

**RELIANCE CAPITAL  
ASSET MANAGEMENT LIMITED**

**ANNUAL REPORT**

**2006-07**

## DIRECTORS' REPORT

### *To the Members,*

Your Directors take pleasure in presenting their Twelfth Annual Report on the business and operations of the Company together with the audited Statement of Accounts for the year ended March 31, 2007.

### *Financial Results:*

	<b>Year ended March 31, 2007 (Rs.)</b>	<b>Year ended March 31, 2006 (Rs.)</b>
Gross Income	20,26,419,366	93,44,45,877
Depreciation	1,93,36,122	1,13,42,043
Profit before tax	74,82,83,415	43,89,81,893
Provision for taxation	25,71,40,733	15,23,16,677
Provision for Deferred Tax Asset/ (Liability)	1,53,96,275	48,94,517
Excess/ (Short) provision for tax in the previous year	38,27,586	88,46,502
Net Profit	51,03,66,543	30,04,06,235
Balance carried to Balance Sheet	1,03,56,99,806	52,53,33,263
Basic and Diluted EPS of Rs. 10 each	67.81	39.82

### *Dividend:*

The Company has decided to plough back its entire profits for future developments. Hence no dividend is recommended for the year under review.

### *Operations:*

The Company is the Investment Manager to Reliance Mutual Fund (RMF). RMF is the number one Mutual Fund in India as on March 31, 2007 on assets under management (AUM) basis. The AUM of RMF as on March 31, 2007 is approximately Rs. 46,305 Crores. RMF currently has the following twenty nine schemes:

<b>Open-ended Equity Schemes</b>	
	Reliance Vision Fund
	Reliance Growth Fund
	Reliance NRI Equity Fund
	Reliance Equity Opportunities Fund
	Reliance Equity Fund
	Reliance Tax Saver (ELSS) Fund
	Reliance Index Fund
	Reliance Regular Savings Fund

<b>Close-ended Equity Schemes</b>	Reliance Long Term Equity Fund
<b>Open-ended Debt Schemes</b>	Reliance Income Fund
	Reliance Short Term Fund
	Reliance Medium Term Fund
	Reliance Monthly Income Plan
	Reliance Liquid Plus Fund
	Reliance NRI Income Fund
<b>Close-ended Debt Schemes</b>	Reliance Fixed Tenor Fund
	Reliance Fixed Horizon Fund
	Reliance Fixed Horizon Fund – I
	Reliance Fixed Horizon Fund – II
	Reliance Fixed Horizon Fund – III
<b>Open-ended Liquid Schemes</b>	Reliance Liquid Fund
	Reliance Liquidity Fund
	Reliance Floating Rate Fund
<b>Open-ended Government securities Scheme</b>	Reliance Gilt Securities Fund
<b>Open-ended Sector Specific Schemes</b>	Reliance Banking Fund
	Reliance Diversified Power Sector Fund
	Reliance Pharma Fund
	Reliance Media & Entertainment Fund
<b>Debt Oriented Interval Scheme</b>	Reliance Interval Fund

Reliance Mutual Fund posted an exponential growth over the last year. The Assets Under Management (AUM) increased to Rs. 46,306 as on March 31, 2007 from Rs. 24,670 crores as on March 31, 2006, an increase of 87%. The aggregate Debt corpus under management increased to Rs. 20,189 crores as on March 31, 2007 from Rs. 7,659 crores as on March 31, 2006, an increase of 109%.

During the year, the Mutual Fund Industry also witnessed a rise of Rs. 94,466 crore in the total AUM from Rs. 2,31,862 crores to Rs. 3,26,328 crores between April 2006 and March 2007 (Source: AMFI Update).

The Company is also a SEBI registered Portfolio Manager and has commenced its Portfolio Management Services (PMS) since August 2004. It currently offers Discretionary and Advisory Services to various categories of clients whose assets have crossed a certain threshold level and who prefer to delegate management of those assets to a team of skilled investment experts. The team strength has been increasing to capitalize on the encouraging market outlook for this business.

#### ***New Launches:***

During the period under review, RMF launched seven schemes. On April 7, 2006, RMF launched the “Reliance Fixed Horizon Fund”, a closed-ended income scheme; on Sept 25, 2006, the “Reliance Fixed Horizon Fund - I”, a closed-ended income scheme; on Nov 14, 2006 the “Reliance Long Term Equity Fund”, an close-ended diversified equity Scheme; on Nov 24, 2006 the “Reliance Fixed Horizon Fund - II”, a closed-ended income scheme; on March 14, 2007, the “Reliance Interval Fund, a Debt oriented Interval scheme; on March 15, 2007, the “Reliance Liquid Plus Fund, an open ended Income scheme; and on March 21, 2007 the “Reliance Fixed Horizon Fund - III”, a closed-ended income scheme.

A series of Monthly Plans, Quarterly Plans and Annual Plans were launched under Reliance Fixed Horizon Fund, Reliance Fixed Horizon Fund- I, Reliance Fixed Horizon Fund – II, Reliance Fixed Horizon Fund – III.

The Fund also repositioned Reliance Floating Rate Fund to a T+0 fund, there was also a change in Asset Allocation in Reliance Liquid Fund -Cash Plan, there was a Repositioning of Reliance Regular Savings Fund – Hybrid Option to Reliance Regular Savings Fund – Balanced Option.

**Subsidiaries:**

As required under Section 212 of the Companies Act, 1956, the consolidated audited statements of accounts, of all the subsidiaries for the year ended 31<sup>st</sup> March 2007 shall be annexed hereto, together with the statement relating to company’s interest in the Subsidiary Companies.

**Awards and Recognitions:**

**CRISIL Ranking**

**RELiance GROWTH FUND - GROWTH**

- CRISIL has assigned a Composite Performance Rank of “CRISIL~CPR 1” \* Open End Diversified Equity Schemes, December 2006” to Reliance Growth Fund – Growth.
- Lipper, a wholly-owned subsidiary of Reuters has rated Reliance Growth -- as the world’s best performing open-ended equity fund over a period of both 5 and 10 years

**RELiance VISION FUND**

- CRISIL has assigned a Composite Performance Rank of “CRISIL~CPR 3”\* Open End Diversified Equity Schemes, December 2006” to Reliance Vision Fund
- Lipper, a wholly-owned subsidiary of Reuters has rated Reliance Vision as the world’s second best performing open-ended equity fund in the five-year category.

**RELiance SHORT TERM FUND**

- CRISIL has assigned a Composite Performance Rank of “CRISIL~CPR 1”\* Open End Debt Short Term Schemes, December 2006” to Reliance Short Term Fund.

**RELiance LIQUID FUND - TREASURY PLAN**

- CRISIL has assigned a Composite Performance Rank of “CRISIL~CPR 3”\* Open End Liquid Schemes, December 2006” to Reliance Liquid Fund - Treasury Plan

**RELiance GILT SECURITIES FUND - LONG TERM PLAN**

- CRISIL has assigned a Composite Performance Rank of “CRISIL~CPR 2”\* Open End Long Term Gilt Schemes, December 2006” to Reliance Gilt Securities Fund - Long Term Plan

**RELiance INCOME FUND**

- CRISIL has assigned a Composite Performance Rank of “CRISIL~CPR 2\* Open End Debt Schemes, December 2006” to Reliance Income Fund

**ICRA reaffirms highest credit quality rating to schemes of Reliance Mutual fund**

Reliance Liquidity Fund	mfA1+
Reliance Liquid Fund – Treasury Plan	mfA1+
Reliance Floating Rate Fund	mfAAA
Reliance ShortTerm Fund	mfAAA

**Returns Delivered:**

**Performance of the Flagship Schemes of RMF Vis - A - Vis Benchmark Indices**

		Compounded Annualised Returns as on 30.03.07			
		1 year	3 years	5 years	Since Inception
1	<b>Reliance Growth Fund</b>	14.11%	51.81%	60.72%	32.79%
	BSE 100	11.70%	30.91%	30.81%	12.88%
	S & P CNX Nifty	11.78%	29.73%	27.55%	11.78%
2	<b>Reliance Vision Fund</b>	10.04%	39.49%	54.35%	27.97%
	BSE 100	11.70%	30.91%	30.81%	12.88%
	S & P CNX Nifty	11.78%	29.73%	27.55%	11.78%
3	<b>Reliance NRI Equity Fund</b>	25.11%	NA	NA	42.92%
	BSE 200 Index	10.58%	NA	NA	33.59%
4	<b>Reliance Equity Opportunities Fund</b>	11.51%	NA	NA	42.71%
	BSE 100	11.70%	NA	NA	37.61%
5	<b>Reliance Equity Fund</b>	8.66%	NA	NA	8.74%
	S&P CNX Nifty	12.31%	NA	NA	11.78%
6	<b>Reliance Income Fund</b>	5.14%	4.07%	6.62%	9.54%
	Crisil Composite Bond Fund Index	3.68%	2.40%	5.31%	NA
7	<b>Reliance Liquid Fund - Treasury Plan - Retail option</b>	6.63%	5.43%	5.68%	6.75%
	CRISIL Liquid Fund Index	6.39%	5.13%	5.15%	NA
	<b>Reliance Liquid Fund - Cash Plan</b>	6.44%	5.24%	5.13%	5.20%
	CRISIL Liquid Fund Index	6.39%	5.13%	5.15%	NA
8	<b>Reliance Medium Term Fund</b>	6.26%	3.46%	5.46%	7.05%
	Crisil Short Term Bond Fund Index	5.70%	4.19%	5.23%	NA
9	<b>Reliance Short Term Fund</b>	7.55%	6.17%	NA	6.41%
	CRISIL Liquid Fund Index	6.39%	5.13%	NA	4.93%
10	<b>Reliance Banking Fund</b>	14.60%	26.0%	NA	39.23%
	S&P CNX Bank Index	15.20%	24.0%	NA	37.64%
11	<b>Reliance Gilt Securities Fund - Short Term Gilt Plan - Retail - Growth</b>	6.01%	5.32%	NA	6.70%
	I Sec-Si Bex	5.73%	2.75%	NA	4.32%
12	<b>Reliance Gilt Securities Fund - Long Term Gilt Plan - Retail - Growth</b>	3.68%	2.98%	NA	3.84%
	I Sec-Li Bex	5.91%	4.82%	NA	5.17%
13	<b>Reliance Monthly Income Plan</b>	6.98%	10.14%	NA	9.65%
	CRISIL MIP Blended Index	5.67%	6.33%	NA	5.82%
14	<b>Reliance NRI Income Fund</b>	7.30%	NA	NA	5.56%
	CRISIL Composite Bond Fund Index	3.68%	NA	NA	4.34%
15	<b>Reliance Floating Rate Fund</b>	7.43%	NA	NA	6.21%
	CRISIL Liquid Fund Index	6.39%	NA	NA	5.34%
16	<b>Reliance Media &amp; Entertainment Fund</b>	29.02%	NA	NA	43.28%
	S&P CNX Media & Entertainment Index	42.68%	NA	NA	43.07%
17	<b>Reliance Diversified Power Sector Fund</b>	16.06%	NA	NA	53.16%
	India Power Index	1.36%	NA	NA	287.10%
18	<b>Reliance Pharma Fund</b>	1.47%	NA	NA	27.33%
	BSE Health Care Index	-5.04%	NA	NA	18.90%

**Outlook:**

The Indian Mutual Fund industry is one of the fastest growing industries in the financial service sector with 30 AMCs currently operating in the country. The industry has grown at a CAGR of 24% since 1965 and the AUM has grown by 119% in the last three years, with Rs. 326424.78 crores of assets as on March '07.

RMF intends to actively pursue growth opportunities in the fast growing mutual fund industry in the country and to be most preferred investment choice for retail investors. The fund house is poised to grow with innovative products and service initiatives and aggressive expansion strategies.

**Board Meetings held during the year:**

During the year under review, nine meetings of the Board of Directors of the Company were held.

**Issue of shares of the Company:**

The company has issued no further shares during the year.

**Fixed Deposits:**

The Company has not accepted any Fixed Deposits from the public.

**Directors:**

Mr. Kanu Doshi – Director of the Company, retires by rotation and being eligible offers himself for re-appointment.

Mr. S. C. Tripathi was appointed as the Additional Director of the Company with effect from February 1, 2007. Mr. Amitabh Jhunjhunwala resigned as Director with effect from February 15, 2007.

Your Directors place on record their deep appreciation for the invaluable contributions made by Mr. Amitabh Jhunjhunwala during his tenure as Director of the Company.

As per Section 260 of the Companies Act, 1956, Mr. S. C. Tripathi, who is an Additional Director, will hold office till the date of Annual General Meeting of the Company. As per Section 257 of the Companies Act, 1956, the Company has received notice along with deposit from a member proposing the candidature of Mr. S. C. Tripathi for the office of Director of the Company.

**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 annual accounts for the financial year ended March 31, 2007, the applicable accounting standards have been followed and that there are no material departures.

- (ii) The Directors have selected such accounting policies in consultation with the Statutory Auditors and have 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, 2007 and of the profit or loss of the Company for the year under review.
- (iii) The Directors have taken proper and sufficient care to the best of their knowledge and ability 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.
- (iv) The Directors have prepared the annual accounts of the Company on a 'going concern' basis.

***Consolidated Financial Statements:***

The consolidated financial statements have been prepared using uniform accounting policies for transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the company's separate financial statements.

***Auditors & Auditors' Report:***

M/s. Dalal & Shah., Chartered Accountants hold office until the conclusion of the ensuing Annual General Meeting and are recommended for re-appointment. The Company has received a letter from them to the effect that their re-appointment if made, would be within the prescribed limits under Section 224(1-B) of the Companies Act, 1956. Members are requested to consider the appointment of the Auditors and fix their remuneration.

The notes to the accounts referred to in the Auditor's Report are self-explanatory.

***Personnel:***

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the Annexure of the Director's Report.

***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 the 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-Rs.3,25,080.00
  - Outgo -Rs.1,76,00,411.00

***Audit committee:***

In compliance with the provisions of Section 292A of the Companies Act, 1956, the Board of Directors has constituted an Audit Committee of Directors comprising of, Mr. Kanu Doshi, Mr. S. C. Tripathi, Mr. Manu Chadha and Mr. Amitabh Chaturvedi.

***Acknowledgements:***

Your Directors place on record their deep appreciation for the co-operation and assistance received from SEBI, RBI, Custodian, Bankers, Registrars, Shareholders and other business constituents during the year under review.

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

**FOR AND ON BEHALF OF THE BOARD OF DIRECTORS**

**Amitabh Chaturvedi  
Director**

**Kanu Doshi  
Director**

Place: Mumbai

Dated: April 13, 2007



## **RELIANCE GROWTH FUND - GROWTH**

CRISIL has assigned a Composite Performance Rank of “**CRISIL~CPR 1**” \* Open End Diversified Equity Schemes, December 2006” to Reliance Growth Fund - Growth

Kindly note that the CRISIL CPR should be disseminated as follows:

### **CRISIL~CPR 1 Open End Diversified Equity Scheme, January 2005 - December 2006**

\***CRISIL~CPR 1** – The composite performance of Reliance Growth Fund - Growth is “Very Good” in the Open End Diversified Equity Category, and ranks within the top 10% of the 53 schemes ranked in this category. The criteria used in computing the CRISIL Composite Performance Rank are Superior Return Score, based on NAVs over the 2-year period ended December 31, 2006, Concentration and Liquidity of the scheme. The methodology does not take into account the entry and exit loads levied by the scheme. The CRISIL CPR is no indication of the performance that can be expected from the scheme in future.

Ranking Source: CRISIL FundServices, CRISIL Limited

## **RELIANCE VISION FUND**

CRISIL has assigned a Composite Performance Rank of “**CRISIL~CPR 3**” \* Open End Diversified Equity Schemes, December 2006” to Reliance Vision Fund

Kindly note that the CRISIL CPR should be disseminated as follows:

### **CRISIL~CPR 3 Open End Diversified Equity Scheme, January 2005 - December 2006**

\***CRISIL~CPR 3** – The composite performance of Reliance Vision Fund is “Average” in the Open End Diversified Equity Category, and ranks within the Top 70% of the 53 schemes ranked in this category. The criteria used in computing the CRISIL Composite Performance Rank are Superior Return Score, based on NAVs over the 2-year period ended December 31, 2006, Concentration and Liquidity of the scheme. The methodology does not take into account the entry and exit loads levied by the scheme. The CRISIL CPR is no indication of the performance that can be expected from the scheme in future.

Ranking Source: CRISIL FundServices, CRISIL Limited

## **RELIANCE SHORT TERM FUND**

CRISIL has assigned a Composite Performance Rank of “**CRISIL~CPR 1**” \* Open End Debt Short Term Schemes, December 2006” to Reliance Short Term Fund

Kindly note that the CRISIL CPR should be disseminated as follows:

### **CRISIL~CPR 1 Open End Debt Short Term Scheme, January 2006 - December 2006**

\***CRISIL~CPR 1** – The composite performance of Reliance Short Term Fund is “Very Good” performance in the Open End Debt Short Term Fund Category, and ranks within the top 10% of the 18 schemes ranked in this category. The criteria used in computing the CRISIL Composite Performance Rank are Mean Return, Volatility, based on NAVs over the 1-year period ended December 31, 2006, Asset size, Concentration, Average Maturity, Asset Quality & Downside Risk Probability of the scheme. The methodology does not take into account the entry and exit loads levied by the scheme. The CRISIL CPR is no indication of the performance that can be expected from the scheme in future.

Ranking Source: CRISIL FundServices, CRISIL Limited

## **RELIANCE LIQUID FUND - TREASURY PLAN**

CRISIL has assigned a Composite Performance Rank of “**CRISIL~CPR 3**” \* Open End Liquid Schemes, December 2006” to Reliance Liquid Fund - Treasury Plan

Kindly note that the CRISIL CPR should be disseminated as follows:

**CRISIL~CPR 3 Open End Liquid Scheme, January 2006- December 2006**

\***CRISIL~CPR 3** – The composite performance of Reliance Liquid Fund - Treasury Plan is “Average” in the Open End Liquid Category, and ranks within the Top 70% of the 23 schemes ranked in this category. The criteria used in computing the CRISIL Composite Performance Rank are Mean Return, Volatility, based on NAVs over the 1-year period ended December 31, 2006, Asset size, Average Maturity, Downside Risk Probability, Company Concentration & Asset Quality of the scheme. The methodology does not take into account the entry and exit loads levied by the scheme. The CRISIL CPR is no indication of the performance that can be expected from the scheme in future.

Ranking Source: CRISIL FundServices, CRISIL Limited

**RELIANCE GILT SECURITIES FUND - LONG TERM PLAN**

CRISIL has assigned a Composite Performance Rank of “**CRISIL~CPR 2**”\* Open End Long Term Gilt Schemes, December 2006” to Reliance Gilt Securities Fund - Long Term Plan

Kindly note that the CRISIL CPR should be disseminated as follows:

**CRISIL~CPR 2 Open End Long Term Gilt Schemes, January 2005 - December 2006**

\***CRISIL~CPR 2** – The composite performance of Reliance Gilt Securities Fund - Long Term Plan is “Good” in the Open End Long Term Gilt Category, and ranks within the top 30% of the 18 schemes ranked in this category. The criteria used in computing the CRISIL Composite Performance Rank are Superior Return Score, based on NAVs over the 2-year period ended December 31, 2006, Average Maturity and Liquidity of the scheme. The methodology does not take into account the entry and exit loads levied by the scheme. The CRISIL CPR is no indication of the performance that can be expected from the scheme in future.

Ranking Source: CRISIL FundServices, CRISIL Limited

**RELIANCE INCOME FUND**

CRISIL has assigned a Composite Performance Rank of “**CRISIL~CPR 2\*** Open End Debt Schemes, December 2006” to Reliance Income Fund

Kindly note that the CRISIL CPR should be disseminated as follows:

**CRISIL~CPR 2 Open End Debt Scheme, January 2005 - December 2006**

\***CRISIL~CPR 2**– The composite performance of Reliance Income Fund is “Good” in the Open End Debt Category, and ranks within the next 20% of the 19 schemes ranked in this category. The criteria used in computing the CRISIL Composite Performance Rank are Superior Return Score, based on NAVs over the 2-year period ended December 31, 2006, Average Maturity, Concentration, Liquidity and Asset Quality of the scheme. The methodology does not take into account the entry and exit loads levied by the scheme. The CRISIL CPR is no indication of the performance that can be expected from the scheme in future.

Ranking Source: CRISIL FundServices, CRISIL Limited

**ICRA Awards**

ICRA has reaffirmed the credit risk rating of mfA1+ (pronounced m f A One plus) to Reliance Liquidity Fund (RLF) and Reliance Liquid Fund – Treasury Plan (RLF-TP). The rating is the highest-credit-quality short-term rating assigned by ICRA to debt funds. This scale applies to debt funds with weighted average maturity up to one year. Such funds would generally include liquid funds and cash funds.

Benchmark maturity for this scale is 12 months. The rated fund carries the lowest credit risk, similar to that associated with short-term debt obligations rated in the highest-credit-quality category.

ICRA has also reaffirmed the credit risk rating of mfAAA (pronounced m f triple A) to Reliance Floating Rate Fund (RFRF) and Reliance Short Term Fund (RSTF). The rating indicates highest-credit-quality rating assigned by ICRA to debt funds. The rated debt fund carries the lowest credit risk, similar to that associated with long-term debt obligations rated in the highest-credit-quality category.

The ratings should, however, not be construed as an indication of the prospective performance of the Mutual Fund scheme or of volatility in its returns.

#### **Asset Management Company and Fund Details**

The above funds are mutual fund schemes of Reliance Mutual Fund (RMF) and are managed by Reliance Capital Asset Management Limited. Reliance Capital Asset Management Ltd is a wholly owned subsidiary of Reliance Capital Limited. The total assets managed by the AMC as on November 30, 2006 were over Rs. 346 billion.

Launched in June 2005, Reliance Liquidity Fund is an open-ended liquid scheme with high liquidity with a stated objective to generate optimal returns consistent with moderate levels of risk and high liquidity with investments predominantly in Debt and Money Market Instruments. The fund's corpus stood at Rs. 57.20 billion as on November 30, 2006 and had an average residual maturity of around 6 months as on that date. The fund continues to maintain a high proportion of its investments rated at highest credit quality and an average residual maturity of around 5-6 months in the recent past.

Launched in March 1998, Reliance Liquid Fund-Treasury Plan is an open-ended liquid scheme with a stated objective to generate optimal returns consistent with moderate levels of risk and high liquidity with investments predominantly in Debt and Money Market Instruments. The fund's corpus stood at Rs. 18.61 billion as on November 30, 2006 and had an average maturity of around 6 months as on that date. The fund continues to maintain a high proportion of its investments rated at highest credit quality and an average residual maturity of around 5-6 months in the recent past.

Launched in September 2004, Reliance Floating Rate Fund is an open-ended income scheme with a stated investment objective to generate regular through investment in a portfolio comprising substantially in floating rate debt securities. The fund's assets under management stood at Rs. 8.19 billion as on November 30, 2006 and had an average maturity of around 1.36 years as on that date. The fund continues to maintain a high proportion of its investments rated at highest credit quality and an average maturity of 1.25-1.5 years in the recent past years.

Launched in December 2002, Reliance Short Term Fund is an open-ended income scheme with a stated investment objective to generate stable returns for investors with short-term investment horizon by investing in fixed income securities of short-term maturity. The fund's corpus stood at Rs. 7.85 billion as on November 30, 2006 and had an average maturity of around 1.4 years as on that date. The fund continues to maintain a high proportion of its investments rated at highest credit quality and an average maturity of 1-1.5 years in the recent past.

#### **ICRA Credit Quality Rating Methodology for debt mutual fund schemes**

ICRA's mutual fund rating methodology is based on evaluating the inherent credit quality of the funds portfolio. As a measure of the credit quality of a debt fund's assets, ICRA uses the concept of "credit scores". These scores are based on ICRA's estimates of credit risk associated with each exposure of the portfolio taking into account its maturity. To quantify the credit risk scores, ICRA uses its database of historical default rates for various rating categories for various maturity buckets. The credit risk ratings incorporate ICRA's assessment of a debt fund's published investment objectives and policies, its management characteristics, and the creditworthiness of its investment portfolio. ICRA reviews relevant fund information on an ongoing basis to support its published rating opinions. If the portfolio credit score meets the benchmark of the assigned rating during the review, the rating is retained. In an event that the benchmark credit score is breached, ICRA gives a month's time to the debt fund manager to bring the portfolio credit score within the benchmark credit score. If the debt fund manager is able to reduce the portfolio credit score within the benchmark credit score, the rating is retained. If the portfolio still continues to breach the benchmark credit score, the rating is revised to reflect the change in credit quality.

## **RELIANCE CAPITAL ASSET MANAGEMENT LIMITED**

### **REPORT OF THE AUDITOR TO THE MEMBERS**

We have audited the attached Balance Sheet of RELIANCE CAPITAL ASSET MANAGEMENT LIMITED as at 31st March 2007, annexed Profit and Loss Account for the year ended on that date, and also the Cash Flow Statement for the year ended on that date. 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.

1. We conducted our audit in accordance with the auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from any material misstatements. 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 the management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.
2. As required by the Companies (Auditor's Report) Order, 2003 and Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
3. Further to our comments in the Annexure referred to above, we report that:
  - a) We have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purposes 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 books of the Company;
  - 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 of the Company;
  - 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 section 211 of the Companies Act, 1956;
  - e) Based on the written representations made by the Directors as on 31<sup>st</sup> March, 2007 and taken on record by the Board of Directors of the Company, and the information and explanations given to us, none of the directors is, as at 31st March, 2007, prima-facie disqualified 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 financial statements read together with the 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 the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2007;
  - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
  - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For and behalf of  
**DALAL & SHAH**  
Chartered Accountants

Ashish Dalal  
Partner  
Membership No. 33596

Mumbai: 13th April, 2007

**ANNEXURE REFERRED TO IN PARAGRAPH 2 OF OUR AUDITOR'S REPORT  
OF EVEN DATE ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31<sup>ST</sup> MARCH, 2007 OF RELIANCE CAPITAL ASSET MANAGEMENT  
LIMITED**

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- (i.) (a) The Company has maintained proper records showing particulars including quantitative details and situation of fixed assets;
- (b) As explained to us, the fixed assets have been verified by the management at reasonable intervals, in a phased verification programme, which, in our opinion, is reasonable, looking to the size of the Company and the nature of its business. No material discrepancies were noticed on such verification.
- (c) The Company has not disposed off any substantial part of its fixed assets so as to affect its going concern;
- (ii.) The Company did not have any inventory;
- (iii.) According to the information and explanations given to us, the Company has neither granted nor taken any loan, secured or unsecured, to/from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956;
- (iv.) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and for the sale of services. There were no purchase of inventory and sale of goods during the year. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control.
- (v.) On the basis of the audit procedures performed by us, and according to the information, explanations and representations given to us, we have not come across any particulars of contract or arrangements in which directors were interested, as contemplated under Section 297 and Section 299 of the Companies Act, 1956, and which were required to be entered in the register maintained under Section 301 of the said Act;
- (vi.) According to the information and explanations given to us, the Company has not accepted any deposits from the public;
- (vii.) On the basis of the internal audit reports broadly reviewed by us, we are of the opinion that, the coverage of internal audit functions carried out by a firm of Chartered Accountants appointed by the management, is commensurate with the size of the Company and nature of its business;

- (viii.)(a) According to the records of the Company, it has been regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-Tax, Sales Tax, Wealth-Tax, Customs duty, Excise Duty, Service Tax, Cess and other statutory dues with the appropriate authorities. There were no dues during the year in respect of Investor Education and Protection Fund, Sales Tax, Excise Duty, Customs Duty and Cess;
- (b) On the basis of our examination of the documents and records and the information and explanations given to us, there are no disputed dues in respect of Income Tax, Sales Tax, Customs Duty, Wealth Tax, Excise Duty, Service Tax and Cess;
- (ix.) The Company, neither has accumulated losses at the end of the financial year nor has incurred cash losses, both, in the financial year under report and in the immediately preceding financial year;
- (x.) On the basis of the records examined by us and the information and explanations given to us, there were no dues to any banks, financial institutions or debenture holders;
- (xi.) As explained to us, the Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures or any other securities;
- (xii.) In respect of shares, securities, debentures and other investments dealt in or traded by the Company, proper records have been maintained in respect of transactions and contracts and timely entries have been made therein. All the investments have been held by the Company in its own name;
- (xiii.) According to the information and explanations given to us, and the representations made by the management, the Company has not given any guarantee for loans taken by others from any bank or financial institution;
- (xiv.) The Company has not obtained any term loans during the year;
- (xv.) According to the information and explanations given to us and on an overall Examination of the financial statements of the Company, we are of the opinion that, prima-facie short term funds have not been used for long term Investment;
- (xvi.) The Company has not made any preferential allotment of shares to parties and Companies covered in the register maintained under Section 301 of the Companies Act, 1956;
- (xvii.) The Company has not issued any debentures during the year, nor was any debentures outstanding at the beginning of the year;

(xviii) The Company has not raised any money by public issue during the year;

(xix) According to the information and explanations given to us, and to the best of our knowledge and belief, no fraud on or by the Company has been noticed or reported by the Company during the year;

Looking to the nature of activities being carried on, at present, by the Company and also considering the nature of the matters referred to in the various clauses of the Companies (Auditor's Report) Order, 2003, and the Companies (Auditor's Report) (Amendment) Order, 2004, clauses (ii)(b), (ii)(c), (iii)(b), (iii)(c), (iii)(d), (iii)(f), (iii)(g), (v)(b), (viii) and (xiii) of paragraph 4 of the aforesaid Order, are, in our opinion, not applicable to the Company.

For and on behalf of  
**DALAL & SHAH**  
Chartered Accountants

Ashish Dalal  
Partner  
Membership No. 33596

Mumbai: 13<sup>th</sup> April, 2007



# Reliance Capital Asset Management Limited

## BALANCE SHEET AS AT 31ST MARCH, 2007

		(Rupees)		(Rupees)	
	Schedule	As at 31st March, 2007		As at 31st March, 2006	
<b>Sources of Funds :</b>					
<b>Shareholders' Funds</b>					
(a) Share Capital	A	110,007,000		110,007,000	
(b) Reserves & Surplus (Surplus in Profit and loss Account)		1,035,699,806	<b>1,145,706,806</b>	525,333,263	<b>635,340,263</b>
Deferred Tax Liability (Net)			-		<b>9,526,875</b>
<b>TOTAL</b>			<b>1,145,706,806</b>		<b>644,867,138</b>
<b>Application of Funds :</b>					
<b>Fixed Assets</b>					
(a) Gross Block	B	144,782,556		81,721,962	
(b) Less : Depreciation		46,597,735		28,834,671	
(c) Net Block			<b>98,184,821</b>		<b>52,887,291</b>
<b>Investments</b>	C		<b>706,175,809</b>		<b>387,510,876</b>
<b>Deferred Tax Asset (Net)</b>			<b>5,869,400</b>		-
<b>Current Assets, Loans &amp; Advances</b>					
(a) Cash and Bank Balance	D	20,840,688		13,086,643	
(b) Interest accrued		13,514,211		-	
(c) Debtors		78,482,911		309,357,005	
(d) Loans and Advances		909,235,559		318,663,118	
		1,022,073,369		641,106,766	
<b>Less : Current liabilities &amp; Provisions</b>					
(a) Current Liabilities	E	248,685,370		225,705,820	
(b) Provisions		447,658,749		232,577,734	
		696,344,119		458,283,554	
<b>Net Current Assets</b>			<b>325,729,250</b>		<b>182,823,212</b>
<b>Miscellaneous Expenditure</b> (to the extent not written off or adjusted)	F		<b>9,747,526</b>		<b>21,645,759</b>
<b>TOTAL</b>			<b>1,145,706,806</b>		<b>644,867,138</b>
<b>Significant Accounting Policies and Notes to Accounts</b>	K				

As per our attached report of even date  
For and on Behalf of Dalal & Shah  
Chartered Accountants

For and on behalf of the Board of Directors

Partner

**Amitabh Chaturvedi**  
Director

**Kanu Doshi**  
Director

**Vikrant Gugnani**  
President

**Amit Bapna**  
Chief Financial Officer

**Geeta Chandran**  
Manager

Mumbai, 13th April 2007

Mumbai, 13th April 2007

# Reliance Capital Asset Management Limited

## PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED ON 31ST MARCH, 2007

Schedule	(Rupees)	
	As at 31st March, 2007	As at 31st March, 2006
<b>Income</b>		
Investment Management and Advisory fees	1,777,285,847	773,125,295
Portfolio Management Fees	135,800,429	121,053,890
Interest	<b>G</b> 17,362,086	777,839
Dividend on long term investments	37,016,331	31,639,198
Surplus on Sale/Redemption of long term Investment	38,454,508	5,124,959
Surplus on Sale/Redemption of current Investment (Net)	20,061,225	-
Gain on Variation in Foreign Exchange rates	212,425	-
Provision no longer required written back	226,515	-
Interest on Income Tax Refund	-	494,232
Other Income	-	2,230,464
	<b>2,026,419,366</b>	<b>934,445,877</b>
<b>Expenditure</b>		
Salaries and benefits to employees	<b>H</b> 425,605,281	209,597,810
Administrative and other expenses	<b>I</b> 416,278,944	164,693,258
Marketing and Publicity Exps.	<b>J</b> 404,373,196	97,850,533
Depreciation	19,336,122	11,342,043
Loss on Sale of Fixed Assets (Net)	644,175	82,107
Deferred Revenue expenditure written off	11,898,233	11,898,233
	<b>1,278,135,951</b>	<b>495,463,984</b>
<b>Profit Before Tax</b>	<b>748,283,415</b>	<b>438,981,893</b>
<b>Provision for tax</b>		
Current tax	(250,140,733)	<b>(145,800,000)</b>
Deferred tax Asset / (liability)	15,396,275	<b>4,894,517</b>
Fringe Benefit Tax	(7,000,000)	<b>(6,516,677)</b>
<b>Profit After Tax</b>	<b>506,538,957</b>	<b>291,559,733</b>
Add/Less: Excess/(Short) Provision for Tax	3,827,586	<b>8,846,502</b>
<b>Net Profit</b>	<b>510,366,543</b>	<b>300,406,235</b>
Add: Balance brought forward	525,333,263	224,927,028
<b>Balance Carried to Balance Sheet</b>	<b>1,035,699,806</b>	<b>525,333,263</b>

Basic and Diluted Earning per share of Rs. 10 each

67.81

39.82

Significant Accounting Policies and Notes to Accounts

K

As per our attached report of even date  
For and on Behalf of Dalal & Shah  
Chartered Accountants

For and on behalf of the Board of Directors

Partner

**Amitabh Chaturvedi**  
Director

**Kanu Doshi**  
Director

**Vikrant Gugnani**  
President

**Amit Bapna**  
Chief Financial Officer

**Geeta Chandran**  
Manager

Mumbai, 13th April 2007

Mumbai, 13th April 2007

# Reliance Capital Asset Management Limited

## SCHEDULES FORMING PART OF THE BALANCE SHEET

	(Rupees)	(Rupees)
	As at 31st March, 2007	As at 31st March, 2006
<b>Schedule "A"</b>		
<b>Share Capital</b>		
<b>Authorised</b>		
10,000,000 Equity shares of Rs.10/- each	100,000,000	100,000,000
350,000 5% Cumulative Redeemable Preference shares of Rs.100/- each	35,000,000	35,000,000
1,500,000 Unclassified shares of Rs.10/- each	15,000,000	15,000,000
	<u>150,000,000</u>	<u>150,000,000</u>
<b>Issued, subscribed and paid up</b>		
7,500,700 Equity shares of Rs.10/- each, fully paid up	75,007,000	75,007,000
350,000 5% Cumulative Redeemable Preference shares of Rs.100/- each, fully paid up (redeemable at par on 27.11.2007) (All the shares are held by the holding company Reliance Capital Limited and its nominees)	35,000,000	35,000,000
	<u>110,007,000</u>	<u>110,007,000</u>

# Reliance Capital Asset Management Limited

## SCHEDULES FORMING PART OF THE BALANCE SHEET

### Schedule "B"

### Fixed Assets

(Rupees)

Assets	Gross Block (At Cost)				Depreciation				Net Block	
	As at 1.4.2006	Additions	Deductions	As at 31.03.2007	Up to 1.4.2006	During the Year	Deductions	Up to 31.03.2007	As at 31.03.2007	As at 31.3.2006
Computer	30,987,934	15,975,748	612,792	46,350,890	17,733,136	7,553,982	427,628	24,859,490	21,491,400	13,254,798
Motor Car	10,476,109	-	1,852,785	8,623,324	3,624,509	1,532,718	821,006	4,336,221	4,287,103	6,851,600
Office Equipment	29,479,259	13,094,025	-	42,573,284	4,511,563	4,133,662	-	8,645,225	33,928,059	24,967,696
Furniture	10,778,660	9,803,692	726,007	19,856,345	2,965,463	2,050,762	324,424	4,691,801	15,164,544	7,813,197
Improvements to Rented Premises	-	27,378,713	-	27,378,713	-	4,064,998	-	4,064,998	23,313,715	-
<b>Total</b>	<b>81,721,962</b>	<b>66,252,178</b>	<b>3,191,584</b>	<b>144,782,556</b>	<b>28,834,671</b>	<b>19,336,122</b>	<b>1,573,058</b>	<b>46,597,735</b>	<b>98,184,821</b>	<b>52,887,291</b>
Previous year	56,538,786	25,828,961	645,785	81,721,962	17,882,646	11,342,043	390,018	28,834,671	52,887,291	

# Reliance Capital Asset Management Limited

## SCHEDULES FORMING PART OF THE BALANCE SHEET

		(Rupees)		(Rupees)	
	Face Value	Quantity As at 31.03.2007	Cost As at 31.03.2007	Quantity As at 31.03.2006	Cost As at 31.03.2006
<b>Schedule "C"</b>					
<b>Long term Investments -Non trade</b>					
<b>(a) Government and Other Securities (Unquoted)</b>					
6.75% Tax free US 64 Bonds	100	22	2,011	22	2011
Citicorp Financial Ltd - NCD	1000000	20	20,000,000	-	-
			<b>20,002,011</b>		<b>2,011</b>
<b>(b) Fully Paid Shares (Quoted)</b>					
Reliance Industries Limited	10	24,982	34,254,772	25,000	7,164,458
Reliance Communications Ltd	10	24,923	10,518,365	25,000	5,332,010
Reliance Energy Ventures Ltd	10	-	-	25,000	1,005,780
Reliance Capital Ventures Ltd	10	-	-	25,000	179,110
Reliance Natural Resources Ltd	10	-	-	25,000	96,445
Glenmark Pharma Limited	10	-	-	250	-
			<b>44,773,137</b>		<b>13,777,803</b>
<b>(c) Subsidiary Companies (Unquoted,fully paid up equity shares)</b>					
Reliance Asset Management (Mauritius) Limited	USD 10	11,000	4,922,600	1,000	449,500
Reliance Asset Management Singapore Pte Limited	SGD 1	2,000,003	57,859,056	3	81
			<b>62,781,656</b>		<b>449,581</b>
<b>(d) Investments in Other Body Corporates (Unquoted,fully paid up equity shares)</b>					
Reliance Asset Reconstruction Co Ltd	10	200,000	2,000,000	-	-
			<b>2,000,000</b>		<b>-</b>
<b>(e) Other Investments - Mutual Funds (Quoted) fully paid units of Rs.10 each</b>					
Reliance Income Fund - Growth Plan	10	162,823	2,000,000	162,823	2,000,000
Reliance Growth Fund Dividend Plan	10	1,478,358	67,500,000	553,973	17,500,000
Reliance Vision Fund Dividend Plan	10	2,401,851	100,000,000	2,401,851	100,000,000
Reliance Short Term Fund -Growth Plan	10	3,341,660	40,268,116	5,808,968	70,000,000
Reliance Banking Fund	10	60,362	1,500,000	60,362	1,500,000
Reliance Liquid Fund - Treasury Plan (Institutional)	10	-	-	586,576	10,000,000
Reliance Fixed Maturity Fund series 2 AP 3 -Growth Option	10	-	-	4,500,000	45,000,000
Reliance Index Fund - Nifty - Growth Option	10	164,918	1,649,184	200,000	2,000,000
Reliance Tax Saver (ELSS) Fund	10	2,200,000	22,000,000	2,200,000	22,000,000
Reliance Equity Fund - Growth Plan	10	3,500,000	35,000,000	3,500,000	35,000,000
Reliance Equity Oppurtuinities Fund-Growth Option	10	1,335,900	13,359,000	1,500,000	15,000,000
			<b>283,276,300</b>		<b>320,000,000</b>
<b>Current Investments -Non trade</b>					
Reliance Liquidity Fund - Growth Plan	10	26,730,013	293,342,705	5,202,006	53,281,481
			<b>293,342,705</b>		<b>53,281,481</b>
<b>TOTAL</b>			<b>706,175,809</b>		<b>387,510,876</b>

### Notes:

1. Quoted investments

Aggregate of Book value  
Aggregate of Market value

**621,392,142**  
**666,903,452**

**387,059,284**  
**457,137,976**

Unquoted investments  
Aggregate of Book value

**84,783,667**

**451,592**

2. The Market Value in the case of Units of Mutual Funds is the repurchase price.

3. During the year the following investments were purchased and sold

	Quantity	Purchase Value
Reliance Liquidity Fund	96,494,983	1,037,125,527
Optimix Income Growth Multi-Manager FOF Scheme 15% G	7,000,000	70,000,000

# Reliance Capital Asset Management Limited

## SCHEDULES FORMING PART OF THE BALANCE SHEET

	(Rupees)		(Rupees)	
	As at 31st March, 2007		As at 31st March, 2006	
<b>Schedule "D"</b>				
<b>Current Assets, Loans &amp; Advances</b>				
<b>(a) Cash / Bank Balance :</b>				
Cash on Hand	8,235		49,600	
Balance in current accounts with Scheduled banks	20,832,453	20,840,688	13,037,043	13,086,643
		<b>20,840,688</b>		<b>13,086,643</b>
<b>(b) Interest Accrued</b>				
Loans to Subsidiaries	325,080		-	
Inter Corporate Deposits	13,189,131	13,514,211	-	-
		<b>13,514,211</b>		<b>-</b>
<b>(c) Sundry Debtors : (Unsecured considered good)</b>				
Outstanding for more than six months	-		-	
Other debtors	78,482,911	78,482,911	309,357,005	309,357,005
		<b>78,482,911</b>		<b>309,357,005</b>
<b>(d) Loans and Advances : (Unsecured considered good)</b>				
Loans to Subsidiaries	4,644,000		4,644,000	
Inter Corporate Deposit	260,000,000		-	
Loans to Employees	1,354,267		14,505,618	
Advances recoverable in cash or in kind or for value to be received	165,748,047		96,052,646	
Advance Tax Paid / Tax Deducted at Source	477,489,245	909,235,559	203,460,854	318,663,118
		<b>909,235,559</b>		<b>318,663,118</b>
<b>Schedule "E"</b>				
<b>A. Current Liabilities and Provisions</b>				
TDS Payable	29,522,263		7,175,000	
Professional tax payable	151,423		50,085	
E.P.F. Payable	2,780,515		1,689,188	
Sundry creditors (other than micro & small scale enterprises)	216,231,169	248,685,370	216,791,547	225,705,820
		<b>248,685,370</b>		<b>225,705,820</b>
<b>B. Provisions</b>				
Provision for Taxation	409,376,023		211,316,677	
Provision for Gratuity	922,927		3,119,000	
Provision for Leave encashment	37,359,799	447,658,749	18,142,057	232,577,734
		<b>447,658,749</b>		<b>232,577,734</b>
<b>Schedule "F"</b>				
<b>Miscellaneous Expenditure</b>				
(To the extent not written off or adjusted)				
Deferred Revenue Expenditure				
(Promotional Expenditure on launch of the Mutual Fund Schemes)				
	21,645,759		33,543,992	
Less: Written off during the year	11,898,233	9,747,526	11,898,233	21,645,759
		<b>9,747,526</b>		<b>21,645,759</b>

# Reliance Capital Asset Management Limited

## SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	(Rupees)		(Rupees)	
	As at 31st March, 2007		As at 31st March, 2006	
<b>Schedule "G"</b>				
<b>Interest Income</b>				
Interest (including from Subsidiaries Rs.3,25,080,Previous Year -Nil)		17,362,086		777,839
(Tax deducted at source Rs.38,15,937, Previous year Rs.2,31,812)		<u>17,362,086</u>		<u>777,839</u>
<b>Schedule "H"</b>				
<b>Salaries and Benefits to Employees</b>				
Salaries, Allowances and Bonus	369,380,243		178,064,981	
Contribution to Provident and other funds	16,213,886		11,013,161	
Superannuation premium	1,757,383		1,895,317	
Gratuity	2,557,701		2,552,083	
Leave encashment	22,364,351		8,970,850	
Staff welfare expenses	13,331,717	425,605,281	7,101,418	209,597,810
		<u>425,605,281</u>		<u>209,597,810</u>
<b>Schedule "I"</b>				
<b>Administrative and Other Expenses</b>				
Auditors Remuneration	770,000		266,312	
Software repair & Maintenance	4,037,250		6,637,184	
Conveyance & Travelling	41,466,742		30,854,278	
Director sitting fees	740,000		300,000	
Entertainment	5,085,153		3,027,974	
Filing fees & Stamp duty	39,119,489		2,389,717	
Loss on Variation in Foreign Exchange rates	-		27,977	
Lease rent	3,386,699		2,788,835	
Insurance	5,356,379		3,645,595	
Legal & Professional Charges	53,240,997		22,257,766	
Membership & Subscription	11,763,367		11,929,171	
Office Administration	14,645,480		6,477,688	
Petrol and car maintenance	8,142,230		4,086,103	
Printing & Stationary	9,072,176		5,843,693	
Rent	86,613,839		19,875,370	
Electricity	6,502,252		4,971,293	
Repairs & Maintainance	6,338,882		12,569,471	
Seminar & training	15,839,085		3,933,431	
Telephone	61,019,964		19,454,824	
Donation	842,305		995,356	
Amounts Written Off	38,890,694			
Miscellaneous Expenses (including Bank charges, profession Tax etc.)	3,405,961	416,278,944	2,361,220	164,693,258
		<u>416,278,944</u>		<u>164,693,258</u>
<b>Schedule "J"</b>				
<b>Marketing &amp; Publicity Exps.</b>				
Advertisement	10,605		96,609	
Marketing Expenses	204,250,873		20,534,214	
Brokerage and Incentives	200,111,718	404,373,196	77,219,710	97,850,533
		<u>404,373,196</u>		<u>97,850,533</u>

## Reliance Capital Asset Management Limited

### CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

Particulars	2006-2007		2005-2006	
	Rs.	Rs.	Rs.	Rs.
<b>A. Cash Flow from Operating Activities</b>				
Net Profit before tax as per P&L Account		748,283,415		438,981,893
Adjusted for				
Depreciation	19,336,122		11,342,043	
Deferred revenue expenditure written off	11,898,233		11,898,233	
Provision for leave encashment	19,217,742		8,545,361	
Provision for Gratuity	(2,196,073)		1,676,000	
Investments				
Interest / Dividend Income	(54,378,417)		(32,417,037)	
(Profit) / Loss on sale of Investment (Net)	(58,515,733)		(5,124,959)	
Interest on income tax refund	-		(494,232)	
Loss / (Profit) on sale of Fixed Assets	644,175	(63,993,951)	82,107	(4,492,485)
<b>Operating Profit before Working Capital changes</b>		<b>684,289,464</b>		<b>434,489,408</b>
Adjusted for				
Trade and Other Receivables	174,330,044		(347,564,498)	
Trade Payables	22,979,550	197,309,594	212,328,623	(135,235,875)
<b>Cash generated from Operations</b>		<b>881,599,058</b>		<b>299,253,533</b>
Taxes Paid	(326,223,143)		(147,353,203)	
Refund received	756,888	(325,466,255)	8,731,443	(138,621,760)
<b>Net Cash from Operating Activities</b>		<b>556,132,803</b>		<b>160,631,773</b>
<b>B. Cash Flow from Investing Activities</b>				
Purchase of Fixed Assets	(66,252,177)		(25,828,961)	
Sale of Fixed Assets	974,351		173,660	
Purchase of Inter Corporate Deposit	(260,000,000)		-	
Loans to Subsidiaries	-		(4,644,000)	
Purchase of Investments	(1,741,788,505)		(470,387,839)	
Investment in Subsidiaries	(62,332,075)		(449,581)	
Sale of Investments	1,543,971,379		316,418,490	
Interest Received	31,938		1,043,144	
Dividend Received	37,016,331		31,639,198	
<b>Net Cash used in Investing Activities</b>		<b>(548,378,758)</b>		<b>(152,035,889)</b>
<b>C. Cash Flow from Financing Activities</b>				
		-		-
<b>Net increase in cash and cash Equivalents (A+B+C)</b>		<b>7,754,045</b>		<b>8,595,884</b>
<b>Opening Balance of Cash and Cash Equivalents</b>		<b>13,086,643</b>		<b>4,490,759</b>
<b>Closing Balance of Cash and Cash Equivalents</b>		<b>20,840,688</b>		<b>13,086,643</b>

Cash and cash equivalents represents cash and balance with the scheduled banks in current account.

As per our attached report of even date  
For and on Behalf of Dalal & Shah  
Chartered Accountants

For and on behalf of the Board of Directors

Partner

**Amitabh Chaturvedi**  
Director

**Kanu Doshi**  
Director

**Vikrant Gugnani**  
President

**Amit Bapna**  
Chief Financial Officer

**Geeta Chandran**  
Manager

Mumbai, 13th April 2007

Mumbai, 13th April 2007



# Reliance Capital Asset Management Limited

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### Schedule "K"

#### Significant Accounting Policies and Notes to Accounts

##### A. Significant Accounting Policies

###### 1. Basis of preparation of Financial Statements:

The financial statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles in India and the provisions of the Companies Act, 1956.

###### 2. Use of Estimates:

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known/ materialised.

###### 3. Fixed Assets:

Fixed Assets are stated at historical cost less accumulated depreciation.

###### 4. Depreciation:

Depreciation of Fixed Assets is provided on written down value method in accordance with Section 205 (2) (a) of the Companies Act, 1956 as per rates specified in Schedule XIV to the Companies Act, 1956. Depreciation on Improvement to Lease Premises is provided on straight line method over the period of lease.

###### 5. Impairment of Assets:

An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. An impairment loss is charged to the profit & loss account in the year in which an asset is identified as impaired. An impairment loss recognized in prior accounting periods is reversed if there has been a change in the estimate of the recoverable amount.

###### 6. Investment:

Long Term Investments are stated at cost of acquisition. Provision for diminution is made to recognise a decline, other than temporary, in the value of investments. Current Investments are carried at lower of cost and fair value.

###### 7. Initial Issue expenses of schemes:

Initial issue expenses of the schemes of Reliance Mutual Fund incurred upto 31<sup>st</sup> March, 2004 are treated as Deferred Revenue Expenditure and written off over five years in equal installments. However the same incurred on or after 1<sup>st</sup> April 2004 are charged to Profit and loss account in compliance with Accounting Standard 26 on Intangible Assets issued by the Institute of Chartered Accountants of India.

###### 8. Revenue Recognition :

Revenue is recognised when there is reasonable certainty of its ultimate realisation/collection.

###### (I) Investment Management Fees:

Investment Management fees are computed in accordance with Investment Management Agreement and SEBI Regulations based on Net Asset Value confirmed by Reliance Mutual Fund schemes.

###### (II) Portfolio Management Fees:

Portfolio Management fees are computed in accordance with Portfolio Management Agreements and SEBI Regulations.

###### (III) Profit on Sale of Investments:

Profit on sale of Investments is accounted reckoning the average cost of the Investments.

# Reliance Capital Asset Management Limited

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### 9. Retirement benefits:

The Company contributes to a Recognised Provident Fund. Gratuity and Superannuation schemes are administered through policies taken from Insurance Company. Provision is also made for the shortfall for gratuity liability as certified by the insurance company.

### 10. Leave Encashment:

Leave encashment provision is made on the basis of the leave outstanding and entitled to be carried forward.

### 11. Borrowing Cost:

Borrowing cost is charged to revenue

### 12. Foreign Currency Transactions:

Expenses and Incomes are recorded at the exchange rate prevailing on the date of transactions. Monetary assets and liabilities at the Balance Sheet date are restated at the exchange rate prevailing on the Balance Sheet date. The exchange differences arising on settlement of the transaction and on account of restatement of assets and liabilities are dealt with as Foreign Exchange Fluctuations in the profit and loss account except in case of transactions involving purchase of fixed assets wherein such differences are adjusted in the cost of the fixed assets

### 13. Leased Assets:

Rentals in respect of assets taken on operating lease by the company are expensed with reference to the terms of the lease and other considerations.

### 14. Provisions, Contingent Liabilities and Contingent Assets:

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events, it is probable that there will be an outflow of resources and reliable estimate of the amount of the obligation can be made. Contingent Liabilities are not recognized and are disclosed in the notes. Contingent Assets are neither recognized nor disclosed in the financial statements.

### 15. Taxation:

Income tax expense comprises of current tax, fringe benefits tax (FBT) and deferred tax charge or credit. Provision for current tax is made on the assessable income at the tax rate applicable to the relevant assessment year. Provision for FBT is made on the benefits provided/ deemed to have been provided to the employees at the rates and the values applicable to the relevant assessment year. The deferred tax asset and deferred tax liability is calculated by applying tax rate and tax laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax Assets arising mainly on account of brought forward losses and unabsorbed depreciation under tax laws, are recognised only if there is virtual certainty of its realisation, supported by convincing evidence. Deferred tax Assets on account of other timing differences are recognised only to the extent there is a reasonable certainty of its realisation. At each Balance Sheet date, the carrying amount of deferred tax assets are reviewed to reassure realisation.

# Reliance Capital Asset Management Limited

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### B. Notes on Accounts

	2006 – 2007	(Rupees) 2005 – 2006
<b>1. Unpaid Preference Shares Dividend:</b>		
5% dividend on preference shares in arrears for the years 2000-01 to 2006-07 (previous year 2000-01 to 2005-06)	1,22,50,000	1,05,00,000
<b>2. Payment to Auditors:</b>		
Audit Fees	2,50,000	1,92,850
Tax Audit Fees	75,000	55,100
Certification Matters	4,45,000	-
Out of Pocket Expenses	-	18,362
<b>3. Information regarding Managerial Remuneration:</b>		
Salaries	16,40,560	67,05,801
Perquisites & Other Allowances	5,00,000	9,61,343
Contribution to Provident & Superannuation Fund	1,09,440	3,92,250
Total	22,50,000	80,59,394
Note:		
a. Contribution /provision for gratuity are not considered as employee wise details are not available.		
b. Reimbursement of expenses incurred in the normal course of business is not considered.		
c. Information includes remuneration to Manager.(Previous Year for Manager and Whole Time Director		
<b>4. Future liability in respect of car taken on operating lease after 1<sup>st</sup> April, 2001:</b>		
a) Not later than one year	60,99,351	33,49,172
b) Later than one year and not later than five years	1,15,37,823	78,17,803
c) Later than five years	NIL	NIL
<b>Future liability in respect of premises taken on operating lease after 1<sup>st</sup> April, 2001:</b>		
a) Not later than one year	2,50,86,261	1,58,21,761
b) Later than one year and not later than five years	6,91,39,683	5,69,46,607
c) Later than five years	4,39,19,452	5,61,12,528
<b>5. Deferred Tax:</b>		
<b>Deferred Tax Liabilities</b>		
Depreciation	35,16,011	22,40,913
Deferred Revenue expenditure (promotional expenditure on launch of the mutual fund schemes)	33,13,184	72,85,962
Total	68,29,195	95,26,875
<b>Deferred Tax Asset</b>		
Leave Encashment	1,26,98,595	-
<b>Net Deferred Tax Asset</b>	58,69,400	(95,26,875)
<b>6. Earning per share:</b>		
Net Profit as per Profit and Loss Account	51,03,66,543	30,04,06,235
Less:- Preference dividend	17,50,000	17,50,000
Net Profit attributable to equity shareholders	50,86,16,543	29,86,56,235
Weighted average number of equity shares outstanding	75,00,700	75,00,700
Basic and Diluted earning per share	67.81	39.82
<b>7. Expenditure in foreign currency:</b>		
Salary and Benefits	30,75,791	-
Traveling	27,82,765	58,88,725
Seminar & Training	35,42,609	10,08,864
Professional & Consultancy	35,56,632	20,95,160
Other Expenses	46,42,614	-
<b>8. Earnings in foreign currency:</b>		
Interest (P.Y.Fees from visa for co branding of cards)	3,25,080	22,30,464



# Reliance Capital Asset Management Limited

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### 10. Disclosure in respect of derivative instruments

- a) Derivative instruments outstanding: Nil (Previous Year Rs.Nil)  
b) Foreign Exposures that are not hedged by derivative instruments:

	As at 31 <sup>st</sup> March 2007		As at 31 <sup>st</sup> March 2006	
	USD	Sing Dollar	USD	Sing Dollar
Loans	80,000	40,000	80,000	40,000
Interest Receivable	5,600	2,800	-	-

11. In the opinion of the management, the Company is mainly in the business of Asset Management Services. As such, there is only one reportable segment.

12. Figures of the previous year are regrouped and reclassified wherever necessary to correspond to the figures of the current financial year

As per our attached report of even date.

For and on behalf of the Board

**For and on behalf of Dalal & Shah**  
Chartered Accountants

**Amitabh Chaturvedi**  
Director

**Kanu Doshi**  
Director

Partner

**Vikrant Gugnani**  
President

**Amit Bapna**  
Chief Financial Officer

**Geeta Chandran**  
Manager

Mumbai  
Date: 13th April, 2007

Mumbai  
Date: 13th April, 2007

# Reliance Capital Asset Management Limited

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

\* Statement pursuant to Part IV of Schedule VI to the Companies Act, 1956.

### Balance Sheet Abstract and Company's General Business Profile:

#### I. Registration Details

Registration No.  State Code

Balance Sheet Date

#### II. Capital raised during the year (Amount in Rs. Thousands)

Public Issue  Rights Issue

Bonus Issue  Private Placement

#### III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities  Total Assets

Sources of Funds Applications of Funds

Paid up Capital  Net Fixed Assets

Reserves & Surplus  Investments

Secured Loans  Net Current Assets

Unsecured Loans  Miscellaneous Expenditure

Deferred Tax Asset (Net)

#### IV. Performance of Company (Amount in Rs. Thousands)

Turnover  Total Expenditure

Profit/ Loss Before Tax  Profit/ Loss After Tax

Earning Per Share (Rs.)  Dividend Rate %

#### V. Generic Names of Three Principal Products/ Services of the Company (as per monetary terms)

Not Applicable

For and on behalf of the Board

**Amitabh Chaturvedi**  
Director

**Kanu Doshi**  
Director

**Vikrant Gugnani**  
President

**Amit Bapna**  
Chief Financial Officer

**Geeta Chandran**  
Manager

Mumbai  
Date: 13th April, 2007