

7TH ANNUAL REPORT
2004-2005

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the wholly-owned subsidiary of Inter-connected
Stock Exchange of India Ltd.

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NOTICE OF THE SEVENTH ANNUAL GENERAL MEETING OF INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED TO BE HELD ON SATURDAY, SEPTEMBER 24, 2005 AT 12.15 P.M. AT THE REGISTERED OFFICE OF THE COMPANY.

NOTICE is hereby given that the Seventh Annual General Meeting of the Members of Inter-connected Stock Exchange of India Ltd. will be held on Saturday, September 24, 2005 at 12.15 p.m. at the Registered Office of the Company at International Infotech Park, Tower 7, 5th Floor, Sector 30, Vashi, Navi Mumbai - 400 703 to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Balance Sheet as at March 31, 2005, Profit & Loss Account for the year ended March 31, 2005 and the Reports of the Directors and Auditors thereon.
2. To appoint Auditors to hold office from the conclusion of this meeting upto the Due Date as may be determined by the Board of Directors of the Company in accordance with the ISE (Corporatisation & Demutualisation) Scheme, 2005 approved by SEBI and to authorise the Board of Directors to fix the remuneration payable to them.

Special Business

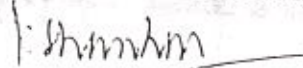
3. To consider, and if thought fit, to pass with or without modification(s), the following resolution as a "Special Resolution":

"RESOLVED THAT subject to approval of the Securities and Exchange Board of India (SEBI) and / or the Registrar of Companies, Maharashtra and / or any other competent authority in this regard, the amendments in the Articles of Association and Rules of the Company as annexed herewith be and are hereby approved, so as to make them consistent with the ISE (Corporatisation & Demutualisation) Scheme, 2005 approved by SEBI.

RESOLVED FURTHER THAT the Board of Directors and / or Shri V. Shankar, Managing Director of the Company be and are / is hereby authorized for making such amendments in the approved Memorandum of Association, Articles of Association and Rules of the Company as may be directed by SEBI and / or the Registrar of Companies, Maharashtra and / or any other competent authority in this regard and further to take all necessary actions related or incidental thereto to give effect to the scheme of corporatisation and demutualisation of the Company as approved by the Board of Directors and Members of the Company and SEBI."

Date: August 31, 2005
Place: Vashi, Navi Mumbai

BY ORDER OF THE BOARD



V. SHANKAR
MANAGING DIRECTOR

Notes:

1. All Members are requested to forward to the Company letters from their respective stock exchanges authorising them to attend the Meeting;
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business to be transacted at the Annual General Meeting is enclosed herewith.
3. Members seeking any information or clarification on the Accounts are requested to send in written queries to the Company, at least seven days before the date of the meeting. Replies to such written queries received, will be provided only at the meeting.

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

respect of Item No. 3

The Board of Directors of the Company in their meetings held on November 3, 2004, November 27, 2004, January 22, 2005 and June 25, 2005 had decided that Inter-connected Stock Exchange of India Ltd. (ISE), the existing company which is limited by guarantee and incorporated under section 12 of the Companies Act, 1956, be converted into / registered as a company limited by share capital, so as to comply with the directives of SEBI and Central Government on corporatisation and demutualisation of stock exchanges, subject to approval of the Members of the Company in a general meeting.

The Members of the Company in the Extra-ordinary General Meeting (EGM) held on January 22, 2005 had approved the scheme of corporatisation and demutualisation as finalized by the Board of Directors of the Company and also the revised Memorandum of Association, Articles of Association and Rules of the Company to substitute the existing Memorandum of Association, Articles of Association and Rules of the Company. The Members of the Company had further authorised the Board of Directors to carry out such amendments in these documents as may be required to fulfil the conditions stipulated by SEBI at the time of approving the corporatisation and demutualisation scheme of the Company.

The final corporatisation and demutualisation scheme of the Company was drawn up on the same lines as the scheme submitted by The Stock Exchange, Mumbai (BSE) that has been approved by SEBI. The final scheme of the Company, after approval of the Board of Directors on June 25, 2005, was forwarded to SEBI for approval on June 27, 2005.

In order to ensure that the Articles of Association and Rules of the Company are in conformity with the ISE (Corporatisation and Demutualisation) Scheme, 2005 as forwarded to SEBI, certain minor modifications are required in these documents, which had earlier been approved by the Members of the Company in the EGM held on January 22, 2005.

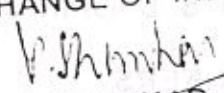
These changes pertain to certain definitions, stipulations of SEBI that the provisions of the approved scheme shall be complied with at all times and the manner of appointment of Independent Directors (earlier called Public Representative Directors).

As these changes have been directed by SEBI, the Articles of Association and Rules of the Company, as already approved by the Members of the Company, need to be modified to the extent of such changes.

None of the Directors of the Company is concerned with or interested in this Resolution.

The Board of Directors recommends the passing of the proposed resolution by the Members of the Company

BY ORDER OF THE BOARD
For INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED


V. SHANKAR
Managing Director

Date: August 31, 2005
Place: Vashi, Navi Mumbai

BOARD OF DIRECTORS

Prof. P. V. Narasimham, Chairman (wef April 17, 2004)
Shri V. Shankar, Managing Director
Shri V. A. Vijayan Menon, SEBI Nominee
Shri R. M. Joshi, Public Representative
Shri M. W. Deshmukh, Public Representative (upto January 22, 2005)
Prof. V. R. Iyer, Public Representative (upto June 25, 2005)
Shri Sandeep H. Junnarkar, Public Representative
Dr. S. D. Israni, Public Representative
Dr. M. Y. Khan, Public Representative
Prof. R. H. Sarma, Public Representative (wef January 22, 2005)
Dr. K. Sabapathy, Trading Member, Nominee of Coimbatore Stock Exchange
Smt. Asha Manjari Mishra, Trading Member, Nominee of Bhuaneshwar Stock Exchange
Shri Rameshwar Nath Pandey, Trading Member, Nominee of Magadh Stock Exchange
Shri M. R. Mayya, Chairman (upto April 17, 2004)
Justice (Retd.) A. D. Tated, Public Representative (upto April 17, 2004)
Ms. Vimala Visvanathan, Public Representative (upto April 17, 2004)

SECRETARIAL, LEGAL & COMPLAINE

Shri Dipak K. Shah, Company Secretary

AUDIT COMMITTEE

Prof. V. R. Iyer, Chairman (Upto June 25, 2005)
Shri R. M. Joshi, Public Representative
Shri M. W. Deshmukh, Public Representative (Upto January 22, 2005)
Dr. S. D. Israni, Public Representative
Dr. M. Y. Khan, Public Representative
Prof. P.V. Narasimham, Public Representative (Co-opted w.e.f. June 25, 2005)

STATUTORY AUDITORS

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

INTERNAL AUDITORS

M/s. Haribhakti & Co., Chartered Accountants

LEGAL / COMPANY LAW ADVISORS

M/s. Kanga & Co., Advocates, Solicitors and Notary
M/s. Junnarkar & Associates, Advocates, Solicitors and Notary
Shri J. J. Bhatt, Advocates
M/s. S. D. Israni & Co., Company Secretaries

BANKERS

HDFC Bank Limited
The ING Vysya Bank Limited

REGISTERED OFFICE

International Infotech Park
Tower 7, 5th Floor, Sector 30

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or: I E (Rs. Cr.)
Indonext (Rs. Cr.)
(Rs. Lakh)
Senior Fees from Traders
Subscription from :
Members.
Traders
Dealers
or Bank Deposits
Fees
from DP Operations
from Rent
Commission Charges
Payment by ISS for usage
Commission Fees for Additional Tr
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Commission Fees for Additional Tr
Income
Expenditure (Rs. Lakh)
Employee Cost
IT & Ops Cost
Net
Expenditure on DP
Commission
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Capital Structure (Rs. Lakh)
Equity Capital
Reserves & Surplus
Borrowed Loan
Fixed Assets
Investments
Current Assets
Net Worth Analysis (Rs. Lakh)
Equity Capital
Reserves & Surplus
Borrowed Funds
Profit & Loss (Dr.)
Net Worth

PERFORMANCE AT A GLANCE

(all figures in Rs. lakh)

	Financial Performance				
	2004-05	2003-04	2002-03	2001-02	2000-01
Profit: ISE (Rs. Cr.)	-	0.03	26.56	143.00	233.00
Indonext (Rs. Cr.)	-	-	-	-	-
Income (Rs. Lakh)					
Subscription Fees from Traders	0.45	0.50	0.80	0.65	3.55
Subscription from:					
Members	2.50	7.00	6.50	6.50	7.50
Traders	2.07	2.18	1.77	2.71	2.82
Dealers	45.34	43.00	82.50	80.50	74.50
Interest on Bank Deposits	48.46	36.12	38.74	61.30	106.35
Other Fees	1.36	0.89	1.16	1.70	0.95
Income from DP Operations	38.88	14.80	-	-	-
Office Premises Rent	27.02	16.19	-	-	-
Commission Charges	-	-	0.35	0.82	2.20
Contribution by ISS for usage of ISE Assets	41.86	35.49	23.69	39.24	21.70
Payment by ISS for usage of ISE Assets	99.60	85.58	-	-	-
Commission Fees for Additional Trading Rights - Dealers	-	51.00	-	-	-
Commission Fees for Additional Trading Rights-Phase I	3.75	-	-	-	-
Commission Fees for Additional Trading Rights-Phase I	9.37	-	-	-	-
Commission Fees for Additional Trading Rights-Phase II	41.60	-	-	-	-
Income	362.26	292.75	155.51	193.42	219.57
Expenditure (Rs. Lakh)					
Employee Cost	57.87	48.23	39.48	49.71	80.11
Office & Ops Cost	134.74	77.94	99.67	288.99	237.30
Interest	-	-	1.91	65.92	24.96
Expenditure on DP	20.95	11.58	-	-	-
Depreciation	142.53	143.59	142.70	180.89	187.09
Expenditure	356.09	281.34	283.76	585.51	529.46
Profit/(Loss) before Taxation (Rs. Lakh)	6.17	11.41	(128.25)	(392.09)	(309.89)

Balance Sheet Structure (Rs. Lakh)					
Share Capital	-	-	-	-	-
Reserves & Surplus	2,685.29	2,823.19	2,790.87	2,714.15	2,642.39
Borrowed Loan	-	-	-	23.52	-
Fixed Assets	484.44	778.85	977.24	1,179.45	1,522.17
Investments	550.00	550.00	550.00	450.00	250.00
Current Assets	717.55	479.58	147.54	6.62	49.55

Net Worth Analysis (Rs. Lakh)					
	2004-05	2003-04	2002-03	2001-02	2000-01
Share Capital	-	-	-	-	-
Reserves & Surplus	2,685.29	2,823.19	2,790.87	2,714.15	2,642.39
Total	2,685.29	2,823.19	2,790.87	2,714.15	2,642.39
Borrowed Funds	-	-	-	23.52	-
Profit & Loss (Dr.)	1,371.29	1,377.45	1,388.87	1,260.61	868.50
Net Worth	1,314.00	1,445.74	1,402.00	1,453.54	1,773.89

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PERFORMANCE AT A GLANCE

(all figures in Rs. lakh)

	Financial Performance				
	2004-05	2003-04	2002-03	2001-02	2000-01
Income from ISE (Rs. Cr.)	-	0.03	26.56	143.00	233.00
Income from Irdonext (Rs. Cr.)	-	-	-	-	-
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Members	2.50	7.00	6.50	6.50	7.50
Traders	2.07	2.18	1.77	2.71	2.82
Dealers	45.34	43.00	82.50	80.50	74.50
Interest on Bank Deposits	48.46	36.12	38.74	61.30	106.35
Stamp Duty	1.36	0.89	1.16	1.70	0.95
Income from DP Operations	38.88	14.80	-	-	-
Income from Rent	27.02	16.19	-	-	-
Transaction Charges	-	-	0.35	0.82	2.20
Contribution by ISS for usage of ISE Assets	41.86	35.49	23.69	39.24	21.70
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Total	2,685.29	2,823.19	2,790.87	2,714.15	2,642.39
Borrowed Funds	-	-	-	23.52	-
Profit & Loss (Dr.)	1,371.29	1,377.45	1,388.87	1,260.61	868.50
Net Worth	1,314.00	1,445.74	1,402.00	1,453.54	1,773.89

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INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

Board of Directors of Inter-connected Stock Exchange of India Ltd. (ISE) are pleased to present the Seventh Annual Report for the year ended March 31, 2005, together with the Auditors' Report and Audited Accounts for the financial year 2004-05.

MACROECONOMIC BACKGROUND

Indian economy witnessed yet another year of high growth. The growth of the real domestic product (GDP) for the year 2004-05 was 6.9%, according to advanced estimates of the Central Statistical Organisation (CSO). This is, however, lower than the growth recorded in the previous financial year. The major contributor to the decline in the GDP growth was the agriculture sector, whose performance dipped on account of unfavourable monsoon to 1.1% in 2004-05 from the 9.6% achieved in the previous year. The industrial sector, on the other hand, registered a smart rise from 5.5% in 2003-04 to 8.3% in 2004-05. The growth rate in the services sector remained more or less the same at 8.5% in the year under review compared to the previous year's figure of 8.9%. With the economy expanding at more than 6.5% in the first three years of the Tenth Plan period (2002-05), India is one of the fastest growing economies in the world today.

According to CSO estimates, the gross domestic saving (GDS) as a proportion of GDP increased from 26.1% in 2002-03 to 28.1% in 2003-04. This was despite the soft interest rates prevailing in the financial markets. The contribution of household savings to GDS was more than the savings of the corporate sector. Enhancement in personal disposable incomes, manageable inflation rate and uncertainty in the financial markets contributed to the savings growth in the case of the household sector and improvement in the financial performance in the case of the corporate sector. Further analysis reveals that deposits accounted for 39.4% of the total household saving in financial assets, contractual saving (life insurance, provident fund and pension fund) for 26.3%, claims on government (small savings) for 24%, and currency accounted for 9.2%. The contribution of shares and debentures was just 1.1% of the total household saving in financial assets in 2004-05, much of it being in mutual funds.

PRIMARY MARKET

There was heightened activity in the primary segment of the capital market during 2004-05. Strong economic fundamentals, excellent corporate results and buoyant secondary market resulted in several successful issues, both mega as well as small offerings. The response to the public issues was mostly from FIIs and other institutional investors, with retail investors accounting for very small portion.

The total capital raised during 2004-05 through public and rights issues (including offer for sale) was Rs.28,256 crore, compared to Rs.23,272 crore in 2003-04, representing an increase of Rs.4,984 crore or 21.42%. If offer of sale is taken out of these figures, the amount mobilized in 2004-05 at Rs.25,056 crore was more than three times the amount of Rs.8,023 crore raised during the previous year. The number of issues was marginally higher at 60 (previous year: 57). National Thermal Power Corporation Limited (Rs.5,368 crore), TCS Ltd. (Rs.4,713 crore), ICICI Bank Ltd. (Rs.5,300 crore)

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INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

and Punjab National Bank (Rs.3,120 crore) were some of the large issues which came to the market during the year under review.

Banking / financial institution sector was at the top in mobilizing capital and also in terms of the number of issues made. This sector accounted for 40% of the total capital raised from the market, followed by power at 21% and information technology at 18%. Eight issues above Rs.500 crore mopped up 83% of the resources mobilized, 17 issues in the Rs.100 - 500 crore range raised 13% and the remaining 35 issues with size upto Rs.100 crore accounted for a share of 4%.

3. SECONDARY MARKET

(i) Indices

The momentum gathered by the stock market in 2003-04 intensified in 2004-05, except for a temporary phase of nervousness exhibited in the quarter April - June 2004. In fact, the stock market went into a tailspin between May 2004 to August, 2004, with the BSE Sensex plummeting by over 793 points on intra-day basis and by 565 points on an end-of-day basis on the Black Monday, May 17, 2004. This large fall was triggered by fears over the economic policy direction of the Congress-led United Progressive Alliance, which depended on the Left for support. These fears were short-lived, as fuelled by strong economic fundamentals, excellent corporate results and substantial portfolio investments by foreign institutional investors (FIIs), the stock market registered a continuous upward surge. The hardening of the oil prices and the rise in US interest rates did not dampen the overall bullish sentiment.

The Bombay Stock Exchange (BSE) Sensex opened at 5599 on April 1, 2004, crashed to 4227 on May 17, 2004, crossed the 6000-mark on November 17, 2004, reached an all-time high of 6915.05 on March 8, 2005, before closing at 6492.82 on March 31, 2005. On a point-to-point basis, the BSE Sensex posted a return of 16.1% in 2004-05, which is on top of a gain of 83.4% realized during 2003-04. Likewise, the S&P CNX Nifty appreciated by 14.9% in the year under review, over and above the increase of 81.2% posted in the previous year.

On the international front, the stock markets exhibited a somewhat muted trend, as is evidenced by the respective stock indices. During 2004-05, the Dow Jones index of NYSE rose by 3.09%, Nasdaq Composite of NASDAQ by 3.19%, FTSE of London Stock Exchange by 11.58%, CAC40 of Deutsche Bourse by 12.22%, Hang Seng of Hong Kong Stock Exchange by 6.58%, Straits Times of Singapore Stock Exchange by 15.16%, whereas Nikkei of Tokyo Stock Exchange declined by 5.26%.

DIRECTORS' REPORT

(ii) Turnover

The total turnover recorded by all stock exchanges was Rs.16,66,896 crore during 2004-05, as compared to Rs.16,20,497 crore in 2003-04. The turnover in the year under review is higher than that in the previous year by 2.86%, with Mumbai /Thane region accounting for a lion's share of the total turnover at 56% (Rs.9,33,119 crore). The other major centres were Delhi/Ghaziabad at 11% (Rs.1,85,994 crore), Kolkata / Howrah at 9% (Rs.1,46,939 crore), Ahmedabad at 3% (Rs.49,257 crore) and Chennai at 2% (Rs.34,916 crore).

(iii) Market Capitalization

One of the indicators denoting the size of the capital market is market capitalization. The market capitalization of BSE-listed companies showed an increase of 41.39% for the year ended March 31, 2005, as compared to that on the same date of the previous year. The market capitalization as on March 31, 2005 was Rs.16.98 lakh crore (previous year: Rs.12.01 lakh crore), whereas it was Rs.12.01 lakh crore on March 31, 2004. A similar appreciation of 41.44% was witnessed on NSE – Rs.15.86 lakh crore on March 31, 2005 compared to Rs.11.21 lakh crore on March 31, 2004.

Certain ratios based on market capitalization, such as market capitalization to GDP (m-cap ratio), traded value to GDP (traded value ratio) and price to earnings per share (P/E ratio), provide additional perspective about the capital market. The m-cap ratio increased from 43.5% in 2003-04 to 54.6% in 2004-05. The traded value ratio in the cash segment, however, declined marginally from 58.7% in 2003-04 to 53.6% in 2004-05. On the other hand, the turnover in the derivatives segment as a percentage of GDP rose to 82.5% in 2004-05 from 76.6% in 2003-04. Following the international trend, the P/E ratios relating to the BSE Sensex and S&P CNX Nifty declined. Such a drop in P/E ratios is normal during a phase of economic growth, for it indicates a faster rate of growth of earnings as compared to the prices. As compared to the values of 18.57 in the case of BSE Sensex and 20.70 in the case of S&P CNX Nifty for the year 2003-04, the P/E ratios for these two indices were 15.61 and 14.60 respectively in 2004-05.

DEMATERIALIZATION

The growth recorded in the previous years in the area of dematerialization of securities continued even during 2004-05. The number of beneficiary accounts spurted to 63.01 lakh in the case of NSDL and 10.05 in the case of CDSL as on March 31, 2005, which were much higher than the figures of 52.03 lakh and 6.29 during the corresponding period of the previous year. The number of companies, which had signed up with NSDL, increased from 5,216 in 2003-04 to 5,537 in 2004-05 and for CDSL, from 4,810 to 5,068 during the same period.

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

The reach of NSDL in terms of depository participants (DPs) also went up smartly from 241 cities in 2003-04 to 340 cities in 2004-05, while in the case of CDSL, the increase was from 108 to 124.

The process of dematerialization of bonds and commercial papers too gained ground, with an increase of 13.3% posted in the year 2004-05 as far as the value of dematerialized bonds at NSDL is concerned. The total value of bonds dematerialized as at the end of 2004-05 was Rs.2,81,205 crore.

5. DERIVATIVES

The instruments available in the derivatives segment of the stock market are index futures, index options, stock options, single stock futures and interest rate futures. There is very little trading in interest rate futures. The situation, however, is different in the case of index and stock derivatives. During 2004-05, the combined turnover in the derivatives segments of NSE and BSE increased by 19.6% over the previous year. The total number of derivatives contracts traded on NSE and BSE rose from 5.73 crore in 2003-04 to 7.75 crore in 2004-05, marking an increase of 35.4%. NSE has a market share of 99.3% in this segment and its derivatives turnover was 2.23 times of that recorded in its cash market during 2004-05.

Product-wise, single stock futures continued to be the most popular derivatives product accounting for roughly 60% of the total derivatives turnover, followed by index futures at 30%, stock options at 7% and index options at 3%.

An important indicator used by market intermediaries to gauge market movements is the put-call ratio (PCR). The PCR for index derivatives was in the range of 51 to 99 during the financial year 2004-05, signifying that the number of calls were greater than the number of puts. The PCR for stock derivatives was much lower and was in the range of 23 to 39%.

6. FOREIGN INSTITUTIONAL INVESTORS

The Indian economy at present exhibits strong macro-economic resilience. There are other positive factors too, like good corporate results, low rate of inflation, abolishing long-term capital gains tax etc. These factors taken together have influenced the investment perceptions of the foreign institutional investors (FIIs). The net investment, including debt instruments, was Rs.45,881 crore in 2004-05, which is the same as in the previous year (Rs.45,765 crore). In US dollar terms, the net investment by FIIs in the year under review was USD 10.15 billion, which is the highest ever investment on a net basis by FIIs in any year, since the time they were allowed to invest in Indian securities in 1992-93. The cumulative FII investment as on March 31, 2005 was USD 35.93 billion.

FIIs were permitted to participate in the derivatives market since February 2002. As at the end of March 2005, the open interest position of FIIs in single stock futures was 59%, index futures 29.7%, index options 10.9% and stock options 0.4%.

DIRECTORS' REPORT

7. OPERATIONS OF THE EXCHANGE

(i) Membership

During the year 2004-05, there was no change in the membership of your Exchange. Bangalore, Bhubaneshwar, Cochin, Coimbatore, Hyderabad, Jaipur, Madras, Madhya Pradesh, Magadh, Mangalore, Saurashtra Kutch, Uttar Pradesh and Vadodara Stock Exchanges continue as members of your Exchange.

(ii) Trader / Dealer Registration

With the objective of expanding the base of trading members, your Exchange had come up with the scheme of granting a right of one additional trading right of the Exchange to every eligible Dealer in November 2003. Similarly, based on the initial, non-refundable contributions made by the Promoter Exchanges towards the infrastructure development fund of your Exchange, a scheme for offering 15 or 8 trading rights to them was formulated in November 2003.

Acceding to the requests received from the Dealers and the promoter Exchanges, the last date for subscribing for the said rights had been extended into the financial year 2004-05. Your Exchange is pleased to inform you that the response to these schemes has been very favorable, as can be observed from the following table:

Sr. No.	Entity	Additional trading rights subscribed	
		2004-05	2003-04
1	Dealers	263	207
2	Bhubaneshwar Stock Exchange	9	-
3	Cochin Stock Exchange	11	-
4	Coimbatore Stock Exchange	15	-
5	Gauhati Stock Exchange	15	-
6	Madras Stock Exchange	8	-
7	Magadh Stock Exchange	15	-
8	Mangalore Stock Exchange	15	-
9	Saurashtra Kutch Stock Exchange	6	-
10	Uttar Pradesh Stock Exchange	15	-
	Total	372	207

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

As a result of the concerted efforts made by your Exchange, there has been a good improvement in the number of trading members registered with it. The following table presents the position in this regard:

Category	As on 31.3.2004	Fresh registration	Resignation	Transfer	Default	Expulsion	As on 31.3.2005	Change
Traders	203	10	2	0	1	3	207	+ 4
Dealers	342	53	3	1	6	2	383	+ 41
Total	545	63	5	1	7	5	590	+ 45

The geographical distribution of Traders and Dealers across the different region of the country as on March 31, 2005 is given below:

Sr. No.	Region	States	Traders	Dealers	Total
1.	West	Goa, Gujarat, Maharashtra	35	206	241
2.	North	Haryana, Jammu & Kashmir, New Delhi, Punjab, Rajasthan, Uttaranchal and Uttar Pradesh	12	75	87
3.	East	Assam, Bihar, Jharkhand, Orissa and West Bengal	73	82	155
4.	South	Andhra Pradesh, Karnataka, Kerala and Tamil Nadu	76	12	88
5.	Central	Chattisgarh and Madhya Pradesh	11	8	19
	Total		207	383	590

(iii) Listing

During the financial year 2004-05, 2 companies were listed on your Exchange and no company had applied for voluntary delisting of their securities in accordance with the provisions of the SEBI (Delisting of Securities) Guidelines, 2003. As at the end of March 2005, there were 12 companies listed on your Exchange, having a market capitalization of Rs.749 crore (previous year: Rs. 749 crore). In addition to these companies, your Exchange has permitted trading in an additional 168 securities under the category of permitted securities.

(iv) Settlement Guarantee Fund

Your Exchange maintains a Settlement Guarantee Fund (SGF) as stipulated by SEBI. The corpus of the SGF has grown from Rs.19.21 crore as at March 2004 to Rs.20.72 crore as at March 31, 2005.

The break-up

Sr. No.	
1	C
2	E
3	S
4	T
5	B
6	in
	B
	in
	B
	ur
	E
	In
	S
	T

(v) Invest

Your Exchange Fund (ISF) as below:

Particulars
Opening balance
Accretion due
Closing balance

Particulars
Opening balance
Accretion due
(Less) Expenses
Awareness Fund
Closing balance

(vi) Invest

The Investor against Trade followed up on conciliation matter. Where the parties are

DIRECTORS' REPORT

The break-up of the Settlement Guarantee Fund is given below:

(Figures in Rs. Crore)

Sr. No.	Item	As on 31.3.2005	As on 31.3.2004
1	Cash contribution from promoter Exchanges	1.30	1.30
2	SGF admission fees paid in cash by Traders and Dealers	3.89	1.20
3	BMC of Traders and Dealers maintained in the form of cash	4.93	4.54
4	BMC of Traders and Dealers maintained in the form of FDRs/ BGs/ securities	3.85	5.58
5	BMC of Traders maintained in the form of undertakings from the promoter Exchanges	3.23	4.77
6	Interest accrued on cash component of SGF	3.82	3.46
	Total corpus	21.02	19.21

(v) Investor Protection Fund and Investor Services Fund

Your Exchange maintains Investor Protection Fund (IPF) and Investor Services Fund (ISF) as per the requirements of SEBI. Details of these funds are given below :

Particulars	IPF	
	2004-05	2003-04
Opening balance	93,369	93,367
Accretion during the year	1,300	2
Closing balance as on March 31st	94,669	93,369

Particulars	ISF	
	2004-05	2003-04
Opening balance	43,277	1,19,475
Accretion during the year	6,98,317	23,802
(Less) Expenses incurred on Investor Awareness Programmes	55,887	1,00,000
Closing balance as on March 31st	6,85,707	43,277

(vi) Investors' Grievance Cell

The Investors' Grievance Cell attends to all complaints lodged by the investors against Traders and Dealers, as well as against companies. Every complaint is followed up promptly by your Exchange with the concerned respondent and conciliation meetings are arranged between the parties, if required, to resolve the matter. Where such conciliation effort does not lead to an amicable settlement, the parties are advised to refer the matter to arbitration.

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

The status with regard to complaints received and resolved during the financial year 2004-05, along with the comparative position for the previous year, is given below:

Period	Pending at the beginning of the year	Received during the year	Resolved during the year	Closed during the year	Pending at the end of the year
2003-04	5	11	6	4	6
2004-05	6	Nil	Nil	1	5

With the objective of providing convenient service to investors, your Exchange operates an Investor Point kiosk on the ground floor of the Vashi Railway Station complex and at Borivli, Mumbai. Similar kiosks are proposed to be set up at other important locations in Mumbai and other cities.

The Investors' Services Committee of your Exchange monitors the status of investor grievances and takes appropriate action for resolving the cases expeditiously.

(vii) DP Operations

There has been a significant increase in the depository participant (DP) operations handled by your Exchange during the year 2004-05. Your Exchange is registered as a clearing house DP with National Securities Depository Ltd. (NSDL) and a commercial DP with Central Depository Services (India) Ltd. (CDSL). Your Exchange has received approval from NSDL extending its registration for a further period of 5 years, i.e. upto March 8, 2009. The registration with CDSL is valid until February 26, 2006.

New branches were opened at Delhi, Kolkata, Coimbatore and Tirunelveli during the fiscal year under review. An Investor Point was opened at Borivli during this period. To take care of the growing needs of the clients who have opened their demat accounts with your Exchange, procedures and systems were overhauled and a new software (CROSS from Acer e Solutions Pvt. Ltd.) having comprehensive functionality was implemented in May 2005.

DIRECTORS' REPORT

As a result of these measures, the DP business of your Exchange has grown by a remarkable extent in the year 2004-05. The following table provides the salient details about the DP operations of your Exchange:

Sr. No.	Particulars	2004-05	2003-04
1	No. of demat accounts	4,291	2,464
2	No. of NSDL instructions processed	5,80,024	2,92,092
3	No. of CDSL instructions processed	2,00,400	94,075
4	No. of demat request forms processed	7159	778
5	No. of branches	5	1
6	No. of Investor Points	3	-
7	Gross income from DP operations (Rs. lakh)	38.85	14.8

(viii) Training & Research Centre

Awareness Programmes

The ISE Training & Research Centre (ISE TRC) has been conducting training programmes on different subjects related to the capital market, as part of its effort to spread knowledge and awareness to a wide cross section of people – investors, intermediaries, issuers and general public – in Mumbai, as well as at other cities. Such programmes were also held in 2004-05, some of which were done under the aegis of the Securities Market Awareness Campaign launched by SEBI. All these programmes have been well received by the participants. Details of these programmes are given below:

Date	Place	Programme
April 14, 2004	Vashi, Navi Mumbai	Compliance Requirements for Brokers and Sub-brokers
April 27, 2004	New Delhi	Capital Market - Problems & Prospects
May 14, 2004	Vashi, Navi Mumbai	Stock Market Operations (Investor Education Series)
May 29, 2004	Vashi, Navi Mumbai	Investment Opportunities
June 26, 2004	Indian Institute of Capital Market, Vashi	Investment Opportunities - Shares, Mutual Funds and Other Investments (jointly with Rotary Club of Millennium City, Navi Mumbai)
July 24, 2004	Vashi, Navi Mumbai	Role of Financial Planning
October 10, 2004	Vashi, Navi Mumbai	Derivatives (Refresher Programme)
December 18, 2004	Vashi, Navi Mumbai	ODIN trading system

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

10. CORPORATISATION AND DEMUTUALISATION

As advised by SEBI, your Exchange has submitted a revised scheme for corporatisation and demutualisation, in tune with the provisions of the Securities Laws (Amendment) Act, 2004 and on similar lines as the scheme of BSE, which has been approved by SEBI. The approval of SEBI for the scheme submitted by your Exchange is expected to be received shortly.

Under the revised scheme of corporatisation and demutualization, your Exchange would be converted into a "for profit" share capital company having an authorized capital of Rs.20 lakh. Promoter Exchanges which have contributed Rs.70 lakh each to the infrastructure development of your Exchange would be entitled to subscribe to 70,000 equity shares of your institution upon its conversion into a share capital company, while the Exchanges which have paid Rs.30 lakh and Rs.40 lakh would be entitled to proportionate number of shares. The scheme also envisages restructuring of your Exchange within a period of one year in such a manner that atleast 51% of the shareholding is with persons / entities other than stock brokers and Promoter Exchanges.

Your Exchange is also amending its Memorandum of Association, Articles of Association and Rules, so as to make them consistent with the corporatisation and demutualization scheme and the Model Rules framed by SEBI for the stock exchanges. Approval of SEBI is awaited for the same.

11. INDONEXT

The Federation of Indian Stock Exchanges (FiSE), of which your Exchange is a member, and BSE have presented a joint proposal to SEBI for creating a common trading platform for small and medium-cap companies having paid-up capital upto Rs.2 crore. SEBI has accorded in-principle approval to this proposal.

Shri P. Chidambaram, Honourable Union Finance Minister, inaugurated the first phase of the IndoNext project on January 7, 2005. With the commissioning of the first phase all trading members of BSE, including exchange subsidiaries, are able to trade in the securities grouped under the separate segment created on the BOLT system by BSE which also includes some securities listed exclusively on the regional stock exchanges.

In the second phase, members of all the participating exchanges would be able to trade in the securities grouped under the IndoNext segment and issue contract notes of their respective stock exchanges. Thus mode of functioning has become possible because of the enactment of the Securities Laws (Amendment) Act, 2004 in January 2005 with retrospective effect from October 2004, which has amended the Securities Contracts (Regulation) Act, 1956.

DIRECTORS' REPORT

For the purpose of overseeing the implementation of the IndoNext project and for establishing the policy framework for this market, an IndoNext Council consisting of six representatives from BSE and five from the FISE exchanges has been constituted. The Managing Director of your Exchange is a member of the IndoNext Council.

IndoNext is expected to revive the trading and clearing activities on your Exchange, as its trading members would be able to participate in the national order book created on the BOLT system for the securities of the small and medium enterprise (SME) companies. Your Exchange is also hopeful that this development would in time attract listing by SMEs.

12. SUBSIDIARY OPERATIONS

The operations of the subsidiary of your Exchange, namely, ISE Securities & Services Ltd. (ISS), have expanded in terms of the cities covered in 2004-05, though this was not accompanied by a matching increase in the total turnover recorded, as compared to the previous year.

While the number of cities covered by ISS has grown from 54 spanning over 18 states of the 2003-04 to 73 cities spanning in 17 states in 2004-05, the total trading turnover recorded by the subsidiary declined from Rs.33,937 crore in the previous year to Rs.31,451 crore in the year under review. The gross income of ISS has, however, risen by 11%, from Rs.587.79 crore in 2003-04 to Rs.652.66 crore in 2004-05, mainly on account of improved earnings on interest and other income. The total expenditure, inclusive of depreciation and deferred revenue expenses, moved up from Rs.423.03 crore in the previous year to Rs.494.76 crore in the year under review, leaving a net profit of Rs.1.09 crore in 2004-05 (previous year: Rs.1.06 crore).

The peak daily turnover in the capital market segment was Rs.138 crore, which was recorded on January 5, 2005, while for the futures & options segment, the highest turnover of Rs.70.45 crore was achieved on February 28, 2005.

13. FINANCIAL HIGHLIGHTS

The process of improving the financial position of your Exchange, initiated a few years ago, gained further strength during 2004-05. The gross income of your Exchange has gone up from Rs.292.75 crore in 2003-04 to Rs.362.26 crore in 2004-05, mainly on account of improved performance of the DP business and better fund management. These efforts resulted in a 24% growth in the top-line compared to that of the previous year. The total expenses, excluding depreciation, have shown an increase of 55% in the year under review, up from Rs.137.75 crore to Rs.213.56 crore. The printing & stationery, repairs & maintenance, postage & courier and bank charges were the heads accounting for increase in the year under review. After taking into account the depreciation charge, which has not changed significantly, the net profit of your Exchange for the year ended March 31, 2005 was Rs.6.17 lakh (previous year: Rs.11.41 lakh).

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

The comparative performance of your Exchange during the last 5 years is given below:

(Figures in Rs. lakh)

Head	2004-05	2003-04	2002-03	2001-02	2000-01
Total Income	362.26	292.75	155.51	193.42	219.58
Employee Cost	57.87	48.23	39.48	49.71	80.11
Administrative & Operative Costs (excluding Deferred Revenue Expenses)	155.69	89.52	72.96	262.29	210.60
Interest	0.00	0.00	1.90	65.92	24.96
Total Expenses	213.56	137.75	114.34	377.92	315.67
Cash Profit/(Loss)	148.70	155.00	41.17	(184.50)	(96.09)
Depreciation	142.53	143.59	142.70	180.89	187.09
Deferred Revenue Expenses (charged to Profit & Loss)	0.00	0.00	26.71	26.71	26.71
Total Expenditure	356.09	281.34	283.75	585.52	529.46
Excess of Income over Revenue (carried forward to the Balance Sheet)	6.17	11.41	(128.25)	(392.11)	(309.89)

Your Exchange expects to generate a healthy net profit in the year 2005-06.

14. FUTURE PROSPECTS

The DP business of your Exchange is expected to be one of its mainstays, contributing to a significant share of the gross income. Growth in the future will be on account of expansion of the branch network, increase in the number of demat accounts handled and rise in the number of instructions processed. With the streamlining of the procedures consequent to the implementation of the new CROSS software, your Exchange is well-equipped to meet the growing needs of the future. With a view to offering the complete suite of DP services, your Exchange proposes to add NSDL to its product range. The DP operations will receive a further boost when physical settlement is permitted on the commodities exchanges, as this would entail handling of demat warehouse receipts. In this regard, your Exchange has registered itself with the National Commodity Derivatives Exchange (NCDEX) for handling settlement of demat warehouse receipts.

The small beginning made by the ISE TRC in conducting certificate courses on various subjects related to the financial markets will gain further momentum in the times to come. Not only would the ISE TRC ensure that the courseware for the certificate programmes currently handled be kept upto date, but also new areas would be introduced, depending upon the demand. Your Exchange has a vision to develop training on financial market subjects as one of its core competencies.

INTE

The assiduous work of the IndoNext platform will help in the revitalization of the Exchange. The value added throughout the country. The cost-effectiveness of the mechanism, it is at the full spectrum of manner.

15. INFRASTRUCTURE

The registered office of International Infotech is set up at Delhi (North Zone) and South Zone). In addition, investors, are functioning as registered office, regional offices of the Trader and communication systems.

16. INSURANCE

All assets and properties of Investor Points are adequately insured.

17. DIRECTORS' REPORT

Pursuant to the provisions of the Companies Act, 1956, the directors confirm that the accounts for the year ended March 31, 2005 are true and correct.

The applicable provisions of the Companies Act, 1956, have been followed in the preparation of the accounts. The directors have made judicious use of the provisions of the Act to give a true and fair view of the financial position of the Exchange for 2005 and Profit and Loss account. The accounts are proper and sufficient for the purpose of accounting records and for the purposes of the Act, 1956, for safeguarding the interests of the shareholders and for detecting frauds and errors in the annual accounts.

DIRECTORS' REPORT

The assiduous work being put in by BSE and your Exchange for implementing the IndoNext platform for SMEs would bear fruit in 2005-06 and 2006-07. This project would help in the revitalization of both the primary and secondary market functions of your Exchange. The vast network of registered intermediaries of your Exchange spread throughout the country would serve as convenient points of service for retail investors. The cost-effectiveness and technological sophistication of your Exchange's distribution mechanism, it is anticipated, would generate much greater interest from investors for the full spectrum of services provided by the trading members in a safe and speedy manner.

15. **INFRASTRUCTURE**

The registered office of your Exchange, which is also its head office, is located at International Infotech Park, Vashi, Navi Mumbai and four regional offices have been set up at Delhi (North Zone), Kolkata (East Zone), Nagpur (Central Zone) and Coimbatore (South Zone). In addition, Investor Points, acting as frontline interfaces for the investors, are functioning from Vashi, Borivli and R.S. Purum (Tamilnadu). The registered office, regional offices and the Investor Points are well connected to the offices of the Traders and Dealers across the country through state-of-the-art computer and communication systems. The infrastructure of your Exchange allows instantaneous communication across the network through efficient electronic message delivery systems.

16. **INSURANCE**

All assets and properties of your Exchange at the head office, branch offices and the Investor Points are adequately covered by insurance.

17. **DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the directors confirm that in the preparation of the annual accounts for the financial year ended March 31, 2005:

- the applicable accounting standards have been followed and no material departures have been made from the same;
- appropriate accounting policies have been selected and applied consistently and have made judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of your Exchange as at March 31, 2005 and Profit & Loss Account for the year ended March 31, 2005;
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of your Exchange and for preventing and detecting frauds and other irregularities, and;
- the annual accounts have been prepared on a going-concern basis.

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

18. BOARD OF DIRECTORS

From April 1, 2004 till date, nine meetings of the Board of Directors were held, as detailed below:

Meeting No.	Date
50	April 17, 2004
51	June 19, 2004
52	August 21, 2004
53	September 28, 2004
54	November 3, 2004
55	November 27, 2004
56	January 22, 2005
57	April 02, 2005
58	June 25, 2005

The following changes have taken place in the Board of Directors during this period:

Sr. No.	Name of Director	Particulars	Date of appointment/ resignation/ retirement
1	Shri M. R. Mayya	Ceased to be Public Representative Director (and also the Chairman of your Exchange), on completion of term	April 17, 2004
2.	Justice (Retd.) A. D. Tated	Ceased to be Public Representative Director	April 17, 2004
3.	Ms. Vimala Visvanathan	Ceased to be Public Representative Director	April 17, 2004
4.	Dr. S. D. Israni	Appointed as Public Representative Director	April 17, 2004
5.	Shri Sandeep H. Junnarkar	Appointed as Public Representative Director	April 17, 2004
6.	Dr. M. Y. Khan	Appointed as Public Representative Director	April 17, 2004
7.	Shri Ashish M. Parikh	Ceased to be Trading Member Director	September 28, 2004
8.	Shri Bimal Kumar Nahata	Ceased to be Trading Member Director	September 28, 2004

DIRECTORS' REPORT

Sr. No.	Name of Director	Particulars	Date of appointment / resignation/ retirement
9.	Shri R. H. Sarma	Appointed as Public Representative Director	January 22, 2005
10.	Shri M. W. Deshmukh	Ceased to be Public Representative Director	January 22, 2005
11.	Shri S. Anantharaman	Appointed as Trading Member Director	April 2, 2005
12.	Dr. K. Sabapathy	Ceased to be Trading Member Director	April 2, 2005
13.	Prof. V. R. Iyer	Resigned as Public Representative Director	June 25, 2005

CONSTITUTION OF STATUTORY AND OPERATIONAL COMMITTEES

Our Exchange has constituted the various Statutory and Operational Committees, as required by SEBI. Details of the composition of these Committees for the year 2004-05, as well as for the previous year, are given below.

Central Arbitration Panel

Sr. No.	2004-05		2003-04	
	Name	Category	Name	Category
1	Shri J. J. Bhatt	Non-trading member	Justice (Retd.) A. D. Tated	Non-trading member, Chairman
2	Dr. P. Asthana	Non-trading member	Shri V. H. Pandya	Non-trading member
3	Shri Kirit P. Mehta	Non-trading member	Smt. S. M. Rege	Non-trading member
4	Dr. Shailendra Narain	Non-trading member	Shri B. S. Hegde	Non-trading member
5	Shri Suraj Bajaj	Trading member	Shri Sunil Dalal	Non-trading member
6	Shri K. Sriram	Trading member	Dr. Sailendra Narain	Non-trading member
7	Shri Ganesh Shanbhag	Trading member	Shri Suraj Bajaj	Trading member
8	Shri Dhiraj Gala	Trading member	Shri K. Sriram	Trading member
9			Shri Ganesh Shanbhag	Trading member

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

Sr. No.	2004-05		2003-04	
	Name	Category	Name	Category
10			Shri Dhiraj Gala	Trading member

Defaults Committee

Sr. No.	2004-05		2003-04	
	Name	Category	Name	Category
1	Dr. P. Asthana	Non-trading member	Dr. D. K. Bhatia	Non-trading member, Chairman
2	Dr. Sailendra Narain	Non-trading member	Dr. Sailendra Narain	Non-trading member
3	Shri G. D. Mundra	Trading member	Smt. S. M. Rege	Non-trading member
4	Shri Yatin Shah	Trading member	Shri G. D. Mundra	Trading member
5	Shri V. Shankar	Managing Director	Shri Yatin Shah	Trading member
6			Shri V. Shankar	Managing Director

Disciplinary Action Committee

Sr. No.	2004-05		2003-04	
	Name	Category	Name	Category
1	Shri J. J. Bhatt	Non-trading member	Justice (Retd.) A. D. Tated	Non-trading member, Chairman
2	Dr. Bindi Mehta	Non-trading member	Shri B. S. Hegde	Non-trading member
3	Shri Jayant Vidwans	Trading member	Shri Sunil Dalal	Non-trading member
4	Shri Sanjeev Khemani	Trading member	Shri Jayant Vidwans	Trading member
5	Shri V. Shankar	Managing Director	Shri Sanjeev Khemani	Trading member
6			Shri V. Shankar	Managing Director

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

Screening (i.e. Membership Selection) Committee

Sr. No.	2004-05		2003-04	
	Name	Category	Name	Category
1	Shri R. M. Joshi	Public Representative, Chairman	Shri R. M. Joshi	Public Representative, Chairman
2	Prof. V. R. Iyer	Public Representative (ceased to be a Committee Member w.e.f. June 25, 2005)	Prof. V. R. Iyer	Public Representative
3	Shri V. Shankar	Managing Director	Shri M. W. Deshmukh	Public Representative
4	Prof. P. V. Narasimham	Co-opted as a Committee Member w.e.f. June 25, 2005	Shri V. Shankar	Managing Director

Audit Committee

Sr. No.	2004-05		2003-04	
	Name	Category	Name	Category
1	Prof. V. R. Iyer	Public Representative, Chairman (ceased to be a Committee Member w.e.f. June 25, 2005)	Prof. V. R. Iyer	Public Representative, Chairman
2	Shri R. M. Joshi	Public Representative	Shri R. M. Joshi	Public Representative
3	Dr. S. D. Israni	Public Representative	Shri M. W. Deshmukh	Public Representative
4	Dr. M. Y. Khan	Public Representative	Dr. S. D. Israni	Public Representative
			Dr. M. Y. Khan	Public Representative

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DIRECTORS' REPORT

Ethics Committee

Sr. No.	2004-05		2003-04	
	Name	Category	Name	Category
1	Prof. P. V. Narasimham	Public Representative, Chairman	Prof. P. V. Narasimham	Public Representative Chairman
2	Shri Sandeep H. Junnarkar	Public Representative	Shri Sandeep H. Junnarkar	Public Representative
3	Shri V. Shankar	Managing Director	Shri Ashish M. Parikh	Trading mem
4			Shri V. Shankar	Managing Director

Investors Services Committee

Sr. No.	2004-05		2003-04	
	Name	Category	Name	Category
1	Dr. M. Y. Khan	Public Representative, Chairman	Dr. M. Y. Khan	Public Representative Chairman
2	Prof. P. V. Narasimham	Public Representative	Prof. P. V. Narasimham	Public Representative
3	Dr. S. D. Israni	Public Representative	Dr. S. D. Israni	Public Representative
4	Shri V. Shankar	Managing Director	Shri V. Shankar	Managing Director

20. INSPECTION OF THE STOCK EXCHANGE BY SEBI

SEBI conducted an inspection of your Exchange for the period April 2002 to April 2004 between May 26, 2004 and June 1, 2004 and submitted the inspection report in August 2004.

Your Exchange is taking appropriate action in response to the observations made in the inspection report and the corrective actions taken are reported to SEBI on a quarterly basis.

21. RENEWAL OF RECOGNITION

As required under Section 3 of the Securities Contracts (Regulation) Act, 1956 and Rule 7 of the Securities Contracts (Regulation) Rules, 1957, your Exchange had filed its application for renewal of recognition to SEBI. SEBI has renewed the recognition of your Exchange for a further period of 2 years from November 18, 2004 to November 17, 2006.

INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

DIRECTORS' REPORT

PARTICULARS OF SUBSIDIARY COMPANY

Required under Section 212 of the Companies Act, 1956, annexed hereto are copies of the Audited Statement of Accounts for the year ended March 31, 2005, Report of the Board of Directors and the Report of the Auditors for the year ended March 31, 2005 for Securities & Services Ltd., the wholly-owned subsidiary of your Exchange. The statement of the holding company's interest in the subsidiary company as specified in sub-section (3) of Section 212 of the Companies Act, 1956 also forms part of this Annual Report.

Your Exchange has invested Rs.5.5 crore towards the share capital of the subsidiary. There has been no change in the share capital of the subsidiary during the year 2004-05.

AUDITORS

G. C. Chokshi & Co., Chartered Accountants, were appointed by the Members of your Exchange in the Sixth Annual General Meeting as statutory auditors of your Exchange to hold office till the conclusion of the Seventh Annual General Meeting.

The Auditors' Report does not contain any dis-qualification.

PARTICULARS OF EMPLOYEES

In the light of the enhancement in the limits relating to payment of remuneration, the disclosure on employees in terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, are not required to be stated in the Directors' Report.

Your Exchange had a total staff strength of 79 as on March 31, 2005, consisting of both permanent employees, as well as those who were on contract or temporary basis. Out of the total strength, 44 have been deputed to your Exchange's subsidiary, ISS, on full-time basis.

STATUTORY DISCLOSURE OF PARTICULARS

The disclosure required in terms of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, regarding Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outflows, do not apply to your Exchange, and therefore, no disclosures have been provided.

CORPORATE GOVERNANCE

Your Exchange is committed to following good corporate governance practices. The Board of Directors, Chairman, Managing Director and the entire staff working for your Exchange are committed to the same.