

## **Auditor's report**

### **To the Members of Morgan Stanley Investment Management Private Limited**

1. We have audited the attached Balance Sheet of Morgan Stanley Investment Management Private Limited as at 31<sup>st</sup> March 2007, and also 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 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, issued by the Central Government in terms section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - (a) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books;
  - (c) the Balance Sheet and 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 Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - (e) on the basis of written representations received from the directors, as on 31<sup>st</sup> March 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31<sup>st</sup> 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;

(f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March 2007; and
- (ii) in the case of the Profit and Loss Account, of the loss for the year ended on that date.

For **Deloitte Haskins & Sells**  
Chartered Accountants

**A. Siddharth**  
Partner  
Membership no. 31467

Mumbai, dated,

**Annexure to the Auditor's report**

**Re: Morgan Stanley Investment Management Private Limited**

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

- (i) The requirements of clauses (ii), (viii), (xiii) and (xiv) of paragraph 4 of the Order are not applicable to the Company for the year.
- (ii)
  - (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets;
  - (b) the fixed assets have been physically verified by the management during the year. According to the information and explanations given to us, no material discrepancies were noticed on such verification;
  - (c) the Company has not disposed off substantial part of fixed assets during the year.
- (iii) The Company has not granted or taken loans, to/ from companies, firms or other parties covered in the Register maintained under section 301 of the Companies Act, 1956. Consequently, requirement of clauses (iii a) to (iii g) of paragraph 4 of the Order are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and sale of services. The Company being a service company does not purchase inventory or sell goods. During the course of our audit, we have not noticed any continuing failure to correct major weaknesses in the internal control system.
- (v) In our opinion and according to the information and explanations given to us, there are no contracts or arrangements referred to in section 301 of the Companies Act, 1956, particulars of which need to be entered into the Register maintained in pursuance of that section. Consequently, the question of commenting on reasonableness of prices in respect of transactions made in pursuance of such contracts or arrangements exceeding the value of rupees five lakhs in respect of each party does not arise.
- (vi) The Company has not accepted deposits from the public within the meaning of sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the Rules framed thereunder. We are informed that no Order has been passed by the Company Law Board or the Reserve Bank of India or any Court or any other Tribunal.

- (vii) The Global Internal Audit Department of Morgan Stanley periodically carries out internal audits of Morgan Stanley entities world-wide (including the Company). During the year, audit was conducted in respect of certain processes of the Company. Considering this, in our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (viii) (a) In our opinion and according to the information and explanations given to us, the Company has generally been regular in depositing undisputed statutory dues, including provident fund, investor education and protection fund, employees' state insurance, income tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues, where applicable, with the appropriate authorities. There are no arrears of outstanding statutory dues as at the last day of the financial year for a period of more than six months from the day they became payable;  
(b) according to the information and explanations given to us, there are no cases of non-deposit with appropriate authorities of disputed dues of income-tax / sales-tax / wealth-tax / service tax / customs duty / excise duty / cess.
- (ix) The Company has no accumulated losses at the end of the financial year. The Company has not incurred cash losses during the current and in the immediately preceding financial year.
- (x) The Company does not have borrowings from financial institutions or banks and has not issued debentures. Consequently, the question of commenting on default in repayment of dues does not arise.
- (xi) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xiii) There were no term loans obtained by the Company during the year and hence the question of commenting on application thereof does not arise.
- (xiv) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that the no funds raised on short-term basis have been used for long term investments.
- (xv) During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act, 1956.

- (xvi) There are no debentures issued and outstanding during the year and hence the question of creating security or charge in respect thereof does not arise.
- (xvii) During the year, the Company has not raised money by public issue(s).
- (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 has been noticed or reported during the year.

For **Deloitte Haskins & Sells**  
Chartered Accountants

**A. Siddharth**  
Partner  
Membership no. 31467

Mumbai, dated,

**MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED**

**Balance Sheet as at 31st March 2007**

	Schedule Ref.	As at 31-Mar-07 Rs.	As at 31-Mar-06 Rs.
<b><u>SOURCE OF FUNDS</u></b>			
<i>Shareholders' Funds :</i>			
Share Capital	A	208,914,730	208,914,730
Reserves and Surplus	B	326,266,624	631,864,743
<b>TOTAL</b>		<b><u>535,181,354</u></b>	<b><u>840,779,473</u></b>
<b><u>APPLICATION OF FUNDS</u></b>			
<i>Fixed Assets</i>			
Gross block	C	3,551,859	3,406,698
Less : Depreciation		<u>2,190,721</u>	<u>3,029,724</u>
Net block		<b>1,361,138</b>	<b>376,974</b>
<i>Investments</i>	D	<b>50,763,447</b>	<b>471,968,364</b>
<i>Deferred Tax Assets (Net)</i>		<b>24,449,800</b>	<b>3,407,720</b>
<i>Current Assets , Loans and Advances :</i>			
Sundry Debtors	E	88,642,411	72,334,784
Cash and Bank Balances	F	397,679,393	280,506,856
Loans and Advances	G	<u>61,211,522</u>	<u>33,204,678</u>
		<b>547,533,326</b>	<b>386,046,318</b>
<i>Less : Current Liabilities and Provisions :</i>			
Current Liabilities	H	87,855,379	19,768,903
Provisions	I	<u>1,070,978</u>	<u>1,251,000</u>
		<b>88,926,357</b>	<b>21,019,903</b>
<i>Net Current Assets</i>		<b>458,606,969</b>	<b>365,026,415</b>
<b>TOTAL</b>		<b><u>535,181,354</u></b>	<b><u>840,779,473</u></b>
		0	(0)
<b>Notes to Financial Statements</b>	M		

The schedules referred to above form an integral part of the Balance Sheet.

**As per our attached report of even date**

For **Deloitte Haskins & Sells**  
Chartered Accountants

**A. Siddharth**  
Partner  
Mumbai, September 03, 2007

For and on behalf of the Board of Directors

Director Director

Company Secretary  
Mumbai, September 03, 2007

**MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED**

**Profit and Loss Account for the year ended 31st March 2007**

	Schedule Ref.	Year ended 31-Mar-07 Rs.	Year ended 31-Mar-06 Rs.
<b><u>INCOME</u></b>			
Asset Management Fees		282,022,728	205,930,810
Recovery for support services		82,115,316	57,579,127
Other Income	J	38,335,543	22,983,039
<b>Total</b>		<b><u>402,473,587</u></b>	<b><u>286,492,976</u></b>
<b><u>EXPENDITURE</u></b>			
Payments to and Provisions for Employees	K	173,553,124	42,080,930
Operating and Administration expenses	L	40,976,186	27,005,392
Provision for diminution in the value of Investment, (Long term, non trade)		421,204,917	-
Fund Accounting Fees		10,742,434	7,975,214
Depreciation		563,535	770,673
Interest - Others		128,590	98,131
<b>Total</b>		<b><u>647,168,786</u></b>	<b><u>77,930,340</u></b>
<b>(Loss) / Profit before Tax</b>		(244,695,199)	208,562,636
Provision for Tax :			
- Current Tax		81,500,000	72,000,000
- Deferred Tax		(21,042,080)	(1,325,720)
- Fringe Benefit Tax		445,000	500,000
		<u>60,902,920</u>	<u>71,174,280</u>
<b>(Loss) / Profit after Tax</b>		(305,598,119)	137,388,356
Excess provision for tax in respect of earlier years		-	400,868
		<u>(305,598,119)</u>	<u>137,789,224</u>
Balance brought forward from previous year		631,864,743	494,075,519
<b>Balance carried to the Balance Sheet</b>		<b><u>326,266,624</u></b>	<b><u>631,864,743</u></b>
<b>Earnings Per Share</b>			
Basic / diluted (Rs.)		(14.63)	6.60
(Refer note 2(ix) of Schedule M)			

**Notes to Financial Statements**

M

The schedules referred to above form an integral part of the Profit and Loss Account

**As per our attached report of even date**

For Deloitte Haskins & Sells  
Chartered Accountants

For and on behalf of the Board of Directors

A. Siddharth  
Partner  
Mumbai, September 03, 2007

Director                      Director

Company Secretary  
Mumbai, September 03, 2007

## MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

### Directors' Report

To,  
The Members of  
**Morgan Stanley Investment Management Pvt. Ltd.**

The Board of Directors of Morgan Stanley Investment Management Private Limited (the "Company") have pleasure in presenting the Fourteenth Annual Report, together with the audited accounts of your Company for the year ended March 31, 2007.

#### **Financial Results**

Highlights of the Company's financial results for the Fourteenth accounting year are as follows:

**Rupees in Millions**

<b>Particulars</b>	<b>March 31, 2007</b>	<b>March 31, 2006</b>
Gross Income	402.47	286.49
Profit before Depreciation and Tax	(244.13)	209.33
Depreciation	0.564	0.771
Provision for Taxation	60.90	71.17
Profit after Tax	(305.60)	137.39

#### **Performance of Morgan Stanley Growth Fund**

The net asset value of Morgan Stanley Growth Fund ("MSGF"), the only scheme of Morgan Stanley Mutual Fund (to which your Company acts as an Investment Manager), as on March 31, 2007 was Rs. 47.56 per unit as compared to Rs. 48.19 per unit as on March 31, 2006. The Net assets of MSGF as of March 31, 2007, were Rs. 28541.77 million with outstanding corpus of 600.18 million units. The net surplus / (Deficit) for the year transferred to Revenue Reserve was Rs. 379.37 million as against Rs. 13477.70 million last year.

#### **Performance of the Company**

The Company earned an income of Rs. 402.47 million during the year ended March 31, 2007 as compared to Rs. 286.49 in the previous year. The loss for the year is Rs. 305.60 million compared to the profit after tax of Rs. 137.39 million in the previous year.

#### **Dividend**

The Directors do not recommend any dividend for the year ended March 31, 2007.

## **Statutory Information**

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules 1975, as amended, the names and other particulars of employees are set out in the annexure to this Report.

Particulars under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 on Conservation of Energy and Technology Absorption are not applicable to your Company. The foreign exchange outflow and inflow of the company are as per disclosures made in Schedule M of the audited accounts of the Company.

## **Directors**

Mr. Narayan Ramachandran was appointed as an Additional and Managing Director of the Company w.e.f 22nd June, 2007. However, as an additional Director, he can hold office only upto the forthcoming Annual General Meeting, at which such a Director if eligible can be appointed as a Director. Since Mr. Ramachandran, being eligible has offered himself for appointment, this item is being placed for approval of the members at the coming Annual General Meeting.

Mr. Dorab Sopariwala, too, was appointed as an Additional Director by the Board of Directors on 2<sup>nd</sup> August, 2007, to hold office till the approaching Annual General Meeting and since he has offered himself for re appointment, this item is being placed for the approval of the shareholders in the Annual General Meeting.

During the course of this period, Mr. Sridhar Sivaram and Mr. Niranjana Mahtani resigned from the Directorship of the Company effective from June 20, 2007 and August 23, 2007 respectively.

There was no other change in the Directors of the Company.

## **Authorised Share Capital**

During the period, the authorized share capital of the Company was increased from Rs. 30,00,00,000/- (Rupees Thirty Crores only) divided into 3,00,00,000/- (Three Crores only) equity shares of Rs. 10/- (Rupees Ten only) each to Rs. 240,00,00,000/- (Rupees Two Hundred and Forty Crores only) divided into 3,00,00,000 (Three Crore only) equity shares of Rs. 10/- (Rupees Ten only) each and 21,00,00,000 (Twenty One Crores only) preference shares of Rs. 10/- (Rupees Ten only) each.

## **DIRECTORS' RESPONSIBILITY STATEMENT:**

**Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, the Board of Directors of your Company state:**

The Directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed;
- they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the company for that period;
- 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;
- they have prepared the annual accounts on a going concern basis.

**Auditors and Auditor's Report**

The retiring Auditors, M/s. Deloitte, Haskins and Sells, Chartered Accountants, Mumbai, hold office until the conclusion of the ensuing Annual General Meeting and are seeking re-appointment. Members are requested to consider their appointment at a remuneration to be decided by the Board.

Considering the nature of business activities and the operations of the Company, your Directors were of opinion that an internal audit system was not warranted for.

**Appreciation**

The Directors wish to place on record their deep appreciation of support and co-operation received from the Company's Bankers. The Directors would like to place on record their appreciation of the contribution made by the staff to the progress made by the Company.

For and on behalf of the Board of Directors

Director

Director

**Registered Office:**

Forbes Building,  
Charanjit Rai Marg, Fort,  
Mumbai 400 001

Place : Mumbai

Date : 3<sup>rd</sup> September, 2007