

DIRECTORS' REPORT

To

The Members,
Ludhiana Stock Exchange Limited
Ludhiana.

Your Directors present the twenty fifth Annual Report together with Balance Sheet & Profit & Loss Account of Ludhiana Stock Exchange for the year ended 31st March, 2007.

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)	
	31.03.2007	31.03.2006
Profit Before Depreciation, Interest ,Tax and appropriations	122.36	3.72
Depreciation	25.88	28.25
Interest	--	1.14
Contribution to Customer Protection Fund	0.17	0.41
Profit Before Tax	96.31	(26.08)
Provision for Taxation	24.61	15.24
Profit after tax	71.70	(41.32)
Balance brought forward from previous years	(96.66)	-
Balance available for appropriation	(24.96)	(41.32)
Appropriations		
a. Income of SGF transferred to Fund Account	12.87	14.55
b. Transferred to Reserve for Investor Services Fund	3.33	8.29
c. Transferred to Capital Reserve	--	32.50
d. Adjusted to General Reserve	--	-
Balance carried to Balance Sheet	(41.16)	(96.66)

1. (b) CONSOLIDATED FINANCIAL PERFORMANCE

PARTICULARS	(Rs. in lacs)	
	31.03.2007	31.03.2006
Profit Before Depreciation, Interest, Tax ,Minority Interest & Appropriations	286.68	174.78
Depreciation	57.65	55.69
Interest	--	1.14
Contribution to Customer Protection Fund	0.17	0.41
Profit before Tax & Minority Interest	228.86	117.54
Provision for Taxation	75.61	67.81
Less : Income Tax adjustment for earlier years	2.87	-
Profit after tax & before minority interest	156.12	49.73
Minority's interest	44.71	43.10
Profit after tax and Minority interest	111.41	6.63
Balance brought forward from previous years	(67.65)	(2.73)
Balance available for appropriation	43.76	3.90
Appropriations		
a. Proposed Dividend on equity shares	12.63	12.32
b. Dividend on Preference Shares	0.41	
c. Corporate Dividend Tax thereon	4.84	3.89
d. Income of SGF transferred to Fund Account	12.87	14.55
e. Transferred to Reserve for Investor Services Fund	3.33	8.29
f. Transferred to Capital Reserve	-	32.50
Balance carried to Balance Sheet	9.68	(67.65)

2. INDIAN ECONOMY

The Indian Economy has been continuing its momentum of growth and all sectors of the economy especially Services sector including IT, ITES, telecom, banking and insurance etc are registering strong growth. Agriculture has been a cause of concern for the Government and is stagnating at 2.1%. The economy has been showing excellent growth which is more than 8% per annum. Rising Foreign Exchange reserves of close to US\$ 229 billion and above all, a booming capital market, Foreign Institutional Investment touching around US\$ 9.3 billion in the calendar year 2006 and exports crossing US\$ 125 billion in 2006-07, have also been the highlights of the performance of Indian economy. The performance of Indian Economy is truly reflected in Sensex, which has set new milestones. During the year, Inflation was a concern and it had risen during April-May, 2007, however, it was contained to manageable levels by the intervention of RBI through hike in interest rates, CRR and consequently inflation was brought down to around 4 percent.

3. CAPITAL MARKET

a) Policy issues

The Market regulator, SEBI continued with the policy initiatives for reforms in the capital market during the year 2006-07. The important regulatory changes undertaken by SEBI during the year were:

(i) **STIPULATION OF MINIMUM 25% PUBLIC SHAREHOLDING IN LISTED COMPANIES:**

SEBI has stipulated through amendment in the provisions of Clause 40A of the Listing Agreement, that all listed companies are required to maintain, on a continuous basis, public shareholding of at least 25% (10% minimum public share holding has also been specified for few companies, which meet the criteria as laid down in the guidelines).

(ii) **REGULATIONS ON DIS-INVESTMENT OF 51% STAKE IN RECOGNISED STOCK EXCHANGES:**

SEBI has issued Securities Contract (Regulation) (Manner of increasing and maintaining Public shareholding in Recognized Stock Exchanges) Regulations, 2006 in November, 2006 in order to provide for a regulatory framework for Dis-investment of 51% stake in Recognized Stock Exchanges in India.

(iii) **GUIDELINES FOR QUALIFIED INSTITUTIONAL PLACEMENT (Q.I.P):**

SEBI has introduced guidelines for QIPs which allows the listed companies an additional mode of raising funds from domestic markets by placements of securities with Qualified Institutional Buyers. These guidelines have been incorporated in Chapter XIII A of the SEBI (DIP) Guidelines, 2000.

(iv) **GUIDELINES FOR ANTI-MONEY LAUNDERING STANDARDS:**

SEBI has laid down broad guidelines on Anti Money Laundering Standards, wherein all the intermediaries registered with SEBI under Section 12 of the SEBI Act, 1992 were advised to ensure that a proper policy framework on anti-money laundering measures is put into place.

(v) **LISTING AGREEMENT FOR INDIAN DEPOSITORY RECEIPTS:**

Pursuant to regulations on Indian Depository Receipts, SEBI has framed Listing Agreement for Indian Depository Receipts (IDRs) at Indian Stock Exchanges.

(vi) **LAUNCHING OF CORPORATE BOND TRADING PLATFORM THROUGH NSE AND BSE:**

In order to implement the Union budget proposal on creation of a unified platform for trading of Corporate Bonds, SEBI has decided to establish, in the first phase, a system to capture all information related to trading in corporate bonds as accurately and as close to execution as possible through an authorized reporting platform. In the second phase of

development, NSE and BSE have been permitted to have nationwide access to set up a corporate bond trading platform to enable efficient price discovery and reliable clearing and settlement in a gradual manner.

(vii) **APPROVAL FOR LAUNCHING GOLD BASED EXCHANGE TRADED FUNDS:**

SEBI has allowed introduction of Gold based Exchange traded Funds by amending SEBI (Mutual Funds) (Amendment) Regulations, 2006. Gold Exchange Traded Fund schemes are permitted to invest primarily in Gold and Gold related instruments such as instruments having gold as underlying, as are specified by SEBI from time to time.

(viii) **CREDIT RATING OF INITIAL PUBLIC OFFERS :**

SEBI (Disclosure and Investor Protection) Guidelines, 2000 were amended to provide for mandatory credit rating for IPOs, wherein it was advised that an unlisted company making an IPO of equity shares will have to obtain credit rating for such an Initial Public Offer from one or more credit rating agencies.

(ix) **“PERMANENT ACCOUNT NUMBER” (PAN) AS SOLE IDENTIFICATION FOR ALL TRANSACTIONS IN SECURITIES MARKET:**

In the light of the announcement in Union Budget for 2007-08 and in order to strengthen the “Know Your Client” (KYC) norms, identifying every participant in the securities market and for ensuring sound audit trail of all the transactions, SEBI has decided that PAN would be the sole identification number for all participants transacting in the securities market, irrespective of the amount of transaction w.e.f. July 2, 2007.

b) PRIMARY MARKET

A large number of companies came out with public issues, noteworthy among them were M/s Reliance Petroleum Ltd., Tech Mahindra Ltd., Real Estate IPOs like Shobha Developers, Parsvanath Developers and IPOs of Cairns Energy Ltd., ICRA and Idea Cellular Ltd. etc. 77 IPOs hit our markets thereby raising Rs.28504 crores from the market during the year 2006-07. Average gains from IPOs, which were 38% in 2005, declined to 30% in 2006. This reflects aggressive pricing by the promoters and market regulator will have to think about it in order to save the IPO market from possible decline.

c) SECONDARY MARKET

The secondary market remained bullish throughout the year and in the process, Sensex crossed 17800 mark in September 2007. But during the months of March & August 2007, there has been heavy downfall in the market, and since then the market continued to remain in pendulum like mode. In the month of August due to downfall in Global financial markets specially the U.S. market, the Indian markets experienced heavy volatile sessions and downfall which brought Sensex below 13000 levels.

Bourses of the Country again recorded unprecedented turnover both in Capital market and future & options segments. NSE recorded an average daily turnover of Rs. 7812 crore in capital market segment and Rs. 29543 crore in Derivative segment during financial year 2006-07, while BSE recorded an average daily turnover of Rs 3865 crore (in cash segment) during the financial year 2006-07. BSE is also making sincere efforts to revive its F&O segment and once proper liquidity is imparted, it would ensure more competitive environment in the capital market of the country.

4. BUSINESS PERFORMANCE AND OPERATIONAL REVIEW

Your Directors give below the business performance and operational review of your Exchange during the financial year 2006-07: -

a. FINANCIAL RESULTS

The Stock Exchange during the year under review recorded a profit (before tax) of Rs. 96.31 lacs as against loss of Rs. 26.08 lacs for the year 2005-06. However, its profit (before charging depreciation, interest and contribution to Customer Protection Fund), during the year, is Rs. 122.36 lacs as against Rs. 3.72 lacs during the previous year, whereas after

appropriations and adjustment of previous year's loss, the profit & loss account depicts net loss of Rs.41.16 lacs.

A closer look at the profit & loss account reveals that although listing fee has been reduced by Rs. 10.16 lacs, due to more and more companies opting for delisting, but interest income has been increased by Rs 5.40 lacs.

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 and the bank Guarantee of Rs.3.00 crores to the LSE Securities Limited (Subsidiary Company).

c. CLAIM OF CMC AND COUNTER CLAIM OF THE EXCHANGE

M/s CMC Ltd. has filed a claim of Rs.1,25,89,100 against Ludhiana Stock Exchange through arbitration under the Arbitration & Conciliation Act 1996 in November, 2005. 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 in February, 2006. The matter is still sub – judice.

d. LATEST STATUS ON APPEAL ON HOUSE TAX

The Exchange filed an appeal before the Hon'ble Divisional Commissioner, Patiala regarding the stay for payment of house tax. The appeal was dismissed by the Divisional Commissioner. After dismissal of appeal, the Municipal Corporation Ludhiana sent a demand notice dated February 14,2007 for payment of arrears amounting to Rs. 47,81,843.10 along with interest amounting to Rs. 43,03,658.70 for the period 2002-03 to 2006-07, thereby total bill raised amounted to Rs.90,85,511.80. The Corporation again issued demand notice dated 05.03.2007 informing the Exchange about attachment of property under section 138 of Punjab Municipal Corporation Act, in case of failure to deposit the tax amount.

The Exchange approached the Municipal Corporation for settlement of the matter and deposited arrears amounting to Rs. 47,81,843.10 (without interest) to Municipal authorities as full & final settlement.

e. TAXATION-APPEAL ON INCOME TAX CASES (A.Y. 2001- 02, A.Y.2003-04 & A.Y.2004-05)

Orders on the appeals filed by Ludhiana Stock Exchange with Commissioner of Income Tax (C.I.T.) (Appeals) against raising a demand of Rs.2,65,88,525, Rs.2,01,51,281 and Rs.1,58,76,964 for assessment years (A.Y) 2001-02, 2003-04 and 2004-05, were passed in favour of the Exchange. The Income Tax Department further filed appeals with the Appellate Tribunal, Chandigarh against the order of C.I.T (appeals) in the above said assessment years. All the appeals have been dismissed by Income Tax Tribunal, Chandigarh and order have been pronounced in favour of the Exchange on 11.09.2007.

Proceedings of Assessment Year 2005-06

The Income Tax department has also initiated Assessment proceedings for the A.Y. 2005-06 which are being attended by Mr. K J Shelly, Advocate on behalf of the Exchange. The main observation made by ITO in all the cases is related to investment made by Exchange in subsidiary company, LSE Securities Ltd., wherein the Department has opined that such investment should not be allowed as it violates section 13 of Income Tax Act, 1961.

Central Board of Direct Taxes (CBDT) vide its notification no. 267/2006 dated 14.09.06 has amended the Income Tax Rules 1962, by inserting a new clause (v) in rule 17(C) of Income Tax Rules, 1962 so as to include investment in subsidiary company by a Recognized Stock Exchange. The amended clause reads as under:

“Investment by a Recognized Stock Exchange, in the equity shares of a company promoted by it to acquire the membership rights of other Stock Exchanges, where at least 51 percent of the paid up share capital is held by the Stock Exchange and the

balance is held by its members as an approved investment under section 11(5) read with rule 17(C).”

The amendment is effective retrospectively from the 26th day of November 1999. This amendment has strengthened the legal position of all Regional Stock Exchanges who had formed subsidiaries on the basis of instructions from SEBI.

f. 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 the jurisdiction of 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, 2007, there were 338 companies listed with the Exchange, 218 being Regional and 120 being Non-Regional. The combined market capitalization as on 31st March, 2007 of the listed companies with the Exchange stood at Rs. 12,697 crores.

The Exchange is monitoring the compliance of post-listing requirements by the listed companies on a continuous basis. Many 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 compliance monitoring, in order to verify the existence of companies, the Exchange carried out physical verification of listed companies, pursuant to which, few companies have started complying with post-listing requirements of the Exchange.

The trading in the scrips of 263 companies has so far been suspended on account of non-compliance to various provisions of the Listing Agreement. However, the Exchange has revoked the suspension of nine companies during the year as these companies have complied with pending post listing compliances with the Exchange.

g. 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, seventeen (17) companies have got their shares delisted from Exchange during 2006-07. This has adversely affected the revenue of the Exchange and as a result income from listing fee during the year was down by Rs.10.16 lacs as compared to the previous year.

5. EDUCATIONAL INITIATIVES

The Exchange has successfully completed seven batches of the Certification Programme in Capital Market in association with Centre for Industry Institute Partnership Programme, Panjab University, Chandigarh since its launch in February, 2006. The average number of participants per batch has been around forty. Participants from different cities of Punjab are attending this Programme and it is gaining popularity day by day. The participants in these batches appreciated the initiative of the Exchange for conducting these programmes. The Exchange has been receiving encouraging response from the general public regarding this educational initiative.

6. MANAGEMENT DISCUSSION AND ANALYSIS

i. LATEST STATUS OF DEMUTUALISATION

SEBI vide its notification No. 1317 (E) approved and notified the Demutualisation Scheme of Ludhiana Stock Exchange on 15th September, 2005. As a part of this Demutualization Scheme, our Exchange has completed the entire process of Dis-investment of not less than 51% stake to public on September 10, 2007 in accordance with guidelines/ regulations issued by SEBI. The Exchange is waiting for confirmation from SEBI under Regulation 7 of Dis-investment Regulations.

(b) DIS-INVESTMENT

SEBI issued Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognized Stock Exchanges) Regulations, 2006 ("Disinvestment Regulations") on Disinvestment of minimum 51% stake to public in November, 2006. The Board of the Exchange in January, 2007 constituted a Disinvestment Committee, which was broadened in June, 2007 in order to have better views and deliberations. The Exchange officials have met various merchant bankers for finding suitable strategic partners/investors for disinvestment of minimum 51% stake in the Exchange.

The Exchange issued an Advertisement in "Tribune" group of newspapers and Economic Times on June 13 and June 14, 2007 respectively inviting Expression of Interest from strategic partners/investors bidding for its minimum 51% stake. The Exchange appointed M/s. S.C.Vasudeva & Co. as its valuer for the disinvestment process. The Exchange has also appointed M/s. Beetal Financial and Computer Services Pvt. Ltd. as its Escrow Agent for Dis-investment process. The shareholders having trading rights (existing members) of the Exchange were advised to offer their existing equity shares for private placement.

Pursuant to the advertisement in the Tribune and the Economic Times, the Exchange received 21 applications of Expression of Interest from individual/ corporate bidders (under 4(b) of Dis-investment Regulations) for buying its 63.77% stake (3,83,900 shares), which were sent to SEBI for its approval. The existing members also offered their shares for sale for 51% Dis-investment of stake of the Exchange. SEBI accorded its approval to the nineteen applications for buying 3,35,900 shares equivalent to 55.79% of paid up equity capital of the Exchange. The Exchange has completed the exercise of dis-investment of its not less than 51% stake on September 10, 2007 and confirmation from SEBI in this regard is awaited.

7. FUTURE OUTLOOK

FUTURE OF REGIONAL STOCK EXCHANGES

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."**

Pursuant to recommendations of the above said report, your Exchange entered into a Memorandum of Understanding (MoU) with National Stock Exchange in terms of Section 13 of SCRA, 1956 on September 26, 2006 in order to provide a trading platform of NSE to investors and broker members of our Exchange. SEBI vide its letter dated March 20, 2007 rejected the proposal of the Exchange to enter into MoU with NSE. SEBI has also not allowed other Regional Stock Exchanges to go ahead with their respective Memorandum of Understanding. This decision has dampened the prospects of revival of Regional Stock Exchanges.

LATEST STATUS:

The future of your Exchange lies in successful disinvestment of at least 51% stake in terms of Scheme of Demutualisation and Securities Contracts (Regulation) (Manner of Increasing and Maintaining Shareholding in Recognized Stock Exchanges) Regulations, 2006. The SEBI has approved the application of the buyers. After the Exchange receives final confirmation from

SEBI for completion of Dis-Investment. We may explore business avenues in post demutualization scenario.

8. FUTURE OF SUBSIDIARY:

The subsidiary of your Exchange has been growing and future of this company holds a lot of opportunities for growth and expansion. The Company under the visionary leadership of its Governing Board has become the leading subsidiary amongst of all RSEs.

9. INITIATIVES IN TRAINING

The Exchange has been contributing to the society by providing training to the students of various streams i.e. C.S., M.B.A, M.Com, M.F.C., B. Tech., M.C.A 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, spacious library with financial dailies and journals on Capital Market and faculty from the various departments of the Exchange and its subsidiary etc. Your Exchange will continue its efforts towards this noble endeavor in future also.

10. SECURITIES MARKET AWARENESS CAMPAIGN (SMAC)

Continuing with the momentum of organizing Investors workshops, the Exchange organized sixty 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 2006-07. 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." Your Exchange organized a grand Investor Awareness Workshop for students and teachers at D.A.V.College, Amritsar in January, 2007. This Workshop was presided over by Sh.R.K.Nair, Executive Director, SEBI who appreciated the initiatives of the Exchange for educating the masses about securities market.

The Exchange during the year issued series of advertisements in the interest of investors through the print and electronic media in English and Punjabi language. Your Exchange also distributed educative material for the workshops for the benefit of retail investors.

11. INVESTOR SERVICE CENTRES

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, Chandigarh Una and Sangrur. The Exchange is providing following services to the investors through its service centres:

- I. Terminals for live trading of BSE and NSE (Available at Ludhiana Centre only)
- 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 Exchange is committed to provide still better services to the investors through these centres.

12. PROMOTING INVESTOR ASSOCIATIONS

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 has been mobilizing its drive for enrolment of members to its fold and it has even applied to SEBI for registration as SEBI registered Investor Association.

13. STATUS OF SUBSIDIARY COMPANY (LSE SECURITIES LIMITED)

a) **General Overview**

Your Subsidiary Company i.e. the LSE Securities Limited has performed well during the year 2006-07. The company has earned profit after tax amounting to Rs.99.87 lacs, as compared to Rs.97.14 lac recorded last year. During the year under review, the company has consolidated its financial position and continued to march forward. The company has launched Internet trading services for its clients and it is increasing the geographical reach of the company and is expected to further increase in the number of clients and turnover of the company.

The Company has tied up with renowned Technical Analysts for providing the facility of technical calls on stocks to its sub-brokers & their clients through Yahoo Messenger and email services. The company is continuing to provide 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. 7725 crores and Rs.4650 crores in Capital Market Segment of the National Stock Exchange and Bombay Stock Exchange respectively. As on 31.03.2007, there has been total 139 SEBI registered Sub- Brokers of the company registered with NSE and 93 SEBI registered Sub-brokers with BSE.

c) **F&O Segment of NSE**

During the year, under review, the subsidiary company recorded a turnover of Rs.48966 crores in the Future & Options Segment of National Stock Exchange as compared to Rs. 27343 crores during the corresponding previous year, thus registering a net rise of 79 % 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 31.03.2007, the subsidiary company had 23,000 accounts and 8800 accounts with NSDL & CDSL respectively.

Further, in order to provide satisfactory and timely DP services to its clients in various cities of Punjab and Himachal Pradesh, the company has opened its new DP branches at Ferozepur, Sangrur and Una.

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'

14. DIRECTORS

a. **Broker Members**

Sh. D.P. Gandhi continues as Trading member Director on the Governing Board of the Exchange who was appointed in the Last Annual General Meeting of the Exchange held in September, 2006.

Sh. Sanjeev Kumar Gupta, Trading Member Director would be retiring pursuant to Article 107 of the Articles of Association of Exchange read with Section 256 of the Companies Act, 1956 and he is eligible for re-appointment. Your Directors place on record their appreciation for sincere and dedicated services rendered by Sh. D.P. Gandhi and Sh. Sanjeev Kumar Gupta as Directors on the Board of Directors of the Exchange, as the Exchange stood immensely

benefited by their vast experience in securities market and meaningful deliberations in Board Meetings.

Pursuant to relevant provisions of Memorandum & Articles of Association, an additional trading member Directors is to be appointed in this Annual General Meeting.

(b) Public Representatives

During the year, Sh. D.K. Malhotra, Sh. G.S. Bains continued as Public Representative Directors on the Board of Exchange. Dr. B.B.Tandon, a renowned educationist and economist & Management Expert and Sh. Yash Paul Mahajan, Managing Director, Swaraj Mazda Limited and Sh. Sunil Malhotra, a leading Chartered Accountant having vast experience in Finance and Accounts, were nominated by SEBI on the Governing Board of the Exchange as Public Representatives. Prof. Rajinder Bhandari ceased to be Public Representative w.e.f 26.07.2007 pursuant to nomination of Dr. A.K. Sahejpal and Sh. Sarbjit Garg on the Governing Board of the Exchange. The Board welcomes Dr. A. K. Sahejpal and Sh. Sarbjit Garg on their nomination on the Governing Board of the Exchange and it is hoped that the Exchange would stand benefited from their experience and expertise in their respective fields.

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. The Board specially records the outstanding contribution made by Prof. Rajinder Bhandari as Public Representative during his tenure of four terms.

(c) SEBI Nominees

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

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

15. DIVIDEND

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

16. 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.

17. 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.

18. 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.

19. 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.

20. AUDITORS REPORT

The Auditors has 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 the year to SEBI. The Exchange has provided the contribution on the basis of actual amount of listing fee received.

21. 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 has been complying with the important requirements of Corporate Governance. The report on Corporate Governance is annexed herewith as Annexure "B".

22. HUMAN RESOURCES

Employees in any organisation are considered as 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 and every employee is motivated to contribute his/her best so as to achieve the objectives of the Organization.

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.

23. 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.

24. 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.

25. 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.

26. 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, 2007 and of Profit and Loss of the Exchange for the year ended on 31st March, 2007;

- 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.

27. 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 wish to place on record their gratitude for kind co-operation, assistance, and continued support to the Exchange by the officials of the Ministry of Finance, Central Government, Registrar of Companies (RoC), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Government of Punjab, Local Administration, the National Stock Exchange of India Limited (NSE), the Bombay Stock Exchange Limited (BSE) and other Regional Stock Exchanges, Centre for Industry Institute Partnership Programme(C.I.I.P.P.), Punjab University, Chandigarh, 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 : 03.10.2007

Dr. B. B. Tandon
Chairman

D.K. Malhotra
Vice Chairman

Annexure 'A'

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 31.03.2007 incorporating changes since close of Financial year/period of Subsidiary Company
		i) Share Holding	ii) Extent of Shareholding			
LSE Securities Limited	31.03.2007	30,89,700 Shares of Rs. 10 each	54.70%	109.10	NIL	N.A.

REPORT ON CORPORATE GOVERNANCE

Annexure – B

“Corporate Governance ... involves a set of relationships between a company’s management, its Board, its shareholders and other stakeholders. Corporate Governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined.

1. BRIEF STATEMENT OF COMPANY’S PHILOSOPHY ON CODE OF GOVERNANCE

Ludhiana Stock Exchange Ltd. incorporated under the Companies Act, 1956, is a recognized Stock Exchange within meaning of section 4 of Securities Contracts (Regulation) Act, 1956. The Exchange is regulated by Securities & Exchange Board of India under the provisions of Securities Contracts (Regulation) Act 1956.

In terms of Memorandum and Articles of Association of the Exchange, the Exchange promotes and regulates the business of exchange of stocks and shares, Government Securities, debentures, bonds, equities of any descriptions and with a view to establish and conduct the Stock Exchange in Ludhiana and/ or elsewhere.

Ludhiana Stock Exchange a public limited company and is not a listed. company Though, it is not required to comply with provisions of Corporate Governance, still the Board of Exchange adopted the best practices of “Corporate Governance” to bring the transparency in the system, commitment to values and ethics, enhancing the long term value of the company, assuring accountability towards shareholders and stakeholders.

2. BOARD OF DIRECTORS

Composition and category of Directors

The Board consists of eleven Directors out of which six are Public Representatives, two are SEBI Nominees and two are trading member Directors besides the Executive/ Managing Director whose names are given.

CHAIRMAN

Dr. B.B. Tandon (Public Representative)

VICE CHAIRMAN

Sh. D.K. Malhotra (Public Representative)

TRADING MEMBER DIRECTORS

Sh. D.P. Gandhi

Sh. Sanjeev Kumar Gupta

SEBI NOMINEES

Sh. Manmohan Juneja

Sh. A.R. Talwar

PUBLIC REPRESENTATIVES

Sh. G.S. Bains

Sh. Sunil Malhotra

Sh. Yash Paul Mahajan

Dr. A.K. Saihjal

Sh. Sarbjit Garg

3. DIRECTORS PROFILE:

Brief Profile of the Directors and their expertise in specific functional areas is given hereunder:

CHAIRMAN

Dr. B. B. Tandon (Retd.), is B.Tech (Textiles Engg.), M.A. (Economics, London School of Economics), M.Sc. (Economics), and Ph. D in Economics from Queens University, Canada. He has vast experience of 42 years in teaching with specialization in Economics & Management. He had also served as Dean, Faculty of Business Management and Commerce, Punjab University and Chairman, University Business School, Punjab University, Chandigarh. He was founder Chairman, State Bank of India, Chair of entrepreneurship and Rural Development.

Dr. Tandon has published 50 papers in reputed International and National journals. He had also contributed a number of seminar papers, conference papers and authored eleven books. He had also guided research in the field of his specialization and successfully supervised a number of Ph. D Scholars. He is also Non-executive Director in many companies.

VICE-CHAIRMAN

Sh. D. K. Malhotra, LL.B., Joint Director, Prosecution and Litigation (Pb.) (Retd.) is practising as Sr. Advocate (Civil & Criminal) and has also worked as Law Officer in Improvement Trust, Ludhiana and Municipal Corporation, Ludhiana. He has vast experience in handling Criminal, Civil and Revenue cases and Administration of Legal Department. He was the Legal advisor to the Deputy Commissioner, S.S.P. and Govt. of Punjab on various legal matters. He has been nominated for the first time as Public Representative on the Board of the Exchange.

TRADING MEMBER DIRECTORS

Sh. Dharam Pal Gandhi, Prop. M/s D.P.Gandhi & Co. is Graduate by qualification and is having vast experience of 20 years in Capital Market. He had also served on the Board of Exchange as Director from 30.09.1992 to 25.09.1999 and 29.09.2001 to 15.01.2003 and member in various committees. He was also elected as Vice President of Ludhiana Stock Exchange from 06.10.1995 to 26.09.1997 and contributed a lot for the development of the Exchange.

Sh. Sanjeev Kumar Gupta, Stock Broker by profession, is having more than 15 years of experience in Capital Market and Commodities market operations. He is a proprietor of M/s S.A. Aggarwal & Co. and also a sub-broker of LSE Securities Limited.

PUBLIC REPRESENTATIVE DIRECTORS

Sh. G.S. Bains, B.A., B.Ed., LL.B., M.B.A., Assistant Commissioner, Income Tax (Retd.), has 30 years of experience in Income Tax Department and Administration. He has occupied various Administrative positions in Indian Navy and Food & Civil Supplies Department. He has been nominated for the first time as Public Representative on the Board of the Exchange.

Sh. Sunil Malhotra is a Chartered Accountant by profession and is having a vast experience of more than 21 years in Accounting, taxation, internal audit, finance, project financing and other related fields. He is also attached to office of official liquidator, Ministry of Law, Justice & Company Affairs, the Punjab, Haryana & H.P. High Courts. He is Director in other companies also.

Sh. Yash Paul Mahajan is Fellow Member of the Institute of Chartered Accountants in England & Wales and Associate member of the Institute of Chartered Accountants of India. He has vast experience of more than 44 years in Finance & Accounts, Administration and other related fields. Presently, he has been working as Managing Director of Swaraj Mazda Limited. He is Director in other companies also.

Dr. A.K. Saihjal is M.Com, Ph.D is Dean, Faculty of Commerce and Business Management, Punjab University, Chandigarh. He has functioned as Head of the Deptt. of Commerce (Correspondence Courses) of Punjab University for over 14 years. He has also been Director of Center for Industry Institute Partnership Programme, Punjab University, Chandigarh. He has vast experience in Accounting and Finance, Human Behaviour and Organizational Development.

Mr. Sarbjit Garg is a Chartered Accountant by profession. He is having more than 24 years experience as consultant on Statutory Audit, Internal Audit, Taxation, Management and Operations Audit, Tax planning, Tax Assessments and Appeals, MIS, Finance & Accounts, Inventory & Cost controls, Budgeting and fund management.

SEBI NOMINEES

Sh. Manmohan Juneja is Fellow member of Institute of Chartered Accountants of India and has experience of about 14 years as Assistant Registrar of Companies, Deputy Registrar of Companies and Registrar of Companies cum Official Liquidator attached to Hon'ble High Court of J &K and Registrar of companies and about 5 years as Practising Chartered Accountant. Presently, he is holding the position of Registrar of Companies, Punjab, H.P. and Chandigarh at Jalandhar.

Sh. A.R. Talwar, I.A.S is Principal Secretary, Department of Industries & Commerce, Govt. of Punjab. He is having vast experience in Public policy, administration and industries & commerce. He is SEBI Nominee on the Board of the Exchange. He is director in other companies also.

4. ATTENDANCE OF DIRECTORS IN BOARD MEETINGS DURING 2006-07

Sr. No.	Name of Director	Category	Date of Appointment	Date of Cessation	No. of Meetings held during his tenure	No. of Board Meetings attended
1	Sh. H.S. Sidhu	MD	11.12.2003	28.07.2007	05	05
2	Sh. S.C. Aggarwal	SN	23.08.2004	19.06.2007	05	0
3	Prof. Rajinder Bhandari	PR	28.06.2005	26.07.2007	05	04
4	Sh. Rajiv Dewan	PR	28.06.2005	29.05.2006	01	0
5	Sh. G.S. Bains	PR	30.06.2005	N.A.	05	05
6	Sh. D.K. Malhotra	PR	30.06.2005	N.A.	05	05
7	Sh. Harlal, RoC	SN	13.07.2005	08.06.2006	01	0
8	Sh. R.K. Bansal	BD	26.09.2005	29.09.2006	03	03
9	Sh. Sanjeev Kumar Gupta.	BD	26.09.2005	N.A.	05	05
10	Sh. Manmohan Juneja, RoC	SN	08.06.2006	N.A.	04	01
11	Dr. B.B. Tandon	PR	07.09.2006	N.A.	03	03
12	Sh. D. P. Gandhi	BD	29.09.2006	N.A.	02	02
13	Sh. Sunil Malhotra	PR	11.12.2006	N.A.	01	01
14	Sh. Yash Paul Mahajan	PR	05.02.2007	N.A.	0	0
15	Sh. A.R. Talwar*	SN	19.06.2007	N.A.	0	0
16	Sh. Sarbjit Garg*	PR	19.07.2007	N.A.	0	0
17	Sh. A.K. Saihjal*	PR	19.07.2007	N.A.	0	0

*These Directors are nominated after the end of the financial year 2006-07

PR – Public Representative, SN - SEBI Nominee, BD – Broker Director, MD - Managing Director

5. Number of Board Meetings and Dates

The Details of the Board meetings of the Exchange, held during 2006-2007, are as follows:

Sr. No.	Date of Board Meetings
1.	29 th May 2006
2.	17 th August 2006
3.	20 th September 2006
4.	12 th October 2006
5.	18 th January 2007

6. COMMITTEES:

Following Committees have been formed to ensure good Corporate Governance practices:

A. Audit Committee

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information to be provided to the shareholders and others, the systems of internal controls, which the management and the Board of Directors have established, financial reporting and the compliance process. It is the responsibility of the Committee to maintain open communication with statutory auditors and internal auditors. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and the power to retain independent counsel or other experts. The attendance of each member of the Audit Committee is given below:

Meetings held during the year: 4

Name of Member	Membership held as	No of meetings held during his tenure	No of meetings attended
Sh. D. P. Gandhi (C)	Broker Member	3	3
Sh. Jaspal Singh	Broker Member	4	4
Sh. Rajnish Garg	Broker Member	4	0
Sh. R. K. Bansal	Broker Member	4	2
Sh. Dina Nath Sharma	Non Broker Member	3	3
Sh. G.S. Bains	Non Broker Member	4	4
Prof. Rajinder Bhandari	Non Broker Member	4	4
Sh. Sunil Malhotra	Non Broker Member	1	1
Sh. H.S. Sidhu*	Managing Director	4	4

*Ceased to be member of the Committee w.e.f. 28.07.2007

B. Investor Services Committee

The Investors Services Committee has been formed with the objective to scrutinize, investigate, and attempt to conciliate or decide the grievance received by the Exchange from any investor against any member broker/ sub-broker of our subsidiary regarding dealings covered by the Rules and Regulations of our Exchange, SEBI, NSE and BSE.

Meetings held during the year: 7

Name of Director/Member	Membership held as	No of meetings held during his tenure	No. of Meetings attended
Sh.D.K. Malhotra(c)	Non-Broker Member	7	7
Sh. G.S. Bains	Non-Broker Member	7	7
Prof. Rajinder Bhandari	Non-Broker Member	7	5
Dr. O.P.Sahni*	Non-Broker Member	4	4

Dr.B.B. Tandon	Non-Broker Member	3	3
Sh. R.K. Bansal	Broker Member	7	4
Sh.H.S. Sidhu **	Managing Director	7	6

* Ceased to be member of the Committee since Committee was reconstituted by the Board of Directors in its meeting held on 18.01.2007.

**Ceased to be member of the Committee w.e.f. 28.07.2007

C. Management Sub-Committee

The Management Sub-Committee looks after all the personnel related matters relating to recruitment, selection and appointment of candidates on different positions and assists Executive Director in day to day affairs of the Exchange.

Meetings held during the year : 2

Name of Member	Membership held as	No of meetings held during his tenure	No. of meetings attended
Prof. Rajinder Bhandari (C)	Non Broker Member	2	2
Sh. D.K. Malhotra	Non Broker Member	2	2
Sh. G.S.Bains	Non Broker Member	2	2
Sh. Rajiv Dewan*	Non Broker Member	1	0
Sh. H.S. Sidhu**	Managing Director	2	2

*Ceased to be Public Representative Director w.e.f. 29.05.2006

**Ceased to be member of the Committee w.e.f. 28.07.2007

D. SEBI Inspection Committee: Meetings held during the year: 2

Name of Member	Membership held as	No of meetings held during his tenure	No of meetings attended
Prof. Rajinder Bhandari (C)	Non Broker Member	2	2
Sh. Jaspal Singh	Broker Member	2	2
Sh. D.K. Malhotra	Non Broker Member	1	1
Sh. Sanjeev Kumar Gupta	Broker Member	2	2
ROC Jalandhar	SEBI Nominee	2	2
Sh. H.S. Sidhu*	Managing Director	2	2

*Ceased to be member of the Committee w.e.f. 28.07.2007

E. Delisting Committee: Meetings held during the year: 2

Name of Member	Membership held as	No of meetings held during his tenure	No of meetings attended
Sh. G.S. Bains (C)	Non Broker Member	2	2
ROC Jalandhar	SEBI Nominee	2	0
Sh. D.K. Malhotra	Non Broker Member	2	2
Sh. Dina Nath Sharma	Non Broker Member	2	2
Secy. ICSI Chapter Ldh.	Non Broker Member	2	0
Sh. Sunil Malhotra	Non Broker Member	1	1
Sh. B. K. Arora	Broker Member	2	0
Sh. H.S. Sidhu*	Managing Director	2	2

*Ceased to be member of the Committee w.e.f. 28.07.2007

F. Ethics Committee: Meetings held during the year: 3

Name of Member	Membership held as	No of meetings held	No of meetings attended
Prof. Rajinder Bhandari (C)	Non Broker Member	3	2
Sh. G.S. Bains	Non Broker Member	3	3
Sh. Jaspal Singh	Non Broker Member	2	2
Dr. Rajiv Kalra	Broker Member	1	1
Sh. Sanjeev Kumar Gupta	Broker Member	3	3
Sh. H.S. Sidhu*	Managing Director	3	3

*Ceased to be member of the Committee w.e.f. 28.07.2007

G. Disciplinary Committee

To consider cases, recommend/initiate action and/or impose penalties against the members not complying with the Bye-laws, rules and regulations of the Exchange and/or decisions, directions, observations of the Board, its sub-committees and/or other Committees duly constituted by the Board and also to recommend/initiate action and/or impose penalties in accordance with the Bye-laws of the Exchange. No Committee meeting was held during the year 2006-07.

H. Arbitration Committee

The Arbitration Committee appoints the arbitrator in terms of the bye-laws of the Exchange for resolving the disputes between member and members / non-members. No Committee meeting was held during the year 2006-07.

I. Defaults Committee

The Defaults Committee looks after the claims of investors/ members against the members and recommend to the Board of Directors for declaration of a defaulter member. No Committee meeting was held during the year.

7. SITTING FEE REMUNERATION PAID TO PUBLIC REPRESENTATIVES DIRECTORS

Sitting fee paid to the Directors for attending the meetings of the Board and its Committee during the financial year ended 31st March, 2007 is given below:

Sr. No.	Name of Director	Amount (in Rs.)
1.	Prof. Rajinder Bhandari	24500
2	Sh. G.S. Bains.	25250
3	Sh. D.K. Malhotra.	19250
4	Dr. B.B. Tandon.	12500
5	Sh. Sunil Malhotra.	6500
	Total	88000

8. GENERAL BODY MEETINGS

Location and time, where last three AGMs were held

FOR THE YEAR	2003-04	2004-05	2005-06
AGM	22 nd	23 rd	24 th
DATE AND TIME	27.09.2004	25.09.2005	29.09.2006
VENUE	Trading Hall, Ludhiana Stock Exchange. Ltd.	Trading Hall, Ludhiana Stock Exchange Ltd.	Trading Hall, Ludhiana Stock Exchange Ltd.

9. DISCLOSURES

- a. During the year, there have been no materially significant related party transactions that may have potential conflict with the interest of the exchange at large.
- b. The Exchange has complied with the requirements of SEBI or any regulatory authorities as applicable from time to time. During the last three years, there has been no non-compliance to the provisions/requirements of SEBI or any other regulatory authorities.

9. GENERAL SHAREHOLDER INFORMATION

a) Forthcoming AGM – Date, Time and Venue:

The 25th Annual General Meeting of the Company is scheduled to be held on October 29, 2007(Monday) at 4:00 p.m. at LSE premises.

b) Financial Year:

The Company's financial year is from 1st April 2006 to 31st March 2007.

c) Registrar & Share Transfer Agent:

Beetal Financial & Computer Services (P) Ltd.
Beetal House, 3rd Floor.
99, Madangir, Behind Local Shopping Centre
Near Dada Harsukhdas Mandir
New Delhi – 110062

d) Share Transfer System:

The shares of the Exchange are held in both physical as well as dematerialized form. Any member who transfers his share to any person/ entity has to seek the approval of Membership Committee and Board of Directors of the Exchange. After these approvals the application for registration of the transferee with SEBI as Stock Broker is sent to SEBI for its approval. SEBI after considering the application grants registration to the person/ entity as Stock broker of Ludhiana Stock Exchange. The ISIN of the equity shares of the Exchange is **INE562H01016**.

e) Address for Correspondence:

Shareholders are requested to intimate all changes pertaining to their bank details, change of address etc. only to their depository participants, if they are holding shares in dematerialized form and to the Exchange if they are holding shares in physical form.

Any query on the annual report may be addressed to Ms. Pooja M. Kohli, Executive Director (Officiating) at the following address:

Ludhiana Stock Exchange
Feroze Gandhi Market.
Ludhiana – 141001
Ph. 0161- 2772309, 2412318, 4612317-18
Fax: (0161) 2404748, 2401645
E-mail: lse_cs@rediffmail.com
Website: www.lse.co.in

On Behalf of Board of Directors.

Dr. B.B.Tandon
Chairman