

**PRINCIPAL ASSET MANAGEMENT COMPANY LTD.
FORMERLY KNOWN AS
(IDBI-PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED)**

ANNUAL REPORT

2002-2003

**AUDITORS' REPORT
TO THE MEMBERS OF
PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED**

1. We have audited the attached Balance Sheet of **PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED (FORMERLY KNOWN AS IDBI-PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED)** as at March 31, 2003 and the Profit and Loss Account of the Company for the year ended on that date, annexed thereto. 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.
2. We conducted our audit in accordance with 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 of 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to the Company.
4. Further to our comments in the Annexure referred to in paragraph 3 above:
 - (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 it appears from our examination of those books;
 - (c) the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account;

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- (d) in our opinion, the Balance Sheet and the Profit and Loss Account dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;
 - (e) in our opinion and to the best of our information and according to the explanations given to us, the said accounts, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with accounting principles generally accepted in India :-
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2003; and
 - (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date.
5. Except for nominee directors who are exempt from Section 274(1)(g) of the Companies Act, 1956 in terms of Circular No.8/2002 dated March 22, 2002 issued by Department of Company Affairs, on the basis of the written representations from other directors, and taken on record by the Board of Directors, none of the other directors is disqualified as at March 31, 2003 from being appointed as a director under Section 274(1)(g) of the Companies Act, 1956.

For DELOITTE HASKINS & SELLS
Chartered Accountants

Nalin M. Shah

Nalin M. Shah
Partner

MUMBAI, 7th July, 2003
NMS/KJM/ADS

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date.)

1. The Company has maintained proper records showing full particulars, including quantitative details and location of fixed assets. Fixed assets have not been physically verified during the year. However, there is a regular periodic programme of verification, the frequency of which is reasonable.
2. None of the fixed assets has been revalued during the year.
3. The Company has not taken/given any loan from/to companies, firms or other parties listed in the register maintained under Section 301 or from/to companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.
4. The Company has granted loans and advances in the nature of loans to employees, who are regular in repaying the principal and interest amount as stipulated.
5. In our opinion, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of fixed assets.
6. According to the register of contracts maintained under Section 301 of the Companies Act, 1956 examined by us, there are no transactions of purchase of goods and materials and sales of goods, materials and services made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs.50,000/- or more in respect of each party.
7. The Company has not accepted any deposit from the public.
8. In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the Management were commensurate with the size of the Company and the nature of its business.
9. The Company is regular in depositing the Provident Fund dues with the appropriate authorities. We are informed that the Employees' State Insurance Scheme is not applicable to the Company.
10. According to the information and explanations given to us and the books and records examined by us, no undisputed amounts payable in respect of income-tax were outstanding at as March 31, 2003 for a period of more than six months from the date they became payable.

11. According to the information and explanations given to us and the records of the Company examined by us, no personal expenses have been charged to the revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
12. According to the information and explanations given to us, in respect of the service activities of the Company, it is not considered necessary by the Management to allocate man-hours utilised to the relative jobs, having regard to the nature of the services rendered.
13. The investments of the Company have been held in its own name.

For DELOITTE HASKINS & SELLS
Chartered Accountants

Nalin M. Shah

Nalin M. Shah
Partner

MUMBAI, 7th July, 2003
NMS/KJM/ADS

Principal Asset Management Company Limited
(Formerly known as IDBI-PRINCIPAL Asset Management Company Limited)
Balance Sheet as at March 31, 2003

	<u>Schedule</u>	<u>Rs.</u>	<u>Mar 31, 2003</u> <u>Rs.</u>	<u>Mar 31, 2002</u> <u>Rs.</u>
<u>Sources of Funds</u>				
Shareholders' Fund :				
Share Capital	' 1 '		100,000,080	100,000,080
Reserves and Surplus	' 2 '		557,402,015	502,755,138
Loan Funds				
Secured Loans	' 3 '		2,802,317	1,243,459
T O T A L			660,204,412	603,998,677
<u>Application of Funds</u>				
Fixed Assets:				
Gross Block	' 4 '	48,067,977		40,888,553
Less: Depreciation		29,758,612		19,354,316
Net Block			18,309,365	21,534,237
Investments				
	' 5 '		567,219,142	545,590,729
Deferred Tax Asset				
(Refer Schedule 17, Note B 8)			2,215,000	-
Current Assets, Loans and Advances:				
Interest Accrued on Investments		1,802,466		6,731,017
Sundry Debtors	' 6 '	3,421,678		5,566,296
Cash & Bank Balances	' 7 '	5,634,776		301,809
Loans & Advances	' 8 '	100,476,877		75,122,080
Total (A)		111,335,797		87,721,202
Less: Current Liabilities and Provisions:				
Current Liabilities	' 9 '	13,012,171		18,007,956
Provisions	' 10 '	25,908,321		39,007,024
Total (B)		38,920,492		57,014,980
Net Current Assets (A-B) :			72,415,305	30,706,223
Miscellaneous Expenditure :				
(To the extent not written off or adjusted)	' 11 '		45,600	6,167,488
T O T A L			660,204,412	603,998,677

Significant Accounting Policies and
Notes forming part of the Accounts

' 17 '

Schedules '1' to '11' & '17' form part of the
Balance Sheet

In terms of our report of even date attached.

For and on behalf of the Board

For Deloitte Haskins & Sells
Chartered Accountants

Nalin M. Shah
Partner

Arpan Thanawala
Chairman

Sanjay Sachdev
Managing Director & CEO

Miten Chawda
Company Secretary

MUMBAI,
July 7, 2003

Principal Asset Management Company Limited
(Formerly known as IDBI-PRINCIPAL Asset Management Company Limited)
Profit and Loss Account for the year ended March 31, 2003

	<u>Schedule</u>	Year ended Mar 31, 2003 <u>Rs.</u>	Year ended Mar 31, 2002 <u>Rs.</u>
<u>Income</u>			
Management Fees (Tax deducted at source Rs. 7,414,749; Previous year: Rs. 6,778,048)		141,205,558	132,268,023
Interest and Dividend	' 12 '	23,923,680	26,586,578
Other Income	' 13 '	58,585,492	15,425,255
		<u>223,714,730</u>	<u>174,279,856</u>
<u>Expenses</u>			
Employee Cost	' 14 '	48,209,125	42,514,686
Administrative and Other Expenses	' 15 '	94,705,824	80,143,938
Depreciation		11,227,714	16,088,279
Preliminary Expenses Written off		43,590	43,590
Deferred Revenue Expenditure Written off	' 16 '	6,078,298	22,606,969
		<u>160,264,551</u>	<u>161,397,462</u>
Profit before tax and extraordinary items		63,450,179	12,882,394
Less: Prior period items		-	2,345,367
Profit before tax but after extraordinary items		63,450,179	10,537,027
Less: Provision for taxes (Net of Deferred Tax) (net of excess provision written back - Rs. 26,698)		5,788,302	9,082,000
Profit after tax		57,661,877	1,455,027
Balance brought forward		3,755,138	2,300,111
Profit available for appropriation		<u>61,417,015</u>	<u>3,755,138</u>
Balance Carried To Balance Sheet		<u>61,417,015</u>	<u>3,755,138</u>

*Significant Accounting Policies and
Notes forming part of the Accounts*

' 17 '

*Schedules '12' to '17' form part of the
Profit and Loss Account.*

In terms of our report of even date attached.

For and on behalf of the Board

For Deloitte Haskins & Sells
Chartered Accountants

Nalin M. Shah
Partner

Arpan Thanawala
Chairman

Sanjay Sachdev
Managing Director & CEO

Miten Chawda
Company Secretary

MUMBAI,
July 7, 2003

Principal Asset Management Company Limited
(Formerly known as IDBI-PRINCIPAL Asset Management Company Limited)
Schedules forming part of the Balance Sheet as at March 31, 2003

	Rs.	Mar 31, 2003 Rs.	Mar 31, 2002 Rs.
Schedule 1 - Share Capital			
Authorised:			
15,000,000 equity shares of Rs. 10 each		150,000,000	150,000,000
1,000,000 10% cumulative redeemable preference shares of Rs. 100 each		<u>100,000,000</u>	<u>100,000,000</u>
		<u>250,000,000</u>	<u>250,000,000</u>
Issued, Subscribed and Paid-up :			
10,000,008 equity shares of Rs. 10 each, fully paid up		100,000,080	100,000,080
		<u>100,000,080</u>	<u>100,000,080</u>
 Schedule 2 - Reserves and Surplus			
Share Premium Account		400,000,000	400,000,000
Capital Redemption Reserve		60,000,000	60,000,000
General Reserve :			
As per last Balance Sheet	39,000,000		39,000,000
Less: Deferred Tax Liability (Refer Schedule 17, Note B 8)	<u>3,015,000</u>	35,985,000	
Balance in Profit & Loss Account		<u>61,417,015</u>	<u>3,755,138</u>
		<u>557,402,015</u>	<u>502,755,138</u>
 Schedule 3 - Loan Funds			
Secured Loans			
Form Others (Finance Lease)		2,802,317	1,243,459.07
		<u>2,802,317</u>	<u>1,243,459.07</u>

Principal Asset Management Company Limited

(Formerly known as IDBI-PRINCIPAL Asset Management Company Limited)

Schedule forming part of the Balance Sheet as at March 31, 2003

Schedule 4 - Fixed Assets:

(Amount in rupees)

DESCRIPTION OF ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 1/04/02	Additions during the year	Sold during the year	As at 31/03/03	Upto 1/04/02	For the Year	Adjustments/ Deductions	Upto 31/03/03	As at 31/03/03	As at 31/03/02
Furniture & Fixtures	1,138,761	421,250	-	1,560,011	662,204	186,777	-	848,981	711,030	476,557
Office Equipments	7,722,912	1,074,710	303,264	8,494,358	3,515,020	2,387,700	266,559	5,636,161	2,858,197	4,207,892
Computers	21,964,962	3,229,989	576,020	24,618,931	12,853,255	5,142,997	227,294	17,768,959	6,849,972	9,111,706
Leasehold Improvements	7,082,459	730,879	-	7,813,338	1,169,112	2,457,748	-	3,626,860	4,186,478	5,913,347
Electrical Installations	55,500	-	-	55,500	12,734	13,873	-	26,607	28,893	42,766
Motor Cars (Owned)	1,387,648	699,470	-	2,087,118	834,889	314,857	-	1,149,745	937,373	552,759
Motor Cars (Taken on lease)	1,536,311	3,063,176	1,160,766	3,438,721	307,102	723,762	329,565	701,299	2,737,422	1,229,209
TOTAL RUPEES :	40,888,553	9,219,474	2,040,050	48,067,977	19,354,316	11,227,714	823,418	29,758,612	18,309,365	21,534,237
PREVIOUS YEAR'S TOTAL :	29,734,510	19,481,756	8,327,713	40,888,553	7,004,178	16,088,279	3,738,141	19,354,316	21,534,237	22,730,331

Principal Asset Management Company Limited
(Formerly known as IDBI-PRINCIPAL Asset Management Company Limited)
Schedule forming part of the Balance Sheet as at March 31, 2003

Schedule - 5

INVESTMENTS (See Schedule 17, Note A IV and B 5)

	Nos.	Face Value per bonds/units <u>Rs.</u>	As at Mar 31, 2003 <u>Rs.</u>	As at Mar 31, 2002 <u>Rs.</u>
<u>Other than trade; (Listed but not Quoted) :</u>				
<u>Indian Railway Finance Corporation Limited</u>				
10.50 % Tax Free Bonds Eleventh Series (Date of Maturity : 08-03-2004)	5,400 (5,400)	1,000	5,625,121	4,995,000
10.50 % Tax Free Bonds Twelfth 'A' Series (Date of Maturity : 27-06-2004)	10,000 (10,000)	1,000	10,544,427	9,250,000
10.50 % Tax Free Bonds Twelfth 'B' Series (Date of Maturity : Date 30-03-2008)	20,000 (20,000)	1,000	23,470,590	20,000,000
<u>Industrial Development Bank of India</u>				
IDBI OMNI Bonds (Series - I) (Date of Maturity : 26-11-2002)	Nil (5)	10,000,000	-	51,162,550
IDBI OMNI Bonds (Series - I) (Date of Maturity : 29-12-2002)	Nil (5)	10,000,000	-	51,206,050
<u>E. I. DUPONT India Limited</u>				
10.90% NCD - Series II (Date of Maturity : 31-05-2003)	4 (4)	10,000,000	39,950,280	39,950,280
IDBI Flexi Bonds (Series - 2002 A) (Date of Maturity : 05-02-2009)	2000 (2,000)	5,000	10,000,000	10,000,000
<u>Units of IDBI-PRINCIPAL Mutual Fund; (Unquoted):</u>				
IDBI-PRINCIPAL Cash Management Fund-Liquid Dividend	Nil (773,715)	10	-	7,815,300
IDBI-PRINCIPAL Cash Management Fund-Liquid Growth	308,968	10	3,686,432	149,152
IDBI-PRINCIPAL Deposit Fund Plan C Dividend	Nil (3,750,000)	10	-	37,500,000
IDBI-PRINCIPAL Income Fund Growth Plan	12,981,050 (25,599,745)	10	181,500,000	293,562,397
IDBI-PRINCIPAL Income Fund - Dividend Plan	9,901,856 (Nil)	10	105,457,737	-
IDBI-PRINCIPAL Deposit Fund FMP 6	2,000,000 (2,000,000)	10	20,000,000	20,000,000
IDBI-PRINCIPAL Income Fund - Short Term Plan - Growth	6,630,183 (Nil)	10	66,984,556	-
IDBI-PRINCIPAL Monthly Income Plan	9,389,899 (Nil)	10	100,000,000	-
T O T A L :			567,219,142	545,590,729

Note: Aggregate cost of listed but not quoted investments

89,590,418

186,563,880

Aggregate of lower of cost and net asset value of unquoted investments

477,628,724

359,026,849

Principal Asset Management Company Limited
(Formerly known as IDBI-PRINCIPAL Asset Management Company Limited)
Schedules forming part of the Balance Sheet as at March 31, 2003

	Rs.	Mar 31, 2003 Rs.	Mar 31, 2002 Rs.
Schedule 6 - Sundry Debtors (Unsecured, Considered Good) :			
Outstanding for less than six months		3,421,678	5,566,296
		<u>3,421,678</u>	<u>5,566,296</u>
Schedule 7 - Cash and Bank Balances :			
Cash on Hand		34,878	35,604
Balances with Scheduled Banks :			
In Current Accounts		5,599,898	266,205
		<u>5,634,776</u>	<u>301,809</u>
Schedule 8 - Loans and Advances (Unsecured, Considered Good) :			
Loans to employees		155,677	104,933
Advances recoverable in cash or in kind or for value to be received		6,416,729	3,902,282
Deposits		47,506,019	18,717,765
Advance Tax		42,677,795	52,038,516
Loans and Advances (Secured, Considered Good) :			
Loans to employees		3,720,657	358,584
		<u>100,476,877</u>	<u>75,122,080</u>
Schedule 9 - Current Liabilities :			
Sundry Creditors		10,639,025	16,364,407
Other Liabilities		2,373,146	1,643,549
		<u>13,012,171</u>	<u>18,007,956</u>
Schedule 10 - Provisions :			
Provision for Income Tax		25,657,000	38,903,000
Provision for Leave Encashment		251,321	104,024
		<u>25,908,321</u>	<u>39,007,024</u>
Schedule 11 - Miscellaneous expenses <i>(To the extent not written off or adjusted)</i>			
Preliminary Expenses :			
As per last Balance Sheet	48,590		92,180
Less : Written off during the year	<u>43,590</u>		<u>43,590</u>
		5,000	48,590
Deferred Revenue Expenditure:			
As per last Balance Sheet	6,118,898		30,949,432
Add: Incurred during the year	<u>-</u>		<u>121,802</u>
	6,118,898		31,071,234
Less: 1. Excess Provision written back (Net)	<u>-</u>		<u>2,345,367</u>
2. Written off during the year	<u>6,078,298</u>		<u>22,606,969</u>
		40,600	6,118,898
		<u>45,600</u>	<u>6,167,488</u>

Principal Asset Management Company Limited
(Formerly known as IDBI-PRINCIPAL Asset Management Company Limited)
Schedules forming part of the Profit and Loss Account for the Year ended March 31, 2003

	Year ended Mar 31, 2003 Rs.	Year ended Mar 31, 2002 Rs.
Schedule 12 - Interest and Dividend		
Interest on fixed deposits [Tax deducted at source Rs. Nil (Previous Year Rs. 16,239)]	-	75,321
Interest on other investments [Tax deducted at source Rs. 3,702,221 (Previous Year Rs.965,730)]	13,706,609	16,805,479
Interest on Tax Free Bonds	3,701,279	8,297,703
Interest on staff loans	108,883	22,847
Dividend income [Tax deducted at source Rs. 519,848 (Previous Year Rs.Nil)]	4,950,928	1,385,228
Interest on Income Tax refund	1,455,981	-
	<u>23,923,680</u>	<u>26,586,578</u>
Schedule 13 - Other Income		
Profit on sale of Investments [Including Unrealized Loss on Investments of Rs. 4,210,360; (Previous Year Rs. 7,831)]	58,361,018	13,071,750
Profit on sale of fixed assets	31,845	1,619,117
Miscellaneous income	192,629	734,388
	<u>58,585,492</u>	<u>15,425,255</u>
Schedule 14 - Employee cost		
Salary, bonus and allowances	42,611,911	38,689,438
Contribution to Provident and Other Funds	2,724,803	2,248,528
Welfare Expenses	2,872,411	1,576,720
	<u>48,209,125</u>	<u>42,514,686</u>
Schedule 15 - Administrative and other expenses		
Rent	17,217,608	16,914,324
Electricity	2,549,086	1,699,156
Repairs and Maintenance		
Office equipments	277,884	297,915
Others	1,738,429	1,654,920
Travel	10,351,564	9,032,570
Entertainment	696,021	732,266
Legal and Professional fees	5,448,770	2,260,033
Auditors' remuneration:		
Audit Fees	150,000	100,000
For taxation matters	40,000	35,000
Out of Pocket Expenses	3,028	-
Service tax	15,200	6,750
Interest Expense on Finance Lease	166,356	93,389
Other Interest expense	15,724	1,777
Computer expenses	7,247,496	3,432,261
Telecommunication expenses	6,377,705	5,848,298
Subscription to databases, Books & Periodicals	2,592,409	2,391,585
Printing & Stationery	557,981	974,127
Postage & Courier	210,492	264,867
Advertisement and Publicity	3,523,617	5,057,254
Membership/Registration fees	1,232,274	2,890,191
Scheme Administration expenses	27,779,258	18,944,707
Scheme Brokerage expenses	2,408,188	4,118,546
Insurance expenses	1,122,032	178,799
Miscellaneous expenses (refer schedule 17, note B 3 (b))	2,984,702	3,215,203
	<u>94,705,824</u>	<u>80,143,938</u>
Schedule 16 - Deferred Revenue Expenditure written off		
Initial issue expenses written off during the year	6,078,298	22,606,969
	<u>6,078,298</u>	<u>22,606,969</u>

Principal Asset Management Company Limited**(Formerly known as IDBI-PRINCIPAL Asset Management Company Limited)***Statement showing particulars as prescribed in the amendment to Schedule VI to the Companies Act, 1956 vide Notification No.G.S.R.388 (E) dated May 15, 1995 :***Balance Sheet Abstract and Company's General Business Profile (Part IV)****I. Registration Details :**

Registration No.	64092	State Code	11
Balance Sheet Date	31	03	2003
	Date	Month	Year

II. Capital raised during the year (in Rs.'000) :

Public Issue	Rights Issue	Bonus Issue	Private Placement
NIL	NIL	NIL	NIL

III. Position of Mobilisation and Deployment of Funds (in Rs.'000) :

Total Liabilities	Total Assets
660,204	660,204

Sources of Funds :

Paid Up Capital	Reserves & Surplus	Secured Loans	Unsecured Loans
100,000	557,402	2,802	Nil

Application of Funds :

Net Fixed Assets	Investment	Net Current Assets	Misc.Expenditure
18,309	567,219	72,415	46

IV Performance of Company :

Total Income	Total Expenditure	Profit Before Tax	Profit After Tax
223,715	160,265	63,450	57,662

Earning per share (in Rs.) *	Dividend Rate % **
5.77	0%

V Generic Names of Principal Products/Services of the Company : Asset Management Services
Item Code (ITC Code) : Not Applicable

For and on behalf of the Board

Arpan Thanawala
Chairman

Sanjay Sachdev
Managing Director & CEO

Miten Chawda
Company Secretary

MUMBAI,
July 7, 2003

PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED

**SCHEDULE `17' : SIGNIFICANT ACCOUNTING POLICIES AND NOTES
FORMING PART OF THE ACCOUNTS**

A. SIGNIFICANT ACCOUNTING POLICIES:

I. ACCOUNTING CONCEPTS:

The financial statements are prepared on accrual basis and on historical cost convention.

II. ASSET MANAGEMENT FEE INCOME:

The basis of computation of Net Asset Value (NAV) by the Mutual Fund Schemes and consequently Investment Management and Advisory Fees (Fees) accruing to the Company is in conformity with the SEBI (Mutual Fund) Regulations 1996 and approved by the Board of Trustees of Principal Mutual Fund.

III. FIXED ASSETS AND DEPRECIATION:

Fixed assets are stated at cost less accumulated depreciation. Fixed assets are capitalized at cost inclusive of freight, duties, taxes and all incidental expenses related thereto.

Depreciation on fixed assets other than leasehold improvements is provided on Straight Line Method based on the economic lives of the assets estimated by Management, which are as follows;

Furniture and Fixture & Motor Cars	4 years
Office Equipment & Computers	3 years

Depreciation on leasehold improvements has been provided proportionately over the primary period of the lease on straight line basis.

Assets individually costing Rs. 5,000/- or less are fully depreciated in the year of purchase/acquisition.

IV INVESTMENTS AND INVESTMENT INCOME:

Investments in units of mutual fund are stated at lower of cost and net asset value (NAV). All other Investments are stated at cost. Cost comprises cost of acquisition and related expenses such as brokerage and stamp duties. The difference between the cost of investment and the redemption value is treated as capital gain/loss in the year of redemption.

For calculation of profit/loss on investments, cost is calculated on first-in first-out basis.

Dividend income from units of mutual funds is accounted when the right to receive the income is established.

PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED

**SCHEDULE `17' : SIGNIFICANT ACCOUNTING POLICIES AND NOTES
FORMING PART OF THE ACCOUNTS**

A. SIGNIFICANT ACCOUNTING POLICIES : *Contd.*.....

V RETIREMENT BENEFITS:

- (i) Leave Encashment:
Liability in respect of the employees of the Company as determined on the basis of actuarial valuation is charged to the revenue.
- (ii) Provident / Family Pension Fund:
Contributions as a percentage of salary for eligible employees payable to Government Provident Fund Authority are charged to the revenue.
- (iii) Gratuity:
The Company has taken Group Gratuity cum Insurance Policy with Life Insurance Corporation of India to cover Gratuity Liability. Amount payable under the scheme is fully charged to the revenue.

VI. MISCELLANEOUS EXPENDITURE:

Expenditure incurred for the launching of the schemes, are deferred and written off equally over a period of three years, beginning with the year in which the scheme is launched.

Preliminary expenses are written off over a period of ten years.

VII FOREIGN CURRENCY TRANSLATION:

Foreign Currency transactions are converted at the exchange rate prevailing at the date of the transaction. Outstanding amounts are restated at year end exchange rate and exchange difference is accounted to the revenue.

VIII. INCOME TAX

The accounting treatment for Income-tax in respect of the Company's income is based on the Accounting Standard on 'Accounting for Taxes on Income' (AS 22) issued by the Institute of Chartered Accountants of India. The provision made for Income-tax in the Accounts comprises both, the current tax and the deferred tax. The deferred tax assets and liabilities for the year, arising on account of timing differences, are recognized in the Profit and Loss Account; and the cumulative effect thereof is reflected in the Balance Sheet. The major components of the respective balances of deferred tax assets and liabilities are disclosed in the Accounts.

PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED

**SCHEDULE `17' : SIGNIFICANT ACCOUNTING POLICIES AND NOTES
FORMING PART OF THE ACCOUNTS**

A. SIGNIFICANT ACCOUNTING POLICIES : *Contd.*.....

- IX.** Scheme administration expenses represent expenses incurred for the activities of the Mutual Fund schemes which are borne by the Company/ debited to the Company by the schemes due to the limitation of expenses stipulated in the offer document of the related schemes.

B. NOTES FORMING PART OF ACCOUNTS:

There is no change in the Accounting Policies during the current year.

2. CONTINGENT LIABILITIES AND COMMITMENTS:

- (a) Future obligation of lease rent in respect of assets taken on lease is Rs.27,157,115 (Rs. 22,554,715).
- (b) The estimated amount of contracts remaining to be executed on Capital Account amount to Rs. 400,000 (Rs Nil).
- (c) Disputed Income Tax liability is Rs. 140,215 (Rs. 1,40,215)
- (d) Claims against the Company not acknowledged as debt Rs. Nil (Rs. Nil)
- (e) Details of minimum lease payments and present value of lease payments for motor cars taken on lease by the company after April 1, 2001 are as follows:

	Minimum Lease Payments	Present Value
	<u>Rs.</u>	<u>Rs.</u>
Less than one year	1,997,428	188,322
One to five years	2,596,592	4,292,360

3. (a) Managing Director's and CEO's Remuneration is as under:

	2002-2003	2001-2002
	<u>Rs.</u>	<u>Rs.</u>
Salaries and allowances	1,392,000	1,392,000
Contribution to Provident and Other Funds	108,000	108,000
Perquisites	46,400	-
	-----	-----
TOTAL :	1,546,400	1,500,000
	=====	=====

Provision for Gratuity and Leave Encashment is made on a total company basis and is not included in the above.

PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED

**SCHEDULE `17' : SIGNIFICANT ACCOUNTING POLICIES AND NOTES
FORMING PART OF THE ACCOUNTS**

B. NOTES FORMING PART OF ACCOUNTS:

(b) Miscellaneous expenses include:

Sitting Fees paid to Directors	100,000	110,000
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4. Expenditure in Foreign Currency:

(a) Travel	1,225,126	149,422
(b) Telecommunication Expenses	769,597	-
(c) Membership Fees	74,578	-
	-----	-----
	2,069,301	149,422
	=====	=====

5. Statement of Purchases and Sales of Units / Bonds for the year ended March 31, 2003:

Particulars of Investments	Purchases No. of Units	Sales No. of Units
<u>Mutual Fund Units</u>		
PRINCIPAL Deposit Fund Plan C Dividend	-	3,750,000.00
PRINCIPAL Income Fund Dividend Plan	9,901,855.97	-
PRINCIPAL Income Fund Growth Plan	12,981,049.79	25,599,744.72
PRINCIPAL Income Fund - Short Term Plan	9,428,090.39	2,797,907.17
PRINCIPAL Monthly Income Plan	9,389,898.83	-
PRINCIPAL Cash Management Fund-Liquid Dividend	-	773,715.47
PRINCIPAL Cash Management Fund-Liquid Growth	31,836,464.03	31,541,906.55
<u>Tax Free Bonds</u>		
10.50 % Tax Free IRFC Railway Bonds Eleventh Series	5,400.00	5,400.00
10.50 % Tax Free IRFC Bonds Twelfth 'A' Series	10,000.00	10,000.00
10.50 % Tax Free IRFC Railway Bonds Twelfth 'B' Series	20,000.00	20,000.00
<u>Other Bonds</u>		
IDBI OMNI Bonds (Series - I)	-	10.00

PRINCIPAL ASSET MANAGEMENT COMPANY LIMITED

**SCHEDULE '17' : SIGNIFICANT ACCOUNTING POLICIES AND NOTES
FORMING PART OF THE ACCOUNTS**

B. NOTES FORMING PART OF ACCOUNTS : Contd.....

6. Travel Expenses include Exchange difference amounting to Rs. 17,615 (Rs. 8,357) charged to the revenue.
7. Expenses are net of recoveries/reimbursements, and includes share of expenses, wherever services/facilities are shared with others.
8. In compliance with the Accounting Standard relating to 'Accounting for Taxes on Income' (AS 22), issued by the Institute of Chartered accountants of India, the Company has adjusted the deferred tax liability (net) arising on account of timing differences as on April 1, 2002 of Rs. 3,015,000 in General Reserve. Also in compliance with the Accounting Standard, for the year ended March 31, 2003 the Company has taken credit of Rs. 5,230,000 in the Profit & Loss Account towards deferred tax asset (net) for the year.

The major components of deferred tax assets and liabilities arising on account of timing difference are:

	Assets	Liabilities
	<u>Rs.</u>	<u>Rs.</u>
Depreciation	588,000	
Deferred Revenue Expenses		15,000
Investments	1,550,000	
Leave Encashments	92,000	
Total	----- 2,230,000 =====	----- 15,000 =====

Net Deferred Tax Assets Rs. 2,215,000

9. The figures in respect of the previous year have been regrouped / rearranged, wherever necessary to make them comparable. Figures in brackets are of previous year.

Signatures to Schedules '1' to '17'

For Deloitte Haskins & Sells

Chartered Accountants

Nalin M. Shah

Partner

MUMBAI,
July 7, 2003

For and on behalf of the Board

Arpan Thanawala

Chairman

Miten Chawda

Company Secretary

Sanjay Sachdev

Managing Director & CEO