

Notice

Notice is hereby given that the Twelfth Annual General Meeting of the Company will be held on Wednesday the 27th day of December 2006 at 10.30 A.M at Plot No. 1 & 9, IDA, Phase II, Cherlapally, Hyderabad - 500 051 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Audited Balance sheet as at 31st March 2006 and Profit and Loss Account for the year ended as on that date along with Directors' Report and Auditors' Report thereon.
2. To appoint a Director in the place of Mrs. Mahita Caddell, who retires by rotation and being eligible, offers herself for re-appointment.
3. To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution.

"WHEREAS a Special Notice has been received pursuant to Section 225(1) of the Companies Act, 1956 from a Shareholder for the appointment of M/s P.Murali & Co., Chartered Accountants, in place of the retiring Auditors, namely M/s. Nataraja Iyer & Co., Chartered Accountants.

NOW THEREFORE IT IS RESOLVED that M/s P.Murali & Co., Chartered Accountants, Hyderabad be and are hereby appointed as the Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at a remuneration as may be decided by the Board of Directors of the Company."

SPECIAL BUSINESS

4. Appointment of Mr. Clinton Travis Caddell as Managing Director and CEO

Mr. Clinton Travis Caddell was appointed on 22-03-2006 as additional director and on

24-04-2006 as Managing Director and CEO of the Company with effect from 01-05-2006 by the Board of Directors in the respective Board Meetings subject to the approval of the Central Government without any remuneration. In the meeting of the Board of Directors of the Company held on 29-11-2006 it proposed to pay remuneration to Mr. Clinton Travis Caddell with effect from 01-12-2006 as recommended by the Remuneration Committee. Hence the following resolutions were proposed as Special Resolution for the Consideration of the members of the Company to be passed with or without modifications.

"RESOLVED THAT Mr. Clinton Travis Caddell, be and is hereby appointed as Director of the Company and he is not liable to retire by rotation".

"FURTHER RESOLVED THAT subject to the approval of the Central Government pursuant to the provisions of Sections 198, 269, 309, 310, 311 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII (as amended from time to time) to the said Act, and as recommended by the remuneration committee the consent of the members of the Company be and is hereby accorded for appointment of Mr. Clinton Travis Caddell as Managing Director of the Company for a period of three Years with effect from 01-05-2006 on a remuneration as described below payable with effect from 01-12-2006

1. Salary: US\$ 120,000 per annum
2. Statutory Contributions if any applicable
3. Perquisites as given below in accordance with the policies of the Company
 - a. Gratuity
 - b. Leave encashment

- c. Medical Insurance
 - d. Telephone at residence
 - e. Club Fees (maximum of two clubs)
4. Stock Options – As per the policies of the Company

“RESOLVED FURTHER THAT whenever Mr. Clinton Travis Caddell is deputed on long-term basis or transferred from US to any other Country, he shall be entitled for remuneration incentives and perquisites in addition to reimbursement of relocation expenses, as may be decided by the Board of Directors based on the Compensation model of the Company applicable for such deputations/ transfers to that country. Subject to approval of authorities as may be necessary”.

“RESOLVED FURTHER THAT the Board, be and is hereby authorized to vary, alter or modify the different components of the above remuneration with the consent of Mr. Clinton Travis Caddell as Managing Director & CEO in Whole-time Employment”.

5. **Appointment of Mr. D P Sreenivas as Executive Director**

Mr. D. P. Sreenivas was appointed as additional director of the Company on 22-03-2006 and in the Board meeting held on 29-11-2006 as Executive Director of the Company, now it is proposed to the members to consider and if thought fit to pass with or without modifications the following resolutions as an Ordinary Resolution.

“RESOLVED THAT Mr. D P Sreenivas, be and is hereby appointed as Director of the Company liable to retire by rotation”.

“FURTHER RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, 311

and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII (as amended from time to time) to the said Act, the consent of the Company be and is hereby accorded for appointment of Mr. D P Sreenivas, as Executive Director of the Company for a period of 3 years with effect from 01-12-2006 on a remuneration as detailed below

I. Salary: Rs. 1,35,000 Per Month

Perquisites:

1. Housing: Rent Free Accommodation or House Rent Allowance of Rs. 45,000 Per month
2. Other Allowances like Maintenance of house office, Subscription to internet, Professional Development Allowance, Dress Allowance, Gardener, Servant etc; not exceeding Rs. 20,000 Per month.
3. Contribution to Provident Fund, Superannuation Fund or Annuity Fund. This will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act, 1961. Gratuity payable shall not exceed half month's salary for each completed year of service.
4. Encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites.
5. Provision of Car for use on Company's business and Telephone at residence. These will not be considered as perquisites. The company shall bill personal long distance calls on telephone and the use of the car for private purpose.

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

“RESOLVED THAT Mr. Nandan Kundetkar, be and is hereby appointed as Director of the Company liable to retire by rotation”.

7. PREFERENTIAL ALLOTMENT

To consider and if thought fit to pass with or without modification(s) the following resolution as Special Resolution for Issue of Share Warrants

“RESOLVED THAT pursuant to the provisions of Section 81 (1A) and all other applicable provisions, if any, of the Companies Act 1956 (including statutory modification(s), amendments or re-enactments thereof for the time being in force) and subject to the approval of the members in the General meeting and in accordance with the enabling provisions in the Memorandum and Articles of Association of the company and the Listing Agreement entered into between the Company with the Stock Exchanges, the subsisting guidelines and clarifications issued by the Government of India / Reserve Bank of India (RBI)/ Securities and Exchange Board of India (SEBI) or any other relevant authority and subject to such approvals, consents, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to by the Board of directors of the company, consent of the company be and is hereby accorded to the board of directors of the company and / or a duly authorised committee thereof for the time being exercising the powers conferred by the board of directors (hereinafter referred to as “the board”) in its absolute discretion,

to offer /issue and allot not more than 2,00,00,000 warrants, at the issue price to be determined in accordance with the relevant SEBI Guidelines, convertible, at the option of the warrant holders within an aggregate time period of 18 months from date of allotment of the warrants into 2,00,00,000 equity shares at a price Rs.22/, to M/s. Goldstone Exports Limited, on a preferential basis, as the Board may in its absolute discretion decide, in one or more tranches and on such terms and conditions, as the board considers fit, subject to the following:

1. The warrants and the equity shares to be offered and allotted upon conversion shall be subject to the provisions of the Memorandum and Articles of Association of the company in all respects.
2. The relevant date for calculating the price for issue and allotment of the above warrants is 24-11-2006.
3. The equity shares to be allotted on conversion of the warrants shall rank pari passu with the existing equity shares of the company in all respects.
4. The allotment of these warrants however subject to the condition that no conversion of warrants issued under the sanction of this resolution shall be admissible after a period of 18 months from the date of allotment.
5. An amount equal to 10% of the price fixed in relation to each of the warrant shall be paid upfront by the person to whom the allotment is being made, at the time of allotment of the warrant and the same shall be adjusted against the price payable for the subsequent allotment of equity shares against the warrants. Further, in the event the

option of conversion of warrant into equity share is not exercised by the warrant holder, in terms of this resolution the upfront payment of 10% shall stand forfeited.”

“FURTHER RESOLVED THAT for the purpose of giving effect to this resolution, the Board / committee be and is hereby authorised to do all such acts, deeds, matters and things as it may in its absolute discretion deemed necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer/issue, allotment and utilization of the proceeds”.

8. FOREIGN CURRENCY CONVERTIBLE BONDS (FCCB's)

To consider and if thought fit to pass with or without modification(s) the following resolution as Special Resolution for Issue of FCCB's

“RESOLVED THAT pursuant to section 81(1A) and any other applicable Provisions of the Companies Act, 1956 and relevant Provisions of the memorandum and articles of association of the Company and subject to the approval of the members in the General Meeting and the listing agreements entered into by the Company Subject to any necessary approval, consent, Permission and/or sanction of the Government of India, Reserve Bank of India, Securities and Exchange Board of India and any other appropriate authorities, institutions or bodies, and subject to such conditions as may be prescribed by any of them in granting any such approval, consent, Permission, or sanction, the Board of Directors of the Company (hereinafter referred to as “ the Board”, which term shall be deemed to include any committee referred to below), and duly authorized committee thereof for the time being exercising the powers conferred on the Board by this resolution be and is hereby authorized on behalf of the Company to issue and allot, any

securities convertible into equity shares at the option of the company and/ or holder of the securities representing either Equity shares or convertible securities representing either Equity shares or convertible into equity shares either in India or in the course of international offerings in one or more foreign markets, either in the form and/or name of Global Depository Receipts/ FCCBs or otherwise, to Qualified Institutional Buyers (QIBs), foreign investors (Whether institutions and/ or incorporated bodies and/ or individuals or otherwise, and whether or not such investors are members of the Company), for (or which, upon conversion of all securities so issued or allotted, could give rise to the issue of) an aggregate number equity shares or such receipts or instruments equivalent to 100 million equity shares of Rs.10/- each including the over allotment option, if any, and/or up to an amount not exceeding US Dollars 100 million as decided by the company/ underwriters, in terms of Chapter XIII A of SEBI Disclosure and Investor Protection Guidelines, 2000, as amended, such issue and allotment to be made at such time or times, in such trench or trenches, at such Price or Prices at a discount or premium to market price or prices, in such manner as the Board may, in its discretion think fit, in consultation with the lead manager and underwriters, and otherwise on such terms and conditions as may be decided and deemed appropriate by the Board at the time of issue or allotment.

RESOLVED FURTHER THAT the Company and/ or any agency or body authorized by the Company may issue Depository Receipts representing the underlying equity shares issued by the Company in registered or bearer form with such features and attributes as are prevalent in international Capital markets for instruments of this nature and to provide for the tradability or free transferability thereof as per the international practices and regulation, and under the forms and practices prevalent in the international markets.

RESOLVED FURTHER THAT the securities issued as above shall be deemed to have been made abroad in the market and/or at the place of issue of the security in the international market and shall be governed by the respective Law of Land and the Listing Agreement(s) to be entered into with the stock exchange(s) abroad.

RESOLVED FURTHER THAT the Board be and is hereby authorized to issue and allot such number of equity shares as may be required to be issued and allotted upon conversion of any securities referred to in paragraph above or as may be necessary in accordance with the terms of the offering, all such shares being pari passu with the equity shares of the company in all respects, expecting such right as to dividend as may be provided under the terms of the issue and in the Offer document.

RESOLVED FURTHER THAT for the purpose of giving effect to any issue or allotment of Equity Shares or Securities or instruments or securities representing the same, as described in paragraph above, the Board be and is hereby authorized on behalf of the Company to do all such acts, deeds, matters and things as it may at its discretion deem necessary or desirable for such purpose, including without limitation the entering into of underwriting, marketing and depository arrangements and with power on behalf of the Company to settle any questions, difficulties or doubts that may arise in regard to any such issue or allotment as it may in its absolute discretion deem fit”.

9. Allotment of Shares to Employees / Professionals under ESOPS

To consider and if thought fit to pass with or without modification(s) the following resolution as Special Resolution for Issue of ESOPS

“RESOLVED THAT pursuant to section 81 (1A) and other applicable provisions, if any, of the

Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) the Articles of Association of the Company and Securities Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 (including any statutory modification or re-enactment thereof) and subject to such other approvals as may be required from such other appropriate authorities, and subject to such terms and conditions and stipulations, if any, while granting such approvals, permissions and sanctions, the Board of Directors of the Company (hereinafter referred to as Board which expression shall include a Committee of Directors duly authorised in this behalf) be and is hereby authorized to issue, offer, in one or more tranches, all or any of the following, in one or more combination thereof equity shares or equity linked securities or convertible debentures (whether fully convertible or not, whether fully secured or not), Non-Convertible Debentures (whether secured or not), Secured Premium Notes (SPN), Floating Rate bands and/or any other securities, all or any of the aforesaid with or without detachable or non-detachable warrants, convertible equity shares (hereinafter referred to as “Securities” for sake of brevity), not exceeding 5% of the Paid-up Share Capital of the Company to its employees, whether in India or abroad, whether shareholder of the company or not (hereinafter collectively referred to as “Employees”), at such prices and other terms and conditions as the Board may in its absolute discretion think fit under the Employees Stock Option Scheme.”

“RESOLVED FURTHER THAT the Board be and is hereby authorised to take necessary steps for listing of the securities/shares allotted under the Employees Stock Option Scheme on the Stock Exchanges where the Company’s shares are listed as per the terms and conditions of Listing Agreement with the concerned stock exchanges

and other applicable guidelines, rules and regulations.”

“RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of the powers herein conferred to any committee of the Directors of the Company to give effect to the resolution.”

“RESOLVED FURTHER THAT for the purpose of giving effect to the above, the Board be and is hereby authorised to do all such act and deeds necessary or expedient to formulate or amend or adopt any modification or redefine the proposal or scheme or plan of Employee Stock Option Scheme based on the guidelines issued by the Securities Exchange Board of India or any statutory authority from time to time.”

10. INCREASE OF AUTHORISED SHARE CAPITAL

To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution for Increase of Authorised Share Capital

“RESOLVED THAT the Authorised Capital of the company be increased from Rs.25,00,00,000/- (Rupees Twenty Five Crores Only) to Rs. 50,00,00,000/- (Rupees Fifty Crores Only) by Creation of 2,50,00,000 Equity Shares of Rs.10/- each ranking for dividend and in all other respects pari passu with the existing Equity Shares of the Company.”

“RESOLVED FURTHER THAT Clause V of the Memorandum of Association of the Company relating to the Share Capital be and is hereby amended by deleting the words and figures i.e., Rs. 25,00,00,000/- (Rupees Twenty Five Crores Only) divided into 2,50,00,000 (Two Crores Fifty Lakhs Only) Equity Shares of Rs. 10/- (Rupees Ten Only) each and substituting in its place the words and figures Rs. 50,00,00,000 (Rupees Fifty Crores Only) divided into 5,00,00,000 (Five

Crores Only) Equity Shares of Rs. 10/- (Rupees Ten Only) each.”

11. Alteration of Articles of Association

To consider and if thought fit to pass with or without modification the following resolution as Special Resolution for Articles of Association

“RESOLVED THAT pursuant to the provisions of Section 31 (1) of the Companies Act, 1956 and subject to the approval of members in General meeting, the existing Article No. 3 (a) of the Articles of Association of the Company be and is hereby deleted and in its place the following Article be substituted therefor.

‘The Authorised Share Capital is Rs. 50,00,00,000/- (Rupees Fifty Crores only) divided into 5,00,00,000 (Five crores only) Equity Shares of Rs.10/- (Rupees Ten Only) each’.

12. Overseas Subsidiary Companies

To consider and if thought fit to pass with or without modification the following resolution as Special Resolution for Overseas Subsidiary Companies

“RESOLVED THAT pursuant to the provisions of FEM (Transfer of issue of any Foreign Security) Regulations, 2004 and other applicable provisions if any of the Companies Act 1956. The consent of the shareholders is here by accorded to the Board of Directors of the Company to invest in joint venture or wholly owned subsidiaries abroad.”

For and on behalf of the Board

Sd/-

C Travis Caddell
Managing Director

Place: Secunderabad

Date: 29-11-2006

Notes:

- a) The Explanatory Statements as required Under Section 173 of the Companies Act, 1956, is enclosed.
- b) A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself/herself the proxy need not be a member of the company. The Proxy in order to be effective must be deposited at the Registered Office of the Company not less than 48 hours before the meeting.
- c) The Register of Members and Share Transfer Books of the Company shall remain closed on Tuesday 26th and Wednesday 27th December 2006 for the purpose of Annual General Meeting.
- d) Queries on accounts and operations of the Company, if any, may please be sent to the Company at least seven days in advance of the Meeting so that the answers may be made available at the Meeting.
- e) Members / Proxies are requested to deposit the enclosed Attendance Slip duly filled in and signed for attending the meeting.

Additional Information on Directors Recommended for Appointment/Seeking Re-election at the Ensuing Annual General Meeting

Mrs. Mahita Caddell

Mrs. Mahita Caddell aged 34 years is also Director of Goldstone Teleservices Limited. She is MS (International Business Administration and Information Systems), Graduate from the University of North Carolina, USA and has over 6 years of experience in Industry and Business.

Mr. Clinton Travis Caddell

Mr. Clinton Travis Caddell aged 30 years also Director in Online Media Solutions Limited, he

holds Bachelor of Science (Computer Science) from University of North Carolina, USA. His line of expertise includes Architecture and Design, Networking, Structures, Algorithms, Software Engineering, Data Base, Discrete Math and Object Oriented Programming. He is having over 6 years of experience in Industry and Business. Mr. Clinton Travis Caddell worked as Software Engineer at Lockheed Martin, USA for a period of 6 years, with a compensation package of USD 60,000 per annum.

Mr. D P Sreenivas

Mr. D P Sreenivas aged 33 years also Director in Online Media Solutions Limited, Bachelor of Commerce (S V University), he has an experience of over 12 years in wide spectrum of Industries in the areas of Management and Liaison. He has worked in Multi National Companies like Ford Motor, Ford Credit and Ciber. He as a Project Lead at Ford Credit was involved in the automation of dealer business and also instrumental in implementing the dealer portal project. He has a remarkable expertise in the areas of Management and Liaison.

Mr. Nandan Kundetkar

Mr. Nandan Kundetkar aged 39 years is also promoter Director of SPL Innotech Pte Ltd, Singapore. A Postgraduate in electronics from Mumbai University, he has to his credit many research papers, versatile background in the design and development of various high end technology products, Specializing various technology domains. He is a scientist by heart but the destiny brought him into business. Apart from being the brain behind the SPL's technological innovations; the vital business models, international markets strategies are also handled by him.

To his credit there are quite a few important and revolutionary patents in the IPTV and



broadband multimedia one of them on the core advertising and messaging methods, which would influence lot of revenue models of IPTV and broadband multimedia in future.

He has great passion for teaching and has strong public relations world wide. He works with the top semiconductor companies in the world on different projects, which are going to be fantasies even for the developed nations.

Explanatory Statement Pursuant to Section 173(2) of the Companies Act, 1956

Item No. 4

Mr. Clinton Travis Caddell was appointed as Additional Director of the Company in the Board Meeting held on 22nd March 2006, he was appointed as Managing Director and CEO in the Board Meeting held on 24th April, 2006 With effect from 1st May 2005 no remuneration was proposed by the board.

Notice pursuant to the provisions of Sec 257 of the Companies Act, 1956, together with the requisite deposit have been received from the members proposing his candidature for the office of Director not liable to retire by rotation.

The Board of Directors in their meeting held on 29th November, 2006, based on the recommendation of the Remuneration Committee, proposed to revise the terms of appointment of Mr. Clinton Travis Caddell, Managing Director and CEO of the company with effect from 1st December, 2006, the terms and conditions are detailed in the Resolution 4.

As per the provisions of section 198,269,309,310,311 read with schedule XIII of the Companies Act, 1956, approval of the Shareholders is required by way special Resolution, subject to the consent of Central Government hence the Directors recommends to pass the resolution as special resolution.

None of the Directors except Mr. Clinton Travis Caddell and Mrs. Mahita Caddell are interested in this resolution.

Item No. 5

Mr. D. P Sreenivas was appointed as Additional Director of the Company with effect from 22nd March 2006. The Board of Directors in their meeting held on 29th November, 2006, on the recommendation of the Remuneration Committee, proposed to appoint him as Executive Director of the company with effect from 1st December, 2006, on the terms and conditions are detailed in the Resolution 5.

Notice pursuant to the provisions of Sec 257 of the Companies Act, 1956, together with the requisite deposit have been received from the members proposing his candidature for the office of Director liable to retire by rotation.

As per the provisions of sections 198,269,309,310,311 read with schedule XIII of the Companies Act, 1956, approval of the shareholders is required by way of Ordinary resolution in the General meeting and hence the Directors recommends the resolution for your approval.

Your Directors recommend the resolution for approval of the members.

None of the Directors except Mr. D P Sreenivas, are interested in this resolution.

Item No. 6

Mr. Nandan Kundetkar was appointed as Additional Director of the Company with effect from 24th April 2006.

Notice pursuant to the provisions of Sec 257 of the Companies Act, 1956 together with the requisite deposit have been received from the members proposing his candidature for the office of Director liable to retire by rotation.

Your Directors recommend the resolution for approval of the members.

None of the Directors except Mr. Nandan Kundetkar, are interested in this resolution.

Item No. 7

To consider the proposal of Issue of Share Warrants

To augment resources for product development expenditure, long term working capital needs, capital expenditure and other corporate action, your company has proposed to issue further 2,00,00,000 equity shares and /or 2,00,00,000 Warrants convertible into Equity shares and/or other securities to the promoters group on preferential allotment basis. Your Director recommend the resolution for shareholders approval for issue of equity shares by way of preferential allotment as mentioned in the proposed resolution, pursuant to section 81 (1A) of the Companies Act, 1956.

Disclosures as per 13.1 A of SEBI (Disclosure and investor Protection) Guidelines 2000, the required details was furnished as under:

a. Objects of the issue through preferential offer

The objects of the proposed issue of equity shares and warrants to proposed allottees are to augment resources for:

Long Term Working Capital Requirements

Capital Expenditure

General Corporate Requirements

b. Intention of Promoters/ Directors/ Key management persons to subscribe to the offer M/s. Goldstone Exports Limited which is participating in the ensuing preferential issue, will fall under the category 'Promoters' and have agreed to subscribe to the preferential offer.

c. The identity of the proposed allottees and the percentage of post-preferential issue capital that may be held by them.



The percentage of Post - Preferential issue held by the proposed investors is presented in below table.

S.No	Category	Pre Issue		Post Issue	
		No of Shares	%of Shares	No of Shares holding	%of shares holding
1.	Goldstone Exports Limited	3419272	26.30	23419272	70.96

Note:- The Proposed Issue of Share Warrants will be converted into Equity Shares subject to completion of Open Offer pending with SEBI

d. Change in the control or composition of the Board

There will be neither any change in the composition of the Board nor any change in the control of the company on account of the proposed preferential allotment. However, there will be corresponding change in the shareholding pattern as well as voting rights consequent to preferential allotment.

e. The Pre and post Shareholding patterns will be as follows:

The Shareholding patterns before and after this issue is presented in the table below.

Sl.No	Category	Pre Issue		Post Issue	
		No of Shares	%of Shares	No of Shares holding	%of shares holding
1.	Promoters				
	Indian	35,43,053	27.25	2,35,43,053	71.34
	Foreign	593	0.00	593	0.00
	Non - Promoters	-	-	-	-
2.	NRI's / FII's/ OCB's	4,60,168	3.69	4,60,168	1.39
3	Govt / Banks/ Mutual Funds	4,700	0.04	4,700	0.01
4.	Bodies Corporate	20,36,704	1.42	20,36,704	6.18
5.	General Public	69,56,102	54.85	69,56,102	21.08
	Total	1,30,01,320	100.00	3,30,01,320	100.00

f) Proposed time with in which the allotment shall be completed

The allotment of the share warrants will be completed within a period of 6 month from 27th December 2006 being the date on which shareholders sanction is to be obtained for preferential allotment.

As per Section 81 (1A) of the Companies Act 1956, approval of the shareholders in the General Meeting is required for allotment of Equity Shares/Warrants convertible into Equity Shares/Other Securities on Preferential basis and hence this resolution is placed before the shareholders.

The share price of Rs.22 is arrived at as per SEBI preferential Issue Guidelines and Auditors Certificate as to the issue price will be placed before the shareholders in the General Meeting.

Item No 8: Issue of Foreign Currency Convertible Bonds (FCCB)

To augment resources for product development expenditure, long term working capital needs, capital expenditure and other corporate action, your company has proposed to issue Foreign Currency Convertible Bonds of USD 100 millions which will be converted into equity shares as would be decided by the Company/Underwriters at such price at the time of issue or allotment.

Your Director recommend the resolution for shareholders approval for issue of FCCB's as mentioned in the proposed resolution, pursuant to section 81(1A) of the Companies Act, 1956.

Item No 9: Allotment of Shares to Employees / Professionals under ESOPS

To motivate, reward and retain the key performers and to attract the talented personnel, your Directors seek the approval of the shareholders, to set up an Employee Stock Option Scheme (ESOPS) by earmarking equity shares not exceeding 5 % of the paid-up Equity share capital for granting of stock options under the scheme designated as Goldstone Technologies Employees Stock Option scheme.

Your Company has adopted a policy to cover all key employees under the Employees stock option scheme at critical levels.

- a) The Total number of options to be granted
Not exceeding 5 % of the present paid-up Equity share Capital of the Company
- b) Identification of classes of employees entitled
Any employee not being a promoter or Director holding (along with his relatives) more than 10% of the outstanding equity.
- c) Vesting of Options as per the schedule given below.

Period	% Option Vested
12 months from the date of Grant	10%
18 months from the date of Grant	15%
24 months from the date of Grant	20%
30 months from the date of Grant	25%
36 months from the date of Grant	30%
- d) The exercise price for the grant of options shall be computed (a) either at a discount of up to 75% on the average closing prices for the company equity shares quoted on the Stock Exchanges having the maximum volume of transactions during the two weeks preceding the date of the grant or (b) closing prices on the date of grant for the company equity shares quoted on the stock exchanges.
- e) Option can be exercised by making an application for issue of shares against the option vested within a period of 5 years from the date of grant.
- f) The appraised process for determining the eligibility of the employees to the Employees Stock Option scheme shall be determined by the compensation committee based on the formal appraisal systems and on the advice of the advisory board.

- g) Maximum number of options to be issued per employee and in aggregate will be recommended by the advisory board of the company for the approval of the compensation committee, not exceeding 1% of the issued capital or one lakh, whichever is less.
- h) The company shall confirm to the accounting policies specified in Clause 13.1 of the SEBI (Employees stock Option Scheme and Employees Stock Purchase Scheme) Guidelines 1999. The Guidelines provided for a separate special Resolution in general meeting in case of grant of options to the Employees / Professionals under ESOPS. Accordingly, the board seeks your approval by way of special resolutions in terms of sections 81 (1A) of the companies Act, 1956.

Your Directors recommend the resolution as Special Resolution for your approval.

None of the Directors of the company is in any way concerned or interested in the passing of the resolution except to the extent of any options, which may be granted to them pursuant to the plan.

Item No. 10 & 11:

The present Authorised Capital of the Company is Rs. 25,00,00,000/- (Rupees Twenty Five Crores Only). Which is not sufficient with the increase in the capital as proposed in the Item No. 7, 8 & 9. Keeping this in view it is proposed to increase the Authorised Capital of the Company to Rs. 50,00,00,000/- (Rupees Fifty Crores Only). The increase in the Authorised Capital to the proposed level of Rs. Fifty Crores, if adopted by the shareholders would enable the Board of Directors of your Company till such appropriate times as the Board may decide to issue and allot further shares to augment the financial resources.

The increase in the Authorised Capital of the Company requires consequential amendment of the Capital Clause in the Memorandum & Articles of Association. This requires to be sanctioned by the Members at the General Meeting by a Special Resolution. Hence the proposed resolutions 10 & 11.

Your Directors recommend the resolution(s) for your approval.

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

Item No. 12:

The Company is foreseeing excellent businesses opportunities Overseas market in the areas of IPTV and other services. To control and operate the businesses in a much profitable way, your Directors propose to enter into a Joint Venture or establish a wholly owned subsidiaries abroad. Hence the resolution was proposed.

Your Directors recommend the resolution for your approval.

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

For and on behalf of the Board

Sd/-

Place: Secunderabad

Date: 29-11-2006

C Travis Caddell
Managing Director

Directors' Report

Your Directors have pleasure in presenting the Twelfth Annual Report on the business and operations of your company and the Audited Accounts for the financial year ended as on 31st March 2006.

Financial Results	(Rs in Lakhs)	
Particulars	2005-06	2004-05
Net Sales/Income from Operations/Software	3490.47	4121.94
Other Income	121.30	35.15
Total Income	3611.77	4157.09
Operating Profit	317.45	370.27
Interest	85.28	84.82
Depreciation and Write Offs	163.32	158.02
Profit Before Tax	68.85	127.43
Provision for Tax	8.90	—
Deferred Tax	30.33	35.08
-Prior Period Adjustments	26.72	3.52
Profit after Tax	63.56	162.51
Equity Share Capital (1,11,03,120 Shares of Rs.10/- each)	1110.13	1083.84
E.P.S (Before Prior Period - items)	0.816	1.499
E.P.S (After Prior Period items)	0.575	1.467
Net Worth	1816.47	1492.97
Book Value (face value Rs. 10/-)	16.58	13.72

Review of Operations

During the year under Review, your Company has reported revenue of Rs.3611.77 lakhs as against Rs.4157.09 lakhs of the previous financial year. The Net Profit for the period was stood at Rs.63.56 lakhs as against Rs.162.51 lakhs of the previous period.

Dividend

Your Directors did not recommend our Dividend for the year under consideration.

Fixed deposits

The Company has not accepted any Fixed Deposits, falling within the purview of Section 58A of the Companies Act, 1956

Insurance

All the properties of your Company including its building, plant & machinery and stocks have been adequately insured.

Auditors

M/s.Nataraja Iyer & Co., Chartered Accountants retire at the ensuing Annual General Meeting. The Company has received a special notice under Section 190 of the Companies Act, 1956 for appointment of M/s P Murali & Co; Chartered Accountants as Statutory Auditors who have confirmed their eligibility and willingness to be appointed as Auditors as per Section 224(1B) of the Companies Act., 1956.

Directors

Mrs. Mahita Caddell Director retires by rotation and being eligible offers herself for re-appointment. During the year Mr. Clinton Travis Caddell, Mr. D P Sreenivas and Mr. Nandan Kundetkar were appointed as Additional Directors of the Company. Mr. Clinton Travis Caddell appointed as Managing Director. During the year Mr. V.Srinivasa Rao, Mr. Vikas Mehrotra and Mr. K V S Chalapathi Rao have resigned as Directors of the Company. The Board places on record its appreciation for valuable services rendered by them during their tenure as Directors.



Stock Exchange Listing

The Equity Shares of the Company are listed on the National Stock Exchange, The Stock Exchange Mumbai, Hyderabad Stock Exchange, Madras Stock Exchange Limited, Delhi Stock Exchange and Ahmedabad Stock Exchange. The company confirms that it has paid Annual Listing Fees due to all the above Stock Exchanges for the year 2006-2007.

Director's Responsibility Statement

In accordance with the Section 217(2AA) of the Companies Act, 1956, the Board of Directors affirms:

- (a) That in the preparation of the Accounts for the financial year ended as on 31st March 2006, the applicable accounting standards have been followed and there are no material departures there from.
- (b) That they selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2006 and of the profit or loss of the Company for that period.
- (c) That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (d) That the annual accounts for the financial year ended 31st March 2006 has been prepared on a going concern basis.

Corporate Governance

A report on Corporate Governance including Auditor Certificate thereon as per Clause 49 of the Listing Agreement is contained elsewhere in the Annual Report.

Particulars of Employees:

None of the employees were in receipt of remuneration in excess of limits specified in Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

Conservation of energy / technology absorption, foreign exchange earnings and outgoings

Disclosure of particulars in respect of Conservation of Energy, Technology, Absorption and Foreign Exchange Earnings and Outgo required under Companies (Disclosure of particulars in the Directors' Report) Rules 1998.

1. Conservation of Energy:

The operations of the company are not energy intensive. However, adequate measures have been taken to conserve and reduce the energy consumption.

2. Technology Absorption

Your company continues to use state-of-the-art technology for improving the productivity and quality of its products and services. To create adequate infrastructure, your company continues to invest in the latest hardware and software.

3. Foreign Exchange Earnings & Outgo:

The details of Foreign Exchange earnings and outgo are given below:

	(Rs. in Lakhs)	
	2005-06	2004-05
a) Foreign Exchange Earnings	349.98	794.60
b) Foreign Exchange Outgo	11.77	17.14

Acknowledgements

Your Directors convey their sincere thanks to State Bank of Hyderabad, Punjagutta Branch and

HDFC Bank, Jubilee Hills Branch for their support and assistance.

Your Directors thank all the Employees of your company for their dedicated service, which enabled your company to achieve excellent results and performance during the year. Your Directors thank the shareholders for their support and confidence reposed in the company and the management and look forward to their continued co-operation and support.

For and on behalf of the Board

Sd/-

C Travis Caddell
Managing Director

Place: Secunderabad

Date: 29-11-2006



Management Discussion and Analysis Report

The financial year of the Company consists of 12 months period commencing from 01.04.2005 and ending on 31.03.2006

Industry Structure & Developments:

India is advancing at an ever increasing rate in every industry. The power behind this movement is a quality workforce - qualified, focused and determined to improve themselves, their companies and position themselves as leaders on the global stage. There has never been a more pivotal moment in business for finding and positioning a strong team and determined leaders than ever before. Independent of industry is the necessity for good people; this is a key focus for Goldstone Technologies. Goldstone Technologies, currently operates from many facets relating to software; from software development to software technical support. A technology that shows much growth potential and more company focus is that of Business Intelligence, inclusive of Database Technologies.

Opportunities and Threats:

Opportunities abound for every company in India. A major opportunity for Goldstone Technologies has been the reception of organizations from both South America and US government agencies working more freely with Indian companies; this has resulted in new business revenues for the company. Another notable opportunity is advancements in the Indian infrastructure which has improved the quality of service to our customers dramatically; increasing both delivery time and quality.

Major threats continue to be that of increasing competition and attrition of good resources.

Financial Performance:

Capital Structure:

During the year, there is no change in the authorised capital of the company, which stood at Rs.2500 lakhs. There is an increase in Issued, Subscribed and Paid-up capital by Rs.26.29 lakhs. The paid-up Capital of the company as on 31st March 2006 is Rs. 1110.13 lakhs.

Reserves & Surplus:

The Reserves & Surplus position has improved by Rs. 39.44 lakhs on account of Share Premium and Rs.1.25 lakhs on account of Foreign Currency Translation Reserve during the year.

Fixed Assets:

There has been an addition of Fixed Assets worth of Rs.66.11 lakhs during the year, spent on Buildings, Computer Systems, other electronic equipments and Vehicles. During the years 2003-04, 2004-05 Company identified certain expenses amounted to Rs. 3,02,56,363 and Rs.1,22,28,878 respectively towards design, development and testing of Software Tools for IT Services which are attributable to Intangible Assets during development period. However these expenses by oversight were capitalized as part of Building and Lease hold improvements in the year 2004-05. Therefore during the year 2005-06 the Company rectified the same and considered these expenses Rs. 3,02,56,363/- in the year 2003-04 and Rs.1,22,28,878/- of 2004-05 as Miscellaneous Expenses (to the extent not written off or adjusted) as Software Development expenses to be Written off over a period, as the Company expects economic benefits from the development work

Investments:

The company acquired 100% holding in M/s Staytop Systems Inc., at a total purchase consideration of Rs. 926.63 lakhs for which, the effective date of acquisition is 10th February

2005. Out of the total purchase consideration an amount of Rs.204.76 paid during 2004-05 and an amount of Rs.371.87 paid during the year and the balance amount payable of Rs.350.00 lakhs.

Sundry Debtors:

The Sundry Debtors balance outstanding as on 31.03.06 has increased when compared to the outstanding as on 31.03.05 due to increase in the extending the credit periods to various customers. All the outstanding receivables are considered good.

Cash & Bank balances:

The Cash & Bank balances have been maintained at the minimum level.

Loans and Advances:

Strict management / financial control has been exercised during the year and the Loans & advances outstanding as on 31.03.06 has been brought down when compared to the previous year.

Current Liabilities & Provisions:

In view of the increased operations and availing of higher level of market credit the balances of current liabilities has increased during the year.

Provision for gratuity and leave encashment has been made on the basis of actuarial valuation.

Miscellaneous Expenditure:

Expenditure incurred by the Company, the yields / benefits from which are estimated to be accrued to the Company from more than a year, have been treated as Deferred Revenue Expenditure. An amount of Rs. 319.45 lakhs which was transferred in 2004-05 to Buildings and Leasehold Improvements is restated as Deferred Revenue Expenditure during and Rs. 16.90 lakhs has been written-off during the year and the balance Rs.426.83 lakhs to be charged to the Profits of the future years.

Operational Results:

Revenue:

During the year, the revenue has decreased by 15.32% over the previous year.

Expenditure:

The expenditure has decreased by 13.01% over the previous year mainly on account of decrease in Personnel Cost, Professional Consultancy charges, Marketing Expenses, Traveling expenses and other operational expenses.

Financial Charges:

Company has incurred a sum of Rs.85.28 lakhs towards financial charges against Rs.84.82 lakhs incurred during the previous year.

Depreciation:

An amount of Rs. 163.32 lakhs was provided as depreciation during the year

Write offs:

The Deferred Revenue Expenses written-off during the year 2005-06 is Rs. 16.90 lakhs.

Provision for Tax:

No Provision for tax has been provided during the year on the income from software and services as the company availing the benefits under Section 10A of Income Tax Act. However the company provided Rs.6.07 lakhs as provision for taxation on Rental Income and profit on sale of Mutual Fund units and Rs.2.82 lakhs towards Fringe Benefit Tax.

Net Profit/ (Loss):

The company reported Rs.63.56 lakhs Profit after Tax for the period 2005-06 compared to Rs. 158.98 lakhs in the previous year.

Earning per Share:

The Earning per Share of the Company for the year is Rs.0.575 per Share of face value of share



of Rs.10/- as against Rs 1.467 of the previous year.

Internal Controls & Systems:

The Company has proper and adequate system of internal controls commensurate with its size and nature of operations to provide reasonable assurance that all assets are safeguarded, transactions are authorized, recorded & reported properly and applicable statutes & corporate policies are duly complied with. The Internal Audit function has been structured to continuously review the adequacy and efficacy of the internal controls. The audit committee reviews the internal audit reports at regular intervals.

The company has an audit committee constituted as per section 292 (a) of the Companies Act, 1956 and as per the requirements of Corporate Governance specified under Clause 49 of the listing agreement.

Human Resource Development & Industrial relations

The Company's Corporate HRD policy emphasizes on continuous, increased quality and commitment of its employees in order to succeed in the achievement of the corporate goals. The company provides employee development opportunities by conducting training programmes to equip the employees with upgraded skills enabling them to adapt to the contemporary technological advancements.

As on 31st March 2006 the Company has a total strength of 209 employees: Domestic 134, Overseas - 75

Industrial relations during the year continue to be cordial and the Company is committed to maintain good industrial relations

Outlook for the year 2006-07

The company's outlook for the financial year ending March 31, 2006 is as follows:

For Financial Year 2006-07 income from Software services is expected to grow between 35% to 45%. Accordingly income is expected to be between Rs.45 Crores to Rs. 50 Crores. The Company will focus more on Business Intelligence and Database segments to leverage our current strengths and promote growth in this area.

Cautionary Statement

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations, may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results would differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand, supply and price conditions in the domestic / overseas markets in which the Company operates, changes in the government regulations, tax laws and other statutes and other incidental factors.

Report On Corporate Governance

Company's Philosophy on Code of Governance

The Company envisages the attainment of highest level of transparency in all facets of its operations and in all its interactions with its shareholders, employees.

The company is committed to the best governance norms. It strongly believes in setting the high standards in all its endeavors.

Board of Directors

The Board of Directors of the Company consists of 5 Directors. One of them is Executive Non Independent, One is Non-Executive and Non Independent and other Three are Non-Executive Independent Directors. The Board has taken all the necessary steps to strengthen the Board with optimum combination of Executive and Non-Executive independent Directors. In consonance with the amended Listing Agreement, the Board comprises of majority of independent directors.

The Chairman of the Company Mr. M P Mehrotra is a Non-Executive and Independent Director

Eleven Board Meetings were held during the financial year 2005 - 2006 on the following dates:

12th April 2005, 30th April, 2005; 1st June, 2005; 30th July, 2005; 8th August, 2005; 29th September 2005; 28th October, 2005; 15th November 2005; 11th January, 2006; 29th January 2006, 22nd March 2006.

The details of attendance at the Board Meetings, Annual General Meetings and Number of other Directorships and committee Memberships of Directors during the year and as on 31-03-2006 is given below.

Name of Director	Designation	Number of Board Meetings held	Number of Board Meetings Attended	No. of Committee Positions held in the Company	No. of Director - ships in other Companies	Attendance at Last AGM (Yes/No)
*Mr M P Mehrotra	Chairman	11	7	3	12	No
Mr. V P Singh	Non - E D	11	6	3	2	Yes
*Mr. K V S Chalapathi Rao	MD	11	10	2	NIL	Yes
*Mr. Vikas Mehrotra	Non - E D	11	1	2	2	Yes
Ms Mahitha Prasad Caddell	Non - E D	11	3	3	3	No
**Mr. Clinton Travis Caddell	Non - E D	11	1	Nil	1	No
**Mr. D P Sreenivas	Non - E D	11	Nil	Nil	1	No
*L P Sashi Kumar	Non - E D	11	2	Nil	2	No
*V Srinivasa Rao	Non - E D	11	1	Nil	NIL	No

* Mr. V Srinivasa Rao and Mr. L P Sashikumar have resigned as Directors of the Company on 1st June 2005, Mr Vikas Mehrotra and K.V.S. Chalapathi Rao have resigned as Director of the Company

on 22nd March 2006 (Mr. M.P. Mehrotra has resigned as Director of the Company on 24th April 2006.)

** During the Year Mr. Clinton Travis Caddell, and Mr. D.P. Sreenivas were appointed as Additional Directors of the Company on 22nd March 2006, and Mr. Nandan Kundetkar was appointed as Additional Director of the company on 24th April 2006 Mr. Clinton Travis Caddell was appointed as Managing Director of the company on 24th April 2006, with effect from 1st May 2006 for a period of three years by the Board

Audit Committee

As on 31st March 2006, the Audit Committee comprised of Mr M P Mehrotra Chairman, Mr. V P Singh, and Mrs. Mahita Caddell, as its Members. The role, terms of reference and authority and powers of the Audit Committee are in conformity with the requirements of Companies Act, 1956 and provisions made in paragraph C and D in sub-clause II of Clause 49 of the listing agreement.

The Audit Committee held four meetings during the year 2005-2006 and attendance at the meeting was as under

Name of the Director	Position held in the Committee	No. of meetings attended	Committee meetings held on
Mr. M P Mehrotra	Chairman	4	29 th April 2005
Mr. V P Singh	Member	3	30 th July 2005
*Mr. Vikas Mehrotra	Member	NIL	
*Mr. K V S Chalapathi Rao	Member	4	28 th October 2005
Mrs. Mahita Caddell	Member	NIL	29 th January 2006

* Resigned from the Board on 22nd March 2006 and also from the committee.

Remuneration / Compensation Committee

As on 31st March, 2006 the Remuneration Committee comprised of Mr. M.P. Mehrotra, Chairman, Mr. V P Singh, Member, Mr. Vikas Mehrotra and Mrs. Mahita Caddell Member. The terms of reference of the Remuneration Committee, inter alia include determination of compensation package of Executive Directors and Senior Management of the Company. During the year 2005-2006, the committee met only one time on 1st September, 2005 and all the Members attended the meeting. Mr. Vikas Mehrotra resigned from the Board & the committee on 22-03-2006.

Details of remuneration to all the directors in the financial year 2005-2006

The aggregate of Salary, perquisites paid to Mr. K V S Chalapathi Rao, Managing Director for the period from 1st April 2005 to 22nd March 2006 is Rs. 22,27,750/-.

Shareholders / Investors Grievance Committee

As on 31st March, 2006, the Shareholders/ Investor Grievance Committee comprised of Mr. M P Mehrotra, Mr. V P Singh, Mrs. Mahita Caddell and Mr. K V S Chalapathi Rao. The committee was formed to specifically redress the shareholder and investor complaints like transfer of shares, non-receipts of balance sheet, non-receipt of dividend warrants etc.,

Mr. KVS Chalapathi Rao resigned from the Board and Committee on 22-03-2006.

Number of Investor queries/Complaints received during the year 2005-06 were as follows

Nature of Complaint	Received during the year	Resolved during the year
Letters received from NSE	2	2
Letter from SEBI	-	-
Letter from BSE	2	2
Non-Receipt of Dividend/Warrant	-	-
Non-receipt of Share Certificate/Transfer	2	2
Total	6	6

The Members of the shareholders/ Investors Grievance Committee are also entrusted with the responsibility of Share Transfer Committee, which looks into the matters relating to transfers/transmissions, issue of duplicate certificates etc. The details regarding the transfers, dematerializations, issue of duplicate Share certificate, etc., are as under:

No. of share transfer	No. of Shares approved for transfer	Duplicate Shares Issued	Re-materialization of Shares	Total
14	12600	NIL	NIL	12600

The Last Three Annual General Meetings:

The Last three Annual General Meetings of the company were held at plot No. 19, IDA, Phase-II, Cherlapally, Hyderabad – 500051.

Year	No. of Meeting	Location	Date & Day	Time
2004 - 2005	11 th	Plot No. 1 & 9, IDA, Phase II, Cherlapally, Hyderabad – 500 051	29 th September 2005, Thursday	10.30AM
2003 – 2004	10 th	Plot No. 1 & 9, IDA, Phase II, Cherlapally, Hyderabad – 500 051	30 th September 2004, Thursday	10.30AM
2002 - 2003	09 th	Plot No. 1 & 9, IDA, Phase II, Cherlapally, Hyderabad – 500 051	30 th September 2003, Tuesday	9.30AM

No EGM is held during the year.



No postal Ballots were required to be used \ invited for voting at these meetings in respect of the resolutions proposed during the year.

Disclosures

There were no transactions of material nature between the company and the directors or management and their relatives or promoters that may have a potential conflict with interest of the company. The remuneration to Whole-time Directors and key management personnel has been disclosed in the Annual Report

There has been no Non-Compliance by the company on any matter related to capital markets, Listing Agreement, Filing of the requisite Forms, Returns and Documents with the Registrar of Companies (ROC) and hence no penalties were paid nor any strictures were imposed on the company by the stock exchanges or SEBI or any statutory authority.

Means of Communication

The company publishes its Quarterly un-audited results in Business Standard (English), Andhra Bhoomi (Telugu). These results are submitted to the stock exchanges in accordance with the Listing Agreements and they are also being filed with the Stock Exchanges under EDIFAR facility.

Management Discussion & Analysis

The Management Discussion & Analysis Report is enclosed as part of the Annual Report.

GENERAL SHAREHOLDERS INFORMATION

1. General Shareholders Information:

The Company applied for grant of extension of AGM, to Registrar of Companies, Hyderabad on 08-09-2006. They granted time upto 29-12-2006.

The Twelfth Annual General Meeting of the Company will be held on Wednesday, 27th December, 2006 at 10.30 A.M at Plot No 1 & 9 Phase II, IDA Cherlapally, Hyderabad- 500051

Dates of Book Closure: 26th December – 27th December 2006

Stock Exchanges where Listed

- | | |
|--|---|
| 1. National Stock Exchange of India Limited
Exchange Plaza, 5th Floor Plot No C/1
G Block Bandra Kurla Complex
Bandra (E), Mumbai - 400 051 | 2. Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers
Dalal Street Mumbai - 400 001 |
| 3. Hyderabad Stock Exchange Limited
Administrative Office 6-3-654
Adjacent to Erramanzil Bus Stop
Somajiguda Hyderabad – 500 082 | 4. Ahmedabad Stock Exchange Limited
Kamadhenu Complex
Opp Sahajanand College
Panjarapole, Ahmedabad – 3800 015 |
| 5. Madras Stock Exchange Limited,
Exchange Building Post Box No 183
II Second Line Beach, Chennai - 600 001 | 6. Delhi Stock Exchange Association Ltd
DSE House, 3/1 Asif Ali Road
New Delhi - 110 002 |

Stock Code:

NSE - GOLD TECH BSE - 531439

Market Price Data:

Month	NSE		BSE	
	High	Low	High	Low
April 2005	28.50	21.00	28.70	23.10
May 2005	28.20	22.05	28.60	22.35
June 2005	30.45	22.00	31.50	24.15
July 2005	31.50	21.90	29.50	25.30
August 2005	36.45	23.25	36.45	25.00
September 2005	35.90	24.70	35.90	24.90
October 2005	26.90	20.00	26.90	20.15
November 2005	23.50	19.75	23.60	19.40
December 2005	21.50	17.80	21.55	17.70
January 2006	24.00	18.70	23.90	18.75
February 2006	22.35	17.85	22.20	17.50
March 2006	19.15	16.00	19.00	16.00

Registrar and Transfer Agents

M/s Venture Capital and Corporate & Investment Limited
6-2-913/914, 3rd Floor, Progressive
Towers, Khairatabad Hyderabad – 04
Tel: +91-40-3322262/64
Fax: +91-40-3324803
Email: info@vccilindia.com

Distribution of Shareholding as on 31st March 2006

Share or Debentures Holding of nominal value of	Share/Debentures Holders		Share/Debenture Amount	
	Number	% of Total	In Rs	% of Total
(1)	(2)	(3)	(4)	(5)
Upto - 5000	8,754	76.99	17061550	15.36
5001 - 10000	1,361	11.97	11711110	10.54
10001 - 20000	620	5.45	9669700	8.70
20001 - 30000	221	1.94	5759590	5.18
30001 - 40000	91	0.80	3276630	2.95
40001 - 50000	96	0.84	4624570	4.16
50001 - 100000	136	1.19	10254330	9.23
100001 - and above	91	0.80	48655720	43.82
TOTAL	11370	100.00	111013200	100.00



Shareholding Pattern as on 31st March 2006

Category	No. of Equity Shares Held	% of Shareholding	No. of Shareholders	% to Total Shareholders
1 Promoters	1643656	14.81%	4	0.04%
2 Mutual Funds & IFI's	204815	1.84%	4	0.04%
3 Private Bodies Corporate	1876334	16.90%	503	4.42%
4 Public	6627022	59.70%	10647	93.64%
5 NRI'S	749503	6.75%	212	1.86%
GRAND TOTAL	11101320	100.00%	11370	100.00%

Dematerialization of Shares and Liquidity

The International Security Identification Number (ISIN) allotted to the Company Scrip is INE805A01014. Investors have better liquidity in Dematerialized Form and are therefore advised to open a Demat Account with a Depository Participant of their choice to trade in Dematerialized form. Over 94.06% of the company Shares are now held in Electronic Form

Location of Software Divisions

India

2& 3rd Floor, Maharshi Building
Nagarjua Circle, Road No. 3
Banjara Hills Hyderabad - 34

United States of America

8603 Westwood Center Drive
Suite 200, Vienna Virginia-22182
U S A

Address for Correspondence:

Goldstone Technologies Limited,
Shares Department,
9-1-83 & 84 Amarchand Sharma Complex,
S D Road Secunderabad – 500 003
Tel: +91 – 40 - 27807640, Fax +91 – 040 - 27801910,
Email:pvrMurthy@goldstonetech.com

Code of Conduct & ethic policy of the Company

Declaration regarding compliance with code of conduct and ethics policy of the Company by Board Members and Senior Management Personal.

This is to confirm that the Company has adopted Code of Conduct and ethics policy for the Board of Directors & Associates of the Company which is available on www.goldstonetech.com. I Mr. Clinton Travis Caddell, declare that the Board of Directors and Senior Management personnel have affirmed compliance with code of conduct and ethics policy of the Company

Place: Secunderabad
Date: 29-11-2006

For and on behalf of the Board
Sd/-
Managing Director



The Company has obtained a certificate from the statutory auditors regarding compliance of conditions of corporate governance as stipulated in Clause 49, which is annexed herewith.

Compliance Certificate on Corporate Governance

**To
The Members
Goldstone Technologies Limited
Hyderabad**

We, the Statutory Auditors of Goldstone Technologies Limited have reviewed the relevant records for the year ended on 31st March 2006 relating to compliance with the requirements of Corporate Governance and state that in our opinion and to the best of our knowledge and according to the information and explanation given to us, the Company has complied with the provisions of Clause 49 of the Listing Agreement

For Nataraja Iyer & Co;

Place: Secunderabad
Date : 29-11-2006

sd/-
E S RANGANATH
Partner

AUDITORS' REPORT

TO THE MEMBERS OF
GOLDSTONE TECHNOLOGIES LIMITED

1. We have audited the attached Balance Sheet of GOLDSTONE TECHNOLOGIES LIMITED as at 31st March, 2006 and also the Profit and Loss Account and Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. 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 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 for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 as amended by the Companies (Auditors' Report) (amendment) Order 2004 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956 and in terms of the information and explanations given to us and on the basis of such checks as we considered appropriate we enclose in the annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. The balances of Sundry Debtors referred in Note No.4(1) in particular along with other debtors, loans and advances and Sundry Creditors are subject to confirmation and reconciliation. The consequential impact thereof, if any, on the accounts could not be ascertained.
5. As stated in Note No.8 soft ware development expenses, which were capitalized as building and leasehold improvements during the year 2004-05 are of the nature of intangible asset has been restated as Miscellaneous Expenses (To the extent not written off or adjusted) to be written off commencing from the year 2006-07 as per Accounting Standard – AS-26 as the Company expects economic benefit w.e.f the year 2006-07.
6. Further to our comments in the annexure referred to in paragraph 3 above and subject to the foregoing and consequential effects thereof, we report that:
 7. a) we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit;
 - b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books and proper returns adequate for the purpose of our audit have been received from the branch not visited by us.
 - c) the branch auditors' Report has been furnished to us and has been appropriately dealt with while preparing our report.
 - d) the Balance Sheet, Profit and Loss Account and cash flow statement dealt with by this report are in agreement with the books of account of the Company;
 - e) in our opinion the Balance Sheet, Profit and Loss Account and Cash Flow statement dealt with by this report comply with the Accounting Standards

referred to in Section 211(3C) of the Companies Act, 1956.

- f) on the basis of the information and explanations given to us and representations received from the Company, we report that none of the Directors is disqualified from being appointed as a Director of the Company under clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
- g) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the accounting policies and notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.
- i) in the case of the Balance Sheet of the state of affairs of the Company as at 31st March, 2006;
- ii) in the case of Profit and Loss Accounts of the Profit for the year ended on that date and;
- iii) in the case of Cash Flow statements of the cash flows for the year ended on that date.

For NATARAJA IYER & CO.
CHARTERED ACCOUNTANTS

Sd/-
E.S.RANGANATH
PARTNER
M.No.13924

Place: HYDERABAD

DATE: 29.11.2006

ANNEXURE TO THE AUDITORS' REPORT

Referred to in paragraph 3 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) As informed Fixed Assets have been physically verified by the Management during the year based on a phased programme of verifying all the assets over a period of two years, which in our opinion is reasonable having regard to the size of the Company and the nature of its fixed assets. No material discrepancies were noticed on physical verification.
- (c) There was no substantial disposal of fixed assets during the year.
- ii) The Company is engaged in Software Development Services and does not have any inventory. Therefore clause ii of paragraph 4 of the order, is not applicable.
- iii) (a) The Company has taken interest free unsecured loan from a Company listed in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs.2 crore and the year end balance of loan taken from one party was Rs.2 crore.
- (b) in our opinion the terms and conditions of the loan taken are not prima facie prejudicial to the interest of the Company.
- (c) The loan is not overdue.
- (d) During the year the company has not granted any loans to parties, firms or companies covered in the register

- maintained under Section 301 of the Companies Act, 1956.
- iv) 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 for the sale of services. We have not observed any continuing failure to correct major weaknesses in internal control system of the Company.
- v) (a) According to the information and explanations given to us, we are of the opinion, that the transactions that need to be entered into the register maintained under Section 301 of the Companies Act, 1956 have been so entered.
- (b) As informed by the management, each of the transactions made with such parties during the year, have been made at prices which in our opinion, are reasonable having regard to the prevailing market prices at the relevant time.
- vi) The Company has not accepted any deposits from the public requiring compliance of the directives issued by the Reserve Bank of India or the provisions of Sections 58A, 58AA or any other relevant provisions of Companies Act, 1956.
- vii) The Company has an internal audit system, commensurate with its size and nature of business except for its overseas branch operations, which, in our opinion needs to be strengthened commensurate with the size and nature of its business thereof.
- viii) We are informed that the Central Government has not prescribed maintenance of cost records under clause (d) of sub section (1) of section 209 of the Act for the products of the Company.
- ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, customs duty, excise duty, cess have been regularly deposited by the Company with appropriate authorities though there have been delays in respect of Provident Fund and ESI remittances for a few months. According to information and explanations given to us, no undisputed amounts payable in respect of statutory dues were outstanding, at the year end for a period of more than six months from the date they became payable.
- (b) According to the records of the Company information and explanations given by the management, there are disputed dues outstanding on account of income tax, the details of which are as under:

Name of the Statues	Nature of Dues	Rupees	Forum where dispute is pending
Income Tax Act, 1961	Income Tax	Rs. 7.50 lacs	Income Tax Appellate tribunal

- x) The Company has accumulated losses at the end of the financial year which are less than 50% of net worth. Further the company has not incurred cash losses in the current year covered by our audit and in the immediately preceding financial year.

- xi) In our opinion and according to the information and explanations given to us the Company borrowed secured loan from a financial institution and defaulted payment of principal of Rs.1.20 crore and interest of Rs.41.02 lacs. However the overdue amounts were paid subsequently during the year 2006-07. The Company has not borrowed loan from banks and not issued debentures.
- xii) According to the information and explanations given to us the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) The nature of activities of the Company does not attract any special statute applicable to chitfund and Nidhi/mutual benefit fund / societies.
- xiv) According to the information and explanations given to us, the Company does not deal or trade in shares, securities, debentures, and other investments except investing surplus funds in Mutual Funds.
- xv) According to the information and explanations given to us, the Company has given corporate guarantee for loan taken by one of its group companies from a bank, the terms and conditions whereof in our opinion, are not prima-facie prejudicial to the interest of the Company.
- xvi) Based on information and explanations given to us by the management, the Company, during the year, has not obtained any term loan. However term loan obtained in earlier year was said to be applied for the purpose for which the said term loan was obtained.
- xvii) According to the information and explanations given to us and on overall examination of the Balance Sheet of the Company as at 31st March, 2006 we report that no funds raised on short-term basis have been used for long-term investment.
- xviii) According to the information and explanations given to us, during the year the Company has made preferential allotment of equity shares to the original promoters of overseas subsidiary company acquired during the year 2004-05. The price at which the shares have been issued is approved by appropriate authority and in our opinion is not prejudicial to the interest of the Company.
- xix) According to the information and explanations given to us, during the year under audit the company has not issued debentures, hence creation of security or charge in respect of debentures does not arise.
- xx) According to the information and explanations given to us, the Company has not raised any money through a public issue during the year.
- xxi) Based upon the audit procedures performed and information and explanations given by the management, no fraud on or by the Company has been noticed or reported during the course of our audit.

For NATARAJA IYER & CO.
CHARTERED ACCOUNTANTS

Sd/-
E.S.RANGANATH
PARTNER
M.No. 13924

Place: HYDERABAD

Date: 29.11.2006

Balance Sheet as at 31st March, 2006

	Sch.	As at 31-03-2006 Rupees	As at 31-03-2005 Rupees
I SOURCES OF FUNDS			
1. SHAREHOLDERS' FUNDS			
a. Share capital	1	111,013,200	108,384,000
b. Share Application Money		3,090,000	43,700,000
c. Reserves and Surplus	2	<u>120,710,981</u>	<u>116,642,220</u>
		<u>234,814,181</u>	<u>268,726,220</u>
2. LOAN FUNDS			
a. Secured Loans	3	43,315,399	60,610,768
b. Unsecured Loans		<u>20,000,000</u>	-
		<u>63,315,399</u>	<u>60,610,768</u>
3. DEFERRED TAX			
Deferred Tax Liability		5,504,251	8,536,926
Total		<u>303,633,831</u>	<u>337,873,914</u>
II APPLICATION OF FUNDS			
1 FIXED ASSETS			
a. Gross block	4	230,995,153	256,330,616
b. Less : Depreciation		<u>93,700,872</u>	<u>77,368,876</u>
Net block		<u>137,294,281</u>	<u>178,961,740</u>
Add : Capital Work in Progress		<u>128,528</u>	-
		<u>137,422,809</u>	<u>178,961,740</u>
2 INVESTMENTS			
	5	57,663,433	20,475,933
3 CURRENT ASSETS, LOANS & ADVANCES			
a. Sundry Debtors	6	164,556,165	78,716,607
b. Cash and Bank Balances	7	24,839,357	64,830,407
c. Loans and Advances	8	<u>12,908,420</u>	<u>15,960,462</u>
		<u>202,303,942</u>	<u>159,507,476</u>
Less: Current Liabilities & Provisions			
a. Current Liabilities	9	142,452,277	47,016,952
b. Provisions	10	<u>1,971,599</u>	<u>821,251</u>
		<u>144,423,876</u>	<u>47,838,203</u>
NET CURRENT ASSETS		<u>57,880,066</u>	<u>111,669,273</u>
4 Miscellaneous Expenditure	11	42,682,673	12,426,311
5 Profit & Loss Account			
Deficit as per annexed account		7,984,850	14,340,657
Total		<u>303,633,831</u>	<u>337,873,914</u>

Significant Accounting Policies and Notes to Accounts 17

As per our report attached

for **Nataraja Iyer & Co**

Chartered Accountants

Sd/-

E.S.Ranganath
Partner

Place: Hyderabad
Date: 29-11-2006

For and On behalf of the Board

Sd/-

Clinton Travis Caddell
Managing Director & CEO

Place: Secunderabad
Date: 29-11-2006

Sd/-

Nandan Kundetkar
Director

Profit and Loss Account for the year ended 31st March, 2006

	Sch.	For the Year ended 31-03-2006 Rupees	For the Year ended 31-03-2005 Rupees
INCOME			
Software Development	12	349,047,247	412,193,842
Other Income	13	12,130,180	3,515,418
Total		361,177,427	415,709,260
EXPENDITURE			
Personnel costs	14	214,113,938	249,575,758
Administration and other expenses	15	115,317,717	129,106,211
Finance Charges	16	8,528,331	8,482,156
Depreciation		16,331,996	15,802,287
Total		354,291,982	402,966,412
Profit before taxation		6,885,445	12,742,848
Provision for :Taxation / Fringe Benefit Tax		889,784	-
Deferred tax Liability Reversed/Deferred Tax asset		3,032,675	3,507,911
Profit after tax		9,028,336	16,250,759
Prior period adjustments (Net)		2,409,236	352,365
Prior period adjustments (Net)-Income Tax		263,293	-
Profit / (Loss)after Prior Period Items		6,355,807	15,898,394
Profit/ (Loss) brought forward from previous year		(14,340,657)	(30,239,051)
Profit/ (Loss) carried to Balance Sheet		(7,984,850)	(14,340,657)
Earnings per Share (Equity Shares of nominal value Rs. 10/- each)			
Basic & Diluted		0.575	1.467
Number of shares used in Computing EPS			
Basic & Diluted		11,057,500	10,838,400

**Significant Accounting Policies and
Notes on Accounts**

17

As per our report attached
for **Nataraja Iyer & Co**
Chartered Accountants

Sd/-

E.S.Ranganath
Partner

Place: Hyderabad
Date: 29-11-2006

For and On behalf of the Board

Sd/-

Clinton Travis Caddell
Managing Director & CEO

Place: Secunderabad
Date: 29-11-2006

Sd/-

Nandan Kundetkar
Director

Schedules Forming Part of the Accounts

	As at 31-03-2006 Rupees	As at 31-03-2005 Rupees
1. SHARE CAPITAL		
Authorised:		
25,000,000 Equity Shares of Rs. 10/- each	250,000,000	250,000,000
Issued, Subscribed and Paid up:		
11,101,320 (Previous year 10,838,400) Equity Shares of Rs. 10/- each, fully paid up (out of the above 262,920 Equity Shares of Rs. 10/-each are allotted as fully paid up for consideration other than cash)	111,013,200	108,384,000
Total	111,013,200	108,384,000
2 RESERVES AND SURPLUS		
a. Capital Reserve - As per last Balance Sheet	14,780,538	1,280,538
Add: Surplus on forfeiture of share warrants	-	13,500,000
	<u>14,780,538</u>	<u>14,780,538</u>
b. Securities Premium Account - As per last Balance Sheet	83,561,003	85,980,292
Less: Public issue Expenses/Preliminary Expenses	-	2,419,289
Add: Premium on preferential allotment of Equity Shares	3,943,800	-
	<u>87,504,803</u>	<u>83,561,003</u>
c. General Reserve - As per last Balance Sheet	18,300,679	18,300,679
d. Foreign Currency Translation Reserve - Transferred this year	124,961	-
Total	120,710,981	116,642,220
3. LOAN FUNDS		
A) SECURED LOANS		
Term Loan from IDBI	42,003,793	59,931,157
(Including interest accrued and due there on Rs.282,219/-)		
Vehicle Loan from HDFC	1,311,606	679,611
Total	43,315,399	60,610,768
B) UNSECURED LOANS		
From a Company	20,000,000	-
Total	20,000,000	-

SCHEDULES FORMING PART OF THE ACCOUNTS

4. FIXED ASSETS

Description	GROSS BLOCK		DEPRECIATION		NET BLOCK					
	As on 01.04.2005 Rupees	Additions during the year Rupees	Deductions during the year Rupees	As on 31.03.2006 Rupees	Upto 01.04.2005 Rupees	For the year Rupees	Adjustments during the year Rupees	Upto 31.03.2006 Rupees	As on 31.03.2006 Rupees	As on 31.03.2005 Rupees
1. Land	74,171,399	-	-	74,171,399	-	-	-	-	74,171,399	74,171,399
2. Buildings	42,695,318	725,823	20,321,265	23,099,876	3,803,356	752,076	-	4,555,432	18,544,444	38,891,962
3. Leasehold Improvements	16,362,810	-	11,625,234	4,737,576	4,737,576	-	-	4,737,576	-	11,625,234
4. Plant & Machinery	3,062,462	-	-	3,062,462	2,825,341	114,869	-	2,940,210	122,252	237,121
5. Furniture & Fixtures	4,823,647	9,563	-	4,833,210	1,186,304	577,095	-	1,763,399	3,069,811	3,637,343
6. Electrical Installation	5,737,583	1,126,480	-	6,864,063	1,461,317	367,920	-	1,829,237	5,034,826	4,276,266
7. Vehicles	1,905,722	2,735,608	-	4,641,330	556,432	407,498	-	963,930	3,677,400	1,349,290
8. Computer Systems	95,697,788	1,476,228	-	97,174,016	58,958,283	13,822,233	-	72,780,516	24,393,500	36,739,505
9. Electronic Equipment	11,873,887	537,334	-	12,411,221	3,840,267	290,305	-	4,130,572	8,280,649	8,033,620
& Office Equipment	256,330,616	6,611,036	31,946,499	230,995,153	77,368,876	16,331,996	-	93,700,872	137,294,281	178,961,740
Total	155,464,932	100,865,684	-	256,330,616	61,566,589	15,802,287	-	77,368,875	178,961,740	-

Schedules Forming Part of the Balance Sheet

	As at 31-03-2006 Rupees	As at 31-03-2005 Rupees
5 INVESTMENTS- AT COST		
Long Term Investment		
Unquoted		
Investment in Shares of Wholly owned Subsidiary (Staytop Systems Inc; USA)	92,663,433	
Less: Deferred Consideration	35,000,000	20,475,933
Total	57,663,433	20,475,933
6 SUNDRY DEBTORS (Unsecured)		
a. Debts outstanding for a period exceeding six months		
i. Considered Good	109,345,411	21,066,394
ii. Considered Doubtful	3,241,341	-
Less : Provision	3,241,341	-
Total	109,345,411	21,066,394
b. Other Debts - Considered Good	55,210,754	57,650,213
Total	164,556,165	78,716,607
7 CASH & BANK BALANCES		
Cash on Hand	514,598	369,619
Cheques on Hand	2,231,000	4,707,234
Bank balances with Scheduled Banks		
-In Current Accounts	327,362	54,209,468
-In Fixed Deposit (Lodged with the Bank against BG)	200,000	658,789
Balances with others - Non Scheduled Banks	21,566,397	4,885,297
(Maximum balance during the year Rs 39,720,779/- US\$ 890,201.23)		
Total	24,839,357	64,830,407

Schedules Forming Part of the Balance Sheet

	As at 31-03-2006 Rupees	As at 31-03-2005 Rupees
8. LOANS & ADVANCES (Unsecured, Considered Good)		
a. Advances to Suppliers	7,012,407	8,786,654
Less : Provision	771,023	-
	<u>6,241,384</u>	<u>8,786,654</u>
b. Advances to Staff	1,614,284	1,405,201
Less : Provision	118,841	-
	<u>1,495,443</u>	<u>1,405,201</u>
c. Deposits	2,549,318	2,745,505
Less : Provision	418,860	-
	<u>2,130,458</u>	<u>2,745,505</u>
d. Prepaid Expenses	3,041,135	3,023,102
Total	<u>12,908,420</u>	<u>15,960,462</u>
9. CURRENT LIABILITIES		
Sundry Creditors (No outstanding dues to SSI Undertakings)	28,809,483	8,195,261
Other Creditors/ Liabilities	112,446,981	36,580,601
Statutory Liabilities	609,420	1,522,328
Interest Accrued but not due on Loans	586,393	718,762
Total	<u>142,452,277</u>	<u>47,016,952</u>
10. PROVISIONS		
Provision for Taxation	657,055	222,425
Provision for Gratuity and Leave Encashment	1,314,544	598,826
Total	<u>1,971,599</u>	<u>821,251</u>
11. MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Deferred Revenue Expenditure as per last Balance Sheet	12,426,311	34,290,945
Add: Adjustments / Additions	31,946,498	12,228,878
Less : Written off / Adjusted	1,690,136	34,093,512
Total	<u>42,682,673</u>	<u>12,426,311</u>

Schedules Forming Part of the Profit & Loss Account

	For the year Ended 31-03-2006 Rupees	For the year Ended 31-03-2005 Rupees
12. SALES		
Software & Services - Domestic	-	-
- Exports	349,047,247	412,193,842
Total	349,047,247	412,193,842
13. OTHER INCOME		
Insurance Claims received	28,854	-
Interest on Fixed Deposits	11,531	680,599
Taxes Refund	1,801,264	-
Miscellaneous Income	-	646,819
Profit on sale of Investments	695,512	2,188,000
Less : Loss on sale of Investment	47,314	-
	<u>648,198</u>	<u>2,188,000</u>
Dividend on Mutual Funds	52,947	-
Lease Rent	2,413,150	-
Exchange Fluctuation Gain	7,322,196	-
Less: Exchange Fluctuation loss	147,960	-
	<u>7,174,236</u>	<u>-</u>
Total	12,130,180	3,515,418
14. PERSONNEL EXPENDITURE		
Salaries, Wages and other Benefits	211,865,611	247,608,712
Contribution to PF & Other Funds	1,110,739	1,096,980
Staff Welfare	1,137,588	870,066
Total	214,113,938	249,575,758
15. ADMINISTRATIVE AND SELLING EXPENSES		
Directors Remuneration	2,227,750	1,450,000
Electricity Charges	597,108	711,652
Rent	7,933,969	7,044,905
Legal Fees	2,694,060	1,248,752
Printing, Stationary & Advertisement	537,528	380,868
Postage, Telephones and Internet	16,513,464	13,589,420
Insurance	911,586	94,442
Professional and Consultancy	34,135,769	58,295,111
Rates and Taxes	1,579,543	748,613

Schedules Forming Part of the Profit & Loss Account

	For the year Ended 31-03-2006 Rupees	For the year Ended 31-03-2005 Rupees
Board and other Meeting Expenses	105,716	18,662
Marketing Expenses	1,616,330	8,625,257
Gifts and Donations	42,518	-
Books & Periodicals	18,000	32,871
Membership & Subscription	515,511	762,829
Vehicle Maintenance	1,089,204	1,494,193
Travelling Expenses		
-Directors	1,714,429	666,806
-Others	9,130,089	12,026,828
Conveyance	58,654	100,200
Business Promotion	236,746	375,386
Auditors Remuneration - Audit Fee	214,440	150,000
Office Maintenance	1,740,977	2,025,781
Repairs & Maintenance	2,153,682	2,115,794
Miscellaneous Expenses	121,576	664,723
Listing Fees	215,407	134,000
Bad Debts and Advances written off	239,490	3,566,018
Provision for Bad Debts	3,241,341	-
Provision for Advances	1,308,724	-
Seminar & Conferences	18,159	-
Exchange Fluctuation loss	-	4,396,433
Security Charges	301,102	404,194
Fines & Penalties	-	253,212
Licence Fee	130,077	-
Royalties	-	-
Onsite Project work expenses	23,448,986	19,006,116
Staff Recruitment & Training	525,782	952,023
Total	115,317,717	141,335,089
Less: Deferred Revenue Expenses	-	12,228,878
	115,317,717	129,106,211
16. FINANCIAL EXPENSES		
Interest on Term Loan	8,342,113	8,280,336
Bank Charges & Commission	98,132	146,826
Other Financial Charges	-	47,843
Interest on HDFC Car Loan	88,086	7,151
Total	8,528,331	8,482,156

17. SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS

A) Statement on Significant Accounting Policies

(i) Basis of Accounting

The Financial Statements of the Company are prepared under the historical cost convention and comply with the applicable accounting standards issued by the Institute of Chartered Accountants of India, and the relevant provisions of the Companies Act, 1956 as adopted consistently by the Company.

(ii) Revenue Recognition:

- a) All incomes and expenditure are accounted on accrual basis except insurance claims and dividend income, which are accounted on cash basis.
- b) Revenue from Software Development contracts, priced on time and material basis, is recognised on the basis of billable time spent by employees working on the project, at the contracted rate.
- c) Revenue from fixed price contracts is recognized on milestones achieved as per the terms of specific contracts.

(iii) Fixed Assets:

- a) Fixed Assets are stated at cost less depreciation. Project expenses/Pre-operative expenses are capitalized to the respective asset heads on a proportionate basis. Any capital grant or subsidy received is reduced from the cost of eligible assets.
- b) Depreciation on Fixed Assets is provided on straight-line method in the manner and at the rates specified in Schedule XIV to the Companies Act, 1956.

(iv) Investments:

Investments are classified into current Investments and permanent investments. Current Investments are carried at the lower of cost or market value. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the profit and loss account. Permanent investments are carried at cost less provision made to recognize any permanent diminution in the value of such investments.

(v) Foreign Currency Transactions:

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. In respect of foreign branches, all revenue and expense transactions during the year are translated at average rate. Monetary assets and liabilities are translated at the rate prevailing on the balance sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Balance in 'Head office account' whether debit or credit, is reported at the amount of the balance in the 'branch account' in the books of the head office after adjusting for unresponded transaction. Net gain/loss on foreign currency translation is recognized in the profit and loss account.

(vi) Retirement Benefits to Employees

Contributions to defined Schemes such as Provident Fund, Employees State Insurance Scheme are charged as incurred on accrual basis. The Company provides the retirement benefits in the form of Gratuity and Leave Encashment on the basis of actuarial valuation made by Independent actuary as at balance sheet date.

(vii) Provision for Current and Deferred Tax

Provision for current tax is made after taking into consideration benefits admissible under the provisions of Income Tax Act, 1961. Deferred Tax resulting from timing differences between book and taxable profits is accounted by using the tax rates and laws that are enacted as on the Balance Sheet date. The Deferred Tax Asset is recognized only to the extent there is reasonable certainty that the Asset is realized in future.

B) NOTES ON ACCOUNTS:

1) Contingent Liability:

- 1.1) Outstanding Bank Guarantees – Rs. 2 Lakhs (Previous year Rs.2 lakhs)
- 1.2) Claims against the company – against disputed income tax demands not provided for about Rs.7.50 lakhs, pending before Appellate Authority

2) Secured Loans:

- 2.1) Term loan from IDBI is secured by first charge, on paripassu basis on the movable and immovable assets of the Company, present and future, subject to prior charge on specified movables / current assets in favour of the bankers for working capital limits, if any, sanctioned by them. Also by first charge, on paripassu basis on the movable and immovable assets of Goldstone Teleservices Limited, present and future, subject to prior charge on specified movables / current assets in favour of the bankers for working capital limits, if any, sanctioned by them and further guaranteed by Shri LP Sashi Kumar.

- 2.2) Vehicle Loans of Rs. 13,11,606/- from HDFC is secured by way of hypothecation of the said vehicle

3) Investments:

The company acquired 100% holding in M/s Staytop Systems Inc at a total purchase consideration of USD 2,100,000. The effective date of acquisition is 10th February 2005. Out of the total purchase consideration an amount of USD 4,50,000 paid during 2004-05 and an amount of USD 8,50,000 paid during the year and the balance amount payable of USD 8,00,000 is shown as a deduction from the value of investments (Schedule 5).

4) Current Assets and Current Liabilities:

- 4.1) Sundry Debtors include an amount of Rs. 7,37,74,681/- due from four parties, which was transferred to a group company in the previous year has been restated in the current year by transferring to respective party accounts. The said amount is outstanding for last two years. The company is taking necessary steps for recovery and hopeful of receiving the entire amount.
- 4.2) Balances of Sundry Debtors, Loans & Advances and Sundry Creditors balances are subject to confirmations in many cases.

5) Land:

In respect of value of Land and development expenses capitalized of Rs.6,61,09,399/- in the Year 2004-05, the company acquired title over the said property vide assignment deed dated 10th April 2006.

6) Provision for Income-Tax:

6.1) The company is a 100% EoU under STP Scheme and is eligible for Income Tax exemption as per provisions of Section 10A of Income Tax Act up to 30th September 2008. Hence provision for income tax on profit arising on export of software and services has not been

considered. However required provision for income tax on income not related to exports of software and services has been provided for.

6.2) Federal / State tax paid on income of the branch of the company in USA has been accounted for.

7) Deferred Tax Liability:

Deferred Tax Liability/Asset is recognized in accordance with Accounting Standard 22 – “Accounting for taxes on Income” issued by the Institute of Chartered Accountants of India.

Details of Deferred Tax Liability/Asset made during the year:

(Amount in Rs.)

Deferred Tax Liability as at 1 st April, 2005	85,36,926
Add/Less: Deferred tax liability/asset provided / reversed during the year on account of timing differences - Between Book and Tax depreciation	30,32,675
Deferred Tax Liability as at 31 st March, 2006	55,04,251

8) Deferred Revenue Expenses (Miscellaneous Expenses):

During the years 2003-04, 2004-05 Company identified certain expenses amounted to Rs. 3,02,56,363 and Rs. 1,22,28,878 respectively towards design, development and testing of Software Tools for IT Services which are attributable to Intangible Assets during development period of the above stated activity. However these expenses by oversight were capitalized as part of Building and Lease hold improvements in the year 2004-05. Therefore during the year 2005-06 the Company rectified the same and considered these expenses Rs. 3,02,56,363/- in the year 2003-04 and Rs. 1,22,28,878/- of 2004-05 as Miscellaneous expenses (to the extent not written off or adjusted) as Software Development expenses to be Written Off over a period as indicated in the Accounting Standards AS-26 Intangible Assets issued by Institute of Chartered Accountants of India, commencing from the year 2006-07, as the Company expects economic benefits from the development work

9) Related Party Disclosure:

As per Accounting Standard AS-18 on related party disclosures issued by the Institute of Chartered Accountants of India, the disclosure of transactions with the related party as defined in the Accounting Standard are given below:

i) List of related parties with whom transactions have taken place and

S.No	Name of the related party	Relationship
1	Staytop Systems Inc	Subsidiary
2	Primesoft LLC	Subsidiary
3	KVS Chalapathi Rao	Key Management Personnel

ii) Transaction during the year with related parties:

Name of the related party	Nature of Transaction	Rs. In Crores
Staytop Systems Inc	Income – Software & Services	1.02
Staytop Systems Inc	Investment	3.72

10) Earnings Per Share:

Calculation of EPS (Basic & Diluted):

Rs. In Lakhs

Particulars	Current Year 2005-06	Previous Year 2004-05
Total No. of Equity Shares considered for calculation of EPS	11,057,500	10,838,400
Profit after Taxes before Prior Period Adjustments	90.28	162.51
Profit after Taxes after Prior Period Adjustments	0.816	158.98
EPS after Taxes before Prior Period Adjustments	63.56	1.499
EPS after Taxes after Prior Period Adjustments	0.575	1.467

11) Segment Reporting:

As per Accounting Standard AS 17 on Segment Reporting disclosures issued by the Institute of Chartered Accountants of India the disclosures on segment reporting are given below

i) Business Segment - The company is engaged in the business of Software Development and services comprising both onsite and off-shore operations. Since the nature of the activities is governed by similar risks and returns these are grouped as single reportable segment

ii) Geographical Location:

Particulars	Amount in Rs. Crores
Revenue:	
India – Exports	7.04
Outside India	27.87
Additions to Fixed Assets:	
India	0.38
Outside India	0.28
Carrying amount of Segment Assets:	
India	6.45
Outside India	0.67

12) Impairment of Assets:

The company reviewed with regard to realizable value of Fixed Asset and found that, the realizable value is more than the book value, hence no provision for impairment of Assets considered necessary.

13) Provision for Contingent Liabilities and Assets:

Provisions involving substantial degree of estimation in measurement are recognized. Contingent liabilities if any are not recognized but are disclosed. Contingent assets are neither recognized nor disclosed in the financial statements

14) Unsecured Loan from company is an interest free loan.

15) Additional Information required as per Paras 3 & 4 of Part II of Schedule VI to the companies Act, 1956.

The Company is engaged in Software Development. The production and sale of such Software cannot be expressed in Units, Hence, it is not possible to give the quantitative details and information as required under paragraphs 3,4 of Part II of Schedule VI to the Companies Act, 1956.

b) Managerial Remuneration:

Particulars	Current Year 2005-06 Rs.	Previous Year 2004-05 Rs.
Managing Director		
Salary	14,90,806	8,80,000
Other perquisite	7,36,944	5,70,000

c) Foreign Exchange Transaction:

Rs. In Lakhs

Particulars	Current Year 2005-06	Previous Year 2004-05
1) Value of Imports on CIF Basis		
a) Capital Goods – Computer Systems	Nil	Nil
b) Capital Goods – Computer Software	--	--
2) Expenditure in Foreign Currency		
a) Travelling Expenses	11.77	17.14
3) Earnings in Foreign Currency (on Receipt basis)		
a) Software Exports	349.98	794.60

d) Auditors Remuneration:

Particulars	Current Year 2005-06	Previous Year 2004-05
Audit Fees	Rs. 1,68,360/-	Rs. 1,50,000
Certification Work	Rs. 46,080/-	-

16) Figures for the corresponding previous year wherever necessary have been regrouped, recast and rearranged to conform to those of the current year.

As per our report attached
for **Nataraja Iyer & Co**
Chartered Accountants

Sd/-

E.S.Ranganath
Partner

Place: Hyderabad
Date: 29-11-2006

For and On behalf of the Board

Sd/-

Clinton Travis Caddell
Managing Director & CEO

Place: Secunderabad
Date: 29-11-2006

Sd/-

Nandan Kundetkar
Director

Cash Flow Statement for the year ended

	Amount in Rs. Lakhs	
	31-03-2006	31-03-2005
A Cash Flow from Operating Activity:		
Net Profit before tax	68.85	127.43
Adjustments for:		
Depreciation	163.32	158.02
Provision for Gratuity and earned leave	13.14	3.31
Other Income	(121.30)	(35.15)
Interest on Long Term Loan	84.30	82.87
Provision for Bad Debts / Advances	45.50	35.66
Operating Capital before working capital changes	253.81	372.14
Adjustments for		
Trade and other receivables	(890.64)	759.17
Trade Advances	17.43	112.07
Trade payables	943.82	(875.42)
Cash Generated from Operations	324.42	367.96
Direct Taxes Paid	(2.63)	-
Interest Paid	(81.48)	(24.38)
Cash Flow before prior period items	240.31	343.58
Prior period items	(7.19)	(3.05)
Net Cash flow from Operating activity	233.12	340.53
B Cash flow from Investing Activity:		
Fixed Assets	253.36	(1,008.66)
Capital Work in Progress	(1.29)	661.09
Investments	(371.87)	(81.53)
Miscellaneous Expenses	(319.47)	197.17
Interest Received	0.12	6.46
Other Income	121.18	6.47
Net Cash used for Investing Activity	(317.97)	(219.00)
C Cash flow from Financing Activity:		
Equity Share Capital	26.29	-
Share Premium and Reserves	40.52	-
Repayment of Term Loan	(182.09)	(90.00)
Car Loan from HDFC	6.32	6.75
Share Application money repaid	(406.10)	437.00
Unsecured Loan	200.00	-
Net cash generated from financing activity	(315.06)	353.75
Cash and Cash Equivalents (Opening Balance)	648.30	173.02
Net Cash in Cash and Cash Equivalents (A+B+C)	(399.91)	475.28
Cash and Cash Equivalents (Closing Balance)	248.39	648.30

As per our report attached
for **Nataraja Iyer & Co**
Chartered Accountants
Sd/-

E.S.Ranganath
Partner

Place: Hyderabad
Date: 29-11-2006

For and On behalf of the Board

Sd/-
Clinton Travis Caddell
Managing Director & CEO

Place: Secunderabad
Date: 29-11-2006

Sd/-
Nandan Kundetkar
Director

BALANCE SHEET ABSTRACT AND COMPANY'S BUSINESS PROFILE:

I. Registration Details:

Registration No. State Code:
 Balance Sheet Date:

II. Capital Raised during the year (Amount in Rs. lacs)

Public Issue: Rights Issue:
 Bonus Issue: Private Placement:*
 *Preferential Allotment

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. lacs)

Sources of Funds:

Total Liabilities:	<input type="text" value="3036.34"/>	Total Assets:	<input type="text" value="3036.34"/>
Paid-up Capital	<input type="text" value="1110.13"/>	Reserves and Surplus	<input type="text" value="1207.11"/>
Secured Loans:	<input type="text" value="433.15"/>	Unsecured Loans: **	<input type="text" value="285.95"/>

**Includes Deferred Tax Liability and Share Application Money

Application of Funds:

Net Fixed Assets	<input type="text" value="1374.23"/>	Investments	<input type="text" value="576.63"/>
Net Current Assets:	<input type="text" value="578.80"/>	Misc. Expenditure	<input type="text" value="426.83"/>
Accumulated Losses:	<input type="text" value="79.85"/>		

IV. Performance of company (Amount in Rs. lacs)

Turnover/Income	<input type="text" value="3611.77"/>	Total Expenditure	<input type="text" value="3542.92"/>
Profit before tax	<input type="text" value="68.85"/>	Profit after tax	<input type="text" value="90.28"/>
Earning per Share in Rs.	<input type="text" value="0.575"/>	Dividend Rate	<input type="text" value="0%"/>

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

Item Code No. (ITC Code): 85249009.10
 Product Description : Computer Software

AUDITORS' REPORT

To the Board of Directors on the consolidated financial statements of Goldstone Technologies Limited & its Subsidiaries.

1. We have examined the attached Consolidated Balance Sheet of Goldstone Technologies Limited as at 31st March 2006 and also the consolidated Profit and Loss Account and the consolidated Cash Flow Statement for the year ended on that date annexed thereto. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain responsible assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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.
3. We did not audit the financial statements of the subsidiaries of Goldstone Technologies Limited whose financial statements reflect total assets of Rs. 440.03 Lakhs as at 31st March, 2006 and total revenue of Rs. 4531.45 Lakhs for the year ended on that date. These financial statements have not been audited as the same, being U.S.A based, are not statutorily required in the said county. Our opinion in so far as it relates to the said amounts included in respect of the subsidiaries is based solely on the accounts prepared and certified by the management.
4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited / certified financial statements of the Company and its subsidiaries included in the consolidated financial statements.
5. We report that on the basis of the information and according to the explanation given to us, and on the consideration of the separate audit report on individual audited / certified financial statements of the company and its subsidiaries, in our opinion the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i. In the case of the Consolidated Balance Sheet of the consolidated state of affairs of the Company and its subsidiaries as at March 31, 2006;
 - ii. In the case of Consolidated Profit & Loss Account, of the consolidated results of operations of the Company and its subsidiaries for the year ended March 31, 2006;
 - iii. In the case of the Consolidated Cash Flows statement, of the consolidated cash flows of the Company and its subsidiaries for the year ended March 31 2006;

For Nataraja Iyer & Co.,
Chartered Accountants

Place: Secunerabad
Date: 29-11-2006

E S Ranganath
Partner

Consolidated Balance Sheet

	Sch.	As at 31st Mar 2006 Rupees	As at 31st Mar 2005 Rupees
I SOURCES OF FUNDS			
1 SHAREHOLDERS' FUNDS			
a. Share capital	1	111,013,200	108,384,000
b. Share Application Money		3,090,000	43,700,000
c. Reserves and Surplus	2	123,266,765	108,131,295
		<u>237,369,965</u>	<u>260,215,295</u>
2 LOAN FUNDS			
Secured Loans	3	43,315,399	60,610,768
Unsecured Loans		20,000,000	-
		<u>63,315,399</u>	<u>60,610,768</u>
3. DEFERRED TAX			
Deferred Tax Liability		5,504,251	8,536,926
		<u>5,504,251</u>	<u>8,536,926</u>
Total		<u>306,189,615</u>	<u>329,362,989</u>
II APPLICATION OF FUNDS			
1 FIXED ASSETS			
a. Gross block	4	288,791,554	276,806,549
b. Less : Depreciation		93,727,466	77,368,875
Net block		<u>195,064,088</u>	<u>199,437,674</u>
Add : Capital Work in Progress (Including Capital Advances)		128,528	-
		<u>195,192,616</u>	<u>199,437,674</u>
2 INVESTMENTS			
	5	-	-
3 CURRENT ASSETS, LOANS & ADVANCES			
a. Sundry Debtors	6	198,877,061	117,760,154
b. Cash and Bank Balances	7	20,361,052	65,046,499
c. Loans and Advances	8	26,962,410	15,959,528
Total		<u>246,200,523</u>	<u>198,766,181</u>
Less: Current Liabilities & Provisions			
a. Current Liabilities	9	175,914,597	80,445,926
b. Provisions	10	1,971,599	821,251
Total		<u>177,886,196</u>	<u>81,267,177</u>
NET CURRENT ASSETS		<u>68,314,326</u>	<u>117,499,004</u>
4 Miscellaneous Expenditure	11	42,682,673	12,426,311
5 Profit & Loss Account		-	-
Deficit as per annexed account			
Total		<u>306,189,615</u>	<u>329,362,989</u>
Significant Accounting Policies and Notes to Accounts	17		

As per our report attached

for **Nataraja Iyer & Co**

Chartered Accountants

Sd/-

E.S.Ranganath
Partner

Place: Hyderabad

Date: 29-11-2006

For and On behalf of the Board

Sd/-

Clinton Travis Caddell
Managing Director & CEO

Place: Secunderabad

Date: 29-11-2006

Sd/-

Nandan Kundetkar
Director

Consolidated Profit and Loss Account

	Sch.	For the Year 31st Mar 2006 Rupees	For the Year 31st Mar 2005 Rupees
INCOME			
Software development	12	802,191,763	469,621,386
Other income	13	12,130,180	3,515,418
Total		814,321,943	473,136,804
EXPENDITURE			
Personnel costs	14	279,930,971	259,988,423
Administration and other expenses	15	497,833,947	170,438,537
Finance Charges	16	8,752,172	8,482,156
Depreciation		16,358,392	15,802,287
Miscellaneous Expenses Written off			
Total		802,875,482	454,711,403
Profit before taxation		11,446,461	18,425,401
Provison for : Taxation		889,784	-
Deferred tax asset		3,032,675	3,507,911
Profit after tax		13,589,352	21,933,312
Prior period adjustments (Net)		2,409,236	352,365
Prior period adjustments (Net)-Income tax		263,292	-
Profit / (Loss) after Prior period Items		10,916,824	21,580,947
Profit / (Loss) brought forward from previous year		(8,510,925)	(30,091,872)
Profit / (Loss) carried to Balance Sheet		2,405,899	(8,510,925)
Earnings per Share			
(Equity Shares of nominal value Rs. 10/- each)			
Basic & Diluted		0.987	1.991
Number of shares used in Computing EPS			
Basic & Diluted		11,057,500	10,838,400
Significant Accounting Policies and Notes on Accounts	17		

As per our report attached
for **Nataraja Iyer & Co**
Chartered Accountants

Sd/-

E.S.Ranganath
Partner

Place: Hyderabad
Date: 29-11-2006

For and On behalf of the Board

Sd/-

Clinton Travis Caddell
Managing Director & CEO

Place: Secunderabad
Date: 29-11-2006

Sd/-

Nandan Kundetkar
Director

Schedules Forming Part of Balance Sheet

	As at 31-03-2006 Rupees	As at 31-03-2005 Rupees
1. SHARE CAPITAL		
Authorised:		
25,000,000 Equity Shares of Rs. 10/- each	<u>250,000,000</u>	<u>250,000,000</u>
Issued, Subscribed and Paid up:		
11,101,320 (Previous year 10,838,400)		
Equity Shares of Rs. 10/- each, fully paid up (out of the above 262,920 equity shares of 10/-each are allotted for consideration other than cash)	111,013,200	108,384,000
Total	<u>111,013,200</u>	<u>108,384,000</u>
2. RESERVES AND SURPLUS		
a. Capital Reserve - As per last Balance Sheet	14,780,538	1,280,538
Add: Surplus on forfeiture of share warrants	-	13,500,000
	<u>14,780,538</u>	<u>14,780,538</u>
b. Share Premium Account - As per last Balance Sheet	83,561,003	83,561,003
Less: Public issue Expenses/Priliminary Expenses	-	-
Add: Premium on preferential Allotment of Equity Shares	3,943,800	-
	<u>87,504,803</u>	<u>83,561,003</u>
c. General Reserve - As per last Balance Sheet	18,300,679	18,300,679
d. Foreign Currency Translation Reserve - Transferred this year	274,846	-
e. Profit & Loss Account balance	2,405,899	(8,510,925)
Total	<u>123,266,765</u>	<u>108,131,295</u>
3. LOAN FUNDS		
A) SECURED LOANS		
Term Loan from IDBI	42,003,793	59,931,157
(Including interest accrued and due there on Rs.2,82,219/-)		
Vehicle Loan from HDFC	1,311,606	679,611
Total	<u>43,315,399</u>	<u>60,610,768</u>
B) UNSECURED LOANS		
From a Company	20,000,000	-
Total	<u>20,000,000</u>	<u>-</u>

SCHEDULES FORMING PART OF THE ACCOUNTS

4. FIXED ASSETS

Description	GROSS BLOCK		DEPRECIATION		NET BLOCK					
	As on 01.04.2005 Rupees	Additions during the year Rupees	Deductions during the year Rupees	As on 31.03.2006 Rupees	Upto 01.04.2005 Rupees	For the year Rupees	Adjustments during the year Rupees	Upto 31.03.2006 Rupees	As on 31.03.2005 Rupees	As on 31.03.2006 Rupees
1. Goodwill	20,475,933	37,187,500	-	57,663,433	-	-	-	-	57,663,433	20,475,933
2. Land	74,171,399	-	-	74,171,399	-	-	-	-	74,171,399	74,171,399
3. Buildings	42,695,318	725,823	20,321,265	23,099,876	3,803,356	752,076	-	4,555,432	18,544,444	38,891,962
4. Leasehold improvements	16,362,810	-	11,625,234	4,737,576	4,737,576	-	-	4,737,576	-	11,625,234
5. Plant & Machinery	3,062,462	-	-	3,062,462	2,825,341	114,869	-	2,940,210	122,252	237,121
6. Furniture & Fixtures	4,823,647	9,563	-	4,833,210	1,186,304	577,095	-	1,763,399	3,069,811	3,637,343
7. Electrical Installation	5,737,583	1,126,480	-	6,864,063	1,461,317	367,920	-	1,829,237	5,034,826	4,276,266
8. Vehicles	1,905,722	2,735,608	-	4,641,330	556,432	407,498	-	963,930	3,677,400	1,349,290
9. Computer system	95,697,789	1,609,196	-	97,306,984	58,958,283	13,848,827	-	72,807,110	24,499,874	36,739,506
10. Electronic equipment										
& Office Equipment	11,873,887	537,334	-	12,411,221	3,840,267	290,305	-	4,130,572	8,280,649	8,033,620
Total	276,806,549	43,931,504	31,946,499	288,791,554	77,368,875	16,358,590	-	93,727,466	195,064,088	199,437,674
Previous year	155,464,932	121,341,617	-	276,806,549	61,566,589	15,802,287	-	77,368,876	199,437,674	93,898,343

Schedules Forming Part of Balance Sheet

	As at 31st Mar 2006 Rupees	As at 31st Mar 2005 Rupees
5 INVESTMENTS- AT COST		
Long Term Investment		
Unquoted		
Investment in shares of Wholly owned Subsidiary (Staytop Systems Inc, USA)	-	-
Less: Deferred Consideration	-	-
Total	<u>-</u>	<u>-</u>
6 SUNDRY DEBTORS (Unsecured)		
a. Debts outstanding for a period exceeding six months		
i. Considered Good	109,345,411	21,066,394
ii. Considered Doubtful	3,241,341	-
Less : Provision	3,241,341	-
Total	<u>109,345,411</u>	<u>21,066,394</u>
b. Other Debts - Considered Good	89,531,650	96,693,760
Total	<u>198,877,061</u>	<u>117,760,154</u>
7 CASH & BANK BALANCES		
Cash on hand	514,597	369,617
Cheques on Hand	2,231,000	4,707,234
Bank balances with Scheduled Banks		
-In Current Accounts	(4,150,944)	54,425,563
-In Fixed Deposit (Lodged with the bank against BG)	200,000	658,788
Balances with others - Non Scheduled Banks	21,566,397	4,885,297
(Maximum balance during the year Rs 39,720,779/- US\$ 890,201.23)		
Total	<u>20,361,052</u>	<u>65,046,499</u>

Schedules Forming Part of Balance Sheet

	As at 31-03-2006 Rupees	As at 31-03-2005 Rupees
8. LOANS & ADVANCES (Unsecured, Considered Good)		
a. Advances to suppliers	20,291,191	8,785,720
Less :Provision	771,023	-
	<u>19,520,168</u>	<u>8,785,720</u>
b. Advances to Staff	1,904,305	1,405,201
Less :Provision	118,841	-
	<u>1,785,464</u>	<u>1,405,201</u>
c. Deposits	2,720,110	2,745,506
Less :Provision	418,860	-
	<u>2,301,250</u>	<u>2,745,506</u>
d. Prepaid Expenses	3,355,527	3,023,101
Total	<u>26,962,410</u>	<u>15,959,528</u>
9. CURRENT LIABILITIES		
Sundry Creditors (No outstanding dues to SSI Undertakings)	54,542,727	26,304,544
Other Creditors/ Liabilities	120,176,057	51,900,293
Statutory Liabilities	609,420	1,522,328
Interest Accrued but not due on Loans	586,393	718,762
Total	<u>175,914,597</u>	<u>80,445,926</u>
10. PROVISIONS		
Provision for Taxation	657,055	222,425
Provision for Gratuity and Leave Encashment	1,314,544	598,826
Total	<u>1,971,599</u>	<u>821,251</u>
11. MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Deferred Revenue Expenditure as per last Balance Sheet	12,426,311	34,290,945
Add: Adjustments / Additions	31,946,498	12,228,878
Less :Written off / Adjusted	1,690,136	34,093,512
Total	<u>42,682,673</u>	<u>12,426,311</u>

Schedules Forming Part of the Profit & Loss Account

	For the year Ended 31-03-2006 Rupees	For the year Ended 31-03-2006 Rupees
12. SALES		
Software & Services - Domestic	-	-
- Exports	802,191,763	469,621,386
Total	802,191,763	469,621,386
13. OTHER INCOME		
Insurance Claims received	28,854	-
Interest on Fixed Deposits	11,531	680,599
Taxes Refund	1,801,264	-
Miscellaneous Income	-	646,819
Profit on sale of Investments	695,512	2,188,000
Less : Loss on sale of Investment	47,314	-
	<u>648,198</u>	<u>2,188,000</u>
Dividend on Mutual Funds	52,947	-
Lease Rent Received	2,413,150	-
Exchange Fluctuation Gain	7,322,196	-
Less: Exchange Fluctuation loss	147,960	-
	<u>7,174,236</u>	<u>-</u>
Total	12,130,180	3,515,418
14. PERSONNEL EXPENDITURE		
Salaries, Wages and other Benefits	277,682,644	259,118,357
Contribution to PF & ESI	1,110,739	-
Staff Welfare	1,137,588	870,066
Total	279,930,971	259,988,423
15. ADMINISTRATIVE AND SELLING EXPENSES		
Directors Remuneration	2,227,750	1,450,000
Electricity Charges	597,108	711,652
Rent	8,468,281	7,065,172
Legal Fees	2,694,060	1,248,752
Project related cost & discount taken by client	195,264	-
Printing, Stationary & Advertisement	541,748	380,867
Postage, Telephones and Internet	16,801,329	13,600,472
Insurance	1,563,950	138,964
Professional and Consultancy	394,920,363	99,306,891
Outsourcing Expenses	-	752,991

Schedules Forming Part of the Profit & Loss Account

	For the year Ended 31-03-2006 Rupees	For the year Ended 31-03-2006 Rupees
Rates and Taxes	10,045,107	18,662
Other Meeting Expenses	496,304	8,685,912
Marketing Expenses	6,045,330	-
Gifts and Donations	42,518	32,871
Books & Periodicals	18,000	763,398
Membership & Subscription	515,511	1,494,193
Vehicle Maintenance	1,089,204	-
Travelling Expenses	-	666,806
-Directors	1,714,429	12,026,828
-Others	9,934,971	100,200
Conveyance	58,654	375,386
Business Promotion	236,746	150,000
Auditors Remuneration - Audit Fee	214,440	2,025,781
Office Maintenance	1,740,977	2,115,794
Repairs & Maintenance	2,185,601	664,723
Miscellaneous Expenses	121,577	134,000
Listing Fees	215,407	-
Bad Debts and Advances written off	239,490	3,566,018
Provision for Bad Debts	3,241,341	-
Provision for Advances	1,308,724	-
Seminar & Conferences	18,159	-
Exchange Fluctuation loss	-	4,575,537
Security Charges	301,102	404,194
Fines & Penalties	-	253,212
Licence Fee	130,077	-
Onsite Project work expenses	23,448,986	19,006,116
Staff Recruitment & Training	6,461,439	952,023
Total	497,833,947	182,667,415
Less: Deferred Revenue Expenses	-	12,228,878
	497,833,947	170,438,537
16. FINANCIAL EXPENSES		
Interest on Term Loan	8,342,113	8,280,336
Bank Charges & Commission	321,973	146,826
Other Financial Charges	-	47,843
Interest on HDFC Car Loan	88,086	7,151
Total	8,752,172	8,482,156

17 SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS

A) Statement on Significant Accounting Policies

(i) Basis of Accounting /Consolidation

The Consolidated Financial Statements of the Company with the wholly owned subsidiaries Staytop Systems Inc; and Primesoft LLC have been prepared under the historical cost convention in accordance with generally accepted accounting principles applicable and the Accounting Standard 21 on Consolidation of financial statements issued by the Institute of Chartered Accountants of India, and the relevant provisions of the Companies Act, 1956 as adopted consistently by the Company.

(ii) Revenue Recognition:

- a) All incomes and expenditure are accounted on accrual basis except insurance claims and dividend income, which are accounted on cash basis.
- b) Revenue from Software Development contracts, priced on time and material basis, is recognised on the basis of billable time spent by employees working on the project, at the contracted rate.
- c) Revenue from fixed price contracts is recognized on milestones achieved as per the terms of specific contracts.

(iii) Fixed Assets:

- a) Fixed Assets are valued at cost less depreciation. Project expenses/Pre-operative expenses are capitalized to the respective asset heads on a proportionate basis. Any capital grant or subsidy received is reduced from the cost of eligible assets.

- b) Depreciation on Fixed Assets is provided on straight-line method in the manner and at the rates specified in Schedule XIV to the Companies Act, 1956.

(iv) Investments:

Investments are classified into current Investments and permanent investments. Current Investments are carried at the lower of cost or market value. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the profit and loss account. Permanent investments are carried at cost less provision made to recognize any permanent diminution in the value of such investments.

(v) Foreign Currency Transactions:

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. In respect of foreign branches, all revenue and expense transactions during the year are reported at average rate.

Monetary assets and liabilities are translated at the rate prevailing on the balance sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Balance in 'Head office account' whether debit or credit, is reported at the amount of the balance in the 'branch account' in the books of the head office after adjusting for unresponded transaction. Net gain/loss on foreign currency translation is recognized in the profit and loss account.

(vi) Retirement Benefits to Employees

Contributions to defined Schemes such as Provident Fund, Employees State

Insurance Scheme are charged as incurred on accrual basis. The Company provides the retirement benefits in the form of Gratuity and Leave Encashment on the basis of actuarial valuation made by Independent actuary as at balance sheet date.

B) NOTES ON ACCOUNTS:

1. Wholly owned Subsidiaries considered for Consolidation:
 - a. Staytop Systems Inc; an US incorporated Company.
 - b. Primesoft LLC, an US incorporated Company.

2. Deferred Tax Liability:

Deferred Tax Liability/Asset is recognized in accordance with Accounting Standard 22 – “Accounting for taxes on Income” issued by the Institute of Chartered Accountants of India.

3. Related Party Disclosure:

As per Accounting Standard AS 18 on related party disclosures issued by the Institute of Chartered Accountants of India, the disclosure of transactions with the related party as defined in the Accounting Standard are given below:

i) List of related parties with whom transactions have taken place and

S.No	Name of the related party	Relationship
1	Staytop Systems Inc;	Subsidiary
2	Primesoft LLC	Subsidiary
3	KV S Chalapathi Rao	Key Management Personnel

ii) Transaction during the year with related parties:

Name of the related party	Nature of Transaction	Rs. In Crores
Staytop Systems Inc;	Income – Software & Services	1.02
Staytop Systems Inc;	Investment	3.72

4. Earnings Per Share:

Calculation of EPS (Basic & Diluted):

Particulars	Rs. In Lakhs	
	Current Year 2005-06	Previous Year 2004-05
Total No. of Shares Outstanding	11,057,500	10,838,400
Profit after Taxes before Prior Period Items	135.89	219.33
Profit after Taxes after Prior Period Items	109.17	215.81
EPS after Taxes before Prior Period Items	1.229	2.024
EPS after Taxes after Prior Period Items	0.987	1.991

5. Segment Reporting:

As per Accounting Standard AS 17 on Segment Reporting disclosures issued by the Institute of Chartered Accountants of India the disclosures on segment reporting are given below

- i) Business Segment - The company is engaged in the business of Software Development and services comprising both onsite and off-shore operations. Since the nature of the activities is governed by similar risks and returns these are grouped as single reportable segment

Geographical Location:	
Particulars	Amount in Rs. Crores
Revenue:	
India – Exports	7.04
Outside India	73.18
Additions to Fixed Assets:	
India	0.38
Outside India	0.29
Carrying amount of Segment Fixed Assets:	
India	6.45
Outside India	0.68

6. Figures for the corresponding year wherever necessary have been regrouped recast and rearranged to conform to those of the current year.

As per our report attached
for **Nataraja Iyer & Co**
Chartered Accountants
Sd/-

E.S.Ranganath
Partner

Place: Hyderabad
Date: 29-11-2006

For and On behalf of the Board

Sd/-

Clinton Travis Caddell
Managing Director & CEO

Place: Secunderabad
Date: 29-11-2006

Sd/-

Nandan Kundetkar
Director

Consolidated Cash Flow Statement for the year ended

	Amount in Rs. Lakhs	
	31-03-2006	31-03-2005
A Cash Flow from Operating Activity:		
Net Profit before tax	114.46	184.25
Adjustments for:		
Depreciation	163.58	158.02
Provision for Gratuity and earned leave	13.14	3.31
Other Income	(121.30)	(35.74)
Interest on Long Term Loan	84.30	82.87
Provision for Bad Debts / Bad debts written-off	-	35.07
Operating Capital before working capital changes	254.18	427.78
Adjustments for		
Trade and other receivables	(811.18)	368.73
Trade Advances	(110.04)	112.07
Trade payables	944.13	(538.47)
Cash Generated from Operations	277.09	370.11
Direct Taxes Paid	(2.63)	-
Interest Paid	(81.48)	(24.38)
Cash Flow before extraordinary items	192.98	345.73
Extraordinary items	(7.19)	(3.05)
Net Cash flow from Operating activity	185.79	342.68
B Cash flow from Investing Activity:		
Fixed Assets	(119.86)	(1,008.66)
Capital Work in Progress	(1.29)	661.09
Purchase of Investments	-	(81.53)
Miscellaneous Expenses	(319.47)	197.17
Interest Received	0.12	6.46
Other Income	121.18	6.47
Net Cash used for Investing Activity	(319.32)	(219.00)
C Cash flow from Financing Activity:		
Equity Share Capital	26.29	-
Share Premium and Reserves	42.18	-
Repayment of Term Loan	(182.10)	(90.00)
Car Loan from HDFC	6.32	6.75
Share Application money repaid	(406.10)	437.00
Unsecured Loan	200.00	-
Net cash generated from financing activity	(313.41)	353.75
Cash and Cash Equivalents (Opening Balance)	650.45	173.02
Net Cash in Cash and Cash Equivalents (A+B+C)	(446.94)	477.43
Cash and Cash Equivalents (Closing Balance)	203.51	650.45

As per our report attached
for **Nataraja Iyer & Co**
Chartered Accountants
Sd/-

E.S.Ranganath
Partner

Place: Hyderabad
Date: 29-11-2006

For and On behalf of the Board

Sd/-
Clinton Travis Caddell
Managing Director & CEO

Place: Secunderabad
Date: 29-11-2006

Sd/-
Nandan Kundetkar
Director

DIRECTOR'S REPORT

To,
The Members of
Primesoft LLC

Your directors have pleasure in presenting the Tenth Annual Report on the business and operations of the Company and the accounts for the period ending 31st March 2006.

Directors

During the year, the following Directors occupied the office of the Directors of the Company.

Mr. Travis Caddell

Ms. Mahita Caddell

Financial Results

Year	2005-06		2004-05	
	Particulars	In US \$	Rs. in Lakhs	In US \$
Gross Revenue	0.00	0.00	0.00	0.00
Operating Profit / (Loss)	0.00	0.00	-97.00	-0.04
Depreciation	0.00	0.00	0.00	0.00
Net Profit / (Loss)	0.00	0.00	-97.00	-0.04

Review of the operations

During the year under review, the Company has not earned revenues and registered no Profit or loss as against loss of US \$ 97 (Rs.0.04 lakhs) in the previous year.

Environmental Regulations Performance

The Company's operations were not subject to any particular or significant environmental regulations of Federal, State laws, hence no specific environmental disclosure is required.

Audit

The Company is not listed in any of the stock exchanges in USA, hence audit of accounts is not compulsory under US laws.

For and on behalf of the Board

Sd/-

Mahita Caddell
Director

Dated 29th November, 2006

Balance Sheet as at 31st March 2006.

Particulars	March 31,2006		March 31,2005	
	In US \$	In Rs.	In US \$	In Rs.
ASSETS				
CURRENT ASSETS				
Cash & Bank Balances				
Other Advances	3,270	145,917	3,270	143,071
Total current Assets	3,270	145,917	3,270	143,071
Total Assets	3,270	145,917	3,270	143,071
LIABILITIES				
Accounts Payable	0	0	0	0
Other Liabilities	0	0	0	0
Total Current Liabilities	0	0	0	0
Stock Holder's equity /				
Retained earnings	3,270	145,917	3,367	147,180
Net Income / (Loss)	0	0	(97)	(4,109)
Total Liabilities & Equity	3,270	145,917	3,270	143,071

Profit and Loss Account for the year ended as at 31st March 2006

Particulars	For the year ended March 31,2006		For the year ended March 31,2005	
	In US \$	In Rs.	In US \$	In Rs.
INCOME				
Professional Services / Consulting	0	0	0	0
Other Income	0	0	0	0
TOTAL INCOME	0	0	0	0
EXPENSES				
Payroll Expenses				
Administration & Other Charges	0	0	97	4,109
TOTAL EXPENSES	0	0	97	4,109
NET PROFIT / (LOSS)	0	0	-97	-4,109

Burlington, VT
Dated 29th November, 2006

For and on behalf of the Board
Sd/-
Mahita Caddell
Director

Sd/-
Travis Caddell
Director

DIRECTOR'S REPORT

To,
The Members of
Staytop Systems Inc

Your directors have pleasure in presenting the Ninth Annual Report on the business and operations of the Company and the accounts for the period ending 31st March 2006.

Directors

During the year, the following Directors occupied the office of the Directors of the Company.

Mr. Travis Caddell

Ms. Mahita Caddell

Financial Results

Year	2005-06		2004-05	
	In US \$	Rs. in Lakhs	In US \$	Rs. in Lakhs
Gross Revenue	10,231,305	4531.44	1,272,492	574.27
Operating Profit / (Loss)	103,577	45.87	129,981	56.87
Depreciation	596	0.26	0	0
Net Profit / (Loss)	102,981	45.61	129,981	56.87

Review of the operations

The company is a wholly owned subsidiary of Goldstone Technologies Limited. During current period i.e., from 1st April 05 to 31st Mar 06, the company has earned revenues of US \$ 10,231,305 (Rs. 4531.44 Lakhs) as against US\$ 1,272,492 (Rs. 574.27 lakhs) in 2004-05 and registered a net profit of US\$ 102,981 (Rs. 45.61 Lakhs) from 1st April 2005 to 31st March 2006 as against US \$ 129,981 (Rs. 56.87 Lakhs) in 2004-05.

Environmental Regulations Performance

The Company's operations were not subject to any particular or significant environmental regulations of Federal, State laws, hence no specific environmental disclosure is required.

Audit

The Company is not listed in any of the stock exchanges in USA, hence audit of accounts is not compulsory under US laws.

For and on behalf of the Board

Sd/-

Mahita Caddell
Director

Dated 29th November, 2006

Balance Sheet as at 31st March 2006.

Particulars	March 31, 2006		March 31, 2005	
	In US \$	In Rs.	In US \$	In Rs.
ASSETS				
CURRENT ASSETS				
Cash & Bank Balances	(100,365)	(4,478,305)	4,939	216,094
Accounts Receivable	769,182	34,320,896	892,424	39,043,547
Loans & Advances	311,700	13,908,073	-	-
Total current Assets	980,517	43,750,664	897,363	39,259,641
Fixed Assets	2,384	106,374	-	-
Total Assets	982,901	43,857,038	897,363	39,259,641
LIABILITIES				
Accounts Payable	749,940	33,462,320	413,948	18,110,217
Other Liabilities	-	-	353,434	15,462,763
Total Current Liabilities	749,940	33,462,320	767,382	33,572,980
Stock Holder's equity / Retained earnings	129,980	5,833,702	-	-
Net Income / (Loss)	102,981	4,561,016	129,981	5,686,661
Total Liabilities & Equity	982,901	43,857,038	897,363	39,259,641

Profit and Loss Account for the year ended as at 31st March 2006

Particulars	For the year ended March 31, 2006		For the year ended March 31, 2005	
	In US \$	In Rs.	In US \$	In Rs.
INCOME				
Professional Services / Consulting	10,231,305	453,144,516	1,272,492	57,427,544
Other Income	-	-	-	-
TOTAL INCOME	10,231,305	453,144,516	1,272,492	57,427,544
EXPENSES				
Payroll Expenses	1,620,065	71,752,690	230,726	10,412,665
Professional Fees	7,995,961	354,141,113	908,748	41,011,780
Administration & Other Charges	512,298	22,689,697	3,037	316,438
TOTAL EXPENSES	10,128,324	448,583,500	1,142,511	51,740,883
NET PROFIT	102,981	4,561,016	129,981	5,686,661

California, USA
Dated 29th November, 2006

For and on behalf of the Board
Sd/-
Mahita Caddell
Director

Sd/-
Travis Caddell
Director



GOLDSTONE TECHNOLOGIES LIMITED

Registered Office: 9-1-83 & 84, Amarchand Sharma complex,
S.D. Road, Secunderabad – 500 003.

PROXY FORM

I/We _____ being a Member(s) of Goldstone Technologies Limited, hereby appoint Mr/Mrs/Miss _____ as my/ our proxy to vote for me/ us on our behalf at the Twelfth Annual General Meeting of the Company to be held on Wednesday 27th December 2006, at 10:30 A.M at Plot No. 1&9, IDA, Phase II, Cherlapally, Hyderabad-500 051 and at any adjournment thereof.

Signed this _____ day of _____ 2006

Signature of the Shareholder(s) _____

Folio No./ Client ID _____

Number of Shares held _____

Affix
Revenue
Stamp

NO GIFTS WILL BE GIVEN

Note:

1. The Proxy form duly completed must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the meeting.
2. A proxy need not be a member.



GOLDSTONE TECHNOLOGIES LIMITED

Registered Office: 9-1-83 & 84, Amarchand Sharma complex,
S.D. Road, Secunderabad – 500 003.

ATTENDANCE SLIP

I hereby record my presence at the Twelfth Annual General Meeting of the Company held on Wednesday 27th December 2006 at 10:30 A.M at Plot No. 1&9, IDA, Phase II, Cherlapally, Hyderabad-500 051.

Name of the Shareholder (Sole/ Joint)
(IN BLOCK LETTERS)

Folio No./ Client ID _____ No. of Shares held _____

(Signature of the Shareholder/ proxy)

Note: Please fill this attendance slip and handover at the entrance of the hall.

NO GIFTS WILL BE GIVEN