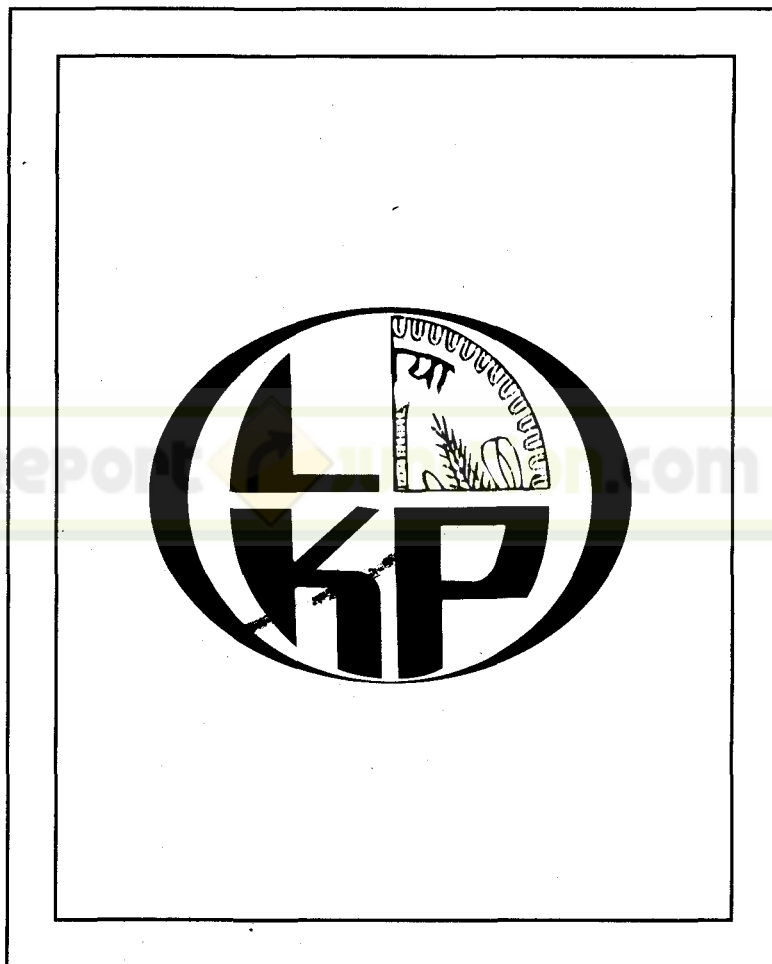


LKP Merchant Financing Limited



ANNUAL REPORT 2005-2006

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.

Report  Junction.com

Registered Office :

203, Embassy Centre,
Nariman Point,
Mumbai - 400 021.
Tel. : 4002 4785 / 4002 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 2nd September, 2006 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 Second 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, 2nd September 2006 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 2006 and Report of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Milan S. Bhise, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint the Auditors and to fix their remuneration.

SPECIAL BUSINESS

4. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution.

“RESOLVED THAT pursuant to the provisions of sections 198, 269, 309, 310 read with Schedule XIII and all other applicable provisions, if any, of the companies Act, 1956 and subject to other requisite approvals, the consent of the Company be and is hereby accorded to the re-appointment of Mr. M. V. Doshi as Executive Chairman of the Company for a period of Five years with effect from 26th July 2006 on the terms and conditions as set out in the draft Agreement dated 30th June 2006 entered into by the Company with Shri. M.V. Doshi and placed before the meeting for approval which Agreement is hereby specifically sanctioned with liberty to alter and vary the terms and conditions of the said appointment and/or remuneration so as not to exceed the limits specified in schedule XIII to the companies Act, 1956 including any statutory modification or re-enactment thereof, for the time being in force or any amendments and/or modifications that may hereafter be made thereto by the Central Government in that behalf from time to time, or any amendments thereto as may be agreed to between the Board and Shri. M.V. Doshi.”

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

“RESOLVED THAT pursuant to section 31 and other applicable provisions, if any, of the Companies Act, 1956 and the provisions of other statutes as applicable, the Articles of Association of the Company be and are hereby altered as under:

After Article 88, a new Article 88A be inserted as under”

88A Whenever the Directors of the Company enter into a contract with any Government (Central, State or local),

any Bank or Institution or any Financial Company or any Persons (hereinafter referred to a ‘the appointer’) for borrowing any money or for providing any guarantee or security or for technical collaboration or assistance or for underwriting or enter into any other arrangement whatsoever, the Directors shall have, subject to the provisions of Section 255 of the Act, the power to agree that such appointer shall have the right to appoint or nominate by a notice in writing addressed to the Company one or more Directors up to 50% of the Board’s strength on the Board of the Company for such period and upon such conditions as may be mentioned in the agreement and that such Director or Directors may not be liable to retire by rotation nor be required to hold any qualification shares. The Directors may also agree that any such Director or Directors may be removed from time to time by the appointer entitled to appoint or nominate them and the appointer may appoint another or other in his or their place and also fill in any vacancy, which may occur. The Director/s appointed or nominated under this Article shall be entitled to exercise veto rights on key aspects viz;

1. Expansion/Diversification
2. Changes in Capital Structure
3. Sale/Amalgamation/Restructuring
4. IPO / Issuance of equity
5. Annual Budgets
6. Appointment of Auditors

subject to the provisions of the Act, and all Board Meetings of the Company shall require a quorum of at least two Directors. Provided however that the quorum must include at least one Director appointed by the said appointer. Further such Nominee Director/s may enjoy all or any of the rights and privileges exercised and enjoyed by the Directors of the Company including payment or remuneration and traveling expenses to such Director/s as may be agreed by the Company with appointer.

6. To consider and, if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:-

“RESOLVED THAT pursuant to the provisions of Section 372A and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to the Board of Directors of the Company to acquire by way of purchase the entire equity shares of M/s LKP Shares & Securities Limited from the existing shareholders for consideration as per the Valuation Report given by an independent valuer, notwithstanding the fact that the equity shares so acquired will exceed the limits prescribed under the said section.”



LKP Merchant Financing Limited

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) Explanatory Statement pursuant to Section 173 of the Companies Act 1956, in respect of item no. 4 to 6 of the Notice set out above, is annexed hereto.
- (4) The Register of Members and Share transfer books will remain closed from 28th August 2006 to 2nd September 2006 (both days inclusive)
- (5) 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: 31st July 2006

(M. V. Doshi)

Executive Chairman

EXPLANATORY STATEMENT AS REQUIRED BY SECTION 173 OF THE COMPANIES ACT 1956 SETTING OUT THE MATERIAL FACTS RELATING TO THE SPECIAL BUSINESS UNDER ITEM NO. 4 MENTIONED IN THE ACCOMPANYING NOTICE DATED 31ST JULY 2006.

Item No. 4

At the Board Meeting held on 30th June 2006, Shri. M.V. Doshi has been re-appointed as Executive Chairman of the Company for a period of five years w.e.f. 26th July 2006. The re-appointment of Shri. M.V. Doshi as Executive Chairman is subject to necessary approval of the shareholders at the ensuing Annual General Meeting. He has opted not to draw any remuneration from the Company for the current financial year 2006-2007 and for the rest of the period remuneration payable to him to be fixed by the Board of Directors from time to time. His re-appointment and remuneration is subject to the provisions of Section 269 and 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII of the Act.

Shri. M.V. Doshi will not be entitled to any sitting fees for attending meetings of the Board or Committees thereof.

The agreement can be terminated by either party by giving to the other party three months notice.

As required under section 302 of the Companies Act 1956, the above may be treated as an abstract relating to the terms and conditions of the re-appointment of Shri. M.V. Doshi to be sent to members of the Company.

The re- appointment of Shri. M.V. Doshi is required to be approved by the shareholders in the first general meeting after his re-appointment and accordingly this resolution is being placed before the members of the Company. Your Directors commend the resolution for your approval.

Shri. M.V. Doshi is deemed to be interested in passing of the resolution proposed at item No.4 since it relates to his own re-appointment.

Item No. 5

In view to obtain financial assistance from any institution/s for the purpose of business of the Company, the consequent changes are required to be incorporated in the Articles of Association the Company in terms of the resolution at item no. 5 by insertion of new Article 88A in the Articles of Association of the Company. The special Resolution at the item No. 5 is therefore pursuant to section 31 of the Companies Act, 1956.

Your Directors commend the resolution for your approval. None of the Directors of the Company is concerned or interested in the said resolution.

A copy of Articles of Association of the Company together with the proposed alterations is available for inspection by the members of the Company at the registered office between 11.00 a.m. to 1.00 p.m. on any working day of the Company.

Item No.6

M/s LKP Shares & Securities Limited ("Target Co") is engaged in the stock broking business, as a corporate trading member of the Bombay Stock Exchange Limited ("BSE"). Over 99% of the outstanding share capital of the Target Company is owned by Mr. M. V. Doshi and Associates.

The Company has a Wholly Owned Subsidiary, M/s LKP Securities Limited ("WOS"), also engaged in stock broking activities, as a corporate member of the National Stock Exchange. In an effort to consolidate the stock broking operations of the LKP Group, the Board of Directors has decided to acquire the entire equity share capital of the Target Company. The Company would stand to benefit from the acquisition, especially in light of the booming capital markets and the high volume driven trades on the BSE.

In compliance with the provisions of Section 372A of the Companies Act, 1956, the Board of Directors of the Company has decided to obtain the shareholders' approval for the above acquisition. Haribhakti MRI Corporate Services Pvt. Ltd. has valued LKP Shares & Securities Ltd. at Rs. 843 lacs. The said valuation report is available for review at the registered office of the Company.

The transaction is subject to approval of the Securities and Exchange Board of India (SEBI), with reference to change in status and constitution of Target Company.

Your Directors commend the resolution for your approval. Shri. M.V. Doshi is deemed to be interested in passing of the resolution proposed at item No.6 as he is a Promoter, Whole time Director and Shareholder of M/s LKP Shares & Securities Limited.

By Order of the Board of Directors

Mumbai

Date: 31st July 2006

(M. V. Doshi)

Executive Chairman



LKP Merchant Financing Limited

DIRECTORS' REPORT

The Directors present the Twenty Second Annual Report and Audited Accounts of the Company for the year ended March 31, 2006.

FINANCIAL RESULTS

	2005-2006 (Rs. in lacs)	2004-2005 (Rs. in lacs)
Profit subject to Depreciation & Tax	1284.83	423.00
Less: Depreciation	25.51	27.28
Profit / (Loss) before tax	1259.32	395.72
Extraordinary Item (Interest)	305.74	—
Provision for Tax & Fringe Benefit Tax	80.00	7.50
Profit / (Loss) after tax	873.58	388.22
(Loss) brought forward from previous year	(3344.12)	(3732.34)
Balance carried to Balance Sheet	(2470.54)	(3344.12)

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. 750.26 lacs to Rs. 1458.00 lacs. The Company has earned net profit of Rs. 873.58 lacs as against Rs. 388.22 lacs for the corresponding previous year. The Company continues its efforts to generate non-fund based business. Also your Company continues to make all efforts to recover over-dues from the clients by negotiations or by resorting to legal recourse.

During the year under review the Company has divested 10% of its investment in equity shares of LKP Forex Ltd. resulting in the said Company not remaining a Wholly Owned Subsidiary Company. Profit for the year includes profit earned on this divestment.

Your Company's wholly owned subsidiary, LKP Securities Ltd. and subsidiary LKP Forex Ltd. are doing well. Both companies have reported improved results. LKP Forex Ltd. has expanded its geographical reach and now has 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 31 cities of India. The Negotiated Delivery System ("NDS") introduced by Reserve Bank of India (RBI) has enabled all Wholesale Debt Market participants to transact directly on NDS, bypassing intermediaries. This has seriously affected secondary market business of Wholesale Debt Market Segment Intermediaries of National Stock Exchange Ltd., including said subsidiary of your Company.

During the current financial year the Company has entered into agreements for settlement of entire out-standing dues of Oriental Bank of Commerce Ltd. and Unit Trust of India. The agreed dues of both these institutions have been fully settled in early April 2006, through a suitable financial facility from a Financial Institution. Upon entering into an Agreement for a one time settlement with Unit Trust

of India, your Company has provided interest of Rs. 305.74 lacs which has been reflected as an extraordinary item.

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 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.

The Board of Directors of your Company at its meeting held on June 30, 2006, has granted its in-principle approval to the initiation of actions for the proposed amalgamation of LKP Forex Limited, into Thomas Cook (India) Limited and for the purpose, has executed a non-binding Memorandum of Understanding between the Company, LKP Forex Limited and Thomas Cook (India) Limited. It may be noted that the final approval for the proposed amalgamation is subject to sanction of Hon'ble High Court of Bombay and other regulatory authorities.

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)(c) 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. Milan S. Bhise retires by rotation and being eligible offers himself for reappointment.

At the Board Meeting held on 30th June 2006, subject to the consent of members, Shri. M.V. Doshi has been re-appointed as Executive Chairman of the Company for a period of five years w.e.f. 26th July 2006.

AUDITORS' REPORT

Observation 3(c), 3(f)(i) and 3(g) of the Auditors in their Report are self explanatory.

Observation 3(f) (ii) of the Auditors in their Report is dealt with by Note 4 of Schedule 17 annexed to the Balance Sheet and Profit & Loss Account, which 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.



LKP Merchant Financing Limited

DIRECTORS' RESPONSIBILITY STATEMENT

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

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) 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 ;
- iii) 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;
- iv) 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: 31st July 2006

(M. V. Doshi)
Executive Chairman

Statement Pursuant to Section 212 of the Companies Act, 1956

Giving Requisite Particulars of its Subsidiary Companies

	LKP Securities Ltd	LKP Forex Ltd
1. Name of the Subsidiary Company		
2. Financial Year ending	31.3.2006	31.3.2006
3. Date from which the Company became a subsidiary.	1.4.95	31.7.97
4. Extent of Holding Company's interest in the subsidiary Company's Shareholding	100%	90%
	Rs in Lacs	Rs in Lacs
5. Net aggregate amount of the Subsidiary's profits after deducting its losses or vice versa so far it concerns members of the Holding Company.		
-- Profits /Losses not dealt with in the Holding Company Accounts		
a. for the financial year of the subsidiary	86.52	249.22
b. for the previous financial years since it became the Holding Company's Subsidiary	264.20	461.72
Profits dealt with or (Losses) provided for in the holding Company Accounts.		
a. for the financial year of the Subsidiary	—	—
b. for the previous financial years since it became the holding Company's subsidiary	—	—

Executive Chairman

M. V. Doshi

Director

M. S. Bhise

Director

V. N. Suchanti

Mumbai

Dated : 31st July 2006.



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 witnessed the introduction of Negotiated Delivery System ("NDS") introduced by Reserve Bank of India, which has had a negative impact on the Company's wholly owned subsidiary, LKP Securities Ltd. The stock markets witnessed various measures taken by the market regulators to improve 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

Your Company being Investment Company has opportunities available in the Capital market. The interest rates during the last year has stabilized and appears to be hardening. Your Company is actively exploring opportunities 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 continuing 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 a holding Company is engaged in investment activities and other financial services during the year under review, hence 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 2006 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. The Board of Directors of the Company has adopted the Code of Conduct for its members and senior management executives.

2. Board of Directors

Composition

The composition and category of Directors as on 31st March 2006 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	Nil	1
Mr. Vineet N. Suchanti	9	1

Profile of Director being Appointed/Re-appointed:

Name : Mr. Milan Suryakant Bhise
 Age : 44 Years
 Date of Appointment : 26th July, 2001
 Qualification : M. A., LL.B., D.M.S.
 Expertise : Vast experience in the field of Corporate Laws and Legal matters. He is practicing as an Advocate and Proprietor of M/s. Milan Bhise and Co.

Other Directorships : Nil
 Chairman/Member of Committee of the Board of the Companies on which he is a Director as on 31st July 2006.
 > LKP Merchant Financing Ltd.
 i. Shareholders Grievance Committee - Chairman
 ii. Audit Committee Member



LKP Merchant Financing Limited

Name : Mr. Mahendra V. Doshi
 Age : 56 Years
 Date of Appointment : 26th July, 2001
 Qualification : MBA - U. S. A.
 Expertise : Mr. Mahendra V. Doshi is a principal promoter of the Company and is associated with Company since inception i.e. 5th May 1984. He has over 30 years vast experience in the field of Finance, Capital Market and Business Administration.

Other Directorships

1. Nilkamal Plastics Ltd.
2. LKP Forex Ltd. Chairman
3. LKP Securities Ltd.
4. LKP Shares and Securities Ltd. (Whole-Time)
5. MKM Share & Stock Borkers Ltd.
6. Bhavana Holdings Pvt. Ltd.
7. Doshi Holdings Pvt. Ltd.
8. Peak Plastonics Pvt. Ltd.
9. Sea Glimpse Investment Pvt. Ltd.

Chairman/Member of Committee of the Board of the Companies on which he is a Director as on 31st July 2006.

- LKP Merchant Financing Ltd.
- i Share Transfer Committee - Chairman
- ii Audit Committee Member
- LKP Forex Ltd. Banking Operation Committee Chairman
- Nilkamal Plastics Ltd. Audit Committee Member

Board Meeting

In financial year 2005-2006, the Board met four times. The Board meetings were held on 27th June 2005, 30th July 2005, 31st October 2005, and 30th January 2006.

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 27th June 2005, 30th July 2005, 31st October 2005 and 30th January 2006. All the members have attended the aforesaid meetings. The 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
2004-2005	Saturday	13 th August, 2005	10.30 a. m.
2003-2004	Saturday	11 th September, 2004	10.00 a. m.
2002-2003	Saturday	12 th July, 2003	10.00 a. m.

Location:

All the above Annual General Meetings of the Company were held at M. C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, K. Dubash Marg, Mumbai 400 001.

Business

Year	Special Resolution
2004-2005	Nil
2003-2004	Nil
2002-2003	Nil

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.
3. No personnel have been denied access to the Chairman or members of the Audit Committee. In view of there being only seven employees in the Company, the mechanism of Whistle Blower Policy is not established.
4. To the extent possible, the Company has complied with the mandatory requirement of this clause.

8. Means of Communication

1. The financial result of first quarter was published in The Financial Express and Tarun Bharat, half yearly, third quarter and annual financial result were published in The Financial Express and Dainik Sagar dailies. These were 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.



LKP Merchant Financing Limited

9. General Shareholder Information

AGM Date, : Saturday, 2nd September 2006
 Time and Venue : at 10.30 a.m. at M.C. Ghia Hall,
 Bhogilal Hargovindas Building,
 18/20, K. Dubash Marg,
 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

Book Closure : August 28, 2006 to
 September 02, 2006
 (Both days Inclusive)

Dividend
 payment date : Not applicable

Listing on
 Stock Exchange : Bombay Stock Exchange Ltd.
 (Code-507912). The Company has
 paid the listing fees for the period from
 1st April 2006 to 31st March 2007. 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. : INE 724A01017
 for Depositories

Market Price Data and Performance in comparison to BSE Sensex
 High/Low of market price of the Company's equity shares traded in
 Bombay Stock Exchange Limited and Performance in comparison
 to BSE Sensex during the financial year 2005 - 2006 is furnished
 below:

Month & Year	High (Rs.)	Low (Rs.)	No. of Shares	No. of Trades	BSE Sensex High	Low
April 2005	14.25	9.30	295245	644	6649	6118
May	27.36	9.80	1362001	2458	6773	6141
June	37.50	25.00	1914633	4410	7228	6647
July	45.55	29.50	1622844	4549	7709	7123
August	59.90	39.00	1664485	4420	7921	7538
September	72.60	52.55	1383597	4451	8722	7819
October	60.60	40.65	648215	1871	8822	7656
November	88.45	59.90	1645903	6204	9034	7891
December	91.00	71.00	1219560	4079	9443	8770
January 2006	103.05	83.20	1510195	4869	9945	9158
February	99.00	82.00	543415	2437	10423	9714
March	144.90	84.00	1711527	6846	11357	10344

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

The Company's Shares are traded on Bombay Stock Exchange Limited
 compulsorily in the dematerialized form. However, all requests received
 for transfer of shares in physical form 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 the period of 22 days from the date of
 lodgment, if documents are complete in all respect.

Distribution of shareholding as on 31st March 2006

No of Shares	No of Holders	% to total	No of Share	% to total
1 to 500	6051	86.42	891865	6.97
501 to 1000	415	5.93	323625	2.53
1001 to 2000	213	3.04	322208	2.52
2001 to 3000	83	1.18	208969	1.63
3001 to 4000	41	0.59	146499	1.14
4001 to 5000	43	0.61	206225	1.61
5001 to 10000	75	1.07	528489	4.13
10001 and above	81	1.16	10172120	79.47
	7002	100.00	12800000	100.00

Share holding pattern as on 31st March 2006

Category	No. of shares held	% of share holding
1 Indian Promoters/ Persons acting in concert	70,47,277	55.06
2 Mutual Funds and UTI	1,400	00.01
3 Banks, Financial Institutions and Insurance Companies	2,850	00.02
4 FIIs	2,06,974	01.62
4 Private Corporate Bodies	18,97,066	14.82
5 Indian Public	32,88,454	25.69
6 NRIs / OCBs	2,37,162	1.85
7 Other (In transit)	1,18,817	00.93
Total	12800000	100.00

Dematerialization of equity Shares and liquidity

As on 31st March 2006, 93.34 % of the Company's total shares
 represented by 1,19,47,992, 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 Board of Directors

Mumbai

Date: 31st July 2006

(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 2006 as stipulated in clause
 49 of the Listing Agreement of the said Company had with Bombay Stock Exchange
 Limited.

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 appointment of at least one
 common independent director of the holding Company on the Board of subsidiaries of
 the Company as required under sub-clause i of the item at paragraph III of Clause 49 of
 the Listing Agreement.

We state that in respect of investor grievances received during the year ended 31st March
 2006, no investor grievances are pending against the Company as on 31st July 2006, 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.

Place: Mumbai
 Date: 31st July 2006



LKP Merchant Financing Limited

AUDITORS REPORT

We have audited the attached Balance Sheet of LKP Merchant Financing Limited as at 31st March 2006 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 2006 have eroded the entire share capital and a 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 7).

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 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 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 2004. (The company has now settled the dues against debentures to a Bank and a Financial Institution on 5th April, 2006) 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, 2004 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31st March, 2006 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 Brand" based on valuation by Chartered Accountants as at 31st March, 2004 at Rs 20.95 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 accrued interest of Rs. 0.13 crores (previous year Rs 0.13 crores) on the intercorporate deposits for reasons stated in note no 4 of the notes to the accounts (Schedule 17). The profit for the year is thus overstated to the extent stated above.

(g) Reference is invited to note no 3 (b) regarding unsecured old loans amounting to Rs 532.19 lacs (Previous year 532.19 lacs) where there are very slow recovery of principal/interest. Though the company is making efforts to realize these loans it may face difficulty in realizing the same.

4. Subject to matters stated in paragraph 3 (f) 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 2006.
- (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

Membership No.11549

Mumbai

Date: 30th June 2006

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 or other parties covered in the register maintained under Section 301 of the Companies Act, 1956, however, there is a debit balance as at 31st March 2006 with respect to one subsidiary company, which is outstanding. The year end debit balance of such company was Rs.665.87 lacs (Previous Year Rs.354.17 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. 1200.88 lacs (Previous Year Rs. 1420.69 lacs).