

HDFC Asset Management Company Limited

NINTH ANNUAL REPORT 2007 - 08

A Subsidiary of Housing Development Finance Corporation Limited



Board of Directors

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 Sud Karnad
Mr. Rajeshwar R. Bajaj
Mr. Keki M. Mistry
Mr. Vijay Merchant

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. : 22-6631 6333
Fax : 22-2204 4304

Directors' Report

TO THE MEMBERS

Your Directors have the pleasure in presenting the Ninth Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2008.

Financial Results	For the year ended March 31, 2008 (Rs. in crore)	For the year ended March 31, 2007 (Rs. in crore)
Profit before Tax	176.86	101.89
Provision for Tax (Net Deferred Tax)	58.51	33.97
Provision for Fringe Benefit Tax	0.62	0.38
Profit after Tax	117.74	67.54
Balance brought forward from previous year	52.40	23.27
Profit available for appropriation	170.14	90.81
Excess provision of Income Tax for earlier years (net)	—	(0.18)
General Reserve	11.77	6.75
Capital Redemption Reserve	25.00	—
Preference Dividend	2.06	2.50
Tax on Preference Dividend	0.35	0.35
Interim Equity Dividend Paid	—	15.10
Tax on Interim Equity Dividend Paid	—	2.12
Proposed Equity Dividend	37.74	10.06
Tax on Proposed Equity Dividend	6.41	1.71
Balance carried to Balance Sheet	86.80	52.40

For the year ended March 31, 2008, the Company posted a net profit of Rs. 117.74 crores as against Rs. 67.54 crores in the previous year, representing a growth of 74.33%. Appropriations from the net profit have been effected as per the table given above.

Dividend

Your Directors recommend payment of dividend of Rs. 15/- per equity share for the financial year ended March 31, 2008, as against total dividend of Rs.10 /- per equity share for the previous year.

During the year under review, your Directors approved redemption of all the outstanding 10% Non Convertible Redeemable Cumulative

Preference Shares of Rs.10/- each fully paid up (Preference Shares) of the Company in two tranches. On May 30, 2007, your Company redeemed 50,00,000 Preference Shares along with dividend till the date of redemption and Rs. 5,00,00,000 (Rupees Five Crores only), being the nominal value of the Preference Shares redeemed was transferred to 'Capital Redemption Reserve Account' in the books of the Company. Thereafter, the balance outstanding 2,00,00,000 Preference Shares were redeemed on March 26, 2008 along with dividend till the date of redemption and Rs. 20,00,00,000 (Rupees Twenty Crores only) being the nominal value of the Preference Shares redeemed was transferred to 'Capital Redemption Reserve Account' in the books of the Company.

Review of Operations

Your Directors are pleased to report that : –

- ❖ During the financial year, HDFC Mutual Fund and Portfolio Management Services achieved a significant growth in the assets under management.

The assets under management for the Mutual Fund as on March 31, 2008 were at Rs. 46,210.68 crores as against Rs. 28,358 crores in the previous year, a growth of 62.95%.

The aggregate assets under investment management /advisory services under Portfolio Management Services were at Rs. 12,706 crores as on March 31, 2008 as against Rs. 8,063 crores as on March 31, 2007, a growth of 57.58%. Discretionary Portfolio Management is provided to High Networth Individuals and Corporate(s) on a segregated basis while advisory services are provided to Foreign Institutional Investors and Domestic Insurance Companies.

During the financial year, your Company offered Real Estate Portfolio Management Services to resident Individuals and Corporate(s) under its Portfolio Management Services and received commitments of Rs. 3,831 crores from 10,169 clients.

The aggregate assets under management of your Company (including the Advisory services) were at Rs. 62,747.68 crores as on March 31, 2008 as compared to Rs. 36,421 crores as on March 31, 2007, showing a growth of 72.28%.

- ❖ During the year, the total number of accounts under HDFC Mutual Fund has increased from 21,46,451 as at March 31, 2007 to 30,89,686 as at March 31, 2008. Addition of Official Points of Acceptance of transactions for HDFC Mutual Fund was an area of special focus. New Investor Service Centres (ISCs) of Computer Age Management Services Pvt. Ltd. (CAMS), the Registrar and Transfer Agents of HDFC Mutual Fund have been added as part of the list of Official Points of Acceptance for transactions of HDFC Mutual Fund Schemes. Presently, such Official Points of Acceptance are available at 135 locations across the country as compared to 94 locations in the previous year. Your Company has

also expanded its network of ISCs from 29 as on March 31, 2007 to 47 as on March 31, 2008.

- ❖ In December 2005, your Company opened a representative office in Dubai, United Arab Emirates (UAE) to tap the NRI investment potential. During the year, the representative office in Dubai has grown its assets size to about Rs. 500 crores with over 15,000 investors. The Dubai representative office has expanded its reach in the countries under Gulf Cooperation Council (GCC) namely countries like United Arab Emirates, the Sultanate of Oman, Qatar, the Emirates of Kuwait and Kingdom of Bahrain because of various investor awareness initiatives taken by the AMC along with the distributors. Currently there are 50 distributors who market the schemes of HDFC Mutual Fund in the Middle East.

Awards

Your Directors are pleased to inform that AMC has retained its "Fund House Level 1" rating assigned by CRISIL for the third successive year. This is its highest Fund Governance and Process Quality rating (FGP). The rating reflects the highest governance levels and fund management practices of the Company. HDFC AMC is the only AMC in India to have been assigned this rating.

Your Directors are also pleased to inform that the following awards were received by schemes of HDFC Mutual Fund during the year under review: –

1] ICRA Mutual Funds Awards 2008 -

- ❖ HDFC MF Monthly Income Plan - Long Term Plan - Ranked as Seven Star Fund and has been awarded the Gold Award for "Best Performance" in the category of "Open Ended Marginal Equity" for the three year period ending December 31, 2007 amongst 23 schemes.

- ❖ HDFC High Interest Fund - Short Term Plan - Ranked as Five Star Fund indicating performance among the top 10% in the category of "Open Ended Debt - Short Term" for one year period ending December 31, 2007 amongst 20 schemes.

- ❖ HDFC Prudence Fund - Ranked as Five Star Fund indicating performance among the top 10% in the category of "Open Ended Balanced"

for the three year period ending December 31, 2007 amongst 16 schemes.

2] CNBC - TV 18 - CRISIL Mutual Fund of the Year Award 2008 –

- ❖ HDFC Prudence Fund won the CNBC - TV 18 - CRISIL Mutual Fund of the Year Award 2008 in the Most Consistent Balanced Fund under CRISIL ~ CPR for the calendar year 2007 amongst 3 schemes.

- ❖ HDFC Cash Management Fund - Savings Plan won the CNBC - TV 18 - CRISIL Mutual Fund of the Year Award 2008 in the Most Consistent Liquid Fund under CRISIL ~ CPR for the calendar year 2007 amongst 5 schemes.

- ❖ HDFC Cash Management Fund - Savings Plan won the CNBC - TV 18 - CRISIL Mutual Fund of the Year Award 2008 in the Liquid Scheme – Retail Category for the calendar year 2007 amongst 19 schemes.

3] Lipper Fund Awards 2008 -

HDFC Equity Fund - Growth was awarded the "Best Fund over Ten Years" in the Equity India Category at the Lipper Fund Awards 2008. It was also awarded the "Best Fund over Ten Years" in 2006 and 2007, making it three in a row.

Directors

In accordance with the Companies Act, 1956 and the Articles of Association of the Company, Mr. Deepak Parekh, Mr. N. K. Skeoch and Mr. Mark Connolly, Directors, retire by rotation at the ensuing Annual General Meeting. They are eligible for re-appointment.

At the Board meeting held on December 24, 2007, Mr. Keki Mistry and Mr. Vijay Merchant were appointed as Additional Directors 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 26, 2007, June 27, 2007, August 3, 2007, October 18, 2007, December 24, 2007 and January 18, 2008.

The attendance of each Director at the meetings of the Board of Directors is as under:

Directors	Number of Board Meetings Attended
(i) Mr. Deepak S. Parekh (Chairman)	6
(ii) Mr. Norman Keith Skeoch	3
(iii) Mr. Mark Connolly	0
(iv) Mr. Humayun Dhanrajgir	3
(v) Mr. Hoshang Billimoria	5
(vi) Mr. P. M. Thampi	6
(vii) Dr. Deepak B. Phatak	4
(viii) Ms. Renu Sud Karnad	6
(ix) Mr. Rajeshwar R. Bajaj	5
(x) Mr. Keki M. Mistry	2
(xi) Mr. Vijay Merchant	2
(xii) Mr. Milind Barve (Managing Director)	6

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, Mr. Keki Mistry 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 4 times during the financial year under review. The Audit Committee met

prior to the finalization of the accounts for the year ended March 31, 2008.

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. 5,27,07,065/- earnings (previous year : Rs. 3,40,28,561/-)
- Foreign exchange : Rs. 6,88,68,372/- expenditure (previous year: Rs. 14,05,63,740/-) (including Equity & Preference Dividend)

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 annexure to the Directors' Report.

In terms of the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956 the Directors' Report is being sent to the shareholders of the Company excluding the annexure. Any shareholder interested in obtaining a copy of the said annexure 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:

- In the preparation of accounts, the applicable accounting standards have been followed.
- 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, 2008 and of the profit of the Company for year ended on that date.
- Proper and sufficient care has been taken for 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.
- 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 Housing Development Finance Corporation Limited 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 23, 2008

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 31st March, 2008, 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 31st March, 2008 and taken on record by the Board of Directors of the

Company, we report that none of the directors is disqualified as on 31st March, 2008 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 31st March, 2008,

(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 23, 2008

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, 2008.

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, 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, 2008 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, 2008. The details of disputed dues is as under:
13. The Company has neither accumulated losses as at 31ST March, 2008 nor has it 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.

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. 2003-2004	The Company has filed an appeal against Income Tax Officer's Assessment Order with the Commissioner of Income Tax (Appeals).
Income Tax Act, 1961.	Income Tax	25,30,706/-	A.Y. 2005-2006	The Company has filed an appeal against Additional CIT with the Commissioner of Income Tax (Appeals).

MUMBAI
April 23, 2008

For HARIBHAKTI & CO.,
Chartered Accountants
Chetan Desai
Partner
Membership No: 17000

Balance Sheet as at March 31, 2008

	Schedule	Rupees	Rupees	March 31, 2007 Rupees
FUNDS EMPLOYED				
SHAREHOLDER'S FUNDS				
Share Capital	1		25,16,10,000	50,16,10,000
Employee Stock Options Outstanding			49,70,600	—
Reserves and Surplus	2		166,59,71,217	95,42,67,094
TOTAL			192,25,51,817	145,58,77,094
APPLICATION OF FUNDS				
FIXED ASSETS				
Gross Block	3	102,96,36,772		90,57,95,360
Less: Depreciation		35,29,99,593		26,11,48,332
Net Block		67,66,37,179		64,46,47,028
Capital Advances		5,46,76,273		84,87,942
			73,13,13,452	65,31,34,970
INVESTMENTS	4		230,01,91,864	84,56,95,637
DEFERRED TAX ASSET (see note 10)	5		5,58,67,662	7,40,32,976
CURRENT ASSETS, LOANS AND ADVANCES				
Sundry Debtors	6	13,89,96,471		10,94,24,536
Cash and Bank Balances	7	2,00,12,741		83,89,134
Other Current Assets	8	15,661		16,195
Loans and Advances	9	237,90,80,118		104,41,62,102
		253,81,04,991		116,19,91,967
Less:				
CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities	10	195,79,98,229		35,58,80,132
Provisions	11	174,49,27,923		92,30,98,324
		370,29,26,152		127,89,78,456
NET CURRENT ASSETS			(116,48,21,161)	(11,69,86,489)
TOTAL			192,25,51,817	145,58,77,094
Significant Accounting Policies and Notes to Accounts	17			

As per our report attached

For Haribhakti & Co.
Chartered Accountants

Chetan Desai
Partner

MUMBAI, April 23, 2008

For and on behalf of the Board

Deepak S. Parekh
Chairman

Milind Barve
Managing Director

Rahul Bhandari
Chief Financial Officer

Directors
Keki M. Mistry
Hoshang S. Billimoria
N. Keith Skeoch
Vijay Merchant
Humayun Dhanrajgir
Rajeshwar Raj Bajaaj
Deepak B. Phatak
Renu Sud Karnad
P. M. Thampi

Sylvia Furtado
Company Secretary

Profit and Loss Account for the year ended March 31, 2008

	Schedule	Rupees	Previous Year Rupees
INCOME			
Management Fee	12	306,07,53,151	182,54,40,546
Interest	13	18,950	59,089
Dividend		11,97,76,944	4,23,05,352
Other Income	14	2,11,76,875	72,28,966
Total		<u>320,17,25,920</u>	<u>187,50,33,953</u>
EXPENDITURE			
Staff Expenses	15	54,72,67,055	42,38,66,961
Administrative and Other Expenses	16	78,97,26,468	35,84,18,648
Depreciation	3	9,61,54,345	7,38,51,304
Total		<u>143,31,47,868</u>	<u>85,61,36,913</u>
PROFIT/(LOSS) BEFORE TAX		176,85,78,052	101,88,97,040
Provision for Tax (Net of Deferred Tax) (see note 10)		58,50,63,074	33,96,93,459
Provision for Fringe Benefit Tax		61,50,000	38,22,000
PROFIT/(LOSS) AFTER TAX		117,73,64,978	67,53,81,581
Balance brought forward from Previous year		<u>52,40,15,780</u>	<u>23,27,19,807</u>
Profit Available for Appropriation		<u>170,13,80,758</u>	<u>90,81,01,388</u>
Appropriations:			
Excess provision of Income Tax for earlier years (net)		—	(18,46,230)
General Reserve		11,77,36,498	6,75,38,158
Capital Redemption Reserve		25,00,00,000	—
Preference Dividend		2,06,02,740	2,50,00,000
Tax on Preference Dividend		35,01,436	35,06,250
Interim Equity Dividend Paid		—	15,09,66,000
Tax on Interim Equity Dividend paid		—	2,11,72,982
Proposed Equity Dividend		37,74,15,000	10,06,44,000
Tax on Proposed Equity Dividend		6,41,41,679	1,71,04,448
Balance carried forward to the Balance Sheet		<u>86,79,83,405</u>	<u>52,40,15,780</u>
Earnings Per Share (see note 9)			
– Basic		45.84	25.78
– Diluted		45.83	25.78

Significant Accounting Policies and Notes to Accounts

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As per our report attached

For and on behalf of the Board

For Haribhakti & Co.
Chartered Accountants

Deepak S. Parekh
Chairman

Chetan Desai
Partner

Directors
Keki M. Mistry
Hoshang S. Billimoria
N. Keith Skeoch
Vijay Merchant
Humayun Dhanrajgir
Rajeshwar Raj Bajaj
Deepak B. Phatak
Renu Sud Karnad
P. M. Thampi

MUMBAI, April 23, 2008

Milind Barve
Managing Director

Rahul Bhandari
Chief Financial Officer

Sylvia Furtado
Company Secretary

Cash Flow Statement for the year ended March 31, 2008

	Rupees	Previous Year Rupees
A. CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation and extraordinary items	176,85,78,052	101,88,97,040
Add / (Less) : Adjustment for		
Depreciation	9,61,54,345	7,38,51,304
Employee Stock Option Expenses	49,70,600	—
Provision for Diminution in Value of Investments	3,77,89,760	—
(Profit) / Loss on sale of investment (net)	(27,76,092)	(19,59,706)
(Profit) / Loss on sale of fixed assets (net)	(4,04,135)	(7,75,131)
Investment Income (dividend)	(11,97,76,944)	(4,23,05,352)
Provision for wealth tax	65,888	82,102
Operating Profit before working capital changes	178,46,01,474	104,77,90,257
(Increase) / Decrease in Loans and Advances	(77,24,90,640)	(15,62,84,975)
(Increase) / Decrease in Other Current Assets	533	(10,168)
(Increase) / Decrease in Sundry Debtors	(2,95,71,935)	(4,99,76,002)
Increase / (Decrease) in Current Liabilities	153,32,57,917	22,53,04,066
Cash generated from Operations	251,57,97,349	106,68,23,178
Income tax paid	(56,86,59,476)	(38,54,03,036)
Net cash from operating activities	194,71,37,873	68,14,20,142
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(17,46,07,792)	(9,82,73,321)
Proceeds from sale of fixed assets	6,79,101	25,72,677
Purchase of investments	(918,95,58,488)	(337,97,79,923)
Proceeds from sale of investments	781,98,25,537	309,20,31,771
Net cash used in investing activities	(154,36,61,642)	(38,34,48,796)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Share Capital - Preference	(25,00,00,000)	—
Dividend paid	(12,12,46,740)	(26,40,29,500)
Tax paid on Dividend	(2,06,05,884)	(3,70,30,138)
Net cash used in financing activities	(39,18,52,624)	(30,10,59,638)
Net (Decrease) / Increase in cash and cash equivalents	1,16,23,607	(30,88,292)
Cash and cash equivalents at the beginning of the year	83,89,134	1,14,77,426
Cash and cash equivalents at the end of the year	2,00,12,741	83,89,134
	1,16,23,607	(30,88,292)

As per our report attached

For Haribhakti & Co.
Chartered Accountants

Chetan Desai
Partner

For and on behalf of the Board

Deepak S. Parekh
Chairman

Milind Barve
Managing Director

Rahul Bhandari
Chief Financial Officer

Directors
Keki M. Mistry
Hoshang S. Billimoria
N. Keith Skeoch
Vijay Merchant
Humayun Dhanrajgir
Rajeshwar Raj Bajaj
Deepak B. Phatak
Renu Sud Karnad
P. M. Thampi

Sylvia Furtado
Company Secretary

MUMBAI, April 23, 2008

Schedules

Forming Part of the Accounts as at March 31, 2008

Schedule 1

SHARE CAPITAL

	As at March 31, 2008 Rupees	As at March 31, 2007 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
Total	80,00,00,000	80,00,00,000
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 1,50,96,600 (Previous Year 1,26,05,661) Equity Shares are held by Housing Development Finance Corporation Limited, the Holding Company and its nominees)		
NIL (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
The Company reserved the right to redeem the Preference Shares (in full or part) at any time before the scheduled due dates of redemption. Accordingly, the Company partly redeemed 2,50,00,000 Preference Shares amounting to Rs. 25,00,00,000 during the Financial Year 2004 - 2005 and remaining 2,50,00,000 Preference Shares amounting to Rs. 25,00,00,000 during the year.		
(Of the above NIL (Previous Year 1,25,25,000) Preference Shares are held by Housing Development Finance Corporation Limited, the Holding Company)		
Total	25,16,10,000	50,16,10,000

Schedule 2

RESERVES AND SURPLUS

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
General Reserve	18,02,51,314	11,27,13,156
Add : Transfer from Profit and Loss Account	11,77,36,498	6,75,38,158
	29,79,87,812	18,02,51,314
Capital Redemption Reserve		
Opening Balance	25,00,00,000	25,00,00,000
Add : Transfer from Profit and Loss Account	25,00,00,000	—
	50,00,00,000	25,00,00,000
Balance in Profit and Loss Account	86,79,83,405	52,40,15,780
Total	166,59,71,217	95,42,67,094

Schedule 3
FIXED ASSETS

Rupees

	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31, 2007	Additions	Deductions	As at March 31, 2008	As at March 31, 2007	For the Year	Deductions	As at March 31, 2008	As at March 31, 2008	As at March 31, 2007
Goodwill	66,83,08,050	—	—	66,83,08,050	13,36,61,608	3,34,15,402	—	16,70,77,010	50,12,31,040	53,46,46,442
Improvement of Rented Premises	10,79,39,910	5,05,40,713	2,56,730	15,82,23,893	5,23,68,943	2,46,69,266	2,51,966	7,67,86,243	8,14,37,650	5,55,70,967
Computer Equipment	5,23,85,159	2,42,79,812	26,11,970	7,40,53,001	3,79,92,126	1,11,72,544	26,11,970	4,65,52,700	2,75,00,301	1,43,93,033
Intangible Assets (Computer Software)	1,09,80,723	62,75,952	—	1,72,56,675	46,98,231	40,86,026	—	87,84,257	84,72,418	62,82,492
Office Equipment	4,00,76,620	3,98,66,031	2,19,016	7,97,23,635	1,79,69,871	1,15,52,692	2,02,625	2,93,19,938	5,04,03,697	2,21,06,749
Furniture & Fixtures	97,85,263	66,79,528	1,91,230	1,62,73,561	76,46,415	72,00,101	1,68,766	1,46,77,750	15,95,811	21,38,848
Electrical Installations	26,950	—	—	26,950	26,212	738	—	26,950	—	738
Vehicles	1,62,92,685	7,77,426	12,99,104	1,57,71,007	67,84,926	40,57,576	10,67,757	97,74,745	59,96,262	95,07,759
Total	90,57,95,360	12,84,19,462	45,78,050	102,96,36,772	26,11,48,332	9,61,54,345	43,03,084	35,29,99,593	67,66,37,179	64,46,47,028
Previous Year	81,70,23,962	9,61,11,371	73,39,973	90,57,95,360	19,28,39,455	7,38,51,304	55,42,427	26,11,48,332	64,46,47,028	

Schedule 4

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

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
1,81,16,352 Units (Previous Year 1,30,30,722) of Rs. 10 each in HDFC Monthly Income Plan - Long Term Plan (Dividend Plan) (Purchased 50,85,630 Units and Redeemed NIL Units during the year)	19,90,07,726	13,52,93,955
NIL Units (Previous Year 28,102) of Rs. 10 each in HDFC Floating Rate Income Fund - Short Term Plan (Dividend Plan) (Purchased NIL Units and Redeemed 28,102 Units during the year)	—	2,85,858
NIL Units (Previous Year 5,308) of Rs. 10 each in HDFC Cash Management Fund - Savings Plan (Dividend Plan) (Purchased 16 Units and Redeemed 5,324 Units during the year)	—	56,473
7,21,91,874 Units (Previous Year 1,99,57,291) of Rs. 10 each in HDFC Cash Management Fund - Savings Plus Plan - Wholesale Plan (Dividend Plan) (Purchased 36,66,19,779 Units and Redeemed 31,43,85,196 Units during the year)	72,34,36,088	20,00,00,000
NIL Units (Previous Year 1,00,00,000) of Rs. 10 each in HDFC Fixed Maturity Plan 90D January 2007 - Wholesale Plan (Dividend Plan) (Purchased NIL Units and Redeemed 1,00,00,000 Units during the year)	—	10,00,00,000
NIL Units (Previous Year 2,00,00,000) of Rs. 10 each in HDFC Fixed Maturity Plan 90D February 2007 - Wholesale Plan (Dividend Plan) (Purchased NIL Units and Redeemed 2,00,00,000 Units during the year)	—	20,00,00,000
83,94,741 Units (Previous Year NIL) of Rs. 10 each in HDFC Quarterly Interval Fund-Plan A - Wholesale Plan (Dividend Plan) (Purchased 83,94,741 Units and Redeemed NIL Units during the year)	8,39,85,117	—
1,49,58,565 Units (Previous Year NIL) of Rs. 10 each in HDFC Quarterly Interval Fund-Plan B - Wholesale Plan (Dividend Plan) (Purchased 3,02,54,065 Units and Redeemed 1,52,95,500 Units during the year)	15,00,00,000	—
1,01,49,096 Units (Previous Year NIL) of Rs. 10 each in HDFC Quarterly Interval Fund-Plan C - Wholesale Plan (Dividend Plan) (Purchased 2,03,42,396 Units and Redeemed 1,01,93,300 Units during the year)	10,14,93,955	—
Carried forward	125,79,22,886	635,636,286

Schedule 4 (Continued)**CURRENT INVESTMENTS (Valued at Cost and Net Asset Value, whichever is lower)**

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
Brought forward	125,79,22,886	635,636,286
18,33,401 Units (Previous Year NIL) of Rs. 10 each in HDFC Growth Fund (Dividend Plan) (Purchased 18,33,401 Units and Redeemed NIL Units during the year)	5,66,50,263	—
19,94,333 Units (Previous Year NIL) of Rs. 10 each in HDFC Prudence Fund (Dividend Plan) (Purchased 19,94,333 Units and Redeemed NIL Units during the year)	5,84,83,491	—
1,52,37,446 Units (Previous Year 1,68,99,703) of Rs. 10 each in HDFC Liquid Fund - Premium Plus Plan (Dividend Plan) (Purchased 19,30,04,082 Units and Redeemed 19,46,66,339 Units during the year)	18,92,74,625	21,00,59,351
1,03,66,415 Units (Previous Year NIL) of Rs. 10 each in HDFC Arbitrage Fund - Wholesale Plan (Dividend Plan) (Purchased 1,03,66,415 Units and Redeemed NIL Units during the year)	10,36,67,010	—
11,19,149 Units (Previous Year NIL) of Rs. 10 each in HDFC Equity Fund (Dividend Plan) (Purchased 11,19,149 Units and Redeemed NIL Units during the year)	5,54,10,404	—
11,25,112 Units (Previous Year NIL) of Rs. 10 each in HDFC Top 200 Fund (Dividend Plan) (Purchased 11,25,112 units and Redeemed NIL Units during the year)	5,50,41,136	—
18,32,238 Units (Previous Year NIL) of Rs. 10 each in HDFC Capital Builder Fund (Dividend Plan) (Purchased 18,32,238 units and Redeemed NIL Units during the year)	5,56,86,249	—
32,99,524 Units (Previous Year NIL) of Rs. 10 each in HDFC Premier Multicap Fund (Dividend Plan) (Purchased 32,99,524 units and Redeemed NIL Units during the year)	5,58,45,560	—
23,83,904 Units (Previous Year NIL) of Rs. 10 each in HDFC Core & Satellite Fund (Dividend Plan) (Purchased 23,83,904 units and Redeemed NIL Units during the year)	5,00,00,000	—
1,00,00,000 Units (Previous Year NIL) of Rs. 10 each in HDFC FMP 90D January 08 - Wholesale Plan (Dividend Plan) (Purchased 1,00,00,000 units and Redeemed NIL Units during the year)	10,00,00,000	—
1,00,00,000 Units (Previous Year NIL) of Rs. 10 each in HDFC FMP 90D February 08 - 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 FMP 90D March 08 - Wholesale Plan (Dividend Plan) (Purchased 2,00,00,000 units and Redeemed NIL Units during the year)	20,00,00,000	—
Total	233,79,81,624	84,56,95,637
Less: Provision for Diminution in the Value of Current Investments	3,77,89,760	—
Net Asset Value	230,01,91,864	86,61,97,994

Schedule 5

DEFERRED TAX

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
Deferred Tax Asset	5,66,75,094	7,43,55,881
Deferred Tax Liability	(8,07,432)	(3,22,905)
Total	5,58,67,662	7,40,32,976

Schedule 6

SUNDRY DEBTORS

(Unsecured, considered good)

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
Investment Management Fee Receivable (less than six months)	4,48,75,787	3,60,67,686
Portfolio Management Fee Receivable		
– Over six months	1,00,73,075	91,81,983
– Others	8,40,47,609	6,41,74,867
	9,41,20,684	7,33,56,850
Total	13,89,96,471	10,94,24,536

Schedule 7

CASH AND BANK BALANCES

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
Balance with Scheduled Bank:		
In Current Account	1,94,53,393	78,08,634
In Deposit Account	5,59,348	5,80,500
Total	2,00,12,741	83,89,134

Schedule 8

OTHER CURRENT ASSETS

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
Interest Accrued but Not Due	15,661	16,195
Total	15,661	16,195

Schedule 9

LOANS AND ADVANCES

(Unsecured, considered good)

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
Sundry Deposits	12,32,68,111	7,39,57,344
Advance Payment of Taxes	122,54,82,289	66,30,54,913
Advances recoverable in cash or in kind or for value to be received	103,03,29,718	30,71,49,845
Total	237,90,80,118	104,41,62,102

Schedule 10**CURRENT LIABILITIES**

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
Sundry Creditors	119,26,65,776	34,55,17,700
Other Liabilities	76,53,32,453	1,03,62,432
Total	195,79,98,229	35,58,80,132

Schedule 11**PROVISIONS**

	As at March 31, 2008 Rupees	As at March 31, 2007 Rupees
For Taxation	121,05,23,650	64,36,42,102
For Others (see note 11)	9,28,47,594	16,17,07,774
Proposed Equity Dividend	37,74,15,000	10,06,44,000
Income-tax on Proposed Equity Dividend	6,41,41,679	1,71,04,448
Total	174,49,27,923	92,30,98,324

Schedule 12**MANAGEMENT FEE**

	For the year ended March 31, 2008 Rupees	For the year ended March 31, 2007 Rupees
Investment Management Fee (Tax Deducted at Source Rs. 30,89,55,713; Previous Year Rs. 9,90,27,704)	256,98,67,436	157,27,01,154
Portfolio Management Fee (Tax Deducted at Source Rs. 4,06,39,820; Previous Year Rs. 30,49,537)	49,08,85,715	25,27,39,392
Total	306,07,53,151	182,54,40,546

Schedule 13**INTEREST**

	For the year ended March 31, 2008 Rupees	For the year ended March 31, 2007 Rupees
On Fixed Deposit with a Bank (Tax Deducted at Source Nil; Previous Year Rs. 9,299)	18,950	59,089
Total	18,950	59,089

Schedule 14**OTHER INCOME**

	For the year ended March 31, 2008 Rupees	For the year ended March 31, 2007 Rupees
Profit / (Loss) on Sale of Current Investments (net)	27,76,092	19,59,706
Profit / (Loss) on Sale of Fixed Assets (net)	4,04,135	7,75,131
Miscellaneous Income	1,79,96,648	44,94,129
Total	2,11,76,875	72,28,966

Schedule 15

STAFF EXPENSES

	For the year ended March 31, 2008 Rupees	For the year ended March 31, 2007 Rupees
Salaries, Allowances and Bonus	50,28,45,602	39,60,42,584
Contribution to Provident and Other Funds	1,79,68,237	1,06,78,454
Staff Welfare and Training Expenses	2,02,12,192	1,19,19,079
Recruitment Expenses	62,41,024	52,26,844
Total	54,72,67,055	42,38,66,961

Schedule 16

ADMINISTRATIVE AND OTHER EXPENSES

	For the year ended March 31, 2008 Rupees	For the year ended March 31, 2007 Rupees
Brokerage / Incentives / Fees	13,21,67,779	5,49,17,186
Scheme Launch Expenses	16,60,65,654	2,83,89,011
Business Promotion	2,97,15,171	2,13,45,521
Rent (Net) (Tax Deducted at Source Rs. 7,48,174; Previous Year Rs. 7,42,104)	13,14,83,678	7,05,87,998
Printing and Courier	1,93,30,925	2,03,32,511
Travel and Conveyance	3,50,14,255	2,38,62,967
Communication Expenses	2,12,23,785	1,47,39,284
Establishment Expenses	13,46,950	51,34,301
Subscription and Membership Fees	1,21,26,207	86,34,715
Professional and Legal Fees	1,50,31,289	1,10,48,114
Repair and Maintenance	5,36,38,532	2,78,67,205
Outsourced Services Cost	9,63,82,447	3,74,26,019
Insurance Expenses	68,11,519	66,61,532
Auditors Remuneration:		
Statutory Audit Fee	5,61,800	4,49,440
Tax Audit Fee	56,180	50,562
Taxation Matters	2,00,846	1,23,596
Other Services	13,97,058	1,84,698
	22,15,884	8,08,296
Directors Sitting Fee	21,80,000	19,60,000
Donations	27,06,000	21,54,500
Wealth Tax	65,888	82,102
Diminution in the Value of Current Investments	3,77,89,760	—
Miscellaneous Expenses	2,44,30,745	2,24,67,386
Total	78,97,26,468	35,84,18,648

Schedule 17**SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008****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.

Schedule 17 (Continued)

SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008

1.7 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.

Brokerage paid in advance in respect of Portfolio Management Business is amortised over the contractual period.

1.8 Employee Benefits

A) Provident Fund

The Company contributes to the Recognised Provident Fund for its employees. The Company's contributions are charged to the Profit and Loss Account every year.

B) Gratuity

Company's contribution in the case of gratuity is funded annually with the Life Insurance Corporation of India (LIC). The net present value of the Company's obligation towards gratuity to employees is actuarially determined by the LIC based on the projected unit credit method. Actuarial gains and losses are immediately recognized in the Profit and Loss Account.

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. 28,98,203 (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. The Company does not avail credit facilities from any of its creditors for more than 45 days.

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. Employee Benefits

The Company adopted the Accounting Standard (AS-15) (Revised 2005) "Employee Benefits" issued by the Institute of Chartered Accountants of India, effective from April 01, 2007. The Company has classified the various benefits provided to the employees as under:

A) Defined Contribution Plan

Provident Fund

The Company has recognised the following amounts in Profit and Loss Account, which are included under Contributions to Provident Fund:

(Amount in Rupees)

Particulars	Current Year
Employer's contribution to Provident Fund	1,24,49,573

Schedule 17 (Continued)**SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008****B) Defined Benefit Plan**

Contribution to Gratuity Fund (Funded Scheme)

The details of the Company's post-retirement benefit plan for its employees are given below and certified by the Life Insurance Corporation of India.

(Amount in Rupees)

Particulars	Current Year
Change in the Defined Benefit Obligations:	
Liability at the beginning of the Year	1,23,62,951
Current Service Cost	44,40,221
Interest Cost	9,89,036
Benefits paid	(6,28,000)
Actuarial Gain	(29,74,074)
Liability at the end of the Year	1,41,90,134
Fair Value of Plan Assets:	
Fair Value of Plan Assets at the beginning of the Year	83,36,404
Expected return on Plan Assets	10,72,880
Contributions	40,26,547
Benefits Paid	(6,28,000)
Actuarial Loss on Plan Assets	—
Fair Value of Plan Assets at the end of the Year	1,28,07,831
Actual Return on Plan Assets:	
Expected Return on Plan Assets	10,72,880
Actuarial Gain / (Loss) on Plan Assets	—
Actual Return on Plan Assets	10,72,880
Amount Recognised in the Balance Sheet:	
Liability at the end of the Year	1,41,90,134
Fair Value of Plan Assets at the end of the Year	1,28,07,831
Amount recognised in the Balance Sheet under "Provisions"	13,82,303
Expense Recognised in the Profit and Loss Account:	
Current Service Cost	44,40,221
Interest Cost	9,89,036
Expected Return on Plan Assets	(10,72,880)
Net Actuarial Gain to be Recognised	(29,74,074)
Expense recognised in the Profit and Loss Account under "Staff Expenses"	13,82,303

The amount recognised in the Profit and Loss Account is as per the contractual liability of the Company.

Schedule 17 (Continued)

SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008

Investment Pattern:

Particulars	% Invested
Central Government Securities	63.28
State Government Securities	13.57
Approved Marketable Securities	0.24
Bonds/Debentures etc.	17.67
Loans	0.47
Equity	2.43
Liquid Fund/Money Market Instrument	2.34
Total	100.00

Actuarial Assumptions:

Actuarial valuation was performed in respect of the aforesaid defined benefit plan based on the following assumptions:

Particulars	Current Year
Discount Rate	8.00% p.a.
Return on Plan Assets	9.15% p.a.
Compensation Escalation Rate	4.00% p.a.
Average Age	30.14 Years

6. Segmental Reporting

In accordance with the Accounting Standard on "Segment Reporting" (AS-17) issued by the Institute of Chartered Accountants of India, the Company has determined business segments as under:

The Company's operations predominantly relate to providing Asset Management Services. It acts as an Investment Manager to schemes launched by HDFC Mutual Fund. It also provides Portfolio Management Services (PMS) to Corporates and High Net Worth Individuals. Accordingly, the Company has recognized 'Mutual Fund' and 'Portfolio Management' as Primary business segments.

Secondary segment reporting does not require separate disclosure as most of the activities of the Company are within India.

The accounting principles used in the preparation of the financial statements are also consistently applied to record income and expenditure of individual segments. These are as set out in the note on Significant Accounting Policies.

Previous Year figures are not reported as the Company is disclosing Segmental Reporting for the first time.

The basis of reporting is as follows:

1. Revenue and expenses distinctly identifiable to a segment are recognized in that segment.
2. Certain expenses are not specifically allocable to specific segments as the underlying services are used interchangeably. Hence it is not practical to provide segment disclosures relating to such items and accordingly they are separately disclosed as "unallocable expenses".
3. Fixed assets used in the Company's business have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between the segments. Accordingly depreciation has been treated as an unallocable expense.
4. Current assets and current liabilities to the extent directly identifiable to a business segment have been categorized as "Allocable current assets/liabilities", others have been shown as "Unallocable current assets/liabilities".
5. Other balance sheet items such as investments and deferred tax asset are similarly not allocated to business segments.

Schedule 17 (Continued)**SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008**

(Amount in Rupees)

	Mutual Fund	Portfolio Management	Total
	2008	2008	2008
Segment Revenue			
Management Fees	256,98,67,436	49,08,85,715	306,07,53,151
Inter Segment Revenue	—	—	—
Total Segment Revenue	256,98,67,436	49,08,85,715	306,07,53,151
Identifiable Operating Expenses	81,41,87,268	18,28,22,565	99,70,09,833
Segmental Operating Income	175,56,80,168	30,80,63,150	206,37,43,318
Unallocable Expenses			43,61,38,035
Operating Income			162,76,05,283
Other Income			14,09,72,769
Net Profit Before Taxation			176,85,78,052
Provision For Income Tax			56,68,97,760
Deferred Tax (Credit) / Expense			1,81,65,314
Fringe Benefit Tax			61,50,000
Net Profit After Tax			117,73,64,978
Segment Assets And Liabilities			
Allocable Current Assets	38,17,10,263	75,92,76,638	114,09,86,901
Unallocable Current Assets			139,71,18,090
Total Current Assets			253,81,04,991
Allocable Current Liabilities And Provisions	59,40,77,888	127,15,45,821	186,56,23,709
Unallocable Current Liabilities And Provisions			183,73,02,443
Total Current Liabilities And Provisions			370,29,26,152

7. 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 ERGO General Insurance Company Limited
HDFC Sales Private Limited
HDFC Venture Capital Limited
HDFC Ventures Trustee Company Limited
HDFC Property Ventures 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, 2008

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
INCOME				
Management Fees	—	61,94,730	4,14,00,000	—
	—	—	(2,10,00,000)	—
Interest on Deposits	—	—	10,131	—
	—	—	(315)	—
EXPENDITURE				
Rent	2,81,37,582	—	—	—
	(1,98,68,960)	—	(3,58,435)	—
Advisory Fee	2,56,21,327	—	—	—
	—	—	—	—
Technology Support Cost	98,50,565	—	—	—
	(77,80,450)	—	—	—
Establishment Expenses	13,46,950	—	—	—
	(51,34,301)	—	—	—
Administrative & Other Expenses	24,40,347	—	—	—
	(19,49,879)	—	—	—
Insurance Premium	—	—	26,97,857	—
	—	—	(29,93,551)	—
Remuneration	—	—	—	3,52,32,865
	—	—	—	(2,45,93,879)
Staff Training	—	—	1,50,000	—
	—	—	—	—
Preference Dividend	1,03,21,973	1,02,80,767	—	—
	(1,25,25,000)	(1,24,75,000)	—	—
ASSETS				
Deposit	—	—	11,604	—
	—	—	(1,17,367)	—
Account Receivable	—	61,94,730	3,79,65,167	—
	—	—	(2,78,11,407)	—
Insurance Premium	—	—	17,86,582	—
	—	—	(20,26,127)	—
Administrative & Other Expenses	12,163	—	—	—
	(41,354)	—	—	—
LIABILITIES				
Account Payable	2,56,35,627	—	1,50,000	—
	—	—	—	—
Proposed Equity Dividend	22,64,49,000	15,09,66,000	—	—
	(5,04,22,644)	(5,02,21,356)	—	—

Reimbursement of Expenses amounting to **Rs. 2,93,334** (Previous Year Rs. 7,04,502) to the Holding Company and **Rs. NIL** (Previous Year Rs. 98,751) 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, 2008**

*Details of Transactions with fellow subsidiaries are as follows:

(Amount in Rupees)

Particulars	HDFC Trustee Company Limited	HDFC Standard Life Insurance Company Limited	HDFC ERGO General Insurance Company Limited	GRUH Finance Limited	HDFC Property Ventures Limited
Management Fees	—	3,90,00,000 (1,80,00,000)	24,00,000 (30,00,000)	—	—
Interest on Deposit	—	10,131 (315)	—	—	—
Rent	—	—	—	(3,58,435)	—
Insurance Premium	—	8,07,358 (8,06,514)	18,90,499 (21,87,037)	—	—
Staff Training	—	—	—	—	1,50,000
Deposits	—	11,604 (1,17,367)	—	—	—
Account Receivable	2,58,15,167 (2,25,61,407)	97,50,000 (45,00,000)	24,00,000 (7,50,000)	—	—
Prepaid Insurance Premium	—	8,831 (8,113)	17,77,751 (20,18,014)	—	—
Account Payable	—	—	—	—	1,50,000

Figures in bracket pertain to the Previous Year.

8. Operating Leases

The company has entered into non-cancelable 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. 5,99,31,597** (Previous Year Rs. 2,97,34,451). The future lease payments in respect of the above are as follows:

(Amount in Rupees)

	Current Year	Previous Year
Not later than one year	7,63,05,733	4,47,27,080
Later than one year but not later than five years	6,41,35,076	5,83,71,180
Later than five years	Nil	Nil

9. Earning Per Equity Share

In accordance with the Accounting Standard on "Earnings Per Share" (AS-20) issued by the Institute of Chartered Accountants of India:

- (i) In calculating the basic earnings per equity share, the net profit after tax of **Rs. 117,73,64,978** (Previous Year Rs. 67,53,81,581) has been adjusted for preference dividend & tax thereon of **Rs. 2,41,04,176** (Previous Year Rs. 2,85,06,250) and excess provision of income tax of **Rs. Nil** (Previous Year Rs. 18,46,230).

Schedule 17(Continued)

SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008

Accordingly, the basic earnings per equity share has been calculated based on the adjusted net profit after tax of **Rs. 115,32,60,802** (Previous Year Rs. 64,87,21,561) and weighted average number of equity shares outstanding during the year amounting to **2,51,61,000** (Previous Year 2,51,61,000).

(ii) Following is the reconciliation between basic and diluted earnings per equity share:

(Amount in Rupees)

	Current Year	Previous Year
Nominal value per share	10.00	10.00
Basic earnings per share	45.84	25.78
Effect of potential equity shares for stock options (per share)	(0.01)	—
Diluted earnings per share	45.83	25.78

(iii) Basic earnings per equity share has been computed by dividing adjusted net profit after tax by the weighted average number of equity shares outstanding for the year. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the year. The relevant details as described above are as follows:

	Current Year	Previous Year
Weighted average number of equity shares used in computing basic earnings per equity share	2,51,61,000	2,51,61,000
Effect of potential equity shares for stock options outstanding	398	—
Weighted average number of equity shares used in computing diluted earnings per equity share	2,51,61,398	2,51,61,000

10. 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. 1,81,65,314** (Previous Year Rs. 2,75,56,541) 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, 2007	For the Year	As on March 31, 2008
Assets			
Depreciation	1,93,91,409	57,24,788	2,51,16,197
Others	5,49,64,472	(2,34,05,575)	3,15,58,897
Total	7,43,55,881	(1,76,80,787)	5,66,75,094
Liabilities			
Others	3,22,905	4,84,527	8,07,432
Net Deferred Tax Asset (Adjustment)	7,40,32,976	(1,81,65,314)	5,58,67,662

11. 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 as per the details given below, the expected payout of which is over next two years.

Schedule 17 (Continued)**SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008**

(Amount in Rupees)

Carrying Amount as at April 1, 2007	Additions during the year	Amounts used during the Year	Amounts reversed during the year	Carrying Amount as at March 31, 2008
16,17,07,774	2,00,00,000	7,45,07,594	1,43,52,586	9,28,47,594

12. Under Employees Stock Option Scheme 2008 – Series I (ESOS 2008 – Series I) and Employees Stock Option Scheme 2008 – Series II (ESOS 2008 – Series II), the Company has on 10th March 2008, granted 5,24,000 stock options at an exercise price of Rs.390/- per option under ESOS 2008 – Series I, representing 5,24,000 equity shares of Rs.10/- each and 10,76,000 stock options at an exercise price of Rs.750/- per option under ESOS 2008 – Series II, representing 10,76,000 equity shares of Rs. 10/- each to few employees of the Company. The fair value of the Company's underlying equity shares was determined in accordance with the pricing formula approved by the Remuneration Committee of the Board of Directors of the Company ('Remuneration Committee') i.e. based on the Profit Earning Capacity Valuation (PECV) method and the Assets Under Management (AUM) method.

In terms of the Schemes, the options would vest over a period of 3-4 years from the date of grant. The options can be exercised over a period of five years from the date of respective vesting.

Method used for accounting for share based payment plan:

The Company has used intrinsic value method to account for the compensation cost of stock options granted to the employees of the Company. Since options under ESOS 2008 – Series I were granted at an exercise price less than the fair value of the underlying equity shares of the Company, the intrinsic value of each option under ESOS 2008 – Series I is Rs.360/-. Options under ESOS 2008 – Series II were granted at the fair value of the underlying equity shares of the Company.

Movement in the options under ESOS 2008:

	No. of options	
	Series I	Series II
Outstanding at the beginning of the year	Nil	Nil
Granted during the year	5,24,000	10,76,000
Exercised during the year	Nil	Nil
Lapsed during the year	Nil	Nil
Outstanding at the end of the year	5,24,000	10,76,000
Exercisable at the end of the year	Nil	Nil

Since all the options were granted at the same exercise price per option under the respective Series, the weighted average exercise price per option under the respective Series is the same.

Fair Value Methodology:

The fair value of options used to compute pro forma net income and earnings per equity share has been estimated on the date of grant using Black-Scholes model.

The key assumptions used in Black-Scholes model for calculating fair value as on the date of grant are: (a) risk-free interest rate: 7.03%-7.22% p.a.; (b) expected life: 4-6 years; (c) expected volatility: 0% and (d) dividend yield: 1.97% p.a. The weighted average fair value of the option, as on the date of grant works out to Rs.407/- per option for Series I and Rs.155/- per option for Series II.

Had compensation cost for the Company's stock options outstanding been determined based on the fair value approach, the Company's net profit and earning per share would have been as per the pro forma amounts indicated below:

Schedule 17 (Continued)

SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008

(Amount in Rupees)

	Current Year
Net Profit (as reported)	115,32,60,802
Add: Stock-based employee compensation expense included in the net income (Gross Rs. 49,70,600)	32,81,093
Less: Stock-based employee compensation expense determined under fair value based method (Gross Rs.1,00,14,135) (pro forma)	66,10,331
Net Profit (pro forma)	114,99,31,564

(Amount in Rupees)

	Current Year
Basic earning per share (as reported)	45.84
Basic earning per share (pro forma)	45.70
Diluted earning per share (as reported)	45.83
Diluted earning per share (pro forma)	45.70

13. Income in foreign currency

(Amount in Rupees)

	Current Year	Previous Year
Investment Advisory Fee	5,26,88,115	3,40,11,288
Interest Income	18,950	17,273

14. Payments in foreign currency

A) Expenditure

(Amount in Rupees)

	Current Year	Previous Year
i) Staff Training Expenses	6,85,383	13,11,216
ii) Travelling Expenses	3,62,982	7,98,943
iii) Overseas Representative Office Expenses	73,17,884	66,97,038
iv) Other Expenses	Nil	5,823

B) Dividend

(Amount in Rupees)

	Current Year	Previous Year
i) Final 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)	5,02,21,356	4,39,43,686

Schedule 17 (Continued)**SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008**

	Current Year	Previous Year
ii) Interim Dividend on Equity Shares		
(a) Year to which the dividend relates	—	2006-07
(b) Number of non-resident shareholders	—	1
(c) Number of Shares held	—	1,25,55,339
(d) Amount Remitted (Gross)	—	7,53,32,034
iii) Dividend on Preference Shares		
(a) Year to which the dividend relates	2007-08	—
(b) Number of non-resident shareholders	1	—
(c) Number of Shares held	24,95,000	—
(d) Amount Remitted (Gross)	4,10,137	—
iv) Dividend on Preference Shares		
(a) Year to which the dividend relates	2007-08	2006-07
(b) Number of non-resident shareholders	1	1
(c) Number of Shares held	99,80,000	1,24,75,000
(d) Amount Remitted (Gross)	98,70,630	1,24,75,000

15. Managerial Remuneration

Remuneration to the Managing Director:

(Amount in Rupees)

	Current Year	Previous Year
Salary & Allowances (incl. Perquisites)	3,44,39,865	2,40,81,479
Contribution to Retirement benefits	7,93,000	5,12,400

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

16. Capital CommitmentsEstimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) is **Rs. 6,94,09,931** (Previous Year Rs. 66,75,792).**17. Prior period Comparatives**

Figures for the Previous Year have been regrouped / rearranged, wherever necessary.

18. 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

For Haribhakti & Co.
Chartered Accountants**Deepak S. Parekh**
Chairman**Chetan Desai**
PartnerDirectors
Keki M. Mistry
Hoshang S. Billimoria
N. Keith Skeoch
Vijay Merchant
Humayun Dhanrajgir
Rajeshwar Raj Bajaaj
Deepak B. Phatak
Renu Sud Karnad
P. M. Thampi

MUMBAI, April 23, 2008

Milind Barve
Managing Director**Rahul Bhandari**
Chief Financial Officer**Sylvia Furtado**
Company Secretary

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
--	---	---	---	---	---	---

Balance Sheet Date

	3	1		3		2	0	0	8
--	---	---	--	---	--	---	---	---	---

State Code

	1	1
--	---	---

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

		5	6	2	5	4	7	8
--	--	---	---	---	---	---	---	---

Total Assets

		5	6	2	5	4	7	8
--	--	---	---	---	---	---	---	---

SOURCES OF FUNDS

Paid-up Capital

		2	5	1	6	1	0
--	--	---	---	---	---	---	---

Reserves and Surplus

		1	6	7	0	9	4	2
--	--	---	---	---	---	---	---	---

Secured Loans

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

Unsecured Loans

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

APPLICATION OF FUNDS

Net Fixed Assets

		7	3	1	3	1	3
--	--	---	---	---	---	---	---

Investments

		2	3	0	0	1	9	2
--	--	---	---	---	---	---	---	---

Net Current Assets

		-	1	1	0	8	9	5	3
--	--	---	---	---	---	---	---	---	---

Miscellaneous Expenditure

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

Accumulated Losses

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

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

Total Income

		3	2	0	1	7	2	6
--	--	---	---	---	---	---	---	---

Total Expenditure

		1	4	3	3	1	4	8
--	--	---	---	---	---	---	---	---

Profit Before Tax

		1	7	6	8	5	7	8
--	--	---	---	---	---	---	---	---

Profit After Tax

		1	1	7	7	3	6	5
--	--	---	---	---	---	---	---	---

Earnings per Share (in Rs.)

		4	5	.	8	4
--	--	---	---	---	---	---

Dividend %

		1	5	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												