

Deloitte Haskins & Sells

Chartered Accountants
12, Dr. Annie Besant Road
Opp. Shiv Sagar Estate
Worli, Mumbai - 400 018
India

Tel : + 91 (22) 6667 9000
Fax : + 91 (22) 6667 9025

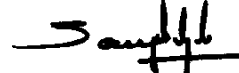
AUDITORS' REPORT TO THE MEMBERS OF PRINCIPAL PNB ASSET MANAGEMENT COMPANY PRIVATE LIMITED

1. We have audited the attached Balance Sheet of **PRINCIPAL PNB ASSET MANAGEMENT COMPANY PRIVATE LIMITED** as at March 31, 2007, and the Profit and Loss Account 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 the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 Companies (Auditor's Report) Order, 2003 (the Order) issued by the Central Government 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;
 - (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;

Deloitte Haskins & Sells

- (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, 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, 2007; 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. On the basis of the written representations from the directors as on 31st March, 2007 as taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For Deloitte Haskins & Sells
Chartered Accountants



Sanjiv V. Pilgaonkar
Partner

(Membership No. 39826)

MUMBAI, June 22, 2007

SVP/RD/AP

Deloitte Haskins & Sells

PRINCIPAL PNB ASSET MANAGEMENT COMPANY PRIVATE LIMITED ANNEXURE TO THE AUDITORS' REPORT

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

- (i) The nature of the Company's business/ activities during the year is such that clauses (ii), (viii), (xiii) and (xiv) of paragraph 4 of the Order are not applicable to the Company.
- (ii) In respect of its fixed assets:
 - (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - (b) The fixed assets were physically verified during the previous years by the Management in accordance with a programme of verification which cover the verification of all fixed assets once in a period of three year. The fixed assets of the Company were not physically verified during the year.
 - (c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.
- (iii) According to the information and explanation given to us, the Company has not taken or granted any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Therefore, the provisions of paragraph 4 (iii) (a) to (iii) (g) of the Order are not applicable to the Company.
- (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 for the purchase of fixed assets and sale of services. The nature of the Company's business is such that it does not involve purchase of inventories and sale of goods. During the course of our audit and according to the information and explanation given to us, we have neither come across nor have been informed of any major weaknesses in internal control.
- (v) In respect of contracts or arrangements to be entered in the register maintained in pursuance of Section 301 of the Companies Act, 1956, to the best of our knowledge and belief and according to the information and explanations given to us, there were no contracts or arrangements referred to Section 301 that were required to be entered into the register required to be maintained under the said section.

1.

Deloitte Haskins & Sells

- (vi) According to the information and explanations given to us:
- (a) during the year the Company has not accepted any deposits from the public within the purview of Sections 58A and 58AA of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975; and
 - (b) no Order under the aforesaid sections has been passed by the Company Law Board or National Company Law Tribunal or the Reserve Bank of India or any court or any other Tribunal in this respect.
- (vii) In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.
- (viii) According to the information and explanations given to us in respect of statutory and other dues:
- (a) The Company has been regular in depositing undisputed statutory dues, including Provident Fund, Income Tax, Wealth Tax, Service Tax and other material statutory dues with the appropriate authorities during the year. There were no undisputed amounts payable on account of the above dues, outstanding as at March 31, 2007 for a period of more than six months from the date they became payable.
 - (b) There were no dues payable during the year in respect of Employees State Insurance, Investor Education and Protection Fund, Sales Tax, Custom Duty, Excise Duty and Cess.
 - (c) According to the information and explanations given to us, there were no dues on account of Sales Tax, Income Tax, Wealth Tax, Custom Duty, Excise Duty, Service Tax and Cess which have not been deposited as at 31st March, 2007 on account of disputes except as under:

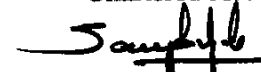
Name of statute	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	1,050,502	Assessment year 2004-05	Commissioner of Income Tax (Appeals)

- (ix) The Company does not have any accumulated losses as at the end of the financial year. The Company has not incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year.
- (x) According to the information and explanations given to us, there were no dues payable by the Company to financial institutions, banks and debenture holders during the year. Therefore, the provisions of paragraph 4 (xi) of the Order are not applicable to the Company.

Deloitte Haskins & Sells

- (xi) According to the information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Therefore, the provisions of paragraph 4 (xii) of the Order are not applicable to the Company.
- (xii) According to the information and explanations given to us, during the year the Company has not given any guarantee for loans taken by others from banks and financial institutions. Therefore, the provisions of paragraph 4 (xv) of the Order are not applicable to the Company.
- (xiii) According to the information and explanations given to us, the Company has not availed any term loan. Therefore, the provisions of paragraph 4 (xvi) of the Order are not applicable to the Company.
- (xiv) According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, funds raised on short term basis have, prima facie, not been used during the year for long term investment.
- (xv) According to the information and explanations given to us, the Company has not made any preferential allotment of shares during the year.
- (xvi) According to the information and explanations given to us, the Company has not issued any debentures during the year. Therefore, the provisions of paragraph 4 (xix) of the Order are not applicable to the Company.
- (xvii) According to the information and explanations given to us, during the year the Company has not raised any money through public issue. Therefore, the provisions of paragraph 4 (xx) of the Order are not applicable to the Company.
- (xviii) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells
Chartered Accountants



Sanjiv V. Pilgaonkar
Partner

(Membership No. 39826)

MUMBAI, June 22, 2007
SVP/RD/AP

Principal Pnb Asset Management Company Private Limited
Balance Sheet as at March 31, 2007

	<u>Schedule</u>	<u>Rs.</u>	<u>As at March 31, 2007 Rs.</u>	<u>As at March 31, 2006 Rs.</u>
<u>Sources of Funds</u>				
Shareholders' Fund :				
Share Capital	' 1 '		100,000,080	100,000,080
Reserves and Surplus	' 2 '		541,087,309	528,854,044
Deferred Tax Liability (Refer Schedule 17, Note B 9)			182,600	2,142,400
Total			<u>641,269,989</u>	<u>630,996,524</u>
<u>Application of Funds</u>				
Fixed Assets:				
Gross Block	' 3 '	214,266,914		181,283,692
Less: Accumulated Depreciation/Amortisation		108,387,927		81,579,492
Less: Impairment Loss (Refer Schedule 17, Note B 11)		<u>5,313,048</u>		<u>1,701,359</u>
Net Block			100,565,939	98,002,841
Capital Advance			<u>1,347,385</u>	<u>-</u>
			101,913,324	98,002,841
Investments				
	' 4 '		431,307,832	463,014,858
Current Assets, Loans and Advances:				
Sundry Debtors	' 5 '	31,463,626		35,003,844
Cash & Bank Balances	' 6 '	2,164,388		5,490,501
Loans & Advances	' 7 '	<u>102,762,771</u>		<u>111,310,267</u>
Total (A)		<u>136,390,785</u>		<u>151,804,612</u>
Less: Current Liabilities and Provisions:				
Current Liabilities	' 8 '	27,322,880		35,298,307
Provisions	' 9 '	<u>1,019,072</u>		<u>46,804,666</u>
Total (B)		<u>28,341,952</u>		<u>82,102,973</u>
Net Current Assets (A-B) :			108,048,833	69,701,639
Miscellaneous Expenditure :				
(To the extent not written off or adjusted)	' 10 '		-	277,186
T O T A L			<u>641,269,989</u>	<u>630,996,524</u>

Significant Accounting Policies and
Notes forming part of the Accounts

' 17 '

Schedules '1' to '10' & '17' form part of the
Balance Sheet

In terms of our report of even date attached.

For Deloitte Haskins & Sells
Chartered Accountants

Sd/-
Sanjiv V. Pilgaonkar
Partner

Mumbai, June 22, 2007

For and on behalf of the Board

Sd/-
M. M. Chitale
Chairman

Mumbai, June 22, 2007

Sd/-
Rajan Ghotgalkar
Managing Director

Sd/-
Sonali Bendke
Company Secretary

Principal Pnb Asset Management Company Private Limited
Schedules forming part of the Balance Sheet as at March 31, 2007

	As at March 31, 2007 Rs.	As at March 31, 2006 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 [of the above 6,500,008 shares (Previous year: 6,500,008 shares) are held by Principal Financial Group (Mauritius) Ltd, the holding company and its nominee. The ultimate holding company is Principal Financial Group Inc. USA]	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	57,015,000	46,285,000
Add: Transferred during the year	<u>6,924,581</u>	<u>10,730,000</u>
	63,939,581	57,015,000
Balance in Profit & Loss Account	<u>17,147,728</u>	<u>11,839,044</u>
	<u>541,087,309</u>	<u>528,854,044</u>

Principal Pnb Asset Management Company Private Limited
Schedule forming part of the Balance Sheet as at March 31, 2007

SCHEDULE 3 - FIXED ASSETS:

(Amount in Rs.)

DESCRIPTION OF ASSETS	GROSS BLOCK				DEPRECIATION				IMPAIRMENT	NET BLOCK	
	Opening as at 1-Apr-06	Additions during the year	Deletions during the year	Closing as at 31-Mar-07	Upto 1-Apr-06	For the Year	Adjustments/ Deductions	Upto 31-Mar-07	As at 31-Mar-07	As at 31-Mar-07	As at 31-Mar-06
INTANGIBLE											
Asset Management Rights (Refer Schedule 17, Note B 11)	91,655,275	-	-	91,655,275	17,318,703	8,955,051	-	26,273,754	5,313,048	60,068,473	72,635,213
Computer Software	1,100,000	1,884,495	-	2,984,495	30,555	814,933	-	845,488	-	2,139,007	1,069,445
TANGIBLE											
Furniture & Fixtures	9,525,616	7,587,833	-	17,113,449	4,564,900	3,200,387	-	7,765,287	-	9,348,162	4,960,716
Office Equipment	16,774,634	6,990,514	215,788	23,549,360	12,509,229	4,643,184	199,338	16,953,075	-	6,596,285	4,265,405
Computers	39,042,914	6,976,566	-	46,019,480	31,413,223	6,017,428	-	37,430,651	-	8,588,829	7,629,691
Leasehold Improvements	13,732,212	6,226,334	-	19,958,546	11,873,123	1,998,915	-	13,872,038	-	6,086,508	1,859,089
Electrical Installations	103,117	3,634,645	-	3,737,762	88,203	527,120	-	615,323	-	3,122,439	14,914
Motor Cars	9,349,924	3,271,085	3,372,462	9,248,547	3,781,556	2,344,838	1,494,083	4,632,311	-	4,616,236	5,568,368
TOTAL RUPEES :	181,283,692	36,571,472	3,588,250	214,266,914	81,579,492	28,501,856	1,693,421	108,387,927	5,313,048	100,565,939	98,002,841
PREVIOUS YEAR'S TOTAL :	176,310,896	11,009,861	6,037,065	181,283,692	59,162,931	25,808,175	3,391,614	81,579,492	1,701,359	98,002,841	-

Principal Pnb Asset Management Company Private Limited
Schedules forming part of the Balance Sheet as at March 31, 2007

SCHEDULE - 4 (Refer Schedule 17, Note B 5 and B 6)

INVESTMENTS (Current, Non trade, Unquoted)	Nos.	Face Value <u>Rs.</u>	As at March 31, 2007 <u>Rs.</u>	As at March 31, 2006 <u>Rs.</u>
<u>Units of Principal Mutual Fund :</u>				
PRINCIPAL Cash Management Fund-Liquid Option-Instl. Plan-Growth Plan	1,319,296.361 (13,026,781.748)	10	16,307,832	150,528,350
(1) PRINCIPAL Deposit Fund 371 Days Plan - Growth - Mar05	Nil (3,000,000.000)	10	-	30,000,000
PRINCIPAL Deposit Fund 371 Days Plan - Growth - Oct 05	Nil (2,000,000.000)	10	-	20,000,000
PRINCIPAL Deposit Fund 91 Days Plan - Growth - Feb 06	Nil (10,000,000.000)	10	-	100,000,000
Principal Pnb Fixed Maturity Plan - 385 Days - Series I - Institutional - Growth Plan - Mar 06	8,000,000.000 (8,000,000.000)	10	80,000,000	80,000,000
PRINCIPAL Short Term-Instl Plan-Growth Plan	Nil (3,038,471.552)	10	-	35,145,393
PRINCIPAL Income Fund Instl. Plan-Growth Accumulation Plan	Nil (3,462,813.709)	10	-	40,000,000
PRINCIPAL Cash Management Fund-Liquid Growth (ESPP)	Nil (533,592.513)	10	-	7,341,115
Principal Fixed Maturity Plan (FMP-27) 385 Days Series II Regular Growth Plan- Jun 06	7,000,000.000 Nil	10	70,000,000	-
Principal Fixed Maturity Plan (FMP -31) - Series III Institutional Growth Plan - Nov 06	12,000,000.000 Nil	10	120,000,000	-
Principal Pnb Fixed Maturity Plan (FMP-34) 91 Days-Series VII - Feb 07	6,000,000.000 Nil	10	60,000,000	-
Principal Pnb Fixed Maturity Plan (FMP-37) 385 Days - Series IV Institutional Growth Plan	8,500,000.000 Nil	10	85,000,000	-
T O T A L :			431,307,832	463,014,858

Net asset value of units of Mutual Fund.

445,872,562 466,706,563

Footnote:

Figures in brackets represents units for the previous year.

Principal Pnb Asset Management Company Private Limited
Schedules forming part of the Balance Sheet as at March 31, 2007

	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Schedule 5 - Sundry Debtors (Unsecured, Considered Good) :		
Outstanding for less than six months	31,463,626	35,003,844
	<u>31,463,626</u>	<u>35,003,844</u>
Schedule 6 - Cash and Bank Balances :		
Cash on Hand	104,159	93,007
Balances with Scheduled Banks :		
In Current Accounts	2,060,229	5,397,494
	<u>2,164,388</u>	<u>5,490,501</u>
Schedule 7 - Loans and Advances (Unsecured, Considered Good unless otherwise stated) :		
Advances recoverable in cash or in kind or for value to be received		
Considered good	40,860,902	54,675,113
Considered doubtful of recovery	271,176	271,176
	<u>41,132,078</u>	<u>54,946,289</u>
Less: Provision	271,176	271,176
	<u>40,860,902</u>	<u>54,675,113</u>
Deposits	38,593,730	42,165,313
Advance Income Tax (net of provisions)	23,308,139	14,469,841
	<u>102,762,771</u>	<u>111,310,267</u>
Schedule 8 - Current Liabilities :		
Sundry Creditors (Refer Schedule 17, Note B 12)	10,445,332	11,971,903
Other Liabilities (Refer Schedule 17, Note B 6)	16,877,548	23,326,404
	<u>27,322,880</u>	<u>35,298,307</u>
Schedule 9 - Provisions :		
Provision for Leave Encashment	1,019,072	1,036,131
Provision for Fringe Benefit Tax (net)	-	158,498
Final Equity Dividend		40,000,032
Corporate Dividend Tax on Final Equity Dividend		5,610,005
	<u>1,019,072</u>	<u>46,804,666</u>
Schedule 10 - Miscellaneous expenses :		
(To the extent not written off or adjusted)		
Deferred Revenue Expenditure:		
As per last Balance Sheet	277,186	554,396
Less: Written off during the year	277,186	277,210
	<u>-</u>	<u>277,186</u>

Principal Pnb Asset Management Company Private Limited
Schedules forming part of the Profit and Loss Account for the Year ended March 31, 2007

	Year ended March 31, 2007 Rs.	Year ended March 31, 2006 Rs.
Schedule 11 - Management Fees		
Fees from Mutual Fund Operations (Including tax deducted at source Rs. 19,923,567, Previous year: Rs. 17,909,097)	354,413,677	319,205,098
Fees from Portfolio Management and Advisory Services Operations (Including tax deducted at source Rs. 932,262 Previous year: Rs. 209,247)	18,648,629	3,394,841
	<u>373,062,306</u>	<u>322,599,939</u>
Schedule 12 - Interest and Dividend		
Dividend Income	15,723,037	32,909,220
Interest on Income Tax Refund	-	278,762
	<u>15,723,037</u>	<u>33,187,982</u>
Schedule 13 - Other Income		
Profit on sale/redemption of Investments (net) (net of Securities Transaction Tax Rs. 556,261 (Previous year Rs. 754,841)	12,128,207	11,339,265
Profit on sale of fixed assets	146,639	-
Miscellaneous other income	26,931	601,132
	<u>12,301,777</u>	<u>11,940,397</u>
Schedule 14 - Employee cost		
Salary, Bonus and Allowances	136,382,545	94,963,538
Contribution to Provident and Other Funds	8,416,498	7,061,607
Welfare Expenses	5,850,931	2,691,993
	<u>150,649,974</u>	<u>104,717,138</u>
Schedule 15 - Administrative and other expenses (Refer Schedule 17, B 2(b), 7 and 8)		
Rent	22,312,549	8,694,208
Electricity	5,412,884	3,854,057
Repairs and Maintenance		
Office Equipments	1,017,172	835,862
Others	8,786,468	5,304,150
Travel and Entertainment	22,961,300	19,132,509
Legal and Professional Fees	8,745,170	7,579,161
Auditors' Remuneration: (net off service tax)		
Audit Fees	250,000	250,000
For Tax Audit	60,000	60,000
For Other Services	-	50,000
Computer Expenses	6,148,922	6,632,346
Telecommunication Expenses	11,376,591	11,123,321
Subscription to Databases, Books & Periodicals	4,358,429	4,485,372
Printing, Stationery, Postage and Courier	2,911,695	2,439,472
Advertisement and Publicity	2,422,627	4,724,400
Membership/Registration fees	996,987	1,070,121
Scheme Administration Expenses	207,421	3,091,049
Insurance Expenses	1,027,026	917,077
Rates and Taxes	146,290	193,294
SEBI Filing Fees	7,490,344	171,662
Donation	125,000	34,233
Loss on sale of fixed assets (net)	-	142,217
Miscellaneous Expenses	9,618,845	6,953,539
	<u>116,375,720</u>	<u>87,738,050</u>
Schedule 16 - Deferred Revenue Expenditure written off		
Initial issue expenses w/off during the year	277,186	277,210
	<u>277,186</u>	<u>277,210</u>

Principal Pnb Asset Management Company Private 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 as per historical cost convention, on accrual basis and in accordance with the generally accepted accounting principles in India, the provisions of the Companies Act, 1956, and the applicable Accounting Standards issued by The Institute of Chartered Accountants of India.

The Company falls in "Level II Enterprises" category in the "Small and Medium Enterprises" (SME) classification in the scheme for applicability of accounting standards announced by the Institute of Chartered Accountants of India (ICAI). Accordingly, apart from relaxations from certain disclosure requirements under accounting standards AS-19 on "Leases", AS-20 on "Earnings Per Share" and AS-29 on "Provisions, Contingent Liabilities and Contingent Assets", the accounting standards AS-3 on "Cash Flow Statements", AS-17 on "Segment Reporting", AS-18 on "Related Party Transactions" and AS-24 on "Discontinuing Operations" are not applicable to it.

II. Use of estimates

The preparation of the financial statements in conformity with the generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported balances of assets and liabilities, revenues and expenses and disclosure of contingent liabilities. Such estimates and assumptions are based on management's evaluation of relevant facts and circumstances as on the date of financial statements. The actual results could differ from those estimates.

III. Revenue recognition

Investment management fees are recognised in accordance with the terms of contract between the Company and the Board of Trustees of Principal Mutual Fund and are in line with the Securities and Exchange Board of India ("SEBI") (Mutual Funds) Regulations, 1996 (SEBI Regulations) as amended from time to time, based on daily net asset value (excluding investments made by the Company in the schemes in accordance with SEBI Regulations). Such fees and other revenues received for performance of asset management are recognised as revenue when the service is performed.

Portfolio Management Fees and Advisory Fees are recognised on an accrual basis at the time the services are rendered and an enforceable right to receive has arisen in accordance with terms of the contract between the Company and clients.

IV. Fixed assets and depreciation / amortisation

a. Tangible fixed assets and depreciation

Tangible fixed assets acquired by the Company are reported at acquisition cost, with deductions for accumulated depreciation and impairment losses, if any.

The acquisition cost includes the purchase price (excluding refundable taxes) and expenses directly attributable to the asset to bring it to the site and in the working condition for its intended use. Examples of directly attributable expenses included in the acquisition cost are delivery and handling costs, installation, legal services and consultancy services.

Principal Pnb Asset Management Company Private Limited
Schedule '17': Significant Accounting Policies and Notes forming part of the
Accounts

Depreciation is provided on a straight line basis at rates and in the manner specified in Schedule XIV to the Companies Act, 1956 unless the use of a higher rate is estimated by the management. The management has estimated the useful lives as under:

Motor cars	4 years
Electrical installations	4 years
Furniture and fixtures	4 years
Computers	3 years
Office equipment	3 years

Leasehold improvements are depreciated on a straight line basis over the primary period of lease if such period is lower than the period derived from corresponding rates specified in Schedule XIV. Assets individually costing less than Rs. 5,000 are fully depreciated in the year of purchase.

h. Intangible assets and amortisation

Intangible assets other than goodwill are valued at cost less amortisation. These generally comprise of assets management rights acquired by the Company and costs incurred to acquire computer software licences and implement the software for internal use (including software coding, installation, testing and certain data conversion).

Intangible assets are reported at acquisition cost, with deductions for accumulated amortisation and impairment losses, if any.

Amortisation takes place on a straight line basis over the asset's anticipated useful life estimated by management. The useful life is determined based on the period of the underlying contract and the period of time over which the intangible asset is expected to be used and generally does not exceed 3 years except assets management rights, which are amortised over period of 10 years.

An impairment test of intangible assets is conducted annually or more often if there is an indication of a decrease in value. The impairment loss, if any, is reported in the Profit and Loss Account. Where assets are impaired, the amortisation charge is adjusted so as to charge off the carrying value of such asset after adjusting the impairment in their value, over their respective remaining useful lives.

V. Impairment of assets

The carrying value of assets of the Company's cash-generating units are reviewed for impairment annually or more often if there is an indication of decline in value. If any indication of such impairment exists, the recoverable amounts of those assets are estimated and impairment loss is recognised, if the carrying amount of those assets exceeds their recoverable amount. The recoverable amount is the greater of the net selling price and their value in use. Value in use is arrived at by discounting the estimated future cash flows to their present value based on appropriate discount factor.

VI. Investments and investment income

Long term investments are valued at cost, less provision for diminution other than temporary, in value, if any. Current investments are valued at the lower of cost and fair value. Cost includes the purchase price and related expenses such as brokerage and stamp duties.

The difference between the cost and the redemption / sale proceeds net of expenses is recognised in the profit and loss account. For calculation of profit/loss on investment, cost is calculated on first-in-first-out basis.

Principal Pnb Asset Management Company Private Limited
Schedule '17': Significant Accounting Policies and Notes forming part of the
Accounts

Dividend income is accounted when the right to receive the income is established.

VII. Retirement Benefits

- a) The Company has both defined-contribution and defined-benefit plans, of which some have assets in special funds or similar securities. The plans are financed by the Company and in the case of some defined contribution plans by the Company along with its employees .

Defined-contribution plan

These are plans in which the Company pays pre -defined amounts to separate funds and does not have any legal or informal obligation to pay additional sums. These comprise of contributions to the employees' provident fund and family pension fund. The Company's payments to the defined-contribution plans are reported as expenses during the period in which the employees perform the services that the payment covers.

Defined-benefit plan

Expenses for defined-benefit gratuity are actuarially calculated as at the balance sheet date by the Life Insurance Corporation of India (LIC) in a manner that distributes expenses over the employee's working life. These commitments are valued at the present value of expected future payments, with consideration for calculated future salary increases, utilising a discount rate corresponding to the interest rate estimated by the LIC.

b) Leave encashment

Liability for leave encashment in respect of the employees of the Company as determined on the basis of actuarial valuation is charged to the revenue account .

VIII. Foreign currency translation

Foreign currency transactions are converted at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at year end exchange rate and exchange difference is charged / credited to the revenue account.

IX. Taxes on i ncome

Income taxes include taxpayable in respect of taxable income for the year, fringe benefits tax, adjustment attributable to earlier periods and changes in deferred taxes . Current tax effect are measured using the applicable enacted tax rates/laws and deferred tax charge/credit are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is calculated to correspond to the tax effect arising when final tax is determined. Deferred tax corresponds to the net effect of tax on all timing differences which occur as a result of items being allowed for income tax purposes during a period different from when they were recognised in the financial statements.

Deferred tax assets are recognised with regard to all deductible timing differences to the extent that it is probable that taxable profit will be available against which deductible timing differences can be utilised. When the Company carries forward unused tax losses

Principal Pnb Asset Management Company Private Limited
Schedule '17': Significant Accounting Policies and Notes forming part of the
Accounts

and unabsorbed depreciation, deferred tax assets are recognised only to the extent there is virtual certainty backed by convincing evidence that sufficient future taxable income will be available against which deferred tax assets can be realised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced by the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the aggregate deferred tax asset to be utilised.

X. Scheme Administration Expenses

Expenses of schemes of Principal Mutual Fund in excess of the stipulated rates are required to be borne by the Company, in accordance with the requirements of Securities and Exchange Board of India (Mutual Fund) Regulations, 1996, and as such, are charged to the Profit and Loss Account.

B. NOTES FORMING PART OF THE ACCOUNTS:

1. Contingent Liabilities

Disputed income tax liability as at 31st March, 2007 is Rs. 1,333,857 (as at 31st March, 2006 Rs. 1,547,585). The Company does not expect any liability to devolve on it on account of the above.

2. Managerial Remuneration

(a) Director's Remuneration (including Managing Director's and CEO's remuneration) is as under:

	2006-2007	2005-2006
	Rs.	Rs.
Salaries and allowances	7,819,523	6,291,103
Contribution to Provident and Other Funds	332,742	307,680
Perquisites	9,910	208,800
	-----	-----
TOTAL:	8,162,175	6,807,583
	=====	=====

Provision for Gratuity and Leave Encashment is made in aggregate for the Company as a whole and the component attributed to the Director's remuneration is not separately identifiable and has therefore not been included above.

	2006-2007	2005-2006
	Rs.	Rs.
(b) Miscellaneous expenses include:		
Siting Fees paid to Directors	210,000	165,000

3. Expenditure in foreign currency:

	2006-2007	2005-2006
	Rs.	Rs.
(a) Travel	1,193,889	585,222
(b) Telecommunication Expenses	NIL	998,910
(c) Membership Fees	160,273	98,055
(d) Professional Fees	682,602	1,232,196
	-----	-----
	2,036,764	2,914,383
	=====	=====

4. Amount remitted in foreign currency on account of dividend:

Principal Pnb Asset Management Company Private Limited
Schedule '17': Significant Accounting Policies and Notes forming part of the
Accounts

	2006-2007	2005-2006
No. of Non-Resident Shareholders	1	1
No. of equity shares (Face Value - Rs. 10)	6,500,002	6,500,002
Amount of interim and final dividend (in Rs.)	58,500,018	45,500,014

5. Statement of Purchase and Sale/Redemption of Investments for the year ended March 31, 2007:

Principal Pnb Asset Management Company Private Limited
Schedule '17': Significant Accounting Policies and Notes forming part of the
Accounts

Particulars of Investments (Current, Non Trade)	2006-07		2005-06	
	No. of Units/Shares	Cost (Rs.)	No. of Units/Shares	Cost (Rs.)
(a). Acquired and sold during the year				
Mutual Fund Units (Unquoted)				
Principal Income fund-Short Term-Instl.Plan-Growth Plan	28,890,617.302	349,581,063	101,266,202.421	1,156,603,830
Principal Income fund-Short Term-Instl.Plan-Div.reinvest.-monthly	10,506,382.636	107,101,014	63,827,340.008	642,343,317
Principal Income fund-Instl.Plan-Growth Accumulation Plan	5,917,086.272	70,807,709	57,349,295.330	648,787,322
Principal Income fund-Instl.Plan-Dividend Reinvest.-Quarterly	2,359,173.730	25,736,698	44,348,443.663	457,838,995
Principal Growth fund-Growth Plan	1,302,666.422	60,000,000	2,378,580.109	80,000,000
Principal Large Cap Fund-Dividend Payout	5,583,959.331	90,000,000	-	-
Principal Resurgent India Equity fund-Dividend Payout	3,110,577.375	58,335,354	4,039,575.268	105,500,000
Principal Floating Rate fund FMP-Instl.Option-Growth Plan	18,152,546.465	202,594,526	-	-
Principal Floating Rate fund FMP-Instl.Option-Div.Reinvest.Monthly	10,147,224.297	102,311,418	-	-
Principal Cash Management fund-Liquid option-Instl.Plan-Growth Plan	73,882,649.797	876,020,283	63,409,850.068	717,391,129
Principal Cash Management fund-Liquid option-Growth Plan	1,196,741.793	16,764,458	2,601,178.502	34,912,639
Principal Index Fund Growth Plan	-	-	1,291,181.517	22,500,000
Principal Index Fund Dividend Plan	-	-	187,064.141	2,500,000
Principal STP Instl Weekly Dividend	-	-	23,387,898.034	255,585,289
Principal Balance Fund	-	-	4,675,810.474	75,000,000
Principal Monthly Income Plan-Div.Reinvestment-Monthly	-	-	10,120.732	107,586
Equity Shares (Quoted)				
Tata Motors Ltd.	-	-	6,500	4,129,472
State Bank of India Ltd.	-	-	20,000	18,485,766
Indian Overseas Bank Ltd.	-	-	60,000	5,764,948
Jai Prakash Associates Ltd.	-	-	25,000	9,364,487
Tata Consultancy Services Ltd.	-	-	6,000	10,177,972
Mahindra & Mahindra Ltd.	-	-	20,000	10,033,604
Bharat Heavy Electricals Ltd.	-	-	7,300	10,126,749
ICICI Bank Ltd.	-	-	15,000	8,577,001
Associated Cement Company Ltd.	-	-	20,000	10,915,083
Tata Steel Ltd.	8,400	4,014,078	-	-
ITC Ltd.	23,000	3,993,101	70,000	10,035,907
HCL Technologies Ltd.	8,000	4,004,009	-	-
(b). Acquired during the year and retained as at the year end. (Unquoted)				
Principal Fixed Maturity Plan (FMP-27) 385 Days Series I Regular Growth Plan- Jun 06	7,000,000.000	70,000,000	-	-
Principal Fixed Maturity Plan (FMP-31) - Series III Institutional Growth Plan - Nov 06	12,000,000.000	120,000,000	-	-
Principal Pnb Fixed Maturity Plan (FMP-34) 91 Days-Series VII - Feb 07	6,000,000.000	60,000,000	-	-
Principal Pnb Fixed Maturity Plan (FMP-37) 385 Days - Series IV Institutional Growth Plan	8,500,000.000	85,000,000	-	-
Principal Cash Management fund-Liquid option-Instl.Plan-Growth Plan	1,319,296.361	16,307,832	13,026,781.748	150,528,350
Principal Income fund-Short Term-Instl.Plan-Growth Plan	-	-	3,038,471.552	35,145,393
Principal Deposit fund 371 Days Plan-Growth-Oct.05	-	-	2,000,000.000	20,000,000
Principal Pnb FMP 91 Days Plan- Series II-Growth-Feb 06	-	-	10,000,000.000	100,000,000
Principal Pnb FMP-385 Days Plan- Series I-Instl.Growth-Mar 06	-	-	8,000,000.000	80,000,000
Principal Income fund Instl.Plan-Growth Accumulation Plan	-	-	3,462,813.709	40,000,000
Principal Cash Management fund-Liquid Growth(ESPP)	-	-	533,592.513	7,341,115
(c). Sold out of acquisition of an earlier year (Unquoted)				
Principal Income fund-Short Term-Instl.Plan-Growth Plan	3,038,471.552	35,145,393	26,317,682.211	291,514,342
Principal Income fund-Instl.Plan-Growth Accumulation Plan	3,462,813.709	40,000,000	4,574,804.641	50,198,573
Principal Deposit fund(FMP-6) 371 Days Plan Mar05-Growth	3,000,000.000	30,000,000	-	-
Principal Fixed Maturity Plan FMP 20 October 2005	2,000,000.000	20,000,000	-	-
Principal Fixed Maturity Plan FMP 24 February 2006	10,000,000.000	100,000,000	-	-
Principal Cash Management fund-Liquid option-Instl.Plan-Growth Plan	13,026,781.749	150,528,284	686,632.770	7,511,704
Principal Cash Management fund-Liquid option-Growth Plan	533,592.513	7,341,115	47,474.315	616,741
Principal Monthly Income Plan-Div.Reinvestment-Monthly	-	-	1,010,520.200	10,708,706
Principal Deposit fund 371 Days Plan-Growth Nov.04	-	-	6,000,000.000	60,000,000
Principal Cash Management fund-Liquid Growth(ESPP)	-	-	177,317.963	2,316,717

6. The employees of the Company are offered an Employee Stock Purchase Plan (Plan) by Principal Financial Group Inc. USA (PFG). Contributions received from the employees are held by the Company, for onward remittance to PFG. Contributions received as at the year

Principal Pnb Asset Management Company Private Limited
Schedule '17': Significant Accounting Policies and Notes forming part of the
Accounts

end Rs. 4,709,263 (Previous Year Rs. 6,750,369) have been included as part of "Other Liabilities" and the corresponding amounts temporarily invested are included under "Investments".

7. Travel expenses include foreign currency exchange difference amounting to Rs. 26,080 credit (Previous Year Rs. 1,795 debit) charged to the revenue account.
8. Expenses are net of recoveries/reimbursements, and includes share of expenses, wherever services/facilities are shared with other entities .
9. In compliance with the Accounting Standard (AS-22), relating to 'Accounting for Taxes on Income' issued by the Institute of Chartered Accountants of India, the Company has credited Rs. 1,959,800 (Previous Year Rs. 856,000) in the Profit & Loss Account towards reversal of net deferred tax liability during the year.

The major components of deferred tax assets and liabilities arising on account of timing differences as at March 31, 2007 are as under:

Components	2006-07	2005-06
	Rs.	Rs.
Deferred Tax Assets		
On provision for leave encashment	343,000	348,762
Total	343,000	348,762
Deferred Tax Liabilities		
On depreciation on fixed assets	525,600	2,397,861
On deferred revenue expenditure	Nil	93,301
Total	525,600	2,491,162
Net deferred tax liability recognised	182,600	2,142,400

Deferred tax asset on long term capital losses carried forward has not been recognised on grounds of prudence.

10. Earnings Per Share (EPS):

The basic / diluted earning per equity share is calculated as stated below:

Particulars	2006-07	2005-06
Net profit after tax	Rs. 69,245,811	Rs. 107,280,268
Weighted average numbers of equity shares	10,000,008	10,000,008
Basic earning per equity share (EPS)	Rs. 6.92	Rs. 10.73
Nominal value per share	Rs. 10	Rs. 10

11. The Company has reassessed the carrying value of its intangible assets for impairment as well as reviewed its estimates of their balance useful lives. Based on the difference between the carrying value and the present value of economic benefits expected to occur over the balance useful lives of such assets, the Company has made a provision for impairment amounting to Rs. 3,611,689 (Previous year Rs. 1,701,359) and charged this amount to the profit and loss account. The Company has assessed that despite the impairment, the balance useful lives of such assets over which economic benefits are expected is unaffected. The carrying value of such assets (determined after reducing provisions made for impairment) are being amortised on a straight line basis over the estimated balance useful lives of these assets, as estimated by the Company.

Principal Pnb Asset Management Company Private Limited
Schedule '17': Significant Accounting Policies and Notes forming part of the
Accounts

12. On the basis of information available with the Company, there were no dues to Small Scale Industries which were outstanding as at the year end.

The Company has not received any intimation from its vendors regarding their status under Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosure, if any, required under the said Act, have not been made.

13. Consequent to the deferment of applicability of the revised Accounting Standard (AS-15) on Employee Benefits (revised 2005) by the Council of the Institute of Chartered Accountants of India, to accounting periods commencing on or after 7th December, 2006, the Company has adopted the Accounting Standard (AS-15) on Accounting for Retirement Benefits in the Financial Statements of Employers as was done in the earlier years. The policy for accounting for the retirement benefits offered by the Company has been explained in Note No. A VII above.

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

Signatures to Schedules '1' to '17'

For and on behalf of the Board

Sd/-

M. M. Chitale
Chairman

Sd/-

Rajan Ghotgalkar
Managing Director

Sd/-

Sonali Bendke
Company Secretary

Mumbai, June 22, 2007

Principal Pnb Asset Management Company Private Limited

Additional information as required under Part IV of Schedule VI to Companies Act, 1956

Balance Sheet Abstract and Company's General Business Profile (Part IV)

I. Registration Details :

Registration No. State Code

Balance Sheet Date
Date Month Year

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

Public Issue	Rights Issue	Bonus Issue	Private Placement
<input type="text" value="NIL"/>	<input type="text" value="NIL"/>	<input type="text" value="NIL"/>	<input type="text" value="NIL"/>

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

Total Liabilities	Total Assets
<input type="text" value="641,270"/>	<input type="text" value="641,270"/>

Sources of Funds :

Paid Up Capital	Reserves & Surplus	Secured Loans	Unsecured Loans
<input type="text" value="100,000"/>	<input type="text" value="541,087"/>	<input type="text" value="NIL"/>	<input type="text" value="Nil"/>

Application of Funds :

Net Fixed Assets	Investment	Net Current Assets	Misc. Expenditure
<input type="text" value="101,913"/>	<input type="text" value="431,308"/>	<input type="text" value="108,049"/>	<input type="text" value="-"/>

IV Performance of Company :

Total Income	Total Expenditure	Profit Before Tax	Profit After Tax
<input type="text" value="401,087"/>	<input type="text" value="299,416"/>	<input type="text" value="101,671"/>	<input type="text" value="69,246"/>

Earning per share (in Rs.)	Dividend Rate %
<input type="text" value="6.92"/>	<input type="text" value="50%"/>

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

Item Code Number (ITC Code): Not Applicable
Product Description : Asset Management Company

For and on behalf of the Board

Sd/-

M. M. Chitale
Chairman

Sd/-

Rajan Ghotgalkar
Managing Director

Sd/-

Sonali Bendke
Company Secretary

Mumbai, June 22, 2007