

**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE is hereby given that the 19<sup>th</sup> Annual General Meeting of the Members of VLS FINANCE LTD. will be held at Sri Sathya Sai International Centre Auditorium, Lodhi Road Institutional Area, Lodhi Road, Pragati Vihar, New Delhi-110003 on Monday, the 25<sup>th</sup> day of September 2006 at 10.30 a.m. to transact the following business: -

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31<sup>st</sup> March 2006, the Profit & Loss Account for the year ended on that date and the consolidated Financial Statements for the said period together with the Report of Auditors and Directors thereon.
2. To appoint a Director in place of Shri Somesh Mehrotra who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri N. C. Sundararajan who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Shri B. M. Oza who retires by rotation, and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Shri D. D. Chopra who retires by rotation, and being eligible, offers himself for re-appointment.
6. To appoint the Auditors and to fix their remuneration and in this connection to consider and if thought fit, to pass following resolution, with or without modification(s), as an **Ordinary Resolution**.

**“RESOLVED THAT** pursuant to the provisions of Section 224 and other applicable provisions of the Companies Act, 1956, M/s. Agiwal & Associates, Chartered Accountants, the present Statutory Auditors of the Company be and are hereby re-appointed as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting to the conclusion of next Annual General Meeting of the Company and at such remuneration as may be determined by the Board of Directors of the Company/ Audit Committee of the Board in consultation with Auditors plus reimbursement of out of pocket expenses as may be incurred in performance of their duties (excluding taxes, if any) and that the remuneration may be paid on a progressive billing basis to be agreed between the Auditors and Audit Committee or such other officer of Company as may be approved by the Board/ Audit Committee.”

**SPECIAL BUSINESS:**

7. **Approval for appointment of Shri K.K. Soni as Director- Finance & Chief Financial Officer.**

To consider and if thought fit, to pass, with or without modification (s), the following resolution as an **Ordinary Resolution**:

**“RESOLVED THAT** pursuant to the provisions of Sections 269, 316 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and pursuant to Article No.108 of the Articles of Association of the Company, consent of the Company be and is hereby accorded for appointment of Shri K. K. Soni who is also Managing Director of VLS Capital Ltd., as Director- Finance & Chief Financial Officer of the Company for a period of three years w.e.f. 28/07/2006, on such terms and conditions as are expressed and contained in the agreement entered into for this purpose between the Company and the Director- Finance & Chief Financial Officer, which agreement be and is hereby also approved.

**RESOLVED FURTHER THAT** the Board of Directors be and is hereby authorized to vary and/or revise the terms of appointment including remuneration of Shri K. K. Soni, Director- Finance & Chief Financial Officer in such manner as may be agreed between the Board of Directors and Shri K. K. Soni provided however that such variation/revision shall be within the permissible limits under the provisions of the Companies Act, 1956 or any statutory modification thereof, from time to time and any other applicable enactment, for the time being in force.

**RESOLVED FURTHER THAT** the Board of Directors be and is hereby further authorised to take necessary steps for complying with all legal, procedural and other formalities and to do all such things, deeds and acts, either by itself or through the person(s) authorised by it, as may be necessary or expedient for giving effect to aforesaid resolution and in case required to obtain the consent of Company in this regard, to end and intent that it shall be deemed to have been accorded expressly by authority of this resolution.”

8. **Approval for revision in remuneration of Managing Director.**

To consider and, if thought fit, to pass with or without modification(s), the following Resolution as an **Ordinary Resolution**:

**“RESOLVED THAT** pursuant to provisions of Section 198, 269, 309, 310, 311 and other applicable provisions including any amendments thereof, read with Schedule XIII of the Companies Act, 1956 as amended up to date, subject to such approvals, permission and sanctions, if any, as may be required from appropriate authorities or bodies from time to time, and in partial modification of the resolution passed at the Annual General Meeting of the Company held on 23/09/2004, approval of the Company be and is hereby accorded to the increase in remuneration of Shri S.K. Agarwal - Managing Director of the Company as set out in the Explanatory Statement annexed to the notice convening this meeting.

**RESOLVED FURTHER THAT** the increase in remuneration shall be effective from 1<sup>st</sup> April, 2006 for residual period of appointment of Managing Director unless enhanced during the intervening period, in accordance with applicable provisions of Companies Act, 1956 and/or other law(s), for the time being in force.”

9. **Approval for payment of compensation to Non-Executive Directors.**

To consider and if thought fit, to pass with or without modification(s), the following as an **Ordinary Resolution**:

**“RESOLVED THAT** pursuant to Section 309 and other applicable sections of the Companies Act, 1956, including any statutory modification(s) or re-enactment(s) thereof, and pursuant to the provisions of Clause 49 of the listing Agreement with the Stock Exchanges, subject to such approvals as may be required from appropriate authorities or bodies from time to time, if any, the consent of the Company be and is hereby accorded to pay compensation to Non-Executive Directors including Independent Directors towards their professional services to the Company and that the Board of Directors be and are hereby authorized to pay the Non-Executive Directors such amount including professional consultancy

fees, sitting fees for attending any meeting of any Committee (other than a committee of Directors) constituted for advising Company on any business issues, in such form and manner as the Board may from time to time determine.”

By Order of the Board  
For VLS Finance Ltd.

H. Consul

Company Secretary

Place : New Delhi  
Date : 28/07/2006

**NOTES:**

1. A Member entitled to attend and vote is also entitled to appoint a proxy to attend and vote instead of himself/herself. The proxy need not be a member of the Company. The appointment of proxy in order to be effective must be lodged at the Registered Office of the Company not less than 48 hours before the commencement of the meeting, in the form enclosed hereto, duly filled and authenticated. A proxy may not vote except on a poll.
2. The submission of form of proxy by a member does not preclude such member from attending and voting at the meeting. The proxy in such event shall not be eligible to attend the meeting.
3. In the case of joint holders, the vote of the senior shall be accepted to the exclusion of the vote of the other joint holders. Seniority shall be determined by the order in which the names stand in the Register of Members. Corporate Members intending to send their authorized representative are requested to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting.
4. The Register of Members of the Company shall remain closed from **15/09/2006 to 25/09/2006** (both days inclusive).
5. The Company has retained M/s RCMC Share Registry Pvt. Ltd., 1515, 1<sup>st</sup> Floor, Bhishm Pitamah Marg, Kotla Mubarakpur, near South Extension, New Delhi-110003 (Phone Nos. 24692346, 24601017, 24649720) as its Registrar & Transfer Agents for further period of one year w.e.f. 01/04/2006 for entire shareholder services. For any further assistance in said matters, please write to the Company Secretary at Registered Office at C-489, Defence Colony, New Delhi-110024, Phone No.: 41553081 (5 lines), Fax: 24335941, 41553091.
6. Members are requested to intimate the change in address, if any, to the Company's Registrars or the Company at its Registered Office for shares held in physical mode. Members can avail the facility of nomination in respect of shares held by them in physical form, in accordance with the provisions of Section 109A of the Companies Act, 1956. Members desiring to avail of this facility may send their nomination in prescribed form no. 2B duly filled in, to the Registrars of Company. **Members holding shares in demat (Electronic) form are requested to notify any change in address, mandate/bank details/nominations to their respective Depository Participants.** The changes effected by depository participants will automatically be reflected in Company's records upon updation of beneficiary owners list provided by Depositories.
7. The shares of the Company are being traded compulsorily in demat segment w.e.f. 28<sup>th</sup> August 2000. Members who still hold the shares of Company in physical form are advised to contact their depository participant for dematerialization of their holdings in their own interest. **The ISIN No. allotted to Company is INE709A01018** for both the Depositories viz. The National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL).
8. Members, who are holding shares in identical order of names in more than one Folio, are requested to write to the Company at its Registered Office or to its Registrars stated above to enable the Company to consolidate their holdings under one Folio.
9. All documents referred to in the accompanying Notice are open for inspection at the Registered Office of the Company on all days between 11.00 a.m. and 1.00 p.m. up to the date of the Annual General Meeting except on Saturdays, Sundays and other Holidays.
10. Member/Proxies are requested to bring their copies of the Annual Report to the meeting and the attendance slip duly filled in, for attending the meeting. As a measure of economy, copies of Annual Report will not be distributed at the Annual General Meeting.
11. Only bonafide members of the Company whose names appear on the Register of Members/ Proxy holders, in possession of valid attendance slips duly filled and signed will be permitted to attend the meeting. The Company reserves its right to take all steps as may be deemed necessary to restrict non-members from attending the meeting.
12. The relevant explanatory statement pursuant to Section 173(2) of the Companies Act 1956, for Item Nos. 7, 8 & 9 of the notice is annexed hereto and forms part of this notice.
13. The Unpaid/unclaimed dividends up to 31/03/1995 had been transferred to General Revenue Account of Central Government and can be claimed from the Central Government in prescribed form. Pursuant to Section 205A of the Companies Act, 1956 (the Act) all unclaimed/unpaid dividends after 31/03/1995 up to the financial year 1996-97 (18 months) has been credited to Investor Education & Protection Fund (IEPF).
14. The members who have not encashed their dividend warrants for the financial year ended on 31/03/1999 are advised to write to the Company at its registered office for obtaining duplicate dividend warrants/ revalidation of instruments. Members are hereby informed that in terms of the provisions of Section 205C of the Companies Act, 1956, once unclaimed dividend is transferred to IEPF of the Central Government in accordance with the regulations, no claim shall lie against the Company or IEPF in respect thereof.

The unpaid Dividend and the date on which it is due for transfer to Investor Education & Protection Fund are as follows:

Financial year ended on	AGM Date	Dividend rate	Date of transfer to Unpaid Dividend A/c	Due for Transfer to Fund on
31/03/1999	10/08/1999	7.5%	22/9/1999	21/9/2006

**15. Information regarding Directors retiring by rotation and seeking re-appointment:**

(a)

Sl. No	Name of the Director	Date of Birth	Date of Appointment	Qualifications and Expertise in specific functional areas	List of Companies in which Directorship held as on 28/07/2006.	Chairman/Member of the Committees of the Board of other Companies as on 28/07/2006.	Whether qualified u/s 274(1) (g) of the Companies Act, 1956.
1.	Shri Somesh Mehrotra	06/04/1967	06/06/1994	M. Com. Industrialist having over 15 years experience in financial services, administration and amusement industry.	a) VLS Capital Ltd. b) Gaurav Overseas Export Ltd.	NIL	Yes
2.	Shri N.C. Sundararajan	15/11/1929	25/04/1992	FCA He is former president of the Institute of Chartered Accountants of India and renowned Chartered Accountant having over 4 decades of experience in field of finance, taxation, corporate laws and administration.	NIL	NIL	Yes
3.	Shri B.M. Oza IFS (Retired)	28/08/1936	30/06/2001	M.A. (Economics) Diploma in Demographic Training . He is a distinguished Diplomat with over 45 years of experience in administration and international affairs.	NIL	NIL	Yes
4.	Shri D.D. Chopra	20/05/1960	30/06/2001	B. Com . He is Financial consultant of repute.	a) Hansuttam Finance Ltd. b) Dewan P.N. Chopra Financial Services Pvt. Ltd. c) Trice Infotech Pvt. Ltd. d) C Mail Infotech Pvt. Ltd. e) International Institute of Integral Health and Living Pvt. Ltd. f) DMF Consultancy Services (P) Ltd.	NIL	Yes

(B)

**Shareholding of Directors**

S. No	Name of Directors	No. of Shares held in Company	Percentage
1	Shri Somesh Mehrotra	404106	1.0155
2	Shri N. C. Sundararajan	3000	0.0075
3	Shri B. M. Oza	Nil	Nil
4.	Shri D. D. Chopra	Nil	Nil

**EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.**
**ITEM NO. 7**

Shri K. K. Soni was appointed as Director- Finance and Chief Financial Officer (iCFO) of the Company w.e.f. 28<sup>th</sup> July, 2006 by the Board of Directors in its meeting held on 28/07/2006. Shri K. K. Soni is Commerce graduate & fellow member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India having rich experience of over 29 years in the field of Finance, Taxation, corporate planning and other Corporate Affairs. Shri K. K. Soni, at the time of his appointment as CFO of the Company, was also the Managing Director of VLS Capital Ltd., a constituent of promoter group of the Company. He continues to hold said position and draws remuneration from said Company. Shri K. K. Soni's appointment as CFO is being made in accordance with the conditions specified in Schedule XIII. The agreement entered into by the Company with Shri K. K. Soni inter-alia contains the following terms and conditions:-

**A. Period :** Three years w.e.f. 28.07.2006

**B. Remuneration:**

No remuneration including sitting fee shall be paid for the time being to Shri K. K. Soni, CFO. However, he shall be entitled to reimbursement of all actual expenses incurred in performance of his duties and shall be entitled to all the facilities (not amounting to remuneration of perquisites under applicable laws) as may be available to employees of Company including use of Company's car, provision of telephone etc.

The terms of appointment as also remuneration of Shri K. K. Soni as CFO may be reviewed by the Board from time to time and may be revised in accordance with the provisions of Companies Act, 1956 and other applicable laws for the time being.

In terms of Article 109 of the Articles of Association of the Company, Shri K. K. Soni shall not be liable to retire by rotation during his tenure as CFO of the Company.

Shri K. K. Soni is also holding the position of Director in South Asian Enterprises Limited, VLS Securities Limited, VLS Asset Management Limited, AFD Laboratories Pvt. Limited and Paritosh Industrial Finance Limited.

The appointment of Shri K. K. Soni as CFO on the terms and conditions as set out in the agreement entered to between Shri K. K. Soni and the Company is subject to the approval of the members. The Board recommends his appointment as set out in item no. 7 of the Notice. The agreement entered into between the Company and Shri K. K. Soni is available for inspection by the members of the Company at Registered office of the Company between 11:00 a.m. and 1:00 p.m. on all working days till the date of the Annual General Meeting except on Saturdays, Sundays and Holidays. This may be treated as the abstract of terms and conditions of Shri K. K. Soni as Director- Finance and Chief Financial Officer in terms of Section 302 of the Companies Act, 1956. Shri K. K. Soni is not holding any shares in the Company.

None of the Directors except Shri K. K. Soni is concerned or interested in the resolution.

**ITEM NO. 8**

Shri S. K. Agarwal was appointed as the Managing Director of the Company with effect from 21<sup>st</sup> June 2004 for a period of 3 (three) years and his terms of appointment were approved by the members of the Company at the Annual General Meeting held on 23-09-2004 with liberty to the Board to revise the remuneration component as and when deemed fit. Accordingly, in exercise of authority conferred by members, the Board had, in its meeting held on 28<sup>th</sup> July 2006, concurring to the recommendations made by Remuneration Committee (at its meeting

held on 27/07/2006) approved an increase of Rs. 9,750/- per month in remuneration payable to Managing Director effective from 1<sup>st</sup> April 2006, all other terms and conditions of his service remaining unchanged.

The revised remuneration package approved by the Board is as under:

**a) Salary**

Basic salary of Rs.45,000 /-(Rupees Forty five thousand only) per month.

**b) Perquisites**

In addition to the aforesaid salary, the Managing Director shall also be entitled to the following perquisites:

- i) HRA/ Leased Accommodation: Rs. 20,000/- (Rupees Twenty thousand only) per month.
- ii) Medical Reimbursement: Expenses incurred for the Managing Director and the family subject to a ceiling of Rs. 15,000/- (Rupees Fifteen thousand only) per annum.
- iii) Leave Travel Concession: For the Managing Director and his family incurred not exceeding Rs. 24,000/-(Rupees Twenty four thousand only) per annum.
- iv) Reimbursement of expenses for Books and Periodicals up to Rs. 13,200/-(Rupees Thirteen thousand two hundred only) per annum.
- v) Provident Fund, Gratuity payable, entitlement & encashment of leave will be as per rules of the Company.
- vi) Facility of Chauffeur driven car for use on Company's business as per rules of the Company.
- vii) Facility of Telephones or provision of similar equipments/facilities for official purpose will be free & will not be considered as perquisites except that charges for personal long distance calls will be billed by the Company to the Managing Director.

All other terms and conditions of service as contained in the agreement dated 21.06.2004 entered into between the Company and the Managing Director shall remain unchanged.

In terms of Section 269 read with other applicable sections of the Companies Act, 1956, the aforesaid modification is subject to the approval of members. Although, in terms of authorisation given by the members in terms of their resolution dated 23.9.2004, the express approval may not be necessary, but it was thought to be expedient to have the same, as measure of good corporate governance practice. This Statement may also be construed as an abstract of variation in terms and conditions of appointment of Managing Director in terms of Section 302 of the Companies Act, 1956.

The Board of Directors recommends the resolution for your approval. Shri S. K. Agarwal does not hold any shares in the Company.

None of the Directors except Shri S. K. Agarwal is concerned or interested in the resolution.

**ITEM NO. 9**

The Securities & Exchange Board of India (SEBI) has revised Corporate Governance norms with effect from 31<sup>st</sup> December, 2005 and according to one of the norms in revised Clause 49 of the Listing Agreement with Stock Exchange, all the fees and compensation payable to Non-Executive Directors including independent directors shall be fixed by the Board of Directors and shall require prior approval of the members in the general meeting.

The role of Non-Executive/ Independent directors of your Company is not just restricted to corporate governance of the Company but also involves contribution to the development of the Company. The Non -Executive and Independent directors of your Company include eminent administrators, technocrat and professionals in financial sector. The Company intends to seek their expert advice from time to time on various matters including finance, legal and allied areas. It is, therefore, proposed that Non-Executive Directors be compensated for their expert services to the Company, as and when availed, and the Board of Directors be authorized to fix the compensation of such amount in any form/ manner as deemed fit by it.

All the Non-Executive Directors may be construed to be concerned and interested in the resolution.

The Board recommends the resolution set forth in the item no. 9 of notice for approval of the members.

By Order of the Board  
For **VLS Finance Ltd.**

Place : New Delhi  
Date : 28/07/2006

H. Consul  
Company Secretary

## DIRECTORS' REPORT TO THE MEMBERS

Your Directors are pleased to present the Nineteenth Annual Report of the Company together with the audited statement of accounts for the year ended 31<sup>st</sup> March 2006.

### 1. Financial Results

	For the year ended 31 <sup>st</sup> March 2006	(Rs. in Lakhs) For the year ended 31 <sup>st</sup> March 2005
<b>Gross Receipts</b>	217189.91	134060.79
Profit before Interest & Depreciation	838.83	810.48
Less: Interest & Finance Charges	0.07	0.09
Profit before depreciation	838.76	810.39
Less: Depreciation	53.00	55.73
Profit before Tax	785.70	754.66
Less: Provision for Taxation	34.64	8.46
Profit after Tax	751.06	746.20
Surplus b/fd. From previous year	19.85	24.58
Available for Appropriation	770.90	770.78
<b>Appropriations:</b>		
From General Reserve	800.00	600.00
To General Reserve	600.00	600.00
To Statutory Reserve (under RBI Act, 1934)	157.14	150.93
Total Appropriations	757.14	750.93
Surplus c/f	13.76	19.85

### 2. Management Discussion and Analysis

#### Financial Review

During the period under review, the Company, posted an increased turnover of Rs. 217189.91 lacs as compared to last year's turnover of Rs. 134060.79. The net profit after tax was at Rs. 751.06 lacs after providing for depreciation of Rs. 53.00 lacs. Adequate provision has been made for assets classified as bad/doubtful and for diminution in value of investments in accordance with the Accounting Standards prescribed by the Institute of Chartered Accountants of India and the Reserve Bank of India Regulations in the matter.

#### Industry Structure and Development

The Indian economy grew by 8.1% in 2005, well above its last year's growth and is expected to grow at around the same rate in 2006-07. Agricultural growth increased by 2.3% while the industrial sector posted a robust growth of 9%. The services sector, with growth rate of 9.8%, continued to be the major contributor to the country's economic growth. With visible buoyancy in the capital market coupled with relative political stability, the overall economic environment remained supportive of investment and additional capacity building. The raising of about \$40 billion in equity and debt, of which \$25 billion from overseas by way of convertible bonds, depository receipts and syndicated receipts, is testimony to the significant pickup in overall investment activity. This has strengthened performance of the industrial sector during the current year.

The country's foreign exchange reserves continued to rise and crossed the \$ 150 billion mark by March 2006. The FII inflows in the country increased rapidly. The BSE Sensex catapulted to record level of 11279 as on 31.03.2006 to touch even higher levels thereafter.

The average inflation in 2005-06, based on the wholesale price index, was lower at 4% as against the earlier estimated 5.5%. It was above 6% in 2004-05. Liquidity in the system continued to be comfortable with interest rates generally ruling low. The Non Banking Finance Sector (NBFC Sector), however, continued to reel under pressure from the banking industry which has penetrated into almost all the segments of the financial services sector. The working of the Non Banking Financial Companies (NBFCs) also continued to be adversely affected by defaults and absence of proper and speedier recovery laws and procedures, such as those available to banks and financial institutions. In the highly competitive environment in which the NBFCs are presently working, they have no option but to streamline and optimize their operations to adapt to the emerging scenario.

#### Outlook, Risks and Concerns

With a GDP growth of 8% posted during the year, the Indian economy provides attractive growth opportunities. As the contribution of the services sector to the overall economy is steadily rising, the financial services industry is also poised for steady growth.

The NBFC sector in which your Company operates, has been facing competitive pressure from Banks and Financial Institutions, making it increasingly difficult to generate revenues. The shrinking of interest spreads has put further pressure compelling them to look for new avenues for revenue generation. In this scenario, concentration on selected customer segments, offering them highly customized services, and cutting costs, shall continue to be the survival strategy for the NBFCs. Accordingly, the Company had cut down its exposure to credit operations consisting of loans, hire purchase etc. No fresh exposures were undertaken in these areas during the year under review. The Company's operations continued to be focused on capital market related activities and making use of risk hedging tools such as derivatives and other risk neutral instruments. Further, your Company shall continue to explore opportunities in areas related to its operations.

The Company is exposed to normal industry risks like credit, interest rate, economic, political, market and operational risks. Your Company follows prudent business and risk management practices to combat these challenges.

#### Opportunities and Threats

The equity markets continued to remain upbeat during the year. The increase in asset values in the real estate sector, the growth in industry, trade and commerce had led to significant increase in overall credit off-take. Your Company intends to increase its thrust on corporate advisory services, investment appraisal and syndication. The Company is carefully gauging each opportunity in terms of risks and rewards involved and hopes to tie up successful ventures in the foreseeable future.

Your Company would also endeavor to strengthen its subsidiary and associate companies and to make efforts to harness the benefits of group synergy.

#### Adequacy of Internal Control Systems

The Company has proper and adequate system of internal controls to monitor proper recording of transactions according to policies and procedures laid down by the Company. The Company ensures that the regulatory guidelines are complied with at various levels.

The internal audit reports are regularly monitored by the Audit Committee.

### Segment wise Performance

As against layout of Rs. 6756.28 Lacs in financial services segment, the total revenue receipts were Rs.216747.69 Lacs. In the Investment segment, there was a revenue earning of Rs. 446.18 Lacs for a layout of Rs. 8265.87 Lacs during the year under review. The gross profit posted in the financial services segment was Rs. 667.47 Lacs and in the investment segment a gross profit of Rs. 446.18 Lacs was recorded, during the year under review. After providing for Interest of Rs. 0.07 Lacs and Rs. 327.88 Lacs for segmentwise unallocable expenses, the net profit before tax stood at Rs. 785.70 Lacs.

#### Cautionary Statement

The statements in the above analysis, describing the Company's projections, estimates, expectations or predictions are forward looking statements within the meaning of applicable security laws and regulations. The actual results may differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations, include changes in government regulations, tax regimes, economic developments within the country and abroad, and other related factors.

### 3. Dividend

Even today, the NBFC sector in general, and your Company in particular, are facing challenges and uncertainties in a volatile financial market. These challenges can only be met by building up a strong net worth. Therefore, with a view to conserve resources, no dividend is recommended.

### 4. Directors

Shri Somesh Mehrotra, Shri N. C. Sundararajan, Shri B. M. Oza and Shri Divey Dipti Chopra Directors would retire by rotation at the forthcoming Annual General Meeting and all, being eligible, offer themselves for reappointment. To enable the Company to obtain their continued valuable direction, guidance and assistance in conduct of the affairs of your Company, it is recommended that their reappointment be approved. Following its policy of improving corporate governance practice and in compliance of listing agreement requirements, the Board has appointed Shri K. K. Soni as Director- Finance and Chief Financial Officer w.e.f. 28/07/2006 subject to members' approval. With this appointment, the finance function will be directly under the control and supervision of a Board level person.

### 5. Directors' Responsibility Statement

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

- that in the preparation of the annual accounts for the financial year ended 31<sup>st</sup> March 2006, the applicable accounting standards have been followed, along with proper explanation relating to material departures;
- that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- that they have taken proper and sufficient care for the maintenance of proper accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- that they have prepared the annual accounts for the financial year ended 31<sup>st</sup> March 2006 on a going concern basis.

### 6. Corporate Governance

The Report on Corporate Governance in terms of Clause 49 of the Listing Agreement is annexed to this report.

### 7. Auditors

The Auditors, M/s. Agiwal & Associates, Chartered Accountants, will retire at the forthcoming Annual General Meeting. The Company has received a certificate from the Auditors that they are qualified under section 224 (1B) of the Companies Act, 1956 to act as the Auditors of the Company, if appointed. On the recommendation of the Audit Committee, the Board of Directors recommends their appointment. The Board may also be authorised to fix their remuneration.

### 8. Auditors' Report

The observations made by the Auditors with reference to notes on accounts for the year under report have been adequately dealt with, in the relevant Notes on Accounts and need no further comments from Directors.

### 9. Statutory Information

Not being a manufacturing Company, your Company is advised that Form A prescribed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, relating to Conservation of Energy and Technology Absorption, is not applicable to it. It is informed that during the year under review, the Company did not absorb any new technology or carried out any related R&D activity. Details of foreign exchange earnings and outgo are given below:

Foreign Exchange earnings	: Nil
Foreign Exchange out go	: Rs.2,93,781/-

The shares of the Company are presently listed at 1) The Stock Exchange, Mumbai 2) The National Stock Exchange of India Ltd. 3) The Calcutta Stock Exchange Association Ltd. and 4) The Madras Stock Exchange Ltd. The Company has paid the Annual Listing fees for the year 2006-2007 to all the aforesaid Stock Exchanges. The Company has already applied for delisting of its shares from the Stock Exchanges at Kolkata and Chennai. The delisting confirmation is yet to be received from The Calcutta Stock Exchange Association Ltd. and The Madras Stock Exchange Ltd.

### 10. Fixed Deposits

The Company has neither held nor accepted any fixed deposit during the year under review. The Company has no plans to accept any deposits from the public in the future also.

### 11. Human Resources

The Company has a team of able and experienced professionals. The management recognizes the intellectual capital as its most valuable asset and constantly strives to strategically align personal goals and organizational growth. It encourages open channels of communication, blending the individual's vision with that of the organization and building a shared understanding of how each team member can contribute to the Company's success. It aims to build a strong corporate culture on core values such as safety, integrity, innovation and teamwork, thus creating a vision-guided, values-driven organization that focuses on employee fulfillment and leadership development. Employee relations continued to be cordial during the year. The number of employees stood at 27. The Directors place on record their appreciation of the



devoted service of the employees at all levels. In terms of the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, there was no employee during the year drawing remuneration more than the stipulated amount in the said rules.

#### 12. Subsidiary Companies

Statements pursuant to Section 212(1) (e) & (f), read with sub-section (3) and sub section (5) of the said section of the Companies Act, 1956 for the relevant financial year, in respect of the subsidiary companies, are enclosed with Annual Accounts of the Company.

#### 13. Consolidated Financial Statements

In compliance of Clause 41 of the Listing agreement, the Consolidated financial statements in accordance with the prescribed accounting standards, are annexed to the Audited Annual Accounts for the year under review.

#### 14. Compliance Certificate

A certificate from the Auditors of the Company regarding the compliance of the conditions of corporate governance as stipulated under clause 49 of the listing agreement, is attached to the said report.

#### 15. Group

Group for inter se transfer of shares under Clause 3 (e) of Securities & Exchange Board of

India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997:

- Shri M. P. Mehrotra
- M. P. Mehrotra (HUF)
- Dr. (Mrs) Sushma Mehrotra
- Shri Somesh Mehrotra
- Ms. Divya Mehrotra
- Mrs. Sadhana Mehrotra
- Ms. Daya Mehrotra
- Shri Ramji Mehrotra
- Mrs. Sushma Mehrotra
- VLS Capital Ltd.
- Gaurav Overseas Exports Ltd.
- Needle Eye Plastic Industries Pvt. Ltd.
- Pragati Moulders Pvt. Ltd.
- South Asian Enterprises Ltd.

#### 16. Acknowledgements

Your Directors wish to place on record their sincere appreciation and gratitude to the Company's business associates, customers, Bankers, Financial Institutions and the Reserve Bank of India for their continued support and assistance and also to the esteemed shareholders of the Company, for their valuable support and patronage.

For and on behalf of the Board

Place : New Delhi  
Date : 28/07/2006

**S.K. AGARWAL**  
Managing Director

**B. M. OZA**  
Director

#### Annexure-1

#### REPORT ON CORPORATE GOVERNANCE

##### Our Mission:

To be a top ranking NBFC to achieve sustained growth of business and profitability in core areas of investments, private placements and securities related operations, fulfilling socio economic obligations, excellence in customer service through up-gradation of skills of staff, their effective participation and making use of state of art technology.

##### Corporate Philosophy:

The philosophy of your Company is to enhance the long-term economic value of the Company, its stakeholders and the society at large by adopting better corporate practices in fair and transparent manner, by aligning interest of the Company with its shareholders and other key stakeholders. Your Company has been practicing the principles of good Corporate Governance over the years and has been the follower of rewarding its shareholders over a sustained period of time.

#### 1. BOARD OF DIRECTORS

a) The total strength of the Board is 12 Directors all being non-executive, except the Managing Director, the Director-Finance & Chief Financial Officer and the Vice-Chairman. The Board comprises of 1 (One) Promoter Director, 7 (Seven) Independent Directors and 4 (Four) Non-Independent Directors. The present constitution of Board complies with requirement of Clause-49 of Listing Agreement, which stipulates that at least one third of the Board Members should be independent if the Chairman is non-executive Director.

S.No.	Name of the Director	Whether Promoter/Executive or Non-Executive/Independent	No. of Board Meetings attended during 2005-06	Whether attended AGM held on 23.09.2005	No. of Directorships in other Public Ltd. Companies	No. of Committee positions held in other Public Ltd. Companies	
						Chairman	Member
1)	Shri Ajit Kumar (Chairman)	Non-Executive, Independent	4	NO	-	-	-
2)	Shri T. B. Gupta (Executive Vice-Chairman)	Executive, Non-Independent	4	YES	3	-	2
3)	Shri S. K. Agarwal (Managing Director)	Executive, Non-Independent	3	YES	2	1	-
4)	Shri Ramji Mehrotra	Non-Executive, Non-Independent	0	NO	-	-	-
5)	Shri Somesh Mehrotra	Non-Executive, Promoter	2	NO	1	-	-
6)	Shri K. K. Soni (Director-Finance & Chief Financial Officer)	Executive, Non-Independent	4	YES	4	-	2
7)	Shri N. C. Sundararajan	Non-Executive, Independent	3	NO	-	-	-
8)	Shri A. K. Puri	Non-Executive, Independent	4	NO	2	-	3
9)	Shri M. G. Diwan	Non-Executive, Independent	1	NO	5	1	3
10)	Dr. S. Ramesh	Non-Executive, Independent	4	YES	3	-	3
11)	Shri B. M. Oza	Non-Executive, Independent	3	NO	-	-	-
12)	Shri D. D. Chopra	Non-Executive, Independent	0	NO	1	-	-

None of the Directors is a member of more than 10 Board-level committees, namely the Audit Committee and the Shareholders/Investors Grievance Committee or a Chairman of more than five such committees, as required under Clause 49 of the listing agreement. The Directorship in other companies excludes Directorships in any foreign Company, Private Company and Section 25 Company.

b) During the year ended 31/03/2006, 4 (Four) Board Meetings were held with at least one meeting in every quarter on 25/05/2005, 26/07/2005, 31/10/2005 and 31/01/2006.

c) There were no material transactions with the non-executive Directors during the year under review. For other related party transactions, necessary disclosures have been made in clause 9 under the head 'Notes on Accounts' in the Annual Accounts for the year under review.

d) Information supplied to the Board:

The VLS Board oversees the business conduct, while the Audit Committee, comprising majority of independent Directors, appraises control and procedures. As a result, the Company continuously examines its governance practices to protect investor trust and enhance the Board effectiveness. The Board has unfettered and complete access to any information within the Company and to any employee of the Company. At meetings of the Board, it welcomes the presence of senior executives who can provide additional insights into the items being discussed. Members of VLS management team regularly review the health of each of its business across strategy and performance to staffing and compliance. These business managers extensively monitor the financial performance and operating systems enabling the Company to identify potential risks and opportunities early in their occurrence cycle translating into proactive de-risking.

All other relevant information as and when required including those envisaged in Clause 49 of Listing Agreement was regularly provided to the Board and Committees thereof. The requisite CEO and CFO certification was also placed before the Board alongwith the annual accounts for the year under review as required under Clause 49 of Listing Agreement.

e) Details of remuneration paid to the Directors during the year ended on 31.03.2006:

S.No.	Name of the Director	Salary(In Rs.)	Perquisites (In Rs.)	Sitting fee (In Rs.)	Commission (In Rs.)	Total(In Rs.)
1)	Shri Ajit Kumar	N.A.	N.A.	20,000	N.A.	20,000
2)	Shri T. B. Gupta	3,21,432	83,571	NIL	NIL	4,05,003
3)	Shri S.K. Agarwal	5,40,000	2,54,630	NIL	NIL	7,94,630
4)	Shri Somesh Mehrotra	N.A.	N.A.	12,000	N.A.	12,000
5)	Shri B.M. Oza	N.A.	N.A.	43,000	N.A.	43,000
6)	Dr. S. Ramesh	N.A.	N.A.	28,000	N.A.	28,000
7)	Shri A.K. Puri	N.A.	N.A.	28,000	N.A.	28,000
8)	Shri N.C. Sundararajan	N.A.	N.A.	21,000	N.A.	21,000
9)	Shri M.G. Diwan	N.A.	N.A.	5,000	N.A.	5,000
10)	Shri Ramji Mehrotra	N.A.	N.A.	NIL	N.A.	NIL
11)	Shri D.D. Chopra	N.A.	N.A.	NIL	N.A.	NIL
12)	Shri K.K. Soni	N.A.	N.A.	NIL	N.A.	NIL

Notes:

- Currently, the Company does not have any stock option scheme.
- No other remuneration, except sitting fee is paid to non-executive directors.
- Shri Somesh Mehrotra and Shri N.C. Sundararajan held 4,04,106 equity shares and 3,000 equity shares of the Company respectively as on 31.03.2006. No other director held any shares of the Company on that date.
- The service contract in case of Executive Directors is 3 years with notice period of 3 months. All the Non-Executive Directors are liable to retire by rotation.

**f) Code of Conduct**

The Code of Conduct was formally adopted by the Board on 31/01/2006. It is applicable on all Directors and Senior Management personnel of the Company. The said code though formally adopted in compliance of Clause 49 of listing agreement, its principles were in practice long before as governing factor of the business rules of the Company. The Code of Conduct is available on the Company's Website. The declaration from Managing Director that all Board Members and other concerned have complied with the code is appended to and forms part of this Report.

**Declaration under Clause 49 I (D) for compliance with the Code of Conduct**

Pursuant to Clause 49 (1) (D) of the listing agreement entered into with Stock Exchanges, I hereby declare that the Company has obtained affirmative compliance with Code of Conduct from all the Board Members and Senior Management personnel of the Company for the period under review, which ended on 31/03/2006.

Date : 28/07/2006

Place : New Delhi

S. K. Agarwal  
Managing Director

**g) Disclosures regarding appointment or re-appointment of Directors**

Shri Somesh Mehrotra, Shri N. C. Sundararajan, Shri B. M. Oza and Shri D. D. Chopra will retire by rotation at the forthcoming Annual General Meeting and being eligible have offered themselves for re-appointment. The Board recommends their re-appointment. The relevant information about these Directors has been furnished in notice convening the ensuing Annual General Meeting.

**2. AUDIT COMMITTEE**

**a) Composition**

As on 01/04/2005, the Audit Committee comprised of Dr. S. Ramesh (Chairman of the Committee) and Shri N.C. Sundararajan, Shri A.K. Puri, Shri Somesh Mehrotra, Shri Ramji Mehrotra, Shri Divey Dipti Chopra and Shri B.M. Oza as members. The Board, in its meeting held on 31/01/2006, nominated Shri K.K. Soni in the Committee in place of Shri Somesh Mehrotra. Majority of the members are independent Directors including Chairman of the Committee. Shri N. C. Sundararajan, Shri Ramji Mehrotra, Shri A. K. Puri, Shri D. D. Chopra and Shri K. K. Soni have extensive experience and requisite expertise in the field of Corporate finance. Besides Shri K. K. Soni, Shri N. C. Sundararajan and Shri Ramji Mehrotra are Chartered Accountant by profession. All other members of committee are also financially literate in terms of relevant stipulation under Clause- 49 of the listing agreement. Since an Executive Director can be member of Audit Committee as per present criteria in Clause 49 of listing agreement, the nomination of Shri K.K. Soni, in Audit Committee was not withdrawn by the Board consequent to his becoming Executive Director of the Company.

**b) Terms of reference**

The role, terms of reference, authority and powers of the Committee are in conformity with the listing agreement read with Section 292A of the Companies Act, 1956. The Company Secretary is the Secretary of the Committee. The Statutory Auditor is regularly invited for meetings of the Committee. The Internal Auditor, the Managing Director and the Executive Vice - Chairman are also invited to its meetings whenever required. The minutes of Audit committee meetings are regularly placed before the Board. The Board had accepted all the recommendations made by Audit Committee during the year under review.

**c) Meetings and attendance**

During the year ended on 31/03/2006, 4 (Four) Audit Committee Meetings were held on 24/05/2005, 25/07/2005, 29/10/2005 and 30/01/2006. The summary of attendance of members is as under:

Name	Shri A.K. Puri	Shri N. C Sundararajan	Shri B.M. Oza	Shri Somesh Mehrotra (upto 31/01/2006)	Shri D.D. Chopra	Shri Ramji Mehrotra	Dr. S. Ramesh	Shri K.K. Soni (w.e.f. 31/01/2006)
Attendance in Four Meetings	4	3	3	1	0	0	4	0

**3. SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE**

**a) Composition and terms of reference**

The Committee comprises of Shri B.M. Oza - Chairman of the Committee with Shri T.B. Gupta, Shri Somesh Mehrotra, Shri Ramji Mehrotra, Shri Divey Dipti Chopra and Shri S. K. Agarwal as members. The Committee is vested with the requisite powers and authority to specifically look into the redressal of the shareholders and investors' grievances. The Company Secretary is the Compliance Officer and Secretary of the Committee.

As a step towards providing better services to its shareholders, individual members regularly approve the requests for dematerialization of shares received during the intervening period between two committee meetings in exercise of authority delegated by committee. Thus, the time gap between the demat approvals on an average is less than 15 days. The summary of demat requests approved by members is regularly placed before Committee. The minutes of the Committee meetings are regularly placed before the Board.

**b) Meetings and attendance**

During the year under review, 14 (Fourteen) meetings of Shareholders/ Investors Grievance Committee were held on 20/04/2005, 06/05/2005, 03/06/2005, 25/06/2005, 22/07/2005, 22/08/2005, 20/09/2005, 19/10/2005, 17/11/2005, 16/12/2005, 10/01/2006, 09/02/2006, 27/02/2006 and 29/03/2006.

The summary of meetings attended by members of Committee is as under.

Name	Shri B.M. Oza	Shri Somesh Mehrotra	Shri D.D. Chopra	Shri T. B. Gupta	Shri Ramji Mehrotra	Shri S.K. Agarwal
Attendance in 14 meetings	11	0	0	13	0	10

**c) Shareholders Complaints**

The Company had received 15 (fifteen) complaints during the financial year ended 31<sup>st</sup> March 2006. All the complaints whether received through SEBI, Stock Exchange or individual members during the year were redressed to the satisfaction of investors and none remained outstanding at the end of the year under report. The nature wise summary of complaints received and redressed during the year is as under:

Nature of Complaints**	Received	Redressed
Non-receipt of Dividend	2	2
Non-receipt of shares after transfer	6	6
Non-receipt of Annual Report	4	4
Non-receipt of Bonus Shares	0	0
Non-receipt of Name change sticker	0	0
Non-receipt of Endorsement Sticker	0	0
Loss of shares/for duplicate shares	0	0
Non-receipt of share certificate after Rejection of Demat request	3	3
<b>Total</b>	<b>15</b>	<b>15</b>

\*\* Complaint received from multiple sources e.g. from SEBI, Stock Exchange etc. has been treated as one complaint but a complaint, if sent again by SEBI/ Stock Exchange has been treated as a fresh complaint.

General correspondence e.g. change of address, enquiry on dividend for the year, ISIN No. of the Company etc. have been excluded from above.

#### 4. GENERAL BODY MEETINGS

##### a) Details of the last three Annual General Meetings

Financial year ended	Date	Time	Venue
March 31, 2005	September 23, 2005	10.30 a.m.	Sri Sathya Sai International Centre Auditorium, Lodhi Road Institutional Area, Lodhi Road, Pragati Vihar, New Delhi-110003.
March 31, 2004	September 23, 2004	10.30 a.m.	Sri Sathya Sai International Centre Auditorium, Lodhi Road Institutional Area, Lodhi Road, Pragati Vihar, New Delhi-110003.
March 31, 2003	September 25, 2003	10.30 a.m.	Sri Sathya Sai International Centre Auditorium, Lodhi Road Institutional Area, Lodhi Road, Pragati Vihar, New Delhi-110003.

##### b) Special resolution passed in the previous 3 Annual General Meetings (AGM)

- In the AGM held on 23.9.2005, no agenda item was required to be approved by special resolution.
- In the AGM held on 23.9.2004, special resolution for appointment of Mrs. Usha Gupta at place of profit in VLS Securities Ltd., a wholly owned subsidiary of the Company was passed.
- In the AGM held on 25.9.2003, special resolutions for amendment in object clause of Memorandum of Association of the Company and approval of delisting of shares from Stock Exchanges at Delhi, Ahmedabad, Madras and Calcutta were passed through postal ballot.

##### c) Postal ballots

During the year under review, no item was proposed for approval of members through Postal Ballot.

#### 5. DISCLOSURES

##### a) Related party transactions

There were no transactions with promoters, Directors and related persons that were materially significant, having conflict with the interest of Company at large, during the financial year under review. However, necessary disclosure has been made in Audited Financial Accounts for the year under review under the head eNotes on Accounts.

##### b) Statutory compliance, penalties and strictures

The Company has complied with all applicable requirements of Stock Exchange, SEBI and other statutory authorities on all matters related to capital market during the year under review. The details of penalties/strictures on the Company in last three years are as under:

- i) The adjudicating officer SEBI, vide letter dated 31/03/2003 had imposed a penalty of Rs.5 lakhs on Company for alleged violation of regulation 10 of SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997 in the matter of transfer of 3,44,658 shares of Trackparts of India Ltd. The Company had preferred an appeal against the said order vide appeal no. 61/2003 before Honible Securities Appellate Tribunal, Mumbai (SAT), but the appeal was dismissed by said tribunal vide order dated 17.11.2005. The Company has appealed before the Honible Supreme Court against decision of Honible tribunal and the matter is subjudice.
- ii) The trading of securities of the Company was temporarily disallowed w.e.f. 27/06/2002 by the National Stock Exchange for alleged violations of provisions of listing agreement. The Company has inter-alia denied violation in its submission made to stock exchange and has submitted required explanation on the queries of Stock Exchange. After consideration by the designated committee of Exchange for this purpose the **Exchange had reinstated the trading of scrip of the Company w.e.f. 04/03/2004.**
- iii) Rs. 8,000/- has been paid by Company as compounding fee levied by Regional Director (Northern Region), Department of Company Affairs vide its order dated 30.7.2003 for alleged violations of provisions of section 209 and 211 of the Companies Act, 1956 upon application moved by Company stating that it has neither committed the alleged offences nor is liable for violations of the Companies Act, 1956 and the application was being made to avoid lengthy legal proceedings.
- iv) Rs. 2,000/- has been paid by the Company as compounding fee levied by Company Law Board, Northern Region Bench, New Delhi vide its order dated 31.12.2003 for alleged violation of provisions of section 269 of the Companies Act, 1956 for not appointing Managing Director for the period from 23/12/1997 to 20/6/2001.

##### c) Legal Proceedings

There are certain pending cases relating to disputes over title to shares, in which the Company has been made a party. However, these cases are not material in nature.

##### d) Whistle blower policy

The Whistle blower policy of the Company as required under clause 49 of the listing agreement will be put in place after requisite approvals, although the existing working setup also provides unfettered approach to management by the employees in reporting any matter envisaged to be covered in the whistle blower policy.

##### e) Compliance of Non-mandatory requirements

- i) The Company does not maintain separate office for the Non-Executive Chairman. However he may claim reimbursement of expenses incurred for performance of duties as chairman. No expenses on this account have been claimed during the year under review.
- ii) Remuneration Committee  
The Remuneration Committee comprises of Shri B.M. Oza - Chairman of the Committee, Shri Somesh Mehrotra, Dr. S. Ramesh, Shri Ramji Mehrotra and Shri D.D. Chopra - Members. The Committee formulates the remuneration package for managerial personnel including Executive Director(s) for approval of the Board and performs other roles detailed out in the listing agreement executed with the Stock Exchanges or as assigned by the Board from time to time. Since there was no proposal for recommending/reviewing remuneration of Directors, no meeting of said Committee was held during the year under review. In the current year, one meeting of committee was held on 27/07/2006.
- iii) The periodic results were not sent to any shareholder. However, they have been published in newspapers as prescribed in listing agreement. They are also available on website [sebidifar.nic.in](http://sebidifar.nic.in) in terms of Clause 51 of the Listing Agreement and the Company's website.

#### 6. COMMUNICATION TO SHAREHOLDERS

- a) The Company does not send newsletter to shareholders on quarterly or half yearly basis. The Company publishes un-audited quarterly results alongwith segment wise report, in two newspapers viz. The Financial Express and Jansatta regularly and the same is also available on Company's website <http://www.vlsfinance.com>. The quarterly/ Annual results of Company from the quarter ended 31/12/2003 onwards and other information as prescribed are also available on website [sebidifar.nic.in](http://sebidifar.nic.in) which is maintained under aegis of Securities & Exchange Board of India. Further, disclosures pursuant to the listing agreement are promptly communicated to the Stock Exchanges.
- b) The official news releases and presentations made to analysts/ institutional investors shall also be posted on the website as and when made. No presentation was, however, made by Company to Analysts etc during the year under review.
- c) The Management Discussion and Analysis forms part of Annual Report for the year under review. The Company, however, assumes no responsibility in respect of forward looking statements, which may be amended or modified in future on the basis of subsequent developments or events.

#### 7. SHAREHOLDERS INFORMATION

##### a) Annual General Meeting

- Date and time	:	Monday, 25 <sup>th</sup> September, 2006
- Venue	:	Sri Sathya Sai International Centre Auditorium, Lodhi Road Institutional Area, Lodhi Road, Pragati Vihar, New Delhi-110003
- Financial Year	:	April to March
- Book Closure	:	From 15-09-2006 to 25-09-2006 (both days inclusive)
- Buy back of shares	:	During the year under review, there was no proposal by the Company to buy back its shares.
- Dividend payment date	:	Not Applicable as no dividend has been recommended.

##### b) Listing at Stock Exchanges

The equity shares of the Company are listed at following Stock Exchanges:

1. Bombay Stock Exchange Ltd., Mumbai. (Code: 511333)
2. The National Stock Exchange of India Ltd., Mumbai. (Code: VLSFINAC)
3. The Calcutta Stock Exchange Association Ltd, Kolkata
4. The Madras Stock Exchange Ltd., Chennai.

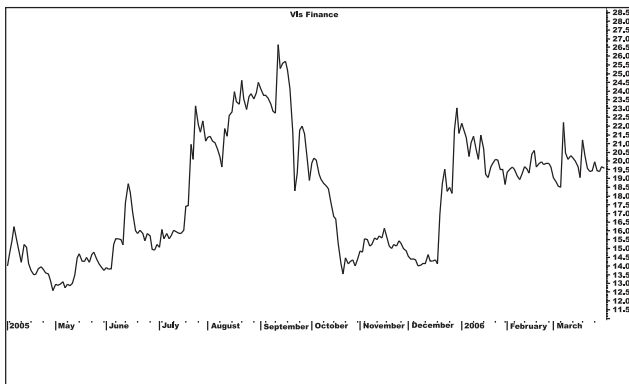
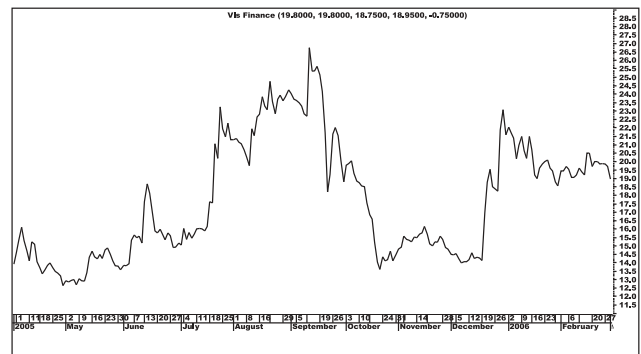
The annual listing fee has been paid to all the Stock Exchanges as mentioned above up to the year 2006-2007. However, de-listing confirmation is yet to be received from the Calcutta Stock Exchange Association Ltd. and the Madras Stock Exchange Ltd.

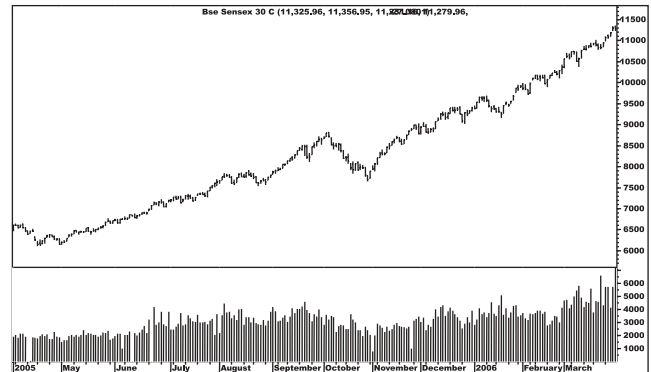
**c) Stock Market data**

Monthly highs, lows and trading volume for the Financial Year 2005-2006:

(Source: Metastock)

Months	NSE			BSE		
	High Rs.	Low Rs.	Volume Nos.	High Rs.	Low Rs.	Volume Nos.
Apr-05	16.85	12.50	1031823	16.87	12.50	813909
May-05	15.75	12.40	860568	15.45	12.45	769505
Jun-05	19.80	13.50	3447339	19.78	13.55	2883615
Jul-05	24.15	15.00	6011182	24.20	14.90	6180920
Aug-05	25.85	19.50	5022436	25.80	19.50	4648125
Sep-05	27.30	18.00	5782854	27.60	18.00	5147352
Oct-05	20.55	12.55	1217905	20.60	12.60	1287049
Nov-05	16.70	14.10	773458	16.70	14.10	745338
Dec-05	25.50	13.85	4250139	25.50	13.86	3981476
Jan-06	23.40	18.40	1866947	23.20	18.40	1892821
Feb-06	22.40	17.90	2157636	22.35	17.90	1963386
Mar-06	23.40	18.30	2435694	23.30	17.00	2424175
<b>Total</b>			<b>34857981</b>			<b>32737671</b>

**Graphical representation of Shares Price in NSE and BSE vis-à-vis Index Movement:**
**NSE Graph of VLS Finance Ltd.**

**BSE Graph of VLS Finance Ltd.**

**NSE Nifty**

**BSE Sensex**

**d) Registrar and Transfer Agents and Share Transfer System**

The Company has retained M/s RCMC Share Registry Pvt. Ltd., as its Registrar & Transfer Agents for further period of one year w.e.f. 01/04/2006 for entire shareholder services viz. processing request for transfer, other shareholder services, dematerialisation of holding, providing connectivity services with depositories in compliance of SEBI's circular No.D&CC/F/TTC/CIR-15/2002 dated 27/12/2002.

**e) Investors Correspondence**

For any query relating to transfer/transmission of shares, dematerialisation, change of address etc. please write to M/s RCMC Share Registry Pvt. Ltd, Registrars and Transfer Agents of the Company, at 1515, 1<sup>st</sup> Floor, Bhishm Pitamah Marg, Kotla Mubarakpur, near South Extension, New Delhi-110003 (Phone No. 24692346, 24601017). For any further assistance in said matters, queries may be addressed to the Company Secretary at the Registered office of the Company.

**f) Distribution of shareholding as on March 31, 2006**

Slab of share holding	No. of shareholders	%age	Nominal value of shares held in (Rs.)	%age
1-500	10759	38.9367	27891960.00	7.0089
501-1000	13260	47.9878	84718580.00	21.2887
1001-2000	2213	8.0088	31561030.00	7.9309
2001-3000	569	2.0592	14670570.00	3.6865
3001-4000	206	0.7455	7455990.00	1.8736
4001-5000	171	0.6188	8055590.00	2.0243
5001-10000	294	1.0640	21126420.00	5.3088
10001 and above	160	0.5790	202469860.00	50.8782
<b>Total</b>	<b>27632</b>	<b>100</b>	<b>397950000.00</b>	<b>100</b>

**According to categories of shareholders as on March 31, 2006**

Serial No.	Categories	No. of shares	Amount In Rs.	Percentage of shareholding
1	Promoters, Directors and Relatives	14996168	149961680.00	37.7076
2	Financial Institution and Banks	10300	1030000.00	0.0271
3	Mutual Fund	100	1000.00	0.0003
4	FII's	300	3000.00	0.0008
5	Corporate Bodies	3704869	37048690.00	3.4951
6	Indian Public	21063027	210630270.00	58.7426
7	NRI/OCBs/FN	20236	202360.00	0.0286
	<b>Grand Total</b>	<b>39795000</b>	<b>397950000.00</b>	<b>100.0000</b>

**g) Dematerialisation of Shares and liquidity**

82.06% of the total share capital of Company are held in dematerialized form as on 31/03/2006. The shares of Company are actively traded in The Bombay Stock Exchange Ltd. and The National Stock Exchange Ltd. The shares of the Company are traded only in demat segment w.e.f. 28<sup>th</sup> August 2000.

h) There were no ADRs/ GDRs/ Warrants or other convertible instruments outstanding as on 31/03/2006.

**i) Financial Calendar (Tentative)**

Quarter ending June 30, 2006	End of July 2006
Quarter ending September 30, 2006	End of October 2006
Quarter ending December 31, 2006	End of January 2007
Year ending March 31, 2007 #	End of May 2007
Annual General Meeting for the year ended March 31, 2006	25 <sup>th</sup> September 2006

# For the quarter ending 31/03/2007 un-audited results may not be published and only audited results will be published, unless decided otherwise.

**j) Subsidiary Companies**

The Company does not have a material non-listed Indian subsidiary in terms of revised clause 49 of the listing agreement (i.e. Clause 49) as per financial results of the period under review, i.e. Financial Year 2005-06.

**Auditors' Certificate on Corporate Governance**

As required by Clause 49 of the Listing Agreement, the Auditors Certificate is annexed hereto.

**CERTIFICATE**

To the Members of

VLS Finance Ltd.

We have examined the compliance of conditions of corporate governance by VLS Finance Ltd., for the year ended on 31<sup>st</sup> March 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchange (s).

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the abovementioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company and certificates furnished by the Registrar and Transfer Agents of the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For an on behalf of

Agiwal & Associates

Chartered Accountants

(P.C. Agiwal)

(Partner)

Membership No. 80475

Date: 28/07/2006

Place: New Delhi

Office: 3830, Lal Kothi, 2<sup>nd</sup> Floor, Pataudi House Road, Above Bank of Baroda, Darya Ganj, New Delhi-110002

**AUDITORS' REPORT**

To,

The Members

VLS Finance Ltd.

New Delhi

We have audited the attached Balance Sheet of VLS Finance Ltd. as at 31<sup>st</sup> March 2006 and also Profit and Loss Account of the Company for the year ended on that date annexed thereto and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

1. As required by the Companies (Auditor's Report) Order, 2003 issued by the Department of Company Affairs in terms of section 227 (4A) of the Companies Act, 1956 we enclose in the annexure a statement on the matters specified in paragraph 4 & 5 of the said Order, to the extent applicable to the Company.

2. Further to our comments in the annexure referred to in paragraph one above we report that:

- We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- In our opinion, proper books of accounts as required by law have been kept by the Company, so far as appears from our examination of those books;
- The Balance Sheet, Profit & Loss Account and cash flow statement dealt with by this report are in agreement with the books of accounts;
- In our opinion the Balance sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
- On the basis of written representations received from the directors as on 31<sup>st</sup> March 2006, and taken on record by the board of directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March 2006 from being appointed as a director in terms of clause (g) of subsection (1) of section 274 of the Companies Act, 1956;

In our opinion and to the best of our information and according to the explanation given to us, the said accounts read with significant accounting policies and notes to accounts thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

- In the case of Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2006 and;
- In the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date;
- In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For Agiwal & Associates  
Chartered Accountants

Place : New Delhi

Date : 30<sup>th</sup> May, 2006

(V.K. Gupta)

Partner

(M. No. 81979)

**ANNEXURE TO AUDITORS REPORT**
**REFERRED TO IN PARAGRAPH (1) OF OUR REPORT OF EVEN DATE**

Re: VLS Finance Ltd. for the year ended 31<sup>st</sup> March 2006

- (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) All the fixed assets *except assets on lease, which are in the possession of the lessee*, have been physically verified by the management at the reasonable interval. No material discrepancies were noticed on such verification as informed to us.
- (c) In our opinion and according to information and explanations given to us, the Company has not disposed off substantial part of fixed assets during the year.
- (a) The securities held as stock-in-trade have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of stock-in-trade followed by the management were found reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) In our opinion and according to information and explanations given to us, the Company has maintained proper records of its inventories. The discrepancies noticed on verification between the physical stocks and book records which are not material in relation to the Company, have been properly dealt with in the books of accounts.

- (a) The Company has granted interest free unsecured loan to the subsidiary company listed in the register maintained under section 301 of the Companies Act, 1956 and the amount outstanding as on 31.03.2006 is Rs.9,05,511/-.
- (b) In our opinion the terms and conditions of such unsecured loan given by the Company are prima facie not prejudicial to interest of the Company.
- (c) As per information given to us, the aforesaid loan given to the subsidiary company is payable on demand and there is no overdue amount at the year end.
- (d) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clause (f) and (g) of the Order are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, the Company has an adequate internal control procedure commensurate with its size and nature of its business, for the purchase of fixed assets and for purchase/sale of securities. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system during the year.
- (v) (a) To the best of our knowledge and belief and according to information and explanations given to us, the transactions that needed to be entered into the register maintained in pursuance to section 301 of the Companies Act, 1956, have been so entered.
- (b) According to information and explanation given to us, the transaction, made in pursuance of contracts or arrangements entered into Register(s) maintained under section 301 of the Companies Act, 1956 as aggregating during the period of Rs. 5,00,000/- (Rs. Five Lacs only) or more in respect of each party, have been made at the rates which are reasonable having regard to prevailing market rates.
- (vi) The Company has not accepted any deposits from the public during the year. Hence provisions of section 58A & 58AA or any other relevant provisions of the Companies Act, 1956 and rules of Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits are not applicable to the Company.
- (vii) In our opinion, the Company has an internal audit system, commensurate with its size and nature of its business.
- (viii) In our opinion and according to the information and explanations given to us, maintenance of cost records as prescribed by the Central Govt. under section 209(1) (d) of the Act, is not required as the Company is not in the manufacturing activity.
- (ix) (a) The Company is regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth tax, service tax and any other statutory dues with the appropriate authorities. There was no outstanding against any undisputed statutory dues as on 31.03.2006.
- (b) According to the records and information and explanations given to us, there is no outstanding of any disputed statutory dues as on 31.03.2006.
- (x) The Company neither have accumulated losses at the end of the year, nor incurred cash losses during the current financial year or in the immediately preceding financial year. On the basis of the verification of records and information and explanations given to us, the Company has not defaulted in repayment of dues to financial institutions or banks. The Company has not issued any debentures during the year.
- (xii) The Company has maintained adequate documents and records in case of loan granted on the basis of securities by way of pledge of shares.
- (xiii) The Company has maintained proper record for dealing and trading in shares, securities, debentures and timely entries have been made therein. The shares, securities and debentures and other investments have been held by the Company in its own name except to the extent of exemption granted under section 49 of the Act.
- (xiv) In our opinion and according to information and explanations given to us, the Company has not given any Guarantee for loans taken by others from Banks or Financial Institutions.
- (xv) The Company has not raised any Term Loan during the year.
- (xvi) According to the cash flow statement and other records examined by us and the information and explanations given to us, on overall basis, the funds raised on short-term basis have not been used during the year for long-term investments.
- (xvii) The Company has not made any preferential allotment of shares to any party covered in the register maintained u/s 301 of the Companies Act, 1956.
- (xviii) To the best of our knowledge and information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.
- (xix) The Para Nos. 4 (xiii), (xix) and (xx) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

Place : New Delhi

Date : 30<sup>th</sup> May, 2006

For Agiwal & Associates  
Chartered Accountants

(V.K. Gupta)

Partner

(M.No. 81979)



**BALANCE SHEET AS AT 31st March, 2006**
**(Amount in Rupees)**

	Sch. No.	As at 31st March, 2006	As at 31st March, 2005
<b>I. SOURCES OF FUNDS</b>			
<b>1. Shareholders' Funds</b>			
a) Capital	1	39,91,72,250	39,91,72,250
b) Reserves & Surplus	2	114,15,72,801	114,64,67,130
<b>2. Loan Funds</b>			
Unsecured Loans	3	1,31,81,588	1,31,81,588
<b>Total Sources</b>		<b>155,39,26,639</b>	<b>155,88,20,968</b>
<b>II. APPLICATION OF FUNDS</b>			
<b>3. Fixed Assets</b>			
a) Gross Block	4	137,82,44,939	137,64,64,101
b) Less: Depreciation		127,33,18,239	126,80,18,434
c) Net Block		10,49,26,700	10,84,45,667
<b>4. Investments (At cost)</b>			
	5	82,65,86,699	79,42,12,837
<b>5. A. Current Assets, Loans &amp; Advances</b>			
a) Share stock in trade	6	1,12,99,734	11,61,88,691
b) Sundry Debtors	7	1,41,01,739	5,89,74,088
c) Cash & Bank Balances	8	65,20,501	2,78,49,151
d) Other Current Assets	9	33,97,48,057	25,04,95,305
e) Loans and Advances	10	23,09,69,304	21,86,02,936
		60,26,39,335	67,21,10,171
<b>5. B. Less: Current Liabilities &amp; Provisions</b>			
a) Liabilities	11	77,10,257	4,68,89,344
b) Provisions	12	1,10,45,910	78,27,180
		1,87,56,167	5,47,16,524
<b>Net Current Assets (A-B)</b>		<b>58,38,83,168</b>	<b>61,73,93,647</b>
<b>6. Deferred Tax Assets</b>			
		3,85,30,072	3,87,68,817
<b>Total Deployments</b>		<b>155,39,26,639</b>	<b>155,88,20,968</b>
<b>Notes on Accounts</b>			
As per our report of even date.			
For Agiwal & Associates		For and on behalf of the Board	
Chartered Accountants			
V.K. Gupta			
Partner			
May 30th, 2006		S.K. Agarwal	K.K. Soni
New Delhi		Managing Director	Director
		B.M. Oza	H. Consul
		Director	Company Secretary

**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2006**
**Amount in Rupees**

	Schedule No.	For the year ended 31st March, 2006	For the year ended 31st March, 2005
<b>INCOME</b>			
Sale of Shares/Securities		2165,68,76,115	1342,21,04,843
Income from Operations	13	1,59,10,788	2,33,64,179
Income/(Loss) from Investments		4,46,18,005	(38,112,472)
Other Income		15,86,264	5,76,049
Profit/ (Loss) on account of Foreign Exchange rate difference		3,96,229	(1,827,023)
Increase/(Decrease) in stock of shares	17	(1,340,209)	1,36,08,870
<b>Total (A)</b>		<b>2171,80,47,192</b>	<b>1341,97,14,446</b>
<b>EXPENDITURE</b>			
Purchase of Shares/Securities		2161,96,55,450	1334,80,33,493
Interest & Finance Charges	14	6,982	8,636
Administrative & Other Expenses	15	2,24,28,858	2,05,72,713
Employees' Cost	16	50,59,418	42,06,116
Depreciation	4	52,99,805	55,72,353
Miscellaneous Expenditure Written-off		0	7,27,552
<b>Total (B)</b>		<b>2165,24,50,513</b>	<b>1337,91,20,863</b>
<b>PROFIT/LOSS BEFORE ADJUSTMENTS</b>			
Bad Debts Recovery		6,55,96,679	4,05,93,583
Provision for diminution in value of Investments		1,34,71,642	1,14,65,273
Less: Amount Transferred from General Reserve	8,00,00,000	0	6,00,00,000
Provision for Non Performing Assets	8,00,00,000	0	6,00,00,000
<b>PROFIT (LOSS) BEFORE TAX</b>		<b>4,98,691</b>	<b>(23,406,653)</b>
Less: Provision for Taxation - Current Tax		29,15,207	0
Less: Provision for Taxation - Fringe Benefit Tax		3,10,007	0
Less: Provision for Taxation - Deferred Tax		2,38,745	8,45,726
<b>PROFIT (LOSS) AFTER TAX</b>		<b>7,51,05,671</b>	<b>7,46,19,783</b>
Add: Surplus b/fd. from previous year		19,85,190	24,58,509
<b>PROFIT AVAILABLE FOR APPROPRIATIONS</b>		<b>7,70,90,861</b>	<b>7,70,78,292</b>
<b>APPROPRIATED TO:</b>			
Transfer to General Reserve		6,00,00,000	6,00,00,000
Statutory Reserve u/s 45 IC of the RBI Act, 1934		1,57,13,926	1,50,93,102
<b>SURPLUS CARRIED TO BALANCE SHEET</b>		<b>13,76,935</b>	<b>19,85,190</b>
<b>EARNING PER SHARE ( Refer Note No. 12 in Schedule 18)</b>			
Basic and Diluted Earning per Share (Rs.)		1.89	1.87
Face Value per Share ( Rs.)		10.00	10.00
<b>Notes on Accounts</b>			
As per our report of even date.			
For Agiwal & Associates		For and on behalf of the Board	
Chartered Accountants			
V.K. Gupta			
Partner			
May 30th, 2006		S.K. Agarwal	K.K. Soni
New Delhi		Managing Director	Director
		B.M. Oza	H. Consul
		Director	Company Secretary

**SCHEDULES TO BALANCE SHEET AS AT 31st March, 2006**

(Amount in Rupees)

	As at 31st March, 2006	As at 31st March, 2005
<b>SCHEDULE 1 SHARE CAPITAL</b>		
<b>AUTHORISED CAPITAL</b>		
5,00,00,000 Equity Shares of Rs.10/- each	50,00,00,000	50,00,00,000
(Previous year 5,00,00,000 Equity shares of Rs.10/-each)		
<b>ISSUED CAPITAL</b>		
4,02,62,500 Equity Shares of Rs.10/- each	40,26,25,000	40,26,25,000
(Previous year 4,02,62,500 Equity shares of Rs.10/-each)		
<b>SUBSCRIBED &amp; PAID-UP CAPITAL</b>		
3,97,95,000 Equity Shares of Rs.10/- each fully paid up for cash	39,79,50,000	39,79,50,000
(Previous year 3,97,95,000 Equity Shares of Rs.10/- each)		
Add: Amount forfeited on 4,67,500 equity shares		
(Previous year 4,67,500 equity shares)	12,22,250	12,22,250
	<b>39,91,72,250</b>	<b>39,91,72,250</b>

(Of the above, 3,31,62,500 equity shares, fully paid up have been issued as bonus shares by way of capitalisation of share premium)

	As at 31st March, 2006	As at 31st March, 2005
<b>SCHEDULE 2 RESERVES &amp; SURPLUS</b>		
<b>a) GENERAL RESERVE</b>		
As per last Balance Sheet	15,68,83,930	15,68,83,930
Less: Transfer to Profit and Loss A/c	8,00,00,000	6,00,00,000
	7,68,83,930	9,68,83,930
Add: Transfer from Profit and Loss A/c	6,00,00,000	6,00,00,000
Total (a)	13,68,83,930	15,68,83,930
<b>b) STATUTORY RESERVE</b>		
As per last Balance Sheet	1,97,51,775	46,58,673
Add: Transfer from P/L account for the year	1,57,13,926	1,50,93,102
Total (b)	3,54,65,701	1,97,51,775
<b>c) SECURITY PREMIUM ACCOUNT</b>		
As per last Balance Sheet	96,78,46,235	96,78,46,235
Total (c)	96,78,46,235	96,78,46,235
<i>Of the above amount of Rs.96,78,46,235/-, an amount of Rs.4,74,33,750 is relating to share premium received on forfeited shares</i>		
<b>d) SURPLUS</b>		
Total (d)	13,76,935	19,85,190
	13,76,935	19,85,190
<b>Grand Total (a) to (d)</b>	<b>114,15,72,801</b>	<b>114,64,67,130</b>
<b>SCHEDULE 3 UNSECURED LOANS</b>		
Adjustable deposits	1,31,81,588	1,31,81,588
Total	1,31,81,588	1,31,81,588

**SCHEDULE 4 FIXED ASSETS**

Sl. No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost As at 01.04.2005	Additions during the year	Sales/ Adjust-ments	Cost As at 31.03.2006	Upto 31.03.2005	For the year	Sales/ Adjust-ments	Upto 31.03.2006	As at 31.03.2006	As at 31.03.2005
		<b>1 Assets for own use:</b>									
A Buildings	15,37,31,635	10,90,942	Nil	15,48,22,577	6,11,27,366	46,39,550	Nil	6,57,66,916	8,90,55,661	9,26,04,269	
B Temporary Structures	28,49,232	Nil	Nil	28,49,232	28,49,231	Nil	Nil	28,49,231	1	1	
C Vehicles	23,78,489	400,000	Nil	27,78,489	19,02,360	1,86,400	Nil	20,88,760	6,89,729	4,76,129	
D Office Equipments	21,03,792	68,951	Nil	21,72,743	14,42,392	95,594	Nil	15,37,986	6,34,757	6,61,400	
E Furniture & Fixtures	28,53,694	38,909	Nil	28,92,603	24,42,251	78,232	Nil	25,20,483	3,72,120	4,11,443	
F Air Conditioners	17,45,519	18,750	Nil	17,64,269	13,14,286	61,894	Nil	13,76,180	3,88,089	4,31,233	
G Computers	29,29,718	163,286	Nil	30,93,004	25,32,818	1,98,812	Nil	27,31,630	3,61,374	3,96,900	
H Electrical Installations	7,74,549	Nil	Nil	7,74,549	5,98,548	24,481	Nil	6,23,029	1,51,520	1,76,001	
I Generator	4,30,905	Nil	Nil	4,30,905	3,24,202	14,842	Nil	3,39,044	91,861	1,06,703	
<b>2 Assets on Lease</b>	120,66,66,568	Nil	Nil	120,66,66,568	119,34,84,980	Nil	Nil	119,34,84,980	1,31,81,588	1,31,81,588	
Total	137,64,64,101	17,80,838	-	137,82,44,939	126,80,18,434	52,99,805	-	127,33,18,239	10,49,26,700	10,84,45,667	
Previous Year	137,78,81,881	2,80,049	16,97,829	137,64,64,101	126,38,16,414	55,72,353	13,70,333	126,80,18,434	10,84,45,667	11,40,65,467	

**SCHEDULE 5 INVESTMENTS (Long Term)**

PARTICULARS	FACE VALUE	QUANTITY		AMOUNT (In Rs.)		At Cost	At Market Value (*)	At Cost	At Market Value (*)
		AS AT 31.03.2006	AS AT 31.03.2005	AS AT 31.03.2006	AS AT 31.03.2005				
<b>A. IN EQUITY SHARES</b>									
<b>1. Un-quoted &amp; Fully Paid</b>									
Hotline Display Devices Ltd (Previously Hotline Wittis Display Devices Ltd)	10	45,00,000	45,00,000	4,51,87,500	4,51,87,500				
Hotline Electronic Components Ltd (Previously Hotline Wittis Electronic Ltd)	10	9,00,000	9,00,000	90,00,000	90,00,000				
Hotline Electronics Ltd	10	20,00,000	20,00,000	2,00,75,000	2,00,75,000				
Foremost Factors Ltd	10	40,000	40,000	4,00,000	4,00,000				
Indhradhan Agro Ltd.	10	1,50,000	1,50,000	15,00,000	15,00,000				
Invest India Economic Foundation Private Ltd.	10	2,000	2,000	20,000	20,000				
Anchal Fintrade P.Ltd	100	35,000	0	35,00,000	0				
Alok Fintrade P.Ltd	100	5,000	0	5,00,000	0				
B S Traders P Ltd	100	20,000	2,10,000	20,00,000	2,10,00,000				
Ganga Projects P Ltd	100	10,000	0	10,00,000	0				
Kanoria Properties P Ltd	100	80,000	45,000	80,00,000	45,00,000				
Generatio Next Medical Services Co Pvt Ltd	100	42,000	25,000	42,00,000	25,00,000				
Pranjali Investments P Ltd	100	56,000	0	56,00,000	0				
Sunair Hotels Ltd.	10	95,94,824	95,94,824	23,59,48,240	23,59,48,240				
Savera Construction P Ltd	10	1,25,000	0	12,50,000	0				
VLS Capital Ltd	10	48,20,833	48,20,833	7,38,53,947	7,38,53,947				
MPL Finance & Leasing Co Ltd (+)	10	5,482	5,482	-	0				
Eha infrastructure P Ltd	10	4,90,000	4,90,000	49,36,750	49,36,750				
<b>SUB-TOTAL (A-1)</b>				<b>41,69,71,437</b>	<b>41,89,21,437</b>				
<b>2. Quoted &amp; Fully Paid</b>									
BESTAVISION LTD	10	80,00,000	80,00,000	16,00,00,000	16,00,00,000				
ICDS LTD (+)	10	21,929	21,929	-	0				
DHAMPUR SUGAR (KASHIPUR) LTD (Previously DSM AGRO PRODUCTS LTD)	10	1,26,000	1,26,000	15,22,500	15,22,500				
ANSAL PROPERTIES & INFRASTRUCTURES LTD	10	61,089	0	86,96,372	0				
ANDHRA BANK LTD	10	100	0	8,031	0				
BICON LTD	5	50	0	20,380	0				
BONGAIGON REFINERIES LTD	10	1,000	0	64,848	0				
CONS FINVEST HOLDINGS LTD	10	3,040	0	1,22,208	0				
DABUR LTD +	1	1,000	0	0	0				
GOLDSTONE TELE SERVICES LTD	4	5,000	0	1,00,150	0				
GOLDSTONE TECHNOLOGIES LTD	10	2,000	0	66,360	0				
GATI LTD	2	15,38,415	0	3,00,58,382	0				
GMR INDUSTRIES LTD	10	250	0	42,550	0				
GSFC LTD	10	500	0	94,909	0				
IDFC LTD	10	4,000	0	2,89,690	0				
IGL LTD	10	1,000	0	1,30,150	0				
ITC LTD	1	600	0	76,305	0				
JBF INDUSTRIES LTD	10	1,000	0	71,560	0				
JENSON & NICOLSON INDIA LTD	2	1,000	0	13,830	0				
JAIPRAKASH HYDRO POWER LTD	10	2,000	0	65,660	0				
JP ASSOCIATES LTD	10	875	0	3,80,219	0				
KOTHARI PRODUCTS LTD	10	1,89,700	0	2,38,79,550	0				
<b>SUB-TOTAL (A-2)</b>								<b>26,91,95,442</b>	<b>16,15,22,500</b>
<b>B. IN PREFERENCE SHARES</b>									
<b>Un-quoted &amp; Fully Paid</b>									
Flex International P Ltd (8% Redeemable Non cumulative preference shares)	100	15,00,000	15,00,000	15,00,00,000	15,00,00,000				
Fusebase Eitoro Pvt Ltd	100	12,500	12,500	12,50,000	12,50,000				
<b>SUB-TOTAL (B)</b>								<b>15,12,50,000</b>	<b>15,12,50,000</b>
<b>C. IN EQUITY SHARES OF SUBSIDIARIES</b>									
<b>Un-quoted &amp; Fully Paid-up</b>									
<b>Domestic</b>									
VLS Securities Ltd.	10	55,00,000	55,00,000	5,50,00,000	5,50,00,000				
VLS Investments Ltd.	10	50,020	50,020	5,00,200	5,00,200				
VLS Asset Management Ltd.	10	70,100	70,100	7,01,000	7,01,000				
<b>Overseas</b>									
VLS Investments Inc., Delaware, U.S.A.	At Par	100	100	44,620	43,700				
<b>SUB-TOTAL (C)</b>								<b>5,62,45,820</b>	<b>5,62,44,900</b>
<b>D. DEBENTURES &amp; BONDS</b>									
<b>Unquoted &amp; Fully Paid-up</b>									
Eha infrastructure Pvt Ltd (0% optionally convertible debentures)	1,00,000	690	690	6,90,00,000	6,90,00,000				
ICICI Bond (12%)	1,00,000	1	1	1,04,000	1,04,000				
<b>SUB-TOTAL (D)</b>								<b>6,91,04,000</b>	<b>6,91,04,000</b>
<b>TOTAL (A1+A2+B+C+D)</b>								<b>96,27,66,699</b>	<b>85,70,42,837</b>
Less: Provision for diminution in value of Investments								<b>16,00,00,000</b>	<b>80,00,00,000</b>
<b>TOTAL (E)</b>								<b>80,27,66,699</b>	<b>77,70,42,837</b>
I. Aggregate value of quoted investments						At Cost	At Market Value (*)	<b>26,91,95,442</b>	<b>16,15,22,500</b>
						At Cost	At Market Value (*)	<b>41,87,00,092</b>	<b>4,94,72,711</b>
II. Aggregate value of un-quoted investments - In Subsidiaries						At Cost	At Market Value (*)	<b>5,62,45,820</b>	<b>5,62,44,900</b>
- Others						At Cost	At Market Value (*)	<b>63,73,25,437</b>	<b>63,92,75,437</b>
<b>E. INVESTMENT IN IMMOVABLE PROPERTIES:-</b>								<b>2,38,20,000</b>	<b>1,71,70,000</b>
<b>TOTAL (E+F)</b>								<b>82,65,86,699</b>	<b>79,42,12,837</b>

 (+) Bonus Shares received, hence cost of acquisition is NIL  
 (\*) Note: For Market Value of the quoted investments-Refer Note No.15 in Schedule18: Notes on Accounts.

**SCHEDULE 6 SHARE STOCK IN TRADE**  
*(At Cost or market price, whichever is lower)*

Name of the Company	As on 31.03.2006		As on 31.03.2005	
	Quantity	Value (Rs.)	Quantity	Value (Rs.)
<i>Stock of Quoted Equity shares (Fully Paid)</i>				
ARIHANT COTSYN LTD	2,000	1	2,000	1
BICON LTD	0	0	50	20,380
CENTRAL ROADLINES CORPORATION LTD	2,82,700	1	2,82,700	1
CONSFINVEST HOLDINGS LTD	0	0	3,040	1,22,208
DHAMPUR SUGAR MILLS LTD	0	0	1,000	1,35,850
DWARIKESH SUGAR LTD	0	0	500	75,450
FLEX INDUSTRIES LTD	0	0	2,000	73,460
GATI CORPORATION LTD	0	0	2,18,673	2,65,68,770
GLOBAL TELE SERVICES LTD	0	0	700	66,549
GOETZE LTD	0	0	500	84,775
HINDUSTAN ADHESIVES LTD	1,000	2,890	1,000	2,890
ICI INDIA LTD	0	0	125	28,475
IGL LTD	0	0	1,500	1,38,970
INTERCRAFT LTD	29,000	1	29,000	1
JAGATJEET IND LTD	0	0	1,000	41,750
JIK IND LTD	0	0	4,000	10,800
JINDAL PHOTO LTD	0	0	960	48,835
KOTHARI PRODUCTS LTD	10	3,903	1,89,700	2,38,79,550
KOTHARI SUGARS LTD	0	0	1,000	13,300
LANCO INDUSTRIES LTD	0	0	1,000	56,250
MATRIX LAB LTD	0	0	1,000	1,56,700
NICOLAS PIRAMAL LTD	0	0	70	15,614
NTPC LTD	0	0	1,000	85,300
ONIDA SAVAK LTD	0	0	94,000	5,01,960
PETRONET LTD	0	0	25,000	6,93,790
RAIN CALCINING LTD	0	0	15,320	3,77,879
RCF LTD	0	0	1,500	51,825
RELAXO FOOTWEARS LTD	0	0	12,00,776	3,47,86,395
RITESH INDUSTRIES LTD	85,900	2,55,123	85,900	2,57,700
ROYAL AIRWAYS LTD	0	0	1,000	42,065
SEAMAC LTD	0	0	27,000	19,23,750
SHIVA TERYARN LTD	0	0	2,000	39,900
SHRIRAM TRANS FIN LTD	0	0	500	21,650
SOUTHASIAN ENTERPRISES LTD	17,11,289	1,10,37,814	17,68,450	1,23,79,150
SWEDE INDIA LTD	200	1	200	200
TATA TELE SERVICES LTD	0	0	5,000	1,27,430
TCI INDUSTRIES LTD	0	0	31,691	9,52,720
TCS LTD	0	0	100	1,39,322
TN PETRO LTD	0	0	4,250	82,166
TRANSCORP INTERNATIONAL LTD.	0	0	31,691	7,58,999
TRANSPORT CORPORATION OF INDIA LTD.	0	0	2,69,275	1,01,95,502
VARDHMAN ACRYLIC LTD	0	0	93,575	12,30,409
<b>Total</b>	<b>21,12,099</b>	<b>1,12,99,734</b>	<b>43,99,746</b>	<b>11,61,88,691</b>

As at  
31st March, 2006

As at  
31st March, 2005

**SCHEDULE 7 DEBTORS**

a) Instalments Receivable <i>(Unsecured)</i> Considered Doubtful		
1. Due for more than six months	67,69,994	67,69,994
2. Others	Nil	Nil
Sub-total	67,69,994	67,69,994
Less: Provision for Non-performing Assets	67,69,994	67,69,994
<b>Total (a)</b>	<b>0</b>	<b>0</b>
b) Dues from share Brokers Considered Good		
1. Due for more than six months	Nil	Nil
2. Others	1,41,01,739	5,89,74,088
<b>Total (b)</b>	<b>1,41,01,739</b>	<b>5,89,74,088</b>
<b>Total (a+b)</b>	<b>1,41,01,739</b>	<b>5,89,74,088</b>

**SCHEDULE 8 CASH & BANK BALANCES**

a) Cash on Hand	9,67,066	8,45,842
b) Cheques in Hand	3,08,712	0
c) Balances with scheduled banks		
1. In Current Accounts	38,14,709	2,55,51,609
2. In Deposit Accounts	14,30,014	14,51,700
<b>Total</b>	<b>65,20,501</b>	<b>2,78,49,151</b>

**SCHEDULE 9 OTHER CURRENT ASSETS**

a) Interest Accrued but not due	14,36,922	63,82,418
b) Security Deposits	15,35,727	3,32,727
c) Margin Money with Share Brokers	26,06,02,557	20,00,35,904
d) Other Receivable	2,93,24,915	8,25,941
Less: Provision for Non-performing Assets	8,15,325	8,16,634
	2,85,09,590	9,307
e) Advance Tax Paid	4,76,63,261	4,37,34,949
<b>Total (a+b+c+d+e)</b>	<b>33,97,48,057</b>	<b>25,04,95,305</b>

As at  
31st March, 2006

As at  
31st March, 2005

**SCHEDULE 10 LOANS AND ADVANCES**

<i>(Unsecured, considered good unless otherwise specified)</i>		
a) Short term Loans and Advances	11,41,28,024	11,39,98,784
Less: Provision for Non-performing Assets	3,40,81,701	3,40,81,701
	8,00,46,323	7,99,17,083
b) Loans to subsidiaries	9,05,511	8,92,011
c) Receivables from subsidiaries	60,71,655	3,50,43,447
d) Advances Recoverable in cash or in kind or for value to be received	15,06,92,966	10,89,97,546
Less: Provision for Non-performing Assets	67,47,151	62,47,151
	14,39,45,815	10,27,50,395
<b>Total (a+b+c+d)</b>	<b>23,09,69,304</b>	<b>21,86,02,936</b>

**SCHEDULE 11 LIABILITIES**

a) Creditors for Expenses		
i) Total Outstanding dues of small scale industrial undertakings	Nil	Nil
ii) Total outstanding dues of creditors other than small scale industrial undertakings	18,26,857	15,68,344
b) Advance Payment Received	1,33,400	0
c) Other Liabilities	57,50,000	4,53,21,000
<b>Total</b>	<b>77,10,257</b>	<b>4,68,89,344</b>

**SCHEDULE 12 PROVISIONS**

a) Provision for Taxation :-		
Balance B/d	76,00,000	76,00,000
Add: Provision for the year-Income Tax	29,15,207	0
<b>Total (a)</b>	<b>1,05,15,207</b>	<b>76,00,000</b>
b) Provision for Fringe Benefit Tax		
Balance B/d	0	0
Add: Provision for the year	3,10,007	0
<b>Total (b)</b>	<b>3,10,007</b>	<b>0</b>
c) Provision for Leave Encashment :-		
Balance B/d	2,27,180	1,42,025
Add: Provision for the year	(6,484)	85,155
<b>Total (c)</b>	<b>2,20,696</b>	<b>2,27,180</b>
<b>Total (a+b+c)</b>	<b>1,10,45,910</b>	<b>78,27,180</b>

**SCHEDULES TO PROFIT & LOSS ACCOUNT**

	For the year ended on 31st March, 2006	For the year ended on 31st March, 2005
<b>SCHEDULE 13 INCOME FROM OPERATIONS</b>		
Income from Hire Purchase Financing	0	678
Income from other Credit Operations	1,59,10,788	2,33,63,501
<b>Total</b>	<b>1,59,10,788</b>	<b>2,33,64,179</b>

**SCHEDULE 14 INTEREST & FINANCE CHARGES**

Interest to Bank	229	0
Bank / Finance Charges	6,753	8,636
<b>Total</b>	<b>6,982</b>	<b>8,636</b>

**SCHEDULE 15 ADMINISTRATIVE & OTHER EXPENSES**

Advertisement & Business Promotion	6,94,769	20,14,683
Consultancy, Legal & Service Charges	90,22,767	73,26,941
Communication Expenses	10,34,622	17,87,866
Electricity & Water Charges	5,62,385	5,16,237
Insurance	56,998	25,090
Office Expenses	12,03,110	12,57,840
Securities Transaction Tax	33,46,821	20,39,299
Shares Transaction Charges	1,41,900	1,05,482
Travelling Expenses & Conveyance	15,04,371	12,88,164
Rates & Taxes	12,25,376	9,71,496
Rent	1,46,000	1,50,300
Repairs & Maintenance		
ó Building	368,641	1,58,711
ó Others	19,44,566	19,35,284
Miscellaneous Expenses	7,13,983	2,16,975
Auditors' Remuneration		
a) Audit Fees	88,160	77,140
b) For Other Services		
ó For Tax audit	44,080	33,060
ó For certification	88,700	72,100
ó Out of pocket expenses	36,609	25,090
Internal Auditors' Remuneration		
ó Fees	40,000	40,000
ó Out of pocket expenses	8,000	8,000
Directors' Sitting Fees	1,57,000	1,50,000
Loss on Shares Lost/misplaced	0	1,15,500
Loss on sale/transfer of Fixed Assets	0	2,57,455
<b>Total</b>	<b>2,24,28,858</b>	<b>2,05,72,713</b>

**SCHEDULE 16 EMPLOYEES' COST**

Salaries	40,42,360	34,38,755
Staff Amenities	4,00,321	3,92,331
Employer's Contribution to PF, ESI, Gratuity Fund etc.	6,16,737	3,75,030
<b>Total</b>	<b>50,59,418</b>	<b>42,06,116</b>

**SCHEDULE 17-INCREASE/(DECREASE) IN STOCK OF SHARES**

Closing Stock of Shares	1,12,99,734	11,61,88,691
Less: Opening Stock of Shares	11,61,88,691	10,26,95,321
Less: Shares transferred to Investments	10,35,48,748	0
Less: Shares Lost/misplaced	0	1,15,500
	1,26,39,943	10,25,79,821
Net Increase/(Decrease) in Stock of Shares	(1,340,209)	1,36,08,870

**SCHEDULE: 18 Notes on Accounts for the year ended on 31<sup>st</sup> March 2006**
**I. SIGNIFICANT ACCOUNTING POLICIES:-**
**A. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The financial statement have been prepared under the historical cost convention method in accordance with the generally accepted accounting principles and the provisions of the Companies Act, 1956, as adopted consistently by the Company.

**B. REVENUE RECOGNITION**

- The Company adopts accrual basis of accounting.
- Income from Hire Purchase transactions is calculated following *Sum of Digits* method.
- Installments of Leasing and Hire Purchase Loans are received one month in advance. Thus, the Installments collected in the last month of the accounting year include a portion of the income of the next accounting year. However, this portion is not accounted as income received in advance, as the method is consistently followed and the amount involved is not material considering the total receipts of the Company and its "set-off effect" on the accounts.

**C. FIXED ASSETS**

- Assets under Lease and Hire Purchase are accounted in the books at invoice value and the difference between the invoice price and disbursed amount is accounted as Security Deposits, grouped under Adjustable Deposits (shown under Schedule 3 Unsecured Loans) and the same is adjusted to the respective asset account on the expiry of the term of lease/hire purchase.
- Assets for own use are accounted for in the books at Cost including incidental charges less accumulated depreciation, if any.
- Depreciation is provided as under:
  - On Own Assets:**  
On Written Down Value Method as per the rates prescribed under Schedule XIV of the Companies Act, 1956.
  - On Leased Assets:**  
100% of the cost of asset is depreciated over the primary lease period applying interest rate implicit in the lease on the outstanding investment on lease to calculate the finance earnings for the period and the difference between the lease rental and finance earnings is charged as depreciation. This method is being consistently followed by the Company and effect of this method is similar to the method recommended by the Institute of Chartered Accountants of India.
- The Company follows a procedure of writing off all capital expenses which do not exceed Rs.1000/- in each case.

**D. SHARE - STOCK IN TRADE**

- Shares are valued at cost or market value whichever is lower.
- The Company deals/hedges/arbitrages the securities in the capital market and futures and options securities in the derivative segment. Therefore, the purchase and sales figures of both the segments are shown in the financial statements at their gross value.

**E. INVESTMENTS**

- Investments are classified into long-term investments and current investments.
- Long-term investments are valued at cost. Provision for diminution in value of investment is made scrip-wise to recognize a decline other than temporary in nature.
- Current investments are valued, scrip wise, at cost or market price, whichever is lower.
- The Company follows eFIFO Method for calculating the cost of each investment sold by the Company for arriving at the profit/loss.

**F. DEFERRED REVENUE EXPENDITURE**

Deferred Revenue Expenditure is written off equally over a period of ten years.

**G. PROVISION FOR RETIREMENT BENEFITS**

- Gratuity liability of the Company is met through the Group Gratuity Scheme of Life Insurance Corporation of India. The contribution made to the said scheme has been charged to the Profit & Loss Account.
- Leave encashment payments to the employees are accounted for on accrual basis on the assumption that such benefits are payable to the employees at end of the accounting year.

**H. TAXATION**

- Provision for Taxation is made on the basis of the taxable profits computed for the current accounting year in accordance with the Income Tax Act, 1961.
- Deferred Tax resulting from timing difference are expected to crystallize in case of deferred tax liabilities with reasonable certainty and in case of deferred tax assets with virtual certainty that there would be adequate future taxable income against which such deferred tax assets can be realized.

**I. FOREIGN EXCHANGE TRANSLATIONS**

- Investments in foreign entities are recorded at the exchange rates prevailing on the date of making the investments.
- Transactions in foreign currencies are recorded at the rates prevailing on the date of transaction.
- Monetary items denominated in foreign currency are restated at the rate prevailing on Balance Sheet date.
- Exchange gains/losses on conversion of monetary items denominated in foreign currency at the yearend are dealt with in the profit and loss account.

**II. NOTES ON ACCOUNT**

- Contingent Liability:- Nil
- In some cases balances in the accounts of Debtors, Loans and Advances, Other Current Assets and Creditors are subject to confirmation by the respective parties.
- Cash & Bank Balances include
  - Share Transfer Stamps of Rs.1,776/- (Previous Year Rs.1,746/-).
  - Bank Deposits include fixed deposits of Rs.10,54,352/- (Previous Year ₹ Rs.10 lacs) pledged with the banks as security for overdraft facilities.
- The Company has followed the Guidelines issued by the Reserve Bank of India to all Non-Banking Financial Companies regarding Capital Adequacy, Asset Classification, provisioning for and income recognition on non-performing assets.
- Additional information pursuant to the provision of paragraphs 3, 4C & 4D of Part II of Schedule VI of the Companies Act, 1956:

Trading Items	Opening Stock in trade as on 01.04.2005		Purchases		Sales		Closing Stock in trade as on 31.03.2006	
	Qty.	Value Rs.	Qty.	Value Rs.	Qty.	Value Rs.	Qty.	Value Rs.
Shares	4399746	116188691	26897435	21619655450	26954586	21656876115	2112099	11299734
Less: Transfer to Investments account	2230496	103548748						
Balance	2169250	12639943						
(Previous year)	5399964	102695321	22654958	13348033493	23655176	13422104843	4399746	116188691

**6. Income from investments include:**

	Current Year (Rs.)	Previous Year (Rs.)
Dividend Income (Gross)	41,04,250	71,97,015
Interest on Debentures and Bonds (Gross)	12,000	27,932
Tax Deducted at Source	Nil	Nil

- Interest Receipts (Gross) Rs.1,46,83,309/- (inclusive of interest of Rs.91,14,321/- on Fixed Deposits and of Rs.55,68,988/- on margin money with share brokers) (Previous Year Rs. 1,29,18,084/-, inclusive of interest of Rs.95,32,392/- on Fixed Deposits and Rs.33,85,692/- on loans and advances grouped under Income from Operations) includes Tax Deducted at Source amounting to Rs.32,91,176/- (Previous Year Rs. 20,67,162/-).
- The term of lease agreements in respect of Leased Assets have expired and the assets continue in the possession of lessees. However, the said assets have been included in the block of fixed assets of the Company pending the transfer of titles.
- Related Party Disclosure:  
Followings are the related parties:-  
Subsidiaries: - VLS Securities Ltd. (100%), VLS Investments Ltd. (100%), VLS Asset Management Ltd.(99.15%), VLS Investments Inc., Delaware, USA (100%).  
Key Managerial Personnel: - Shri T.B. Gupta (Executive Vice-Chairman) and Shri S.K.Agarwal (Managing Director)  
Associates: - South Asian Enterprises Ltd.  
Relative of Key Managerial Personnel: - Mrs. Usha Gupta wife of Shri. T.B.Gupta and Mrs. Sudha Agarwal wife of Shri S.K. Agarwal.  
Summary of transactions with the above related parties is as follows:-

(Amount in Rs.)

Particulars	Subsidiaries	Associates	Key Managerial Personnel	Others
Purchase of Securities	25,87,86,407 (Previous year. Rs. 113,55,87,144)			
Sale of Securities	33,50,01,745 (Previous year Rs. 126,41,40,916)			
Rent and other Charges received	4,80,000 (Previous year. Rs. 4,80,000)			
Rent and other charges paid	3,75,842 (Previous year. Nil)			1,80,000 (Previous year. Rs. 1,83,000)
Remuneration to Managing Director and Executive Vice-Chairman			11,99,633 (Previous year. Rs. 10,83,843)	
Equity Contribution	Nil (Previous year. Rs. 46,450)			
Advances received and paid during the year		Nil (Previous year. Rs.65,00,000)		
Due from Subsidiaries (outstanding balance as on 31.03.2006)	69,77,166 (Previous year. Rs. 3,59,35,458)			

- Deferred Tax Assets of Rs. 3,85,30,072 (Previous Year Rs. 3,87,68,817/-) are net of deferred tax liabilities of Rs.1,77,12,742/-(Previous year Rs.1,74,76,180/-). The major components of deferred tax assets and liabilities are as under :-

Particulars	Deferred Tax Assets	Deferred Tax Liabilities
Fixed Assets	Rs. Nil (P.Y. Rs. Nil)	Rs.1,77,12,742 (P.Y. Rs.1,74,76,180)
Accumulated Losses	Rs. 5,61,68,528 (P.Y. Rs. 5,61,68,528)	Rs. Nil (P.Y. Rs. Nil)
Leave Encashment	Rs.74,286 (P.Y. Rs.76,469)	Rs. Nil (P.Y. Rs. Nil)
Total	Rs. 5,62,42,814 (P.Y. Rs. 5,62,44,997)	Rs. 1,77,12,742 (P.Y. Rs.1,74,76,180)

**11. Managerial Remuneration**

Particulars	Paid to Shri T.B. Gupta	Paid to Shri S.K. Agarwal
Remuneration	Rs.3,21,432 (Previous Year-Rs.3,62,003/-)	Rs.5,40,000 (Previous Year-Rs. 4,05,000/-)
Perquisites	Rs.83,571 (Previous Year-Rs.1,59,770/-)	Rs.2,54,630 (Previous Year-Rs. 1,57,070/-)

The perquisite figure does not include contribution made by the Company for gratuity and group insurance scheme to the LIC and provision made for leave encashment.

**12. Earning Per Share**

Calculation of EPS (Basic and Diluted)

Particulars	Equivalent No. of Shares - Year ended	
	31 <sup>st</sup> March 2006	31 <sup>st</sup> March. 2005
<b>Basic and Diluted</b>		
Total Shares Outstanding	3,97,95,000	3,97,95,000
Profit after Taxes	Rs.7,51,30,711	Rs. 7,46,19,783
EPS	Rs. 1.89	Rs 1.87

- Expenditure in Foreign Exchange: ₹ Foreign Travel Expenses Rs.2,93,781/- (Previous year Nil)
- A non interest bearing amount of Rs.9,05,511/- (maximum amount outstanding during the year is Rs.9,05,511/-) is due from VLS Asset Management Ltd., the subsidiary of the Company.
- The Market Value of the quoted investments is not comparable with the previous year figures due to transfer of certain shares amounting to Rs. 10,35,48,748/- from stock-in-trade to investments at the beginning of the financial year. (Refer Schedule 5 -Investments).
- The provision for diminution in the value of investments made during the year amounting to Rs. 8 Crores has been set-off against the equivalent amount withdrawn from the General Reserve.



**17 Schedule to the Balance sheet of a Non-Banking Financial Company**  
 [As required in terms of Paragraph 9BB of Non-Banking Financial companies Prudential Norms (Reserve Bank) Directions, 1988]

(Rs. in lakhs)

(Rs. In lakhs)		
Particulars	Amount outstanding	Amount Overdue
<b>Liabilities side :</b>		
<b>(1) Loans and advances availed by the NBFCs inclusive of interest accrued thereon but not paid:</b>		
(a) Debentures : Secured	ó ó	ó ó
: Unsecured	ó ó	ó ó
(other than falling within the meaning of public deposits)	ó ó	ó ó
(b) Deferred Credits	ó ó	ó ó
(c) Term Loans	ó ó	ó ó
(d) Inter-corporate loans and borrowing	ó ó	ó ó
(e) Commercial Paper	ó ó	ó ó
(f) Public Deposits	ó ó	ó ó
(g) Adjustable Deposits	131.82	ó ó
<b>(2) Break-up of (1)(f) above (Outstanding public deposits inclusive of interest accrued thereon but not paid):</b>		
(a) In the form of Unsecured debentures	ó ó	ó ó
(b) In the form of partly secured debentures i.e. debentures where there is a shortfall in the value of security	ó ó	ó ó
(c) Other public deposits	ó ó	ó ó

Amount Outstanding			
<b>Assets side:</b>			
<b>(3) Break-up of Loans and Advances including bills receivables [other than those included in (4) below]:</b>			
(a) Secured	ó ó		
(b) Unsecured	2,717.98		
<b>(4) Break-up of Leased Assets and stock on hire and hypothecation loans counting towards EL/HP activities</b>			
(i) Lease assets including lease rentals under sundry debtors			
(a) Financial lease	ó ó		
(b) Operating lease	137.69		
(ii) Stock on hire including hire charges under sundry debtors			
(a) Assets on hire	61.83		
(b) Repossessed Assets	ó ó		
(iii) Hypothecation loans counting towards EL/HP activities			
(a) Loans where assets have been repossessed	ó ó		
(b) Loans other than (a) above	ó ó		
<b>(5) Break-up of Investments :</b>			
Current Investment:			
1. Quoted :			
(i) Shares : (a) Equity	113.00		
(b) Preference	ó ó		
(ii) Debentures and Bonds	ó ó		
(iii) Units of mutual funds	ó ó		
(iv) Government Securities	ó ó		
(v) Others	ó ó		
2. Unquoted :			
(i) Shares : (a) Equity	ó ó		
(b) Preference	ó ó		
(ii) Debentures and Bonds	ó ó		
(iii) Units of mutual funds	ó ó		
(iv) Government Securities	ó ó		
(v) Others	ó ó		
Long Term investments :			
1. Quoted :			
(i) Shares : (a) Equity	2,691.95		
(b) Preference	ó ó		
(ii) Debentures and Bonds	ó ó		
(iii) Units of mutual funds	ó ó		
(iv) Government Securities	ó ó		
(v) Others	ó ó		
2. Unquoted :			
(i) Shares : (a) Equity	4,169.71		
(b) Preference	1,512.50		
(ii) Debentures and Bonds	691.04		
(iii) Units of mutual funds	ó ó		
(iv) Government Securities	ó ó		
(v) Others -in Equity Shares of Subsidiaries	562.46		
<b>(6) Borrower group-wise classification of all leased assets, stock-on-hire and loans and advances :</b>			
Category	Amount net of provisions		
	Secured	Unsecured	Total
1. Related Parties			
(a) Subsidiaries	ó ó	69.77	69.77

	ó ó	ó ó	ó ó
(b) Companies in the same group	ó ó	ó ó	ó ó
(c) Other related parties	ó ó	ó ó	ó ó
2. Other than related parties	ó ó	2,371.74	2,371.74
Total	0.00	2,441.51	2,441.51
<b>(7) Investor group-wise classification of all investments(current and long term) in shares and securities (both quoted and unquoted) :</b>			
Category	Market Value Break-up or fair value or NAV	Book Value (Net of Provisions)	
1. Related Parties			
(a) Subsidiaries	498.31	562.46	
(b) Companies in the same group	0.00	0.00	
(c) Other related parties	110.38	110.38	
2. Other than related parties	10,190.08	7,467.82	
Total	10,798.77	8,140.66	

Amount	
<b>(8) Other information</b>	
<b>Particulars</b>	Amount
(i) Gross Non-Performing Assets	
(a) Related parties	0.00
(b) Other than related parties	529.14
(ii) Net Non-Performing Assets	
(a) Related parties	0.00
(b) Other than related parties	45.00
(iii) Assets acquired in satisfaction of debt	66.50

## 18. Segment Reporting

Particulars	As at 31.03.2006 (Rupees in lacs)	As at 31.03.2005 (Rupees in lacs)
<b>SEGMENT REVENUE</b>		
Financial Services	216747.69	134441.91
Investment	446.18	-381.12
Total Revenue	217193.87	134060.79
<b>Segment Profit/(Loss) before Interest and Tax</b>		
Financial Services	667.47	1446.38
Investment	446.18	-381.12
	1113.65	1065.26
Less ñ Interest	0.07	0.09
- Other Un-allocable Expenditure	327.88	310.51
<b>Profit Before Tax</b>	785.70	754.66
<b>SEGMENT ASSETS</b>		
Financial Services	4154.59	5061.40
Investment	8265.87	7942.13
Un-allocable Assets	2921.07	2744.16
Total Assets	15341.53	15747.69
<b>SEGMENT LIABILITIES</b>		
Financial Services	189.32	585.03
Investment	-	-
Un-allocable Liabilities	130.06	93.95
Total Liabilities	319.38	678.98
<b>DEPRECIATION</b>		
Financial Services	-	0
Investment	800.00	600.00
Un-allocable Depreciation	53.00	55.72
Total Depreciation	853.00	655.72

19. Previous year figures have been regrouped/rearranged wherever necessary.

20. Schedules from 1 to 18 form an integral part of accounts.

As per our report of even date

For Agiwal & Associates  
Chartered Accountants

For and behalf of the Board

V.K. Gupta Partner	S.K. Agarwal Managing Director	K.K.Soni Director	B.M. Oza Director	H.Consul Company Secretary
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May 30th, 2006  
New Delhi

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

<b>I. Registration Details</b>			
Registration	23129	State Code	55
Balance Sheet Date	31.03.2006		
<b>II. Capital raised during the Year (Amount in Rs.Thousands)</b>			
Public Issue	Nil	Right Issue	Nil
Bonus Issue	Nil	Private Placement	Nil
<b>III. Position of Mobilisation and Deployment of Funds (Amount in Rs.Thousands)</b>			
Total Liabilities	1553927	Total Assets	1553927
Sources of Funds:			
Paid up Capital	399172	Reserves & Surplus	1141573
Secured Loans	0	Unsecured Loans	13181
Application of Funds:			
Net Fixed Assets	104927	Investments	826586
Net Current Assets	583883	Misc. Expenditure	Nil
Deferred Tax Assets	38530	Accumulated Losses	Nil
<b>IV. Performance of Company (Amount in Rs. Thousands)</b>			
Turnover	21718047	Total Expenditure	21652451
Profit/Loss Before Tax	65596	Profit/Loss after Tax	75106
Earning per Share (Rs.)	1.89	Dividend Rate	Nil
<b>V. Generic Names of Three Principal Products/ Services of Company (as per monetary terms)</b>			
Item Code No. (ITC Code)		NA	
Production Description		Dealing in shares and securities Investments Financial & Advisory Services	

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31st March, 2006**

PARTICULARS	Rs. lacs	
	For the Year ended 31.03.06	For the Year ended 31.03.2005
<b>A CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit Before Tax and Extraordinary Items	785.70	754.66
Add		
Interest & Finance Charges	0.07	0.09
Depreciation	53.00	42.02
Provision for Leave encashment	(0.06)	0.85
Provision for diminution in value of investments	800.00	600.00
Miscellaneous Expenditure written off	0.00	7.27
	<b>1638.71</b>	<b>1404.89</b>
Less		
Income from Investments	446.18	(381.12)
Transfer from General Reserve	800.00	600.00
	<b>1246.18</b>	<b>218.88</b>
Operating Profit before Working Capital Changes	<b>392.53</b>	<b>1186.01</b>
<b>Changes in Working Capital</b>		
Trade & Other Receivables	(567.47)	(416.83)
Inventories	13.40	(134.93)
Inventories transferred to Investment	1035.49	0.00
Trade & Other Payables	(391.79)	(187.70)
Cash generated from operations	<b>482.16</b>	446.55
Less: Interest Paid	0.07	0.09
Cash flow before extraordinary items	<b>482.09</b>	<b>446.46</b>
Extraordinary Items	0.00	0.00
<b>Net Cash Flow from Operating Activities (A)</b>	<b>482.09</b>	<b>446.46</b>
<b>B CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net Deployment in Fixed Assets	(17.81)	14.18
Net deployment in investments	(88.25)	(751.91)
Investment - transfer from Inventories	(1035.49)	0.00
Investment in subsidiary	0.00	519.86
Income from Investments	446.18	(381.12)
<b>Net Cash used in Investing Activities (B)</b>	<b>(695.37)</b>	<b>(598.99)</b>
<b>C CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from Long Term Borrowings	0.00	(0.09)
<b>Net Cash Flow from Financing Activities (C)</b>	<b>0.00</b>	<b>(0.09)</b>
<b>Net Increase/-Decrease in Cash &amp; Cash Equivalents (A+B+C)</b>		
	<b>(213.28)</b>	<b>(152.62)</b>
Cash & Cash Equivalents (Opening)	278.49	431.11
Cash & Cash Equivalents (Closing)	65.21	278.49

Note : Cash & Cash Equivalents ( Closing) includes deposits with banks amounting to Rs. 10.54 lacs ( Previous Year Rs. 10 lacs), which are pledged with them as security for overdraft facility.

As per our report of even date

For Agiwal & Associates  
Chartered Accountants

For and behalf of the Board

V.K. Gupta Partner  
S.K. Agarwal Managing Director  
K.K.Soni Director  
B.M. Oza Director  
H.Consul Company Secretary

May 30th, 2006  
New Delhi

**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES**

A. Domestic Subsidiaries	VLS Investments Ltd.	VLS Securities Ltd.	VLS Asset Management Ltd.
1. Name of the Subsidiary Company	31.03.2006	31.03.2006	31.03.2006
2. Financial Year of the Subsidiary Company ended on			
3. i) No. of shares held by VLS Finance Ltd. and/or its nominees	50,020 equity shares of Rs.10/ each	55,00,000 equity shares of Rs.10/ each	70,100 equity shares of Rs.10/ each
ii) Extent of Holding Company's interest in the subsidiary as on 31.3.2006	100%	100%	99.15%
1. Net Aggregate amount of the profits/ losses of the subsidiary company so far as it concerns the members of VLS Finance Ltd.			
a) Not dealt within the accounts of VLS Finance Ltd.			
i) For the subsidiary's financial year ended on 31.3.2006	Net Profit Rs. 14,914	Net Loss Rs. 15,63,176	Net Loss Rs.6,310
ii) For the previous Financial Years	Net Loss Rs.11,189	Net Loss Rs.32,24,562	Net Loss Rs.15,99,290
b) Dealt within the accounts of VLS Finance Ltd.			
i) For the subsidiary's Financial Year ended on 31.3.2006	NIL	NIL	NIL
ii) For the previous financial years	NIL	NIL	NIL

**B. Overseas Subsidiaries**

1. Name of the Subsidiary Company	VLS Investments Inc., Delaware, U.S.A.
2. Financial Year of the Subsidiary Company ended on	31.12.2005
3. i) No. of shares held by VLS Finance Ltd. and/or its nominees	100 equity shares of USD at par.
ii) Extent of Holding Company's interest in the subsidiary as on 31.12.2005	100%
4. Net Aggregate amount of the profits/ losses of the subsidiary company so far as it concerns the members of VLS Finance Ltd.	
a) Not dealt within the accounts of VLS Finance Ltd.	
i) For the subsidiary's financial year ended on 31.12.05	US\$ 560
ii) For the Previous Financial Years	US\$ (140)
b) Dealt within the accounts of VLS Finance Ltd.	
i) For the subsidiary's Financial Year ended on 31.12.05	Nil
ii) For the previous financial year	Nil

For and behalf of the Board

S.K. Agarwal Managing Director  
K.K.Soni Director  
B.M. Oza Director  
H.Consul Company Secretary

May 30th, 2006  
New Delhi

**STATEMENT PURSUANT TO SECTION 212 (5) OF THE COMPANIES ACT, 1956**

1. Name of Subsidiary	: VLS Investments Inc., Delaware, U.S.A.
Relevant Financial year	: 01.01.2005 to 31.12.2005
a. There has been no change in the interest of VLS Finance Ltd. (the holding company) in the said subsidiary between the end of relevant financial year of subsidiary and the end of financial year of holding company.	
b. There have been no material changes between the end of relevant financial year of the said subsidiary & end of financial year of the holding company in respect of:	
i. The subsidiary's fixed assets.	
ii. The moneys lent by it.	
However, there have been material changes between :	
i. Its investments which was reduced by USD 4,34,922.	
ii. The moneys borrowed by it for purpose other than meeting its current liabilities which was reduced by USD 7,84,600.	

For and behalf of the Board

S.K. Agarwal Managing Director  
K.K.Soni Director  
B.M. Oza Director  
H.Consul Company Secretary

May 30th, 2006  
New Delhi



**VLS SECURITIES LIMITED**

**DIRECTORS' REPORT**

**To**

**The Members of VLS SECURITIES LIMITED**

Your Directors are pleased to present the 12<sup>th</sup> Annual Report of your Company together with the Balance Sheet as at 31<sup>st</sup> March 2006 and Profit & Loss Account for the year ended on that date.

**Financial Results**

During the year under review, your Company generated revenue of Rs. 15.45 crore. Profit of Rs. 2.16 lakhs was earned during the year on account of trading as a client in the derivatives segment. However, brokerage income witnessed a decline during the year due to limited clientele activities and added Rs. 6.64 lakhs to the total revenue base, as compared to Rs. 16.24 lakhs during the previous year.

The net loss for the year amounted to Rs. 15.63 lakhs, which was lower by 69.9%, compared to last year when the Company had suffered a net loss of 51.92 lakhs. Your Directors are hopeful of better performance in the current year.

**Dividend**

In view of the loss incurred by the Company during the year under review, no dividend has been recommended.

**Operations**

Your Company earned brokerage income of Rs. 6.64 lakhs during the year under review, as compared to Rs. 16.24 lakhs earned during the previous year. The Company aims to increase its clientele-based business and has further rationalized its brokerage structure to attract prospective clients. During the year, your Company surrendered membership of the Wholesale debt market. The application for membership in the Future & Option (derivatives) segment of National Stock Exchange of India Limited (NSE) is under consideration of SEBI.

**Future Outlook**

The Indian Capital Market exhibited robust performance during the year and attained unprecedented heights. The BSE sensex touched record levels of 12000 and above. Although the market exhibited volatile patterns mid-way, it is currently under the correction mode. A host of national and international factors like the meltdown in the commodity prices, emergence of inflationary pressures with consequent hike in benchmark interest rates, steep increase in crude oil prices etc. are impacting the global and Indian economy markets. However, with the economy still on the growth path, surpassing 8% growth rate levels coupled with the continuing strong performance of the corporate sector, the conditions in the stock market are expected to stabilize leading to greater participation by the foreign institutional investors (FIIs) and domestic retail investors. During the year, your Company commenced trading in the derivatives sector as a client and riding on the impressive returns generated, plans to gradually increase its exposure in this segment.

The primary market had been enthralling with activity for most of the year with a host of companies tapping the market, though lately a slump has been experienced. However, with the possibilities of sensex recuperating, and with a large number of fundamentally strong public offers en route, the general mood is expected to remain upbeat. The Merchant Banking division of the company is exploring possibilities of making inroads in a few of these issues.

**Directors**

During the year under review, Shri K.K. Soni was appointed as an Additional Director by the Board w.e.f. 31-12-2005 to hold office till the ensuing Annual General Meeting.

Shri K.K. Soni is a qualified Chartered Accountant and Company Secretary with over 29 years of rich experience in finance, accounts, taxation, legal & allied areas and capital market activities. As on date, he holds directorship in VLS Finance Limited, VLS Capital Limited, VLS Asset Management Limited, South Asian Enterprises Limited, Paritosh Industrial Finance Limited and AFD Laboratories Pvt. Limited.

It is perceived that the Company will benefit immensely from the guidance and experience of Shri K.K. Soni. The Company has received a notice in writing u/s 257 of the Companies Act, 1956 from a member signifying his intention to propose the name of Shri K.K. Soni for election to the office of Director of the Company and the same has been incorporated suitably in the Notice of ensuing Annual General Meeting. The Board recommends his appointment for your approval.

Shri Pankaj Shrivastava retired by rotation in the last Annual General Meeting on 19-09-2005 and ceased to be a director of the Company due to non-reappointment by the shareholders. The Board places on record its appreciation for the contribution made by Shri Pankaj Shrivastava during his tenure as director of the Company.

Shri P.K. Sharan and Shri R.K. Goswami - Directors shall be retiring by rotation at the ensuing Annual General Meeting and being eligible have offered themselves for re-appointment. Your Directors recommend their re-appointment.

**Audit Committee**

During the year, 3 meetings of the Audit Committee were held on 20-05-2005, 15-07-2005 and 31-12-2005. Shri K.K. Soni was nominated as a member of the Audit Committee in place of Shri Pankaj Shrivastava during the year. The Audit Committee now comprises of Shri S.K. Agarwal, Shri T.B. Gupta and Shri K.K. Soni. The constitution and terms of reference of the Audit Committee are in conformity with the provisions of Section 292A of the Companies Act, 1956 and all the recommendations made by the Committee were accepted by the Board in entirety.

**Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility statement, it is hereby confirmed that

- that in preparation of annual accounts for the financial year ended 31<sup>st</sup> March 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the Company at the end of the financial year and of the loss of the Company for that period;
- that the Directors have taken proper and sufficient care for the maintenance of proper accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that the Directors have prepared the annual accounts for the financial year ended 31<sup>st</sup> March 2006 on a going concern basis.

**Auditors**

M/s Agiwal & Associates, Chartered Accountants, Statutory Auditors of the Company retire at the ensuing Annual General Meeting. They have furnished a Certificate confirming their eligibility under Section 224 (1B) of the Companies Act, 1956 to act as Auditors of the Company, if reappointed, and have also given their consent to the re-appointment. In accordance with the recommendation of the Audit Committee, the Board recommends their reappointment for the Financial Year 2006-2007. You are also requested to authorize the Board to fix their remuneration.

**Auditors Report**

The Auditors' report to the shareholders does not contain any qualifications.

**Fixed Deposits**

During the year under review, the Company has not invited or accepted any fixed deposit within the meaning of Section 58A of the Companies Act, 1956 and the Rules made there under.

**Statutory Disclosures**

The Companies (Disclosure of Particulars in the Report of Board of Directors), Rules 1988 require the disclosure of particulars regarding Conservation of Energy in Form A and Technology Absorption in Form B, prescribed by the Rules. The Company not being a manufacturing company, Form A is not applicable to it. Further, since during the year under review, the Company did not absorb any new technology nor has carried out any R&D activity including conservation of Energy; therefore, head wise information envisaged in said forms has been dispensed with.

Details about Foreign Exchange Earnings and Outgo in (Rs.):

Foreign Exchange Earning : Nil  
Foreign Exchange Outgo : Nil

As none of the employees of the Company are in receipt of remuneration in excess of limits specified in Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, the statement as required under the said section has not been annexed. The Company has complied with SEBI (Stock Brokers and Sub Brokers) Regulations 1992, SEBI (Merchant Bankers) Regulations 1992 and other applicable laws/regulations, as amended. The Company continues to hold a valid Certificate of registration as a Category I Merchant Banker.

**Human Resources**

The relationship with the employees continued to be cordial during the year. The Directors place on record their sincere appreciation to the employees at all levels.

**Acknowledgements**

The Board takes this opportunity to place on record their sincere appreciation for all round co-operation and support from The National Stock Exchange of India Ltd., Clients, Bankers, Associates and employees.

Place : New Delhi  
Date : 24-07-2006

For and on behalf of the Board of Directors  
S.K. Agarwal  
Managing Director  
K.K. Soni  
Director

**AUDITORS' REPORT**

**To**

The Members  
VLS Securities Ltd.  
New Delhi

We have audited the attached Balance Sheet of VLS Securities Ltd. as at 31<sup>st</sup> March 2006 and also Profit and Loss Account of the Company for the year ended on that date and the cash flow statement for the year ended on that date both annexed thereto. These financial statements are the responsibility of the Company Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Department of Company Affairs in terms of Section 227 (4A) of the Companies Act, 1956 we enclose in the annexure a statement on the matters specified in paragraph 4 & 5 of the said Order, to the extent applicable to the Company.

2. Further to our comments in the annexure referred to in paragraph one above we report that:

- We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- In our opinion, proper books of accounts as required by law have been kept by the Company, so far as appears from our examination of those books;
- The Balance Sheet, Profit & Loss Account and cash flow statement dealt with by this report are in agreement with the books of account;
- In our opinion the Balance Sheet, Profit & Loss account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956;
- On the basis of written representations received from the directors as on 31<sup>st</sup> March 2006, and taken on record by the Board of directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March 2006 from being appointed as a director in terms of clause (g) of subsection (1) of section 274 of The Companies Act, 1956;
- In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with significant accounting policies and notes to accounts thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
  - In the case of Balance Sheet of the state of affairs of the Company as at 31<sup>st</sup> March 2006 and,
  - In the case of the Profit and Loss account, of the loss of the Company for the year ended on that date.
  - In the case of cash flow statement, of the cash flows for the year ended on that date.

For Agiwal & Associates  
Chartered Accountants

(V.K. Gupta)  
Partner  
(M.No. 81979)

Place: New Delhi  
Date: 26<sup>th</sup> May, 2006

**ANNEXURE TO AUDITORS' REPORT  
REFERRED TO IN PARAGRAPH (1) OF OUR REPORT OF EVEN DATE  
Re: VLS Securities Ltd. for the year ended 31<sup>st</sup> March 2006**

- (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) All the assets have been physically verified by the management at the year-end. No material discrepancies were noticed on such verification as informed to us.
- (c) In our opinion and according to information and explanations given to us, the Company has not disposed off substantial part of fixed assets during the year.
- (ii) (a) This para is not applicable as the Company has transferred all securities held by it as stock-in-trade to the Investments account as on 01-04-2005 and further no securities were acquired by it under stock-in-trade account during the year under review.
- (b) In view of (a) above, this para in relation to procedures of physical verification of stock-in-trade is not applicable to the Company.
- (c) Since the Company did not have any inventory during the year under review, this para is not applicable to it.
- (iii) (a) The Company has not taken/granted any loans secured/unsecured from/to the Companies, Firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (b) As the Company has not taken/granted loans from/to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956, the clause related to rate of interest and other terms and conditions of loans taken and given by the Company, secured or unsecured, which are prima facie prejudicial to the interest of the Company is not applicable to the Company.
- (iv) In our opinion and according to the information and explanations given to us, the Company has an adequate internal control procedure commensurate with its size and nature of its business, for the purchase of fixed assets and for purchase/sale of securities. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
- (v) (a) To the best of our knowledge and belief and according to information and explanations given to us, the transactions that needed to be entered into the register maintained in pursuance to Section 301 of the Companies Act, 1956, have been so entered.
- (b) According to information and explanation given to us, the transaction, made in pursuance of contracts or arrangements entered into Register(s) maintained under section 301 of the Companies Act, 1956 as aggregating during the year of Rs. 5,00,000/- (Rs. five lacs only) or more in respect of each party, have been made at the rates which are reasonable having regard to prevailing market rates.
- (vi) The Company has not accepted any deposits from the public during the year. Hence provisions of Section 58A & 58AA or any other relevant provisions of the Companies Act 1956 and rules of Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits are not applicable to the Company.
- (vii) In our opinion, the Company has an internal audit system, commensurate with the size and nature of its business.



- (viii) In our opinion and according to the information and explanations given to us, maintenance of cost records as prescribed by the Central Govt. under section 209(1) (d) of the Act is not required as the Company is not in the manufacturing activity.
- (ix) (a) The Company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax and any other statutory dues with the appropriate authorities. There was no outstanding against any undisputed statutory dues as on 31-03-2006.
- (b) According to the records and information and explanations given to us, there is no outstanding of any disputed statutory dues as on 31.03.2006.
- (x) The Company has accumulated losses from previous year. However, the accumulated losses have not eroded the net worth of the Company by 50%. The Company has incurred cash losses during the financial year covered by our audit and also in the immediately preceding Financial Year.
- (xi) According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of securities by way of pledge of shares, debentures or other securities.
- (xii) The Company has maintained proper records for dealing and trading in shares, securities, debentures and timely entries have been made therein. The shares, securities, debentures and other investments have been held by the Company in its own name except to the extent of exemption granted under section 49 of the Act.
- (xiii) In our opinion and according to information and explanations given to us, the Company has not given any Guarantee for loans taken by others from Banks or Financial Institutions.
- (xiv) The Company has not raised any Term Loan during the year.
- (xv) According to the cash flow statement and other records examined by us and the information and explanations given to us, on overall basis, funds raised on short-term basis have not been used during the year for long-term investment.
- (xvi) The Company has not made any preferential allotment of shares to any party covered in the register maintained under section 301 of the Act during the year.
- (xvii) To the best of our knowledge and information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.
- (xviii) The Para Nos. 4 (xi), (xii), (xiii) and (xx) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

For Agiwal & Associates  
Chartered Accountants

(V.K. Gupta)  
Partner  
(M.No. 81979)

Place: New Delhi  
Date: 26<sup>th</sup> May, 2006

**BALANCE SHEET AS AT 31st MARCH 2006**

				(Amount in Rs.)	
	Sch. No.	As at March 31, 2006	As at March 31, 2005		
<b>I. SOURCES OF FUNDS</b>					
1. Shareholders' funds					
a) Share Capital	1	5,50,00,000	5,50,00,000		
b) Reserves & Surplus	2	-	-		
2. Deferred Tax Liabilities		19,656	18,148		
<b>TOTAL</b>		<b>5,50,19,656</b>	<b>5,50,18,148</b>		
<b>II. APPLICATION OF FUNDS</b>					
1. Fixed Assets	3				
a) Gross Block		41,48,941	41,18,541		
b) Less : Depreciation		38,29,711	36,74,008		
c) Net Block		3,19,230	4,44,533		
2. Investments (At cost)	4	1,53,80,014	-		
3. Current assets, loans & Advances					
a) Securities held as stock in trade	5	-	1,51,09,104		
b) Sundry Debtors	6	1,18,881	-		
c) Cash and Bank Balances	7	28,26,383	2,17,67,042		
d) Loans and Advances	8	3,19,19,284	1,66,58,191		
		3,48,64,548	5,35,34,337		
<i>Less: Current Liabilities &amp; Provisions</i>					
a) Current Liabilities	9	2,33,511	22,84,176		
b) Provisions	10	1,65,363	1,24,970		
<b>Net Current Assets</b>		<b>3,44,65,674</b>	<b>5,11,25,191</b>		
4. Debit balance in Profit & loss account		47,87,738	32,24,562		
5. Miscellaneous expenditure (To the extent not written off or adjusted)	11	67,000	2,23,862		
<b>TOTAL</b>		<b>5,50,19,656</b>	<b>5,50,18,148</b>		
<i>Significant Accounting Policies and Notes to Accounts</i>	17				

As per our report of even date  
For Agiwal & Associates  
Chartered Accountants

For and on behalf of the Board

V.K. Gupta  
Partner

S.K. Agarwal  
Managing Director

K.K.Soni  
Director

Rashmi Jain  
Company Secretary

Place : New Delhi  
Date : 26th May 2006

**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006**

				(Amount in Rs.)	
	Sch. No.	For the year ended 31-Mar-06	For the year ended 31-Mar-05		
<b>INCOME</b>					
Sale of shares - F&O		15,16,32,558	-		
Income from brokerage		6,64,632	16,23,880		
Stock Operation Profit	12	-	34,23,856		
Interest Income (Gross)		12,94,562	16,23,209		
Other Income	13	9,04,162	4,29,407		
<b>Total</b>		<b>15,44,95,914</b>	<b>71,00,352</b>		
<b>EXPENDITURE</b>					
Purchase of shares - F&O		15,13,80,092	-		
Operating expenses	14	4,19,193	62,48,326		
Employees Cost	15	23,51,829	26,41,966		
Administrative & Other expenses	16	13,30,950	14,41,839		
Loss on sale of investments (Net)		2,28,381	-		
Depreciation	3	1,55,703	2,42,128		
Miscellaneous Expenditure Written Off		1,56,862	1,75,382		
Provision for Doubtful Debts		-	19,75,434		
<b>Total</b>		<b>15,60,23,010</b>	<b>1,27,25,075</b>		
<b>PROFIT/(LOSS) BEFORE TAX</b>					
		(1,527,096)	(5,624,723)		
<i>Less: Provision for Taxation</i>					
FBT		34,572	-		
Defered Tax		1,508	(98,422)		
<i>Less: Adjustments relating to earlier years</i>		-	5,694		
<i>Add: Excess/(short) Provision adjusted</i>		-	3,39,505		
<b>PROFIT/(LOSS) AFTER TAX</b>		<b>(1,563,176)</b>	<b>(5,192,490)</b>		
<i>Add: Balance as per previous year's Balance Sheet</i>		<b>(3,224,562)</b>	<b>19,67,928</b>		
<b>Profit available for Appropriation</b>					
		<b>(4,787,738)</b>	<b>(3,224,562)</b>		
<i>Balance carried to Balance Sheet</i>		<b>(4,787,738)</b>	<b>(3,224,562)</b>		
<b>EARNING PER SHARE (Refer Note No. (k) in Schedule 17)</b>					
Basic and Diluted Earning per Share (Rs.)		(0.28)	(0.94)		
Face Value per Share (Rs.)		10	10		
<i>Significant Accounting Policies and Notes to Accounts</i>	17				

As per our report of even date

For and on behalf of the Board

For Agiwal & Associates  
Chartered Accountants

V.K. Gupta  
Partner

S.K. Agarwal  
Managing Director

K.K.Soni  
Director

Rashmi Jain  
Company Secretary

Place : New Delhi  
Date : 26th May 2006

**SCHEDULES TO BALANCE SHEET**

				(Amount in Rs.)	
Sch. No.		As at 31-Mar-06	As at 31-Mar-05		
<b>1 SHARE CAPITAL</b>					
<b>AUTHORISED</b>					
	75,00,000 Equity Shares of Rs.10/- each	7,50,00,000	7,50,00,000		
	<b>ISSUED, SUBSCRIBED &amp; PAID UP*</b>				
	55,00,000 Equity shares of Rs.10/- each, fully paid up in cash	5,50,00,000	5,50,00,000		
		5,50,00,000	5,50,00,000		
<i>*(The Entire Share Capital is held by Holding Company viz., VLS Finance Ltd. and its nominees)</i>					
<b>2 RESERVES &amp; SURPLUS</b>					
	Opening credit balance in Profit & Loss Account	0	19,67,928		
	<i>Less: Amount transferred to Profit &amp; Loss A/c</i>	0	19,67,928		
		0	0		

**3 FIXED ASSETS**

Particulars	Gross Block			Depreciation		Net Block	
	As on 1-Apr-05	Additions during the year	As at 31-Mar-06	Up to 1-Apr-05	For the Year	Up to 31-Mar-06	As at 31-Mar-05
Computers	37,31,211	30,400	37,61,611	33,96,245	1,39,694	35,35,939	2,25,672
Office Equipments	2,88,205	0	2,88,205	1,94,629	13,016	2,07,645	80,560
Furniture & Fixtures	71,112	0	71,112	56,552	2,635	59,187	11,925
Vehicles	28,013	0	28,013	26,582	358	26,940	1,073
<b>Total</b>	<b>41,18,541</b>	<b>30,400</b>	<b>41,48,941</b>	<b>36,74,008</b>	<b>1,55,703</b>	<b>38,29,711</b>	<b>3,19,230</b>
Previous Year	41,18,541	0	41,18,541	34,31,880	2,42,128	36,74,008	4,44,533





4. INVESTMENTS (LONG TERM)

Particulars	Quantity						(Amount in Rs.)		
	As on 1-Apr-2005		Transfer from stock in trade as on 1-Apr-2005 (Nos.)	As on 31-Mar-2006		As at 31-Mar-2005 (Rs.)	As at 31-Mar-2005 (Rs.)		
	(Nos.)	(Nos.)		(Nos.)	(Rs.)		(Rs.)	(Rs.)	
<b>QUOTED INVESTMENTS</b>									
Fully Paid up (unless otherwise stated)	Face Value (in Rs.)								
<b>A) IN EQUITY SHARES</b>									
1) Bhilwara Spinners Ltd.	10	0	0	20,928	296,760	-			
2) Relaxo Footwear Ltd.	5	0	5,20,000	5,20,000	1,50,80,000	0			
3) State Bank of Bikaner & Jaipur	100	0	110	0	-	0			
4) D Pharma Ltd.	10	0	200		1	-			
5) Punjab Wireless Systems Ltd.	10	0	500		1	-			
<b>B) OTHERS</b>									
1) UTI Master Plus 91	10	0	200	200	3,252	0			
					1,53,80,014	0			
NOTE: Aggregate value of quoted investments									
	Book Value (Rs.):				1,53,76,762	0			
	Market Value (Rs.):				1,86,28,528	0			

5 SECURITIES HELD AS STOCK IN TRADE

(As Certified by the management, valued at Cost or Market/Fair Value whichever is lower)

Quoted - Equity	Quantity		(No. of Shares) as on		Valuation as on	
	1-Apr-05	Transfer to Investments A/c on 01-04-2005	31-Mar-06	31-Mar-06	31-Mar-2005	
D Pharma Ltd.	200	200	0	0	0	1
Punjab Wireless Systems Ltd	500	500	0	0	0	1
Relaxo Footwear Ltd.	5,20,000	5,20,000	0	0	1,50,80,000	
State Bank of Bikaner & Jaipur	110	110	0	0	25,850	
UTI Master Plus 1991	200	200	0	0	3,252	
	5,21,010	5,21,010	0	0	1,51,09,104	

Sch. No.	As at 31-Mar-06	As at 31-Mar-05
----------	-----------------	-----------------

6 SUNDRY DEBTORS

(Unsecured and considered good unless otherwise stated)

i) Debts outstanding for a period exceeding six months (including doubtful Rs. 24,18,893/-, Previous Year - Rs. 24,18,893/-)				24,18,893	24,18,893		
ii) Other Debts				1,18,881	25,37,774	0	24,18,893
Less: Provision for doubtful debts					24,18,893		24,18,893
				1,18,881			0
<b>7 CASH AND BANK BALANCES</b>							
Cash in Hand (As certified by the management)				12,034			3,652
Broker's stamps in hand				35,717			439
<b>Balances with Scheduled Banks</b>							
i) On current accounts				6,52,026			14,22,426
ii) On Fixed deposit accounts				21,26,606			2,03,40,525
				28,26,383			2,17,67,042
<b>8 LOANS AND ADVANCES</b>							
(Unsecured, considered good)							
<i>Advances recoverable in cash or in kind or for value to be received or adjusted</i>							
i) Deposits with Stock Exchanges				77,00,000			1,54,50,000
ii) Pre-paid Expenses				31,665			29,005
iii) Advance Income Tax/TDS/FBT				11,30,454			8,15,035
iv) Interest accrued but not due on fixed deposits				1,82,363			1,16,391
v) Margin money with Share brokers				2,25,00,000			0
vi) Receivable against hedging transactions				97,700			0
vii) Other receivables				2,77,102			2,47,760
				3,19,19,284			1,66,58,191
<b>9 CURRENT LIABILITIES</b>							
i) Sundry Creditors (Due to SSI- Nil)				1,62,343			6,83,600
ii) Margin money from clients (including from Holding Company)				0			15,00,000
iii) Other Liabilities				71,168			1,00,576
				2,33,511			22,84,176
<b>10 PROVISIONS</b>							
i) Provision for FBT				34,572			0
ii) Provision for Leave encashment				1,30,791			1,24,970
				1,65,363			1,24,970
<b>11 MISCELLANEOUS EXPENDITURE</b>							
(To the extent not written off or adjusted)							
i. Deferred Revenue Expenditure				1,23,362			2,46,720
Less: Written off to Profit & Loss A/c				1,23,362			1,23,358
				0			1,23,362
ii. Shares Issue Expenses				1,00,500			1,34,000
Less: Written Off to Profit & Loss A/c				33,500			33,500
				67,000			1,00,500
(I + II)				67,000			2,23,862

(Amount in Rs.)

For the year ended 31st Mar, 2006 For the year ended 31st Mar, 2005

SCHEDULES TO THE PROFIT AND LOSS ACCOUNT

Sch. No.

<b>12 STOCK TRADING ACCOUNT</b>				
Opening Stock	1,51,09,104		1,17,55,799	
Less: Transfer to Investments A/c as on 01-04-2005	1,51,09,104		0	
Add: Purchases	0		3,252	
Less: Sales	0		73,803	
Closing Stock	0		1,51,09,104	
<b>Profit/(Loss) in Shares Trading</b>	<b>0</b>		<b>34,23,856</b>	
<b>13 OTHER INCOME</b>				
Dividend Income	4,27,660		4,04,260	
Income from Consultancy	4,67,000		0	
Misc. Income	9,502		25,147	
	9,04,162		4,29,407	
<b>14 OPERATING EXPENDITURE</b>				
SEBI Fees	25,000		35,000	
SEBI Turnover fees	5,000		56,43,667	
NSE Capital Market subscription	1,00,000		1,00,000	
V-Sat Charges	1,10,000		96,000	
Transaction and other NSE Charges	37,964		1,31,598	
Service Tax	8,412		0	
Securities Transaction Tax	63,095		0	
Brokers Stamp Duty	69,722		2,42,061	
	4,19,193		62,48,326	
<b>15 EMPLOYEES' COST</b>				
Salaries & Allowances	21,29,769		24,13,498	
Staff Welfare	2,483		2,136	
Employer's Contribution to PF, ESI, Gratuity Fund etc.	2,19,577		2,26,332	
	23,51,829		26,41,966	
<b>16 ADMINISTRATIVE AND OTHER EXPENSES</b>				
Rent	2,40,000		2,54,970	
Rates & Taxes	43,730		42,770	
Electricity Charges	1,80,000		1,80,000	
Office Maintenance	60,000		60,000	
Legal and other Consultancy Charges	1,56,830		1,71,990	
Vehicle Repair & Maintenance	1,10,877		1,38,567	
Repair & Maintenance	14,947		35,000	
Travelling and Conveyance	1,39,872		99,035	
Insurance	24,494		20,365	
Miscellaneous Expenses	25,815		58,591	
Business Promotion	87,063		58,226	
News Papers, Books & Periodicals	66,822		1,13,806	
Communication Expenses	83,469		73,868	
Printing & Stationery	14,491		47,224	
Internal Audit fee	20,000		21,530	
Sundry balances written off	-		857	
Directors Sitting Fee	8,000		8,000	
Auditors Remuneration				
- Statutory Audit fees	16,530		16,530	
- Tax audit fees	5,510		5,510	
- Certification fees	12,500		15,000	
- Out of pocket expenses	20,000		20,000	
	13,30,950		14,41,839	

SCHEDULE 17: SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

I. SIGNIFICANT ACCOUNTING POLICIES:

a) Method of Accounting

The Company is following accrual basis of accounting and accounts are prepared on historical cost basis in accordance with the general accepted accounting practices.

b) Revenue Recognition

Income from brokerage activities is accounted for on accrual basis except for the settlement for which pay-in and payout falls in the next financial year.

c) Fixed Assets and Depreciation

i) Fixed assets are stated at cost less accumulated depreciation.  
ii) Depreciation on fixed assets is provided on Written Down Value Method at the rates (single shift basis) provided by Schedule-XIV of the Companies Act, 1956 on pro-rata basis.

d) Miscellaneous Expenditures

Deferred Revenue Expenditure / Share Issue Expenditure incurred before 01.04.1998 are being amortized over a period of ten years and incurred after 31.03.1998 are being amortized over a period of five years.

e) Provision for Retirement Benefits

Gratuity Liability of the Company is met through the Group Gratuity Scheme of Life Insurance Corporation of India. The contribution made to the said scheme has been charged to the Profit & Loss Account.

Leave encashment payments to the employees are accounted for on accrual basis on the assumption that such benefits are payable to the employees at the end of the accounting year. The Company deals in Future & Option in the derivatives segment and the purchase and sale figures of the said segment have been shown in the financial statements at their gross value.

g) Investments

(i) Investments are classified into long-term investments and current investments.  
(ii) Long term investments are valued at cost. Provision for diminution in value of investments is made scrip-wise to recognize a decline other than temporary in nature.  
(iii) Current investments are valued scrip-wise, at cost or market price, whichever is lower.  
(iv) The Company follows FIFO method for calculating the cost of each investment sold by the Company for determining the profit/loss.

h) Taxation

a) Provision for taxation is made on the basis of taxable profit in accordance with the Income Tax Act, 1961.  
b) Deferred tax resulting from timing difference between book and taxable profit is accounted



for using the tax rates and law that has been enacted or substantively enacted as on the balance sheet date. The deferred tax asset is recognized only to the extent that there is a virtual certainty that there would be adequate future taxable income against which such deferred tax assets can be realized. The deferred tax liability is recognized on having a reasonable certainty for crystallization of the same.

**II. NOTES TO ACCOUNTS:**

- a) **Contingent Liabilities:** - Nil
- b) **Interest income** includes Rs. 11,90,045/- (Previous Year ₹ Rs. 14,24,302/-) on fixed deposits and Rs. 1,04,517/- (Previous Year ₹ Rs. 1,98,907/-) on income tax refund. Interest income on fixed deposits includes tax deducted at source of Rs. 2,67,047/- (Previous Year - TDS of Rs. 2,97,822/-).
- c) **Other income** includes dividend income of Rs. 4,27,660/- (Previous Year ₹ Rs. 4,04,260/-). The tax deducted at source during the year on said income amounted to NIL. (Previous Year ₹ NIL)
- d) **Stock in Trade/Investments**  
At the beginning of the year i.e. on 01.04.2005, the Company has transferred all shares held by it as stock-in-trade into investment A/c as long-term investments at the same value for which they were valued as on 31.03.2005 under stock-in-trade A/c.
- e) **Deferred Tax Liabilities**  
A provision of Rs. 1,508/- has been created on account of deferred tax liabilities as on 31<sup>st</sup> March 2006. The components of deferred tax liabilities (net) of Rs. 19,656/- are as under: -  
i) Deferred Tax Liabilities of Rs. 63,680/- on account of fixed assets.  
ii) Deferred Tax Assets of Rs. 44,024/- on account of adjustment u/s 43B of the Income Tax Act.
- f) Margin money paid to the stockbrokers Rs. 2,25,00,000/-, shown under the Schedule e Loans and Advances is given in the form of fixed deposits.
- g) Last year, the Company has paid a sum of Rs. 56,58,431/- towards turnover based registration fee to SEBI to avail of the substantial relief offered under SEBI (Interest Liability Regularisation Scheme) 2004 subject to the final outcome of the Writ Petition pending before the Honble Calcutta High Court in the case of Lalit Kumar Marodia Vs. Union of India & others. The Company has also joined as a party to a SLP No. 162/2005 filed before the Honble Supreme Court challenging the constitutional validity of SEBI (Broker and Sub-broker) Regulations 1992 which has been admitted and is pending for disposal.
- h) **Quantitative details of securities held as stock-in-trade:**  
a) Details of opening and closing stock:

Category	Opening Stock as on 01-04-2005		Closing Stock as on 31-03-06	
	Quantity	Value (Rs.)	Quantity	Value (Rs.)
Equity Shares	5,21,010 <i>(Transferred to investments A/c as on 01-04-2005)</i>	1,51,09,104 <i>(Transferred to investments A/c as on 01-04-2005)</i>	NIL	NIL
Previous Year	5,21,315	1,17,55,799	5,21,010	1,51,09,104

b) Details of purchases and sales during the year:

Category	Purchases		Sales	
	Quantity	Value (Rs.)	Quantity	Value (Rs.)
Current year (F&O)	1,31,690	15,13,80,092	1,31,690	15,16,32,558
Current Year (Cash)	0	0	0	0
<b>Sub total (Current Year)</b>	<b>1,31,690</b>	<b>15,13,80,092</b>	<b>1,31,690</b>	<b>15,16,32,558</b>
Previous Year (F&O)	0	0	0	0
Previous Year (Cash)	200	3,252	505	73,802
<b>Sub total (Previous Year)</b>	<b>200</b>	<b>3,252</b>	<b>505</b>	<b>73,802</b>

**i) Managerial Remuneration**

No amount was paid towards remuneration, perquisites or any other benefits to Shri S.K. Agarwal - Managing Director, during the year as he was reappointed w.e.f. 01-07-2004 on NIL remuneration.

**j) Related Party Disclosure**

Followings are the related parties: -  
Holding Company: - VLS Finance Ltd.  
Fellow Subsidiaries: VLS Investments Limited, VLS Asset Management Ltd. and VLS Investments Inc., U.S.A.  
Key Managerial Personnel: - Shri S.K. Agarwal, Managing Director  
Others: - Mrs. Sudha Agarwal, wife of Shri S. K. Agarwal.

Transactions during the year with the related parties: -

Nature of Transactions	Holding Company		Key Managerial Personnel		Others		Total	
	31.03.06	31.03.05	31.03.06	31.03.05	31.03.06	31.03.05	31.03.06	31.03.05
Brokerage earned	5,56,359/-	14,40,914/-	-	-	-	-	5,56,359/-	14,40,914/-
Reimbursement amount claimed from	3,75,842/-	-	-	-	-	-	3,75,842/-	-
Rent and other charges paid	4,80,000/-	4,80,000/-	-	-	-	29,970/-	4,80,000/-	5,09,970/-
Remuneration paid	-	-	-	1,86,506/-	-	-	-	1,86,506/-
Margin Money	-	15,00,000/-	-	-	-	-	-	15,00,000/-
Payable to Holding Company	99,321/-	6,86,600/-	-	-	-	-	99,321/-	6,86,600/-

**k) Calculation of Earning per share**

Particulars	Equivalent No. of Shares Year ended 31 <sup>st</sup> March 2006	Equivalent No. of Shares Year ended 31 <sup>st</sup> March 2005
<b>Basic and diluted</b>		
Total Shares outstanding	55,00,000	55,00,000
Profits after taxes	(Rs. 15,63,176/-)	(Rs. 51,92,490/-)
EPS (In Rs.)	(0.28)	(0.94)

i) Previous Years' figures have been re-grouped and re-classified wherever considered necessary.

m) All figures have been rounded off to nearest rupee.

n) Schedules 1-17 form an integral part of the Accounts.

As per our report of even date For and on behalf of the Board  
For Agiwal & Associates  
Chartered Accountants  
V.K. Gupta S.K. Agarwal K.K.Soni Rashmi Jain  
Partner Managing Director Director Company Secretary  
Place : New Delhi  
Date : 26th May 2006

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

<b>I. Registration Details</b>			
Registration number	62123	State Code	55
Balance Sheet Date	31-03-2006		
<b>II. Capital raised during the Year (Amount in Rs.Thousands)</b>			
Public Issue	Nil	Right Issue	Nil
Bonus Issue	Nil	Private Placement	Nil
<b>III. Position of Mobilisation and Deployment of Funds (Amount in Rs.Thousands)</b>			
Total Liabilities	55,020	Total Assets	55,020
Sources of Funds:		Application of Funds:	
Paid up Capital	55,000	Net Fixed Assets	319
Reserves & Surplus	0	Investments	15,380
Secured Loans	Nil	Net Current Assets	34,466
Unsecured Loans	Nil	Accumulated Losses	4,788
Deferred Tax	20	Miscellaneous Expenditure	67
<b>IV. Performance of Company (Amount in Rs. Thousands, except otherwise stated)</b>			
Turnover	1,54,496	Total Expenditure	1,56,023
Profit/Loss Before Tax	(1,527)	Profit/Loss after Tax	(1,563)
Earning per Share (Rs.)	(0.284)	Dividend Rate	Nil
<b>V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)</b>			
Item Code No. (ITC Code)		N.A.	
Product Description		Share Broking Services	

As per our report of even date For and on behalf of the Board  
For Agiwal & Associates  
Chartered Accountants  
V.K. Gupta S.K. Agarwal K.K.Soni Rashmi Jain  
Partner Managing Director Director Company Secretary  
Place : New Delhi  
Date : 26th May 2006

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2006**

	Year Ended 31-Mar-2006	Year ended 31-Mar-2005
<b>A. Cash flow from operating activities</b>		
Net Profit before tax and extra-ordinary items	(1,527,096)	(5624723)
<b>Adjustments for:-</b>		
Add: Depreciation	1,55,703	2,42,128
Bank/Interest charges	-	-
loss on sale of investments	228,381	-
Provision for leave encashment	5,821	(55,793)
Miscellaneous Expenditure written off	1,56,862	1,75,382
<b>Operating profit before working capital changes</b>	<b>(980,329)</b>	<b>(5263006)</b>
<b>Adjustments for changes in Working Capital</b>		
Trade Debtors and other sundry receivables	(15,379,974)	4816305
Inventory/transfer to Investment A/c	15,109,104	(3,353,305)
Trade Creditors and other Payables	(2,050,665)	(1,862,124)
<b>Cash generated from operations</b>	<b>(3,301,864)</b>	<b>(5662130)</b>
Less: Income Tax paid	-	-
: Adjustment for provision etc.	-	67386
<b>Cash before extra ordinary items</b>	<b>(3,301,864)</b>	<b>(5729516)</b>
Prior period adjustments	-	(5,694)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES (I)</b>	<b>(3,301,864)</b>	<b>(5735210)</b>
<b>B. Cash flow from investing activities</b>		
Net Deployment in Fixed Assets	(30,400)	-
Net deployment in investments	(15,380,014)	-
Dividend received	-	-
Interest received	-	-
Net profit/(loss) on sale of investments	(228,381)	-
<b>NET CASH USED IN INVESTING ACTIVITIES (II)</b>	<b>(15,638,795)</b>	-
<b>C. Cash flow from financing activities</b>		
Proceeds from borrowings	-	-
<b>NET CASH USED IN FINANCING ACTIVITIES (III)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGES IN CASH &amp; CASH EQUIVALENTS (I)+(II)+(III)</b>	<b>(18,940,659)</b>	<b>(5,735,210)</b>
CASH & CASH EQUIVALENTS- OPENING BALANCE	2,17,67,042	2,75,02,252
CASH & CASH EQUIVALENTS- CLOSING BALANCE	28,26,383	2,17,67,042

For and on behalf of the Board  
For Agiwal & Associates  
Chartered Accountants  
V.K. Gupta S.K. Agarwal K.K.Soni Rashmi Jain  
Partner Managing Director Director Company Secretary  
Place : New Delhi  
Date : 26th May 2006



**VLS INVESTMENTS LTD.**

**DIRECTORS' REPORT TO THE MEMBERS**

The Directors are pleased to present the 15<sup>th</sup> Annual Report of your Company, together with the audited Balance Sheet and the Profit and Loss Account for the year ended 31.03.2006.

**FINANCIAL RESULTS**

The Company has posted a net profit of Rs. 14914/- in the year under review wiping out the accumulated losses in entirety. This notional profit is due to interest income on fixed deposit with the bank. There was no business activity during the year under review. However, the Board is continuing its efforts for undertaking suitable business activity keeping in view the resources available with the Company.

**DIVIDEND**

In order to conserve resources of Company no dividend is recommended for the year under review.

**DIRECTORS**

There was no change in the Board of Directors during the year under review.

Shri T. B. Gupta, Director, shall be retiring by rotation at the ensuing Annual General Meeting and being eligible has offered himself for re-appointment. Your Directors recommend his re-appointment.

**DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility statement, the Directors hereby confirm:

- that in the preparation of the annual accounts for the financial year ended 31<sup>st</sup> March, 2006, the applicable accounting standards have been followed, along with proper explanation relating to material departures;
- that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- that they have taken proper and sufficient care for the maintenance of proper accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- that they have prepared the Annual Accounts for the Financial year ended 31<sup>st</sup> March, 2006 on a going concern basis.

**PERSONNEL**

The Company had no employees during the year under report and therefore there was no employee whose particulars are required to be disclosed under Directors' Report (Particulars of Employees) Rules, 1975 in this report.

**AUDITORS**

The Board recommends the reappointment of M/s. Agiwal & Associates, Chartered Accountants, the Statutory Auditors of the Company. Their term will end at the conclusion of ensuing Annual General Meeting and they being eligible have given their consent to their re-appointment. You are also requested to authorize the Board to fix their remuneration.

**AUDITORS' REPORT**

The observations made by the Auditors in their report have been adequately dealt with in relevant Notes on Accounts and need no further comments from Directors.

**FIXED DEPOSITS**

The Company has neither invited nor accepted any Fixed Deposits during the year.

**STATUTORY INFORMATION**

The Company is (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 requires the disclosure of particulars regarding Conservation of Energy in Form-A and Technology Absorption in Form-B prescribed by the Rules. During the year under review the Company did not absorb any new technology nor has carried out any R&D activity including for conservation of Energy. The head wise disclosure envisaged in aforesaid forms may be construed accordingly. There was no proposal, during the year under review, for buying back the shares by the Company. The Company has had no foreign exchange outflow or inflow.

*For and on behalf of the Board of Directors*

<b>Place : New Delhi</b>	<b>T.B. Gupta</b>	<b>Anurag Bhatnagar</b>
<b>Date : 12/04/2006</b>	<b>Director</b>	<b>Director</b>

**AUDITORS' REPORT**

To,  
The Members  
VLS Investments Ltd.  
Kanpur.

We have audited the attached Balance Sheet of VLS Investments Ltd. as at 31st March 2006 and also Profit and Loss Account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

- As required by the Companies (Auditor's Report) Order, 2003 issued by the Department of Company Affairs in terms of section 227 (4A) of the Companies Act 1956 we enclose in the annexure a statement on the matters specified in paragraph 4 & 5 of the said Order, to the extent applicable to the Company.
- Further to our comments in the annexure referred to in paragraph one above we report that:
  - We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
  - In our opinion, proper books of accounts as required by law have been kept by the Company, so far as appears from our examination of those books;
  - The balance sheet and Profit & Loss Account dealt with by these report are in agreement with the books of accounts;

- In our opinion the Balance sheet and profit & Loss account dealt with by these report comply with the accounting standards refer to in subsection (3C) of section 211 of the Companies Act, 1956;
- On the basis of written representations received from the directors as on 31<sup>st</sup> March 2006, and taken on record by the board of directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March 2006 from being appointed as a director in terms of clause (g) of subsection (1) of section 274 of the companies Act 1956;
- In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with significant accounting policies and notes to accounts thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
  - In the case of Balance Sheet of the state of affairs of the Company as at 31<sup>st</sup> March 2006 and,
  - In the case of the Profit and Loss account, of the profit of the Company for the year ended on that date.

**For Agiwal & Associates**  
Chartered Accountants

**(V.K. Gupta)**  
Partner  
(M.No. 81979)

Place: New Delhi  
Date: 12<sup>th</sup> April, 2006

**ANNEXURE TO AUDITORS REPORT  
REFERRED TO IN PARAGRAPH (1) OF OUR REPORT OF EVEN DATE  
Re: VLS Investments Ltd. for the year ended 31<sup>st</sup> March, 2006**

- The Company do not own any fixed assets and as such, no comments are required to be given under this clause.
- The Company has not carried out any activities of purchase and sale of shares and securities during the year. There was nil stock-in-trade at the 31.03.2006 and as such, no comments can be given under this clause.
- (a) The Company has not taken/granted any loans secured/unsecured from/to the Companies, Firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.  
(b) As the Company has not taken/granted loans from/to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956, the clause related to rate of interest and other terms and conditions of loans taken and given by the Company, secured or unsecured, which are prima facie prejudicial to the interest of the Company is not applicable to the Company.
- In our opinion and according to the information and explanations given to us, the Company has an adequate internal control procedure commensurate with its size and nature of its business, for the purchase of fixed assets and for purchase/sale of securities. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
- (a) To the best of our knowledge and belief and according to information and explanations given to us, the company has not entered into any transactions that needed to be entered into the register maintained in pursuance to section 301 of the Companies Act, 1956.  
(b) According to information and explanation given to us, there was no transaction, made in pursuance of contracts or arrangements entered into Register(s) maintained under section 301 of the Companies Act, 1956 as aggregating during the period of Rs.5,00,000/- (Rupees Five Lacs only) or more in respect of each party.
- The Company has not accepted any deposits from the public during the year. Hence provisions of section 58A & 58AA of the Companies Act, 1956 and rules of Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits are not applicable to the Company.
- In our opinion and according to the information and explanations given to us, maintenance of cost records as prescribed by the Central Govt. under section 209(1) (d) of the Act, is not required as the Company is not in the manufacturing activity.
- (a) The Company is regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth tax and any other statutory dues with the appropriate authorities. There was no outstanding against any undisputed statutory dues as on 31.03.2006.  
(b) There was no outstanding of any disputed statutory dues as on 31.03.2006.
- The Company does not have accumulated losses and it has not incurred any cash losses during the financial year covered by our audit. There was no cash loss in the immediate preceding financial year also.
- According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of securities by way of pledge of shares, debentures or other securities.
- The Company has not dealt in shares or other securities during the year under Audit.
- In our opinion and according to information and explanations given to us, the Company has not given any Guarantee for loans taken by others from Banks or Financial Institutions.
- The Company has not raised any Term Loan during the year.
- According to records examined by us, the Company has not raised any short term and long term funds during the year under review.
- The Company has not made the preferential allotment of shares during the year.
- To the best of our knowledge and information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.
- The Para Nos. 4 (vii), (xi), (xiii), (xix) and (xx) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

**For Agiwal & Associates**  
Chartered Accountants

**(V.K. Gupta)**  
Partner  
(M.No. 81979)

Place: New Delhi  
Date: 12<sup>th</sup> April, 2006



**VLS INVESTMENTS LTD.****BALANCE SHEET AS ON 31ST MARCH, 2006**

(Amount in Rupees)

	Schedule No.	As At 31.03.2006	As At 31.03.2005
<b>I. SOURCES OF FUNDS</b>			
1) Shareholders' Funds			
a) Share Capital	1	500200	500200
b) Reserves & Surplus	2	3725	(11189)
<b>TOTAL</b>		<b>503925</b>	<b>489011</b>
<b>II. APPLICATION OF FUNDS</b>			
1) (A) Current Assets, Loans & Advances			
a) Cash & Bank Balances	3	503282	487930
b) Loans & Advances	4	7075	4451
c) Other Current Assets	5	5659	4527
		516016	496908
(B) Less: Current Liabilities & Provisions:			
a) Liabilities	6	12091	7897
<b>Net Current Assets (A-B)</b>		<b>503925</b>	<b>489011</b>
<b>TOTAL</b>		<b>503925</b>	<b>489011</b>
<b>Notes on Accounts</b>	7		

for and on behalf of the Board

As per our report of even date for Agiwal &amp; Associates Chartered Accountants

Tej Bhan Gupta  
Director  
12<sup>th</sup> April, 2006  
New DelhiS.K. Agarwal  
DirectorV.K. Gupta  
Partner**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED ON 31ST MARCH, 2006**

(Amount in Rupees)

	As at 31.03.2006	As at 31.03.2005
<b>INCOME</b>		
Interest Income on Fixed Deposit with Bank(Gross)	25730	21392
<b>Total (A)</b>	<b>25730</b>	<b>21392</b>
<b>EXPENDITURE:</b>		
Filing Charges	1000	1000
Auditor's Remuneration	5510	5510
Bank Charges	112	Nil
Accounting Charges	2000	Nil
Miscellaneous expenses	Nil	566
<b>Total (B)</b>	<b>8622</b>	<b>7076</b>
<b>Profit/(Loss) for the year (A-B)</b>	<b>17108</b>	<b>14316</b>
Less: Provision for taxation (Income Tax/MAT)	2194	1123
<b>Profit/(Loss) after Tax</b>	<b>14914</b>	<b>13193</b>
Balance as per previous year Balance Sheet	(11189)	(24382)
<b>Surplus/(Loss) carried to Balance Sheet</b>	<b>3725</b>	<b>(11189)</b>
<b>Earning per Share</b>		
Basic and Diluted Earning per Share (Rs.)	0.30	0.26
Face Value per Share(Rs.)	10.00	10.00

**Notes on Accounts - Schedule 7**

for and on behalf of the Board

As per our report of even date for Agiwal &amp; Associates Chartered Accountants

Tej Bhan Gupta  
Director  
12<sup>th</sup> April, 2006  
New DelhiS.K. Agarwal  
DirectorV.K. Gupta  
Partner**SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH, 2006**

(Amount in Rupees)

	As at 31.03.2006	As at 31.03.2005
<b>SCHEDULE 1 - SHARE CAPITAL</b>		
<b>AUTHORISED</b>		
500000 Equity Shares of Rs.10/- each	5000000	5000000
<b>ISSUED, SUBSCRIBED &amp; PAID-UP</b>		
50020 Equity Shares of Rs.10/- each fully paid in Cash	500200	500200
(The Share Capital in full is held by the holding company viz. VLS FINANCE LTD. by itself and through its nominees)		
<b>TOTAL</b>	<b>500200</b>	<b>500200</b>
<b>SCHEDULE 2 - RESERVES &amp; SURPLUS</b>		
<b>PROFIT &amp; LOSS ACCOUNT</b>		
Balance b/f	(11189)	(24382)
Add: Profit for the year	14914	13193
<b>TOTAL</b>	<b>3725</b>	<b>(11189)</b>
<b>SCHEDULE 3 - CASH &amp; BANK BALANCES</b>		
a) Bank of Baroda - Current Account	12176	18126
b) Bank of Baroda Fixed Deposit Account	491106	469804
<b>TOTAL</b>	<b>503282</b>	<b>487930</b>
<b>SCHEDULE 4 - LOANS &amp; ADVANCES</b>		
a) Advance Income Tax/TDS	7075	4451
<b>TOTAL</b>	<b>7075</b>	<b>4451</b>

**VLS ASSET MANAGEMENT LTD.**

(Amount in Rupees)

	As at 31.03.2006	As at 31.03.2005
<b>SCHEDULE 5 - OTHER CURRENT ASSETS</b>		
a) Interest Accrued on FD with Bank (Net of TDS)	5659	4527
<b>TOTAL</b>	<b>5659</b>	<b>4527</b>
<b>SCHEDULE 6 - CURRENT LIABILITIES</b>		
Expenses payable	7510	5510
Provision for taxation (MAT)	2387	2387
Provision for taxation (Income Tax)	2194	Nil
<b>TOTAL</b>	<b>12091</b>	<b>7897</b>
<b>SCHEDULE 7 - ACCOUNTING POLICIES AND NOTES ON ACCOUNTS</b>		
1. The Company adopts the accrual system of accounting.		
2. Preliminary expenditures are amortized equally over a period of ten years.		
3. Contingent Liabilities		Nil.
4. Estimated amount of contracts remaining to be executed on Capital Account		Nil.
5. The Company had no employees during the year 2005-2006.		
6. Related party disclosure :-		
Following are the related parties :-		
Holding Company: VLS FINANCE LTD (100 %)		
Fellow Subsidiaries :-		
VLS Securities Ltd, VLS Asset Management Ltd. and VLS Investments Inc., Delaware, USA.		
7. There are no deferred tax assets/liabilities during the year		
8. Interest Income on Fixed Deposits includes tax deducted at source of Rs.2,624/(Previous year Rs.2,181/-).		
9. Previous year figures have been regrouped/rearranged wherever necessary to facilitate comparison.		
10. Schedule 1 to 7 form an integral part of the Balance Sheet and the Profit and Loss Account.		

for and on behalf of the Board

As per our report of even date for Agiwal &amp; Associates Chartered Accountants

Tej Bhan Gupta  
Director  
12<sup>th</sup> April, 2006  
New DelhiS.K. Agarwal  
DirectorV.K. Gupta  
Partner**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

<b>I. Registration details:</b>			
Registration No.	12963	State Code	20
Balance Sheet date	31.03.2006		
<b>II. Capital raised during the year (Amount in Rs.'000)</b>			
Public Issues	: Nil	Rights Issues	: Nil
Bonus Issues	: Nil	Private Placement	: Nil
<b>III. Position of mobilization and deployment of funds (Amt in Rs.'000)</b>			
Total Liabilities	500	Total Assets	500
<b>Sources of funds</b>		<b>Application of funds</b>	
Paid-up Capital	500	Net Fixed Assets	-
Reserves & Surplus	4	Investments	-
Secured Loans	-	Net Current Assets	504
Unsecured Loans	-	Miscellaneous Expenditure	Nil
		Accumulated Losses	Nil
<b>IV. Performance of Company (Amount in Rs.'000)</b>			
Turnover	26	Total Expenditure	9
Profit/(Loss) before tax	+17	Profit/(Loss) after tax	+15
Earnings per share in Rs.	0.30	Dividend rate%	Nil
<b>V. Generic names of principal products/services of Company (as per monetary terms)</b>			
Investment Activities			

**VLS ASSET MANAGEMENT LTD.****DIRECTORS' REPORT TO THE MEMBERS**Your Directors present the 11<sup>th</sup> Annual Report of your Company together with the Balance Sheet as at 31<sup>st</sup> March 2006 and Profit and Loss Account for the year ended on that date.**Financial Results**

During the year under review, the Company has incurred a loss of Rs. 6,310/-. The accumulated losses of the Company, during the year under review, have exceeded 50% of its net worth. The Board has been advised that the Company, not being an Industrial Company, no reference to BIFR or other authorities is required to be made. The Company did not undertake any activity during the year under review. However, the Board is exploring suitable opportunities/areas, which may be taken up by the company.

**Dividend**

In view of the loss suffered by the Company during the year under review, no dividend has been recommended by the Board.

**Directors**

Shri S. K. Agarwal and Shri Rajesh Jhalani - Directors shall be retiring by rotation at the ensuing Annual General Meeting and being eligible have offered themselves for reappointment. Your Directors recommend their reappointment in order to have their continued valuable direction, guidance and assistance in the conduct of the affairs of your Company.

Shri R. Ramnath, resigned as Director of Company due to other pre-occupations w.e.f. 31/08/2005. Your Board places on record its sincere thanks for the valuable guidance and contribution made by Shri R. Ramnath during his tenure.

Shri K. K. Soni and Shri Anurag Bhatnagar were co-opted as Additional Directors by the Board w.e.f. 04/10/2005. Their tenure is up to the date of ensuing Annual General Meeting and being eligible, they have consented for their appointment as Director, liable to retire by rotation. The Company had received a notice u/s 257 of the Companies Act, 1956, from a member to propose appointment of both Shri K. K. Soni and Shri Anurag Bhatnagar as directors of Company, liable to retire by rotation. The relevant resolution and other information for this purpose is set out in notice convening the ensuing Annual General Meeting. The Board recommends the appointment of Shri K.K. Soni and Shri Anurag Bhatnagar as director to have their valuable guidance, direction and assistance in conduct of the affairs of the Company.

**Directors' Responsibility Statement**

Pursuant to provisions of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility statement, it is hereby confirmed:-

- that in preparation of annual accounts for the financial year ended 31<sup>st</sup> March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give true & fair view of the state of affairs of the Company at the end of the financial year and of the Loss of the Company for that period.
- that the Directors have taken proper and sufficient care for the maintenance of proper accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- that the Directors have prepared the Annual Accounts for the Financial year ended 31<sup>st</sup> March 2006 on a going concern basis.





# VLS ASSET MANAGEMENT LTD.

## Auditors

The Board recommends the reappointment of M/s V. Sankar Aiyar & Co, Chartered Accountants, Statutory Auditors of the Company. Their term will end at the conclusion of ensuing Annual General Meeting, and they being eligible, have given their consent for re-appointment. You are also requested to authorize the Board to fix their remuneration.

## Auditors Report

The observations made by Auditors in their report have been adequately dealt with in relevant Notes on Accounts and need no further comments from Directors.

## Fixed Deposits

During the year under review, the Company has not invited or accepted any fixed deposit within the meaning of Section 58A of the Companies Act, 1956 and the rules made there under.

## Statutory Disclosure

The Company's (Disclosure of Particulars in the Report of Board of Directors), Rules 1988 requires the disclosure of particulars regarding Conservation of Energy in Form A and Technology Absorption in Form B, prescribed by the Rules. Since during the year under review the Company did not absorb any new technology nor has carried out any R&D activity including conservation of Energy, therefore, head wise information envisaged in said forms has been dispensed with. There was no proposal, during the year under review, for buying back the shares by the Company. The Company has had no foreign exchange outgo or inflow.

## Personnel

The Company had no employees during the year under report and therefore, during the year under review there was no employee of the company drawing remuneration exceeding the limits laid down u/s. 217 (2A) of the Companies Act, 1956, read with relevant rules framed there under.

## Acknowledgement

The Board takes this opportunity to place on record its sincere thanks to its members, bankers and other associates for their continued support.

For and on behalf of the Board of Directors

PLACE : NEW DELHI  
DATE : 25.05.2006

S.C. Agarwal  
Director

Anurag Bhatnagar  
Director

## AUDITORS' REPORT TO THE SHAREHOLDERS OF VLS ASSET MANAGEMENT LIMITED

- We have audited the attached Balance Sheet of VLS ASSET MANAGEMENT LIMITED as at 31<sup>st</sup> March, 2006 and the annexed Profit & Loss Account of the Company for the year ended on that date. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- We conducted the audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- According to the information and explanations obtained and based on such checks as we considered necessary, we report that none of the matters specified in paragraphs 4 and 5 of the Companies (Auditors Report) Order, 2003, issued by the Department of Company Affairs in terms of Section 227 (4A) of the Companies Act, 1956, are either applicable or call for a statement for the year under audit except that:  
The accumulated losses of the company at the end of the financial year are not less than 50% of its net worth and it has incurred cash losses in the current as well as in the immediately preceding financial year.
- Further to our comments in the annexure referred to in paragraph 3 above, we report that:-  
(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;  
(ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;  
(iii) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;  
(iv) In our opinion, the Balance Sheet and Profit & Loss Account dealt with by this report comply with the accounting standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956, to the extent applicable.  
(v) On the basis of written representations received from the directors and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March, 2006 from being appointed as a director in terms of clause (g) of subsection (1) of Section 274 of the Companies Act, 1956;  
(vi) In our opinion and to the best of our information and according to the explanations given to us, the accounts read together with the notes on accounts give the information required by the Companies Act, 1956 in the manner so required and give true and fair view in conformity with the accounting principles generally accepted in India:  
(a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2006; and  
(b) in the case of the Profit & Loss Account, of the Loss for the year ended on that date, and  
(c) in the case of the Cash Flow Statement, of the cash flows for the year ended on the date.

For V. Sankar Aiyar & Co.  
Chartered Accountants

PLACE: New Delhi  
DATE: 25.05.06

(V. Rethinam)  
Partner  
Membership Number:-10412

## BALANCE SHEET AS AT 31ST MARCH, 2006

(Amount in Rs.)

Schedule	As on	
	31- Mar-06	31- Mar-05
<b>SOURCES OF FUNDS</b>		
<b>A. Shareholders' Funds :</b>		
Share Capital	7,07,000	7,07,000
<b>B. Loan Fund</b>		
Unsecured Loan	9,05,871	8,92,371
<b>TOTAL</b>	<b>16,12,871</b>	<b>15,99,371</b>
<b>APPLICATION OF FUNDS</b>		
<b>A. Current Assets, Loans &amp; Advances</b>		
Cash & Bank Balance	12,702	5,460
	12,702	5,460
<b>B. Less: Current Liabilities &amp; Provisions</b>		
Current Liabilities	5,431	5,379
<b>Net Current Assets (A-B)</b>	<b>7,271</b>	<b>81</b>
<b>C. Profit &amp; Loss Account</b>		
	16,05,600	15,99,290
<b>TOTAL</b>	<b>16,12,871</b>	<b>15,99,371</b>
<b>NOTES TO ACCOUNTS</b>		
As per our report of even date attached. for V Sankar Aiyar & Co. Chartered Accountants		

For and on behalf of the Board

V. Rethinam  
Membership Number:-10412  
Partner  
Place : New Delhi  
Date : May 25, 2006

S.C. Agarwal  
Director

S.K. Agarwal  
Director

## PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

(Amount in Rs.)

Sch. No	For the year ended 31st March, 2006	For the year ended 31st March, 2005
<b>INCOME</b>		
	-	-
<b>EXPENDITURE</b>		
Administrative and Other Expenses	6,310	6,986
Preliminary Expenditure Written Off	-	3,26,330
<b>LOSS FOR THE YEAR</b>	<b>6,310</b>	<b>3,33,316</b>
Add : Loss Brought Forward	15,99,290	12,65,974
<b>Balance Carried to Balance Sheet</b>	<b>16,05,600</b>	<b>15,99,290</b>
Earning per Share ( Basic & Diluted) (Refer Note No. 4 of schedule 6)	<b>(0.09)</b>	<b>(4.71)</b>

NOTES TO ACCOUNTS

As per our report of even date attached.

for V. Sankar Aiyar & Co.

For and on behalf of the Board

Chartered Accountants

V. Rethinam  
Membership No. 10412  
Partner  
Place : New Delhi  
Date : May 25, 2006

S.C. Agarwal  
Director

S.K. Agarwal  
Director

## SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH, 2006

(Amount in Rs.)

	As At	
	31-Mar-2006	31-Mar-2005
<b>1 SHARE CAPITAL</b>		
<b>Authorised Capital</b>		
1,00,00,000 Equity shares of Rs.10/- each	10,00,00,000	10,00,00,000
<b>Issued &amp; Subscribed</b>		
70,700 Equity shares of Rs.10/- each for cash fully paid up (70,100 shares held by VLS Finance Ltd., the holding Company)	7,07,000	7,07,000
	7,07,000	7,07,000
<b>2 UNSECURED LOAN</b>		
From Holding Company i.e. VLS Finance Ltd. (Non-interest bearing) (Maximum amount outstanding during the year Rs.9,05,511/- previous year Rs. 89,2011)	9,05,511	8,92,011
From Directors	360	360
	9,05,871	8,92,371
<b>3 CURRENT ASSETS, LOANS &amp; ADVANCES</b>		
<b>Current Assets</b>		
Balances with Scheduled Bank in current account	12,702	5,461
	12,702	5,461
<b>4 CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Audit Fee Payable	5,431	5,379
	5,431	5,379

## SCHEDULE TO PROFIT & LOSS ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006

	for the year ended	
	2005-06	2004-05
<b>5 ADMINISTRATIVE AND OTHER EXPENSES</b>		
Filing Charges	3,500	1,000
Audit Fee	2,806	2,754
Bank charges	4	3,232
	6,310	6,986

## SCHEDULE-6 NOTES ON ACCOUNTS

### 1. Significant Accounting Policies:

a) **General**  
The accompanying financial statements have been prepared on the historical cost convention and conform to the statutory provisions and practices prevailing in the country.

### b) Method of Accounting

The Company is following accrual basis of accounting.

### 2. Deferred tax liability/Deferred tax assets

There is no deferred tax assets/ liability of the company during the year.

### 3. Related party disclosure (under Accounting Standard -18)

Following are the related parties: -

Holding Company: - VLS Finance Ltd.

Fellow Subsidiaries: - VLS Securities Ltd., VLS Investments Ltd., VLS Investment Inc.

Transactions during the year with related party: -

Related Party	Nature of Transaction	As on 31 <sup>st</sup> March, 2006	As on 31 <sup>st</sup> March, 2005
Holding Company	Opening Balance	8,92,011	8,91,011
	Loan Received	13,500	1,000
	Closing Balance	9,05,511	8,92,011

### 4. Basic and diluted earning per share under Accounting Standard 20:

S. No.	Particulars	Year Ended 31 <sup>st</sup> March, 2006	Year Ended 31 <sup>st</sup> March, 2005
1	Net Profit/(Loss) after Tax	(6310)	(3,33,316)
2	Weighted average number of equity shares	70,700	70,700
3	Face Value per share	10	10
4	Basic & diluted earning per share	(0.09)	(4.7)

5. Previous Years figures have been re-grouped and re-classified wherever considered necessary.

6. Schedules 1-6 form an integral part of the Accounts.

As per our report of even date

for V. Sankar Aiyar & Co.

For and on behalf of the Board

Chartered Accountants

V. Rethinam  
Partner  
Place : New Delhi  
Date : May 25, 2006

S.C. Agarwal  
Director

S.K. Agarwal  
Director



**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE  
AS PER PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956.**

<b>I. Registration Details</b>			
Registration	55-65812	State Code	55
Balance Sheet Date	31-Mar-06		
<b>II. Capital raised during the Year (Amount in Rs. Thousands)</b>			
Public Issue	-	Right Issue	-
Bonus Issue	-	Private Placement	-
<b>III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)</b>			
Total Liabilities	1,613	Total Assets	1,613
Sources of Funds:			
Paid up Capital	707	Reserves & Surplus	-
Secured Loans	-	Unsecured Loans	906
Application of Funds:			
Net Fixed Assets	-	Investments	-
Net Current Assets	7	Misc. Expenditure	-
Accumulated Losses	1,606		
<b>IV. Performance of Company (Amount in Rs. Thousands)</b>			
Turnover	-	Total Expenditure	6
Profit/Loss Before Tax	(6)	Profit/Loss after Tax	(6)
Earning per Share (Rs.)	-	Dividend Rate %	-
<b>V. Generic Names of Principal Products/ Services of Company (as per monetary terms)</b>			
			Not Applicable

Place : New Delhi  
Date : May 25, 2006

For and on behalf of the Board  
**S.C. Agarwal** Director  
**S.K. Agarwal** Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006		
	Year ended 31.03.2006	Year ended 31.03.2006
<b>A. Cash flow from operating activities</b>		
Net Profit/Loss before tax and extra-ordinary items	(6,310)	(333,316)
Adjustments for:-		
Miscellaneous expenses written off	-	326,330
<b>Operating profit before working capital changes</b>	<b>(6,310)</b>	<b>(6,986)</b>
<b>Changes in Working Capital</b>		
Trade & Other Payables	52	54
<b>Cash generated from operations</b>	<b>(6,258)</b>	<b>(6,932)</b>
Less: Income Tax paid	Nil	Nil
Cash flow before extra-ordinary items	(6,258)	(6,932)
Less: Adjustment for provision etc.	-	-
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(6,258)</b>	<b>(6,932)</b>
<b>B. Cash flow from investing activities</b>		
Net profit/(loss) on sale of investments	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>C. Cash flow from financing activities</b>		
Proceeds from borrowings	13,500	1,000
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>13,500</b>	<b>1,000</b>
<b>NET CHANGES IN CASH &amp; CASH EQUIVALENTS</b>	<b>7,242</b>	<b>5,931</b>
CASH & CASH EQUIVALENTS- OPENING BALANCE	5,460	11392
CASH & CASH EQUIVALENTS- CLOSING BALANCE	12,702	5461

As per our report of even date for V. Sankar Aiyar & Co. Chartered Accountants  
**V. Rethinam** Partner  
Membership No. 10412  
Place : New Delhi  
Date : May 25, 2006

For and on behalf of the Board  
**S.C. Agarwal** Director  
**S.K. Agarwal** Director

**VLS INVESTMENTS INC.**

**DIRECTORS' REPORT TO THE MEMBERS**

Your Directors present the 2nd Annual Report of your Company, together with the audited Balance Sheet and the Profit and Loss Account for the period ended 31.12.2005.

**FINANCIAL RESULTS**

During the year under review, a net profit of 560 USD was recorded and after adjusting previous year's loss of 140USD, there was a surplus of 420USD which has been carried forward to next year. The Company could not undertake any business activity during the year under review and the interest on bank deposit was the only income generated. However, the Board is continuing its efforts for undertaking suitable business activity keeping in view the resources available with the Company. The Company has been advised by its holding company VLS Finance Limited (eVLSF) to liquidate all of its investments as on 31.12.04 and remit the proceeds to VLSF. Accordingly, the Company liquidated some of the investments held by it during the year and remitted 99,992USD on 11.7.05 to VLSF in India. Subsequently on 9.3.06 an amount of 434592USD was remitted to VLSF upon further realization of investments. The remaining investments are expected to be liquidated in the current year.

**DIVIDEND**

In order to conserve resources, no dividend is recommended for the year under review.

**DIRECTORS**

There was no change in the Board of Directors during the period under review.

**PERSONNEL**

The Company had no employees during the period under report.

**AUDITORS**

M/s. A. Mehta, Certified Public Accountant, 23 Wheelers Circle, Suite # 198, Stoughton, MA 02072, are appointed as the Statutory Auditors of the Company. The tenure, terms of appointment etc. of Statutory Auditors are in accordance with and subject to relevant regulations in force for the time being.

**AUDITORS' REPORT**

The observations made by the Auditors in their report have been adequately dealt with in relevant Notes on Accounts and need no further comments from Directors.

**FIXED DEPOSITS**

The Company has neither invited nor accepted any Fixed Deposits during the period under review.

**ACKNOWLEDGEMENTS**

The Board takes this opportunity to thank the Shareholders, Bankers and Business Associates for their all round cooperation and support.

Place : New Delhi  
Date : 30/03/2006

For and on behalf of the Board of Directors  
**S. K. Agarwal** Director  
**Rajesh Jhalani** Director

**Independent Auditors' Report**

Board of Directors

**VLS Investments Inc.,**

Boston Massachusetts

We have audited the accompanying balance sheet of "VLS Investments Inc." as of December 31, 2005 and the related statements of operations and retained earnings for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of "VLS Investments Inc." as of December 31, 2005, and the results of its operations and retained earnings for the year then ended in conformity with accounting principles generally accepted in the United States.

**A. Mehta**  
Certified Public Accountant

A. Mehta  
Certified Public Accountant

Place : New Delhi  
Date : 30 March, 2006

**Balance Sheet as at December 31, 2006 (expressed in USD)**

	Notes	2005	2004
<b>Assets:</b>			
Current Assets:			
Financial Assets (Shares/Securities)	3	563,447	663,372
Cash at Bank		359,004	-
Formation Expenses	2	119	159
(To the extent not written off/adjusted)			
Loss for the financial year		-	140
		<b>922,570</b>	<b>663,671</b>
<b>Stockholder's Equity &amp; Liabilities</b>			
Stockholder's Equity:			
Common stock, no par value; 100 shares authorised, issued and outstanding	4	1,000	1,000
Current Liabilities:			
Accounts Payable	5	920,552	662,372
Accrued expenses		598	299
Total Current Liabilities		921,150	662,671
Profit for the year		420	-
		<b>922,570</b>	<b>663,671</b>

For and on behalf of Board

**A. Mehta**  
Certified Public Accountant

**S.K. Agarwal** Director  
**Rajesh Jhalani** Director

Place : New Delhi  
Date : 30<sup>th</sup> March, 2006

The accompanying notes are an integral part of these financial statements.

**Profit and Loss Account for the year ended December 31, 2006 (expressed in USD)**

	Notes	2005	2004
<b>Revenues:</b>			
Interest Income		1,093	-
		<b>1,093</b>	-
<b>Expenses:</b>			
Bank Charges		30	-
Formation Expenses written off		40	40
Audit charges		100	100
Registration and Annual fee		199	-
Federal Tax		164	-
		<b>533</b>	<b>140</b>
Profit/(Loss) for the year		560	(140)
Less: Brought forward Loss		140	-
Profit/(Loss) available for appropriation		<b>420</b>	<b>(140.00)</b>

For and on behalf of Board

**A. Mehta**  
Certified Public Accountant

**S.K. Agarwal** Director  
**Rajesh Jhalani** Director

Place : New Delhi  
Date : 30<sup>th</sup> March, 2006

The accompanying notes are an integral part of these financial statements.

**Notes to the annual accounts December 31, 2005  
(Continued)**

**1. General**

VLS Investments Inc. (the Company) was incorporated in the State of Delaware on 18<sup>th</sup> June, 2004 as a limited liability company. The object of the Company is the holding of investments in companies. The current financial statements are for the period from 01.01.2005 to 31.12.2005.

**2 Summary of significant accounting policies**

**2.1 Basis of presentation**

The annual accounts have been prepared in accordance with the Delaware and United States statutory requirements and on a going concern basis.

**2.2 Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2.3 Foreign currencies**

The Company's accounts are expressed in US Dollars (USD) and its accounting records are maintained in that currency. Assets and liabilities denominated in other currencies are converted into USD at the rates prevailing at the balance sheet date. Income and expenses in other currencies are translated into USD at the exchange rate prevailing at the transaction date.



- 2.4 **Formation expenses**  
Formation expenses are amortized on a straight-line basis over a period of five years.
- 2.5 **Financial assets**  
Financial assets are valued at cost. Where in the opinion of the Directors there has been a permanent diminution in the value of an investment such diminution is recognized by a charge to earnings.
- 2.6 **Income Tax**  
The Company, with the consent of its shareholder, elected to be taxed as an S Corporation. In lieu of corporation income taxes, the stockholder is taxed on the Company's taxable income. Accordingly these financial statements do not include a provision of income taxes.
- 3 **Financial assets – Investment in Shares/Stocks**  
Financial assets are analysed as follows: -

	(In USD)	
	2005	2004
Niksun Inc.	25,000	25,000
Axcel Photonics Inc.	10,000	10,000
Voyager Fund I, LLC	54,362	1,54,287
Consteller Technologies Inc. (10,000 shares)	4,74,085	4,74,085
Eculid Networks Inc. (266,667 shares)		
Wirex Communication Inc. (4424.78 shares)		
	5,63,447	6,63,372

These securities were transferred during the year 2004 from VLS International S.A., Luxembourg, a wholly owned subsidiary of VLS Finance Ltd. as per permission given by the Reserve Bank of India.

- 4 **Subscribed capital**  
The subscribed capital is US\$ 1000 represented by 100 shares of common stock of no par value allotted to the holding company i.e. VLS Finance Ltd.
- 5 **Creditors**  
Creditors are analysed as follows

	(In USD)	
	2005	2004
Amount due to VLS Finance Ltd., the holding company	5,70,552	6,62,372
Other Credit Balance	3,50,000	Nil
	9,20,552	6,62,372

- 6 The figures for the corresponding previous year have been regrouped or rearranged to make them comparable.

For and on behalf of Board  
S.K. Agarwal Director Rajesh Jhalani Director

A. Mehta  
Certified Public Accountant  
Place : New Delhi  
Date : 30<sup>th</sup> March, 2006  
See independent Auditor's Report

**CODE OF CONDUCT FOR BOARD MEMBERS, SENIOR AND OTHER MANAGERIAL PERSONNEL OF VLS FINANCE LIMITED.**

1. **INTRODUCTION:**  
This Code for the members of the Board of Directors and for the Senior and other managerial personnel of VLS Finance Limited (the Company) is aimed to help the Company to promote and maintain ethical conduct, to prevent any wrong doing and ensure compliance with the legal requirements particularly under the Clause 49 of the Listing Agreement with the Stock Exchanges, at Board and top management level. This code embodies the belief that acting always with the Company's legitimate interest in mind and being aware of the Company's responsibility towards its stakeholders is an essential element of the Company's long term excellence.
2. **Applicability:**  
The code is applicable to the following persons (hereinafter referred to in this code as 'the Officers'), unless repugnant to the context or specified otherwise in this code:  
(a) Members of the Board of Directors of the Company and  
(b) Senior Managerial personnel i.e. all members of management one level below the Managing Director including all functional heads and such other person(s) as Managing Director may decide.  
All concerned are expected to read and understand this code and to uphold standards set out under this, in his/her day-to-day activities. As the principles set out under this are general in character, officers should also review the Company's other applicable policies and procedures for more specific instructions. In case of any difficulty in interpretation or allied matters they may contact the Compliance officer. The Company Secretary or such other person as decided by the board for the time being, shall be the Compliance officer for this purpose.
3. **Definitions:**  
**Interest in Transaction:** Interest in any transaction (be a contract or arrangement) either through himself or through any of the relatives defined in schedule 1A of the Companies Act, 1956 or as may be specified under any applicable regulations, in force for the time being.  
**Corporate Opportunity:** Corporate Opportunity is an opportunity in which the Company has a right/property/interest or expectancy or opportunity, which in justice should belong to the Company.  
**Approval of / Disclosure to the Board:** For this purpose, Board of Directors includes any person(s) or committee nominated by the Board.
4. **Honesty & Integrity**  
All officers shall conduct their activities, on behalf of the Company and on their personal behalf, with honesty, integrity and fairness. They shall act in good faith, responsibly, with due care, competence and diligence, without allowing their independent judgment to be subordinated and will act in the best interests of the Company. They shall fulfill the fiduciary obligations.
5. **Corporate Opportunities:**  
Directors, officers and employees owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises. Directors, officers, and employees are expressly prohibited from:  
a. Taking for themselves personally, opportunity that are discovered through the use of Company's property, information, or position.  
b. Competing directly with the business of the Company or with any business that the Company is considering.  
c. Using Company's property, information, or position for personal gain if the Company

- has finally decided not to pursue an opportunity that relates to the Company's business actively, he/she may pursue such activity only after disclosing the same to the Board of directors or the person(s) nominated for this purpose.
6. **Conflict of Interest**  
Officers of the Company shall not engage in any business, relationship or activity, which may come in conflict with the interest of the Company, its subsidiaries or its associates. Conflicts can arise in many situations. It is not possible to define and cover every possible conflict situation. Officers shall himself judge by the spirit of this code, any other situations and acts that may amount to conflict or impair his/her independence or may consult the Compliance officer. Set forth, are some of the common circumstances that may lead to a conflict of interest, actual or potential  
a) Officers should not engage in any activity / employment that interferes with the performance or responsibility towards the company or is otherwise in conflict with or prejudicial to the company.  
b) Officers and their immediate families should not invest in a company, customer, supplier, developer or competitor and generally refrain from investments that compromise their responsibility towards the company.  
c) Officers should avoid conducting company business with a relative or with a firm / company in which a relative / related party is associated in any significant role.  
If such related party transaction is unavoidable, it must be fully disclosed to the board of the company and approval be obtained therefor.
7. **Compliance**  
Officers are required to comply with all applicable laws, rules and regulations, both in letter and spirit. In order to assist the Company in promoting lawful and ethical behaviour, officers must report any possible violation of law, rules, regulations or the code of conduct to Board through the compliance officer in writing within a reasonable period of knowledge of notice of the breach. The Company recognizes that resolving such problem or concern in advance will help to safeguard the Company's interest, assets, financial integrity and reputation. In case of uncertainty about legal rules involving Company business conducted by person concerned he/she should consult the Compliance officer.
8. **Other Directorships**  
The Company feels that serving on the Board of Directors of other companies may raise substantial concerns about potential conflict of interest. Therefore, all directors must report / disclose such relationships to the Board on an annual basis. It is felt that service on the board of a direct competitor is not in the interest of the company.
9. **Confidentiality of Information**  
Any information including private, proprietary and other information concerning the Company's business, its customers, suppliers etc., which is not in public domain, e.g. which might be of use to competitors or harmful to the Company or its associates, if disclosed, and to which the officer has access or possesses such information, must be considered confidential and held in confidence, unless authorised to make it public / disclose it as directed or when disclosure is required as a matter of law. No officer shall provide any information either formally or informally, to the press or any other publicity media, unless specially authorised.
10. **Insider Trading**  
Obligations under the Securities and Exchange Board of India (SEBI) laws apply to every one in the organization. In the normal course of business, the officers and other constituents of the Company including consultants, vendors etc., may come into possession of significant unpublished price sensitive information i.e. information which may have bearing on the market price of securities of the Company but which has not yet been made public. It is expected to be clearly understood that this information is the property of the Company and person concerned has been entrusted with it. Hence, misuse of unpublished price sensitive information whether by profiteering for self or any other person by trading in Company's securities or otherwise in any manner in contravention of applicable laws will be construed as contravention of this code apart from implications under relevant laws. As the insider trading rules are strictly enforced by the authorities even in the instances when the financial transactions seem small, it is important both for the Company and person concerned that the insider trading violations do not occur. In case of uncertainty as to whether one is free to trade or not, the compliance officer may be contacted.
11. **Gifts and Donations:**  
Under no circumstances may the officers and other constituents of the Company accept any offer, payment, authorization or promise to pay any money, gift or anything of value from any customer/client or other person that is perceived as intended directly or indirectly to influence any business decision, any act or failure of act or commitment/opportunity for commission of any fraud.  
Inexpensive gifts, infrequent business meals, celebratory events and entertainment provided they are not excessive or create an appearance of impropriety do not violate this policy. Similarly, the officers and other constituents of the Company may not offer, payment, authorization or promise to pay any money, gift or anything of value to any customer/client or other person that is perceived as intended directly or indirectly to influence any business decision, any act or failure of act or commitment/opportunity for commission of any fraud. Inexpensive gifts, infrequent business meals, celebratory events and entertainment provided they are not excessive or create an appearance of impropriety do not violate this policy.
12. **Protection of Assets**  
Officers must protect the company's assets, labour and information and ensure its efficient use for legitimate business purposes. They may not use these for personal use, unless approved by the Board.
13. **Cooperation of group entities:**  
The Company shall cooperate with other companies/entities of the group by sharing physical, human and management resources as long as this does not adversely affect its business interest and shareholder value. In the procurement of products and services, a group company shall be given preference provided it is on competitive terms relative to third parties.
14. **Periodic Review :**  
This code is subject to modification. The Board may review this code from time to time and make amendments, if necessary. Such amendments may be required to maintain consistency with applicable laws, Company's policies or any other reason. The amendments shall be promptly disclosed upon approval of the Board on the Company's website or other means acceptable for the time being under applicable laws.  
It is obligatory on the part of every officer to make an annual disclosure under this code affirming their adherence to the code on annual basis. This disclosure shall be made to the compliance officer on or before 30<sup>th</sup> April, for the financial year preceding the date.



# CONSOLIDATED FINANCIAL STATEMENTS



Additionally, every officer is to make an acknowledgement as per format enclosed hereto, on receipt of this code indicating they have received, read and understood, and agree to comply with the code.

## 15. Waivers and Penalties:

Any waiver of any provision of this code for a person required to abide by it must be approved by the Board of Directors of the Company in writing and promptly disclosed. As the matters covered in this code are of utmost importance to the Company, its stockholders and its business associates and are essential to the Company's ability to conduct its business in accordance with the stated values, it is expected that all concerned adhere to these rules in carrying out their duties for the Company. The Company will take appropriate disciplinary action in case of any violation of these rules or any other policy/rules of the Company by person concerned including legal recourse for recovery of loss suffered, if any and will

cooperate fully with the appropriate authorities where any of the applicable laws have also been violated.

## 16. Residuary clause:

Transactions given in this code are only illustrative ones and it would not be possible to quote and include all situations in which conflict of the interest may arise. So, if a situation arises any doubt or question, the person may consult the compliance officer. Nothing in this code of conduct, in any company policies and procedures, or in other related communications (verbal or written) creates/implies an employment contract or term of employment.

This code is in addition to and not in derogation with any Act, law, rules and regulations and all other applicable policies and procedures adopted by the Company that governs the conduct of its officers and or other constituents.

## CONSOLIDATED FINANCIAL STATEMENTS

### AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We have examined the attached Consolidated Balance Sheet of VLS Finance Ltd. (the Parent Company) and its subsidiaries namely VLS Securities Limited, VLS Investments Ltd. and VLS Asset Management Limited as at 31<sup>st</sup> March, 2006 and VLS Investments Inc., Delaware, U.S.A. as at 31<sup>st</sup> December, 2005 along with its unaudited financial statement for the period from 01.01.2006 to 31.03.2006, the Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the year ended annexed thereto. These financial statements are the responsibility of the Company management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We did not audit the financial statements of the subsidiary namely VLS Asset Management Limited whose financial statement reflect total assets of Rs. 16,12,871/- as at 31<sup>st</sup> March, 2006 and total revenues of Rs. NIL for the year ended on that date and also VLS Investments Inc., Delaware, U.S.A. as at 31<sup>st</sup> March, 2006 whose financial statement reflect total assets of Rs. 61,79,067/- as at 31<sup>st</sup> March, 2006 and total revenues of Rs. 78,652/- for the period ended on that date. These financial statements have been audited by other auditor, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditors.

We report that consolidated financial statements have been prepared by the Parent Company in accordance with the requirements of Accounting Standard (AS) n 21, Consolidated Financial Statements and Accounting Standard (AS) - 23, Accounting for Investment in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited/unaudited financial statements of the Parent Company and its subsidiaries included in the Consolidated Financial Statements.

On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of the Company and its subsidiaries, we are of the opinion that the said Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- in the case of Consolidated Balance Sheet, of the state of affairs of the company and its subsidiaries as at 31<sup>st</sup> March 2006;
- in the case of the Consolidated Profit and Loss Account, of the consolidated results of the company and its subsidiaries for the year then ended; and
- in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Company for the year then ended.

For Agiwal & Associates  
Chartered accountants

Place : New Delhi  
Date : 30<sup>th</sup> May 2006

(V.K. Gupta)  
Partner  
(M.No. n 81979)

## CONSOLIDATED BALANCE SHEET AS AT 31st MARCH, 2006

			Amount in Rupees	
			For the Year ended on 31st March, 2006	For the Year ended on 31st March, 2005
	Sch. No.			
<b>I. SOURCES OF FUNDS</b>				
1. a) Capital	1		39,91,72,250	39,91,72,250
b) Reserves & Surplus	2		113,52,39,947	114,15,75,738
2. Minority Interests				
a) Capital			6,000	6,000
b) Reserves & Surplus				
Opening			(13,573)	(10,744)
Add: For the Year			(54)	(2,829)
			(13,627)	(13,573)
3. Loan Funds				
Unsecured Loans	3		1,31,81,948	1,31,81,948
		<b>Total Sources</b>	<b>154,75,86,518</b>	<b>155,39,22,363</b>
<b>II APPLICATION OF FUNDS</b>				
<b>4. Fixed Assets</b>				
a) Gross Block	4		138,23,93,888	138,05,82,650
b) Less: Depreciation			127,71,47,959	127,16,92,451
c) Net Block			10,52,45,929	10,88,90,199
5. Investments (At cost)	5		79,14,55,679	76,68,77,688
6. A. Current Assets, Loans & Advances				
a) Share stock in trade	6		1,12,99,734	13,12,97,795
b) Sundry Debtors	7		1,43,18,320	5,89,74,088
c) Cash & Bank Balances	8		1,03,01,840	5,01,09,585
d) Other Current Assets	9		37,11,81,479	27,08,02,650
e) Loans and Advances	10		22,43,00,905	18,29,44,243
			63,14,02,278	69,41,28,361
6. B. Less: Current Liabilities & Provisions				
a) Liabilities	11		78,84,071	4,70,00,809
b) Provisions	12		1,12,15,854	79,54,537
			1,90,99,925	5,49,55,346
		<b>Net Current Assets (A-B)</b>	<b>61,23,02,353</b>	<b>63,91,73,015</b>
7. Deferred Tax Assets			3,85,10,416	3,87,50,669
8. Miscellaneous Expenditure (To the extent not written-off or adjusted)	13		72,141	2,30,791
		<b>Total Deployments</b>	<b>154,75,86,518</b>	<b>155,39,22,362</b>
Notes on Accounts	19			

As per our report of even date.

For Agiwal & Associates  
Chartered Accountants  
V.K. Gupta  
Partner  
May 30th, 2006  
New Delhi

For and on behalf of the Board

S.K. Agarwal  
Managing Director

K.K. Soni  
Director

B.M. Oza  
Director

H. Consul  
Company Secretary




**CONSOLIDATED FINANCIAL STATEMENTS**

CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2006			Amount in Rupees	
	Sch. No.	For the year ended on 31st March, 2006	For the year ended on 31st March, 2005	
<b>INCOME</b>				
Sale of Shares/Securities		2180,85,08,673	1342,21,78,646	
Income from Operations	14	1,92,60,265	2,61,43,740	
Income/ (Loss) from Investments		4,44,59,799	(16,491,841)	
Other Income		13,55,764	3,61,195	
Increase/(Decrease) in stock of shares	18	(1,340,209)	1,69,62,175	
<b>Total (A)</b>		<b>2187,22,44,292</b>	<b>1344,91,53,915</b>	
<b>EXPENDITURE</b>				
Purchase of Shares/Securities		2177,10,35,542	1334,80,36,745	
Interest & Finance Charges	15	10,937	11,868	
Administrative & Other Expenses	16	2,39,78,971	2,80,38,067	
Employee's Cost	17	74,11,247	68,48,082	
Depreciation	4	54,55,508	58,14,482	
Miscellaneous Expenditure Written-off		1,58,650	12,31,007	
<b>Total (B)</b>		<b>2180,80,50,855</b>	<b>1338,99,80,251</b>	
<b>PROFIT/LOSS BEFORE ADJUSTMENTS</b>				
Bad Debts Recovery		6,41,93,437	5,91,73,664	
Provision for diminution in value of Investments		1,34,71,642	1,14,65,273	
Less: Amount transferred from General Reserve		8,00,00,000	8,00,00,000	
Provision for Non Performing Assets		8,00,00,000	6,00,00,000	
		4,98,691	(21,431,219)	
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>7,71,66,388</b>	<b>7,20,70,156</b>	
Less: Provision for Deferred Tax for the year		2,40,253	7,47,304	
Less: Provision for Tax for the year		29,17,401	1,123	
Less: Provision for Tax for the year FBT		3,44,579	-	
Less: Adjustments relating to earlier years		-	5,694	
Add: Excess/(short) Provision adjusted		-	3,39,505	
<b>PROFIT/(LOSS) AFTER TAX</b>		<b>7,36,64,155</b>	<b>7,16,55,540</b>	
Less: Minority Interest		(54)	(2,829)	
Add: Surplus b/fd. from previous year		(20,068,548)	(16,633,815)	
<b>PROFIT AVAILABLE FOR APPROPRIATIONS</b>		<b>5,35,95,661</b>	<b>5,50,24,554</b>	
<b>APPROPRIATED TO:</b>				
Statutory Reserve u/s 45 IC of the RBI Act, 1934		1,57,13,926	1,50,93,102	
Transfer to General Reserve		6,00,00,000	6,00,00,000	
<b>SURPLUS/(LOSS) CARRIED TO BALANCE SHEET</b>		<b>(22,118,265)</b>	<b>(20,068,548)</b>	
<b>EARNING PER SHARE ( Refer Note No.11 in Schedule 19)</b>				
Basic and Diluted Earning per Share (Rs.)		1.85	1.80	
Face Value per Share ( Rs.)		10.00	10.00	
<b>Notes on Accounts</b>				
As per our report of even date.	19			
For Agiwal & Associates			For and on behalf of the Board	
Chartered Accountants				
V.K. Gupta				
Partner				
May 30th, 2006	S.K. Agarwal	K.K. Soni	B.M. Oza	H. Consul
New Delhi	Managing Director	Director	Director	Company Secretary

**SCHEDULES TO CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2006**  
 (Amount in Rupees)

	As at 31st March, 2006	As at 31st March, 2005
<b>SCHEDULE 1 CAPITAL</b>		
<b>AUTHORISED CAPITAL</b>		
5,00,00,000 Equity Shares of Rs.10/- each	50,00,00,000	50,00,00,000
(Previous year 5,00,00,000 Equity shares of Rs.10/-each)		
<b>ISSUED CAPITAL</b>		
4,02,62,500 Equity Shares of Rs.10/- each	40,26,25,000	40,26,25,000
(Previous year 4,02,62,500 Equity shares of Rs.10/-each)		
<b>SUBSCRIBED &amp; PAID-UP CAPITAL</b>		
3,97,95,000 Equity Shares of Rs.10/- each fully paid up for cash	39,79,50,000	39,79,50,000
(Previous year 3,97,95,000 Equity Shares of Rs.10/- each)		
Add: Amount forfeited on 4,67,500 equity shares	12,22,250	12,22,250
(Previous year 4,67,500 equity shares)		
	39,91,72,250	39,91,72,250
<b>Issued, Subscribed &amp; Paid-Up Capital includes:-</b>		
3,31,62,500 equity shares of Rs.10/-each aggregating to Rs.33,16,25,000/- are allotted as bonus shares by way of capitalisation of share premium.		
<b>SCHEDULE 2 RESERVES &amp; SURPLUS</b>		
<b>a) GENERAL RESERVE</b>		
As per last Balance Sheet	15,68,83,932	15,68,83,932
Less: Transfer to Profit and Loss A/c	8,00,00,000	6,00,00,000
	7,68,83,932	9,68,83,932
Add : Transfer from Profit and Loss A/c	6,00,00,000	6,00,00,000
<b>Total (a)</b>	<b>13,68,83,932</b>	<b>15,68,83,932</b>

	As at 31st March, 2006	As at 31st March, 2005
<b>b) STATUTORY RESERVE</b>		
As per last Balance Sheet	1,97,51,775	46,58,673
Add: Transfer from P/L account for the year	1,57,13,926	1,50,93,102
<b>Total (b)</b>	<b>3,54,65,701</b>	<b>1,97,51,775</b>
<b>c) SECURITY PREMIUM ACCOUNT</b>		
As per last Balance Sheet	96,78,46,235	96,78,46,235
<b>Total (c)</b>	<b>96,78,46,235</b>	<b>96,78,46,235</b>
<i>Of the above amount of Rs.96,78,46,235/-, an amount of Rs.4,74,33,750 is relating to share premium received on forfeited shares</i>		
<b>d) SURPLUS</b>		
As per Last Balance sheet	(20,068,548)	(16,633,815)
Less: Transfer to Profit & Loss Account	(20,068,548)	(16,633,815)
	0	0
Add: Transfer from Profit & Loss Account	(22,118,265)	(20,068,548)
<b>Total (d)</b>	<b>(22,118,265)</b>	<b>(20,068,548)</b>
<b>e) CAPITAL RESERVE</b>		
	1,71,62,344	1,71,62,344
<b>Grand Total (a) to (e)</b>	<b>113,52,39,947</b>	<b>114,15,75,738</b>
<b>SCHEDULE 3 UNSECURED LOANS</b>		
a) Adjustable deposits	1,31,81,588	1,31,81,588
b) Loan from Directors	360	360
<b>Total (a+b)</b>	<b>1,31,81,948</b>	<b>1,31,81,948</b>



CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULES TO CONSOLIDATED BALANCE SHEET AS AT 31st March, 2006

SCHEDULE 4 FIXED ASSETS

Sl. No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost As at 01.04.2005	Additions during the year	Sales/ Adjust-ments	Cost As at 31.03.2006	Upto 31.03.2005	For the year	Sales/ Adjust-ments	Upto 31.03.2006	WDV As at 31.03.2006	WDV As at 31.03.2005
1	<b>Assets for own use:</b>										
A	Buildings	15,37,31,635	10,90,942	Nil	15,48,22,577	6,11,27,366	46,39,550	Nil	6,57,66,916	8,90,55,661	9,26,04,269
B	Temporary Structures	28,49,232	Nil	Nil	28,49,232	28,49,231	Nil	Nil	28,49,231	1	1
C	Vehicles	24,06,502	4,00,000	Nil	28,06,502	19,28,943	1,86,758	Nil	21,15,701	6,90,801	4,77,559
D	Office Equipments	23,92,002	68,951	Nil	24,60,953	16,37,022	1,08,610	Nil	17,45,632	7,15,321	7,54,980
E	Furniture & Fixtures	29,24,808	38,909	Nil	29,63,717	24,98,801	80,867	Nil	25,79,668	3,84,049	4,26,007
F	Air Conditioners	17,45,520	18,750	Nil	17,64,270	13,14,294	61,894	Nil	13,76,188	3,88,082	4,31,226
G	Computers	66,60,929	1,93,686	Nil	68,54,615	59,29,064	3,38,506	Nil	62,67,570	5,87,045	7,31,865
H	Electrical Installations	7,74,549	Nil	Nil	7,74,549	5,98,548	24,481	Nil	6,23,029	1,51,520	1,76,001
I	Generator	4,30,905	Nil	Nil	4,30,905	3,24,202	14,842	Nil	3,39,044	91,861	1,06,703
2	<b>Assets on Lease</b>	120,66,66,568	Nil	Nil	120,66,66,568	119,34,84,980	Nil	Nil	119,34,84,980	1,31,81,588	1,31,81,588
	<b>Total</b>	<b>138,05,82,650</b>	<b>18,11,238</b>	<b>0</b>	<b>138,23,93,888</b>	<b>127,16,92,451</b>	<b>54,55,508</b>	<b>0</b>	<b>127,71,47,959</b>	<b>10,52,45,929</b>	<b>10,88,90,199</b>
	Previous Year	138,20,00,422	2,80,049	16,97,821	138,05,82,650	126,72,48,293	58,14,482	13,70,324	127,16,92,451	10,88,90,199	11,47,52,129

SCHEDULE : 5 INVESTMENTS (Long Term)

PARTICULARS	FACE VALUE	QUANTITY		AMOUNT (In Rs.)	
		AS AT 31.03.2006	AS AT 31.03.2005	AS AT 31.03.2006	AS AT 31.03.2005
<b>A. IN EQUITY SHARES</b>					
<b>1. Un-quoted &amp; Fully Paid</b>					
Hotline Display Device Ltd	10	45,00,000	45,00,000	4,51,87,500	4,51,87,500
<i>(Previously Hotline Vitris Display Devices Ltd)</i>					
Hotline Electronics Components Ltd	10	9,00,000	9,00,000	90,00,000	90,00,000
<i>(Previously Hotline Vitris Electronic Ltd)</i>					
Hotline Electronics Ltd	10	20,00,000	20,00,000	2,00,75,000	2,00,75,000
Foremost Factors Ltd	10	40,000	40,000	4,00,000	4,00,000
Indrachan Agro Ltd.	10	1,50,000	1,50,000	15,00,000	15,00,000
Invest India Economic Foundation Private Ltd.	10	2,000	2,000	20,000	20,000
Anchal Fintrade P Ltd	100	35,000	0	35,00,000	0
Alok Fintrade P Ltd	100	5,000	0	5,00,000	0
B S Traders P Ltd	100	20,000	2,10,000	20,00,000	2,10,00,000
Gangra Projects P Ltd	100	10,000	0	10,00,000	0
Kanoria Properties P Ltd	100	80,000	45,000	80,00,000	45,00,000
Generato Next Medical Services Co Pvt Ltd	100	42,000	25,000	42,00,000	25,00,000
Pranjal Investments P Ltd	100	56,000	0	56,00,000	0
Sunair Hotels Ltd.	10	95,94,824	95,94,824	23,59,48,240	23,59,48,240
Savera Constructions P Ltd	10	1,25,000	0	12,50,000	0
VLS Capital Ltd	10	48,20,833	48,20,833	7,38,53,947	7,38,53,947
MPL Finance & Leasing Co. Ltd +	10	5,482	5,482	0	0
Eha infrastructure P Ltd	10	4,90,000	4,90,000	49,36,750	49,36,750
Niksun Inc	\$138	0	18,116	0	10,89,500
Axel Photonics Inc	\$0.25	0	40,000	0	4,35,800
Voyager Fund I, LLC	\$1	0	1,54,287	0	67,23,827
Comsteller Technologies Inc	\$5	0	10,000	0	0
Eculid Networks Inc	\$0.38	1,28,525	2,66,667	57,34,786	2,06,60,624
Wirex Communication Inc	\$2.26	0	4,425	0	0
		SUB-TOTAL (A-1)		42,27,06,223	44,78,31,188
<b>2. Quoted &amp; Fully Paid</b>					
Bestavision Ltd.	10	80,00,000	80,00,000	16,00,00,000	16,00,00,000
ICDS Ltd. +	10	21,929	21,929	0	0
DHAMPUR SUGAR (KASHIPUR) LTD	10	1,26,000	1,26,000	15,22,500	15,22,500
<i>(Previously DSM AGRO PRODUCTS LTD)</i>					
ANGSAL PROPERTIES&INFRASTRUCTURES.LTD	10	61,089	0	86,96,372	0
ANDHRA BANK LTD	10	100	0	8,031	0
BICON LTD	5	50	0	20,380	0
BONGAIGON REFINERIES LTD	10	1,000	0	64,848	0
CONS FINVEST HOLDINGS LTD	10	3,040	0	1,22,208	0
DABUR LTD +	1	1,000	0	2,000	0
GOLDSTONE TELE SERVICES LTD	4	5,000	0	1,00,150	0
GOLDSTONE TECHNOLOGIES LTD	10	2,000	0	66,360	0
GATI LTD	2	15,38,415	0	3,00,58,382	0
GMR INDUSTRIES LTD	10	250	0	42,550	0
GSFC LTD	10	500	0	94,909	0
IDFC LTD	10	4,000	0	2,89,690	0
IGL LTD	10	1,000	0	1,30,150	0
ITC LTD	1	600	0	76,305	0
JBF INDUSTRIES LTD	10	1,000	0	71,560	0
JENSON & NICOLSON INDIA LTD	2	1,000	0	13,830	0
JAIPRAKASH HYDRO POWER LTD	10	2,000	0	65,660	0
JP ASSOCIATES LTD	10	875	0	3,80,219	0
KOTHARI PRODUCTS LTD	10	1,89,700	0	2,38,79,550	0
LANXESS ABS LTD	10	500	0	75,739	0
MASCON GLOBAL LTD	10	2,000	0	23,900	0
NTPC LTD	10	1,000	0	85,300	0
ONIDA SAVAK LTD	10	94,000	0	5,01,960	0
PETRONET LNG LTD	10	10,000	0	4,22,835	0
POLARIS SOFTWARE LAB LTD	5	200	0	23,038	0
PRECOT MILLS LTD	10	500	0	1,65,908	0
RAIN CALCINING LTD	10	1,000	0	41,980	0
RELAXO FOOTWEAR LTD	5	17,20,776	0	4,98,66,395	0
RELANCE COMM VENTURES LTD	5	50	0	14,509	0
TATA TELE SERVICES LTD	10	5,000	0	1,36,518	0
TV TODAY LTD	5	1,000	0	92,610	0
TCI INDUSTRIES LTD	10	31,691	0	9,52,720	0
TRANSCORP INTIL LTD	10	31,691	0	7,58,999	0
TRANSPORT CORP OF INDIA LTD	10	90,000	0	52,81,662	0
VUJAYA BANK LTD	10	500	0	26,495	0
VIDEOCON APPLIANCES LTD	10	2,800	0	1,01,220	0
BHILWARA SPINNERS LTD	10	20,928	0	2,96,760	0
D PHARMA LTD	10	200	0	1	0
PUNJAB WIRELESS LTD	10	200	0	1	0
UTI Master Plus 91	10	200	0	3,252	0
		SUB-TOTAL (A-2)		28,45,75,456	16,15,22,500

B. IN PREFERENCE SHARES Unquoted & Fully Paid					
Flex International P.Ltd (8% Redeemable Non cumulative preference shares)	100	15,00,000	15,00,000	15,00,00,000	15,00,00,000
Fusebase Eiltoro Pvt Ltd	100	12,500	12,500	12,50,000	12,50,000
SUB-TOTAL (B)				15,12,50,000	15,12,50,000
C. DEBENTURES & BONDS Unquoted & Fully Paid-up					
Eha infrastructure Pvt Ltd (0% optionally convertible debentures)	1,00,000	690	690	6,90,00,000	6,90,00,000
ICICI Bond (12%)	1,00,000	1	1	1,04,000	1,04,000
SUB-TOTAL (C)				6,91,04,000	6,91,04,000
TOTAL (A1+A2+B+C)				92,76,35,679	82,97,07,688
Less: Provision for diminution in value of Investments				16,00,00,000	8,00,00,000
TOTAL (D)				76,76,35,679	74,97,07,688
I. Aggregate value of quoted investments				At cost 28,45,75,456	16,15,22,500
				Market Value (*) 43,73,28,620	4,94,72,711
II. Aggregate value of un-quoted investments - Others				At cost 64,30,60,223	66,81,85,188
D. INVESTMENT IN IMMOVABLE PROPERTIES:-TOTAL (E)					
TOTAL (D+E)				2,38,20,000	1,71,70,000
				79,14,55,679	76,68,77,688

+Bonus Shares received, hence cost of acquisition is NIL.

(\* ) Note: For Market Value of the quoted investments-Refer Note No. 17 in Schedule 19 -Notes on Accounts.

SCHEDULE 6 SHARE STOCK IN TRADE

(At Cost or market price, whichever is lower)

(Amount in Rs.)

Name of the Company	As on 31.03.2006		As on 31.03.2005	
	Quantity	Value (Rs.)	Quantity	Value (Rs.)
<b>Stock of Quoted Equity shares (Fully Paid)</b>				
ARIHANT COTSYN LTD	2,000	1	2,000	1
BICON LTD	0	0	50	20,380
CENTRAL ROADLINES CORP LTD	2,82,700	1	2,82,700	1
CONS FINVEST HOLDINGS LTD	0	0	3,040	1,22,208
DHAMPUR SUGAR MILLS LTD	0	0	1,000	1,35,850
DWARIKESH SUGAR LTD	0	0	500	75,450
D.PHARMA LTD	0	0	200	1
FLEX INDUSTRIES LTD	0	0	2,000	73,460
GATI CORPORATION LTD	0	0	2,18,673	2,65,68,770
GLOBAL TELE LTD	0	0	700	66,549
GOETZE LTD	0	0	500	84,775
HINDUSTAN ADHESIVES LTD	1,000	2,890	1,000	2,890
IGL INDIA LTD	0	0	125	28,475
IGL LTD	0	0	1,500	1,38,970
INTERCRAFT LTD	29,000	1	29,000	1
JAGATJEET IND LTD	0	0	1,000	41,750
JINDAL PHOTO LTD	0	0	960	48,835
JIK INDIA LTD	0	0	4,000	10,800
KOTHARI PRODUCTS LTD	10	3,903	1,89,700	2,38,79,550
KOTHARI SUGARS LTD	0	0	1,000	13,300
LANCO INDUSTRIES LTD	0	0	1,000	56,250
MATRIX LAB LTD	0	0	1,000	1,56,700
NICOLAS PIRAMAL LTD	0	0	70	15,614
NTPC LTD	0	0	1,000	85,300
ONIDA SAVAK LTD	0	0	94,000	5,01,960
PUNJAB WIRELESS SYSTEMS LTD	0	0	500	1
PETRONET LTD	0	0	25,000	6,93,790
RAIN CALCINING LTD	0	0	15,320	3,77,879
RCF LTD	0	0	1,500	51,825
RELAXO FOOTWEARS LTD	0	0	17,20,776	4,98,66,395
RITESH INDUSTRIES LTD	85,900	2,55,123	85,900	2,57,700
ROYAL AIRWAYS LTD	0	0	1,000	42,065
SOUTH ASIAN ENTERPRISES LTD	17,11,289	1,10,37,814	17,68,450	1,23,79,150
SHRIRAM TRANS FIN LTD	0	0	500	21,650
STATE BANK OF BIKANER & JAIPUR	0	0	110	25,850
SWEDE INDIA LTD	200	1	200	200
SEAMAC LTD	0	0	27,000	19,23,750
SHIV TEXYARN LTD	0	0	2,000	39,900
TATA TELE SERVICES LTD	0	0	5,000	1,27,430
TCI INDUSTRIES LTD	0	0	31,691	9,52,720

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TCS LTD	0	0	100	1,39,322
TN PETRO LTD	0	0	4,250	82,166
TRANSCORP INTERNATIONAL LTD	0	0	31,691	7,58,999
TRANSPORT CORPORATION OF INDIA LTD	0	0	2,69,275	1,01,95,502
UTI MASTER PLUS 1991	0	0	200	3,252
VARDHMAN ACRYLIC LTD	0	0	93,575	12,30,409
<b>Total</b>	<b>21,12,099</b>	<b>1,12,99,734</b>	<b>49,20,756</b>	<b>13,12,97,795</b>

## SCHEDULE TO CONSOLIDATED BALANCE SHEET AS AT 31st March, 2006 (Contd.)

	As at		As at	
	31st March, 2006		31st March, 2005	

### SCHEDULE 7 SUNDRY DEBTORS

a) Instalments Receivable				
(Unsecured)				
Considered Good				
1. Due for more than six months	67,69,994		67,69,994	
2. Others	0		0	
Less: Provision for Non-performing Assets	67,69,994		67,69,994	
<b>Total (a)</b>	<b>0</b>		<b>0</b>	
b) Dues from Share Brokers				
Considered Good				
1. Due for more than six months	24,18,893		24,18,893	
2. Others	1,43,18,320		5,89,74,088	
	1,67,37,213		6,13,92,981	
Less: Provision for Non-performing Assets	24,18,893		24,18,893	
<b>Total (b)</b>	<b>1,43,18,320</b>		<b>5,89,74,088</b>	
<b>Total (a+b)</b>	<b>1,43,18,320</b>		<b>5,89,74,088</b>	

### SCHEDULE 8 CASH & BANK BALANCES

a) Cash on Hand	10,14,817		8,49,934	
b) Cheques in Hand	3,08,712		0	
c) Balances with scheduled banks				
1. In Current Accounts	49,30,585		2,69,97,622	
2. In Deposit Accounts	40,47,726		2,22,62,029	
<b>Total (a+b+c)</b>	<b>1,03,01,840</b>		<b>5,01,09,585</b>	

### SCHEDULE 9 OTHER CURRENT ASSETS

a) Interest Accrued but not due	16,24,944		65,03,336	
b) Security Deposits	92,35,727		1,57,82,727	
c) Margin Money with share brokers	28,31,02,557		20,00,35,904	
d) Other Receivable	2,92,32,786		47,42,882	
Less: Provision for Non-performing Assets	8,15,325		8,16,634	
	2,84,17,461		39,26,248	
e) Advance Tax Paid	4,88,00,790		4,45,54,435	
<b>Total (a+b+c+d+e)</b>	<b>37,11,81,479</b>		<b>27,08,02,650</b>	

### SCHEDULE 10 LOANS AND ADVANCES

(Unsecured, considered good unless otherwise specified)				
a) Short term Loans and Advances	11,44,05,126		11,42,46,544	
Less: Provision for Non-performing Assets	3,40,81,701		3,40,81,701	
	8,03,23,425		8,01,64,843	
b) Advances Recoverable in cash or in kind or for value to be received	15,07,24,631		10,90,26,551	
Less: Provision for Non-performing Assets	67,47,151		62,47,151	
	14,39,77,480		10,27,79,400	
<b>Total (a+b)</b>	<b>22,43,00,905</b>		<b>18,29,44,243</b>	

### SCHEDULE 11 LIABILITIES

a) Creditors for Expenses				
i) Total Outstanding dues of small scale industrial undertakings	Nil		Nil	
ii) Total outstanding dues of creditors other than small scale industrial undertakings	18,66,481		15,79,233	
b) Advance Payments received	1,33,400		0	
c) Other Liabilities	58,84,190		4,54,21,576	
<b>Total (a+b+c)</b>	<b>78,84,071</b>		<b>4,70,00,809</b>	

### SCHEDULE 12 PROVISIONS

a) Provision for Taxation				
Balance B/fd	76,02,387		79,51,264	
Less: Provision written back	0		3,50,000	
Add: Provision for the year	29,17,401		1,123	
<b>Total (a)</b>	<b>1,05,19,788</b>		<b>76,02,387</b>	
b) Provision for Fringe Benefit Tax				
Balance B/fd	0		0	
Add: Provision for the year	3,44,579		0	
<b>Total (b)</b>	<b>3,44,579</b>		<b>0</b>	
c) Provision for Sebi Fee				
Balance B/fd	0		56,890	
Less: Provision written back	0		56,890	
<b>Total (c)</b>	<b>0</b>		<b>0</b>	
d) Provision for Leave encashment				
Balance B/fd	3,52,150		3,22,788	
Add: Provision for the year	(663)		29,362	
<b>Total (d)</b>	<b>3,51,487</b>		<b>3,52,150</b>	
<b>Total (a+b+c+d)</b>	<b>1,12,15,854</b>		<b>79,54,537</b>	

### SCHEDULE 13 MISCELLANEOUS EXPENDITURE

(To the extent not written off or adjusted)				
Deferred Revenue Expenditure				
Balance B/fd.	2,30,791		14,53,126	
Add: Balance transferred/addition during the year	0		8,672	
Less: Written off to Profit & Loss Account	1,58,650		12,31,007	
<b>Total</b>	<b>72,141</b>		<b>2,30,791</b>	

### SCHEDULES TO CONSOLIDATED PROFIT & LOSS ACCOUNT

	for the year ended		for the year ended	
	31st March 2006		31st March 2006	

<b>SCHEDULE 14 INCOME FROM OPERATIONS</b>				
Income from Hire Purchase Financing	0		678	
Income from other Credit Operations	1,92,60,265		2,61,43,062	
<b>Total</b>	<b>1,92,60,265</b>		<b>2,61,43,740</b>	

### SCHEDULE 15 INTEREST & FINANCE CHARGES

Interest to Bank	229		0	
Bank / Finance Charges	10,708		11,868	
<b>Total</b>	<b>10,937</b>		<b>11,868</b>	

### SCHEDULE 16 ADMINISTRATIVE & OTHER EXPENSES

Advertisement & Business Promotion	7,81,832		20,72,909	
Consultancy, Legal & Service Charges	91,79,597		74,98,931	
Communication Expenses	11,18,092		18,61,734	
Electricity & Water Charges	7,42,385		6,96,237	
Insurance	81,492		45,455	
Office Expenses	12,84,423		14,18,870	
Securities Transaction Tax	34,09,916		20,39,299	
Shares Transaction Charges	2,51,900		2,01,482	
Travelling Expenses & Conveyance	16,44,243		13,87,199	
Rates & Taxes	13,02,702		10,16,267	
Rent	1,46,000		1,65,270	
Repairs & Maintenance				
o Building	3,68,641		1,58,711	
o Others	21,30,390		21,68,851	
Miscellaneous Expenses	7,41,797		2,76,989	
Auditors' Remuneration				
a) Audit Fees	1,17,475		1,06,292	
b) For Other Services				
o For Tax audit	49,590		38,570	
o For certification	1,01,200		87,100	
o Out of pocket expenses	56,609		45,090	
Internal Auditors' Remuneration				
o Fees	60,000		61,530	
o Out of pocket expenses	8,000		8,000	
Directors' Sitting Fees	1,65,000		1,58,000	
Loss on Shares Lost/Misplaced	0		1,15,500	
Loss on sale/transfer of fixed assets	0		2,57,455	
SEBI Membership Fee	25,000		35,000	
SEBI Turnover fee	5,000		56,43,667	
NSE Capital Market Subscription	1,00,000		1,00,000	
Transaction and Other NSE charges	37,965		1,31,598	
Brokers Stamp Duty	69,722		2,42,061	
<b>Total</b>	<b>2,39,78,971</b>		<b>2,80,38,067</b>	

### SCHEDULE 17 EMPLOYEES' COST

Salaries	61,72,129		58,52,253	
Staff Amenities	4,02,804		3,94,467	
Employer's Contribution to PF, ESI, Gratuity Fund etc.	8,36,314		6,01,362	
<b>Total</b>	<b>74,11,247</b>		<b>68,48,082</b>	

### SCHEDULE 18 INCREASE/(DECREASE) IN STOCK OF SHARES

Closing Stock of Shares	1,12,99,734		13,12,97,795	
Less: Opening Stock of Shares	13,12,97,795		11,44,51,120	
Less: Shares transferred to Investments	11,86,57,852		0	
Less: Shares Lost/misplaced	0		1,15,500	
	1,26,39,943		11,43,35,620	
<b>Net Increase/(Decrease) in Stock of Shares</b>	<b>(1,340,209)</b>		<b>1,69,62,175</b>	

### SCHEDULE: 19 Consolidated Notes on Accounts for the year ended on 31<sup>st</sup> March 2006

#### I. SIGNIFICANT ACCOUNTING POLICIES: -

##### A. PRINCIPLES OF CONSOLIDATION

The financial statements relate to VLS Finance Ltd. (the Company) and its subsidiary companies. The consolidation financial statements have been prepared on the following basis: -

- The financial statement of the Company and its subsidiary companies have been combined on a line by line basis by adding together the book value of like items of assets, liabilities, income and expenditures after fully eliminating intra-group balances and intra-group transactions resulting in unrealized profits or losses.
- The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the companies separate financial statements.
- Minority interests share of net profit/loss of consolidated subsidiaries for the year identified and adjusted against the income of the group in order to arrive at net income attributable to the shareholders of the Company.
- Minority interests share of net assets of consolidated subsidiaries is identified and presented in the consolidated Balance Sheet separate from liabilities and the equity of the company's shareholders.

##### B. OTHER SIGNIFICANT ACCOUNTING POLICIES

These are set out under significant accounting policies of the financial statements of the Company and its subsidiaries namely VLS Securities Ltd., VLS Investments Ltd., VLS Asset Management Ltd. and VLS Investments Inc., Delaware, USA.

##### C. FOREIGN EXCHANGE TRANSLATIONS

- Investments in foreign entities are recorded at the exchange rates prevailing on the date of making the investments.
- Transactions in foreign currencies are recorded at the rates prevailing on the date of transaction.
- Monetary items denominated in foreign currency are restated at the rate prevailing on Balance Sheet date.
- Exchange gains/losses on conversion of monetary items denominated in foreign currency at the year end are dealt with in the profit and loss account.

##### II. NOTES ON ACCOUNT

- Contingent Liability:- Nil
- In some cases balances in the accounts of Debtors, Loans and Advances, Other Current Assets and Creditors are subject to confirmation by the respective parties.
- Cash & Bank Balances include
  - Share Transfer Stamps of Rs. 1,776/- (Previous Year Rs.1,746/-).
  - Brokers' Stamps of Rs. 35,717/- (Previous year Rs.439/-)
  - Bank Deposits include fixed deposits of Rs.10,54,352/- (Previous Year ₹ Rs.10 lacs) pledged with the banks as security for overdraft facilities.
- The Guidelines issued by the Reserve Bank of India to all Non-Banking Financial Companies regarding Capital Adequacy, Asset Classification, provisioning for and income recognition on non-performing assets have been followed in respect of VLS Finance Ltd.
- Additional information pursuant to the provision of paragraphs 3, 4C & 4D of Part II of Schedule VI of the Companies Act, 1956

Trading items	Opening Stock in trade as on 01.04.2005		Purchases		Sales		Closing Stock in trade as on 31.03.2006	
	Qty.	Value Rs.	Qty.	Value Rs.	Qty.	Value Rs.	Qty.	Value Rs.
Shares	4920756	131297795	27029125	21771035542	27086276	21808508673	2112099	11299734
Less: Transfer to Investments account	2751506	118657852						
Balance	2169250	12639943						
(Previous year)	5921279	114451120	22655158	13348036745	23655681	13422178646	4920756	131297795

# CONSOLIDATED FINANCIAL STATEMENTS

6. The term of lease agreements in all Leased Assets have expired and the assets continue in the possession of lessees. However, the said assets have been included in the block of fixed assets of the Company pending the transfer of titles.
7. The provision for diminution in the value of investments made during the year in respect to VLS Finance Ltd. amounting to Rs.8 crores has been set-off against the equivalent amount withdrawn from the General Reserve.
8. Related Party Disclosure : Followings are the related parties:-  
Key Managerial Personnel: - Shri T.B. Gupta (Executive Vice-Chairman in VLS Finance Ltd.) and Shri S.K. Agarwal (Managing Director in VLS Finance Ltd. and VLS Securities Ltd.)  
Associates: - South Asian Enterprises Ltd.  
Relative of Key Managerial Personnel: - Mrs. Usha Gupta wife of Shri. T.B. Gupta and Mrs. Sudha Agarwal wife of Shri S.K. Agarwal.  
Summary of transactions with the above related parties is as follows:-

Particulars	(Amount in Rs.)		
	Associates	Key Managerial Personnel	Others
Rent Paid			1,80,000 (Previous year Rs. 2,12,970)
Remuneration to Managing Director and Executive Vice-Chairman		11,99,633 (Previous year Rs. 12,70,349)	
Advances received and paid during the year	Nil (Previous year Rs. 65,00,000)		

9. Deferred Tax Assets are net of deferred tax liabilities of Rs.1,77,76,422/- (Previous year Rs.1,75,40,058/-). The major components of deferred tax assets and liabilities are as under:-

Particulars	Deferred Tax Assets	Deferred Tax Liabilities
Fixed Assets	Rs. Nil (Previous year Rs. Nil)	Rs. 1,77,76,422 (Previous year Rs. 1,75,40,058)
Accumulated Losses	Rs. 5,62,12,552 (Previous year Rs. 5,61,68,528)	Rs. Nil (Previous year Rs. Nil)
Leave Encashment	Rs.74,286 (Previous year Rs.1,22,199)	Rs. Nil (Previous year Rs. Nil)
Total	Rs. 5,62,86,838 (Previous year Rs. 5,62,90,727)	Rs. 1,77,76,422 (Previous year Rs. 1,75,40,058)

## 10. Managerial Remuneration

Particulars	Paid to Shri T.B. Gupta	Paid to Shri S.K. Agarwal
Remuneration	Rs.3,21,432 (Previous Year ₹ Rs.3,62,003/-)	Rs.5,40,000 (Previous Year ₹ Rs. 5,55,000)
Perquisites	Rs.83,571 (Previous Year ₹ Rs.1,59,770/-)	Rs.2,54,630 (Previous Year ₹ Rs. 1,93,576)

The perquisite figure does not include contribution made by the Company for gratuity and group insurance scheme to the LIC and provision made for leave encashment.

## 11. Earning Per Share

Calculation of EPS (Basic and Diluted)

Particulars	Equivalent No. of Shares - Year ended	
	31 <sup>st</sup> March, 2006	31 <sup>st</sup> March, 2005
<b>Basic and Diluted</b>		
Total Shares Outstanding	<b>3,97,95,000</b>	3,97,95,000
Profit after Taxes	<b>Rs. 7,36,64,155</b>	Rs. 7,16,55,540
EPS	<b>Rs. 1.85</b>	Rs. 1.80

12. Last year, VLS Securities Ltd. has paid a sum of Rs. 56,58,431/- towards turnover based registration fee to SEBI to avail of the substantial relief offered under SEBI (Interest Liability Regularisation Scheme) 2004 subject to the final outcome of the Writ Petition pending before the Hon'ble Calcutta High Court in the case of Lalit Kumar Marodia Vs. Union of India & others. The Company has also joined as a party to a SLP No. 162/2005 filed before the Hon'ble Supreme Court challenging the constitutional validity of SEBI (Broker and Sub-broker) Regulations 1992 which has been admitted and is pending for disposal.
13. The Company has made the provision of Rs. 29,17,401/- (Previous year Rs. 1,123/-). Out of this Rs. 29,15,207/-(Previous year Rs. Nil) relates to VLS Finance Ltd and Rs 2,194/-(Previous year Rs.1,123/-) relates to VLS Investments Ltd. towards Taxation / MAT payable under the Income Tax Act, 1961.
14. Segment Reporting

Particulars	Equivalent No. of Shares - Year ended	
	As at 31.03.2006 (Rupees in lacs)	As at 31.03.2005 (Rupees in lacs)
<b>SEGMENT REVENUE</b>		
Financial Services	218291.25	134489.91
Investment	444.60	(164.92)
Total Revenue	218735.85	134324.99
<b>Segment Profit/(Loss) before Interest and Tax</b>		
Financial Services	697.22	1508.12
Investment	444.60	(364.92)
†	1141.82	1143.20
Less †Interest	0.11	0.12
-Other Un-allocable Expenditure	370.05	422.38
<b>Profit Before Tax</b>	<b>771.66</b>	<b>720.70</b>
<b>SEGMENT ASSETS</b>		
Financial Services	4390.80	5087.32
Investment	7914.56	7668.78
Un-allocable Assets	2975.68	2942.86
Total Assets	15281.04	15698.96
<b>SEGMENT LIABILITIES</b>		
Financial Services	189.95	585.03
Investment	0.00	0.00
Un-allocable Liabilities	132.87	96.34
Total Liabilities	322.82	681.37
<b>DEPRECIATION</b>		
Financial Services	0.00	0.00
Investment	800.00	600.00
Un-allocable Depreciation	54.56	58.14
Total Depreciation	854.56	658.14

15. Income from investments include:
- |  | Current Year (Rs.) | Previous Year (Rs.) |
|--|--------------------|---------------------|
| Dividend Income (Gross)                  | 45,31,910          | 76,01,275           |
| Interest on Debentures and Bonds (Gross) | 12,000             | 27,932              |
| Tax Deducted at Source                   | Nil                | Nil                 |
16. Interest Receipts (Gross) of Rs.1,60,03,601 (Previous Year Rs.1,45,62,685) grouped under Income from Operations includes Tax Deducted at Source of Rs. 35,60,847 (Previous Year Rs. 23,67,165).
17. The Market Value of the quoted investments is not comparable with the previous year figures due to transfer of certain shares amounting to Rs. 11,86,57,852/- from stock-in-trade to investments at the beginning of the financial year. (Refer Schedule 5 to Investments).
18. Expenditure in Foreign Exchange:-Foreign Travel Expenses in respect to VLS Finance Ltd- Rs. 2,93,781/- (Previous year Rs. Nil).
19. Margin Money with Share Brokers shown under the Schedule 9: Other Current Assets - includes Rs. 2,25,00,000/- in respect to VLS Securities Ltd is given in the form of fixed deposits.
20. SUBSIDIARY COMPANIES

The subsidiary companies considered in the consolidated financial statements are:-

S. No.	Name of Subsidiary Company	Country of Incorporation	Extent of Holding (%) as on 31.03.2006
1.	VLS Securities Ltd.	India	100
2.	VLS Investments Ltd.	India	100
3.	VLS Asset Management Ltd.	India	99.15
4.	VLS Investments Inc, Delaware.	USA	100

21. The audited financial statement of the subsidiaries have been considered for consolidation except in case of VLS Investment Inc, Delaware, USA where audited financial statement as at 31.12.2005 and unaudited financial statement for the period 01.01.2006 to 31.03.2006 have been considered.
22. Previous year figures have been regrouped/rearranged wherever necessary.
23. Schedules from 1 to 19 form an integral part of accounts.

As per our report even date  
For Agiwal & Associates  
Chartered Accountants

For and on behalf of the Board

V.K. Gupta Partner	H.Consul Company Secretary	S.K. Agarwal Managing Director	K.K. Soni Director	B.M. Oza Director
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May 30th, 2006  
New Delhi

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31ST MARCH, 2006

PARTICULARS	Rs. lacs	
	For the Year ended 31.03.2006	For the Year ended 31.03.2005
<b>A CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit Before Tax and Extraordinary Items	771.66	720.70
Add Interest & Finance Charges	0.11	0.12
Depreciation	54.56	44.44
Provision for diminution in value of investments	800.00	800.00
Miscellaneous Expenditure written off	1.59	12.31
	<u>1627.92</u>	<u>1577.57</u>
Less Income from Investments	444.60	(164.92)
Transfer from General Reserve	800.00	600.00
Provision for Leave encashment and SEBI Fee	(3.51)	(3.52)
	<u>1,241.09</u>	<u>431.56</u>
<b>Operating Profit before Working Capital Changes</b>	<b>386.83</b>	<b>1146.01</b>
<b>Changes in Working Capital</b>		
Trade & Other Receivables	(970.80)	(96.89)
Inventories	1,199.98	(168.47)
Trade & Other Payables	(391.17)	(201.30)
Cash generated from operations	224.84	679.35
Less:		
Interest Paid	0.11	0.12
Cash flow before extraordinary items	224.73	679.23
Extraordinary Items	(3.53)	(4.04)
<b>Net Cash Flow from Operating Activities (A)</b>	<b>221.20</b>	<b>675.19</b>
<b>B CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net Deployment in Fixed Assets	(18.11)	14.18
Net deployment in investments	140.82	(738.19)
Investment - transfer from Inventories	(1186.58)	0.00
Income from Investments	444.60	(164.92)
<b>Net Cash used in Investing Activities (B)</b>	<b>(619.27)</b>	<b>(888.93)</b>
<b>C CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from Long Term Borrowings	0.00	(0.09)
<b>Net Cash Flow from Financing Activities (C)</b>	<b>0.00</b>	<b>(0.09)</b>
<b>Net Increase/Decrease in Cash &amp; Cash Equivalents (A+B+C)</b>	<b>(398.08)</b>	<b>(213.83)</b>
Cash & Cash Equivalents (Opening)	501.10	714.93
Cash & Cash Equivalents (Closing)	103.02	501.10

Note : Cash & Cash Equivalents (Closing) includes deposits with banks amounting to Rs. 10.54 lacs (Previous year Rs. 10 Lacs), which are pledged with them as security for overdraft facility.

As per our report even date  
For Agiwal & Associates  
Chartered Accountants

For and on behalf of the Board

V.K. Gupta Partner	H.Consul Company Secretary	S.K. Agarwal Managing Director	K.K. Soni Director	B.M. Oza Director
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May 30th, 2006  
New Delhi





**NOTICE**

**19th ANNUAL GENERAL MEETING OF  
MEMBERS OF THE COMPANY  
WILL BE HELD AT**

Sri Sathya Sai International Centre Auditorium  
Lodhi Road Institutional Area, Lodhi Road  
Pragati Vihar, New Delhi - 110 003  
**at 10.30 A.M.**  
**on Monday,**  
**the 25th day of September, 2006**

**SHARE TRANSFER & INVESTOR SERVICES**

M/s RCMC Share Registry Pvt. Ltd.  
Unit: VLS Finance Ltd.  
1515, 1st Floor, Bhishm Pitamah Marg,  
Kotla Mubarakpur, Near South Extn., New Delhi-110003

N.B. : Members/Proxy are requested to bring their copy of Annual Report at the Meeting as extra copies have not been printed due to high cost of paper.

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**BOARD OF DIRECTORS :**

Shri Ajit Kumar	Chairman
Shri T.B. Gupta	Executive Vice-Chairman
Shri S.K. Agarwal	Managing Director
Shri K.K. Soni	Director-Finance & Chief Financial Officer
Shri M.G. Diwan	
Shri Ramji Mehrotra	
Dr. S. Ramesh	
Shri Divey Dipti Chopra	
Shri N.C. Sundararajan	
Shri Somesh Mehrotra	
Shri A.K. Puri	
Shri B.M. Oza	

**COMPANY SECRETARY**

Shri H. Consul

**AUDITORS**

M/s. Agiwal & Associates  
Chartered Accountants,  
3830, Lal Kothi, 2<sup>nd</sup> Floor,  
Pataudi House Road,  
Above Bank of Baroda,  
Darya Ganj, New Delhi-110002

**BANKERS**

HDFC Bank  
UCO Bank

**EQUITY SHARES LISTED AT :**

**THE NATIONAL STOCK EXCHANGE OF INDIA LTD.**

Exchange Plaza, 5th Floor, Plot No. C/1,  
G Block, Bandra Kurla Complex,  
Bandra (E), Mumbai-400051.

**BOMBAY STOCK EXCHANGE LTD.,**

25, Phiroze Jeejeebhoy Towers,  
Dalal Street, Mumbai - 400 001.

**MADRAS STOCK EXCHANGE LTD.**

Exchange Building, Post Box No. 183,  
11, Second Line Beach, Chennai-600 001.

**THE CALCUTTA STOCK EXCHANGE ASSOCH. LTD.**

7, Lyons Range, Kolkata-700 001.

Note:- The Equity Shares of the Company have been delisted from the Delhi Stock Exchange, New Delhi. and the U.P. Stock Exchange, Kanpur w.e.f. 31/3/2004 and from the Stock Exchange, Ahmedabad w.e.f. 31/3/2005 pursuant to Company's application for voluntary delisting of its shares in accordance with applicable SEBI guidelines for delisting.



**VLS FINANCE LTD.**

C-489, Defence Colony, New Delhi-110 024

**ATTENDANCE CARD  
NINETEENTH ANNUAL GENERAL MEETING  
Monday, the 25th Day of September, 2006**

Folio No./DP ID & CL ID	No. of Shares
Name	
Address	

I hereby record my presence at the 19th ANNUAL GENERAL MEETING of the Company at SRI SATHYA SAI INTERNATIONAL CENTRE AUDITORIUM, LODHI ROAD INSTITUTIONAL AREA, LODHI ROAD, PRAGATI VIHAR, NEW DELHI - 110 003 at 10.30 A.M. ON **MONDAY, THE 25TH DAY OF SEPTEMBER, 2006.**

Proxy's Name \_\_\_\_\_

Proxy's Signature \_\_\_\_\_

Member's Signature \_\_\_\_\_

**NOTE :**

1. Member/Proxy wishing to attend the meeting must present this card duly filled in at the Entrance of the Venue.
2. No Gift/Coupons or equivalent will be given to members who are present in the meeting.
3. For convenience of members, person other than member/proxy will not be allowed inside the Auditorium.



**VLS FINANCE LTD.**

C-489, Defence Colony, New Delhi-110 024

**FORM OF PROXY**

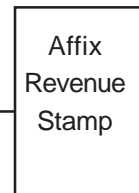
I/We \_\_\_\_\_  
of \_\_\_\_\_ being a member/members of  
VLS FINANCE LIMITED hereby appoint \_\_\_\_\_  
of \_\_\_\_\_ or failing him \_\_\_\_\_  
of \_\_\_\_\_ or failing him \_\_\_\_\_  
of \_\_\_\_\_ as my/our proxy to vote for me/us and on my/our behalf  
at the 19th Annual General Meeting of the Company to be held on Monday, the 25th Day of September, 2006 at  
10.30 A.M. and at any adjournment thereof.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2006

Reg. Folio/DP ID & CL ID	No. of Shares
--------------------------	---------------

FOR OFFICE USE ONLY

Proxy No. \_\_\_\_\_



Member's Signature \_\_\_\_\_

**NOTE :**

1. The form should be signed across the stamp as per specimen signature registered with the Company.
2. The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.
3. A Proxy need not be a Member.