

DIRECTORS' REPORT

The Members,
Ludhiana Stock Exchange Limited
Ludhiana.

Your Directors present the twenty fourth Annual Report together with Balance Sheet & Profit & Loss Account of Ludhiana Stock Exchange for the year ended 31st March, 2006.

1. (a) FINANCIAL PERFORMANCE

The Financial highlights of the Stock Exchange for the year under review as compared to the previous year are summarized below:

PARTICULARS	Rs. (in lacs)	
	31.03.2006	31.03.2005
Profit Before Depreciation, Interest ,Tax and appropriations	3.72	162.76
Depreciation	28.25	40.08
Interest	1.14	-
Contribution to Customer Protection Fund	0.41	0.47
Profit Before Tax	(26.08)	122.21
Provision for Taxation	15.24	-
Profit after tax	(41.32)	122.21
Balance brought forward from previous years	-	(105.48)
Balance available for appropriation	(41.32)	16.74
Appropriations		
a. Income of SGF transferred to Fund Account	14.55	15.39
b. Transferred to Reserve for Investor Services Fund	8.29	17.59
c. Transferred to Capital Reserve	32.50	-
d. Adjusted to General Reserve	-	(16.25)
Balance carried to Balance Sheet	(96.66)	Nil

1. (b) CONSOLIDATED FINANCIAL PERFORMANCE

PARTICULARS	(Rs. in lacs)	
	31.03.2006	31.03.2005
Profit Before Depreciation, Interest, Tax ,Minority Interest & Appropriations	174.78	323.05
Depreciation	55.69	58.00
Interest	1.14	-
Contribution to Customer Protection Fund	0.41	0.47
Profit before Tax & Minority Interest	117.54	264.58
Provision for Taxation	67.81	56.30
Less : Income Tax adjustment for earlier years	-	7.29
Profit after tax & before minority interest	49.73	200.99
Minority's interest	43.10	33.93
Profit after tax and Minority interest	6.63	167.06
Balance brought forward from previous years	(2.73)	(140.66)
Balance available for appropriation	3.90	26.40
Appropriations		
a. Proposed Dividend	12.32	4.84
b. Corporate Dividend Tax thereon	3.89	1.53
c. Income of SGF transferred to Fund Account	14.55	15.39
d. Transferred to Reserve for Investor Services Fund	8.29	17.59
e. Transferred to Capital Reserve	32.50	6.01
f. Adjusted to General Reserve	-	(16.25)
Balance carried to Balance Sheet	(67.65)	(2.73)

2. INDIAN ECONOMY

The Indian Economy, which is the fourth largest economy in the world, is on the fulcrum of an ever increasing growth curve with positive indicators such as stable 8% annual growth, rising Foreign Exchange reserves of close to US\$ 165 billion, a booming capital market with the "Sensex" crossing magical figure of 12000, Foreign Direct Investment (FDI) close to US\$ 8 billion, Foreign Institutional Investment touching US\$ 10.7 billion in the calendar year 2005 and more than 20% surge in exports. Indian Economy is also the second fastest growing economy in the world, next to China. Rising inflation did cause some setbacks to the economy, yet the fundamentals of the economy remained strong but stable. This is also because of handsome performance of the corporate sector and owing to foreign investment flows and external commercial borrowings and more importantly, the Almighty for showering good monsoon this year as well.

3. CAPITAL MARKET

a) Policy issues

The Market regulator, SEBI continued with the policy initiatives for reforms in the capital market during the year 2005-06. The important regulatory changes undertaken by SEBI during the year were:

- I. Amendment in Clause 40A of equity listing agreement, wherein all the companies were advised to maintain minimum public shareholding upto 25%. Moreover, companies, which were not having minimum public shareholding, were allowed to increase the public shareholding upto that limit, with the permission of Specified Stock Exchange.
- II. SEBI (DIP) Guidelines, 2000 were amended to provide for IPO, wherein it was advised that an unlisted company making an IPO of equity shares or any other security which may be converted into or exchanged with equity shares at a later date may opt to obtain grading for such an IPO from one or more credit rating agencies.
- III. Companies incorporated outside the country can now raise resources from the Indian Capital market, as Government has notified norms for issue of Indian Depository Receipts (IDRs). SEBI has introduced New chapter VI A regarding issue of Indian Depository Receipts in DIP Guidelines, 2000. Rules and the Listing agreement for Indian Depository receipts have also been framed.
- IV. PAN has been made mandatory for transacting in the Cash market, Futures & Options market and also as for operating a Beneficiary Owner (BO) Account in the Depository system.

b) Primary Market

A large number of companies came out with public issues, noteworthy among them were M/s. PVR Ltd., Pyramid, Yes Bank, Allahabad Bank Reliance Petroleum Ltd etc. 71 IPOs hit our markets thereby raising Rs.23676 crores from the market during the year 2005-06. Out of these IPOs, 34 are being traded at premium and 37 IPOs below the issue price. Trading below issue price raises serious concerns, as investors who invest their hard earned money loose their part of their investment. In order to maintain confidence in the primary market, the concerned authorities have to bring some policy changes with regard to pricing of the issues.

c) Secondary Market

The secondary market, remained bullish throughout the year and in the process Sensex recorded all time high of 12671 in May 2006. But during the same month of May, there was heavy downfall in the market, and since then the market continue to remain in pendulum like mode. Bourses of the Country again recorded unprecedented turnover both in cash market and derivative segments. NSE recorded an average daily turnover of Rs. 6253 crores in cash segment and Rs. 19220 crores in derivative segment during financial year 2005-06, while BSE recorded an average daily turnover of Rs.3248 crores during the financial year 2005-06

4. BUSINESS PERFORMANCE AND OPERATIONAL REVIEW

Your Directors give below the business performance and operational review of your Exchange during the financial year 2005-06: -

a. Financial Results

The Stock Exchange during the year under review incurred a loss of Rs. 26.08 lacs as against surplus of Rs. 122.21 lacs for the year 2004-05. However, its profit (before charging depreciation, interest and contribution to

Customer Protection Fund), during the year, is Rs.3.72 lacs as against surplus of Rs. 162.76 lacs during the previous year.

A closer look at the Profit & Loss account reveals that income from the interest on deposits was down by Rs. 10.17 lacs because of the investment made by the Exchange in Fixed Assets. Listing fee was down by Rs. 18.14 lacs due to more and more companies opting for delisting. A loss of Rs.36.92 lacs has been debited on account of writing off the Screen Based Trading System. Further the Exchange has provided two additional liabilities of House Tax and Software vendor Claim, which has resulted in the loss for the Exchange for the current period. Other reasons for loss were increase in electricity and fuel prices, increase in administrative and other expenses, which were unavoidable and project cost of development of the Web Site of Exchange which has resulted in additional expenditure of Rs. 4.26 lacs. Exchange hopes to have a turn around during the next financial year.

b. Guarantee/Pledge for LSE Securities Ltd.

The Exchange has pledged its FDRs worth Rs.4.00 crores with banks against which the banks have given an OD Limit of Rs.75 lacs to the LSE Securities Limited (Subsidiary Company) and the bank Guarantee of Rs. 3.00 Crores. Thus, the Exchange has committed its funds to the tune of Rs.4.00 crores for LSE Securities Ltd.

c. Claim of CMC and counter claim of the Exchange

M/s CMC Ltd., the software vendor for MULTEX trading software served a legal notice to the Exchange for non-payment of the balance amount of Rs.41.10 lacs along with interest @ 18% per annum w.e.f. June 1, 2001 till the date of actual payment against the supply of the software. Thereafter, M/s CMC Ltd. filed a claim of Rs.1,25,89,100 against Ludhiana Stock Exchange through arbitration under the Arbitration & Conciliation Act 1996. The Exchange has not recognized the amount of Rs. 1,25,89,100 as claimed by CMC as liability and decided to contest the matter through arbitration. The Exchange has also lodged a counter claim of Rs.3,83,17,000. The matter is still sub – judice.

d. Claim against State Bank of India (LSE Branch)

The Exchange had provided space to the State Bank of India in its building for banking operations. The Exchange raised a bill for rent, and other facilities to SBI. The State Bank of India did not pay the said amount and contested the same in the District Sessions Court at Ludhiana. The Exchange has not provided that amount in its books of accounts because of the uncertainty in the ultimate collection. State Bank of India has since vacated the premises in May' 2005 and the Exchange is also taking up the matter with SBI to settle it amicably in near future.

e. Appeal on House Tax

The building of the Exchange is assessed by the Municipal Corporation for the purpose of house tax. The Municipal Authorities during the year 2001 added Rs.1,53,329 on account of arrears and raised a bill of Rs.11,20,756. The Exchange during the year has lodged an appeal to the Secretary, Local Bodies, Punjab Government at Chandigarh against the House Tax bill. Meanwhile, pending the appeal, the Exchange is proportionately debiting the portion of House Tax to its tenants. The Municipal Authorities have further revised the bill for the year 2005-06 to Rs. 19,02,398 as against Rs. 9,46,030 being normally paid by the Exchange. The Exchange at present is paying an amount of Rs.9,46,030 under protest. The Exchange has also preferred an appeal with the Secretary, Local bodies, Govt. of Punjab.

The appeal filed with the Principal Secretary, Local Bodies, Punjab at Chandigarh on 19.08.2005 was returned as the power has been delegated to Divisional Commissioner, Patiala. Now the fresh appeal has been filed before the Hon'ble Divisional Commissioner, Patiala regarding the stay for payment of house tax. However, pending appeal, the differential amount of Rs. 38,25,470/- has been provided in the books of accounts, as Exchange might have to pay the amount at a later date.

f. Taxation-Appeal on Income Tax Case(A.Y. 2001-2002 , A.Y.2003-2004 & A.Y.2004-05)

Your directors are pleased to inform you that the Appeals filed by Exchange against demand raised by Income Tax officer for Assessment year 2001-02, 2003-04 & 2004-05 have been decided in favour of LSE. The Income Tax department has filed an appeal with Appellate Tribunal, Chandigarh against the order of C.I.T (appeals) for A.Y 2001-02, 2003-04 and 2004-05. Exchange is pursuing all cases through its legal counsel.

The Exchange had following refund dues from Income Tax Department:

Years	Amount in Rs.
A.Y. 1998-99	2,64,719
A.Y. 2000-01	2,61,883
A.Y. 2003-04	32,75,152
A.Y. 2004-05	39,51,504
A.Y. 2005-06	37,18,040

Further during the proceedings of the case for the A.Y. 2001-02, Exchange had deposited Rs.89,00,000 with Income Tax Department as advance tax. Thus the total refund due to the Exchange was to the tune of Rs.2,03,71,298. The Exchange has received refund of Rs.2,09,69,481 as against the above said refund due which is inclusive of interest thereon.

g. Listing and Post Listing Compliance

Despite the healthy conditions in the stock markets, no company came out with Initial Public Offer from the region under Ludhiana Stock Exchange. There were however listings on the Exchange on account of amalgamation/Scheme of arrangement, preferential issues, conversion of FCCBs into equity shares etc.

As on 31st March, 2006, there were 346 companies listed with the Exchange, 222 being Regional and 124 being Non-Regional. The combined market capitalization as on 31st March, 2006 of the listed companies with the Exchange stood at Rs. 57,657 crores.

The Exchange is monitoring the compliance of post-listing requirements by the listed companies on continuous basis. A large number of companies have defaulted in complying with the various provisions of the Listing Agreement including non-payment of Listing Fees. The Exchange has been initiating suitable action against the defaulting companies like serving of show-cause notices to the companies, suspension of the trading in the scrips and initiating legal proceedings against non-compliant listed companies.

As a part of monitoring of compliance, in order to verify the existence of companies, Exchange regularly undertakes physical verification of such companies which are not complying with the provisions of listing agreement.

The trading in the scrips of 260 companies have so far been suspended on account of non-compliance to various provisions of the Listing Agreement. However, the Exchange has revoked the suspension of three companies as these companies have complied with pending post listing compliances with the Exchange.

h. Delisting

As per SEBI (Delisting of Securities) guidelines, 2003, any company which is listed at Stock Exchange having nationwide terminals i.e. Bombay Stock Exchange or National Stock Exchange etc., can get its shares delisted from other Stock Exchanges, even from its Regional Stock Exchange. In view of these guidelines, twenty-seven companies have got their shares delisted from Exchange during 2005-06. This has adversely affected the revenue of the Exchange and as a result income from listing fee during the year was down by Rs. 18,14,828 as compared to the previous year.

5. SUB DIVISION OF SHARE CAPITAL

As a part of demutualisation scheme, the members of the Exchange accorded their consent to sub-divide the share capital of the Exchange in the Extra-ordinary General Meeting of the Exchange held on 26.11.2005. The capital of the Exchange has since been sub-divided in accordance with the resolution passed by the members. Accordingly, each shareholder is eligible to get 2000 equity shares of Re 1/- each in lieu of erstwhile 1 share of Rs. 2000/- each.

Your Exchange has appointed M/s Beetal Financial & Computer Services Pvt. Ltd as its Registrar & Transfer Agent to look after the share transfer work of company both in physical and electronic mode. Shareholders, now have the option to get their shares converted into electronic form with CDSL.

Further, your Directors feel proud to mention here that the capital of Exchange has been admitted with CDSL under ISIN no. INE562H01016. So far, 91 members have been allotted 2000 shares of Re. 1/- each in electronic form by way of "Corporate Action".

6. WEB SITE OF THE STOCK EXCHANGE

Your Directors feel proud to announce that Exchange has got developed its own Web Site for the benefit of its members and investing public at large under the domain name of www.lse.co.in. The site boasts of voluminous information on various aspects of capital market like market commentary, Fundamental Research, Equity ideas, Frequently Asked Questions on Derivatives, Depository, Primary and Secondary market, valuable data on rights and bonus issues and other investors related material etc. The website also provides information about listed companies, suspended companies, delisted companies, registered members of the Exchange, news about happening at LSE and its subsidiary regularly. The Website has also enabled the investors to trade through LSE Securities Limited via Internet Trading module. Trading volumes through Internet has reached an average of Rs. 1 crore daily and are likely to increase further. This website has also proved to be of immense help to the students, research fellows of various Universities and colleges and investing public at large.

The Exchange has availed the Services of “Capitaline Plus “ from Capital Market Publishers India Pvt. Ltd. for the benefit of investors and its members. It provides the complete database about the companies, their history, trading detail of scrips of companies both at NSE & BSE, analysis, product wise information etc.

7. EDUCATIONAL INITIATIVE

Your Directors feel further delighted to inform you that the Exchange has started the Certification Programme in Capital Market in association with Centre for Industry Institute Partnership Programme, Panjab University, Chandigarh w.e.f. 28th February 2006. With the launching of this Programme, your Exchange became the first Regional Stock Exchange in the country to start this kind of Programme. Till date, Exchange has successfully completed three batches of Certification Programme in capital market in a row. Each batch consisted of around 50 participants. The Exchange has been receiving encouraging response from the general public. Exchange has future plans to launch short term courses on other related topics like Fundamental Analysis, Technical Analysis, Finance for Non-finance executives etc.

8. MANAGEMENT DISCUSSION AND ANALYSIS

(a) Change in character & name

Pursuant to the Scheme of Demutualisation , your company has been converted into “For profit Organisation” from “Not for profit Organisation”. Accordingly, the name of your company was changed from “The Ludhiana Stock Exchange Association Limited” to “Ludhiana Stock Exchange Limited”, so that the name should depict its profit making character. Your company has now come under the purview of Income Tax Act, 1961 and is liable to pay tax w.e.f.16.12.2005.

(b) Demutualisation

SEBI vide its notification No. 1317 (E) approved and notified the Demutualisation Scheme of Ludhiana Stock Exchange on 15th Sep., 2005. Pursuant to the Scheme of Demutualisation, Ludhiana Stock Exchange amended its Memorandum and Articles of Association, which were approved by the members of the Exchange. 15th Dec., 2005 was fixed as “due date” for implementation of scheme of demutualisation. As a part of implementation of scheme of Demutualisation, four Brokers Directors vacated the office of Directorship and the share capital of Exchange was sub-divided into 10,00,000 Equity shares of Re. 1/- each. However, the dilution of 51% stake to public will be completed within the prescribed period, once the SEBI issues guidelines on the matter.

9. FUTURE OUTLOOK

Future of Regional Stock Exchanges in context of report of a SEBI committee

SEBI constituted a Committee to study the future of Regional Stock Exchanges in Post Demutualisation scenario. The Committee was chaired by Sh. G. Ananthraman, Whole Time Member, SEBI. The terms of reference of the Committee were “**to review and examine the future role of the Regional Stock Exchanges and their subsidiaries, Post Demutualisation, keeping in view the legal requirements of the Securities Contracts (Regulation) Act, 1956.**”

As per the report of SEBI:

1. The RSEs which do not want to continue as Exchanges should be given an exit option.
2. RSEs which have potential and willingness to participate in alternate trading platform, should be continued.
3. Recognition should be withdrawn for such RSEs which are notorious for indiscipline.

Your Exchange has already made representation to SEBI regarding the fact that LSE has the potential and willingness to participate in any alternative trading platform as per guidelines of SEBI and wish to continue its

business. Further, LSE is a compliant Stock Exchange and is following Rules, Regulations and procedures in the true spirit of law.

RSEs whose recognition is not withdrawn, has compulsorily to adopt anyone of the following business models:

i) Proposal of BSE:

All eligible trading members of RSEs would be eligible to trade thru "BOLT". The trading member would be able to issue "Contract Notes" in their own names. The respective RSEs would act as Clearing Member. BSE would have restriction on new members as well as territorial restrictions. BSE has asked deposit of Rs. 10 crores per Exchange against which suitable exposure would be allowed and there would be an agreement between BSE, RSEs and TMs. Other terms & conditions would be mutually decided by BSE and RSEs.

ii) Proposal of ICSE:

ICSE would create a common trading platform in association with RSEs. The RSEs would create a common Clearing Corporation. All the members of RSEs would participate as trading member. The members need not have separate SEBI registration.

iii) Proposal of NSE

A third national level exchange can be successfully created by the merger of all the RSEs into a single unified entity. NSE will consider participating in the equity of such an exchange and help play a developmental role in making such an exchange a success. All the trading, clearing and settlement functions of such a national level exchange can be handled by the RSEs (through a single platform) and activities such as listing compliances, member compliances and investor grievances etc. can be contracted out at the local level. Subsidiaries of RSEs need to be spun off their parent exchanges and shall be provided a level playing field similar to other broking entities in all aspects including the participation of subsidiaries in the derivatives segment.

Latest Status:

The proposal of BSE is acceptable to Ludhiana Stock Exchange except certain issues like the quantum of deposit to be made and restriction on new membership posed by BSE, which is being taken up by Exchange with FISE and BSE. Your directors are in continuous touch with other Stock Exchanges to explore the possibilities of revival of LSE. In case any of the model does not click because of any reason, LSE would still prefer to have its own trading platform so as to continue to provide value added services to the investors located in the region. The outlook is possible as your directors are hopeful of revival of your Exchange.

10. FUTURE OF SUBSIDIARY

As per report of SEBI, the future of subsidiaries is interlinked with survival of Regional Stock Exchanges (RSEs). In case of withdrawal of recognition of RSE, subsidiary would have to change its name and style. However in any other case, Subsidiary may carry its broking operation as any other broking entity, but RSE would cease to have shareholding in subsidiaries within a span of three years. However, RSE may have shareholding of not more than 15% in subsidiary company. SEBI may also consider turnover continuity benefit to the new entity.

11. FULFILLING SOCIAL RESPONSIBILITY

The Exchange is contributing to the society by providing training to the students of various streams i.e. MBA, M.Com., M.F.C., B. Tech., MCA etc. so as to enable them to become future leaders, professionals and entrepreneurs of the country. The Exchange provides the best of infrastructural facilities to the students such as fully equipped classrooms, Audio-Visual presentations, study material etc and top class faculty from the industry. Your Exchange will continue in its efforts towards this noble endeavor in future also.

12. SECURITIES MARKET AWARENESS CAMPAIGN (SMAC)

Continuing with the momentum of organizing Investors workshops, the Exchange organized more than 50 Investor Awareness Workshops under the aegis of Securities Market Awareness Campaign in various parts of Punjab, H.P. & U.T. of Chandigarh during the financial year 2005-06. It was a massive exercise of Investor's Interface undertaken by the Exchange. The Exchange officials during these workshops informed the investors about their Rights, Responsibilities and Dos & Don'ts for dealing in the stock market. Investors appreciated the role of Exchange in taking this initiative for their welfare and protection. The main message during these workshops has been "Invest with Knowledge" and "An educated investor is a successful investor."

The Exchange during the year also issued series of advertisements in the interests of investors through the print and electronic media in English and Punjabi language. The contents of these advertisements were

prepared in simple but lucid language. Your Exchange also distributed educative material for the workshops for the benefit of retail investors. As a part of Securities Market Awareness Campaign, Exchange organized Investor awareness workshops for army officials at Ferozpur and for senior Police officials of Ludhiana city who appreciated the initiatives of the Exchange for educating the masses about securities market. The detail of the Investor awareness workshops organized during the year is given as per 'Annexure 'C'.

13. INVESTOR SERVICE CENTRE

The Exchange continues to provide value added services to the investors through its Investor Service Centre at Ludhiana and other regional centres located at Amritsar, Jalandhar and Chandigarh. A service centre is being opened shortly. The Exchange is providing following services to the investors through its service centres:

- (i) Terminals for live trading of BSE and NSE
- (ii) Depository Services
- (iii) PAN Service Centre
- (iv) Supply of Investor Education Study Material
- (v) Books, periodicals on capital Market and leading financial dailies

Your directors are committed to provide still better services to the investors through these centres.

14. FORMATION OF INVESTOR ASSOCIATION

Your directors are pleased to inform you that your Exchange has facilitated formation of an Investor Association in Ludhiana under the name "Ludhiana Retail Investors Association". The Association came into being with the co-operation of enlightened citizens of this city. This association is now in the process of getting itself registered as society and the bye laws of the association have been approved. The membership of this association is increasing day by day. We sincerely hope that this association would further strengthen the cause of investors and provide a strong platform to the investors for grievance redressal mechanism and securities market awareness.

15. STATUS OF SUBSIDIARY COMPANY (LSE SECURITIES LIMITED)

a) General Overview

Your Subsidiary Company i.e. the LSE Securities Limited has continued with outstanding performance during the year 2005-06. The company has earned profit after tax amounting to Rs. 97.15 lacs, thus registering a growth of 23.32% in the current year as compared to previous year. During the year under review, the company has fully implemented SEBI (Stock brokers & Sub Brokers) (Amendments) Regulations, 2003 and is now having direct dealings with all the clients of its sub-brokers. The Funds & Securities obligations of all the registered clients are being directly settled by the company. Apart from this, the company has started e-Broking services for its clients and it is increasing the geographical reach of the company across the country and is expected to further increase in the number of broking clients and turnover of the company. The company has also started providing services of Authorized PAN Service agent.

b) Trading at NSE and BSE (Capital Market)

During the year under review, the subsidiary company has recorded a turnover of Rs. 8613 crores and Rs. 4920 crores in Capital Market Segment of the National Stock Exchange and Bombay Stock Exchange respectively. As on 31.03.2006, there has been total 137 SEBI registered Sub- Brokers of the company registered with NSE and 89 SEBI registered Sub-brokers in BSE.

c) F&O Segment of NSE

During the year, under review the subsidiary company has recorded a turnover of Rs. 27343 crores in the Future & Options Segment of National Stock Exchange as compared to Rs. 25708 crores trade volumes during the corresponding previous year, thus registering a net rise of 6.35% during the year.

d) Depository Participant Services

The Depository participant (DP) business is continuing to emerge as a good profit center for the subsidiary company and it has successfully been able to increase the DP business by encashing its institutional image in the market. As on 31.03.2006, the subsidiary company has 25344 and 6713 number of account holders with NSDL & CDSL respectively as against figure of 22639 and 1497 accounts during the corresponding previous year, thus registering a net growth of 7921 accounts during the year.

Further, in order to provide satisfactory and timely DP services to its clients in Himachal Pradesh, the company has finalized location for its new DP branch at Una. The branch will become fully operational very soon.

(e) Statement regarding Subsidiary Company

Statement pursuant to Section 212 of the Companies Act, 1956 relating to aforesaid subsidiary is given as per annexure 'A'

16. DIRECTORS

(a) Broker Members

Sh. Jaspal Singh, Sh. Rajnish Garg, Sh. Manoj Sarna and Sh. Shobit Kumar Sabharwal , Broker Directors have vacated the office of Directorship on 12.12.2005 pursuant to the Scheme of Demutualisation.

Sh. Ravinder Kumar Bansal, Director would be retiring pursuant to article 107 of the Articles of Exchange read with Sec. 256 of The Companies Act, 1956. Your Directors place on record their appreciation for sincere and dedicated services rendered by these gentlemen as Directors on the Board of Directors of the Exchange, as the Exchange stood immensely benefited by their vast experiences.

(b) Public Representatives

During the year, Prof. Rajinder Bhandari, Sh. D.K .Malhotra and Sh .G. S .Bains continued as Public Representative Directors on the Board of Exchange. Sh. Rajiv Dewan, Public Representative resigned from the office of the Board of Exchange due to his pre-occupations, and his resignation was accepted by the Board and the same was forwarded to SEBI.

Your directors place on record their appreciation for sincere and dedicated services rendered by all the Public Representatives. The Exchange stood benefited by their vast experience and meaningful deliberations in the Board meetings.

(c) SEBI NOMINEES

Sh. S.C. Aggarwal, Principal Secretary, Department of Industries and Commerce, Govt. of Punjab, is continuing as SEBI Nominee in terms of Article 96 of the Articles of the Association of the Exchange. SEBI has also nominated Sh. Manmohan Juneja, Registrar of Companies, Punjab, H.P. & Chandigarh at Jalandhar as its Nominee in place of Sh. Har Lal who has since been transferred.

Your Directors place on record their appreciation for sincere and dedicated services rendered by SEBI Nominees on the Board of Directors of the Exchange.

17. DIVIDEND

Due to the company incurring loss, the directors express their inability to recommend any dividend for the period under consideration.

18. COMMITTEE OPERATIONS

Various Committees constituted by the Board of Directors such as Arbitration Committee, Defaults Committee, Disciplinary Committee, Facilities Management Committee, Investor Services Committee, Audit Committee, Ethics Committee, Delisting Committee, Computer Committee, Management Sub Committee and Sub Committee for compliance of SEBI Inspection Report etc. played an important role in the efficient performance of functions of the Exchange by providing valuable guidance to the Administration from time to time.

19. PARTICULARS OF EMPLOYEES

Pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, none of the employees is in receipt of remuneration, which requires disclosure under the said Section.

20. AUDITORS

M/s S.C. Vasudeva & Co., Chartered Accountants and the Statutory Auditors of the Exchange, retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

21. FIXED DEPOSITS

The Exchange has not accepted Fixed Deposits from the Public and is therefore, not required to furnish information in respect of outstanding deposits under the Non Banking, Non Financial Companies (Reserve bank) Directions, 1996 and Companies(Acceptance of Deposits) Rules 1975.

22. AUDITORS' REPORT

The auditors have observed at para 4(f) in their report regarding the method of providing contribution to SEBI. The Company is contributing five percent of the listing fee received during a year to SEBI. The Exchange has provided the contribution on the basis of actual amount of listing fee received.

23. CORPORATE GOVERNANCE

Though it is not necessary for the Exchange to comply with the requirements of Corporate Governance, yet the Exchange has persistently been observing high standards of Corporate Governance. As a part of good governance practice, your Exchange is complying with the important requirements of Corporate Governance with regard to the composition of Audit Committee.

The Audit Committee is headed by Sh. R. K. Bansal, Broker Director who is also a qualified Chartered Accountant. Other members of the Audit Committee are Prof. Rajinder Bhandari, Public Representative, Sh. G.S. Bains Public Representative, Sh.Rajnish Garg, Broker Member (Qualified Chartered Accountant & Company Secretary), Sh. Jaspal Singh, Broker Member and Sh. H.S. Sidhu, Executive Director. The Audit Committee has reviewed the Final Accounts of the Exchange before submission to the Board for its consideration.

Further, the Investor Services Committee is headed by Sh. D.K. Malhotra, who is a Retired Joint Director (Prosecution & Litigation), Punjab. All Statutory Committees viz. Arbitration, Disciplinary, Defaults and Investor Services Committees, are headed by an Independent Director and have a ratio of 20:80 between Broker Directors and Public Representatives.

The names of members of Board of Directors, their attendance at the Board meeting and the number of their directorships is given as per Annexure 'B'.

24. HUMAN RESOURCES

We refer to our employees as our esteemed "associates" and "valuable assets". Our success largely depends on our ability to attract and retain the best of talent in the industry. Your Exchange always endeavours to provide such an environment that each & every employee is motivated to contribute his/her best so as to achieve the objectives of the Organization. Your Exchange continues to provide top most priority for training job rotation & workshops so as to achieve the dual objectives of employee and employer improvement.

Your Directors also place on record their heartiest appreciation for the sincere, devoted and dedicated services rendered by the staff for the smooth functioning of the Exchange and implementation of new systems required by the structural changes brought in the Capital Market by SEBI.

25. CONSERVATION OF ENERGY

The Company is engaged in providing infrastructure for sale and purchase of securities and has no activity pertaining to manufacturing and as such furnishing of details regarding conservation of energy is not applicable.

26. TECHNOLOGY ABSORPTION

The particulars as prescribed under sub section (1)(e) of section 217 of the Companies Act 1956, read with the Companies (Disclosures of Particulars in the report of Board of Directors) Rules, 1988, in respect to Technology absorption are Nil.

27. FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars as prescribed under sub section (1)(e) of section 217 of the Companies Act 1956, read with the Companies (Disclosures of Particulars in the report of Board of Directors) Rules, 1988, in respect to Foreign Exchange earnings and outgo are Nil.

28. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, the Directors confirm that:

(a) in the preparation of the annual accounts, the applicable Accounting Standards have been followed.

- (b) appropriate accounting policies have been selected and applied consistently and judgments and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Exchange as at 31st March, 2006 and of Profit and Loss of the Exchange for the year ended on 31st March, 2006.
- (c) 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 Exchange and for presenting and detecting fraud and other irregularities, and
- (d) The annual accounts have been prepared on going concern basis.

29. ACKNOWLEDGEMENT

Your directors at this point take this opportunity to thank all the members and investors of the Exchange for their continued support. Your directors wishes to place on record their gratitude for the kind co-operation, assistance, and continued support to the Exchange by the officials of the Ministry of Finance, Central Government, Registrar of Companies, the Securities and Exchange Board of India, the Reserve Bank of India, the Government of Punjab, Local Administration, the National Stock Exchange of India Limited (NSEIL), The Bombay Stock Exchange Limited (BSE) and other Stock Exchanges, the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL), The Federation of Indian Stock Exchanges (FISE) and other business associates.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

PLACE : Ludhiana
DATED : 17.08.2006

(H.S. Sidhu)
Executive Director

(R K Bansal)
Director

(Rajinder Bhandari)
P R Director

Annexure to the Directors Report

Statement pursuant to Section 212 of The Companies Act, 1956 relating to subsidiary company.

Name of Subsidiary Company	Financial year to which Accounts relate	Holding Company's interest as at close of Financial year of Subsidiary Company		Net aggregate amount of Subsidiary Company's Profits after deducting its losses or vice-versa, so far as it concerns Members of Holding Company which are not dealt within the Company's Account (Rupees in lacs)	Net aggregate amount of Subsidiary Company's Profits after deducting its losses or vice-versa, dealt within the Company's Account	Holding Company's interest as at 31.03.2006 incorporating changes since close of Financial year/ period of Subsidiary Company
		i) Share holding	ii) Extent of holding			
LSE Securities Limited	31.03.2006	30,89,700 shares of Rs.10 each	55.62%	73.91	NIL	N.A.

Annexure to the Directors Report

No. of Board Meetings held and attended by the Directors during the Financial year 2005 - 06**Meetings held during the year : 6**

Name of Director	Directorship held as	No of Board meetings held	No of Board meetings attended
Sh. Dina Nath Sharma	Non-Broker Member	1	1
Sh. H.S. Sidhu	Executive Director	6	6
Prof. Rajinder Bhandari	Non-Broker Member	6	6
Dr. Ajit Singh Dua	Non-Broker Member	1	1
Dr. O.P. Sahni	Non-Broker Member	1	1
Sh. G.S. Bains	Non-Broker Member	5	5
Sh. Rajiv Dewan	Non-Broker Member	5	3
Sh. D.K. Malhotra	Non-Broker Member	5	5
Sh. Jaspal Singh	Broker Member	5	5
Sh. R.C. Singal	Broker Member	3	2
Sh. Rajnish Garg	Broker Member	5	3
Sh. R.K. Bansal	Broker Member	6	6
Sh. Manoj Sarna	Broker Member	5	4
Sh. S.K. Sabharwal	Broker Member	5	2
Sh. Sanjeev Kumar Gupta	Broker Member	3	3
Sh. Har Lal, RoC	SEBI nominee	5	2
Sh. S.C Aggarwal	SEBI nominee	6	---
Sh. D.C. Kwatra, RoC	SEBI nominee	1	---

Following is the list mentioning the attendance of members in various committees of the Exchange.

Management Sub-Committee : Meetings held during the year : 5

Name of Member	Membership held as	No of meetings held	No of meetings attended
Sh. Dina Nath Sharma	Non-Broker Member	3	3
Sh. H.S. Sidhu	Executive Director	5	5
Dr. O.P. Sahni	Non-Broker Member	1	1
Dr. Ajit Singh Dua	Non-Broker Member	1	1
Prof. Rajinder Bhandari	Non-Broker Member	5	4
Sh. G.S. Bains	Non-Broker Member	4	4
Sh. Rajiv Dewan	Non-Broker Member	4	----
Sh. D.K. Malhotra	Non-Broker Member	4	4
Sh. Jaspal Singh	Broker Member	1	1

Audit Committee: Meetings held during the year: 5

Name of Member	Membership held as	No of meetings held	No of meetings attended
Sh. R.K. Bansal	Broker Member	5	5
Sh. H.S. Sidhu	Executive Director	5	5
Sh. Ajit Singh Dua	Non-Broker Member	4	4
Sh. O.P. Sahni	Non-Broker Member	3	3
Prof. Rajinder Bhandari	Non-Broker Member	5	5
Sh. G.S. Bains	Non-Broker Member	1	1
Sh. Rajiv Dewan	Non-Broker Member	2	----
Sh. Jaspal Singh	Broker Member	2	1
Sh. Rajnish Garg	Broker Member	5	1
Sh. Manoj Sarna	Broker Member	3	----

SEBI Inspection Committee: Meetings held during the year: 4

Name of Member	Membership held as	No of meetings held	No of meetings attended
Sh. Dina Nath Sharma	Non-Broker Member	3	3
Sh. H.S. Sidhu	Executive Director	4	4
Prof. Rajinder Bhandari	Non-Broker Member	4	4
Sh. Sanjeev Kumar Gupta	Broker Member	1	---
Sh. Jaspal Singh	Broker Member	4	3
Sh. D.C. Kwatra, RoC	SEBI Nominee	3	---
Sh. Har Lal, RoC	SEBI Nominee	1	---

Delisting Committee: Meetings held during the year : 2

Name of Member	Membership held as	No of meetings held	No of meetings attended
Sh. Dina Nath Sharma	Non-Broker Member	1	1
Sh. H.S. Sidhu	Executive Director	2	2
Sh. Har Lal, RoC	SEBI Nominee	2	1
Dr. O.P. Sahni	Non-Broker Member	1	1
Dr. Ajit Singh Dua	Non-Broker Member	1	---
Secretary, ICSI, Ldh Chapter	Non-Broker Member	2	2
Sh. D. K. Malhotra	Non-Broker Member	1	1
Sh. R.K. Bansal	Broker Member	2	2
Sh. R.C. Singal	Broker Member	1	1
Sh. G. S. Bains	Non -Broker Member	1	1
Sh. Jaspal Singh	Broker Member	1	1

Investor Service Committee: Meetings held during the year: 12

Name of Member	Membership held as	No of meetings held	No of meetings attended
Sh. Dina Nath Sharma	Non-Broker Member	12	12
Sh. H.S. Sidhu	Executive Director	12	9
Prof. Rajinder Bhandari	Non-Broker Member	12	11
Sh. Jaspal Singh	Broker Member	12	7
Sh. S. K. Sabharwal	Broker Member	12	4
Sh. R.C. Singal	Broker Member	12	4
Sh. O.P. Sahni	Non-Broker Member	12	12

Ethics Committee: Meetings held during the year: 4

Name of Member	Membership held as	No of meetings held	No of meetings attended
Sh. H.S. Sidhu	Executive Director	4	4
Dr. O.P. Sahni	Non-Broker Member	2	1
Prof. Rajinder Bhandari	Non-Broker Member	4	3
Dr. Ajit Singh Dua	Non-Broker Member	2	1
Sh. G. S. Bains	Non-Broker Member	2	2
Sh. R.C. Singal	Broker Member	2	2
Sh. Sanjeev Kumar Gupta	Broker Member	2	2
Sh. Jaspal Singh	Broker Member	4	4

'Annexure C'

Investors Awareness workshops conducted by Exchange during the year

S. N.	Venue of the Workshop	Date
1.	Jahu, H.P.	03-04-2005
2.	Hamirpur, H.P.	04-04-2005
3.	L. S. E. Ludhiana	18-04-2005
4.	Doraha Institute of Management & Technology	21-04-2005
5.	Lovely Institute of Management & Technology	27-04-2005
6.	Kangra	14-05-2005
7.	Mandi Gobindgarh	21-05-2005
8.	Phagwara	28-05-2005
9.	M. Com Students	25-06-2005
10.	Gurdaspur	30-06-2005
11.	G. N.I.M.T. Ludhiana	16-07-2005
12.	Solan	23-07-2005
13.	M. B. A. Students	30-07-2005
14.	RIMT Mandi Gobindgarh	01-08-2005
15.	Solan	05-09-2005
16.	Govt. College Mukatsar	12-09-2005
17.	Army Cant. Ferozepur	17-09-2005
18.	Guru Nanak College, Ludhiana	20-09-2005
19.	Eastern University, Sri Lanka	28-09-2005
20.	Nauni Solan	01-10-2005
21.	RIMT Mandi Gobind Garh	04-10-2005
22.	Lovely institute Phagwara	06-10-2005
23.	Gujarkhan Campus	06-10-2005
24.	Chandigarh College of Engineering Mohali	10-10-2005
25.	Arya College for Boys	14-10-2005
26.	P. C. T. E Baddowal	14-10-2005
27.	Appejay Institute of Management, Jalandhar	12-11-2005
28.	RIMIT Mandi Gobindgarh	19-11-2005
29.	Sarhali Engineering College	28-11-2005
30.	GNA Institute of Mgt. & Technology, Phagwara	02-12-2005

31.	Appejay Institute of Management, Jalandhar	18-12-2005
32.	Jalalabad, Dist: Mukatsar	23-12-2005
33.	Punjabi University Talwandi Sabo Campus	10-01-2006
34.	Aurobindo College of Commerce & Management	23-01-2006
35.	Rayat Institute of Management	24-01-2006
36.	Dharamshala	25-01-2006
37.	Govt. Sr. Sec. School, Jagraon	31.01.2006
38.	Punjabi University, Patiala	02.02.2006
39.	Hindu College, Amritsar	07.02.2006
40.	Guru Nanak Girls College, Model Town, Ldh.	09.02.2006
41.	GCW, Ludhiana	09.02.2006
42.	KMV, Jalandhar	10.02.2006
43.	HMV, Jalandhar	13.02.2006
44.	Mata Gujri College, Fatehgarh Sahib	27.02.2006
45.	RIMT-IMCT, Mandi Gobindgarh	09.03.2006
46.	ICSI, Ludhiana & LSE	11.03.2006
47.	Abohar	16.03.2006
48.	Lovely Institute of Management, Phagwara	21.03.2006
49.	BNSM College, Alamgir	22.03.2006
50.	Gyan Jyoti Institute of Mgmt. & Tech. Mohali	25.03.2006
51.	ICSI, Chandigarh	26.03.2006
52.	STEP, Ludhiana	26.03.2006
53.	Punjabi University, Patiala	30.03.2006