

Auditors' Report to the Members of DSP Merrill Lynch Fund Managers Limited

1. We have audited the attached Balance Sheet of DSP Merrill Lynch Fund Managers Limited, as at 31 March 2007 and also the Profit and Loss Account and the Cash Flow Statement for 15 month period ended March 31, 2007 (from January 1, 2006 to March 31, 2007) 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 (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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4. Further to our comments in the Annexure referred to 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 those books.
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub - section (3C) of Section 211 of the Companies Act, 1956.
 - (e) On the basis of written representations received from the Directors as on 31 March 2007 and taken on record by the Board of Directors none of the directors are disqualified as on 31 March 2007 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. 11 regarding Portfolio Management Services (Rs. 1,320,000) rendered to DSP Investment Pvt. Ltd. (formerly known as BIKO Investment Pvt. Ltd.) in respect of which the Central Government approval, as required by section 297 of the Companies Act, 1956, has not been obtained.*

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(g) *Subject to the foregoing*, in our opinion and to the best of our information and according to the explanations given to us, the accounts 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 31 March 2007;
- (ii) in the case of the Profit and Loss Account, of the profit of the Company for the 15 month period ended March 31, 2007; and
- (iii) in the case of the Cash Flow statement, of the cash flows for the 15 month period ended March 31, 2007.

For Deloitte Haskins & Sells

Chartered Accountants

P. B. Pardiwalla

P. B. Pardiwalla

Partner

Membership No. 40005

Place: Mumbai

Date: 22 May 2007

Deloitte Haskins & Sells

Annexure to the Auditors' Report

(Referred to in paragraph 3 of our report of even date)

1. The nature of the Company's business/activities for the year are such that the requirements of items (i-c), (ii), (vi), (viii), (x), (xii), (xiii), (xiv), (xv), (xvii), (xviii), (xix) and (xx) of paragraph 4 of the Order are not applicable to the Company.
2. In respect of its fixed assets:
 - 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. The company has not granted or taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and sale of services. There are no transactions for purchase of inventory or sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in such internal controls.

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5. In respect of contracts or arrangements entered in the register maintained in pursuance of section 301 of the Companies Act, 1956 to the best of our knowledge and belief and according to the information and explanations given to us:
 - a) The particulars of the contracts or arrangements referred to in section 301 that needed to be entered into the register, maintained under the said section, have been so entered, *except that a transaction with DSP Investment Pvt. Ltd (formerly known as BIKO Investment Pvt. Ltd.) has not been so entered. (Refer Note 11 to the financial statements).*
 - b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts and arrangements aggregating during the year to Rs. 5 lacs or more in respect of each party, have been made at prices which are, *prima facie*, reasonable having regard to the volume of transactions and the prevailing market prices.
6. In our opinion, the Company has an adequate internal audit system commensurate with the size and the nature of its business.
7. In respect of its statutory dues:
 - a) According to the information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues, including provident fund, income-tax, wealth-tax, service tax, custom duty, cess and any other material statutory dues with the appropriate authorities during the year.

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- b) According to the information and explanations given to us, there are no dues in respect of service tax, wealth tax, custom duty and cess that have not been deposited with the appropriate authorities on account of any dispute. The following demands have not been deposited since appeals are pending before the relevant Income Tax Authorities:

Name of Statute	Nature of the dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax Demand	509,000	A.Y. 2004-05	Commissioner of Income Tax (Appeals)

8. In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to banks.
9. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, 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.
10. According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, funds raised on short term basis have, *prima facie*, not been used during the year for long term investment.

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11. To the best of our knowledge and belief and according to the information and explanations given to us, no material fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells
Chartered Accountants



P. B. Pardiwalla

Partner

Membership No. 40005

Place: Mumbai

Date: 22 May 2007

DSP Merrill Lynch Fund Managers Limited
Balance Sheet as at 31st March, 2007

	Schedule No.	As at 31.03.2007 Rs. '000	As at 31.12.2005 Rs. '000
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Share Capital	1	200,000	200,000
(b) Reserves & Surplus	2	291,139	19,978
2. Loan Funds			
Secured Loans	3	6,075	4,501
		497,214	224,479
II. APPLICATION OF FUNDS			
1. Fixed Assets			
Gross Block	4	116,505	80,009
Less : Depreciation / Amortisation		67,752	47,803
Net Block		48,753	32,206
Capital Work in Progress		2,683	1,581
2. Investments			
	5	334,472	170,951
3. Deferred Tax Asset (net)			
	16 [note 7 (b)]	30,594	3,818
4. Current Assets, Loans & Advances			
I. Current Assets			
(a) Sundry Debtors	6	291,370	188,812
(b) Cash & Bank Balances	7	2,062	4,840
II. Loans and Advances			
	8	102,671	85,777
	(A)	396,103	279,429
Less : Current Liabilities & Provisions			
(a) Current Liabilities	9	297,223	255,053
(b) Provisions	10	18,168	8,474
	(B)	315,391	263,527
Net Current Assets	(A - B)	80,712	15,902
5. Miscellaneous Expenditure (to the extent not written off or adjusted)			
Preliminary Expenses	11	-	21
		497,214	224,479
Significant accounting policies & notes to 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

For and on behalf of the Board of Directors

P. B. Pardiwalla
Partner

K.R.V. Subrahmanian
Director

Pradeep Dokania
Director

Rashmi Poduval
Manager & Company
Secretary

Mumbai
22nd May, 2007

Mumbai
22nd May, 2007

DSP Merrill Lynch Fund Managers Limited
Profit & Loss Account for 15 months ended 31st March, 2007

	Schedule No.	Current Period Rs. '000	Previous Year Rs. '000
INCOME			
Asset Management and Advisory Fees [Tax Deducted at Source Rs. 54,297,827/- (Previous Year - Rs. 20,031,045/-)]		1,288,784	393,668
Dividend on Units (Current Investments)		19,548	6,356
Profit on Sale of Current Investments (net)		3,625	445
Profit on Fixed Assets Sold / Discarded (net)		-	357
Write Back of Provision for Diminution in Value of Investments		-	615
Foreign Exchange Fluctuation (net)		-	264
Interest Income	12	327	247
Other Income		1,011	14
	(A)	1,313,295	401,966
EXPENDITURE			
Scheme Expenses (net)	13	200,435	91,466
Referral Fee for Portfolio Management Services		51,137	14,458
Employee Costs	14	426,724	167,984
Administrative and Other Expenses	15	208,926	101,836
Depreciation / Amortisation		22,036	11,978
Interest Expenses		685	439
Amortisation of Preliminary Expenses		20	80
	(B)	909,963	388,241
PROFIT BEFORE TAXATION	(A - B)	403,332	13,725
Provision for Taxation		132,171	4,986
PROFIT AFTER TAXATION		271,161	8,739
BALANCE BROUGHT FORWARD		17,578	8,839
BALANCE CARRIED TO BALANCE SHEET		288,739	17,578
Weighted average number of equity shares outstanding during the year		20,000,000	20,000,000
Earnings per share - Basic and diluted in Rupees : (Refer Note 10 of Schedule 16)		13.56	0.44
Significant accounting policies & notes to 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

For and on behalf of the Board of Directors

P. B. Pardiwalla
Partner

K.R.V. Subrahmanian
Director

Pradeep Dokania
Director

Rashmi Poduval
Manager & Company
Secretary

Mumbai
22nd May, 2007

Mumbai
22nd May, 2007

DSP Merrill Lynch Fund Managers Ltd.

Cash Flow Statement for the period ended March 31, 2007

	Current Period Rs '000	Previous Year Rs '000
A. Cash Flow from Operating Activities		
Profit Before Tax	403,332	13,725
Adjustments for :		
Depreciation	22,036	11,978
Amortisation of Preliminary Expenses	21	80
Loss / (Profit) on Sale of Fixed Assets	85	(357)
Diminution in Value of Current Investments	42	-
Write Back of Provision for Diminution in Value of Investments	-	(615)
Provision for Gratuity & Leave Encashment	10,946	3,055
Provision for Doubtful Advances	187	-
Write Back of Provisions	1,005	
Interest on Auto Loan	685	439
Operating Profit Before Working Capital Changes	438,339	28,305
Adjustments for :		
Trade Receivables	(102,557)	(120,271)
Other Receivables	(5,855)	(7,817)
Payables and Provisions	39,911	116,498
Cash Generated from Operations	369,838	16,715
Direct Taxes Paid	170,172	20,601
Net Cash Flow from / (used in) Operating Activities	(A) 199,666	(3,886)
B. Cash Flow from Investing Activities :		
Purchase of Fixed Assets	(40,204)	(22,744)
Proceeds from Sale of Fixed Assets	434	2,709
(Acquisition) / Sale of Investments	(163,563)	21,508
Net Cash Flow used in Investing Activities	(B) (203,333)	1,473
C. Cash Flow from Financing Activities :		
Increase / (Decrease) in Secured Loans	1,574	(2,175)
Interest Paid on loans	(685)	(439)
Net Cash Flow from / (used in) Financing Activities	(C) 889	(2,614)
Net (Decrease) in Cash and Cash Equivalents	(A+B+C) (2,778)	(5,027)
Cash and Cash Equivalents as at the beginning of the year	4,840	9,867
Cash and Cash Equivalents as at the close of the year	2,062	4,840
Net (Decrease) in Cash and Cash Equivalents	(2,778)	(5,027)

For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of the Board of Directors

P. B. Pardiwalla
Partner

K.R.V. Subrahmanian
Director

Pradeep Dokania
Director

Rashmi Poduval
Manager & Company
Secretary

Mumbai
22nd May, 2007

Mumbai
22nd May, 2007

DSP Merrill Lynch Fund Managers Limited
Schedules annexed to and forming part of the accounts for 15 months ended 31st March, 2007

	As at 31.03.2007 Rs. '000	As at 31.12.2005 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 and Subscribed 20,000,000 Equity Shares of Rs.10/- each, fully paid up (In the previous year 19,999,990 shares were held by the then holding Company, DSP Merrill Lynch Limited)	200,000	200,000
(During the current period (on March 23, 2006), DSP Merrill Lynch Ltd., as part of its restructuring exercise, has transferred its 59.9999% shareholding in the Company to Mr. Hemendra M Kothari affiliated entities.)	200,000	200,000
2. RESERVES AND SURPLUS :		
General Reserve Balance as per last Balance Sheet	2,400	2,400
Surplus in Profit and Loss Account	288,739	17,578
	291,139	19,978
3. SECURED LOANS :		
Loans from Bank (Hire Purchase) (Secured against hypothecation of vehicles acquired under Auto Loan Scheme) [Principal amount due within one year Rs. 2,413,914/- (Previous year - Rs. 1,937,725/-)]	6,075	4,501
	6,075	4,501

DSP Merrill Lynch Fund Managers Limited

Schedules annexed to and forming part of the accounts for 15 months ended 31st March, 2007

4. FIXED ASSETS :

Description	Gross Block (At Cost)			Depreciation/ Amortisation			Net Block	
	As on 01.01.2006 Rs. '000	Additions/ (Deductions) Rs. '000	As on 31.03.2007 Rs. '000	As on 01.01.2006 Rs. '000	Additions/ (Deductions) Rs. '000	Upto 31.03.2007 Rs. '000	As on 31.03.2007 Rs. '000	As on 31.12.2005 Rs. '000
<u>Tangible Assets</u>								
Equipments	10,731	6,661 (672)	16,720	6,103	3,306 (672)	8,737	7,983	4,628
Computers & Allied Equipment	41,040	16,772 -	57,812	29,194	8,146 -	37,340	20,472	11,846
Furniture & Fittings	11,207	8,405 (487)	19,125	3,860	5,950 (487)	9,323	9,802	7,347
Vehicles *	8,267	4,698 (1,447)	11,518	3,424	2,003 (928)	4,499	7,019	4,843
<u>Intangible Assets</u>								
Software	8,764	2,566	11,330	5,222	2,631	7,853	3,477	3,542
Total	80,009	39,102 (2,606)	116,505	47,803	22,036 (2,087)	67,752	48,753	32,206
Previous Year	65,380	21,471 (6,842)	80,009	40,315	11,978 (4,490)	47,803		25,065
Capital Work in Progress							2683	1581

* Acquired on Hire Purchase

DSP Merrill Lynch Fund Managers Limited
Schedules annexed to and forming part of the accounts for 15 months ended 31st March, 2007

	As at 31.03.2007 Rs. '000	As at 31.12.2005 Rs. '000
5. INVESTMENTS :		
Current Investments (at lower of cost and fair market value) (As per Annexure A)	334,472	170,951
	<u>334,472</u>	<u>170,951</u>
6. SUNDRY DEBTORS :		
(Unsecured, considered good)		
Debts outstanding for a period of less than six months	291,370	188,812
	<u>291,370</u>	<u>188,812</u>
[Sundry Debtors balance includes Rs.Nil (Previous year - Rs.2,371,241/-) due from DSP Merrill Lynch Ltd, Company under same management]		
7. CASH AND BANK BALANCES :		
Cash on Hand	-	10
Balances with Scheduled Banks - - Current Accounts	2,062	4,830
	<u>2,062</u>	<u>4,840</u>
8. LOANS AND ADVANCES :		
(Unsecured, considered good unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received :		
Prepayments and others		
- Considered Good	28,199	13,349
- Considered Doubtful	187	700
Less : Provision for doubtful advances	<u>(187)</u>	<u>(700)</u>
	28,199	13,349
Premises and other deposits	7,262	16,745
Loans to employees	2,982	2,681
Advance payment of Income Tax (net of provisions)	64,228	53,002
	<u>102,671</u>	<u>85,777</u>
9. CURRENT LIABILITIES (Refer note below) :		
Trade Liabilities	115,959	68,035
Other Liabilities	181,264	187,018
	<u>297,223</u>	<u>255,053</u>
Amounts due to Small Scale Industrial Undertakings (as identified by the management) Rs. Nil (Previous year - Rs. Nil)		
10. PROVISIONS :		
Gratuity	13,640	6,327
Leave Encashment	4,528	2,147
	<u>18,168</u>	<u>8,474</u>
11. MISCELLANEOUS EXPENDITURE :		
(to the extent not written off or adjusted)		
Preliminary Expenses	21	101
Less : Amortised during the year	<u>(21)</u>	<u>(80)</u>
	-	21

DSP Merrill Lynch Fund Managers Limited
Schedules annexed to and forming part of the accounts for 15 months ended 31st March, 2007

	Rs. '000	Current Period Rs. '000	Previous Year Rs. '000
12. INTEREST INCOME ON :			
Bank Deposits		16	47
[Tax Deducted at Source Rs. 3,079/- (Previous Year - Rs. 9,914/-)]			
Others		311	200
		327	247
13. SCHEME EXPENSES (net) : (Refer note 5)			
Brokerage		81,103	12,339
Advertising, Publicity and others		119,332	79,127
		200,435	91,466
14. EMPLOYEE COSTS :			
Salaries and Bonus		387,513	155,573
Contribution to Provident fund		8,783	4,958
Gratuity		7,717	2,056
Leave Encashment		3,229	999
Staff welfare expenses		12,904	2,847
Stipend to Trainees		6,578	1,551
		426,724	167,984
15. ADMINISTRATIVE AND OTHER EXPENSES (net) :			
Communication costs		24,133	10,566
Directors' sitting fees		575	315
Electricity		4,579	2,876
Foreign Exchange Fluctuation		757	-
Insurance		8,355	1,821
Loss on Fixed Assets Sold / Discarded		85	-
Mailing expenses		25,184	10,243
Office Maintenance		9,169	4,902
Printing & Stationery		7,140	4,709
Professional fees		33,339	20,599
Diminution in Value of Current Investments		42	-
Rates & Taxes		10,465	324
Rent		40,643	17,001
Repairs & Maintenance :			
- Equipment & Computers	6,513		5,041
- Others	8		48
		6,521	5,089
Subscriptions		8,705	5,529
Travelling expenses		14,609	10,103
Miscellaneous expenses		14,625	7,759
		208,926	101,836

Schedule 16: Significant Accounting Policies and Notes on Accounts

I. SIGNIFICANT ACCOUNTING POLICIES:

a) Basis of accounting

The accompanying financial statements have been prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Principles (GAAP) and the provisions of the Companies Act, 1956 (The Act).

b) Use of estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates and differences between actual results and estimates are recognized in the periods in which the results are known/ materialize.

c) Fixed Assets, Intangible Assets, Depreciation, Amortisation and Impairment

Fixed Assets are stated at their cost of acquisition or construction less accumulated depreciation and impairment losses. Cost comprises of all costs incurred to bring the assets to their location and working condition up to the date the assets are put to use.

Depreciation on assets is provided, prorata for the period of use, by the written down value method at the rates prescribed in Schedule XIV to the Act except as follows:

- Leasehold improvements, including furniture and fixtures, are depreciated over the lease period
- Computers and equipments are depreciated on a straight line basis over a period of 4 years.

The company capitalizes software where it is reasonably estimated that the software has an enduring useful life. Software is amortised over an estimated useful life of 3 years.

An asset is considered as impaired in accordance with Accounting Standard 28 on Impairment of Assets, when at balance sheet date there are indications of impairment and the carrying amount of the asset, or where applicable, the cash generating unit to which the asset belongs, exceeds its recoverable amount (i.e. the higher of the asset's net selling price and

Schedule 16: Significant Accounting Policies and Notes on Accounts

value in use). The carrying amount is reduced to the recoverable amount and the reduction is recognized as an impairment loss in the profit and loss account.

Assets acquired under finance lease are accounted for in accordance with the Accounting Standard 19 on Leases at the lower of the fair value of the asset and the present value of minimum lease payments.

d) Investments

Current investments are stated at lower of cost and fair value. Any reduction in the carrying amount and any reversals of such reductions are charged or credited to the profit and loss account.

e) Revenue Recognition

Revenue is recognized on delivery of services when it is earned and no significant uncertainty exists as to its realization or collection.

Asset Management fees are computed based on the previous day Net Asset Value (NAV) of the Mutual Fund Schemes managed by the Company in accordance with the SEBI regulations and the offer documents.

Portfolio Management and non-binding Advisory fees are computed in accordance with the relevant agreements and are based on the NAV of the funds / portfolios as computed and provided by independent third party fund accountants / custodians.

f) Retirement Benefits

Retirement benefit costs are expensed to revenue as incurred.

The Company contributes to employees' Provident Fund in accordance with the rules of the fund and /or statute, as applicable. Accruing gratuity and leave encashment liabilities are provided for, according to the rules of these schemes, on the basis of actuarial valuations at year-end made by an independent actuary.

Schedule 16: Significant Accounting Policies and Notes on Accounts

g) Foreign Currency Transactions

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated into Rupees at the exchange rate prevailing at the balance sheet date. All exchange differences are dealt with in the profit and loss account. Non-monetary items are carried at historical cost using the exchange rates on the date of the transaction.

h) Income Tax

Income taxes are accounted for in accordance with Accounting Standard 22 on Accounting for Taxes on Income. Taxes comprise both current and deferred tax.

Current tax is measured at the amount expected to be paid/ recovered from the revenue authorities, using the applicable tax rates and laws.

The tax effect of the timing differences that result between taxable income and accounting income and are capable of reversal in one or more subsequent periods are recorded as a deferred tax asset or deferred tax liability. Deferred tax assets and liabilities are recognized for future tax consequences attributable to timing differences. They are measured using the substantively enacted tax rates and tax regulations. The carrying amount of deferred tax assets at each balance sheet date is reduced to the extent that it is no longer reasonably certain that sufficient future taxable income will be available against which the deferred tax asset can be realized.

Fringe benefit Tax (FBT) payable under the provisions of section 115WC of the Income Tax Act, 1961 is in accordance with the Guidance Note on Accounting for Fringe Benefits Tax issued by the ICAI and is regarded as an additional income tax and considered in determination of profits for the year.

i) Earnings Per Share

The Company reports basic and diluted Earnings per share (EPS) in accordance with Accounting Standard 20 on Earnings per Share. Basic EPS is computed by dividing the net profit or loss for the period/year by the weighted average number of equity shares outstanding during the period/year. Diluted EPS is computed by dividing the net profit or loss for the period/year by the weighted average number of equity shares outstanding during the

Schedule 16: Significant Accounting Policies and Notes on Accounts

period/year as adjusted for the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

j) Operating leases

Operating lease payments are recognized as expense in the profit and loss account on a straight-line basis, which is representative of the time pattern of the user's benefit.

k) Cash Flow Statement

The Cash Flow Statement is prepared by the indirect method set out in Accounting Standard 3 on Cash Flow Statements and presents the cash flows by operating, investing and financing activities of the Company.

Cash and Cash equivalents presented in the Cash Flow Statement consist of cash on hand and current account bank balances.

l) Contingent liabilities

Contingent liabilities as defined in Accounting Standard 29 on Provisions, Contingent Liabilities and Contingent Assets are disclosed by way of notes to the accounts. Provision is made if it is probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability.

m) Miscellaneous Expenditure

Miscellaneous expenditure is written off to the Profit and Loss Account over a period of ten years depending upon the nature and expected future benefit of such expenditure.

II. NOTES TO ACCOUNTS:

Background:

DSP Merrill Lynch Fund Managers Limited "the Company" was incorporated in India on May 13, 1996. The Company operates as an 'Asset Management Company' for schemes of DSP Merrill Lynch Mutual Fund, registered in India. The Company also renders non-binding investment management advisory services to offshore Asset Management entities and portfolio management services to domestic and non-resident entities.

Schedule 16: Significant Accounting Policies and Notes on Accounts
1. Contingent Liabilities

	Current Period Rs.(‘000)	Previous Year Rs.(‘000)
Income Tax	509	1,694
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.		

2. Payment to Auditors (including Service tax)

	Current Period Rs.(‘000)	Previous Year Rs.(‘000)
a. As Auditors	722	193
b. Tax Audit fees	259	138
c. As advisor or in any other capacity: Certification etc.	12	6
d. As expenses	7	4

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

	Current Period Rs.(‘000)	Previous Year Rs.(‘000)
(i) Earnings in foreign currency		
Non-binding Offshore Advisory fees	373,872	30,379
(ii) Expenditure in foreign currency		
Travel	1,404	718
Brokerage	1,450	296
Others	549	-

4. Value of imported capital goods on CIF basis Rs. 1,380,281/- (Previous Year - Nil).

5. Scheme expenses are shown net of marketing / brokerage expenditure reimbursed Rs.1,542,188,241/- (Previous Year - Rs.527,899,066/-) by the respective Mutual Fund schemes managed by the Company.

Schedule 16: Significant Accounting Policies and Notes on Accounts
6. Assets Taken on Lease
a. Operating Lease:

Lease payments recognised in the Profit and Loss Account amounts to Rs.40,643,127/- (Previous Year - Rs.17,268,068/-).

b. Disclosure in respect of Finance Lease:

	Current Period	Previous Year
WDV as on January 1 - Vehicles	4,843	6,396
Total minimum future lease payments – not later than one year	2,809	2,198
Total minimum future lease payments –later than one year but not later than five years	3,764	2,709
Less: Finance Charge on future lease payments	(498)	(406)
Present Value of lease payments	6,075	4,501

7 a) Provision for Taxation includes:

	Current Period Rs. ('000)	Previous Year Rs. ('000)
Current Tax	153,975	1,216
Deferred Tax	(26,776)	(941)
Fringe Benefit Tax	5,098	2,073
Tax adjustment of earlier years	(96)	756
Total	132,171	4,986

b) 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 the Deferred Tax Asset balance are set out below:

	Current Period Rs. ('000)	Previous Year Rs. ('000)
Depreciation	917	730
Expenses allowable on payment basis:		
Bonus	21,705	-
Gratuity	4,636	2,130
Leave Encashment	1,539	723
Provision for expenses	1,719	-
Others	78	235
Total	30,594	3,818

Schedule 16: Significant Accounting Policies and Notes on Accounts

8. The Company has not received any intimation from “suppliers” regarding their status under the Micro, Small and Medium Enterprises Development Act,2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid / payable as required under the said Act have not been given.

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.	Associate *
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) Ltd.	Associate
6	BlackRock (Hong Kong) Ltd (<i>erstwhile Merrill Lynch Investment Managers (Asia) Limited</i>)	Associate
7	BlackRock Investment Management (UK) Ltd [<i>erstwhile Merrill Lynch Investment Managers Ltd (London)</i>]	Associate
8	Hemendra M. Kothari	Key Management Personnel
9	Aditi Kothari	Relative of Key Management Personnel
10	DSP Investment Pvt. Ltd. (<i>erstwhile BIKO Investment Pvt. Ltd.</i>)	Associate
11	DSP Merrill Lynch Capital Ltd.	Associate
12	DSP HMK Holdings Pvt. Ltd. (<i>erstwhile HMK Investment Private Limited</i>)	Associate
13	DSP ADIKO Holdings Pvt. Ltd. (<i>erstwhile ADIKO Investment Private Limited</i>)	Associate

* Holding Company till March 23rd 2006

DSP Merrill Lynch Fund Managers Limited
Schedule 16: Significant Accounting Policies and Notes on Accounts
ii) Transactions during the year with Related Parties :

Sr no	Nature of Transaction	Associates			Key Management Personnel and their Relatives (Rs. '000)	Total (Rs. '000)
		DSP Merrill Lynch Ltd * (Rs. '000)	DSP Merrill Lynch Mutual Fund (Rs. '000)	Others (Rs. '000)		
1.	Investments					
	Purchases	-	1,077,500	-	-	1,077,500
	(Previous Year)	-	228,010	-	-	228,010
	Sales	-	937,101	-	-	937,101
	(Previous Year)	-	249,871	-	-	249,871
Balance as at 31st Mar, 2007		-	334,472	-	-	334,472
	(Previous Year)	-	170,951	-	-	170,951
2	Revenue					
	Investment / Advisory Management Fees	4,605	735,530	375,192 ⁽¹⁾	-	1,115,327
	(Previous Year)	2,412	313,554	30,379	-	346,345
	Balance as at 31st Mar, 2007	-	59,532	77,065 ⁽²⁾	-	136,597
(Previous Year)	2,371	32,584	15,986	-	50,941	
3.	Dividend on Units	-	19,548	-	-	19,548
	(Previous Year)	-	6,356	-	-	6,356
4.	Expenditure					
	Broker Reallowance	106,300	-	-	-	106,300
	(Previous Year)	56,311	-	-	-	56,311
	Balance as at 31st Mar, 2007	(8,882)	-	-	-	(8,882)
(Previous Year)	(4,512)	-	-	-	(4,512)	
Rent		27,124	-	-	-	27,124
	(Previous Year)	9,805	-	-	-	9,805
Referral Fees		48,033	-	-	-	48,033
	(Previous Year)	14,950	-	-	-	14,950
	Balance as at 31st Mar, 2007	(1,065)	-	-	-	(1,065)
	(Previous Year)	(12,897)	-	-	-	(12,897)
5.	Reimbursement /(Recovery) of expenses (net)	12,588	(1,585,834)	- ⁽³⁾	-	(1,573,246)
	(Previous Year)	12,624	(560,655)	(43)	-	(548,074)
	Balance as at 31st Mar, 2007	(4,777)	131,571	- ⁽³⁾	-	126,793
	(Previous Year)	(7,052)	100,928	33	-	93,909
6.	Remuneration Paid	-	-	-	-	-
	(Previous Year)	-	-	-	495	495

* Holding company till March 23rd 2006

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

1 Non-binding Offshore Advisory Fees / Management Fee (Rs.'000)

From Merrill Lynch India Equities Fund (Mauritius) Ltd is Rs.76,597/- (Prev Year - Rs. 22,630/-)

From BlackRock (Hong Kong) Ltd (*erstwhile Merrill Lynch Investment Managers (Asia) Limited*) is Rs.279,674/- (Prev Year - Rs.8,042/-)

From BlackRock Investment Management (UK) Ltd [*erstwhile Merrill Lynch Investment Managers Ltd (London)*] is Rs. 17,601/- (Prev Year - Nil)

Management Fees - From DSP Investment Pvt. Ltd. (*erstwhile BIKO Investment Pvt. Ltd.*) on Portfolio Management Services Rs.1,320/- (Prev Year - Nil)

2 Balance as at 31st Mar, 2007 - Advisory Fees (Rs.'000)

From Merrill Lynch India Equities Fund (Mauritius) Limited is Rs. 19,393/- (Prev Year - Rs. 7,944/-)

From BlackRock (Hong Kong) Ltd (*erstwhile Merrill Lynch Investment Managers (Asia) Limited*) is Rs.51,620/- (Prev Year - Rs.8,042/-)

From BlackRock Investment Management (UK) Ltd [*erstwhile Merrill Lynch Investment Managers Ltd (London)*] is Rs.6,052/- (Prev Year - Nil)

3 To DSP Merrill Lynch Trustee Company Pvt. Ltd.

Schedule 16: Significant Accounting Policies and Notes on Accounts
10. Earnings per share (EPS):

	Current Period	Previous Year
Net Profit (Rs '000)	271,161	8,739
Weighted average number of shares ('000)	20,000	20,000
Basic EPS (Rs.)	13.56	0.44
Face Value / Nominal Value per share (Rs.)	10	10

Note: There is no dilution to the basic EPS as there are no outstanding dilutive potential equity shares.

11. The Company has rendered Portfolio Management Services to DSP Investment Pvt. Ltd. (*erstwhile BIKO Investment Pvt. Ltd.*) which were in the ordinary course of business of the Company. The relevant entries have not been made in the Register maintained u/s 301 of the Companies Act, 1956 based on a legal opinion obtained by the Company.

12. Segment Reporting

The Company operates in a single business and geographical segment.

13. The accounts of certain sundry debtors, sundry creditors and loans and advances are subject to confirmation / reconciliation and adjustments, if any.

14. 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 period. Figures of the previous year have been regrouped / reclassified wherever necessary to correspond to figures of the current period.

Schedule 16: Significant Accounting Policies and Notes on Accounts

Previous year's figures are strictly not comparable to figures of the current period as the financial information is for fifteen months in the current period as against twelve months in the previous 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

P. B. Pardiwalla
Partner

K.R.V. Subrahmanian
Director

Pradeep Dokania
Director

Rashmi Poduval
Manager & Company
Secretary

Mumbai
May 22, 2007

Mumbai
May 22, 2007

Balance Sheet Abstract and Company's General Business Profile as at 31st March 2007

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

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

K.R.V. Subrahmanian
Director

Pradeep Dokania
Director

Rashmi Poduval
Manager & Company
Secretary

Mumbai
May 22, 2007

DSP Merrill Lynch Fund Managers Limited

Schedules annexed to and forming part of the accounts for 15 months ended 31st March, 2007

Annexure : A TO SCHEDULE 5

	Nominal Value		As at 31 st March, 2007		As at 31 st December, 2005	
	Current Year Rs. '000	Previous Year Rs. '000	No.	Book Value Rs. '000	No.	Book Value Rs. '000
1. Current Investments (Quoted) (at lower of cost and fair market value) (Non-Trade)						
DSP Merrill Lynch Liquidity Fund - (Regular Plan) - Weekly Dividend Option	-	1,235	-	-	123,471	1,532
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Weekly Dividend Reinvest Option	-	46,752	-	-	46,752	46,787
DSP Merrill Lynch Liquidity Fund - Institutional Plan - Weekly Dividend Option	24,994	50,177	24,994	25,029	50,177	50,230
DSP Merrill Lynch Bond Fund - Retail - Monthly Dividend Option	97	96.66	9,666	100	9,666	100
DSP Merrill Lynch Govt Sec. Fund - Plan A - (Longer Duration Plan) - Monthly Dividend Option	99	98.56	9,892	100	9,856	100
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Dividend Option	-	500.82	-	-	501	501
DSP Merrill Lynch Liquidity Fund - Institutional Plan - Growth Option	-	65,033.02	-	-	65,033	65,201
DSP Merrill Lynch Govt Sec. Fund - Plan B - (Shorter Duration Plan) - Growth Option	1,511	4,122.93	151,061	1,533	412,293	6,500
DSP Merrill Lynch Liquid Plus Fund - Institutional Plan - Weekly Dividend	66,972	-	66,972	67,007	-	-
DSP Merrill Lynch Fixed Term Plan - Series 1H - Regular Plan - Dividend Reinvest	15,104	-	15,104	15,104	-	-
DSP Merrill Lynch Fixed Term Plan - Series 1H - Institutional Plan - Dividend Reinvest	15,119	-	15,119	15,119	-	-
DSP Merrill Lynch Fixed Term Plan - Series 1I - Institutional Plan - Dividend Reinvest	80,480	-	80,480	80,480	-	-
DSP Merrill Lynch Fixed Term Plan - Series 3C - Growth	100,000	-	100,000	100,000	-	-
DSP Merrill Lynch Fixed Term Plan - Series 1J - Institutional Plan - Dividend Reinvest	30,000	-	30,000	30,000	-	-
				334,472		170,951
Aggregate of Book Value				334,472		170,951
Market Value				334,472		192,026

2 Units bought and sold during the year (Including dividend reinvested)

	No of units	Cost in Rs.	Nominal Value
DSP Merrill Lynch Liquidity Fund - Reg - Weekly Dividend	933	16,898	9,330
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Weekly Dividend Option	85	85,193	85,000
DSP Merrill Lynch Liquidity Fund - Institutional Plan - Weekly Dividend Option	281	281,152	281,000
DSP Merrill Lynch Liquidity Fund - Institutional - Growth	81,751	82,500,000	81,751,000
DSPML FTP - Series 2 - Growth	3,000,000	30,000,000	30,000,000
DSPML FTP - Series 2 - Dividend	3,088,612	30,886,543	30,886,120
DSPML FTP - Series 1B - Dividend	30,473	30,476,194	30,473,000
DSPML FTP - Series 1C - Growth	35,000	35,000,000	35,000,000
DSPML Liquidity Fund - Inst Plan - Weekly dividend	266,690	266,903,242	266,690,000
DSPML Short Term Fund - Weekly dividend	10,330,315	105,257,005	103,303,150
DSPML FTP - Series 1D - Dividend	50,691	50,691,155	50,691,000
DSPML Liquid Plus - Inst Plan - Weekly Dividend	529,860	530,300,100	529,860,000
DSPML Fixed Term Plan - Series 1E - Dividend	50,766	50,765,681	50,766,000
DSPML Fixed Term Plan - Series 1F - Dividend	101,576	101,576,282	101,576,000
DSPML Fixed Term Plan - Series 1G - Dividend	40,685	40,684,744	40,685,000

Directors' Report

DSP MERRILL LYNCH FUND MANAGERS LIMITED

Directors' Report to the Members

Your Directors have pleasure in presenting the 11th Annual Report together with the Audited Statement of Accounts and the Auditors' Report of your Company for the fifteen month period commencing from January 01, 2006 to March 31, 2007 ('the period').

1. Background:

The Company acts as the Asset Management Company to DSP Merrill Lynch Mutual Fund ("the Fund"), in terms of the approval granted by SEBI vide letter no. IIMARP/201/97 dated January 30, 1997. The Company is also registered with SEBI under the SEBI (Portfolio Managers) Regulations, 1993, vide registration code PM/INP000000977, and undertakes activities as a portfolio manager. In addition, the Company offers non-binding investment advisory service to Merrill Lynch India Equities Fund (Mauritius) Limited, BlackRock (Hong Kong) Limited and BlackRock Investment Management (UK) Limited, for investment in Indian equities by entities registered with SEBI under the SEBI (Foreign Institutional Investors) Regulations, 1993.

2. Share Capital:

As on 31st March 2007, the Company had Issued, Subscribed and Paid-up Capital of Rs. 200 mn.

3. Change in shareholding of the Company

In March 2006, there was a change in the shareholding of your Company, subsequent to which 40% of the shares are held by DSP Merrill Lynch Ltd. and the remainder is held by Mr. H. M. Kothari, DSP HMK Holdings Pvt. Ltd. and DSP ADIKO Holdings Pvt. Ltd.

4. Change in accounting period of the Company:

The accounting period of the Company has been changed from calendar year January-December to financial year April-March.

5. Financial Results:

The summarized financial result for the fifteen month period commencing from January 01, 2006 to March 31, 2007 as compared with the previous year is as under:

	1-1-06 to 31-03-07 (Rs. in mn)	1-1-05 to 31-12-05 (Rs. in mn)
Fee Income	1313.30	401.97
Profit before Depreciation and Taxation	425.37	25.70
Depreciation	22.04	11.98
Provision for Taxation	132.17	4.98
Profit/(Loss) after Depreciation and Taxation	271.16	8.74
Add:Balance brought forward from the previous year	17.58	8.84
Balance carried to Balance sheet	288.74	17.58

6. Dividends:

Though the financial result of your Company has improved during the said period, your Directors feel it prudent not to declare a dividend and are therefore unable to recommend any dividend for the period ended March 31, 2007.

7. Review of Operations:

Schemes/Growth in Assets under Management (AUM)

The Company is required to manage the Schemes of the Fund in accordance with the provisions of the Investment Management Agreement, the Trust Deed, the SEBI (Mutual Funds) Regulations, 1996 and the investment objectives of each Scheme as laid down by the relevant Offer Document.

During the period under reference, the Company acted as the Investment Manager to seventeen open-ended 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- Conservative, DSP Merrill Lynch Savings Plus Fund- Moderate, DSP Merrill Lynch Savings Plus Fund- Aggressive, DSP Merrill Lynch Top 100 Equity Fund, DSP Merrill Lynch Floating Rate Fund, DSP Merrill Lynch India T.I.G.E.R. Fund (The Infrastructure Growth and Economic Reforms Fund), DSP Merrill Lynch Liquid Plus Fund,

DSP Merrill Lynch Small and Mid Cap Fund and DSP Merrill Lynch Tax Saver Fund and sixteen close ended schemes, viz., DSP Merrill Lynch Fixed Term Plan – Series 1, DSP Merrill Lynch Fixed Term Plan – Series 3, DSP Merrill Lynch Fixed Term Plan – Series 1A, DSP Merrill Lynch Fixed Term Plan – Series 2, DSP Merrill Lynch Fixed Term Plan – Series 1B, DSP Merrill Lynch Fixed Term Plan – Series 1C, DSP Merrill Lynch Fixed Term Plan – Series 1D, DSP Merrill Lynch Fixed Term Plan – Series 1E, DSP Merrill Lynch Fixed Term Plan – Series 3A, DSP Merrill Lynch Fixed Term Plan – Series 1F, DSP Merrill Lynch Fixed Term Plan – Series 1G, DSP Merrill Lynch Fixed Term Plan – Series 1H, DSP Merrill Lynch Fixed Term Plan – Series 1I, DSP Merrill Lynch Fixed Term Plan – Series 1J, DSP Merrill Lynch Fixed Term Plan – Series 3C and DSP Merrill Lynch Fixed Term Plan – Series 3E.

As on March 31, 2007, the Assets Under Management (AUM) of the Mutual Fund were Rs. 120,632.571 mn as against Rs. 77,591 mn as of December 31, 2005.

As on March 31, 2007, the total assets under management and advice under Portfolio Management Services was approximately Rs. 30,848.90 mn as against Rs. 6831.50 mn as of December 31, 2005.

In terms of non-binding investment advisory services of the Company, the AUM under advice as on March 31, 2007 was Rs. 222,207 mn as against Rs. 144,489 mn as of December 31, 2005.

Service Standards

Your Directors are happy to note that investor grievances / queries are resolved promptly by the customer response associates.

In the last year, your Company has further strengthened the infrastructure to maintain a high level of efficiency as also the robustness of the operational controls/processes.

During the period under review, your Company continued to provide innovative services and facilities for the investors. With the increase in retail interest and consequent increase in transaction volumes across the country, your Company has taken suitable measures to enhance process and controls with an endeavour to provide quality services to investors and continuously reduce investor complaints.

Your Company opened new offices in Cochin, Goa and Lucknow apart from moving to new premises in New Delhi. Your Company's Registrars & Transfer Agents (CAMS) have also

increased their reach to cater to investors of various cities and have Investor Service Centres (ISCs) in 27 cities and Transaction Points (TPs) in 77 locations.

The Call centre set up by the Company in 2006 has received encouraging response. The call centre provides a host of services to investors and distributors through an advanced Interactive Voice Response (IVR) System. Investors can also subscribe to the unique T-PIN facility which enables them to transact over telephone. Investors can reach the call centre from BSNL / MTNL lines using toll free number 1800 345 4499 or alternatively from other lines on 044 3048 2855.

The Company encourages the investors to provide their valuable feedback via email on dspmlmf@ml.com or by reaching us on number 1800 345 4499 (Toll free from BSNL / MTNL Lines) or 044 3048 2855 from other lines.

New Initiatives – Schemes

Three open ended schemes and thirteen close ended schemes were launched by the Fund during the period January 01, 2006 to March 31, 2007. They are DSP Merrill Lynch Liquid Plus Fund, DSP Merrill Lynch Small and Mid Cap Fund, DSP Merrill Lynch Tax Saver Fund, DSP Merrill Lynch Fixed Term Plan – Series 2, DSP Merrill Lynch Fixed Term Plan – Series 1B, DSP Merrill Lynch Fixed Term Plan – Series 1C, DSP Merrill Lynch Fixed Term Plan – Series 1D, DSP Merrill Lynch Fixed Term Plan – Series 1E, DSP Merrill Lynch Fixed Term Plan – Series 3A, DSP Merrill Lynch Fixed Term Plan – Series 1F, DSP Merrill Lynch Fixed Term Plan – Series 1G, DSP Merrill Lynch Fixed Term Plan – Series 1H, DSP Merrill Lynch Fixed Term Plan – Series 1I, DSP Merrill Lynch Fixed Term Plan – Series 1J, DSP Merrill Lynch Fixed Term Plan – Series 3C and DSP Merrill Lynch Fixed Term Plan – Series 3E. All these schemes have delivered a satisfactory performance since their launch. These Schemes collected a total of Rs. 65,713.352 mn. (Approx) in their New Fund Offer.

The minimum amount for Systematic Investment Plans was increased from Rs. 1000/- to Rs. 2000/- per application, for all schemes where this facility was available.

Under the Portfolio Management Services, the Company launched two series of a new fixed term product known as Capital Protected Portfolio, the primary investment objective of which was to generate equity market returns linked to S&P CNX NIFTY and 100% principal protection.

In addition, in August 2006, your Company entered into an Indian Investment Advisory Agreement with Merrill Lynch Investment Managers Ltd., now known as BlackRock

Investment Management (UK) Ltd., for providing non-binding investment advisory services in respect of the Handelsbanken India Equity Fund, a Finnish registered Fund, to which BlackRock Investment Management (UK) Ltd., is the Investment Manager.

Going Forward:

In 2007, the focus will be on expanding the retail investor base by opening more branch offices and launching newer innovative products. It is also envisaged that there will be substantial growth in the area of Portfolio Management Services and non-binding advisory services.

8. Directors:

In accordance with the provisions of the Companies Act, 1956, Mr. Pradeep Dokania, Mr. Omkar Goswami and Mr. Ranjan Pant retire by rotation, and being eligible, offer themselves for re-appointment. The Board of Directors recommend that they be re-appointed.

9. Auditors:

M/s. Deloitte Haskins & Sells, Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment 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.

10. Particulars of Employees:

The information as required under subsection (2A) of Section 217 of the Companies Act is being sent separately.

11. 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 period under report, your Company earned offshore advisory fees of Rs.37,38,72,000 and incurred foreign exchange expenditure of Rs.14,04,000 for travel and Rs.14,50,000 for brokerage.

12. 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 along with proper explanation relating to material departures, if any, have been made
- ii) Such judgment 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.

13. 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. Piyush Mankad (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 the 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 four times during the year under review. 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 September 30, 2002.

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.

14. Appreciation:

The Directors wish to thank the Government of India, the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), and the Association of Mutual Funds in India (AMFI) for their support and directions.

The Directors would also like to thank the Auditors of the Company and the Schemes, Custodian and Registrar & Transfer Agent of the Schemes, Bankers, Distributors, Brokers, Unit holders and all other service providers for their valuable support.

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

sd/-

Hemendra Kothari

Chairman

Place : Mumbai

Dated : May 22, 2007