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ARVIND MAFATLAL GROUP



MAFATLAL FINANCE COMPANY LIMITED

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MAFATLAL
FINANCE**BOARD OF DIRECTORS**

SHRI J. A. PATEL
 SHRI V. J. OJHA
 SHRI R. R. PATEL
 SHRI DILIP G. PATWARDHAN
(Cease w.e.f. 21.11.2005 - Nominee of Debenture Trustee)
 SHRI P. DEVANGA
(w.e.f. 21.11.2005 - Nominee of Debenture Trustee)

**VICE PRESIDENT - RESOURCES AND
COMPANY SECRETARY**

SHRI K. CHANDRAMOULI

BANKERS

DENA BANK
 STATE BANK OF INDIA
 CENTRAL BANK OF INDIA
 UNION BANK OF INDIA
 BANK OF BARODA
 BANK OF INDIA
 STATE BANK OF INDORE
 STATE BANK OF HYDERABAD
 DHANALAXMI BANK LTD.
 SUMITOMO MITSUI BANKING CORPORATION LTD.
 BANK OF PUNJAB LTD.
 SOUTH INDIAN BANK LTD.
 ICICI BANK LTD.
 FEDERAL BANK LTD.
 UNITED BANK OF INDIA
 ORIENTAL BANK OF COMMERCE

MANAGEMENT TEAM

SHRI J. A. PATEL *Chairman*
 SHRI N. R. DIVATE *President & CEO*
 SHRI K. CHANDRAMOULI *Vice President - Resources
& Company Secretary*

AUDITORS

C. C. CHOKSHI & CO.
Chartered Accountants

REGISTERED OFFICE

Flat No. K-3/4, Second Floor,
 Shopping Centre, Sector 15/16,
 Vashi, Navi Mumbai - 400 703.

**REGISTRARS & SHARE TRANSFER
AGENTS**

BIG SHARE SERVICES PRIVATE LTD.
 E-2, Ansa Industrial Estate,
 Saki Vihar Road, Sakinaka,
 Andheri (East),
 Mumbai - 400 072.

MAFATLAL
SECURITIES**BOARD OF DIRECTORS**

SHRI H. A. MAFATLAL *Chairman*
 SHRI N. R. DIVATE *Director*
 SHRI B. K. GHIYA *Director*
 SHRI P. KARUNAKAR RAO *Wholetime Director*

AUDITORS

C. C. CHOKSHI & CO.
Chartered Accountants

REGISTERED OFFICE

Rustom Building, 4th Floor,
 29, Veer Nariman Road,
 Mumbai - 400 023.

*Annual Report 2005-2006***NOTICE**

Notice is hereby given that the **NINETEENTH ANNUAL GENERAL MEETING** of the Members of **MAFATLAL FINANCE COMPANY LIMITED** will be held at Indian Women Scientists Association, Plot No. 20, Sector 10-A, Opp. Balaji Temple, Near Sainath High School, Vashi, Navi Mumbai 400 703 on Friday, 29th day of December, 2006 at 11.00 a.m. to transact the following BUSINESS:

ORDINARY BUSINESS

1. To consider and adopt the Audited Profit and Loss Account for the year ended March 31, 2006 and the Balance Sheet as at that date and the Reports of Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. J.A. Patel who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and fix their remuneration.

SPECIAL BUSINESS**APPOINTMENT OF MANAGER**

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

"RESOLVED THAT in accordance with the provision of Section 198, 269, 309 Schedule XIII (as amended from time to time) and other applicable provisions if any, of the Companies Act, 1956, the consent of the company be and is hereby accorded to the reappointment of Mr. N. R. Divate as Manager of the Company for a period of 5 years commencing from 01/08/2006 till 31/07/2011 on the terms and conditions as set out in the draft agreement to be executed with Mr. N. R. Divate (including the remuneration to be paid in the event of loss or inadequate profit in any financial year during the aforesaid period) submitted to this meeting and initialed by the Chairman for identification with liberty to the Board of Directors to alter, vary and modify the terms of the said reappointment / remuneration including salary, commission, allowances and perquisites in such a manner as may be agreed to between the Board of Directors and Mr. N. R. Divate within and in accordance and subject to the limits prescribed in Schedule XIII to the Companies Act, 1956 or any amendment or statutory modification thereto and conditions if any, as may be stipulated by the Central Government and as may be agreed to accordingly between the Board of Directors and Mr. N. R. Divate.

By Order of the Board
For **MAFATLAL FINANCE COMPANY LIMITED**

K. CHANDRAMOULI
Company Secretary

Registered Office:

Flat No. K - 3/4 Second Floor
Shopping Centre, Sector 15/16
Vashi, Navi Mumbai 400 703

Date : 25th November 2006

NOTES:

- a) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THAT A PROXY NEED NOT BE A MEMBER.
- b) The proxy form duly completed and signed by the shareholder should be deposited at the registered office of the company atleast 48 hours before the commencement of the meeting.
- c) The Register of Members and the Share Transfer Books of the Company will remain closed on 28th December 2006 to and 29th December 2006.
- d) Members are requested to notify any change in their address to the Company's Registrars & Transfer Agents, M/s. Big Share Services Pvt. Ltd., E-2 Ansa Industrial Estate, Sakivihar Road, Sakinaka, Andheri (E), Mumbai 400 072, quoting their folio nos. immediately, so as to ensure that all communications / reports reach the Members promptly.
- e) Shareholders seeking any information with regard to the Accounts of the Company are requested to write to the Company at an early date so as to enable the Management to keep the information ready.
- f) Particular of directors seeking appointment / reappointment as required under Clause 49 of the Listing Agreement is furnished separately.
- g) The Explanatory Statement pursuant to sections 173 (2) of the Companies Act, 1956, in respect to Item No. 4 mentioned in the above Notice is annexed hereto.

In respect of Item no. 4 :

The Board of directors of the Company had at its meeting held on 31/07/2006 extended his tenure of Shri N. R. Divate as "President & CEO" and designated as "Manager" till 31/03/2007.

The Board of Directors of the Company in its meeting held on 25/11/2006 re-appointed Mr. N. R. Divate as "President & CEO" and designated as "Manager" under Section 269 and other relevant provisions of the Companies Act, 1956 for period effective from 01/08/2006 till 31/07/2011 with substantial powers of management with remuneration and perquisites which are within the provisions stipulated under Schedule XIII of the Companies Act, 1956 more particularly mentioned hereunder, subject to the approval of the Company's members at the ensuing Annual General Meeting and subject to such modification and amendments as stipulated by the Central Government.

The Material terms of his remuneration are as under :

- Salary of Rs. 1,50,000/- (One Lakh Fifty Thousand only) per month, in the scale of Rs. 1,50,000/- to Rs. 3,00,000/- with annual increment at the discretion of the Board/Chairman of the Company but excluding Performance. Bonus if any.
- Perquisites such as medical benefits for self and family, leave travel concession for himself and family, club fees (Limited to one club) personal accident insurance.
- He shall be entitled for free use of Company's maintained car for official and limited personal purposes as per the policies of the Company.

- The salary and perquisites as mentioned above shall be exclusive of all retirement benefits viz. contribution to provident fund, superannuation fund and gratuity.
- He will further be eligible for all benefits as are applicable to the senior employees of the Company.

Draft of letter to be issued by the Company for the appointment of Mr. N. R. divite as the Manager under Section 269 of the Act will be kept available for inspection of the Company's members. No Director of the Company is concerned or interested in Ordinary Resolution under reference.

I. GENERAL INFORMATION

• **Nature of Industry**

An NBFC whose application for registration however has been rejected by Reserve Bank of India.

• **Financial Performance**

The Financial performance of the company has been adversely affected but expected to improve after satisfactory conclusion of the debt statements.

II. INFORMATION ABOUT THE APPOINTEE

• **Background**

Management Graduate with substantial experience in the industry.

• **Last Remuneration**

Rs. 11.29 Lacs per annum, Appointed as per the terms of appointment approved by the members in the meeting held on 6th September 2001.

• **Job Profile and suitability**

He has been with the company since 1993 and has adequate managerial capacity in terms of qualifications and experience and also oversees the operations of the Subsidiary, Mafatlal Securities Limited

• **Remuneration proposed**

Salary of Rs. 1.50 Lacs per month with perquisites as given in the explanatory statement. The remuneration proposed is reasonable taking the fact that the ailing company needs the services to make it viable.

• **Others :**

He has no relationship with any directors of the company.

III. OTHER INFORMATION

The non-banking financial services industry has undergone substantial financial stress and suffered losses due to default by its borrowers and other factors.

The company is in the process of finalizing its debt settlement and has accordingly filed a "Scheme of Compromise and Arrangement" in the Honourable Bombay High Court the sanction of which is likely to improve the company's financial position.

The company's subsidiary, Mafatlal Securities Ltd. is also expected to improve its operations and increase in productivity in profits.

ANNEXURE TO THE NOTICE

Notes on directors seeking appointment/re-appointment as required under Clause 49 of the Listing Agreement entered into with Stock Exchanges.

PROFILE OF DIRECTORS BEING APPOINTED/RE-APPOINTED

ITEM NO. 2

Name	:	Jagdish A. Patel
Age	:	64 years
Qualifications	:	Chartered Accountant
Experience	:	Corporate Finance, Accounts and Internal Audit

His Directorships and Committee Memberships of other Companies are as follows :

Company	Position	Committee Membership
Gayatri Pestichem Mfg. Pvt. Ltd.	Director	—
Pamil Investments Pvt. Ltd.	Director	—
Suremi Investments Ltd.	Director	—
Sumangala Investments Pvt. Ltd.	Director	—

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DIRECTORS' REPORT

To,
The Members
Mafatlal Finance Company Limited

Your Directors present the Nineteenth Annual Report with the Audited Statement of Accounts of the Company for the year ended 31st March 2006.

1. FINANCIAL RESULTS

The Financial results of the company for the year under review as compared to the previous year are summarized below for your consideration:

	Year ended 31.03.2006 (Rs. in lacs)	Year ended 31.03.2005 (Rs. in lacs)
Gross Income	1660.06	3630.66
Gross Profit/(Loss) before depreciation and Income tax	(30.41)	1689.19
Depreciation	2.97	4.88
Provision for Tax	1.38	0.21
Net Profit / (Loss) After Tax	(34.76)	1684.10
Transferred from Capital Reserve	—	221.81
Transferred from Investment Allowance Reserve	0.71	—
Add : Amount brought forward from previous year	(24275.03)	(26180.94)
Amount available for appropriation	—	—
Transferred to Debenture Redemption Reserve	—	—
Transferred to Statutory Reserve under RBI Act	—	—
Balance carried forward	(24309.08)	(24275.03)

2. OPERATIONS

The financial year 2005-2006 has ended with the Company incurring a loss of Rs. 34.76 lacs. The company continued further negotiations with residual banks, institutions and debenture holders and was fairly successful in concluding settlement terms with some of the banks like Dena Bank, The Federal Bank Ltd. etc. However, the company's efforts received a set back as the winding up petition filed by Gujarat State Financial Corporation (GSFC) was admitted by the Honourable Bombay High Court. Notwithstanding the same, the company continued its discussions and negotiations with all the banks. The company thereafter has filed a compromise with the residual creditors, debenture holders (both secured and unsecured) under the provisions of Section 391/394 of the Companies Act, 1956 in the Honourable Bombay High Court. The Court convened meetings were held on 31st August 2006 and the scheme has been approved by the requisite majority. The Company has filed a petition in the Court for sanction of the scheme and is awaiting its approval. The scheme of arrangement incorporates several relief and concessions including but not limited to waiver/remission of interest and principal with reference to the cut off date i.e. 31st March 1999.

Having regard to the accumulated losses, the company may be required to restructure its capital and the company would approach the members once the scheme under Section 391 is approved in respect

of secured and other creditors. The company expects the members to support such capital restructuring, as this would enable the company to come to positive network.

The company's shares continue to remain suspended in The Stock Exchange, Mumbai on account of certain grievances in respect of the past debentures issued by the company. The company is continuing its discussions with the Stock Exchange for lifting the suspension, as the same would also be required for any capital restructuring which the Company may contemplate.

The company continued its efforts towards recovery from the irregular and bad accounts. The company however does not anticipate any major success due to difficult operating environment in relation to these accounts.

The company did not receive many claims against the escrowed fixed deposit account. The company's attempt to reconcile the outstanding fixed deposit is constrained by lack of availability of bank statements and other records. The company however is continuing its efforts in the said direction. As far as Interest Warrant reconciliation is concerned, the company based on the statements provided by The Federal Bank Ltd., Chennai, has identified that the difference in this Interest Warrant account is mainly due to short booking of interest warrants in the earlier years (1997 to 2001). However the entries reflecting the same has not been passed due to pending reconciliation of the Fixed Deposit principal so as to provide a stronger validation. These problems are expected to be sorted out in the coming financial year.

3. LITIGATIONS AGAINST THE COMPANY

All the residual banks excluding Federal Bank have obtained decree from the Debt Recovery Tribunal (DRT). The company however is continuing its discussions and its negotiations with the said banks to arrive at an amicable settlement. In view of the proposed compromise under Section 391/394 of the Companies Act, 1956, the company is now proposing an overall settlement with all the residual secured and unsecured creditors (excluding sundry creditors for expense). The approval of the said scheme by the creditors would then enable the company to foreclose the decrees/suits that has been obtained/ filed by the banks.

The case filed by the trustees for debenture holders shall also come to an eventual closure upon the approval of the Scheme of Compromise, which also covers the residual debenture holders who are not yet been settled.

The winding up petition filed by one of the secured creditors shall also cease upon the approval and sanction of the Scheme of Compromise.

The company's appeals towards the imposition of penalty of Rs. 603.60 lacs by the Enforcement Directorate is under various stages of hearing.

A demand of Rs.814.51 lacs has been received from the Income Tax Department towards the reassessments for the years 1993-94 to 1998-99. As this was an ex parte order, the company has preferred an appeal.

4. REJECTION OF COMPANY'S APPLICATION AS AN NBFC

The Company expects that once the proposed restructuring of creditors and the capital is carried through, the company's network should become positive thereby giving an opportunity to the company to revive itself. The course of action that shall be proposed shall be decided only upon the success of the compromise proposal which the company has filed and the company shall approach the members at appropriate time with details of future business plans.

5. Comments on auditor's qualification and management responses

The qualifications of the auditor's have been segmented and responded so as to facilitate a precise understanding on the subject:

I Interest, Penal Interest and Confirmation [relates to item No. 2, 4b, 4f, 10, 11, 12, 13 & 16.]

These repetitive qualifications which relate to the above subject does not confirm to the realities of the situation. The settlements which the company has arrived at in the past as well as the proposal presently under the 'Scheme of Compromise' awaiting the sanction of the Honourable Bombay High Court are consistent with the company's view point. Confirmations have been sent wherever the matter is not under litigation. Admissibility of penal interest is debatable in view of the various judicial pronouncements and are imaginary perception.

II Fixed deposits and debentures [relates to item No. 4f (iii) to (viii)]

Based on the statements and supportings received from The Federal Bank Ltd. Chennai, it is observed that the interest on fixed deposit has not been correctly booked between the year 1997 and 2001 together with interest on concealed overdraft due to inadequate funding and to the said extent, Rs. 9,30,78,412/- represents prior period item. The company is of the view that the fixed deposits liability is also overstated but pending reconciliation which is constrained by lack available data. Dividends are under the present depository system earmarked to the designated bank accounts and the company is of the view that the same is just and sufficient compliance. Reconciliation differences if any with Garron Trading Company Limited are unlikely to have any significant impact.

III Statutory matters**(A) Capital Adequacy Ratio [relates to item No 4f (xviii)]**

As the company is currently under the directions of Reserve Bank of India to sell the assets and repay the fixed deposits, the applicability of capital adequacy is not presently enjoined on the company as per the views of the management. This shall be applicable only when the company proposes to reregister itself.

(B) Going Concern [relates to item No. 4f (xx)]

The accounts have been prepared on a going concern basis as the company has filed a 'Scheme of Arrangement and Compromise' under Section 391/394 of the Companies Act, 1956 in the Honourable Bombay High Court and awaiting its final sanction based on the approvals received in the meeting of the secured and unsecured creditors held as per the scheme. The sanction of the scheme is expected to provide substantial relief and likely to improve the network.

(C) True and fair view of the accounts [relates to item No. 4(g)]

The company is of the view that mere non-provision of interest on certain borrowings which too the company does not anticipate any liability, does not negate the true and fair view of the accounts as has been qualified by the auditors'. This is further reinforced with reference to the 'Scheme of Arrangement' proposed which provides substantial relief on the subject matter of interest on borrowings.

IV .Others**(A) ICICI Ltd. (presently ICICI Bank Ltd.) -[relates to item No 4f (xiv)]**

The company had in the year 1999 made a settlement with ICICI Ltd. consisting of issue and allotment of equity and preference shares, securitisation of certain receivables and transfer of property which the company was to receive in settlement with a debtor. The transfer of the property to ICICI Ltd. is pending and the company is in dialogue for the same. On the residual sum represented by the pending transfer, the company has provided interest as advised by the auditors as a measure of abundant caution although the company does not perceive the same as liability.

(B) Investment in partnership firm [relates to item No. 4f (xv)]

The company anticipates that the pledged shares would be released and the company does not expect any diminution in the value of investment on this account. The constitution of the firm is currently undergoing a change into a Private Limited Company and conversion of the capital into equity and preference shares.

(C) Reappointment of directors and managerial remuneration [relates to item No 4e & 4f (ii)]

The company is of the view that the disqualifications envisaged in clause-g (sub-section 1) of Section 274 of Companies Act, 1956 relates only to fresh appointments and not reappointment of the directors in the same.

The company is of the view that the revised guidelines introduced in respect of appointment of managerial personnel relate only to prospective and not retrospective appointment.

(D) Income tax demand of Rs. 8,14,51,111/- [relates to item No. 4f (i)]

This is an exparte order and the consequential demand arising therefrom without any credence to the intent of the order passed by the Income Tax Appellate Tribunal. The company has gone in appeal before the Commissioner of Income Tax Appeals and is hopeful of the demand being set aside.

(E) Interest Free Loans of Rs. 1 crore [relates to item No, 4f (xvii)]

This was a temporary advance and has already been returned.

6. PUBLIC FIXED DEPOSITS

The company currently has 116 unclaimed depositors for a value of Rs.10,38,000/-

The outstanding liability of fixed depositors however as per books of accounts does not reflect the true position as some of the accounting entries of previous years have remained to be carried out and consequently higher book balances. It is also required to be noted that the company's outstanding book balances of banks especially created for payment of fixed deposits are showing a substantially high balances although as per the bank, the account has already been closed and therefore Nil balance. The company has created the contingency provision for the said loss as the figure of book balances of banks is higher by the outstanding fixed deposit by over Rs. 2 crores. The efforts to reconcile and identify the difference is constrained and affected by non-availability of records.

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7. LISTING OF SHARES

The company's shares continue to remain suspended in The Stock Exchange, Mumbai (BSE) as well as National Stock Exchange of India Ltd. (NSE). The company is also unable to pursue the delisting of shares from the Stock Exchanges of Ahmedabad, Delhi and NSE which was approved by the members in view of the suspension. The company is making efforts to get the suspension removed so as to enable the shares to be traded in BSE and pursue the voluntary delisting in other stock exchanges.

8. MAFATLAL SECURITIES LIMITED (MSL) - SUBSIDIARY COMPANY

The Company has posted a net profit of Rs. 56.80 lacs for the financial year ended 31st March, 2006, after writing off Rs.3.08 lacs towards bad debts and providing for Rs. 1.07 lacs towards doubtful debts. The Subsidiary Company is exploring various options to fare better in the current financial year. Statement pursuant to Section 212 of the Companies Act, 1956 in respect of Mafatlal Securities Limited are separately given in this Report. The financial statements and the audited accounts of the subsidiary are annexed to this report.

9. OUTLOOK

The future outlook of the company is contingent upon approval of the Scheme of Compromise with the creditors as the failure of the same is likely to severely vitiate the operations of the company as a going concern. The company is contemplating various business plans after the overall Scheme of compromise including capital restructuring is undertaken as pending the same, the same would be constrained by the legal actions that are being pursued against the company.

The operations of the subsidiary would also be enhanced after the uncertainties are eliminated.

10. ACTION UNDERTAKEN BY SEBI AGAINST THE COMPANY AND THE SHOW CAUSE NOTICES RECEIVED FROM REGISTRAR OF COMPANIES (ROC)

The company's response to the Show Cause notices issued by ROC under Section 209 (3)(b) & 211(7) of the Companies Act 1956 has been accepted by ROC who have communicated to the company to be cautious in the future and have imposed no penalties on the company.

11. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGOING

The Company is not engaged in manufacturing activities therefore there is no information to submit in respect of conservation of energy and absorption of technology.

Foreign exchange earnings	: Nil
Foreign exchange outgoings	: Nil

12. DIRECTORATE

In accordance with the provision of the Articles of Association of your company, Mr. J. A. Patel is retiring by rotation and being eligible, has offered himself for reappointment. The Board of Directors recommends his reappointment.

13. DEPOSITORIES

Effective October 30, 2000, the equity shares of your Company have been mandated by Securities and Exchange Board of India for delivery only in dematerialized form for all investors.

Your Company has already entered into arrangements with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) for custody and dematerialization of shares in accordance with the Depositories Act, 1996.

14. PARTICULARS OF EMPLOYEES

There are no employees in the company attracting the requirements of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

15. DIRECTOR'S RESPONSIBILITY STATEMENT

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

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- the Directors had selected such accounting policies and applied them consistently and made judgments 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 loss of the Company for the period;
- the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the Directors had prepared the annual accounts on a going concern basis notwithstanding the rejection of the company's application for registration by RBI and complete erosion of network on account of the anticipated restructuring process.

16. CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, management discussion analysis, and corporate governance report are made a part of the annual report.

17. AUDITORS

The Company's Auditors M/s. C.C. Chokshi & Company. Chartered Accountants retire at the ensuing Annual General Meeting. They being eligible have given their consent to act as Auditors of the Company if reappointed. Members are requested to consider their reappointment as Auditors of the Company for the current year and fix their remuneration. The company has given in para 6 of this report hereinabove, the observations of the auditors and also the response of the Company.

18. ACKNOWLEDGEMENTS

Your Directors wish to thank and place on record their appreciation of the valuable support given by Company's Customers, Shareholders, Bankers, Deposit holders, Financial Institutions, Mutual Funds and Debenture holders.

The Directors would also like to thank the employees for their contribution to the Company.

FOR AND ON BEHALF OF THE BOARD

Place : Mumbai
Date : 25th November 2006

J. A. PATEL
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

Your company's application for registration as NBFC has been rejected by Reserve Bank of India due to negative networth and certain allied reasons. The litigations filed by the creditors against the company have resulted in an uncertain operating environment causing the company to suspend its operations and downsize its Balance Sheet.

Your company's efforts to steer the company back to health is presently dependent upon satisfactory conclusion of arrangement with the creditors and debenture holders. Although, it is expected that the hazy outlook would be substantially cleared by the end of the current financial year, the company's future however are subject to the company's ability to overcome the difficulties. In this backdrop, the plan of future operations shall be undertaken only after a fair degree of confidence that the various problems which are currently being faced would be over.

FINANCIAL REVIEW

As the company discontinued its lending operations, most of the revenues arose from past lending and disbursements. The company's income was Rs. 1660.06 lacs which includes Rs. 60.37 lacs as operational income and Rs. 1599.69 lacs being the write back / relief in settlement of liabilities and the net loss after tax was Rs. 34.76 lacs. During the year the company has provided Rs. 371.76 lacs (net) towards bad and doubtful debts and diminution in the value of investments.

BUSINESS ANALYSIS OUTLOOK

The future outlook of the company hinges on the ability to close the settlements with various lenders in a satisfactory manner and diverting the resources in taking up new business opportunities. This would entail substantial shift to fee-based activities and controlling cost.

The company has been exploring its sale as a service provider combined with aggressive pursuit of stock broking activities where there has been a significant improvement. The company is confident of identifying channels for fee-based activities.

RISK AND CONCERNS

The company faces the following trends and risks:

- a) Risk associated with rejection by RBI, its application for registration as NBFC and thereby impinging on the company's core area of operations.

- b) Results of the litigations filed against by the company by banks, debenture holders, financial institutions and other creditors.
- c) Risk of winding up on account of the petitions filed against the company.
- d) Contingent risks which the company is not currently facing but may be exposed off.

Your company's management has been continuously evaluating the risk and concerns and have been taking proactive action in its mitigation. Given the fact that there are substantial numbers of risks, which are cumulatively impinging the company's operations, any road to future development would be plagued with a fair degree of uncertainty.

INTERNAL CONTROL AND THEIR ADEQUACY

The company has appropriate and adequate internal control system, which are sufficient for the level of activities carried by it. The internal audit is being carried out by an external firm of Chartered Accountants and their findings are reviewed at reasonable intervals. The Board is of the opinion that the internal control system is adequate to size of the Company's business.

The company has fully computerised and integrated financial and accounting function.

INDUSTRIAL RELATIONS

The Company as on 31.03.2006 has 23 employees on its payroll. The relationship were cordial and the Company had performance based incentive scheme for all its officer cadres.

CAUTIONARY STATEMENTS

Statement in the Management Discussion and Analysis describing the Company's position and expectations may be "forward looking statements" within the meaning of applicable securities laws and regulation. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include, among others, economic conditions affecting demand/supply and price conditions in the market in which the Company operates, changes in the Government Regulations, tax laws and other statutes and incidental factors.

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CORPORATE GOVERNANCE REPORT

The detailed report on corporate governance as required in terms of Clause 49 of the Listing Agreement is given below:

1. CORPORATE GOVERNANCE PHILOSOPHY

The company is committed to good corporate governance and transparent disclosure practices. The company's operations in the past have been hampered due to operative difficulties but nevertheless the company has been continuously striving to meet its responsibilities and obligations towards shareholders and others.

2. BOARD OF DIRECTORS

(a) Composition and Category of Directors

The company's Board of Directors from the commencement of the year under review have been the same with Mr. Purushottam Devanga, being a Nominee Director representing the interest of the debenture holders. There has been no change in the composition of the Board of Directors. More than 50% of the Directors are non executive. However, Mr. J A Patel, Chairman of the company and a non-executive director has been classified as an independent director as he does not hold any material pecuniary relationship with the company. He is a professional chartered accountant performing the role of an internal auditor in one of the promoter companies. The company accordingly has three independent directors based on the revised classifications. As the Chairman is a non executive Director, more than 1/3rd of the Directors are independent.

The company follows the prescribed board procedures by circulating various items of agenda in advance which are to be dealt at the Board meetings.

The company has formulated a code of conduct for the Board members and senior management. The code provides for fair degree of transparency of operations with necessary guidelines for ethics, appropriate safety and healthy working environment.

(b) Attendance of each Director at the Board of Director's Meetings held during 2005-2006 and the last Annual General Meeting is as follows :

Director	Attended	Last Annual General Meeting Attended (Held on 31.12.2005)
Mr. J.A. Patel	5	Yes
Mr. R.R. Patel	5	No
Mr. Vinod Ojha	5	Yes
Mr. Purushottam Devanga *	2	No
Mr. Dilip G. Patwardhan **	1	Not Applicable

* Appointed with effect from 21.11.2005.

** Appointed with effect from 27.01.2005 and Resigned with effect from 21.11.2005.

(c) Details of Directorships/Committee Memberships held by the existing Directors in other companies are given hereunder :

Name of the Director	Category	Directorships held in other Companies		Committee Memberships held in other Companies	
		As Director	As Chairman	As Member	As Chairman
Mr. J.A. Patel	Independent, Non-Executive	4	Nil	Nil	Nil
Mr. R.R. Patel*	Not Independent, Non-Executive	Nil	Nil	Nil	Nil
Mr. Vinod Ojha@	Independent, Non-Executive	Nil	Nil	Nil	Nil
Mr. Dilip G. Patwardhan **	Independent, Nominee Director	Nil	Nil	Nil	Nil
Mr. Purushottam Devanga	Independent, Nominee Director	Nil	Nil	Nil	Nil

* Mr. R. R. Patel is the Company Secretary of Mafatlal Industries Limited which is an associate of the company and hence is considered to have a material pecuniary relationship.

** Mr. Dilip G. Patwardhan resigned with effect from 21.11.2005.

@ Vinod Ojha holds 1600 shares in the company which is less than 2% of the total share capital of the company hence he is to be considered as an Independent director.

(d) Number of Board Meetings held and the dates on which held :

Five Board Meetings were held during the year 2005-2006. The dates on which meetings were held were as follows:

27th April 2005, 29th July 2005, 28th October 2005, 6th December 2005 and 31st January 2006

(e) Remuneration of Directors :

The company does not pay any remuneration other than payment of Travelling and Conveyance expenses to the directors.

(f) Directors Share Holding :

Mr. Vinod Ojha is holding 1600 shares in the company. Mr. R.R. Patel and his relatives are holding 300 shares of the company.

3. AUDIT COMMITTEE

The company has constituted an Audit Committee in accordance with the requirements of Clause 49 of the Listing Agreement entered with the Stock Exchanges. The terms of reference of the Audit Committee, are in conformity with those mentioned in Clause 49 of the Listing Agreement. The Committee reviews various reports placed before it by the Internal Auditors of the Company. The members of the Audit Committee are as under:

Mr. Vinod Ojha	...	Chairman
Mr. R.R. Patel	...	Director
Mr. J.A. Patel	...	Director
Mr. N.R. Divate	...	President & Chief Executive Officer (Co-opted)

The details of the Audit Committee Meetings and attendance of its members are given below:

Five meetings were held during the year 2005-2006. (27th April 2005, 29th July 2005, 28th October 2005, 6th December 2005 and 31st January 2006). The attendance for the said meetings is as follows:

Name of the Director	Category	Attendance Particulars
Mr. Vinod Ojha	Chairman	5
Mr. J.A. Patel	Director	5
Mr. R.R. Patel	Director	5

4. REMUNERATION COMMITTEE

The company has constituted a remuneration committee on 27th April 2005 and following are the members:

Mr. Vinod Ojha
Mr. R.R. Patel
Mr. J.A. Patel
Mr. N.R. Divate

No meeting of the committee however has been held during the financial year.

5. SHARE/DEBENTURE TRANSFER-CUM-INVESTOR'S GRIEVANCE COMMITTEE

The company has a Share/Debenture Transfer-cum-Investor's Grievance Committee, constituting the following members:

Mr. J.A. Patel	...	Chairman
Mr. Vinod Ojha	...	Director
Mr. R.R. Patel	...	Director
Mr. N.R. Divate	...	President & Chief Executive Officer (Co-opted)

The Committee oversees and approves transfer/transmission of equity shares and debentures. The Committee also oversees complaints received from investors for appropriate redressal. The minutes of the Committee meetings are placed at the Board Meetings from time to time. The Board has designated Mr. K. Chandramouli, Vice President & Secretary of the company as the Compliance Officer. All valid shares transfers received during the year have been acted upon.

Complaint Status: 01.04.2005 to 31.03.2006

Number of Equity Shareholders / Debenture holders /	
Preference Shareholders complaints pending as on 01.04.2005	36
Number of complaints received during the year	212
Number of complaints solved during the year	224
Number of pending complaints pending as on 31.03.2006	24

Five meetings were held during the year 2005-2006 (27th April 2005, 29th July 2005, 28th October 2005, 6th December 2005 and 31st January 2006). The attendance for the said meetings is as follows:

Name of the Director	Category	Attendance Particulars
Mr. J.A. Patel	Chairman	5
Mr. Vinod Ojha	Director	5
Mr. R.R. Patel	Director	5

6. DIRECTORS

Mr. J. A. Patel, Director of the company is retiring by rotation at the ensuing Annual General Meeting.

Mr. Dilip G. Patwardhan appointed as a Nominee Director representing the Debenture Trustee ceased to be a Director with effect from 21.11.2005 and in substitution where of Mr. Purushottam Devanga has been appointed as a Nominee Director for the debenture holders as per Section 15(M) of SEBI (Debenture Trustees) regulations 1993 in conjunction with the provisions of the Trust Deed.