

20th Annual Report 2005 - 2006



Reliance Capital Limited
Reliance - Anil Dhirubhai Ambani Group

Reliance Capital Limited**TWENTIETH ANNUAL GENERAL MEETING**

on Friday, the 9th June, 2006, at 11:00 a.m., at Village Meghpar / Padana, Taluka Lalpur, Dist. Jamnagar - 361 280, Gujarat.

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REGISTERED OFFICE

Village Meghpar / Padana,
Taluka Lalpur,
Dist. Jamnagar - 361 280
Gujarat.
Tel.: 91-288-3011556.
Fax: 91-288-3011598.

CORPORATE OFFICE

H-Block, 1st Floor,
Dhirubhai Ambani Knowledge City,
Koparkhairane, Navi Mumbai - 470 010.
Tel.: 91-22-30327000.
Fax: 91-22-30327202.

BOARD OF DIRECTORS

Shri Anil D. Ambani - Chairman
Shri Amitabh Jhunjhunwala - Vice Chairman
Shri Rajendra P. Chitale
Shri Udayan Bose*
Shri C. P. Jain**

* Appointed as Additional Director w.e.f. 29th December, 2005

** Appointed as Additional Director w.e.f. 24th April, 2006

COMPANY SECRETARY & MANAGER

Shri V. R. Mohan

SOLICITORS & ADVOCATES

Mulla & Mulla & Craigie Blunt & Caroe

AUDITORS

Pathak H. D. & Associates

BANKERS

Ailhabad Bank	Punjab National Bank
HDFC Bank Limited	Syndicate Bank
ICICI Bank Limited	UTI Bank Limited
IDBI Bank Limited	

SUBSIDIARIES

Reliance Capital Asset Management Limited
Reliance Capital Trustee Co. Limited
Reliance General Insurance Company Limited
Reliance Gilts Limited (formerly Reliance Life Insurance Company Limited)
Reliance Capital Asset Management (Mauritius) Ltd.
Reliance Capital Asset Management (Singapore) Pte. Ltd.

REGISTRAR & TRANSFER AGENT

Karvy Computershare Private Ltd.

Hyderabad : Plot No. 17-24, Vittal Rao Nagar
Madhapur, Hyderabad 500 081
☎ 91-040 - 2342 0815 - 25
☎ 91-040 - 2342 0814
Email: rclinvestor@karvy.com
Website: www.karvy.com

Mumbai : Tulsiani Chambers
10th Floor, Nariman Point
Mumbai 400 021.
☎ 91-22-30325645, 30325624
☎ 91-22-22855731

Jamnagar : Sanskrit, Patel Colony Corner,
Opp. UTI Bank, P.N. Marg,
Jamnagar - 361 008
☎ 91-288-3099330 - 32

Reliance Capital Limited

NOTICE

Notice is hereby given that the Twentieth Annual General Meeting of the Members of Reliance Capital Limited will be held on Friday, the 9th June, 2006 at 11.00 A. M., at the Registered Office of the Company, at Village Meghpar / Padana, Taluka Lalpur, Dist. Jamnagar - 361 280, Gujarat, to transact the following business:

Ordinary Business:

1. To consider and adopt the audited Balance Sheet as at 31st March, 2006, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To declare dividend on equity Shares.
3. To appoint a Director in place of Shri Anil D. Ambani, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration and in this regard to consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT M/s Chaturvedi and Shah, Chartered Accountants, and M/s BSR and Co., Chartered Accountants, be and are hereby appointed as the Joint Statutory Auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as may be fixed by the Board of Directors."

Special Business:

5. To consider and if thought fit to pass with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri Udayan Bose, who was appointed as an Additional Director of the Company pursuant to Section 260 of the Companies Act, 1956 and article 135 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing under Section 257 of the Companies Act, 1956, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

6. To consider and if thought fit to pass with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri C.P.Jain, who was appointed as an Additional Director of the Company pursuant to Section 260 of the Companies Act, 1956 and article 135 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing under Section 257 of the Companies Act, 1956, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT in accordance with the provisions of Sections 198, 269, 387 and all other applicable provisions, if any, read with Schedule XIII to the Companies Act 1956, and subject to all such sanctions, as may be necessary, the consent of the Company be and is hereby accorded to the appointment of Shri V.R.Mohan as the Manager of the Company, to be designated as Company Secretary & Manager, for a period of 5 (five) years commencing from March 7, 2006 on the terms and conditions including remuneration set out in the Agreement to be entered into between the Company and Shri V.R.Mohan, which Agreement is hereby specifically sanctioned with liberty to the Board of Directors (hereinafter referred to as "Board" which term shall be deemed to include any Committee of the Board constituted to exercise its powers including powers conferred by this resolution) to alter and vary the terms and conditions of the said appointment and/or Agreement, as may be agreed to between the Board and Shri V. R. Mohan, so as not to exceed the limits specified in Schedule XIII of the Companies Act, 1956 or any amendments thereto.

RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year during the currency of tenure of Shri V. R. Mohan, as Manager, the remuneration and perquisites set out as aforesaid be paid or granted to him as minimum remuneration and perquisites provided that the total remuneration by way of salary, perquisites and other allowances shall not exceed the applicable ceiling limit in terms of Schedule XIII to the said Act as may be amended from time to time or any equivalent statutory re-enactment thereof for the time being in force.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to take all such steps as may be necessary, proper or expedient to give effect to this resolution."

By order of the Board of Directors

V. R. Mohan
Company Secretary & Manager

Mumbai

Dated: 24th April, 2006

Registered Office :
Village Meghpar / Padana
Taluka Lalpur,
Dist. Jamnagar - 361 280

Reliance Capital Limited

NOTES

1. **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll, instead of himself and the proxy need not be a member of the Company. The instrument appointing proxy should, however, be deposited at the Registered Office of the Company not less than forty eight hours before the commencement of the meeting.**
 2. Shareholders are requested to bring their copy of Annual Report to the Meeting.
 3. **Members/Proxies should fill the Attendance Slip for attending the meeting.**
 4. In case of Joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
 5. **Members who hold shares in dematerialised form are requested to write their Client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.**
 6. **All documents referred to in the accompanying Notice are open for inspection at the Registered Office of the Company on all working days, except Saturday between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.**
 7. (a) The Company has already notified closure of Register of Members and Transfer Books thereof from Friday, 26th May, 2006 to Tuesday, 6th June, 2006 (both days inclusive) for determining the names of members eligible for dividend, if approved, on equity shares for the year ended 31st March, 2006. In respect of shares held in electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
 - (b) The dividend on Equity Shares, as recommended by the Board of Directors, if declared at the Annual General Meeting, will be paid on or after 9th June, 2006.
 - (c) Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank printed on reverse of the Dividend Warrant for an initial period of three months only. Thereafter, the Dividend Warrant on revalidation is payable only at limited centres/branches of the said Bank. The members are therefore, advised to encash Dividend Warrants within the initial validity period.
 8. a) In order to provide protection against fraudulent encashment of the warrants, shareholders holding shares in physical form are requested to intimate the Company under the signature of the Sole/First joint holder, the following information to be incorporated on the Dividend Warrants:
 - (i) Name of the Sole/First joint holder and the Folio Number.
 - (ii) Particulars of Bank Account, viz.: (a) Name of the Bank (b) Name of Branch (c) Complete address of the Bank with Pin Code Number (d) Account type, whether Savings (SB) or Current Account (CA) (e) Bank Account number allotted by the Bank
 - (b) Shareholders holding shares in electronic form may kindly note that their Bank account details as furnished by their Depositories to the Company will be printed on their Dividend Warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such shareholders for deletion of/change in such Bank details.
- Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. Shareholders who wish to change such Bank Account details are therefore requested to advise their Depository Participants about such change, with complete details of Bank Account.
9. **Electronic Clearing Service (ECS) Facility**
With respect to payment of dividend, the Company provides the facility of ECS to all shareholders, holding shares in electronic and physical forms, residing in the following cities:
Ahmedabad, Bangalore, Bhubhaneshwar, Chandigarh, Chennai, Coimbatore, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi, Patna, Pune, Surat, Thiruvananthapuram and Vadodara.
Shareholders holding shares in the physical form who wish to avail ECS facility, may authorise the Company with their ECS mandate in the prescribed form which can be obtained from the Registrars and Transfer Agents, Karvy Computershare Private Limited. The requests for payment of dividend through ECS for the year 2005-2006 should be lodged with Karvy Computershare Private Limited on or before 25th May, 2006.
 10. The Company has already transferred all unclaimed dividends declared upto the financial year ended 31st March, 1995 to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978. Shareholders who have so far not claimed or collected their dividends up to the aforesaid financial year are requested to claim their dividend from the Registrar of Companies, Gujarat, Jivabhai Chambers, ROC Bhavan, Opp. Rupal Park, Behind Ankur Bus Stop, Ahmedabad - 380009, Tel. No. 27437597 / 27438531, Fax No. 27428785 in the prescribed form, which will be furnished on receipt of request by the Registrars and Transfer Agents, Karvy Computershare Private Limited.
 11. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividend for the financial year ended 31st March, 1999 and thereafter, which remain unclaimed for a period of 7 years will be transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956. The Company has already transferred the unclaimed dividend for the year ended 31st March, 1998 to the IEPF.
- Information in respect of such unclaimed dividend, for the last date of claiming is given below:-
- | Financial year ended | Date of declaration of Dividend | Last date for claiming unpaid Dividend |
|----------------------|---------------------------------|--|
| 31.03.1999 | 21.09.1999 | 20.09.2006 |
| 31.03.2000 | 24.06.2000 | 23.06.2007 |
| 31.03.2001 | 16.06.2001 | 15.06.2008 |
| 31.03.2002 | 06.07.2002 | 05.07.2009 |
| 31.03.2003 | 28.06.2003 | 27.06.2010 |
| 31.03.2004 | 10.07.2004 | 09.07.2011 |
| 31.03.2005 | 17.08.2005 | 16.08.2012 |
- Shareholders who have not encashed the dividend warrant(s) so far, are requested to seek issue of duplicate warrant(s) by writing to

Reliance Capital Limited

NOTES - (Contd...)

the Company's Registrars and Transfer Agents, Karvy Computershare Private Limited immediately. Shareholders are requested to note that no claims shall lie against the Company or the said Fund in respect of any amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claims.

12. Non-Resident Indian Shareholders are requested to inform Karvy Computershare Private Limited immediately:
 - a) The change in the Residential status on return to India for permanent settlement.
 - b) The particulars of the Bank Account maintained in India with complete name, branch, account type, account number and address of the Bank, if not furnished earlier.
13. Corporate Members intending to send their authorised representatives to attend the Annual General Meeting are requested to send a duly certified copy of the Board Resolution authorising their representatives to attend and vote at the Meeting.
14. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the Registrars and Transfer Agents, Karvy Computershare Private Limited.
15. Re-appointment / Appointment of Directors:

At the ensuing Annual General Meeting, Shri Anil D. Ambani, Chairman of the Company retires by rotation and being eligible offers himself for re-appointment. Shri Udayan Bose and Shri C.P.Jain, additional directors hold office upto this Annual General Meeting and are proposed to be appointed as Directors under Section 257 of the Companies Act, 1956. The information or details pertaining to these Directors, to be provided in terms of Clause 49 of the Listing Agreement is furnished in the Statement on Corporate Governance published elsewhere in this Annual Report.

Explanatory Statement Pursuant to Section 173(2) of the Companies Act, 1956, setting out all the material facts relating to special business:

Item Nos. 5 and 6

Shri Udayan Bose and Shri C.P.Jain were appointed as additional Directors with effect from December 29, 2005 and April 24, 2006 respectively in accordance with the provisions of Section 260 of the Companies Act 1956 and Article 135 of the Articles of Association of the Company. Pursuant to Section 260 of the Companies Act, 1956, the above Directors hold office upto the date of the ensuing Annual General Meeting. The Company has received notice(s) from a member of the Company under section 257 of the Companies Act, 1956 proposing the respective candidature for the office of the Director.

Keeping in view the experience and qualification of the aforesaid persons, your Directors considered it to be in the interest of the Company, if they are appointed as Directors of the Company, liable to retire by rotation as per the provisions of the Companies Act, 1956.

Your Directors therefore recommend the said resolutions for your approval.

The aforesaid Directors, may be deemed to be concerned or interested in the resolution relating to their respective appointments.

None of the other Directors are in any way concerned or interested in the said resolution.

Item No. 7

The Board of Directors of the Company at their meeting held on January 23, 2006, have, subject to the approval of the Members in general meeting and the Central Government, if required, appointed Shri V.R.Mohan as Manager of the Company, designated as Company Secretary & Manager, for a period of 5 (five) years commencing from March 7, 2006 on the remuneration determined by the Board of Directors. Shri V.R.Mohan aged 52 years is a law graduate and a fellow member of the Institute of Company Secretaries of India. He has over two decades of experience in corporate secretarial, legal, finance and managerial functions. The remuneration payable to and the terms of appointment of Shri V.R.Mohan as Manager of the Company during the tenure of his appointment will comprise salary, allowances and the other perquisites, the aggregate monetary value of such salary, allowances and perquisites being limited to Rs. 20 lakh per annum. The perquisites and allowances payable to Shri V.R.Mohan will include Company owned / Leased Accommodation or House Rent allowance in lieu thereof, medical reimbursements, leave travel concession for self and his family including dependants; medical insurance and such other perquisites and / or allowances within the amount specified above. The said perquisites and allowances shall be evaluated, wherever applicable, as per the Income Tax Act, 1961 or any Rules thereunder (including any statutory modification(s) or re-enactment thereof, for the time being in force). However Company's contribution to Provident Fund, Superannuation or Annuity Fund to the extent these singly or together are not taxable under the Income tax Act, 1961 and Gratuity payable and encashment of leave at the end of the tenure, as per the rules of the Company, shall not be included in the computation of limits for the remuneration. In addition to the above, Shri V.R.Mohan shall also be eligible to an annual increment not exceeding 25% on the last drawn salary, perquisites and allowances during his tenure as Manager. Shri V.R.Mohan fulfils the conditions for eligibility contained in Part I of Schedule XII of the Companies Act, 1956. The terms and conditions of appointment and payment of remuneration are set out in the Agreement to be entered into between the Company and Shri V.R.Mohan. The Board or any Committee thereof, subject to requisite approval(s), if necessary, is entitled and authorised to revise at any time, the salary, allowances and perquisites payable to the Manager of the Company such that the overall remuneration payable to the Manager of the Company shall not exceed the limits specified above. Either party may terminate the aforesaid Agreement by giving three months prior notice of termination in writing to the other party.

The draft Agreement to be entered into between the Company and Shri V.R.Mohan is available for inspection at the Registered Office of the Company on all working days except Saturdays between 11.00 a.m. and 1.00 p.m. upto the date of ensuing Annual General Meeting.

Your Directors therefore recommend the said resolution for your approval.

None of the Directors of the Company is, in any way, concerned or interested in the said resolution.

By Order of the Board of Directors

V. R. Mohan
Company Secretary & Manager

Mumbai

Dated: 24th April, 2006

Registered Office :

Village Meghpur / Padana

Taluka Lalpur, Dist. Jamnagar - 361 280

Reliance Capital Limited

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the 20th Annual Report, together with the audited statement of accounts of the Company for the year ended March 31, 2006.

Financial Results:

	(Rs in crore)	
	Year ended 31-3-2006	Year ended 31-3-2005
Gross Income	652.02	295.69
Gross Profit	573.79	138.98
Less: Depreciation	23.19	27.77
Profit before Tax	550.61	111.21
Provision for Taxation	13.00	5.40
Net Profit	537.61	105.81
Add: Profit brought forward from the previous year	204.70	188.49
Profit available for Appropriation	742.31	294.30
Dividend including Dividend Tax	81.32	43.64
Transfer to General Reserve	53.77	24.65
Transfer to Statutory Reserve Fund	107.53	21.18
Transfer to Capital Redemption Reserve	—	0.13
Balance carried forward	499.69	204.70

Dividend:

Your Directors have recommended a dividend of Rs.3.20 per Equity Share on 22,28,66,245 equity shares of Rs 10 each aggregating to Rs. 81.32 crores (including dividend tax) for the financial year ended March 31, 2006, which, if approved at the ensuing Annual General Meeting, will be paid to (i) all those Equity Shareholders whose names appear in the Register of Members as on June 06, 2006 and (ii) to those whose names as beneficial owners, are furnished by the National Securities Depository Limited and Central Depository Services (India) Limited.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance:

Reliance Capital Ltd.'s (RCL's) gross income for the financial year ended March 31, 2006 increased to Rs 652.02 crores, from Rs 295.69 crores in the previous year, registering a growth of over 120 percent.

The operating profit (PBDIT) of the Company increased 113 percent to Rs 619.00 crores during the year, up from Rs.290.06 crores in the previous year.

Interest expenses for the year declined 70 percent to Rs 45.20 crores, from Rs 151.08 crores, in the previous year.

Depreciation was at Rs 23.19 crores as against Rs 27.77 crores in the previous year.

Provision for taxation during the year was Rs 13.00 crores.

Net profit for the year increased by over 400 percent to Rs 537.61 crores from Rs 105.81 crores in the previous year.

An amount of Rs 107.53 crores was transferred to Statutory Reserve Fund pursuant to Section 45IC of the Reserve Bank of India Act, 1934, and an amount of Rs 53.77 crores was transferred to the General Reserve during the year under review.

The Company's Net worth as on March 31, 2006, stood at Rs 4,122.46 crores, as against Rs 1,437.92 crores last year.

Resources and Liquidity:

During the year, RCL raised over Rs. 2,200 crores through a preferential issue of equity shares/ warrants at a price of Rs. 228 per share, to strengthen its financial position, and to generate long term resources for accelerating its future growth plans. Pursuant to the said issue, 7,62,60,001 equity shares and 4,10,00,000 warrants were allotted to the promoter group and other financial investors. As on March 31, 2006, 1,93,00,000 warrants have been converted into equity shares, and the paid up equity share capital of the company has increased to Rs 223 crores.

RCL's debt equity ratio as on March 31, 2006, stands at a very conservative level of 0.06 : 1. The company has not accepted any deposits from the public.

Credit Rating

RCL's proposed short term borrowing programme was assigned a rating of 'A1+' by ICRA Limited, the highest credit rating given by ICRA. Instruments carrying this rating are subject to relatively least degree of credit risk. Fitch Rating India Private Limited assigned the borrowing programme a rating of F1+ (ind), which stands for the highest credit quality and indicates the strongest capacity for timely payment of 'Financial commitment'.

Scheme of Amalgamation and Arrangement

During the year under review, your Directors considered and approved a proposal for the amalgamation and arrangement of Reliance Capital Ventures Limited (RCVL) with the Company.

RCL has filed a petition before the High Court of Gujarat at Ahmedabad, seeking its approval for the Scheme of Amalgamation and Arrangement between Reliance Capital Ventures Limited (RCVL) and the Company. The scheme of amalgamation envisages a share exchange ratio of 5 (five) equity shares of the face value of Rs.10/- each of the Company, for every 100 (one hundred) equity shares of the face value of Rs.10/- each of RCVL, and the consequent cancellation of the shares of RCL held by RCVL.

The share exchange ratio is based on the number of shares of RCL held by RCVL, and is as recommended by KPMG India Private Limited, a leading and reputed International Valuer.

Acquisition of Adlabs Films Ltd.

During the year, the Company along with its affiliate Reliance Land Private Limited, acquired a controlling stake in Adlabs Films Limited, a leading company engaged in the entertainment sector, through a preferential allotment of shares, and by making an open offer in terms of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. Pursuant to such acquisition, the Company and Reliance Land Private Limited became Promoters of Adlabs Films Limited.

Business Review:

RCL's investment portfolio stood at Rs. 2,231 crores, as on March 31, 2006, at cost. The investment in infrastructure projects stood at Rs 927 crores. RCL's strategy for its private equity and proprietary investment

Reliance Capital Limited

DIRECTORS' REPORT - (Contd...)

portfolio is to focus on asset quality and asset mix to achieve superior returns. RCL is increasingly diversifying its scope of operations into a variety of avenues as afforded under the Indian NBFC regulatory framework, through its interests in asset management and mutual funds, life and general insurance, stock broking and other activities in financial services.

Industry Structure and Developments:

The operations of Non Banking Financial Companies (NBFCs) are regulated and supervised by the Reserve Bank of India vide powers conferred under chapter III- B of Reserve Bank of India Act, 1934. The regulatory and supervisory framework for NBFCs have been continuously strengthened in order to ensure strong and healthy functioning, by limiting excessive risk taking practices and protecting the interest of deposit holders.

The NBFC sector in India has become very mature with reduced dependence on the acceptance of public deposits as part of its overall funding. The NBFC sector is now represented by a mix of a few large companies with nationwide presence and a large number of small and medium-sized companies with regional focus.

Opportunities:

With GDP growth forecasts of 7%-8% over the next few years, the Indian economy will continue to provide several attractive growth opportunities. The increased thrust on the infrastructure sector, including power, roads, ports, telecom and other urban infrastructure projects, will continue to provide excellent investment opportunities in the future.

In addition, the services sector, which is growing at rapid pace and contributes substantially to GDP, will provide many new opportunities for the financial services industry in India.

RCL sees huge growth opportunities in each of its existing business areas, and will also be expanding the focus of activities to new areas, arising from the strong growth momentum in the economy.

Challenges

The NBFC sector continues to face competitive pressures from the banking sector and financial institutions, due to their increased penetration in the consumer financing market, with comparatively low cost of funds at their disposal. The spreads in the lending business have also narrowed considerably, bringing risk-adjusted margins to generally unviable levels.

RCL's strong financial position, reflected by its low debt equity ratio, and adoption of prudent business strategies have enabled it to consistently post satisfactory performance despite these difficult conditions.

Outlook:

The financial services sector is one of the key growth sectors of the economy. Globally, 5 of the top 20 Fortune 500 companies are financial services companies. Nearly 16% of total revenues and 28% of total profits of all Fortune 500 companies are generated by the financial services sector, the largest by any single sector.

RCL intends to actively pursue growth opportunities in the fast growing financial services sector in the country, to become a full service financial services company with activities encompassing, inter alia, asset management and mutual funds, life and general insurance, stock broking, private equity and proprietary investments, and other financial services.

Risks and Concerns:

RCL is exposed to specific risks that are particular to its businesses and the environment within which it operates, including interest rate volatility, economic cycle, market risk, and credit risk. RCL manages these risks by maintaining a conservative financial profile and by following prudent business and risk management practices.

Adequacy of Internal Control:

An extensive system of internal controls is practised by RCL to ensure that all its assets are safeguarded and protected against loss from unauthorized use or disposition and that all transactions are authorised, recorded and reported correctly.

RCL ensures adherence to all internal control policies and procedures as well as compliance with all regulatory guidelines.

The Audit Committee of Directors reviews the adequacy of internal controls.

Human Resource Development :

RCL has a team of able and experienced professionals. The number of employees as on March 31, 2006, stood at 140.

Subsidiaries:

During the year, Reliance Asset Management (Mauritius) Ltd. and Reliance Asset Management (Singapore) Pte. Ltd. (subsidiaries of Reliance Capital Asset Management Ltd.) have become subsidiaries of the Company.

In terms of the approval granted by the Central Government under section 212(8) of the Companies Act, 1956, a copy of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and Auditors of the Subsidiaries have not been attached with the Balance Sheet of the Company. These documents will be made available upon request by any member of the Company interested in obtaining the same. However, as directed by the Central Government, the financial data of the subsidiaries have been furnished under 'Details of Subsidiaries', which forms part of the Annual Report. Further, pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India, Consolidated Financial Statements presented by the Company include financial information of its subsidiaries.

Group Companies

Reliance Mutual Fund (RMF)

Reliance Capital Asset Management (RCAM)

During the year, Reliance Mutual Fund emerged as the largest Private sector mutual fund in the country. The assets under management increased to Rs 24,670 crores as on 31st March 2006, from Rs 9,543 crores as on 31st March 2005, an increase of 159%.

The aggregate equity corpus under management has increased to Rs 15,010 crores - the largest in the country, from Rs 3,991 crores as on 31st March 2005, an increase of 276%.

Reliance Mutual Fund had nearly 21 lakh investors as on 31st March 2006 - the largest investor base amongst the private sector Mutual Funds in the country. The investor base increased by 341% in the previous financial year.

Reliance Mutual Fund has been adjudged as India's Most Trusted Mutual Fund Brand in the Economic Times Brand Equity survey carried out by AC Nielsen ORG-MARG.

DIRECTORS' REPORT - (Contd...)

The net profit of RCAM was Rs 30 crores for the period under review, compared to Rs.12.55 crores in the previous year.

Reliance Life Insurance

During the period under review, Reliance Capital Limited acquired AMP Sanmar Life Insurance Company Limited, with the approval of Insurance Regulatory and Development Authority (IRDA).

Pursuant to the acquisition, AMP Sanmar Life Insurance has been renamed as Reliance Life Insurance Company Limited.

The acquisition enables RCL to enter the exciting growth area of life insurance, in one of the world's fastest growing, and most under-served markets.

The Premium Income increased to Rs 224 crores from Rs 107 crores, an increase of 109%, within a short span of 6 months of RCL taking over the company.

Reliance Life is committed to attaining leadership rankings in the industry within the next few years.

Reliance General Insurance

Reliance General Insurance (RGI) offers home insurance, property insurance, auto insurance, travel insurance, marine insurance, commercial insurance and other speciality insurance products.

The Gross Direct Premium for the financial year ended 31st March 2006 was Rs 163 crores.

The Net Profit was Rs 14.4 crores for the period under review, an increase of 148%.

Fixed Deposits:

The Company has neither accepted nor renewed any fixed deposits during the year.

The deposits remaining unclaimed on the due dates as on March 31, 2006, were 48 deposit accounts aggregating to Rs. 0.10 crore.

RCL has intimated the deposit holders individually of their unclaimed amount with a request to return the Fixed Deposit Receipts duly discharged to enable the Company to repay the amount.

Directors:

Shri Anil D Ambani, Chairman of the Company, retires by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Shri Udayan Bose and Shri C.P.Jain were appointed as Additional Directors w.e.f. December 29, 2005 and April 24, 2006, respectively, and they would hold office till the ensuing Annual General Meeting. The Company has received notice in writing from a member proposing the candidature of Shri Udayan Bose and Shri C.P.Jain, for the office of Director.

A brief resume of the Director(s) retiring by rotation / seeking appointment at the ensuing Annual General Meeting, nature of their expertise in specific functional areas, and names of companies in which they hold directorship and/or membership/Chairmanship of Committees of the Board, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, are given in the section on Corporate Governance elsewhere in the Annual Report.

Directors' Responsibility Statement:

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

- (i) in the preparation of the accounts for the financial year ended March 31, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2006, and of the profit of the Company for the year under review;
- (iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (iv) the Directors have prepared the annual accounts of the company on a 'going concern' basis.

Consolidated Financial Statements:

In accordance with Accounting Standard AS -21 on Consolidated Financial Statements read with Accounting Standard AS -23 on Accounting for Investments in Associates, your Directors provide the audited Consolidated Financial Statements in the Annual Report. These statements have been prepared on the basis of audited financial statements received from subsidiary companies, as approved by their respective Boards.

Auditors & Auditor's Report:

M/s Pathak H. D. & Associates, Chartered Accountants, Auditors of the Company, hold office until the conclusion of the ensuing Annual General Meeting. The Company has received a letter from M/s Pathak H. D. & Associates, Chartered Accountants, expressing their unwillingness to be reappointed as Auditors.

Your Directors have therefore proposed to appoint M/s. Chaturvedi and Shah, Chartered Accountants, and M/s. BSR and Co., Chartered Accountants, as Joint Statutory Auditors of the Company, subject to the approval of the members at the ensuing Annual General Meeting. The Company has received letters from M/s. Chaturvedi and Shah, Chartered Accountants and M/s.BSR and Co., Chartered Accountants, to the effect that their appointment, if made, would be within the prescribed limits under section 224(1-B) of the Companies Act, 1956, and that they are not disqualified for such appointment within the meaning of Section 226 of the Companies Act, 1956.

The notes to the accounts referred to in the Auditor's Report are self-explanatory and therefore do not call for any further comments.

Particulars of Employees :

In terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the name and other particulars of the employees are required to be set out in the Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Annual Report excluding the aforesaid information is being sent to all the Members

Reliance Capital Limited

DIRECTORS' REPORT - (Contd...)

of the Company and others entitled thereto. Members who are interested in obtaining such particulars may write to the Company at its Corporate Office.

Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo:

Particulars required to be furnished under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are as under: -

(1) Part A and B pertaining to conservation of energy and technology absorption are not applicable to the Company.

(2) Foreign Exchange earnings and outgo:

Earnings - Nil

Outgo - Rs 0.80 crore

Transfer of Unclaimed Dividend to IEPF

Pursuant to the provisions of Section 205(A) of the Companies Act, 1956, the declared dividend which remained unclaimed for a period of 7 years has been transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the said Act

Corporate Governance:

The report on Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, forms part of the Annual Report.

A Certificate from the Auditors of the Company M/s.Pathak H D and Associates, Chartered Accountants, confirming compliance with conditions of Corporate Governance as stipulated under the aforesaid Clause 49, is annexed to this Report.

Acknowledgements:

Your Directors would like to express their sincere appreciation of the co-operation and assistance received from shareholders, bankers, regulatory bodies and other business constituents during the year under review.

Your Directors also wish to place on record their deep sense of appreciation for the commitment displayed by all executives, officers and staff, resulting in the successful performance during the year.

For and on behalf of the Board of Directors

Anil D. Ambani
Chairman

Mumbai

Dated : April 24, 2006

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CORPORATE GOVERNANCE

The Company pursuant to Clause 49 of the listing agreement with the Stock Exchanges furnishes its report on the code on Corporate Governance.

1. Company's Philosophy on Code of Governance

The Company's philosophy on Corporate Governance envisages the attainment of the highest levels of transparency, accountability and equity, in all facets of its operations, and in all its interactions with its stakeholders, including shareholders, employees, the government and lenders.

The Company is committed to achieve the highest international standards of Corporate Governance.

The Company believes that all its operations and actions must serve the underlying goal of enhancing overall shareholder value, over a sustained period of time.

2. Board of Directors**I. Composition and Category**

The Board of the Company at present consists of five Directors, all being Non-Executive, three of whom are independent.

IIa. Attendance of each Director at the Board meetings, last Annual General Meeting

Name of the Director	Attendance particulars for 2005-2006		
	Board meetings held during tenure of Director	Board Meeting attended	Last AGM
Shri Anil D. Ambani (C)	8	8	Y
Shri Amitabh Jhunjunwala (VC)	9	9	Y
Shri Rajendra P. Chitale (I)	8	7	Y
Shri Udayan Bose (I)	3	3	N/A
Shri C. P. Jain (I)	1	1	N/A

IIb. Number of other Directorship and Chairmanship/Membership of Committee of each Director in various companies

Name of the Director	No of other Directorship and Committee membership / chairmanship		
	Other Directorship #	Other Committee **	
		Member-ship	Chairman-ship
Shri Anil D. Ambani (C)	8	6	4
Shri Amitabh Jhunjunwala (VC)	7	2	1
Shri Rajendra P. Chitale (I)	10	6	2
Shri Udayan Bose (I)	7	1	1
Shri C. P. Jain (I)	-	-	-

C - Chairman, VC- Vice Chairman, I - Independent

** Only membership / chairmanship of Audit and Shareholders / Investor Grievance Committee is taken into consideration as per clause 49 of the listing agreement.

(excluding directorship held in Private Limited Companies and Section 25 Companies)

III. Number of Board Meetings held and the dates on which held

During the year ended 31st March, 2006, nine Board Meetings were held as against the minimum requirement of four meetings. The meetings were held on April 25, 2005, June 19, 2005, July 18, 2005, July 25, 2005, August 17, 2005, October 24, 2005, January 2, 2006, January 23, 2006 and March 20, 2006.

The Company has held at least one meeting in every three months and the maximum time gap between any two Board

Meetings was not more than four months. None of the directors of the Company was a member of more than ten committees or the Chairman of more than five committees across all public limited companies in which he is a director.

For the purpose of considering the limit of the Committees as stated above, only Audit Committee and Shareholders / Investors Grievances Committee across all public limited companies has been considered in accordance with clause 49 of the Listing Agreement.

IV. Information on Directors Appointment / Re-appointment

Brief resume of Directors being re-appointed / appointed at the ensuing Annual General Meeting, nature of their expertise in specific functional areas and names of the companies in which they hold directorship (excluding directorship held in Private Limited companies and Section 25 Companies) and the membership of committees of the Board is furnished hereunder :

- (i) **Shri Anil D. Ambani**, aged 47 years is an MBA from the Wharton School, University of Pennsylvania, USA. He joined Reliance Industries Limited in 1983 as Co-Chief Executive Officer. He is credited with having pioneered many financial innovations in the Indian capital markets. He pioneered India's first forays into overseas capital markets with international public offerings of global depositary receipts, convertibles and bonds. He directed Reliance in its efforts to raise, since 1991, around US\$2 billion from overseas financial markets; with a 100-year yankee bond issue in January 1997 being the high point. He has steered the Reliance Group to its current status as India's leading textiles, petroleum, petrochemicals, power, and telecom player. He is the Chairman and Managing Director of Reliance Energy Ltd. and Chairman of Reliance Infocomm Ltd., Reliance Communications Infrastructures Ltd., Reliance Telecom Ltd., Reliance Communication Ventures Ltd., Reliance Capital Ventures Ltd., Reliance Energy Ventures Ltd., Reliance Natural Resources Ltd.
- (ii) **Shri Udayan Bose**, aged 57 years former Managing Director Lazard U.K. and USA and founder Chairman Lazard India, has over 35 years of domestic and international experience in banking, corporate finance, project finance and restructuring. He has handled several domestic and cross border transactions in Asia and has advised the Indian Government on privatization. He is the founder Chairman and Principal of Tamara Capital Partners Pte Limited. He is also the Chairman of Thomas Cook Limited. He was formerly the Regional Director of Deutsche Bank. He is also Senior Adviser to the Commonwealth Business Council in the UK.
- (iii) **Shri C.P. Jain**, aged 60 years has an illustrious career spanning over 40 years of contribution in the fields of financial management, general management, strategic management and business leadership. A law graduate, he is a fellow member of the Institute of Chartered Accountants of India with an advanced diploma in Management. He joined the Board of NTPC in 1993 as Director (Finance) and was elevated as Chairman & Managing Director in September 2000. He was Chairman of the Global Studies Committee of World Energy Council (WEC), world's largest energy NGO with nearly hundred member-nations. He has been on several important committees of the Government of India, latest being the 'Adhoc Group of Experts on Empowerment of CPSEs'. He was Chairman of Standing Conference of Public Enterprises (SCOPE) between April 2003 and March 2005.