

ANNUAL REPORT 2005 - 2006

MUKESH BABU FINANCIAL SERVICES LIMITED

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Board of Directors

Shri Mukesh Babu (Chairman & Managing Director)
Shri K. Chandrasekhar
Shri Pankaj Majithia
Shri Vijay Vora

Company Secretary

Ms. Rashmi Deshpande

Main Bankers

Oriental Bank Of Commerce
HDFC Bank
ICICI Bank

Registered Office

111, Maker Chambers III,
223, Nariman Point,
Mumbai - 400 021.

Auditors

Shah, Shah & Shah
Chartered Accountants
502, damji Shamji Trade Centre,
Vidyavihar - West, Mumbai - 400086.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 2006

Your Directors have pleasure in presenting the Twenty First Annual Report and the audited statement of accounts for the year ended 31st March,2006.

FINANCIAL RESULTS	CURRENT YEAR Rs.	PREVIOUS YEAR Rs.
Total Income	25,085,378	11,468,159
Profit/(Loss) before Interest , Depreciation and Tax	19,949,383	(1,55,78,786)
Less: Interest	0	0
Gross Profit/(Loss)	19,949,383	(1,55,78,786)
Less : Depreciation	754,796	682,083
Profit/(Loss) before Taxation	19,194,587	(1,62,60,869)
Less : Taxation and Non Tax Bearing items	2,739,366	6,155,000
Profit/ (Loss) after Taxation	16,455,221	(10,105,869)
Less: Transfer to Statutory Reserve	3,291,044	0
Profit /(Loss) after Appropriation	13,164,177	(10,105,869)
Less: Transferred from General Reserve	0	(10,105,869)
Balance Carried Forward	13,164,177	0

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Your Company earned net profit of of Rs.164.55 Lacs for the financial year ended 31st March, 2006. Depreciation during the year was Rs 7.55 Lacs as compared to Rs. 6.82 Lacs in the previous year. Provision for taxation during the year is Rs. 27.39 Lacs including Deferred Tax Provision.

OPPORTUNITIES

The GDP growth forecasts of 7%-8% over the next few years, the Indian economy will continue to provide attractive growth opportunities. In addition, the service sector which is growing at a rapid pace and contributes substantially to GDP will provide many new opportunities for the financial services industry in India.

Going forward, growth prospects for the Indian economy remain bright. The strong fundamentals of the economy are reflected, among others, in robust inflows of foreign investment, rise in the BSE Sensex

Challenges

The NBFC sector continues to face competitive pressures from the banking sector and financial institutions, due to their increased penetration in the consumer financing market, with comparatively low cost of funds at their disposal.

RISK MANAGEMENT

Business and revenue growth have to be weighed in the context of the risks. Of the various types of risks the Company is exposed to credit risk, market risk and operational risk. The identification, measurement, monitoring and management of risks are a key focus area for the Company.

Internal Control Systems and their adequacy.

The Company has an adequate system of internal controls and systems. The scope of the inspection and audit has been recently reviewed to make it more effective.

Human Resources

Industrial relations in the organisation continued to be cordial during the year.

No employee of the Company was in receipt of remuneration for whole/part of the year exceeding the limits prescribed under Section 217 (2A) of the Companies Act, 1956.

CORPORATE GOVERNANCE

A comprehensive report on Corporate Governance as stipulated under clause 49 of the Listing Agreement is attached to this Report.

The Company has obtained a certificate from the auditors regarding compliance of conditions of corporate governance as stipulated in Clause 49 of the Listing Agreement and the same is annexed.

SUBSIDIARY

During the year the Subsidiary Mukesh Babu Securities Limited incurred a loss before tax of Rs.7.17 Lacs as compared to loss of Rs.24.93 Lacs during the previous year. In Compliance with Clause 49 of Listing Agreement, Mr. Vijay Vora was appointed as a director on 22nd December 2005 in the subsidiary.

DIRECTORS

Mr. K. Chandrasekhar. who retires by rotation and being eligible, offer himself for re-appointment.

Mr. Pankaj Majithia & Mr. Vijay Vora were appointed as Directors on 22nd December, 2005 to hold the office till the ensuing Annual General Meeting of the Company. The Company has received notice in writing from a member proposing the candidature of Mr. Pankaj Majithia and Mr. Vijay Vora for the office of the Director..

A brief resume of the Director retiring by rotation/ seeking appointment at the ensuing Annual General Meeting, nature of their expertise in specific areas and names of the companies in which they hold directorships and /or membership/Chairmanship of committees of the Board as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges are given in the Corporate Governance elsewhere in the Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies (Amendment) Act, 2000 with respect to Directors' Responsibilities Statement, it is hereby confirmed:

- (i) that the preparation of the annual accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) that the directors had selected such accounting policies and applied them consistently and made judgments and estimates that were 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 the year under review;
- (iii) that the directors had 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.
- (iv) that the directors had prepared the accounts for the financial year ended 31st March, 2006 on a going concern basis.

AUDITORS

The Auditors Shah, Shah & Shah. Chartered Accountants, who were appointed in Extra-ordinary General meeting of the Company held on 27th January, 2006 are eligible for re- appointment and have shown their willingness to be reappointed as such.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

As the Company is a financial company, no particulars are required to be given regarding Conservation of Energy and Technology Absorption.

Foreign exchange earnings during the year Rs. NIL (Previous Year NIL)
Foreign exchange outgo during the year Rs. NIL (Previous Year NIL)

FIXED DEPOSITS

During the year the Company has not accepted any deposit from public.

CASH FLOW STATEMENT:

As per the Clause 32 of the Listing Agreement entered into with The Stock Exchanges, Cash Flow Statement for the year ended 31st March, 2006 duly examined by the Auditors of the Company is furnished along with the audited financial statements of the Company.

ACKNOWLEDGMENTS

Your Directors wish to thank to the Bankers as well as the Shareholders of the Company. The Directors also wish to place on record their deep appreciation for the services rendered by the employees of the Company.

FOR AND ON BEHALF OF THE BOARD

Sd/-

**Place : Mumbai.
Date : 25.8.2006**

**MUKESH BABU
CHAIRMAN**

CORPORATE GOVERNANCE REPORT

(Pursuant to Clause 49 of the Listing Agreement entered into with the Stock Exchanges)

1. Company's Philosophy on Code of Governance:

Your Company has implemented and continuously endeavors to improve the Corporate Governance practices which attempt to meet the shareholders' expectations. Your Company is also committed to adherence to standards of corporate governance. The new revised Clause 49 of the Listing Agreement which was to be made effective on or before 31st December, 2006 as instructed by the Stock Exchange, Mumbai, has been made effective by your Company.

2. Board of Directors

- (a) The Company has an executive Chairman. None of the Directors on the Board is a Member on more than 10 committees or Chairman of more than 5 Committees (as specified in Clause 49), across all the companies in which he is a Director.
- (b) The Board of Directors of the Company appointed Mr. Mukesh C. Babu as Managing Director of the company for the period of five years with effect from 26th May 2003.

The names and categories of the Directors on the Board, their attendance at Board meetings during the last Annual General Meeting, as also the number of Directorships and Committee Memberships/Chairmanships held by them in Indian public companies as on 31st March, 2006 are given below:

Name of Director	Category	No. of other Directorships	No. of other Board Committees of which he is a member	No. of other Board Committee(s) of which he is a Chairperson
Mr. Mukesh C. Babu,	Promoter Executive	4	0	0
Mr. K. Chandrasekhar.	Director	4	3	0
Mr. Pankaj Majithia.	Independent Director	1	3	3
Mr. Vijay Vora .	Independent Director	1	4	1

3. Board Meetings

During the financial year 2005-06, Mr. K. Chandrasekhar, who retires by rotation and being eligible, offers himself for re-appointment.

The attendance of the Directors in these meetings was as follows:

1st April, 2005, 5th April, 2005, 29th April, 2005, 7th July, 2005, 29th July, 2005, 5th August, 2005, 1st September, 2005, 31st October, 2005, 18th November, 2005, 22nd December, 2005, 31st January, 2006.

Name of the Director	Brief Resume	Board Meetings		Annual General Meeting
		Held	Attended	If Attended
Mr. Mukesh C. Babu	B.com, A.C.A.	11	11	Yes
Mr. K. Chandrasekhar	B.Com, A.C.A, Grad. I.C.W.A., A.C.S., L.L.B.	11	11	Yes
Mr. Pankaj Majithia. (Appointment w.e.f. 22.12.2005)	F.C.A. A.C.S.	2	2	Yes
Mr. Vijay Vora. (Appointment w.e.f. 22.12.2005)	B.Com	2	2	Yes

INFORMATION ON DIRECTORS APPOINTMENT /REAPPOINTMENT

Brief resume of Directors being re-appointed/appointed at the ensuing Annual General Meeting, nature of their expertise in specific functional area and the names of the Company in which they hold directorships and the memberships of committees of the Board is furnished as hereunder:

1. Mr. Mukesh C. Babu, aged 51 years is a Chartered Accountant. He is having varied experience in the field of finance and in the stock market. He is the Chairman & Managing Director of Mukesh Babu Financial Services Ltd, Chairman & Director in Mukesh Babu Securities Ltd., Sagar Systech Ltd., Mukesh Babu Stock Broking Pvt. Ltd; and Mukesh Babu Management Consultants Pvt. Ltd.

Mr. Mukesh Babu holds 34,31,600 Equity Shares in the Company.

2. Mr. K. Chandrasekhar, aged 53 years is A.C.A, Grad.I.C.W.A., A.C.S., L.L.B. He is having varied experience in the field of finance. He is the Director in Mukesh Babu Financial Services Ltd., Sagar Systech Ltd., Mukesh Babu Stock Broking Pvt. Ltd., Mukesh Babu Management Consultants Pvt. Ltd., Ista Impex Pvt. Ltd.

Mr. K. Chandrasekhar is a member of Audit Committee, Remuneration Committee and Shareholders'/ Investors' Grievances Committee.

3. Mr. Pankaj R. Majithia, aged 51 years is Chartered Accountant. He is having 25 years of experience in the field of finance & investment. He is Director in Mukesh Babu Financial Services Ltd. and Premium Consultancy Pvt. Ltd.

Mr. Pankaj R. Majithia holds 1,800 Equity Shares in the Company.

Mr. Pankaj Majithia is a Chairman and member of Audit Committee, Remuneration Committee and Shareholders'/ Grievances Committee.

4. Mr. Vijay L. Vora, aged 52 years is Commerce Graduate, having 22 years experience in the field of investment. He is Director in Mukesh Babu Financial Services Limited.

In compliance with Clause 49 of the Listing Agreement, Mr. Vijay Vora an independent director of the company was appointed as a Director on 22nd December 2005 in Mukesh Babu Securities Limited which is non-listed Indian Subsidiary Company.

Mr. Vijay L. Vora is member of Audit Committee, Remuneration Committee and Shareholders'/ Investors' Grievances Committee.

4. Committees of Directors

(A) Audit Committee

- (a) The Audit Committee of Directors was constituted on 28th August, 2001. The constitution of the Committee was made in pursuance with Section 292A of the Companies Act (Amendment), 2000 and Clause 49 of the Listing Agreement.
- (b) The present composition of the of the Audit Committee is as follows:
- i. Mr. Pankaj Majithia.
 - ii. Mr. K. Chandrasekhar.
 - iii. Mr. Vijay Vora.

The Company Secretary of the Company is Secretary of the Audit Committee.

The terms of reference of audit Committee is to review the internal controls, to investigate into any matter, to meet the auditors and discuss their findings and other issues relating to company operations.

At the invitation of the Committee, the Statutory Auditors and the Internal Auditors of the Company attended the Audit Committee Meetings.

Sr. No.	Name of the Member	Designation	No. of Committee Meetings held	No. of Committee Meetings attended
1.	Mr. Pankaj Majithia.	Chairman	5	5
2.	Mr. K. Chandrasekhar.	Director	5	5
3.	Mr. Vijay Vora.	Director	5	5

The Audit Committee of the Company reviewed the financial statements of the Company and held discussion with the auditors as to internal controls, significant audit observations, and reviewed periodical financial statements. It also reviewed financial statements, minutes of the board meetings, and investments of Mukesh Babu Securities Ltd, the unlisted subsidiary of the Company. The Company has made an application to the Appropriate Authority as to appointment of Mr. Vijay Vora, one of the independent directors of the company, as director of the unlisted subsidiary Company. The approval for the same is awaited.

(B)The Shareholders' / Investors' Grievances Committee

The Investor Relations & Share Transfer Committee is comprised of Mr. Pankaj Majithia, Chairman, Mr. K. Chandrasekhar, Committee Member and Mr. Vijay Vora, Committee Member. They attended all the Meetings. The Committee reviewed the performance of Intime Spectrum Share Registry Limited, the Registrars and Share Transfer Agents of the Company.

Ms. Rashmi S. Deshpande, Secretary of the Company is designated as the Compliance Officer.

During the year 2005-06, 42 complaints regarding non-receipt of share certificates, non-receipt of Demat credit, non-receipt of rejected demat requisition forms and non-receipt of Annual Report were received from the shareholders, all of which have been resolved. The Company has no transfers pending at the close of the financial year.

(C) Remuneration Committee was constituted on 31.1.2005 which is comprised of:

- i. Mr. Pankaj Majithia.
- ii. Mr. K. Chandrasekhar.
- iii. Mr. Vijay Vora.

The Company Secretary of the Company acts as the Secretary to the said Committee.

Each of the Independent Directors of the Company are paid sitting fees of Rs.2000/- for Board Meetings and Rs.500/- towards out of pocket expenses.

The functions of the Remuneration Committee are as follows:

1. To frame and implement a credible and transparent policy of managerial remuneration.
2. To consider, approve and recommend to the Board the changes in designation, terms of appointment as well as amount of remuneration.
3. To ensure that the remuneration policy is good enough to retain and motivate Directors as well as strike a balance between the interest of the Company and remuneration policy.

The managerial remuneration paid is within the limits is within the limits prescribed under Schedule XIII to the Companies Act, 1956.

5. Disclosures

- a.) The Directors of the Company disclosed the names of Companies/parties in which they are interested and accordingly entries are made in the Register of Contracts under Section 301 of the Companies Act, 1956.

Attention of members is drawn to the disclosures of transactions with the related parties set out in Note No. 13 of Notes on Accounts- Schedule "10", forming part of the Annual Report.

The Company's related party transactions are generally with the Subsidiaries and Associates. The Company's transactions with the Subsidiaries relate to investments made and loans and advances.

- b.) **Details of non-compliance by the Company, penalties and strictures imposed on the Company by Stock Exchanges or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.**

The Company has complied with all requirements of the Listing Agreements entered into with the Stock Exchanges as well as the Regulations and guidelines of SEBI. Consequently, there were no strictures or penalties imposed by either SEBI or the Stock Exchanges or any statutory authority for non-compliance of any matter related to the capital markets during the last three years.

- c.) The Company has made disclosures under Regulation 6 & 8 of SEBI (Substantial Acquisition & Takeover Regulations), 1997. The Company has made disclosures under Regulation 13 of SEBI (Insider Trading) Amendment. Regulations 2002.

The Board of Directors of the Company has reviewed periodically the compliance reports of all laws applicable to the Company prepared by the Company.

The Board of Directors of the Company approved its Code of Conduct and Whistle Blower Policy in the Board Meeting held on 18th November, 2005 and the same is posted on the website of the Company, viz. www.mukeshbabu.com.

6. General Body Meetings:

Details of last three Annual General Meetings held:

Meeting No.	Date	Time	Location
Twentieth	30.09.05	4.00 p.m.	12-A/1 New Sion Co-op. Hsg. Soc. Ltd; Sion (W), Mumbai-400 021.
Nineteenth	30.09.04	4.00 p.m.	12-A/1 New Sion Co-op. Hsg. Soc. Ltd; Sion ((W), Mumbai-400 021.
Eighteenth	30.09.03	4.00 p.m.	12-A/1 New Sion Co-op. Hsg. Soc. Ltd; Sion ((W), Mumbai-400 021.

No special resolution was passed through postal ballot last year. Similarly, there is no proposal to pass any special resolution requiring a postal ballot for the upcoming A.G.M.

7. Means of Communication

Subject	Details
Quarterly results - which	The Financial Express and Nav Shakti (Vernacular)
Whether it also displays official News release and presentations made to Institutional Investors/ Analysis	No such occasion arose during the year

Pursuant to Clause 51 of the Listing Agreement, all data related to quarterly financial results, shareholding pattern, etc. are hosted on Electronic Data Information Filing and Retrieval (EDIFAR) website www.sebiedifar.nic.in maintained by SEBI in association with National Informatics Centre, within time frame prescribed in this regard.

Quarterly unaudited financial results of the company for every quarter are available on the website of the Company, viz. www.mukeshbabu.com.

Management Discussion and Analysis forms part of the Annual Report, which is posted to the Shareholders of the Company.

8. General Shareholder Information

Annual General Meeting

Date & time	29 th September, 2006 at 4 p.m.
Venue	12/A-1, New Sion Co-op. Hsg. Ltd., Sion (W), Mumbai-400 022.

Financial Year for F.Y.2006-07

a. 1 st Quarterly Results	On or before 31.7.2006
b. 2 nd Quarterly Results	On or before 31.10.2006
c. 3 rd Quarterly Results	On or before 31.01.2007
d. 4 th Quarterly Results	On or before 30.04.2007

Book Closure Period: Thursday, 21st September, 2006 to
Friday, 29th September, 2006.

Listing on Stock Exchanges

The Stock Exchange, Mumbai P.J. Towers, Dalal Street, Fort, Mumbai-400 001. Security Code:30341	The Stock Exchange, Ahmedabad Kamdhenu Complex, Near Panjarpole, Opp. Sahajanand College, Ahmedabad-380 015 Security Code:38196	The Saurashtra and Kutch Stock Exchange Ltd. Popatbhai Sorathia Bhavan, Sadar Bazar , Rajkot-360 001.
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Annual Listing fees for the year 2006-07 (as applicable) has been paid by the Company to The Mumbai Stock Exchange, The Stock Exchange, Ahmedabad and Suarashtra & Kutch Stock Exchange Ltd.

9. Market Price Data

The Company's shares are listed on The Stock Exchange, Mumbai, The Stock Exchange, Ahmedabad, Suarashtra & Kutch Stock Exchange. There was no trading of the Company's Shares in The Stock Exchange, Ahmedabad and Suarashtra & Kutch Stock Exchange during the financial year 2005-2006. The monthly high & low quotation as well as the volume of shares traded during the year 2005-2006 at the Stock Exchnage, Mumbai, is as below:

Month	High	Low	Close
April, 2005	3.36	2.35	2.62
May, 2005	5.50	2.38	5.50
June, 2005	8.40	5.60	6.00
July, 2005	6.76	4.60	5.15
August, 2005	11.34	4.30	11.00
September, 2005	11.35	6.60	6.60
October, 2005	6.56	5.00	5.00
November, 2005	7.49	5.25	6.35
December, 2005	6.14	5.50	5.70
January, 2006	5.80	4.65	5.16
February, 2006	6.84	4.27	4.50
March, 2006	4.95	3.90	4.10

10. The Registrar and Share Transfer Agent of the Company

Intime Spectrum Share Registry Ltd.
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (W), Mumbai-400 058.

Telephone No. 2596 3838

11. Share Transfer System

The Share Transfer Committee of the Company ratifies the transfers of equity shares in its Meetings on the 15th and 30th of each month.

12. The Share Holding Pattern and Distribution of Shareholding as on 31st March, 2006

SHAREHOLDING PATTERN AS ON 31.03.2006			DISTRIBUTION OF SHAREHOLDING AS ON 31.03.2006				
Category Shareholding	No.of Shares	%to the total paid up Capital	No. of Shares	Shareholders		Shares	
				Number	%	Amount in (Rs.)	% to Equity
Promoters	3431600	49.23	Up to- 2500	1392	58.78	2588100	3.71
NRIs/OCBs	232900	3.34	2501-5000	539	22.76	2064070	2.96
Persons acting in concert	950000	13.63	5001-10000	228	9.63	1889940	2.71
Indian Public	1374056	19.71	10001- 20000	87	3.67	1327780	1.91
Bodies Corporate	745644	10.70	20001-30000	32	1.35	823000	1.18
<u>Others:</u>			30001-40000	17	0.72	615500	0.88
Market Maker	2500	0.03	40001-50000	27	1.14	1315200	1.89
Mutual Funds & UTI	197500	2.83	50001-100000	21	0.89	1652880	2.37
Banks & Financial Institutions	36700	0.53	100001 & Above	25	1.06	57432530	82.39
			-----	-----	-----	-----	-----
			Totals	2368	100.00	69709000	100.00
Total	6970900	100					

Dematerialisation of Equity Shares and Liquidity

To facilitate trading in dematerialised form, the Company has tied up arrangements with both the present depositories, i.e. National Securities Ltd.(NSDL) and Central Depository Services (India) Ltd. (CDSL). Shareholders can open account with any of the depository-participants registered with any of these depositories.

During the year under review, 1,79,600 shares were dematerialised in the following depositories:

National Securities Depository Ltd. (NSDL) : 1,50,200 Equity shares

Central Depository Services (India) Ltd. (CDSL) : 29,400 Equity shares

ISIN No. : INE596B01017

13. Address for Correspondence

- For matters related to shares

Intime Spectrum Share Registry Pvt. Ltd.
C-13, Pannalal Silk Mills Compound,
Bhandup (W), Mumbai-400 058
Telephone No.: 2596 3838

Compliance Certificate of the Auditors.

The Statutory Auditors have certified that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges subject to their observations and the same is annexed to the Directors' Report and Management Discussion and Analysis.

The above report was placed before and approved by the Board at its meeting held on 25th August 2006.

**For and on behalf of
Mukesh Babu Financial Services Ltd.**

Sd/-

**Place : Mumbai
Date: 25.8.2006**

**Mukesh Babu
Chairman**

**CERTIFICATE FROM AUDITORS REGARDING COMPLIANCE OF
CONDITIONS OF CORPORATE GOVERNANCE**

To the shareholders of **MUKESH BABU FINANCIAL SERVICES LIMITED**

We have examined the compliance of conditions of Corporate Governance by Mukesh Babu Financial Services Limited, for the year ended 31st March, 2006 as stipulated in clause 49 of the Listing Agreement of the stock exchanges in India.

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

In our opinion and to the best of our information and according to the explanation given to us, we certify that the Company has complied in all material respect with the condition of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Company and reviewed by the Investor Relation & Share Transfer Committee.

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

For Shah, Shah & Shah
Chartered Accountants

Sd/-

(Mehul C. Shah)
Proprietor
Membership No. 49361

Mumbai : 25.08.2006

**REPORT OF THE AUDITORS TO THE MEMBERS OF
MUKESH BABU FINANCIAL SERVICES LIMITED.**

We have audited the attached Balance Sheet of Mukesh Babu Financial Services Limited as at 31st March 2006 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to the company.

Further to our comments in the Annexure referred to above, we report that:

- (i) we have obtained all the information and explanation, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) in our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
- (iii) the Balance Sheet and Profit and Loss Account and cash flow statement with by this report are in agreement with the books of account;
- (iv) in our opinion the Balance Sheet and Profit and Loss Account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 except mentioned separately;
- (v) on the basis of written representation received from the directors, and taken on record by the Board of Directors, none of the directors 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.
- (vi) Neither provision has been made for retirement benefits as stated in Significant accounting policies under the notes to accounts nor amount has been quantified.
- (vii) Reference is made to note no. 10 on Contingent liability. The liability with respect to bank overdraft has been understated by adjusting Rs. 384.86 million against the amount receivable; and neither interest has been provided on the overdraft balance nor is the amount confirmed; and we are unable to form our opinion on it,
- (viii) the composite effect of qualifications above is not quantifiable or ascertainable;

- (ix) subject to the matter stated in para (vi), (vii), and (viii) above, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with notes thereon give the information required by the Companies Act, 1956, in the manner so required and in conformity with the accounting principles generally accepted in India and give a true and fair view :
- (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 and Loss Account, of the profit for the year ended on that date.
 - (c) in the case of cash flow statement, of the cash flows for the year ended on that date.

For SHAH, SHAH & SHAH
Chartered Accountants

Sd-

(MEHUL C. SHAH)
Partner
M. No. 49361

Mumbai: 25.08. 2006

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF OUR REPORT OF EVEN DATE

- (i)
 - (a) The Company is maintaining proper records showing full particulars of, including quantitative details and situation, of fixed assets.
 - (b) The management at reasonable intervals has verified the fixed assets. We have been informed that, no material discrepancies on such verification have been noticed.
 - (c) The Company has not disposed substantial portion of its fixed assets during the year; accordingly the going concern status of the Company is not affected.
- (ii)
 - (a) As per the records maintained, the management has conducted verification of inventory at reasonable intervals.
 - (b) In our view, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
 - (c) In our view, the Company has maintained proper records of inventory. No material discrepancies have been noticed on physical verification of stocks as compared to the book records.
- (iii)
 - (a) The company has granted unsecured loans to five companies and other parties covered in the register maintained under section 301 of the Act involving RS. 27.15 million, three of which are interest free.
 - (b) The rate of interest on the interest bearing loans and other terms and conditions of these loans are prima facie not prejudicial interest of the Company.
 - (c) In respect of the loans given, the parties are repaying the principal amounts as stipulated and are also regular in payment of interest, where applicable.
 - (d) In respect of the aforesaid loans, there is no overdue amount more than Rupees One lac.
 - (e) The Company has not taken loans from companies covered in the register maintained under Section 301 of the Act. Hence the clause as to repayment of principal and interest is not applicable.
 - (f) Since no loans are taken from the aforesaid parties, the sub-clause dealing with rate of interest and other terms and conditions of loans given by the company are not applicable.
 - (g) Since no loans are taken as aforesaid, the sub-clause dealing with receipt of the principal amount and interest on regular basis is not applicable.
- (iv) In our view, there is an adequate internal control system commensurate with the size of the Company and nature of its business, for the purchase of inventory and fixed assets, and for sale of goods and services. In our view, there has been no continuing failure to correct major weakness in internal control systems of the Company.
- (v)
 - (a) The contracts or arrangements exceeding the value of Rs. 500,000 referred to in Section 301 of the Act to be entered in the register required to be maintained under that Section have been so entered; and

- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered into the register in pursuance of Sections 301 of the Act and exceeding the value of Rupees Five Lakhs in respect of any party during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from public within the meaning of the provisions of section 58A and section 58AA or any other provisions of the Companies Act, 1956 and the rules made thereunder and as mentioned in directives issued by the reserve bank of India. We have been informed by the management that there has been no order passed by the Company law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the Company with respect to compliance of the provisions of section 58A or 58AA or any other provisions of the Companies Act 1956.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (viii) We have been informed by the management that, the Central Government has not prescribed the method of maintenance of cost records u/s. 209 (1) (d) of the Companies Act, 1956 to the industry to which the Company pertains.
- (ix) (a) We have been informed by the management that, the Company is generally regular in depositing all undisputed statutory dues with the appropriate authorities and there have been no arrears of outstanding dues as at the last day of this financial year for more than six months from the date they became payable.
- (b) We have been informed by the management that, there has been no disputes pending with any forums as regards any of the statutory dues including sales-tax, income tax, customs duty, wealth tax, service tax, excise duty or cess.
- (x) There are no accumulated losses at the end of the financial year. Also, the company has not reported any cash losses during the year, but had reported cash losses in immediately preceding financial year.
- (xi) According to the records of the company as examined by us and information and explanation given to us, there is a dispute between the company and Madhavpura Mercantile Co-operative Bank Ltd. on certain issues relating to the repayment of dues of Rs. 24.33 million and as reported in note no. 10. We are unable to determine whether there is a default in repayment of dues to Madhavpura Mercantile Co-operative Bank Ltd.
- (xii) We have been informed hat, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities; accordingly, there is no necessity as to maintaining documents and records in this respect.
- (xiii) The provisions of any special statute in respect of chit fund, nidhi, mutual benefit funds or societies are not applicable to the Company.
- (xiv) The company has maintained proper records of transactions and contracts in respect of trading in shares, debentures, and other securities and timely entries have been made therein. The investment are held by the company in its own names, except allowable under section 49 of the Companies Act, 1956.

- (xv) The management has informed us that, the Company has not given any guarantee for loans taken by others from any bank or financial institutions.
- (xvi) As per the explanation given by the management, the Company has not taken any term loans during the year.
- (xvii) As explained to us by the management, there were no funds that were raised on a short-term basis, which have been applied for long-term investment.
- (xviii) 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.
- (xix) The Company has not issued any debentures; hence no security or charges have been created in respect of the same.
- (xx) The Company has not made any public issue during the year of shares; hence disclosure requirement as to end utilization of public issue money is not required.
- (xxi) As informed by the management, there has not been noticed or reported any fraud on or by the Company during the year.

For SHAH, SHAH & SHAH
Chartered Accountants

Sd/-

(MEHUL C. SHAH)
Partner
M. No. 49361

Mumbai: 25.08.2006

MUKESH BABU FINANCIAL SERVICES LIMITED
BALANCE SHEET AS AT 31ST MARCH 2006

PARTICULARS	SCHEDULE	CURRENT YEAR		PREVIOUS YEAR	
		Rs.	Rs.	Rs.	Rs.
I. SOURCES OF FUNDS					
1. SHAREHOLDER'S FUNDS					
a. Share Capital	1	69,672,500		76,777,500	
b. Reserves and Surplus	2	<u>119,389,587</u>	189,062,087	<u>95,845,866</u>	172,623,366
2. LOAN FUNDS					
a. Secured Loans		-		-	
b. Unsecured Loans		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUNDS EMPLOYED			<u>189,062,087</u>	<u>172,623,366</u>	
II. APPLICATION OF FUNDS					
1. FIXED ASSETS	3				
Gross Block		23,925,274		23,837,754	
Less : Depreciation		<u>12,767,180</u>		<u>12,012,384</u>	
Net Block			11,158,094		11,825,370
2. INVESTMENTS	4		37,309,960		32,309,960
3. DEFERRED TAX ASSETS			5,418,828		7,353,988
4. CURRENT ASSETS, LOANS AND ADVANCES:	5				
a. Inventories		99,015,340		96,667,305	
b. Sundry Debtors		146,143		-	
c. Cash and Bank Balance		7,074,771		6,133,562	
d. Other Current Assets		1,522,445		2,886,397	
e. Loans & Advances		<u>53,846,010</u>		<u>40,109,593</u>	
		<u>161,604,709</u>		<u>145,796,857</u>	
5. LESS : CURRENT LIABILITIES AND PROVISIONS:	6				
a. Current Liabilities		25,622,504		24,527,809	
b. Provisions		<u>807,000</u>		<u>135,000</u>	
		<u>26,429,504</u>		<u>24,662,809</u>	
NET CURRENT ASSETS			135,175,205		121,134,048
6. MISCELLANEOUS EXPENDITURE (To the extent not written off or adjusted)	7		-		-
TOTAL ASSETS			<u>189,062,087</u>	<u>172,623,366</u>	

Notes to Accounts 10
As per our report of even date.

FOR SHAH SHAH & SHAH
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

Sd/-
(Mehul C. Shah)
Partner
Membership No.49361

Sd/-
(R. S. DESHPANDE)
Company Secretary

Sd/- (MUKESH BABU) (K. CHANDRASEKHAR)
Managing Director Director

Place : Mumbai
Date : 25.08.2006

Place : Mumbai
Date : 25.08.2006

MUKESH BABU FINANCIAL SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006

PARTICULARS	SHED	CURRENT YEAR	CURRENT YEAR Rs.	PREVIOUS YEAR	PREVIOUS YEAR Rs.
I. INCOME					
Income from Operations	8	24,960,057		10,821,961	
Other Income		<u>125,321</u>	25,085,378	<u>646,198</u>	11,468,159
Total			<u>25,085,378</u>		<u>11,468,159</u>
II. EXPENSES					
Administrative and General Expenses	9	5,135,995		26,354,870	
Depreciation		754,796		682,083	
Miscellaneous Expenditure Written Off		<u>-</u>	5,890,791	<u>692,075</u>	27,729,028
PROFIT/(LOSS) BEFORE TAXATION			<u>19,194,587</u>		<u>(16,260,869)</u>
(Add)/Less : Taxation & Non Tax Bearing Items					
Current Tax		775,000		-	
Deferred Tax		1,935,160		(6,155,000)	
Fringe Benefit Tax		32,000		-	
Taxation of Earlier Years		<u>(2,794)</u>	2,739,366	<u>-</u>	(6,155,000)
PROFIT/(LOSS) AFTER TAXATION			<u>16,455,221</u>		<u>(10,105,869)</u>
Less: Transferred to Statutory Reserve			<u>3,291,044</u>		-
PROFIT/(LOSS) AVAILABLE FOR APPROPRIATION			<u>13,164,177</u>		<u>(10,105,869)</u>
Add/(Less) : Transferred from/(to) General Reserve			-		10,105,869
Transferred to Profit & Loss Credit Balance			<u>13,164,177</u>		-
BALANCE CARRIED TO BALANCE SHEET			<u>-</u>		<u>-</u>
Earning per share (Basic/Diluted)			2.36		(1.45)
Refer notes 15 of Schedule "10")					

Notes to Accounts 10
As per our report of even date.

FOR SHAH SHAH & SHAH
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

Sd/-
(Mehul C. Shah)
Partner
Membership No.49361

Sd/-
(R.S.DESHPANDE)
Company Secretary

Sd/-
(MUKESH BABU)
Managing Director

Sd/-
(K. CHANDRASEKHAR)
Director

Place : Mumbai
Date : 25.08.2006

Place : Mumbai
Date : 25.08.2006

MUKESH BABU FINANCIAL SERVICES LIMITED

SCHEDULE "1" TO "10" FORMING AN INTEGRAL PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2006.

Particulars	CURRENT YEAR		PREVIOUS YEAR	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE " 1" - SHARE CAPITAL				
Authorised capital :				
10,000,000 (10,000,000) Equity Shares of Rs. 10/- each.		<u>100,000,000</u>		<u>100,000,000</u>
Issued, Subscribed and Paid up Capital :				
6,970,900(6,970,900) Equity Shares of Rs. 10/- each.	69,709,000		69,709,000	
Less : Unpaid Calls	<u>36,500</u>	69,672,500	<u>36,500</u>	69,672,500
Amount paid up on Share Forfeiture A/c				
Balance As per Last balance sheet	7,105,000		7,105,000	
Less: Call money returned.	<u>16,500</u>		<u>-</u>	
	7,088,500		7,105,000	
Less: balance transferred to Capital Reserve	<u>7,088,500</u>	-	<u>-</u>	7,105,000
As per Balance Sheet		<u>69,672,500</u>		<u>76,777,500</u>
SCHEDULE "2" - RESERVES & SURPLUS				
Capital Reserve				
Balance as per last Balance Sheet	-		-	
Add: Transfer from Share Forfeiture A/c	<u>7,088,500</u>	7,088,500	<u>-</u>	-
Share Premium Account :				
Balance as per last Balance Sheet	73,628,000		73,628,000	
Less: Unpaid Calls	<u>73,000</u>	73,555,000	<u>73,000</u>	73,555,000
General Reserve :				
Balance as per last Balance Sheet	21,082,871		31,188,740	
Add:Transfer from Profit & Loss A/c	<u>-</u>	21,082,871	<u>(10,105,869)</u>	21,082,871
Profit & Loss Account credit Balance :				
Balance as per last Balance Sheet	-		-	
Add:Transfer from Profit & Loss A/c	<u>13,164,177</u>	13,164,177	<u>-</u>	-
Statutory Reserve :				
Balance as per last Balance Sheet	1,207,995		1,207,995	
Add:Transfer from Profit & Loss A/c	<u>3,291,044</u>	4,499,039	<u>-</u>	1,207,995
As per Balance Sheet		<u>119,389,587</u>		<u>95,845,866</u>

SCHEDULE "3" - FIXED ASSETS

SR.	PARTICULARS	G R O S S B L O C K				D E P R E C I A T I O N				N E T B L O C K	
		AS ON 1.4.2005	ADD	LESS	AS ON 31.03.2006	UP TO 1.4.2005	FOR THE YEAR	WRITTEN BACK	UP TO 31.03.2006	AS AT 31.03.2006	AS AT 31.03.2005
1	Office Premises	14,883,250	-	-	14,883,250	6,773,062	405,508	-	7,178,570	7,704,680	8,110,188
2	Guest House	2,100,000	-	-	2,100,000	-	105,000	-	105,000	1,995,000	2,100,000
3	Flat at Panvel	360,000	-	-	360,000	-	18,000	-	18,000	342,000	360,000
4	Furniture & Fixtures	2,249,021	-	-	2,249,021	1,487,581	137,820	-	1,625,401	623,620	761,440
5	Electrical Fittings	100,355	-	-	100,355	88,926	2,068	-	90,994	9,361	11,429
6	Office Equipments	1,429,154	-	-	1,429,154	1,012,741	57,920	-	1,070,661	358,493	416,413
7	Computers	2,277,053	87,520	-	2,364,573	2,227,075	24,360	-	2,251,435	113,138	49,978
8	Vehicles	438,921	-	-	438,921	422,999	4,120	-	427,119	11,802	15,922
	Total Rs.	23,837,754	87,520	-	23,925,274	12,012,384	754,796	-	12,767,180	11,158,094	11,825,370
	Previous Year	23,250,572	802,643	219,461	23,837,754	11,541,801	682,083	211,500	12,012,384	11,825,370	11,712,771

SCHEDULE "4" - INVESTMENTS (AT COST)

Scrip Name	CURRENT YEAR		PREVIOUS YEAR	
	Current Year No.	Previous Year No.	Current Year Rs.	Previous Year Rs.
<u>LONG TERM INVESTMENTS</u>				
<u>SHARES AND DEBENTURES</u>				
A. Shares (Quoted)				
Steelcast Ltd	10,000	450,000	10,000	450,000
		450,000		450,000
B. Shares (Unquoted)				
Rushil Industries Ltd.	50,000	5,000,000	50,000	5,000,000
Dianamic Air Products P.Ltd.	35,000	3,500,000	10,000	1,000,000
Units - UTI - IEF	5,000	50,000	5,000	50,000
Omni Engineering Industries P.ltd (Share applicaion Money)	25,000	2,500,000	-	-
		11,050,000		6,050,000
B. Shares (Unquoted Subsidiary Company)				
Mukesh Babu Securities Ltd.	2,580,996	25,809,960	2,580,996	25,809,960
		25,809,960		25,809,960
AS PER BALANCE SHEET (A+B+C)		37,309,960	-	32,309,960

Note : Market Value of Quoted Investment as of 31st March,2006 is Rs.2,119,500/- Previous Year Rs.611000/-)

Particulars	Current Year		Previous Year	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE "5" - CURRENT ASSETS, LOANS & ADVANCES				
a) Closing Stock		99,015,340		96,667,305
b) Sundry Debtors (Unsecured)				
Considered good Over Six months	-		-	
Others Considered good	146,143	146,143	-	-
c) Cash and Bank Balance				
Cash on hand (As certified by the management)	571,881		97,480	
In Current Account with Scheduled Banks	6,502,890	7,074,771	6,036,082	6,133,562
d) Other Current Assets				
Advance Tax & TDS	524,318		1,888,270	
Sundry deposits	998,127	1,522,445	998,127	2,886,397
e) Loans and Advances (Unsecured Considered Good)				
Loans - Inter Corporate :	13,899,677		3,359,934	
Others	7,048,421		9,723,327	
Advances to Staff & Associates	903,000		982,500	
Dues from Subsidiaries	15,564,082		15,664,082	
Dues from company under the same Management	1,175,000		2,175,000	
Advances Recoverable in Cash or Kind Or for Value to be received	15,255,830	53,846,010	8,204,750	40,109,593
As per Balance Sheet		161,604,709		145,796,856
SCHEDULE "6" - CURRENT LIABILITIES & PROVISIONS				
a. Current Liabilities				
Bank Over Draft	24,327,229		24,327,229	
Sundry Creditors	1,194,816		131,488	
Other Liabilities	100,459	25,622,504	69,092	24,527,809
b. provisions				
Provision for Taxation	807,000	807,000	135,000	135,000
As per Balance Sheet		26,429,504		24,662,809

Particulars	Current Year		Previous Year	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE "7" - MISCELLANEOUS EXPENSES				
(To the extent not written off or adjusted)				
Preliminary Expenses				
(Incl. Deferred Revenue Expenses)				
Balance as per last Balance Sheet	-		159,104	
Less: Written off during the year	-	-	159,104	-
Public Issue Expenses				
Balance as per last Balance Sheet	-		532,971	
Less : Written off during the year	-	-	532,971	-
As per Balance Sheet				
		-		-
SCHEDULE "8" - INCOME FROM OPERATION				
Interest on loans granted		1,353,697		1,900,154
Dividend Income		9,924,000		5,516,148
Profit on Future & Options		3,464,434		(716,987)
Profit / (Loss) on Share Trading				
Sales	15,107,439		11,109,637	
Less: Cost of Sales	4,889,513		6,981,519	
Less: Service Tax & Other charges	-	10,217,926	5,472	4,122,646
As per Profit & Loss Account				
		24,960,057		10,821,961
SCHEDULE "9" - ADMINISTRATIVE AND GENERAL EXPENSES				
Annual Membership Fees		24,040		13,573
Auditors' Remuneration				
For Certification & Other work	14,444		13,114	
For Statutory Audit	22,448	36,892	22,040	35,154
Bad Debts		1,974,016		25,178,003
Computer Expenses		104,395		7,000
Conveyance & Travelling Expenses		170,613		41,537
Demat and Depository Exp.		9,557		109,910
Directors' Remunerations		1,204,000		-
Electricity Expenses		117,864		135,065
Guest House Expenses		36,000		42,000
Professional & Consultancy Fees		188,139		113,753
Legal Compliance Expenses		21,504		21,495
Listing Fees		33,000		33,000
Office Expenses		26,533		19,273
Postage and Courier		61,062		41,163
Printing and Stationery Expenses		153,470		123,133
Rent, Rates & Taxes		139,262		90,673
Repairs and Maintenance		156,860		54,444
Salary Expenses		282,060		221,000
Mess & Refreshment Expenses		214,460		18,840.00
Telephone Expenses		51,657		35,673
Sundry Expenses		130,611		20,182
As per Profit & Loss Account				
		5,135,995		26,354,870

SCHEDULE "10" – NOTES TO ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006

1. SIGNIFICANT ACCOUNTING POLICIES:

ACCOUNTING CONCEPTS:

The Company follows mercantile system of accounting, and recognizes materially all income and expenses on accrual basis except retirement benefits.

FIXED ASSETS:

Fixed Assets are recorded at cost of acquisition including the expenditure incurred in connection with the acquisition and installation of the assets.

DEPRECIATION:

Depreciation is provided as per the rates, and in the manner provided in Schedule XIV to the Companies Act 1956.

INVESTMENTS:

Investments are stated at cost of acquisition. The management does not find it necessary to provide for any diminution in the value of investments as the decline, if any, may be due to short term stock market forces.

INVENTORIES:

Inventories of quoted shares are carried at lower of cost or net realizable value and that of Unquoted Shares at cost. The cost of inventories of items that are not ordinarily interchangeable are assigned by specific identification of their individual costs. Other inventory items are recorded using first-in-first-out cost formula. The inventories include the relevant duties, taxes, and cess other than those subsequently recoverable by the enterprise from the taxing authorities that were incurred to bring the inventory to their present location and conditions.

REVENUE RECOGNITION:

Sale of shares is recognized on receipt of contract note from the broker and are recorded exclusive of securities transaction tax that is in nature of advance income-tax. Dividends are recorded in the year of declaration and receipt. Interest on loans granted is recognized as income on completion at the time it is not unreasonable to expect ultimate collection. Other revenue items are recognized as income on their accrual basis.

TAXES ON INCOME:

Current tax is determined as the tax payable in respect of taxable income for the year.

Deferred tax for the year is recognized on timing difference, being difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred tax assets and liabilities are measured assuming the tax rates and tax laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax assets are recognized and carried forward only if there is a reasonable / virtual certainty of realization.

STATUTORY RESERVE:

A Statutory Reserve of 20% of the current profit after tax is made during the year in pursuance of section 45-IC of the Reserve Bank of India Act 1934.

PRUDENTIAL NORMS:

For the purpose of identifying the assets as Non-performing assets in pursuance of Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, the Company follows generally accepted accounting principles and industry practices.

- The figures of the previous year are regrouped, rearranged and reclassified wherever necessary to correspond with those of the current year.
- The year end position of Loans and advances in the nature of interest free loans given to the following companies which are under the same management within the meaning of Sub-section (1B) of Section 370 of the Companies Act, 1956.

NAME OF THE COMPANY	Current Year Rs.	Previous Year Rs.
Mukesh Babu Securities Limited (Subsidiary)	15,564,082	15,664,082
Sagar Systech Limited	1,175,000	1,175,000

Maximum outstanding during the Year

NAME OF THE COMPANY	Current Year Rs.	Previous Year Rs.
Mukesh Babu Securities Limited (Subsidiary)	15,664,082	19,389,082
Sagar Systech Limited	1,175,000	1,175,000

- Information pursuant to paragraph 3 of part II of Schedule VI to the companies Act,1956 in respect of opening stock, purchases, sales and closing stock of shares traded in:

	Opening Stock	Purchases	Sales	Closing Stock
Shares (Qty. Nos.)	1,921,678	587,273	116,932	2,392,019
Value (Amount Rs.)	96,667,307	7,237,550	15,107,439	99,015,340

(Purchases and sales include Bonus Shares and other adjustments, if any)

- During the year, the Company has accounted for Deferred Tax in Accordance with the Accounting Standard – 22, has resulted in a Deferred Tax Liability amounting to Rs. 19,35,160 as at the year end. The Deferred Tax Assets is arrived as follows.

Particulars	Amount of Tax Effect Rs.	Amount of Tax Effect Rs.
	Current Year	Previous year
1. Unabsorbed Depreciation for assessment year 2001-02	202,513	242,010
2. Brought forward Loss for Assessment year 2001-02	0	1,262,866
3. Unabsorbed Depreciation for assessment year 2003-04	123,539	123,539
4. Timing difference recorded in earlier years	1,209,574	(1,198,988)
5. Timing Difference between Book Depreciation and Income Tax Depreciation as on 01.04.2001.	(1,639,001)	(1,639,001)
Total Deferred Tax Assets for Earlier Years	(103,375)	1,209,574
6. Current Year Timing difference in Depreciation	42,294	10498
7. Current Year Capital Loss	0	28003
8. Current Year Business Loss	0	7,106,981
9. Current Year Unabsorbed Depreciation	0	219,091
10. Last year's business loss reversed	(1,874,079)	0
Total Deferred Tax Assets for current Year	(1,831,785)	7,353,988
Net Deferred Tax Assets Accounted in books	(19,35,160)	6,154,999

6. The balances of loans & advances, sundry creditors & overdraft from bank are subject to confirmation & reconciliation. The necessary adjustment if any will be made in the accounts on receipt thereof.
7. The documents with respect to property at Panvel have been lodged with the appropriate authority pending its approval. The said property was obtained pursuant to court order against realization of loans. The Company has obtained possession of the flat and claimed depreciation on the same.

8. Earning Per Share

PARTICULARS	YEAR ENDED 31.03.2006	YEAR ENDED 31.03.2005
Profit/(Loss) After Tax Rs.	16,455,221	(16,260,869)
Number of Equity Shares Fully Paid Up	6,963,600	6,963,600
Number of Equity Shares Partly Paid Up	7,300	7,300
Weighted Average number of Equity Shares	6,967,250	6,967,250
Earning Per Share – Basic and Diluted Rs.	2.36	-1.45
Face Value per Equity Share Rs.	10	10

9. The Company is mainly engaged in the business of providing commercial finance and dealing in shares and securities. All other activities of the Company revolve around the main business, and as such in the opinion of the management, there are no separate reportable segments as per Accounting Standard – AS – 17-“Segment Reporting” Issued by ICAI.
10. Contingent Liability
The management has set-off the amount receivable from Madhur Shares and Stocks Limited against the amount payable to M/s. Madhavpura Mercantile Co-operative Bank Limited. This amount was advanced by the said bank on behalf of Madhur Shares and Stocks Limited for meeting their liabilities. The said bank has initiated arbitration proceedings. However An ad-interim relief by way of stay of the Arbitration proceedings has been granted by the Hon'ble High Court of Gujarat There may be a liability of Rs. 384.86 million apart from interest, if any, there on, if the management's stand is not accepted. In such an eventuality, such amount, in turn, will be recoverable from Madhur Shares and Stocks Limited. In view of this, no interest has been provided on the overdraft balance with the said bank as the liability is not ascertainable.
11. Loans and advances given to the employees and associates do not carry any stipulation as to repayment of principal or payment of interest; and are being repaid periodically. Accordingly, these considered as good and not considered as part of non-performing assets.
12. Directors' remuneration RS. 1,204,000 (Previous year RS. 0) is within the limits of Schedule XIII to the Companies Act 1956.
13. Related Party Disclosures to comply with Accounting Standard – 18 – Related Party Disclosure by ICAI.

List of the related parties with whom transactions entered:

- (i) Subsidiary Company: Mukesh Babu Securities Limited.
- (ii) Associates: Ista Fashion Pvt. Ltd., Ashtavinayaka Alloys P. Ltd., Arya Marine Academy (Trust), Babu & Parekh Securities Private Limited, Coddon technologies Private Limited, Sagar Systech Limited
- (iii) Key Managerial Personnel: Mukesh Babu

(6)	Borrower group-wise classification of all leased assets, stock-on-hire and loans and advances :		
	NIL		
(7)	Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted): Please see note 3 below		
	Category	Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
	1. Related Parties **		
	(a) Subsidiaries	258.10	258.10
	(c) Other related parties		
	2. Other than related parties	131.70	115
	<i>Total</i>		

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

16. No interest has been charged on loans and advances given to subsidiary and some associate companies in view of commercial considerations of the group.

17. Other information pursuant to paragraph 3, 4A, 4C and 4D of part II of Schedule VI to the Companies Act, 1956 is not applicable.

Signature to the Schedules "1" to "10"

FOR AND ON BEHALF OF THE BOARD

Sd/-

Sd/-

Sd/-

Company Secretary
(Rashmi Deshpande)

Managing Director
(Mukesh Babu)

Director
(K. Chandrasekhar)

Place: Mumbai.
Date: 25.08.2006.

MUKESH BABU FINANCIAL SERVICES LIMITED
CASH FLOW STATEMENT FOR YEAR ENDED 31ST MARCH 2006.

	Current Year		Previous Year	
	Rs.	Rs.	Rs.	Rs.
A. CASH FLOW FROM OPERATING ACTIVITIES :				
Net Profit Before Tax and Extraordinary Item		19,194,587		(16,260,869)
Adjustments for :				
Depreciation & Misc. Exp. Written off	754,796		1,374,158	
Bad Debts written off	1,974,016		25,178,003	
Excess Provision for Taxation	2,794	2,731,606	-	26,552,161
Operating Profit Before Working Capital Changes		21,926,193		10,291,292
Changes in Working Capital:				
Inventories	(2,348,035)		(9,030,803)	
Sundry Debtors	(146,143)		2,756,828	
Loans and Advances	(15,710,433)		4,814,320	
Other Current Assets	1,363,952		279,827	
Sundry Creditors	1,063,328		(593,507)	
Other Liabilities	31,367	(15,745,964)	(32,572)	(1,805,907)
Cash Generated from Operations		6,180,229		8,485,385
Direct Taxes Paid		(135,000)		(25,000)
Cash Flow Before Extraordinary Items		6,045,229		8,460,385
Extraordinary Items		(16,500)		-
NET CASH FROM OPERATING ACTIVITIES		6,028,729		8,460,385
B. CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(87,520)		(802,643)	
Sale of Fixed Assets	-		7,961	
Purchase of Investments	(5,000,000)		(6,000,000)	
Sale of Investments	-	(5,087,520)	1,120,566	(5,674,116)
NET CASH USED IN INVESTING ACTIVITIES		(5,087,520)		(5,674,116)
C. CASH FLOW FROM FINANCING ACTIVITIES :				
Proceeds from Issue of Share Capital	-		-	
Proceeds from Short Term Borrowings	-		-	
Repayment of Loan	-		-	
Repayment of Finance Lease Liabilities	-		-	
Dividends Paid	-		-	
Increase in Misc. & Public Issue Expenses	-	-	-	-
NET CASH USED IN FINANCING ACTIVITIES		-		-
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS		941,209		2,786,269
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		6,133,562		3,347,293
CASH & CASH EQUIVALENTS AT THE CLOSING OF THE YEAR		<u>7,074,771</u>		<u>6,133,562</u>

FOR SHAH SHAH & SHAH
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

Sd/-

Sd/-

Sd/-

Sd/-

(Mehul C. Shah)
Partner
Membership No.49361

(R. S. DESHPANDE)
Company Secretary

(MUKESH BABU)
Director

(K. CHANDRASEKHAR)
Director

Place : Mumbai

Place : Mumbai

Date :25.08.2006

Date :25.08.2006

MUKESH BABU FINANCIAL SERVICES LIMITED

Statement pursuant to Section 212 of the Companies Act, 1956 relating to Subsidiary Companies.

NAME OF THE SUBSIDIARY COMPANY	MUKESH BABU SECURITIES LIMITED
1 Financial year of the subsidiary ended on	31st March 2006
2 Shares of the Subsidiary held by the company on the above date	
a) Number and face value	2,580,996 Equity Shares of Rs. 10 each fully paid.
b) Extent of Holding	51%
3 Net aggregate amount of profit/(losses) of the subsidiary for the above financial year of the subsidiary so far as they concern members of the company.:	
a) Dealt with in the accounts of the company for the year ended 31st March 2006	Rs. NIL
b) Not dealt with in the accounts of the company for year ended 31st March 2006	Rs. (117,779)
4 Net aggregate amount of profit/(losses) for previous financial years of the subsidiary, since it became a subsidiary so far as they concern members of the company:	
a) Dealt with in the accounts of the company for the year ended 31st March 2006	Rs. NIL
b) Not dealt with in the accounts of the company for year ended 31st March 2006	Rs. 74,985,303

FOR AND ON BEHALF OF THE BOARD

DIRECTOR **DIRECTOR** **COMPANY SECRETARY**
(Mukesh Babu) **(K. Chandrasekhar)** **(Rashmi Deshpande)**

Place : Mumbai.

Date : 25.08.2006

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

I. Registration Details

Registration No.	35504	Status Code	11
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Balance Sheet Date

II. Capital raised during the year (Amount in Rs. Thousand)

Public issue	-	Right Issue	-
--------------	---	-------------	---

Bonus Issue	-	Private Placement	-
-------------	---	-------------------	---

III. Position of Mobilisation and Development of Funds (Amount in Rs. Thousand)

Sources of Funds	Total Liabilities	189,062	Total Assets	189,062
------------------	-------------------	---------	--------------	---------

Paidup Capital	69,673	Reserves and Surplus	119,390
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Secured Loans	-	Unsecured Loans	-
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Application of Funds

Net Fixed Assets	11,158	Investment	37,310
------------------	--------	------------	--------

Net Current Assets	135,175	Miscellaneous Expenditure	-
--------------------	---------	---------------------------	---

Accumulated Losses	-
--------------------	---

IV. Performance of Company (Amount in Rs. Thousand)

Turnover	25,085	Total Expenditure	19,195
----------	--------	-------------------	--------

Profit or (Loss) before Tax	19,195	Profit or (Loss) after Tax	16,455
-----------------------------	--------	----------------------------	--------

Earning Per Share in Rs.	2.36	Dividend Rate in (%)	-
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V. Generic Names of three Principal Products/Services of Company (as per monetary terms)

Item Code No.
(ITC Code)

Service Description

COMPANY SECRETARY
(Rashmi Deshpande)

CHAIRMAN
(Mukesh Babu)

DIRECTOR
(K. Chandrasekhar)

Place : Mumbai.

Date : 25.08.2006

NOTICE IS HEREBY GIVEN THAT THE TWENTY FIRST ANNUAL GENERAL MEETING OF THE MEMBERS OF MUKESH BABU FINANCIAL SERVICES LIMITED WILL BE HELD ON FRIDAY, 29TH SEPTEMBER, 2006 AT 4.00 P.M. AT 12A/1, NEW SION CO-OP. HSG. SOC. LTD., SION – WEST, MUMBAI – 400022 TO TRANSACT THE FOLLOWING BUSINESS.

ORDINARY BUSINESS

1. ADOPTION OF DIRECTORS' REPORT AND ANNUAL ACCOUNTS

To consider and adopt the Balance Sheet as at 31st March, 2006 the Profit & Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.

2. TO APPOINT DIRECTOR WHO RETIRES BY ROTATION AND ELIGIBLE FOR RE- APPOINTMENT

To appoint a director in place of Mr. K. Chandrasekhar who retires by rotation and being eligible offers himself for re- appointment as a Director of the Company.

3. APPOINTMENT OF AUDITORS OF THE COMPANY

To appoint Shah, Shah & Shah, Chartered Accountants, Mumbai, for the Financial Year 2006-2007 who shall hold office from the conclusion of the Annual General meeting until the conclusion of the next Annual General Meeting and to fix their remuneration Shah, Shah & Shah, Chartered Accountants, Mumbai, the retiring Auditors of the Company are eligible for appointment.

SPECIAL BUSINESS

4. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Mr. Pankaj Majithia who was co-opted by the Board as an Additional Director w.e.f. 22. 12.2005 and who holds office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation.

5. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Mr. Vijay Vora who was co-opted by the Board as an Additional Director w.e.f. 22. 12.2005 and who holds office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation.

**By Order of the Board
For Mukesh Babu Financial Services Ltd.**

**Place: Mumbai
Date : 25.08.2006**

**Mukesh C. Babu
Chairman & Managing Director.**

NOTES:

1. A MEMBER ENTITLED TO ATTEND & VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY IN ORDER TO BE EFFECTIVE SHOULD BE DULY STAMPED, COMPLETED AND SIGNED AND MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE AFORESAID MEETING.
2. A blank Proxy Form is sent herewith.
The Register of Members and Share Transfer Books of the Company will remain closed from Thursday, 21st September, 2006 to Friday, 29th September, 2006 (both days inclusive).

3. Members are requested to advise the Company immediately of any change of their address.
4. Members attending the Annual General Meeting are requested to bring their copies of Annual Report at the Meeting.
5. Members are advised to consolidate their ledger folios where they are holding shares in different folios in the same order of names.
6. Members who hold shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
7. The Company's Equity Shares are listed on The Stock Exchange, Mumbai, the Stock Exchange, Ahmedabad, Saurashtra & Kutch Stock Exchange. Further, the Listing fees in respect of shares of the Company have been paid to the aforesaid Stock Exchanges upto the financial year 2006-07.
8. All members are requested to send their correspondence in respect of shares to the Share Transfer Agent of the Company. viz:

Intime Spectrum Share Registry Pvt. Ltd; C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup, Mumbai-400 078.
--

The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of Special Business under Item No. 4 is annexed herewith.

Item No.4

Mr. Pankaj R. Majithia, aged 51 years is F.C.A., A.C.S. He is having 25 years of experience in the field of finance & investment. In view of his versatile experience, the Board expects that his induction as a member of the Board, the Company would benefit immensely and he will prove to be an asset to the Company.

The Board of Directors in their meeting held on 22.12.2005 has appointed Mr. Pankaj Majithia as an Additional Non-executive Independent Director of the Company in terms of Section 260 of the Companies Act, 1956.

Pursuant to the provisions of Section 260 of the Companies Act, 1956 Mr. Pankaj Majithia shall hold office only upto the date of ensuing Annual General Meeting. Valid Notice under Section 257 of the Companies Act, 1956 has been received from the member of the Company proposing the candidature of Mr. Pankaj Majithia for the office of the Director.

Mr. Pankaj Majithia holds 1800 Equity Shares of the Company.

The Board of Directors recommends for your approval, the appointment of Mr. Pankaj Majithia as a Director of the Company, liable to retire by rotation.

Item No.5

Mr. Vijay Vora, aged 52 years is Commerce Graduate. He is having 22 years of experience in the field of investment. In view of his versatile experience, the Board expects that his induction as a member of the Board, the Company would benefit immensely and he will prove to be an asset to the Company.

The Board of Directors in their meeting held on 22.12.2005 has appointed Mr. Vijay Vora as an Additional Non-executive Independent Director of the Company in terms of Section 260 of the Companies Act, 1956.

Pursuant to the provisions of Section 260 of the Companies Act, 1956 Mr. Vijay Vora shall hold office only upto the date of ensuing Annual General Meeting. Valid Notice under Section 257 of the Companies Act, 1956 has been received from the member of the Company proposing the candidature of Mr. Vijay Vora for the office of the Director.

The Board of Directors recommends for your approval, the appointment of Mr. Vijay Vora as a Director of the Company, liable to retire by rotation.

INFORMATION AS REQUIRED BY CLAUSE 49(VIA) OF THE LISTING AGREEMENT:

As required by Clause 49(VIA) of the Listing Agreement with the Stock Exchange, the information relating to the Directors proposed to be appointed/ reappointed is provided hereunder:

Mr. K. Chandrasekhar, aged 53 years is A.C.A, Grad. I.C.W.A., A.C.S., L.L.B. He is having 25 years varied experience in the field of finance. He is the Director in Mukesh Babu Financial Services Ltd., Sagar Systech Ltd., Mukesh Babu Stock Broking Pvt. Ltd., Mukesh Babu Management Consultants Pvt. Ltd., Ista Impex Pvt. Ltd.

Mr. K. Chandrasekhar is a member of Audit Committee, Remuneration Committee and Shareholders'/ Investors' Grievances Committee.

By Order of the Board
For Mukesh Babu Financial Services Ltd.

Place: Mumbai.
Date : 25.08.2006

Mukesh C. Babu
Chairman & Managing Director

ANNUAL REPORT 2005 - 2006

MUKESH BABU SECURITIES LIMITED

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Board of Directors

Shri Mukesh Babu (Chairman)
Ms. Meena Mukesh (Managing Director)
Shri Vijay Vora

Company Secretary

Mr. K. Chandrasekhar

Main Bankers

Oriental Bank of Commerce
Bank of India
HDFC Bank
UTI Bank
ICICI Bank

Auditors

M/s. Chaitanya C. Dalal & Co.

Registered Office

111, Maker Chambers III,
223, Nariman Point,
Mumbai - 400 021.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 2006

Your Directors have pleasure in presenting the Annual Report of the Company and audited statement of accounts for the year ended 31st March 2006.

FINANCIAL RESULTS	CURRENT YEAR Rs.	PREVIOUS YEAR Rs.
Total Income	9,795,816 =====	10,699,716 =====
Loss: before Interest , Depreciation and Tax	(116,099)	(1,939,422)
Less: Interest	--	--
Gross Loss	(116,099)	(1,939,422)
Less : Depreciation	(601,332)	(802,886)
Loss before Taxation	(717,431)	(2,742,308)
Less : Provision Current FBT	(65000)	0
Add/(Less) : Deferred Tax (Assets)/ Liabilities	650,353	(1,343,927)
Loss after Taxation	132,078	(1,149,211)
Less : Items relating to earlier years	14,299	(606,785)
Balance Transferred from General Reserve	(117,779)	(1,755,996)

YEAR IN RETROSPECT

During the year, your company earned the total income of Rs. 97.96 lacs as compared to previous year's total income of Rs. 107.00 lacs. The gross loss during the year was Rs. 1.16 lacs as against the gross loss of Rs. 19.39 lacs during the previous year. The net loss for the year was Rs. 1.18 lacs as against the net loss of Rs. 11.50 lacs in the previous year.

Due to voluntary closure of Broking activities from July 2003, company has not earned any income from Broking Activities during the year. The company has made application to the stock exchanges for recommencement of business and the approvals of the Stock Exchanges are awaited.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies (Amendment) Act, 2000 with respect to Directors' Responsibilities Statement, it is hereby confirmed:

- (i) that the preparation of the annual accounts for the financial year ended 31st March, 2006, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that were 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 the year under review;
- (iii) that the directors had 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.
- (iv) that the directors had prepared the accounts for the financial year ended 31st March, 2006 on a going concern basis.

AUDIT COMMITTEE

The Audit committee of Directors was constituted on 19th April 2004. The constitution of the committee was made in pursuance with section 292A of the Companies (Amendment) Act, 2000.

The present composition of the Audit Committee is as follows.

- (i) Mr. Vijay Vora
- (ii) Mr. Mukesh Babu

MR. K. Chandrasekhar, Company Secretary is the Secretary of Audit Committee.

The terms of reference of audit committee is to review the internal controls, to investigate in to any matter, to meet auditors & discuss their findings & other issues relating to company operations. At the invitation of committee the auditors attended the audit committee meetings.

Sr. No.	Name of the Member	Designation	No. of Committee meetings Held	No. of Committee meeting attended
1	Mr. Vijay Vora	Chairman	4	4
2	Mr. Mukesh Babu	Member	4	4

FIXED DEPOSITS

At the end of the year, there were no unclaimed matured Fixed Deposits.

AUDITORS

The current Auditors M/s. Chaitanya C. Dalal & Company retire on the conclusion of the ensuing Annual General Meeting and being eligible have offered themselves for re-appointment.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO

As the company is a service company, no particulars have been given regarding conservation of Energy and Technology Absorption.

CHANGE IN CONSTITUTION

In Compliance with Clause 49 of the Listing Agreement, your company appointed Mr. Vijay Vora as a director of the company on 22nd December 2005 to hold the office till the ensuing Annual General Meeting of the company. The company has received a notice in writing from a member proposing the candidature of Mr. Vijay Vora for the office of the director. Mr. Vijay Vora is also a Chairman of Audit Committee of the company.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGES EARNING AND OUT GO.

As the company is service company, no particulars have been given regarding conservation of Energy and Technology Absorption. Foreign Exchange earning and outgo during the year – Rs. Nil (Previous Year Rs. Nil).

PARTICULARS OF EMPLOYEES

There is no employee drawing remuneration in excess of the limits laid down under section 217 (2A) of the companies Act, 1956.

ACKNOWLEDGEMENTS

Your Directors would like to express their sincere appreciation of the co-operation and assistance received from shareholders, bankers .

Your Directors wish to place on record their deep sense of appreciation for the commitment displayed by all the employees.

FOR AND ON BEHALF OF THE BOARD

Sd/-

Place : Mumbai
Date : 23rd August 2006

Mukesh Babu
Chairman

REPORT OF THE AUDITORS TO THE MEMBERS OF MUKESH BABU SECURITIES LIMITED

We have audited the attached Balance Sheet of Mukesh Babu Securities Limited as at 31st March 2006 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to the company.

Further to our comments in the Annexure referred to above, we report that:

- (i) We have obtained all the information and explanation, which to the best of our knowledge and belief were necessary for the purposes of our audit.
- (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books
- (iii) The Balance Sheet and Profit and Loss Account and cash flow statement with by this report are in agreement with the books of account
- (iv) In our opinion the Balance Sheet and Profit and Loss Account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
- (v) On the basis of written representation received from the directors, and taken on record by the Board of Directors, none of the directors 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.

- (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts subject to the notes thereon give the information required by the Companies Act, 1956, in the manner so required and in conformity with the accounting principles generally accepted in India and give a true and fair view :
- (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 and Loss Account, of the loss for the year ended on that date.
 - (c) in the case of cash flow statement, of the cash flows for the year ended on that date.

**For Chaitanya C. Dalal & Co.
Chartered Accountants**

Sd/-

**(Chaitanya C. Dalal)
Partner
Membership No. 35809**

Place : Mumbai

Date : 23rd August 2006.

ANNEXURE REFERRED TO IN PARAGRAPH OF OUR REPORT OF EVEN DATE

- i). (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
(b) These fixed assets have been physically verified by the management at reasonable intervals; and no material discrepancies were noticed on such verification.
(c) As per the information and explanations given to us, during the year, the Company has not disposed off any substantial part of fixed assets that would affect the going concern.
- ii) (a) The Company has neither taken nor granted any unsecured loans to any party covered in the register maintained under section 301 of the Act. Since unsecured loans neither taken nor granted to any party covered in the register maintained under section 301 of the Act reporting under Clause (b) , (c), and (d) are not required.
- iii) In our opinion and according to the information and explanations given to us , there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of fixed assets and revenue recognition. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal procedures.
- iv) (a) In our opinion and according to the information and explanations given to us. The transactions that need to be entered into the register in pursuance of Section 301 of Act, have been so entered.
(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered into the register in pursuance of Sections 301 of the Act and exceeding the value of Rupees Five Lakhs in respect of any party during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- v) The Company has not accepted any deposits from public, hence question of complying with the directives issued by Reserve Bank of India and the provisions of Sections 58A and 58AA of the Act and the Companies (Acceptance of Deposits) Rules,1975 with regard to the deposits accepted from the public are not applicable.
- vi) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business

- vii) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees state insurance, income tax, sales-tax, wealth tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities. According to the information and explanations given to us no undisputed amounts payable in respect of such statutory dues were outstanding as at 31st March 2006, for a period of more than six months from the date they became payable.
- viii) The Company has no accumulated losses as at March 31, 2006 and it has incurred cash loss in the financial year ended on that date. The company has also incurred cash loss in the immediately preceding financial year.
- ix) According to the records of the company examined by us and information and explanation given to us there is a dispute between the company and Madhavpura Mercantile Co-operative Bank Ltd. on certain issues relating to the repayment of dues of Rs. 30.70 million and as reported in note no. 2, it is not possible for us to determine whether there is a default in repayment of dues to Madhavpura Mercantile Co-operative Bank Ltd.
- x) Company has not granted any loans, hence question of Maintenance of adequate documents and records of pledge of shares, debentures and other securities, does not arise.
- xi) According to the information and explanations given to us, the Company has not given any guarantee during the year for loans taken by others from banks or financial institutions.
- xii) The Company has not availed any term loans facility during the year, hence, question of using of it for the purposes for which they were obtained does not arise.
- xiii) The company has maintained proper records of transactions and contracts in respect of trading in shares, debentures, and other securities and timely entries have been made therein. The investments are held by the company in its own names except allowable under section 49 of the Companies Act, 1956.
- xiv) On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised as working capital loans (short term loans) that have been used for long-term investment and vice versa.
- xv) The Company has not made any preferential allotments of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.

- xvi) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us , we have neither come across any instance of fraud on or by the company , noticed or reported during the year, nor have we been informed of such case by the management.
- xvii) The other clauses, namely (ii),(viii), (xiii), (xix) and (xx) of paragraph 4 of the Companies (Auditor's Report) Order 2003 are not applicable in the current year .since in our opinion there is no matter which arises to be reported in the aforesaid order.

**For Chaitanya C. Dalal & Co.
Chartered Accountants**

Sd/-

**(Chaitanya C. Dalal)
Partner
Membership No. 35809**

Place : Mumbai

Date : 23rd August 2006.

MUKESH BABU SECURITIES LIMITED
BALANCE SHEET AS AT 31ST MARCH 2006

PARTICULARS	SCHEDULE	CURRENT YEAR		PREVIOUS YEAR	
		Rs.	Rs.	Rs.	Rs.
I. SOURCES OF FUNDS					
1. SHAREHOLDER'S FUNDS					
a. Share Capital	A	50,000,000		50,000,000	
b. Reserves and Surplus	B	<u>74,985,303</u>	124,985,303	<u>75,103,082</u>	125,103,082
2. LOAN FUNDS					
a. Secured Loans		-		-	
b. Unsecured Loans		<u>-</u>	-	<u>-</u>	-
TOTAL FUNDS EMPLOYED			<u>124,985,303</u>		<u>125,103,082</u>
II. APPLICATION OF FUNDS					
1. FIXED ASSETS					
Gross Block		44,548,131		44,541,381	
Less : Depreciation		<u>10,754,210</u>		<u>10,152,878</u>	
Net Block	C		33,793,921		34,388,503
2. INVESTMENTS	D		51,225,547		49,526,337
3. DEFERREED TAX ASSETS			1,724,806		1,074,452
4. CURRENT ASSETS, LOANS AND ADVANCES:	E	233,314,991		237,649,183	
5. LESS : CURRENT LIABILITIES AND PROVISIONS:	F	<u>195,073,962</u>		<u>197,535,393</u>	
NET CURRENT ASSETS			38,241,029		40,113,790
6. MISCELLANEOUS EXPENDITURE (To the extent not written off or adjusted)			-		-
TOTAL ASSETS			<u>124,985,303</u>		<u>125,103,082</u>

Refer Schedule "H" for Notes to Accounts
As per our report of even date.

For Chaitanya C. Dalal & Co.
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

Sd/

(Chaitanya C. Dalal)
Partner
Membership No.35809

Place : Mumbai

Date : 23rd August 2006

Sd/

(K. Chandrasekhar)
Company Secretary

Place : Mumbai

Date : 23rd August 2006

Sd/

(Mukesh Babu)
Director

Sd/

(Meena Mukesh)
Director

MUKESH BABU SECURITIES LIMITED

PROFIT AND LOSS A/C FOR THE YEAR ENDED 31ST MARCH 2006

PARTICULARS	SCHEDULE	CURRENT YEAR Rs.	PREVIOUS YEAR Rs.
I. INCOME			
Income From Depository Services		68,696	711,446
Other Income		9,727,120	9,988,270
Total		9,795,816	10,699,716
II. EXPENSES			
Administrative and General Expenses	G	9,911,915	12,389,968
Depreciation		601,332	802,886
Total		10,513,247	13,192,854
PROFIT/(LOSS) BEFORE TAXATION		(717,431)	(2,493,138)
Less : Current Tax Provision		(65,000)	-
Add/Less : Deferred Tax Assets/Liabilities		650,353	1,343,927
PROFIT/(LOSS) AFTER TAXATION		(132,078)	(1,149,211)
Add/Less : Items relating to earlier years		14,299	(606,785)
		(117,779)	(1,755,996)
Less : Transferred to General Reserve		117,779	1,755,996
BALANCE CARRIED TO BALANCE SHEET		-	-
Earning per Share as per AC-22 (Basic & Diluted)		(0.03)	(0.23)

Refer Schedule "H" for Notes to Accounts
As per our report of even date.

For Chaitanya C. Dalal & Co.
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

(Chaitanya C. Dalal)
Partner
Membership No.35809

(K. Chandrasekhar)
Company Secretary

(Mukesh Babu)
Director

(Meena Mukesh)
Director

Place : Mumbai

Place : Mumbai

Date : 23rd August 2006

Date : 23rd August 2006

MUKESH BABU SECURITIES LIMITED
SCHEDULE "A" TO "H" FORMING AN INTEGRAL PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST MARCH 2006.

Particulars	CURRENT YEAR		PREVIOUS YEAR	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE " A " - SHARE CAPITAL				
Authorised capital :				
5,000,000 (5,000,000) Equity Shares of Rs. 10/- each.		<u>50,000,000</u>		<u>50,000,000</u>
Issued, Subscribed and Paid up Capital :				
5,000,000 (5,000,000) Equity Shares of Rs. 10/- each.		50,000,000		50,000,000
As per Balance Sheet		<u>50,000,000</u>		<u>50,000,000</u>

Note: 2,580,996 (Previous Year 2,580,996) Equity Shares of Rs.10 each are held by the holding company.

SCHEDULE "B" - RESERVES & SURPLUS

General Reserve :				
Balance as per last Balance Sheet	75,103,082		76,859,078	
Add/(less):Transfer from/(to) Profit & Loss A/c	<u>(117,779)</u>	74,985,303	<u>(1,755,996)</u>	75,103,082
As per Balance Sheet		<u>74,985,303</u>		<u>75,103,082</u>

SCHEDULE "C" - FIXED ASSETS

SR.	PARTICULARS	G R O S S B L O C K				D E P R E C I A T I O N				N E T B L O C K	
		AS ON 1.4.2005	ADD	LESS	AS ON 31.03.2006	UP TO 1.4.2005	FOR THE YEAR	WRITTEN BACK	UP TO 31.03.2006	AS AT 31.03.2006	AS AT 31.03.2005
1	Membership Card Bse	18,000,000	-	-	18,000,000	-	-	-	-	18,000,000	18,000,000
2	Office Premises	11,430,390	-	-	11,430,390	-	-	-	-	11,430,390	11,430,390
3	Premises	2,227,500	-	-	2,227,500	-	-	-	-	2,227,500	2,227,500
4	Office Equipments	2,175,627	6,750	-	2,182,377	1,094,471	152,042	-	1,246,513	935,864	1,081,156
5	Vehicles	2,296,735	-	-	2,296,735	1,814,312	124,899	-	1,939,211	357,524	482,423
6	Computers	6,285,652	-	-	6,285,652	5,768,954	206,680	-	5,975,634	310,018	516,698
7	Furniture & Fittings	1,741,442	-	-	1,741,442	1,208,429	96,475	-	1,304,904	436,538	533,013
9	Electric Equipment	384,035	-	-	384,035	266,712	21,236	-	287,948	96,087	117,323
	Total Rs.	44,541,381	6,750	-	44,548,131	10,152,878	601,332	-	10,754,210	33,793,921	34,388,503
	Previous Year	44,006,247	535,134	-	44,541,381	9,349,992	802,886	-	10,152,878	34,388,503	34,656,255

SCHEDULE "D" - INVESTMENT (AT COST)

	CURRENT YEAR		PREVIOUS YEAR	
	Nos.	Rs.	Nos.	Rs.
<u>I. QUOTED SHARES</u>				
Investment in Shares of Public Limited Listed Companies	547,239	50,315,547	541,699	48,626,337
		<u>50,315,547</u>		<u>48,626,337</u>
II. QUOTED UNITS OF MUTUAL FUNDS				
UTI Index Equity Fund	50,000	500,000	50,000	500,000
SBI Mutual Fund	30,000	300,000	30,000	300,000
		<u>800,000</u>		<u>800,000</u>
III. UNQUOTED SHARES AND BONDS				
Secured Bonds of Dena Bank	10	100,000	10	100,000
Bombay Stock Exchange Ltd	10,000	10,000		
		<u>110,000</u>		<u>100,000</u>
As per Balance Sheet		<u>51,225,547</u>		<u>49,526,337</u>

NOTE : Aggregate market value of the company's Quoted Investment as on 31st March 2006 is
Rs.175,858,189/- (Previous Year 139,043,877/-)

Particulars	CURRENT YEAR		PREVIOUS YEAR	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE "E" - CURRENT ASSETS, LOANS & ANVANCES				
a) Sundry Debtors (Unsecured) (Unsecured considered good)				
Sundry Debtors - More than Six Month	22,381,671		22,571,440	
Sundry Debtors - Less than Six Month	<u>13,143</u>	22,394,814	<u>28,852</u>	22,600,292
c) Cash and Bank Balance				
Cash on hand (As certified by Director)	4,429,300		4,174,375	
Balance With Scheduled Banks	<u>14,319,178</u>	18,748,478	<u>9,814,860</u>	13,989,235
d) Other Current Assets				
Advance Tax & TDS	11,068,766		12,422,517	
Deposit - Interest Free	29,979,960		27,750,000	
- Others	<u>129,795,603</u>	170,844,329	<u>139,730,897</u>	179,903,414
e) Loans and Advances (Unsecured Considered Good)				
Loans and advances to staff	680,250		1,552,830	
Prepaid Expenses	40,933		35,306	
Other Advances	<u>20,606,187</u>	21,327,370	<u>19,568,106</u>	21,156,242
As per Balance Sheet		233,314,991		237,649,183
SCHEDULE "F" - CURRENT LIABILITIES & PROVISIONS				
a. Current Liabilities				
Sundry Creditors	1,007,368		1,007,368	
Deposit from Clients	60,000		60,000	
Margin accounts	150,000,000		150,000,000	
Dues of Holding Company (Mukesh Babu Financial Services Ltd.)	15,564,082		15,664,082	
Other Liabilities	180,521		506,952	
Bank Overdraft	<u>28,196,991</u>	195,008,962	<u>30,196,991</u>	197,435,393
b. provisions				
Provision for Taxation		65,000		100,000
As per Balance Sheet		195,073,962		197,535,393

Particulars	Current Year		Previous Year	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE "G" - ADMINISTATIVE AND GENERAL EXPENSES				
Auditors Remuneration				
for Audit Fees	23,960		21,640	
for Consultancy Fees	<u>23,960</u>	47,920	<u>22,440</u>	44,080
Directors Remuneration		1,200,000		1,200,000
Electricity expenses		182,569		354,938
Staffwelfare Expenses		385,546		456,872
Conveyance & Travelling		455,415		338,672
Insurance		1,962,451		1,942,092
Membership and subscription		301,506		453,023
Miscellaneous Expenses		186,507		819,008
VSAT and Lease Line Charges		300,000		341,392
Telephone & Courier Exp		316,534		393,172
Printing and Stationery		31,970		48,370
Professional and Consultancy fees		151,941		1,244,534
Rent, Rates and Taxes		130,552		161,698
Repairs & Maintenance		169,816		240,565
Salary & Wages		1,875,748		1,718,327
Trade Execution Charges		1,350,000		1,350,000
Transaction Charges		791,440		569,968
Turnover fees		72,000		713,258
As per Profit and Loss Account		9,911,915		12,389,968

SCHEDULE --“H” -- NOTES TO ACCOUNTS FOR THE YEAR ENDED ON 31ST MARCH, 2006

1. ACCOUNTING POLICIES :

a. Accounting Concepts

The Company follows the Mercantile System of Accounting and recognises Income & Expenditure on an Accrual Basis with necessary provisions for all known liabilities except for Dividend income which is being accounted for with on cash basis. The accounts are prepared on historical cost basis and as a going concern. Accounting Policies not referred to otherwise are consistent with generally accepted accounting principles in India, the accounting standard issued by the Institute of Chartered Accountants of India and the relevant provisions of The Companies Act, 1956.

b. Valuation of fixed Assets

Fixed assets are carried at historical costs less accumulated depreciation.

c. Depreciation Policy

Depreciation on assets is provided on written down value basis at the rates prescribed in Schedule xiv to the Companies Act, 1956.

No provision for depreciation has been made on Premises as the possession has not been handed over to the company, pending receipt of Occupancy Certificate.

d. Investments :

Investments are stated at cost of acquisition. No provision has been made in the accounts of the company for the depletion or appreciation in the value of the investments.

e. Revenue Recognition :

The Company accounts for the income on accrual basis. The brokerage for different exchanges ends on different dates and hence company accounts up to the last valan of the year, as it is the trade practice and it is net of tax.

2. Contingent Liabilities

Bank Overdraft balance is subject to reconciliation and confirmation.

3. The Schedules referred to in the Balance Sheet form an integral part of the accounts.
4. The figures of the previous year are regrouped, rearranged and reclassified wherever necessary to correspond to those of the current year.
5. No provision for gratuity and leave encashment to the employee have been made in the accounts. Gratuity payable will be accounted as and when payments are made and as such the liability for the year has not been ascertained.
6. Maximum amount outstanding during the year to the holding company - Rs. 15,664,082 (Previous Year Rs. 19,389,082/-).

7. In the opinion of the directors current assets, Loans and Advances are approximately of the value stated if realised in the ordinary course of the business and provisions for all known liabilities are adequate and not in excess of the amounts reasonably necessary.
8. Balances of Sundry Debtors and Balances of Sundry Creditors are subject to confirmations and reconciliation, if any.
9. During the year, on accounting of Deferred Tax in accordance with the Accounting Standard – 22, the Deferred Tax Assets of the company comes to Rs. 1,074,453/- as against Deferred Tax Liabilities of Rs. 269,474/- in previous year. Deferred Tax Assets/Liability comprises of Tax effect of timing differences on account of :

PARTICULARS	Current Year Rs.	Previous Year Rs.
On the timing Difference between Book depreciation and Income Tax Depreciation as on 01.04.2001	(380,043)	41,039
On the timing Difference between Book depreciation and Income Tax Depreciation as on 31.3.2003 (rectification effect)		(277,405)
Unabsorbed Depreciation for Assessment year 2004-05 (with rectification effect)	48,677	7153
On the timing Difference between Book depreciation and Income Tax Depreciation	101228	71852
Unabsorbed Depreciation for Assessment year 2005-06	198401	198401
Unabsorbed Loss for Assessment year 2005-06	1033414	1,033,414
Unabsorbed Loss for Assessment year 2006-07	619,444	
Unabsorbed Depreciation for Assessment year 2006-07	103,285	
Deferred Tax Assets Liability at year end	1,724,806	1,074,452

10. Additional information pursuant to part II of Schedule VI to the Companies Act, 1956 is as under:

Foreign Exchange earnings during the year	-Nil (Previous year nil)
Foreign Exchange outgo during the year	-Nil (Previous year nil)

11. The company is awaiting sanction and approval from the Stock Exchanges for recommencement of its Broking Business. The Company has already made necessary applications in this regard. Consequently there is no broking income during the year.
12. The Company's application for the renewal of the Certificate of Registration as a Depository Participant of M/s. National Securities Depository Limited has been rejected by the SEBI and the company is filed its appeal in the Securities Appellate Tribunal against the order of SEBI.

13. Related Party Disclosures to comply with Accounting Standard – 18 – Related Party Disclosure by ICAI.

- (i) Holding Company
Mukesh Babu Financial Services Limited For full year.
- (ii) Key Managerial Personnel:
Ms. Meena Mukesh Babu For full year..
(Managing Director)
- (iii) Transactions during the year.

Particulars	Amount Rs in Lacs
A. Mukesh Babu Financial Services Limited. (Holding Company)	
Amount received as loans and advances	25.01
Amount refunded against loans and advances	26.01
Closing Credit balance Payable at the year end	155.64
B. Ms. Meena Mukesh (Managing Director)	
Remuneration paid during the year	12.00

14. Fixed Assets of company are treated as “Corporate Assets” and are not “Cash Generating Units” as defined by AS-28 issued by Institute of Chartered Accountants of India (ICAI), In the Opinion of the Management, there is no impairment of the fixed assets.

AS PER OUR REPORT ATTACHED

For Chaitanya C. Dalal & Co. FOR AND ON BEHALF OF THE BOARD
Chartered Accountants

(Chaitanya C. Dalal & Co. (K. Chandrasekhar) (Mukesh Babu) (Meena Mukesh)
Partner Company Secretary Director Director
Membership No. 35809

Place: Mumbai

Place: Mumbai

Date: 23rd August 2006

Date: 23rd August 2006

MUKESH BABU SECURITIES LIMITED.
CASH FLOW STATEMENT FOR THE YEAR ENDED 31.03.2006.

	CURRENT YEAR		PREVIOUS YEAR	
	Rs.	Rs.	Rs.	Rs.
A. CASH FLOW FROM OPERATING ACTIVITIES :				
Net Profit Before Tax and Extraordinary Item		(717,431)		(2,493,138)
Adjustments for :				
Depreciation & Misc. Exp. Written off	601,332		802,886	
Foreign Exchange	-		-	
Loss on Sale on Investments	-		-	
Profit on Trading	-		-	
Interest/Dividend (Received)	(9,727,120)		(9,988,270)	
Interest paid	-		-	
Excess Provision for Taxation	-	(9,125,788)	-	(9,185,384)
Operating Profit Before Working Capital Changes		(9,843,219)		(11,678,522)
Adjustments for:				
Sundry Debtors	205,477		(16,504)	
Loans and Advances	(171,128)		(11,405,237)	
Other Current Assets	9,059,085		12,274,332	
Sundry Creditors	(0)		447	
Other Liabilities	(2,426,432)	6,667,002	(3,472,370)	(2,619,332)
Cash Generated from Operations		(3,176,217)		(14,297,854)
Interest Paid		-		-
Direct Taxes Paid		(35,000)		(10,810,000)
Cash Flow Before Extraordinary Items		(3,211,217)		(25,107,854)
Extraordinary Items		(50,701)		(606,785)
NET CASH FROM OPERATING ACTIVITIES		(3,261,918)		(25,714,639)
B. CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(6,750)		(535,134)	
Sale of Fixed Assets	-		-	
Purchase of Investments	(1,699,210)		(8,112,877)	
Purchase of Stock -in -Trade	-		-	
Sale of Investments	-		-	
Sale of Stock - in -Trade	-		-	
Profit on Share Trading (Speculation)	-		-	
Interest & Dividend Received	9,727,120	8,021,160	9,988,270	1,340,259
NET CASH USED IN INVESTING ACTIVITIES		8,021,160		1,340,259
C. CASH FLOW FROM FINANCING ACTIVITIES :				
Proceeds from Issue of Share Capital	-		-	
Proceeds from Short Term Borrowings	-		-	
Repayment of Loan	-		(47)	
Repayment of Finance Lease Liabilities	-		-	
Dividends Paid	-		-	
Increase in Misc. & Public Issue Expenses	-		-	(47)
NET CASH USED IN FINANCING ACTIVITIES		-		(47)
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS		4,759,243		(24,374,427)
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		13,989,235		38,363,662
CASH & CASH EQUIVALENTS AT THE CLOSING OF THE YEAR		18,748,478		13,989,235

For Chaitanya C. Dalal & Co.
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

Sd/-

Sd/-

Sd/-

Sd/-

(Chaitany C. Dalal)
Partner
Membership No. 35809

(K.Chandrasekhar) (Mukesh Babu) (Meena Mukesh)
Company Secretary Director Director

Place: Mumbai.
Date: 23rd August 2006

Place: Mumbai.
Date: 23rd August 2006

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

I. Registration Details

Registration No.	76455	Status Code	11
Balance Sheet Date	31.03.2006		

II. Capital raised during the year (Amount in Rs. Thousand)

Public issue	-	Right Issue	-
Bonus Issue	-	Private Placement	-

III. Position of Mobilisation and Development of Funds (Amount in Rs. Thousand)

Total Liabilities	320,059	Total Assets	320,059
Sources of Funds		Reserves and Surplus	74,985
Paidup Capital	50,000	Unsecured Loans	-
Secured Loans	-	Investment	51,226
Net Fixed Assets	33,794	Miscellaneous Expenditure	-
Net Current Assets	38,241		
Accumulated Losses	-		

IV. Performance of Company (Amount in Rs. Thousand)

Turnover	9,796	Total Expenditure	10,513
Profit or (Loss) before Tax	(717)	Profit or (Loss) after Tax	(132)
Earning Per Share in Rs.	-0.03	Dividend Rate in (%)	-

V. Generic Names of three Principal Products/Services of Company (as per monetary terms)

Item Code No.	N.A.
(ITC Code)	
Service Description	STOCK BROKING
	STOCK TRADING AND DEPOSITORY SERVICES

Sd/-

(K. Chandrasekhar)
COMPANY SECRETARY

Sd/-

(Mukesh Babu)
DIRECTOR

Sd/-

(Meena Mukesh)
DIRECTOR

Place: Mumbai.
Date: 23rd August 2006

ANNUAL REPORT 2005 - 2006

MUKESH BABU FINANCIAL SERVICES LIMITED (CONSOLIDATED ACCOUNTS)

Board of Directors

Shri Mukesh Babu (Chairman & Managing Director)
Shri K. Chandrasekhar
Shri Pankaj Majithia
Shri Vijay Vora

Company Secretary

Ms. Rashmi Deshpande

Main Bankers

Oriental Bank Of Commerce
HDFC Bank
ICICI Bank
Bank of India
UTI Bank

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Notes forming part of Accounts	67
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Registered Office

111, Maker Chambers III,
223, Nariman Point,
Mumbai - 400 021.

Auditors

Shah, Shah & Shah
Chartered Accountants
502, damji Shamji Trade Centre,
Vidyavihar - West, Mumbai - 400086.

**AUDITORS REPORT ON CONSOLIDATED FINANCIAL STATEMENTS OF MUKESH BABU
FINANCIAL SERVICES LIMITED AND ITS SUBSIDIARY**

To
The Board of Directors,
Mukesh Babu Financial Services Limited.

1. We have examined the attached consolidated Balance Sheet of Mukesh Babu Financial services Ltd., ("The Company") and its subsidiary as at 31st March 2006 and the Consolidated Profit and Loss Account and the consolidated cash flow statement for the year then ended annexed thereto. These financial statements are the responsibility of the Company Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the subsidiary whose financial statements reflects total assets of Rs. 3200.59 lacs as at 31st March, 2006 and total revenues of Rs. 97.96 lacs for the year then ended. This financial statement has been audited by other auditor whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditor.
4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statement issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiaries included in the consolidated financial statements except herein under written.
5. Neither provision has been made for retirement benefits as stated in Significant accounting policies under the notes to accounts nor amount has been quantified.
6. Reference is made to note no. 10 on Contingent liability. The liability with respect to bank overdraft has been understated by adjusting Rs. 384.86 million against the amount receivable; and neither interest has been provided on the overdraft balance nor is the amount confirmed; and we are unable to form our opinion on to it,

7. the composite effect of qualifications above is not quantifiable or ascertainable;
8. Subject to the matter stated in para (5) to (7) above, on the basis of the information and explanations given to us and on the consideration of the separated audit reports on individual audited financial statements of the Company, and its subsidiary, we are of the opinion that the said consolidated financial statements read with notes thereon give a true and fair view in conformity with the accounting principles generally accepted in India :
 - a. in the case of the Consolidated Balance Sheet, of the state of affairs of the Company and its subsidiary as at 31st March, 2006 and
 - b. in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of the Company and its subsidiary for the year then ended.
 - c. in the case of cash flow statement, of the cash flows for the year ended on that date.

**For Shah Shah & Shah
Chartered Accountants**

Sd-

**(Mehul C. Shah)
Proprietor
Membership No. 49361**

Mumbai , 25.08.2006

MUKESH BABU FINANCIAL SERVICES LIMITED
CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2006

PARTICULARS	SCHEDULE	CURRENT YEAR		PREVIOUS YEAR	
		Rs.	Rs.	Rs.	Rs.
I. SOURCES OF FUNDS					
1. SHAREHOLDER'S FUNDS					
a. Share Capital	1	69,672,500		76,777,500	
b. Reserves and Surplus	2	<u>158,096,940</u>	227,769,440	<u>134,614,079</u>	211,391,579
2. MINORITY INTEREST			60,467,990		60,524,911
3. LOAN FUNDS					
a. Secured Loans		-		-	
b. Unsecured Loans		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUNDS EMPLOYED			<u>288,237,430</u>		<u>271,916,490</u>
II. APPLICATION OF FUNDS					
1. FIXED ASSETS	3				
Gross Block		68,473,405		68,379,135	
Less : Depreciation		<u>23,521,390</u>		<u>22,165,262</u>	
Net Block			44,952,015		46,213,873
2. INVESTMENTS	4		62,725,547		56,026,337
3. DEFERRED TAX ASSETS			7,143,634		8,428,441
4. CURRENT ASSETS, LOANS AND ADVANCES:	5				
a. Inventories		99,015,340		96,667,305	
b. Sundry Debtors		22,540,957		22,600,292	
c. Cash and Bank Balance		25,823,249		20,122,797	
d. Other Current Assets		172,366,774		183,539,811	
e. Loans & Advances		<u>59,609,298</u>		<u>44,851,754</u>	
			<u>379,355,618</u>		<u>367,781,959</u>
5. LESS : CURRENT LIABILITIES AND PROVISIONS:	6				
a. Current Liabilities		205,067,384		206,299,120	
b. Provisions		<u>872,000</u>		<u>235,000</u>	
		<u>205,939,384</u>		<u>206,534,120</u>	
NET CURRENT ASSETS			173,416,234		161,247,839
6. MISCELLANEOUS EXPENDITURE (To the extent not written off or adjusted)	7		-		-
TOTAL ASSETS			<u>288,237,430</u>		<u>271,916,490</u>

Notes to Accounts 10
As per our report of even date.

FOR SHAH SHAH & SHAH
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

Sd/

Sd/

Sd/

Sd/

(Mehul C.Shah)
Partner
Membership No.49361

(R. S. DESHPANDE)
Company Secretary

(MUKESH BABU)
Manafing Director

(K. CHANDRASEKHAR)
Director

Place : Mumbai

Place : Mumbai

Date : 25.08.2006

Date : 25.08.2006

MUKESH BABU FINANCIAL SERVICES LIMITED

CONSOLIDATED PROFIT AND LOSS A/C FOR THE YEAR ENDED 31ST MARCH 2006

PARTICULARS	SHED	CURRENT YEAR		PREVIOUS YEAR	
		Rs.	Rs.	Rs.	Rs.
I. INCOME					
Income from Operations	8	26,754,136		12,913,075	
Other Income		8,127,058	34,881,194	8,654,569	21,567,644
Total			34,881,194		21,567,644
II. EXPENSES					
Administrative and General Expenses	9	13,073,894		12,966,602	
Depreciation		1,356,128		1,484,969	
Bad Debts		1,974,016		25,178,003	
Miscellaneous Expenditure Written Off		-	16,404,038	692,075	40,321,649
PROFIT/(LOSS) BEFORE TAXATION			18,477,156		(18,754,005)
(Add)/Less : Taxation & Non Tax Bearing Items					
Current Tax		775,000			
Deferred Tax		1,284,807		7,498,927	
Fringe Benefit Tax		97,000		-	
Taxation of Earlier Years		(2,794)	2,154,013	-	7,498,927
PROFIT/(LOSS) AFTER TAXATION			16,323,143		(11,255,078)
Add/(Less): Items relating to earlier years			14,299		(606,785)
Less: Transferred to Statutory Reserve			3,291,044		-
PROFIT/(LOSS) AVAILABLE FOR APPROPRIATION			13,046,398		(11,861,863)
Transferred from/to Minority Intererst			(56,919)		849,551
Transferred to(from)Profit & Loss A/c General Reserve			(13,103,317)		11,012,312
Earning per share (Basic/Diluted)			2.34		(1.16)
Refer notes 15 of Schedule "J")					

Notes to Accounts 10

As per our report of even date.

FOR SHAH SHAH & SHAH
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

Sd/-

(Mehul C. Shah)
Partner
Membership No.49361

Sd/- Sd/- Sd/-

(R.S.DESHPANDE) (MUKESH BABU)
Company Secretary Managing Director

Sd/-

(K. CHANDRASEKHAR)
Director

Place : Mumbai

Place : Mumbai

Date : 25.08.2006

Date : 25.08.2006

MUKESH BABU FINANCIAL SERVICES LIMITED

SCHEDULE "1" TO "10" FORMING AN INTEGRAL PART OF THE CONSOLIDATED A/C FOR THE YEAR ENDED 31ST MARCH 2006.

Particulars	CURRENT YEAR		PREVIOUS YEAR	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE " 1 " - SHARE CAPITAL				
Authorised capital :				
10,000,000 (10,000,000) Equity Shares of Rs. 10/- each.		<u>100,000,000</u>		<u>100,000,000</u>
Issued, Subscribed and Paid up Capital :				
6,970,900(6,970,900) Equity Shares of Rs. 10/- each.	69,709,000		69,709,000	
Less : Unpaid Calls	<u>36,500</u>	69,672,500	<u>36,500</u>	69,672,500
Amount paid up on Share Forfeiture A/c				
Balance As per Last balance sheet	7,105,000		7,105,000	
Less: Call money returned.	<u>16,500</u>		<u>-</u>	
	7,088,500		7,105,000	
Less: balance transferred to Capital Reserve	<u>7,088,500</u>	-	<u>-</u>	7,105,000
As per Balance Sheet		<u>69,672,500</u>		<u>76,777,500</u>
SCHEDULE "2" - RESERVES & SURPLUS				
Capital Reserve				
Balance as per last Balance Sheet	-		-	
Add: Transfer from Share Forfeiture A/c	<u>7,088,500</u>	7,088,500	<u>-</u>	-
Share Premium Account :				
Balance as per last Balance Sheet	73,628,000		73,628,000	
Less: Unpaid Calls	<u>73,000</u>	73,555,000	<u>73,000</u>	73,555,000
General Reserve :				
Balance as per last Balance Sheet	59,851,084		70,863,396	
Add:Transfer from Profit & Loss A/c	<u>-</u>	59,851,084	<u>(11,012,312)</u>	59,851,084
Profit & Loss Account credit Balance :				
Balance as per last Balance Sheet	-		-	
Add:Transfer from Profit & Loss A/c	<u>13,103,317</u>	13,103,317	<u>-</u>	-
Statutory Reserve :				
Balance as per last Balance Sheet	1,207,995		1,207,995	
Add:Transfer from Profit & Loss A/c	<u>3,291,044</u>	4,499,039	<u>-</u>	1,207,995
As per Balance Sheet		<u>158,096,940</u>		<u>134,614,079</u>

SCHEDULE "3" - FIXED ASSETS

SR.	PARTICULARS	G R O S S B L O C K				D E P R E C I A T I O N				N E T B L O C K	
		AS ON 1.4.2005	ADD	LESS	AS ON 31.03.2006	UP TO 1.4.2005	FOR THE YEAR	WRITTEN BACK	UP TO 31.03.2006	AS AT 31.03.2006	AS AT 31.03.2005
1	Office Premises	26,313,640	-	-	26,313,640	6,773,062	405,508	-	7,178,570	19,135,070	19,540,578
2	Premises	2,227,500			2,227,500				-	2,227,500	
3	Membership Card BSE	18,000,000			18,000,000				-	18,000,000	
4	Guest House	2,100,000	-	-	2,100,000	-	105,000	-	105,000	1,995,000	2,100,000
5	Flat at Panvel	360,000	-	-	360,000	-	18,000	-	18,000	342,000	360,000
6	Furniture & Fixtures	3,990,463	-	-	3,990,463	2,696,010	234,295	-	2,930,305	1,060,158	1,294,453
7	Electrical Fittings	484,390	-	-	484,390	355,638	23,304	-	378,942	105,448	128,752
8	Office Equipments	3,604,781	6,750	-	3,611,531	2,107,212	209,962	-	2,317,174	1,294,357	1,497,569
9	Computers	8,562,705	87,520	-	8,650,225	7,996,029	231,040	-	8,227,069	423,156	566,676
10	Vehicles	2,735,656	-	-	2,735,656	2,237,311	129,019	-	2,366,330	369,326	498,345
	Total Rs.	68,379,135	94,270	-	68,473,405	22,165,262	1,356,128	-	23,521,390	44,952,015	25,986,373
	Previous Year	67,260,819	1,337,777	219,461	68,379,135	20,891,793	1,484,969	211,500	22,165,262	46,213,873	46,369,026

SCHEDULE "4" - INVESTMENTS (AT COST)

Scrip Name	Quantity Current Year No.	Amount Previous Year No.	Quantity Current Year Rs.	Amount Previous Year Rs.
<u>LONG TERM INVESTMENTS</u>				
<u>SHARES AND DEBENTURES</u>				
A. Shares (Quoted)				
Investment in Shares of Public Limited Listed Companies	557,239	50,765,547	551,699	49,076,337
		50,765,547		49,076,337
B. Shares (Unquoted & Mutual Funds)				
Rushil Industries Ltd.	50,000	5,000,000	50,000	5,000,000
Dianamic Air Products P.Ltd.	35,000	3,500,000	10,000	1,000,000
Units - UTI - IEF	55,000	550,000	55,000	550,000
SBI Mutual Fund	30,000	300,000	30,000	300,000
Mumbai Stock Exchange Ltd	10,000	10,000	-	-
Secured Bonds of Dena Bank	10	100,000	10	100,000
Omni Engineering Industries P.ltd (Share applicaion Money)	25,000	2,500,000	-	-
		11,960,000		6,950,000
AS PER BALANCE SHEET (A+B)		62,725,547	-	56,026,337

Note : Market Value of Quoted Investment as of 31st March,2006 is Rs.177,977,689/- Previous Year Rs.139,654,877/-)

Particulars	CURRENT YEAR		PREVIOUS YEAR	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE "5" - CURRENT ASSETS, LOANS & ADVANCES				
a) Closing Stock		99,015,340		96,667,305
b) Sundry Debtors (Unsecured)				
Considered good Over Six months	22,381,671		22,571,440	
Others - Considered good	<u>159,286</u>	22,540,957	<u>28,852</u>	22,600,292
c) Cash and Bank Balance				
Cash on hand (As certified by the management)	5,001,181		4,271,855	
In Current Account with Scheduled Banks	<u>20,822,068</u>	25,823,249	<u>15,850,942</u>	20,122,797
d) Other Current Assets				
Advance Tax & TDS	11,593,084		14,310,787	
Deposits: Interest Free	30,978,087		29,498,127	
Others	<u>129,795,603</u>	172,366,774	<u>139,730,897</u>	183,539,811
e) Loans and Advances (Unsecured Considered Good)				
Loans - Inter Corporate :				
Others	13,899,677		3,359,934	
Others	7,048,421		9,723,327	
Advances to Staff & Associates	1,583,250		1,785,330	
Dues from company under the same Management	1,175,000		2,175,000	
Advances Recoverable in Cash or Kind Or for Value to be received	<u>35,902,950</u>	59,609,298	<u>27,808,163</u>	44,851,754
As per Balance Sheet		379,355,618		367,781,959
SCHEDULE "6" - CURRENT LIABILITIES & PROVISIONS				
a. Current Liabilities				
Bank Over Draft	52,524,220		54,524,220	
Sundry Creditors	2,202,184		1,138,856	
Deposit from Client	60,000		60,000	
Margin Accounts	150,000,000		150,000,000	
Other Liabilities	<u>280,980</u>	205,067,384	<u>576,044</u>	206,299,120
b. provisions				
Provision for Taxation	872,000	872,000	235,000	235,000
As per Balance Sheet		205,939,384		206,534,120

Particulars	CURRENT YEAR		PREVIOUS YEAR	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE "7" - MISCELLANEOUS EXPENSES				
(To the extent not written off or adjusted)				
Preliminary Expenses				
(Incl. Deferred Revenue Expenses)				
Balance as per last Balance Sheet	-	-	159,104	-
Less: Written off during the year	<u>-</u>	-	<u>159,104</u>	-
Public Issue Expenses				
Balance as per last Balance Sheet	-	-	532,971	-
Less : Written off during the year	<u>-</u>	-	<u>532,971</u>	-
As per Balance Sheet		-		-
SCHEDULE "8" - INCOME FROM OPERATION				
Interest on loans granted		1,353,697		1,900,154
Dividend Income		11,649,383		6,896,047
Income from Depository Services		68,696		711,215
Profit on Future & Options		3,464,434		(716,987)
Profit on Share Trading				
Sales	15,107,439		11,109,637	
Less: Cost of Sales	4,889,513		6,981,519	
Less: Service Tax & Other charges	<u>-</u>	10,217,926	<u>5,472</u>	4,122,646
As per Profit & Loss Account		26,754,136		12,913,075
SCHEDULE "9" - ADMINISTRATIVE AND GENERAL EXPENSES				
Auditors' Remuneration				
For Certification & Other work	38,404		46,574	
For Statury Audit	<u>46,408</u>	84,812	<u>32,660</u>	79,234
Computer Expenses		104,395		-
Demat and Depository Exp.		9,557		140,009
Conveyance & Travelling Expenses		626,028		380,209
Directors' Remunerations		2,404,000		1,200,000
Electricity Expenses		300,433		135,065
Guest House Expenses		36,000		42,000
Professional & Consultancy Fees		340,080		1,358,287
Legal Compliance Expenses		21,504		-
Listing Fees		33,000		33,000
Office Expenses		26,533		19,272
Postage and Courier		61,062		41,162
Printing and Stationery Expenses		185,440		171,503
Rent, Rates & Taxes		269,814		252,371
Repairs and Maintenance		326,676		295,009
Salary Expenses		2,157,808		1,939,327
Telephone Expenses		368,191		428,845
Membership & Subscription		325,546		453,023
VSAT & Lease Line Charges		300,000		341,392
Mess & Refreshment Expenses		600,006		482,252.00
Insurance Expenses		1,966,066		1,942,092.00
Trade Execution charges		1,350,000		1,350,000.00
Transaction Charges		791,440		569,968.00
Turnover Fees		72,000		713,258.00
Sundry Expenses		313,503		599,324
As per Profit & Loss Account		13,073,894		12,966,602

SCHEDULE "10"

NOTES TO CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006.

1. SIGNIFICANT ACCOUNTING POLICIES:

ACCOUNTING CONCEPTS:

The Company follows mercantile system of accounting, and recognizes materially all income and expenses on accrual basis except retirement benefits.

FIXED ASSETS:

Fixed Assets are recorded at cost of acquisition including the expenditure incurred in connection with the acquisition and installation of the assets.

DEPRECIATION:

Depreciation is provided as per the rates, and in the manner provided in Schedule XIV to the Companies Act 1956.

INVESTMENTS:

Investments are stated at cost of acquisition. The management does not find it necessary to provide for any diminution in the value of investments as the decline, if any, may be due to short term stock market forces.

INVENTORIES:

Inventories of quoted shares are carried at lower of cost or net realizable value and that of Unquoted Shares at cost. The cost of inventories of items that are not ordinarily interchangeable are assigned by specific identification of their individual costs. Other inventory items are recorded using first-in-first-out cost formula. The inventories include the relevant duties, taxes, and cess other than those subsequently recoverable by the enterprise from the taxing authorities that were incurred to bring the inventory to their present location and conditions.

REVENUE RECOGNITION:

Sale of shares is recognized on receipt of contract note from the broker and are recorded exclusive of securities transaction tax that is in nature of advance income-tax. Dividends are recorded in the year of declaration and receipt. Interest on loans granted is recognized as income on completion at the time it is not unreasonable to expect ultimate collection. Other revenue items are recognized as income on their accrual basis.

In case of Subsidiary Company Brokerage for different exchanges ends on different dates and hence company accounts up to last valan of the year, as it is the trade practice and it is net of tax.

TAXES ON INCOME:

Current tax is determined as the tax payable in respect of taxable income for the year.

Deferred tax for the year is recognized on timing difference, being difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred tax assets and liabilities are measured assuming the tax rates and tax laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax assets are recognized and carried forward only if there is a reasonable / virtual certainty of realization.

STATUTORY RESERVE:

A Statutory Reserve of 20% of the current profit after tax is made during the year in pursuance of section 45-IC of the Reserve Bank of India Act 1934.

PRUDENTIAL NORMS:

For the purpose of identifying the assets as Non-performing assets in pursuance of Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, the Company follows generally accepted accounting principles and industry practices.

2. The figures of the previous year are regrouped, rearranged and reclassified wherever necessary to correspond with those of the current year.
3. The year end position of Loans and advances in the nature of interest free loans given to the following companies which are under the same management within the meaning of Sub-section (1B) of Section 370 of the Companies Act, 1956.

NAME OF THE COMPANY	CURRENT YEAR	PREVIOUS YEAR
	Rs.	Rs.
Sagar Systech Limited	1,175,000	1,175,000

Maximum outstanding during the Year

NAME OF THE COMPANY	CURRENT YEAR	PREVIOUS YEAR
	Rs.	Rs.
Sagar Systech Limited	1,175,000	1,175,000

4. Information pursuant to paragraph 3 of part II of Schedule VI to the companies Act,1956 in respect of opening stock, purchases, sales and closing stock of shares traded in:

	Opening Stock	Purchases	Sales	Closing Stock
Shares (Qty. Nos.)	1,921,678	587,273	116,932	2,392,019
Value (Amount Rs.)	96,667,307	7,237,550	15,107,439	99,015,340

(Purchases and sales include Bonus Shares and other adjustments, if any)

5. During the year, the Company has accounted for Deferred Tax in Accordance with the Accounting Standard – 22, has resulted in a Deferred Tax Liability amounting to Rs. 1,284,807 as at the year end. The Deferred Tax Assets is arrived as follows.

Particulars	Amount of Tax	Amount of Tax
	Effect Rs.	Effect Rs.
	Current Year	Previous year
1. Unabsorbed Depreciation for assessment year 2001-02	202,513	242,010
2. Brought forward Loss for Assessment year 2001-02	-	1,262,866.
3. Unabsorbed Depreciation for assessment year 2003-04	123,539.	123,539.
4. Unabsorbed Depreciation for Assessment year 2004-05	48,677.	-
5. Unabsorbed Loss for Assessment year 2005-06	1,033,414.	-
6. Unabsorbed Depreciation for Assessment year 2005-06	198,401.	-
7. Timing difference recorded in earlier years	135,122.	(778,683)
8. Timing Difference between Book Depreciation and Income Tax Depreciation as on 01.04.2001.	(2,019,044)	(2,019,044)
Total Deferred Tax Assets for Earlier Years	(277,378)	(1,169,312)

Particulars	Amount of Tax	Amount of Tax
	Effect Rs.	Effect Rs.
	Current Year	Previous year
9. Current Year Timing difference in Depreciation	143,522	82,349
10. Current Year Capital Loss	-	28,003
11. Current Year Business Loss	619,843	8,140,395
12. Current Year Unabsorbed Depreciation	103,285	417,492
13. Last year's business loss reversed	(1,874,079)	-
Total Deferred Tax Assets for current Year	(1,007,429)	8,668,239
Net Deferred Tax Assets Accounted in books	(1,284,807)	7,498,927

6. The balances of loans & advances, sundry creditors & Debtors and overdraft from bank are subject to confirmation & reconciliation. The necessary adjustment if any will be made in the accounts on receipt thereof.
7. The documents with respect to property at Panvel have been lodged with the appropriate authority pending its approval. The said property was obtained pursuant to court order against realization of loans. The Company has obtained possession of the flat and claimed depreciation on the same.

8. Earning Per Share

PARTICULARS	YEAR ENDED 31.03.2006	YEAR ENDED 31.03.2005
Profit/(Loss) After Tax Rs.	16,324,143	(11,255,078)
Number of Equity Shares Fully Paid Up	6,963,600	6,963,600
Number of Equity Shares Party Paid Up	7,300	7300
Weighted Average number of Equity Shares	6,967,250	6,967,250
Earning Per Share – Basic and Diluted Rs.	1.69	-1.16
Face Value per Equity Share Rs.	10	10

9. The Company is mainly engaged in the business of providing commercial finance and dealing in shares and securities. All other activities of the Company revolve around the main business, and as such in the opinion of the management, there are no separate reportable segments as per Accounting Standard – AS – 17-“Segment Reporting” Issued by ICAI.
10. Contingent Liability
The management has set-off the amount receivable from Madhur Shares and Stocks Limited against the amount payable to M/s. Madhavpura Mercantile Co-operative Bank Limited. This amount was advanced by the said bank on behalf of Madhur Shares and Stocks Limited for meeting their liabilities. The said bank has initiated arbitration proceedings. However An ad-interim relief by way of stay of the Arbitration proceedings has been granted by the Hon'ble High Court of Gujarat There may be a liability of Rs. 384.86 million apart from interest, if any, there on, if the management's stand is not accepted. In such an eventuality, such amount, in turn, will be recoverable from Madhur Shares and Stocks Limited. In view of this, no interest has been provided on the overdraft balance with the said bank as the liability is not ascertainable.
11. Loans and advances given to the employees and associates do not carry any stipulation as to repayment of principal or payment of interest; and are being repaid periodically. Accordingly, these considered as good and not considered as part of non-performing assets.

12. Directors' remuneration RS. 2,404,000 (Previous year RS. 1,200,000) is within the limits of Schedule XIII to the Companies Act 1956.

13. Related Party Disclosures to comply with Accounting Standard – 18 – Related Party Disclosure by ICAI.

List of the related parties with whom transactions entered:

(i) Associates: Istaas Fashions Pvt. Ltd., Ashtavinayaka Alloys P. Ltd., Arya Marine Academy (Trust), Babu & Parekh Securities Private Limited, Coddon Technologies Private Limited, Sagar Systech Limited

(ii) Key Managerial Personnel: Mukesh Babu, Meena Mukesh Babu

Transactions During the year	Relationship	Rupees in Lacs
Amounts given As loans and Advances	Associates	317.20
Amounts received back as loans and Advances	Associates	53.50
Interest charged on loans and advances	Associates	6.13
Remuneration	Key Managerial Personnel	24.00

14. Fixed Assets of company are treated as "Corporate Assets" and are not "Cash Generating Units" as defined by AS-28 issued by Institute of Chartered Accountants of India (ICAI), In view of this, the Management is of Opinion that this Standard is not applicable to the Company.

15. Disclosure of details as required by Para 9BB of Non-Banking Financial Companies Prudential Norms (Reserve Bank of India) Directions, 1998.

(Rs. in lakhs)

Particulars			
Liabilities side :			
(1)	Loans and advances availed by the NBFCs inclusive of interest accrued thereon but not paid: (a) Only interest part on Inter-corporate loans.	Amount out-standing --	Amount overdue --
(2)	Break-up of (1)(f) above (Outstanding public deposits inclusive of interest accrued thereon but not paid):	NIL	NIL
Assets side :			
		Amount outstanding	
(3)	Break-up of Loans and Advances including bills receivables [other than those included in (4) below] : (a) Secured (b) Unsecured	NIL 538.46	
(4)	Break up of Leased Assets and stock on hire and hypothecation loans counting towards EL/HP activities	NIL	
(5)	Break-up of Investments : <u>Current Investments :</u> <u>Long Term investments :</u> 1. <u>Quoted :</u> (i) Share : (a) Equity (b) Preference (ii) Units of mutual funds 2. <u>Unquoted :</u> (i) Shares : (a) Equity (b) Preference	NIL 4.50 NIL NIL 368.60 NIL	

(6)	Borrower group-wise classification of all leased assets, stock-on-hire and loans and advances :		
	NIL		
(7)	Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted): Please see note 3 below		
	Category	Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
	1. Related Parties **		
	(a) Subsidiaries	258.10	258.10
	(c) Other related parties		
	2. Other than related parties	131.70	115
	<i>Total</i>		
(8)	Other information		
	Particulars	Amount	
	(i) <i>Gross Non-Performing Assets</i>	--	
	(a) <i>Related parties</i>		
	(b) <i>Other than related parties</i>		
	(ii) <i>Net Non-Performing Assets</i>	--	
	(a) <i>Related parties</i>		
	(b) <i>Other than related parties</i>		
	(iii) Assets acquired in satisfaction of debt	--	

16. No interest has been charged on loans and advances given to subsidiary and some associate companies in view of commercial considerations of the group.
17. Other information pursuant to paragraph 3, 4A, 4C and 4D of part II of Schedule VI to the Companies Act, 1956 is not applicable.
18. The subsidiary Company is awaiting sanction and approval from the Stock Exchanges for commencement of its Broking Business. The Company has already made necessary applications in this regard. Consequently there is no broking income during the year.
19. The subsidiary Company's application for the renewal of the Certificate of Registration as a Depository Participant of M/s. National Securities Depository Limited has been rejected by the SEBI and the company has filed its appeal in the Securities Appellate Tribunal against the order of SEBI.

Signature to the Schedules "1" to "10"

FOR AND ON BEHALF OF THE BOARD

Sd/-

Sd/-

Sd/-

(Rashmi Deshpande)
Company Secretary

(Mukesh Babu)
Managing Director

(K. Chandrasekhar)
Director

Place: Mumbai.
Date: 25.08.2006

MUKESH BABU FINANCIAL SERVICES LIMITED
CONSOLIDATED CASH FLOW STATEMENT FOR YEAR ENDED 31ST MARCH 2006.

	Current Year		Previous Year	
	Rs.	Rs.	Rs.	Rs.
A. CASH FLOW FROM OPERATING ACTIVITIES :				
Net Profit Before Tax and Extraordinary Item		18,477,156		(18,754,005)
Adjustments for :				
Depreciation & Misc. Exp. Written off	1,356,128		2,177,044	
Bad Debts written off	1,974,016		25,178,003	
Excess Provision for Taxation	2,794	3,332,938	-	27,355,047
Operating Profit Before Working Capital Changes		21,810,094		8,601,042
Changes in Working Capital:				
Inventories	(2,348,035)		(9,030,803)	
Sundry Debtors	59,335		2,740,324	
Loans and Advances	(16,731,560)		(9,446,283)	
Other Current Assets	11,173,036		12,554,159	
Sundry Creditors	1,063,328		(593,060)	
Other Liabilities	(295,064)	(7,078,960)	(649,576)	(4,425,239)
Cash Generated from Operations		14,731,134		4,175,803
Direct Taxes Paid		(235,000)		(10,835,000)
Cash Flow Before Extraordinary Items		14,496,134		(6,659,197)
Extraordinary Items		(2,202)		(606,785)
NET CASH FROM OPERATING ACTIVITIES		14,493,932		(7,265,982)
B. CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(94,270)		(1,337,777)	
Sale of Fixed Assets	-		7,961	
Purchase of Investments	(6,699,210)		(14,112,877)	
Sale of Investments	-	(6,793,480)	1,120,566	(14,322,127)
NET CASH USED IN INVESTING ACTIVITIES		(6,793,480)		(14,322,127)
C. CASH FLOW FROM FINANCING ACTIVITIES :				
Proceeds from Issue of Share Capital	-		-	
Proceeds from Short Term Borrowings	-		-	
Repayment of Loan	(2,000,000)		(48)	
Repayment of Finance Lease Liabilities	-		-	
Dividends Paid	-		-	
Increase in Misc. & Public Issue Expenses	-	(2,000,000)	-	(48)
NET CASH USED IN FINANCING ACTIVITIES		(2,000,000)		(48)
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS		5,700,452		(21,588,157)
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		20,122,797		41,710,955
CASH & CASH EQUIVALENTS AT THE CLOSING OF THE YEAR		<u>25,823,249</u>		<u>20,122,797</u>

FOR SHAH SHAH & SHAH
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

Sd/-

Sd/-

Sd/-

Sd/-

(Mehul C. Shah)
Proprietor
Membership No.49361

(R. S. DESHPANDE)
Company Secretary

(MUKESH BABU)
Director

(K. CHANDRASEKHAR)
Director

Place : Mumbai

Place : Mumbai

Date : 25.08.2006

Date : 25.08.2006

Mukesh Babu Financial Services Limited

Registered office : 111, Maker Chambers III,
223, Nariman Point,
Mumbai –400 021

PLEASE FILL ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETING VENUE.

Joint shareholders may obtain additional Attendance Slip at the venue of the meeting.

DP. Id*	
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Regd. Folio No.	
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Client Id*	
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NAME AND ADDRESS OF THE SHAREHOLDER

No. of Share(s) held:

I hereby record my presence at an Annual General Meeting of the company held on Friday, 29th September 2006 at 4 p.m. at 12A/1, New Sion Co-op. Hsg. Soc. Ltd., Sion-West, Mumbai – 400 022.

Signature of the shareholder or proxy

*Applicable for investors holding shares in electronic form.

----- TEAR HERE -----

Mukesh Babu Financial Services Limited

Registered office : 111, Maker Chambers III,
223, Nariman Point,
Mumbai –400 021

DP. Id*	
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Client Id*	
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I/We _____ of
_____ being a member/members of Mukesh Babu Financial Services Limited
hereby appoint _____ of
_____ or failing him
_____ of _____

as my /our proxy to vote for me/us and on my/our behalf at an Annual General meeting to be held on Friday 29th September 2006 or at any adjournment thereof.

Signed this _____ day of _____ 2006

Affix a 30 Paise Revenue Stamp

- Applicable for investors holding shares in electronic form.

Note: (1) The proxy in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered office of the Company not less than 48 hours before the time for holding the aforesaid meeting. The Proxy need not be a member of the Company.

(2) Members holding shares under more than one folio may use photo copy of this proxy form for other folios. The Company shall provide additional forms on request.