

XVIII ANNUAL REPORT 2004-2005



VLS FINANCE LTD.

Registered Office :
C-489, Defence Colony,
New Delhi-110 024

NOTICE

18th ANNUAL GENERAL MEETING OF MEMBERS OF THE COMPANY WILL BE HELD AT

Sri Sathya Sai International Centre Auditorium
Lodhi Road Institutional Area, Lodhi Road
Pragati Vihar, New Delhi - 110 003
at 10.30 A.M.
on Friday,
23rd day of September, 2005

SHARE TRANSFER & INVESTOR SERVICES

M/s RCMC Share Registry Pvt. Ltd.
Unit: VLS Finance Ltd.
1515, 1st Floor, Bhishm Pitamah Marg,
Kotla Mubarakpur, Near South Extn., New Delhi-110003

N.B. : Members/Proxy are requested to bring their
copy of Annual Report at the Meeting as
extra copies have not been printed due to
high cost of paper.

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BOARD OF DIRECTORS :

Shri Ajit Kumar -- Chairman
Shri T.B. Gupta -- Executive Vice-Chairman
Shri S.K. Agarwal -- Managing Director
Dr. S. Ramesh
Shri M.G. Diwan
Shri Ramji Mehrotra
Shri K. K. Soni
Shri Divey Dipti Chopra
Shri N.C. Sundararajan
Shri Somesh Mehrotra
Shri A.K. Puri
Shri B.M. Oza

COMPANY SECRETARY

Shri H. Consul

AUDITORS

M/s. Agiwal & Associates
Chartered Accountants,
New Delhi

BANKERS

HDFC Bank
UCO Bank

EQUITY SHARES LISTED AT :

THE STOCK EXCHANGE, MUMBAI

Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400 001.

MADRAS STOCK EXCHANGE LTD.

Exchange Building, Post Box No. 183,
11, Second Line Beach, Chennai-600 001.

THE CALCUTTA STOCK EXCHANGE ASSOCH. LTD.

7, Lyons Range, Kolkata-700 001.

THE NATIONAL STOCK EXCHANGE OF INDIA LTD.

Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra Kurla Complex,
Bandra (E), Mumbai-400051.

Note - The Equity Shares of the Company have been delisted from the Delhi Stock Exchange, New Delhi, and the U.P. Stock Exchange, Kanpur w.e.f. 31/3/2004 and from the Stock Exchange Ahmedabad, w.e.f. 31/3/2005 pursuant to Company's application for voluntary delisting of its shares in accordance with applicable SEBI guidelines for delisting.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 18th Annual General Meeting of the Members of VLS FINANCE LTD. will be held at Sri Sathya Sai International Centre Auditorium, Lodhi Road Institutional Area, Lodhi Road, Pragati Vihar, New Delhi-110003 on Friday, the 23rd day of September 2005 at 10.30 a.m. to transact the following business:-

ORDINARY BUSINESS

- To receive, consider and adopt the audited Balance Sheet of the Company as at 31st March 2005, the Profit & Loss Account for the year ended on that date and the consolidated Financial Statements for the said period together with the Report of Auditors and Directors thereon.
- To appoint a Director in place of Shri A. K. Puri who retires by rotation, and being eligible, offers himself for re-appointment.
- To appoint a Director in place of Shri M. G. Diwan who retires by rotation, and being eligible, offers himself for re-appointment.
- To appoint a Director in place of Dr. S. Ramesh who retires by rotation, and being eligible, offers himself for re-appointment.
- To appoint the Auditors and to fix their remuneration and in this connection to consider and if thought fit, to pass following resolution, with or without modification(s), as an **Ordinary Resolution**.

"RESOLVED THAT pursuant to the provisions of section 224 and other applicable provisions of the Companies Act 1956, M/s. Agiwal & Associates, Chartered Accountants, the present Statutory Auditors of the Company be and are hereby re-appointed as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting to the conclusion of next Annual General Meeting of the Company and that the Board of Directors of the Company be and are hereby authorized to fix their remuneration."

SPECIAL BUSINESS

6. Appointment of Shri K. K. Soni as Director.

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

"RESOLVED THAT Shri K. K. Soni, who was appointed as an Additional Director on 25th May 2005 and who holds office till the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and for whose appointment as a Director, a notice under Section 257 of the Companies Act 1956 has been received from a member of the Company, be and is hereby appointed as Director of the Company, liable to retire by rotation."

7. Payment of sitting fees to Non-Executive Directors of the Company.

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

"RESOLVED THAT consent of the shareholders be and is hereby accorded to the payment of fees to the Directors of the Company (other than the Directors who are in the whole-time employment of the Company) for attending meetings of the Board of Directors and/or Committee(s) thereof, of such amounts not exceeding the limits prescribed under the proviso to section 310(1) of the Companies Act 1956 or any statutory amendment thereto or re-enactment thereof and/or under any rules or regulations framed thereunder, as may be determined by the Board of Directors from time to time."

By Order of the Board
For VLS Finance Ltd.
H. Consul
Company Secretary

Place: New Delhi
Date : 26/07/2005

NOTES:-

- A Member entitled to attend and vote is also entitled to appoint a proxy to attend and vote instead of himself/herself. The proxy need not be a member of the Company. The appointment of proxy in order to be effective must be lodged at the Registered Office of the Company not less than 48 hours before the commencement of the meeting in the form enclosed hereto, duly filled and authenticated.
- In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
- Corporate Members intending to send their authorized representative are requested to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting.
- The Register of Members of the Company shall remain closed from 16/09/2005 to 23/09/2005 (both days inclusive).
- The Company has retained M/s RCMC Share Registry Pvt. Ltd., 1515, 1st Floor, Bhishm Pitamah Marg, Kotla Mubarakpur, near South Extension, New Delhi-110003 (Phone No. 24692346, 24601017) as its Registrar & Transfer Agents for further period of one year w.e.f. 01/04/2005 for entire shareholder services viz. processing request for transfer, other shareholder services, dematerialisation of holding, providing connectivity services

with depositories in compliance of SEBI's circular No.D&CC/F/TTC/CIR-15/2002 dated 27/12/2002 and the said Registrars may be contacted for any shareholder services. For any further assistance in said matters, please write to the Company Secretary at Registered Office at C-489, Defence Colony, New Delhi-110024, Phone No.: 51553081 (5 lines), Fax: 24335941, 51553091.

- Members are requested to intimate the change in address, if any, to the Company's Registrars or the Company at its Registered Office for shares held in physical mode. **Members holding shares in Demat (Electronic) form are requested to notify any change in address, mandate/bank details to their respective Depository Participants.** The changes effected by depository participants will automatically be reflected in Company's records upon updation of beneficiary owners list provided by Depositories.
- The shares of the Company are being traded compulsorily in demat segment w.e.f. 28th August 2000. Members who still hold the shares of Company in physical form are advised to contact their depository participant for dematerialization of their holdings in their own interest. **The ISIN No. allotted to Company is INE709A01018** for both the Depositories viz. The National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL).
- Members, who are holding shares in identical order of names in more than one Folio, are requested to write to the Company at its Registered Office or to its Registrars stated above to enable the Company to consolidate their holdings under one Folio.
- All documents referred to in the accompanying Notice are open for inspection at the Registered Office of the Company on all days between 11.00 a.m. and 1.00 p.m. up to the date of the Annual General Meeting except on Saturdays, Sundays and other Holidays.
- Member/Proxies are requested to bring their copies of the Annual Report to the meeting, and the attendance slip duly filled in for attending the meeting. As a measure of economy, copies of Annual Report will not be distributed at the Annual General Meeting.
- The relevant explanatory statement pursuant to Section 173(2) of the Companies Act 1956, for Item No. 6 and 7 of the notice is annexed hereto and forms part of this notice.
- Shareholders are hereby informed that after the amendment of the Companies Act 1956 w.e.f. 31.10.1998, the Company is required to transfer any money lying in the Unpaid Dividend Account, which remains unpaid or unclaimed for a period of seven years from the date of such transfer to the Unpaid Dividend Account, to the credit of Investor Education and Protection Fund (IEPF) established by the Central Government. In accordance with Section 205C of the Act, no claim shall lie against the Company or IEPF in respect of any unpaid or unclaimed dividend after transfer thereof to IEPF in accordance with the regulations.
- The members who have not encashed their dividend warrants for the financial year ended on 31/03/1999 are advised to write to the Company at its registered office for obtaining duplicate dividends warrants/ revalidation of instruments.
- Pursuant to Section 205A of the Companies Act, 1956 ("the Act") all unclaimed/unpaid dividends after 31/03/1995 up to the financial year 1996-97 (18 months) has been credited to the Investor Education & Protection Fund of the Central Government (IEPF). The Unpaid/unclaimed dividends up to 31/03/1995 had been transferred to General Revenue Account of Central Government and can be claimed from the Central Government in prescribed form. The Company's Unpaid Dividend Account No.32062 with Union Bank of India, Yusuf Sarai, New Delhi has been closed on 30/10/2003 pursuant to provisions of Section 205B of the Companies Act 1956 and the balance of Rs.317605/- standing to its credit, being the unpaid/unclaimed dividend for the financial year 1995-96 has been transferred to IEPF on 31/10/2003. The relevant Return with the Registrar of Companies (NCT of Delhi and Haryana) has also been filed on 21/11/2003. Similarly, the unclaimed/ unpaid dividend amount of Rs. 286350/- standing to its credit in Unpaid Dividend Account No. 3963 of the Company with UCO Bank, Defence Colony, New Delhi, for financial year 1996-97 has been transferred to IEPF on 23/04/2005 and the said account was closed on 25/04/2005. The relevant Return with the Registrar of Companies (NCT of Delhi and Haryana) has also been filed on 04/05/2005.

The unpaid Dividend and the date on which it is due for transfer to Investor Education & Protection Fund are as follows:

Financial Year ended on	AGM Date	Dividend Rate	Date of transfer to Unpaid Dividend A/c	Due for Transfer to fund on
31/03/1999	10/08/1999	7.5%	22/9/1999	21/9/2006
31/03/2000	27/09/2000	NIL	N.A	N.A



15. Information regarding Directors retiring by rotation and seeking re-appointment:

Sl. No.	Name of the Director	Date of Birth	Date of Appointment	Qualifications and Expertise in specific functional areas	List of Companies in which Directorship held as on 26/07/2005.	Chairman/Member of the Committees of the Board on which he is a director as on 26/07/2005.	Whether qualified u/s 274 (1) (g) of the Companies Act, 1956.
1.	Shri A. K. Puri	03/08/1935	07/05/1998	M.Sc., L.L.B., C.A.I.I.B. He is former Deputy Managing Director of State Bank of India and Ex-Member of the Board for Industrial Finance & Reconstruction, Ministry of Finance, Government of India. He has over 40 years experience in the field of Banking, Finance and Administration.	a) Ambuja Cement Eastern Ltd. b) Navin Flourine International Ltd.	i) Audit Committee - Member ii) Remuneration and Compensation Committee Chairman. iii) Shareholders/ Investors Grievance Committee - Member i) Audit Committee - Member. ii) Remuneration and Compensation Committee-Chairman.	Yes
2.	Shri M.G. Diwan	14/11/1931	17/03/1994	M.Sc., F.I.A., F.A.S.I., F.I.I.I. He is former Chairman of LIC of India having experience of over 4 decades in the field of Insurance, Actuarial Services Finance, Investments and administration.	a) G.M. Breweries Ltd. b) Dwarikesh Sugar Industries Ltd. c) Marketing Research Corporation of India Ltd. d) OM Kotak Mahindra Life Insurance Company Ltd. e) Datamatics Technologies Ltd. f) Sriram Chits (Maharashtra) Ltd. g) GDA Trustee & Consultancy Pvt. Ltd. h) Deepajyoti Insurance Consultancy and Services Pvt.Ltd. i) Indian Institute of Public Opinion Pvt. Ltd. j) D. S. Actuarial Education Services Pvt Ltd.	i) Audit Committee- Member ii) Audit Committee- Member ii) Remuneration Committee-Chairman. NIL i) Audit Committee - Member i) Audit Committee- Member ii) Remuneration Committee-Chairman iii) Shareholders/ Investor Grievance Committee-Chairman NIL NIL NIL NIL NIL	Yes
3.	Dr. S. Ramesh IAS (Retd.)	28/10/1936	30/06/2001	M.A., M.P.A., Ph.d. He is former Secretary to the Govt. of U.P. having over 4 decades experience in administration, planning and govt. affairs.	a) South Asian Enterprises Ltd. b) Uttaranchal Jal Vidyut Nigam Ltd., Dehradun	i) Audit Committee, Member i) Audit Committee, Member	Yes

16. Information regarding Directors seeking appointment as Director, liable to retire by rotation:

1.	Shri K. K. Soni	14/09/1953	25/05/2005	B.Com., FCA, FCS He is a qualified Chartered Accountant and Company Secretary with over 28 years experience in the area of Finance, Taxation, Corporate Planning and other corporate affairs.	a. AFD Laboratories Pvt. Ltd. b. Paritosh Industrial Finance Ltd. c. VLS Capital Ltd.	NIL	Yes
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EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT 1956.

ITEM NO. 6

Shri K. K. Soni was appointed as Additional Director by the Board on 25/05/2005 in terms of Article No. 80 of Articles of Association of the Company and will hold office up to the date of this Annual General Meeting in terms of Section 260 of the Companies Act, 1956. Shri K. K. Soni is a qualified Chartered Accountant and Company Secretary with over 28 years experience in the field of Accounts, Finance, Taxation and other Corporate Affairs. He was earlier also associated with the Company as President - Corporate Affairs till January 1998. At present he is Managing Director of VLS Capital Ltd., a constituent of promoters group besides directorships in AFD Laboratories Pvt. Ltd. and Paritosh Industrial Finance Ltd. A notice has been received from a member of the Company pursuant to Section 257 of the Companies Act 1956 signifying intention to propose the resolution for appointment of Shri K. K. Soni as Director of the Company at the forthcoming Annual General Meeting.

Your Directors recommend appointment of Shri K. K. Soni as Director of Company, liable to retire by rotation.

None of the Directors except Shri K. K. Soni is concerned or interested in the resolution.

ITEM NO. 7

In terms of the revised Clause 49 of the listing agreement with the Stock Exchanges, all fees/compensation to be paid to Non-executive Directors are to be fixed by the Board and require the previous approval of the shareholders in the general meeting. There are conflicting views as to whether this requirement applies to payment of sitting fees, which in terms of the proviso to section 310(1) of the Companies Act 1956, does not require such approval provided it is within the prescribed limits. However, out of abundant precaution, approval of the shareholders is being sought to payment of sitting fees to Non-executive Directors of the Company.

At present, the Non-Executive Directors are paid sitting fees of Rs. 5000/- for attending Board meetings and Rs. 2000/- for attending Committee meetings in terms of the resolution passed by the Board of Directors at its meeting held on 28.1.2005, while the maximum fee, presently prescribed under the proviso to section 310(1) of the Companies Act 1956 is Rs. 20,000/- per meeting.

The Board recommends the resolution for your approval.

All the Non-Executive Directors are deemed to be concerned or interested in the resolution set out in Item no. 7 of the Notice since it relates to the payment of sitting fees for Board/Committee meetings attended by them.

By Order of the Board
For VLS Finance Ltd.

H. Consul
Company Secretary

Place: New Delhi
Date : 26/07/2005

DIRECTORS' REPORT TO THE MEMBERS

Your Directors are pleased to present the Eighteenth Annual Report of the Company together with the audited statement of accounts for the year ended 31st March 2005.

1. Financial Results

	(Rs. in Lakhs)	
	For the year ended 31 st March, 2005	For the year ended 31 st March, 2004
Gross Receipts	134060.79	40256.37
Profit/(Loss) before Interest & Depreciation	810.48	163.49
Less: Interest & Finance Charges	0.09	94.85
Profit/(Loss) before depreciation	810.39	68.64
Less: Depreciation	55.73	68.64
Profit/(Loss) before Tax	754.66	10.48
Less: Provision for Taxation	8.46	(-) 6.22
Add: Adjustments relating to earlier year(s)	0.00	7.98
Available for Appropriation	746.20	26.68
Appropriations:		
From General Reserve	600.00	0.00
To General Reserve	600.00	0.00
To Statutory Reserve (under RBI Act, 1934)	150.93	2.09
Total Appropriations	750.93	2.09

2. Management Discussion and Analysis

Financial Review

During the period under review, the Company, responding to recovering Indian economy and capital market, posted an increased turnover of Rs. 93804.42 lacs. The net profit was at Rs. 746.20 lacs after providing for depreciation amounting to Rs. 55.73 lacs. Your Directors wish to inform you that adequate provisioning has been made for assets classified as bad/doubtful and for diminution in value of investments in accordance with the Accounting Standards prescribed by the Institute of Chartered Accountants of India and the relevant Reserve Bank of India Regulations in the matter. Recently, the Company had settled its dues with IDBI.

Industry Structure and Development

The economy showed improved prospects during the year and is estimated to have grown by 6.9% in 2004-05. Though agricultural growth was subdued, industrial recovery consolidated in 2004-05, primarily driven by 8.9% growth in manufacturing sector. The services sector also recorded 8.9% growth. With visible buoyancy in the capital market coupled with relative stability in political arena, the overall economic environment remains supportive of investment and capacity building.

The rising trend in the country's foreign exchange reserves continues and crossed the US \$ 135 billion mark by March 2005. The FI inflows in the country increased at a rapid pace, and attributing to their investments in mid-cap shares and new issues, the BSE Sensex catapulted.



to record levels of 6500 and above.

The average inflation based on wholesale price index has been higher at 6.4% in 2004 - 05 as compared to 5.5% recorded in 2003-04. Liquidity in the system continues to be comfortable. However, the NBFC sector continues to reel under pressure from the banking industry that has increasingly penetrated in all segments of the financial services industry. The working of the NBFCs continues to be adversely affected by defaults and absence of proper and speedier recovery laws and procedures, like the one available to banks and financial institutions. In such highly competitive environment, it is imperative for NBFCs to strategically position themselves to emerging trends. Your Company is in the process of revamping its existing policies to suit the changing scenario.

Outlook, Risks and Concerns

With a GDP of 6.9% posted during the year, the Indian economy provides attractive growth opportunities. As the contribution of services sector to the overall economy is steadily rising, a positive environment is likely to be created for financial services industry.

The Non Banking Finance Sector (NBFC) in which your Company operates, has been facing competitive pressure from Banks and Financial Institutions, making it increasingly complex, difficult and costlier to generate revenues. The competition and deregulation brought in by the reform process has led to shrinking of interest spreads compelling NBFCs to look in for new opportunities for revenue generation. In this scenario, developing a focused market approach on selected customer segments offering them more customized services and at the same time cutting costs seems to be the survival mantra for NBFCs. As reported earlier, the Company had cut down its exposure to credit operations consisting of loans, hire purchase etc. and no fresh exposures were undertaken during the year under review. The Company's operations continue to be mainly focussed on capital market activities including trading in securities and executing transactions in the market making use of risk hedging tools like derivatives and arbitraging between various stock exchanges and its segments. Further, it shall continue to explore the opportunities in other areas related to its area of operations.

The Company is exposed to normal industry risks of interest rate volatility, credit risk, economic, political, market and operational risks. It follows prudent business and risk management practices to combat these challenges.

Opportunities and Threats

The equity markets continued to remain upbeat in the year. The Initial Public Offerings (IPOs) grew five times to Rs. 35,859 Crore. Significant improvements in the rates of savings and investments continued in household, private and public sectors. As a large number of Companies in the growth cycle/ sunrise sectors prefer to opt for the route of private equity/ investment to fund their risk capital, your Company, with the expertise available to it in these areas, intends to utilize the opportunities offered in these areas. It also intends to increase its thrust on corporate advisory services, investment appraisal and syndication. The Company is carefully gauging each opportunity in terms of risks and rewards involved and hopes to tie-up successful ventures in the foreseeable future.

As part of evolving new business models, your Company intends to identify opportunities into the areas of infrastructure project development, franchise development consultancy services, franchise representation services, arranging joint venture international tie-ups, master development licenses and territorial development rights. However, the successful conversion of these opportunities depends to a large extent upon assessment of financially feasible projects and management of operational risks.

Your Company would also endeavor to strengthen its subsidiary and associate companies and to make efforts to harness the benefits of group synergy.

Adequacy of Internal Control Systems

The Company has proper and adequate system of internal controls to monitor proper recording of transactions according to policies and procedures laid down by the Company. The Company ensures that the regulatory guidelines are complied with at various levels.

The internal audit reports are regularly monitored by the Audit Committee.

Segment wise Performance

As against layout of Rs. 7126.58 Lacs in financial services segment, the total revenue receipts was Rs. 13444.91 Lacs. However, in the Investment segment there was revenue outgo of Rs. 381.12 Lacs for a layout of Rs. 7942.13 Lacs during the year under review. The Profit in financial services segment prior to interest and tax stood at Rs. 1446.38 Lacs while there was a loss of Rs. 381.12 Lacs in the Investment segment.

Cautionary Statement

Statement in the management discussion analysis describing the Company's projections, estimates, expectation or predictions may be 'forward looking statements' within the meaning of applicable security laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that would make a difference to the Company's operations include changes in government regulations, tax regimes, economic developments within the country and abroad, and such other factors.

3. Dividend

With a view to conserve resources, no dividend is recommended.

4. Directors

Shri A. K. Puri, Shri M. G. Diwan and Dr. S. Ramesh, Directors would retire by rotation at the forthcoming Annual General Meeting and all, being eligible, offer themselves for reappointment. To enable the Company to obtain their continued valuable direction, guidance and assistance in conduct of the affairs of your Company, it is recommended that their reappointment be approved.

Shri Vijay Kumar Goel, a promoter director, who was associated with the Company since 14.5.87, tendered his resignation effective 10.5.2005, due to other preoccupations. The Board accepted his resignation and has placed on record its appreciation of valuable contribution made by Shri V. K. Goel during his tenure of over a decade and a half.

Shri K. K. Soni was co-opted by Board as Additional Director w.e.f. 25/05/2005. His tenure will be up to the date of ensuing Annual General Meeting. The Company has received a notice u/s 257 of the Companies Act 1956 from a member proposing the resolution for his appointment as Director of Company liable to retire by rotation. The relevant resolution and other information for this purpose is set out in notice convening the ensuing Annual General Meeting. The Board recommends his appointment in order to have his valuable guidance, direction and assistance in conduct of the affairs of the Company.

5. Directors' Responsibility Statement

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility statement, the Directors hereby confirm:

1. that in the preparation of the annual accounts for the financial year ended 31st March 2005, the applicable accounting standards have been followed, along with proper explanation relating to material departures;
2. that they have 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 profit of the Company for that period;
3. that they have taken proper and sufficient care for the maintenance of proper accounting records in accordance with the provisions of the Companies Act 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
4. that they have prepared the annual accounts for the financial year ended 31st March 2005 on a going concern basis.

6. Corporate Governance

The Report on Corporate Governance in terms of Clause 49 of the Listing Agreement is annexed to this report.

7. Auditors

The Auditors, M/s. Agiwal & Associates, Chartered Accountants, will retire at the forthcoming Annual General Meeting. The Company has received a certificate from the Auditors that they are qualified under section 224 (1B) of the Companies Act, 1956 to act as the Auditors of the Company, if reappointed. The Audit Committee in its meeting held on 24th May 2005 had recommended their re-appointment as Statutory Auditors for the next term. The Board concurring with the recommendation of the Audit Committee recommends their reappointment. The Board may also be authorised to fix their remuneration.

8. Auditors' Report

The observations made by the Auditors with reference to notes on accounts for the year under report have been adequately dealt with within the relevant Notes on Accounts and need no further comments from Directors.

9. Statutory Information

The Company not being a manufacturing Company, is advised that the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, relating to Conservation of Energy and Technology Absorption in Form-A is not applicable to it. However, it is informed that during the year under review, the Company did not absorb any new technology nor had carried out any R&D activity related thereto. Details of foreign exchange earnings and outgo are given below.

Foreign Exchange Earnings and Outgo:

Foreign Exchange earned	: Nil
Foreign Exchange used	: Nil

The shares of the Company are presently listed at 1) The Stock Exchange, Mumbai 2) The National Stock Exchange of India Ltd. 3) The Calcutta Stock Exchange Association Ltd., and 4) The Madras Stock Exchange Ltd. The Company has paid the Annual Listing fees for the year 2005-2006 to all the aforesaid Stock Exchanges. The equity shares of the Company have been delisted from The Stock Exchange, Ahmedabad w.e.f. 31/03/2005 consequent to Company's application for voluntary delisting of its shares from this Stock Exchange in accordance with relevant SEBI guidelines. However, delisting confirmation is yet to be received from The Calcutta Stock Exchange Association Ltd. and The Madras Stock Exchange Ltd.

10. Fixed Deposits

The Company has neither held nor accepted any fixed deposit during the year under review. The Company has no plans to solicit and accept any deposits from public in future also.

11. Human Resources

The Company has team of able and experienced industry professionals. The management recognizes the intellectual capital as the most valuable asset of organization and constantly strives to strategically align personal goals and organizational growth. It encourages open channels of communication, blending individual's vision with vision of organization and building a shared understanding of how each team member can contribute to Company's success. It aims to build strong corporate culture on core values like safety, integrity, innovation and teamwork thus creating a vision-guided, values-driven organization that focuses on employee fulfillment and leadership development. The employee relations continued to be cordial during the year. The Directors place on record their sincere appreciation to the employees at all levels. In terms of the provisions of Section 217 (2A) of the Companies Act 1956 read with the Companies (Particulars of Employees) Rules 1975 as amended, there was no employee during the year drawing remuneration more than the stipulated amount in the said rules. The number of employees stood at 23.

12. Subsidiary Companies

Statements pursuant to Section 212(1) (e) & (f), read with sub-section (3) and sub section (5) of the said section of the Companies Act 1956 for the relevant financial year, in respect of the subsidiary companies are enclosed with Annual Accounts of the Company.

13. Consolidated Financial Statements

In compliance of Clause 41 of the Listing agreement, the Consolidated financial statements in accordance with the prescribed accounting standards are annexed to Audited Annual Accounts for the year under review.

14. Compliance Certificate

A certificate from the Auditors of the Company regarding compliance of conditions of corporate governance as stipulated under clause 49 of the listing agreement is attached to the said report.

15. Acknowledgements

Your Directors wish to place on record their sincere appreciation and gratitude to the Company's business associates, customers, Association of Leasing and Financial Services Companies, Bankers, Financial Institutions and the Reserve Bank of India for their continued support and assistance; and also to the esteemed shareholders of the Company for their valuable support and patronage.

For and on behalf of the Board

Place : New Delhi
Date : 26/07/2005

S.K. AGARWAL
Managing Director

K.K. SONI
Director



Annexure-1

REPORT ON CORPORATE GOVERNANCE

Our Mission:

To be a top ranking NBFC to achieve sustained growth of business and profitability in core areas of investments, private placements and securities related operations, fulfilling socio economic obligations, excellence in customer service through up-gradation of skills of staff, their effective participation and making use of state of art technology.

Corporate Philosophy:

The philosophy of your Company is to enhance the long-term economic value of the Company, its stakeholders and the society at large by adopting better corporate practices in fair and transparent manner, by aligning interest of the Company with its shareholders and other key stakeholders. Your Company has been practicing the principles of good Corporate Governance over the years and has been the follower of rewarding its shareholders over a sustained period of time.

(i) Board of Directors:

- a) The total strength of the Board is 12 Directors all being non-executive, except the Managing Director and Vice-Chairman, comprising of 1 (One) Promoter Director, 7 (Seven) Independent Directors and 4 (Four) Non-Independent Directors. The present constitution of Board complies with requirement of revised Clause-49 of Listing Agreement, which stipulates that at least one third of the Board Members should be independent if the Chairman is non-executive director.

S.No.	Name of the Director	Whether Promoter/Executive or Non-Executive/Independent	No. of Board Meetings attended during 2004-05	Whether attended AGM held on 25.09.2004	No. of Directorships in other Public Ltd. Companies	No. of Committee positions held in other Public Ltd. Companies	
						Chairman	Member
1	Shri Ajit Kumar (Chairman)	Non-Executive, Independent	4	NO	-	-	-
2	Shri T. B. Gupta (Executive Vice-Chairman)	Executive, Non-Independent	4	YES	5	1	4
3	Shri S. K. Agarwal (Managing Director)	Executive, Non-Independent	4	YES	3	1	-
4	Shri Ramji Mehrotra	Non-Executive, Non-Independent	0	NO	-	-	-
5	Shri Somesh Mehrotra	Non-Executive, Promoter	4	NO	1	-	1
6	Shri V. K. Goel @	Non-Executive, Promoter	0	NO	11	-	1
7	Shri N. C. Sundararajan	Non-Executive Independent	4	NO	-	-	-
8	Shri A. K. Puri	Non-Executive, Independent	4	NO	2	2	3
9	Shri M. G. Diwan	Non-Executive, Independent	3	NO	6	2	4
10	Dr. S. Ramesh	Non-Executive, Independent	3	YES	2	-	2
11	Shri B. M. Oza	Non-Executive, Independent	4	NO	-	-	-
12	Shri D. D. Chopra	Non-Executive, Independent	2	NO	1	-	-
13	Shri K. K. Soni \$	Non-Executive, Non-Independent	N.A.	N.A.	2	-	-

@ Resigned w.e.f. 10/05/2005

\$ Appointed as Additional Director w.e.f. 25/05/2005.

None of the directors is a member of more than 10 Board-level committees, namely the Audit Committee, the Remuneration Committee and the Shareholders/Investors Grievance Committee or a Chairman of more than five such committees, as required under Clause 49 of the listing agreement. The directorship in other companies excludes directorships in any foreign company, private company and section 25 company.

- b) During the year ended 31/03/2005, 4 (Four) Board Meetings were held with at least one meeting in every Quarter on 26/05/2004, 26/07/2004, 25/10/2004 and 28/01/2005.

- c) The information regarding pecuniary transaction or relationship with the non-executive Directors have been disclosed in Annual Accounts for the year under review in Clause 13 under the head "Notes on Accounts".

- d) Shri V. K. Goel, a Promoter Director, resigned from the Board w.e.f. 10/05/2005.

- e) Shri K. K. Soni was appointed as Additional Director w.e.f. 25/05/2005.

- f) Information supplied to the Board:

VLS board of directors oversees the business conduct, while the Audit Committee comprising majority of independent directors appraises control and procedures. As a result, the Company continuously examines its governance practices to protect investor trust and enhance the board effectiveness. The Board has unfettered and complete access to any information within the Company, and to any employee of the Company. At meetings of the Board, it welcomes the presence of senior executives who can provide additional insights into the items being discussed. Members of VLS management team regularly review the health of each of its business across strategy and performance to staffing and compliance. These business managers extensively monitor the financial performance and operating systems enabling the Company to identify potential risks and opportunities early in their occurrence cycle translating into proactive de-risking.

All other relevant information as and when required including those envisaged in Clause 49 of Listing Agreement was regularly provided to the Board and Committees thereof.

- g) Details of remuneration paid to the Directors during the year ended on 31.03.2005:

S.No.	Name of the Directors	Salary (in Rs.)	Perquisites (in Rs.)	Sitting Fee (in Rs.)	Commissions (in Rs.)	Total (in Rs.)
1	Shri S.K. Agarwal	405000	157070	NIL	NIL	562070
2	Shri T. B. Gupta	362003	159770	NIL	NIL	521773
3	Shri Somesh Mehrotra	N.A.	N.A.	19000	N.A.	19000
4	Shri Ramji Mehrotra	N.A.	N.A.	NIL	N.A.	NIL
5	Shri M.G. Diwan	N.A.	N.A.	9000	N.A.	9000
6	Shri D.D. Chopra	N.A.	N.A.	7000	N.A.	7000
7	Shri V.K. Goel	N.A.	N.A.	NIL	N.A.	NIL
8	Shri B.M. Oza	N.A.	N.A.	49000	N.A.	49000
9	Dr. S. Ramesh	N.A.	N.A.	17000	N.A.	17000
10	Shri N.C. Sundararajan	N.A.	N.A.	19000	N.A.	19000
11	Shri A.K. Puri	N.A.	N.A.	19000	N.A.	19000
12	Shri Ajit Kumar	N.A.	N.A.	11000	N.A.	11000

**Notes:**

- i. Currently, the Company does not have stock option scheme.
- ii. No other compensation, except sitting fee is paid to non-executive directors.
- iii. Shri Somesh Mehrotra and Shri N.C. Sundararajan held 450606 equity shares and 3000 equity shares of the Company respectively as on 31.3.2005. Other directors did not hold any shares of the Company on that date.

ii) AUDIT COMMITTEE:

The Audit Committee comprises of Dr. S. Ramesh (Chairman of the Committee), Shri N. C. Sundararajan, Shri A.K. Puri, Shri Somesh Mehrotra, Shri Ramji Mehrotra, Shri Divy Dipti Chopra and Shri B. M. Oza. The role, terms of reference, authority and powers of the Audit Committee are in conformity with the listing agreement. Majority of the members of the Committee are independent directors including the Chairman of the Committee. The Company Secretary is the Secretary of the Committee. The Statutory Auditor is regularly invited for meeting of said committee. The Internal Auditor, the Managing Director and the Executive Vice –Chairman are also invited for the meeting of Audit committee, when required. Shri N.C. Sundararajan, Shri A.K.Puri and Shri Ramji Mehrotra and Shri D.D.Chopra are eminent figures in the field of corporate finance. All other members of committee are also financially literate in terms of relevant stipulation under Clause 49 of the listing agreement. The minutes of Audit committee are regularly placed before the Board. The whistle blower policy of Company as required under clause 49 of the listing agreement is under formulation and will be put in place after requisite approvals, although the existing working setup also provides unfettered approach to management by the employees in reporting any matter envisaged to be covered in the whistle blower policy.

During the year ended on 31/03/2005, 4 (Four) Audit Committee Meetings were held on 25/05/2004, 26/07/2004, 25/10/2004 and 28/01/2005. The summary of meetings attended by members of committee is as under:

Name	Shri A. K. Puri	Shri N. C. Sundararajan	Shri B.M. Oza	Shri Somesh Mehrotra	Shri D. D. Chopra	Shri Ramji Mehrotra	Dr. S. Ramesh
Attendance in Four Meeting	4	4	4	2	0	0	3

The Board had accepted all the recommendations made by Audit Committee and directed the concerned for proper implementation thereof.

iii) SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE:

The Committee comprises of Shri B.M. Oza, Chairman of the Committee, Shri T. B. Gupta, Shri Somesh Mehrotra, Shri Ramji Mehrotra, Shri Divy Dipti Chopra and Shri S. K. Agarwal. The Board nominated Shri S. K. Agarwal, Managing Director in the Committee w.e.f. 26/05/2004. The Committee is vested with the requisite powers and authority to specifically look into the redressal of the shareholders and investor's grievances. The Board has designated the Company Secretary as the Compliance Officer as well as Secretary of Committee.

During the year under review, 14 (Fourteen) meetings of Shareholders/ Investors Grievance Committee were held on 19/04/2004, 12/05/2004, 12/06/2004, 12/07/2004, 05/08/2004, 16/09/2004, 20/10/2004, 18/11/2004, 10/12/2004, 29/12/2004, 19/01/2005, 15/02/2005, 11/03/2005 and 30/03/2005.

The Committee has delegated the power to approve demat requests individually to Shri B.M. Oza, Chairman, Shri T.B. Gupta, Member and Shri S. K. Agarwal, Member, during the intervening period between two committee meetings as a step for providing better services to Shareholders.

The summary of meetings attended by members of committee is as under.

Name	Shri B.M. Oza	Shri Somesh Mehrotra	Shri D.D. Chopra	Shri T. B. Gupta	Shri Ramji Mehrotra	Shri S.K. Agarwal
Attendance in 14 meetings	13	0	0	14	0	11

iv) DISCLOSURES REGARDING APPOINTMENT OR RE-APPOINTMENT OF DIRECTORS.

According to Article No. 89 of the Articles of Association of the Company, one third of the total strength of Directors are liable to retire by rotation at every Annual General Meeting and if eligible, may offer themselves for re-election. Shri A. K. Puri, Shri M. G. Diwan and Dr. S. Ramesh will retire by rotation in the forthcoming Annual General Meeting and being eligible have offered themselves for reappointment. Further, Shri K. K. Soni who was appointed as Additional Director on 25/05/2005 by the Board is proposed to be appointed as Director of Company liable to retire by rotation and approval whereof is sought from members in the ensuing Annual General Meeting. The Board has recommended the re-election/appointment of all these directors to the shareholders. The relevant information about these Directors has been furnished in notice convening the ensuing Annual General Meeting.

v) GENERAL BODY MEETINGS

Details of the last three Annual General Meetings are given below.

Financial year ended	Date	Time	Venue
March 31, 2002	September 25, 2002	10.30 a.m.	Air Force Auditorium, Subroto Park, New Delhi.
March 31, 2003	September 25, 2003	10.30 a.m.	Sri Sathya Sai International Centre Auditorium, Lodhi Road Institutional Area, Lodhi Road, Pragati Vihar, New Delhi-110003
March 31, 2004	September 25, 2004	10.30 a.m.	Sri Sathya Sai International Centre Auditorium, Lodhi Road Institutional Area, Lodhi Road, Pragati Vihar, New Delhi-110003

Special resolution passed in the previous 3 Annual General Meetings (AGM):

- In the AGM held on 25.9.2004, special resolution for appointment of Mrs. Usha Gupta at place of profit in VLS Securities Ltd., a wholly owned subsidiary of the Company was passed.
- In the AGM held on 25.9.2003, special resolutions for amendment in object clause of Memorandum of Association of the Company and approval of delisting of shares from stock exchanges at Delhi, Ahmedabad, Madras and Calcutta were passed through postal ballot. Shri R.K. Pandey, Former Executive Director of Delhi Stock Exchange and Scrutinizer appointed for said purpose by the board, conducted the postal ballot exercise. The summary of votes received is as under:

S. No.	Resolution	Total number of votes in favour of the resolution	Total number of votes against the resolution	Invalid Votes	Result
1	Alteration in Objects Clause of the Memorandum of Association of the Company.	1,09,38,450	9,950	2,500	Passed as Special Resolution
2	Voluntary delisting of the equity shares of the Company from Delhi, Ahmedabad, Calcutta, Madras and Uttar Pradesh Stock Exchanges.	1,09,35,250	8,950	6,700	Passed as Special Resolution

- In the AGM held on 25.9.2002, special resolution for amendment in Articles of Association of the Company was passed.

vi) LEGAL PROCEEDINGS

There are certain pending cases relating to disputes over title to shares, in which the Company has been made a party. However, these cases are not material in nature.

(vii) POSTAL BALLOTS

During the year under review the members had approved the following matter by postal ballot:

- Amendment in Object Clause of Memorandum of Association of Company by insertion of sub sub clause 5 in the 'Main Objects' and sub sub clause nos. 57, 58 & 59 in the 'Other Objects'.

An Extra-ordinary general meeting of the Company was held on 29.3.2005 to declare the result of postal ballot through which special resolution for amendment in objects clause of Memorandum of Association was passed. Shri R. K. Pandey, former Executive Director of Delhi Stock Exchange and Scrutinizer appointed for said purpose by the board, conducted the postal ballot exercise. The summary of votes received is as under:

S. No.	Resolution	Total number of votes in favour of the resolution	Total number of votes against the resolution	Invalid Votes	Result
1	Alteration in Objects Clause of the Memorandum of Association of the Company.	14501759	6960	10600	Passed as Special Resolution

The amendment has since been registered by the Registrar of Companies, NCT of Delhi and Haryana in terms of Section 18 of Companies Act 1956 as per registration certificate dated 05/05/2005.

No item is proposed to be transacted through Postal Ballot in ensuing Annual General Meeting.



(viii) SUBSIDIARY COMPANIES

The Company does not have a material non-listed Indian subsidiary in terms of revised clause 49 of the listing agreement ("Clause 49") as per financial results of the period under review, i.e. Financial Year 2004-05. In terms of the approval given by Reserve Bank of India, the operation of wholly owned subsidiaries (WOS) at Luxembourg namely, VLS International S.A. and VLS Iris India Advisory S.A. have been closed down & on 18.06.2004, a new subsidiary namely, VLS Investments Inc. was incorporated at Delaware, USA. The statutory closure of the subsidiaries at Luxembourg is under progress and their assets have been transferred to VLS Investments Inc. at book value as on 31.07.2004.

(ix) SHAREHOLDERS INFORMATION:

A. Annual General Meeting

Date and Time : Friday, the 23rd September, 2005
Venue : Sri Sathya Sai International Centre Auditorium,
Lodhi Road Institutional Area,
Lodhi Road, Pragati Vihar,
New Delhi-110003

B. - Book Closure: 18/09/2005 to 23/09/2005 (both days inclusive).

- Dividend payment date: Not Applicable as no dividend has been recommended.

- Buy back of shares: During the year under review, there was no proposal by the Company to buy back its shares.

C. Registrar and Transfer Agents and Share Transfer System

The Company has retained M/s RCMC Share Registry Pvt. Ltd., as its Registrar & Transfer Agents for further period of one year w.e.f. 01/04/2005 for entire shareholder services viz. processing request for transfer, other shareholder services, dematerialisation of holding, providing connectivity services with depositories in compliance of SEBI's circular No.D&CC/F/TT/CIR-15/2002 dated 27/12/2002.

D. Investors Correspondence

For any query relating to transfer/transmission of shares, dematerialisation, change of address etc. please write to M/s RCMC Share Registry Pvt. Ltd, Registrars and Transfer Agents of the Company, at 1515, 1st floor, Bhishm Pitamah Marg, Kotla Mubarakpur, near South Extension, New Delhi-110003 (Phone No. 24692346, 24601017). For any further assistance in said matters, queries may be addressed to the Company Secretary at the Registered office of the Company.

E. Shareholders Complaints.

The Company received 6 (Six) complaints during the financial year ended 31st March 2005. None of the complaints received are pending as on date.

All complaints whether received through SEBI, Stock Exchange or individuals during the year, were redressed to the satisfaction of Investors and none remained outstanding at the end of the year under report.

Nature of Complaints**	Received	Redressed
Non-receipt of Dividend	1	1
Non-receipt of shares after transfer	0	0
Non-receipt of Annual Report	3	3
Non-receipt of Bonus Shares	1	1
Non-receipt of Name change sticker	0	0
Non-receipt of Endorsement Sticker	0	0
Loss of shares/for duplicate shares	0	0
Non-receipt of share certificate after Rejection of Demat request.	1	1
Total	6	6

** Complaint received from multiple sources e.g. from SEBI, Stock Exchange etc. has been treated as one complaint but a complaint if sent again by SEBI/ Stock Exchange has been treated as fresh complaint.

General correspondence e.g. changes of address, enquiry on dividend for the year, ISIN No. of the Company etc. have been excluded from above.

F. Dematerialisation of Shares and Liquidity:

77.30% of the total share holdings of equity shares have been dematerialized up to 31/03/2005. Trading in Company's shares is permitted only in demat form w.e.f. 28/08/2000 as per notification issued by the Securities and Exchange Board of India.

G. Listing at Stock Exchanges

The Shares of the Company are listed at following Stock Exchanges:

1. The Stock Exchange, Mumbai. (Code: 511333)
2. National Stock Exchange, Mumbai. (Code: VLSFINAC)
3. The Calcutta Stock Exchange Association Ltd, Kolkata.
4. The Madras Stock Exchange Ltd., Chennai.

The annual listing fee has been paid to all the Stock Exchanges as mentioned above including arrears. Consequent to application of Company for voluntary delisting of shares under SEBI Guidelines the equity shares of the Company have been delisted from The Stock Exchange Ahmedabad w.e.f. 31/03/2005 vide letter No. ASE/2005/6666 dated March 22, 2005. However, de-listing confirmation is yet to be received from The Calcutta Stock Exchange Association Ltd- Kolkata and The Madras Stock Exchange Ltd.-Chennai.

H. Communication to shareholders:

The Company does not send newsletter to shareholders on quarterly or half yearly basis. The Company publishes un-audited quarterly results alongwith segment wise report, in two newspapers viz. The Financial Express and Jansatta regularly and the same is also available on Company's website <http://www.vlsfinance.com>. The official news releases and presentations made to analysts/ institutional investors shall also be posted on the website as and when made. No presentation was made by company to Analysts etc during the year under review. The Management Discussion and Analysis forms part of Annual Report for the year under review. The Company, however, assumes no responsibility in respect of forward looking statements, which may be amended or modified in future on the basis of subsequent developments or events. Further, from the quarter ended 31/12/2003, the quarterly/ Annual results of Company and other information as prescribed are also available on website sebidifir.nic.in in which is maintained under aegis of Securities & Exchange Board of India.

I. Distribution of shareholding as on March 31, 2005.

Slab of share holdings No. of shares	No. of shares holders	%age	Nominal value of shares held in (Rs.)	%age
1-500	9177	31.8535	24698770	6.2065
501-1000	15691	54.4637	98700510	24.8022
1001-2000	2514	8.7261	35551010	8.9335
2001-3000	623	2.1624	16031190	4.0284
3001-4000	192	0.6664	6902300	1.7345
4001-5000	161	0.5588	7503810	1.8856
5001-10000	282	0.9788	19710770	4.9531
10001 and above	170	0.5901	188851640	47.4561
Total	28810	100.0000	397950000.00	100.0000

Distribution of Shareholding according to categories of shareholders as on March 31, 2005

Serial No.	Categories	No. of shares	Amount in Rs.	Percentage of shareholding
1	Promoters, Directors and Relatives	15002868	150028680.00	37.7076
2	Financial Institution and Banks	9600	96000.00	0.0271
3	Mutual Fund	100	1000.00	0.0003
4	FIs	300	3000.00	0.0008
5	Corporate Bodies	2616589	26165890.00	3.4951
6	Indian Public	22089253	220892530.00	58.7426
7	NRI/OCBs/FN	76290	762900.00	0.0266
	Grand Total	39795000	397950000.00	100.0000

J. Stock Market data related to shares listed in India:

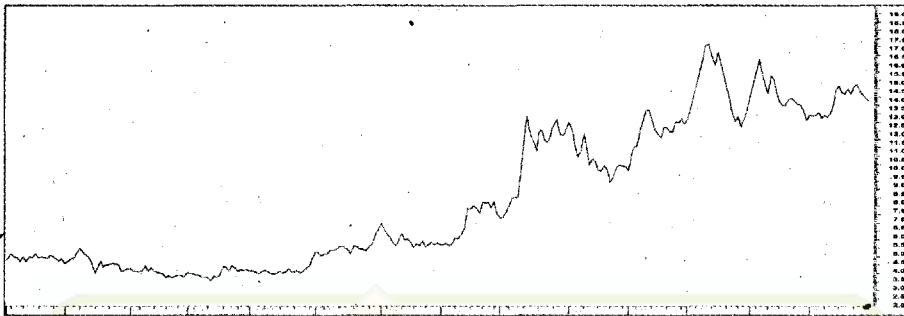
(Source: Metastock)

Monthly highs, lows and trading volume for Financial Year-2004-2005.

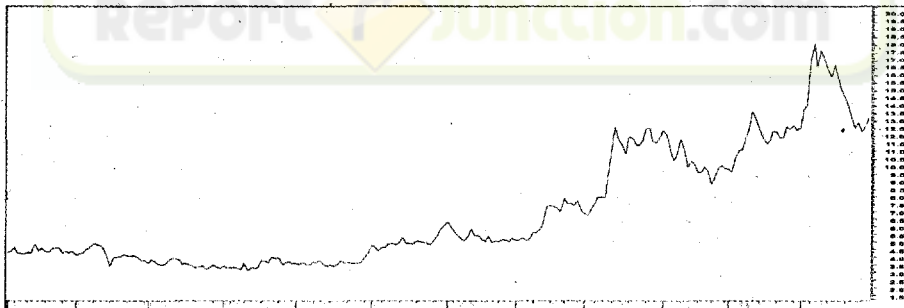
Date	NSE			BSE		
	high Rs.	low Rs.	volume Nos.	high Rs.	low Rs.	volume Nos.
Apr-04	4.95	4.00	82601	4.89	3.78	124716
May-04	5.10	3.40	105098	5.00	3.38	143978
Jun-04	4.15	3.20	57854	4.00	3.13	58461
Jul-04	4.05	3.05	85170	4.50	3.05	106056
Aug-04	4.35	3.35	151366	4.36	2.91	164855
Sep-04	6.30	4.35	603735	6.30	4.42	552660
Oct-04	6.80	5.00	343556	6.67	4.59	433568
Nov-04	8.75	5.00	797792	8.85	5.00	1016735
Dec-04	14.15	6.75	3958163	13.87	6.40	3056321
Jan-05	12.80	8.80	1636442	12.75	8.71	1068979
Feb-05	13.90	9.50	2785317	13.50	9.60	2294332
Mar-05	17.95	12.05	2680134	18.19	11.85	5938750
Total:			13287228			14969411

Graphical representation of Shares Price in NSE and BSE vis-à-vis Index Movement:

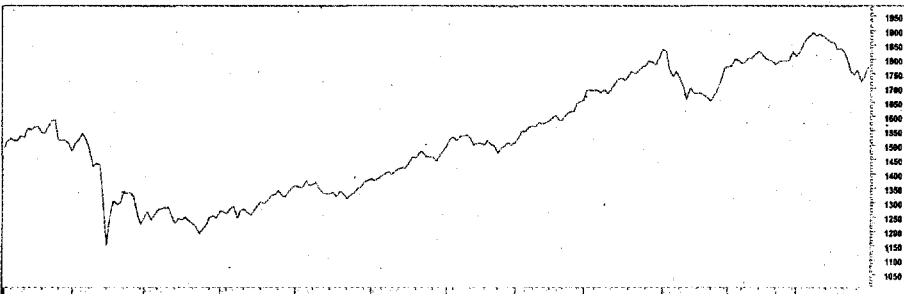
NSE Graph of VLS Finance Ltd



BSE Graph of VLS Finance Ltd.



NSE Nifty



BSE Sensex

