

19th Annual Report 2005 - 06



HB STOCKHOLDINGS LIMITED

**HB STOCKHOLDINGS LIMITED****BOARD OF DIRECTORS**

Mr. Lalit Bhasin	Chairman
Mr. K. N. Malhotra	Director
Mr. Pradeep Kumar Mittal	Director
Mr. Gulshan Rai	Director
Mr. Harbans Lal	Director
Mr. Anil Goyal	Director
Mr. J.M.L. Suri	Executive Director

COMPANY SECRETARY

Santosh Kumar Menon

CHIEF FINANCIAL OFFICER

Mahesh Kumar Gupta

AUDITORS**P. Bholusaria & Company**

Chartered Accountants

26/11, Shakti Nagar,

Delhi - 110 007

REGISTERED OFFICE199, Sector - 7,
Urban Estate,
Gurgaon - 122 001
Haryana**CORPORATE OFFICE**10th Floor, DCM Building,
16, Barakhamba Road,
New Delhi - 110 001.**WEBSITE**www.hbstockholdings.com**REGISTRAR & SHARE TRANSFER AGENT****RCMC Share Registry Pvt. Ltd.**1515, (1st Floor), Bhisham Pitamah Marg,
Kotla Mubarakpur, (Near South Extension),
New Delhi-110 003

CONTENTS

Notice	1
Directors' Report	2
Statement pursuant to Sec. 212 of the Companies Act, 1956	3
Management Discussion and Analysis	3
Corporate Governance Report	4
Auditors' Report	7
Balance Sheet	8
Profit & Loss Account	8
Schedules	8
Balance Sheet Abstract and Company's General Business Profile	14
Cash Flow Statement	15
Consolidated Accounts	16
Annual Report of Subsidiary Companies :	
Mount Finance Ltd.	20
HB Prima Capital Ltd.	24

NOTICE

NOTICE is hereby given that the 19th Annual General Meeting of the Company will be held as per the schedule given below:

Day : Friday
Date : 8th September, 2006
Time : 10.00 A.M.
Place : GIA House, I.D.C. Mehrauli Road,
Opp. Sector 14, Gurgaon - 122001, Haryana

to transact the following business(es):

AS ORDINARY BUSINESS:

- To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and the Profit & Loss Account for the year ended on that date together with the Reports of Directors and Auditors thereon.
- To appoint Director in place of Mr. K.N.Malhotra who retires by rotation and being eligible offers himself for reappointment.
- To appoint Director in place of Mr. Pradeep Kumar Mittal who retires by rotation and being eligible offers himself for reappointment.
- To appoint Auditors and to fix their remuneration.

AS SPECIAL BUSINESS:

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

"RESOLVED THAT pursuant to Section 257, 260 and other applicable provisions of the Companies Act, 1956 (the "Act") and Article 96 of the Company's Article of Association, Mr. Harbans Lal, who was appointed as Additional Director by the Board of Directors on 28th January 2006 and who holds office as such only upto the date of Annual General Meeting, and in respect of whom a notice in writing along with requisite fee proposing his appointment has been received, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

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

"RESOLVED THAT pursuant to applicable provisions of the Foreign Exchange Management Act, 1999 (FEMA), the Companies Act, 1956 and all other applicable rules, regulations, guidelines and laws (including any statutory modification of re-enactment thereof for the time being in force) and subject to all applicable approvals, permissions, sanctions and subject to all applicable conditions as may be prescribed by any of the concerned authorities while granting such approvals, permissions, sanctions, which may be agreed to by the Board of Directors of the Company and/or a duly authorised Committee thereof for the time being exercising the powers conferred by the Board of Directors (hereinafter referred to as the "the Board"), the consent of the Company be and is hereby accorded for investments by Foreign Institutional Investors including their sub-accounts (hereinafter referred to as the 'FILs'), in the shares or debentures and/or other securities convertible into or exchangeable with shares of the Company, by purchase or acquisition from the market under the Portfolio Investment Scheme under FEMA, subject to the condition that the aggregate holding of all FILs put together shall not exceed such percentage of the paid up equity share capital or paid up value of the respective series of the debentures and/or other securities

convertible into or exchangeable with shares of the Company which shall be applicable sectoral cap/statutory ceiling as is prescribed from time to time.

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorised to take all such steps and actions and give such directions and delegate such authorities, as it may in its absolute discretion, deem appropriate including settling any question that may arise in this regard".

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

"RESOLVED THAT pursuant to the provisions of Section 309 and other applicable provisions, if any, of the Companies Act, 1956 and Clause 49 of the Listing Agreement, a sum not exceeding 1% per annum of the net profits of the Company calculated in accordance with the provisions of Sections 198, 349 and 350 of the Companies Act, 1956, be paid to and distributed amongst the Directors of the Company or some or any of them (other than the Managing/Whole Time Director) in such amounts or proportions and in such manner and in all respects as may be directed by the Board of Directors till March 31, 2011 and such payments shall be made out of the profits of the Company for each corresponding financial year.

**BY THE ORDER OF THE BOARD
FOR HB STOCKHOLDINGS LTD.**

Place : New Delhi

Date : 19th May 2006

**SANTOSH KUMAR MENON
COMPANY SECRETARY**

NOTES:

- A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER. A PROXY IN ORDER TO BE EFFECTIVE MUST BE LODGED AT THE REGISTERED OFFICE OF THE COMPANY AT LEAST 48 HOURS BEFORE THE TIME OF THE MEETING.
- Explanatory Statement(s) pursuant to Section 173(2) in respect of the Special Businesses herein are annexed hereto and form part of this notice.
- The Register of Members and Share Transfer Books of the Company shall remain closed from 29-08-2006 to 08-09-2006 (both days inclusive).
- Members/Proxies should bring Attendance Slips duly filled in for attending the meeting.
- Shareholders seeking any information with regard to Accounts are requested to write to the Company at least 7 days before the date of the meeting so as to enable the management to keep the information ready.
- Members are requested to:
 - Notify any change in their address including PINCODE to the Company or to the Registrar and Share Transfer Agent of the company namely, RCMC Share Registry Pvt. Ltd., 1515, (I Floor), Bhisham Pitamah Marg, Kotla Mubarakpur, Near South Extension, New Delhi-110003. Phones: 24692346, 24601017. Fax: 24692345. E-mail: rcmc@dimension1.net.
 - Bring their copies of Annual Report with them to the meeting, as the same will not be supplied again at the Meeting as a measure of economy.
- Details of the Directors seeking appointment/reappointment in the ensuing Annual General Meeting pursuant to Clause 49 of the Listing Agreement:

Name of the Director	Mr. K. N. Malhotra	Mr. Pradeep Kr. Mittal	Mr. Harbans Lal
Date of Birth	February 06, 1926	August 10, 1953	February 28, 1942
Profile/Expertise in specific functional areas	More than 4 decades of experience in Insurance Industry.	Leading advocate practising in Corporate and Economic Laws for more than 15 years.	Retired Banker from State bank of India having experience of more than 36 years and expertise in handling well diversified assignments of administration
Qualifications	B.A.	FCS; LLB	M.A., C.A.I.I.B
List of other companies in which directorship held as on 31.3.2006	<ul style="list-style-type: none"> RPG Transmission Ltd. Credit Capital Investment Trust Co. Limited 	<ul style="list-style-type: none"> Raunaq International Ltd. 	<ul style="list-style-type: none"> Lord Krishna Bank Ltd. Petronet LNG Ltd. Delhi Stock Exchange Assn. Ltd.
Chairman/Member of the Committees of the Board of the other companies in which he is a director as on 31.3.2006	NIL	NIL	Audit Committee <ul style="list-style-type: none"> Petronet LNG Ltd. - Member Lord Krishna Bank Ltd. - Member Investors Service Committee <ul style="list-style-type: none"> Delhi Stock Exchange Assn. Ltd.-Member Default Committee <ul style="list-style-type: none"> Delhi Stock Exchange Assn. Ltd.-Member Special Credit Committee <ul style="list-style-type: none"> Lord Krishna Bank Ltd. - Member

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

ITEM NO. 5

Mr. Harbans Lal was appointed as Additional Director on the Board of Directors on 28th January 2006 and under the provisions of Section 260 of the Companies Act, 1956 to hold the office up to the date of the ensuing Annual General Meeting. The Company has received notice under Section 257 of the Companies Act, 1956 from a shareholder together with requisite fee proposing for his appointment as a Director of the company liable to retire by rotation. He is also in the Board of reputed Companies.

The Board accordingly recommends the resolution for his appointment as Director for consideration of the members.

The notice received under Section 257 is available for inspection during normal business hours on any working day of the company.

None of the directors except Mr. Harbans Lal himself are in any way concerned with or interested in the above resolution.

ITEM NO.6

Pursuant to liberalisation measures mooted by the Government of India, the Reserve Bank of India, amending the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, has raised the limit by Foreign Institutional Investors (FILs), upto the sectoral cap/statutory limit as applicable to the Indian Companies, subject to the approval of Board of Directors and approval of Members of the Company by way of special resolution.



HB STOCKHOLDINGS LIMITED

The Board of Directors of the Company at its meeting held on 19th May 2006 inter alia, approved, subject to the approval of Members by way of a Special resolution, to enhance the said Fill investments limit to applicable sectoral cap of the paid equity or paid up value of the respective series of the convertible debentures or other securities of the Company, if any.

The resolution set out at item no. 6 of the accompanying Notice will enable the Fills, who are considered to be prudent investors to acquire shares of the Company through authorised dealers within the applicable sectoral cap/ceiling under the portfolio investment scheme of Reserve Bank of India.

Your Directors, therefore, recommend the resolution for your approval.

None of the Directors of the Company is, in any way, concerned or interested in the resolution.

ITEM NO. 7

Section 309 of the Companies Act, 1956 provides that a director who is neither in the

wholtime employment of the Company nor a managing director may be paid remuneration by way of commission, if the Company by special resolution, authorises such payment.

The proposed resolution would allow the Company to make payment by way of commission to the non-executive directors till the period ending March 31, 2011 in accordance with Section 309. All the Directors other than executive director of the Company are deemed to be interested in the resolution to the extent of commission payable to them in accordance with the proposed resolution.

The Board recommends the resolution set forth in item no. 7 for approval of shareholders.

**BY THE ORDER OF THE BOARD
FOR HB STOCKHOLDINGS LTD.**

**SANTOSH KUMAR MENON
COMPANY SECRETARY**

**Place : New Delhi
Date : 19th May, 2006**

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the 19th Annual Report with Audited Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

The summarised financial results for the year under review are as under:

PARTICULARS	(Amount in Rs.)	
	Year Ended 31.03.2006	Previous Year Ended 31.03.2005
Gross Profit/(Loss)	11,42,33,373	1,61,86,545
Less :		
(a) Depreciation and profit/(loss) on termination of leases	7,91,383	7,69,877
(b) Miscellaneous Expenses Written off	-	1,19,897
(c) Provision for Income - Tax (including deferred tax)	55,00,000	3,00,000
(d) Fringe Benefit Tax	1,75,000	-
Net Profit/(Loss)	10,77,66,990	1,49,96,771
Add/(Less) :		
(a) Prior Period Adjustments	-	4,04,241
(b) Income Tax for earlier year	(2,07,154)	-
(c) Transfer to Statutory Reserve Fund	(2,15,53,398)	(29,99,354)
Net Amount available for appropriation	8,60,06,438	1,24,01,658
Accumulated Loss Brought forward	(58,88,17,950)	(60,12,19,608)
Balance carried to Balance Sheet	(50,28,11,512)	(58,88,17,950)

DIVIDEND :

In view of need to conserve liquid resources of the company and having regard to the accumulated and unabsorbed losses your directors regret their inability to recommend dividend for the year ended 31-03-2006.

PERFORMANCE REVIEW & OUTLOOK :

During the year under review, the stock market maintained the buoyant trend on the strength of good corporate results and high growth rate recorded by the Indian economy. Buoyed by strong economic fundamentals and greater confidence of International Investors in Indian Economy and the Indian Enterprises, the Stock Market witnessed great appetite for Indian Stocks from Fills.

The concerted efforts made by the company to control the expenses while maximising the revenue from operations have borne fruit and the company has been able to post excellent results compared to the previous year. The administrative expenses have recorded only a moderate increase as compared to the previous year, which is on the expected lines.

The Indian Economy is expected to maintain the current high growth rate in the next 2/3 years too and with the Foreign Direct Investment expected to touch US \$ 10 billion in 2006-07 the Stock Market is expected to continue the current trend of buoyancy in the medium to long term.

Under the emerging scenario the company is well placed to consolidate its efforts in further improving its working by leveraging its strength in stock market operations and your directors are hopeful that the company would be able to post an improved financials in the current year too.

The industry trends and future prospects are more elaborately given in the Management Discussion and Analysis.

STATUTORY STATEMENTS

PUBLIC DEPOSITS:

Your Company has not accepted any deposits from the public during the year under review.

INFORMATION AS PER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956

The particulars under Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 on conservation of energy, technology absorption are not applicable to your company. During the year under review there were no earnings or outgo in foreign exchange.

PERSONNEL :

None of the employees are in receipt of remuneration in excess of the limits prescribed under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

DIRECTORS' RESPONSIBILITY STATEMENT :

Pursuant to Section 217(2AA), it is hereby stated that in the preparation of the Annual Accounts for the year under review, the applicable accounting standards have been followed. The Directors 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 profit or loss of the company for that period. The Directors have taken proper and sufficient care for the maintenance of adequate 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. Further, the Directors have prepared the annual accounts on a going concern basis.

SUBSIDIARIES OF THE COMPANY :

As required under Section 212 of the Companies Act, 1956, the Audited Balance Sheets, Profit & Loss Account together with the Report of the Directors and Auditors thereon of its wholly owned subsidiaries viz. HB Prima Capital Ltd. and Mount Finance Ltd. are attached.

As required under the Listing Agreement the consolidated accounts are also annexed.

CORPORATE GOVERNANCE :

Your company is fully compliant with the requirements of the prevailing and applicable Corporate Governance Code and is committed to ensuring compliance with any proposals for modifications well ahead of their implementation timeliness. Your Company's compliance with requirements are presented in sections below. A detailed Corporate Governance Report together with a certificate from Statutory Auditors in compliance with Clause 49 of the Listing Agreement is attached forming part of this report.

STATEMENT PURSUANT TO LISTING AGREEMENT(S) :

The Company's equity shares are listed at Bombay Stock Exchange, Mumbai (BSE) and National Stock Exchange, Mumbai (NSE). The listing fees to BSE and NSE have been paid. During the year under review the equity shares of the company were delisted from Calcutta Stock Exchange Association Ltd., Kolkata pursuant to the company's application for voluntary delisting.

As reported in our report for the year ended 31-03-2005, the difficulty in submission of quarterly and annual financial results in the Electronic Data Information Filing and Retrieval (EDIFAR) website - www.sebidifar.nic.in has not yet been resolved. However during the year under review, the company has put up its own website (www.hbstockholdings.com) and has uploaded the above information and the same is available in the public domain for investing public in general and shareholders of the company in particular.

AUDITORS REPORT :

Observations of the Auditors have been explained, wherever necessary, by way of appropriate notes to accounts.

AUDITORS :

The Auditors, M/s. P. Bholusaria & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for reappointment. A certificate under section 224(1B) of the Companies Act, 1956 has been received from them.

DIRECTORATE :

The Directors regret to inform the sad demise of Dr. K. Srinivasan on 27th June, 2005. The Board wishes to place on record its deep appreciation of the valuable contributions made and guidance received from Dr. K Srinivasan in directing the affairs of the company during his brief tenure.

Mr. Anil Goyal was appointed as Director with effect from 30th July 2005 by the Board against the casual vacancy caused by the demise of Dr. K Srinivasan. Mr. Anil Goyal a Fellow Member of Institute of Chartered Accountants of India has considerable expertise in the fields of Finance, Management, Merchant Banking, Mergers and Acquisition.

In order to broad base the board further Mr. Harbans Lal, a retired banker having a vast experience of 36 years in handling well-diversified assignments at operational and senior



HB STOCKHOLDINGS LIMITED

administrative level in State Bank of India and other banks, was co-opted as Additional Director with effect from 28th January 2006 and accordingly holds office only up to the conclusion of the ensuing Annual General Meeting. Considering his rich and varied experience his continued association with the company would be beneficial and accordingly the Board commends the resolution for appointing him as Director of the Company in the ensuing Annual General Meeting, for the consideration of members.

Mr. K.N.Malhotra and Mr. Pradeep Kumar Mittal being longest in Office retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for reappointment.

ACKNOWLEDGEMENT :

Since its inception, your Company has grown on the foundations of dedicated and qualitative services. Your Directors gratefully acknowledge the co-operation, assistance and support extended by various stakeholders during these years. Your Directors also thank all the Company's Bankers, Shareholders and its Employees for their support to your Company during the year and look forward for their continued support.

FOR AND ON BEHALF OF THE BOARD

Place : New Delhi
Date : 19th May, 2006

LALIT BHASIN
CHAIRMAN

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956

Name of the Subsidiary	HB Prima Capital Ltd.	Mount Finance Ltd.
Financial Year of the subsidiary ended on	31-03-2006	31-03-2006
No. of Equity Shares held by the Holding Company as on date (Face Value - Rs.10/-)	10,00,000	8,30,006
Extent of Holding (%)	100	100
The Net Aggregate of the Profit/(Loss) of subsidiary so far as they concern the members of the company for the year 31st March 2006 (in Rs.)		
(i) for the financial year of the subsidiary	(19,082.13)	7,37,145.27
(ii) for the previous financial periods of the subsidiary	(4,97,360.62)	(54,98,435.76)
The Net Aggregate of the Profit/(Loss) of subsidiary so far as they concern the members of the company and which are dealt with the accounts of the company for the year 31st March 2006 (in Rs.)		
(i) for the financial year of the subsidiary	Nil	Nil
(ii) for the previous financial periods of the subsidiary	Nil	Nil

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Operating Results :

The company earned an operational income of Rs.1262.10 lakhs during the year under review compared to Rs.223.07 lakhs in the previous year. The administrative expenses during the year under review were Rs.118.93 lakhs as compared to Rs.103.44 lakhs during the previous period registering a moderate increase which has been on the expected lines and is in proportion to the increase in the volume of operations. The interest and financial charges for the year under review has been Rs.0.84 lakhs as compared to Rs.7.23 lakhs during the previous year.

2. Industry Trends and Business Analysis :

During the year under review 2005-06, Indian Capital Market continued its buoyancy and scaled new peaks. The Bombay Stock Exchange (BSE) Sensex registered a rise of 74% as it opened at 6492.82 in April 2005 and closed at 11279.96 in March 2006 recording its highest at 11356.95 in March 2006.

Similar trend has been registered by NSE Nifty, which opened at 2035.65 in April 2005 closed at 3402.55 in March 2006 at after scaling a high of 3425.45 in March 2006 and registering a overall growth of 67% during the year under review.

Seen under the aforesaid backdrop the company has been able to turn out positive and satisfactory financial results.

3. Opportunities and Threats :

The continuity in reform measures by successive governments has started yielding results with the GDP of Indian economy recording an impressive 8% plus growth rate in the year 2005-2006 as per estimates released by Central Statistical Organisation (CSO). The Indian Stock Market during the year under review, has mirrored this excellent economic growth and has scaled new peaks one after the other.

The year under review also witnessed successful IPOs (Initial Public Offering), FPOs (Follow on Public Offering) and Rights Offering by many corporates and a healthy growth of retail investors as also FII's is an indicator of the successful transformation of the Indian Stock Market from technologically backward and prone to systemic ills to a more vibrant, modern, contemporary and comparable to the peer markets in the advanced and developed countries.

As per the estimates of statistical agencies of Indian Government the economy is continue to maintain the excellent growth of 8% plus in the coming years which augurs well for the Indian Stock Market. The unprecedented and continued rise in International crude prices however, poses significant concern as it may fuel inflation and trigger a slow down in the world economic growth which may affect the Indian Economy too.

The Company with its inherent strength, strong fundamentals, continuous stress on operational excellence and effective financial management shall be in a position to take advantage of the growth in the economy.

4. Future Prospects and Outlook :

The company as a NBFC engaged predominantly in the business of investment in securities the future outlook/business prospects are closely linked with the buoyancy of the stock market, which apart from political factors is a function of corporate performance and overall economic growth. The commitment of successive governments to carry forward the process of reformation of economy and the efforts to address infrastructural constraints and bottlenecks indicates a sustained high growth path. Besides the continued confidence of international investors on the resilience of the Indian Economy also augurs well as is reflected by the increasing FDI (which is likely to touch US \$ 10 billion in 2006-2007) and the upgrading of sovereign rating of India by the International rating agencies.

Under such positive macro an economic fundamental the Indian Stock Market is

expected to maintain the current buoyancy in the medium to long term and offers an excellent growth potential. The Company with its inherent strength in stock market operations is leveraged to encash the emerging opportunity.

5. Risks and concerns :

Company, being associated with capital market is mainly exposed to market risk (including liquidity risk), interest risk and credit risk. However conservative policies and prudent business and risk management practices followed by the company helps it to manage the threats imposed by the normal industry risk factors, which inter-alia includes economic/ business cycle, fluctuations in the stock prices in the market, besides the interest rate volatility, and credit risk. The policies and procedures established by your Company are in tune with some of the best practices in the Financial Services Sector and are in the interest of shareholders' wealth.

6. Internal control system and their adequacy :

The Company has a proper and adequate system of internal controls for business processes, with regard to efficiency of operation's financial reporting, compliance with applicable laws and regulations, etc. Clearly defined roles and responsibility down the line for all managerial positions have been institutionalised. All operating parameters are monitored and controlled. Regular internal audits and checks ensure that responsibilities are executed effectively. The Audit Committee of the Board of Directors actively reviews the adequacy and effectiveness of internal control systems and suggests improvement for strengthening them, from time to time.

7. Financial performance

- Share Capital: The Company's issued and subscribed share capital consists of Equity Share capital only. The paid-up share capital of the company as at 31st March 2006 stood at Rs. 2431.66 lakhs comprised of 2,51,43,257 Equity Shares of Rs.10/- each (excluding allotment money receivable of Rs. 112.66 lakhs).
- Reserves and Surplus: During the year under review the reserves and surplus [net of accumulated loss amounting to Rs. 5028.11 lakhs (previous year Rs. 5888.17 lakhs)] stood at Rs. 5248.02 lakhs as against Rs. 4172.41 lakhs during the previous period.
- Loans: There are no unsecured loans in the Balance Sheet of the Company since they have been repaid in full during the year prior to previous year itself.
- Current Assets & Current Liabilities: The current assets and current liabilities at the end of the year under review stood at Rs. 1825.02 lakhs and Rs. 1203.99 lakhs respectively against Rs. 2024.98 lakhs and Rs. 1508.12 lakhs for the last year. The net current assets/(current liabilities) [Current Assets less Current Liabilities] as at the end of the year stood at Rs. 621.03 lakhs compared to Rs.516.86 lakhs.

8. Human Resources :

The company is having adequate and experienced industry professionals to carry out its operations and follows good man management practices. These are basically its human resources assets and are integral to the Company's ongoing success. They have played a significant role and enabled the Company to deliver superior performance year after year.

9. Cautionary Statement :

Statements in this "Management's Discussion and Analysis" describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include interest rates and changes in the Government regulations, tax regimes, economic developments and other factors such as litigation etc.



HB STOCKHOLDINGS LIMITED

REPORT ON CORPORATE GOVERNANCE

- Company's philosophy on Corporate Governance :** Corporate Governance refers to a set of policies, principles, laws, rules, regulations and procedures that enable the company to attract best financial & human resources and to perform efficiently to maximize the long term value for the shareholders. Your company is committed to uphold the good governance values and has been practicing the same over the years. Your directors deeply recognise that it is your company and that you must know what is happening all around.
- Size and Composition of the Board :** The Board of your Company comprises of 7 directors, out of whom 5 directors are non-executive and independent. Mr. Lalit Bhasin is a non-executive director and holds the position of the Chairman with effect from

30th June 2004. The other non-executive directors are proficient in their fields and bring with them tremendous experience in the areas of finance, tax, legal, securities market operations, corporate affairs and management. Mr. J.M.L. Suri, the Executive Director of your Company, has to his credit over 45 years of corporate experience in renowned Indian and multinational companies. He is responsible for the overall management of the company. The composition of the Board is in conformity with the Clause 49 of the listing agreement.

4 Meetings of the Board of Directors of the Company were held during the year under review (i.e. from 1.04.2005 to 31.03.2006) on 25th April 2005; 30th July 2005; 29th October 2005; and 28th January 2006. The Particulars regarding composition of the Board of Directors and their attendance in the Meetings held during the year under review are given hereunder:

Name of the Directors & Category	Directorships in other public companies*		Committee Membership held in Other public companies		No. of Board Meetings during the year		Attended Last AGM	Shares held in the company & % to the subscribed capital
	Total	as Chairman	Total	as Chairman	Held	Attended		
Mr. Lalit Bhasin <i>Promoter & Non-Executive</i>	14	3	3	Nil	4	4	Yes	4,84,799 (1.90%)
Mr. K. N. Malhotra <i>Independent & Non Executive</i>	2	Nil	Nil	Nil	4	Nil	No	130## (Not Significant)
Mr. Pradeep Kumar Mittal <i>Independent & Non Executive</i>	1	Nil	Nil	Nil	4	4	No	NIL
Dr. K Srinivasan# <i>Independent & Non Executive</i>	Nil	Nil	Nil	Nil	4	1	N.A.	NIL
Mr. Gulshan Rai <i>Independent & Non Executive</i>	Nil	Nil	Nil	Nil	4	3	Yes	NIL
Mr. Harbans Lal* <i>Independent & Non Executive</i>	3	Nil	5	Nil	1	1	No	NIL
Mr. Anil Goyal** <i>Independent & Non Executive</i>	10	Nil	4	1	3	3	Yes	NIL
Mr. J.M.L. Suri <i>Executive</i>	7	Nil	3	2	4	3	Yes	1000## (Not Significant)

Left for his heavenly abode on 27th June 2005.

Joint Holding

* Appointed as Additional Director with effect from 28.01.2006.

** Appointed as casual director in place of Dr. K Srinivasan.

In terms of the provisions of the Companies Act, 1956 and the Articles of Association of the Company, one-third directors of the rotational directors of the Company retire at every Annual General Meeting. Accordingly, Mr. K.N.Malhotra & Mr. Pradeep Kumar Mittal would retire by rotation at the ensuing Annual General Meeting and being eligible they have offered themselves for reappointment.

3. Board Committees : The Board of Directors in its Meeting held on 7th March, 2001, has constituted 2 Committees namely; the Audit Committee in due compliance with Section 292A of the Companies Act, 1956 and the Clause 49 of the Listing Agreement and Shareholders/Investors Grievance Committee. The Remuneration Committee has been constituted in the meeting of Board of Directors held on October 30, 2004 as required under the Listing Agreement and the Companies Act, 1956 (Schedule XII).

(A). Audit Committee : The Audit Committee of the Board was reconstituted two times during the financial year 2005-2006. The Board took note that due to the sad demise of Dr. Srinivasan (on 27th June 2005), the audit committee was left with only two members and thus require reconstitution. Hence on 30th July 2005, the Board appointed Mr. Anil Goyal as a member of the Audit Committee and Mr. Gulshan Rai as Chairman of the committee. On 28th January 2006, Mr. Harbans Lal was appointed as the additional director of the company to strengthen the Board of the Company. Simultaneously he was also appointed as the member of the Audit Committee. The present Audit Committee stands as follows:

1. Mr. Gulshan Rai, Chairman
2. Mr. Pradeep Kumar Mittal, Member
3. Mr. Anil Goyal, Member
4. Mr. Harbans Lal, Member

Mr. J. M. L. Suri, Executive Director, shall be the permanent invitee of the meeting. The Audit Committee shall mandatorily review the following information: Management discussion and analysis of financial condition and results of operations; Statement of significant related party transactions (as defined by the audit committee), submitted by the management; Management letter/ letters of internal control weaknesses issued by the statutory auditors; Internal audit reports relating to internal control weaknesses and the appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee. The Audit Committee has been empowered, inter-alia, to carry out the following functions:

1. To lay down, review and revise the accounting policies of the company.
2. To review the financial operations and performance of the company.
3. To review the half-yearly and annual financial accounts and other financial reports and statements, before placement thereof before the Board of Directors.
4. To consider and constitute sub-committees, wherever necessary for carrying out and/or monitoring the financial operations of the company.
5. To appoint whenever deemed expedient, an independent internal auditor to carry out continuous audit of the accounts and systems of the company, and

also consider and/or review the appointment and removal of auditors of the company.

6. To consider and set up adequate internal control systems and review and monitor the same in consultation with the internal auditors and the auditors of the company and ensure compliance of the same.
7. To receive, discuss and consider the observations and reports of the internal auditors and auditors of the company time to time.
8. To review and investigate on the matter of financial nature, as and when deemed necessary and expedient.
9. To give report and/or recommendations to the Board on the matters concerning financial operations of the company.
10. To consider and act on any matters as are included under Clause 49 of the Listing Agreement and/or as may be so included from time to time.

During the year under review, 4 meetings of the Audit Committee were held on 25-04-2005; 30-07-2005; 29-10-2005 and 28-01-2006. Dr. K. Srinivasan, Mr. Pradeep Kumar Mittal, Mr. Gulshan Rai and Mr. Anil Goyal attended all the respective meetings in their tenure.

(B) Shareholders/Investors Grievance Committee: The Shareholders/Investors Grievance Committee of the Board comprises of Mr. K.N. Malhotra (Chairman of the Committee), Mr. Pradeep Kumar Mittal and Mr. J.M.L. Suri. The company secretary acts as Secretary to the Committee. The functions of the Committee, inter-alia, includes approval/rejection of transfers, transmission of shares, issue of fresh/duplicate certificates upon split/consolidation/ renewal/mutilation/loss or otherwise, review the status of dematerialisation of company's shares and matters incidental thereto, monitor the matters of litigation related to shareholders and take decisions relating thereto, consider, review and monitor the matters related to the shareholders grievances. Mr. J.M.L. Suri, Director has been empowered to approve transfers up to 10,000 Equity Shares under one folio at a time.

During the year under review, 4 meetings of the Shareholders Committee were held on 25-04-2005; 22-07-2005; 29-10-2005; and 28-01-2006. Mr. Pradeep Kumar Mittal attended all the meetings where as Mr. J.M.L. Suri and Mr. K.N. Malhotra attended 3 & 1 respectively.

(C) Remuneration Committee: Due to sad demise of Dr. K.Srinivasan, the Remuneration Committee was reconstituted. The present Remuneration committee of the Board comprises of Mr. K.N. Malhotra, Chairman, Mr. Pradeep Kumar Mittal and Mr. Gulshan Rai. The functions of the Committee, inter-alia, includes to lay down, review and revise the remuneration of the managerial personnel, to give recommendations to the Board of Directors on the matters concerning the managerial remuneration, to deal with any other matter related or incidental to the above or as may be delegated by the Board from time to time.

During the year under review, no remuneration committee meeting was held. Remuneration paid to Directors during the period (01.04.2005 to 31.03.2006) is as under:



HB STOCKHOLDINGS LIMITED

Director	Relationship with other Director(s)	Sitting Fees (Rs.)	Salary & Perks (Rs.)	Commission, if any
Mr. P. K. Mittal	—	54,000	Nil	Nil
Mr. Lalit Bhasin	—	35,000	Nil	Nil
Mr. K. N. Malhotra	—	Nil	Nil	Nil
Mr. J. M. L. Suri	—	Nil	763211	Nil
Dr. K. Srinivasan	—	7,000	Nil	Nil
Mr. Gulshan Rai	—	39,000	Nil	Nil
Mr. Anil Goyal	—	36,000	Nil	Nil
Mr. Harbans Lal	—	10,000	Nil	Nil

4. General Body Meetings:

(i) Location and time where the last 3 AGM's held

Year	Type	Location	Date	Time
2004-05	AGM	GIA House, I.D.C., Mehrauli Road, Opp.: Sector 14, Gurgaon - 122 001	17.08.05	10.00 A.M.
2003-04	AGM	GIA House, I.D.C., Mehrauli Road, Opp.: Sector 14, Gurgaon - 122 001	29.09.04	10.00 A.M.
2001-03	AGM	GIA House, I.D.C., Mehrauli Road, Opp.: Sector 14, Gurgaon - 122 001	28.08.03	10.00 A.M.

(ii) List of Special Resolutions passed in the previous 3 AGMs

Sno.	Subject Matter	AGM Reference and Date of passing
1.	Approval for enhancing the limit for acquisition of shares by NRIs under Portfolio Investment Scheme up to 24% of paid up share capital.	17th AGM 29-09-2004
2.	Approval for Delisting of Equity Shares from the Stock Exchanges at Delhi, Ahmedabad, Chennai and Kolkata.	16th AGM 28-08-2003

(iii) No Special Resolutions were put through postal ballot last year

(iv) No Special Resolution is proposed to be conducted through postal ballot.

5. Disclosures:

- There have been no materially significant related party transactions, pecuniary transactions or relationships other than those disclosed in the financial statements for the year ended 31-03-2006 (Refer Note No. 12 of Notes to Accounts - Schedule 11 forming part of the Balance Sheet & Profit & Loss Account). Accordingly the same have not been reproduced here.
- No penalty has been imposed or any strictures have been passed by the Stock Exchanges or SEBI or any other Statutory Authority on any matter related to capital markets during the last three years.
- The company has adopted a Code of Conduct applicable to all Directors and Senior Management personnel of the company and the same has been posted on the website of the company www.hbstockholdings.com. For the year under review, all directors and senior management personnel have confirmed their adherence to the provisions of said Code. A declaration to this effect from Executive Director of the Company is also given to this effect at the end of this report.
- Risk Assessment and Minimisation procedures are in existence and are reviewed periodically.
- None of the company's subsidiaries viz., HB Prima Capital Limited and Mount Finance Limited are "Material Non Listed Subsidiary" in terms of revised Clause 49 of the Listing Agreement. However, the financial results and the investments (as and when made) are placed before the Audit Committee of the company regularly for review.
- The Executive Director (CEO) and the CFO have, as required under clause 49 of the Listing agreement, given their certification on the review of financial statements, including cash flow, for the year ended 31.03.2006 to the Board of Directors.
- Whistle Blower Policy being a Non Mandatory Requirement has not been adopted by the company.
- All the mandatory requirements under Clause 49 (relating to Corporate Governance norms) of the Listing Agreement are being adhered to/complied with. The Non mandatory requirement relating to Remuneration Committee has been adopted by the company.

6. Means of Communication:

- Quarterly Results: Dissemination through stock exchange and company's website and through publication in newspapers as required under Listing Agreement.
- Newspapers wherein results normally published - Financial Express and Jansatta
- Website where displayed - www.hbstockholdings.com
- The Website also displays official news releases and important communications made to Stock Exchanges. As and when any presentations are made to institutional investors the same would be simultaneously uploaded in the company's website.

7. General Shareholder Information:

- Ensuing Annual General Meeting Date, time and venue:

Date : 08.09.2006
Time : 10:00 A.M.
Venue : GIA House, I.D.C., Mehrauli Road,
Opp.: Sector 14, Gurgaon - 122 001

- Financial Year : 31st March 2006

III. Date of Book Closure : 29-08-2006 to 08-09-2006

IV. Dividend Payment Date : No dividend is being declared for the year under review.

V. Listing on Stock Exchanges

The Company's Equity Shares are listed at Bombay Stock Exchange Ltd., Mumbai & National Stock Exchange, Mumbai.

VI. Stock Code -

The Company's Scrip Code is as follows:

BSE, Mumbai 532216

NSE, Mumbai HBSTOCK

VII. Dematerialisation of Share and Liquidity

The trading in the Equity Shares of the Company has come under compulsory dematerialisation w.e.f. 27th November 2000 in terms of the SEBI-Notification No. SMDRP/ POLICY/CIR - 23/2000 dated 29th May, 2000.

The company has joined the National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL). The ISIN No. allotted to Equity Shares of the Company is INE550B01014.

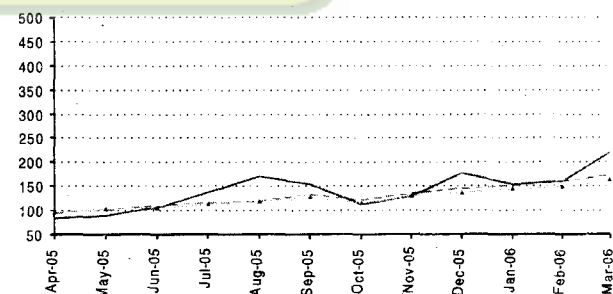
As at 31-03-2006; 1,73,12,504 Equity Shares of the company are held in dematerialised form constituting 68.04% of the Company's subscribed share capital.

VIII. Market Price Data: The monthly High, Low during each month in the last financial year at BSE & NSE are as under:

Month	BSE				NSE			
	High	Low	Close	Volume	High	Low	Close	Volume
Apr-05	14.15	9.50	9.90	109999	13.85	9.70	9.70	63401
May-05	12.00	8.92	10.50	161593	11.60	9.00	10.10	53005
Jun-05	18.48	9.80	12.25	504895	18.60	9.85	12.50	299195
Jul-05	16.98	12.25	16.10	278515	17.30	12.25	16.10	200187
Aug-05	22.35	15.30	19.95	621219	22.40	15.45	19.85	637951
Sep-05	23.00	17.50	18.15	3811281	22.60	17.65	18.80	404085
Oct-05	20.00	12.55	13.20	263497	20.10	12.60	13.50	167834
Nov-05	16.90	13.25	15.10	177600	17.00	13.00	15.10	121129
Dec-05	23.00	14.00	20.95	842046	22.60	14.05	21.05	880654
Jan-06	24.65	17.80	18.00	743529	24.90	18.10	18.30	730030
Feb-06	23.40	17.25	18.65	465589	24.00	17.20	18.75	353140
Mar-06	28.40	18.20	26.00	937281	30.80	17.90	26.00	855901

(IX) Relative performance vis-à-vis major indices

HBSL --- BSE Sensex * BSE 200



(X) Stock Performance-Absolute returns vis-à-vis Major Indices during the year under review

HB Stock 121%
BSE Sensex 74%
BSE 200 63%

(XI) The distribution of shareholdings of the company as on 31st March 2006 is as under:

No of Shares	Shareholders		Shareholding	
	Nos.	% to total	Shares	% to total
1-500	114707	98.88	9418938	37.02
501-1000	795	0.69	592081	2.33
1001-2000	254	0.22	372641	1.46
2001-3000	75	0.06	188294	0.74
3001-4000	32	0.03	112826	0.44
4001-5000	31	0.03	145892	0.57
5001-10000	53	0.05	371785	1.46
10001 and above	56	0.05	14240800	55.97
TOTAL	116003	100.00	25443257	100.00



HB STOCKHOLDINGS LIMITED

The category-wise distribution of Shareholders as on 31st March, 2006 is as follows:

Category	No. of Shares held	% of Shareholding
A. Promoters Holding		
- Promoters	11736941	46.13
- Persons acting in concert	1130	0.00
B. Others		
- Mutual Funds and UTI	252224	0.99
- Banks/Financial Institutions	333604	1.31
- Foreign Institutional Investors	-	0.00
- Private Corporate Bodies	979036	3.85
- Indian Public	11839111	46.53
- NRIs/OCB	240542	0.95
- Any other	60669	0.24
TOTAL	25443257	100.00

(XII) The Company has no outstanding GDRs/ADRs/Warrants or any other instruments convertible into Equity.

(XIII) Share Transfer System : Share Transfers are registered and returned within a period of 30 days from the date of receipt if the documents are clear in all respects. The authority for transfer of shares has been delegated to Executive Director for transfer of shares up to a fixed number beyond which the matters are placed before the Shareholders/Investors grievance Committee, which meets as and when, required. The statistics of share transfers during the period under review including request for demat of shares are as under:

Transfer Period	No of cases#	No of Shares#	% to Shares
1-15	21928	2399692	100
16-30	—	—	—
31 & Above	—	—	—

includes requests of dematerialisation.

(XIV) The status of Investor's Grievance Redressal during the year 1-04-2005 to 31-03-2006 is as under:

A. Classification as per complainant

Grievance / query received from	Received	Cleared
Investors	145	145
Stock Exchanges	5	5
SEBI	13	13
NSDL	5	5
Total	168	168

B. Classification as per complaint

Subject Matter of Complaint	Received	Cleared
Non Receipt of Dividend	21	21
Non Receipt of Annual Report	17	17
Non Receipt of Shares after transfer	20	20
Non Receipt of shares after trifurcation	71	71
Demat related enquiries	30	30
Partly paid shares	5	5
Non Receipt of duplicate shares	2	2
Non Receipt of Sale proceeds of fractional shares	2	2
Total	168	168

(XV) Mr. Santosh Kumar Menon, Company Secretary is the compliance officer of the company.

(XVI) Registrar and Share Transfer Agent of the company: RCMC Share Registry Pvt. Ltd., 1515, (I Floor), Bhisham Pitamah Marg, Kotla Mubarakpur, Near South Extension, New Delhi-110003. Phones: 24692346; 24601017. Fax: 24692345. E-mail: rcmc@dimension1.net

(XVII) Address for Correspondence
HB Stockholdings Limited
10E, DCM Building
16, Barakhamba Road,
New Delhi - 110001

Executive Director's Declaration on Code of Conduct

To
The Members of
HB Stockholdings Limited

I, Jag Mohan Lal Suri, Executive Director (and as Chief Executive Officer) of the Company declare that all the members of the Board of Directors; and Senior Management of the Company have affirmed compliance with the Code of Conduct.

FOR HB STOCKHOLDINGS LIMITED

Place : New Delhi
Date : May 19, 2006

JAG MOHAN LAL SURI
EXECUTIVE DIRECTOR

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

The Company has obtained a Certificate from the Auditors of the Company regarding compliance of Corporate Governance as stipulated in the Listing Agreement with the Stock Exchanges.

To the Members of
HB Stockholdings Limited
New Delhi

We have examined the compliance of conditions of Corporate Governance by HB Stockholdings Ltd. for the year ended on 31st March 2006, as stipulated in clause 49 of the Listing Agreement of the Company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof adopted by the Company for ensuring the compliance with the conditions of Corporate Governance as stipulated in the said clause. 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, and based on the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

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 P. BHOLUSARIA & COMPANY
CHARTERED ACCOUNTANTS

AMIT GOEL
PARTNER
(Membership No. 92648)

Place : New Delhi
Date : 19th May, 2006



HB STOCKHOLDINGS LIMITED

AUDITOR'S REPORT

THE MEMBERS OF HB STOCKHOLDINGS LIMITED

We have audited the attached Balance Sheet of M/s. **HB STOCKHOLDINGS LIMITED** as at 31st March, 2006 and also the Profit and Loss Account and 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 from material misstatements. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement presentation. 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 Companies (Auditor's Report) Order, 2003(as amended) issued by the Central Government of India in terms of section 227 (4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said order to the extent applicable.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that:-
 - a) 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.
 - b) 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 said books;
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement comply with the accounting Standards referred to in Sub Section (3C) of section 211 of the Companies Act, 1956.
 - e) As informed and explained to us, none of the directors of the company is disqualified as on 31st March, 2006 from being appointed as director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with significant accounting policies and notes thereon (particularly Note No.16) 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 :-
 - a) In the case of the Balance Sheet of the State of Affairs of the Company as at 31st March, 2006 and
 - b) In the case of the Profit & Loss account of the Profit for the year ended on that date and
 - c) In the case of Cash Flow Statement, of the Cash Flow for the year ended on that date.

For P. BHOLUSARIA & CO.
Chartered Accountants

(AMIT GOEL)

PARTNER

(Membership No. 92648)

Place : New Delhi
Dated : 19th May, 2006

Annexure to Auditors' Report Re: HB Stockholdings Ltd.

Referred to in Paragraph 1 of our report of even date for the year ended 31st March, 2006

1. a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- b. As explained to us, the fixed assets have been physically verified by the management during the year in a phased periodical manner, which in our opinion is reasonable, having regard to the size of the company and nature of its assets. No material discrepancies were noticed on such physical verification
- c. In our opinion, the Company has not disposed of substantial part of fixed assets during the year that would affect going concern status of the Company.
2. a. As explained to us, inventories (Investments) have been physically verified by the management at reasonable intervals during the year.
- b. In our opinion and according to the information and explanations given to us, the procedure of physical verification of inventories (Investments) followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- c. The Company has maintained proper records of inventories. As explained to us, no material discrepancies have been noticed on physical verification of inventory as compared to the book records.
3. a. The Company has not granted any loans, secured or unsecured to Companies, firms or other parties listed in the Register maintained under section 301 of the Companies Act, 1956. However advances in the nature of Loan amounting to Rs.8,90,21,806/- (Previous year Rs. 9,09,96,806/-) were outstanding recoverable as at the year end from two parties, both wholly owned subsidiaries of the company. The amount granted during the year was Rs.1,50,00,000/- (Previous year Rs.1,00,000/-) and maximum amount outstanding during the year was Rs.10,57,96,806/- (Previous year Rs.9,34,46,806/-).
- b. The aforesaid advances granted by the Company are interest free. In our opinion and according to the information and explanations given to us, other terms and conditions of aforesaid advances are not prima facie prejudicial to the interest of the Company.
- c. There are no stipulations in writing as to the repayment of aforesaid advances. As explained to us, the same is repayable on demand.
- d. In respect of aforesaid advances given by the Company, since these are repayable on demand, therefore the question of over due amounts does not arise.
- e. 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

Companies Act, 1956.

4. In our opinion and according to the information and explanations given to us, there are adequate internal control system commensurate with the size of the Company and the nature of its business for the purchases of inventory and fixed assets and sale of goods. During the year there was no sale of services. During the course of our audit, we have neither come across nor we have been informed of any instance of major weakness in the aforesaid internal control system.
5. a. In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered into in the register required to be maintained under that section.
- b. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the market price prevailing at the relevant time.
6. The Company has not accepted any deposits from the public.
7. In our opinion the internal audit system of the Company is commensurate with its size and nature of its business.
8. The nature of the company's business/activities is such that Clause 4(viii) of the Companies (Auditor's Report) Order 2003 regarding maintenance of Cost Records is not applicable to the company.
9. a. According to the records of the Company, undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales-Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other statutory dues as applicable have been generally regularly deposited by the company during the year with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid dues were outstanding as at 31st March, 2006 for a period of more than six months from the date of becoming payable.
- b. The disputed statutory dues aggregating to Rs.2,36,32,797/- that have not been deposited on account of matters pending before appropriate authorities are as under :

Sr. No.	Name of the statute	A.Y.	Nature of the Dues	Forum where Dispute is pending	Amount (Rs.)
1.	Income Tax Act, 1961	2001-02	Income Tax	Income Tax Appellate Tribunal	27,08,164/-
2.	Income Tax Act, 1961	2001-02	Interest	Income Tax Appellate Tribunal	11,46,927/-
3.	Income Tax Act, 1961	1995-96	Income Tax	Income Tax Appellate Tribunal	31,95,483/-
4.	Income Tax Act, 1961	1995-96	Interest	Income Tax Appellate Tribunal	1,65,82,223/-
	TOTAL				2,36,32,797/-

The Management is of the opinion that the demands made by income tax department are not required to be paid because of apparent mistake in some of them, legal issues involved and pending applications for rectification/ adjustments of refunds (Refer Note No. 3(b) of Schedule 11).

10. The accumulated losses of the company at the end of financial year are less than fifty percent of its net worth. The company has not incurred cash losses during the financial year covered by our audit or in the immediately preceding financial year.
11. Based on our audit procedures and according to the information and explanation given to us, we are of the opinion that the Company has not defaulted in repayment of dues to financial institutions, banks or debenture holders.
12. In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the Company on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, clause 4(xiii) of the Companies (Auditor's Report) order 2003 is not applicable to the company.
14. The Company has maintained proper records of transactions and contracts in respect of trading (Investments) in securities, debentures and other investments and timely entries have been made therein. All shares, debentures and other investments have been held by the Company in its own name except for shares that are pledged or given as margin or which are lodged for transfer or are pending for rectification of bad deliveries.
15. The Company has given guarantees for loans taken by others from banks or financial institutions. According to the information and explanations given to us, we are of the opinion that the terms and conditions thereof are not prima facie prejudicial to the interests of the Company.
16. The Company has not raised any term loans during the year.
17. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that the company has not raised any funds during the year either on long term or short term basis.
18. During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
19. No debentures have been issued by the company and hence the question of creating securities in respect thereof does not arise.
20. The Company has not raised any money by way of public issue during the year.
21. In our opinion and according to the information and explanation given to us, no fraud on or by the Company has been noticed or reported during the year.

For P. BHOLUSARIA & CO.
Chartered Accountants

(AMIT GOEL)

PARTNER

(Membership No. 92648)

Place : New Delhi
Dated : 19th May, 2006