

I
ANNUAL
REPORT

INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

NOTICE OF THE FIRST ANNUAL GENERAL MEETING TO BE HELD ON JULY 10, 1999

NOTICE is hereby given that the First Annual General Meeting of the Members of Inter-connected Stock Exchange of India Limited will be held on Saturday, the 10th day of July 1999 at 2.30 p.m. at the Registered Office of the Company at International Infotech Park, Tower 7, 5th floor, Sector 30, Vashi, Navi Mumbai - 400 703 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as on 31st March 1999, Profit & Loss Account for the period ended on that date and the Auditors' and Directors' Report thereon.
2. To approve the appointment of the Nominee of Gauhati Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
3. To approve the appointment of the Nominee of Vadodara Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
4. To approve the appointment of the Nominee of Bangalore Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
5. To approve the appointment of the Nominee of Magadh Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
6. To approve the appointment of the Nominee of Uttar Pradesh Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
7. To approve the appointment of the Nominee of Cochin Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
8. To approve the appointment of the Nominee of Bhubaneshwar Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
9. To approve the appointment of the Nominee of Coimbatore Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
10. To approve the appointment of the Nominee of Jaipur Stock Exchange as a Director whose term of office shall be liable to retirement by rotation.
11. To appoint the Auditors and to fix their remuneration.

SPECIAL BUSINESS:

Item No.12:

To consider, and if thought fit, to pass with or without modification(s), the following resolution as a " SPECIAL RESOLUTION ":

"RESOLVED THAT in accordance with the provisions of Section 31 and all other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of SEBI and/or other competent authority, if any, the existing Article 20.8 of the Articles of Association of the Company be and is hereby amended by way of insertion of the following additional provisions at the end of the present proviso:

"Provided further that the following criteria shall also be applicable to an individual Trader or the Whole-time Director/Designated Director of a Corporate Trader who is nominated by a participating Member Exchange on the Board of the Company.

(A) In case of individual Traders

No Trader shall be eligible to be nominated as a Member Director on the Board of the Company:

1. if he is not a citizen of India.
2. if he has at any time been declared a defaulter or failed to meet his liabilities in the ordinary course or compounded with his creditors.
3. if he has transferred his membership right in favour of any other person at the Participating Stock Exchange which has nominated him as a Member Director on the Board of the Company.
4. if he had been expelled or suspended by the Board of the Company or by the Board of the Participating Stock Exchange.
5. if he fails to maintain the prescribed Base Minimum Capital with the Company as provided in these presents.
6. if he fails to carry on business on the Company.

(B) In case of Corporate Traders

In case of Corporate Traders, one of its Whole-time Directors/Designated Directors, subject to fulfillment of the above-mentioned conditions for individual Traders, would also satisfy the following condition to be eligible for nomination as a Director on the Board of the Company:

In case the director resigns/retires from the Board of Directors of the Corporate Trader or removed from the Board of Directors of the Corporate Trader, the post on the Board of the Company will fall vacant and this vacancy will be filled by the concerned Participating Stock Exchange as per the Rules of the Company and the Corporate Trader will not have any right to replace the nominee on the Board of the Company.

Provided further that in the event of suspension of trading, suspension of registration as Stock Broker because of any disciplinary action taken against the Trader by the Company, Participating Stock Exchange or by SEBI, the Trader so nominated shall not be eligible to continue on the Board of the Company and shall also not be eligible to be nominated on the Board of the Company for a period of two years from the date of expiry of such suspension of trading or suspension of registration,

Provided further that a Trader whose registration has been cancelled would not be allowed to continue on the Board of the Company or be eligible to be nominated on the Board of the Company,

Provided further that the persons falling in the category of Notified persons as per the Special Courts (Trial of offences relating to Transactions in Securities) Act, 1992, would not continue on the Board of the Company and would not be eligible to be nominated on the Board of the Company for a period of two years from the date the person is de-notified under the said Act."

Item No.13:

To consider, and if thought fit, to pass with or without modification(s), the following resolution as a " SPECIAL RESOLUTION ":

"RESOLVED THAT in accordance with the provisions of Section 31 and all other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of SEBI and/or other competent authority, if any, the existing Article 25.1 to 25.5 of the Articles of Association of the Company be and are hereby deleted.

Further, all such powers provided to the Executive Committee in these present, Rules, Bye-laws and Regulations will now reside with the Board and the Board may delegate all or any such power to the relevant authority from time to time."

BY ORDER OF THE BOARD

JOSEPH MASSEY
MANAGING DIRECTOR

CERTIFIED-TRUE COPY
FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.

Place: Vashi, Navi Mumbai
Date: June 5, 1999

Note:

Joseph Massey
Managing Director

1. All the Members are requested to forward to the Company certified copies of the Board Resolutions authorising their representatives to attend the Meeting and to exercise such other rights along with duly attested signatures of such representatives.
2. An explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of Special Business to be transacted at the Meeting is enclosed herewith.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:

In respect of Item No.12

SEBI vide its letter no. SMD/POLICY/IECG/5694/96 dated December 20,1996 and letter No. SMD/POLICY/IECG/886/24-97 dated February 25,1997 had directed the Exchanges to amend relevant provisions of the Articles of Association of the Company providing for eligibility criteria for an individual member or a Whole-time Director/ Designated Director of a Corporate Member to be elected as a Member on the Board of Directors of the concerned Stock Exchange.

In ISE's case, members of the Company refers to the Participating Stock Exchanges. Therefore, the eligibility criteria specified vide the above-referred SEBI letters are applicable to an individual Trader or a Whole-time Director/Designated Director of a Corporate Trader who is duly nominated by the concerned Participating Stock Exchange on the Board of our Company.

SEBI vide its letter no. SMDRP/Policy/cir-22/98 dated November 12, 1998 had further directed the Company to amend the relevant provisions of the Articles of Association with regard to the eligibility criteria for the Member Directors on the Board of Directors of the Company.

Hence, the existing Article 20.8 of the Articles of Association of the Company is required to be amended as stated in the Resolution.

Therefore, this resolution is placed for your appropriate action.

None of the Members of the Board of Directors is concerned or interested in the Resolution.

In respect of Item No.13

Article 25.1 to 25.5 of the Articles of Association of our Company provides for the constitution of Executive Committee(s) and matters related thereto. The Articles of Association of the Company were, by and large, framed on the basis of Articles of Association of National Stock Exchange, whose Board does not have representatives of Trading Members, and therefore, an Executive Committee having representation of Trading Members was necessary. However, in ISE's case, its Board comprises of representatives of Traders and further, the Board meets regularly. Hence, constitution of an Executive Committee could result in duplication of authority, without yielding any commensurate benefit. The Board, in ISE's case, is vested with the authority for all policy and operational decisions. Therefore, it is proposed that the provisions relating to the constitution of the Executive Committee may be deleted from the Articles of Association. The required resolution is placed before the Members for necessary action.

None of the Members of the Board of Directors is concerned or interested in the Resolution.

BY ORDER OF THE BOARD

JOSEPH MASSEY
MANAGING DIRECTOR

Place: Vashi, Navi Mumbai
Date: Jun-5, 1999

CERTIFIED TRUE COPY
FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.

Inter-connected Stock Exchange
Of
India Ltd.

First Annual Report

1998-99

Registered Office : INTERNATIONAL INFOTECH PARK
TOWER NO. 7, FIFTH FLOOR
SECTOR 30, VASHI
NAVI MUMBAI - 400 703
MAHARASHTRA

Phones: 7812056, 7812058
Fax: 7812061
Internet: [URL:http://www.iseindia.com](http://www.iseindia.com)
Email: isesc@bom3.vsnl.netin

Corporate Mission

The mission of Inter-connected Stock Exchange of India Limited (ISE) is to consolidate the small, fragmented and illiquid regional markets into a large, efficient and liquid national-level market, using state-of-the-art computer and communication systems in a highly cost-effective manner. To achieve this mission, ISE has set for itself the following goals:

- Provide cost-effective and efficient trading, clearing and settlement and risk management systems.
- Provide investor protection through a credible and transparent management structure.
- Provide decentralized investor grievance redressal and centralised risk management.

- Provide investors across the country with trading access through additional trading facilities.
- Widen the segments and products offered at regional level with minimum time lag and in a cost-effective manner.
- Ensure development and growth of retail investor segment through regional Exchanges.
- Create an investor-friendly Exchange, having a high degree of focus on credibility, investor protection, system-driven risk management and transparency.
- Create a fair, orderly and efficient national-level market for regional investors.
- Reduce risk in inter-exchange dealings.

Participating Exchanges

ISE has been promoted by the following Regional Stock Exchanges in the country:

S.R. NO.	NAMES OF THE STOCK EXCHANGE
1.	Gauwahati Stock Exchange
2.	Vadodara Stock Exchange
3.	Bangalore Stock Exchange
4.	Magadh Stock Exchange
5.	Uttar Pradesh Stock Exchange
6.	Cochin Stock Exchange
7.	Bhubaneshwar Stock Exchange
8.	Coimbatore Stock Exchange
9.	Jaipur Stock Exchange
10.	Hyderabad Stock Exchange
11.	Saurashtra Kutch Stock Exchange
12.	Madhya Pradesh Stock Exchange
13.	Bangalore Stock Exchange
14.	Ludhiana Stock Exchange
15.	Madras Stock Exchange

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

Board Of Directors

- | | |
|----------------------------------|--|
| 1. Shri M. R. Mayya | Chairman (w.e.f. 1.5.1999) |
| 2. Shri P. C. Shrimal | Nominee - Hyderabad Stock Exchange
(w.e.f. 22.1.1998) |
| 3. Shri Pankaj J. Shah | Nominee - Bangalore Stock Exchange
(w.e.f. 22.1.1998) |
| 4. Shri Ashok K. Sardana | Nominee - Bhubaneshwar Stock Exchange
(w.e.f. 22.1.1998) |
| 5. Shri D. Balasundaram | Nominee - Coimbatore Stock Exchange
(w.e.f. 22.1.1998) |
| 6. Shri Govind Khandelwal | Nominee - Madhya Pradesh Stock Exchange
(from 22.1.1998 to 1.8.1998) |
| Shri Yogendra Kumar Surana | Nominated in place of Shri Govind Khandelwal
(w.e.f. 1.8.1998) |
| 7. Shri Vishnubhai I. Patel | Nominee - Vadodara Stock Exchange
(from 22.1.1998 to 15.5.1999) |
| 8. Shri Ashish M. Parikh | Nominee - Mangalore Stock Exchange
(w.e.f. 22.1.1998) |
| 9. Shri Ramswaroop Joshi | Nominee - Gauhati Stock Exchange
(from 22.1.1998 to 20.3.1998) |
| Shri Pukhraj Lunkar | Nominated in place of Shri Ramswaroop Joshi
(from 20.3.1998 to 10.1.1999) |
| Shri Jambu Kumar Jain | Nominated in place of Shri Pukhraj Lunkar
(from 10.1.1999 to 17.5.1999) |
| 10. Shri Deen Dayal Sarada | Nominee - Uttar Pradesh Stock Exchange
(from 22.1.1998 to 1.5.1999) |
| Shri Hari Krishan Garg | Nominated in place of Shri Deen Dayal Sarada
(w.e.f. 1.5.1999) |
| 11. Shri P. C. Nayak | Public Representative Director
(w.e.f. 1.5.1999) |
| 12. Shri Umesh R. Dangarwala | Public Representative Director
(w.e.f. 1.5.1999) |
| 13. Dr. Prasanna Chandru Shrimal | Public Representative Director
(w.e.f. 1.5.1999) |

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|-------------------------|--|
| 14. Prof. B. P. Apte | Public Representative Director
(w.e.f. 1.5.1999) |
| 15. Justice A. D. Tated | Public Representative Director
(w.e.f. 1.5.1999) |
| 16. Shri P. K. Bindlish | SEBI Nominee Director
(w.e.f. 1.5.1999) |
| 17. Shri R. Vasudevan | SEBI Nominee Director
(from 1.5.1999 to 4.5.1999) |
| Shri K. Pandian | SEBI Nominee Director
(w.e.f. 4.5.1999) |
| 18. Shri Joseph Massey | Managing Director
(w.e.f. 22.1.1998) |
| 19. Shri V. Shankar | Whole-time Director
(w.e.f. 22.1.1998) |

BANKERS

ABN AMRO BANK N.V., NARIMAN POINT, MUMBAI
THE VYSYA BANK LIMITED, VASHI, NAVI MUMBAI

AUDITORS

M/S. C. C. CHOKSHI & CO.
CHARTERED ACCOUNTANTS, MUMBAI

LEGAL ADVISOR

M/S HARIANI & CO., MUMBAI

COMPANY LAW CONSULTANT

M/S S. D. ISRANI & CO., MUMBAI

TECHNICAL CONSULTANT

NATIONAL CENTRE FOR SOFTWARE TECHNOLOGY, MUMBAI

DIRECTORS' REPORT

The Board of Directors of Inter-connected Stock Exchange of India Ltd. is pleased to present its First Annual Report for the period January 22, 1998 to March 31, 1999, being the first Financial Year together with the Auditors' Report and the Accounts made up to that date

FINANCIAL HIGHLIGHTS

Financial Highlights for the period January 22, 1998 to March 31, 1999 are given below:

	<i>Rs. in '000s</i>
Total Income	2448
Employee Costs	1940
Administration and Operational Expenses	8418
Interest	962
Depreciation	1814
Total Expenditure	13134
Excess of Expenditure over Income carried forward	10686

FUNDING OF THE PROJECT

The Exchange has received Rs.1048.50 lakhs as admission fees and contributions for infrastructure development from the member exchanges upto March 31, 1999. The above amount is expended towards the capital expenditure towards the Project and the Project related recurring expenses. The amount further receivable from exchanges for contributions towards infrastructure development as on March 31, 1999 amounts to Rs.444 lakhs.

Further, it was decided by the Board of ISE on May 1, 1999 that the Project Cost is being revised from Rs. 14.72 crores to Rs. 17.20 crores and consequently the contribution towards project cost required to be made by each participating exchange stood revised at Rs. 1.50 crores.

During the period under reference, the capital market has witnessed a lot of changes:

A. PRIMARY MARKET

Resource mobilisation continued to suffer from poor investor response in the primary market for public and rights issues, which have been adversely affected not only by the risk aversion of small investors to new issues but also by the lack of sustained buoyancy in the secondary market and underlying sluggishness of industry. Mobilisation of substantial amount has, however, taken place through private placement.

During 1998-99, fund mobilised by Indian corporates - domestic as well as overseas offerings totalled upto Rs.58, 280 crore as against Rs. 46,658 crore in 1997-98. This includes funds mobilised through public, rights and privately placed issues and offerings by financial and non-financial corporates, banks and financial institutions as well as mutual fund schemes (excluding US-64).

Public and rights issues accounted for Rs.13, 808 cr. and Rs. 3,580 cr., respectively, while the bulk of total amount was raised through private placement amounting to Rs. 22,794 cr. Overseas offerings accounted for Rs. 18,099 cr. largely due to Rs.17, 800 cr. raised by SBI through Resurgent India Bond. Out of the total Rs. 40,182 cr. raised from the domestic capital markets, government accounted for three-fourth share, the remaining one-fourth being raised by private sector. Banks and financial institutions have become an important player in the primary capital market having raised Rs. 4,053 cr. and Rs.13, 917 cr., respectively, during 1998-99. State government agencies and local municipal bodies have also raised substantial amount from the primary capital market. During 1998-99, a total of Rs. 6,095 cr. was raised by these issuers.

B. SECONDARY MARKET

The secondary market witnessed extreme volatility mainly due to the political uncertainty. It was dominated by longer spells of bear phase and shorter spells of bull phase. Union Budget 1999-2000 provided a major push to the market which was negated by the subsequent resignation of the Vajpayee government. The Sensex closed lower by 152.79 points from 3892.75 on 31st March 1998 to 3739.96 on 31st March 1999. During the year, it crossed 4000 mark in April touching a yearly high of 4280.96 on 21st April 1998 and a low of 2764.16 on 20th October 1998. S&P CNX Nifty also closed lower on 31st March 1999 at 1078.05 as compared to 1150.1 on 1st April 1998. The minimum and maximum values of Nifty were 1212.75 on 21st April 1998 and 808.7 on 20th October 1998 respectively.

Measures taken to boost investor interest in the secondary segment of the capital market include Companies (Amendment) Ordinance and the framing of SEBI Regulations enabling companies to buy-back their shares, requirement to publish unaudited results by listed companies on quarterly basis, amendment of SEBI Takeover Regulations, introduction of compulsory demat trading, rolling settlement in respect of demat securities and stringent margin requirements to curb excess volatility in share prices.

With the setting up of NSE terminals across the country and expansion of BSE's BOLT system in a large number of cities, the smaller Regional Stock Exchanges (RSEs) have seen substantial erosion in their market share. Over 70% of all-India turnover is now accounted for by NSE and BSE followed by Calcutta and Delhi Stock Exchanges. All other Exchanges put together account for 7% of total turnover. The share of smaller Exchanges is on decline during the last few years as revealed by the following statistics about turnover at Stock Exchanges in the country:

STOCK EXCHANGE
NSE
MUMBAI
CALCUTTA
DELHI
ISE EXCHANGE
AHMEDABAD
PUNE
OTCEI
ALL-INDIA

* 15 Stock

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ISE has been Exchanges th their respecti and settleme designated p Mumbai.

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STOCK EXCHANGE	1998-99		1997-1998		1996-1997	
	RS. CRORES	TO TOTAL %	RS. CRORES	TO TOTAL %	RS. CRORES	TO TOTAL %
NSE	4,14,383	40.49	3,69,934	40.71	2,94,504	45.58
MUMBAI	3,11,999	30.49	2,07,383	22.82	1,24,284	19.24
CALCUTTA	1,71,780	16.79	1,78,778	19.67	1,05,664	16.35
DELHI	51,759	5.06	67,840	7.47	48,631	7.53
ISE EXCHANGES*	36,132	3.53	45,226	4.98	42,376	6.56
AHEMEDABAD	29,734	2.91	30,771	3.39	20,533	3.18
PUNE	7,453	0.73	8,624	0.95	9,903	1.53
OTCEI	142	0.01	125	0.01	221	0.03
ALL-INDIA	10,23,382	100.00	9,08,681	100.00	6,46,116	100.00

* 15 Stock Exchanges that have promoted ISE.

In contrast to the total turnover of RSEs, the combined financial strength of the RSEs is satisfactory. Following are the key financial statistics of the 14 RSEs (promoters of ISE except Madras Stock Exchange) for 1997-98:

	(Rs. '000)
Reserves & Surplus	9,97,048
Networth	14,00,888
Fixed Assets	13,29,758
Investments	2,24,052
Listing Fees	1,19,903
Total Income	2,79,785
Total Expenditure (Excl. Depreciation)	1,71,611

A major cause for the decline in market share of smaller Exchanges is the fragmentation of market resulting in low liquidity and poor volumes on individual Exchanges. The shift of business from local Exchange to BSE/NSE further accentuated this trend. The consolidation of market place, therefore, became necessary for providing liquidity at smaller Exchanges scattered across the country.

Most of these smaller Exchanges decided to consolidate their respective markets by jointly promoting a new Exchange. The process of consolidation was, however, different from the usual merger route and it was achieved by the inter-connectivity of Regional Stock Exchanges through a subsidiary company in the form of an apex Exchange. Consequently, on 5th November 1996, a decision was taken to set up a corporate body named as Indian Stock Exchanges Services Corporation for taking up the Project of Inter-Connectivity of Markets. The name of the Company was later changed to Inter-Connected Stock Exchange of India Limited (ISE) in June, 1997. On 22nd January, 1998, ISE was incorporated with RoC, Maharashtra as a company limited by guarantee.

ISE has been promoted by 15 RSEs in the country. It has connected the participating Exchanges through satellite technology. The brokers of participating RSEs can trade on their respective Exchanges and simultaneously on the ISE segment. The actual clearing and settlement is carried out at the premises of the member RSEs with the help of ISE designated personnel located at those centres and under the control and direction of ISE, Mumbai.

At the present moment, ISE does not have its own Member Brokers and all brokers of the RSEs numbering about 4,500 (2,500 active members) would be eligible to be registered

as Traders on ISE. All the companies listed at RSEs numbering about 3,500 and another 4,000 scrips listed on other Exchanges would be tradeable on ISE as permitted securities. ISE, thus, has the potential to emerge as India's largest market in terms of number of eligible member brokers and number of scrips traded.

The creation of a national market will provide the brokers of the RSEs and individual investors in the regions an opportunity to approach the more liquid national level market. ISE provides such investors an opportunity to trade at national level with similar confidence level and conveniences, like at their local Exchange but with much greater safeguards, as are normally associated with a National Market. The liquidity will also increase in the market as the scrips listed at 15 RSEs can be simultaneously traded at all the member-Exchanges by a large number of investors and intermediaries.

HOW THE TRADER WORKSTATION FUNCTIONS

- ⊕ **Order Management**
Allows the Traders to submit, modify and withdraw orders from the market. TESA supports market orders as well as limit orders.
- ⊕ **Market View**
Allows the traders to view the market including the 10 best bids and offers for the active and the best bid and offer for the others. In all cases, the total depth of the market is displayed.
- ⊕ **Market Statistics**
The Traders is provided up-to-date information about the various market statistics. Indices, Top 10 instruments, Gainers and Losers are also displayed.
- ⊕ **Broker Hierarchy**
The Traders can set up a Trading hierarchy - Senior Traders (Main Brokers) and Junior Traders (Sub-Brokers). The main broker can view all the activities of their respective junior traders and can also set trading limits.
- ⊕ **Configuration**
Multiple views of the market and Order Books can be configured and saved for later use. This utility allows the creation of Stock Baskets and Trader groups.
- ⊕ **Hot Keys**
The Trader Workstation has been specifically designed for supporting quick response to the changing market conditions, which can be invoked with a single keystroke. Bulk submission and withdrawal of orders to and from the market are also possible.

CLEARING & SETTLEMENT

ISE has established national level securities clearing system with the assistance of Elbee Courier and also a national level fund transfer system through ABN AMRO Bank and Vysya Bank. ISE has set up a Settlement Guarantee Fund to guarantee all settlement dues of a Trader and has also procured an insurance cover from New India Assurance for addressing various risks in the system.

ISE follows a trading cycle of Thursday to Wednesday, while all its Participating Exchange follow a uniform trading cycle of Tuesday to Monday.

Till 31.03.1999, 5 settlements were completed and till date (as on 15.05.1999), 11 settlements have been completed.

ISE has set up a delivery mechanism wherein total delivery-in and delivery-out obligations will be netted at the RSE level. Traders would be delivering the securities sorted out Exchange-wise and Trader-wise on the delivery-in day to the local clearing house of ISE. Securities movement from one RSE to the other RSE would be done by courier after Exchange level netting. Following table shows the inter-Exchange movement of securities packets through ISE from the first settlement beginning 26th February 1999 till 19th May 1999:

Originating RSE	Destination RSE (No. of packets moved)										
	Bangalore	Bhubaneswar	Cochin	Coimbatore	Hyderabad	Indore	Kanpur	Mangalore	Patna	Rajkot	Vadodara
Bangalore			2	1	1					1	2
Bhubaneswar											
Cochin				2	1			1		2	1
Coimbatore	2		1						3	1	
Hyderabad	3		3					1		1	
Indore				3						2	
Kanpur											
Mangalore	2			1						1	1
Patna	1	1	5	7		1		1		2	
Rajkot	2					1					1
Vadodara	6		3	1	2				1	1	

RISK MANAGEMENT & SURVEILLANCE

ISE has set up a risk management & surveillance system (RMS) that is system-driven to monitor the positions of Traders on a real time basis to prevent them from taking larger than acceptable risk at any point of time. Following are certain important areas of the RMS:

- Intra-day trading limits - Traders are allowed to trade 33.33 times their Base Minimum Capital and 25 times their Additional Capital, if any. The trading limit on the turnover is the sum of purchases and sales on a trading day.
- Gross exposure limits - each Trader can have a maximum gross exposure of 12.5 times of Base Minimum Capital deposited by the Trader and 10 times of the Additional Capital tendered by him, if any. The gross exposure at any point of time is the sum of net purchases and net sales.
- Net Exposure Limits - net exposure is the difference of net purchases and net sales. A prudential multiple of the capital adequacy amount can be set as the net exposure limit.
- Real time mark-to-market profits and losses: the system does not permit a cumulative loss (mark-to-market notional loss as well as trading / booked loss) to cross 75% of the Base Minimum Capital (BMC) and Additional Capital, if any. Further trading after reaching this limit is possible only after the appropriate loss margin is deposited by the concerned Trader.
- Margins - the risk in the market is controlled by imposition of various types of margins, viz. Gross Exposure Margins, Mark-to-Market loss margins, Net Exposure Margins, Additional Volatility margins, Concentration margins and Scrip/Trader specific adhoc margins.
- Daily circuit filters - scrip price volatility is controlled through imposition of daily circuit filter limits, beyond which the prices of the scrips are not allowed to move.

- Stock Watch System - the Exchange is at an advanced stage of implementing the Stock Watch System - Phase I, as required by SEBI. The issuer database would have all the features prescribed by SEBI. ISE proposes to go a step ahead, by making available duly vetted corporate information for further dissemination to the investors/clients of the Traders to enable them to take more informed investment decisions.

REGISTRATION OF TRADER AT ISE.

Only member brokers of the Participating Exchanges registered as Stock Brokers with SEBI are eligible to be registered as Traders on ISE. Presently, for registration, Traders are required to pay ISE registration charges of Rs.5000, SEBI registration charges of Rs.5, 000, Rs.5, 000 towards Settlement Guarantee Fund, Rs.8, 925 towards Insurance Premium and Annual Subscription of Rs.1, 000. The charges are subject to change from time to time, as may be decided by the Board.

ISE has received a total of 294 applications till 3rd June 1999 from the Participating Exchanges. Of these, 193 Traders have been registered with SEBI. 93 applications are pending with SEBI/ISE on account of lack of documents/completion of formalities, while 8 applications have been rejected due to negative networth. While Gauhati and Jaipur Stock Exchanges are expected to participate by July 1999, Madras and Ludhiana Stock Exchanges are expected to follow suit soon.

SETTLEMENT GUARANTEE FUND

As part of risk management system, ISE has set up a Settlement Guarantee Fund (SGF) to guarantee all settlement obligations for trades done in the market except specified types of trades such as trades deemed to be fictitious by the defaulter's Committee, bad deliveries, block market trades, etc. The entire BMC collected from traders is made a part of SGF. The corpus of the SGF as on 31.03.1999 was over Rs.2 crores. Till date, ISE has not had the need to utilise the SGF.

BASE MINIMUM CAPITAL

ISE traders have to maintain Base Minimum Capital (BMC) of Rs.4.00 lakhs.. However, to start with, the traders have to provide a BMC of Rs.2.00 lakhs which shall be increased to Rs.3.00 lakhs within six months and to Rs. 4.00 lakhs at the end of the first year from the date of commencement of trading (i.e. from 26th February 1999) of the Exchange. The cash component of BMC has to be Rs. 1 lakh and the remaining can be in the form of fixed deposits, specified securities and bank guarantee. The total BMC collected from traders stood at Rs.1.54 crores as on 31.03.1999

INSURANCE FOR ISE'S OPERATIONS

All assets and properties of the Company are adequately insured against all kinds of peril.

Further, ISE has taken an insurance cover from New India Assurance Company Ltd. covering its operations, traders registered with ISE and the Settlement Guarantee Fund. The insurance cover is for Rs.15 crores for the Exchange, inclusive of Rs. 2 crores for the Settlement Guarantee Fund (SGF). This cover would also include cover for 100 Traders with an Indemnity Limit of Rs.5 lakhs per Trader. The cover would be increased by Rs. 5 crores for every 100 additional Traders joining ISE. This cover also includes one re-instatement at a nominal premium, which will be decided by New India Assurance in consultation with their re-insurers.

FUTURE PLANS FOR DEVELOPMENT OF ISE.

ISE will continue to make efforts towards meeting the future requirements of Investors, Issuers, Traders and Exchanges. Some important areas in this regard have been identified as follows:

(1) REGISTRATION OF DEALERS

In order to inject liquidity and depth in the market, ISE proposes to appoint subsidiaries of banks, financial institutions, FIIs, NBFCs and large corporate houses, which are permitted by SEBI to function as stock brokers. In terms of the Articles, Rules and Bye-laws of ISE, such entities can join ISE as "Dealers". As per the proposal envisaged by ISE, such Dealers would be able to operate from any place in the country. They would have the option to trade either through lease lines or VSATs. They would also have the option to either settle their trades themselves or through custodians registered with ISE. The proposal is beneficial for the financial institutions and big corporate houses because they would get a national level transparent market particularly for dealing in small cap, good companies which are not listed on the major Exchanges. The financial requirements to become a Dealer are - admission fee of Rs.10,00,000, annual subscription of Rs.1,00,000, minimum networth of Rs.1 crore and Base Minimum Capital of Rs.10,00,000.

(2) REGISTRATION OF CUSTODIANS

ISE has decided to register custodians as Participants in ISE to promote institutional trades. Institutions prefer to place orders in such markets which have the facility for settlement of trades through custodians. This is so because settlement of trades is safer and generally brokerage rates are lower if trades are settled through custodians. The financial requirements to become a Custodian are - admission fee of Rs.5,00,000, annual subscription of Rs.1,00,000, minimum networth of Rs.5 crores and Security Deposit of Rs.5,00,000. For this purpose, all institutions registered with SEBI as Custodians are eligible. The Stock Holding Corporation of India Ltd. has become the first Custodian to register with ISE.

(3) LISTING OF SECURITIES

ISE has decided to allow listing of securities in ISE. Normally, request for listing on ISE would be entertained only from companies in respect of which any of the participating Exchanges of ISE is not the Regional Stock Exchange, so that direct competition between ISE and the participating Exchanges can be avoided. Any company having a paid-up capital of more than Rs. 3 crores would be eligible for listing in ISE. BSES Ltd. has become the first Company to be listed on ISE.

(4) ESTABLISHMENT OF ADDITIONAL TRADING FACILITY

ISE proposes to set up an Additional Trading Facility (ATF) at Mumbai initially (and later to cities other than those where participating Exchanges are located) so as to -provide trading, clearing and settlement facilities to the members of participating Exchanges located in Mumbai and elsewhere.

ISE has been recognised by SEBI as a national level Stock Exchange and, therefore, in respect of extension of trading facility, it is at par with NSE and OTCEI. Consequently, ISE is not required to sign MOU with local Exchanges for setting up ATFs.

Trading facility of ISE can be provided at any place in India wherever a cluster of Traders is present. Depending upon the number of Traders available in the cluster, the technical solution may be different at different places. While some places may be inter-linked with the Central Server through VSAT, at some other places ISE may provide connectivity through leased lines. Every center would be recognised by the system for the purpose of clearing and settlement as distinct from other centers and the obligations would be generated by the system for each location separately.

(3) INTRODUCTION OF MODIFIED CARRY FORWARD SYSTEM

ISE has conceptualised the business requirements for the Modified Carry Forward System and an application in this regard has been forwarded to SEBI for approval simultaneously, the system vendor, Indigo Technologies, have been asked to develop the necessary software which is expected to be completed by end September 1999. The modified Carry Forward system proposed by ISE would have all the safeguards proposed by SEBI and be entirely system driven.

INFRASTRUCTURE

The Company, during the initial stages was functioning from a rented premise at Andheri, Mumbai. however, w.e.f. March 20, 1998, the Company had changed its Registered Office from the aforesaid rented premises to its own premises, admeasuring 10,200 sq. ft., acquired on lease hold basis from CIDCO, situated very conveniently at the Vashi Railway Station Complex. All Exchange operations are being currently carried out from this office and those of participating Exchanges. The office complex was inaugurated by the then Chief Minister of Maharashtra, Shri Manohar Joshi on 14th June, 1998.

All the hardware and communication equipments have been installed in the said premises. The interiors and furnishing is complete in all respects.

BOARD OF DIRECTORS

The First Board of Directors of the Company comprising the following Directors was constituted on January 22, 1998:

FIRST DIRECTORS

- | | |
|-----------------------------|---|
| 1. Shri P. C. Shrimal | Nominee - Hyderabad Stock Exchange |
| 2. Shri Pankaj J. Shah | Nominee - Bangalore Stock Exchange |
| 3. Shri Ashok K. Sardana | Nominee - Bhubaneshwar Stock Exchange |
| 4. Shri D. Balasundaram | Nominee - Coimbatore Stock Exchange |
| 5. Shri Govind Khandelwal | Nominee - Madhya Pradesh Stock Exchange |
| 6. Shri Vishnubhai I. Patel | Nominee - Vadodara Stock Exchange |
| 7. Shri Ashish M. Parikh | Nominee - Mangalore Stock Exchange |
| 8. Shri Ramswaroop Joshi | Nominee - Gauhati Stock Exchange |
| 9. Shri Deen Dayal Sarda | Nominee - Uttar Pradesh Stock Exchange |
| 10. Shri Joseph Massey | Managing Director - ISE |
| 11. Shri V. Shankar | Whole-time Director - ISE |

Shri Joseph Massey, former Executive Director of Vadodara Stock Exchange and Shri V. Shankar, former Director, Information Systems, Investor Grievances Cell & Market Operations of Bombay Stock Exchange have been appointed as the Managing Director and Whole-time Director of the Company respectively w. e. f. January 22, 1998.

CHANGES AND ADDITIONS TO THE BOARD DURING THE PERIOD

On account of resignations by some Member Directors and/or withdrawal of Nomination by the Participating Exchanges, and in terms of the provisions of the Articles of Association of the Company, following changes have taken place in the composition of the Board:

1. Shri Yogendra Kumar Surana Nominated in place of Shri Govind by Madhya Pradesh Stock Exchange Khandelwal (w.e.f. 01.08.1998)
2. Shri Pukhraj Lunkar Nominated in place of Shri Ramswaroop Joshi by Gauhati Stock Exchange(w.e.f. 20.03.1998 to 10.01.1999)
3. Shri Jambu Kumar Jain Nominated in place of Shri Pukhraj Lunkar by Gauhati Stock Exchange(w.e.f. 10.01.1999 to 17.05.1999)
4. Shri Hari Krishan Garg Nominated in place of Shri Deen Dayal Sarada by Uttar Pradesh Stock Exchange(w.e.f. 01.05.1999)
5. Shri Visnubhai I. Patel Nominee of Vadodara Stock Exchange had tendered his resignation (w.e.f. 15.05.1999)

PUBLIC REPRESENTATIVE DIRECTORS

SEBI has approved the nomination of the following persons as Public Representative Directors on the Board of ISE w.e.f. May 1, 1999:

Sr. No.	Name of Director	Designation	Brief Profile
1.	Shri M.R. Mayya	Chairman	Former Joint Director(SE), Ministry of Finance, Former Executive Director, BSE, Associated with Capital Market for over quarter of a century
2.	Shri P. C. Nayak	Director	IAS, Former Joint Secretary in charge of SIA, Member-Secretary, Foreign Investment Board
3.	Dr. Prasanna Chandra	Director	Director, Center for Financial Management, Formerly Professor of Finance, IIM, Bangalore for nearly two decades
4.	Hon'ble Justice A. D. Tated	Director	Ex-Judge, Bombay High Court
5.	Shri Umesh Dangarwala	Director	F.C.A., A.I.C.W.A., M.Phil., Practising Chartered Accountant.
6.	Prof. B. P. Apte	Director	Additional Advocate General of Maharashtra, Mumbai

SEBI NOMINEE DIRECTORS

SEBI has nominated the following persons on the Board of the Company as SEBI Nominee Directors with effect from May 1, 1999.

- 1a. Shri R. Vasudevan
Registrar of Companies, Maharashtra
(From 01.05.1999 to 04.05.1999)
- 1b. Shri K. Pandian
Registrar of Companies, Maharashtra
(w.e.f. 04.05.1999)
2. Shri P. K. Bindlish
Division Chief, Securities and Exchange Board of India
(SEBI), Mumbai (w.e.f. 01.05.1999)

Shri M. R. Mayya, former Executive Director of Bombay Stock Exchange, who has rendered invaluable service as Advisor to ISE, was unanimously elected as the Chairman of the Company on 01.05.1999.

During the period under report, 14 meetings of the Board of Directors (including one Emergency Meeting) were held,

All the Directors on the Board, nominated by the Participating Exchanges would be retiring on the date of the First Annual General Meeting.

AUDITORS

M/s C. C. Chokshi & Co., Chartered Accountants, who had been appointed by the Board of Directors of the Company in its First Board Meeting as Statutory Auditors of the Company for the Financial Year 1998-99 would be retiring at the conclusion of forthcoming Annual General Meeting and are eligible for re-appointment.

The Auditors have confirmed their eligibility and willingness to accept the office, if re-appointed.

Members are requested to consider their re-appointment for the Financial Year ending March 31, 2000 as stated in the relevant Resolution.

The Directors wish to inform that the Managerial Remuneration is as per the terms of appointment of the Directors, the approval of which has been sought from the Central Government, and the same is expected shortly.

PARTICULARS OF EMPLOYEES

The particulars of Employees as required under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended is annexed herewith and forms a part of this Report.

STATUTORY DISCLOSURE OF PARTICULARS

The requirements of Disclosure, in terms of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 regarding Conservation of Energy, Technology absorption, Foreign Exchange Earnings and outflows do not apply to our Company and therefore no details are required to be given.

INFORMATION TECHNOLOGY AND YEAR 2000 PREPAREDNESS (Y2K COMPLIANCE)

COMPUTER SYSTEM

The Inter-connected Stock Exchange has awarded the contract for the supply, erection, and commissioning of the computer systems for the Inter-connected Market System (ICMS) to the consortium headed by Indigo Technologies India Pvt. Ltd.

Tandem Computers, a subsidiary of Compaq Computers, has supplied fault-tolerant Himalaya S70002 computer for Trading, while Compaq NT servers and workstations is being used for Clearing & Settlement and Risk Management & Surveillance. These central computers have been installed at ISE's main office in Vashi, Navi Mumbai. Compaq NT server machines have been installed at the Regional Stock Exchanges (RSEs), which are termed as Gateway Servers. The trading application is based on The Electronic Securities Architecture (TESA) software, owned by Indigo Technologies. The Clearing & Settlement application is based on the software developed by Ritechoice Technologies. The software for Risk Management & Surveillance has been developed to meet the specific requirements of ISE.

TRADING SYSTEM

The Electronic Securities Architecture (TESA) software uses a modular architecture consisting of expandable set of Business Modules, such as:

- ⇒ Automated Trading
- ⇒ Manual Trading Module
- ⇒ Market Control
- ⇒ System Administration
- ⇒ Market Information and Dissemination
- ⇒ Security

TRADER WORK STATION APPLICATION

Indigo has installed TWS software, which is GUI-based trading front-end software. It comprises of a Member Server Application (MSA) and a Trader Workstation application (TWS). The MSA will be responsible for maintaining the local database and submit requests to the Central System through the TWS.

It can be installed in either a LAN configuration, WAN configuration or on a Stand-alone configuration. The LAN configuration allows the Traders to have multiple Trader Workstations for trading.

As the Company is engaged in a service industry with all activities carried out with the help of computers and Information Technology, the Company has taken due care for ensuring Y2K compliance in respect of its hardware and software acquired by it and is also in the process of obtaining Y2K compliance certificates even from its vendors, agencies associated with it, Participating Stock Exchanges and Traders (the end users of the system). The Management is confident that due to constant follow-up and consistent efforts, the Company would not be facing any major problems because of Y2K non-compliance and would protect its interests against the Y2K problem on or before the deadline prescribed by SEBI.

CORPORATE GOVERNANCE

The Company is committed to good corporate governance. The Chairman of the Company is a Public Representative Director primarily to ensure that the Governance of the Stock Exchange has the interest of the public as the focal point. The various Committees, both Central and Regional, Statutory and Operational, to decide on operational matters are being constituted. The Board itself would be concerned with formulating strategic and policy matters, leaving Regulatory Compliance on the Executives and Administrative wings.

HUMAN RESOURCES

As on the date of the Report, ISE has human resources of 45 employees including the Managing Director and the Whole-time Director, all of whom operate from the Vashi office. ISE is further assisted by a team of dedicated Compliance Officers and/or Co-ordination Officers and support team for facilitating the decentralised operations at the respective Participating Stock Exchanges.

ISE has recruited a number of experienced persons who were working in other Stock Exchanges or in brokerage firms in order to benefit from their rich experience in the relevant fields of the Stock Exchange Administration.

The Company has also immensely benefited by the rich experience of Member Directors and Leading Member Brokers of the Participating Exchanges, Public Representative Directors and SEBI Nominees on the Board of the Company.

In view of the highly technical and professional working environment in the Company, imparting requisite training and developing the talents of the existing innovative and young manpower is the cornerstone of the HRD Policy. We take pride in having such invaluable assets in the Company as the growth, development and prosperity of ISE in general and that of the Participating Stock Exchanges and of the Traders in particular, depends on our highly motivated team at ISE.

NUMBER PENDING, LEGAL, ARBITRATION AND DEFAULTS CASES.

There are no pending legal or arbitration cases against ISE as on date. There has also not been any default on ISE as of the same date.

ACKNOWLEDGEMENT

On the occasion of presenting this First Annual Report, we take pleasure in expressing our sincere thanks to the Securities and Exchange Board of India, SEBI Nominees, Public Representatives, the present and former officials of the Ministry of Finance, Government of India, Government of the State of Maharashtra, all the Agencies associated with the project, Bankers, Auditors, Consultants, Press and other media and Members of the Board of Directors of ISE and Members of the operational Committees, Member Directors of the Participating Stock Exchanges, Traders, Indigo Technologies, HCL Comnet, ABN-Amro Bank, Vysya Bank, New India Assurance, National Centre for Software Technology, Price Waterhouse - FIRE Project, M/s Amarchand Mangaldas & Suresh A. Shroff & Sons, M/s Hariani & Co., M/s S. D. Israni & Co., M/s C. C. Chokshi & Co. M/s A. J. Shah & Co., CIDCO, Yalavigi and other Consultants and Contractors for their support and kind co-operation extended to ISE, without which successful commencement of "Live" trading would not have been possible at ISE.

Our sincere thanks are also due to the officers and staff members of ISE who have displayed dedication and commitment on a sustained basis. Teamwork at every level, cutting across the Participating Stock Exchanges, well supported by the Executive Directors and Coordination Officers of the Participating Stock Exchanges, has been the basis for the successful completion of the inter-connectivity project.

We look forward to the same level of co-operation from all of them for the rapid growth and development of ISE in the years to come.

For and on behalf of the Board of Directors

M. R. MAYYA
Chairman

Place: Navi Mumbai
Date: 05.06.1999

**STATEMENT PURSUANT TO SECTION 217 (2A) OF THE COMPANIES ACT, 1956 AND COMPANIES
(PARTICULARS OF EMPLOYEES) RULES, 1975**

1. Name and Qualification	:	Mr. Joseph Massey M.A. in Economics and M.F.M
Designation/Nature of Duties	:	Managing Director In-charge of the overall affairs of the Company in addition to specific responsibility of all Support Departments, Co-ordination and all Statutory Compliance, subject to the superintendence, control and direction of the Board of Directors.
Remuneration	:	* Rs.8,32,876.89
Experience	:	11 years.
Date of commencement of Employment	:	January 22, 1998
Last Employment	:	Executive Director Vadodara Stock Exchange Ltd.
2. Name and Qualification	:	Mr. V. Shankar B.E. and M.M.S.
Designation/Nature of Duties	:	Whole-time Director In-charge of Operations and Systems, with additional responsibilities for the Support Departments and Co-ordination; in the absence of the Managing Director responsible for Statutory Compliance, subject to the superintendence, control and direction of the Board of Directors.
Remuneration	:	* Rs.7,50,290.11
Experience	:	17 years
Date of commencement of Employment	:	January 22, 1998
Last Employment	:	Director (Information Systems, Investor Grievances Cell & Market Operations) The Stock Exchange, Mumbai
* Remuneration Includes, Basic Salary, House Rent Allowance, Reimbursement of Medical Expenses, Leave Travel Allowance and Ex-gratia for the period.		

Place: Navi Mumbai
Date: 05.06.1999

For and on behalf of the Board of Directors

M. R. MAYYA
Chairman

Annexure-1

MILESTONES

DATE	EVENTS
25 th May, 1996	The first discussion on inter-connectivity took place at Jaipur and it was Resolved that a detailed report on the concept would be placed in the next meeting of FISE.
6 th July, 1996	Report of Shri M. R. Mayya's on Inter-Connected Market System (ICMS) was discussed during the FISE Meeting at Vadodara.
26 th October, 1996	Steering Committee was constituted by FISE at Hyderabad with Shri P.C. Shrimal as the Chairman to take all decisions to conceptualise and implement ICMS.
5 th November, 1996	Decision was taken to set up a Corporate Body for taking up the Project of Inter-Connectivity of Markets.
4 th January, 1997	Name of the proposed Corporate Body was finalised as Indian Stock Exchanges Service Corporation, subject to approval from ROC Maharashtra and SEBI. Project office at Andheri (East), Mumbai was finalised for the Company. Price Waterhouse submitted their feasibility report recommending establishment of ICMS
21 st January, 1997	Proposals were invited for implementing the ICMS system from vendors, who had developed screen-based trading software for stock exchanges in India and from VSAT Service Providers.
10 th February, 1997	National Centre for Software Technology (NCST) appointed as technical consultants for evaluating, selecting and accepting the computer and VSAT communication systems for the ICMS system.
21 st & 22 nd June, 1997	Name of the Company proposed to be changed to Inter-Connected Stock Exchange of India Limited, subject to approval from the ROC, Maharashtra and SEBI.
21 st October, 1997	In-principle approval received from SEBI for Inter-Connected Stock Exchange of India Ltd.
17 th December, 1997	Contract for computer system finalised with Indigo Technologies India (P) Ltd.

DATE	EVENTS
21 st December, 1997	Office premises finalised with CIDCO at International Infotech Park, Vashi.
22 nd January, 1998	ISE incorporated as a Company limited by Guarantee.
21 st February, 1998	First Board Meeting of ISE held in Mumbai. Contract for VSAT equipment finalised with HCL Comnet Systems and Services Ltd.
20 th March, 1998	ABN Amro Bank was selected for providing Clearing Bank Services to ISE.
23 rd May, 1998	New India Assurance Co. Ltd. was selected for providing Insurance cover to ISE and its Traders. Elbee Services Ltd. was selected for providing courier services to ISE and its Traders.
24 th August, 1998	SEBI conducts inspection of ISE's systems and premises
29 th August, 1998	ISE commences "Trial runs". Articles of ISE Association are approved by SEBI.
7 th October 1998	Approval of ISE's Rules and Bye-Laws by SEBI.
18 th November, 1998	SEBI grants recognition to ISE U/s 4 of the Securities Contracts (Regulation) Act, 1956 for a period of Three Years ending on November 17, 2001.
22 nd November, 1998	ISE commences "Mock Trading".
26 th February, 1999	ISE commences "Live" Trading with 4 Stock Exchanges - Coimbatore, Madhya Pradesh, Mangalore and Saurashtra Kutch, with the number of Participating Exchanges going up to 11 by April 1999.

Annexure-2

CONSOLIDATION OF MARKETS - INTERNATIONAL EXPERIENCE

In India, merger of Stock Exchanges has not yet taken place, while consolidation of market place has begun through inter-connectivity of several local markets into a bigger national market. Internationally, however, several mergers and alliances have happened among several Exchanges. Some important instances in recent times are as follows:

- * In July 1998, London Stock Exchange and Frankfurt's Deutsche Börse entered into a strategic alliance. On January 4, 1999, both the Stock Exchanges have started operations on a common Trading Floor for trading in 300 popular scrips.
- * Eight leading European stock exchanges signed a Memorandum of Understanding in Madrid on May 4th, 1999. The Memorandum is a confirmation of the ongoing commitment by all the exchanges to continue to work jointly towards harmonising the markets for their leading securities and *establishing a pan-European equity market*. The signatories to the Memorandum were: Amsterdam, Brussels, Frankfurt, London, Madrid, Milan, Paris and Switzerland. The long-term objective of the European Alliance is to create one single electronic platform for blue chip stocks, with common rules and regulations.
- * Stockholm Exchange is trying to create a pan-European rival to the London/Frankfurt alliance by including Denmark, Sweden and Norway. When the Danes link with Stockholm, the combined distribution network will comprise 200 banks and brokerage firms in seven European countries handling about 80% of revenues from the Nordic stock markets, including derivatives.
- * Sweden, Denmark and Switzerland agreed to join Euro.NM, the pan-European network of stock markets for young and growth-oriented companies, by middle 1999. The three new markets will join the four existing members (Frankfurt's Neuer Markt, the Nouveau Marché in Paris, and the growth company markets of the Dutch and Belgian stock exchanges). With the recent announcement by the Borsa Italiana that it would join the Euro.NM network in the next few weeks, the pan-European network will then be composed of eight members in the middle of 1999.
- * Paris, Brussels and Amsterdam new markets draw closer. The cross-link established in April 1998 between three Euro.NM markets are now operational. Euro.NM Belgium and NMAX are connected by the Benelux link, while the Paris Nouveau Marché is connected by technical gateways. Common membership agreements, which allow members to place orders on associated markets at no extra cost are due to be extended to the other markets in 1999.

4. Baltic Stock Exchanges have stepped up cooperation efforts by signing on April 23rd, 1999, an agreement to ease cross-trading regulations, create a regional blue-chip list and lay the foundations to eventually establish a common share market. The closer cooperation among the bourses of Estonia, Lithuania and Latvia comes on the heels of global financial turmoil that hurt equity trading in the region, and serves as a prelude to the countries' anticipated membership of the European Union, which requires harmonisation of trading rules. The Baltic bourses have a combined market capitalisation of more than \$2 billion, but the Stock Exchanges expect that a common market would boost trading and investments considerably.

5. The Australian Stock Exchange and the Sydney Futures Exchange (SFE) recently engaged into merger talks to create a consolidated financial market in Australia. The Australian Stock Exchange and the Sydney Futures Exchange rank as the second-largest stock and futures exchanges in the Asia Pacific region and have grown rapidly in recent years. A merger would provide both strategic and practical advantages for the exchanges. These include significant cost savings through the merger of their independent clearing systems, lower information technology costs and the combined expertise of both exchanges. The Australian Stock Exchange also envisages a cooperation with the Nasdaq Stock Market, which would include the possibility of joint trading of securities on both markets.

6. The Stock Exchange of Singapore and the Singapore International Monetary Exchange (SIMEX) will demutualize and merge in a move aimed at creating an international financial centre and attracting more foreign investors. The decision was triggered by the increasing competition from alternative electronic trading systems. Examples from other regions with the recent wave of exchange mergers and alliances in Europe and in the US also contributed to the decision. The Stock Exchange of Singapore and Simex will first demutualize, separating ownership rights from trading access to the markets. The government is on the verge to pass a legislation allowing the markets to merge under a single privately held holding company by late 1999. An initial public offering of the holding company may be expected within five years. To ensure ownership stability and balance long-term financial sector interests with short-term profit motives, the government will encourage a pool of strategic investors to take a significant stake in the new entity. Once the exchanges are merged, brokerage commissions will be liberalized from their fixed-rate status of 1% with fully open access to the Stock Exchange of Singapore and Simex. By January 2002, local or foreign-owned institutions meeting standard requirements of capital and competence will be admitted to trade on both Exchanges.

7. MATIF, MEFF and MIF, the financial futures markets of France, Spain and Italy respectively, signed a preliminary agreement under which MIF is to join Euro-GLOBEX alongside MATIF and MEFF. Euro-GLOBEX is a network of futures markets set up in June 1998 under an agreement between MATIF and MONEP of France and Spain's MEFF. Through Euro-GLOBEX, markets put together their strengths in terms of technology, the aim being to increase their contracts liquidity. The alliance between the French, Italian and Spanish futures markets will be based on a network approach, allowing cross-membership/cross-trading. Upon request, members of one market will automatically become members of the other two. They will be able to trade all products on the three markets using their current workstations, since existing trading platforms will be linked up by the three exchanges. The agreement will thus expand the range of products accessible to members and customers.

- 3 This alliance with MIF is planned to be extended to the equity and index derivatives markets of the three countries (respectively MONEP for France, IDEM for Italy, and MEFF Renta Variable for Spain) in the course of 1999. At that time, Euro-GLOBEX will represent six European derivatives markets, more than 500 members, more than 2,000 active trading workstations, and a trading volume of 118 m lots for the 11 first months of 1998.

- 4 The National Association of Securities Dealers (NASD) and the American Stock Exchange (Amex) decided to merge in order to create a market alliance unparalleled in technology, expertise, information and order execution to meet the needs of investors worldwide. The NASDAQ-Amex Market Group is a subsidiary of NASD, which operates the NASDAQ and Amex as separate subsidiaries. However, to leverage resources, both share their facilities and provide the market a wide variety of trading segments.

Annexure-3

OPERATIONAL COMMITTEES:

The Board of ISE has constituted various Operational Committees for the smooth and orderly functioning of the Exchange and to render necessary expertise in the relevant areas of operations and to expedite the decision making process.

SILERING COMMITTEE

- | | |
|---|--|
| 1. Shri P. C. Shrimal | Hyderabad Stock Exchange |
| 2. Shri U. B. Maiya/Pankaj J. Shah | Bangalore Stock Exchange |
| 3. Shri D. Balasundaram | Coimbatore Stock Exchange |
| 4. Shri S.S. Dhanoa | Magadh Stock Exchange |
| 5. Shri Ashish M. Parikh/
Shri Jnandev Kamath | Mangalore Stock Exchange |
| 6. Shri V. P. Vaishnav/
Shri Sunil C. Shah /
Shri Mukesh P. Doshi/ | Mangalore Stock Exchange |
| 7. Shri Vishnubhai I. Patel/
Shri Jagdeish Thakkar | Saurashtra-Kutch St. Exchange (Rajkot) |
| 8. Shri Ninan Varkey/
Shri Oman Isan | Saurashtra-Kutch St. Exchange (Rajkot) |
| 9. Shri R. C. Goenka | Saurashtra-Kutch St. Exchange (Rajkot) |
| 10. Shri Jaspal Singh/
Shri Vishwanath Dhuri | Vadodara Stock Exchange |
| 11. Shri Raamasubramaniam | Vadodara Stock Exchange |
| 12. Shri Ashok K. Sardana | Cochin Stock Exchange |
| 13. Shri Ramswarap Joshi/
Shri Pukhraj Lunkar/
Shri Jambukumar Jain | Cochin Stock Exchange |
| 14. Shri Yogendra Kumar Surana/
Shri Govind Khandelwal | Jaipur Stock Exchange |
| 15. Shri D. D. Sarada/
Shri H. K. Garg | Ludiana Stock Exchange |
| 16. Shri M.R. Mayya | Ludiana Stock Exchange |
| 17. Shri Joseph Massey | Madras Stock Exchange |
| 18. Shri V. Shankar | Bhubaneshwar Stock Exchange |
| | Guwahati Stock Exchange |
| | Guwahati Stock Exchange |
| | Guwahati Stock Exchange |
| | Madhya Pradesh Stock Exchange |
| | Madhya Pradesh Stock Exchange |
| | Uttra Pradesh Stock Exchange |
| | Uttra Pradesh Stock Exchange |
| | Advisor, ISE |
| | Managing Director, ISE |
| | Whole-time Director, ISE |

PURCHASE COMMITTEE

- | | |
|--------------------------|--------------------------|
| 1. Shri M.R. Mayya | Advisor, ISE |
| 2. Shri Ashish M. Parikh | Mangalore Stock Exchange |
| 3. Shri Joseph Massey | Managing Director, ISE |
| 4. Shri V. Shankar | Whole-time Director, ISE |

SCREENING COMMITTEE

- | | |
|--------------------------|--------------------------|
| 1. Shri M.R. Mayya | Advisor, ISE |
| 2. Shri Ashish M. Parikh | Mangalore Stock Exchange |
| 3. Shri Joseph Massey | Managing Director, ISE |
| 4. Shri V. Shankar | Whole-time Director, ISE |

FINANCE COMMITTEE

1. Shri P.C. Shrimal
2. Shri U.B. Maiya/Pankaj Shah
3. Shri Ashish M. Parikh
4. Shri Kaushik Desai

5. Shri Vishnubhai I. Patel/J.J. Bhatt
7. Shri M.R. Mayya
8. Shri Joseph Massey
9. Shri V. Shankar

Hyderabad Stock Exchange
Bangalore Stock Exchange
Mangalore Stock Exchange
Member of Saurashtra-Kutch
Stock Exchange
Vadodara Stock Exchange
Advisor, ISE
Managing Director, ISE
Whole-time Director, ISE

HRD & RECRUITMENT COMMITTEE

1. Shri P. C. Shrimal
2. Shri Pankaj Shah
3. Shri Ashok K. Sardana
4. Shri Vishnubhai I. Patel
5. Shri M.R. Mayya
6. 5. Shri Ashish M. Parikh
7. 6. Shri Joseph Massey
8. 7. Shri V. Shankar

Bangalore Stock Exchange
Bangalore Stock Exchange
Bhubaneswar Stock Exchange
Vadodara Stock Exchange
Advisor, ISE
Mangalore Stock Exchange
Managing Director, ISE
Whole-time Director, ISE

INDEX COMMITTEE

1. Dr. Prasanna Chandra Shrimal
2. Dr. M. Thirupal Raju
3. Dr. D.K. Bhatia
4. Shri U.C. Dixit
5. Shri Kamal Parekh A. S.
6. Shri M.R. Mayya

BYE-LAWS COMMITTEE

1. Shri Ashok K. Sardana
2. Shri A. S. Jeyakumar
3. Shri Ramachandra
4. Shri M. R. Mayya
5. Shri Joseph Massey
6. Shri V. Shankar

Bhubaneswar Stock Exchange
M.P Stock Exchange
Bangalore Stock Exchange
Advisor, ISE
Managing Director, ISE
Whole-time Director, ISE,

ATF COMMITTEE

1. Shri Kaushik G. Desai
2. Shri Ashiish M. Parikh
3. Shri N. Rangaprasad
4. Shri Chacko J. Kallivayalil
5. Shri Vishnubhai I. Patel
6. Shri Jagdish Thakkar
7. Shri H. K. Garg
8. Shri Yogendra Kumar Surana

Saurashtra Kutch Stock Exchange
Mangalore Stock Exchange
Hydrabad Stock Exchange
Cochin Stock Exchange
Vadodara Stock Exchange
Vadodara Stock Exchange
U. P. Stock Exchange
M.P. Stock Exchange

PROJECT IMPLEMENTATION COMMITTEE

1. Shri P. C. Shrimal
2. Shri Ranga Prasad
3. Shri M. S. Ayub
4. Dr. K. Sabapathy
5. Shri Ashit Sheth
6. Shri Jnandev Kamath
7. Shri Ashish Parikh
8. Shri Pankaj J. Shah
9. Shri Jagdish Ahuja
10. Shri Nitin Shah

Hyderabad Stock Exchange
Hyderabad Stock Exchange
Hyderabad Stock Exchange
Coimbatore Stock Exchange
Saurashtra-Kutch St. Exchange
Mangalore Stock Exchange
Mangalore Stock Exchange
Bangalore Stock Exchange
Bangalore Stock Exchange
Vadodara Stock Exchange

Inter-Connected Stock Exchange of India Limited

Accounts for the period ended March 31, 1999

CERTIFIED-TRUE COPY
FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.


Joseph Massey
Managing Director

C. C.

Auditors'

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C. C. Chokshi & Co.

Chartered Accountants
Mafatlal House,
Backbay Reclamation,
Mumbai - 400 020.

Telephone : 91 (22) 285 4330
283 7006
Facsimile : 91 (22) 202 4499
202 4337
E-mail : cchokshi@qasbm81.vsnl.net.in

Auditors' report

To,
The members of
Inter-connected stock exchange of India Limited

We have audited the attached Balance sheet of Inter-Connected Stock Exchange Of India Limited as at March 31, 1999 and also annexed Profit and Loss account for the period from 22nd January 1998 to 31st March 1999 and report that:

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said Order to the extent applicable.
2. Further to our comments in Annexure referred to in the paragraph 1 above, we report that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;
 - (c) The Balance sheet and profit and loss Account dealt with by this Report are in agreement with the books of account;
 - (d) In our opinion, Balance Sheet and Profit and Loss Account comply with the accounting standards referred in sub-section 3(C) of section 211 of the Companies Act, 1956, as amended, that have been made mandatory by the Institute of Chartered Accountants of India;

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FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.


Joseph Massey
Managing Director

**C. C. Chokshi
& Co.**

- (e) Attention is invited to Note No.3 (b) of schedule no. 15 regarding the payment of Managerial Remuneration of Rs. 20,133/- which is subject to the approval of the Central Government.

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

- (i) in case of the Balance sheet, of the state of affairs of the Company as at March 31, 1999; and
- (ii) in the case of the Profit and Loss Account, of the loss for the period from January 22, 1998 to March 31, 1999.

for C. C. Chokshi & Co.,
Chartered Accountants



P. R. Barpande
Partner

Mumbai, dated June 5, 1999

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FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.



Joseph Massey
Managing Director

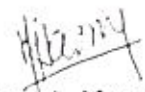
C. C. Chokshi & Co.

Annexure to the Auditor's Report

[referred to in paragraph 1 of our Report of even date]

1. The nature of the Company's activities are such that requirements of items (iii), (iv), (v), (vi), (xii), (xiv), (xvi) of clause A and items (ii), (iii) and (iv) of clause B of paragraph 4 of the Order are not applicable to the Company.
2. The Company has maintained proper records showing particulars including quantitative details and situation of fixed assets excluding furniture and fixtures and electrical installations where only groups cost were recorded. The fixed assets have been physically verified by the management during the period. We are informed that no material discrepancy has been noticed by the management on such verification.
3. The fixed assets have not been revalued during the period under review.
4. The Company has not taken any loans, secured or unsecured, from companies, firms, or other parties listed in the Register maintained under section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management as this Company within the meaning of section 370 (1B) of the Companies Act, 1956.
5. The Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the Register maintained under section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management as this Company within the meaning of section 370 of the Companies Act, 1956.
6. As informed to us the Company has not given any loans and advances in the nature of loans to any party.
7. In our opinion and according to the information and explanations given to us, there are internal control procedures with regards to purchase of machinery, equipment and other assets and sale of services which are being strengthened to be commensurate with the size of the Company and nature of its business.
8. According to the information and explanations given to us, there are no transactions of purchase of goods and materials and sale of services, made in pursuance of contracts or arrangements entered in the Register maintained under section 301 of the Companies Act, 1956 and aggregating during the period to Rs. 50,000/- or more in respect of each party.

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FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.


Joseph Massey

C. C. Chokshi & Co.

9. The Company has not accepted any deposits from the public.
10. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
11. According to the records of the company, Provident Fund dues have been regularly deposited during the year with the appropriate authorities. As regards Employees State Insurance the balance outstanding as on March 31st 1999 aggregating to Rs. 50,300/- will be deposited with the said authorities on completion of registration formalities for which an application has already been made.
12. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding as at March 31, 1999 were outstanding for a period of more than six months from the date they became payable.
13. According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practice.
14. The Company is not a sick industrial company within the meaning of Clause (c) of section 3 (i) of the Sick Industrial Companies (Special Provisions) Act, 1985.

for C. C. Chokshi & Co.,
Chartered Accountants



(P. R. Barpande)
Partner

Mumbai, dated, June 5, 1999

CERTIFIED-TRUE-COPY
FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.



Joseph Massey
Managing Director

Inter-Connected Stock Exchange of India Limited

Balance sheet as at March 31, 1999

	Schedule	as at March 31, 1999 Rupees
Sources of funds		
Shareholder's funds		
Share Capital (Company Limited by guarantee)		Nil
Admission fees/ Contribution towards infrastructure development	1	105,100,000
Reserves & Surplus	2	1,120,222
		106,220,222
Loan Funds		
Unsecured Loans	3	500,000
Total		106,720,222
Application of funds		
Fixed assets		
Gross block		139,555,915
less, depreciation		2,513,558
Net block		137,042,357
Capital work in progress		1,681,125
Current assets, loans and advances		
Current Assets		
Cash and Bank Balances	5	25,537,094
Sundry Debtors	6	186,649
Loans and advances	7	3,595,955
		29,319,698
less, Current liabilities and provisions		
Current liabilities	8	27,834,290
Deferred Payment Liabilities Provision	9	54,856,584
		82,690,874
Net current assets		(53,371,176)
Miscellaneous expenditure <i>(to the extent not written off or adjusted)</i>	10	10,682,123
Profit & Loss Account		10,685,793
Total		106,720,222
Significant accounting policies and notes forming part of the accounts	15	

as per our attached Report of even date
for C. C. Choksi & Co.,
Chartered Accountants



(P. R. Barpande)
Partner
Mumbai, dated June 5, 1999

for and on behalf of the Board

M. R. Hajga
(M. R. Hajga)
Chairman


(Joseph Manney)
Managing Director

V. Shankar
(V. Shankar)
Whole Time Director

Mumbai, dated June 5, 1999

Inter-Connected Stock Exchange of India Limited

Profit and Loss Account for the period January 22, 1998 to March 31, 1999

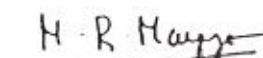
	schedule	Rupees
<u>Income</u>	11	2,448,315
Total		2,448,315
<u>Expenditure</u>		
Employee Costs	12	1,940,249
Administration and Operational Expenses	13	8,411,333
Interest Paid	14	961,859
Depreciation:		
For the Period		2,514,619
Less Transferred to Deferred Revenue		
Expenditure (Refer Note 9-B to Schedule 15)		700,552
Total		13,134,108
		(10,685,793)
(Loss) carried to Balance sheet		(10,685,793)
Significant accounting policies and notes forming part of the accounts	15	

as per our attached Report of even date
for C. C. Chokshi & Co.,
Chartered Accountants

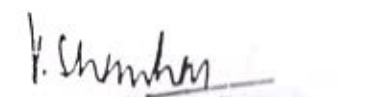
for and on behalf of the Board




(P. R. Barpande)
Partner
Mumbai, dated June 5, 1999


(M. R. Mayya)
Chairman


(Joseph Massey)
Managing Director


(V. Shankar)
Whole Time Director
Mumbai, dated June 5, 1999

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FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.


Joseph Massey
Managing Director

Inter-Connected Stock Exchange of India Limited


Schedules forming part of the accounts.

	as at March 31, 1999 Rupees
<i>Schedule 1, Admission Fees/ Contribution towards Infrastructure development</i>	
Members Admission Fees - Received during the period	7,500,000
Contribution towards infrastructure development - Received during the period	97,600,000
Total	105,100,000

	as at March 31, 1999 Rupees
<i>Schedule 2 Reserves & Surplus</i>	
Other Reserves	
Settlement Guarantee fund - From Traders and at Settlement of Transactions during the period	1,120,168
Investor Protection Fund - Received at Settlement of transactions during the period	27
Investor Service Fund - Received at Settlement of transactions during the period	27
Total	1,120,222

	as at March 31, 1999 Rupees
<i>Schedule 3 Unsecured Loans</i>	
From Others	500,000
Total	500,000

6
CERTIFIED TRUE COPY
FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED,


Joseph Massey
Managing Director

Schedules forming part of the accounts

Particulars	GROSS BLOCK			DEPRECIATION			NET BLOCK As on 31-3-1999
	Additions during the period	Deductions during the period	Total as on 31-3-1999	For the Period	On deduction	Total as at 31-3-1999	
Leasehold Land	796,950	-	796,950	4,691	-	4,691	792,259
Leasehold Premises	32,565,962	-	32,565,962	644,878	-	644,878	31,921,084
Machinery & Electrical Equipments	3,740,772	-	3,740,772	61,338	-	61,338	3,679,434
Furniture & Fixtures	4,399,108	-	4,399,108	93,212	-	93,212	4,305,896
Vehicles	841,619	-	841,619	28,095	-	28,095	813,524
Office Equipments	1,314,488	38,600	1,275,888	56,975	1,061	55,914	1,219,974
Computers	95,935,616	-	95,935,616	1,625,430	-	1,625,430	94,310,186
Total	139,594,515	38,600	139,555,915	2,514,619	1,061	2,513,558	137,042,357

Capital work in progress in respect of Machinery and Electrical Installation, office equipment etc. (including advances) 1,681,125

Notes:

1. In respect of Leasehold Land, the Lease Deed is pending execution
2. Leasehold Premises represents cost of Office Premises including improvements to Lease Premises taken from CIDCO under lease for a period of 60 years in respect of which Lease Deed/ Agreement to Lease is pending execution.
3. The cost Leasehold Land and Premises does not include the Stamp Duty aggregating to Rs. 31,41,596. In the opinion of the company, the unit being set-up in International Infotech Park, Vashi, the same is exempted and steps are being taken to get the necessary approvals from the relevant authority.

Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	as at March 31, 1999 Rupees
Schedule 5, Cash and bank balances	
Cash-on-hand (including cheques on hand of Rs. 4,016/-)	21,716
Bank balances	
with Scheduled Banks	
- in Current Account	3,867,867
- in Deposit Account *	21,647,511
(including interest accrued of Rs. 147,511/-)	
Total	25,537,094
* Includes Fixed Deposit Receipt of Rs. 25,00,000/- over which a bank has a lien in respect of the guarantee given by a bank to a supplier.	

	as at March 31, 1999 Rupees
Schedule 6, Sundry Debtors	
<i>(Unsecured and considered good)</i>	
Outstanding for a period exceeding six months	150,000
Other Debts	36,649
Total	186,649

	as at March 31, 1999 Rupees	as at March 31, 1999 Rupees
Schedule 7, Loans and advances		
<i>(unsecured)</i>		
Advances recoverable in cash or in kind, or for value to be received	4,592,214	
Tax Deducted at Source	146,472	
	4,738,686	
Less: Provision	1,142,731	3,595,955
Total		3,595,955
Considered Good		3,595,955
Considered Doubtful		1,142,731
		4,738,686

5

Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	as at March 31, 1999 Rupees	as at March 31, 1999 Rupees
Schedule 8, Current liabilities		
Sundry Creditors		5,629,290
Deposits		
Contribution towards Base Minimum Capital *	8,600,000	
Contribution towards Settlement Stabilisation Fund *	10,200,000	
	19,800,000	
Advance Contributions	3,405,000	22,205,000
Total		27,834,290
* Refundable in accordance with the bye-laws of the company		
<i>Note</i>		
Advance contribution represents amounts received from the Traders pending registration/ approval		

	as at March 31, 1999 Rupees
Schedule 9 Deferred Payment Liabilities	
a) Due to CIDCO in respect of Leasehold Premises	21,941,228
b) Due to Suppliers towards Capital Goods	32,915,356
Total	54,856,584
<i>Note</i>	
Payment to CIDCO is to be made in 86 monthly installments alongwith interest in accordance with the sanctioned terms of the leasehold premises and to other suppliers upto August 2001.	

	as at March 31, 1999 Rupees
Schedule 10, Miscellaneous Expenditure	
<i>(To the extent not written off or adjusted)</i>	
Preliminary expenses	25,574
Deferred Revenue Expenditure (Refer Note No. 9-B to Schedule 15)	10,653,299
Total	10,682,123

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Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	as at March 31, 1999 Rupees
<i>Schedule 11, Income</i>	
Admission Fees from Traders	55,000
Annual Subscription received	
- From Members	1,450,000
- From Traders	190,000
Interest on Bank Deposits, etc.	715,901
Transaction Charges	597
Miscellaneous Income	36,817
Total	2,448,315

	as at March 31, 1999 Rupees
<i>Schedule 12, Employee Cost</i>	
Salaries	1,588,390
Contribution to Provident and other Funds	182,866
Contribution to Gratuity	21,344
Staff Welfare	147,649
Total	1,940,249

5

Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	as at March 31, 1999 Rupees
<i>Schedule 13, Administration and Operational Expenses</i>	
Communication Expenses	999,204
Printing & Stationery	298,862
Legal & Professional	723,144
Electricity and Water Charges	319,401
Rates & Taxes	424,508
Repairs & Maintenance - Others	178,908
Repairs & Maintenance - Leasehold Premise	170,452
Conveyance	89,166
Postage & Telegram Expenses	122,270
Security Expenses	104,913
Insurance (net of recovery Rs. 8,233/-)	223,350
Hiring Charges	64,130
Bank Charges	70,401
Publicity Expenses	68,641
Books, Newspapers and Periodicals	14,070
Rent	251,747
Travelling Expenses (net of recovery of Rs. 44,386/-)	133,740
Motor Car Expense	32,782
Miscellaneous Expenses (including Rs. 37,539/- on loss of Assets)	314,978
Provision for Doubtful Advances	1,142,731
Preliminary Expenditure Written Off	7,206
Deferred Revenue Expenditure Written Off.	2,663,325
Total	8,417,933
<i>Note:</i>	
<i>Miscellaneous expenses includes recruitment expenses, conference expenses, office expenses, etc.</i>	

	as at March 31, 1999 Rupees
<i>Schedule 14, Interest</i>	
Interest on Loan	661,809
Interest on Others	300,050
Total	961,859

Inter- Connected Stock Exchange of India Limited

Schedules forming part of the Accounts

Schedule - 15

Significant accounting policies and notes forming part of the Accounts

A Significant accounting policies

1. Fixed assets

Fixed Assets are valued at cost. They are stated at historical cost (including incidental expenses).

The improvements to leased premises have been capitalised along with leasehold premises

2. Depreciation and amortization

i) Depreciation is provided on straight basis at the rates specified in Schedule XIV of the Companies Act, 1956.

ii) Depreciation on assets acquired / purchases during the period is provided on pro-rata basis.

iii) Leasehold land and premises including improvements are amortised over the period of the lease.

3. Foreign currency transactions

Transactions in foreign currency are recorded at the original rate of exchange in force at the time of occurrence of transactions. Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are adjusted in the carrying amounts of respective fixed assets. Exchange differences arising on settlement of other transactions are recognised in the Profit and Loss account.

Monetary items (other than those related to the acquisition of fixed assets) denominated in foreign currency are restated using exchange rates prevailing at the date of the Balance Sheet, the resulting net exchange difference is recognised in the Profit & Loss Account.

4. Retirement benefits

Company's contribution to the provident fund to the employees is charged to revenue. The company's liability for gratuity is funded through Life-Insurance of India (LIC). Contribution payable to the gratuity fund is charged to revenue on the basis of LIC's demand, which specifies the contribution to be made on the basis of actuarial valuation carried out by LIC.

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109

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Inter- Connected Stock Exchange of India Limited

Schedules forming part of the Accounts

Schedule – 15

Significant accounting policies and notes forming part of the Accounts

5. Miscellaneous Expenditure

a) Preliminary Expenditure

Preliminary expenses are being amortised over a period of five years from the year the company commences the operations.

b) Deferred revenue expenditure

Indirect expenses considered as pre-operational and pertaining to the project incurred before the commencement of operations, are considered as deferred revenue expenditure to be amortised over a period of five years from the year the company commences its operations. (Refer note 9-B)

6. Revenue recognition

In appropriate circumstances, revenue (income) is recognised when no significant uncertainty or collectible exists.

The revenue in respect a settlement is accounted on the funds pay-in date of a settlement.

7. Settlement Transactions

The transactions pertaining to the settlement, which are conducted in the fiduciary capacity, do not form part of the accounts of the exchange.

8. Contingent Liabilities

Contingent liabilities are disclosed by way of note on the balance sheet. Provision is made in the accounts for those liabilities which are likely to materialise after the year end till the finalisation of accounts and having material effect on the position stated in the balance sheet.

6

Inter- Connected Stock Exchange of India Limited

Schedules forming part of the Accounts

Schedule - 15

Significant accounting policies and notes forming part of the Accounts

B Notes on accounts

1. Estimated amounts of contracts remaining to be executed and not provided for (net of advances) - R 75,85,747/-.

2. Contingent liabilities

- a. Claims against the company not acknowledge as debts Rs. 13,38,116/- (Rs. 6,72,092/- paid as advances under dispute).
- b. Guarantee given by a Scheduled Bank on behalf of the company Rs. 66,17,500/-.

3. a) <u>Managerial remuneration</u>		<u>Rupees</u>
<i>(under section 198 of the Companies Act, 1956)</i>		
Salaries		14,73,278/-
Perquisites in cash or in kind		Nil
Contribution to Provident & Other funds (including Gratuity)		1,09,889/-
Total		<u>15,83,167/-</u>

- b) The remuneration as above includes an amount of Rs. 20,133/- in respect of increased remuneration paid w.e.f. February 26, 1999 to the Managing and Whole-Time Directors for which an application has been made to the Central Government for approval which is awaited.

4. <u>Payment to auditors</u>		<u>Rupees</u>
As auditors (including Rs. 26,250/- for audit of accounts for the period ended March 31, 1998)		52,500/-
As advisors in respect of other services such as consultants, etc.		3,17,645/-
As expenses		43,830/-
Total		<u>4,13,975/-</u>

5. (a) During the year the membership admission fees has been received from all the members. However, contribution towards infrastructure development aggregation to Rs. 9,73,50,000/- has been received and the balance amount aggregating to Rs. 4,44,00,000/- is yet to be received which will be accounted in the year of receipt.

Inter- Connected Stock Exchange of India Limited

Schedules forming part of the Accounts

Schedule - 15

Significant accounting policies and notes forming part of the Accounts

- (b) In accordance with the resolution passed at the Board meeting the company is entitled to recover an amount of Rs. 88,47,818/- towards interest for delayed/ non-payment of Contribution referred to in (a) above. However in view of the uncertainty towards recovery of such interest, the same has not been accounted for in the books of accounts.
6. Shares and Fixed Deposits received from Traders in connection with the compliance of Base Minimum Capital contribution (Capital Adequacy Norms) in accordance with the Bye-Laws have been held as Securities and accordingly have not been accounted in the books.
7. Sundry Debtors include an amount of Rs. 30,000/- recoverable from Traders towards contribution to Settlement Guarantee Funds for which steps are being taken to recover the said amount and earmark the same.
8. Balances with the Bank Current Accounts and Deposit Accounts (Refer Schedule 5), includes amount aggregating to Rs. 2,05,02,243/- (including interest accrued Rs. 97,288/-), which is earmarked against the Funds received as per Schedule 2 & 8, except an amount of Rs. 72,879/- which has been transferred to earmarked accounts subsequently excluding Rs. 54/- for which steps are being taken to open necessary Bank accounts.
9. During the year the company has set up a stock exchange, electronically interconnecting various regional stock exchanges and the operations were commenced on February 26, 1999.
The cost of installing a Central computer system and the network connectivity and developing the software together with the direct expenditure relating to the project have been capitalised.
Indirect expenditure aggregating to Rs. 1,97,31,924 consisting of administrative, employee cost and depreciation etc. up to the commencement of operations has been dealt with as under:
- Expenditure relating to corporate activities have been treated as revenue expenditure and charged to Profit and Loss Account
 - The other indirect expenditure have been apportioned in the ratio of level of activities as estimated by the management. Accordingly seventy five percent of the activities during the period is considered as pre-operational for the project and the apportioned expenditure on that basis has been treated as deferred revenue expenditure to be amortised over a period of five years from the year of commencement of operations. The balance twenty five percent is considered as revenue expenditure and charged to Profit and Loss Account.

Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

Schedule 13, Significant accounting policies and notes forming part of accounts

B. (10) Notes forming part of accounts

Balance sheet abstract and Company's general business profile

I. Registration details

Registration no.

0 1 1 3 1 4 7

Balance sheet date

3 1 0 3 9 9

State code

1 1

II. Capital raised during the year (amount in Rupees thousands)

Public issue

N I L

Bonus issue

N I L

Rights issue

N I L

Private placement

N I L

III. Position of mobilisation and deployment of funds (amount in Rupees thousands)

Total liabilities

0 0 0 1 8 9 4 1 1

Sources of funds

Paid-up capital (in Rupees)

N I L

* Contribution towards Infrastructure Development

Rs. 1,05,100

Secured loans

N I L

Application of funds

Net fixed assets

0 0 0 1 3 8 7 2 3

Net current assets

(0 0 5 3 3 7 1)

Accumulated losses

0 0 0 0 1 0 6 8 6

Total assets

0 0 0 1 8 9 4 1 1

Reserves and surplus

0 0 0 0 0 1 1 2 0

Unsecured loans

0 0 0 0 0 0 5 0 0

Investments

N I L

Miscellaneous expenditure

0 0 0 0 1 0 6 8 2

IV. Performance of the Company (amount in Rupees thousands)

Turnover

0 0 0 0 0 2 4 4 8

+ (-) Profit/ (loss) before tax

(0 0 1 0 6 8 6)

Earnings per share (Rupees)

N A

Total expenditure

0 0 0 0 3 1 3 4

+ (-) Profit/ (loss) after tax

(0 0 1 0 6 8 6)

Dividend %

N A

V. Generic names of three principal products/ services of the Company (as per monetary terms)

Item code no. (ITC code)

N I L

Product description

N A

Inter- Connected Stock Exchange of India Limited
Schedules forming part of the Accounts

Schedule - 15

Significant accounting policies and notes forming part of the Accounts

11. The company was incorporated on January 22, 1998 and this being the first year of the account for the period January 22, 1998 to March 31, 1999, the question of previous year does not arise.
12. The amounts in the balance sheet and profit and loss account are rounded off to the nearest rupee.

Signatures to schedules 1 to 15


as per our attached Report of even date

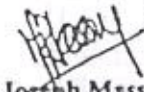
for C. C. Chokshi & Co.,
Chartered Accountants

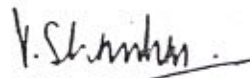


(P. R. Barpande)
Partner
Mumbai, dated June 5, 1999

for and on behalf of the Board


(H. R. Massey)
Chairman


(Joseph Massey)
Managing Director


(V. Shankar)
Whole Time Director
Mumbai, dated June 5, 1999

CERTIFIED-TRUE COPY
FOR INTER CONNECTED STOCK EXCHANGE,
OF INDIA LIMITED.


Joseph Massey
Managing Director