

Directors' Report

Your Directors are pleased to present the 21st Annual Report of OTC Exchange of India together with the audited Statements of Accounts for the year ended March 31, 2011.

FINANCIAL RESULTS

The financials of your Exchange for the year 2010- 2011 are as follows:

(Rs. in lacs)

PARTICULARS		
	2010- 2011	2009-2010
Income	349.66	325.93
Expenditure (Excluding Depreciation)	152.78	176.75
Surplus/(Deficit) Before Depreciation	196.88	149.18
Depreciation	14.59	20.35
Net Surplus/(Deficit) for the year	182.29	128.83
Surplus/(Deficit) brought forward from previous years	(4424.60)	(4553.43)
Accumulated Deficit carried forward to Balance Sheet	(4242.31)	(4424.60)

The Company has not accepted any deposits from the public during the year. The Exchange has separate funds in place as per the SEBI Guidelines as set out below.

Investor Protection Fund having a corpus of Rs.442.51 lacs (Previous year Rs 400.01 lacs), Investors Services Fund having a corpus of Rs.65.61 lacs (Previous year 58.17 lacs) and Settlement Guarantee Fund, including Base Minimum Capital of Members and Dealers, having a corpus of Rs.802 lacs (Previous year Rs.802.51 lacs). The Exchange has also set up a Settlement Contingency Fund of Rs. 50 lacs as required by SEBI. The investable portion of the above funds has been placed in fixed deposits of Banks as earmarked funds.

OPERATIONS AT OTC EXCHANGE OF INDIA (OTCEI)

During the year, the Exchange has generated a net surplus of Rs 182.07 lacs (Previous Year Rs 128.83 Lacs) which is the second highest profit in the history of OTCEI (highest being Rs 683.09 lacs in 1995-96). This has been possible due to constant financial discipline including reduction of expenditure.

During the year the Promoters have taken considerable efforts to comply with the restriction on shareholdings of a recognized Stock Exchange stipulated by SEBI as per SCR (MIMPS) Regulations, 2006. Consequently, after the divestment exercise, the Promoters had shortlisted consortium of Reliance Exchangenext Pvt. Ltd. and Reliance Capital Limited as the successful bidder for sale shares of OTCEI, either in full or in part, subject to approval of SEBI. However, the contemplated divestment was not allowed by SEBI citing provisions of Securities Contracts Regulations(SCR) Manner of Increasing and Maintaining Public Shareholding (MIMPS) Regulations,2006 as per which the divestment was non-permissible since it would have breached the shareholding limits prescribed under the Regulations.

Post refusal from SEBI for the divestment exercise, the Promoter Institutions had discussed various other options available for disinvestment to comply with the SEBI Regulations. During the discussion, a view emerged that it may be difficult to find strategic investors for OTC Exchange of India as OTCEI is a Section 25 Company (Not for Profit) under the Companies Act, 1956. As per the provisions of Section 25, it is required to apply its profits, if any or other income in promoting its objects and is prohibited from payment of any dividend to its shareholders. In view of above, firstly the Company should be re-registered as an ordinary company and then it may be possible to find prospective buyers for disinvesting the shares of OTCEI. Accordingly, the Promoters of OTCEI had decided to explore the possibility of converting OTCEI from Section 25 Company to an ordinary Company and appoint suitable professional(s) to provide a roadmap after approval from the Board of OTCEI. The Board of OTCEI also granted its 'in principle' approval for the proposal of conversion of OTCEI from Section 25 Company to an ordinary Company.

Recently, the Ministry of Corporate Affairs (MCA) came out with a notification in its website stating that at present Registrar of Companies are not taking action either suo-moto or on request of companies for striking off name of Section 25 companies (non-profit companies) under Section 560 of the Companies Act, 1956. The MCA has also not permitted for exit of Section 25 Companies under various exit schemes under Section 560 of the Act announced by it from time to time. In view of above, MCA is considering to prescribe guidelines (as mentioned in the Notification) for striking off names under Section 560 of the Companies Act,1956. MCA had requested various stake holders to examine the proposed guidelines and furnish their comments/ recommendations to the Ministry by 15th July, 2011 by e-mail. Accordingly, OTCEI had sent its recommendations to MCA requesting them to frame/amend guidelines suitably so as to include provision for conversion of OTCEI from Section 25 company to an ordinary company without transferring the assets of the Company to any other Company.

SUBSIDIARY COMPANY

A statement pursuant to Sec. 212 of the Companies Act, 1956, in respect of OTCEI Securities Limited (OSL), the wholly owned subsidiary of your company, and its Accounts for the year 2010 - 2011 together with the Report of the Directors and the Auditors thereon, are attached to the Accounts of the Company.

LISTINGS

During the year three companies were listed on the Exchange after de-merger from the parent company as per High Court Order and two companies voluntarily de-listed from the Exchange. The number of listed companies on the Exchange stands at 60 as on March 31, 2011.

Personnel and HRD

There are no employees within the purview of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975. The Exchange had 20 employees as on March 31, 2011.

AUDITORS

The Statutory Auditors, M/s. Shah Gupta & Co, Chartered Accountants, Mumbai, will retire at the ensuing Annual General Meeting and are eligible for re-appointment.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and pursuant to the Articles of Association of the Company, Dr M Thiripalraju and Maj. Gen. Tej. Krishen Kaul, Public Representative Directors, retire at the twenty-first Annual General Meeting of the Company.

Shri Rajeev Krishnan, representative of SBI Capital Markets Limited have been appointed as a Director of the Company, whose period of office shall be liable to retirement in accordance with section 262 of the Companies Act 1956.

DIRECTORS RESPONSIBILITY STATEMENT

The Directors confirm that:

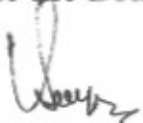
- a. in the preparation of the annual accounts, the applicable accounting standards have been followed, along with proper explanation relating to material departures, if any;
- b. they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the surplus and deficit of the Company for that period;
- c. they have taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d. they have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENTS

The Board of Directors would like to express its sincere gratitude to Ministry of Finance, all its Promoter Institutions, Securities and Exchange Board of India, Ministry of Corporate Affairs and Reserve Bank of India for their continued support and co-operation. OTCEI would like to thank its Members and Dealers as well as the Companies which are listed on the Exchange for their support. OTCEI acknowledges their patronage and regards them as partners in progress.

The Exchange would also like to place on record its appreciation of the services of its Clearing Bankers, Clearing House – NSCCL (National Securities Clearing Corporation Ltd.) and main corporate banker Axis Bank Ltd. The Directors also appreciate the teamwork and valuable contribution of all the employees of your Exchange.

For and on behalf of the Board


S C Bhargava
Chairman

Mumbai

Date: August 16, 2011