

HDFC ASSET MANAGEMENT COMPANY LIMITED

A subsidiary of Housing Development Finance Corporation Limited

THIRD ANNUAL REPORT 2001-02



BOARD OF DIRECTORS

Mr. Deepak S. Parekh
Chairman

DIRECTORS

Mr. A. S. Bell (upto March 15, 2002)
Mr. Iain Lumsden (from March 16, 2002)
Mr. P. M. Thampi
Mr. Hoshang Billimoria
Dr. Deepak B. Phatak
Mr. Humayun Dhanrajgir
Ms. Renu S. Karnad

Mr. Milind Barve
Managing Director

AUDITORS

Haribhakti & Co.
Chartered Accountants

BANKERS

HDFC Bank Limited

REGISTERED OFFICE

Ramon House, 3rd Floor,
H. T. Parekh Marg,
169, Backbay Reclamation,
Churchgate, Mumbai 400 020.
Tel. Nos. : 202 9111
Fax : 22-2028862

DIRECTORS' REPORT

TO THE MEMBERS,

Your directors have pleasure in presenting the Third Annual Report together with the audited accounts of the company for the year ended March 31, 2002.

Financial Results	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Profit / (Loss) before Tax	9,56,13,633	(5,41,48,717)
Provision for Tax	1,23,54,723	—
Profit / (Loss) after Tax	8,32,58,910	(5,41,48,717)
Balance brought forward from previous period	(5,39,21,008)	—
Transfer to General Reserve	—	—
General Reserve Balance deducted per contra	—	2,27,709
Profit available for appropriation	2,93,37,902	—
Proposed Dividend	2,00,00,000	—
Balance carried to Balance Sheet	<u>93,37,902</u>	<u>(5,39,21,008)</u>

Dividend

Your directors recommend payment of dividend of Re. 1.00 per equity share (10% on an equity share of face value of Rs. 10 subject to deduction of tax at source, if any) for the financial year ended March 31, 2002.

Review of Operations

Your directors are pleased to report that during the year, HDFC Mutual Fund has achieved an impressive growth in assets under management and investor accounts. The assets under management have grown from Rs. 1,238.13 crores as at March 31, 2001 to Rs. 4,158.26 crores as at March 31, 2002 and the investor accounts have increased from 1,28,931 as at March 31, 2001 to 1,99,058 as at March 31, 2002. During the year, HDFC Mutual Fund launched two open-ended income schemes viz: HDFC Gilt Fund and HDFC Short Term Plan. HDFC Mutual Fund also launched various Plans under the HDFC Fixed Investment Plan, a close ended income scheme.

Your company is also providing investment management/advisory services under its portfolio management services.

Regulatory guidelines

During the year, Securities and Exchange Board of India (SEBI) amended the SEBI (Mutual Funds) Regulations, 1996, with a view to strengthen the operations of the mutual funds. These amendments inter-alia included:

- Format for Half Yearly Disclosure of Unaudited Financial Results.
- Disclosure of large Unit Holdings and restriction on payment of brokerage / commission in case of investments by the Sponsor.
- Investment / Trading in Securities by Employees of Asset Management Companies (AMCs) and Mutual Fund Trustee Companies.
- Certification Programme and Disclosure Standards.

DIRECTORS' REPORT (continued)

- e) Independent Directors on Boards of AMC's and Trustee Companies.
- f) Guidelines for investment in foreign securities by Mutual Funds.

Share Capital

During the year under review, the company has not issued any further shares.

Transfer of shares

Pursuant to the Joint Participation Agreement dated October 29, 1999, entered between Housing Development Finance Corporation Limited (HDFC) and Standard Life Investments Limited, 26% of the paid up share capital of HDFC Asset Management Company Limited (HDFC AMC) (i.e. 52,00,000 equity shares of Rs.10 each fully paid up) had been transferred by HDFC to The Standard Life Assurance Company, the parent company of Standard Life Investments Limited, on April 17, 2001.

In order to reflect the current structure of the Standard Life Group, wherein asset management operations fall under the remit of Standard Life Investments Limited, Standard Life Investments Limited had requested to transfer the 52,00,000 equity shares (amounting to 26% of the paid up share capital) of HDFC AMC held by The Standard Life Assurance Company into the name of Standard Life Investments Limited. Accordingly, the said equity shares have been transferred from The Standard Life Assurance Company to Standard Life Investments Limited on August 29, 2001.

Pursuant to the Shareholders Agreement dated October 17, 2001, entered between HDFC and Standard Life Investments Limited, 13.90% of the paid up share capital of HDFC AMC (i.e. 27,80,000 equity shares of

Rs.10 each fully paid up) has been transferred by HDFC to Standard Life Investments Limited, on January 31, 2002. Consequently, HDFC and Standard Life Investments Limited are respectively holding 60.10% and 39.90% of the paid-up share capital of HDFC AMC.

Directors

The board of directors had appointed Mr. Iain Lumsden as an additional director of the company on March 16, 2002. In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the company, Mr. Iain Lumsden vacates office at the ensuing annual general meeting. A Notice under Section 257 of the Companies Act, 1956, along with the requisite deposit has been received from a member of the company proposing the appointment of Mr. Iain Lumsden as a director of the company at the ensuing annual general meeting of the company.

In accordance with the Companies Act, 1956 and the Articles of Association of the company, Dr. Deepak Phatak, Ms. Renu S. Karnad and Mr. Deepak S. Parekh, directors retire by rotation at the ensuing annual general meeting. They are eligible for re-appointment.

During the year under review, Mr. A. S. Bell, director resigned from the board. The board places on record its sincere appreciation for the valuable inputs received from Mr. A. S. Bell during his tenure as director of the company.

The board of directors have approved the re-appointment of Mr. Milind Barve as the managing director for a period of 3 years with effect from April 1, 2002, subject to your approval at the ensuing annual general meeting.

Board Meetings

The meetings of the board of directors are generally held at the company's registered office in Mumbai.

The board meets at least once a quarter to review the performance of the company. Four board meetings were held during the year under review – on April 17, 2001, July 24, 2001, October 17, 2001 and January 15, 2002.

The attendance of each director at the meetings of the board of directors is as under:

Directors	Number of Board Meetings Attended
Mr. Deepak S. Parekh (Chairman)	4
Mr. A. S. Bell	2
Mr. Iain Lumsden **	—
Mr. P. M. Thampi	3
Mr. Hoshang Billimoria	4
Dr. Deepak B. Phatak	1
Mr. Humayun Dhanrajgir	4
Ms. Renu S. Karnad	3
Mr. Milind Barve (Managing Director)	4

* resigned with effect from March 15, 2002

** appointed from March 16, 2002

Board Committees

To enable better and more focussed attention on the affairs of the company, the board has constituted committees of the board to which specific matters have been delegated. The specialist committees prepare the groundwork for decision-making and report at the subsequent board meeting.

Audit Committee

The members of the audit committee are Mr. Hoshang Billimoria (chairman), Mr. P. M. Thampi and Mr. Humayun Dhanrajgir. The audit committee is constituted and consists entirely of independent directors. The

DIRECTORS' REPORT (continued)

quorum for the audit committee is two members.

The terms of reference of the audit committee include approving and implementing the audit procedures and techniques, reviewing the financial reporting systems, internal control systems and control procedures.

The committee reviews the reports of the internal auditors and statutory auditors alongwith the comments and action taken reports of the management. The audit committee also invites senior executives as it considers appropriate to be present at the meetings of the committee. The company secretary and compliance officer acts as the secretary to the committee.

The committee met four times during the year under review. The audit committee met prior to the finalisation of the accounts for the year ended March 31, 2002.

Remuneration Committee

The remuneration committee was constituted on March 14, 2002. The members of the remuneration committee are Mr. P. M. Thampi (chairman), Mr. Hoshang Billimoria and Mr. Humayun Dhanrajgir. The remuneration committee is constituted and consists entirely of independent directors. The quorum for the remuneration committee is three members.

The role of the remuneration committee is to review and recommend compensation payable to the managing director and review compensation policy of the company. The compensation committee would also administer the company's stock option plans.

Public Deposits

During the year under review, the company has not accepted any deposits from the public.

Particulars regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Expenditure

(a) Since the company does not carry out any manufacturing activities, particulars required to be disclosed with respect to the conservation of energy and technology absorption in terms of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are not applicable.

(b) Foreign Exchange earnings and expenditure during the year:-

Foreign exchange earnings :
Rs. 50,46,354 (previous year: Nil)

Foreign exchange expenditure :
Nil (previous year: Rs. 78,024)

Particulars of Employees

Particulars of employees as required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, are set out in the annex to the Directors' Report.

Auditors

M/s. Haribhakti & Co., Chartered Accountants, Statutory Auditors of your company hold office until the conclusion of the ensuing annual general meeting and are recommended for re-appointment. The company has received a certificate from them to the effect that their re-appointment, if made, would be within the limits prescribed under Section 224(1)(B) of the Companies Act, 1956.

Directors' Responsibilities Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the board of directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed;
- the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period;
- the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- the annual accounts have been prepared on a going concern basis.

Acknowledgements

The directors wish to place on record their appreciation to employees at all levels for their dedication and commitment and also to the investors, investor service centres, distributors and other service providers for their commitment and look forward to their continued support.

The directors acknowledge the valuable assistance, support and guidance given by the Securities and Exchange Board of India, Reserve Bank of India, Unit holders and Bankers. Finally, the directors would like to convey their gratitude to the members and look forward to their continued support.

On behalf of the Board of Directors

MUMBAI,
April 24, 2002.

DEEPAK S. PAREKH
Chairman

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 March 31, 2002 and the Profit and Loss Account of the Company for the year ended on that date annexed thereto.

1. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, 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.

2. Further to our comments in the Annexure referred to in paragraph 1 above, we report as under :

(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 and the Profit and Loss Account dealt with by this report are in agreement with the books of account;

(d) in our opinion, the Profit and Loss Account and the Balance Sheet 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;

(e) on the basis of the written representations received from the directors of the company as on March 31, 2002 and taken on record by the Board of Directors of the Company, we report that none of the directors is disqualified as on March 31, 2002 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 accounts give the information required by the Companies Act, 1956 in the manner so required and they give a true and fair view:

(i) in so far it relates to the Balance Sheet, of the state of affairs of the Company as at March 31, 2002 and

(ii) in so far it relates to the Profit and Loss Account, of the Profit of the Company for the year ended on that date.

For HARIBHAKTI & CO.
Chartered Accountants

MUMBAI.
April 24, 2002.

CHETAN DESAI
Partner

ANNEXURE TO THE AUDITORS' REPORT

Referred to in paragraph 1 of our report of even date to the members of HDFC ASSET MANAGEMENT COMPANY LIMITED

1. The company has maintained proper records to show full particulars, including quantitative details and situation of its fixed assets. The fixed assets of the Company have been physically verified by the Management during the year and no discrepancies between the book records and the physical inventory have been noticed.
2. None of the fixed assets have been revalued during the year.
3. In respect of loans and advances in the nature of loans given to other Companies and employees, recovery of principal and interest amounts is regular.
4. As explained to us, the existing internal control procedure with regard to purchase of assets which are exercised under personal supervision of the directors of the Company, is commensurate with the size of the Company and nature of its business.
5. There are no transactions of sale of services made in pursuance of contracts or arrangements entered in the register maintained under section 301 and aggregating during the year to Rs. 50,000 or more in respect of each party.
6. The Company has not accepted any deposit from 'public' attracting the provisions of Section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975.
7. The company has an adequate internal audit system, commensurate with the size of the Company and nature of its business.
8. 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.
9. The Company has been regular in depositing provident fund dues with the appropriate authorities.
10. According to the information and explanations given to us, no undisputed amounts payable in respect of income-tax and wealth-tax were outstanding as at March 31, 2002 for a period of more than six months from the date they became payable.
11. According to the information and explanations given to us, no personal expenses of directors or employees have been charged to revenue account, other than those payable under contractual obligations or in accordance with the generally accepted business practices.
12. The Company is not a 'sick industrial company' within the meaning of clause (O) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

For HARIBHAKTI & CO.
Chartered Accountants

MUMBAI.
April 24, 2002.

CHETAN DESAI
Partner

BALANCE SHEET AS AT MARCH 31, 2002

	Schedule	Rupees	Rupees	As at March 31, 2001 Rupees
FUNDS EMPLOYED				
SHAREHOLDERS' FUNDS				
Share Capital	1		20,00,00,000	20,00,00,000
Reserves and Surplus	2		93,37,902	—
			<u>20,93,37,902</u>	<u>20,00,00,000</u>
APPLICATION OF FUNDS				
FIXED ASSETS				
Gross Block	3	2,92,70,433		1,82,50,824
Less: Depreciation		<u>94,42,216</u>		<u>30,58,388</u>
Net Block		1,98,28,217		1,51,92,436
Capital Advances		<u>4,82,956</u>		<u>17,22,968</u>
			2,03,11,173	1,69,15,404
INVESTMENTS	4		<u>20,85,90,407</u>	—
CURRENT ASSETS, LOANS AND ADVANCES				
Sundry Debtors	5	48,26,524		1,42,14,585
Cash and Bank Balances	6	80,23,447		2,62,67,116
Other Current Assets	7	3,45,225		29,86,843
Loans and Advances	8	<u>4,49,44,259</u>		<u>10,58,14,819</u>
		5,81,39,455		14,92,83,363
Less: CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities	9	4,64,01,461		2,04,10,236
Provisions	10	<u>3,17,17,364</u>		<u>5,40,923</u>
		7,81,18,825		2,09,51,159
NET CURRENT ASSETS			(1,99,79,370)	12,83,32,204
MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED				
	11		4,15,692	8,31,384
PROFIT AND LOSS ACCOUNT				
			—	5,39,21,008
			<u>20,93,37,902</u>	<u>20,00,00,000</u>
Significant Accounting Policies and Notes forming part of the Accounts	17			

As per our report attached.

For Haribhakti & Co.
Chartered Accountants

Chetan Desai
Partner

Deepak S. Parekh
Chairman

Milind Barve
Managing Director

Directors
P. M. Thampi
Humayun Dhanrajir
Renu S. Karnad

Iqbal Jugari
Company Secretary
& Compliance Officer

MUMBAI, April 24, 2002.

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED MARCH 31, 2002**

	Schedule	Rupees	For the year ended March 31, 2001 Rupees
INCOME			
Management Fee	12	30,00,23,225	6,39,50,631
Interest	13	68,75,636	1,61,69,136
Dividend		79,68,664	—
Other Income	14	13,82,827	960
		<u>31,62,50,352</u>	<u>8,01,20,727</u>
EXPENDITURE			
Staff Expenses	15	4,21,07,863	1,85,63,077
Administrative and Other Expenses	16	17,16,54,898	11,25,42,096
Preliminary Expenses written off		4,15,692	1,03,923
Depreciation	3	64,58,266	30,60,348
		<u>22,06,36,719</u>	<u>13,42,69,444</u>
PROFIT/(LOSS) BEFORE TAX		9,56,13,633	(5,41,48,717)
Provision for Tax (see note 3)		1,23,54,723	—
PROFIT/(LOSS) AFTER TAX		8,32,58,910	(5,41,48,717)
Balance brought forward from Previous year		(5,39,21,008)	—
General Reserve Balance Deducted per Contra		—	2,27,709
Profit Available for Appropriation		<u>2,93,37,902</u>	<u>(5,39,21,008)</u>
APPROPRIATIONS :			
Proposed Dividend		2,00,00,000	—
Balance carried to the Balance Sheet		<u>93,37,902</u>	<u>(5,39,21,008)</u>
Significant Accounting Policies and Notes forming part of the Accounts	17		

As per our report attached.

For Haribhakti & Co.
Chartered Accountants

Chetan Desai
Partner

Deepak S. Parekh
Chairman

Milind Barve
Managing Director

Directors
P. M. Thampi
Humayun Dhanrajgir
Renu S. Karnad
Iqbal Jugari
Company Secretary
& Compliance Officer

MUMBAI, April 24, 2002.

SCHEDULES

Annexed to and forming part of the Accounts

Schedule 1

SHARE CAPITAL

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
AUTHORISED		
2,00,00,000 Equity Shares of Rs. 10 each	20,00,00,000	20,00,00,000
ISSUED, SUBSCRIBED AND PAID-UP		
2,00,00,000 Equity Shares of Rs. 10 each, fully paid-up	20,00,00,000	20,00,00,000
(Of the above 1,20,20,000 Equity Shares (Previous Year 2,00,00,000) are held by Housing Development Finance Corporation Limited, the Holding Company and its nominees)		
	<u>20,00,00,000</u>	<u>20,00,00,000</u>

Schedule 2

RESERVES AND SURPLUS

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
GENERAL RESERVE		
Opening Balance	—	2,27,709
Less: Balance of Profit and Loss Account, Deducted per Contra	—	2,27,709
Balance in the Profit and Loss Account	<u>93,37,902</u>	—
	<u>93,37,902</u>	—

Schedule 3

FIXED ASSETS

	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31, 2001 Rupees	Additions Rupees	Deductions Rupees	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees	For the Year Rupees	Deductions Rupees	As at March 31, 2002 Rupees	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Improvement of Rented Premises	19,26,054	17,69,830	—	36,95,884	4,63,690	13,23,901	—	17,87,591	19,08,293	14,62,364
Computer Equipment	55,57,528	45,16,835	1,95,625	98,78,738	12,92,245	22,56,365	57,520	34,91,090	63,87,648	42,65,283
Office Equipment	16,38,798	15,15,084	90,563	30,63,319	2,49,733	5,91,026	16,918	8,23,841	22,39,478	13,89,065
Furniture and Fixtures	12,46,833	20,61,294	—	33,08,127	1,20,120	5,23,874	—	6,43,994	26,64,133	11,26,713
Electrical Fittings	24,250	—	—	24,250	2,712	3,465	—	6,177	18,073	21,538
Vehicles	78,57,361	14,42,754	—	93,00,115	9,29,888	17,59,635	—	26,89,523	66,10,592	69,27,473
	<u>1,82,50,824</u>	<u>1,13,05,797</u>	<u>2,86,188</u>	<u>2,92,70,433</u>	<u>30,58,388</u>	<u>64,58,266</u>	<u>74,438</u>	<u>94,42,216</u>	<u>1,98,28,217</u>	<u>1,51,92,436</u>
Previous Year	—	1,82,68,824	18,000	1,82,50,824	—	30,60,348	1,960	30,58,388	1,51,92,436	

Schedule 4**INVESTMENTS**

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
CURRENT INVESTMENTS (Valued at Cost or Net Asset Value, whichever is lower) 1,25,53,779 Units (Previous Year Nil Units) of Rs. 10 each in HDFC Income Fund (Growth Plan) (Purchased 1,38,35,721 Units and Redeemed 12,81,942 Units during the year)	15,76,16,837	—
35,86,783 (Previous Year Nil Units) of Rs. 10 each in HDFC Liquid Fund (Dividend Plan) (Purchased 2,06,72,318 Units and Redeemed 1,70,85,535 Units during the year)	3,58,94,970	—
15,07,859 (Previous Year Nil Units) of Rs. 10 each in HDFC Short Term Plan (Dividend Plan) (Purchased 15,07,859 Units and Redeemed Nil Units during the year)	1,50,78,600	—
	<u>20,85,90,407</u>	<u>—</u>
Repurchase Price of the above	<u>21,13,14,597</u>	<u>—</u>

Schedule 5**SUNDRY DEBTORS**

(Unsecured, Considered good, less than six months)

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Management Fee Receivable	48,26,524	1,42,14,585
	<u>48,26,524</u>	<u>1,42,14,585</u>

Schedule 6**CASH AND BANK BALANCES**

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Cash on Hand	15,000	—
Balance with Scheduled Bank:		
Current Account	55,08,447	14,978
Deposit Account	25,00,000	2,62,52,138
	<u>80,23,447</u>	<u>2,62,67,116</u>

Schedule 7**OTHER CURRENT ASSETS**

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Deferred Tax (see note 3)	2,81,941	—
Interest Accrued but Not Due	63,284	29,86,843
	<u>3,45,225</u>	<u>29,86,843</u>

Schedule 8**LOANS AND ADVANCES**

(Unsecured, considered good)

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Sundry Deposits	2,07,35,508	1,80,79,173
Advance Payment of Taxes	1,98,52,906	48,20,108
Advances recoverable in cash or in kind or for value to be received	43,55,845	29,15,538
Inter-corporate Deposits	—	8,00,00,000
	<u>4,49,44,259</u>	<u>10,58,14,819</u>

Schedule 9**CURRENT LIABILITIES**

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Sundry Creditors	4,42,20,077	1,66,66,413
Deferred Tax (see note 3)	11,54,664	—
Other Liabilities	10,26,720	37,43,823
	<u>4,64,01,461</u>	<u>2,04,10,236</u>

Schedule 10**PROVISIONS**

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
For Income-tax	1,14,82,000	1,42,549
For Wealth-tax	41,000	63,574
Proposed Dividend	2,00,00,000	—
For Gratuity	1,94,364	3,34,800
	<u>3,17,17,364</u>	<u>5,40,923</u>

Schedule 11**MISCELLANEOUS EXPENDITURE**

(to the extent not written off or adjusted)

	As at March 31, 2002 Rupees	As at March 31, 2001 Rupees
Preliminary Expenses	4,15,692	8,31,384
	<u>4,15,692</u>	<u>8,31,384</u>

Schedule 12**MANAGEMENT FEE**

	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Investment Management Fee (Tax Deducted at Source Rs. 21,78,842 – Previous Year Rs. 27,56,972)	29,21,06,206	6,10,10,631
Portfolio Management Fee (Tax Deducted at Source Rs. 1,511 – Previous Year Rs. Nil)	79,17,019	29,40,000
	<u>30,00,23,225</u>	<u>6,39,50,631</u>

Schedule 13**INTEREST**

	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
On Inter-corporate Deposits (Tax Deducted at Source Rs. 3,95,553 – Previous Year Rs. 7,42,286)	51,84,432	59,51,014
On Fixed Deposit with a Bank (Tax Deducted at Source Rs. Nil – Previous Year Rs. 12,01,010)	16,91,204	1,02,18,122
	<u>68,75,636</u>	<u>1,61,69,136</u>

Schedule 14**OTHER INCOME**

	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Profit on Sale of Current Investments (Net)	2,60,687	—
Profit on Sale of Fixed Assets	—	960
Miscellaneous Income	11,22,140	—
	<u>13,82,827</u>	<u>960</u>

Schedule 15**STAFF EXPENSES**

	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Salaries and Allowances	3,77,43,860	1,59,70,992
Contribution to Provident and Other Funds	32,41,494	11,60,829
Staff Welfare and Training Expenses	8,93,723	6,14,759
Recruitment Expenses	2,28,786	8,16,497
	<u>4,21,07,863</u>	<u>1,85,63,077</u>

Schedule 16**ADMINISTRATIVE AND OTHER EXPENSES**

	For the year ended March 31, 2002 Rupees	For the year ended March 31, 2001 Rupees
Special Brokerage / Incentives	4,72,96,077	1,15,61,396
Scheme Launch Expenses	12,77,558	6,40,37,241
Advertisement	3,01,88,711	7,62,620
Business Promotion	66,36,800	16,12,784
Rent	2,03,54,379	1,14,20,911
Printing and Stationery	2,74,29,855	28,51,639
Travel and Conveyance	64,87,598	47,88,227
Communication Expenses	42,05,145	19,04,529
Establishment Expenses	53,30,453	35,79,958
Subscription and Membership Fees	28,85,600	11,19,959
Professional and Legal Fees	31,49,674	42,03,105
Repair and Maintenance	26,83,911	11,69,790
Insurance Expenses	7,28,492	2,01,731
Auditors' Remuneration:		
Statutory Audit Fee	1,09,000	80,000
Tax Audit Fee	27,250	—
Taxation Matters	35,000	20,000
Other Services	5,000	22,500
	<u>1,76,250</u>	<u>1,22,500</u>
Internal Audit Fee	16,000	5,000
Directors' Sitting Fee	1,60,000	95,000
Loss on Sale/Discard of Fixed Assets	60,201	—
Wealth Tax	41,000	63,574
Rates and Taxes	2,500	4,000
Miscellaneous Expenses	1,25,44,694	30,38,132
	<u>17,16,54,898</u>	<u>11,25,42,096</u>

Schedule 17

SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2002

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

Depreciation on Fixed Assets is provided on straight line basis at 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 Equipments	33.33
Furniture & Fixtures	14.29
Electrical Installations	14.29
Office Equipments	20.00
Vehicles	20.00
Improvement of Rented Premises	Over the primary period of the lease.

Assets individually costing less than Rs. five thousand are fully depreciated in the year of purchase/acquisition.

1.5 Investments

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

1.6 Transactions 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 year end and the resultant exchange gains or losses are reflected in the profit and loss account.

1.7 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.

1.8 Miscellaneous Expenditure

Preliminary Expenses are being written off over a period of 5 years in accordance with the provisions of section 35D of the Income-tax Act, 1961.

2. Sundry creditors do not include any amount payable to Small Scale Industrial Undertakings.

Schedule 17 (Continued)

3. Provision for tax includes **Rs. 8,72,723** (Previous Year Rs. Nil) for deferred tax liability (net) on timing difference of certain items of income and expense. This consists of deferred tax asset of **Rs. 2,81,941** (Previous Year Rs. Nil) on investment income and aggregate deferred tax liability of **Rs. 11,54,663** (Previous Year Rs. Nil) mainly comprising of depreciation on fixed assets.
4. 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. Income in foreign currency:

	Current Year (Rs.)	Previous Year (Rs.)
Investment Advisory Fee	50,46,354	Nil

6. Expenditure in foreign currency:

	Current Year (Rs.)	Previous Year (Rs.)
Travelling Expenses	Nil	78,024

7. Managerial Remuneration:

Remuneration to Managing Director:

	Current Year (Rs.)	Previous Year (Rs.)
Salary & Allowances (incl. Perquisites)	14,32,627	8,90,323
Contribution to Retirement benefits	72,000	53,419

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

8. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) is **Rs.50,000** (Previous year Rs. Nil).
9. The figures for the previous year have been regrouped / rearranged, wherever necessary.
10. 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.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(Submitted in terms of Part IV of Schedule VI to the Companies Act, 1956)

I. Registration Details

Registration No.

1 2 3 0 2 7

State Code

1 1

Balance Sheet Date

3 1 3 2 0 0 2

II. Capital raised during the year (Amount in Rs. '000)

Public Issue

Nil

Bonus Issue

Nil

Rights Issue

Nil

Private Placement

Nil

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. '000)

Total Liabilities

2 8 7 4 5 7

Total Assets

2 8 7 4 5 7

SOURCES OF FUNDS

Paid-up Capital

2 0 0 0 0 0

Secured Loans

Nil

Reserves and Surplus

9 3 3 8

Unsecured Loans

Nil

APPLICATION OF FUNDS

Net Fixed Assets

2 0 3 1 1

Net Current Assets

(-) 1 9 9 7 9

Accumulated Losses

Nil

Investments

2 0 8 5 9 0

Miscellaneous Expenditure

4 1 6

IV. Performance of the Company (Amount in Rs. '000)

Total Income

3 1 6 2 5 0

Profit Before Tax

9 5 6 1 3

Earnings per Share (in Rs.)

4 . 1 6

Total Expenditure

2 2 0 6 3 7

Profit After Tax

8 3 2 5 9

Dividend (%)

1 0

V. Generic Names of Principal Services of the Company (as per monetary terms)

Item Code No. (ITC Code)

Nil

Product Description

A S S E T M A N A G E M E N T

Item Code No. (ITC Code)

Nil

Product Description

I N V E S T M E N T A D V I S O R Y S E R V I C E S