

**HARIBHAKTI & CO. CHARTERED ACCOUNTANTS**

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 19-21, BOMBAY MUTUAL CHAMBERS, 3RD FLOOR, AMBALAL DOSHI MARG, MUMBAI-400 001. ☎ : 6639 1106 - 7 / 2265 2675 • FAX : 2265 6260  
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**AUDITORS' REPORT**  
**TO THE MEMBERS OF HDFC ASSET MANAGEMENT COMPANY LIMITED**

We have audited the attached Balance Sheet of **HDFC ASSET MANAGEMENT COMPANY LIMITED** as at 31<sup>st</sup> March, 2007, 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.

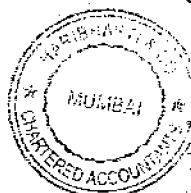
- (I) As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, on the basis of such checks of the books and records as we considered appropriate and the information and explanations given 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:
- Dur*
- (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;



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- (e) On the basis of the written representations received from the directors of the Company as on 31<sup>st</sup> March, 2007 and taken on record by the Board of Directors of the Company, we report that none of the directors is disqualified as on 31<sup>st</sup> March, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
- (f) in our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet, the Profit and Loss Account and Cash Flow Statement read together with Notes thereon give the information required by the Companies Act, 1956 in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
- (i) in so far it relates to the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2007,
- (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.

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Chartered Accountants,


(CHETAN DESAI)

Partner

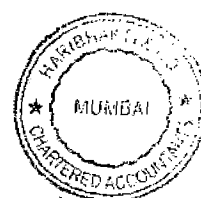
Membership No: 17000

Place: Mumbai,  
Date : 26<sup>th</sup> April, 2007

**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 31<sup>ST</sup> MARCH, 2007.**

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
2. The Company has physically verified the fixed assets in accordance with a programme of verification, which in our opinion provides for physical verification of all fixed assets at reasonable intervals. It was explained to us that there were no material discrepancies noticed on physical verification.
3. During the year, the Company has not disposed off a major part of the fixed assets.
4. The Company has neither granted nor taken any loans, secured or unsecured from Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
5. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and nature of its business with regards to purchase of fixed assets and sale of services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.
6. Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the Company has not entered into any transactions that need to be entered in the register maintained under section 301 of the Companies Act, 1956.
7. The Company has not accepted any deposits from the public.
8. In our opinion, the Company has an adequate internal audit system commensurate with the size of the Company and nature of its business.
9. We are informed that no cost records are required to be maintained by the Company under section 209(1)(d) of the Companies Act, 1956.
10. According to the records of the Company, the Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth-tax, service tax and any other statutory dues applicable to it.
11. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax and service tax were outstanding as at 31<sup>st</sup> March, 2007 for a period of more than six months from the date they became payable.

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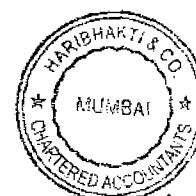


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12. According to the information and explanations given to us by the Company, there is a disputed amount payable in respect of income tax as at 31<sup>st</sup> March, 2007. The details of disputed dues is as under:

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961.	Income Tax	3,67,497/-	A.Y. 2002-2003	The Company has filed an appeal against Income Tax Officer's Assessment Order with the Commissioner of Income Tax (Appeals).

13. The Company has neither accumulated losses as at 31<sup>st</sup> March, 2007 nor it has incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year.
14. The Company has not taken any loan from Financial Institution, Bank and the Company has not issued any Debentures.
15. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
16. The Company has not dealt or traded in shares, securities, debentures and other investments during the year.
17. The Company has not given any guarantee for loans taken by others from Bank or Financial Institutions.
18. The Company has not taken term loans during the year.
19. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that the Company has not used funds raised on short-term basis for long-term investment.
20. The Company has not made any preferential allotment of shares to the parties and companies covered in the register maintained under section 301 of the Companies Act, 1956 during the year.
21. The Company has not issued any Debentures during the year.
22. The Company has not raised any money by public issue during the year.



3/-

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23. Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on the Company or by the Company has been noticed or reported during the course of our audit.
24. The clause (ii) and (xiii) of para 4 are not reported upon as these are not applicable to the Company.

For HARIBHAKTI & CO.,  
Chartered Accountants,



  
(CHETAN DESAI)  
Partner

Place: Mumbai,  
Date : 26<sup>th</sup> April, 2007

Membership No: 17000

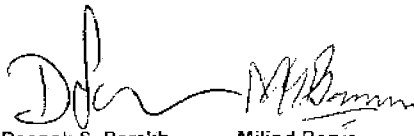
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**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**BALANCE SHEET AS AT MARCH 31, 2007**

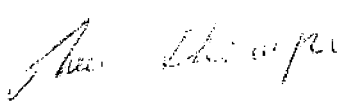
	Schedule	Rupees	Rupees	March 31, 2006 Rupees
<b>FUNDS EMPLOYED</b>				
<b>SHAREHOLDER'S FUNDS</b>				
Share Capital	1		50,16,10,000	50,16,10,000
Reserves and Surplus	2		95,42,67,094	59,54,32,963
<b>TOTAL</b>			<b>145,58,77,094</b>	<b>109,70,42,963</b>
<b>APPLICATION OF FUNDS</b>				
<b>FIXED ASSETS</b>	3			
Gross Block		90,57,95,360		81,70,23,962
Less: Depreciation		26,11,48,332		19,28,39,455
Net Block		64,46,47,028		62,41,84,507
Capital Advances		84,87,942		63,25,993
			65,31,34,970	63,05,10,500
<b>INVESTMENTS</b>	4		84,56,95,637	51,36,82,426
<b>DEFERRED TAX ASSET (see note 9)</b>	5		7,40,32,976	4,64,76,435
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>				
Sundry Debtors	6	10,94,24,536		5,94,48,534
Cash and Bank Balances	7	83,89,134		1,14,77,426
Other Current Assets	8	16,195		6,027
Loans and Advances	9	104,41,62,102		67,95,60,821
		116,19,91,967		75,04,92,808
Less:				
<b>CURRENT LIABILITIES AND PROVISIONS</b>				
Current Liabilities	10	35,58,80,132		19,97,83,840
Provisions	11	92,30,98,324		64,43,35,366
		127,89,78,456		84,41,19,206
<b>NET CURRENT ASSETS</b>			(11,69,86,489)	(9,36,26,398)
<b>TOTAL</b>			<b>145,58,77,094</b>	<b>109,70,42,963</b>
Significant Accounting Policies and Notes to Accounts	17			

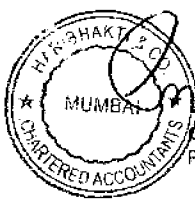
As per our report attached

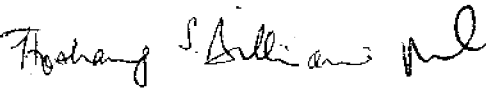
For and on behalf of the Board

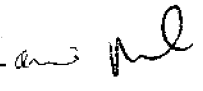
For Haribhakti & Co.  
Chartered Accountants
  
 Deepak S. Parekh  
 Chairman


  
 Milind Barve  
 Managing Director

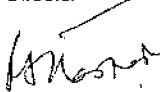
  
 P. M. Thampi  
 Director

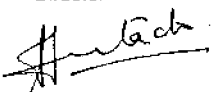
  
 Chetan Desai  
 Partner


  
 Hoshang S. Billimoria  
 Director

  
 N. Keith Skeoch  
 Director

  
 Rajeshwar Raj Bajaj  
 Director

  
 Renu S. Karnad  
 Director

  
 Sylvia Furtado  
 Company Secretary

  
 Rahul Bhandari  
 Chief Financial Officer

Mumbai, April 26, 2007

**HDFC ASSET MANAGEMENT COMPANY LIMITED**  
**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007**

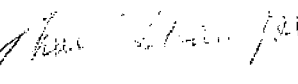
	Schedule	Rupees	Previous Year Rupees
<b>INCOME</b>			
Management Fee	12	182,54,40,546	133,69,74,621
Interest	13	59,089	3,19,650
Dividend		4,23,05,352	1,82,62,800
Other Income	14	72,28,966	84,55,729
<b>Total</b>		<b>187,50,33,953</b>	<b>136,40,12,800</b>
<b>EXPENDITURE</b>			
Staff Expenses	15	42,38,66,961	36,50,46,679
Administrative and Other Expenses	16	35,84,18,648	23,01,25,621
Depreciation	3	7,38,51,304	6,83,28,410
<b>Total</b>		<b>85,61,36,913</b>	<b>66,35,00,710</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>101,88,97,040</b>	<b>70,05,12,090</b>
Provision for Tax (Net of Deferred Tax) (see note 9)		33,96,93,459	24,22,38,100
Provision for Fringe Benefit Tax		38,22,000	35,10,000
<b>PROFIT/(LOSS) AFTER TAX</b>		<b>67,53,81,581</b>	<b>45,47,63,990</b>
Balance brought forward from Previous year		23,27,19,807	5,27,67,278
<b>Profit Available for Appropriation</b>		<b>90,81,01,388</b>	<b>50,75,31,268</b>
Appropriations:			
Excess provision of Income Tax for earlier years (net)		(18,46,230)	
General Reserve		6,75,38,158	4,54,76,399
Preference Dividend		2,50,00,000	2,50,00,000
Tax on Preference Dividend		35,06,250	35,06,250
Interim Equity Dividend Paid		15,09,66,000	8,80,63,500
Tax on Interim Equity Dividend paid		2,11,72,982	1,23,50,906
Proposed Equity Dividend		10,06,44,000	8,80,63,500
Tax on Proposed Equity Dividend		1,71,04,448	1,23,50,906
<b>Balance carried forward to the Balance Sheet</b>		<b>52,40,15,780</b>	<b>23,27,19,807</b>
<b>Earnings Per Share (see note 8)</b>		<b>25.78</b>	<b>16.94</b>
Significant Accounting Policies and Notes to Accounts	17		

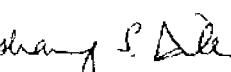
As per our report attached


For and on behalf of the Board


For Haribhakti & Co.  
Chartered Accountants
  
**Deepak S. Parekh**  
 Chairman

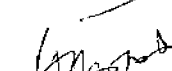
  
**Milind Barve**  
 Managing Director

  
**P. M. Thampi**  
 Director

  
**Hoshang S. Billimoria**  
 Director

  
**N. Keith Skeoch**  
 Director

  
**Rajeshwar Raj Bajaj**  
 Director

  
**Renu S. Karnad**  
 Director

  
**Sylvia Furtado**  
 Company Secretary

  
**Rahul Bhandari**  
 Chief Financial Officer

Mumbai, April 26, 2007