

**PRINCIPAL PNB ASSET MANAGEMENT COMPANY PRIVATE LIMITED**

**ANNUAL REPORT**

**2007-2008**

## 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, 2008, 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 auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 of India 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. On the basis of the written representations from the directors as on March 31, 2008 as taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
5. Further to our comments in the Annexure referred to in paragraph 3 above:
  - (i) 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;
  - (ii) 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;
  - (iii) 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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- (iv) 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;
- (v) 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 the accounting principles generally accepted in India:
- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2008; and
- (b) in the case of the Profit and Loss Account, of the profit for the year ended on that date.

For DELOITTE HASKINS & SELLS  
Chartered Accountants



Sanjiv V. Pilgaonkar  
Partner  
Membership No: 39826

Mumbai, July 25, 2008  
SVP/JP/JK

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**PRINCIPAL PNB ASSET MANAGEMENT COMPANY PRIVATE LIMITED**  
**ANNEXURE TO THE AUDITORS' REPORT**  
(Referred to in paragraph 3 of our report of even date)

(i) In respect of its fixed assets:

- (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
- (b) The Company's fixed assets were physically verified by the management in accordance with a programme of verification, which provides physical verification of all fixed assets at intervals which in our opinion are reasonable. According to the information and explanations given to us no material discrepancies were noticed on such verification.
- (c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the net block of fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.

(ii) In respect of its inventories:

According to the information and explanations given to us, the Company is engaged primarily in services related to asset management and its activities do not require it to hold any inventories. Therefore, the provisions of paragraph 4 (ii) of the Order are not applicable to the Company.

- (iii) According to the information and explanation given to us, the Company has not taken or granted any secured or unsecured loan from or to companies, firms or other parties covered by the register maintained under section 301 of the Companies Act, 1956. Therefore, the provisions of paragraphs 4 (iii)(a) to 4 (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 for the 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

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come across nor have we been informed of any major weaknesses in internal control.

- (v) According to the information and explanations given to us and to the best of our knowledge and belief, there were no contracts or arrangements that were required to be entered in the Register maintained under section 301 of the Companies Act, 1956.
- (vi) According to the information and explanations given to us:
  - (a) during the year the Company has not accepted any new 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 function 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) To the best of our knowledge and according to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 to the Company.
- (ix) In respect of statutory and other dues:
  - (a) In our opinion and according to the information and explanation given to us, the Company has been regular in depositing undisputed statutory dues relating to Provident Fund, Income Tax, Service Tax, Wealth Tax, and other material statutory dues applicable to it with the appropriate authorities during the year.
  - (b) According to the information and explanations given to us, no undisputed amounts payable in respect of above dues, were in arrears, as at March 31, 2008 for a period of more than six months from the date they became payable.

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(c) According to the information and explanations given to us, during the year, there were no dues payable in respect of Employees State Insurance, Investor Education and Protection Fund, Sales Tax, Value Added Tax, Custom Duty, Excise Duty and Cess.

(d) According to the information and explanations given to us, there were no dues on account of Income tax, Sales tax, Wealth tax, Service tax, Custom Duty, Excise Duty, Cess which have not been deposited as at March 31, 2008 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	306,032	Assessment year 2005-06	Commissioner of Income Tax (Appeals)

- (x) 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.
- (xi) 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.
- (xii) 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.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund/society. Therefore, the provisions of paragraph 4 (xiii) of the Order are not applicable to the Company.
- (xiv) According to the information and explanations given to us, the Company does not deal in shares, securities, debentures and other investments. Accordingly, the provisions of paragraph 4 (xiv) of the Order are not applicable to the Company.
- (xv) 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

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financial institutions. Therefore, the provisions of paragraph 4 (xv) of the Order are not applicable to the Company.

- (xvi) 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.
- (xvii) According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, we report that no funds raised on short term basis have, *prima facie*, been used for long term investment.
- (xviii) According to the information and explanations given to us, the Company has not made any preferential allotment of shares during the year.
- (xix) 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.
- (xx) 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.
- (xxi) 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, July 25, 2008  
SVP/JP/JK

**Principal Pnb Asset Management Company Private Limited  
Balance Sheet as at March 31, 2008**

	<u>Schedule</u>	<u>March 31, 2008</u> <u>Rs.</u>	<u>March 31, 2008</u> <u>Rs.</u>	<u>March 31, 2007</u> <u>Rs.</u>
<b>Sources of Funds</b>				
<b>Shareholders' Fund :</b>				
Share Capital	' 1 '		100,000,080	100,000,080
Reserves and Surplus	' 2 '		568,023,727	541,087,309
<b>Deferred Tax Liability (Refer Schedule 17 note B 10)</b>			-	182,600
<b>Total</b>			<u><u>668,023,807</u></u>	<u><u>641,269,989</u></u>
<b>Application of Funds</b>				
<b>Fixed Assets:</b>	' 3 '			
Gross Block		205,239,962		214,266,914
Less: Depreciation & Amortisation		111,573,131		108,387,927
Less: Impairment Loss (Refer Schedule 17 note B 15)		<u>5,923,987</u>		<u>5,313,048</u>
Net Block			87,742,844	100,565,939
Capital Advance			<u>2,325,000</u>	<u>1,347,385</u>
			90,067,844	101,913,324
<b>Investments</b>	' 4 '		422,593,644	431,307,832
<b>Deferred Tax Asset (Refer Schedule 17 note B 10)</b>			7,672,700	-
<b>Current Assets, Loans and Advances:</b>				
Sundry Debtors	' 5 '	17,129,065		31,463,626
Cash & Bank Balances	' 6 '	839,528		2,164,388
Loans & Advances	' 7 '	<u>182,972,130</u>		<u>103,020,035</u>
Total (A)		<u>200,940,723</u>		<u>136,648,049</u>
<b>Less: Current Liabilities and Provisions:</b>				
Current Liabilities	' 8 '	49,808,451		27,141,698
Provisions	' 9 '	<u>3,442,653</u>		<u>1,457,518</u>
Total (B)		<u>53,251,104</u>		<u>28,599,216</u>
<b>Net Current Assets (A-B) :</b>			147,689,619	108,048,833
<b>Miscellaneous Expenditure :</b> (To the extent not written off or adjusted)	' 10 '		-	-
<b>TOTAL</b>			<u><u>668,023,807</u></u>	<u><u>641,269,989</u></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, July 25, 2008

**For and on behalf of the Board**

sd/-  
**Rajan Ghotgalkar**  
Managing Director

Mumbai, July 25, 2008

sd/-  
**Mukund M. Chitale**  
Director

sd/-  
**Ashutosh Naik**  
Company Secretary



**Principal Pnb Asset Management Company Private Limited  
Profit and Loss Account for the year ended March 31, 2008**

	<b>Schedule</b>	<b>Year ended March 31, 2008 Rs.</b>	<b>Year ended March 31, 2007 Rs.</b>
<b>Income</b>			
Management Fees	' 11 '	462,096,141	373,062,306
Interest and Dividend	' 12 '	12,707,867	15,723,037
Other Income	' 13 '	31,270,292	12,327,857
		<u>506,074,300</u>	<u>401,113,200</u>
<b>Expenses</b>			
Employee Cost	' 14 '	185,236,783	150,649,974
Administrative and Other Expenses	' 15 '	189,215,162	116,401,800
Depreciation and Amortisation		28,581,898	28,501,856
Impairment Loss (Refer Schedule 17 note B 15)		610,939	3,611,689
Deferred Revenue Expenditure Written off	' 16 '	-	277,186
		<u>403,644,782</u>	<u>299,442,505</u>
		<b>102,429,518</b>	<b>101,670,695</b>
<b>Profit before tax</b>			
Less: Provision for Taxation			
- Income Tax		33,791,000	32,221,000
- Deferred Tax (Refer Schedule 17 note B 10)		(7,855,300)	(1,959,800)
- Fringe Benefit Tax		2,759,363	2,163,684
		<u>73,734,455</u>	<u>69,245,811</u>
<b>Profit after tax</b>			
		<u>17,147,728</u>	<u>11,839,044</u>
<b>Balance brought forward</b>		<u>90,882,183</u>	<u>81,084,855</u>
<b>Profit available for appropriation</b>			
<b>Less: Appropriations:</b>			
Interim Equity Dividend		40,000,032	50,000,040
Corporate Dividend Tax on Interim Equity Dividend		6,798,005	7,012,506
Transferred to General Reserve		7,373,446	6,924,581
Balance Carried To Balance Sheet		36,710,700	17,147,728
		<u>90,882,183</u>	<u>81,084,855</u>
<b>Earnings per Share (Basic) (Refer Schedule 17 note B 11)</b>			
[Face value Rs. 10/- per share]		<b>7.37</b>	<b>6.92</b>

Significant Accounting Policies and Notes forming part of the Accounts

' 17 '

Schedules '11' to '17' form part of the Profit and Loss Account.

**In terms of our report of even date attached.**

**For Deloitte Haskins & Sells**  
Chartered Accountants

**For and on behalf of the Board**

sd/-  
**Sanjiv V. Pilgaonkar**  
Partner

sd/-  
**Rajan Ghotgalkar**  
Director

sd/-  
**Mukund M. Chitale**  
Director

sd/-  
**Ashutosh Naik**  
Company Secretary

**Mumbai, July 25, 2008**

**Mumbai, July 25, 2008**

**Principal Pnb Asset Management Company Private Limited**  
**Schedules forming part of the Balance Sheet as at March 31, 2008**

	<b>March 31, 2008</b>	<b>March 31, 2007</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Schedule 1 - Share Capital</b>		
<b>Authorised:</b>		
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>
	<b><u>250,000,000</u></b>	<b><u>250,000,000</u></b>
<b>Issued, Subscribed and Paid-up :</b>		
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 nominees. 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>
 <b>Schedule 2 - Reserves and Surplus</b>		
<b>Share Premium Account</b>	400,000,000	400,000,000
<b>Capital Redemption Reserve</b>	60,000,000	60,000,000
<b>General Reserve :</b>		
As per last Balance Sheet	63,939,581	57,015,000
Add: Transferred during the year	<u>7,373,446</u>	<u>6,924,581</u>
	71,313,027	63,939,581
<b>Balance in Profit &amp; Loss Account</b>	<u>36,710,700</u>	<u>17,147,728</u>
	<b><u>568,023,727</u></b>	<b><u>541,087,309</u></b>

Principal Prib Asset Management Company Private Limited  
Schedules forming part of the Balance Sheet as at March 31, 2008

**SCHEDULE 3 - FIXED ASSETS:**

(Amount in Rs.)

DESCRIPTION OF ASSETS	GROSS BLOCK			DEPRECIATION & AMORTISATION			IMPAIRMENT As at 31-Mar-08	NET BLOCK			
	Opening as at 1-Apr-07	Additions during the year	Deletions during the year	Closing as at 31-Mar-08	Accumulated upto 1-Apr-07	For the Year		Adjustments/ Deductions	Accumulated upto 31-Mar-08	As at 31-Mar-08	As at 31-Mar-07
<b>INTANGIBLE</b>											
Asset Management Rights (Refer Schedule 17 note B 15)	91,655,275	-	-	91,655,275	26,273,794	8,445,168	-	34,718,922	5,923,987	51,012,366	60,068,473
Computer Software	2,984,495	2,636,458	-	5,620,953	845,488	1,309,315	-	2,154,803	-	3,466,150	2,139,007
<b>TANGIBLE</b>											
Furniture & Fixtures	17,113,449	230,054	7,027,635	10,315,868	7,765,287	3,617,139	5,561,919	5,820,507	-	4,495,361	9,348,162
Office Equipment	23,549,360	1,918,258	7,489,988	17,977,630	16,953,075	3,508,260	7,175,849	13,285,486	-	4,692,144	6,596,285
Computers	46,019,480	5,139,378	3,823,910	47,334,948	37,430,651	5,127,398	3,823,910	38,734,139	-	8,600,809	8,588,829
Leasehold Improvements	19,958,546	3,776,331	7,008,484	16,726,393	13,872,038	2,840,858	6,983,344	9,729,552	-	6,996,841	6,086,508
Electrical Installations	3,737,762	108,634	291,152	3,555,244	615,323	824,574	71,762	1,368,135	-	2,187,109	3,122,439
Motor Cars	9,248,547	5,677,228	2,872,124	12,053,651	4,632,311	2,909,186	1,779,910	5,761,587	-	6,292,064	4,616,236
<b>TOTAL RUPEES:</b>	214,266,914	19,486,241	28,513,293	205,239,962	108,387,927	28,581,898	25,396,694	111,573,131	5,923,987	87,742,844	100,565,939
<b>PREVIOUS YEAR'S TOTAL:</b>	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	-

**Principal Pnb Asset Management Company Private Limited**  
**Schedules forming part of the Balance Sheet as at March 31, 2008**

**SCHEDULE - 4 (Refer Schedule 17 note B 7 and B 12)**

<b>INVESTMENTS</b> <b>(Current, Non trade, Unquoted)</b>	<b>Nos.</b>	<b>Face Value Rs.</b>	<b>As at March 31, 2008 Rs.</b>	<b>As at March 31, 2007 Rs.</b>
<b>Units of Mutual Funds :</b>				
Principal Cash Management Fund - Liquid Option - Instl. Plan - Growth Plan	234,003.472 (1,319,296.361)	10	2,981,982	16,307,832
Principal Income Fund - Instl. Plan - Growth Accumulation Plan	10,862,012.043 Nil	10	146,441,715	-
Principal Balanced Fund - Growth Plan	655,307.995 Nil	10	20,000,000	-
Principal Large Cap Fund - Growth Plan	1,131,474.213 Nil	10	27,500,000	-
Principal Pnb Fixed Maturity Plan - 385 Days - Series I - Institutional - Growth Plan -Mar 06	Nil (8,000,000.000)	10	-	80,000,000
Principal Floating Rate Fund FMP - Instl. Option - Dividend Reinvestment Daily	389,982.234 Nil	10	3,904,619	-
Principal Pnb Fixed Maturity Plan(FMP-42)460 Days - Series IV - Feb08 - Institutional - Growth Plan	5,000,000.000 Nil	10	50,000,000	-
Principal Pnb Fixed Maturity Plan(FMP-44)540 Days - Series II - Mar08 - Institutional - Growth Plan	8,000,000.000 Nil	10	80,000,000	-
Principal Dividend Yield Fund - Growth Plan	401,284.109 Nil	10	7,500,000	-
Principal Index Fund - Growth Plan	239,696.784 Nil	10	8,000,000	-
Principal Fixed Maturity Plan (FMP-27) 385 Days Series I I Regular Growth Plan- Jun 06	Nil (7,000,000.000)	10	-	70,000,000
Principal Fixed Maturity Plan (FMP -31) - Series III Institutional Growth Plan - Nov 06	Nil (12,000,000.000)	10	-	120,000,000
Principal Pnb Fixed Maturity Plan (FMP-34) 91 Days-Series VII - Feb 07	Nil (6,000,000.000)	10	-	60,000,000
Principal Pnb Fixed Maturity Plan (FMP-37) 385 Days - Series IV Institutional Growth Plan	8,500,000.000 (8,500,000.000)	10	85,000,000	85,000,000
			<b>431,328,316</b>	<b>431,307,832</b>
Less: Provision for diminution in value of current Investments			16,887,483	-
			<b>414,440,834</b>	<b>431,307,832</b>
Net asset value of units of Mutual Fund.			<b>432,235,138</b>	<b>445,872,562</b>
Aggregate book value of unquoted investment			<b>414,440,834</b>	<b>431,307,832</b>
Aggregate book value of quoted investment			Nil	Nil
Aggregate market value of quoted investment			Nil	Nil

**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, 2008**

	March 31, 2008 Rs.	March 31, 2007 Rs.
<b>Schedule 5 - Sundry Debtors (Unsecured, Considered Good) :</b>		
Outstanding for less than six months	17,129,065	31,463,626
	<u>17,129,065</u>	<u>31,463,626</u>
<b>Schedule 6 - Cash and Bank Balances :</b>		
Cash on Hand	95,143	104,159
Balances with Scheduled Banks :		
In Current Accounts	744,385	2,060,229
	<u>839,528</u>	<u>2,164,388</u>
<b>Schedule 7 - Loans and Advances (Unsecured, Considered Good unless otherwise stated) :</b>		
Advances recoverable in cash or in kind or for value to be received		
Considered good	60,343,675	40,860,902
Considered doubtful of recovery	271,176	271,176
	<u>60,614,851</u>	<u>41,132,078</u>
Less: Provision for doubtful debts	271,176	271,176
	<u>60,343,675</u>	<u>40,860,902</u>
Deposits	75,806,509	38,593,730
Advance Income Tax (net of Provisions)	46,240,261	23,565,403
Advance Fringe Tax (net of Provisions)	581,685	-
	<u>182,972,130</u>	<u>103,020,035</u>
<b>Schedule 8 - Current Liabilities :</b>		
Sundry Creditors	-	-
Dues to Micro and Small Enterprises	-	-
Other Creditors	16,361,721	10,264,150
Other Liabilities	33,446,730	16,877,548
(Refer Schedule 17 note B 12)		
	<u>49,808,451</u>	<u>27,141,698</u>
<b>Schedule 9 - Provisions :</b>		
Provision for Income Tax (net of Advance)	190,171	257,264
Provision for Leave Encashment (Refer Schedule 17 note B 17)	820,670	1,019,072
Provision for Gratuity (Refer Schedule 17 note B 16)	2,250,630	-
Provision for Fringe Benefit Tax (net)	181,182	181,182
	<u>3,442,653</u>	<u>1,457,518</u>
<b>Schedule 10 - Miscellaneous expenses :</b>		
(To the extent not written off or adjusted)		
<b>Deferred Revenue Expenditure:</b>		
As per last Balance Sheet	-	277,186
Less: Written off during the year	-	277,186
	<u>-</u>	<u>-</u>

**Principal Pnb Asset Management Company Private Limited**  
**Schedules forming part of the Profit and Loss Account for the year ended March 31, 2008**

	<b>Year ended March 31, 2008 Rs.</b>	<b>Year ended March 31, 2007 Rs.</b>
<b>Schedule 11 - Management Fees</b>		
Fees from Mutual Fund Operations (Including tax deducted at source Rs. 55,357,025, Previous year: Rs. 19,923,567)	445,803,713	354,413,677
Fees from Portfolio Management and Advisory Services Operations (Including tax deducted at source Rs. 859,821, Previous year: Rs. 932,262)	16,292,428	18,648,629
	<u><b>462,096,141</b></u>	<u><b>373,062,306</b></u>
<b>Schedule 12 - Interest and Dividend</b>		
Dividend income	11,311,546	15,723,037
Interest on Income Tax refund	1,395,953	-
Other Interest	368	-
	<u><b>12,707,867</b></u>	<u><b>15,723,037</b></u>
<b>Schedule 13 - Other Income</b>		
Profit on sale/redemption of Investments (net) (net of Securities Transaction Tax Rs. Nil (Previous year Rs.556,261))	29,927,610	12,128,207
Profit on sale of fixed assets	1,222,113	146,639
Miscellaneous other income (Refer Schedule 17 note B 13)	120,569	53,011
	<u><b>31,270,292</b></u>	<u><b>12,327,857</b></u>
<b>Schedule 14 - Employee cost</b>		
Salary, bonus and allowances	168,166,033	136,382,545
Contribution to Provident and Other Funds	9,879,374	8,416,498
Welfare Expenses	7,191,376	5,850,931
	<u><b>185,236,783</b></u>	<u><b>150,649,974</b></u>
<b>Schedule 15 - Administrative and other expenses (Refer Schedule 17 note B 2(b) and B 14)</b>		
Rent	57,095,480	24,729,815
Electricity	7,916,021	5,412,884
Repairs and Maintenance		
Office Equipments	1,010,003	1,017,172
Others	6,788,990	6,369,202
Travel and Entertainment	24,622,635	22,987,380
Legal and Professional Fees	13,001,722	8,745,170
Auditors' Remuneration: (net of service tax)		
Audit Fees	350,000	250,000
For Tax Audit	60,000	60,000
For Other Services	75,000	28,060
Out of Pocket Expenses	2,248	8,308
Computer Expenses	8,581,867	6,148,922
Telecommunication Expenses	12,389,432	11,376,591
Subscription to Databases, Books & Periodicals	5,887,921	4,358,429
Printing, Stationery, Postage and Courier	3,058,815	2,911,695
Advertisement and Publicity	2,579,656	2,422,627
Membership/Registration fees	665,404	996,987
Scheme Administration Expenses	18,503,574	207,421
Insurance Expenses	737,522	1,027,026
Rates and Taxes	400,863	146,290
SEBI Filing Fees	4,489,097	7,490,344
Donation	-	125,000
Provision for diminution in value of current investments	8,734,672	-
Miscellaneous Expenses	12,264,240	9,582,477
	<u><b>189,215,162</b></u>	<u><b>116,401,800</b></u>
<b>Schedule 16 - Deferred Revenue Expenditure written off</b>		
Initial issue expenses w/off during the year	-	277,186
	<u><b>-</b></u>	<u><b>277,186</b></u>

**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. 64092 State Code 11

Balance Sheet Date 31 03 2008  
Date Month Year

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

Public Issue	Rights Issue	Bonus Issue	Private Placement
<span style="border: 1px solid black; padding: 2px;">NIL</span>	<span style="border: 1px solid black; padding: 2px;">NIL</span>	<span style="border: 1px solid black; padding: 2px;">NIL</span>	<span style="border: 1px solid black; padding: 2px;">NIL</span>

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

Total Liabilities	Total Assets
<span style="border: 1px solid black; padding: 2px;">668,024</span>	<span style="border: 1px solid black; padding: 2px;">668,024</span>

**Sources of Funds :**

Paid Up Capital	Reserves & Surplus	Secured Loans	Unsecured Loans
<span style="border: 1px solid black; padding: 2px;">100,000</span>	<span style="border: 1px solid black; padding: 2px;">568,024</span>	<span style="border: 1px solid black; padding: 2px;">NIL</span>	<span style="border: 1px solid black; padding: 2px;">Nil</span>

**Application of Funds :**

Net Fixed Assets	Investment	Net Current Assets	Misc. Expenditure
<span style="border: 1px solid black; padding: 2px;">90,068</span>	<span style="border: 1px solid black; padding: 2px;">422,594</span>	<span style="border: 1px solid black; padding: 2px;">155,362</span>	<span style="border: 1px solid black; padding: 2px;">-</span>

**IV Performance of Company :**

Total Income	Total Expenditure	Profit Before Tax	Profit After Tax
<span style="border: 1px solid black; padding: 2px;">506,074</span>	<span style="border: 1px solid black; padding: 2px;">403,645</span>	<span style="border: 1px solid black; padding: 2px;">102,430</span>	<span style="border: 1px solid black; padding: 2px;">73,734</span>

Earning per share (in Rs.)	Dividend Rate %
<span style="border: 1px solid black; padding: 2px;">7.37</span>	<span style="border: 1px solid black; padding: 2px;">-</span>

**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/-  
**Rajan Ghotgalkar**  
Managing Director

sd/-  
**Mukund M. Chitale**  
Director

sd/-  
**Ashutosh Naik**  
Company Secretary

**Mumbai, July 25, 2008**

**DIRECTORS' REPORT**

To the Members,

Your Directors have pleasure in presenting the 16<sup>th</sup> Annual Report together with the audited financial statements for the year ended March 31, 2008.

**FINANCIAL RESULTS**

The highlights of the financial results for the year under review are as under:

Particulars	(Rs. in lacs)	
	2007-2008	2006-2007
Gross Income	5,060.74	4,011.13
Profit after Tax	738.32	692.45
Balance of profit brought forward	171.48	118.39
Equity Dividend (including dividend tax)	467.98	570.12
Transfer to General Reserve	73.83	69.25
Balance carried to balance sheet	367.99	171.48

**OPERATIONAL PERFORMANCE**

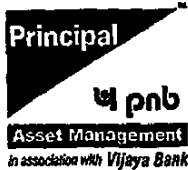
In the year 2007-08, the focus of the Company was clearly on consolidating Principal Mutual Fund's position within the Indian Mutual Fund Industry by undertaking various Investor initiatives. The year saw the launch of Principal Pnb Long Term Equity Fund - 3 Year - Series II, Principal Liquid Plus Fund and Principal Money Manager Fund.

The year saw our performance being recognized by leading mutual fund evaluating agencies. Some of these are as listed below.

**ICRA Awards:**

Principal Tax Savings Fund has won the Seven Star Award at the ICRA Mutual Fund Awards 2008 in the ICRA - Equity Tax Planning category for its 1 year performance till December 31, 2007 ^ and also the Five Star Award at the ICRA Mutual Fund Awards 2008 in the ICRA - Equity Tax Planning category for its 3 year performance till December 31, 2007 ^





**Principal Personal Tax Saver Fund** has won the Five Star Award at the ICRA Mutual Fund Awards 2008 in the ICRA – Equity Tax Planning category for its 1 year performance till December 31, 2007 ^

**Principal Floating Rate Fund – Flexible Maturity Plan – both Growth and Institutional plans** have won the Five Star Award at the ICRA Mutual Fund Awards 2008 in the ICRA – Liquid Plus category for its 1 year performance till December 31, 2007 ^

**Principal Monthly Income Plan** has won the Five Star Award at the ICRA Mutual Fund Awards 2008 in the ICRA – Marginal Equity category for its 1 year performance till December 31, 2007 ^

**Principal Monthly Income Plan – MIP Plus – Growth** has won the Five Star Award at the ICRA Mutual Fund Awards 2008 in the ICRA – Marginal Equity category for its 1 year performance till December 31, 2007 ^

**LIPPER AWARDS**

**Principal Child Benefit Fund-Career Builder Plan (Best Fund Over Three Years) (Mixed Asset – INR Balanced)\***

**CRISIL AWARDS**

**Principal Tax Savings Fund “CNBC TV-18 Crisil Mutual Fund of the Year Award 2008”** in the category **Equity Linked Savings Schemes#**

**Principal Income Fund “CNBC TV-18 Crisil Mutual Fund of the Year Award 2008”** in the category **Most Consistent Income Fund under the CRISIL~CPR##**

**Performance of some of the schemes of Principal Mutual Fund as on 31<sup>st</sup> March 2008 :**

**Principal Tax Saving Fund – An open-ended Equity Linked Saving Scheme**

Period	Returns %	S & P CNX Nifty (%)
Last 1 Year	23.88	23.75
Last 3 Years	34.86	32.46
Last 5 Years	47.24	37.03
Since Inception*	23.29	13.84s

\* March 31, 1996 (Past performance may or may not be sustained in future.)

**Principal****pnb****Asset Management**  
in association with Vijaya Bank**Principal Personal Tax Saver – An open-ended Equity Linked Saving Scheme**

Period	Returns (%)	BSE 100 (%)
Last 1 Year	31.95	24.83
Last 3 Years	32.36	33.19
Last 5 Years	44.64	40.50
Since Inception*	31.85	14.64

\* April 12, 1996 (Past performance may or may not be sustained in future.)

**Principal Child Benefit Fund – An open-ended Balanced Scheme**

Period	Career Builder Plan		Future Guard Plan	
	Returns %	CRISIL Balanced Fund Index (%)	Returns %	CRISIL Balanced Fund Index (%)
Last 1 year	31.76	19.43	31.73	19.43
Last 3 years	33.82	21.86	33.76	21.86
Last 5 years	34.89	20.40	34.89	24.40
Since inception*	21.46	NA	21.30	NA

\* January 07, 1998 (Past performance may or may not be sustained in future)

**Principal Large Cap Fund – An open-ended Equity Scheme**

Period	Returns %	S&P CNX Nifty (%)
Last 1 Year	23.20	23.75
Last 2 Year	17.40	17.93
Last Since Inception*	33.76	29.63

\* November 11, 2005 (Past performance may or may not be sustained in future)

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The Management Fee earned for the year under review increased to Rs. 4,620.96 lacs from Rs. 3,730.62 lacs, an increase of 24% compared to the previous year. The Net Assets Under Management as at March 31, 2008 increased to Rs. 11,854.63 crore as against Rs. 9289.35 crore compared to the previous year. The Company continued to invest money in retaining a highly motivated quality workforce, as well as in enhancing business infrastructure, to further strengthen the existing platform for continued future growth amidst stiff competition. Net Profit for the current year is at Rs. 738.32 lacs compared to Rs. 692.45 lacs in the previous year.

During the year the total number of investors increased to 941,828 from 637,154 in the previous year. The Company also now has direct credit arrangements in place with various banks including PNB, ICICI Bank, HDFC Bank, IDBI Bank, UTI Bank, Kotak Bank, DCB, Indusind Bank, Citibank, Standard Chartered Bank, HSBC, Deutsche Bank, and BNP.

#### OUTLOOK

Outlook for the Mutual Fund Industry remains strong. The industry has continued to gain increased acceptance among investors and is increasing its geographical spread into smaller towns. We expect emerging markets to continue to benefit from increased global liquidity.

The Efforts of the AMC would continue in the following areas:

- New product development & product drives
- Increasing Retail focus & reach
- Distribution Channel specific initiatives
- Brand building

#### DIVIDEND

An interim dividend of Rs. 4/- per share was paid during the year. Your Directors do not recommend any final dividend for the year under consideration.

#### TRANSFER TO RESERVES

The Company has transferred Rs. 73.83 lacs during the year under review to General Reserve out of the current year's profit.

#### CHANGE IN REGISTERED OFFICE

With effect from December 01, 2007 the registered office of the Company shifted to Exchange Plaza, NSE Bldg., B' Wing, 2nd Floor, Bandra Kurla Complex, Bandra (East), Mumbai - 400051.

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in association with Vijaya Bank

#### **BOARD OF DIRECTORS**

In terms of the provisions of the Companies Act, 1956 (the Act), Mr. Ashok Vij, Director of the Company retires by rotation at the ensuing Annual General Meeting of the Company. Your Directors recommend for his re-appointment as Director liable to retire by rotation.

Principal Financial Group (Mauritius) Limited had nominated Mr. Rex Auyeung as its Nominee Director on the Board of the AMC, in place of Mr. J. C. Tupling and accordingly Mr. Rex was appointed as Additional Director of the Company at the Board Meeting held on January 25, 2007. In terms of the provisions of the Act, Mr. Rex Auyeung hold his office only till the date of the ensuing Annual General Meeting of the Members of the Company. The Board recommends appointment of Mr. Rex Auyeung as the Director of the Company for the approval of the Members of the Company at the ensuing Annual General Meeting.

The Board grants sincere appreciation to valuable guidance received from Mr. Arun Kaul and Mr. J. C. Tupling, directors of the Company who resigned as Directors of the Company during the financial year 2007-2008.

#### **BOARD MEETINGS**

Four Board Meetings were held during the year under review on June 22, 2007, August 20, 2007, November 22, 2007 and January 25, 2008.

#### **AUDIT COMMITTEE**

The Audit Committee now comprise of Mr. M.M. Chitale, Mr. Rustam Gagrath and Mr. Ashok Vij who are independent Directors of the Company with Mr. M.M.Chitale as its Chairman. The role, terms of reference and powers of the Audit Committee are in conformity with the requirements of the Companies Act, 1956 and internal policies. The Committee met four times during the year under review, namely, on June 22, 2007, August 20, 2007, November 22, 2007 and January 25, 2008.

#### **AUDITORS**

M/s. Deloitte Haskins & Sells, Chartered Accountants, retire and have expressed their willingness to continue as Auditors, if re-appointed, at the ensuing Annual General Meeting. Your Directors recommend the re-appointment of M/s Deloitte Haskins & Sells as Statutory Auditors for the financial year 2007-2008.

### STATUTORY INFORMATION

**a. Personnel:**

Pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended from time to time, the names and other particulars of the concerned employees are available for inspection with the Company.

**b. Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo:**

The Company does not carry on any manufacturing activity.

The Particulars required to be furnished in this report under the section 217(1)(e) of the Companies Act, 1956, read with the companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988 relating to the conservation of the energy and technology absorption are not applicable for the year under review, and hence not furnished.

During the year under review Company has received Rs. 111.94 lacs in foreign exchange and the outgo in foreign exchange was Rs 3.57 lacs towards foreign travel and staff training fees during the year.

### DIRECTORS RESPONSIBILITY STATEMENT

Your Directors confirm:

- a) That in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- b) That they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- c) That they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) That they have prepared the annual accounts on a going concern basis.

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**ACKNOWLEDGEMENTS**

We are thankful for the significant contribution made by our employees and also express our sincere thanks and appreciation to Securities and Exchange Board of India, Reserve Bank of India, the Company's Bankers and counsel for their continued support and co-operation.

We also acknowledge the support and the continued co-operation received from Punjab National Bank, Vijaya Bank and Principal Financial Group during the year under review. We look forward to the same support in our future endeavors.

**On behalf of the Board  
Principal Pnb Asset Management Company Private Ltd**

A handwritten signature in black ink, appearing to read 'M. Chitale'.

**M.M. Chitale  
Chairman**

**Date: August 18, 2008  
Place: Mumbai**

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**^ICRA Mutual Fund Awards 2008:** Principal Tax Savings Fund (ICRA – Equity Tax Planning category -18 schemes) has been given the Seven Star Award, and Principal Personal Tax Saver Fund (ICRA – Equity Tax Planning category – 18 schemes), Principal Floating Rate Fund – FMP – Growth (ICRA – Liquid Plus category – 19 schemes), Principal Floating Rate Fund – FMP – IP –Growth (ICRA – Liquid Plus category – 19 schemes), Principal Monthly Income Plan (ICRA – Marginal Equity category – 28 schemes), Principal Monthly Income Plan – MIP – Growth (ICRA – Marginal Equity category – 28 schemes) have been given the Five Star Award for their 1 year performance by ICRA Mutual Funds Awards 2008 till December 31, 2007. These ranks indicate top performance within the specified category for their 1 year performances. Principal Tax Savings Fund has been given the Five Star Award by ICRA Mutual Funds Awards 2008 in the category ICRA – Equity Tax Planning (13 schemes) for its 3 year performance till December 31, 2007. This rank indicates top performance within the specified category for its 3 year performance. The ranks are an outcome of an objective and comparative analysis against various parameters, including: risk adjusted return, fund size, sector concentration, portfolio turnover, liquidity, company concentration and average maturity. The ranking methodology did not take into account entry and exit loads imposed by the Fund. The ranks are neither a certificate of statutory compliance nor any guarantee on the future performance of the funds mentioned. Ranking Source & Publisher: ICRA Online

**\* Lipper Awards 2008:** Principal Child Benefit Fund – Career Builder Plan was declared the Best Fund over Three Years in Mixed Asset – INR Balanced category out of 28 funds in the category. All awards are for performance for three years ended December 31, 2007. Sales Charge is not considered for fund awards ranking. Methodology: The currency for the calculation corresponds to the currency of the country for which the awards are calculated and relies on monthly data. Classification averages are calculated with all eligible share classes for each eligible classification. The calculation periods extend over 36, 60, and 120 months. The highest Lipper Leader for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner. The lowest average decile rank of the three years, Consistent Return measure of the eligible funds per asset class and group will determine the asset class group award winner over the three-year period. In cases of identical results the lower average percentile rank will determine the winner. For a detailed explanation & source please review the Lipper Leaders methodology document on <http://www.lipperweb.com> Criteria: Funds registered for sale in the respective country as of the end of the evaluation year with at least 36 months of performance history as of the end of the evaluation year. Lipper Global classifications with at least ten distinct portfolios based on the primary share class definition, excluding residual classifications, institutional, private, closed-end and insurance funds. Asset classes: equity, bond, and mixed-asset. Disclaimer: Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Users acknowledge that they have not relied upon any warranty, condition, guarantee, or representation made by Lipper. Any use of the data for analyzing, managing, or trading financial instruments is at the user's own risk. This is not an offer to buy or sell securities.

**CRISIL Awards Disclaimer:** # Principal Tax Savings Fund won the CNBC TV-18 Crisil Mutual Fund of the Year Award 2008" in the category Equity Linked Savings Schemes out of 14 schemes. All awards are for performance as of December 31, 2007. Eligibility: Funds should be ranked for all the four quarterly CRISIL~CPRs in the year 2007. Methodology: The scores of individual parameters for each of the four quarterly CRISIL~CPRs in 2007 are considered individually for the schemes eligible in each of the 15 categories. The eligible schemes are scaled with the best score for each quarter. The average scaled scores constitute the parametric scores. The final weighted-average score for each scheme is arrived at by applying an assigned weightage, as in the CRISIL~CPR, to each of the parametric scores. The methodology does not take into account the entry and exit loads levied by the scheme There is one winner for each category; in case of categories where the total universe of eligible schemes exceeds 20, there are two awards.

## Principal Income Fund won the CNBC TV-18 Crisil Mutual Fund of the Year Award 2008" in the category Most Consistent Income Fund under the CRISIL~CPR out of 17 schemes. All awards are for performance as of December 31, 2007. Eligibility: The scheme should have been ranked CRISIL~CPR 1 at least twice in the 5 year period of analysis. Methodology: Quarterly CPR ranks during the 5 year period, for eligible schemes, are multiplied with appropriate time weighted factors to arrive at the final scores. The scheme with the highest weighted score is the 'Most Consistent CPR Performer'. 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.

A detailed methodology of the CRISIL CPR is available at [www.crisil.com](http://www.crisil.com) Rankings and Award Source: CRISIL FundServices, CRISIL Ltd.