



Fund Managers

DSP MERRILL LYNCH FUND MANAGERS LIMITED

8th ANNUAL REPORT

Board of Directors

Mr. Hemendra Kothari

Chairman

Mr. David Graham

Mr. K. R. V. Subrahmanian

Mr. Omkar Goswami

Mr. Pradeep Dokania

Mr. Ranjan Pant

Manager & Company Secretary

Ms. Manisha Thakur

Auditors

Deloitte Haskins & Sells

Bankers

Citibank N.A.

ICICI Bank Ltd.

Registered Office

Tulsiani Chambers, West Wing,

11th Floor, Nariman Point,

Mumbai - 400 021

Directors' Report to the Shareholders

Your Directors have pleasure in presenting their Report and Audited Accounts of the Company for the year ended 31st December, 2003.

1. Background :

The Company acts as the Investment Manager to the Fund viz., DSP Merrill Lynch Mutual Fund. The Investment Manager was approved by SEBI to act as the AMC for the Mutual Fund vide letter no. II MARP/201/97 dated 30th January, 1997.

2. Share Capital :

The Company as on 31st December 2003, had Issued, Subscribed and Paid-up Capital of Rs. 200mn.

3. Financial Results :

The Company has earned Investment Management Fee on the eleven Schemes viz., DSP Merrill Lynch Bond Fund, DSP Merrill Lynch Equity Fund, DSP Merrill Lynch Liquidity Fund, DSP Merrill Lynch Balanced Fund, DSP Merrill Lynch Government Securities Fund, DSP Merrill Lynch Technology.com Fund, DSP Merrill Lynch Opportunities Fund, DSP Merrill Lynch Short Term Fund, DSP Merrill Lynch Savings Plus Fund, DSP Merrill Lynch Top 100 Equity Fund and DSP Merrill Lynch Floating Rate Fund during the year under report.

(Rs. mn)

	01-01-03 to 31-12-03	01-01-02 to 31-12-02
Fee Income	299.05	218.98
Profit before Depreciation and Taxation	23.73	37.84
Depreciation	6.25	4.96
Provision for Taxation		
- Current	4.86	9.76
- Deferred Tax credits	(2.98)	(1.57)
Profit after Depreciation and Taxation (a)	15.60	24.69
Add: Balance brought forward from the previous year (b)	6.81	17.08
Profit available for Appropriation (a) - (b)	22.41	7.61
Appropriations		
Proposed Dividend	—	—
Transfer to General Reserve	1.60	0.80
Balance carried to Balance sheet	20.81	6.81
Appropriations	22.41	7.61

4. Dividends :

Your Directors do not recommend any dividend for this period.

5. Operations :

Schemes/Growth in Assets under Management (AUM)

The AMC is required to manage the schemes of the Fund in accordance with the provisions of the Investment Management Agreement, Trust Deed, the Regulations and the objectives of each Scheme.

Currently, the AMC is acting as the Investment Manager for eleven schemes viz. DSPML Bond Fund, DSPML Equity Fund, DSPML Liquidity Fund, DSPML Balanced Fund and DSPML Government Securities Fund, DSPML Technology.com Fund, DSPML Opportunities Fund, DSPML Short Term Fund, DSPML Top 100 Equity Fund, DSPML Savings Plus Fund and DSPML Floating Rate Fund. As of 31st December, 2003, the Assets Under Management (AUM) were **Rs. 48,174mn** as against **Rs. 28,208mn** as of 31st December, 2002. The scheme wise break up of same is given below:

(Rs. mn)

Scheme Name	31 st Dec., 2003	31 st Dec., 2002
DSP Merrill Lynch Bond Fund	12651	15339
DSP Merrill Lynch Equity Fund	630	267
DSP Merrill Lynch Liquidity Fund	12760	2623
DSP Merrill Lynch Balanced Fund	967	531
DSP Merrill Lynch Lynch Government Securities Fund	1950	1313
DSP Merrill Lynch Technology.com Fund	265	199
DSP Merrill Lynch Opportunities Fund	4700	704
DSP Merrill Lynch Short Term Fund	8424	7232
DSP Merrill Lynch Savings Plus Fund	3404	—
DSP Merrill Lynch Top100 Equity Fund	1445	—
DSP Merrill Lynch Floating Rate Fund	978	—

Service Standards

Your Directors are happy to say that the investor grievances/queries are resolved promptly and professionally by our Registrar-Computer Age Management Service Ltd. (CAMS). CAMS has opened up two new Investor Service Centers at Indore and Mangalore and five transaction points in Madurai, Salem, Andheri, Jamnagar and Vijaywada, in addition to the existing twenty-one Investor Service Centres. The AMC in association with CAMS has set up a toll free call centre with the help of which investors can avail of a host of services with relative ease.

In the last year, your Company has added strength in terms of headcount, improved processes and technology to our operations team to position our infrastructure for better service.

Marketing and People

The total staff strength of the AMC is presently 58 employees and the company is building up the sales and distribution team in India.

In the first quarter of 2003, we opened offices in Ahmedabad and Hyderabad. We added around Rs. 121 crores to our AUM in these markets by the end of 2003.

On an all India basis, our distribution reach has increased from around 425 to 940 empanelled distributors by the end of 2003. This, along with an enhanced focus on the retail segment also saw a four fold increase in monthly purchase applications during the last calendar year.

The new schemes that were launched in 2003 were the DSP Merrill Lynch Top 100 Equity Fund & the DSP Merrill Lynch Savings Plus Fund in Feb 2003 & the DSP Merrill Lynch Floating Rate Fund in May 2003. All three funds have recorded a robust growth since launch.

For the current year our new product plans include introducing 2 new variants in the DSP Merrill Lynch Savings Plus Fund to cater to the very conservative & aggressive client segments. An equity fund based on the Infrastructure, Growth & Economic reforms is also in the pipeline. Apart from these funds, we are exploring opportunities to launch funds that can leverage the distribution strength of our key partners and thereby build loyalty. We are also on the threshold of receiving our PMS license which should help us in enhancing our presence in the HNI market space. These initiatives are likely to bear fruit by the middle of the year.

In order to build up our geographical presence, we are looking to establish 11 new branches this year. These are Surat, Baroda, Nagpur & Indore in the West; Coimbatore & Cochin in the South; Lucknow, Kanpur, Ludhiana, Chandigarh & Jaipur in the North. We are currently in the process of identifying people and office space in the above mentioned locations. By the middle of the year, we aim to roll out our operations in at least 6 of the above locations.

This year in summation would see a significant push from us into the retail segments by way of extended geographical & distributor reach, additional manpower, enhanced marketing spends and new product launches aimed at the retail investor.

6. Directors :

Mr. Check Low (who was appointed as an Affiliated Director in September 2002), resigned during the year. Pursuant to section 262 of the Companies Act, 1956, Mr. John Thurlow, was appointed with effect from 27th February, 2003 as an Affiliated Director of the Company to fill in the casual vacancy

caused by the resignation of Mr. Check Low. Mr. John Thurlow resigned as Director of the Company on 5th March, 2004. Mr. David Graham was appointed as an Additional Director (Affiliated) of the Company with effect from 15th March, 2004. In accordance with the provisions of the Companies Act, 1956 Mr. Hemendra Kothari and Mr. K. R. V. Subrahmanian retire by rotation and being eligible offer themselves for reappointment.

7. Auditors :

M/s. Deloitte Haskins & Sells, Chartered Accountants, retire at the ensuing Annual General Meeting and they offer themselves for re-appointment at the ensuing Annual General Meeting. The Company has received a consent letter from them in conformity with the provisions of section 224(1-B) of the Companies Act, 1956. Your Directors recommend their appointment and request you to authorise the Board of the Company to fix their remuneration.

8. Particulars of Employees :

The information as required under section 217(2A) of the Companies Act, 1956 is being sent separately.

9. Conservation of Energy, Technology Absorption and Exports/Foreign Exchange Earnings and Outgo :

Being an Asset Management Company, your Company has no manufacturing activities. Hence, there is no report pertaining to conservation of energy or technology absorption. During the year under report, your Company has not earned any foreign exchange. The details of expenditure is given in Note 10 of Schedule 16 of the accounts.

10. Directors' Responsibility Statement :

Pursuant to section 217(2AA) of the Companies (Amendment) Act, 2000, the Board of Directors of your Company state:

While preparing the annual accounts:

- i) the applicable accounting policies and accounting standards have been followed consistently alongwith proper explanation relating to material departures,
- ii) such judgement and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period
- iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities and
- iv) that the annual accounts have been prepared on a going concern basis.

11. Audit Committee :

The members of the Audit Committee are Mr. K. R. V. Subrahmanian (Chairman), Mr. Pradeep Dokania (Director), Mr. Ranjan Pant (Director) and Mr. Hemendra Kothari (Director). The Audit Committee is constituted in accordance with the provisions of section 292A of the Companies Act, 1956.

The terms of reference of the Audit Committee include reviewing the half yearly and annual Financial Statements, reviewing internal control systems and ensuring compliance of same, reviewing internal audit plan, SEBI inspection reports (to the extent it impinges/affects on the functioning of the AMC), audit reports and observations of statutory and internal auditors, implementation of audit recommendations and suggested rectifications by internal and/or statutory auditors, risk management as well as compliance of corporate law.

The Committee met five times during the year under review. It considered the fifth SEBI Inspection Report, which spanned one year and three months period i.e 1.4.02 to 30.6.03. It also reviewed and discussed the progress on implementation of the Risk Management practices in various areas as specified in the SEBI circular MFD/CIR/15/19133/2002, dated 30th September, 2002. The eleventh meeting of the Audit Committee was held on 19th March, 2004, prior to the finalisation of the accounts for the year ended 31st December, 2003.

The Audit Committee also invites senior executives as it considers appropriate to be present at the meeting of the Committee. Mr. R. Ramamoorthy acts as the Secretary to the Committee.

12. Appreciation :

The Directors place on record their sincere appreciation to the Securities and Exchange Board of India, Reserve Bank of India, DSP Merrill Lynch Ltd. and Merrill Lynch Investment Management LP for extending necessary advice and assistance to the Company.

Your Directors wish to place on record their appreciation and the contribution made by each and every employee of the Company.

For and on behalf of the Board of Directors

Hemendra Kothari
Chairman

Place : Mumbai
Dated : 19th March, 2004

Auditors' Report to the Shareholders

We have audited the attached Balance Sheet of DSP Merrill Lynch Fund Managers Ltd. as at 31st December, 2003 and the Profit and Loss Account of the Company 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.

1. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
2. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms of section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in Paragraph 4 of the said order.
3. Further, to our comments in the Annexure referred to in Paragraph 2 above, we report that:
 - a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the 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 such books;
 - c. The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of accounts;
 - d. In our opinion, the Balance Sheet and Profit and Loss Account comply with the Accounting Standards referred to in sub-section 3C of section 211 of the Companies Act, 1956;
 - e. On the basis of the written representations received from the directors of the Company, and taken on record by the Board of Directors, we report that none of the directors are disqualified as at 31st December, 2003 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - f. *Attention is invited to Note No 5(b) regarding managerial remuneration of Rs. 378,655/- which is subject to approval of shareholders at the forthcoming Annual General Meeting*

Subject to the foregoing, in our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with the other notes thereon, give the information required by the Companies Act, 1956 in the manner so required and present 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 December, 2003; and
- (ii) In the case of the Profit and Loss Account, of the Profit for the year ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants

N. P. Sarda
Partner
Membership No. 9544

Place: Mumbai
Dated: 23rd March, 2004

Annexure to the Auditors' Report

Referred to in paragraph 2 of our report of even date on the accounts of DSP Merrill Lynch Fund Managers Ltd. for the year ended 31st December, 2003

1. The nature of the Company's business/activities during the year is such that the requirements of item (c) of clause (i), clauses (ii), (iii), (vi), (viii), item (b) of clause (ix), clauses (xii), (xiii), (xv), (xviii), (xix) and (xx) of paragraph 4 of the said order are not applicable to the Company.
2. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - (b) Some of the fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.
3. 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. There are no transactions of purchase of inventory and for sale of goods.
4. In respect of transactions entered in the register maintained in pursuance of section 301 of the Companies Act, 1956 :
 - (a) To the best of our knowledge and belief and according to the information and explanations given to us, the transactions that needed to be entered into the register have been so entered.
 - (b) According to the information and explanations given to us, where each of such transactions is in excess of Rs. 5 lakhs in respect of any party, the transactions have been made at prices which are prima facie reasonable having regard to the prevailing market prices at the relevant time.
5. In our opinion, the Company has an adequate internal audit system commensurate with the size and the nature of its business.
6. According to the information and explanations given to us, the Company has been regular in depositing undisputed statutory dues, including Provident Fund, Income tax, Sales tax, Wealth Tax, Custom Duty, Excise Duty, Service Tax, Cess and any other statutory dues with the appropriate authorities during the year.
7. The Company does not have accumulated losses. The Company has not incurred any cash losses during the current and the immediately preceding financial year.
8. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in the repayment of dues to banks. There were no borrowings from financial institutions and debenture holders.
9. Based on our examination of the records and evaluation of the related internal controls, the Company has maintained proper records of transactions and contracts in respect of its dealing in shares, securities, debentures and other investments and timely entries have been made therein. Also the aforesaid securities have been held by the Company in its own name.
10. To the best of our knowledge and belief and according to the information and explanations given to us, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.
11. According to the cash flow statement and other records examined by us and the information and explanations given to us, on an overall basis, funds raised on short term basis have, prima facie, not been used during the year for long term investment including fixed assets and vice versa, other than temporary deployment pending application.
12. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells
Chartered Accountants

N.P.Sarda
Partner
Membership No. 9544

Place: Mumbai
Date: 23rd March, 2004

Balance Sheet as at 31st December, 2003

	Schedule No.	As at 31.12.2003 Rs. '000	As at 31.12.2002 Rs. '000
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Share Capital	1	200,000	200,000
(b) Reserves & Surplus	2	23,216	7,607
2. Loan Funds			
(a) Secured Loans	3	3,203	868
		226,419	208,475
II. APPLICATION OF FUNDS			
1. Fixed Assets			
Gross Block	4	48,063	43,131
Less : Depreciation		31,333	32,870
Net Block		16,730	10,261
2. Investments			
	5	189,799	168,000
3. Deferred Tax Asset			
		4,550	1,571
4. Current Assets, Loans & Advances			
I. Current Assets			
(a) Sundry Debtors	6	58,887	36,234
(b) Cash & Bank Balances	7	1,384	3,687
II. Loans and Advances			
	8	63,558	61,288
	(A)	123,829	101,209
Less : Current Liabilities & Provisions			
(a) Current Liabilities	9	88,139	58,158
(b) Provisions	10	20,531	14,669
	(B)	108,670	72,827
Net Current Assets	(A - B)	15,159	28,382
5. Miscellaneous Expenditure			
(to the extent not written off or adjusted)			
Preliminary Expenses	11	181	261
		226,419	208,475
Significant accounting policies & notes on accounts	16		

Schedules 1 to 16 annexed hereto form part of these accounts

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

N. P. Sarda
Partner
Mumbai : 23rd March, 2004

For and on behalf of the Board of Directors

Hemendra Kothari
Chairman

K. R. V. Subrahmanian
Director

Manisha Thakur
Manager & Company Secretary
Mumbai : 19th March, 2004

Profit & Loss Account for the year ended 31st December, 2003

	Schedule No.	Current Year Rs. '000	Previous Year Rs. '000
INCOME			
Investment Management Fees		280,608	200,261
Profit on Sale of Current Investments (net)		10,536	13,273
Dividend on Units (Current Investments)		6,589	—
Interest Income	12	1,322	5,447
	(A)	299,055	218,981
EXPENDITURE			
Scheme Expenses (net)	13	94,876	55,046
Employee Costs	14	85,655	66,059
Administrative and Other Expenses	15	94,572	59,920
Depreciation		6,252	4,959
Interest Expenses		134	41
Preliminary Expenditure written off		80	80
	(B)	281,569	186,105
PROFIT BEFORE TAXATION	(A - B)	17,486	32,876
Provision for Taxation			
- Current Tax		4,864	9,763
- Excess Provision of earlier year no longer required		(9)	—
- Deferred Tax credits		(2,978)	(1,571)
		1,877	8,192
PROFIT AFTER TAXATION		15,609	24,684
BALANCE BROUGHT FORWARD		6,807	(17,077)
BALANCE AVAILABLE FOR APPROPRIATION		22,416	7,607
General Reserve		1,600	800
BALANCE CARRIED TO BALANCE SHEET		20,816	6,807
Weighted average number of equity shares outstanding during the year		20,000,000	20,000,000
Basic and Diluted Earnings per share of Rs. 10/- each (in Rs.)		0.78	1.23

Significant accounting policies & notes on accounts

16

Schedules 1 to 16 annexed hereto form part of these accounts

For and on behalf of the Board of Directors

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered AccountantsHemendra Kothari
ChairmanK. R. V. Subrahmanian
DirectorN. P. Sarda
PartnerManisha Thakur
Manager & Company SecretaryMumbai : 23rd March, 2004Mumbai : 19th March, 2004

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003

	Rs. '000	As at 31.12.2003 Rs. '000	As at 31.12.2002 Rs. '000
1. SHARE CAPITAL :			
Authorised			
30,000,000 (Previous year - 30,000,000) Equity Shares of Rs. 10/- each		300,000	300,000
Issued, Subscribed and Paid up			
20,000,000 (Previous year - 20,000,000) Equity Shares of Rs. 10/- each, fully paid up [Of the above 19,999,990 shares (Previous year - 19,999,990 shares) are held by the holding Company viz. DSP Merrill Lynch Limited]		200,000	200,000
		200,000	200,000
2. RESERVES AND SURPLUS :			
General Reserve			
- Balance as per Last Balance Sheet	800		—
- Transfer from Profit and Loss Account	<u>1,600</u>		800
		2,400	800
Surplus from Profit and Loss Account		20,816	6,807
		23,216	7,607
3. SECURED LOANS :			
Loan from Bank (Secured by hypothecation of specific vehicle) [Installment (principal) due within one year - Rs. 823,861/- (Previous year - Rs. 207,487)]		3,203	868
		3,203	868

4. FIXED ASSETS :

Description	Gross Block (At Cost)			Depreciation			Net Block	
	As on 01.01.03 Rs. '000	Additions/ (Deductions) Rs. '000	As on 31.12.03 Rs. '000	As on 01.01.03 Rs. '000	Additions/ (Deductions) Rs. '000	Upto 31.12.03 Rs. '000	As on 31.12.03 Rs. '000	As on 31.12.02 Rs. '000
Equipment	7,860	1,385 (2,803)	6,442	5,940	1,140 (2,685)	4,395	2,047	1,920
Computers	27,200	7,896 —	35,096	20,612	4,245 —	24,857	10,239	6,588
Furniture & Fittings	5,746	1,140 (5,027)	1,859	5,418	314 (4,883)	849	1,010	328
Vehicles	2,325	2,650 (309)	4,666	900	553 (221)	1,232	3,434	1,425
Total	43,131	13,071 (8,139)	48,063	32,870	6,252 (7,789)	31,333	16,730	10,261
Previous Year	38,310	5,216 (395)	43,131	28,176	4,958 (264)	32,870	10,261	

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003

	Rs. '000	As at 31.12.2003 Rs. '000	As at 31.12.2002 Rs. '000
5. INVESTMENTS :			
Current Investments (At lower of cost and fair market value) (As per Annexure A)		189,799	168,000
		189,799	168,000
6. SUNDRY DEBTORS :			
(Unsecured, considered good)			
Outstanding for a period exceeding six months		—	—
Other Debts		58,887	36,234
		58,887	36,234
7. CASH AND BANK BALANCES :			
Cash on Hand		8	23
Balances with Scheduled Banks - - Current Accounts		1,376	3,664
		1,384	3,687
8. LOAN AND ADVANCES :			
(Unsecured, considered good unless otherwise stated)			
A. Loans		1,217	2,055
B. Advances (Recoverable in cash or in kind for value to be received)			
Advance payment of Income Tax		41,223	33,851
Deposits		14,410	21,784
Other Advances			
- considered doubtful	700		—
- considered good	<u>6,708</u>		3,598
		7,408	3,598
		64,258	61,288
Less : Provision for doubtful advances		700	—
		63,558	61,288
9. CURRENT LIABILITIES (Refer notes below) :			
Trade Liabilities		30,199	21,504
Other Liabilities		57,940	36,654
Notes :			
1) Small Scale Industrial undertakings to whom amounts are outstanding for more than 30 days is Rs. Nil (Previous year - Rs. Nil)		88,139	58,158
2) No amounts are due towards Investor Education and Protection Fund			
10. PROVISIONS :			
Provision for Taxation		16,547	12,091
Provision for Gratuity		2,766	1,812
Provision for Leave Encashment		1,218	766
		20,531	14,669
11. MISCELLANEOUS EXPENDITURE :			
(To the extent not written off or adjusted)			
Preliminary Expenses		261	341
Less : Written off during the year		80	80
		181	261

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003

	Rs. '000	Current Year Rs. '000	Previous Year Rs. '000
12. INTEREST INCOME ON :			
Bank Deposits		221	299
[Tax deducted at source Rs. 74,278/- (Previous year - Rs. 61,793/-)]			
Other Deposits		64	2,295
[Tax deducted at source Rs. Nil (Previous year - Rs. 467,831/-)]			
Tax Refunds		1,037	2,853
		1,322	5,447
13. SCHEME EXPENSES (net) : (Refer note 3 of Schedule 16)			
Broker Reallowance		67,567	27,481
Advertising & Publicity		27,309	24,976
Other Reimbursements		—	2,589
		94,876	55,046
14. EMPLOYEE COSTS :			
Salaries and Bonus		80,631	61,940
Contribution to Provident fund		2,501	1,947
Provision for Gratuity		954	875
Provision for Leave Encashment		526	462
Staff welfare expenses		1,043	835
		85,655	66,059
15. ADMINISTRATIVE AND OTHER EXPENSES :			
Business Meetings & Conferences		3,696	2,340
Communication costs		5,674	4,040
Directors' sitting fees		110	120
Electricity		2,913	1,815
Insurance		969	329
Loss on assets sold/discarded (net)		193	7
Mailing expenses		4,277	3,177
Printing & Stationery		12,520	9,708
Professional fees		7,758	6,944
Provision for diminution in value of current investments		1,648	—
Provision for doubtful advances		700	—
Rates & taxes		18,727	3,843
Rent		13,246	7,943
Repairs & Maintenance :			
- Building	2,361		1,532
- Plant & Machinery	2,566		1,658
- Others	57		634
		4,984	3,824
Subscriptions		3,916	4,484
Travelling expenses		5,288	4,088
Miscellaneous expenses		7,953	7,258
		94,572	59,920

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003

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/materialized.

c) Revenue Recognition :

Revenue is recognised when there is reasonable certainty of its ultimate realisation/collection. Investment management fees are computed in accordance with investment management agreement and SEBI Regulations.

d) Foreign Exchange Transactions :

Expenses and income are recorded at the exchange rates prevailing on the date of transaction. Year-end accruals have been made as per the exchange rates prevailing as at the last day of the accounting year.

e) Fixed Assets :

Fixed Assets are stated at historical cost less accumulated depreciation.

f) Depreciation :

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

- Capital expenditure at Leased Premises (included in furniture & fittings) is depreciated over the period of the lease or over the useful life as prescribed under the Schedule XIV to the Companies Act, 1956 whichever is lower.
- Computers and equipment are depreciated on straight-line basis over a period of forty-eight months.
- Software is depreciated on straight-line basis over a period of thirty-six months.

g) Investments :

Securities acquired with the intention of holding them as investments are classified as investments. Current Investments represent investments made as a part of the Company's Cash Management Policy. They are valued at lower of cost and fair market value.

h) Contingent Liabilities :

These are disclosed by way of notes to the accounts. Provision is made in the accounts in respect of those contingencies which are likely to materialise into liabilities after the year end till finalisation of accounts and have material effect on the position stated in the Balance Sheet.

i) 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.

j) Leave Encashment :

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

k) Taxes on Income :

Current Tax is determined as the amount of tax payable in respect of taxable income for the period. Deferred tax assets and liabilities 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 by the Balance Sheet date. Deferred tax assets are recognised and carried forward only if there is a reasonable/virtual certainty of its realisation.

l) Borrowing Costs :

All borrowing costs are charged to revenue.

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003

SCHEDULE 16 : Significant accounting policies and notes on accounts

m) Miscellaneous Expenditure :

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

2. The Company operates only in one segment – Asset Management Services.
3. Scheme expenses are shown net of marketing/load charges reimbursed **Rs. 216,620,450/-** (Previous year - Rs. 90,901,792/-)
4. The tax effects of significant timing differences are reflected through Deferred tax asset, which is included in the Balance Sheet.

The major components of Deferred tax asset balance are set out below:

	Current Year Rs.	Previous Year Rs.
Disallowances u/s 43B of the Income Tax Act, 1961	3,320,676	—
Depreciation (net)	977,611	1,571,403
Provision for doubtful advances	251,125	—
Deferred tax asset	4,549,412	1,571,403

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

	Current Year Rs.
Remuneration	578,467
Contribution to Provident & Other Funds	29,961
Provision for Leave Encashment & Gratuity	21,422
Total	629,850

- a) The Company appointed a Manager with effect from 24th June, 2003
- b) 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.
- c) In view of inadequacy of profits Managerial remuneration has been restricted to remuneration payable under Schedule XIII of the Companies Act, 1956. The above includes remuneration of Rs. 378,655/- which is subject to approval of the shareholders at the forthcoming Annual General Meeting.

6. Payment to Auditors :

	Current Year Rs.	Previous Year Rs.
a) As Auditors	107,400	84,000
b) Tax Audit fees	85,913	68,250
c) As advisor or in any other capacity -		
i) Taxation matters	—	336,500
ii) Certification etc.	25,538	18,900
d) As expenses	1,012	—

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003

SCHEDULE 16 : Significant accounting policies and notes on accounts

7. Total of future minimum lease rental payments relating to Operating Lease taken by the Company is **Rs. 779,038/-** (Previous year - Rs. 1,802,779/-) comprising -

a) Lease rentals falling due within one year **Rs. 543,912/-** (Previous year - Rs. 818,100/-)

b) Lease rentals of **Rs. 235,126/-** falling due between 1-5 years (Previous year - Rs. 984,679/-)

Lease payments recognised in the Profit and Loss Account amounts to **Rs. 766,240/-** (Previous year - Rs. 876,526/-)

8. Earnings per share (EPS) :

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

	Current Year	Previous Year
Net Profit (Rs. '000)	15,609	24,684
Weighted average number of shares	20,000,000	20,000,000
Basic and Diluted EPS (Rs.)	0.78	1.23
Face Value/Nominal Value per share (Rs.)	10.00	10.00

9. 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.	Mr. Hemendra Kothari	Key Management Personnel
6.	Ms. Aditi Kothari	Relative of Key Management Personnel

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003
SCHEDULE 16 : Significant accounting policies and notes on accounts
ii) Transactions during the year/Balances with Related Parties -

Sr. No.	Nature of Transaction	Holding Company	Associates	Relative of Key Management Personnel	Total
		Rs.	Rs.	Rs.	Rs.
1.	Investments				
	Purchases in, during the year	—	470,067,573	—	470,067,573
	(Previous year)	—	573,000,000	—	573,000,000
	Sales of, during the year	—	457,156,067	—	457,156,067
	(Previous year)	—	548,272,522	—	548,272,522
	Balance as at 31 st December, 2003	—	189,799,308	—	189,799,308
	(Previous year)	—	168,000,000	—	168,000,000
2.	Revenue				
	Investment Management Fees	—	280,607,504	—	280,607,504
	(Previous year)	—	200,261,179	—	200,261,179
	Balance as at 31 st December, 2003	—	29,387,270	—	29,387,270
	(Previous year)	—	19,132,228	—	19,132,228
3.	Expenditure				
	Broker Reallowance	65,801,208	—	—	65,801,208
	(Previous year)	52,303,308	—	—	52,303,308
	Balance as at 31 st December, 2003	(6,744,513)	—	—	(6,744,513)
	(Previous year)	(10,221,657)	—	—	(10,221,657)
	Contribution to Provident Fund	—	2,501,283	—	2,501,283
	(Previous year)	—	1,946,669	—	1,946,669
	Balance as at 31 st December, 2003	—	(1,800)	—	(1,800)
	(Previous year)	—	—	—	—
4.	Reimbursement/(Recovery) of Expenses				
	(net)	11,160,729	216,620,450	—	227,781,179
	(Previous year)	4,057,280	(88,408,859)	—	(84,351,579)
	Balance as at 31 st December, 2003	(3,569,119)	29,499,938	—	25,930,819
	(Previous year)	(1,641,725)	17,102,069	—	15,460,344
5.	Deposits-Refund received of deposit				
	(Previous year)	—	—	—	—
		19,000,000	—	—	19,000,000
	Balance as at 31 st December, 2003	—	—	—	—
	(Previous year)	—	—	—	—
6.	Remuneration Paid			683,333	683,333
	(Previous year)	—	—	—	—
	Balance as at 31 st December, 2003	—	—	(487,333)	(487,333)
	(Previous year)	—	—	—	—

Note: Figures in brackets, against balance outstanding indicates amounts payable by the Company to the related party.

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003

SCHEDULE 16 : Significant accounting policies and notes on accounts

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

	Current Year Rs.	Previous Year Rs.
Expenditure in Foreign Currency: Travel	90,806	—

11. Figures of the previous year have been regrouped, reclassified and/or recast wherever necessary.

Signatures to Schedules 1 to 16

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

N.P. Sarda
Partner

Mumbai: 23rd March, 2004

For and on behalf of the Board of Directors

Hemendra Kothari
Chairman

K.R.V. Subrahmanian
Director

Manisha Thakur
Manager & Company Secretary

Mumbai: 19th March, 2004

Schedules annexed to and forming part of the accounts for the year ended 31st December, 2003
ANNEXURE : A TO SCHEDULE 5

Sr. Particulars No.	Nominal Value Rs. '000	As at 31 st December, 2003		As at 31 st December, 2002	
		No.	Book Value Rs. '000	No.	Book Value Rs. '000
1. Current Investments (at lower of cost and fair market value) (Non-Trade)					
Quoted					
DSP Merrill Lynch Liquidity Fund-Dividend	46,830	4,683,030	58,093	—	—
DSP Merrill Lynch Bond Fund-Dividend	64,796	6,479,636	72,500	—	—
DSP Merrill Lynch Short Term Fund-Dividend	25,332	2,533,183	25,417	—	—
DSP Merrill Lynch Floating Rate Fund-Dividend	20,415	2,041,463	20,437	—	—
DSP Merrill Lynch Short Term Fund-Growth (Previous year nominal value Rs. 1.47 crores)	14,702	1,470,228	15,000	1,470,228	15,000
DSP Merrill Lynch Liquidity Fund-Growth	—	—	—	3,306,217	48,000
DSP Merrill Lynch Bond Fund-Growth	—	—	—	5,381,855	105,000
Aggregate of Book Value			191,447		168,000
Less : Provision for Diminution in Value			1,648		—
Total Current Investments			189,799		168,000
Aggregate of Market Value			191,138		176,314

Balance Sheet Abstract and Company's General Business Profile as at 31st December, 2003

Additional Information pursuant to Part IV of Schedule VI to the Companies Act, 1956 :

I. Registration Details

Registration No.

9	9	4	8	3
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 State Code

1	1
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 (Refer Code List)

Balance Sheet Date

3	1
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1	2
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2	0	0	3
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Date Month Year

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

<p>Public Issue</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td></tr></table> <p>Bonus Issue</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td></tr></table>								N	I	L								N	I	L	<p>Right Issue</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td></tr></table> <p>Private Placement</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td></tr></table>								N	I	L								N	I	L
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III. Position of Mobilisation and deployment of Funds (Amount in Rs. Thousands)

<p>Sources of Funds</p> <p>Total Liabilities</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td>2</td><td>2</td><td>6</td><td>4</td><td>1</td><td>9</td></tr></table> <p>Paid-up Capital</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td>2</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td></tr></table> <p>Secured Loans</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>3</td><td>2</td><td>0</td><td>3</td></tr></table>				2	2	6	4	1	9				2	0	0	0	0	0						3	2	0	3	<p>Total Assets</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td>2</td><td>2</td><td>6</td><td>4</td><td>1</td><td>9</td></tr></table> <p>Reserves & Surplus</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>2</td><td>3</td><td>2</td><td>1</td><td>6</td></tr></table> <p>Unsecured Loans</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td></tr></table>				2	2	6	4	1	9						2	3	2	1	6								N	I	L									
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<p>Application of Funds</p> <p>Net Fixed Assets</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>1</td><td>6</td><td>7</td><td>3</td><td>0</td></tr></table> <p>Net Current Assets</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>1</td><td>5</td><td>1</td><td>5</td><td>9</td></tr></table> <p>Accumulated Losses</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td></tr></table>						1	6	7	3	0						1	5	1	5	9								N	I	L	<p>Investments</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>1</td><td>8</td><td>9</td><td>7</td><td>9</td><td>9</td></tr></table> <p>Misc. Expenditure</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td>1</td><td>8</td><td>1</td></tr></table> <p>Deferred Tax</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td>4</td><td>5</td><td>5</td><td>0</td></tr></table>						1	8	9	7	9	9									1	8	1										4	5	5	0
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Balance Sheet Abstract and Company's General Business Profile as at 31st December, 2003

Additional Information pursuant to Part IV of Schedule VI to the Companies Act, 1956 : (contd.)

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

Turnover

			2	9	9	0	5	5
--	--	--	---	---	---	---	---	---

Total Expenditure

			2	8	1	5	6	9
--	--	--	---	---	---	---	---	---

Profit/(Loss) before Tax

			1	7	4	8	6
--	--	--	---	---	---	---	---

Profit/(Loss) after Tax

			1	5	6	0	9
--	--	--	---	---	---	---	---

Earning per Share in Rs.

			0	.	7	8
--	--	--	---	---	---	---

Dividend rate %

					N	I	L
--	--	--	--	--	---	---	---

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

Product Description

I	N	V	E	S	T	M	E	N	T
M	A	N	A	G	E	M	E	N	T
S	E	R	V	I	C	E			

Item Code No.

N	O	T							
A	P	P	L	I	C	A	B	L	E

For and on behalf of the Board of Directors

Hemendra Kothari
Chairman

K.R.V. Subrahmanian
Director

Manisha Thakur
Manager & Company Secretary

Mumbai: 19th March, 2004