

**III**  
**ANNUAL**  
**REPORT**

INTER-CONNECTED STOCK EXCHANGE OF INDIA  
LIMITED




*EASIER ACCESS, WIDER REACH*



# THIRD ANNUAL REPORT

2000 - 2001

 Registered Office:

*Inter-Connected Stock Exchange of India Limited.*

International Infotech Park, Tower-7,  
5th Floor, Vasai, Navi Mumbai - 400 703.

 Tel: (022) 781 2056, 58, 59 and 60, 62. Fax: 7812061.

 Our Internet Web Site:

Home Page: [http:// www.iseindia.com](http://www.iseindia.com)

E-mail : [iseso@bom3.vsnl.net.in](mailto:iseso@bom3.vsnl.net.in)

# INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

## NOTICE OF THE THIRD ANNUAL GENERAL MEETING TO BE HELD ON SATURDAY, SEPTEMBER 22, 2001 AT 3.30 P.M. AT THE REGISTERED OFFICE OF THE COMPANY

NOTICE is hereby given that the Third Annual General Meeting of the Members of Inter-connected Stock Exchange of India Limited will be held on Saturday, September 22, 2001 at 3.30 p.m. at the Registered Office of the Company at International Infotech Park, Tower 7, 5<sup>th</sup> 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 31<sup>st</sup> March 2001, Profit & Loss Account for the year ended on that date and the Auditors' and Directors' Reports thereon.
2. To approve the nomination of Shri Ashish M. Parikh, a Nominee of Mangalore Stock Exchange in place of Shri Sanjay Chokhany, a Nominee of Magadh Stock Exchange Ltd. as a Director, whose term of office shall be liable to retirement by rotation.
3. To approve the nomination of Shri Rajive Kedia, a Nominee of Gauhati Stock Exchange Ltd. in place of the Nominee of Uttar Pradesh Stock Exchange Association Ltd. as a Director, whose term of office shall be liable to retirement by rotation.
4. To approve the nomination of Shri Madanlal O. Gupta, a Nominee of Vadodara Stock Exchange Ltd. in place of the Nominee of Cochin Stock Exchange Ltd. as a Director, whose term of office shall be liable to retirement by rotation.
5. To appoint the Auditors and to fix their remuneration.

### SPECIAL BUSINESS:

6. To consider and if thought fit pass with or without modification, the following Resolution as a "Special Resolution:"

"RESOLVED THAT in accordance with the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the existing Articles 20.11 and 20.11.1 of the Articles of Association of the Company be and is hereby deleted and in its place the following new Articles be and is hereby inserted as Article 20.11 and 20.11.1 respectively.

20.11 Subject to the provisions of the Act, the Board may, from time to time, appoint or re-appoint a Managing Director and a Whole-time Director of the Company for such term not exceeding five years at a time and subject to such terms and conditions as the Board may think fit.

Provided further that the appointment of the Managing Director of the Company shall be subject to approval of SEBI.

20.11.1 The appointment, terms and conditions of service, renewal of appointment and the termination of service of the Managing Director shall be subject to prior approval of SEBI.



to consider and if thought fit pass with or without modification, the following Resolution as "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 Securities and Exchange Board of India (SEBI), the existing Article 20.4.4 of the Articles of Association of the Company be and is hereby deleted and in its place the following new Article 20.4.4 be and is hereby inserted as Article 20.4.4

20.4.4 "The tenure of the Chairman shall be of such period as may be decided by the Board provided he continues to be a Public Representative during his tenure as the Chairman."

BY ORDER OF THE BOARD

DIPAK K. SHAH  
COMPANY SECRETARY

Place: Vashi, Navi Mumbai  
Date: August 18, 2001

For:

All the Members are requested to forward to the Exchange 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.

EXPLANATORY  
ACT, 1956

IN RESPECT OF

Members of the Association of the India (SEBI) for and the termination of the Company.

SEBI, while appointing the Managing Director Ref. No. SMD/IS the Articles of Association of the Company appointment of the

Accordingly, the Board has unanimously approved the amendment of Association of Companies Act, 1956

None of the Members of the Massey is in any

Therefore, the Board has obtained the approval and the

IN RESPECT OF

Members are interested in the Association (A) may be decided to be a Public Representative

This condition of the Company would be subject to the decision, subject to the expiry of

The Public Representative at the General Meeting, Article 20.4.4 of the Articles of Association of three years for

The Company is a member of the Contracts (Regulation) Exchange is subject to the approval of

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

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IN RESPECT OF ITEM NO.6

Members of the Company are being informed that the existing Article 20.11 of the Articles of Association of the Company provides for prior approval of Securities and Exchange Board of India (SEBI) for the appointment, terms and conditions of service, renewal of appointment and the termination of service of the Managing Director and Joint Managing Director) of the Company.

SEBI, while according its approval to the re-appointment of Managing Director and Joint Managing Director for a further period of three years, w.e.f. January 22, 2001, vide its letter Ref. No. SMD/ISE/21393/2001 dated January 12 2001, had advised the Exchange to amend the Articles of Association of the Company, so that approval of SEBI is required only for the appointment of Managing Director.

Accordingly, the Board of Directors of the Exchange, in its Meeting held on May 19, 2001, unanimously approved the aforesaid amendments in Articles 20.11 & 20.11.1 of the Articles of Association of the Exchange, subject to approval of the Members of the Exchange in accordance with the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956.

None of the Members of the Board of the Directors of the Company, except Shri Joseph Massey is in any way concerned/interested in the Resolution.

Therefore, the matter is placed before the Members of the Company for consideration and approval and the Board recommends the passing of the Resolution.

IN RESPECT OF ITEM NO.7

Members are informed that as per the existing provisions of Article 20.4.4 of the Articles of Association (AoA) of the Company, the tenure of the Chairman shall be of such period as may be decided by the Board, subject to a maximum of three years, provided he continues to be a Public Representative during his tenure as the Chairman.

This condition was stated in the Articles of our Company with an assumption that the Company would be able to appoint the Chairman for a fixed period of three years at a time. This provision was included in our Articles of Association to enable the Board to take a decision, subject to approval of SEBI, on the appointment/re-appointment of the Chairman after the expiry of the first term of three years for a further term of three years.

The Public Representatives of our Exchange are appointed every year after the Annual General Meeting, which is also subject to approval of SEBI. It is proposed that the existing Article 20.4.4 of AoA should be amended, so that the provision relating to the maximum term of three years for the Chairman is removed.

The Company being a Stock Exchange recognized under Section 4 of the Securities Contracts (Regulation) Act, 1956 any amendment in the Articles of Association of the Exchange is subject to prior approval of SEBI, and therefore, SEBI has been requested to accord its approval to this amendment in AoA of the Company.



Shri M. R. Mayya, present Chairman of the Company, is deemed to be concerned or interested in the Resolution except him none of the Directors of the Company is in any way concerned / interested in the Resolution.

Therefore, the matter is placed before the Members of the Company for consideration and approval and the Board recommends the passing of the Resolution.

BY ORDER OF THE BOARD

DIPAK K. SHAH  
COMPANY SECRETARY

Place: Vashi, Navi Mumbai  
Date: August 18, 2001

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# INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

## DIRECTORS' REPORT

The Board of Directors of our Company is pleased to present its Third Annual Report for the period April 1, 2000 to March 31, 2001, being the Third Financial Year together with the Auditors' Report and the Accounts up to that date. During the period under reference, the capital market has witnessed a lot of structural changes, which have had a major impact in enhancing the relevance of consolidation and co-existence.

### PRIMARY MARKET

After a prolonged sluggish period, resource mobilisation through primary market continued its buoyancy though subdued as against that witnessed last year. This buoyancy was largely due to the sustained buoyancy in the secondary market which improved the sentiments of the investors. The IPOs during the year displayed the impact of sentiments of investors in the secondary market as most of the issues were in the Information Technology, Communication and Entertainment (ICE) and Pharmaceutical sector which was doing exceedingly well in the secondary market. Though, this was a very encouraging development for a second year in a row, after a long spell of dormant market, however, it could not be sustained for long as since the end of 2000, there have not been many issues. After the crash in the market in March 2001, the primary market has been severely hit and it would require considerable policy and business measures to improve the market sentiments.

During 2000-01, fund mobilised by Indian corporates through domestic offerings was lower at Rs. 6107.79 crore from 151 issues as against Rs. 7816.75 crore from 93 issues in 1999-2000. The Public issue in this amounted to Rs. 5378.38 crore as against Rs. 6256.51 crore during the last year, whereas the amount of rights issue in the total collection during the year was Rs. 729.41 crore as against Rs. 1560.24 crore during 1999-2000. In terms of number of issues, the Infotech sector accounted for 89 companies raising a capital of Rs. 803.54 crore as against 36 issues with a capital of Rs. 1547 crore during the previous year. Telecommunications, Finance and Entertainment were the other important growth sectors. Mutual Funds showed a sharp recovery by mobilizing Rs. 92,957.39 crore during the year 2000-01 as against Rs. 61241.23 crore during 1999-2000. The Mutual Funds repurchased units worth Rs. 83,829.32 crore as against Rs. 42271.35 crore in the previous year resulting in a net inflow of Rs. 9128.07 crore during the current year which was lower than last year wherein it was Rs. 18,969.88 crore.

### SECONDARY MARKET

The secondary market witnessed an unprecedented buoyancy for the second year in a row until February, 2001. However, after the rise in the market post budget, the market crashed continuously to a level witnessed two years back, by March 31, 2001. The month of March, 2001 displayed the ills of a highly enmeshed but inefficiently integrated financial system wherein we saw the capital market impacting the banks and the rest of the financial sector. The Sensex closed lower by 1448.56 point from the level of 5001.28 on March 31, 2000 to 3604.38 on March 31, 2001. Subsequently, the turnover volume fell significantly with the introduction of the rolling settlement. The prospects for the current financial year do not look very promising and the positive impact of the derivative segment compensating this fall in business appear to be quite far at present.



The year 2001-02 will actually will be remembered as the year of the big bang for the Indian Capital Market when the trading practices and strategies will undergo significant changes and new regime for secondary market trading will be formulated by the market intermediaries.

The competitive pressure faced by the smaller Exchanges since mid-1990's got further accentuated during the current year on account of enhanced liquidity and expansion of NSE and BSE. The problem was partly being addressed through the establishment of subsidiaries by individual Exchanges under the policy of revival of smaller Exchanges. On account of this policy while the smaller Exchanges which were inactive in the local segment did benefit with the availability of access to NSE and BSE, however, those Exchanges which had liquidity in their local segment also faced flight of business from the local Exchanges to NSE or/and BSE.

It is now felt that the problem of low turnover on the regional Exchanges is not as much a function of liquidity as much the availability of limited capital. For it has been seen that even in local Exchanges where the business was sizeable, the availability of NSE / BSE actually did not enhance the business as expected from arbitrage opportunity but instead transferred the business from local market to a more liquid market. Similarly, on Exchanges where there was no business, we saw that the members reactivated trading on the NSE and/ or BSE market after the subsidiaries were set up. One explanation may be that the capital being limited with the members, it was not easy for them to do additional business on NSE / BSE and therefore they shifted capital from one market to another as a result the business of the local market suffered. Similarly, in case of inactive Exchanges it is probable that the brokers who had migrated their business to NSE/ BSE through other direct members of NSE/BSE as sub-brokers and were paying large brokerage for this access are returning to the Exchange due to this facility to save their cost and to reduce counter-party risk. However, this shift has only been marginal indicating that many members still do not have the capital or clients to activate this low cost options also.

The share of smaller Exchanges has been on a decline during the last few years and the trend continued during the current year also as indicated below:

Stock Exchange	2000-01		1999-00		1998-1999		1997-1998	
	Rs. Crore	%	Rs. Crore	%	%	%	%	%
NSE	13,39,510.90	46.49	8,39,952	40.59	40.49	40.71		
Mumbai	10,00,031.55	34.71	6,85,028	33.14	30.49	22.82		
Calcutta	3,55,035.35	12.32	3,57,166	17.28	16.79	19.67		
Delhi	83,871.12	2.91	93,289	4.51	5.06	7.47		
ISE Exchanges*	42,209.96	1.47	45,255	2.20	3.53	4.98		
Ahmedabad	54,035.20	1.88	37,566	1.82	2.91	3.39		
Pune	6,170.53	0.21	5,357	0.29	0.73	0.95		
OTCEI	125.95	0.01	3,588	0.17	0.01	0.01		
All India	28,80,990.53	100	20,67,030	100	100	100		
All India % age	100	100	100	100	100	100		

\* 15 Stock Exchanges that have promoted ISE

## ISE'S VISION

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The proces followed by Therefore ir the form of during the y 545 crore d turnover ar has been f Traders an year, with Traders ar preferred r

## FUTURE F

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## ISE'S VISION

The preliminary work on ISE had commenced from 1996 as the participating Exchange had then realized that the smaller Exchanges would be better-off only if they were united for optimally utilising their resources. In effect, 1995-96 was the first year when ISE faced the competitive pressure of NSE and started working on this model. It has been a significant task during the last 5 years to reach this level of completion and credibility. The path has been difficult but tremendously educative on the issue of co-operation and co-existence in a consolidation effort. We are sure it would be useful in progressing further on this front.

The process of consolidation by ISE is different from the usual merger route being followed by the Exchanges internationally due to the sensitivity of the decision to merge. Therefore *inter-connectivity* of Regional Stock Exchanges through a holding company in the form of an apex Exchange was chosen as an optimal path. The ISE's operations during the year aggregated to a turnover of Rs. 233 crore as against a turnover of Rs. 545 crore during 1999-00. While ISE has become the 12<sup>th</sup> Stock Exchange in terms of turnover amongst the 25 recognized Stock Exchanges in the Country, its performance has been far short of expected performance. There has been lack of initiative from the Traders and Dealers to create liquidity in ISE during the last 3 years. During the current year, with the establishment of the subsidiary providing access to the NSE market, the Traders and Dealers became further complacent to trade on ISE as NSE became the preferred route for doing business.

## FUTURE PLANS

The current market scenario in the capital market is not very encouraging, however, in the future, the business model of ISE would be the most preferred method of accessing multiple markets with low cost and high credibility of an Exchange. ISE is considering several value added services or new products which may help ISE and ISS in fulfilling the demands of low cost users. We are considering derivative segment through NSE and DP services initially for the participants and later for clients through CDSL and NSDL.

This futuristic concept of consolidation being pursued by ISE is now being also explored by the Developed Countries. We think such consolidation enables optimal utilization of existing resources, enhanced efficiency due to economies of scale and permits product innovation, a sign of any dynamic market. On account of this philosophy we are proposing to implement most of the new products centrally on ISE, like, Internet Trading, IPO segment, Distribution of Mutual Fund Units, Information Dissemination, etc. We are also planning to provide trading support to the Commodities Exchanges and also consider providing them entry into the securities industry.

The creation of a national market has provided the brokers of the RSEs and individual investors in the regions an opportunity to approach the more liquid national level market. This market is expected to provide liquidity in small capital companies as the other National Level markets have a higher entry norm and may not cater to this market.



Currently, th

## REGISTRATION OF TRADERS AND DEALERS

As on June 30, 2001, ISE had received 432 applications from the Traders (i.e., Brokers of the participating Exchanges) of which 298 were registered with SEBI and 17 were pending registration at SEBI. The balance applications were pending at ISE for want of information. The Regional Exchanges participating with ISE have in all about 4,500 members (2,500 active members) who are eligible to be registered as Traders on ISE. Besides, during the year, ISE also received about 500 eligible applications for registration as Dealer after the initial scrutiny process. As on June 30, 2001, we had completed registration procedure for 304 Dealers and were awaiting another 16 registrations from SEBI. The balance Dealers are still required to complete their registration procedure.

All Traders and Dealers registered with SEBI under ISE are once again required to register with SEBI and NSE as sub-brokers under ISE Securities and Services Ltd., the wholly owned subsidiary of ISE which has taken Membership of NSE. Accordingly, we received a total of 178 applications from Traders and 299 applications from Dealers of which 127 Traders and 235 Dealers are registered with SEBI as sub-brokers of ISS on ISE.

## LISTING

While all companies listed at RSEs numbering about 3,500 and another 4,000 scrips listed on other Exchanges could be tradable on ISE as permitted securities, we have presently permitted about 1000 securities for trading under permitted category. ISE, thus, has the potential to emerge as India's largest market in terms of number of eligible member brokers and number of scrips available for trading and retail presence. In effect, in the rolling regime when several companies available on Regional Stock Exchanges come into prominence, ISE will become the only route to procure these securities by the Institutional Investors.

With the SEBI code for corporate Governance being made a part of the listing agreement, we realize that there is an increase in responsibility on the part of the companies and Exchanges for better investor protection. With a focus on this, we have decided to facilitate better Governance and regulatory compliance by being more active and by decentralizing with the better use of technology. We have Regional Offices in metros headed by a Senior Officer who would ensure the convenience and cost regulatory compliance by the prospective companies. It is also proposed that ISE would implement the IPO distribution through the Stock Exchange infrastructure in near future.

The Board is pleased to inform that SEBI has granted its permission to the Exchange on July 10, 2001 to list the securities of Companies as a Regional Stock Exchange in the case of Companies located in the State of Maharashtra. SEBI has further clarified the area of our jurisdiction to be as per the various Guidelines of Government of India which according to which the area of jurisdiction of our Stock Exchange will be midway between The Stock Exchange, Mumbai and ISE, Navi Mumbai and extending midway up to Pune Stock Exchange. The Exchange had informed to all the companies located in this region about this permission of SEBI and requested them to list their Securities on our Stock Exchange. The Exchange also list Securities of Companies, which are non-regional to us.

Name of the
BSES Ltd.
Snowcem Ind
Ketaki Estate
Micro Techno Ltd.
Kushal Softw
Indo-Pacific Entertainment known as Inc Securities Lt
Samson Lea Company Ltd

## DEMUTUALISATION

With the re-demutualisation of the market. While larger Exchanges and Exchanges demutualised, the demutualisation of the part-day management and the Board in every aspect of the international

## TECHNOLOGY

ISE has its RSE broker centralised services. I Traders, D The infrast support a Accordingl We are no like, comm enabling a

## CLEARING

ISE has e of various etc. ISE h Trader an Rs.233.05



Currently, the following Companies are listed on our Stock Exchange:

Name of the Company	Securities Listed	Date of Listing
BSES Ltd.	13,77,25,666 equity shares of Rs. 10 each	July 12, 1999
Snowcem India Ltd.	1,05,08,100 equity shares of Rs. 10 each	August 24, 1999
Ketaki Estate & Finance Ltd.	32,00,000 equity shares of Rs. 10 each	May 22, 2000
Micro Technologies (India) Ltd.	54,85,700 equity shares of Rs. 10 each (including 13,60,700 equity shares of Rs. 10 each issued at a premium of Rs. 50 per share)	October 14, 2000
Kushal Software Ltd.	1,00,06,000 equity shares of Rs. 10 each (including 55,00,000 equity shares of Rs. 10 issued at par in terms of Prospectus dated October 10, 2000)	December 7, 2000
Indo-Pacific Software & Entertainment Ltd. (earlier known as Indo-Pacific Securities Ltd.)	50,25,400 equity shares of Rs. 10 each issued at par	January 12, 2001
Samson Leasing & Finance Company Ltd.	60,00,000 equity shares of Rs. 10 each issued at par	June 2, 2001

### DEMUTUALISATION OF EXCHANGES

With the recent turmoil in the market, it has been widely discussed and opined that demutualisation of Exchange is necessary for the stability and growth of the capital market. While it may take a long time to conclude on this issue in finality, some of the larger Exchanges in the country are making rapid progress to ensure that their Exchanges corporatise and demutualise. It may be worth noting that we are a uniquely demutualised Exchange with ownership of the Exchange being bestowed in the hands of the participating promoter Exchanges and the users being isolated from the day to day management of the Exchange. The Exchange is managed by a professional team and the Board of ISE is chaired by a public representative. It may be mentioned that every aspect of the Exchange has been so well thought that it converges eventually to the international practices being advocated now.

### TECHNOLOGY

ISE has its Central Trading System at Vashi, Navi Mumbai, which is connected to the RSE brokers' and Dealers at over 40 locations. All technical support on this market is centralised and the operational support is decentralised for convenience and better services. ISE also has an E-mail facility, connecting the ISE personnel at Vashi with Traders, Dealers and support personnel located at the different Regional Offices of ISE. The infrastructure of ISE is now being also used by ISS for optimal utilization. In order to support a very active market, we have strengthened the infrastructure further. Accordingly, the system and communication support has multiple levels of redundancy. We are now also making effort to use our system on ISE for supporting other markets like, commodities Exchanges, to diversify the usage of system and are also looking at enabling access into these two markets if ISE and NSE through internet.

### CLEARING & SETTLEMENT

ISE has established a national level clearing and settlement system with the assistance of various agencies like, NSDC, CDSL, ABN AMRO BANK, Vysya Bank, HDFC Bank, etc. ISE has set up a Settlement Guarantee Fund to guarantee all settlement dues of a Trader and Dealer on ISE. During the year, the total turnover of the Exchange was Rs.233.05 crore of which Rs.7.98 crore resulted in delivery.



## 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 as per the Rules and Regulations of the Exchange. With the modification carried out recently, the SGF can now be used for partial defaults by members in meeting their settlement liability also. The entire BMC collected from Traders is made a part of SGF and this BMC was recently increased to Rs. 3 lakhs per Broker. Consequently, the total corpus of the SGF as on 31.03.2001 was over Rs. 14.0 crores.

	Cash	FDR	Bank Guarantees/ RSEs Undertaking	Securities	Total
Specific Access Fund (Represents the portion of SGF/TGF consisting of the contribution from the members which can be utilized in the event of shortfall by that member only and not for any other member)	Nil	Nil	Nil	Nil	Nil
General Access Fund (Representing the portion of SGF / TGF which can be utilized in the event of shortfall by any of the members)	709.21	143.3	BGs: 80.5  RSEs Undertaking: 267.0	206.7	1406.71

## BASE MINIMUM CAPITAL

ISE Traders have to maintain Base Minimum Capital (BMC) of Rs.4 Lakhs. However, to start with, the Traders were permitted to provide a BMC of Rs.2 lakhs which was increased to Rs.3 lakhs in March 2001 and would be further increased to Rs.4 lakhs by September, 2001. 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.

## RISK MANAGEMENT & SURVEILLANCE SYSTEM

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.

## FINANCIAL

Financial  
correspondence

Total Income
Employee
Administrative
Interest
Total Expenses
Cash provided
Depreciation
Deferred
Total Expenses
Excess (Deficit)

As compared to the previous year, the performance of the Exchange has been satisfactory. The cash flow has been positive (Depreciation 2000-01 year).

The Board of Directors has approved the reformulated approach to realize the operational objectives.

## FUNDING

The Exchange has set up an infrastructure fund. The Traders are permitted to invest in the fund due to the gestation period of the subsidiary. The fund raised is worth Rs. 100 crore. Further, the Exchange has set up a Derivatives Dealer



## FINANCIAL HIGHLIGHTS

Financial Highlights for the financial year April 1, 2000 to March 31, 2001 along with the corresponding figures for the previous two financial years are given below:

	(Rupees in lakhs)		
	2000-01	1999-00	1998-99
Total Income	219.58	65.63	24.48
Employee Costs	80.11	73.49	19.40
Administrative & Operative Costs (excluding Deferred revenue expenses)	210.60	204.98	57.47
Interest	24.96	44.07	9.62
Total Expenses	315.67	322.53	86.50
Cash profit/(loss)	(96.09)	(256.91)	(62.01)
Depreciation	187.09	168.15	18.14
Deferred Revenue Expenses (charged to Profit & Loss)	26.71	26.71	26.71
Total Expenditure	529.46	517.39	131.34
Excess of expenditure over revenue (carried forward to Balance Sheet)	(309.89)	(451.76)	(106.86)

As can be observed, there has been a significant improvement in the financial performance of the Exchange, even though this was not sufficient to achieve cash break even. Against a cash loss of Rs.256.91 lakhs sustained in the year 1999-00, the Exchange brought this figure down considerably to Rs.96.09 lakhs, i.e., a reduction in the cash loss position by Rs.151.91 lakhs. Taken together with the non-cash charges (Depreciation and Deferred Revenue Expenditure), the total loss for the financial year 2000-01 stands at Rs.309.89 lakhs, as compared to Rs.451.76 lakhs for the previous year.

The Board of Directors of the Exchange have constituted a Restructuring Committee to reformulate the ISE concept in view of the changes circumstances, come out with an approach plan for demutualizing the Exchange and for implementing these plans so as to realize the full potential of this Exchange. Along with this, structural changes are being brought about in the operations of the Exchange with the objective of reducing the operating costs substantially.

### FUNDING OF THE ISE AND ISS PROJECT

The Exchange has received Rs. 2463.11 lakhs as admission fees and contributions for infrastructure development from the member exchanges and admission fee from Traders and Dealers upto March 31, 2001. A sizeable part of the above amount was invested in fixed assets for the ISE and ISS Project and also to funds the losses made due to excess of recurring expenses over income in this infrastructure project with long gestation period. The Exchange has invested Rs.250 lakhs in its wholly-owned subsidiary ISE Securities and Services Ltd. in the form of equity capital which was raised subsequently during the current year 2001-02 to Rs.450 lakhs to raise its net worth for enabling it to take the membership of the Derivatives segment. We expect to further invest an amount of over Rs.200 lakhs in ISE and ISS for providing the Derivatives Trading, Internet Trading and IPO Distribution segment to our Traders and Dealers.



## RASTRUCTURE

Registered Office of the Company admeasuring 10,200 sq. ft. is situated very veniently at the International Infotech Park, Vashi. All Exchange operations are ig currently carried out from this office and also from additional four offices blished in Kolkata, Coimbatore, Delhi and Nagpur. The office has all state-of-the-art ilities for Trading, Clearing and Settlement, Risk management and customer support. ng a new Exchange, we are extremely technology intensive and well networked.

## URANCE

assets and properties of the Company at Mumbai and at other offices of ISE or erties lying in the premises of service providers and Dealers are insured quately.

## ECTORS' RESPONSIBILITY STATEMENT

suant to the provisions of Section 217(2AA) of the companies Act, 1956, the ctor's confirm that in the preparation of the annual accounts -

he applicable accounting standards have been followed and no maierial departure ave been made from the same;

appropriate accounting policies have been selected and applied consistently and ave made judgements and estimates that are reasonable and prudent so as to give a true a fair view of the state of affairs of the Company as at March 31, 2001 and Profit & Loss Account for the year ended March 31, 2001;

proper and sufficient care has been taken for the maintenance of adequate 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;

the annual accounts have been prepared on a going concern basis.

## BOARD OF DIRECTORS AND CHANGES DURING THE YEAR

ing the year under review, Six Meetings of the Board of Directors were held on the wing dates.

Board Meeting No.	Date
23	September 23, 2000
24	November 24, 2000
25	January 18, 2001
26	May 19, 2001
27	July 7, 2001
28	August 18, 2001

account of resignations by some Member Directors and/or withdrawal of nomination he Participating Exchanges, following changes have taken place in the composition he Board during the period under review:

Sr. No.	Name of Director	Nature and reason of change	Date of change
1.	Dr. S. Ramani	Appointed by SEBI as Public Representative on the Board	January 18, 2001

Sr. No.	Name
2.	Prof. (I Bhole
3.	Dr. Pra Chund
4.	Shri Pa
5.	Shri Ja Jain
6.	Ms. Ma
7.	Shri N. Prasac
8.	Shri Ar
9.	Shri M. (appoir
10.	Shri M. Agrawa

Re-appointment and Joint Manag

During the period and Shri V. Sha respectively for approved remun

Sr. No.	Approv
1.	Board c
2.	SEBI
3.	Membe
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Sr. No.	Name of Director	Nature and reason of change	Date of change
		of the Exchange for the year 2000-01.	
2.	Prof. (Dr.) L. M. Bhole	Appointed by SEBI as Public Representative on the Board of the Exchange for the year 2000-01	January 18, 2001
3.	Dr. Prasanna Chandra	Ceased to be Public Representative on the Board of the Exchange	January 18, 2001
4.	Shri Pankaj J. Shah	Ceased to be Nominee of Bangalore stock Exchange	September 23, 2000
5.	Shri Jambu Kumar Jain	Ceased to be Nominee of Gauhati Stock Exchange	September 23, 2000
6.	Ms. Manisha P. Naik	Ceased to be Nominee of Vadodara Stock Exchange	September 23, 2000
7.	Shri N. Ranga Prasad	Nominated as a Nominee of Hyderabad Stock Exchange	September 23, 2000
8.	Shri Arvind B. Patel	Nominated as a Nominee of Saurashtra Kutch Stock Exchange	September 23, 2000
9.	Shri Mohan Malpani (appointment)	Nominated as a Nominee of Madhya Pradesh Stock Exchange	September 23, 2000 (Appointment)
		Ceased to be as a Nominee of Madhya Pradesh Stock Exchange	August 18, 2001 (Cessation)
10.	Shri Mahendra Agrawal	Nominated as a Nominee of Madhya Pradesh Stock Exchange in place of Shri Mohan Malpani	August 18, 2001 (Appointment)

Re-appointment of Shri Joseph Massey and Shri V. Shankar as Managing Director and Joint Managing Director of the Company respectively:

During the period under review, the Company has re-appointed Shri Joseph Massey and Shri V. Shankar as Managing Director and Joint Managing Director of the Company, respectively for a period of three years w.e.f. January 22, 2001 and the payment of approved remuneration:

Sr. No.	Approving Authority	Reference number and date of approval
1.	Board of Directors	In the 24 <sup>th</sup> Board Meeting held on November 24, 2000 1998.
2.	SEBI	Vide its letter No. SMD/ISE/21393/2001 dated January 12, 2001
3.	Members of the Company	In their Extra-Ordinary General Meeting held on May 19, 2001
4.	Central Government	Vide its letter No. 1772/2001-CL.VII dated May 4, 2001 u/s 269, 193(4), 379(3) & 637AA of the Companies Act, 1956

the year 2001-2002, Gauhati, Mangalore and Vadodara Stock Exchange are eligible to nominate their representatives on the Board of ISE in place of the Nominees of BSE, Delhi, Uttar Pradesh and Cochin Stock Exchanges.

the year 2001-2002, Gauhati, Mangalore and Vadodara Stock Exchange are eligible to nominate their representatives on the Board of ISE in place of the Nominees of BSE, Delhi, Uttar Pradesh and Cochin Stock Exchanges.

#### CONSTITUTION OF THREE STATUTORY COMMITTEES

The Board has approved the appointment of following Public representatives on the three Statutory Committees of the Exchange for the year 2000-2001.

##### Central Arbitration Panel

Sr. No.	Name of Public representative
1.	Shri S. S. Pradhan
2.	Shri G. K. Menda, Advocate
3.	Shri M. U. Kini
4.	Shri R. Krishnamurthy
5.	Shri Sajjad Abdulrasul Kanji
6.	Shri N. M. Unadkat

##### Audits Committee

No.	Name of Public Representative
1.	Justice (Retd.) M. W. Deshmukh
2.	Shri M. V. Raghavachari
3.	Shri Kiril P. Mehta

##### Disciplinary Action Committee

No.	Name of Public Representative
1.	Dr. K. U. Mada
2.	Prof. M. D. Limaye
3.	Shri Sandeep H. Junnarkar

During the period under review a maiden "Introductory Meeting" of the Members of the newly appointed Statutory Committees of ISE for the year 2000-2001 was held on Friday, June 30, 2001.

##### Constitution of the Audit Committee

The Board has constituted an Audit Committee based on the requirements of the new code of Corporate Governance being adopted by most companies. The Audit Committee consists of the following Members:

1. Shri Ajay
2. Shri M. F.
3. Shri Ash
4. Shri Jos
5. Shri V. S
6. Shri Ash

##### Constitution

As advised for Code of also constitute

1. Justice
2. Dr. L. M.
3. Shri N. F.

##### PARTICULARS

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In order to and dealers and it applies Exchanges. access to o segment la compliance

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1. Shri Ajay Thakkar, Public Representative Director – Chairman, Audit Committee
2. Shri M. R. Mayya, Public Representative Director, Chairman, ISE
3. Shri Ashok Sardana, Member Director, Nominee Bhubaneswar Stock Exchange
4. Shri Joseph Massey, Managing Director
5. Shri V. Shankar, Joint Managing Director
6. Shri Ashish Parikh, Special Invitee, Nominee Mangalore Stock Exchange

#### Constitution of Ethics Committee

As advised by SEBI, the Exchange has suitably amended its Bye Laws so as to provide for Code of Ethics for Directors and Functionaries of the Exchange. The Exchange has also constituted an Ethics Committee, which comprise of the following Members:

1. Justice A. D. Tated (Public Representative Director of ISE), Chairman of the Committee
2. Dr. L. M. Bhole (Public Representative Director of ISE) and
3. Shri N. Ranga Prasad (Director of ISE, Nominee of Hyderabad Stock Exchange)

#### PARTICULARS OF SUBSIDIARY COMPANY

During the year 1999-2000, SEBI decided that the Exchanges could float a subsidiary company to take membership of the bigger Exchanges and thereby, permit its traders and dealers to access multiple markets. Since, the regional Exchanges were required to take membership of the premier Exchanges at the cost of Rs. 2.50 crore and provide this access to its traders and dealers with an additional expenditure of Rs. 2 crore on system support, most Exchanges decided to use the subsidiary of ISE.

In order to make it more economical for the participating Exchanges and to our traders and dealers, ISE floated a subsidiary called ISE Securities and Services Limited (ISS) and it applied for membership of National Stock Exchange (NSE) and other premier Exchanges. Currently, it has finalised membership of NSE and it will consider providing access to other Stock Exchanges and also to other segments, like, derivatives and debt segment later. This would be done gradually subject to completion of all regulatory compliance.

ISS commenced trading operations on May 3, 2000 and is currently operating from over 40 locations with over 200 Traders and Dealers. Starting from a modest turnover initially, ISS reached a peak turnover of Rs. 150 crore per day on February 28, 2001. After the slowdown in the market post-March, 2001, the turnovers have been around Rs. 50 crore.

During the year under review, the Company had an investment in ISE Securities & Services Limited (ISS), wholly owned subsidiary Company of ISE, of Rs. 2.5 Crores which has subsequently been increased to Rs. 4.5 Crores.

As required under Section 212 of the Companies Act, 1956, annexed hereto are copies of the Audited Statement of Accounts for the Year ended on March 31, 2001, Report of the Board of Directors and Auditors for the Year ended on March 31, 2001 and the Statement of the Holding Company's interest in the Subsidiary Company as specified in Sub Section (3) of Section 212 of the Companies Act, 1956, which forms part of this Annual Report.



## AUDITORS

M/s C. C. Chokshi & Co., Chartered Accountants, who had been appointed by the Members of the Exchange in its Second Annual General Meeting as Statutory Auditors of the Exchange to hold office till the conclusion of the forthcoming Annual General Meeting. They 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.

## Auditors observation on Fixed Assets

The Auditors have observed that the fixed assets have not been physically verified by the Management during the year but there is a regular programme of verification which in their opinion is reasonable having regard to the size of the Company and the nature of assets. In order to clarify this issue further, it was thought necessary, as a matter of good corporate governance, that additional details on the networking equipment may be provided herein.

Networking equipment (refer to schedule 4 on Fixed Assets) consist of routers, modems and VSATs which were installed during the year at the premises of the Dealers / Traders amounting to Rs. 1,95,42,213/-. Additional Networking equipment amounting to Rs. 1,48,31,985/- are installed / co-located for common support infrastructure consisting of routers, modems, switches, Muxes, related software and VSAT equipment at the Central Office at Vashi, Navi Mumbai, Regional Offices at Kolkata and Delhi and at the premises of the vendor, Wipro Net Ltd. at Kolkata, Delhi and Mumbai.

These assets of the Exchanges, located at the Central Office and the Regional Offices have been physically verified during the year. However, the assets lying in the Dealers Offices have not been physically verified during the year as these assets are spread over 40 cities with major concentration in Kolkata, Delhi and Mumbai. These assets are used by the Traders and Dealers in their routine operations. The Exchange has a regular programme of confirmation / verification of Fixed Assets.

The Exchange has received an amount of Rs.2,98,25,245/- as Networking Equipment Contribution from the Dealers / Traders towards the installation of these networking equipment. (Refer to Note 13 of Schedule 16 on Notes forming part of Accounts)

## PARTICULARS OF EMPLOYEES

In view of enhancement of the monetary limit, the requirements of the Disclosure relating to the particulars of Employees, 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 are not required to be stated in the Director's Report. However, some key parameters indicating the strength of our Human Recourses are given below:

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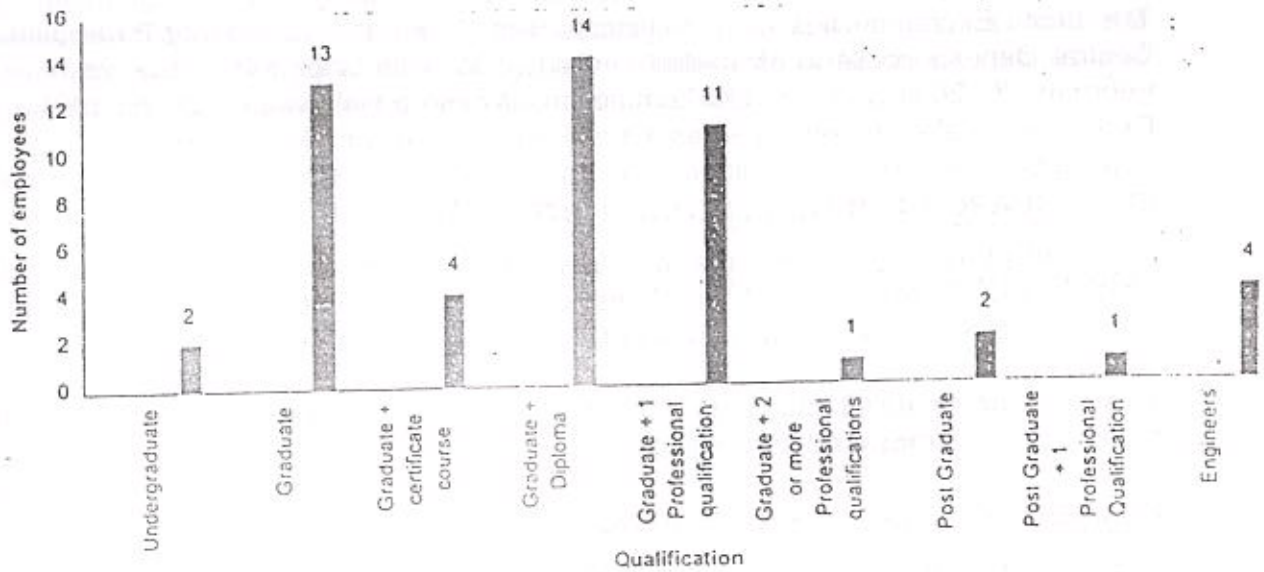
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### Educational profile of employees



### 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 Exchange and therefore no details are required to be given.

### CORPORATE GOVERNANCE

The Company is committed to good corporate governance. The Chairman, together with the other Directors, and the staff working for the Company, are highly conscious that Traders and Dealers, investors and the general public need to be serviced effectively. Therefore, all policies and strategic initiatives undertaken by the Company suitably reflect this commitment.

### RENEWAL OF RECOGNITION AS A STOCK EXCHANGE

Securities and Exchange Board of India (SEBI) vide its original Notification dated November 19, 1998 granted a Recognition to the Stock Exchange U/s 4 of the Securities Contracts (Regulation) Act, 1956, (SC(R)A) for a period of three years ending on November 18, 2001.

As required under Section 3 of the (SC(R)A), an Application in the prescribed Form has been made to Securities and Exchange Board of India, with all the supporting documents with a request to renew the Recognition, which is awaited.

## REGISTRATION OF THE EXCHANGE AS A DEPOSITORY PARTICIPANT OF CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED (CDSL)

The Stock Exchange has been registered with SEBI as a Depository Participants of Central Depository Services (India) Limited (CDSL) for a period of five years w.e.f. February 26, 2001 and has also commenced the DP activity w.e.f. July 20, 2001. The Exchange is already registered as a clearing House DP with NSDL also.

## ISE RESEARCH AND TRAINING INSTITUTE

As a part of its duty towards the Investors and the Intermediaries, the Exchange has started "ISE Research and Training Institute", which conducts educational classes on different topics relating to Capital Market including derivative Trading.

This Training Institute has been accredited by NSE for carrying out NCFM related training programmes for different segments.

## NUMBER OF LEGAL CASES PENDING

There are no legal cases against ISE as on date.

## NUMBER OF PENDING ARBITRATION CASES

There is no arbitration case pending at ISE as on date.

## NUMBER OF DEFAULTS

There were no defaults during the review period at ISE.

## ACKNOWLEDGEMENT

On the occasion of presenting this Annual Report, we take pleasure in expressing our sincere thanks to the Officials of 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, DoT, MTNL, Bankers, Auditors, Consultants, Press and other media persons and Members of the Board of Directors of ISE and Member Directors of the Participating Stock Exchanges, Traders, Dealers, Officials of Indigo Technologies, SSI Technologies, HCL Comnet, WIPRO, COMPAQ, Satyam Computers, Financial Technologies, CMS, ABN-Amro Bank, Vysya Bank, HDFC Bank, Standard Chartered Grindlays Bank, Canara Bank, Industrial Bank, New India Assurance, National Centre for Software Technology, Integrated Finance Ltd., UTI Institute of Capital Markets, ICSI-CCRT, Price Waterhouse - PwE Project, M/s Amarchand Mangaldas & Suresh A. Shroff & Sons, M/s Kanga & Co., M/s S. D. Israni & Co., M/s C. C. Chokshi & Co., M/s A. J. Shah & Co., Stock Holding Corporation of India Ltd., CIDCO and other Consultants and Contractors for their support and kind co-operation extended to ISE and ISS, without which we would not have achieved this progress.

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Our sincere thanks are also due to the officers and staff members of ISE and ISS 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 of Stock Exchanges and implementation of the subsidiary project for trading on NSE.

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.

By order of the Board of Directors

M. R. MAYYA  
Chairman

Place: Vashi  
Date: August 18, 2001

# INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

Annexure I

Statement regarding Subsidiary Company - ISE Securities & Services Limited  
(Pursuant to Section 212 (3) of the Companies Act, 1956)

Sr. No.	Particulars	Remarks
1.	Name of the Subsidiary Company	ISE Securities & Services Limited
2.	Financial Year of the Subsidiary Company	April 1, 2000 to March 31, 2001
3.	Number of Shares of the Subsidiary Company held by Inter-connected Stock Exchange of India Limited (ISE)	24,99,300 Equity Shares of Rs.10/- each fully paid up held in the name of Inter-connected Stock Exchange of India Limited.  700 Equity Shares of Rs.10/- each fully paid up, in the name of the seven subscribers to the Memorandum of Association of the Company (100 Equity Shares each of Rs.10/- fully paid up held in the name of Shri M. R. Mayya, Shri Joseph Massey, Dr. K. Sabhapathy, Shri Ashish M. Parikh, Shri V. Shankar, Shri Hasmukh B. Baldev and Shri Yogendra Surana as Nominees of Inter-connected Stock Exchange of India Limited.
4.	Extent of Shareholding	25,00,000 Equity Shares of Rs 10/- each fully paid up 100%. On March 31, 2001 the Company held the entire Share Capital consisting of 25,00,000 Equity Shares of Rs.10/- each fully paid up
5.	Net aggregate amount of Profit / Loss of the Subsidiary Company, so far as it concerns the Members of the Company	
	(a) not dealt with in the accounts of Inter-connected Stock Exchange of India Limited for the Financial Year ended March 31, 2001	
	I. For the financial year mentioned in 2 above	Rs.(37,22,453.00)
	II. For the previous financial years of the Subsidiary since it became the Subsidiary of the Company.	NIL
	(b) dealt with in the accounts of Inter-connected Stock Exchange of India Limited for the Financial Year ended on 31 <sup>st</sup> March, 2001	NIL
	I. For the financial year mentioned in 2 above	
	II. For the previous financial years of the Subsidiary since it became the Subsidiary of the Company.	

By order of the Board of Directors

M. R. MAYYA  
Chairman

Place: Vashi  
Date: August 18, 2001

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## ATTENDANCE OF THE BOARD MEETINGS

Attendance of each Director at the Board Meetings held during the period  
September 23, 2000 (the last AGM date) up to August 18, 2001  
No. of Board Meeting held during the period under review: 6

Sr. No.	Name of Director and their status	No. of Board Meetings held	No. of Board Meetings attended	Status of presence at 2 <sup>nd</sup> AGM
1.	Shri M. R. Mayya Public Representative Director & Chairman	6	6	Present
2.	Shri P.C Nayak Public Representative Director	6	3	—
3.	Dr. S. Ramani Public Representative Director	4	2	—
4.	Dr. L. M. Bhole Public Representative Director	4	4	—
5.	Justice A. D. Tated Public Representative Director	6	5	—
6.	Shri Ajay A. Thakkar Public Representative Director	6	5	—
7.	Shri P. K. Bindlish SEBI Nominee	6	4	—
8.	Shri K. Pandian SEBI Nominee	6	4	—
9.	Shri Sanjay Chokhany Nominee of Magadh Stock Exchange	6	1	—
10.	Shri Mohan Malpani Nominee of Madhya Pradesh Stock Exchange	5	2	Present
11.	Shri Mahendra Agrawal Nominee of Madhya Pradesh Stock Exchange	1	0	—
12.	Shri D. Balasundaram Nominee of Coimbatore Stock Exchange	6	2	—
13.	Shri Ashok K. Sardana Nominee of Bhubaneshwar Stock Exchange	6	3	Present
14.	Shri Arvind B. Patel Nominee of Saurashtra Kutch Stock Exchange Limited	6	0	—
15.	Shri N. Ranga Prasad Nominee of Hyderabad Stock Exchange Limited	6	4	Present
16.	Shri Joseph Massey Managing Director	6	6	Present
17.	Shri V. Shankar Joint Managing Director	6	6	Present

## GENERAL BODY MEETINGS

### 1. Location and time where last 3 Annual General Meetings (AGMs) held

Since the Company was incorporated on January 22, 1998 as a Public Company Limited by Guarantee, the First and the Second AGMs of the Members of the Company were held on Saturday, July 10, 1999 at 2.30 p.m. and on Saturday, September 23, 2000 at 2.30 p.m. at the Registered Office at International Infotech Park, Tower No. 7, 5<sup>th</sup> floor, Sector-30, Vashi - 400 703, Navi Mumbai, Maharashtra.

### 2. Extra-Ordinary General Meeting (EOGM)

An Extra-ordinary General Meeting of the Members of the Company was held on May 19, 2001 to approve the reappointment of Shri Joseph Massey as Managing Director and Shri V. Shankar as Joint Managing Director of the Company for a further period of 3 years.



# Inter-Connected Stock Exchange of India Limited

Balance sheet as at March 31, 2001

	Schedule	As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Sources of funds</b>			
<b>Shareholders' funds</b>			
Share Capital (Company limited by guarantee)		Nil	Nil
Admission fees/ Contribution towards infrastructure development	1	89,100,000	112,473,000
Dealer Admission Fees	2	148,500,000	26,090,000
Reserves and Surplus	3	36,762,835	3,674,069
<b>Total</b>		<b>274,362,835</b>	<b>142,147,069</b>
<b>Application of funds</b>			
<b>Fixed assets</b>			
Gross block	4	182,518,131	139,914,534
Less: depreciation		41,222,555	19,323,996
Net block		141,295,576	120,588,538
Capital work in progress		10,921,430	29,904,145
		152,217,006	150,492,683
Investments	5	25,000,000	25,000,000
<b>Current assets, loans and advances</b>			
<b>Current Assets</b>			
Cash and Bank Balances	6	146,963,055	136,817,346
Sundry Debtors	7	2,569,396	1,355,439
Loans and advances	8	38,282,655	10,752,829
		187,815,106	148,925,614
<b>Less: Current liabilities and provisions</b>			
Current liabilities	9	160,373,015	262,882,107
Deferred Payment Liabilities	10	22,484,933	33,312,230
		182,857,948	296,194,337
Net current assets		4,957,158	187,218,733
Miscellaneous expenditures (to the extent not written off or adjusted)	11	5,341,111	8,011,392
Profit and Loss Account		86,550,221	55,861,567
<b>Total</b>		<b>274,362,835</b>	<b>142,147,069</b>
Significant accounting policies and notes forming part of the accounts	16		

As per our attached Report of even date  
For C. C. Chakshi & Co.,  
Chartered Accountants

For and on behalf of the Board

Sd/-  
(P. H. Harpande)  
Partner

Sd/-  
(M. R. Mayya)  
Chairman

Sd/-  
(Joseph Massey)  
Managing Director

Sd/-  
(V. Shankar)  
Joint Managing Director

Sd/-  
(Dipak K. Shah)  
Company Secretary

Mumbai, dated: August 18, 2001

Mumbai, dated: August 18, 2001

# Inter-Connected Stock Exchange of India Limited

## Profit and Loss Account for the year ended March 31, 2001

	Schedule	For the year ended March 31, 2001	For the year ended March 31, 2000
		Rupees	Rupees
<b>Income</b>	12	21,957,626	6,562,742
<b>Total</b>		21,957,626	6,562,742
<b>Expenditure</b>			
Employee Costs	13	8,011,017	7,348,941
Administration and Operational Expenses	14	23,730,232	23,168,276
Interest	15	2,496,093	4,406,678
Depreciation		21,896,559	
Less : withdrawn from Capital Reserve		3,187,611	
<b>Total</b>		52,946,290	51,738,516
Loss for the year		(30,988,664)	(45,175,774)
Balance brought forward from previous year		(55,861,567)	(10,685,793)
Balance carried to Balance sheet		(86,850,231)	(55,861,567)
Significant accounting policies and notes forming part of the accounts	16		

As per our attached Report of even date

For C. C. Chokshi & Co.,

Chartered Accountants

For and on behalf of the Board

Sd/-  
(P. R. Barpande)  
Partner

Sd/-  
(M. R. Mayya)  
Chairman

Sd/-  
(Joseph Massey)  
Managing Director

Sd/-  
(V. Shankar)  
Joint Managing Director

Sd/-  
(Dipak K. Shah)  
Company Secretary

Mumbai, dated: August 18, 2001

Mumbai, dated: August 18, 2001



## Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 1 : Admission Fees' Contribution towards Infrastructure development from Members</b>		
Members Admission Fees	7,500,000	7,500,000
<b>Contribution towards infrastructure development :</b>		
Balance as per last year	104,973,000	97,600,000
Add : Contributions during the year	50,000	11,723,000
Less : Repaid during the year	<u>23,423,000</u>	4,350,000
(Refer note 6 of Schedule 10)	81,600,000	104,973,000
Total	<u>89,100,000</u>	<u>112,473,000</u>

	As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 2 : Dealer Admission Fees</b>		
Dealer Admission Fees		
Balance as per last year	26,000,000	Nil
Add : Received during the year	<u>122,500,000</u>	<u>26,000,000</u>
(Refer note 12 of Schedule 10)	148,500,000	26,000,000
Total	<u>148,500,000</u>	<u>26,000,000</u>

	As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 3 : Reserves and Surplus</b>		
<b>Capital Reserves</b>		
<b>(I) Networking Equipment Contributions</b>		
Balance as per last balance sheet	Nil	Nil
Add : Received during the year	29,825,245	Nil
Less : Appropriation towards depreciation	<u>3,187,611</u>	Nil
(Refer note 13 of Schedule 10)	26,637,634	Nil
<b>Other Reserves</b>		
<b>(I) Settlement Guarantee Fund</b>		
<i>(From initial contribution from traders and dealers and accretions by way of loss of charges on transactions during the year)</i>		
<i>(Including Rs 46,64,193 in previous year Rs 20,67,355 + accretions arising by way of interest for the year on deposits, etc. made out of such funds in accordance with the bye-laws of the company)</i>		
Balance as per last Balance Sheet	3,632,795	1,120,168
Add: Additions during the year	<u>6,348,245</u>	<u>2,512,627</u>
	9,981,040	3,632,795
<b>(II) Investor Protection Fund</b>		
<i>(From accretions by way of loss of charges and fines on transactions during the year)</i>		
Balance as per last Balance Sheet	17,453	27
Add: Additions during the year	<u>73,871</u>	<u>17,426</u>
	91,324	17,453
<b>(III) Investor Service Fund</b>		
<i>(From accretions by way of loss of charges and appropriations from trading fees income during the year)</i>		
Balance as per last Balance Sheet	23,820	27
Add: Additions during the year	<u>29,017</u>	<u>23,793</u>
	52,837	23,820
Total	<u>36,762,835</u>	<u>1,674,669</u>

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

*Schedule 4: Fixed Assets*

PARTICULARS	GROSS BLOCK				DEPRECIATION			NET BLOCK	
	As at 31-03-2000	Additions	Resolutions	As at 31-3-2001	Equid 31-03-2000	For the year	Depreciation	Equid 31-3-2001	As at 31-3-2001
Leasehold Land	796,950	-	-	796,950	17,974	12,990	-	30,964	765,986
Leasehold Premises	32,565,962	-	-	32,565,962	1,278,593	530,825	-	4,899,418	40,356,544
Machinery and Electrical Equipment	3,799,187	367,320	-	4,166,507	241,800	184,038	-	425,838	3,740,669
Furniture and Fixtures	4,544,860	116,420	-	4,661,280	380,517	386,671	-	767,188	3,894,092
Vehicles	841,619	-	-	841,619	108,049	79,954	-	188,003	653,616
Office Equipments	1,314,449	937,343	-	2,251,792	123,271	135,475	-	258,746	1,993,046
Networking Equipment	96,051,507	34,374,198	-	34,374,198	17,175,792	3,673,786	-	3,673,786	30,700,412
Computers	139,914,534	42,603,597	-	182,518,131	19,135,996	21,896,559	-	34,068,612	68,491,211
Total (as ended 31/03/01)	139,555,915	408,476	-	139,914,534	2,513,558	16,814,621	2,183	41,222,555	141,295,516
Previous Year								19,135,996	120,589,528

Capital Work in Progress comprise of Computers and Office Equipment pending installation of Rs 1,09,21,430/- (Previous Year Rs2,99,04,145)

- Notes:
- 1) In respect of Leasehold Land, Lease deed is pending execution
  - 2) Leasehold Premises represents cost of Office Premises including improvements in premises taken from 1/10/1997 to 31/3/2000 for a period of ten years in respect of which 1 year lease and agreement to lease has been executed.
  - 3) The cost of Leasehold Land does not include Stamp duty registering R.A. 31, 41, 50. The land being set up in International InfoTech Park, the same is exempt 35 per cent approval received from the relevant authorities.



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

		As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 9 : Current liabilities</b>			
<b>Sundry Creditors*</b>			
Total Outstanding dues of Small Scale Industrial undertakings	Nil		Nil
Total Outstanding dues of creditors other than small scale industrial undertakings	4,219,168	4,219,168	3,037,381
<b>Deposits**</b>			
Contribution towards Base Minimum Capital - Traders and Dealers		46,270,000	16,017,000
Contribution towards Settlement Stabilisation fund		12,000,000	11,200,000
Contributions received in Advance ***		97,886,435	232,577,726
<b>Total</b>		<b>160,375,605</b>	<b>262,832,107</b>
<p>* The above information as provided in respect of small scale industrial undertakings is arrived at on the basis of information available with the company.  ** Refundable in accordance with the bye-laws of the company  *** Advance contribution represents amounts received from the Traders/ dealers towards admission fees, annual fees, insurance premium, etc pending registration/ approval.</p>			

		As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 10 : Deferred Payment Liabilities</b>			
a) Due to CIDCO in respect of Leasehold Premises		15,811,000	18,879,668
b) Due to Suppliers towards Capital Goods		6,600,000	14,432,612
<b>Total</b>		<b>22,411,000</b>	<b>33,312,280</b>
<p>Note  Payment to CIDCO is to be made in 86 monthly instalments alongwith interest in accordance with the sanctioned terms of the leasehold premises and to other suppliers upto August 2001.</p>			

		As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 11 : Miscellaneous Expenditure</b> (To the extent not written off or adjusted)			
Preliminary expenses		2,612	21,618
Deferred Revenue Expenditure		5,241,949	7,989,974
<b>Total</b>		<b>5,244,561</b>	<b>8,011,592</b>

# Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	For the year ended March 31, 2001 Rupees	For the year ended March 31, 2000 Rupees
<b>Schedule 12 : Income</b>		
Commission Fees from Traders	355,000	155,000
Annual Subscription received		
- From Members	750,000	750,000
- From Traders	282,000	212,000
- From Dealers	7,450,000	
	8,482,000	962,000
Interest on Bank Deposits, etc.	15,299,337	5,341,925
Net Profit Rs.35,75,525/- previous year Rs.11,48,138)		
Interest earned on Reserve Fund Deposits	4,664,193	2,067,335
	10,635,144	3,274,590
Printing Fees	95,200	71,200
Transaction Charges	219,612	232,179
Provision of Doubtful advance written back	426,460	492,807
Miscellaneous Income	1,744,210	1,374,966
<b>Total</b>	<b>21,957,626</b>	<b>6,562,742</b>

	For the year ended March 31, 2001 Rupees	For the year ended March 31, 2000 Rupees
<b>Schedule 13 : Employee Cost</b>		
Salaries (Net of recovery Rs. 20,950/- [Previous year Rs. 380540/-])	6,918,065	6,396,554
Contribution to Provident and other Funds (Net of recovery of Rs. 95,701/- [Previous year Rs. NIL])	526,710	645,655
Gratuity (Net of recovery of Rs. 17,829/- [Previous year Rs. NIL])	42,642	61,022
Welfare (Net of recovery of Rs. 21,000/- [Previous year Rs. NIL])	523,600	245,710
<b>Total</b>	<b>8,011,017</b>	<b>7,348,941</b>

## Inter-Connected Schedules for

### Schedule 14 : A

Networking Expenses
Telephone and Postage
On-Line Subscription
Printing and Stationery
Legal and Professional Fees
Electricity Expenses
Water Consumption
Rates and Taxes
Repairs and Maintenance
Repairs and Maintenance
Conveyance
Postage and Courier Charges
Security Expenses
Insurance (Net of recovery)
Hiring Charges
Bank Charges
Advertisement Expenses
Gift and Publicity Expenses
Newspapers and Journals
Books and Reference Materials
Rent (net of recovery)
Travelling Expenses
Motor Car Expenses
Miscellaneous Expenses
Membership and Subscriptions
Provision for Doubtful Advances written back
Provision for Doubtful Advances written back
Deferred Revenue
Miscellaneous Income

### Schedule 15 : A

Interest on Debts
Interest on Bank Deposits
Interest on Government Securities



# Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	For the year ended March 31, 2001 Rupees	For the year ended March 31, 2000 Rupees
<b>Schedule 14 : Administration and Operational Expenses</b>		
Networking Expenses (Net of recovery of Rs.34,71,580/- [Previous year Rs. Nil])	3,171,098	3,175,468
Telephone and Fax Expenses (Net of recovery of Rs.5,77,974/- [Previous year Rs. 3,275/-])	1,774,474	1,092,796
On-Line Subscriptions	85,682	207,828
Printing and Stationery (Net of recovery Rs. 16,405/ [Previous year Rs. Nil])	1,154,677	769,364
Legal and Professional Charges (Net of recovery Rs. 281,835/- [Previous year Rs. Nil])	1,242,678	1,786,101
Electricity Expenses (Net of recovery of Rs.6,02,370/- [Previous year Rs. Nil])	952,608	1,267,405
Water Consumption Charges	68,317	63,214
Rates and Taxes (net of recovery of Rs.1,21,765/- [Previous year Rs. 85,782/-])	219,295	760,969
Repairs and Maintenance - Leaschold Premise	682,872	1,024,153
Repairs and Maintenance - Others	6,375,512	2,152,763
Convoynace	252,925	174,256
Postage and Courier Expenses (net of recovery of Rs. 1,705/- [Previous year Rs. 99/-])	421,906	361,979
Security Expenses	337,481	347,736
Insurance ( Net of recovery of Rs. 39,32,525/- [Previous year Rs.7,63,206/-])	1,036,535	1,354,176
Hiring Charges	27,450	27,158
Bank Charges	23,436	129,738
Advertisement Expenses	275,258	1,950,011
Gift and Publicity Expenses	30,900	43,481
Newspapers and Periodicals	47,648	23,005
Books and References	58,739	22,586
Rent (net of recovery of Rs. 24,500 - [Previous year Rs. 15,400/-])	558,300	63,500
Travelling Expenses [ net of recovery of Rs.22,958/- (Previous year Rs. 1,620/-)]	970,336	1,975,423
Motor Car Expense (net of recovery of Rs. 5,943/- [Previous year Rs. 30,000/-])	248,185	125,091
Miscellaneous Expenses (net of recovery Rs.37,597/,[Previous year Rs. Nil-])	668,189	1,100,861
Membership and Subscription	324,000	-
Provision for Doubtful Debts / Advance	50,000	150,000
Advances written off	1,200	348,684
Preliminary Expenses Written off	7,206	7,206
Deffered revenue Expenditure Written off	2,663,325	2,663,325
<b>Total</b>	<b>23,730,232</b>	<b>23,168,276</b>
Miscellaneous Expenses include training expenses, brokerage, dmat charges, recruitment expenses, etc.		

	For the year ended March 31, 2001 Rupees	For the year ended March 31, 2000 Rupees
<b>Schedule 15 : Interest</b>		
Interest on Deferred Payment Liabilities :		
Interest on Suppliers Credit	111,453	2,022,038
Interest to CIDCO	2,384,640	2,384,640
<b>Total</b>	<b>2,496,093</b>	<b>4,406,678</b>

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

	As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 5: Investments</b>		
Long Term Investments (unquoted, at cost)		
Investments in the Shares of Subsidiary Company - ISE Securities & Services Limited 2,500,000 Equity Shares of Rs. 10/- each fully paid up	25,000,000	25,000,000
<b>Total</b>	<b>25,000,000</b>	<b>25,000,000</b>

	As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 6: Cash and bank balances</b>		
Cash-on-hand	11,071	765
Bank balances: with Scheduled Banks - in Current Account [including Rs. 1,12,646/- (Previous year Rs. 8,54,521/-) in earmarked funds accounts]	8,439,897	1,667,202
- in Deposit Account * [including Rs. 75,051,918/- (Previous year Rs. 25,861,015/-) in earmarked funds accounts] [including interest accrued Rs. 27,89,679/- (Previous year Rs. 19,38,773/-)]	138,510,117	125,749,376
<b>Total</b>	<b>146,963,085</b>	<b>126,817,346</b>

\* Includes Fixed Deposit Receipt of Rs. 25,00,000/- (Previous year Rs. 25,00,000/-) over which a bank has lien in respect of the guarantee given by a bank to a supplier.

	As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 7: Sundry Debtors</b>		
<i>(Unsecured)</i>		
Debits outstanding for a period exceeding six months	944,191	1,027,408
Times Debits	1,825,175	472,911
Less: Provision	2,769,366	1,505,439
	200,000	150,000
<b>Total</b>	<b>2,569,366</b>	<b>1,355,439</b>
<i>Note</i>		
Considered Good	1,569,366	1,25,114
Considered Doubtful	200,000	1,20,000
<b>Total</b>	<b>2,769,366</b>	<b>1,505,439</b>

	As at March 31, 2001 Rupees	As at March 31, 2000 Rupees
<b>Schedule 8: Loans and advances</b>		
<i>(Unsecured)</i>		
Advances given to subsidiary company	27,437,169	4,402,000
Advances recoverable in cash or in kind, or for value to be received	1,945,281	1,700,121
Tax Deducted at Source	4,723,693	292,110
Less: Provision	18,596,120	1,402,739
	123,464	544,121
<b>Total</b>	<b>34,282,656</b>	<b>5,751,829</b>
Considered Good	34,282,656	5,751,829
Considered Doubtful	223,154	140,924
<b>Total</b>	<b>34,506,120</b>	<b>5,892,753</b>
Due from Directors	Nil	Nil
Maximum Amount Outstanding Rs. 41,700/- Previous year Rs. 1,34,361/-		



Inter-Connected Stock Exchange of India Limited  
Schedule - 16

Significant Accounting Policies and notes forming part of accounts

1 Significant accounting policies

Basis of preparation of financial statements

The accompanying financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles and the provisions of the Companies Act 1956.

Use of Estimates

The preparation of the financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The differences between actual results and estimates are recognized in the period in which the results are known/materialised.

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

Depreciation and amortization

- i) Depreciation is provided on Straight Line basis at the rates specified in Schedule XIV of the Companies Act, 1956.
- ii) Depreciation on assets acquired / purchased during the year is provided on pro-rata basis.
- iii) Leasehold land and premises including improvements are amortised over the period of the lease.
- iv) Depreciation on Networking Equipment is charged to the Networking Equipment Contributions in proportion to the total capital cost incurred and the amounts recovered from dealers/traders.

Retirement benefits

Company's contribution to the provident fund of the employees is charged to revenue. The company's liability for gratuity is funded through Life Insurance Corporation of India (LIC) and 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.

# Inter-Connected Stock Exchange of India Limited

## Schedule - 16

### Significant Accounting Policies and notes forming part of accounts

#### Miscellaneous Expenditure

a) Preliminary Expenditure

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

#### Revenue recognition

In appropriate circumstances, revenue (income) is recognised when no significant uncertainty as to determination and realisation exists.

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

The Interest income on investments of the funds being accretions to the said funds, in accordance with the byelaws of the company, is credited to the funds.

#### 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.

#### Dealer Admission fees

Dealers Admission Fees, which is one-time admission fees towards transferable right to trade on exchange, is considered as capital contribution and classified accordingly. (Refer note 12 of Schedule 16)

#### Networking Equipment Contributions

Networking Cost Recovery from Dealers/Traders represent a one time charge collected towards the capital cost of the Networking Equipment installed to connect the dealers/traders with the Central Computer and is considered as a Capital Reserve (Refer note 13 of Schedule 16).

2. Estimated amounts of contracts remaining to be executed and not provided for (Net of advances) - Rs.1, 21,44,424/- (Previous year Rs. 1,48,52,399/-).



# Inter-Connected Stock Exchange of India Limited

## Schedule - 16

### Significant Accounting Policies and notes forming part of accounts

#### 3. Contingent liabilities

Guarantee given by a Scheduled Bank on behalf of the company Rs. NIL (previous year - Rs.66, 17,500/-)

#### 4. Managerial Remuneration.

	<u>31<sup>st</sup> March 2001</u>	<u>31<sup>st</sup> March 2000</u>
	<u>Rupees</u>	<u>Rupees</u>
Salaries	14,96,895	15,00,617
Perquisites in Cash/kind	Nil	Nil
Contribution to Provident and Other funds (including Gratuity)	1,77,426	1,86,655
	<u>16,74,321</u>	<u>16,87,272</u>

#### 5. Payment to auditors

	<u>31<sup>st</sup> March 2001</u>	<u>31<sup>st</sup> March 2000</u>
	<u>Rupees</u>	<u>Rupees</u>
As auditors		
For Statutory Audit	50,000	25,000
For Tax Audit	25,000	Nil
As advisor or in any capacity in respect of		
Taxation Matters	35,000	1,00,000
Other services such as Financial Advice etc.		1,00,000
In any other manner (certification work etc.)		27,300
As expenses	5,450	7,355
For Service Tax	3,750	1,250
<b>Total</b>	<u>1,19,200</u>	<u>2,60,905</u>

- 6 Contributions towards infrastructure development represent contributions received from members at the rate of Rs. 70 lacs per member for cost of the project of the company. During the year, the Company has received such contributions aggregating to Rs. 50,000/- (Previous year Rs. 1,17,23,000/-). The amount of contribution receivable as at March 31, 2001 aggregates to Rs. 1,61,50,000/-, which will be accounted in the year of receipt.
7. Shares and Fixed Deposits received from Traders and Dealers in connection with the compliance of Base Minimum Capital contribution (Capital Adequacy Norms) in accordance with the Byelaws have been held as Securities and accordingly have not been accounted in the books.

# Inter-Connected Stock Exchange of India Limited

## Schedule - 16

### Significant Accounting Policies and notes forming part of accounts

8. Sundry Debtors include an amount of Rs.1,00,000/- ( previous year Rs. 95,000/- ) recoverable from Traders/Dealers towards contribution to settlement guarantee funds for which steps are being taken to recover the said amount. The amount has been accounted and earmarked.
9. As per the bye laws of the Company and Securities and Exchange Board of India (SEBI) requirements, traders and dealers are required to maintain with the company a Base Minimum Capital (BMC) of Rs.3,00,000/- in the form of guarantee of the respective exchange of the trader, cash, bank fixed deposits or approved investments; with a minimum cash component of Rs. 1,00,000/-. However, the minimum cash component of BMC amounting to Rs.2,00,000/- due from 3 SEBI registered traders/dealers is yet to be received as on March 31, 2001. Accordingly, the Company has already taken the steps to comply with this requirement and has also ensured that such traders have not been permitted to trade. In the absence of receipt of Base Minimum Capital from the above traders and dealers the same has not been accounted and earmarked.
10. Since SEBI is the final authority for registration of trader/dealer, the admission fees, annual fees and contribution towards Settlement Guarantee Fund are accounted on the basis of date of approval from SEBI, being the conclusive point of entry of the trader/dealer into the Exchange.
11. Company recovers the cost of insurance premium from the traders/dealers on the basis of date of activation of the traders/dealers for trading.
12. During the year the Company has received an amount aggregating to Rs. 12,25,00,000/- (Previous Year Rs.2,60,00,000/-) as one time admission fees from the dealers towards the transferable right to trade on the exchange. The amount so collected is considered as capital contribution and classified in the Balance Sheet accordingly.
13. During the year the Company has received an amount aggregating to Rs. 2,98,25,245/- from Dealers/Traders towards Networking Equipment contribution. The amount so collected is considered as a capital reserve and classified in the Balance Sheet accordingly. During the year an amount of Rs.31,87,611/- being the proportionate amount of depreciation for the said equipments has been withdrawn from the reserves and also disclosed as deduction from the depreciation for the year.
14. The Company has sold the computer equipment and related software to its subsidiary, ISE Securities & Services Ltd. at an acquisition cost of Rs. 207,59,225/- with effect from April 1, 2000. These equipments were purchased by the Company solely for the purpose of enabling its subsidiary to trade on National Stock Exchange segment.



**Inter-Connected Stock Exchange of India Limited**  
**Schedule - 16**

***Significant Accounting Policies and notes forming part of accounts***

15. During the year, the company has changed the method of allocating the indirect expenses to its subsidiary ISE Securities & Services Limited (ISS). In the previous year, the indirect expenses were allocated on the basis of the employee costs of the

respective companies. During the year identifiable expenses of ISS incurred by the company were charged to ISS. Common expenses of electricity are shared between the two companies on the basis of consumption. Had the last year's method of allocation been followed, the loss for the year would have been lower by Rs. 88,305/-.

16. Balances with Bank Current Accounts and Deposit Accounts (refer schedule 6) includes an amount aggregating to Rs.7,51,74,534/- (Previous year Rs. 2,67,15,537/-) [including interest accrued Rs.18,52,646/- (previous Year Rs. 1,50,411/-)] which is earmarked against the funds received as per schedule 3 and 9 except an amount of Rs. 9,93,266/- (previous year Rs.41,81,208/-) which has been transferred to earmarked accounts subsequently. [Refer Note 17 of Schedule 16].

17. The details of the earmarked funds are shown in the following table:

**Details of Funds**  
**(Cash Component including accretions)**

<u>Balance of funds/contributions received</u>	As on 31.3.2001	As on 31.3.2000
Settlement Guarantee Fund ( including accretions from levy Of transactions and interest)	99,81,043	36,32,795
Settlement Stabilisation Contribution from Member Exchanges	1,20,00,000	1,12,00,000
Contribution towards Base Minimum Capital ( Cash Component)	4,62,70,000	1,60,17,000
Contribution towards SGF/BMC received in Advance	77,70,000	---
<b>Total</b>	<u>7,60,21,043</u>	<u>3,08,49,795</u>
<b>Earmarked</b>		
In Fixed Deposit and Current Bank Accounts	7,51,01,910	2,66,68,710
Amount yet to be transferred as on March 31, 2001	9,19,122	41,81,085

The balances as on 31.3.2001 in the various fund accounts and contributions received are earmarked in accordance with the bye-laws of the Company as under:

# Inter-Connected Stock Exchange of India Limited

## Schedule - 16

### Significant Accounting Policies and notes forming part of accounts

#### Non-cash Component

(Not accounted in the books, refer note 7 of Schedule 16)

	As on 31.3.2001	As on 31.3.2000
Bank Guarantees from traders and dealers	80,50,000	14,00,000
Fixed Deposits under lien**	1,44,30,000	49,38,423
Securities Pledged ***	1,23,80,644	69,23,769
Undertakings given by Member Exchanges on behalf of Traders of those Exchanges	2,65,00,000	1,34,00,000
<b>Total Non-Cash Component</b>	<b>6,13,60,644</b>	<b>4,26,79,192</b>

\*\*In respect of some of the fixed deposits, though handed over, the procedure in respect of creation of lien is in progress

\*\*\* As confirmed by the custodian bank - ABN AMRO Bank N.V

#### Investor Protection Fund

	As on 31.3.2001	As on 31.3.2000
Received as Levy on transactions etc.	91,324	17,453
Earmarked in Fixed and Current Bank Accounts	17,180	17,330
Amount yet to be transferred as on March 31, 2001*	74,144	123

\*subsequently transferred

#### Investor Service Fund

	As on 31.3.2001	As on 31.3.2000
Received as Levy on transactions etc.	52,837	23,820
Earmarked in Fixed and Current Bank Accounts	55,435	29,497
Amount yet to be transferred as on March 31, 2001	NIL	NIL

18. Hitherto, payments towards Leave Encashment Benefit were accounted in the year of payment and the liability thereof at the year end was not provided since, in the opinion of the Company, such benefit did not have the predominant characteristics same as those of Provident Fund, Gratuity etc., i.e., the retirement benefit was not in the nature of either a defined contribution scheme or defined benefit scheme as contemplated under Accounting Standard AS-15 "Accounting for Retirement Benefits in Financial Statements of Employers".

However, during the period the Company has provided such liability aggregating to Rs.3,78,708/- (previous year Rs.Nil) as on 31<sup>st</sup> March 2001 considering the recent tax judgement. Consequently loss for the period is higher by the like amount.

Inter-Connec  
Schedules form

19. Balance Sheet

Statement Pursuant to

I. Registration Details

II. Capital Raised during

III. Position of Mobilisation

IV. Performance of the Company

V. General Names of Promoters



# Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

## 19. Balance Sheet abstract and Company's general business profile

Statement Pursuant to Part IV of Schedule VI to the Companies Act, 1956

### I. Registration Details

Registration No.  State Code   
Balance Sheet Date

### II. Capital Raised during the year

Public Issue	<input type="text" value="Nil"/>	Rights Issue	<input type="text" value="Nil"/>
Bonus Issue	<input type="text" value="Nil"/>	Private Placements	<input type="text" value="Nil"/>

### III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	<input type="text" value="457,223.40"/>	Total Assets	<input type="text" value="457,223.40"/>
Sources of Funds		Reserves & Surplus	<input type="text" value="36,762.84"/>
Paid up Capital	<input type="text" value="Nil"/>	Unsecured Loans	<input type="text" value="Nil"/>
Secured Loans	<input type="text" value="Nil"/>	Investments	<input type="text" value="25,000.00"/>
Application of Funds		Misc. Expenditure	<input type="text" value="5,341.06"/>
Net Fixed Assets	<input type="text" value="152,217.01"/>		
Net Current Assets	<input type="text" value="4,354.54"/>		
Accumulated Losses	<input type="text" value="85,850.23"/>		

### IV. Performance of the Company (Amount in Rs. Thousands)

Turnover	<input type="text" value="21,957.63"/>	Total expenditure	<input type="text" value="52,546.29"/>
Loss before Tax	<input type="text" value="30,988.66"/>	Loss After Tax	<input type="text" value="30,988.66"/>
Earnings per share	<input type="text" value="NA"/>	Dividend Rate	<input type="text" value="NA"/>

### V. Generic Names of Principal Product/Services of the Company (as per monetary terms)

Item Code No	<input type="text" value="NIL"/>	Product Description	<input type="text" value="NIL"/>
--------------	----------------------------------	---------------------	----------------------------------

# Inter-Connected Stock Exchange of India Limited

## Schedule - 16

### Significant Accounting Policies and notes forming part of accounts

20. Figures of the previous year have been regrouped/reclassified to make them correspond with the current year's figures, wherever necessary.
21. The amounts in the balance sheet and profit and loss account are rounded off to the nearest rupee.

#### Signatures to schedules 1 to 16

As per our attached Report of even date

*For C. C. Chokshi & Co.,  
Chartered Accountants*

(Sd/-)  
(P. R. Barpande)  
Partner

*For and on behalf of the Board,*

(Sd/-)  
(M.R. Mayya)  
Chairman

(Sd/-)  
(Joseph Massey)  
Managing Director

(Sd/-)  
(V. Shankar)  
Joint Managing Director

(Sd/-)  
(Dipak K. Shah)  
Company Secretary

Mumbai, dated: August 18, 2001

Mumbai, dated: August 18, 2001



## 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, 2001 and also the annexed Profit and Loss Account for the year ended on that date 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 to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - (e) On the basis of the written representations received from the Directors as on March 31, 2001, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2001 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
  - (f) In our opinion, and to the best of our information, and according to the explanations given to us, the accounts, read with the Significant Accounting Policies and 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, 2001 and
    - (ii) in the case of the Profit and Loss Account, of the loss for the year ended on that date.

For C.C.Chokshi & Co.  
Chartered Accountants

Sd/-  
P. R. Barpande  
Partner

Mumbai, 18 August, 2001

**Annexure to the Auditors' report**  
(referred to in paragraph 1 of our Report of even date)

1. The nature of the Company's activities is 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 full particulars including quantitative details and situation of fixed assets. All the fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which in our opinion is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on verification.
3. None of the fixed assets has been revalued during the year.
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 or from the companies under the same management within the meaning of section 370 (1B) of the Companies Act, 1956.
5. In our opinion, the rate of interest and other terms and conditions on which loan has been granted to the subsidiary company listed in the Register maintained under section 301 of the Companies Act, 1956 which is also a company under the same management within the meaning of section 370 (1B) of the Companies Act, 1956 are not, prima facie, prejudicial to the interests of the Company.
6. In respect of loans and advances in the nature of loans given by the Company, parties have repaid the principal amount as stipulated and have also been regular in the payment of interest, if any.
7. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures with regards to purchase of machinery, equipment and other assets and sale of services 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 as aggregating during the year to Rs. 50,000/- or more in respect of each party.
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 nature of its business.
11. According to the records of the Company, Provident Fund and Employee State Insurance dues have been regularly deposited during the year with the appropriate authorities.
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, 2001, 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 provisions of Sick Industrial Companies (Special Provisions) Act, 1985 are not applicable to the Company.

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

Sd/-  
P. R. Barpande  
Partner

Mumbai, 18 August, 2001.

# ISE SECURITIES & SERVICES LIMITED

## DIRECTORS' REPORT

The Board of Directors of ISE Securities & Services Limited (ISS) is pleased to present its Second Annual Report for the year ended March 31, 2001 together with the Auditor's Report and the Accounts finalized up to that date.

### CURRENT STATUS

The Company is a wholly-owned subsidiary of Inter-connected Stock Exchange of India Ltd. (ISE) and has been promoted under the policy formulated by Securities and Exchange Board of India (SEBI) for "Revival of Small Stock Exchanges". In accordance with this policy, ISS has already become an institutional member of the equities segment of the National Stock Exchange of India Ltd. (NSE). The Company commenced operations on the equities segment of NSE on May 3, 2000.

As at the end of March 2001, around 200 Traders and Dealers located in 32 cities were operating on NSE through ISS. In spite of the sharp setback witnessed in the capital market since March 2001, the number of cities covered has actually increased to 39 (viz., Mumbai, Mangalore, Coimbatore, Vadodara, Kolkata, Indore, Shahad, Bhubaneshwar, Patna, Pune, Delhi, Ahmednagar, Ahmedabad, Ghaziabad, Bankura, Chennai, Hisar, Guwahati, Karnal, Nagpur, Faridabad, Rajkot, Hyderabad, Kalyan, Ongole, Salem, Vishakhapatnam, Belgaum, Madgaon, Sangli, Aurangabad, Agra, Bhopal, Bilaspur, Cuttack, Dhanbad, Ranchi, Raipur and Gwalior) and the number of participating intermediaries has remained roughly the same. More Traders and Dealers are expected to commence their operations in ISS once they complete their registration formalities and their networking activities are completed.

The entire trading, clearing and settlement and risk management systems of the Company have been fully stabilized and this was reflected in the consistently growing trend in the turnovers recorded in ISS during the period May 2000 to February 2001. Thereafter, the business handled in ISS has witnessed a sharp drop, however, the decline in the turnover in ISS is far less than what has been witnessed for the market as a whole. The month-wise performance statistics are given in the table below:

Sr. No.	Month	Total Turnover (Rs.Cr.)	Active Intermediaries	Average Turnover per Intermediary (Rs.Cr.)	Cities covered
1	May 2000	31.26	6	5.21	1
2	June 2000	134.19	10	13.42	2
3	July 2000	204.50	29	7.05	6
4	Aug. 2000	409.63	44	9.31	15
5	Sept. 2000	680.55	77	8.84	18
6	Oct. 2000	780.80	99	7.89	23
7	Nov. 2000	1127.18	128	8.81	26
8	Dec. 2000	1390.79	152	9.15	27
9	Jan. 2001	1602.63	161	11.20	29
10	Feb. 2001	1331.04	176	15.40	29
11	March 2001	1722.22	200	16.00	32



ISS recorded its highest daily turnover of Rs.150.88 crores on February 28, 2001.

### RISK MANAGEMENT SYSTEM

The minimum Base Capital required to be deployed by a intermediary with ISS for commencing operations is Rs.2 lakhs, out of which at least Rs.50,000/- has to be in cash and the balance in the form of a Bank Guarantee (BG) from any of the approved banks of ISS or a Fixed Deposit Receipt (FDR) from HDFC Bank Ltd. The BGs and FDRs issued by the intermediaries favouring ISS are, in turn, used as collaterals by HDFC Bank Ltd. for providing Back-to-Back BGs favouring NSCCL. These Back-to-Back BGs are deposited with NSCCL for obtaining trading limits and for margin purposes. In case a intermediary wants additional trading limits, he can deposit Additional Capital with ISS, whose composition has to be at least 30% in cash and 70% in the form of BG/FDR. Further, a intermediary can deposit with ISS advance margins in cash or in the form of FDRs, which are considered for meeting his margin obligations.

On the Base Capital and Additional Capital deposited by a intermediary with ISS, ISS at present permits an intra-day turnover limit of 33.33 times and gross exposure limit of 7.5 times. The monitoring of the intra-day turnover and gross exposure limit is handled in real time by the computer system and is done on the basis of the orders entered by the intermediaries (not trades).

All the margins levied by NSE on ISS are passed on to the intermediaries on a daily basis for collection. ISS raises its demand on the intermediaries for Gross Exposure margin, Mark-to-Market margin, Additional Volatility margin and Value at Risk margin as may be applicable for the different scrips traded in the compulsory rolling and weekly settlements. The margining rules are on the same lines as is followed by NSE. Each intermediary is required to open ISS settlement account and client account (which could be common for ISS and ISE) only with Vysya Bank, HDFC Bank or Standard Chartered Grindlays Bank, who are the clearing banks of ISS for NSE operations. Vysya Bank takes care of the funds transfer requirement for all the Participating Exchange locations, HDFC Bank for the funds transfer at all the Dealer locations, including the major cities of Mumbai, Delhi, Kolkata and Chennai and Standard Chartered Grindlays Bank for Gauhati (as only this bank has online funds transfer system in Gauhati).

Based on the trading done by a intermediary on a given day, the ISS system computes his margin obligation, which is downloaded to him electronically, usually by 6.00 p.m. on the same day. The intermediary is required to pay the margin amount by the end of the next day, i.e., T+1. Margin collection is effected through direct debit instructions raised by ISS to the individual bank accounts of the intermediaries. The status of margin payment is communicated by the clearing banks to ISS by around 8.00 p.m. on T+1.

As is the system followed at NSE, ISS adopts the practice of revising downwards the Base Capital and Additional Capital of a intermediary before start of trading on T+2 for any shortfall in his margin payment on T+1. In case the margin shortfall is equal to or greater than the Base Capital and Additional Capital deployed by a intermediary with ISS, his terminal is deactivated. His terminal is reactivated only after receiving his margin payments and/or his funds pay-in obligations.

Where a intermediary fails to make his funds pay-in obligation on the pay-in day, his terminal is deactivated and securities receivable by him are impounded by ISS until he clears all his dues.



It was because of the strong risk management system adopted by ISS that there has been no instance of a delay in effecting pay-in to NSE or making pay-out to the intermediaries within 24 hours of the NSE pay-out date even though the market underwent a tumultuous phase, exhibiting steep drop in prices of almost all scrips and in the face of very high volatility all around.

### FUTURE PROSPECTS

The various Participating Exchanges have, in all, more than 4500 Broker Members, out of whom roughly 55 participate in ISS at present. In addition, approximately 500 direct trading participants, called Dealers, have been registered as member brokers, out of whom around 130 operate through ISS. SEBI has recently granted permission to Exchange subsidiaries and their intermediaries to operate in the Derivatives segment. The Company is going ahead with the formalities involved in becoming a Trading-cum-Clearing Member (TCM), so that its intermediaries could operate as remisiers. Further, such of those intermediaries who satisfy the eligibility norms specified by NSE for Trading Members (TMs) can, after due registration, operate as such. This initiative of ISS is expected to attract more intermediaries and is also expected to result in the intermediaries to open additional offices at different locations.

The Company would also evaluate providing access to other markets, if the same are in the interests of the Company and its intermediaries.

Trading operations are also proposed to be expanded through use of internet as a communication medium. This is expected to lead to smaller cities where leased lines/ISDN facilities may not be available to get linked up with ISS.

### FINANCIAL HIGHLIGHTS

The Company commenced operations on NSE on May 3, 2001 and for the year under review, recorded total turnover of Rs.9,336 crores and delivery turnover of Rs.140 crores. This level of operations would place the Company among the top members operating on NSE.

The Company has an authorized share capital of Rs.6 crores and the paid-up capital was Rs.2.5 crores, until its recent enhancement to Rs.4.5 crores. The entire capital has been subscribed to by ISE.

The Company earned a total income of Rs.148.73 lakhs accounted for mainly by brokerage and processing fees. Against this, the total expenses amounted to Rs.154.10 lakhs (employee cost: Rs.21.58 lakhs, administrative and operative costs: Rs.111.75 lakhs and finance costs: Rs.16.02 lakhs). This implies that the Company suffered a nominal cash loss of Rs.5.37 lakhs. Taken together with depreciation (Rs.29.82 lakhs) and preliminary expenses written off (Rs.2 lakhs), the Company carried forward a loss of Rs.37.22 lakhs to the Balance Sheet.

The Company expects to break even in the financial year 2001-02, even at the present low levels of turnover.



## AUDITORS

M/s. A.J. Shah & Co., Chartered Accountants, were appointed by the Members in the first Annual General Meeting as Statutory Auditors to hold office from the conclusion of the first Annual General Meeting till the conclusion of the forthcoming (second) Annual General Meeting. It is recommended that M/s. A. J. Shah & Co. be re-appointed as Statutory Auditors. As required under Section 224(1B), M/s. A.J. Shah & Co. have certified that if re-appointed, their re-appointment will be within the statutory limits.

The Auditor has observed that the Company did not have an internal audit system during the year. This being the first year of operations of the company, the Company is in the process of developing policies, standards and documentation of operations and procedures and establishment of internal controls. The Company is establishing an internal audit system commensurate with the size and operations commencing from the current year. The process of finalizing internal auditor with adequate expertise and experience in the field of stock broking is being carried out.

## OFFICE INFRASTRUCTURE

The Company functions from the same premises as that of its promoter, Inter-connected Stock Exchange of India Ltd. Apart from the central office, which is situated at International Infotech Park, Vashi, Navi Mumbai, decentralized support is provided to the intermediaries through the Co-ordination and System Officers located at Delhi, Kolkata, Nagpur, Coimbatore and the Participating Exchange centers.

## BOARD OF DIRECTORS

The Board of Directors of the Company, comprises the following persons, who are Nominees of ISE:

1. Shri M.R. Mayya, Chairman
2. Shri V. Shankar, Managing Director
3. Shri Joseph Massey, Director

As the original tenure of Shri V. Shankar as Managing Director of the Company was upto January 21, 2001, the Board in its Meeting held on December 23, 2000 unanimously re-appointed him as the Managing Director of the Company for a further period of three years upto January 22, 2001. There is no change or addition to the Board during the period under review.

Shri Joseph Massey, Nominee of ISE and is a Director liable to retire by rotation and being eligible, offers himself for reappointment.

The following Board Meetings were held from April 1, 2000 till date:

Board Meeting No.	Date
4.	April 3, 2000
5.	May 20, 2000
6.	June 24, 2000
7.	August 7, 2000
8.	September 9, 2000
9.	September 16, 2000
10.	December 9, 2000
11.	December 23, 2000
12.	January 18, 2001
13.	March 9, 2001

Board Meeting No.	Date
14.	April 28, 2001
15.	May 11, 2001
16.	June 30, 2001
17.	August 8, 2001
18.	August 18, 2001

### GENERAL MEETINGS

An Extra-ordinary General Meeting of the Members of the Company was held on May 19, 2001 to approve the reappointment of Shri V. Shankar as Managing Director of the Company for a further period of 3 years and for increasing the borrowing powers of the Company from Rs.10 crores to Rs.25 crores.

### HUMAN RESOURCES AND PARTICULARS OF EMPLOYEES

As decided by the Board of Directors of ISE, all persons working for the Company, including Shri V. Shankar, are on deputation from ISE. Therefore, 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, are not applicable to the Company. Further, as decided by the Board of Directors of ISE, Shri V. Shankar, Managing Director of the Company, does not draw any remuneration and perquisites from the Company.

### STATUTORY DISCLOSURE OF PARTICULARS

The requirements of Disclosure, in terms of Section 217(1) (e) of the Companies Act, 1956, read with 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 the Company, and therefore, no details are stated herein.

### CORPORATE GOVERNANCE

The Company is committed to good corporate governance. The Chairman, together with the other Directors, and the staff working for the Company, are highly conscious that intermediaries, investors and the general public need to be serviced effectively. Therefore, all policies and strategic initiatives undertaken by the Company suitably reflect this commitment.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors confirm that:

- ⇒ in the preparation of the annual accounts, the applicable accounting standards have been followed and no material departure have been made from the same;
- ⇒ appropriate accounting policies have been selected and applied consistently and have made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2001 and Profit & Loss Account for the year ended March 31, 2001;



⇒ proper and sufficient care has been taken for the maintenance of adequate 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;

⇒ the annual accounts have been prepared on a going concern basis.

#### TRANSFER OF CAPITAL ASSETS

During the period under review, ISE has transferred to ISS, all the capital assets purchased by it for the exclusive use of the Company w.e.f. April 1, 2000. The book value of the capital assets so transferred is Rs.2,07,55,626/-, which has been paid for in cash by the Company.

#### ENHANCEMENT OF PAID UP SHARE CAPITAL

Recently, ISE has enhanced its investment in the Company from Rs.2.5 crores to Rs.4.5 crores by subscribing to an additional 20,00,000 equity shares of Rs.10/- each (fully paid). The Company has received prior permission of NSE for this enhancement in the share capital.

#### PENDING LEGAL CASES

There are no legal cases pending against the Company in any court of law.

#### ACKNOWLEDGEMENTS

The Company warmly acknowledges the support and co-operation extended by SEBI, which has enabled the Company to stabilize its operations in a short time. The Company also wishes to place on record its deep sense of gratitude to NSE for their unstinted support at all times, without which it would not have been possible for the Company to meet its objectives. Our thanks are also due to present, as well as former officials of the Department of Company Affairs, Government of India, The Vysya Bank Ltd., HDFC Bank Ltd., IndusInd Bank Ltd., UTI Bank Ltd., M/s. A. J. Shah & Co., Statutory Auditors, Press and other media, Financial Technologies, Wipro Infotech, Wipro Net, Compaq, CMS Computers, MTNL, BSNL, DoT, NSDL, CDSL and SHCIL for their active role in the development of this Company.

We will be failing in our duty if we do not record our appreciation and gratitude to the unflinching commitment exhibited by our intermediaries. At all times, our intermediaries have extended utmost co-operation.

Guidance, support and direction have been provided by the Board of Directors of ISE, to make this unique multi-exchange facility a reality. We owe special thanks to the staff of ISS and ISE, who have with single minded devotion, worked towards the realisation of the organizational objectives. Long hours of perseverance and a high level of team work have contributed to the growth of the Company to its present level.

By order of the Board of Directors

M. R. MAYYA  
Chairman

Place: Vashi  
Date: August 18, 2001

# ISE Securities & Services Limited

Balance Sheet as at March 31, 2001

	Schedules	March 31, 2001 (In Rupees)	March 31, 2000 (In Rupees)
<b>SOURCES OF FUNDS</b>			
<b>Shareholders Funds</b>			
Share Capital	1	25,000,000	25,000,000
Reserves & Surplus			25,000,000
		<u>25,000,000</u>	<u>25,000,000</u>
<b>Loan Funds</b>			
Secured Loans	2	19,772,020	
Total		<u>44,772,020</u>	<u>25,000,000</u>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	3	20,558,839	
Less : Depreciation		2,981,732	
Capital work in progress and advances		<u>200,387</u>	
		17,777,493	
<b>Current Assets, Loans &amp; Advances</b>			
Trade Debtors	4	29,640,861	
Cash & Bank Balances	5	130,532,377	3,433,040
Loans & Advances	6	28,622,255	25,112,639
Securities in hand (Note 5)		<u>2,475,102</u>	
		191,270,595	28,546,479
Less : Current Liabilities	7	<u>168,813,782</u>	<u>4,419,960</u>
Net Current Assets		22,456,814	24,126,519
Miscellaneous Expenditure (To the extent not written off)	8	815,262	873,481
Profit & Loss Account		3,722,453	
Total		<u>44,772,020</u>	<u>25,000,000</u>
<b>Significant Accounting Policies &amp; other notes on Accounts</b>			
	13		

As per my report of even date attached  
for A. J. Shah & Co.  
Chartered Accountants

for and on behalf of the Board

Sd/-  
Rajesh V. Shah  
Partner

Sd/-  
M. R. Mayya  
Chairman

Sd/-  
V. Shankar  
Managing Director

Sd/-  
Joseph Massey  
Director

Sd/-  
Chirag Shah  
Asst. Company Secretary  
Mumbai, dated : August 18, 2001

Mumbai, dated : August 28, 2001

SEE STATEMENT  
PROFIT AND LOSS

INCOME  
Brokerage, B  
and process  
Interest  
Annual Fee  
Other Inco  
Total

Expenditure  
Employee C  
Administrat  
Finance Ch  
Retain in B  
Depreciatio  
Preliminary E  
Total

PROFIT / (L.O)  
CARRIED TO

Significant Ad  
& other notes

As per my report  
for A. J. Shah  
(Chartered Acco

Sd/  
Rajesh V. Shah  
Partner

Mumbai, dated



**SS Securities & Services Limited**  
**PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH 2001**

	Schedules	March 31, 2001 (In Rupees)	March 31, 2000 (In Rupees)
<b>INCOME</b>			
Brokerage, transaction charges and processing fees		7,109,258	
Interest		4,191,726	
Annual Fees		780,000	
Other Income	9	2,792,072	
<b>Total</b>		<b>14,873,056</b>	
<b>Expenditure</b>			
Employee Costs	10	2,155,917	
Administrative & Operative Costs	11	11,174,704	
Finance Costs	12	1,601,991	
Reduction in the value of Securities in hand (Note 5)		477,349	
Depreciation		2,981,732	
Provisionary Expenses written off		203,815	
<b>Total</b>		<b>18,595,509</b>	
<b>PROFIT / (LOSS) FOR THE YEAR CARRIED TO BALANCE SHEET</b>		<b>(3,722,453)</b>	
Significant Accounting Policies & other notes on Accounts	13		

As per my report of even date attached hereto  
 for A. J. Shah & Co.  
 Chartered Accountants

for and on behalf of the Board

Sd/-  
 Rajesh V. Shah  
 Partner

Sd/- M. R. Mayya Chairman  
 Sd/- V. Shankar Managing Director  
 Sd/- Joseph Massey Director

Sd/-  
 Chirag Shah  
 Asst. Company Secretary  
 Mumbai, dated, August 18, 2001

Mumbai, dated, August 28, 2001

**ISE Securities & Services Limited**  
**SCHEDULES TO BALANCE SHEET AS AT MARCH 31, 2001**

	March 31, 2001 (In Rupees)	March 31, 2000 (In Rupees)
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
Authorised 6000000 Equity Shares of Rs. 10/- each	<u>60,000,000</u>	<u>60,000,000</u>
Issued, Subscribed and fully paid up 250000 Equity Shares of Rs. 10/- each fully paid up (100% held by Inter-Connected Stock Exchange of India Ltd. and its nominees)	<u>25,000,000</u>	<u>25,000,000</u>
	<u>25,000,000</u>	<u>25,000,000</u>
<b>SCHEDULE 2</b>		
<b>SECURED LOANS</b>		
From Banks (Overdraft facility from HDFC Bank. See Note 7)	<u>19,772,020</u>	<u>                    </u>
	<u>19,772,020</u>	<u>                    </u>



**SB Securities & Services Limited**  
**SCHEDULE TO BALANCE SHEET AS AT MARCH 31, 2001**

**SCHEDULE 3**

**FIXED ASSETS**

Particulars	GROSS BLOCK			
	Cost as on 1-4-2000	Additions during the year	Deletions during the year	Cost as at 31-3-2001
Computer Systems		20,558,839		20,558,839
Total		20,558,839		20,558,839

Particulars	DEPRECIATION			
	Upto 31-3-2000	Deletions	for the year ending 31-3-2001	Upto 31-3-2001
Computer Systems			2,981,732	2,981,732
Total			2,981,732	2,981,732

Particulars	NET BLOCK	
	WDV as on 31-3-2001	WDV as on 31-3-2000
Computer Systems	17,577,106	-
Total	17,577,106	-

Investments in progress / advances

200,367

**ISE Securities & Services Limited**  
**SCHEDULES TO BALANCE SHEET AS AT MARCH 31, 2001**

	March 31, 2001 (In Rupees)	March 31, 2000 (In Rupees)
<b>SCHEDULE 4</b>		
<b>TRADE DEBTORS</b> (Unsecured and Considered Good)		
Sundry Debtors:		
Exceeding Six months	nil	
Others	29,640,861	
	<u>29,640,861</u>	
<b>SCHEDULE 5</b>		
<b>CASH &amp; BANK BALANCES</b>		
Cash on Hand	7,456	
Balance with Scheduled Banks		
In Current Accounts	22,215,095	933,840
In Deposit Accounts (Pledged with the Bank Rs. 10,11,75,000)	107,175,000	2,500,000
Balance in Current Account with Standard Chartered Grindlays Bank Limited (Maximum Balance during the year Rs. 34,66,252/-)	1,134,826	
	<u>130,532,377</u>	<u>3,433,840</u>
<b>SCHEDULE 6</b>		
<b>LOANS &amp; ADVANCES</b> (Advances recoverable in cash or kind for value to be received) (Unsecured and considered good)		
Prepaid Expenses	2,400	
Amounts recoverable from Dealers towards custodial charges	219,244	9,289
Advances to Employees	39,000	
Interest Accrued on Bank Fixed Deposits	2,612,552	
Tax Deducted at Source	695,817	18,314
Deposit with NSE	21,600,000	5,143
Deposit with NSCCL	3,400,000	21,600,000
Other Advances	53,243	3,400,000
	<u>28,622,255</u>	<u>25,112,636</u>

ISE Securities & Services Limited  
SCHEDULES TO BALANCE SHEET

SCHEDULE 7

CURRENT LIABILITIES

Total Outstanding  
As at Balance Sheet  
Date  
Total and Advance  
Amount from Debit  
Accountation of  
Balance Sheet  
Statement & True  
Copy  
Total Outstanding  
As at Balance Sheet  
Date  
Total and Advance  
Amount from Debit  
Accountation of  
Balance Sheet

SCHEDULE 8

PROVISIONS  
As at Balance Sheet  
Date  
Total and Advance  
Amount from Debit  
Accountation of  
Balance Sheet



**ISB Securities & Services Limited**  
**SCHEDULES TO BALANCE SHEET AS AT MARCH 31, 2001**

	March 31, 2001 (In Rupees)	March 31, 2000 (In Rupees)
<b>SCHEDULE 7</b>		
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
Outstanding dues to Small Industrial Undertakings	nil	
Additional Capital Deposits from Dealers	64,347,767	
Charges from Dealers	9,245,727	
Commodation Charges	9,569,213	
Commission dues towards Dealers	42,017,762	
Retention & Transaction Charges Dues towards ISSE	12,011,944	
Unconnected Stock Exchange Credit Ltd	27,837,169	4,408,020
Trade Creditors	2,413,841	
Liabilities Payable	1,370,358	11,940
	<u>168,813,782</u>	<u>4,419,960</u>

**SCHEDULE 8**

**MISCELLANEOUS EXPENDITURE**

To the extent not written off or adjusted)

Contingency Expenses	106,848	133,560
Operational Expenses	708,414	739,921
TOTAL	<u>815,262</u>	<u>873,481</u>

**ISE Securities & Services Limited**  
**SCHEDULES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2001**

	March 31, 2001 (In Rupees)	March 31, 2000 (In Rupees)
<b>SCHEDULE 9</b>		
<b>OTHER INCOME</b>		
Fines & Penalties Collected	34,049	
Networking Recoveries	2,593,500	
Processing Charges - ALBM	155,097	
Dividend on Auction Stocks	2,615	
Miscellaneous Income	6,811	
	<u>2,792,072</u>	
<b>SCHEDULE 10</b>		
<b>EMPLOYEE COSTS</b> (Refer Note 4)		
Staff Deputation Cost towards :		
Salary, Bonus & Allowances	2,133,136	
Contribution to Gratuity Fund	17,829	
Training Expenses	4,950	
	<u>2,155,917</u>	
<b>SCHEDULE 11</b>		
<b>ADMINISTRATIVE &amp; OPERATIVE COSTS</b>		
Rent	3,500	
Rates & Taxes	17,730	
Insurance	30,421	
Electrical Charges	602,370	
Communication & Networking Costs		
Lease/ISDN Line Charges	3,930,480	
VPN Expenses	3,221,922	
VSAT Expenses	1,635,958	
Telephone Expenses	575,595	
Legal & Professional Charges	9,363,955	
Remuneration to Auditors (refer Note 2)	282,612	
Membership Subscriptions	86,135	
Courier Charges	107,500	
Custody Charges	144,981	
Conference Expenses	41,313	
Printing and Stationery	24,325	
Conveyance Expenses	293,981	
Miscellaneous Expenses	85,009	
Total	82,372	
	<u>11,174,704</u>	
<b>SCHEDULE 12</b>		
<b>FINANCE COSTS</b>		
Bank Charges	72,775	
Bank Guarantee Commission	823,838	
Finance Charges	705,378	
	<u>1,601,991</u>	



## ISE Securities & Services Ltd.

### Schedule 13

Notes to the Balance Sheet As at March 31, 2001 And Profit and Loss Account for the year ended on that date.

#### A. Background

ISE Securities and Services Limited ("the Company") was incorporated under the Companies Act, 1956 on January 18, 2000. At March 31, 2001, Inter-Connected Stock Exchange of India Limited (ISE) and its nominees hold 100 percent of the equity share capital of the company.

The Company is an active member of National Stock Exchange of India Limited.

#### Significant Accounting Policies and Notes to Accounts

#### B. Significant Accounting Policies.

##### a) Fundamental Accounting Assumptions:

The company follows the fundamental accounting assumptions of going concern, consistency and accrual.

##### b) Method of Accounting

The financial statements are prepared according to the historical cost convention and on an accrual basis in accordance with the requirements of the Companies Act, 1956.

##### c) Revenue recognition:

- i) Brokerage and fines and penalties are recognized on completed settlement basis, net of Stamp Duty and Service Tax.
- ii) Other incomes are accounted on accrual basis.

##### d) Fixed Asset and Depreciation:

- i) Fixed assets are valued at cost. They are stated at historical cost inclusive of incidental expenses.
- ii) Depreciation is provided on straight line basis at the rates specified in Schedule XIV of the Companies Act, 1956. Depreciation for asset acquired / purchased during the period is provided on pro-rata basis.

##### e) Securities in hand

Securities in hand represent the securities transferred/acquired as a result of auctions, defaults, system errors, operational mistakes and similar transactions. Securities in hand are valued at acquisition cost or market value, whichever is lower.

**f) Preliminary and Preoperational Expenses:**

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

All other accounting policies have been followed as per the generally accepted accounting principles.

**C. Notes to Accounts**

1. Estimated amounts of capita contracts remaining to be executed and not provided for (net of advance of Rs. 2,00,367/-) is Rs. 4,37,568/-.

2. Remuneration to Auditors:

	Rs.
Audit Fees	26,250/-
Other Services in respect of	
- Consultancy Charges	39,375/-
- Others	18,900/-
Reimbursement of Expenses	1,610/-
Total	<u>86,135/-</u>

3. The company has acquired the computer equipment and related software from its parent Company, Inter-Connected Stock Exchange of India Limited (ISE) at a cost of Rs. 207,59,225/- with effect from April 1, 2000. These equipment were purchased by ISE solely for the purpose of enabling the company to trade on National Stock Exchange segment.

4. Employee's cost represents the cost of the staff deputed by ISE to the company during the year.

5. The securities in hand as of March 31, 2001 are valued at Rs. 24,75,102/- at original cost or market price whichever is less. The reduction of Rs. 4,77,549/-, on account of this valuation is written off to Profit and Loss Account.

6. The Company has obtained bank guarantees favouring National Stock Exchange from HDFC Bank Ltd. for an amount of Rs. 10,38,80,000/- towards Margin and Base Minimum Capital requirements as of March 31, 2001. These Bank Guarantees are obtained against the collateral of Bank Guarantees received from Clients favouring the Company towards the same Rs. 838,80,000/- and against the collateral of Bank Fixed Deposit of Rs. 60,00,000/-.

7. The overdraft facility of Rs. 4,50,00,000/- from HDFC Bank is taken against the collateral of Fixed Deposit Receipts of Rs. 4,50,00,000/-.

8. Confirmations for Dealers' balances were not obtained during the year. Undisputed dues from two dealers relating to their settlement funds pay-ins as on March 31, 2001 aggregated to Rs. 36.00 lakhs. The Company has already recovered Rs. 15.84 lakhs till date. The company is also secured by way of securities and deposits from these dealers to the extent of Rs. 10.16 lakhs. The company has taken adequate measures to recover the balance amounts.

9. The Finance costs include an amount of Rs. 8,23,838/- being the commission on the bank guarantees taken from HDFC Bank favouring National Securities Clearing Corporation. Of this commission, an amount of Rs. 5,70,000 has been incurred towards the Bank Guarantees taken against the back-to-back Bank Guarantees towards margin collaterals issued by the dealers in favour of the company.

10. Balance Sheet

I. Registrar

II. Capital

III. Position

IV. Performance

IV. Generic



10. Balance Sheet abstract and Company's general business profile  
Statement Pursuant to Part IV of Schedule VI to the Companies Act, 1956

I. Registration Details

Registration No.

123707

State Code

11

Balance Sheet Date

31:03:01

II. Capital Raised during the year

Public Issue

Nil

Rights Issue

Nil

Bonus Issue

Nil

Private Placements

Nil

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities

213,585.80

Total Assets

213,585.80

Sources of Funds

Paid up Capital

25000

Reserves & Surplus

Nil

Secured Loans

19772.02

Unsecured Loans

Nil

Application of Funds

Net Fixed Assets

17,577.11

Investments

Nil

Net Current Assets

22,456.81

Misc. Expenditure

815.26

Accumulated Losses

3,722.45

IV. Performance of the Company (Amount in Rs. Thousands)

Turnover

14,873.06

Total expenditure

18,595.51

Loss before Tax

3,722.45

Loss After Tax

3,722.45

Earnings per share

NA

Dividend Rate

NA

IV. Generic Names of Principal Product/Services of the Company (as per monetary terms)

Item Code No.

NIL

Product Description

NIL

11. In the opinion of the Board of Directors, the Current Assets, Loans and Advances, have been valued on realization in ordinary course of business at least equal to the amounts at which they are stated in the Balance Sheet.
12. Prior year figures are regrouped wherever necessary. The amount in the Balance Sheet and Profit and Loss account are rounded off to the nearest rupee.

For A.J. Shah & Co.  
Chartered Accountant

For and on behalf of the Board

Sd/-  
Rajesh Shah  
Partner

Sd/-  
M. R. Mayya  
Chairman

Sd/-  
V. Shankar  
Managing  
Director

Sd/-  
Joseph Massey  
Director

Sd/-  
Chirag Shah  
Asst. Company  
Secretary

Mumbai, dated August 28, 2001

Mumbai, dated August 18, 2001

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## AUDITORS' REPORT

To,  
The Members of  
ISE Securities & Services Ltd.,  
Navi Mumbai.

We have audited the attached Balance Sheet of ISE SECURITIES & SERVICES LIMITED, as at 31<sup>st</sup> March, 2001 and also the Profit and Loss Account for the period ended on that date, annexed thereto and report that:-

1. 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;
2. In our opinion, proper books of account as required by law have been kept by the Company, so far as it appears from our examination of those books;
3. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
4. In our opinion, the Profit & Loss Account and the Balance Sheet comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
5. On the basis of the written representations received from the directors of the Company; and taken on record by the Board of Directors, and as per the information and explanations given to us, we report that none of the Directors of the Company have prima facie, as at 31<sup>st</sup> March, 2001 any disqualification as referred to in clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
6. In our opinion, and to the best of our information and according to the explanations given to us, the accounts read together 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 the case of the Balance Sheet of the state of the affairs of the company, as at 31<sup>st</sup> March, 2001.
  - ii) In the case of Profit & Loss Account, of the Loss for the year ended on that date.

7. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956 and on the basis of such checks of the books and records of the company as were considered appropriate and as per the information and explanations given to us, we further report that:

- i. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The Management has conducted physical verification of the fixed assets during the year and no discrepancies have been noticed. In our opinion, the frequency of such verification is reasonable.
- ii. None of the fixed assets have been revalued during the year.
- iii. The company has taken unsecured loans from its holding company listed in the register maintained under Section 301 of the Companies Act, 1956, (1 of 1956). The rate of interest and other terms and conditions of such loans are prima facie not prejudicial to the interest of the Company. In terms of sub-section (6) of Section 370 of the 'Act', provisions of the section are not applicable to a Company on or after 31<sup>st</sup> October, 1998.
- iv. 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 (1 of 1956). In terms of sub-section (6) of Section 370 of the 'Act', provisions of the section are not applicable to a Company on or after 31<sup>st</sup> October, 1998.
- v. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and nature of its business in respect of purchase of assets.
- vi. During the year the company has not rendered services to parties entered in the register maintained under Section 301 of the Companies Act, 1956 (1 of 1956) aggregating to Rs. 50,000/- or more.
- vii. The Company has not accepted any deposits from the public and the provisions of section 58A of the Companies Act, 1956 and rules framed thereunder are not applicable to the Company.
- viii. Though the company is having a paid up capital exceeding Rs. 25 lakhs as at the commencement of financial year it do not have an internal audit system commensurate with its size and nature of its business.
- ix. The Employees Provident Fund Act and Employees' State Insurance Act are not applicable to the Company.



- x. According to the information and explanations given to us, there are no undisputed amounts payable in respect of Income-Tax, Wealth Tax, Sales Tax, Custom Duty and Excise Duty outstanding as at 31 March, 2001 for a period of more than six months from the date they become payable.
- xi. According to the information and explanation given to us, and records examined by us, no personal expenses have been charged to revenue accounts other than those payable under contractual obligations or in accordance with generally acceptable business practices.
- xii. The Company is not an industrial company and hence the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985 are not applicable to the Company
- xiii. This report does not include matter specified in clause (iii) to (vi), (ix), (xii), (xiv) and (xvi) of paragraph 4(A), clause (ii) to (iv) of paragraph 4(B) and clause (ii) & (iii) of paragraph 4(D) of the MOACARO Order, 1988, as in our opinion and according to the information and explanations given to us, these clause are not applicable to the company on the basis of facts and circumstances and the nature of activities carried on by the company.

MUMBAI  
DATE: August 28, 2001

for A. J. SHAH AND COMPANY  
CHARTERED ACCOUNTANTS

sd/-  
(RAJESH SHAH)  
PARTNER

ATTENDANCE SLIP FOR THE THIRD ANNUAL GENERAL MEETING OF  
INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

I record my presence at the Third Annual General Meeting of Inter-Connected Stock Exchange of India Limited (ISE) held at the Board Room of ISE at International Infotech Park, Tower 7, 5<sup>th</sup> floor, Sector 30, Vashi, Navi Mumbai on Saturday, September 22, 2001 at 3.30 p.m.

IN BLOCK LETTERS

Name	
Representative of	
Signature of the Representative	
Signed this _____ day of September 2001.	

Encl: Requisite Board Resolution passed by the Board of \_\_\_\_\_ Stock Exchange is produced herewith.

NOTE: You are requested to sign and hand over this at the entrance.