

30th Annual Report 2004

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Board of Directors

Mr. Hemendra Kothari

Mr. Shitin Desai

Mr. Rajeev Gupta

Mr. Amit Chandra

Mr. Ahmass Fakahany

Mr. Christopher Reeves

Mr. Kevan Watts

Mr. Prem Saigal

Mr. Raymundo Yu

Mr. Yogesh Kothari

Mr. Ausaf Abbas

Chairman

Executive Vice Chairman

Joint Managing Director

Joint Managing Director

Alternate to Mr. Raymundo Yu

Company Secretary

Ms. Jyoti Vineet Tandon

Auditors

Deloitte Haskins & Sells

Bankers

Bank of America

Citibank N. A.

Deutsche Bank A. G.

HDFC Bank Ltd.

ICICI Bank Ltd.

Standard Chartered Bank

State Bank of India

The Honkong and Shanghai Banking Corporation Ltd.

Registered OfficeMafatlal Centre, 10th Floor

Nariman Point

Mumbai - 400 021

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Directors' Report to the Shareholders

Your Directors have pleasure in presenting the Thirtieth Annual Report of the Company; the Audited Statement of Accounts and the Auditors' Report for the year ended 31st December, 2004.

The financial results for the period are summarised below:

	DSP Merrill Lynch Limited		Consolidated figures of DSP Merrill Lynch Limited and its subsidiaries	
	2004	2003	2004	2003
Gross Income	3,697.76	2,753.36	4,365.12	3,239.70
Profit before Depreciation and Tax	2,113.80	1,571.81	2,112.85	1,636.66
Depreciation	(62.99)	(62.20)	(72.94)	(68.45)
Profit before Tax	2,050.81	1,509.61	2,040.01	1,568.21
Provision for Tax:				
- Current	697.45	523.60	700.96	528.46
- Deferred Tax expense/(credit) (net)	29.73	0.48	29.52	(2.49)
Operating Profit after Tax	1,323.63	985.53	1,309.53	1,042.24
Provision/(Reversal of provision) of Tax for earlier years	0.28	(10.89)	0.53	(10.90)
Net Profit after Tax	1,323.35	996.42	1,309.00	1,053.14
Less: Share of Minority Interest - Loss Rs. 6/- (Previous year - Profit Rs. 8/-)	N.A.	N.A.		
Share of Loss/(Profit) in respect of investment in Associate Company	N.A.	N.A.	0.10	(0.06)
Balance brought forward from the previous year (excluding Share of minority)	631.59	380.20	690.56	383.98
Balance available for appropriation	1,954.94	1,376.62	1,999.46	1,437.18
Earnings per Share (in Rs.)	58.82	44.28	58.17	46.81

CORPORATE UPDATE

Consent of the Shareholders for delisting expires in May, 2005, and is being sought once again at the forthcoming Annual General Meeting

CORPORATE GOVERNANCE

Pursuant to clause 49 of the Listing Agreement, the Report on Corporate Governance as well as Corporate Governance Report of the Auditors for 2004 is attached.

MANAGEMENT DISCUSSION AND ANALYSIS

In accordance with the listing requirement, Management Discussion and Analysis is annexed to and forms part of this report.

DIVIDEND

Your Directors recommend a dividend of Rs. 24.00 per equity share. If approved, dividend will be paid to the members whose names appear in the Register of Members on the date fixed in consultation with The Stock Exchange, Mumbai.

TRANSFER TO RESERVES

An amount of Rs. 264,670,000/- has been transferred to the Reserve Fund created as per the requirement of section 45-IC of the Reserve Bank of India Act, 1934.

BUSINESS OVERVIEW

Year 2004 (CY2004) was a record year for the Indian capital markets, when compared to the challenging times witnessed in the previous years. The year saw the equity markets hit a new high, as Foreign Institutional Investors (FIIs) flows continued to be strong and hit a record level of over US\$ 8 bn. While markets fell sharply in May 2004 in a knee jerk reaction post-elections, markets recovered shortly thereafter and the index gained nearly 50% from the lows in May. The Sensex ended the year at around 6600, a gain of 13.1% with the mid-caps performing substantially better. The economy continued to perform well despite poor monsoon and the corporate earnings posted yet another year of over 25% growth.

A robust equity issuance pipeline in CY2004 was marked by several path breaking equity issuances and of record volumes, several of which were managed by your Company. The notable ones were the Rs. 105 bn offer for sale by the Government of India for Oil and Natural Gas Limited (ONGC) - the largest Asian Oil & Natural Gas transaction in CY2004, and the Rs. 54 bn IPO for Tata Consultancy Services (TCS) which was the largest initial public offering in India at the time.

In CY2004 Mergers & Acquisitions (M&A) activity too remained resilient and closed the year with several noteworthy transactions; many prompted by Indian companies looking overseas to boost bottomline and improve market share. The year was significant in terms of complexity and cross-border nature of M&A deals that indicated a structural deepening and consolidation of the M&A landscape.

Debt markets witnessed high volatility in CY2004. Activity was sluggish due to concerns over global rate hike, inflationary concerns and liquidity concerns resulting in over a 150 bps increase in gilt yields.

The Private Client business in India has seen tremendous growth over the past few years, benefiting from solid economic growth. Led by an increase in the number of affluent individuals across all segments, the business has seen several banks scaling up their investment advisory operations in India. Additionally, the opportunity is prompting entry of new players into the market. Your Company is focusing on high net worth segment. By adopting Merrill Lynch processes related to this business and using Company's vast experience in capital markets, your Company is trying to differentiate by establishing an advisory platform for Private Client business.

On the political front, the year was marked by a change in the Government with the Congress-led UPA Government gaining a majority in the elections. The appointment of Dr. Manmohan Singh as Prime Minister and Mr. Chidambaram as Finance Minister was welcomed by the stock-market and the Government has since announced encouraging measures such as reduction of capital gains tax on sale of shares, increased FDI limit in sectors like telecom and civil aviation, etc. which further boosted the stock markets.

TECHNOLOGY

After having stabilized the Technology infrastructure in the year 2003, the focus for the year 2004 was on business process automation. Your Company successfully migrated the Fixed Income business on to a new technology platform for supporting the ongoing cash business. Your Company was also able to deploy a new application for warehousing Derivative trades and is now working on the automation of the pricing and valuation along with the Risk reporting. For the Equities business, your Company has been working on stabilizing the Trading system to effectively support the Institutional business. For the Global Private Client business, your Company has stabilized the back office software and is now focusing on front office automation. Your Company is also keen to optimise the connectivity between

offices by increasing bandwidths and will also focus on improving internet connectivity to cater to needs of clients and employees.

CORPORATE SOCIAL RESPONSIBILITY

In CY2004, your Company continued with its focus on Corporate Social Responsibility related initiatives within the three key focus areas of Wildlife/Environment, Youth/Education and Health. In addition to continuing association with NGO partners in the three areas, this year, your Company also engaged itself in identifying ways in which it could support Tsunami Relief measures, indeed an unexpected and tragic occurrence.

Your Company continues its active association with Akanksha Foundation, REAP, Helpage India, Bombay Natural History Society, Akshaya Patra and others. In addition, your Company also undertook the following key philanthropy initiatives in CY2004:

- Conducted a Thalassaemia detection and blood donation camp. Blood was donated for children suffering from Thalassaemia
- Organized "Gift a Gift" program through "Make A Wish Foundation" where your Company, along with employees, granted wishes for 70 children suffering from life threatening diseases
- Undertook the Recycle and ReachOut project and organized sale on behalf of NGOs such as Shraddha and National Association for the Blind
- Made monetary donations to various institutions, noteworthy being to Aseema, Bombay Society of Prevention of Cruelty to Animals, D.S. Kothari Hospital, SOS Children's Villages, and Wildlife Conservation Trust
- Sponsored a one-day picnic for cancer-afflicted children in association with Cancer Patients' Aid Association
- Encouraged employee participation in the first ever Marathon conducted in Mumbai for the support of NGOs
- Scholarships for children of office Assistants

SUBSIDIARIES

DSP Merrill Lynch Fund Managers Limited (DSPMLFM)

The audited statement of accounts of DSPMLFM for the year ended 31st December, 2004, together with the report of Directors and the Auditors, as required under section 212 of the Companies Act, 1956, are attached

DSP Merrill Lynch (Jersey) Limited (DSP MLJ)

The unaudited statement of accounts of DSPMLJ for the period ended 31st December, 2004 certified by the Directors, as required under section 212 of the Companies Act, 1956, together with the report of Directors, are attached.

DIRECTORS

Mr. Prem Saigal, Mr. Christopher Reeves and Mr. Kevan Watts retire by rotation, and being eligible offer themselves for re-appointment. The Board recommends their re-appointment.

The Board re-appointed Mr. Shitin Desai as the Executive Vice Chairman of your Company for a period of 5 years effective 27th March, 2005. In terms of the provisions of the Companies Act, 1956, your approval is sought for the re-appointment as detailed in the notice convening the Annual General Meeting.

The Board has also approved change in remuneration of Mr. Shitin Desai, Executive Vice Chairman, and Mr. Rajeev Gupta & Mr. Amit Chandra, Jt. Managing Directors of the Company. Accordingly shareholders approval is being sought for approving the change in remuneration at the ensuing Annual General Meeting

DIRECTORS' RESPONSIBILITY STATEMENT:

Your Directors state that while preparing the accounts for the period:

- applicable accounting standards have been followed consistently, and proper explanation relating to material departures, if any, have been made;
- accounting policies have been applied consistently, and reasonable and prudent judgements and estimates have been made so as to give a true and fair view of Company's state of affairs at the end of the period and of the profit or loss of the Company for that period;
- proper and sufficient care has been taken in the maintenance of adequate accounting records in accordance with provisions of the Companies Act, 1956, to safeguard assets of the Company and prevent and detect fraud and other irregularities; and
- accounts have been prepared on a going concern basis.

AUDIT COMMITTEE

The Audit Committee comprises of the following non-executive directors:

- Mr. Prem Saigal
- Mr. Christopher Reeves
- Mr. Kevan Watts
- Mr. Yogesh Kothari

The above Committee also functions as an Audit Committee for purposes of the Companies Act, 1956, as well as the Reserve Bank of India directions for Non Banking Financial Companies.

AUDITORS

M/s Deloitte Haskins & Sells, Chartered Accountants and Statutory Auditors of the Company retire at the ensuing Annual General Meeting and are eligible for re-appointment. The Company has received a letter from them stating that the re-appointment, if made, will conform with the provisions of section 224(1-B) of the Companies Act, 1956. The Audit Committee has also recommended their re-appointment.

PARTICULARS OF EMPLOYEES

The particulars in accordance with section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, forms a part of this report. However, according to the provisions of section 219(1)(iv) of the Companies Act, 1956, the report and accounts are being sent to all shareholders of the Company excluding the statement of particulars of employees under section 217(2A) of the Companies Act, 1956. Any shareholder interested in obtaining a copy of the said statement may write to the Company.

INFORMATION IN ACCORDANCE WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988

The Company has not been associated with any manufacturing activities. Hence, there is no report pertaining to conservation of energy or technology absorption. The details of earnings and expenditure in foreign currency are given in Note 6 of Schedule 20 of the accounts.

ACKNOWLEDGEMENT

Your Directors wish to thank all shareholders for their strong support. In addition, the Directors also wish to place on record their appreciation and thanks for the excellent contribution made by the employees.

For and on behalf of the Board of Directors

Hemendra Kothari
Chairman

Mumbai
Date: 29th March, 2005

Management Discussion and Analysis

INDUSTRY STRUCTURE AND DEVELOPMENTS

Year 2004 (CY2004) was a record year for the Indian capital markets, when compared to the challenging times witnessed in the previous years. The year saw the equity markets hit a new high, as Foreign Institutional Investors (FIIs) flows continued to be strong and hit a record level of over US\$ 8 bn. While markets fell sharply in May 2004 in a knee jerk reaction post-elections, markets recovered shortly thereafter and the index gained nearly 50% from the lows in May. The Sensex ended the year at around 6600, a gain of 13.1% with the mid-caps performing substantially better. The economy continued to perform well despite poor monsoon and the corporate earnings posted yet another year of over 25% growth.

A robust equity issuance pipeline in CY2004 was marked by several path breaking equity issuances and of record volumes, several of which were managed by your Company. The notable ones were the Rs. 105 bn offer for sale by the Government of India for Oil and Natural Gas Limited (ONGC) - the largest Asian Oil & Natural Gas transaction in CY2004 and the Rs. 54 bn IPO for Tata Consultancy Services (TCS) which was the largest initial public offering in India at the time.

In CY2004 Mergers & Acquisitions (M&A) activity too remained resilient and closed the year with several noteworthy transactions; many prompted by Indian companies looking overseas to boost bottomline and improve market share. The year was significant in terms of complexity and cross-border nature of M&A deals that indicated a structural deepening and consolidation of the M&A landscape.

Debt markets witnessed high volatility in CY2004. Activity was sluggish due to concerns over global rate hike, inflationary concerns and liquidity concerns resulting in over a 150 bps increase in gilt yields.

The Private Client business in India has seen tremendous growth over the past few years, benefiting from solid economic growth. Led by an increase in the number of affluent individuals across all segments, the business has seen several banks scaling up their investment advisory operations in India. Additionally, the opportunity is prompting entry of new players into the market. Your Company is focusing on high net worth segment. By adopting ML processes related to this business and using our firm's vast experience in capital market, your Company is trying to differentiate by establishing an advisory platform for private client business.

On the political front, the year was marked by a change in the Government with the Congress-led UPA Government gaining a majority in the elections. The appointment of Dr. Manmohan Singh as Prime Minister and Mr. Chidambaram as Finance Minister was welcomed by the stock-market and the Government has since announced encouraging measures to help the stock market that include reduction of capital gains in shares as well as increased FDI limit in sectors like telecom and civil aviation.

OPPORTUNITIES & THREATS

Your Company continues to believe that India offers a tremendous opportunity to further build on a strong franchise and create vast shareholder value, driven by:

- Strong outlook for macroeconomic parameters, specially GDP growth – which is forecasted to remain at over 7% levels over the medium term
- Confidence levels within the industry and investor base that continue to be at record highs
- Continued emphasis on economic/social development and reforms post the elections.

Despite the significant rally in the markets in recent years, your Company continues to remain bullish on the Indian capital markets, which will drive organic growth in each existing business segment. Continued alignment of Indian markets with the international markets, will help your Company grow its franchise across all business groups.

The risk to your Company's performance stems from a significant increase of competitor interest in the Indian market, particularly amongst players seeking to establish themselves. Also, commission rates and fee levels across business groups continue to decline on account of significant over-capacity in the industry. While this trend is being offset to a large extent by substantial improvement in volumes of business activity, short-term pressures on account of this trend can not be ruled out. Your Company does believe that stabilization of commission rates and fee trend is possible as clients start rewarding superior service propositions. The challenges of operating in such a highly competitive and volatile business environment could continue to take its toll on margins. However, your Company aims to continue to focus on deepening its involvement with clients and focusing on providing value-added services to neutralize this issue to the best extent possible.

SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

Your Company has identified two reportable segments in accordance with Accounting Standard 17 on Segment Reporting issued by the Institute of Chartered Accountants of India. The Advisory and Transactional Services segment consists of revenues on merchant banking, broking and other transactional services and the Trading segment consists of income on trading of securities. The revenues from Advisory and Transactional Services segment went up from Rs. 1,724 mn in CY2003 to Rs. 3,226 mn, registering an increase of 87% in CY2004. Higher revenues along with tighter control on expenses led to 113% higher profits (before-unallocable expenses) in the Advisory and Transactional Services segment in CY2004. The Trading segment revenues, however, declined by 64% from Rs. 861 mn in CY2003 to Rs. 308 mn in CY2004. This resulted in 79% fall in profits (before unallocable expenses) in the Trading Segment in the current year.

BUSINESS ENVIRONMENT**GLOBAL MARKETS & INVESTMENT BANKING (GMI)****Equity Sales/Broking**

CY2004 was another buoyant year for the Indian Capital market – both primary and secondary. The year saw volumes at historic highs and an increase in registrations of new FIIs. FII inflows were at record high in 2004 and crossed over US\$ 8 bn, a 23% rise over 2003. Your Company continued to remain market leaders in the Institutional Segment of Equity Broking Business. With an increase in high quality IPOs and FIIs' focus on India, the Equity Sales division had a record year.

Your Company continues to be consistently rated highly and received the following awards in 2004 from Asiamoney magazine:

- No.1 in Overall Sales services
- No.1 in Best Roadshow visits
- No.2 in Best Execution
- No.2 in Best Events & Conferences

Research

An independent and analytical research department remains key for enhancing service to investors. In an increasingly competitive and uncertain environment, your Company believes that its quality of research will help distinguish its franchise. To this end, your Company has built an International quality research franchise to ensure that its equity-related services are on par with best international practices. Your Company's research and research analysts continue to be highly ranked in various surveys and was voted No. 1 for Indian Research by Institutional Investor in 2004.

Equity Issuance

In CY2004, the domestic IPO market trend was extremely bullish and the pipeline for CY2005 promises to deliver more of the same. An early sign of this bullish sentiment in the primary markets is evident with the strong pipeline for first half of CY2005.

CY2004 was also the year of innovative deals and your Company was at the forefront of several of these, having successfully completed two landmark domestic deals. Your Company pioneered the Stabilising Agent concept for the first ever Greenshoe option in a domestic equity offering in the Indian markets for ICICI Bank Limited. ONGC's offer for sale - worth Rs. 105 bn, was one of the most successful and largest capital market offering by an Indian issuer. The issue generated unprecedented demand from the investor community. In addition, your Company reopened the Foreign Currency Convertible Bond (FCCB) markets in CY2004 via Indian Hotels Co. Ltd. FCCB issue. This was followed with Tata Motors' FCCB issue of US\$ 400 mn, the largest FCCB offering, done on an accelerated basis, was launched and priced within two hours. Your Company also managed the Sterling Biotech FCCB and a GDR offering for Amtek Auto. All these deals are a reiteration of your Company's continuing commitment to provide innovative solutions to meet clients' varied objectives.

Key highlights of Equity Issuances in CY2004 were:

- **Patni Computer Systems Ltd.(PCS)** : Your Company helped kick start the equity issuance market in CY2004 with a Rs. 4.3 bn IPO by PCS
- **ONGC IPO** : Book-running Lead Managers for the landmark Rs. 105 bn ONGC public offering - the largest most successful ever capital market offering by an Indian company
- **Biocon Limited IPO** : Book-running Lead Managers for the highly successful Rs. 3.2 bn IPO by Biocon Limited – India's largest biotech company
- **Tata Consultancy Services Ltd. (TCS)** : Book-running Lead Managers for the Rs. 54 bn IPO by TCS - largest IPO in Indian Capital Markets history
- **ICICI Bank Ltd. Add-On Offering of Rs. 32 bn** : Your Company pioneered the Stabilising Agent concept for the first ever Greenshoe option in domestic equity capital markets

Your Company's leading position in equity issuance is further supported by the fact that it was named 'Best Equity House in India' in 2004 by The Asset magazine and several well respected publications conferred the following awards on some of the deals managed :

- **ONGC** : The Asset magazine voted ONGC offer for sale as "Best Privatization Deal" in 2004 and Asiamoney magazine named the deal as the "Best India Deal" in 2004.
- **TCS** : Financeasia magazine named TCS IPO as "Best India Deal" and additionally, Asiamoney magazine ranked TCS as "Best IPO."
- **Biocon IPO** : Financeasia magazine also ranked Biocon IPO as "Best Small-Cap Equity Deal."

Looking ahead, while your Company is positive about the Indian equity markets, given the strong underlying economic indicators and bias of global investors towards emerging markets like India, the business will be impacted by environment and associated market risk.

The first three months in 2005 have been one of the busiest periods in the history of Indian capital markets and for your Company's investment banking team. Following are the noteworthy deals completed during this period:

- **Jet Airways** - Rs. 19 bn IPO was the largest in the Indian aviation history
- **Punjab National Bank** - Rs. 31.2 bn add on offering generated demand of over US\$ 11.1 bn
- **HDFC Bank ADR** - US\$ 300 mm ADR, ML was the Lead Manager for the HDFC Bank ADR
- **ICICI Bank Sponsored ADR** - US\$ 466 mm ADR, ML was the Lead Manager for the ICICI Bank Sponsored ADR.

Mergers & Acquisitions

2004 was a landmark year for M&A activity in India, with the total value of M&A deals out of India rising by 67% to US\$ 7.5 bn.

Your Company continues to be amongst the leading M&A advisors in the country on account of its strong corporate relationships and well regarded execution skills. The Indian M&A market was very active, with a number of local and foreign companies looking at larger size acquisitions. Your Company advised on some of the significant transactions, which took place in the M&A market. These include:

- **STT & Telekom Malaysia's acquisition of Cingular stake in Idea** : This US\$ 390 mn deal was the first big telecom acquisition in recent years and marked the re-entry of foreign players into the Indian telecom industry
- **Acquisition of Daewoo Commercial vehicles by Tata Motors** : This US\$ 102 mn deal was the first overseas acquisition by an Indian automobile company
- **Sale of strategic stake of DirectTV Group to Flextronics** : This US\$ 226 mn acquisition of DirectTV Group's 55% stake in Hughes Software System, India, was the largest acquisition of an Indian company by an international company in 2004
- **Newbridges' and Temasek's acquisition of stake in Matrix Lab** : This was a three-stage acquisition process by private equity players amounting to 40% stake in Matrix Lab for a total consideration of US\$ 195 mn.

Your Company acted as financial advisor to four out of the top five M&A deals in CY2004 and advised a total of 14 deals totalling US\$ 987mn. As per the rankings released by India Advisory partners, your Company stood second in the M&A League Tables for 2004.

Fixed Income

Activity in the debt markets was subdued during the year due to concerns over global rate hikes, inflation and liquidity. As a result, the markets were volatile and witnessed over a 150 bps increase in gilt yields. The Reserve Bank of India (RBI) hiked key rates for the first time since 2000, though the rate hikes were small. The profitability of the Primary Dealership business was significantly impacted due to the market environment, but your Company's active trading strategy and strong risk management systems helped avoid any losses, while meeting all underwriting commitments made to the Reserve Bank of India in its capacity as a Primary Dealer.

The situation in the gilt markets kept players away from the corporate bond segment as well. The new debt issuance activity was largely limited to floaters and short maturity securities. In this weak environment, your Company mobilized a total for Rs. 70 bn for its clients in 2004, with strong market position in the floating rate bonds and short tenor segments. The marquee offerings arranged by your Company in the year included a

Rs. 8 bn issue by IDBI, a Rs. 7.55 bn issue by LIC Housing Finance, a Rs. 4 bn issue by HDFC Limited and Rs. 2.5 bn issue by IDFC. International debt issuance, in contrast, witnessed lot of activity from Indian issuers. The positive focus on India coupled with high liquidity with Asian and European investors resulted in significant compression of credit spreads for Indian issuers. Your Company, together with Merrill Lynch, lead managed two of the six global bond offerings by Indian issuers in the last year - a US\$200 mn issue for NTPC and a US\$250 mn bond issue for IDBI.

The fixed income sales business faced challenges as investors moved away from longer tenor funds to liquid / floating rate schemes. On account of the lower margins for these categories of investments, the profitability of this business was impacted adversely.

GLOBAL PRIVATE CLIENT (GPC)

The performance of the Global Private Client Group (GPC) in 2004 was driven by a buoyant capital market and increased reach through operations in Chennai, Delhi and Bangalore. Buoyant markets provided overall earnings consistency and growth. Euromoney rated DSPML as "India's Best Private Bank" in all High Net Worth Categories.

In continuation from last couple of years, your Company continued to make significant progress in integrating GPC's business platform and processes with those followed by Merrill Lynch Global Private Client Group.

With the current business platform and processes in place, by recruiting new financial advisors, introducing new products and making substantial investment in technology and other infrastructure, your management would continue to remain focused on scaling business to the desired levels.

INDIRECT SALES

Your Company has a strong network of over 4,500 Channel Partners reaching out to the retail investors with presence in more than 250 cities across India. In addition, tie-ups with National Alliance Partners & Regional Alliance Partners such as Private, Foreign & Public Sector Banks for distribution of various primary market products extends the distribution strengths to cover the institutional investor universe

OUTLOOK

In response to the changing market conditions, your Company plans to continue to build upon its track record of excellence in existing products and services, while investing in building new offerings from a long-term perspective. Your Company continues to maintain strict adherence to risk management and compliance procedures and its efforts are aimed at creating long term value for shareholders. Your Company is working towards meeting the new challenges and opportunities by concentrating on improving performance through a host of initiatives in existing businesses.

RISKS & CONCERNS

While your Company remains optimistic about future business prospects, the overall outlook will remain contingent upon continuing strong economic indicators and political stability.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has an independent internal audit function with direct reporting responsibility to the Audit Committee of the DSPML Board of Directors. The internal audit department evaluates and reports on the adequacy of the internal control system within the Company. It also takes part in the New Product Review Committee, which evaluates all new products.

DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Your Company's Gross Income of Rs. 3.70 bn in 2004 was higher than last year's Gross Income of Rs. 2.75 bn by 34%. Your Company's leadership position across business segments and diversified revenue streams helped in maintaining this growth. Buoyant Capital Markets supported by stock market rally and strong FII inflows helped the equity broking and investment banking businesses. Due to volatility and subdued environment in Debt Markets, performance of Fixed Income business was adversely impacted. Your Company achieved a Profit Before Tax at Rs. 2.05 bn which was higher than last year's Profit Before Tax of Rs. 1.51 bn by 36%.

HUMAN RESOURCES

To support the various businesses, your Company is actively focused on creating a culture of professionalism and excellence that inspires every employee.

Your Company believes that People are the mainstay of the business. Thus, your Company is continuing its policy of implementing specialised training programs (both, functional and soft-skills), facilitating secondment avenues, providing on-the-job training and lateral transfers, all aimed at strengthening employee capabilities and motivating them. These processes are strongly supported by a robust performance evaluation and reward system. Additionally, your Company continues to work on several welfare measures, employee events and HR policies, in line with employee expectations.

Your Company had 279 employees on its rolls as on 31st December, 2004 spread across various departments, of which 62 were women.

The Statements in the Management's Discussion and Analysis may be forward-looking statements about management expectations, strategic objectives, business prospects, anticipated expense savings, financial results and other similar matters. A variety of factors, many of which are beyond the control of the Company, affect its operations, performance, strategy, and results, and could cause actual results and experience to differ materially from the expectations and objectives expressed in these statements. The Company undertakes no responsibility to update or revise any forward-looking statements.