

**IV**  
**ANNUAL**  
**REPORT**

# INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED



*EASIER ACCESS, WIDER REACH*



## FOURTH ANNUAL REPORT

**[For year ended March 31, 2002]**



**Registered Office:**  
*Inter-Connected Stock Exchange of India Limited.*  
International Infotech Park, Tower-7,  
5th Floor, Vashi, Navi Mumbai - 400 703.



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



**Our Internet Web Site:**  
Home Page: [http:// www.isc.india.com](http://www.isc.india.com)  
E-mail : [isesc@ bom3.vsnl.net.in](mailto:isesc@bom3.vsnl.net.in)

For Inter-connected Stock Exchange of India Limited

Company Secretary

## BOARD OF DIRECTORS

Shri M. R. Mayya  
Shri K. Pandian  
Justice A. D. Tated  
Shri Ajay Thakkar  
Shri L. M. Bhole  
Shri S. Vimala Visvanathan  
Shri Prof. P. V. Narasimham  
Shri D. Balasundaram  
Shri N. Ranga Prasad  
Shri Arvind B. Patel  
Shri Madanlal O. Gupta  
Shri Ashish M. Parikh  
Shri Mt. Nirmla Banka  
Shri Bimal Kr. Nahata  
Shri Dr. Subhash Gangwal  
Shri Joseph Massey  
Shri V. Shankar

Chairman  
SEBI Nominee Director  
Public Representative Director  
Public Representative Director  
Public Representative Director  
Public Representative Director  
Public Representative Director  
Nominee - Coimbatore Stock Exchange  
Nominee - Hyderabad Stock Exchange  
Nominee - Saurashtra Kutch Stock Exchange  
Nominee - Vadodara Stock Exchange  
Nominee - Mangalore Stock Exchange  
Nominee - Bhubaneshwar Stock Exchange  
Nominee - Gauhati Stock Exchange  
Nominee - Jaipur Stock Exchange  
Managing Director  
Joint-Managing Director

### STATUTORY AUDITORS

M/s. C. C. Chokshi & Co., Chartered Accountants

### INTERNAL AUDITORS

M/s. A. J. Shah & Co. Chartered Accountants

### COMPANY LAW CONSULTANTS

M/S. S.D.ISRANI & CO., COMPANY SECRETARIES

### LEGAL ADVISORS

M/s. Kanga & Co.

### BANKERS

The Vysya Bank Limited  
UTI Bank Limited  
HDFC Bank Limited

For Inter-connected Stock Exchange of India Limited

Company Secretary

NOTICE OF THE FOURTH ANNUAL GENERAL MEETING TO BE HELD ON MONDAY  
SEPTEMBER 30, 2002 AT 2.30 P.M. AT THE REGISTERED OFFICE OF THE  
COMPANY

NOTICE is hereby given that the Fourth Annual General Meeting of the Members of Inter-  
connected Stock Exchange of India Limited will be held on Monday September 30, 2002 at  
10 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:

- To receive, consider and adopt the Balance Sheet as on March 31, 2002, Profit & Loss  
Account for the year ended on that date and the Auditors' and Directors' Report thereon.
- To approve the nomination of Shri Ramweshwarnath Pandey a Nominee of Magadh  
Stock Exchange Association in place of Shri D. Balsundaram, a Nominee of Coimbatore  
Stock Exchange Ltd. as a Director, whose term of office shall be liable to retirement by  
rotation.
- To approve the nomination of Shri V. Ramu Sharma, a nominee of Bangalore Stock  
Exchange Ltd. in place of Smt. Nirmala Banka, a nominee of Bhubaneswar Stock  
Exchange as a Director liable to retirement by rotation, subject to the approval of  
Securities and Exchange Board of India (SEBI), to the amendment in Article 20.8 of the  
Articles of Association of the Company.
- To appoint the Auditors and to fix their remuneration.

SPECIAL BUSINESS:

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

RESOLVED THAT in terms of Article 15.2 and all other applicable provisions if any, of  
the Articles of Association of the Company and on the recommendation of the Board of  
Directors of the Company, Madras Stock Exchange Ltd. (MSE) be and is hereby re-  
admitted as a Member of the Company.

RESOLVED FURTHER THAT the acceptance of the Company be and is hereby given to  
the recommendation of the Board of Directors of the Company to re-admit Madras Stock  
Exchange Ltd on the following terms and conditions to be complied with by MSE:  
payment of re-admission fees of Rs.1.50 lakhs, as proposed by the Board of  
Directors of the Company;  
payment of up-front project contribution of Rs. 25 lakhs;  
payment of Settlement Stabilization fund of Rs. 10 Lakhs;  
balance amount of Rs. 40 lakhs to be recovered within a maximum period of three  
years from the enhanced turnover charges from the Traders of MSE and  
submission of a Board Resolution and Declaration-cum-Undertaking in the prescribed  
formats.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby  
authorised to take all the necessary steps and actions for the re-admission of MSE as a  
Member of the Company.

For Inter-connected Stock Exchange of India Limited

Company Secretary

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

"RESOLVED THAT in accordance with the provisions of Section 31 and all other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Securities and Exchange Board of India (SEBI), the existing Articles 20.3, 20.4, 20.21(e), 22.1, 22.5, 28.4 and 29.6 of the Articles of Association of the Company be and are hereby deleted and in their place the following new Articles be and are hereby inserted as Article 20.3, 20.4, 20.21(e), 22.1, 22.5, 28.4 and 29.6 of the Articles of Association of the Company respectively.

Sr. No	Article No.	Provisions of the existing Articles	Provisions after incorporating the proposed amendment in the Articles
1.	20.3	SEBI may from time to time nominate not more than <u>three</u> persons as Directors may, referred to as "Nominee Directors" in the Articles, and the Nominee Directors shall not be subject to retirement by rotation or be removed from office except by SEBI.	SEBI may from time to time nominate not more than <u>two</u> persons as Directors, referred to as "Nominee Directors" in the Articles, and the Nominee Directors shall not be subject to retirement by rotation or be removed from office except by SEBI
2.	20.4	The Board shall, subject to the approval of SEBI, appoint not more than <u>six</u> persons who shall be called Public Representatives as Directors on the Board of the Company and one amongst them shall be appointed by the Board as the Chairman of the Company. Such Directors shall hold office until the next Annual General Meeting, or until new nominees are nominated after the Annual General Meeting, whichever is later. Any vacancy caused by resignation, death or otherwise will be filled in the same manner.	The Board shall, subject to the approval of SEBI, appoint not more than <u>seven</u> persons who shall be called Public Representatives as Directors on the Board of the Company and one amongst them shall be appointed by the Board as the Chairman of the Company. Such Directors shall hold office until the next Annual General Meeting, or until new nominees are nominated after the Annual General Meeting, whichever is later. Any vacancy caused by resignation, death or otherwise will be filled in the same manner."
3	20.21 (e)	he absents himself from three consecutive meetings of the Board or from all meetings of the Board for a continuous period of three months, whichever is longer, without leave of absence from the Board of Directors;	he absents himself from all the meetings of the Board of Directors for a continuous period of two months without leave of absence from the Board of Directors.
4	22.1	The Directors may meet together for the dispatch of business, adjourn and otherwise regulate	The Board of Directors shall meet together for the dispatch of business, adjourn and otherwise

		their meetings and proceedings as they think fit provided however that a meeting of the Board shall be held at least once in every three months and at least four such meetings shall be held in every year.	regulate their meetings and proceedings as they think fit provided however that at least once in every two calendar months and the gap between any two meetings shall not be more than 60 days.
b.	22.5	The quorum for a meeting of the Board of Directors shall be one-third of its total strength (any fraction contained in that one-third being rounded off as one) or three Directors whichever is higher, provided that when at any meeting the number of interested Directors exceeds or is equal to two-third of the total strength, the Directors who are not interested present at the meeting being not less than three shall be the quorum during such time and provided further that the aforesaid proviso shall not be applicable when any contract or arrangement is entered into by or on behalf of the Company with a Director or with any firm of which such a Director is Member or with any private Company of which such a Director is a director or Member, for the purchase or sale of shares or debentures of any other Company or a loan by the Company.	Unless otherwise specially provided, the quorum of the Board of Directors shall be six members or one-third of the total strength of the Board of Directors, whichever is higher, present and attending the meeting of the Board of Directors where at least two members shall be non-Member Directors. If a fraction appears when determining the quorum under any Rule or Bye-law of the Exchange, such fraction shall be omitted.
	28.4	Quorum of the Disciplinary Action Committee shall be three out of which two shall be from the public.	Disciplinary Action Committee may from time to time determine its own quorum provided that such quorum shall not be less than two members of the committee out of which at least one shall be a Public Representative.
	29.6	The quorum for a meeting of the Committee shall be three, out of which at least two shall be from among the Public Nominees.	Defaults Committee may from time to time determine its own quorum provided that such quorum shall not be less than two members of the Committee out of which at least one member shall be a Public Representative.

RESOLVED FURTHER THAT subject to the approval of the Securities and Exchange Board of India (SEBI), at the end of the existing Article 20.8(B) of the Articles of

Association of the Company, the following new paragraph be and is hereby inserted as Article 20.8 (C).

20.8 (C) "If a Participating Stock Exchange eligible to nominate its representative on the Board of the Company does not have any of its member brokers registered as a Trader of the Company (ISE), then the concerned Participating Stock Exchange may nominate any of its member brokers as their representatives on the Board of the Company."

BY ORDER OF THE BOARD

DIPAK K. SHAH  
COMPANY SECRETARY

Place: Vashi, Navi Mumbai  
Date: August 30, 2002

Notes:

- 1) Each Member is requested to forward to the Company certified copy of the Board Resolution authorising their representatives to attend the Meeting and to exercise such other rights along with duly attested signatures of such representative.
- 2) An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business to be transacted at the Meeting is stated below.

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

In respect of Item No. 5:

Re-admission of Madras Stock Exchange Limited (MSE) as a Member of the Company

Members of the Company are informed that the Board of Directors of the Company in its meeting held on September 22, 2001 had decided that Madras Stock Exchange Limited along with Ludhiana Stock Exchange Limited would cease to be a Member of the Company/Stock Exchange w.e.f. October 1, 2001. This decision of the Board has been communicated to both these Stock Exchanges.

The Members are further informed that the Board had proposed special terms for payment of project contribution with a view to encourage the members of the Exchange. Under the special terms framed by the Board, a Stock Exchange has to make an up-front payment of Rs. 40 lakhs and the balance contribution of Rs. 40 lakhs would be recovered within a maximum period of three years from enhanced turnover charges from the Traders of such Stock Exchange. The concerned Stock Exchange was required to forward Board Resolution and Declaration-Cum-Undertaking in the prescribed formats.

These terms and conditions were communicated to Madras Stock Exchange Limited and Madras Stock Exchange Limited expressed its willingness and desire for re-admission as a Member of the Company. The Board of Directors in its Meeting held on August 30, 2002, decided to re-admit Madras Stock Exchange as a Member of the Company so as to

allow the member brokers of Madras Stock Exchange to participate in ISE and ISS, in accordance with the provisions of Article 15.2 and other applicable provisions of the Articles of Association of the Company. The following terms and conditions were proposed by the Board for re-admitting Madras Stock Exchange as a Member of the Company:

- payment of re-admission fees of Rs.1.50 lakhs as proposed by the Board of Directors of the Company;
- payment of up-front project contribution of Rs. 25 lakhs;
- payment of Settlement Stabilization fund of Rs. 10 Lakhs;
- balance amount of Rs. 40 lakhs to be recovered within a maximum period of three years from the enhanced turnover charges from the Traders of MSE and
- submission of a Board Resolution and Declaration-cum Undertaking in the prescribed formats.

The Board is of the opinion that re-admission of Madras Stock Exchange as a Member of the Company and consequent participation by its member brokers on the Exchange and its subsidiary, ISE Securities & Services Limited (ISS), would lead to increase in the turnovers of ISE and ISS.

In view of the above and in order to comply with the provision of Article 15.2 and all other applicable provisions of the Articles of Association of the Company, it is desirable for the Company to pass the required Special Resolution in this Annual General Meeting, as proposed in the Resolution.

None of the Directors of the Company is interested in the proposed Resolution, which is recommended for adoption by the Members of the Company.

#### In respect of Item No. 6:

Amendments in the Articles of Association of the Company.

The Members of the Company are informed that SEBI, vide its letter no. SMD/ICSE/567/2002 dated January 10, 2002, had withdrawn the nomination of its officer as one of the SEBI Nominees on the Board of the Exchange and had further advised the Exchange that the vacancy in the Board arising out of this withdrawal should be filled by appointing a Public Representative. As per standard practice, the names and bio-datas of three persons were forwarded to SEBI for appointment as Public Representative Director in Shri Bindlish's place.

The Members are also informed that SEBI, vide its letter No. SMDRP/POLICY/CIR-57/2001 dated December 20, 2001, had forwarded the Model Rules as suggested by the Model Rules Committee set up by SEBI and further advised the Stock Exchanges to adopt the Model Rules within the prescribed time limit.

The Committee set up by the Exchange for implementing the Model Rules, after several meetings had made changes and/or made suggestions in the Rules of the Exchange, which were submitted to SEBI before the prescribed time.

The Members are informed that in view of the adoption of Model Rules by the Exchange, for the sake of uniformity, it would be necessary to amend the Articles of Association of the Company, as stated in the Resolution, so that the provisions of the Articles of Association are in consonance with the provisions of the Rules of the Exchange.



The Members are also informed that as per the present provisions of Article 20.8 of the Articles of Association of the Company, only a Trader of the Member Exchange, as nominated by the Board of the Member Exchange, is eligible to be appointed as a Member Director on the Board of the Company. At the request of a Member Exchange, the Board of Directors of the Company in its meeting held on August 30, 2002, had proposed to relax this condition. Accordingly, the Board decided to recommend to the Members of the Company to approve the amendment in Article 20.8 by way of insertion of a new paragraph as Article 20.8 (C) after the existing Article 20.8 (B) of the Articles of Association of the Company, as proposed in the Resolution.

In order to give effect to the aforesaid changes, the Articles as mentioned in the Resolution are required to be amended.

The proposed amendments in the Articles of Association of the Company will be subject to approval of Securities and Exchange Board of India.

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

The Board recommends the passing of this Resolution as a Special Resolution.

BY ORDER OF THE BOARD

DIPAK K. SHAH  
COMPANY SECRETARY

Place: Vashi, Navi Mumbai  
Date: August 30, 2002

For International Stock Exchange of India Limited

Company Secretary

## INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

### DIRECTORS' REPORT

The Board of Directors of your Company is pleased to present its Fourth Annual Report for the period April 1, 2001 to March 31, 2002, being the Fourth Financial Year together with the Auditors' Report and the Audited Accounts up to that date. During the period under review, 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.

The year 2001-02 started with a backdrop of major market crash, payment crisis and depressive market conditions within the country and also globally. The market continued to be dominated by bearish sentiments with low volumes for the major parts of the year. However, the wholesale Debt Market and Derivatives Markets improved significantly during the year.

The year was full of turmoil in capital market and also in the economic and political arena, both, within the country and also globally. Some of the major developments include

- a ban in trading on deferral products,
  - UTI problems in US 64 scheme as also other MIPs,
  - growing fear of global slowdown, terrorists attack in US on September 11, 2001 and on Indian Parliament on 13 December 2001,
  - fear of war with Pakistan, problem of cooperative banks trading in government securities, collapse of Enron, which has affected investor's confidence.
- The proposal of taxing dividend on stocks in the hands of individual recipient in 2002-03 budget further depressed the market towards the end of the year.

However, introduction of Rolling Settlement (T+5) in major 200 stock transactions and subsequently extended to all stocks and improvement in the Derivatives Segment were the redeeming feature of the Capital Market during the current year. Some other positive developments in the Capital Market were, move towards Corporatisation of Stock Exchanges involving segregation of Ownership, Management and Trading Membership from each other, further strengthening the provisions in the SEBI Act for ensuring better Investor Protection, introduction of Derivatives (Futures & Options) in 31 individual stocks and also options in Index, various concessions offered for FDI and to FII's, easing of norms for buy-back and open offers, improvement in market design of debt market by the introduction of compulsory settlement through Negotiated Dealing System (NDS) and clearing through Clearing Corporation of India (CCIL) under SGL Accounts, extension of uniform price auction to the auction of selected dated securities and introduction of floating rate Governments bonds. These measures certainly improved the potential of the market for greater business through new instruments and new players.

#### Primary Market

Adverse sentiments in capital market and the lack of investor's confidence affected the resources mobilisation in the primary market. Total capital raised during the year 2001-02 amounted to Rs.7543 Crores, a rise of 23.6% from 35 issues as against Rs.6107 Crores raised from 151 issues in the previous year of 2000-01. Of the 35 issues, 20 issues amounting Rs.6502 Crores were Public Issues while 15 issues amounting Rs. 1041 Crores were Right Issues. However, Initial Public Offer (IPO) which is regarded as a key indicator of the investor's confidence in the Capital Market, saw a sharp decline to only 7 issues during the year for Rs.1202 Crores as against 114 issues amounting to Rs.2722 Crores in 2000-01. Listed companies issues dominated the year with 28 issues raising Rs.6341 Crores, a growth of 37% over 37 issues raising Rs. 3385 Crores in the previous year. Banking and Financial Institutions topped the list of capital raised followed by telecom and engineering during the year.

As a result, the decline of IPO market led to a rise in the private placement markets with book building becoming the preferred mode. Several companies that needed to raise capital on a regular basis kept away from the IPO market.

market and concentrated on private placement, although mostly it was debt. The equity and debt ratio of total resources raised through IPO has declined from 73:27 in 1994-95 to 16:86 in 2001-02.

### Secondary Market

As stated above, with the developments that took place during the year under review, the secondary market was affected significantly and the sentiments continue to be depressed until now. NSE Nifty declined sharply from 1351 on 28<sup>th</sup> February, 2001 (eve of budget) to 1138 on 2nd April, 2002, the first day of the year, and further to 854 on 23<sup>rd</sup> Sept. 2001 in line with the global phenomenon following the terrorist attack in the USA. Thereafter, it improved steadily to close the year at 1130 with intermittent ups and down. BSE Sensex, declined from 4247 on 28 February, 01 to 3566 on 2nd April 2002, and further to 2600 on 21st September, 2001. However, it improved steadily to 3706 on 27<sup>th</sup> February, 2002 and closed the year at 3469 on 28<sup>th</sup> March, 2002.

Turnover declined sharply both at NSE and BSE which account for over 98% of the total turnover of all the bourses of the country, following the ban on badla. The total turnover and average daily turnover at NSE declined from Rs.1, 35,932 Crores and Rs. 6,797 Crores, respectively, in February 2001 to Rs. 60,226 Crores and Rs.2868 Crores, respectively, in March, 2001 and further down to Rs.27, 228 Crores and Rs.1, 238 Crores, respectively, in July 2001, but improved steadily with the introduction of rolling settlement and derivatives in July 2001, to Rs.68, 719 Crores and Rs. 2,988 Crores, respectively, in January, 2002 but again slipped to Rs.44, 262 Crores and Rs. 2,330 Crores, respectively, in March, 2002. At BSE, the turnover declined from Rs. 1,01,427 Crores in February 2001 to Rs. 17,244 Crores in July, 2001 but improved, thereafter, to some extent to Rs.39, 169 Crores in January, 2002 but again declined to Rs.25719 Crores in March, 2002. The average daily turnover declined from Rs.5072 Crores in Feb. 2001 to Rs. 784 Crores in July, 2001 but improved to Rs.1354 Crores in March 2002. Total Market capitalisation during the year at NSE declined from Rs.6, 57,847 Crores as of March, 2001 to 6,36,861 as on March 2002. However, at BSE it is estimated to have increased from Rs.5, 71,553 Crores to Rs. 6,12,224 Crores during the year.

Foreign Institutional Investors (FIIs) gave a good support to the Indian capital market with their net investments of Rs. 8,746 Crores during the year. Their total purchases and sales being Rs 49, 963 Crores and 41,217 Crores, respectively, as against last year's net investments of Rs.8, 702 Crores with total purchases and sales being Rs.70, 400 Crores and Rs. 61,698 Crores respectively.

Mutual Funds mobilisation of resources were significantly higher at Rs. 1,64,523 Crores in 2001-02 compared to Rs. 92,957 Crores mobilised in the previous year. The net inflow of funds after adjustments of repurchases and redemption amounted to Rs. 7,175 Crores in 2001-02 as against Rs. 9,128 Crores in 2000-01. Between equity and debt instruments, mutual funds net sales of equities were higher by Rs. 3,796 Crores than net purchases of debt instruments by Rs.10, 959 Crores.

The decline in turnover in equities was compensated by turnover in derivatives which were introduced in July, 2001 for both futures and options in 31 individual stocks and options in Index in addition to futures in Index which were earlier permitted. The total turnover at NSE in derivatives combined together amounted to Rs.1, 01,925 Crores in 2001-02 as against just Rs.2, 365 Crores during the 10 months period of 2000-01 in Index futures only.

Another significant development in capital market was a sharp rise in trading in wholesale debt market (WDM) in the wake of declining interest rates and low activity in equity markets. Total turnover in NSE wholesale debt market doubled from Rs. 4,28,582 Crores in 2000-01 to Rs. 9,47,191 Crores in 2001-02 with average daily turnover improving from Rs. 1,483 Crores to Rs.3, 277 Crores, respectively.

## Major Developments in ISE and ISS during 2001- 02

- Development and launch of ISE Website: [www.iseindia.com](http://www.iseindia.com) on May 19, 2001 which portrays entire gamut of activities of ISE and ISS.
- ISE received accreditation to conduct Training Programmes under NCFM Modules of NSE. 11 Programmes on Derivatives Core Module of NSE were conducted at Vashi as also other centers viz. Delhi, Calcutta and Mangalore.
- ISE launched Depository Participant (DP) services on July 20, 2001 through CDSL, in addition to NSDL operating earlier, thus widening their DP services network.
- Introduced Internet trading facility on ISS segment on October 12, 2001.
- ISE appointed a New Dealer by public auction system, the floor price of which was Rs. 7.5 lacs.
- The recognition of ISE was renewed by SEBI for a further period of 3 years ending on November 18, 2004.
- ISE in cooperation with Lions Club of Turbhe, Navi Mumbai, organised Seminar on "Futures & Options in Stock Market and Common Investor" on January 13, 2002.
- The Online Regional Bourses Inter-connected Trading (ORBIT) system substituted the earlier system designed on mainframe Tandem with proprietary software, for ISE trading on January 24, 2002. The new system developed by ISE, makes the entire operations easy to interface with, easy to enhance and cost effective.
- On February 13, 2002, SEBI registered ISS as Trading cum Clearing Member of NSE for trading in Derivatives.
- ISE in cooperation with Lions Club of Turbhe, Navi Mumbai, organised a seminar on "BUDGET - 2003 and Common Investor" March 2, 2002 at Vashi, Navi Mumbai.
- The ISS commenced trading in Derivatives (Futures & Options) of NSE segment w.e.f. May 6, 2002

## 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 Regional Stock Exchanges who felt the competitive pressure of NSE, that took the initiative to establish the ISE 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. Now with SEBI considering an Euronext kind of consolidation in Indian market along with demutualisation and corporatisation proposal, as per media reports, there is a possibility that the vision of ISE may become reality in some form.

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. 143 crore as

against a turnover of Rs. 233 crore during 2000-01. However, it has been doing very good business on NSE through the subsidiary.

### 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 have already provided access to NSE equities and derivative segment through NSE and would now consider DP services initially for the participants and later for clients through CDSL and NSDL.

In order to expand its activities and to garner business for its members through technology driven products / solutions, ISE has approached RBI for granting permission for retailing Government securities through its brokers/traders. The ISE has also approached Forward Markets Commission, Government of India, for establishment of Nation-wide Multi Commodity Exchange for futures trading in commodities as per the proposal of Government of India. Once implemented, this fully technology-driven exchange will have a diversified portfolio under one roof. The permission from both the regulators is awaited. The Exchange has already developed a software solution in-house for debt market operations and is in discussions with various Primary Dealers and some Banks seeking their services as Market Makers for retailing the Government Securities through our Traders / Dealers network. Besides, this software is also being marketed to Banks and Primary Dealers for their retail distribution.

### Enrollment of Traders and Dealers

As on June 30, 2002, ISE had received 448 applications from the Traders (i.e., Broker Members of the Participating Stock Exchanges) of which 318 were registered with SEBI and 5 were pending for registration at SEBI. The balance applications were pending for want of information. The Regional Exchanges participating with ISE have in all about 4,500 Broker Members (2,500 active Broker Members) who are eligible to be registered as Traders on ISE. As on June 30, 2002, we had completed registration procedure for 329 Dealers and were awaiting another 12 registration 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 & 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 NSE.

### Listing

While all companies listed at RSEs numbering about 3,500 and another 4,000 scrips listed on other Exchanges could be considered under permitted segment for trading on ISE, we have presently permitted about 900 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.

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 proactive 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 low cost regulatory compliance by the prospective companies.

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
Systel Infotech Limited (Earlier known as 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
Jaykaydee Industries Ltd.	1,02,50,000 Equity Shares of Rs. 10/- each.	September 29, 2001
Database Finance Ltd.	5,33,33,000 Equity Shares of Rs.1/- each	November 23, 2001
RGF Capital Markets Ltd.	50,02,400 Equity Shares of Rs. 10/- each.	January 3, 2002
Universal Multimedia Limited (Earlier known as MFL Housing Finance Limited )	3,20,00,400 equity shares of Rs.10 each	March 20, 2002
Bolton Properties Limited	1,02,40,000 equity shares of Rs.10 each issued at par	March 20, 2002

#### 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 46 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, 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. 138 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. 4 lakhs per Broker. Consequently, the total corpus of the SGF as on 31.03.2002 was over Rs. 18.51 Crores.

(Rupees in lakhs)

Particulars	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).	771.49	223.30	94.00 (Bank Guarantees) 477.00 (RSEs Undertaking)	274.84	1851.08

## Base Minimum Capital

ISE Traders and Dealer 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 was further increased to Rs. 4 lakhs in 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/or 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 Highlights

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

(Rupees in lakhs)

Particulars	2001-02	2000-01	1999-00	1998-99
Total Income	193.42	219.58	65.63	24.48
Employee Costs	49.71	80.11	74.01	19.40
Administrative & Operative Costs (excluding Deferred revenue expenses)	262.29	210.60	204.45	57.47
Interest	65.92	24.96	44.07	9.62
Total Expenses	377.92	315.67	322.53	86.49
Cash profit/(loss)	(184.50)	(96.09)	(256.90)	(62.01)
Depreciation	180.90	187.09	168.15	18.14
Deferred Revenue Expenses (charged to Profit & Loss)	26.71	26.71	26.71	26.71
Total Expenditure	585.53	529.46	517.39	131.34
Excess of expenditure over revenue (carried forward to Balance Sheet)	(392.11)	(309.89)	(451.76)	(106.86)

As can be observed the financial performance of the Exchange has not been satisfactory during the year. The cash loss of Rs. 96.09 lakhs sustained in the year 2000-01 was increased to Rs. 181.51 lakhs during the year under review. Taken together with the non-cash charges (Depreciation and Deferred Revenue Expenditure), the total loss for the financial year 2001-02 stands at Rs.389.11 lakhs, as compared to Rs.309.89 lakhs for the previous year. Actually the Administrative cost of Exchange during the current year were substantially reduced however, the decision to write off the TESA Trading system and pay the dues of CIDCO have increased the cost significantly. The beneficial impact of these decisions would be seen next year when the cost would be lowered by over Rs. 1.2 Crores.

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. Further in view of the Report of the Committee on Corporatisation and Demutualisation, it will need to be seen how ISE could adopt itself to meet the requirements of the market and emerging as a Model Exchange for consolidation of Markets.

#### Infrastructure

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

#### Insurance

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

#### Directors' Responsibility Statement

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Director's confirm that in the preparation of the Annual Accounts for the financial year ended on March 31, 2002,

- 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, 2002 and Profit & Loss Account for the year ended March 31, 2002;
- 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, and;
- the annual accounts have been prepared on a going concern basis.

#### Board of Directors and changes during the period

During the period under review, seven Meetings of the Board of Directors were held on the following dates:

Board Meeting No.	Date
30	September 22, 2001 at 4.00 PM
31	December 8, 2001 at 11.00 AM
32	February 9, 2002 at 11.00 AM
33	March 16, 2002 at 5.00 PM
34	May 11, 2002 at 11.00 AM
35	June 29, 2002 at 11.00 AM
36	August 30, 2002 at 11.00 AM

On account of the resignations by some Member Directors, appointment, withdrawal of nomination by the Participating Stock Exchanges, SEBI and appointment of new Public Representatives by SEBI, following changes have taken place in the composition of the Board of Directors during the period under review:

Sr. No.	Name of Director	Nature and reason of change	Date of change
1.	Shri Sanjay Chekhary	Ceased to be Nominee of Magadh Stock Exchange	September 22, 2001
2.	Shri Ashish M. Parikh	Nominated as a Nominee of Mangalore Stock Exchange	September 22, 2001
3.	Shri Rajive Kumar Kedia	Nominated as a Nominee of Guwahati Stock Exchange	September 22, 2001
4.	Shri Madanlal O. Gupta	Nominated as a Nominee of Vadodara Stock Exchange	September 22, 2001
5.	Dr. S. Ramani	Ceased to be Public Representative on the Board of the Exchange due to resignation tendered by him	December 8, 2001
6.	Shri P. K. Bindlish	Ceased to be a SEBI Nominee on Account of withdrawal of Nomination as a SEBI Nominee on the Board of the Exchange by SEBI	February 9, 2002
7.	Shri P. C. Nayak	Ceased to be Public Representative on the Board of the Exchange	May 11, 2002
8.	Ms. Vimala Visvanathan	Appointed by SEBI as Public Representative on the Board of the Exchange.	May 11, 2002
9.	Prof. P. V. Narasimham	Appointed by SEBI as Public Representative on the Board of the Exchange	May 11, 2002
10.	Shri Ashok K. Sardana	Ceased to be Nominee of Bhubaneswar Stock Exchange	May 11, 2002

Sr. No.	Name of Director	Nature and reason of change	Date of change
11.	Shri Rajive Kumar Kedia	Ceased to be Nominee of Gauhati Stock Exchange	May 11, 2002
12.	Shri Mahendra Agrawal	Ceased to be Nominee of Madhya Pradesh Stock Exchange	May 11, 2002
13.	Smt. Nirmala Banka	Nominated as a Nominee of Bhubaneswar Stock Exchange	June 29, 2002
14.	Shri Bimal Kr. Nahata	Nominated as a Nominee of Gauhati Stock Exchange	June 29, 2002
15.	Dr. Subhash Gangwal	Nominated as a Nominee of Jaipur Stock Exchange	August 30, 2002

In the forthcoming Annual General Meeting, Bangalore, Magadh and Uttar Pradesh Stock Exchange are eligible to nominate their representatives on the Board of the Exchange in place of the Nominees of Bhubaneswar, Coimbatore and Jaipur Stock Exchanges. Thus accordingly, Shri D. Balasundaram, nominee of Coimbatore Stock Exchange, Smt. Nirmala Banka, nominee of Bhubaneswar Stock Exchange and Dr. Subhash Gangwal, Nominee of Jaipur stock Exchange are the Directors liable to retirement by rotation.

During the period under review in view of the non payment of outstanding Project Contribution and Annual Subscription by the Madras Stock Exchange Limited (MSE) and Ludhiana Stock Exchange Limited (LSE) as decided by the Board they ceased to be a Member of the Company/ Exchange

However Madras Stock Exchange Limited has expressed their willingness and desire for re activation of their Membership Right / Re-admission as a Member of the company and therefore the Board of Directors of the company had recommended the Members of the company to consider the re-admission of Madras Stock Exchange Ltd. on the specific terms and conditions to be complied with by MSE. The Board is of the opinion that the Re-admission of MSE as the member of the company and consequent registration of Broker members of MSE as a Trader of the Exchange and Sub brokers of ISE Securities & Services Limited, a wholly owned subsidiary company of the Exchange (which is a Corporate Trading Member in the Capital Market Segment and Trading cum Clearing Member in the Futures & Options Segment of the National Stock Exchange of India Limited (NSE)) will also increase the turnover of ISE & ISF.

In view of the above and in order to comply with the relevant provisions of the applicable articles of Articles of Association of the Company, the Board of Directors had decided to recommend to the Members and had placed before the Members suitable Resolution in the ensuing Annual General Meeting.

#### Constitution of three Statutory Committees

SEBI approved the appointment of following Public Representatives on the three Statutory Committees of the Exchange for the year 2001-2002.

##### 1. 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

## 2. Defaults Committee

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

## 3. Disciplinary Action Committee

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

During the period under review one Meeting of Disciplinary Action Committee was convened. There was no need for meeting of other Statutory Committees as there was no default or Arbitration cases in the Exchange during the year.

## Constitution of the Audit Committee

During the period under review, the Board renamed the then Audit & Finance Committee as Audit Committee based on the requirements of the new code of Corporate Governance being adopted by most companies. The Audit Committee comprises of the following Members:

- 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 Bhubaneshwar Stock Exchange (ceased to be a Committee Member consequent to his resignation as a Member Director on the Board of the Company as a Nominee Bhubaneshwar Stock Exchange).
- 4) Shri Joseph Massey, Managing Director
- 5) Shri V. Shankar, Joint Managing Director
- 6) Shri Ashish Parikh, Committee Member, Nominee Mangalore Stock Exchange
- 7) Justice A. D. Tated, Public Representative Director was inducted as a Committee member during the year.

## 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 comprises of the following Members:

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

## Particulars of Subsidiary Company

During the year 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 Stock Exchanges and to our Traders and Dealers, ISE floated its wholly owned Subsidiary called ISE Securities & Services Limited (ISS) and it applied for Membership of National Stock Exchange of India Limited (NSEIL) and other premier Exchanges. Currently, it has finalised membership of NSE in the Capital Market Segment and Futures and Options (Derivatives) Segment and it will consider providing access to other Stock Exchanges and also to other segments, like, derivatives and whole sale debt Segment later. This would be done gradually subject to completion of all regulatory compliance.

ISS commenced trading operations on May 3, 2000 NSE in the Capital Market Segment and on May 6, 2002 in the Futures and Options (Derivatives) Segment and is currently operating from over 46 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 in the Capital Market Segment.

The subsidiary has been registering a significant growth in terms of number of Traders and dealers participating in NSE and also in terms of turnover of ISS. The turnover of ISS was Rs. 10392.12 Crores during 2000-01 which increased to Rs. 10522.89933 Crores during the year 2001-02. The Area of operations of ISS also increased to 46 Cities in 2001-02 from 32 cities at the end of 2000-01. The successful operation of ISS has raised the confidence of the Participating Stock Exchanges and as a result Madras Stock Exchange Ltd, which had discontinued its association with ISE has now decided to re activate its association with ISE and ISS. Even Cochin Stock Exchange Limited which has its NSE Membership through its Subsidiary is now participating in ISS for the Derivative Segment.

As on date the Company made an aggregate investment of Rs. 4.5 Crores in ISE Securities & Services Limited (ISS), wholly owned subsidiary Company of ISE.

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, 2002, Report of the Board of Directors and Auditors for the Year ended on March 31, 2002 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, is attached herewith which forms part of this Annual Report.

#### Auditors

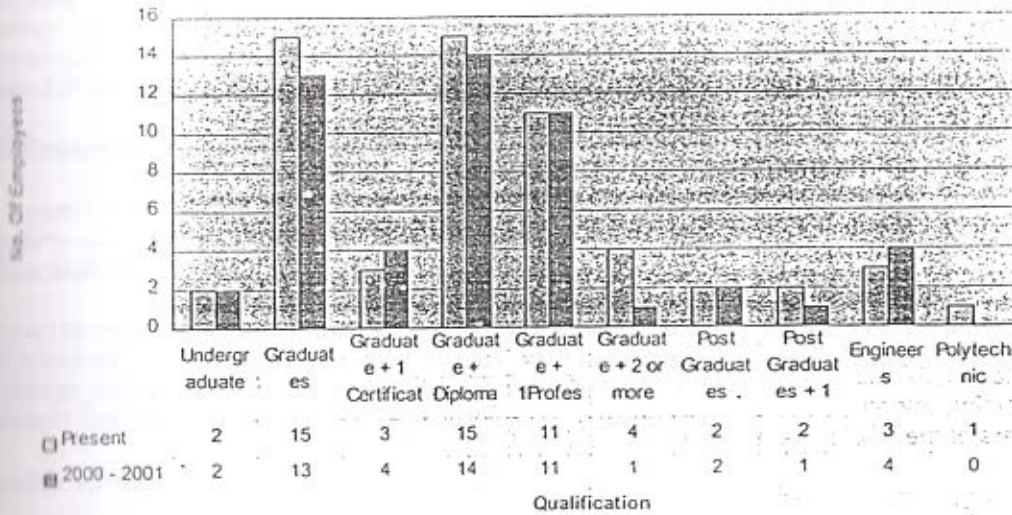
M/s C. C. Chokshi & Co., Chartered Accountants, who had been appointed by the Members of the Exchange in its Third Annual General Meeting as Statutory Auditors of the Exchange and they shall hold their office till the conclusion of the forthcoming Annual General Meeting. They are eligible for re-appointment and they have confirmed their eligibility and willingness to accept the office, if re-appointed. Members are requested to consider their re-appointment.

As the Auditor's in their Report has made no adverse observation or qualification, no explanation is required to be given in the Directors' Report.

#### 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.

Comparison of Educational Profile as on date vis a vis in 2000 -2001



**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 does not apply to the Company 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, Dealers, Sub brokers, 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 initial Recognition to the Stock Exchange U/s 4 of the Securities Contracts (Regulation) Act, 1956, for a period of three years ending on November 18, 2001. This recognition was renewed for a period of three years ending on November 18, 2004.

**Inspection of Stock Exchange by SEBI**

A team of SEBI along with practicing Chartered Accountants conducted an inspection of the Exchange in the month of April 2002. Report of SEBI Inspection 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 Exchanges 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.

In order to keep the Traders and Dealers of the Exchange and Sub brokers of the subsidiary Company well informed, Research and Training Institute of the Exchange publishes Monthly News Letter of the Exchange containing monthly development of the Capital Market and Monthly development and important Circulars of the Exchange and of the Subsidiary Company.

## Number of legal cases pending

One Dealer has filed a Complaint against the Exchange in a Consumer Forum, which is being suitably dealt. There has been another incident of a legal Notice being served by a dealer which is also being suitably replied.

Except this there are no legal cases against ISE as on date except receipt of Legal Notice from the Dealers of the Exchange, which have been suitably replied.

## 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, however, two Dealers of the Exchange were declared Defaulter under the Multiple membership Guidelines of Ministry of Finance, Stock Exchange Division and SEBI on account of their being declared defaulter by the Calcutta Stock Exchange Association Limited.

## Public Deposit

The Company has not accepted any Deposits from the Public.

## Acknowledgement

On the occasion of presenting this Annual Report, we take pleasure in expressing our sincere thanks to Shri G.N.Bajpai, Chairman of SEBI, Shri D.R. Mehta, then Chairman of SEBI, 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, CBDT, 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, ICICI Bank, Indust Bank, Standard Chartered Grindlays Bank, Canara

Bank, New India Assurance, National Centre for Software Technology, UTI Institute of Capital Markets, ICSI-CCRT, Price Waterhouse - FIRE 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, TBIA 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.

The Board of Directors places on records the valuable contribution and expresses its sincere thanks to Shri P. K. Bindlish, Shri P. C. Nayak, Dr. S. Ramani, Shri Sanjay Chokhany, Shri Rajive Kumar Kedia, Shri Ashok K. Sardana, Shri Mahendra Agrawal Smt. Nirmla Banka Shri D. Balasundaram and Dr. Subhash Gangawal who ceases to member of the Board of Directors during the period under review for their valuable guidance, Guidance and support towards the Development of the Exchange and to the Subsidiary Company

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 including shouldering of a salary cut. 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 the Exchange and the subsidiary Company in the years to come.

By order of the Board of Directors

Sd/-  
M. R. MAYYA  
Chairman

Place: Vashi  
Date: August 30, 2002

For Inter-connected Stock Exchange of India Limited

Company Secretary

### ATTENDANCE OF THE BOARD MEETINGS

Attendance of each Director at the Board Meetings held during the period  
September 22, 2001 (the last AGM date) up to August 30, 2002  
No. of Board Meetings held during the period under review: 7

Sr. No.	Name of Director and their status	No. of Board Meetings held	No. of Board Meetings attended	Status of presence at 3 <sup>rd</sup> AGM
1.	Shri M. R. Mayya Public Representative Director & Chairman	7	5	Present
2.	Shri P.C Nayak Public Representative Director	5	3	—
3.	Dr. S. Ramani Public Representative Director	2	—	—
4.	Dr. L. M. Bhole Public Representative Director	7	4	—
5.	Justice A. D. Tated Public Representative Director	7	7	Present
6.	Shri Ajay A. Thakkar Public Representative Director	7	4	—
7.	Prof. P. V. Narasimham Public Representative Director	3	2	N.A.
8.	Smt. Vimala Visvanathan Public Representative Director	3	3	N.A.
9.	Shri P. K. Bindlish SEBI Nominee	3	2	—
10.	Shri K. Pandian SEBI Nominee	7	4	—
11.	Shri Mahendra Agrawal Nominee of Madhya Pradesh Stock Exchange	5	—	—
12.	Shri D. Balasundaram Nominee of Coimbatore Stock Exchange	7	4	—
13.	Shri Ashok K. Sardana Nominee of Bhubaneshwar Stock Exchange	5	1	Present
14.	Shri Arvind B. Patel Nominee of Saurashtra Kutch Stock Exchange Limited	7	1	—
15.	Shri N. Ranga Prasad Nominee of Hyderabad Stock Exchange Limited	7	—	—
16.	Shri Rajive Kumar Kedia Nominee of Gauhati Stock Exchange	5	1	Present
17.	Shri Ashish Parikh Nominee of Mangalore Stock Exchange	7	6	Present
18.	Shri Madanlal O. Gupta Nominee of Vadodara Stock Exchange	7	2	—
19.	Smt. Nirmala Banka Nominee of Bhubaneshwar Stock Exchange	1	1	N. A.
20.	Shri Bimal Kr. Nahata Nominee of Gauhati Stock Exchange	1	1	N.A.
21.	Shri Joseph Massey Managing Director	7	7	Present
22.	Shri V. Shankar Joint Managing Director	7	7	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, Second and Third AGMs of the Members of the Company were held on the following dates at the Registered Office at International Infotech Park, Tower No. 7, 5<sup>th</sup> floor, Sector-30, Vashi - 400 703, Navi Mumbai, Maharashtra:

- 1<sup>st</sup> AGM held on Saturday, July 10, 1999 at 2.30 p.m.
- 2<sup>nd</sup> AGM held on Saturday, September 23, 2000 at 2.30 p.m.
- 3<sup>rd</sup> AGM held on Saturday, September 22, 2001 at 3.30 p.m.

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

An Extra-ordinary General Meeting of the Members of the Company was held on December 8, 2001 at 3.00 p.m. at the Registered Office of the Company to approve admission of Broker Members of the Participating Stock Exchanges as Deemed Dealers.

Inter-Connected Stock Exchange of India Limited

Balance Sheet as at March 31, 2002

	Schedule	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<u>Sources of funds</u>			
<u>Shareholders' funds</u>			
Share Capital (Company Limited by Guarantee)		Nil	Nil
Admission fees/ Contribution towards Infrastructure Development	1	8,91,00,000	8,91,00,000
Dealer Admission Fees	2	15,95,00,000	14,85,00,000
Reserves and Surplus	3	4,13,85,687	3,67,62,835
Secured Loan	4	23,52,122	
<b>Total</b>		<b>29,23,37,809</b>	<b>27,43,62,835</b>
<u>Application of funds</u>			
<u>Fixed assets</u>			
Gross block	5	15,82,00,387	18,25,18,130
Less: Depreciation		5,06,97,614	4,12,22,555
Net block		10,75,02,773	14,12,95,575
Capital work-in-progress		1,04,41,755	10,921,430
		11,79,44,528	15,22,17,005
Investments	6	4,50,00,000	2,50,00,000
<u>Current assets, loans and advances</u>			
<u>Current Assets</u>			
Cash and Bank Balances	7	12,70,98,376	14,69,63,085
Sundry Debtors	8	39,18,057	25,69,366
Loans and advances	9	1,39,79,429	3,82,82,655
		14,49,95,862	18,78,15,106
Less: <u>Current liabilities and provisions</u>			
Current liabilities	10	14,32,66,318	16,03,75,605
Deferred Payment Liabilities	11	10,67,698	2,24,84,963
		14,43,34,016	18,28,60,568
<b>Net Current Assets</b>		<b>6,51,846</b>	<b>49,54,538</b>
Miscellaneous Expenditure (To the extent not written off or adjusted)	12	26,70,530	53,41,061
Profit and Loss Account		12,60,60,905	8,68,50,231
<b>Total</b>		<b>29,23,37,809</b>	<b>27,43,62,835</b>
Significant Accounting Policies and Notes forming part of the Accounts	17		

as per our attached Report of even date

For C. C. Chokshi & Co.,

Chartered Accountants

For and on behalf of the Board of Directors

P. R. Barpande

Partner

Mumbai

Date: August 30, 2002

M. R. Mayya

Chairman

Mumbai

Date: August 30, 2002.

Joseph Massey

Managing Director

V. Shankar

Joint Managing Director

Dipak K. Shah

Company Secretary

For Inter-connected Stock Exchange of India Limited

Company Secretary

# Inter-Connected Stock Exchange of India Limited

Profit and Loss Account for the year ended March 31, 2002

	Schedule	Year ended March 31, 2002 Rupees	Year ended March 31, 2001 Rupees
Income	13	1,93,41,453	2,19,57,626
<b>Total</b>		<b>1,93,41,453</b>	<b>2,19,57,626</b>
Expenditure			
Employee Costs	14	49,71,435	80,11,017
Administration and Operational Expenses	15	2,88,99,495	2,37,30,232
Interest	16	65,92,310	24,96,093
Depreciation			2,18,96,559
Loss - Adjusted against Capital Reserve (Refer 1 and note 12 of Schedule 17)			(31,87,611)
<b>Total</b>		<b>5,85,52,127</b>	<b>5,29,46,290</b>
(Loss) for the year		(3,92,10,674)	(3,09,88,664)
Balance Brought Forward from Previous Year		(8,68,50,231)	(5,58,61,567)
Balance carried to Balance sheet		(12,60,60,905)	(8,68,50,231)
Significant Accounting Policies and Notes forming part of the Accounts	17		

as per our attached Report of even date

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

For and on behalf of the Board of Directors

P. B. Barpande  
Partner  
Mumbai  
Date August 30, 2002

M. R. Mayya      Joseph Massey      V. Shankar      Dipak K. Shah  
Chairman      Managing Director      Joint Managing Director      Company Secretary  
Mumbai  
Date: August 30, 2002.

For Inter-connected Stock Exchange of India Limited

Company Secretary

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

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<b>Schedule 1 : Admission Fees/ Contribution towards Infrastructure development- from Members</b>		
Members Admission Fees	75,00,000	75,00,000
<b>Contribution towards infrastructure development :</b>		
Balance as per last year	8,16,00,000	10,49,73,000
Add : Contributions during the year	-	50,000
Less : Repaid during the year ( Refer note 7 of Schedule 17)	-	2,34,23,000
<b>Total</b>	<b>8,16,00,000</b>	<b>8,16,00,000</b>
	<b>8,91,00,000</b>	<b>8,91,00,000</b>
<b>Schedule 2 : Dealer Admission Fees</b>		
	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Dealer Admission Fees		
Balance as per last year	14,85,00,000	2,60,00,000
Add : Received during the year (Refer note 13 of Schedule 17)	1,10,00,000	12,25,00,000
<b>Total</b>	<b>15,95,00,000</b>	<b>14,85,00,000</b>
	<b>15,95,00,000</b>	<b>14,85,00,000</b>

For Inter-connected Stock Exchange of India Limited

Company Secretary

		As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<b>Schedule 1 - Reserves and Surplus</b>			
<b>Capital Reserves</b>			
<b>(a) Networking Equipment Contributions</b>			
Balance as per last balance sheet	2,66,37,634		Nil
Add: Received During the year	11,18,750		2,98,25,245
Less: Appropriation towards depreciation	49,42,103		31,87,611
(Refer note 12 of Schedule 17)		2,28,14,281	2,66,37,634
<b>Other Reserves</b>			
<b>(i) Settlement Guarantee Fund</b>			
<i>(From initial contribution from traders and dealers and accretions by way of levy of charges on transactions during the year)</i>			
<i>(including Rs 82,25,619/- (Previous year Rs 46,64,193/-) accretion 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	99,81,040		36,32,795
Add: Additions during the year	83,99,487		63,48,245
		1,83,80,527	99,81,040
<b>(ii) Investor Protection Fund</b>			
<i>(From accretions by way of levy of charges and fines on transactions during the year)</i>			
Balance as per last Balance Sheet	91,324		17,453
Add: Additions during the year	1,459		73,871
		92,783	91,324
<b>(iii) Investor Service Fund</b>			
<i>(From accretions by way of levy of charges and appropriations from listing fees income during the year)</i>			
Balance as per last Balance Sheet	52,837		23,820
Add: Additions during the year	45,259		29,017
		98,096	52,837
<b>Total</b>		<b>4,13,85,687</b>	<b>3,67,62,935</b>

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

Schedule 4 : Secured Loan	As At March 31, 2002 Rupees	As At March 31, 2001 Rupees
Bank Overdraft (Secured by way of pledge of Fixed Deposit Receipts of Rs. 2,00,00,000/-)	23,52,122	-
Total	23,52,122	-

PARTICULARS	GROSS BLOCK			DEPRECIATION			NET BLOCK			
	As at 01-01-2001	Additions	Deductions	As at 31-03-2002	Upto 31-03-2001	For the Year	Deductions	Upto 31-03-2002	As at 31-03-2002	As at 31-03-2001
Leasehold Land	7,96,950			7,96,950	30,964	12,690		43,954	7,52,955	7,65,956
Leasehold Premises	3,25,65,962	20,000		3,25,85,962	18,09,418	5,31,066		23,40,484	3,02,45,478	3,07,56,544
Machinery and Electrical Equipments	41,66,507	33,136		41,99,643	4,25,608	1,98,228		6,24,066	35,75,577	37,40,569
Furniture and Fixtures	4,56,120	22,485		4,78,605	7,67,188	2,95,148		10,62,336	36,21,349	38,94,092
Vehicles	8,41,619			8,41,619	1,88,003	79,954		2,67,957	5,73,662	5,53,716
Office Equipments	22,51,791	51,112		23,02,903	2,58,746	1,24,701		3,83,447	19,19,456	19,93,045
Networking Equipments	3,43,743	21,46,106		3,65,20,324	36,73,786	58,83,079		95,56,865	2,69,63,459	3,07,06,412
Computers	10,26,59,873	14,42,360	28,032,891	7,62,69,291	3,40,68,612	1,56,05,824	1,32,39,883	3,64,18,505	3,98,50,786	6,57,94,211
Total	10,26,59,873	37,15,340	28,032,891	15,82,00,387	4,12,22,555	2,30,30,990	1,32,39,883	5,06,97,614	10,75,02,771	14,12,53,575
Previous Year	13,95,14,334	4,26,03,596	24,072,891	19,26,18,130	1,93,24,996	2,18,96,559		4,12,22,555	14,12,95,575	

Capital Work in Progress comprise of Computers and Office Equipment pending installation of Rs.1,04,41,755 ( Previous Year Rs.1,09,21,430/-)

- Notes:
- 1) In respect of Leasehold Land, Lease deed is pending execution
  - 2) Leasehold Premises represents cost of Office Premises including improvements to premises taken from CIDCO under lease for a period of 60 years in respect of which Agreement to lease has been entered
  - 3) Deductions from Computers include-Cost of 'Indigo Application Software' aggregating to Rs. 2,80,32,891/- which has been written off during the year. (Refer Note No.3 of Schedule 17)

in Rupees

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

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<b>Schedule 6 : Investments</b>		
Long Term Investments (unquoted, at cost)		
Investments in the Shares of Subsidiary Company		
- ISE Securities & Services Limited		
45,00,000 (Previous Year 25,00,000) Equity Shares of Rs.10/- each, fully paid up	4,50,00,000	2,50,00,000
<b>Total</b>	<b>4,50,00,000</b>	<b>2,50,00,000</b>

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<b>Schedule 7 : Cash and bank balances</b>		
Cash-on-hand		13,071
<u>Bank balances:</u>		
<u>with Scheduled Banks</u>		
- in Current Account	21,37,924	84,39,897
(including Rs.1,76,544/- (Previous year Rs. 1,22,616/-) in earmarked funds accounts)		
- in Deposit Account * #	12,49,60,452	13,85,70,117
(including Rs.8,20,19,958 (Previous year Rs. 7,51,01,918) in earmarked funds accounts)		
(including interest accrued Rs.68,63,465 (Previous year Rs. 18,52,646)		
<b>Total</b>	<b>12,70,98,376</b>	<b>14,69,63,085</b>
* Includes Fixed Deposit Receipt of Rs. Nil (Previous year Rs. 25,00,000) over which a bank has lien in respect of the guarantee given by a bank to a supplier.		
# Including Fixed Deposit Receipts of Rs. 2,00,00,000/- deposited with bank against overdraft facility availed.		



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

at  
31, 2001  
Rupees  
2,50,00,000  
2,50,00,000

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<b>Schedule 8 : Sundry Debtors</b>		
<i>(Unsecured)</i>		
Debts outstanding for a period exceeding six months	39,08,057	9,44,191
Other Debts	10,000	18,25,175
	39,18,057	27,69,366
Less: Provision	-	2,00,000
<b>Total</b>	<b>39,18,057</b>	<b>25,69,366</b>
<i>Note :</i>		
Considered Good	39,18,057	25,69,366
Considered Doubtful	-	2,00,000
	39,18,057	27,69,366

at  
31, 2001  
Rupees  
13,071  
84,39,897  
3,85,10,117  
4,69,63,085

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<b>Schedule 9 : Loans and advances</b>		
<i>(Unsecured)</i>		
Advances given to subsidiary company	27,67,055	2,78,37,169
Advances recoverable in cash or in kind, or for value to be received	36,19,369	59,45,287
Tax Deducted at Source	78,16,469	47,23,663
	1,42,02,893	3,85,06,119
Less: Provision	2,23,464	2,23,464
<b>Total</b>	<b>1,39,79,429</b>	<b>3,82,82,655</b>
Considered Good	1,39,79,429	3,82,82,655
Considered Doubtful	2,23,464	2,23,464
<b>Total</b>	<b>1,42,02,893</b>	<b>3,85,06,119</b>
Due from Directors	Nil	Nil
<i>(Maximum Amount Outstanding Rs.47,312/- (Previous Year Rs.43,700/-)</i>		

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

Schedule 10 : Current liabilities		As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Sundry Creditors*			
Total Outstandings dues of Small Scale Industrial undertakings	Nil		Nil
Total Outstanding dues of creditors other than small scale industrial undertakings	30,02,870		42,19,168
Deposits**		30,02,870	42,19,168
Contribution towards Base Minimum Capital - Traders and Dealers		4,68,53,001	4,62,70,001
Contribution towards Settlement Stabilisation fund		1,20,00,000	1,20,00,000
Contributions received in Advance ***		8,14,10,447	9,78,86,436
<b>Total</b>		<b>14,32,66,318</b>	<b>16,03,75,605</b>

\* 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.

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

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<b>Schedule 11 : Deferred Payment Liabilities</b>		
Due to CIDCO in respect of Leasehold Premises (Refer note 4 of Schedule 17)	-	1,58,18,108
Due to Suppliers towards Capital Goods	10,67,698	66,66,855
<b>Total</b>	<b>10,67,698</b>	<b>2,24,84,963</b>

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
<b>Schedule 12 : Miscellaneous Expenditure</b>		
<i>(To the extent not written off or adjusted)</i>		
Preliminary expenses	7,206	14,412
Deferred Revenue Expenditure	26,63,324	53,26,649
<b>Total</b>	<b>26,70,530</b>	<b>53,41,061</b>

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

Schedule 13 : Income	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Admission Fees from Traders	65,000	3,55,000
Annual Subscription received		7,50,000
- From Members	6,50,000	2,82,000
- From Traders	2,71,000	74,50,000
- From Dealers	80,50,000	84,82,000
Interest on Bank Deposits, etc. ( TDS Rs.30,92,806/- previous year Rs.35,75,525/-)	1,43,55,372	1,52,99,337
Less : Interest earned on Reserve Fund Deposits	82,25,619	46,64,193
Listing Fees	61,29,753	1,06,35,144
Transaction Charges	1,70,200	95,200
Excess provision for earlier years written back (Refer Note 3 of Schedule 17)	81,658	2,19,612
Employee Bonus/Ex-gratia written back	15,00,000	5,00,000
Excess Provision of Doubtful advance written back	57,266	4,26,460
Provision of Doubtful Debts Written Back	2,00,000	
Miscellaneous Income	21,66,576	12,44,210
<b>Total</b>	<b>1,93,41,453</b>	<b>2,19,57,626</b>

Schedule 14 : Employee Cost	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Salaries (Net of recovery Rs.47,02,929/- [Previous year Rs. 20,950/-])	43,55,975	69,18,055
Contribution to Provident and Other Funds (Net of recovery of Rs.4,07,563/- [Previous year Rs.1,95,701/-])	4,01,165	5,26,710
Gratuity (Net of recovery of Rs.16,092/- [Previous year Rs.17,829/-])	54,478	42,642
Staff Welfare (Net of recovery of Rs.1,59,817/- [Previous year Rs.21,000/-])	1,59,817	5,23,600
<b>Total</b>	<b>49,71,435</b>	<b>80,11,017</b>

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

Schedule 15 : Administration and Operational Expenses	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Networking Expenses (Net of recovery of Rs. 17,01,007/- (Previous year Rs. 34,71,580/-))	10,81,656	31,71,098
Telephone & Fax Expenses (Net of recovery of Rs. 3,09,852/- (Previous year Rs. 5,77,974/-))	6,21,132	17,74,474
On-line Subscription (net of recovery of Rs. 13,773/- (Previous year Rs. Nil))	13,773	85,682
Printing & Stationery (Net of recovery Rs. 42,478 (Previous year Rs. 16,405/-))	5,68,047	11,54,677
Legal & Professional Charges (Net of recovery Rs. Nil/- (Previous year Rs. 281,835/-))	12,99,493	12,42,678
Electricity Expenses (Net of recovery of Rs. 6,21,103/- (Previous year Rs. 6,02,370/-))	6,22,991	9,52,608
Water Consumption Charges (Net of recovery of Rs. 28,545/- (Previous year Rs. Nil))	28,544	68,317
Rates & Taxes (Net of recovery of Rs. Nil/- (Previous year Rs. 1,21,765/-))	3,03,100	2,19,295
Repairs & Maintenance - Leasehold Premises (Net of recovery of Rs. 3,41,436/- (Previous year Rs. Nil))	4,14,732	6,82,872
Repairs & Maintenance - Others (Net of recovery Rs. 80,852/- (Previous year Rs. Nil))	31,65,517	63,75,512
Conveyance	2,40,831	2,52,925
Postage & Courier Expenses (net of recovery of Rs. 10,061/- (Previous year Rs. 1,705/-))	2,35,492	4,21,906
Security Expenses	3,25,733	3,37,481
Insurance (Net of recovery of Rs. 5,667/- (Previous year Rs. 39,32,525/-))	78,795	10,36,535
Hiring Charges (net of recovery of Rs. 3,500/- (Previous year Rs. Nil))	16,052	27,450
Bank Charges (net of recovery Rs. 27/- (Previous year Rs. Nil))	20,597	23,436
Publicity Expenses	5,80,107	3,05,158
Newspapers & Periodicals	27,225	47,648
Books & References	33,085	58,739
Rent (Net of recovery of Rs. 3,26,270/- (Previous year Rs. 24,500/-))	3,09,575	5,58,300
Travelling Expenses (net of recovery of Rs. 1,619/- (Previous year Rs. 22,958/-))	2,25,107	9,70,336
Motor Car Expense (net of recovery of Rs. 1,01,072/- (Previous year Rs. 5,943/-))	2,32,015	2,48,165
Miscellaneous Expenses (net of recovery Rs. 38,235/- (Previous year Rs. 37,597/-))	4,21,818	6,68,189
Membership & Subscription	1,94,867	3,24,000
NSDI Connectivity Charges	1,75,672	
Fixed Assets (Software) Written off	1,47,93,008	
Bad Debts / Advances written off	2,00,000	1,200
Provision for Doubtful Debts / Advance		50,000
Preliminary Expenses Written off	7,206	7,206
Deferred revenue Expenditure Written off	26,63,325	26,63,325
<b>Total</b>	<b>2,88,99,495</b>	<b>2,37,30,232</b>

Miscellaneous Expenses include training expenses, brokerage, dinal charges, recruitment expenses, etc.

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

Schedule 16 : Interest	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Interest on Deferred Payment Liabilities :		
Interest on Suppliers Credit	7,506	1,11,453
Interest to CIDCO *	61,76,452	23,84,640
Interest on Others		
On Bank Ovedraft	4,08,352	-
Total	65,92,310	24,96,093
* Including Rs. 37,33,192/- paid on pre-payment of EMIs (Refer Note 4 of Schedule 17)		

### Significant Accounting Policies

#### Basis of preparation of Financial Statements

The accompanying financial statements have been prepared using the historical cost convention in consonance 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 recognised 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 Amortisation

- i. Depreciation is provided on straight-line basis at the rates prescribed in Schedule XIV to 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. (Refer note no.4)
- 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. (Refer, Note No. 12).

#### 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.

#### 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 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 no. 13)

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 12)

Notes to the Accounts

2. Estimated amounts of contracts remaining to be executed and not provided for (Net of advances) - Rs.37,46,360/- (Previous year Rs. 1,21,44,424/-)
3. The Company, for the purpose of providing on-line trading, had entered into an agreement with Indigo Technologies (I) Private Limited for using their solution based on Tandem hardware and Indigo proprietary TESA Application Software, at a total project cost of Rs.7,07,23,639/-. In terms of the said agreement a credit of Rs.25,00,000/- was given by Indigo Technologies (I) Private Limited in consideration of providing a non-exclusive Information Vending Rights for a period of five years to Indigo Technologies (I) Private Limited by the Company. The company has accounted for a credit aggregating to Rs.10,00,000/- upto 31<sup>st</sup> March 2001. However, since the Company has, during the year discontinued using the Indigo Application Software, the



balance credit of Rs.15,00,000/- is written back in the accounts. Further the Written Down Value of the fixed assets (Software) as on 25<sup>th</sup> January 2002 aggregating to Rs.1,47,93,008/- has been written off during the year since the same is no longer used by the company.

4. The company had obtained leasehold premises from CIDCO at the total cost of Rs.3,06,15,660/-. As per the terms of payment, the company was required to pay the said amount along with interest at the rate of 16 per cent in 96 months (EMIs). The company has, during the year, prepaid the balance EMIs aggregating to Rs. 1,70,00,000/-. However, ownership of the said premises will be transferred to the company only on completion of original terms of lease from CIDCO.

### 3. Managerial Remuneration

	31 <sup>st</sup> March 2002	31 <sup>st</sup> March 2001
	Rupees	Rupees
Salaries	17,93,658	14,96,895
Contribution to PF & other Funds	2,07,678	1,77,426
Perquisites in cash or in kind	Nil	Nil

### 6. Payments to Auditors

	31 <sup>st</sup> March 2002	31 <sup>st</sup> March 2001
	Rupees	Rupees
<b>As Auditors</b>		
For Statutory Audit	50,000	50,000
For Tax Audit	25,000	25,000
<b>As Adviser or in capacity in respect of</b>		
Taxation matters	-	35,000
Other services such as Financial Advice etc.	1,00,000	-
<b>In any other manner</b>		
As expenses	4,837	5,450
For Service Tax	8,750	3,750
<b>Total</b>	<b>1,88,587</b>	<b>1,19,200</b>

7. 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. NIL (Previous year Rs. 30,000/-). The amount of contribution receivable as at March 31, 2002 aggregates to Rs. 31,50,000/- (excluding the amount of Rs.1,30,00,000/- from two members whose membership has been terminated during the year) [previous year Rs.1,61,50,000/-], which will be accounted in the year of receipt.
8. 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.

Inter-Connected Stock Exchange of India Limited  
Schedule 17: Significant Accounting Policies and Notes forming part of the Accounts

9. 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.
10. Sundry Debtors include an amount of Rs.1,00,000/- (Previous year Rs.1,00,000) recoverable from Traders/Dealers towards contribution to Settlement Guarantee Fund for which steps are being taken to recover the said amount. The amount has been accounted and earmarked.
11. 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.400,000/- 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/-.
12. During the year the Company has received an amount aggregating to Rs.11,18,750/- (Previous year 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.49,42,103/- (previous year Rs.31,87,611/-) being the proportionate amount of depreciation for the said equipment's has been withdrawn from the reserves and also disclosed as deduction from the depreciation for the year.
13. During the year the Company has received an amount aggregating to Rs.1,10,00,000/- (Previous Year Rs.12,25,00,000/-) 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.
14. Hitherto, the indirect expenses incurred by the company were allocated to its subsidiary, ISE Securities & Services Limited (ISS), on the basis of identification of such expenses between the two companies. However, during the year, considering the nature of expenses incurred, the company has considered additional items of expenditure for allocation and the same are shared equally between the two companies or on the basis of floor area occupied. Had the last year's method of allocation been followed, the loss for the year would have been higher by Rs.11,17,571/-.
15. Balance with Bank Current Accounts and Deposit Accounts (refer schedule 7) includes an amount aggregating to Rs.8,21,96,502/- (Previous year Rs. 7,51,74,534/-) [Including accrued interest Rs.68,63,465/- (previous Year Rs. 18,52,646/-)] which is earmarked against the funds received as per schedule 3 and 10 except an amount of Rs. 4,62,842/- (previous year Rs.9,93,266/-) which has been transferred to earmarked accounts subsequently.

16. The details of the ear-marked funds are shown in the following table:

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

Balance of Funds/Contributions received	As on 31.03.2002 (Rs.)	As on 31.03.2001 (Rs.)
Settlement Guarantee Fund (including accretions from levy of transactions and interest)	1,83,80,526	99,81,040
Settlement Stabilisation Contribution from Member Exchanges	1,20,00,000	1,20,00,000
Contributions towards Base Minimum Capital (Cash Component)	46,853,001	4,62,70,001
Contributions towards SGF/BMC received in advance	49,35,000	77,70,000
<b>Total</b>	<b>8,21,68,527</b>	<b>7,60,21,041</b>

**Ear-marked**

In Fixed Deposit and Current Bank Accounts	8,20,19,958	7,51,01,919
Amount yet to be transferred as on March 31, 2002* *subsequently transferred	1,48,569	9,19,122

The balances as on 31.3.2002 in the various fund accounts and contributions received are earmarked in accordance with the Bye-laws of the Company as under:

Non-cash Component (Not accounted in the books, refer Note no.9)	As on 31.03.2002 (Rs.)	As on 31.03.2001 (Rs.)
Bank Guarantees from traders and dealers	96,00,000.00	80,50,000.00
Fixed Deposits under lien**	2,25,30,000.00	1,44,30,000.00
Securities Pledged ***	2,75,60,181.15	1,23,80,644.00
Undertakings given by Member Exchanges on behalf of Traders of those Exchanges	2,96,00,000.00	2,65,00,000.00
<b>Total Non-Cash Component</b>	<b>8,92,90,181.15</b>	<b>6,13,60,644.00</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 31.03.2002 (Rs.)	As on 31.03.2001 (Rs.)
Received as Levy on transactions etc	92,783	91,324
Earmarked in Fixed and Current Bank Accounts	91,324	17,180
Amount yet to be transferred as on March 31, 2002* *subsequently transferred	1,459	74,144

Connected Stock Exchange of India Limited  
Schedule 17: Significant Accounting Policies and Notes forming part of the Accounts

Investor Service Fund	As on 31.03.2002 (Rs.)	As on 31.03.2001 (Rs.)
Received as Levy on transactions etc	98,096	52,837
Earmarked in Fixed and Current Bank Accounts	85,220	55,435
Amount yet to be transferred as on March 31, 2002* *subsequently transferred	12,876	Nil

Balance Sheet Abstract And Company's General Business Profile

Registration details

Registration no.  

		1	1	3	1	4	7
--	--	---	---	---	---	---	---

State code  

						1	1
--	--	--	--	--	--	---	---

Balance sheet date  

		3	1	0	3	0	2
--	--	---	---	---	---	---	---

Capital raised during the year (amount in Rupees thousands)

Public issue  

						N	I	L
--	--	--	--	--	--	---	---	---

Bonus issue  

						N	I	L
--	--	--	--	--	--	---	---	---

Rights issue  

						N	I	L
--	--	--	--	--	--	---	---	---

Private placement  

						N	I	L
--	--	--	--	--	--	---	---	---

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

Total liabilities  

				4	3	6	6	7	2
--	--	--	--	---	---	---	---	---	---

Total assets  

				4	3	6	6	7	2
--	--	--	--	---	---	---	---	---	---

Sources of funds

Paid-up capital  

						N	I	L
--	--	--	--	--	--	---	---	---

Reserves and Surplus  

				4	1	3	8	6
--	--	--	--	---	---	---	---	---

Secured loans  

						2	3	5	2
--	--	--	--	--	--	---	---	---	---

Unsecured loans  

							N	I	L
--	--	--	--	--	--	--	---	---	---

Application of funds

Net fixed assets  

				1	1	7	9	4	5
--	--	--	--	---	---	---	---	---	---

Investments  

						4	5	0	0	0
--	--	--	--	--	--	---	---	---	---	---

Net current assets  

								6	6	1
--	--	--	--	--	--	--	--	---	---	---

Miscellaneous expenditure  

								2	6	7	1
--	--	--	--	--	--	--	--	---	---	---	---

Accumulated losses  

				1	2	6	0	6	1
--	--	--	--	---	---	---	---	---	---

IV. Performance

Turnover ( )  

+	(-)

Earnings p  

--	--

V. Generic n

Item code  

--	--

18. Related P

Sr. No.	Na
1.	ISE Ser (St cor

19. Balances receipt of

20. Figures current y

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

Turnover (including other income)

				1	9	3	4	1
--	--	--	--	---	---	---	---	---

+ (-) Profit/ (loss) before tax

				(3	9	2	1	1
--	--	--	--	----	---	---	---	---

Earnings per share (Rupees)

						N	A
--	--	--	--	--	--	---	---

Total expenditure

				5	8	5	5	2
--	--	--	--	---	---	---	---	---

+ (-) Profit/ (loss) after tax

				(	3	9	2	1	1
--	--	--	--	---	---	---	---	---	---

Dividend Rate

							N	A
--	--	--	--	--	--	--	---	---

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

Item code no. (ITC code)

						N	I	L
--	--	--	--	--	--	---	---	---

						N	A
--	--	--	--	--	--	---	---

## 18. Related Party Transactions:

Sr. No.	Name of the Party	Nature of Transaction	Amount of Transaction (Rs.)	Closing Balance (Rs.)	Dr/Cr
1.	ISE Securities & Services Limited (Subsidiary of the company)	Loan Advanced	890,00,000.00	-	-
Interest on Loan @ 18% p.a.		7,73,013.10	-	-	
Expenses Recovered		89,12,144.00	27,67,054.60	Dr	

19. Balances of debtors and creditors are subject to confirmation and consequent adjustment, if any, on receipt of such confirmation.

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 the Profit and Loss Account are rounded off to the nearest rupee.

Signatures to schedules 1 to 17

As per our attached Report of even date

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

*For and on behalf of the Board of Directors,*

(P. R. Barpande)  
*Partner*

(M.R.Mayya)  
*Chairman*

(Joseph Massey)  
*Managing Director*

(V.Shankar)  
*Joint Managing  
Director*

(Dipak K. Shah)  
*Company Secretary*

*Mumbai*

*Date : August 30, 2002*

*Mumbai*

*Date : August 30, 2002*

For Inter-connected Stock Exchange of India Limited

Company Secretary

**INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED**  
**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, 2001 to March 31, 2002
3.	Number of Shares of the Subsidiary Company held by Inter-connected Stock Exchange of India Limited (ISE)	44,98,600 Equity Shares of Rs. 10/- each fully paid up held in the name of Inter-connected Stock Exchange of India Limited. 1,400 Equity Shares of Rs. 10/- each fully paid up, in the name of the seven subscribers to the Memorandum of Association of the Company (200 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	45,00,000 Equity Shares of Rs. 10/- each fully paid up 100%, On March 31, 2002 the Company held the entire Share Capital consisting of 45,00,000 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, 2002  For the Financial year mentioned in 2 above  For the previous Financial years of the Subsidiary since it became the Subsidiary of the Company.	    (Rs. 46,26,260/-)  (Rs. 37,22,453/-)
	(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, 2002 For the Financial year mentioned in 2 above For the previous Financial years of the Subsidiary since it became the Subsidiary of the Company.	Nil

By order of the Board of Directors

Place: Vashi  
Date: August 30, 2002

M. R. MAYYA  
Chairman

JOSEPH MASSEY  
Managing Director

V. SHANKAR  
Joint Managing Director

DIPAK K. SHAH  
Company Secretary

For Inter-connected Stock Exchange of India Limited

Company Secretary

Auditors' Report

o,  
he Members of  
ter-Connected Stock Exchange of India Limited.

We have audited the attached Balance Sheet of Inter-Connected Stock Exchange of India Limited, as at 31<sup>st</sup> March, 2002 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to in paragraphs 3 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 & Loss Account dealt with by this report are in agreement with the books of account;~~
- d) In our opinion, the Balance Sheet and Profit & 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 31<sup>st</sup> March, 2002 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March, 2002 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 said accounts read with significant accounting policies and notes on accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2002 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

P. R. Barpande  
Partner

Mumbai, August 30, 2002

or Inter-connected Stock Exchange of India Limited

Company Secretary

Annexur  
(referred to)

- 1) The n  
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- 2) The C  
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- 3) None
- 4) The C  
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Mumbai



**Annexure to the Auditor's Report**  
(referred to in paragraph 3 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) of clause A and item (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 transaction 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, 2002 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

P. R. Barpande  
Partner

Mumbai, August 30, 2002

For Inter-connected Stock Exchange of India Limited

Company Secretary

## ISE SECURITIES & SERVICES LTD.

### DIRECTORS' REPORT

The Board of Directors of ISE Securities & Services Limited (ISS) is pleased to present its Third Annual Report for the year ended March 31, 2002, together with the Auditor's Report, Balance Sheet and Profit and Loss Account along with the necessary enclosures/annexures finalized up to that date.

#### THE YEAR UNDER REVIEW

The Company, which is the wholly-owned subsidiary of Inter-connected Stock Exchange of India Ltd. (ISE), has been promoted under the policy formulated by Securities and Exchange Board of India (SEBI) for "Revival of Small Stock Exchanges". ISS is a Trading Member in the Capital Market segment of the National Stock Exchange of India Ltd. (NSE) and has been operating in this capacity from May 3, 2000. The year 2001-02, therefore, represents the first full year of operations for the Company. During the year under review, ISS has also acquired membership of the Futures & Options (F&O) segment of NSE and operations in this segment commenced from May 6, 2002.

The year under review was an extremely tumultuous one, with the market undergoing two major setback in terms of investor sentiment: the first one in March/April 2001 and the second one in November 2001 after the 9/11 attacks in the US. The Company withstood these large shocks quite well and the operations continued without any hindrance or disruption.

#### ACHIEVEMENTS

The total turnover transacted through the Company in the financial year 2001-02 was Rs.10,558 crores, which represented a growth of 13 % over the corresponding figure for the year 2000-01, which was Rs. 9,336 crores. ISS now accounts for roughly 2.5% of the total turnover of NSE in the Capital Market segment, which places the Company in the top rung of trading members.

Some salient details regarding ISS operations are given in the table below:

Sr. No.	Month	Total turnover (Rs. cr.)	Average turnover per day (Rs. cr.)	Active intermediaries	Average turnover per intermediary (Rs. cr.)	Cities covered
1.	April 2002	652.30	34.35	165	0.21	30
2.	May 2002	995.68	45.26	175	0.26	34
3.	June 2002	929.16	44.25	180	0.25	34
4.	July 2002	602.05	28.67	172	0.17	34
5.	Aug 2002	685.20	32.63	165	0.20	38
6.	Sept. 2002	778.13	38.91	164	0.24	40

Page 1 of 7

For Inter-connected Stock Exchange of India Limited

Company Secretary

Sr. No.	Month	Total turnover (Rs. cr.)	Average turnover per day (Rs. cr.)	Active intermediaries	Average turnover per intermediary (Rs. cr.)	Cities covered
7.	Oct 2002	790.06	37.62	154	0.24	41
8.	Nov 2002	874.13	46.01	168	0.27	42
9.	Dec 2002	993.16	52.27	160	0.33	45
10.	Jan 2002	1370.25	59.58	180	0.33	45
11.	Feb 2002	1059.05	52.95	184	0.29	45
12.	Mar 2002	828.37	46.02	181	0.25	46
	Total	10557.86	43.27	171	0.25	

The Company operates from the following 46 centres: Mumbai, Mangalore, Coimbatore, Vadodara, Kolkata, Indore, Shahad, Bhubaneswar, Patna, Pune, Delhi, Ahmednagar, Ahmedabad, Ghaziabad, Bankura, Chennai, Hissar, Gauhati, Karnal, Nagpur, Faridabad, Rajkot, Hyderabad, Kalyan, Ongole, Salem, Vishakapatnam, Belgaum, Madgaon, Sangli, Aurangabad, Agra, Bhopal, Bilaspur, Cuttack, Dhanbad, Ranchi, Margoa, Raipur, Gwalior, Kanpur, Bahadurgarh, Jharia, Noida, Surat and Sagar.

The response to the F&O segment is highly encouraging. At present, 46 Authorised Persons are registered with the Company for trading in the NSE F&O segment. Even though the daily turnover in this segment is between Rs.1.5 to 2.0 crores, the Company expects that the turnover will go up substantially as more Authorised Persons get registered. The Board of Directors expects significant growth to take place in this segment, considering the growing interest amongst the investors and traders for participating in the same.

#### TECHNOLOGY

Considerable effort was put in by ISS during the year 2001-02, with help from its technology partners, to leverage on its technological edge. These efforts have resulted in stabilisation of the leased line, ISDN and VSAT networks, as well as in the software products used by it. The ODIN order routing software and the MATCH back office software have been enhanced to cater for the increasingly complex nature of operations of the Exchange subsidiary.

The Company also placed an order on Financial Technologies India Pvt. Ltd. for the F&O software products – ODIN and MATCH for the F&O segments. The unique feature of the client software used by the Company is that the trading screens for the Capital Market and F&O Market are integrated, which would be highly advantageous for the users. Not only are the overall investment requirements for hardware and system software lower for the Registered Intermediaries and ISS, but also the integrated trading screen facilitates easier cross-trading between the two segments.

## FINANCIAL HIGHLIGHTS

The Company has an authorised share capital of Rs.6 crores and paid-up capital of Rs.4.5 crores. The entire capital has been subscribed to by ISE.

ISS earned a total income of Rs.341.26 lakhs in the financial year 2001-02 (previous year: Rs.148.73 lakhs). Expenditure before Depreciation, Interest and Tax for the year under review stood at Rs.301.67 lakhs, whereas it was Rs.140.11 lakhs in the previous year. The increase in the expenditure was on account of higher administrative and support costs, sharing of larger amount of common expenses by ISS and provision made for doubtful debts in the books. After taking into account interest, finance charges, depreciation and taxation, the excess of expenditure over income for the year 2001-02 stood at Rs.46.26 lakhs, compared to Rs.37.22 lakhs for the previous year.

The table below gives the financial highlights:

	Rs. in lakhs	
	2001-02	2000-01
Income	341.26	148.73
Expenditure before Depreciation, Interest and Tax	301.67	140.11
Profit before Depreciation, Interest and Tax	39.59	8.62
Interest and Finance Charges	50.07	16.02
Depreciation	33.78	29.82
Provision for Taxation	2.00	-
Profit/(Loss) after Tax	(46.26)	(37.22)

## FUTURE PROSPECTS

The market is going through a depressed phase at present and the industry is witnessing consolidation/shake-out. It is felt that only large institutional setups will have the necessary muscle to withstand these changes in the environment. The Board of Directors of ISS believes that with certain enhancements in terms of systems, procedures, controls, technology and management expertise incorporated into the functioning of ISS, it would become better equipped to handle the complex requirements of the future. Towards this end, key personnel are being recruited in critical functions, such as risk management, stock control, finance and accounts, grievance redressal, compliance and legal. Together with this, operational workflow in some critical areas are being automated, so that manual intervention which is susceptible to errors is avoided. These measures, the Company believes, will enable it to meet the demands when the market sentiment improves for the better.

## 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 Second Annual General Meeting till the conclusion of the forthcoming (Third) 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. It may be mentioned here that the Company has created an Internal Audit department staffed by two qualified Chartered Accountants. In addition, an experienced Chartered Accountancy firm having experience in carrying out audit of similar establishments is being appointed soon, which will strengthen the internal control mechanisms within the Company.

The Auditor has also observed that the Company did not have a stock control system commensurate with the size of its operations. The Company has already created a separate Stock Control Section which would keep track of the stocks being handled by the Company in an online mode.

## OFFICE INFRASTRUCTURE

ISS 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

There is no change or addition to the Board during the period under review.

Shri V. Shankar, Managing Director of the Company and Nominee of ISE, is a Director liable to retire by rotation and being eligible, offers himself for reappointment.

The following Board Meetings were held from April 1, 2001 till date:

Board Meeting No.	Date
19	August 28, 2001
20	September 22, 2001
21	October 13, 2001
22	December 8, 2001
23	January 16, 2002
24	February 21, 2002
25	March 21, 2002
26	March 28, 2002
27	May 3, 2002
28	May 13, 2002
29	June 24, 2002
30	July 1, 2002

#### GENERAL MEETINGS

Since the date of the last Annual General Meeting held on September 22, 2001 and the date of the forthcoming Third Annual General Meeting, there have been no General Meetings.

#### 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.

#### 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 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.

## COMPLAINTS REDRESSAL, ARBITRATION AND LEGAL CASES

The Company has created a separate department to handle complaints between investors and their registered intermediaries. There were no complaints filed with ISS at the beginning of the financial year 2001-02. Nine complaints were received during the year under review, out of which seven have been resolved through the conciliation effort of the Company. With regard to the two pending complaints, the Company has advised the parties to the dispute to refer the matter to NSE for arbitration, as conciliation efforts made by ISS have not yielded the desired settlement between the parties.

The Company has also filed two arbitration petitions against two of its registered intermediaries for recovering the settlement dues. The arbitration cases are expected to be taken up by NSE soon. Further, in one of these cases, the Company has also obtained an injunction from the Bombay High Court against transfer of assets or creation of third party interest by the concerned registered intermediary.

There are no legal cases filed against the Company.

## ACKNOWLEDGEMENTS

The Company warmly acknowledges the support and co-operation extended by SEBI, which has always played a pro-active role throughout. 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 the objectives of serving the retail investors spread throughout the country using the medium of registered intermediaries. 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, 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 registered intermediaries. At all times, our registered intermediaries have extended utmost co-operation.

Guidance, support and direction have been provided by the Board of Directors of ISE, which has made the unique business model of ISS a reality. Thanks are also due to the staff of ISS and ISE, for their sincere and dedicated work.

By order of the Board of Directors

Place: Mumbai  
Date: August 29, 2002

M. R. MAYYA  
Chairman

For Inter-connected Stock Exchange of India Limited

Company Secretary

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**ISE SECURITIES AND SERVICES LIMITED**  
**BALANCE SHEET AS AT MARCH 31, 2002**

	Schedules	March 31, 2002 (In Rupees)	March 31, 2001 (In Rupees)
<b>SOURCES OF FUNDS</b>			
Shareholders Funds			
Share Capital	1	4,50,00,000	2,50,00,000
Loan Funds			
Secured Loans	2	5,45,28,688	1,97,72,020
<b>Total</b>		<b>9,95,28,688</b>	<b>4,47,72,020</b>
<b>APPLICATION OF FUNDS</b>			
Fixed Assets	3		
Gross Block		2,13,61,294	2,05,58,839
Less : Depreciation		63,59,798	29,81,732
Net Fixed Assets		1,50,01,496	1,75,77,107
Capital work in progress		Nil	2,00,387
		1,50,01,496	1,77,77,493
Current Assets, Loans & Advances			
Trade Debtors	4	5,05,54,585	2,96,40,861
Cash & Bank Balances	5	13,27,96,943	13,05,32,377
Loans & Advances	6	4,41,01,804	2,86,22,255
'Securities in hand (Refer Note 4 of Schedule 14 Part C)		14,55,479	24,75,102
		22,69,08,811	19,12,70,595
Less : Current Liabilities	7	15,33,41,778	16,88,13,782
<b>Net Current Assets</b>		<b>7,55,67,033</b>	<b>2,24,56,814</b>
Miscellaneous Expenditure (To the extent not written off)	8	6,11,446	8,15,262
Profit & Loss Account		83,48,713	37,22,453
<b>Total</b>		<b>9,95,28,688</b>	<b>4,47,72,020</b>
Significant Accounting Policies & other notes on Accounts	14		

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

for and on behalf of the Board

M. R. Mayya  
Chairman

V. Shankar  
Managing Director

Joseph Massey  
Director

Chirag Shah  
Asst. Company Secretary

Rajesh Shah, Partner  
Chartered Accountants

For Inter-connected Stock Exchange of India Limited

Mumbai, dated: August 29, 2002

Mumbai, dated: August 28, 2002

Company Secretary

**ISE SECURITIES AND SERVICES LIMITED**  
**PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH 2002**

Schedules	March 31, 2002 (in Rupees)	March 31, 2001 (in Rupees)
<b>INCOME</b>		
Brokerage	1,08,76,532	71,09,258
(Refer Note 12 of Schedule 14, Part C)		
Interest	1,09,71,873	41,91,726
(Tax Deducted at Source Rs. 20,62,032/- [Previous Year Rs. 6,89,218/-])		
Networking Recoveries	99,86,825	25,93,500
Annual Fees	11,22,000	7,80,000
Other Income	11,69,289	1,98,572
<b>Total</b>	<b>3,41,26,519</b>	<b>1,48,73,056</b>
<b>Expenditure</b>		
Employee Costs	50,08,919	21,55,917
Communication & Networking Costs	1,05,05,203	93,63,955
Administrative & Operative Costs	1,39,30,764	18,10,749
Finance Costs	50,07,357	16,01,991
Reduction in the value of Securities in hand (Refer Note 4 of Schedule 14 Part C)	5,18,656	4,77,349
Depreciation	33,78,065	29,81,732
Preliminary Expenses amortised	2,03,815	2,03,815
<b>Total</b>	<b>3,85,52,779</b>	<b>1,85,95,509</b>
<b>Profit / (Loss) before Taxation</b>	<b>(44,26,260)</b>	<b>(37,22,453)</b>
Provision for Taxation	2,00,000	Nil
<b>Net Profit / (Loss)</b>	<b>(46,26,260)</b>	<b>Nil</b>
Profit & Loss Surplus/(deficit) brought forward	(37,22,453)	Nil
<b>Balance Carried over</b>	<b>(83,48,713)</b>	<b>(37,22,453)</b>
Significant Accounting Policies & Other notes on Accounts	14	

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

for and on behalf of the Board

M. R. Mayya

V. Shankar

Joseph Massey

Chirag Shah

Chairman

Managing Director

Director

Asst. Company Secretary

Rajesh Shah, Partner

Mumbai, dated : August 29, 2002

Mumbai, dated : August 29, 2002

**For Inter-connected Stock Exchange of India Limited**

**Company Secretary**

ISE SECURITIES AND SERVICES LIMITED  
 SCHEDULES TO BALANCE SHEET AS AT MARCH 31, 2002

	March 31, 2002 (In Rupees)	March 31, 2001 (In Rupees)
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
Authorised 6000000 Equity Shares of Rs. 10/- each	<u>6,00,00,000</u>	<u>6,00,00,000</u>
Issued, Subscribed and fully paid up 450000 Equity Shares of Rs. 10/- each fully paid up in cash	<u>4,50,00,000</u>	<u>2,50,00,000</u>
(100% held by Inter-Connected Stock Exchange of India Ltd., the holding company and its nominees)	<u>4,50,00,000</u>	<u>2,50,00,000</u>
<b>SCHEDULE 2</b>		
<b>SECURED LOANS</b>		
From Banks (Overdraft facility from Banks secured by Bank Fixed Receipts. See Note 6 of Schedule 14 Part C)	<u>5,45,28,688</u>	<u>1,97,72,020</u>
<b>Total</b>	<u>5,45,28,688</u>	<u>1,97,72,020</u>

For Inter-connected Stock Exchange of India Limited...

Company Secretary..

**ISE SECURITIES AND SERVICES LIMITED**  
**SCHEDULES TO BALANCE SHEET AS AT MARCH 31, 2002**

**SCHEDULE 3**  
**FIXED ASSETS**

GROSS BLOCK				
Particulars	Cost as on 1-4-2001	Additions during the year	Deletions during the year	Cost as at 31-3-2002
Computer Systems	2,05,58,839	8,02,455		2,13,61,294
Total	2,05,58,839	8,02,455		2,13,61,294

DEPRECIATION				
Particulars	Upto 31-3-2001	Deletions	for the year ending 31-3-2002	Upto 31-3-2002
Computer Systems	29,81,732		33,78,065	63,59,798
Total	29,81,732			63,59,798

NETBLOCK				
Particulars	WDV as on 31-3-2001			WDV as on 31-3-2002
Computer Systems	1,50,01,496			1,75,77,107
Total	1,50,01,496			1,75,77,107

Capital work in progress / advances  
 (Previous Year)

Nil  
 2,00,387

ISE SECURITIES AND SERVICES LIMITED  
 SCHEDULES TO BALANCE SHEET AS AT MARCH 31, 2002

SCHEDULE 4  
 TRADE DEBTS

(Refer to page 1)

Exceeds

Other

Less: Trade Debts

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ISE SECURITIES AND SERVICES LIMITED  
SCHEDULES TO BALANCE SHEET AS AT MARCH 31, 2002

March 31, 2002  
(In Rupees)

March 31, 2001  
(In Rupees)

SCHEDULE 4  
TRADE DEBTORS

(Refer Note 7 of 'Schedule 14 Part C')

Exceeding Six months			
Considered Good	33,49,596		2,96,40,861
Considered Doubtful	26,47,176	59,96,772	
Others			
Considered Good	4,72,04,989		
Considered Doubtful	51,04,563	5,23,09,552	
		5,83,06,324	2,96,40,861
Total		77,51,739	Nil
Less : Provision for Bad & Doubtful Debts			2,96,40,861
Total		50,554,585	

SCHEDULE 5  
CASH & BANK BALANCES

Cash on Hand		3,496	7,456
Balance with Scheduled Banks			2,22,15,095
In Current Accounts	1,03,69,642		10,71,75,000
In Deposit Accounts	12,22,18,257		
(Refer Note 8 of 'Schedule 14 Part C')			
Balance in Current Account with Standard Chartered Grindlays Bank Limited (Maximum Balance during the year Rs. 33,49,779/-)	2,03,549		11,34,826
Total		13,27,96,943	13,05,32,377

SCHEDULE 6  
LOANS & ADVANCES

Advances recoverable in cash or kind for value to be received (Unsecured and considered good)			2,400.00
Prepaid Expenses	13,49,850		2,19,244
Recoverable from Dealers towards custodial charges	48,488.00		39,000.00
Advances to Employees	56,182		26,12,552
Interest Accrued on Bank Fixed Deposits	13,93,686		6,95,817
Tax Deducted at Source	27,57,849		2,50,00,000
Deposits with NSE	3,69,00,000		
Deposit with Dotex	1,00,000		
Deposit with MTNL	27,000		
Advance towards Capital Assets	13,50,000		53,243.00
Other Advances	1,18,749		
Total		4,41,01,804	2,86,22,255

**ISE SECURITIES AND SERVICES LIMITED**  
**SCHEDULES TO BALANCE SHEET AS AT MARCH 31, 2002**

	March 31, 2002 (In Rupees)		March 31, 2001 (In Rupees)	
<b>SCHEDULE 7</b>				
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>				
<b>Current Liabilities :</b>				
Total Outstanding dues to Small Scale Industrial Undertakings		Nil		nil
<b>Others :</b>				
<b>Settlement Obligations :</b>				
Settlement Obligations to Dealers	3,76,78,741		4,20,17,762	
Settlement Obligations to NSE	3,46,00,271	7,22,79,013	1,20,11,944	5,40,29,706
<b>Margin, Base and Additional Deposits :</b>				
Margin Deposits	5,10,412		92,45,727	
Capital Market Segment Deposits	5,64,56,317		6,43,47,767	
Futures and Options Segment Deposits	11,50,000		Nil	
VSAT charges advance deposit	15,25,500	5,96,42,229	Nil	7,35,93,494
Due to Interconnected Stock Exchange of India Limited		27,67,055		2,78,37,169
Appropriation Charges (Refer Note 11 of Schedule 14 Part C)		1,55,34,836		95,69,213
Creditors for Expenses		29,18,646		37,84,199
<b>Provisions :</b>				
Provision for Taxation		2,00,000		Nil
<b>Total</b>			<b>15,33,41,778</b>	<b>16,88</b>
<b>SCHEDULE 8</b>				
<b>MISCELLANEOUS EXPENDITURE</b>				
(To the extent not written off or adjusted)				
Preliminary Expenses		80,136		1,06,848
Preoperational Expenses		5,31,310		7,08,414
<b>Total</b>			<b>6,11,446</b>	<b>8</b>

## ISE SECURITIES AND SERVICES LIMITED

## SCHEDULES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2002

	March 31, 2002 (In Rupees)	March 31, 2001 (In Rupees)
<b>SCHEDULE 9</b>		
<b>OTHER INCOME</b>		
Fines & Penalties Collected	8,41,663	34,049
Arbitration Fees	2,750	
Processing Charges - ALBM	94,777	1,55,097
Dividend Income	73,651	2,615
Miscellaneous Income	1,56,448	6,811
<b>Total</b>	<b>1,169,269</b>	<b>1,98,572</b>
<b>SCHEDULE 10</b>		
<b>EMPLOYEE COSTS</b>		
Staff Deputation Cost towards :		
Salary, Bonus & Allowances	49,90,827	21,33,138
Contribution to Gratuity Fund	16,092	17,829
Training Expenses	2,000	4,950
<b>Total</b>	<b>50,08,919</b>	<b>21,55,917</b>
<b>SCHEDULE 11</b>		
<b>COMMUNICATION &amp; NETWORKING COSTS</b>		
Lease/ISDN Line Charges	41,61,995	3,930,480
VPN Expenses	27,25,568	3,221,922
VSAT Expenses	28,41,418	1,635,958
Annual Maintenance of Equipment	2,85,764	
Telephone Expenses	4,90,458	575,595
<b>Total</b>	<b>1,05,05,203</b>	<b>93,63,955</b>

**IES AND SERVICES LIMITED**

**TO PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2002**

	March 31, 2002 (In Rupees)	March 31, 2001 (In Rupees)
<b>LE 12</b>		
<b>TRATIVE &amp; OPERATIVE COSTS</b>		
	3,06,300	3,500
axes	43,848	17,730
Maintenance	11,49,012	
	62,634	38,421
Charges	6,21,103	6,02,370
rofessional Charges	6,35,201	282,612
ation to Auditors (Refer Note chedule 14 Part C)	1,49,546	86,135
hip Subscriptions	3,48,773	1,07,500
harges	4,15,582	1,44,981
Charges	3,60,011	41,813
ce Expenses	1,847	24,325
ment Expenses	20,250	
nd Stationery	6,66,398	2,93,981
r Expenses	1,37,165	
nce Expenses	54,129	85,009
Sale of Auction Stocks *	2,88,731	
, for Doubtful Debts (Refer ) of Schedule 14 Part C)	77,51,739	
ecus Expenses	7,18,496	82,372
covery of Rs. 749334/- (Previous year Rs. Nil)		
<b>Total</b>	<b>1,38,30,764</b>	<b>18,10,749</b>

**LE 13**

**E COSTS**

arges	1,18,468	72,775
arantee Commission	3,39,593	8,23,838
	45,51,296	7,05,378
	<b>50,07,357</b>	<b>16,01,991</b>



# ISE SECURITIES & SERVICES LIMITED

## Schedule 14

Notes to the Balance Sheet As at March 31, 2002 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, 2002, 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 for all settlements effected during the year net of Stamp Duty and Service Tax. Brokerage Income includes net Transaction Charges received from Sub-brokers net of Service Tax.

ii) Other incomes are accounted on accrual basis.

##### d) Fixed Assets 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

For Inter-connected Stock Exchange of India Limited

~~Company Secretary~~

For Inter-connected Stock Exchange of India Limited

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 preoperation<sup>1</sup> expenses are being amortised over a period of five years from the year the Company commenced operations

**g) Borrowing costs**

Borrowing costs attributable to the acquisition of fixed assets upto the date it is ready for use are capitalised as part of cost of fixed assets. Other borrowing costs are recognized as expenses in the period in which they are incurred.

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

**C. Notes to Accounts**

1. Estimated amounts of capital contracts remaining to be executed and not provided for (net of advance of Rs.1,350,000/-) is Rs.4,050,000/-.

2. Remuneration to Auditors:

	Year ended 31-3-2002	Year ended 31-3-2001
Audit Fees	52,500/-	26,250/-
Other Services in respect of :		
- Consultancy Charges.....	55,125/-	39,375/-
- Others.....	11,550/-	18,900/-
Reimbursement of Expenses.....	371/-	1,610/-
<b>Total</b>	<b>119,546/-</b>	<b>86,135/-</b>
For taxation matters to associate concern	30,000/-	Nil
<b>Total</b>	<b>149,546/-</b>	<b>86,135/-</b>

3. Employee's cost represents the cost of the staff deputed by ISE to the Company during the year. The salary of the Managing Director, Mr. V. Shankar, paid by Inter-Connected Stock Exchange of India Limited, is charged to the Company. The salary and other allowances of Mr. V. Shankar amounting to Rs. 9,93,023/- [Previous Year Rs. nil] is reimbursed by the Company to Inter-Connected Stock Exchange of India Limited as during the financial year 2001-2002, Mr. Shankar was mainly involved in the organisation and management of the Company.

4. The securities in hand as of March 31, 2002 are valued at Rs. 14,55,480/- [Previous Year Rs. 24,75,102/-] at original cost or market price, whichever is less. The reduction of Rs.

## ISE SECURITIES & SERVICES LIMITED

5,18,656/- [Previous year 4,77,349/-], on account of this valuation is written off to Profit and Loss Account. The loss on account of sale of such securities which devolved on the Company due to auctions amounted to Rs. 2,88,731/-.

5. (i) The Company has obtained Bank Guarantees favoring National Stock Exchange from HDFC Bank Ltd. for an amount of Rs. 6,43,25,000/- [Previous Year Rs. 10,38,80,000/-] towards Base Capital and Margin requirements as of March 31, 2002. These Bank Guarantees are obtained against the collaterals of :

- (a) Bank Guarantees received from Sub-brokers favoring the Company towards the same Rs. 3,66,30,000/- [Previous Year Rs. 8,38,00,000/-],
- (b) Bank Fixed Deposit of the Sub-brokers amounting to Rs. 2,05,56,000/- [Previous Year Rs. 60,00,000] and;
- (c) Bank Fixed Deposit from HDFC Bank of the Company amounting to Rs. 1,00,00,000/- (Previous Year Rs. Nil)

- (ii) The Company has obtained Bank Guarantees favoring National Stock Exchange from IndusInd Bank Ltd. for an amount of Rs. 5,00,00,000/- [Previous Year Rs. Nil] towards Base Capital and Margin requirements as of March 31, 2002. These Bank Guarantees are obtained against the collateral of Bank Fixed Deposit from IndusInd Bank Ltd. of the Company amounting to Rs. 2,50,00,000/- [Previous Year Rs. Nil].

6. The Company has obtained bank overdraft facilities amounting to Rs. 5,95,00,000/- as follows :

- (i) The overdraft facility of Rs. 5,00,00,000/- [Previous Year Rs. 4,50,00,000/-] from HDFC Bank is taken against the collateral of Fixed Deposits of Rs. 5,07,66,806/- [Previous Year Rs. 4,50,00,000/-].
- (ii) The overdraft facility of Rs. 95,00,000 /- [Previous Year Rs. Nil] from IndusInd Bank is taken against the collateral of Fixed Deposit Receipts of Rs 10,00,00,000/- [Previous Year Rs. Nil].

### 7. Sundry Debtors

- (i) The Company sends ledgers/statement of accounts to Sub-brokers at periodic intervals. Discrepancies, if any, pointed out by the Sub-brokers are verified and necessary corrections are made in the concerned ledgers/statement of accounts. However, no specific confirmation has been received from the Sub-brokers for the balances shown against them as on March 31, 2002.
- (ii) Sundry Debtors represent settlement dues and other charges receivable from Sub-brokers as on March 31, 2002. The debtors of the Company are secured by the Company by way of Base and Additional Capital Deposits, Bank Guarantees, Fixed Deposits and securities to the extent of Rs. 4,44,13,368/-, without including the value of their membership on Inter-connected Stock Exchange of India Ltd. and their Base Minimum Capital deposited therewith.

(iii) Sundry Debtors include balances due from two sub-brokers, totalling to Rs. 1,00,76,564/- as at March 31, 2002. Efforts made by the Management of the Company have resulted in a recovery of Rs. 22,75,138.02 of the above outstanding in the current financial year. For recovery of the remaining amount, both these cases have been referred to NSE for arbitration, and in one case the Company has also obtained injunction from the Bombay High Court preventing one of the Sub-brokers from disposing off his assets. Based on the review of the security available, the Management has estimated the amount of unsecured outstanding at Rs. 77,51,739/- and provision for the same has been made in the books.

8. The Bank Fixed Deposits of the Company amounting to Rs. 11,17,66,806/- are utilised as collaterals for various facilities are as follows :

(i) Fixed Deposit Receipts discharged and deposited with NSE towards Additional Base Capital	Rs. 1,60,00,000/-
(ii) Collateral towards Bank Guarantee to NSE for Margin Adjustable Base Capital (Refer Note 5 above)	Rs. 3,50,00,000/-
(iii) Collateral with Banks for Overdraft Facilities. (Refer Note 6 above)	Rs. 6,07,66,806/-
Total	Rs. 11,17,66,806/-

9. The finance costs include an amount of Rs. 3,39,593/- being the commission payable on Bank Guarantees taken from HDFC Bank and IndusInd Bank favoring National Securities Clearing Corporation. Of this, Rs. 19,994/- has been incurred as commission for the back-to-back Bank Guarantees taken by the Company against Bank Guarantees issued by the sub-brokers towards margins/collaterals.

10. During the year, the Company in conjunction with its holding Company, Inter-Connected Stock Exchange of India Limited (ISE) has changed method of allocation of sharing the indirect expenses. The change in the method of allocation was warranted due to predominance of the operations and activities of the Company compared to that of ISE in utilising the common infrastructure. Had the last years method of allocation been followed, the loss for the year would have been lower by Rs. 11,17,571/-.

11. Appropriation Charges under Current Liabilities & Provisions include the recoveries made from Sub-brokers towards Turnover fees payable to SEBI, net of the payments made to SEBI till date. The Company has made part payment of the Turnover fees to SEBI at the time of registration for the Futures and Options Segment of NSE, pending clarification from SEBI on the applicability of the exemption provided under notification No. SO 787 (E) dated August 30, 2000. On the basis of the SEBI clarification, the applicable amounts will be paid to SEBI and/or refunded back to Sub-brokers. The above Notification grants exemption to members of smaller Stock Exchanges from paying turnover-based fees to SEBI for their transactions through the respective subsidiaries of these Exchanges, in case they have already paid turnover-based fees to SEBI for a period of 5 years on their Exchanges.

## ISE SECURITIES & SERVICES LIMITED

12. Brokerage includes prior period income of Rs. 15,27,244/-
13. 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.

### 14. 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

<input type="text" value="Public Issue"/> <input type="text" value="Nil"/>	<input type="text" value="Rights Issue"/> <input type="text" value="Nil"/>
<input type="text" value="Bonus Issue"/> <input type="text" value="Nil"/>	<input type="text" value="Private Placements"/> <input type="text" value="20,000,000"/>

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

<input type="text" value="Total Liabilities"/> <input type="text" value="252,870"/>	<input type="text" value="Total Assets"/> <input type="text" value="252,870"/>
Sources of Funds	
<input type="text" value="Paid up Capital"/> <input type="text" value="45000"/>	<input type="text" value="Reserves &amp; Surplus"/> <input type="text" value="NIL"/>
<input type="text" value="Secured Loans"/> <input type="text" value="54529"/>	<input type="text" value="Unsecured Loans"/> <input type="text" value="Nil"/>
Application of Funds	
<input type="text" value="Net Fixed Assets"/> <input type="text" value="15,001"/>	<input type="text" value="Investments"/> <input type="text" value="Nil"/>
<input type="text" value="Net Current Assets"/> <input type="text" value="75,567"/>	<input type="text" value="Misc. Expenditure"/> <input type="text" value="611"/>
<input type="text" value="Accumulated Losses"/> <input type="text" value="3,722"/>	

## ISE SECURITIES & SERVICES LIMITED

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

Turnover	34,127	Total expenditure	38,553
Profit before Tax	(4,426)	Profit after Tax	(4,626)
Earnings per share	(1.03)	Dividend Rate	NA

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

Item Code No.	Product Description
NIL	NIL

15. Prior year figures are regrouped wherever necessary. The amounts 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

Rajesh Shah  
Partner

M. R. Mayya  
Chairman

V. Shankar  
Managing Director

Joseph Massey  
Director

Chirag Shah  
Asst. Company  
Secretary

Mumbai, dated 29 August, 2002

Mumbai, dated 28 August, 2002

For Inter-connected Stock Exchange of India Limited

Company Secretary

## AUDITORS' REPORT

THE MEMBERS OF  
ISE Securities & Services Ltd.

We have audited the attached Balance Sheet of ISE SECURITIES & SERVICES LIMITED, as at 31st March, 2002 and also the Profit and Loss Account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluation the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. We 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 31st March, 2002 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 affairs of the company, as at 31st March, 2002.

and

ii) In the case of the Profit and 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 31st 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 31st October, 1998.

v. In our opinion and according to the information and explanations given to us, *the internal control procedures in respect of securities purchased / sold on behalf of clients and securities acquired by the Company incidental to its operations need to be strengthened to make them commensurate with the size of the company and nature of its business.* 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. *The company does not have any internal audit system.*
- 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<sup>st</sup> March, 2002 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 accepted 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 clauses (iii) to (vi), (ix), (xii), (xiv) and (xvi) of paragraph 4(A), clause (ii) to (iv) of paragraph 4(B), clause (ii) of paragraph 4(C) and clauses (ii) to (iv) of paragraph 4(D) of the MOACARO Order, 1988, as in our opinion and according to the information and explanations given to us, these clauses 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 29, 2002

for A. J. SHAH AND COMPANY,  
CHARTERED ACCOUNTANTS.

(RAJESH SHAH)  
PARTNER

**INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED**

Registered Office: International Infotech Park, Tower 7, 5<sup>th</sup> floor, Sector 30, Vashi,  
Navi Mumbai - 400 703

Attendance Slip for the Fourth Annual General Meeting of the Members of  
Inter-Connected Stock Exchange of India Limited on Monday September 30, 2002

I record my presence at the fourth Annual General Meeting of the Members of Inter-  
Connected Stock Exchange of India Limited held 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 on Monday September 30, 2002 at 2.30 p.m.

Name	
Representative of	
Signature of the representative	
Signed this	day of September 2002

Encl: Certified copy Resolution passed by the Board of Stock  
Exchange is produced herewith.

NOTE: You are requested to sign and hand over this attendance Slip at the venue of the  
Meeting