

# HARIBHAKTI & CO. CHARTERED ACCOUNTANTS

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19-21, BOMBAY MUTUAL CHAMBERS, 3RD FLOOR, AMBALAL DOSHI MARG, MUMBAI-400 001. ☎ : 6639 1106 - 7 / 2265 2675 • FAX : 2265 6260  
E-mail : hbhakti@vsnl.com • Website : www.haribhaktigroup.com

## AUDITORS' REPORT TO THE MEMBERS OF HDFC ASSET MANAGEMENT COMPANY LIMITED

We have audited the attached Balance Sheet of **HDFC ASSET MANAGEMENT COMPANY LIMITED** as at 31<sup>st</sup> March, 2007, the related Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date, which we have signed under reference to this report. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audit in accordance with Auditing Standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test 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 presentation of the Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

- (I) As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, on the basis of such checks of the books and records as we considered appropriate and the information and explanations given to us during the course of the audit, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent they are applicable to the Company.
- (II) Further to our comments in the Annexure referred to in paragraph I above, we report as under:
- Dur*
- (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose 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, 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 the section 211 of the Companies Act, 1956 to the extent they are applicable to the Company;



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- (e) On the basis of the written representations received from the directors of the Company as on 31<sup>st</sup> March, 2007 and taken on record by the Board of Directors of the Company, we report that none of the directors is disqualified as on 31<sup>st</sup> 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) in our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet, the Profit and Loss Account and Cash Flow Statement read together with Notes thereon give the information required by the Companies Act, 1956 in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
- (i) in so far it relates to the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2007,
- (ii) in the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date and
- (iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For HARIBHAKTI & CO.,  
Chartered Accountants,



(CHETAN DESAI)

Partner

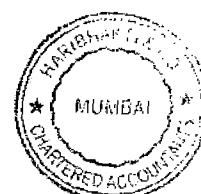
Membership No: 17000

Place: Mumbai,  
Date : 26<sup>th</sup> April, 2007

**ANNEXURE REFERRED TO IN PARAGRAPH I OF OUR REPORT OF EVEN DATE  
TO THE MEMBERS OF HDFC ASSET MANAGEMENT COMPANY LIMITED ON  
THE ACCOUNTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2007.**

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
2. The Company has physically verified the fixed assets in accordance with a programme of verification, which in our opinion provides for physical verification of all fixed assets at reasonable intervals. It was explained to us that there were no material discrepancies noticed on physical verification.
3. During the year, the Company has not disposed off a major part of the fixed assets.
4. The Company has neither granted nor taken any loans, secured or unsecured from Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
5. 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 nature of its business with regards to purchase of fixed assets and sale of services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.
6. Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the Company has not entered into any transactions that need to be entered in the register maintained under section 301 of the Companies Act, 1956.
7. The Company has not accepted any deposits from the public.
8. In our opinion, the Company has an adequate internal audit system commensurate with the size of the Company and nature of its business.
9. We are informed that no cost records are required to be maintained by the Company under section 209(1)(d) of the Companies Act, 1956.
10. According to the records of the Company, the Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth-tax, service tax and any other statutory dues applicable to it.
11. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax and service tax were outstanding as at 31<sup>st</sup> March, 2007 for a period of more than six months from the date they became payable.

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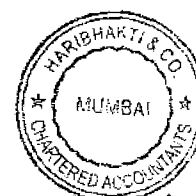


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12. According to the information and explanations given to us by the Company, there is a disputed amount payable in respect of income tax as at 31<sup>st</sup> March, 2007. The details of disputed dues is as under:

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961.	Income Tax	3,67,497/-	A.Y. 2002-2003	The Company has filed an appeal against Income Tax Officer's Assessment Order with the Commissioner of Income Tax (Appeals).

13. The Company has neither accumulated losses as at 31<sup>st</sup> March, 2007 nor it has incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year.
14. The Company has not taken any loan from Financial Institution, Bank and the Company has not issued any Debentures.
15. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
16. The Company has not dealt or traded in shares, securities, debentures and other investments during the year.
17. The Company has not given any guarantee for loans taken by others from Bank or Financial Institutions.
18. The Company has not taken term loans during the year.
19. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that the Company has not used funds raised on short-term basis for long-term investment.
20. The Company has not made any preferential allotment of shares to the parties and companies covered in the register maintained under section 301 of the Companies Act, 1956 during the year.
21. The Company has not issued any Debentures during the year.
22. The Company has not raised any money by public issue during the year.

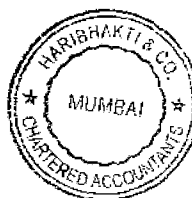


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23. Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on the Company or by the Company has been noticed or reported during the course of our audit.
24. The clause (ii) and (xiii) of para 4 are not reported upon as these are not applicable to the Company.

For HARIBHAKTI & CO.,  
Chartered Accountants,



  
(CHETAN DESAI)  
Partner

Membership No: 17000

Place: Mumbai,  
Date : 26<sup>th</sup> April, 2007

**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**BALANCE SHEET AS AT MARCH 31, 2007**

	Schedule	Rupees	Rupees	March 31, 2006 Rupees
<b>FUNDS EMPLOYED</b>				
<b>SHAREHOLDER'S FUNDS</b>				
Share Capital	1		50,16,10,000	50,16,10,000
Reserves and Surplus	2		95,42,67,094	59,54,32,963
<b>TOTAL</b>			<b>145,58,77,094</b>	<b>109,70,42,963</b>
<b>APPLICATION OF FUNDS</b>				
<b>FIXED ASSETS</b>				
Gross Block	3	90,57,95,360		81,70,23,962
Less: Depreciation		26,11,48,332		19,28,39,455
Net Block		64,46,47,028		62,41,84,507
Capital Advances		84,87,942		63,25,993
			65,31,34,970	63,05,10,500
<b>INVESTMENTS</b>	4		84,56,95,637	51,36,82,426
<b>DEFERRED TAX ASSET (see note 9)</b>	5		7,40,32,976	4,64,76,435
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>				
Sundry Debtors	6	10,94,24,536		5,94,48,534
Cash and Bank Balances	7	83,89,134		1,14,77,426
Other Current Assets	8	16,195		6,027
Loans and Advances	9	104,41,62,102		67,95,60,821
		116,19,91,967		75,04,92,808
Less:				
<b>CURRENT LIABILITIES AND PROVISIONS</b>				
Current Liabilities	10	35,58,80,132		19,97,83,840
Provisions	11	92,30,98,324		64,43,35,366
		127,89,78,456		84,41,19,206
<b>NET CURRENT ASSETS</b>			(11,69,86,489)	(9,36,26,398)
<b>TOTAL</b>			<b>145,58,77,094</b>	<b>109,70,42,963</b>
<b>Significant Accounting Policies and Notes to Accounts</b>				
	17			

As per our report attached

For and on behalf of the Board

For Haribhakti & Co.  
Chartered Accountants

Deepak S. Parekh  
Chairman

Milind Barve  
Managing Director

P. M. Thampi  
Director

Chetan Desai  
Partner

Hoshang S. Billimoria  
Director

N. Keith Skeoch  
Director

Rajeshwar Raj Bajaj  
Director

Renu S. Karnad  
Director

Sylvia Furtado  
Company Secretary

Rahul Bhandari  
Chief Financial Officer

Mumbai, April 26, 2007

**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007**

	Schedule	Rupees	Previous Year Rupees
<b>INCOME</b>			
Management Fee	12	182,54,40,546	133,69,74,621
Interest	13	59,089	3,19,650
Dividend		4,23,05,352	1,82,62,800
Other Income	14	72,28,966	84,55,729
<b>Total</b>		<b>187,50,33,953</b>	<b>136,40,12,800</b>
<b>EXPENDITURE</b>			
Staff Expenses	15	42,38,66,961	36,50,46,679
Administrative and Other Expenses	16	35,84,18,648	23,01,25,621
Depreciation	3	7,38,51,304	6,83,28,410
<b>Total</b>		<b>85,61,36,913</b>	<b>66,35,00,710</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>101,88,97,040</b>	<b>70,05,12,090</b>
Provision for Tax (Net of Deferred Tax) (see note 9)		33,96,93,459	24,22,38,100
Provision for Fringe Benefit Tax		38,22,000	35,10,000
<b>PROFIT/(LOSS) AFTER TAX</b>		<b>67,53,81,581</b>	<b>45,47,63,990</b>
Balance brought forward from Previous year		23,27,19,807	5,27,67,278
<b>Profit Available for Appropriation</b>		<b>90,81,01,388</b>	<b>50,75,31,268</b>
Appropriations:			
Excess provision of Income Tax for earlier years (net)		(18,46,230)	
General Reserve		6,75,38,158	4,54,76,399
Preference Dividend		2,50,00,000	2,50,00,000
Tax on Preference Dividend		35,06,250	35,06,250
Interim Equity Dividend Paid		15,09,66,000	8,80,63,500
Tax on Interim Equity Dividend paid		2,11,72,982	1,23,50,906
Proposed Equity Dividend		10,06,44,000	8,80,63,500
Tax on Proposed Equity Dividend		1,71,04,448	1,23,50,906
<b>Balance carried forward to the Balance Sheet</b>		<b>52,40,15,780</b>	<b>23,27,19,807</b>
<b>Earnings Per Share (see note 8)</b>		<b>25.78</b>	<b>16.94</b>
Significant Accounting Policies and Notes to Accounts	17		

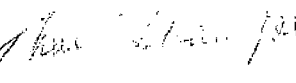
As per our report attached

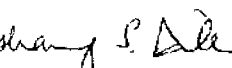
For and on behalf of the Board


For Haribhakti & Co.  
Chartered Accountants


  
Deepak S. Parekh  
Chairman

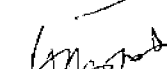
  
Milind Barve  
Managing Director


  
P. M. Thampi  
Director

  
Hoshang S. Billimoria  
Director

  
N. Keith Skeoch  
Director

  
Rajeshwar Raj Bajaj  
Director

  
Renu S. Karnad  
Director

  
Sylvia Furtado  
Company Secretary

  
Rahul Bhandari  
Chief Financial Officer

Mumbai, April 26, 2007

**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2007**

	Rupees	Previous Year Rupees
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation and extraordinary items	101,88,97,040	70,05,12,090
<u>Add / (Less) : Adjustment for</u>		
Depreciation	7,38,51,304	6,83,28,410
Profit on sale of investment (net)	(19,59,706)	(16,81,892)
(Profit) / Loss on sale of fixed assets (net)	(7,75,131)	(3,62,004)
Investment Income (dividend)	(4,23,05,352)	(1,82,62,800)
Provision for wealth tax	82,102	75,472
<b>Operating Profit before working capital changes</b>	<b>104,77,90,257</b>	<b>74,86,09,276</b>
 (Increase) / Decrease in Loans and Advances	 (15,62,84,975)	 (9,21,49,302)
(Increase) / Decrease in Other Current Assets	(10,168)	(1,204)
(Increase) / Decrease in Sundry Debtors	(4,99,76,002)	(3,52,28,285)
Increase / (Decrease) in Current Liabilities	22,53,04,066	11,83,75,177
<b>Cash generated from Operations</b>	<b>106,68,23,178</b>	<b>73,96,05,662</b>
Income tax paid	(38,54,03,036)	(27,62,84,709)
<b>Net cash from operating activities</b>	<b>68,14,20,142</b>	<b>46,33,20,953</b>
 <b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(9,82,73,321)	(2,91,99,454)
Proceeds from sale of fixed assets	25,72,677	5,79,543
Purchase of investments	(337,97,79,923)	(148,14,67,068)
Proceeds from sale of investments	309,20,31,771	132,04,19,533
<b>Net cash used in investing activities</b>	<b>(38,34,48,796)</b>	<b>(18,96,67,446)</b>
 <b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividend paid	(26,40,29,500)	(23,88,68,500)
Tax paid on Dividend	(3,70,30,138)	(3,35,01,307)
<b>Net cash from financing activities</b>	<b>(30,10,59,638)</b>	<b>(27,23,69,807)</b>
<b>Net (Decrease) / Increase in cash and cash equivalents</b>	<b>(30,88,292)</b>	<b>12,83,700</b>
 Cash and cash equivalents at the beginning of the year	 1,14,77,426	 1,01,93,726
Cash and cash equivalents at the end of the year	83,89,134	1,14,77,426
	(30,88,292)	12,83,700

As per our report attached

For and on behalf of the Board

For Haribhakti & Co.  
Chartered Accountants

Deepak S. Parekh  
Chairman

Milind Barve  
Managing Director

P. M. Thampi  
Director

Hoshang S. Billimoria  
Director

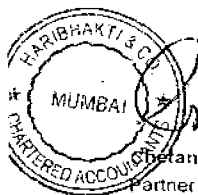
N. Keith Skeoch  
Director

Rajeshwar Raj Bajaj  
Director

Renu S. Karnad  
Director

Sylvia Furtado  
Company Secretary

Rahul Bhandari  
Chief Financial Officer



Mumbai, April 26, 2007



**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT MARCH 31, 2007**

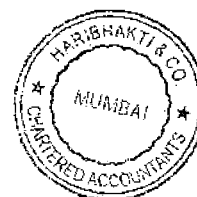
	As at March 31, 2007 Rupees	As at March 31, 2006 Rupees
<b>Schedule 1</b>		
<b>SHARE CAPITAL</b>		
<b>AUTHORISED</b>		
3,00,00,000 (Previous Year 3,00,00,000) Equity Shares of Rs.10 each	30,00,00,000	30,00,00,000
5,00,00,000 (Previous Year 5,00,00,000) Redeemable, Cumulative Non-Convertible Preference Shares of Rs.10 each	50,00,00,000	50,00,00,000
<b>Total</b>	<u>80,00,00,000</u>	<u>80,00,00,000</u>
<b>ISSUED, SUBSCRIBED AND PAID-UP</b>		
2,51,61,000 (Previous Year 2,51,61,000) Equity Shares of Rs.10 each, fully paid up	25,16,10,000	25,16,10,000
(Of the above 1,26,05,661 (Previous Year 1,26,05,661) Equity Shares are held by Housing Development Finance Corporation Limited, the Holding Company and its nominees)		
2,50,00,000 (Previous Year 2,50,00,000) 10% Redeemable, Cumulative Non-convertible Preference Shares of Rs. 10 each, redeemable in 5 equal annual installments starting from June 18, 2005.	25,00,00,000	25,00,00,000
The Company reserves the right to redeem the Preference Shares (in full or part) at any time before the scheduled due dates of redemption. Accordingly, the Company had partly redeemed 2,50,00,000 Preference Shares amounting to Rs. 25,00,00,000 during the Financial Year 2004 - 2005.		
(Of the above 1,25,25,000 (Previous Year 1,25,25,000) Preference Shares are held by Housing Development Finance Corporation Limited, the Holding Company)		
<b>Total</b>	<u>50,16,10,000</u>	<u>50,16,10,000</u>

**Schedule 2**

**RESERVES AND SURPLUS**

**General Reserve**

Opening Balance	11,27,13,156	6,72,36,757
Add : Transfer from Profit and Loss Account	6,75,38,158	4,54,76,399
	<u>18,02,51,314</u>	<u>11,27,13,156</u>
Capital Redemption Reserve	25,00,00,000	25,00,00,000
Balance in Profit and Loss Account	52,40,15,780	23,27,19,807
<b>Total</b>	<u>95,42,67,094</u>	<u>59,54,32,963</u>



*Handwritten signatures and initials:*  
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HDFC ASSET MANAGEMENT COMPANY LIMITED  
SCHEDULES FORMING PART OF THE ACCOUNTS AS AT MARCH 31, 2007

Schedule 3

FIXED ASSETS

	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at	Additions	Deductions	As at	As at	For the	Deductions	As at	As at	As at
	March 31, 2006			March 31, 2007	March 31, 2006	Year		March 31, 2007	March 31, 2007	March 31, 2006
Goodwill	66,83,08,050	-	-	66,83,08,050	10,02,46,206	3,34,15,402	-	13,36,61,608	53,46,46,442	56,80,61,844
Improvement of Rented Premises	5,47,23,397	5,39,09,203	6,92,690	10,79,39,910	3,85,94,657	1,43,60,779	5,86,493	5,23,68,943	5,55,70,967	1,61,28,740
Computer Equipment	3,99,46,427	1,25,12,759	74,027	5,23,85,159	2,87,45,376	93,20,234	73,484	3,79,92,126	1,43,93,033	1,12,01,051
Intangible Assets (Computer Software)	55,28,278	54,52,445	-	1,09,80,723	21,15,336	25,82,895	-	46,98,231	62,82,492	34,12,942
Office Equipment	2,67,44,810	1,38,18,251	4,86,441	4,00,76,620	1,16,53,402	67,35,467	4,18,998	1,79,69,871	2,21,06,749	1,50,91,408
Furniture & Fixtures	71,95,460	36,38,565	10,48,762	97,85,263	50,58,208	35,28,592	9,40,385	76,46,415	21,38,848	21,37,252
Electrical Installations	26,950	-	-	26,950	22,747	3,465	-	26,212	738	4,203
Vehicles	1,45,50,590	67,80,148	50,38,053	1,62,92,685	64,03,523	39,04,470	35,23,067	67,84,926	95,07,759	81,47,067
<b>Total</b>	<b>81,70,23,962</b>	<b>9,61,11,371</b>	<b>73,39,973</b>	<b>90,57,95,360</b>	<b>19,28,39,455</b>	<b>7,38,51,304</b>	<b>55,42,427</b>	<b>26,11,48,332</b>	<b>64,46,47,028</b>	<b>62,41,84,507</b>
Previous Year	79,49,92,631	2,39,89,317	19,57,986	81,70,23,962	12,62,51,492	6,83,28,410	17,40,447	19,28,39,455	62,41,84,507	



**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT MARCH 31, 2007**

	As at March 31, 2007 Rupees	As at March 31, 2006 Rupees
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**Schedule 4**

**CURRENT INVESTMENTS (Valued at Cost and Net Asset Value, whichever is lower)**

1,30,30,722 Units (Previous Year 1,22,19,867) of Rs. 10 each in HDFC Monthly Income Plan-Long Term Plan (Dividend Plan) (Purchased 8,10,855 Units and Redeemed NIL Units during the year)	13,52,93,955	12,59,61,368
28,102 Units (Previous Year 3,83,30,573) of Rs. 10 each in HDFC Floating Rate Income Fund - Short Term Plan (Dividend Plan) (Purchased 4,15,44,993 Units and Redeemed 7,98,47,464 Units during the year)	2,85,858	38,77,21,058
5,308 Units (Previous Year NIL) of Rs. 10 each in HDFC Cash Management Fund - Savings Plan (Dividend Plan) (Purchased 7,59,47,724 Units and Redeemed 7,59,42,416 Units during the year)	56,473	-
1,57,291 Units (Previous Year NIL) of Rs. 10 each in HDFC Cash Management Fund - Savings Plus Plan (Dividend Plan) (Purchased 1,99,57,291 Units and Redeemed NIL Units during the year)	20,00,00,000	-
1,00,00,000 Units (Previous Year NIL) of Rs. 10 each in HDFC Fixed Maturity Plan 90D January 2007 - Wholesale Plan (Dividend Plan) (Purchased 1,00,00,000 Units and Redeemed NIL Units during the year)	10,00,00,000	-
2,00,00,000 Units (Previous Year NIL) of Rs. 10 each in HDFC Fixed Maturity Plan 90D February 2007 - Wholesale Plan (Dividend Plan) (Purchased 2,00,00,000 Units and Redeemed NIL Units during the year)	20,00,00,000	-
1,68,99,703 Units (Previous Year NIL) of Rs. 10 each in HDFC Liquid Fund Premium Plus Plan (Dividend Plan) (Purchased 7,43,89,808 Units and Redeemed 5,74,90,105 Units during the year)	21,00,59,351	-

<b>Total</b>	84,56,95,637	51,36,82,426
Purchase Price of the above	86,61,97,994	52,98,99,484

**Schedule 5**

**DEFERRED TAX**

Deferred Tax Asset	7,43,55,881	4,68,29,865
Deferred Tax Liability	(3,22,905)	(3,53,430)
<b>Total</b>	7,40,32,976	4,64,76,435

**Schedule 6**

**SUNDRY DEBTORS**

(Unsecured, Considered good)

Investment Management Fee Receivable (less than six months)	3,60,67,686	34,86,540
Portfolio Management Fee Receivable - Over six months	91,81,983	44,87,663
- Others	6,41,74,867	5,14,74,331
	7,33,56,850	5,59,61,994
<b>Total</b>	10,94,24,536	5,94,48,534



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**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT MARCH 31, 2007**

As at  
March 31, 2007  
Rupees

As at  
March 31, 2006  
Rupees

**Schedule 7**

**CASH AND BANK BALANCES**

Balance with Scheduled Bank:		
In Current Account	78,08,634	89,77,426
In Deposit Account	5,80,500	25,00,000
<b>Total</b>	<b>83,89,134</b>	<b>1,14,77,426</b>

**Schedule 8**

**OTHER CURRENT ASSETS**

Interest Accrued but Not Due	16,195	6,027
<b>Total</b>	<b>16,195</b>	<b>6,027</b>

**Schedule 9**

**LOANS AND ADVANCES**

(Unsecured, considered good)

Sundry Deposits	7,39,57,344	2,44,03,106
Advance Payment of Income Tax	66,26,61,913	45,46,48,607
Advance Payment of Fringe Benefit Tax (net)	3,93,000	90,000
Advances recoverable in cash or in kind or for value to be received	30,71,49,845	20,04,19,108
<b>Total</b>	<b>104,41,62,102</b>	<b>67,95,60,821</b>

**Schedule 10**

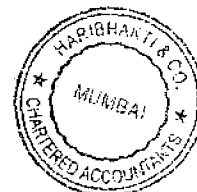
**CURRENT LIABILITIES**

Sundry Creditors	34,55,17,700	19,42,13,909
Other Liabilities	1,03,62,432	55,69,931
<b>Total</b>	<b>35,58,80,132</b>	<b>19,97,83,840</b>

**Schedule 11**

**PROVISIONS**

For Taxation	64,36,42,102	45,14,20,960
For Others (see note 10)	16,17,07,774	9,25,00,000
Proposed Equity Dividend	10,06,44,000	8,80,63,500
Income-tax on Proposed Equity Dividend	1,71,04,448	1,23,50,906
<b>Total</b>	<b>92,30,98,324</b>	<b>64,43,35,366</b>



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**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT MARCH 31, 2007**

	For the year ended March 31, 2007 Rupees	For the year ended March 31, 2006 Rupees
<b>Schedule 12</b>		
<b>MANAGEMENT FEE</b>		
Investment Management Fee (Tax Deducted at Source Rs. 9,90,27,704; Previous Year Rs. 7,26,30,487)	157,27,01,154	117,48,28,564
Portfolio Management Fee (Tax Deducted at Source Rs. 30,49,537; Previous Year Rs. 29,59,946)	25,27,39,392	16,21,46,057
<b>Total</b>	<b>182,54,40,546</b>	<b>133,69,74,621</b>

**Schedule 13**

**INTEREST**

On Fixed Deposit with a Bank (Tax Deducted at Source Rs. 9,299; Previous Year Rs. 27,435)	59,089	1,28,610
On Income Tax Refund		1,91,040
<b>Total</b>	<b>59,089</b>	<b>3,19,650</b>

**Schedule 14**

**OTHER INCOME**

Profit on Sale of Current Investments (net)	19,59,706	16,81,892
Profit on Sale of Fixed Assets (net)	7,75,131	3,62,004
Miscellaneous Income	44,94,129	64,11,833
<b>Total</b>	<b>72,28,966</b>	<b>84,55,729</b>

**Schedule 15**

**STAFF EXPENSES**

Salaries, Allowances and Bonus	39,60,42,584	34,34,23,462
Contribution to Provident and Other Funds	1,06,78,454	58,39,405
Staff Welfare and Training Expenses	1,19,19,079	1,31,32,272
Recruitment Expenses	52,26,844	26,51,540
<b>Total</b>	<b>42,38,66,961</b>	<b>36,50,46,679</b>



**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**SCHEDULES FORMING PART OF THE ACCOUNTS AS AT MARCH 31, 2007**

	For the year ended March 31, 2007 Rupees	For the year ended March 31, 2006 Rupees
<b>Schedule 16</b>		
<b>ADMINISTRATIVE AND OTHER EXPENSES</b>		
Brokerage / Incentives	5,49,17,186 ✓	2,05,66,777
Scheme Launch Expenses	2,83,89,011 ✓	2,28,21,805
Advertisement	30,37,914 ✓	50,08,286
Business Promotion	1,83,21,352 ✓	47,57,126
Rent (Net) (Tax Deducted at Source)	7,05,87,998 ✓	5,00,04,362
Rs. 7,42,104; Previous Year Rs. 7,33,672)		
Printing and Courier	2,03,32,511	97,48,485
Travel and Conveyance	2,38,62,967	1,86,05,277
Communication Expenses	1,47,39,284	1,25,29,852
Establishment Expenses	51,34,301	71,35,643
Subscription and Membership Fees	86,34,715	63,72,188
Professional and Legal Fees	1,10,48,114	73,41,131
Repair and Maintenance	2,78,67,205	2,30,81,267
Outsourced Services Cost	3,74,26,019	2,19,90,569
Insurance Expenses	66,61,532 ✓	60,70,900
Auditors Remuneration:		
Statutory Audit Fee	4,49,440 ✓	3,30,600
Tax Audit Fee	50,562	44,080
Taxation Matters	1,23,596	1,97,040
Other Services	1,84,698 ✓	1,75,675
	8,08,296	7,47,395
Directors Sitting Fee	19,60,000 ✓	19,40,000
Donations	21,54,500 ✓	6,50,000
Health Tax	82,102 ✓	75,472
Profession Tax	13,845 ✓	10,620
Miscellaneous Expenses	2,24,39,796 ✓	1,06,68,466
<b>Total</b>	<b>35,84,18,648</b>	<b>23,01,25,621</b>

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## HDFC ASSET MANAGEMENT COMPANY LIMITED

### SCHEDULE 17:

#### SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2007

##### 1. SIGNIFICANT ACCOUNTING POLICIES

###### 1.1 Accounting Convention

The financial statements have been prepared in accordance with historical cost convention, applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

###### 1.2 Income Recognition

Management fees and income from investments are accounted for on accrual basis.

###### 1.3 Fixed Assets

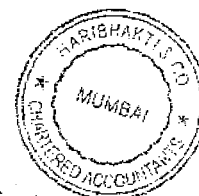
Fixed Assets are stated at cost of acquisition, including incidental expenses.

###### 1.4 Depreciation

- A) Depreciation on Fixed Assets is provided on straight-line basis at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956 except for certain assets, where based on the Management's estimate of the useful lives of the assets, higher depreciation has been provided at the following rates:

CLASS OF FIXED ASSET	RATE OF DEPRECIATION (%)
Building	2.00
Computer Equipment	33.33
Computer Software	33.33
Furniture & Fixtures	14.29
Electrical Installations	14.29
Office Equipment	20.00
Vehicles	25.00
Improvement of Rented Premises	Over the primary period of the lease term or 5 years, whichever is less.

Assets individually costing less than Rupees Five Thousand are fully depreciated in the year of purchase/acquisition.



## B) Goodwill

Based on the Management's estimate, since the benefit of acquisition is perpetual, goodwill generated on amalgamation of erstwhile HDFC AMC Services Company Private Limited and HDFC AMC Mauritius Limited, with the Company is being depreciated equally over a period of 20 years.

## 1.5 Investments

Current investments are valued at lower of cost and net asset value.

## 1.6 Transaction in Foreign Currency

Transactions in foreign currency are accounted for at the rates prevailing at the date of the transaction. Current assets and liabilities are translated at the ruling rate of exchange at the Balance Sheet date and the resultant exchange gains or losses are reflected in the Profit and Loss Account.

## 1.7 Upfront Brokerage

Upfront brokerage paid on sale of units of certain debt schemes and upfront brokerage paid over and above the entry load collected on investment through Systematic Investment Plan & Systematic Transfer Plan in equity schemes is amortised over a period of 12 / 36 months or the period of investment, whichever is earlier and recovered from the respective schemes within the overall limits prescribed by the Securities and Exchange Board of India.

## 1.8 Retirement Benefits

The Company contributes to the Recognised Provident Fund for its employees. Company's contribution in the case of gratuity is funded annually with the Life Insurance Corporation of India, as determined by the corporation, based on actuarial valuation.

## 1.9 Income Tax

The accounting treatment for Income Tax in respect of the Company's income is based on the Accounting Standard on "Accounting for Taxes on Income" (AS -22) issued by the Institute of Chartered Accountants of India. The provision made for Income Tax in the Accounts comprises both, the current tax and the deferred tax. The deferred tax assets and liabilities for the year, arising on account of timing differences, are recognized in the Profit and Loss Account and the cumulative effect thereof is reflected in the Balance Sheet. The major components of the respective balances of deferred tax assets and liabilities are disclosed in the Accounts.

## 2. Contingent Liabilities

Disputed Income Tax demand Rs. 3,67,497 (Previous Year Rs. 3,67,497).

## 3. Sundry Creditors

Sundry creditors do not include any amount payable to Small Scale Industrial Undertakings and Micro, Small and Medium Enterprises.



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#### 4. Scheme Expenses

Recurring expenses of schemes of HDFC Mutual Fund in excess of limits prescribed by the Securities and Exchange Board of India are accounted under the respective expense heads in the Profit and Loss Account.

#### 5. Segmental Reporting

The Company is primarily engaged in the business of providing investment management services to the schemes of HDFC Mutual Fund and portfolio management services to corporates and high net worth individuals in India. As such, there is no separate reportable business or geographical segment as per the Accounting Standard on "Segment Reporting" (AS-17) issued by the Institute of Chartered Accountants of India.

#### 6. Related Party Transactions

As per the Accounting Standard on "Related Party Disclosures" (AS-18) issued by the Institute of Chartered Accountants of India, the related parties of the Company are as follows:

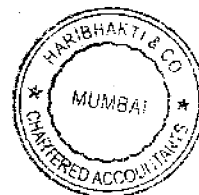
A) Holding Company : Housing Development Finance Corporation Limited

B) Investing Party : Standard Life Investments Limited

C) Fellow Subsidiaries : HDFC Developers Limited  
HDFC Investments Limited  
HDFC Holdings Limited  
HDFC Trustee Company Limited  
HDFC Standard Life Insurance Company Limited  
HDFC Realty Limited  
GRUH Finance Limited  
HDFC Chubb General Insurance Company Limited  
Home Loan Services of India Private Limited  
HDFC Venture Capital Limited  
HDFC Ventures Trustee Company Limited  
HDFC Property Ventures Limited

D) Key Management

Personnel : Mr. Milind Barve, Managing Director



*Delivered*  
*for*

The nature and volume of transactions of the Company with the above related parties were as follows:

(Amount in Rupees)

Particulars	Holding Company	Investing Party	Fellow Subsidiaries*	Key Management Personnel
<b>INCOME</b>				
Management Fees	-	-	2,10,00,000	-
	-	-	(2,47,00,000)	-
Interest on Deposits	-	-	315	-
	-	-	(405)	-
<b>EXPENDITURE</b>				
Rent	1,98,68,960	-	3,58,435	-
	(1,97,58,960)	-	(6,14,460)	-
Technology Support Cost	77,80,450	-	-	-
	(47,10,000)	-	-	-
Establishment Expenses	51,34,301	-	-	-
	(71,35,643)	-	-	-
Administrative & other Expenses	19,49,879	-	-	-
	(15,64,764)	-	-	-
Insurance Premium	-	-	29,93,551	-
	-	-	(28,86,114)	-
Remuneration	-	-	-	2,45,93,879
	-	-	-	(2,64,42,177)
Preference Dividend	1,25,25,000	1,24,75,000	-	-
	(1,25,25,000)	(1,24,75,000)	-	-

3



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 2. The letter "ne".  
 3. The initials "DR".  
 4. The letter "Kw".

<b>ASSETS</b>				
Deposit	-	-	1,17,367 (9,324)	-
Account Receivable	-	-	2,78,11,407 (1,03,08,613)	-
Insurance Premium	-	-	20,26,127 (23,30,051)	-
Administrative & other Expenses	41,354 (70,545)	-	-	-
<b>LIABILITIES</b>				
Account Payable	- (66,000)	-	- (9,878)	-
Proposed Equity Dividend	5,04,22,644 (4,41,19,814)	5,02,21,356 (4,39,43,686)	-	-

Reimbursement of Expenses amounting to Rs. 7,04,502 (Previous Year Rs. 6,54,761) to the Holding Company and Rs. 98,751 (Previous Year Rs. 1,66,445) to a Fellow subsidiary are not considered above.

\*Details of Transactions with fellow subsidiaries are as follows:

(Amount in Rupees)

Particulars	HDFC Trustee Company Limited	HDFC Standard Life Insurance Company Limited	HDFC Chubb General Insurance Company Limited	GRUH Finance Limited
Management Fees	-	1,80,00,000 (2,16,00,000)	30,00,000 (31,00,000)	-
Interest on Deposit	-	315 (405)	-	-
Rent	-	-	-	3,58,435 (6,14,460)
Insurance Premium	-	8,06,514 (6,61,849)	21,87,037 (22,24,265)	-



Deposits	-	1,17,367	-	-
	-	(9,324)	-	-
Account Receivable	2,25,61,407	45,00,000	7,50,000	-
	(49,08,613)	(54,00,000)	-	-
Prepaid Insurance Premium	-	8,113	20,18,014	-
	-	-	(23,30,051)	-
Account Payable	-	-	-	-
	-	-	-	(9,878)

Figures in bracket pertain to the Previous Year.

#### 7. Operating Leases

The company has entered into non-cancellable leasing arrangements for certain official and residential premises generally for a period of 36 months. The total lease payments recognized in the Profit and Loss Account towards the said leases amount to Rs. 2,97,34,451 (Previous Year Rs. 3,32,38,644).

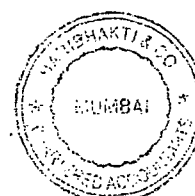
The future lease payments in respect of the above are as follows:

	Current Year Rupees	Previous Year Rupees
Not later than one year	4,47,27,080	3,04,50,540
Later than one year but not later than five years	5,83,71,180	2,01,30,260
Later than five years	Nil	Nil

#### 8. Earnings per Share

Earnings per Share has been computed as under:

	Current Year Rupees	Previous Year Rupees
(a) Profit after Taxation	67,53,81,581	45,47,63,990
Less: Preference Dividend and Tax thereon	2,85,06,250	2,85,06,250
Add: Excess Provision for Income Tax	18,46,230	Nil
	64,87,21,561	42,62,57,740
(b) Number of Equity Shares Outstanding	2,51,61,000	2,51,61,000
(c) Earnings per Share (Face Value Rs.10 per Share)	25.78	16.94
(a) / (b) (Basic and Diluted)		



## 9. Deferred Tax

In compliance with the Accounting Standard on "Accounting for Taxes on Income" (AS-22) issued by the Institute of Chartered Accountants of India, the Company has made net deferred tax adjustment of Rs. 2,75,56,541 (Previous Year Rs. 3,40,71,900) as per details given below. The amount has been credited to the Profit and Loss Account alongwith provision for taxation for the year.

(Amount in Rupees)			
Description	As on March 31, 2006	For the year	As on March 31, 2007
<b>Assets</b>			
Depreciation	1,56,94,365	36,97,044	1,93,91,409
Others	3,11,35,500	2,38,28,972	5,49,64,472
<b>Total</b>	<b>4,68,29,865</b>	<b>2,75,26,016</b>	<b>7,43,55,881</b>
<b>Liabilities</b>			
Others	353,430	(30,525)	322,905
<b>Net Deferred Tax Asset (Adjustment)</b>	<b>4,64,76,435</b>	<b>2,75,56,541</b>	<b>7,40,32,976</b>

## 10. Provisions

In compliance with the Accounting Standard on "Provisions, Contingent Liabilities and Contingent Assets" (AS-29) issued by the Institute of Chartered Accountants of India, balance under 'Provision for Others' represents provision made by the Company for Staff Related Benefits, the expected payout of which is over next two years. The increase in provision for the year is net of write back of Rs. 1,92,42,226.

## 11. Income in foreign currency

	Current Year Rupees	Previous Year Rupees
Investment Advisory Fee	3,40,11,288	1,81,08,690
Interest Income	17,273	Nil

## 12. Payments in foreign currency

### A) Expenditure

	Current Year Rupees	Previous Year Rupees
i) Staff Training Expenses	13,11,216	16,10,898
ii) Travelling Expenses	7,98,943	2,41,395
iii) Overseas Representative Office Expenses	66,97,038	39,58,497
iv) Other Expenses	5,823	Nil



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B) Dividend

	Current Year Rupees	Previous Year Rupees
i) (A) Final Dividend on Equity Shares		
(a) Year to which the dividend relates	2005-06	2004-05
(b) Number of non-resident shareholders	1	1
(c) Number of Shares held	1,25,55,339	1,25,55,339
(d) Amount Remitted (Gross)	4,39,43,686	6,27,76,695
(B) Interim Dividend on Equity Shares		
(a) Year to which the dividend relates	2006-07	2005-06
(b) Number of non-resident shareholders	1	1
(c) Number of Shares held	1,25,55,339	1,25,55,339
(d) Amount Remitted (Gross)	7,53,32,034	4,39,43,686
ii) Dividend on Preference Shares		
(a) Year to which the dividend relates	2006-07	2005-06
(b) Number of non-resident shareholders	1	1
(c) Number of Shares held	1,24,75,000	1,24,75,000
(d) Amount Remitted (Gross)	1,24,75,000	1,24,75,000

13. Managerial Remuneration

Remuneration to the Managing Director:

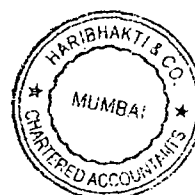
	Current Year Rupees	Previous Year Rupees
Salary & Allowances (incl. Perquisites)	2,40,81,479	2,60,15,177
Contribution to Retirement benefits	5,12,400	4,27,000

Computation of net profits in accordance with Section 309(5) of the Companies Act, 1956 has not been given since no commission is payable.

14. Capital Commitments

Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) is Rs. 66,75,792 (Previous Year Rs. 66,22,497).

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## 15. Prior Year Comparatives

Figures for the previous year have been regrouped / rearranged, wherever necessary.

## 16. Part IV to the Schedule VI of the Companies Act, 1956

The Balance Sheet abstract and the Company's business profile as required by Part IV to Schedule VI to the Companies Act, 1956 is attached herewith.

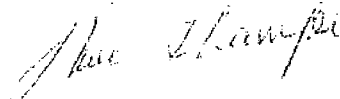
### For and on behalf of the Board




**Deepak S. Parekh**  
Chairman



**Milind Barve**  
Managing Director



**P.M. Thampi**  
Director



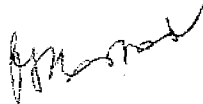
**Hoshang S. Billimoria**  
Director



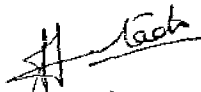
**N. Keith Skeoch**  
Director



**Rajeshwar Raj Bajaj**  
Director



**Renu S. Karnad**  
Director



**Sylvia Furtado**  
Company Secretary



**Rahul Bhandari**  
Chief Financial Officer

Mumbai, April 26, 2007



### I. Registration Details

State Code 

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11. Capital Raised during the year (Amount in Rs.'000)

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

Total Assets								
		2	7	3	4	8	5	6

Reserves and Surplus									
			9	5	4	2	6	7	

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

Investments						
			8	4	5	6

Miscellaneous Expenditure					
					N I L

Total Expenditure						
			8	5	6	1 3 7

Profit After Tax							
			6	7	5	3	8 2

Dividend %

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