

■ ■ Annual Report 2006-07 ■ ■ ■ ■

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Future Capital Holdings Ltd.

Ideas. Investments. Enterprise.





Kishore Biyani



Sameer Sain



G. N. Bajpai



Shailesh Haribhakti



Alok Oberoi



Krishankant Rathi

BOARD OF DIRECTORS

Chairman

Kishore Biyani

Managing Director & Chief Executive Officer

Sameer Sain

Directors

G. N. Bajpai

Shailesh Haribhakti

Alok Oberoi

Krishankant Rathi

(upto 27.09.2007)

Chief Financial Officer

N. Shridhar

V. P.-Legal & Company Secretary

R.J. Doshi

Auditor

S. R. Batliboi & Co.

Bankers

HDFC Bank Limited

YES Bank Limited

Regd Office

FCH House,
Peninsula Corporate Park,
Ganpatrao Kadam Marg,
Lower Parel, Mumbai - 400 013

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the 2nd Annual Report on the affairs of the Company together with the audited statement of accounts for the year ended 31st March, 2007.

FINANCIAL RESULTS

The performance of the Company for the financial year ended 31st March, 2007, is summarized below:

(Amount in Rs.)

Particulars	Year Ended 31 st March, 2007	Period Ended 31 st March, 2006
Income from investments	77,57,595	-
Interest Income	3,93,70,448	3,14,559
Research Fees	4,55,88,575	-
Total Income	9,27,16,618	3,14,559
Personnel Expenses	5,10,24,948	-
Administration and other expenses	3,86,35,226	30,734
Depreciation / Amortization	6,99,798	-
Preliminary Expenses written off	-	2,70,475
Total Expenditure	9,03,59,972	3,01,209
Profit before tax	23,56,646	13,350
Provision for taxation (Net of Deferred tax)	8,04,861	7,167
Profit after tax	15,51,785	6,183
Profit brought forward from Previous year / period	6,183	-
Profit available for appropriation	15,57,968	6,183
Appropriations:		
Transfer to Reserve Fund under Section 45(IC) of the RBI Act	3,11,594	-
Balance carried forward to Balance Sheet	12,46,374	6,183
	15,57,968	6,183

OVERALL PERFORMANCE AND OUTLOOK

During the year under review, the Company had received the Certificate of Registration bearing No. N – 13.01824 dated 10th April, 2006, from the Reserve Bank of India to carry on the business of a Non-Banking Financial Institution and had accordingly thereafter commenced its business in these activities.

The total income of the Company during the year stood at Rs.927.17 lacs. The Profit after tax was Rs.15.52 lacs and an amount of Rs.3.11 lacs, being 20% of the profit after tax was transferred to the Reserve Fund pursuant to Section 45-IC of the Reserve Bank of India Act, 1934.

In keeping with the Company's business philosophy of transforming ideas into value through investments and enterprise, the Company, in accordance with applicable regulations, has commenced its business activities as a Non-Banking Finance Company providing investment advisory and asset management services, retail financial services and research based services.

'Future Money'

Subsequent to the end of the financial year under review, the Company launched its financial services retail offering - Future Money- with the objective of becoming one of the leading retailers of financial products and services in India. Pursuant to an agreement with Pantaloon Retail (India) Ltd. (PRIL), we have the exclusive right to provide financial products and services at present and future malls, stores and retail outlets in India which are owned, controlled or managed by PRIL and/or its Subsidiaries.

Currently, our two main retail financial services products are consumption loans, which are loans to finance the purchase of durables, furniture and other consumer goods, and personal loans, which are unsecured credit lines to individual customers.

We will also commence in the near future the distribution of financial products, including insurance products and mutual funds products. We have entered into an agreement with ICICI Bank Limited, towards undertaking marketing and distribution of a co-branded credit card to be issued by ICICI Bank Limited.

DIVIDEND

The Operations of the Company being in a growth phase, your Directors do not recommend any dividend on equity shares for the financial year under review.

CORPORATE INFORMATION

During the year under review, the Company changed its name from 'KB Infin Limited' to 'Future Capital Holdings Limited'.

Subsequent to the year under review, the Registered office of the Company was shifted from Knowledge House, Shyam Nagar, Jogeshwari – Vikhroli Link Road, Jogeshwari (East), Mumbai – 400 060 to FCH House, Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai – 400 013 with effect from 20th April, 2007.

EMPLOYEE SHARE PURCHASE SCHEME - 2007

During the year under review, the Company established for the benefit of employees of the Company and/or its subsidiaries, an Employee Stock Purchase Scheme - 2007 (hereinafter referred as 'ESPS – 2007' or 'the Scheme') with the approval of the Shareholders of the Company. The said Scheme has been implemented by the Company in accordance with the guidelines issued by the Central Board of Direct Taxes and in compliance with other applicable regulations.

Under the Scheme (implemented with involvement of an Employee Welfare Trust), 5,00,000 (Five Lacs) Equity Shares were offered to the eligible employee(s) on 19th March, 2007 and subsequently allotted on 30th March, 2007, to the eligible employee(s).

SHARE CAPITAL**a) Increase in the Authorised Share Capital**

During the period under review, pursuant to the resolution passed by members at their meeting held on 27th April, 2006, the Authorised Capital of the Company had been increased from Rs.2,15,00,000/- (Two Crore Fifteen Lacs only) divided into 21,50,000 (Twenty One Lacs Fifty Thousand) Equity Shares of Rs.10/- each to Rs.50,00,00,000/- (Rupees Fifty Crore only) divided into 5,00,00,000 (Five Crore) Equity Shares of Rs.10/- each, by addition of 4,78,50,000 (Four Crore Seventy Eight Lac and Fifty Thousand) Equity Shares of Rs.10/- each.

Further pursuant to the resolution passed by members at their meeting held on 30th May, 2007, the Authorised Share Capital of the Company was further increased from Rs.50,00,00,000/- (Rupees Fifty Crore only) divided into 5,00,00,000 (Five Crore) Equity Shares of Rs.10/- each to Rs.60,00,00,000/- (Rupees Sixty Crore only) divided into 6,00,00,000 (Six Crore) Equity Shares of Rs.10/- each, by addition of 1,00,00,000 (One Crore) Equity Shares of Rs.10/- each.

b) Increase in Issued, Subscribed and Paid-up Share Capital

During the period under review, the Company issued and allotted 4,22,94,999 (Four Crore Twenty Two Lacs Ninety Four Thousand Nine Hundred and Ninety Nine) Equity Shares of Rs. 10/- each (including to eligible employees under the ESPS – 2007) after complying with all the formalities relating to issue and allotment of the equity shares and consequently, the issued, subscribed and paid-up capital has increased during the year from Rs.2,15,00,000/- (Rupees Two Crore and Fifteen Lacs only) to Rs.44,44,49,990/- (Rupees Forty Four Crore Forty Four Lacs Forty Nine Thousand Nine Hundred and Ninety Only) as at the financial year end.

Subsequent to the financial year end, the Company has issued and allotted, in aggregate, 64,40,000 (Sixty Four Lacs Forty Thousand) equity shares of Rs. 10/- each at a premium and consequently, the issued, subscribed and paid-up capital has increased from Rs.44,44,49,990/- (Rupees Forty Four Crore Forty Four Lacs Forty Nine Thousand Nine Hundred and Ninety Only) to Rs.50,88,49,990/- (Rupees Fifty Crore Eighty Eight Lacs Forty Nine Thousand Nine Hundred and Ninety Only). The allotment of 64,40,000 Equity Share referred herein includes 55,00,000 (Fifty Five Lacs) Equity Share issued and allotted to AMIF I Limited, a Company under the OZ Management L.L.C group (OZ Management Group).

OZ Management Group is a global institutional asset management firm formed in United States of America and has more than USD 18 billion of assets under management with its investment funds having investments in diverse strategies in listed and unlisted equity markets, private equity, distressed assets, real estate and infrastructure. Considering their proven strengths and strong credentials in the investment business, the investment by OZ Management Group in the Company is a reflection of the confidence in the Company's business plans and would enable it to draw on the experience of OZ Management Group in the investment advisory capabilities, structuring international transactions and creating business opportunities.

c) Issue of Convertible Warrants

During the year under review, pursuant to the approval of the members in this regard, the Company had allotted 21,15,000 (Twenty One Lac Fifteen Thousand) warrants to Mr. Kishore Biyani. Each warrant entitles the holder thereof to apply for one equity share of the Company of Rs.10/- each fully paid up, at par, on or before eighteen months from the date of allotment.

Further, pursuant to approval of the members at their meeting held on 30th May, 2007, and in terms of the decision of the Board of Directors in this regard, the Company had allotted 16,58,795 (Sixteen Lacs Fifty Eight Thousand Seven Hundred and Ninety Five) and 14,78,390 (Fourteen Lacs Seventy Eight Thousand Three Hundred and Ninety) warrants to Mr. Kishore Biyani and Mr. Sameer Sain, respectively. Each Warrant entitles the holder thereof to apply for one equity share of the Company of Rs.10/- each fully paid-up, at a premium of Rs.107.50 (Rupees One Hundred and Seven and fifty paise only) per share, on a preferential basis, on or before 31st December, 2008.

DIRECTORS

In terms of Article 146 of the Articles of Association of the Company, Mr. Krishan Kant Rath, Director, retires by rotation and being eligible offer himself for re-appointment at the ensuing Annual General Meeting.

Mr. Rakesh Bhagerwal, resigned as a Director of the Company with effect from 5th September, 2006. The Directors place on record their appreciation of the guidance and inputs provided by Mr. Rakesh Bhagerwal during his association with the Company.

AUDITORS

M/s. S. R. Batliboi & Company, Chartered Accountants, retire at the ensuing Annual General Meeting and express their willingness to continue, if so appointed. As required under the provisions of Section 224 (1-B) of the Companies Act, 1956, the Company has obtained a written certificate from the Auditors proposed to be re-appointed to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

A proposal seeking their re-appointment is provided as part of the Notice of the ensuing Annual General Meeting.

PUBLIC DEPOSITS

The Company has not accepted any deposits from the public during the year under review and shall not accept any deposits without obtaining prior approval of the Reserve Bank of India.

FOREIGN EXCHANGE EARNINGS / OUTGO

The details of the earnings and outgo of Foreign Exchange during the period under review, are provided as Note No. 11 of the Schedule 12 (Notes to Accounts) of the Balance Sheet as at 31st March, 2007. The Members are requested to refer to the said Note for the details in this regard.

PARTICULARS OF ENERGY CONSERVATION, TECHNOLOGY ABSORPTION ETC.

As the Company is not engaged in any manufacturing activity, there are no particulars to be disclosed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 as regard conservation of energy or technology absorption. However, the Company makes all efforts towards conservation of energy, safety and environment.

SUBSIDIARIES

During the year under review, your Company incorporated wholly owned subsidiaries, Future Finmart Limited and Future Hospitality Management Limited. Subsequent to end of the financial year, your Company has also acquired Sivagami Finance & Investments Limited, a wholly owned subsidiary.

A statement relating to the Company's subsidiaries, Ambit Investment Advisory Company Limited, Myra Mall Management Company Limited, Kshitij Investment Advisory Company Limited, Future Finmart Limited and Future Hospitality Management Limited, pursuant to Section 212 of the Companies Act, 1956, is as per annexure (A) attached herewith. The Company has incorporated/ acquired subsidiaries in-line with its objective to be an Investment-cum-Holding Company towards focusing on different businesses as may be undertaken by the Company from time to time.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- i) that in the preparation of the annual accounts for the financial year ended 31st March, 2007, the applicable accounting standards have been followed alongwith proper explanation relating to material departures, if any.

- ii) that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period.
- iii) that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) that the Directors had prepared the annual accounts for the financial year ending 31st March, 2007, on a going concern basis.

PARTICULARS OF EMPLOYEES

Particulars required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, are annexed to and form part of this report. (Annexure - B).

CORPORATE GOVERNANCE

a) Audit Committee

Pursuant to regulation 9A of the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, of the Reserve Bank of India and Section 292A of the Companies Act, 1956, the Board of Directors have constituted an Audit Committee of its Members. The scope of reference of the Committee is provided for under section 292A of the Companies Act, 1956, keeping in consideration the requirements applicable to a Non-Banking Financial Company.

b) Remuneration committee

Pursuant to the requirements of Schedule XIII of the Companies Act, 1956, the Company had constituted the Remuneration Committee of the Board of Directors.

Besides the aforesaid Committees, the Company has also constituted the ESPS Committee for implementation of Employee Stock Purchase Scheme or Stock option scheme as may be instituted by the Company including the ESPS 2007.

ACKNOWLEDGEMENT

Besides the support of its parent Company, Pantaloon Retail (India) Limited, the Directors wish to acknowledge the guidance and co-operation provided by the concerned regulatory authorities including the Reserve Bank of India, the Foreign Investment Promotion Board and/ or other regulatory authorities.

Your Directors also wish to place on record their appreciation of the dedicated services of the employees of the Company at all levels.

On behalf of the Board of Directors

Sd/-

Sameer Sain

*Managing Director &
Chief Executive Officer*

Sd/-

Kishore Biyani

Chairman

Date : 6th July, 2007

Place : Mumbai

Annexure - 'A'

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956, RELATING TO SUBSIDIARY COMPANIES FOR THE YEAR ENDED MARCH 31 2007

(Amount in Rs.)

1	Name of the Subsidiary Company	Indivision Investment Advisors Limited (see note 1 below)	Myra Mall Management Company Limited	Ambit Investment Advisory Company Limited	Future Finmart Limited (See note 2 below)	Future Hospitality Management Limited (See note 3 below)	Kshittij Investment Advisory Company Limited
2	Financial year of the Subsidiary Company	April 1, 2006 to March 31, 2007	April 1, 2006 to March 31, 2007	April 1, 2006 to March 31, 2007	-	-	April 1, 2006 to March 31, 2007
3	Extent of shareholding	20%	100%	100%	100%	100%	92%
4	Net aggregate amount of the Profit / loss of the Subsidiary Company not dealt with in the Holding Company's Account (concerning the members of the Holding Company)						
	a) For the Current Year	52,327,196	(11,488,484)	3,268,845	(476,880)	-	3,964,719
	b) For the Previous Year since it became subsidiary	-	-	-	-	-	-
5	Net aggregate amount of the Profits of the Subsidiary Company dealt with in the Holding Company's Account.						
	a) For the Current year	-	-	-	-	-	-
	b) For the Previous Year since it became subsidiary	-	-	-	-	-	-
6	Additional Information u/s 212 (5)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

Note:

- Indivision Investment Advisors Limited has been considered as a subsidiary of Future Capital Holdings Limited by virtue of the control over composition of the Board of Directors of Indivision Investment Advisors Limited by Future Capital Holdings Limited.
- Future Finmart Limited, was incorporated on January 25, 2007 and the first financial period will be closed on March 31, 2008. However, the results till March 31, 2007 (certified by management) have been considered in the Audited Consolidated Financial result and hence disclosed in the table
- The Company had subscribed to the entire Share Capital of Future Hospitality Management Limited (FHML); FHML was incorporated on March 31, 2007, on which date no amount was paid-up in the Share Capital.

Annexure - 'B'

STATEMENT UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956, REFERRED TO IN THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2007 AND FORMING PART THEREOF

Sr. No.	Name of the Employee	Designation	Date of Joining	Age	Qualification	Experience in Years	Remuneration (based on Monthly gross	Last Employment held & Designation
1.	Mr. Sameer Sain	Managing Director & Chief Executive Officer	1-Jan-07	37 yrs.	B.Com, BBA - University of MBA - Cornell University of Massachusetts	11 Years	3424988	Goldman Sachs International UK - Managing Director
2.	Mr. Pankaj Thapar	Head - Investments & Acquisitions	31-Jul-06	45 yrs.	B.Com, MBA - University of Delhi	23 Years	4514464	Dentsu - Group Chief Financial Officer
3.	Mr. N Shridhar	Chief Financial Officer	1-Sep-06	42 yrs.	B.Com, PGMS, CIMA (UK) ICWA	18 Years	5576421	Britannia Industries Ltd. - Chief Financial Officer
4.	Mr. Ashutosh Lavakare	Head - Strategy & Corporate Affairs	1-Nov-06	32 yrs.	B.Com, C.A.	14 Years	1500015	Travellex India - Chief Financial Officer & Director
5.	Mr. Rakesh Makkar	Head - Strategy & Corporate Affairs	11-Dec-06	38 yrs.	C.A., MBA	14 Years	2893187	First India Credit - Executive Vice President
6.	Mr. Irfan Kazi	Senior Vice President	21-Dec-06	38 yrs.	B.Com, C.A., MBA - Mumbai University	10 Years	1522851	ICICI Venture Funds Management Co. Ltd. - Associate Director - Investments
7.	Mr. Pushpinder Singh	Regional Head - North, Future Money	18-Jan-07	37 yrs.	MBA	12.1 Years	551612	First India Credit - Regional Manager North / AVP
8.	Ms. Gurmeet Kaur	Credit & Risk Head, Future Money	18-Jan-07	36 yrs.	PGDBA	14 Years	817204	First India Credit - VP Integrated Risk
9.	Mr. Nipun Kaushal	Associate Vice President - Marketing, Future Money	2-Feb-07	32 yrs.	MBA	10.4 Years	392857	Citifinancial - AVP Marketing
10.	Mr. Rajesh Doshi	Company Secretary - V. P. Legal & Compliance	15-Feb-07	34 yrs.	B.Com, LLB, ACIS, ICSA (UK)	11 Years	366071	VIP Industries Ltd. - Head - Legal & Secretarial
11.	Ms. Roopa Purushothaman	Chief Executive Officer - Future Insights	1-Mar-07	29 yrs.	Master of Science, Economics, Bachelor of Arts, International Studies & Ethics, Politics & Economics - Yale University	9 Years	634022	Goldman Sachs International UK - Vice President Global Economist
12.	Mr. Rahul Nair	Head of Investments - Hospitality Division	1-Mar-07	40 yrs.	B.Tech, MBA - IIM Calcutta	10 Years	625000	Indian Hotel Company Ltd (ITC), Vice President - Mergers & Acquisitions
13.	Ms. Anooba Kini	Head - Human Resources	5-Oct-07	43 yrs.	MA Psychology, MBA	18 Years	1593904	ABN AMRO Central Enterprise Services Pvt. Ltd. - Head Human Resources

Notes:

1. Remuneration includes Salary, Bonus, Company's Contribution to Provident Fund, Superannuation Fund, Leave Travel Assistance, Reimbursement of Medical expenses, House rent & other allowances, monetary value of rent free accommodation and other perquisites as per Income Tax Rules.
2. Appointment of Mr. Sameer Sain is contractual/
3. Mr. Sameer Sain is not related to any Director of the Company.

On behalf of the Board of Directors

Sd/-

Sameer Sain
Managing Director &
Chief Executive Officer

Sd/-

Kishore Biyani
Chairman

Date : 6th July, 2007
Place : Mumbai

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our primary businesses are investment advisory, retail financial services and research. Within all three of these businesses, we focus on the retail and consumption-led sectors in India, in order to leverage the capabilities of the Future Group, one of the leading organized multi-format retailers in India. Future Capital Holdings Limited was incorporated in October 2005 and is a registered systematically important non-banking financial company. In May 2006, we acquired interests in the subsidiaries through which we conduct our investment advisory business, including Kshitij Investment Advisory Company Limited and Indivision Investment Advisors Limited. Our other subsidiaries are Myra Mall Management Company Limited, Ambit Investment Advisory Company Limited, Future Finmart Limited, Future Hospitality Management Limited, Sivagami Finance and Investments Limited. In June 2007, we launched our financial services retail offering, Future Money. However, as we had minimal assets, liabilities and operations prior to May 2006 and had not fully launched certain of our businesses prior to March 31, 2007, the financial information we have presented for fiscal 2007 may not be representative of a full year of operations. For instance, while we expect to continue to generate a substantial portion of our income from fees earned pursuant to contractual arrangements with funds and investment managers of funds (including advisory and research fees), in future periods we also expect to generate income from interest earned on the loans we extend and the financial products we distribute through our retail financial services business.

Factors Affecting Our Results of Operations and Financial Condition

Economic Conditions in India

The funds we advise and whose investment managers we advise invest in Indian assets. We also provide retail financial services to Indian customers. Accordingly, our results of operations and financial condition have been and will continue to be influenced by macro-economic, market and other conditions and developments in India. Factors affecting our results of operations include levels of, and growth rates in, GDP and per capita GDP as well as the rate of inflation. The economy has been growing at a rate above 8% for the past three fiscal years, making it the second-fastest growing major economy in the world, after China. Growth has been driven by rising domestic demand from India's population of 1.1 billion.

Developments in the Indian Retail and Consumption-Led Sectors

Consumption patterns in India have changed dramatically in recent periods, mainly as a result of rising disposable incomes. As disposable incomes have increased, household spending has shifted from spending on necessities to discretionary spending. Indians are spending an increasing proportion of their income on household products, apparel, communications and health care. In addition, rising incomes have contributed to the emergence of a middle class and a decline in the proportion of Indians living in poverty. Although growth in disposable incomes has been the main driver of higher consumption, population growth and a decline in the number of joint family households are also expected to contribute to growth in consumption. As the retail and consumption-led sectors grow, we expect that the number of companies engaged in activities in these sectors will increase, leading to more potential targets for the funds whose investment managers we advise. We also expect that higher consumption will lead to demand for retail credit products, including the consumption loans we offer. Although consumption has increased rapidly over the last decade, organised retailing is a relatively new development in India. Recently, however, the number of malls, hypermarkets and other retail formats has increased. Pantaloon Retail (India) Limited (PRIL) is one of India's leading organised multi-format retailers, but now other players are opening hypermarkets and malls to cater to rising consumption and demand for brands. In addition, although mall growth has been primarily in the larger cities, increasing affluence in mid-tier and smaller cities has led to growth in organised retailing. As organised retailing grows and expands geographically, we expect to be able to offer retail financial services to a wider range of customers.

In addition to the factors identified above under " — Factors Affecting Our Results of Operations and Financial Condition", the market conditions will continue to affect our investment advisory business and therefore, our consolidated results of operations and financial condition:

Factors Affecting our Investment Advisory Business

Our income from operations consists principally of advisory fees and research fees we receive from the fund we advise or investment managers of the funds we advise within real estate and private equity. For fiscal 2007, these fees together accounted for 87.4% of our total income from operations, although we expect this percentage to change as we expand our retail financial services business. Growth in our fee income depends upon our ability to increase assets under advice. This is in turn affected by market factors, including the strength and liquidity of Indian and global capital markets, market volatility, trends in investor

asset allocation and movements in interest rates. The strength of India's capital markets generally, and the IPO market specifically, will affect the ability of the funds we advise and whose investment managers we advise to achieve profitable exits of their investments. These funds may elect to exit investments through IPOs, in which case the strength and liquidity of the capital markets will be a key determinant of the price they receive upon exit and accordingly, their returns. Even in the event that they elect to exit a particular investment through a private sale, the valuation of that investment may nonetheless be affected by the strength of the markets generally.

Market Developments in the Real Estate Markets

Real estate development in India has been growing rapidly, driven by strong economic growth and changing consumption patterns. Growth has been driven in particular by demand for IT SEZs and parks as the Indian IT and ITES sectors have expanded. Retail real estate development, which is the focus of the funds we are involved with, has only recently commenced, and demand for retail space is expected to grow in future periods, as a consequence of the consumption-related factors discussed above under “ — Factors Affecting Our Results of Operations — Developments in the Indian Retail and Consumption-Led Sectors”. We expect that demand for retail space will support the prices to be received upon exit of real estate investments of funds we advise or investment managers of funds we advise. Conversely, any deterioration of conditions in the retail real estate market could have an adverse affect on the funds we are involved with, and hence, our results of operations.

Factors Affecting Our Retail Financial Services Business

As we grow our retail financial services business we will be exposed to risks associated with changes in interest rates. In particular, any increase in interest rates could make consumer loans of the type we offer less attractive to customers and demand for these loans could decrease. In addition, in an environment of falling interest rates, we will be subject to refinancing risk. In India, following a steep drop in interest rates in 2001, interest rates have remained relatively low for an emerging economy during the past few years. However, in the fourth quarter of fiscal 2007, the Reserve Bank of India increased its repo rate twice to 7.75%, and interest rates have reached their highest level in four years. If interest rates continue to rise, our results of operations could be adversely affected.

Market Developments in Retail Financial Services Market

Penetration of retail credit products and services in India

Penetration of retail credit products is relatively low in India when compared with more developed markets and even other emerging markets. Retail loans represented only 10% of India's GDP in 2005, compared to 27% in emerging Asia and 58% in mature markets, including Western Europe (Source: IMF, World Economic Outlook, 2005). In general, the potential for growth is higher in less developed retail credit markets such as India, which have low penetration rates, than in more developed countries. In addition, as a consequence of the factors described above under “ — Factors Affecting Our Results of Operations — Developments in the Indian Retail and Consumption-Led Sectors”, discretionary spending is forecasted to increase. Over the last few years, the perception of credit has changed and Indians are increasingly using credit to finance their spending. We believe that low penetration of and high demand for retail credit products will contribute to growth in income from our retail financial services business. Since we launched our Future Money offering in June 2007, we did not record any income from this business during fiscal 2007; however, we expect that retail financial services will account for an increasing proportion of our income in future periods.

Customer relationships

The results of operations of our retail financial services business are dependent upon the number and quality of our customer relationships. Pursuant to an agreement with PRIL, we have the exclusive right to provide financial products and services at present and future malls, stores and retail outlets in India which are owned, controlled or managed by PRIL and its subsidiaries. This arrangement, for which we pay an annual fee of Rs. 30 million, provides us with access to PRIL's large customer base, which during fiscal 2007 engaged in over 45 million transactions in PRIL stores, as well as to a pan-India geographic reach. Initially, PRIL customers will be our target customers, as we plan to offer them point of consumption loans to finance their purchases, as well as personal loans. Thus, in the nascent stages of the development of our retail financial services business, our customer base will be largely dependent upon our relationship with PRIL. As we expand the scale and scope of our retail financial services offering, we expect to deepen our relationships with our customers by cross-selling newer products to them. We also plan to distribute to customers other financial products, such as mutual funds and insurance. As a result, our ability to grow our retail financial services business depends upon our marketing capabilities and cross-selling skills.