 from being appointed as a Director in terms of clause (g) of the sub-section (1) of Section 274 of the Companies Act, 1956.

(f) (i) The company has incorporated self generated intangible asset namely "LKP FOREX" Trade Mark based on valuation by Chartered Accountants as at 31st March, 2004 at Rs 20.95 crores, (net balance as on 31st March, 2005 Rs 19.90 crores) by adding to the Fixed Assets of the company and giving corresponding credit to the Capital Reserves. This is not in line with the Accounting Standard 26 pronounced

by the Institute of Chartered Accountants of India which states that internally generated goodwill, brands, mastheads etc should not be recognized as an asset.

(ii) No provision has been made for the following:

(a) Cumulative non provision of accrued interest on non-convertible debentures amounting to Rs 21.08 crores till maturity as per the terms of the agreement with the Bank (accrued interest relating to the year is Rs 7.20 crores) for reasons stated in (note (2) of Schedule 3 of the Balance Sheet).

(b) Accrued interest of Rs 0.13 crores (previous year Rs 0.13 crores) on the intercorporate deposits for reasons stated in note no 3 of the notes to the accounts (Schedule 17).

The loss for the year is thus understated to the extent stated above.

(g) Reference is invited to note no 2 (b) regarding unsecured old loans amounting to Rs 532.19 lacs (Previous year Rs 578.38 lacs) where there are very slow recovery of principal. Though the company is making efforts to realize these loans it may face difficulty in recovering the same.

4. Subject to matters stated in paragraph 1, 3 (f) (i)(ii) and (g) 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 2005.
- (b) In the case of the Profit and Loss Account - of the profit for the year ended on that date.
- (c) In the case of Cash Flow Statement of the Cash Flows for the year ended on that date.

For FORD, RHODES, PARKS & CO.
Chartered Accountants

(A. D. Shenoy)
Partner

Mumbai
Date: 27th June, 2005

Membership No 11549.

ANNEXURE REFERRED TO IN PARAGRAPH 2 OF THE AUDITORS REPORT

1. (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The fixed assets have been physically verified by the management during the year. As explained to us no discrepancies were noticed on such verification.
- (c) During the year the company has not disposed off any substantial part of fixed assets so as to affect the going concern.
2. The company does not have any stock of raw materials, stores, spare parts, finished goods and therefore clause ii (a), (b), (c) (of the Order) are not applicable.
3. (a) The company has not taken any loans, secured or unsecured from Companies, firms or any other parties covered in the register maintained under section 301 of the Companies Act, 1956. During the year the company has not granted any loans to companies, firms



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or other parties covered in the register maintained under section 301 of the Companies Act, 1956, however, there are debit balances as at 31st March 2005 with respect to two subsidiary companies, which are outstanding. The year end debit balances of such parties was Rs 650.40 lacs (Previous Year Rs 408.77 lacs). The company has also given advances to a Firm and other parties which are listed in the register maintained under section 301 of the Companies Act, 1956. The year end debit balance of these parties is Rs 1420.69 lacs (Previous year Rs 1490.35 lacs).

- (b) As explained to us there are no terms and conditions fixed on loans / advances granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 and no interest is charged on such loans.
- (c) As there are no stipulation for repayment of loans / advances the parties are not regular in repayment of the loans / advances. During the year the company has received Rs. 0.70 lacs (Previous Year Rs 249.33 lacs) as repayment from these parties.
4. 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 for the purchase of fixed assets and for services provided. During the course of our audit, we have neither come across nor have we been informed of any major weaknesses in the aforesaid internal control procedures.
5. (a) On the basis of our examination of the books of account and according to the information and explanations provided by the Management, we are of the opinion that the transactions that need to be entered into the register in pursuance of Section 301 of the Act have been so entered in the said register.
- (b) In our opinion and according to the information and explanations given to us there are no transactions aggregating in value during the year to more than Rs 5 lacs except the license fees received from a subsidiary company under a agreement entered into for use of Trade Mark.
6. The company has not accepted any deposits from the public within the meaning of the provision of Section 58A and 58 AA of the Act.
7. The company has no Internal Auditor however the Companies internal control procedures, which, in our opinion, are commensurate with its size and nature of its business.
8. The Company is a Loan and Investment Company hence clause VIII of the Order is not applicable.
9. (a) According to the information and explanations given to us by the Management and on the basis of the examination of the books of account carried out by us, the Company has been regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, and the statutory dues with the appropriate authorities. There were no undisputed arrears of statutory dues outstanding as at 31st March, 2005 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us by the Management and the records of the company examined by us there were dues of income tax which have not been deposited as at 31st March, 2005 on account of dispute as under;

<u>Nature of dues pending</u>	<u>Amount</u>	<u>Forum where dispute is</u>
Income Tax (Asst yr 2000-01)	Rs 27.77 lacs (Revised Demand)	Appellate Tribunal

10. The accumulated losses of the company as at 31st March 2005 are more than 50% of its net worth. It has not incurred cash losses during the financial year ended on that date and also in the immediately preceding financial year.
11. Based on our audit procedures and the information and explanations given to us by the Management, we are of the opinion that the Company has defaulted in repayment of its dues to a Financial Institution and a Bank during the year. Details are as under:

<u>Name of the Lender</u>	<u>Nature of amount Defaulted</u>	<u>Period of default since</u>	<u>Amount of default</u>
(a) Unit Trust of India	(i) Non Convertible Debentures	—	790.67 lacs
	(ii) Term Loans & UTN's	—	66.16 lacs
(b) Oriental Bank of Commerce	Non Convertible Debentures	28.3.2004	6052.60 lacs

(Refer notes in Schedule 3 of the Balance Sheet).

12. As per the books and records of the company examined by us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. Clause 13 of the Order is not applicable as the company is not a Chit Fund Company or nidhi/mutual benefit fund /society.
14. In our opinion the Company has maintained proper records of transactions and contracts in respect of dealing and trading in shares, securities, debentures and other investments during the year and timely entries have been generally made therein. All shares, debentures and other investments have been held by the company in its own name.
15. The company has given a guarantee for loan taken by a company from a bank, the terms and conditions, whereof, in our opinion, are not prima facie prejudicial to the interest of the Company.
16. On the basis of our review of utilization of funds pertaining to term loans on overall basis and related information and explanations as made available to us, the term loans taken by the Company have been applied for the purpose for which they were obtained.
17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short term basis have been used for long term investments.
18. The Company has not made any preferential allotment of shares during the year and therefore, paragraph 4 (xviii) of the Order is not applicable.
19. The Company has not issued any debentures during the year and therefore paragraph 4(xix) of the Order is not applicable.
20. The Company has not raised any money by way of public issue during the year and therefore paragraph 4(xx) of the Order is no applicable.
21. According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of the audit.

For FORD, RHODES, PARKS & CO.
Chartered Accountants

(A. D. Shenoy)
Partner

Membership No 11549.

Mumbai
Date: 27th June, 2005



BALANCE SHEET AS AT 31ST MARCH, 2005.

	Schedule	Rs in Lacs	Rs in Lacs	As at 31-3-2004 Rs in Lacs
I SOURCES OF FUNDS :				
1. Shareholders Funds				
a. Share Capital	1	1,530.00		1,530.00
b. Reserves and Surplus	2	4,495.41		4,600.16
			6,025.41	6,130.16
2. Loan Funds				
a. Secured Loans	3	6,909.43		6,956.07
b. Unsecured Loans	4	734.23		770.18
			7,643.66	7,726.25
TOTAL			13,669.07	13,856.41
II APPLICATION OF FUNDS :				
1. Fixed Assets	5			
a. Gross Block		6,556.47		6,572.34
b. Less : Depreciation		3,506.53		3,374.50
c. Net Block			3,049.94	3,197.84
2. Investments	6		1,409.35	1,339.90
3. Current Assets, Loans & Advances				
a. Stock on hand	7	10.39		10.39
b. Sundry Debtors	8	354.17		79.73
c. Cash & Bank Balances	9	6.00		37.68
d. Loans & Advances	10	6,170.17		6,223.06
		6,540.73		6,350.86
Less : Current Liabilities and Provisions				
a. Liabilities	11	498.08		595.04
b. Provisions	12	176.99		169.49
		675.07		764.53
Net Current Assets			5,865.66	5,586.33
4. Miscellaneous Expenditure			-	-
5. Profit & Loss-Debit Balance			3,344.12	3,732.34
TOTAL			13,669.07	13,856.41

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 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
 Membership No. 11549

Mumbai
 Dated : 27th June, 2005.

Executive Chairman
Director
Director

M. V. Doshi
M. S. Bhise
V. N. Suchanti

Mumbai
 Dated : 27th June, 2005.