

## Board of Directors Directors' Report

Mr. Deepak S. Parekh  
**Chairman**

### Directors

Mr. Norman Keith Skeoch  
Mr. Mark Connolly  
Mr. Hoshang Billimoria  
Mr. P. M. Thampi  
Dr. Deepak B. Phatak  
Mr. Humayun Dhanrajgir  
Ms. Renu S. Karnad  
Mr. Rajeshwar R. Bajaaj

Mr. Milind Barve  
**Managing Director**

### Auditors

Haribhakti & Co.  
Chartered Accountants

### Bankers

HDFC Bank Ltd.

### Registered Office

Ramon House,  
H. T. Parekh Marg,  
169, Backbay Reclamation,  
Churchgate, Mumbai 400 020.  
Tel. Nos. : 22-2202 9111  
Fax : 22-22044304

TO THE MEMBERS

Your directors have the pleasure in presenting the Seventh Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2006.

<b>Financial Results</b>	<b>For the year ended March 31, 2006 (Rs. in crore)</b>	<b>For the year ended March 31, 2005 (Rs. in crore)</b>
Profit before Tax	70.05	49.33
Provision for Tax	24.22	17.72
Provision for Fringe Benefit Tax	0.35	—
Profit after Tax	45.48	31.61
Balance brought forward from previous year	5.28	20.90
Profit available for appropriation	50.75	52.51
Short provision of Income Tax for earlier years (net)	—	0.22
General Reserve	4.55	3.16
Capital Redemption Reserve	—	25.00
Interim Dividend Paid	8.81	—
Proposed Equity Dividend	8.81	12.58
Preference Dividend	2.50	3.96
Tax on Interim Dividend	1.23	—
Tax on Proposed Equity Dividend	1.23	1.76
Education Cess on Equity Dividend (previous year)	—	0.03
Tax on Preference Dividend	0.35	0.52
Balance carried to Balance Sheet	<u>23.27</u>	<u>5.28</u>

### Dividend

Your directors recommend payment of dividend of Rs.3.50 per equity share for the financial year ended March 31, 2006 as against Rs.5 per equity share for the previous year.

Your directors confirm payment of interim dividend of Rs.3.50 in the month of October 2005 on 25,16,10,000 Equity shares of Rs. 10 each fully paid up which has been paid to those members whose names appeared in the Register of Members as at October 26, 2005.

Your directors confirm payment of interim dividend of 10% on 2,50,00,000 - Preference Shares of Rs.10 each fully paid up which has been paid to those members whose names

appear in the Register of Preference Shareholders as on March 27, 2006, out of the profits of the Company for the financial year ending March 31, 2006 subject to deduction of tax, if any.

### Review of Operations

Your directors are pleased to report that : -

❖ During the financial year, HDFC Mutual Fund achieved a significant growth in the assets under management. The assets under management for the year ended March 31, 2006 were at Rs.21,550 crore as against Rs.15,010 crore for the previous financial year. The Company has successfully achieved a significant improvement in the product mix with equity assets under management rising from 32.11% as at March 31, 2005 to 53.98% as at March 31, 2006. Even

this year, HDFC Mutual Fund has retained its position as one of the leading players in the market, in terms of assets under management.

❖ During the year, the Fund launched 1 new open-ended scheme viz. – HDFC Multiple Yield Fund – Plan 2005 and 2 new close-ended schemes viz. – HDFC Long Term Equity Fund (closed-ended equity scheme) and HDFC Fixed Maturity Plans (close-ended income scheme) with 2 Plans namely HDFC FMP 3M March 2006(1) and HDFC FMP 13M March 2006(1).

❖ During the year, the total number of investors has increased from 7,07,527 as at March 31, 2005 to 14,75,322 as at March 31, 2006. Your Company presently manages 25 schemes of HDFC Mutual Fund.

❖ During the year, your Company focused intensively on increasing the list of official points of acceptance of transactions for HDFC Mutual Fund. Additional Investor Service Centres and Transaction Points of Computer Age Management Services Pvt. Ltd. (CAMS), Registrar and Transfer Agents have been included as part of the list of official points of acceptance of transactions for Schemes of HDFC Mutual Fund. Presently, the official points of acceptance are at 73 locations across the country as compared to 57 locations in the previous year. The Company also increased its focus on communicating the advantages of Systematic Investments viz. investment through Systematic Investment Plan (SIP) and Systematic Transfer Plan (STP) to retail investors. Consequently, HDFC Mutual Fund has seen a significant growth in the number of Systematic Investments from 2,18,815 in 2004-05 to 13,64,742 in 2005-06.

❖ During the year, your Company opened a representative office in Dubai, United Arab Emirates (UAE) in December 2005 to tap the huge NRI investment potential and to create interest in HDFC Mutual Fund among the foreign investors.

#### Awards

Your directors are pleased to inform that –

❖ CRISIL has assigned a “Fund House Level 1” rating to HDFC Asset Management Company Limited (HDFC AMC). This is its highest Fund Governance and Process Quality rating (FGP). The rating reflects the highest governance levels and fund management practices at HDFC AMC.

❖ ICRA Online Mutual Fund Awards -

• In the Balanced Fund category (one-year category), among the 18 schemes considered, **HDFC Prudence Fund** was at the **no.1 position (ICRA MFR 1 - Gold)**. The scheme scored due to its huge corpus size, better diversified portfolio and lesser portfolio churning rate. In the three-year category, of the 16 schemes considered, the dominance of the Fund continued with **HDFC Prudence Fund** retaining its position at the top (**ICRA MFR 1 - Gold**).

• In the Marginal Equity Category (one-year category), a total of 32 schemes were considered. **HDFC MF Monthly Income Plan – Long Term Plan** maintained its position at the top (**ICRA MFR 1 - Gold**) of the table.

• **HDFC TaxSaver** stood at no. 2 position (**ICRA MFR 1 - Silver**) out of the 15 schemes considered in the three year Tax Planning category.

❖ Lipper Fund Awards 2006-

• **HDFC Prudence Fund** was awarded the Best Fund for over Five Years ‘Mixed Asset INR Balanced Category’ and **HDFC Equity Fund** – was awarded the Best Fund for over Ten Years ‘Equity India Category.’

❖ CNBC TV 18 - CRISIL Mutual Fund of the Year Award 2005-

• **HDFC Cash Management Fund - Savings Plan** was ranked by CRISIL as one of the two best performing Liquid Funds for the calendar year 2005.

• **HDFC Floating Rate Income Fund - Short Term Plan** was ranked by CRISIL as one of the two best performing Floating Rate Plans for the calendar year 2005.

❖ Business Superbrand-

**HDFC Mutual Fund** was selected as ‘**Business Superbrand**’ by the Superbrands India Private Limited. ‘Superbrands’ is an international organisation operating out of 44 countries. It exists to promote the discipline of branding and pay tribute to exceptional brands. Each brand appears in an environment of quality and prestige.

#### Portfolio Management Services

Your Company also provides investment management / advisory services under its portfolio management services division. Discretionary Portfolio Management is provided to High Networth Individuals and Corporates on a segregated basis while advisory services are provided to Foreign Institutional Investors and Domestic Insurance companies. Both these activities have shown significant growth during the financial year ended March 31, 2006. The aggregate assets under investment management/advisory services were at Rs. 4,876 crore for the year ended March 31, 2006 as compared to Rs. 1,646 crore for the year ended March 31, 2005.

#### Directors

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

During the year, Mr. Alexander Crombie resigned as the member of the Board with effect from October 26, 2005 and in his place Mr. Norman Keith Skeoch was appointed as a Director to represent the interest of Standard Life Investments Ltd.

At the Board meeting held on October 26, 2005, Mr. Mark Connolly of Standard Life Investments Ltd was appointed as Associate Director and Mr. Rajeshwar R. Bajaaj was appointed as an Independent director of the Company.

Necessary resolutions for the appointment / re-appointment of the aforesaid directors have been included in the notice convening the Annual General Meeting.

None of the directors of the Company are disqualified for being appointed as directors as specified in Section 274 of the Companies Act, 1956.

### Board Meetings

The meetings of the Board of Directors are held at the Company's registered office in Mumbai.

Six Board meetings were held during the financial year under review – on April 20, 2005, June 23, 2005, July 26, 2005, October 26, 2005, December 13, 2005 and January 25, 2006.

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)	6
Mr. Alexander Maxwell Crombie *	0
Mr. Norman Keith Skeoch *	1
Mr. Mark Connolly *	0
Mr. Humayun Dhanrajgir	5
Mr. Hoshang Billimoria	6
Mr. P. M. Thampi	6
Dr. Deepak B. Phatak	6
Ms. Renu S. Karnad	6
Mr. Rajeshwar R. Bajaaj*	2
Mr. Milind Barve (Managing Director)	6

\* Mr. Crombie resigned from the Board with effect from October 26, 2005 and in his place Mr. Skeoch was appointed as the Director. Mr. Connolly and Mr. Bajaaj were also appointed as directors on the Board with effect from October 26, 2005.

### Board Committees

To enable better and more focused attention on the affairs of the Company, the Board has constituted committees of the Board such as Audit Committee, Remuneration Committee, Risk Management Committee and Customer Services Committee to which specific matters have been delegated from time to time. These 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 has been constituted and functions in accordance with the provisions of section 292A of the Companies Act, 1956. The Company Secretary acts as the secretary to the committee.

The committee met 5 times during the financial year under review. The Audit Committee met prior to the finalisation of the accounts for the year ended March 31, 2006.

### 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 : Rs.1,81,08,690  
earnings (previous year :  
Rs. 1,18,91,323)

Foreign exchange : Rs. 12,50,06,171  
expenditure (previous year :  
(including Dividend) Rs. 7,09,66,402)

### Particulars of Employees

Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 ("the Act") read with the Companies (Particulars of Employees) Rules, 1975 are set out in the annex to the Directors' Report. In terms of the provisions of Section 219(1)(b)(iv) of the Act, the Directors' Report is being sent to the shareholders of the Company excluding annex. Any shareholder interested in obtaining a copy of the said annex may write to the Company Secretary at the registered office of the Company.

### 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 eligible 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(1B) of the Companies Act, 1956.

#### **Directors' Responsibility Statement**

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956 and based on the information provided by the management, your directors state that:

(i) In the preparation of accounts, the applicable accounting standards have been followed.

(ii) Accounting policies selected were applied consistently. Reasonable and prudent judgments and estimates were made so as to give a true and fair view of the state of affairs of the Company at the end of March

31, 2006 and of the profit of the Company for year ended on that date.

(iii) Proper and sufficient care has been taken 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 frauds and other irregularities.

(iv) The annual accounts of the Company have been prepared on a going concern basis.

#### **Acknowledgements**

The directors acknowledge the valuable assistance, support and guidance given by the Securities and Exchange Board of India, Association of Mutual Funds of India, Reserve Bank of India, bankers, distributors, key

partners, investor service centres and other service providers. The directors would like to convey their gratitude to HDFC Ltd. and Standard Life Investments Limited and look forward to their continued support.

The directors wish to place on record their appreciation to employees at all levels for their dedication and commitment.

The directors also acknowledge the faith reposed in HDFC Mutual Fund by its investors and look forward to their continued support.

On behalf of the Board of Directors

MUMBAI  
April 27, 2006

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 31<sup>st</sup> March, 2006, 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:

(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;

(e) on the basis of the written representations received from the directors of the Company as on 31<sup>st</sup> March, 2006 and taken on record by the Board of Directors of

the Company, we report that none of the directors are disqualified as on 31<sup>st</sup> March, 2006 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, 2006,

(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

MUMBAI  
April 27, 2006

(Membership No: 17000)

## Annexure to the Auditors' Report

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 31st MARCH, 2006.

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 31st March, 2006 for a period of more than six months from the date they became payable.
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 31st March, 2006. 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).

## Annexure to the Auditors' Report (Continued)

13. The Company has neither accumulated losses as at 31st March, 2006 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.

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

MUMBAI  
April 27, 2006

(Membership No: 17000)

## Balance Sheet as at March 31, 2006

	Schedule	Rupees	Rupees	March 31, 2005 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		59,54,32,963	37,00,04,035
			109,70,42,963	87,16,14,035
<b>APPLICATION OF FUNDS</b>				
<b>FIXED ASSETS</b>				
Gross Block	3	81,70,23,962		79,49,92,631
Less: Depreciation		19,28,39,455		12,62,51,492
Net Block		62,41,84,507		66,87,41,139
Capital Advances		63,25,993		11,15,856
			63,05,10,500	66,98,56,995
<b>INVESTMENTS</b>	4		51,36,82,426	33,26,90,199
DEFERRED TAX ASSET (see note 9)	5		4,64,76,435	1,24,04,535
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>				
Sundry Debtors	6	5,94,48,534		2,42,20,249
Cash and Bank Balances	7	1,14,77,426		1,01,93,726
Other Current Assets	8	6,027		4,823
Loans and Advances	9	67,95,60,821		31,47,04,320
		75,04,92,808		34,91,23,118
Less: CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities	10	19,97,83,840		17,39,08,663
Provisions	11	64,43,35,366		31,85,52,149
		84,41,19,206		49,24,60,812
<b>NET CURRENT ASSETS</b>			(9,36,26,398)	(14,33,37,694)
			109,70,42,963	87,16,14,035
Significant Accounting Policies and Notes to Accounts	17			

As per our report attached

For Haribhakti & Co.  
Chartered Accountants

Deepak S. Parekh  
Chairman

Chetan Desai  
Partner

Directors  
Humayun Dhanrajgir  
Hoshang S. Billimoria  
N. Keith Skeoch  
Rajeshwar Raj Bajaj  
Dr. Deepak B. Phatak  
Renu S. Karnad

MUMBAI, April 27, 2006

Milind Barve  
Managing Director

Rahul Bhandari  
Chief Financial Officer

Sylvia Furtado  
Company Secretary

## Profit & Loss Account for the Year ended March 31, 2006

	Schedule	Rupees	Previous Year Rupees
<b>INCOME</b>			
Management Fee	12	133,69,74,621	96,50,56,908
Interest	13	3,19,650	2,71,503
Dividend		1,82,62,800	1,65,99,156
Other Income	14	84,55,729	2,65,85,358
		136,40,12,800	100,85,12,925
<b>EXPENDITURE</b>			
Staff Expenses	15	36,50,46,679	19,12,96,703
Administrative and Other Expenses	16	23,01,25,621	25,73,13,844
Depreciation	3	6,83,28,410	6,65,90,054
		66,35,00,710	51,52,00,601
<b>PROFIT/(LOSS) BEFORE TAX</b>			
		70,05,12,090	49,33,12,324
Provision for Tax (Net of Deferred Tax) (see note 9)		24,22,38,100	17,71,68,866
Provision for Fringe Benefit Tax		35,10,000	—
<b>PROFIT/(LOSS) AFTER TAX</b>			
		45,47,63,990	31,61,43,458
Balance brought forward from Previous year		5,27,67,278	20,89,58,430
<b>Profit Available for Appropriation</b>			
		50,75,31,268	52,51,01,888
Appropriations:			
Short provision of Income Tax for earlier years (net)		—	21,72,933
General Reserve		4,54,76,399	3,16,14,346
Capital Redemption Reserve		—	25,00,00,000
Preference Dividend		2,50,00,000	3,96,57,535
Tax on Preference Dividend		35,06,250	51,82,745
Education Cess on Equity Dividend (FY 2003 - 04)		—	2,57,900
Interim Equity Dividend Paid		8,80,63,500	—
Tax on Interim Equity Dividend Paid		1,23,50,906	—
Proposed Equity Dividend		8,80,63,500	12,58,05,000
Tax on Proposed Equity Dividend		1,23,50,906	1,76,44,151
Balance carried forward to the Balance Sheet		23,27,19,807	5,27,67,278
Earnings Per Share (see note 8)		16.94	10.78
Significant Accounting Policies and Notes to Accounts	17		

As per our report attached

For Haribhakti & Co.  
Chartered AccountantsDeepak S. Parekh  
ChairmanChetan Desai  
Partner

Directors  
 Humayun Dhanrajgir  
 Hoshang S. Billimoria  
 N. Keith Skeoch  
 Rajeshwar Raj Bajaan  
 Dr. Deepak B. Phatak  
 Renu S. Karnad

MUMBAI, April 27, 2006

Milind Barve  
Managing DirectorRahul Bhandari  
Chief Financial OfficerSylvia Furtado  
Company Secretary

## Cash Flow Statement for the year ended March 31, 2006

	Rupees	Previous Year Rupees
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation and extraordinary items	70,05,12,090	49,33,12,324
<b>Add / (Less) : Adjustment for</b>		
Depreciation	6,83,28,410	6,65,90,054
Profit on sale of investment (net)	(16,81,892)	(1,00,75,602)
(Profit) / Loss on sale of fixed assets (net)	(3,62,004)	(10,48,315)
Investment Income (dividend)	(1,82,62,800)	(1,65,99,156)
Provision for wealth tax	75,472	62,998
Operating Profit before working capital changes	74,86,09,276	53,22,42,303
(Increase) / Decrease in Loans and Advances	(9,21,49,302)	(1,32,43,781)
(Increase) / Decrease in Other Current Assets	(1,204)	2,349
(Increase) / Decrease in Sundry Debtors	(3,52,28,285)	(83,46,683)
Increase / (Decrease) in Current Liabilities	11,83,75,177	71,39,908
Cash generated from Operations	73,96,05,662	51,77,94,096
Income tax paid	(27,62,84,709)	(16,24,85,230)
Net cash from operating activities	46,33,20,953	35,53,08,866
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(2,91,99,454)	(4,58,05,383)
Proceeds from sale of fixed assets	5,79,543	17,42,848
Purchase of investments	(148,14,67,068)	(118,75,61,739)
Proceeds from sale of investments	132,04,19,533	128,67,69,273
Net cash used in investing activities	(18,96,67,446)	5,51,44,999
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Share Capital - Preference	—	(25,00,00,000)
Dividend paid	(23,88,68,500)	(14,03,01,535)
Tax paid on Dividend	(3,35,01,307)	(1,83,35,658)
Net cash from financing activities	(27,23,69,807)	(40,86,37,193)
Net Increase / (Decrease) in cash and cash equivalents	12,83,700	18,16,672
Cash and cash equivalents at the beginning of the year	1,01,93,726	83,77,054
Cash and cash equivalents at the end of the year	1,14,77,426	1,01,93,726
	12,83,700	18,16,672

As per our report attached

For Haribhakti & Co.  
Chartered Accountants

Chetan Desai  
Partner

MUMBAI, April 27, 2006

Deepak S. Parekh  
Chairman

Milind Barve  
Managing Director

Rahul Bhandari  
Chief Financial Officer

Directors  
Humayun Dhanrajgir  
Hoshang S. Billimoria  
N. Keith Skeoch  
Rajeshwar Raj Bajaj  
Dr. Deepak B. Phatak  
Renu S. Karnad

Sylvia Furtado  
Company Secretary

## Schedules

Annexed to and forming part of the Accounts

### Schedule 1

#### SHARE CAPITAL

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
AUTHORISED		
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
	<u>80,00,00,000</u>	<u>80,00,00,000</u>
ISSUED, SUBSCRIBED AND PAID-UP		
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)		
	<u>50,16,10,000</u>	<u>50,16,10,000</u>

### Schedule 2

#### RESERVES AND SURPLUS

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
General Reserve		
Opening Balance	6,72,36,757	3,56,22,411
Add : Transfer from Profit and Loss Account	4,54,76,399	3,16,14,346
	<u>11,27,13,156</u>	<u>6,72,36,757</u>
Capital Redemption Reserve		
Opening Balance	25,00,00,000	—
Add : Transfer from Profit and Loss Account	—	25,00,00,000
	<u>25,00,00,000</u>	<u>25,00,00,000</u>
Balance in Profit and Loss Account	23,27,19,807	5,27,67,278
	<u>59,54,32,963</u>	<u>37,00,04,035</u>

### Schedule 3

#### FIXED ASSETS

	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31, 2005 Rupees	Additions Rupees	Deductions Rupees	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees	For the Year Rupees	Deductions Rupees	As at March 31, 2006 Rupees	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
Goodwill	66,83,08,050	-	-	66,83,08,050	6,68,30,804	3,34,15,402	-	10,02,46,206	56,80,61,844	60,14,77,246
Improvement of Rented Premises	4,64,21,370	86,86,269	3,84,242	5,47,23,397	2,39,15,230	1,49,93,575	3,14,148	3,85,94,657	1,61,28,740	2,25,06,140
Computer Equipment	3,48,66,935	56,18,422	5,38,930	3,99,46,427	2,03,05,987	89,14,256	4,74,867	2,87,45,376	1,12,01,051	1,45,60,948
Intangible Assets (Computer Software)	32,75,313	22,52,965	-	55,28,278	4,16,518	16,98,818	-	21,15,336	34,12,942	28,58,795
Office Equipment	2,31,66,543	39,43,035	3,64,768	2,67,44,810	70,41,497	49,33,671	3,21,766	1,16,53,402	1,50,91,408	1,61,25,046
Furniture & Fixtures	64,09,202	9,62,877	1,76,619	71,95,460	39,82,474	12,11,973	1,36,239	50,58,208	21,37,252	24,26,728
Electrical Installations	26,950	-	-	26,950	19,282	3,465	-	22,747	4,203	7,668
Vehicles	1,25,18,268	25,25,749	4,93,427	1,45,50,590	37,39,700	31,57,250	4,93,427	64,03,523	81,47,067	87,78,568
<b>Total</b>	<b>79,49,92,631</b>	<b>2,39,89,317</b>	<b>19,57,986</b>	<b>81,70,23,962</b>	<b>12,62,51,492</b>	<b>6,83,28,410</b>	<b>17,40,447</b>	<b>19,28,39,455</b>	<b>62,41,84,507</b>	<b>66,87,41,139</b>
<b>Previous Year</b>	<b>75,18,90,040</b>	<b>5,15,89,451</b>	<b>84,86,860</b>	<b>79,49,92,631</b>	<b>6,74,53,765</b>	<b>6,65,90,054</b>	<b>77,92,327</b>	<b>12,62,51,492</b>	<b>66,87,41,139</b>	<b>-</b>

### Schedule 4

#### INVESTMENTS

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

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
1,22,19,867 Units (Previous Year 1,15,00,338) of Rs. 10 each in HDFC Monthly Income Plan - Long Term Plan (Dividend Plan) (Purchased 7,19,529 Units and Redeemed Nil Units during the year)	12,59,61,368	11,79,57,178
Nil Units (Previous Year 2,14,04,381) of Rs. 10 each in HDFC Floating Rate Income Fund - Short Term Plan (Weekly Dividend Plan) (Purchased 6,10,75,259 Units and Redeemed 8,24,79,640 Units during the year)	—	21,47,33,021
3,83,30,573 Units (Previous Year Nil) of Rs. 10 each in HDFC Floating Rate Income Fund - Short Term Plan (Monthly Dividend Plan) (Purchased 7,68,26,335 Units and Redeemed 3,84,95,762 Units during the year)	38,77,21,058	—
	<b>51,36,82,426</b>	<b>33,26,90,199</b>
Repurchase Price of the above	<b>52,98,99,484</b>	<b>33,39,61,331</b>

### Schedule 5

#### DEFERRED TAX

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
Deferred Tax Asset	4,68,29,865	1,28,25,350
Deferred Tax Liability	(3,53,430)	(4,20,815)
	<b>4,64,76,435</b>	<b>1,24,04,535</b>

**Schedule 6****SUNDRY DEBTORS**

(Unsecured, Considered good)

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
Investment Management Fee Receivable (less than six months)	34,86,540	56,81,971
Portfolio Management Fee Receivable		
— Over six months	44,87,663	9,30,811
— Others	5,14,74,331	1,76,07,467
	<u>5,59,61,994</u>	<u>1,85,38,278</u>
	<u>5,94,48,534</u>	<u>2,42,20,249</u>

**Schedule 7****CASH AND BANK BALANCES**

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
Balance with Scheduled Bank:		
In Current Account	89,77,426	76,93,726
In Deposit Account	25,00,000	25,00,000
	<u>1,14,77,426</u>	<u>1,01,93,726</u>

**Schedule 8****OTHER CURRENT ASSETS**

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
Interest Accrued but Not Due	6,027	4,823
	<u>6,027</u>	<u>4,823</u>

**Schedule 9****LOANS AND ADVANCES**

(Unsecured, considered good)

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
Sundry Deposits	2,44,03,106	2,57,33,972
Advance Payment of Income Tax	45,46,48,607	18,20,31,408
Advance Payment of Fringe Benefit Tax (net)	90,000	—
Advances recoverable in cash or in kind or for value to be received	20,04,19,108	10,69,38,940
	<u>67,95,60,821</u>	<u>31,47,04,320</u>

**Schedule 10****CURRENT LIABILITIES**

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
Sundry Creditors	19,42,13,909	16,95,75,966
Other Liabilities	55,69,931	43,32,697
	<u>19,97,83,840</u>	<u>17,39,08,663</u>

**Schedule 11****PROVISIONS**

	As at March 31, 2006 Rupees	As at March 31, 2005 Rupees
For Taxation	45,14,20,960	17,51,02,998
For Others (see note 10)	9,25,00,000	-
Proposed Dividend	8,80,63,500	12,58,05,000
Income-tax on Proposed Dividend	1,23,50,906	1,76,44,151
	<u>64,43,35,366</u>	<u>31,85,52,149</u>

**Schedule 12****MANAGEMENT FEE**

	For the year ended March 31, 2006 Rupees	For the year ended March 31, 2005 Rupees
Investment Management Fee (Tax Deducted at Source Rs. 7,26,30,487; Previous Year Rs. 5,25,43,340)	117,48,28,564	92,11,07,350
Portfolio Management Fee (Tax Deducted at Source Rs. 29,59,946; Previous Year Rs. 6,74,975)	16,21,46,057	4,39,49,558
	<u>133,69,74,621</u>	<u>96,50,56,908</u>

**Schedule 13****INTEREST**

	For the year ended March 31, 2006 Rupees	For the year ended March 31, 2005 Rupees
On Fixed Deposit with a Bank (Tax Deducted at Source Rs. 27,435; Previous Year Rs. 25,998)	1,28,610	1,22,865
On Income Tax Refund	1,91,040	1,48,638
	<u>3,19,650</u>	<u>2,71,503</u>

**Schedule 14****OTHER INCOME**

	For the year ended March 31, 2006 Rupees	For the year ended March 31, 2005 Rupees
Profit on Sale of Current Investments (net)	16,81,892	1,00,75,602
Profit/(Loss) on Sale of Fixed Assets (net)	3,62,004	10,48,315
Miscellaneous Income	64,11,833	1,54,61,441
	<u>84,55,729</u>	<u>2,65,85,358</u>

**Schedule 15****STAFF EXPENSES**

	For the year ended March 31, 2006 Rupees	For the year ended March 31, 2005 Rupees
Salaries, Allowances and Bonus	34,34,23,462	17,66,37,115
Contribution to Provident and Other Funds	58,39,405	66,84,117
Staff Welfare and Training Expenses	1,31,32,272	61,26,097
Recruitment Expenses	26,51,540	18,49,374
	<u>36,50,46,679</u>	<u>19,12,96,703</u>

**Schedule 16****ADMINISTRATIVE AND OTHER EXPENSES**

	Rupees	For the year ended March 31, 2006 Rupees	For the year ended March 31, 2005 Rupees
Special Brokerage / Incentives		2,05,66,777	1,29,98,674
Scheme Launch Expenses		2,28,21,805	4,38,13,401
Advertisement		50,08,286	27,67,256
Business Promotion		47,57,126	1,55,77,889
Rent (Net) (Tax Deducted at Source Rs. 7,33,672; Previous Year Rs. 6,84,732)		5,00,04,362	5,33,99,110
Printing and Courier		62,60,755	1,59,28,856
Travel and Conveyance		1,86,05,277	1,51,82,929
Communication Expenses		1,25,29,852	1,26,82,634
Establishment Expenses		71,35,643	1,22,72,054
Subscription and Membership Fees		63,72,188	42,71,881
Professional and Legal Fees		2,46,21,700	1,73,89,296
Repair and Maintenance		2,65,68,997	2,22,07,164
Insurance Expenses		60,70,900	67,03,866
Auditors Remuneration:			
Statutory Audit Fee	3,30,600		2,20,400
Tax Audit Fee	44,080		41,680
Taxation Matters	1,97,040		3,07,890
Other Services	1,75,675		61,306
		<u>7,47,395</u>	<u>6,31,276</u>
Directors Sitting Fee		19,40,000	18,00,000
Donations		6,50,000	15,00,000
Wealth Tax		75,472	62,998
Profession Tax		10,620	2,020
Miscellaneous Expenses		1,53,78,466	1,81,22,540
		<u><u>23,01,25,621</u></u>	<u><u>25,73,13,844</u></u>

## Schedule 17

### SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2006

#### 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 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.

**Schedule 17 (Continued)****SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2006****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.

**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<br>HDFC Investments Limited<br>HDFC Holdings Limited<br>HDFC Trustee Company Limited<br>HDFC Standard Life Insurance Company Limited<br>HDFC Realty Limited<br>GRUH Finance Limited<br>HDFC Chubb General Insurance Company Limited<br>Home Loan Services India Private Limited<br>HDFC Venture Capital Limited<br>HDFC Ventures Trustee Company Limited |
| D) | Key Management Personnel | : | Mr. Milind Barve, Managing Director  |

**Schedule 17 (Continued)**

**SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2006**

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	-	-	2,47,00,000	-
	-	-	(1,08,00,000)	-
Interest on Deposits	-	-	405	-
	-	-	-	-
Profit on Sale of Assets	-	-	-	-
	(988)	-	-	-
<b>EXPENDITURE</b>				
Rent	1,97,58,960	-	6,14,460	-
	(2,12,68,997)	-	(6,14,460)	-
Technology Support Cost	47,10,000	-	-	-
	(36,85,000)	-	-	-
Establishment Expenses	71,35,643	-	-	-
	(1,22,72,054)	-	-	-
Administrative & Other Expenses	15,64,764	-	-	-
	(14,11,909)	-	-	-
Insurance Premium	-	-	28,86,114	-
	-	-	(34,47,288)	-
Remuneration	-	-	-	2,43,98,894
	-	-	-	(1,27,35,641)
Software Maintenance Cost	-	-	-	-
	(4,00,000)	-	-	-
Preference Dividend	1,25,25,000	1,24,75,000	-	-
	(1,98,68,425)	(1,97,89,110)	-	-
<b>ASSETS</b>				
Deposits	-	-	9,324	-
	-	-	(4,689)	-
Account Receivable	-	-	1,03,08,613	-
	-	-	(60,50,000)	-
Insurance Premium	-	-	23,30,051	-
	-	-	(25,88,945)	-
Administrative & Other Expenses	70,545	-	-	-
	-	-	-	-
<b>LIABILITIES</b>				
Account Payable	66,000	-	9,878	-
	(8,010)	-	-	-
Proposed Equity Dividend	4,41,19,814	4,39,43,686	-	-
	(6,30,28,305)	(6,27,76,695)	-	-

Reimbursement of Expenses amounting to **Rs. 6,54,761** (Previous Year Rs. 3,25,020) to the Holding Company and **Rs. 1,66,445** (Previous Year Rs. 1,16,671) to a fellow subsidiary are not considered above.

## Schedule 17 (Continued)

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2006

\* Details of transactions with the 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	-	2,16,00,000	31,00,000	-
	-	(72,00,000)	(36,00,000)	-
Interest on Deposit	-	405	-	-
	-	-	-	-
Rent	-	-	-	6,14,460
	-	-	-	(6,14,460)
Insurance Premium	-	6,61,849	22,24,265	-
	-	(5,89,360)	(28,57,928)	-
Deposits	-	9,324	-	-
	-	(4,689)	-	-
Account Receivable	49,08,613	54,00,000	-	-
	(33,50,000)	(18,00,000)	(9,00,000)	-
Prepaid Insurance Premium	-	-	23,30,051	-
	-	-	(25,88,945)	-
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. 3,32,38,644** (Previous Year Rs. 4,71,79,176).

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

	Current Year Rupees	Previous Year Rupees
Not later than one year	3,04,50,540	3,88,29,695
Later than one year but not later than five years	2,01,30,260	4,51,65,380
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	45,47,63,990	31,61,43,458
Less: Preference Dividend and Tax thereon	2,85,06,250	4,48,40,280
	42,62,57,740	27,13,03,178
(b) Number of Equity Shares Outstanding	2,51,61,000	2,51,61,000
(c) Earnings per Share (Face Value Rs.10 per Share)	16.94	10.78
(a)/(b) (Basic and Diluted)		

**Schedule 17 (Continued)**

**SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2006**

**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. 3,40,71,900** (Previous Year Rs. 21,28,866) 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, 2005	For the year	As on March 31, 2006
<b>Assets</b>			
Depreciation	1,28,25,350	28,69,015	<b>1,56,94,365</b>
Others	Nil	3,11,35,500	<b>3,11,35,500</b>
Total	1,28,25,350	3,40,04,515	<b>4,68,29,865</b>
<b>Liabilities</b>			
Others	4,20,815	(67,385)	<b>3,53,430</b>
Net Deferred Tax Asset (Adjustment)	1,24,04,535	3,40,71,900	<b>4,64,76,435</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 during the year by the Company for Staff Related Benefits, the expected payout of which is over next two years.

**11. Income in foreign currency**

	Current Year Rupees	Previous Year Rupees
Investment Advisory Fee	<b>1,81,08,690</b>	1,18,91,323

**12. Payments in foreign currency**

A) Expenditure

	Current Year Rupees	Previous Year Rupees
i) Professional & Legal Expenses	<b>7,17,084</b>	Nil
ii) Staff Training Expenses	<b>16,10,898</b>	7,05,623
iii) Travelling Expenses	<b>19,58,557</b>	2,50,313
iv) Other Expenses	<b>15,24,251</b>	Nil

B) Dividend

	Current Year Rupees	Previous Year
i) (A) Final Dividend on Equity Shares		
(a) Year to which the dividend relates	<b>2004-05</b>	2003-04
(b) Number of non-resident shareholders	<b>1</b>	1
(c) Number of Shares held	<b>1,25,55,339</b>	1,25,55,339
(d) Amount Remitted (Gross)	<b>6,27,76,695</b>	5,02,21,356

## Schedule 17 (Continued)

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2006

	Current Year Rupees	Previous Year Rupees
(B) Interim Dividend on Equity Shares		
(a) Year to which the dividend relates	2005-06	NA
(b) Number of non-resident shareholders	1	NA
(c) Number of Shares held	1,25,55,339	NA
(d) Amount Remitted (Gross)	4,39,43,686	NA
ii) Dividend on Preference 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	1,24,75,000	1,24,75,000
(d) Amount Remitted (Gross)	1,24,75,000	1,97,89,110

## 13. Managerial Remuneration

Remuneration to the Managing Director:

	Current Year Rupees	Previous Year Rupees
Salary & Allowances (incl. Perquisites)*	2,39,71,894	1,23,69,641
Contribution to Retirement benefits	4,27,000	3,66,000

\* Current year remuneration includes payment of special bonus under the HDFC AMC- Special Bonus Plan - March 2004.

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. 66,22,497** (Previous Year Rs. 45,32,638).

## 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.

Deepak S. Parekh  
ChairmanDirectors  
Humayun Dhanrajgir  
Hoshang S. Billimoria  
N. Keith Skeoch  
Rajeshwar Raj Bajaaj  
Dr. Deepak B. Phatak  
Renu S. KarnadMilind Barve  
Managing DirectorRahul Bhandari  
Chief Financial OfficerSylvia Furtado  
Company Secretary

MUMBAI, April 27, 2006

**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 6

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

Public Issue

N I L

Rights Issue

N I L

Bonus Issue

N I L

Private Placement

N I L

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

Total Liabilities

1 9 4 1 1 6 2

Total Assets

1 9 4 1 1 6 2

**SOURCES OF FUNDS**

Paid-up Capital

5 0 1 6 1 0

Reserves and Surplus

5 9 5 4 3 3

Secured Loans

N I L

Unsecured Loans

N I L

**APPLICATION OF FUNDS**

Net Fixed Assets

6 3 0 5 1 1

Investments

5 1 3 6 8 2

Net Current Assets

(-) 4 7 1 5 0

Miscellaneous Expenditure

N I L

Accumulated Losses

N I L

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

Total Income

1 3 6 4 0 1 3

Total Expenditure

6 6 3 5 0 1

Profit Before Tax

7 0 0 5 1 2

Profit After Tax

4 5 4 7 6 4

Earnings per Share (in Rs.)

1 6 . 9 4

Dividend (%)

7 0

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

Item Code No. (ITC Code)

N I L

Product Description

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

Item Code No. (ITC Code)

N I L

Product Description

P O R T F O L I O M A N A G E M E N T S E R V I C E S