

DSP Merrill Lynch Fund Managers Limited**Schedule 16: Significant Accounting Policies and Notes on Accounts****1. Significant Accounting Policies:****a) Method of Accounting :**

The Financial Statements have been prepared on historical cost basis and in accordance with the accrual method of accounting.

b) Use of Estimates :

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and the estimates are recognised in the period in which the results are known / materialised.

c) Revenue Recognition:

Revenue is recognised when there is reasonable certainty of its ultimate realisation / collection.

Investment Management / Portfolio Management and Advisory fees are computed in accordance with Investment Management / Portfolio Management & Advisory agreements respectively and SEBI Regulations. Revenue excludes service tax, wherever recovered.

d) Foreign Exchange Transactions:

Expenses and Income are recorded at the exchange rates prevailing on the date of transaction. Monetary Assets / Liabilities at Balance Sheet date are restated at the exchange rate prevailing on Balance Sheet Date. Exchange differences arising on settlement of transactions and on account of restatement of assets / liabilities are dealt with as foreign exchange fluctuation in Profit & Loss Account.

e) Fixed Assets:

- i. Tangible Fixed Assets- are stated at historical cost less accumulated depreciation.
- ii. Intangibles Fixed Assets - are stated at cost of acquisition less accumulated amortisation.

f) Depreciation / Amortisation on Fixed Assets:**i. Depreciation on Tangible Fixed Assets:**

Depreciation is provided on written down value method, at the rates and in the manner prescribed under Schedule XIV to the Companies Act, 1956 on all assets, except as under –

- Fixed Assets at Leased Premises (included in Furniture & Fittings) is depreciated on straight-line basis over the period of the lease or over the useful life as prescribed by Schedule XIV to the Companies Act, 1956 whichever is lower.
- Computers and equipments are depreciated on straight-line basis over a period of forty eight months.

ii. Amortisation on Intangible Fixed Assets:

- Computer software is amortised on a straight-line basis over a period of thirty six months.

g) Impairment of Fixed Assets:

An asset is treated as impaired when the carrying cost of the asset exceeds its recoverable value. The impairment is charged to the Profit and Loss Account in the year in which an asset is identified as impaired. The impairment loss recognised in prior accounting period is reversed if there is a change in the estimate of recoverable amount.

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Rentals in respect of assets taken on operating leases by the Company are expensed with reference to terms of the lease and other considerations.

i) Investments:

Securities acquired with the intention of holding them as investments are classified as Investments. Current investments represent investments made as part of the Company's Cash Management policy and as such are part of Company's normal business operations. They are shown at lower of cost and fair market value on category wise basis (repurchase price in case of Mutual Fund Units). Long term investments are shown at cost. However, provision for diminution in value of investments is made, if such diminution is of a permanent nature in the opinion of the management.

j) Taxes on Income:

Current Tax is determined as the amount of tax payable in respect of taxable income for the period. Deferred tax asset and liability are recognised for the expected future tax consequences attributable to differences between accounting income and taxable income for a period that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted at the Balance Sheet date. Deferred tax assets are recognised and carried forward only if there is a virtual / reasonable certainty of their realisation.

k) Provisions, Contingent Liabilities and Contingent Assets:

Provisions involving a substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognised but are disclosed in the notes. Contingent assets are neither recognised nor disclosed in the financial statements.

l) Retirement Benefits:

The Company contributes to recognised Provident Fund for its employees. Provision for Gratuity has been made as per actuarial valuation at the year end.

m) Leave Encashment:

Leave Encashment liability is accrued on the basis of actuarial valuation at the year end.

n) Borrowing Costs:

All borrowing costs are charged to revenue.

o) Miscellaneous Expenditure:

The Company amortises preliminary expenses in ten equal instalments commencing from the year in which they are incurred.

2. Change in Accounting Policies:

Valuation of Current Investment: Hitherto, the Company had valued current investment at lower of cost or fair market value on item-by-item basis. For better presentation of accounts, the Company from the current year has valued investment at lower of cost or fair market value on a category-wise basis. Due to the aforesaid change in accounting policy, Current Investment and reserves as at the year-end and net profit for the year are higher by Rs.54,884/-.

3. Segment Reporting:

The Company operates only in one segment – Asset / Portfolio Management Services and related advisory fees.

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4. Contingent Liabilities :

No provision has been made in respect of Income Tax of certain disputed demands pending disposal of appeals to be filed by the Company with the appellate authorities

Current Year Rs.('000)	Previous Year Rs.('000)
1,694	NIL

5. Managerial remuneration under Section 198 of the Companies Act, 1956 :

Remuneration
Contribution to Provident Fund
Provision for Leave Encashment and Gratuity

Total

Current Year * Rs.('000)	Previous Year Rs.('000)
950	1407
51	62
74	76
1,075	1,545

* The position of Manager was vacant from 16.07.2005 to 13.10.2005

Note : Since no Commission is payable, Computation of Net Profits as per Section 349 read with Section 309 (5) and Section 198 of the Companies Act, 1956 is not made.

6. Payment to Auditors (including Service tax) :

a. As Auditors
b. Tax Audit fees
c. As advisor or in any other capacity:
Certification etc.
d. As expenses

Current Year Rs.('000)	Previous Year Rs.('000)
193	110
138	94
6	28
4	3

7. Additional information pursuant to the requirements of Part II of Schedule VI of the Companies Act, 1956.

(i) Earnings in foreign currency
Offshore Advisory fees

(ii) Expenditure in foreign currency
Travel
Brokerage

Current Year Rs.('000)	Previous Year Rs.('000)
30,672	Nil
718	78
296	331

8. Scheme expenses are shown net of marketing / load charges reimbursed **Rs.527,899,066/-** (Previous Year - Rs.405,110,083/-) by the respective Mutual Fund schemes managed by the Company.

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9. Assets Taken on Lease:

Total of future minimum lease rental payments relating to non-cancellable Operating Lease taken by the Company is **Rs.Nil** (Previous Year - Rs. 225,514/-) comprising of

- a. Lease rentals falling due within one year **Rs.Nil** (Previous Year - Rs. 225,514/-).
- b. Lease rentals falling due between 1–5 years **Rs. NIL** (Previous Year - Rs. Nil).

Lease payments (including for cancellable leases) recognised in the Profit and Loss Account amounts to **Rs.17,268,068/-** (Previous Year - Rs.16,209,979/-).

10. The tax effects of significant timing differences are reflected through Deferred Tax Asset (net), which is included in the Balance Sheet.

The major components of Deferred Tax Asset balance are set out below:

	Current Year Rs. ('000)	Previous Year Rs. ('000)
Disallowances u/s 43B of the Income Tax Act, 1961	2,852	5,128
Depreciation (net)	730	(625)
Provision for doubtful advances	236	256
Deferred Tax Asset (net)	3,818	4,759

11. Related Party Disclosures:
i) List of Related Parties and their relationships:

Sr. No	Name of the Related Party	Relationship
1	DSP Merrill Lynch Ltd.	Holding Company
2	DSP Merrill Lynch Trustee Company Pvt. Ltd.	Associate
3	DSP Merrill Lynch Mutual Fund	Associate
4	DSP Merrill Lynch Asset Management India Ltd. Employees Provident Fund.	Associate
5	Merrill Lynch India Equities Fund(Mauritius) Limited	Associate
6	Merrill Lynch Investment Managers (Asia) Limited	Associate
7	Hemendra M. Kothari	Key Management Personnel
8	Aditi Kothari	Relative of Key Management Personnel

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12. Earnings per share (EPS)

The earnings per share, computed as per the requirement under Accounting Standard (AS) 20, Earnings per share issued by the Institute of Chartered Accountants of India, is as under

	Current Year	Previous Year
Net Profit / (Loss) Rs ('000)	8,739	(11,978)
Weighted average number of shares ('000)	20,000	20,000
Basic and Diluted EPS (Rs.)	0.44	(0.60)
Face Value / Nominal Value per share (Rs.)	10	10

13. Comparatives:

Comparatives financial information (i.e. the amounts and other disclosures for the preceding year presented above), is included as an integral part of the current year's financial statements, and is to be read in relation to the amounts and other disclosures relating to the current year. Figures of the previous year have been regrouped / reclassified wherever necessary to correspond to figures of the current year.

Signatures to Schedules 1 to 16

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the Board of Directors

N.P. Sarda
Partner
Membership No 9544

Hemendra Kothari
Chairman

K.R.V. Subrahmanian
Director

Rashmi Poduval
Company Secretary

Mumbai
23rd February, 2006

Mumbai
23rd February, 2006

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

Turnover							Total Expenditure											
			4	0	1	9	6	6				3	8	8	2	4	1	
Profit / (Loss) before Tax							Profit / (Loss) after Tax											
				1	3	7	2	5						8	7	3	9	
Earning per Share in Rs.							Dividend rate %											
					0	.	4	4								N	I	L

V. Generic Names of three Principle Products / Services of Company (as per Monetary terms)

Product Description	Item Code No.
I N V E S T M E N T	N O T
M A N A G E M E N T	A P P L I C A B L E
S E R V I C E S	

For and on behalf of the board

Hemendra Kothari
Chairman

K.R.V. Subrahmanian
Director

Rashmi Poduval
Company Secretary

Mumbai
23rd February, 2006