CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

During the year 2007-08, the Indian economy continued to grow at a robust pace, largely insulated from the turbulence in global financial markets. Strong economic growth was, however, accompanied by inflationary concerns towards the later part of the year. While there was intermittent volatility in liquidity conditions, strong capital flows and slowdown in credit growth kept liquidity in surplus for most part of the year. To reduce liquidity in the system and check inflationary pressures due to firming global commodity prices, RBI followed a tight monetary policy. RBI increased reserve requirements to suck out excess liquidity and raised the Cash Reserve Ratio (CRR) by 150 basis points during the financial year ended March 31, 2008. To drain liquidity, there were additional auctions conducted under the Market Stabilisation Scheme (MSS) while the ceiling of outstanding issuances was raised to Rs. 250000 crore.

In the G-Sec market, the 10-year G-sec yield witnessed huge volatility during the year. After firming up to as high as 8.29 per cent in June'07 due to large debt issuances, the yield eased to a low of 7.38 per cent in Jan'08 in anticipation of easing of RBI's monetary stance. However, high inflation numbers in March'08 pushed yields higher with 10-yr yield firming up to 7.94 per cent and long-term yields firming up more drastically leading to steepening of the yield curve.

Despite RBI's monetary tightening measures which put pressure on liquidity, it is a matter of great pleasure that your company posted excellent results during FY 2007-08. The Profit Before Tax rose by 309 per cent to Rs. 67.01 crore during the year as against Rs. 16.38 crore in the previous year. To meet the challenging market conditions, the company resorted to constant portfolio churning by reorienting its trading strategies and simultaneously adhering to the overall risk management framework. The total turnover of the company rose during the year to Rs. 59868 crore compared to Rs. 33552 crore last year. The company continued to fulfill all its obligations as a primary dealer and also strengthened its presence in existing fee based segments like project appraisal, mutual fund distribution and other non-core activities. The Board of Directors has recommended a final dividend of 15 per cent for the year.

Going forward, double digit inflation figures are expected to keep RBI's monetary stance tight, resulting in further firming up of yields in the debt market. However, high interest rates are expected to attract investor interest at regular intervals. This will lead to fluctuations in interest rates and your company being a trader in the G-Sec market can capture the volatility in the market through astute and aggressive trading. Further, diversification into other fee-based activities will enable the company earn steady income even in adverse market conditions. Your company will take all possible steps to further improve its performance. Your continued support will help the company scale new heights.

With regards,

Yours Sincerely,

Date : 11th July, 2008

(K. C. Chakrabarty)
Chairman