

14TH ANNUAL REPORT

2005-06

SBI FUNDS MANAGEMENT PRIVATE LIMITED

DIRECTORS' REPORT

TO,

THE MEMBERS

The Directors have pleasure in presenting the fourteenth Annual Report together with Profit and Loss Account of SBI Funds Management Private Limited for the year ended March 31, 2006 and the Balance Sheet as at that date.

The Financial results are as under:

I. FINANCIAL RESULTS:

PARTICULARS	<i>(Rs. in lacs)</i>	
	YEAR UNDER REPORT	PREVIOUS YEAR
	2005-06	2004-05
Total Income	6624.42	4974.72
Profit before depreciation	2831.41	2107.19
Less : Depreciation	120.32	101.52
Profit before tax	2711.09	2005.67
Less : Provision for tax	847.23	500.46
Profit after tax	1863.86	1505.21
Balance brought forward from previous year (net)	587.49	495.76
Amount available for Appropriation	2451.35	2000.97

APPROPRIATIONS:

Transfer to General Reserve	200.00	500.00
Interim Dividend/Proposed Dividend	1000.00	800.00
Dividend Distribution Tax	140.25	113.48
Balance/(Loss) to be carried forward	1111.10	587.49

II DIVIDEND:

During the year under review, the Company has made a net profit of Rs.1863.86 lacs. The Directors recommend a dividend of 20% on the Paid up Equity Capital of the Company which, if approved, will amount to Rs. 1000 lacs. Under the Income Tax Act 1961, the receipt of dividend is tax-free in the hands of the shareholders. The tax on the distributed profits, payable by the company, amounts to Rs.140.25 lacs.

III CAPITAL:

During the year under review, the Company has not made any fresh issue of capital. The net worth of the Company increased to Rs. 7798.57 lacs as at the end of March, 2006 from Rs. 7074.96 lacs as at the end of March 2005.

IV BUSINESS ENVIRONMENT:

THE ECONOMY

The performance of the Indian economy in 2005-06 has exceeded expectations formed at the beginning of the year and the economy is likely to grow by 8.1 per cent in 2005-06. With a good kharif and bright rabi prospects, food grain production is expected to increase by 5 million tonnes (MT) in 2005-06.

The industry and services continued to expand steadily and acted as the twin engines propelling overall growth of the economy. A pick-up in investment, reflecting the high business optimism, not only strengthened the industrial performance but also reinforced the growth outlook itself. The rally in gross domestic capital formation (GDCF) that had commenced in 2002-03 continues.

The bell-weather BSE Sensex crossed the 10,000 mark on February 6, 2006 and closed at 11279.96 on 31st March, 2006. In 2005, Rs. 30,325 crore of resources was raised on the primary market for equity. The number of initial public offerings (IPO's) per year, on the rise since 2002, increased from 26 to 55 between 2004 and 2005. In line with the rally in investment, bank credit to the commercial sector increased by 22.8 per cent during 2004-05 and by a further 21.2 per cent between end-March 2005 and January 20, 2006.

Inflation, in most parts of the world, showed a rising tendency on account of rising global crude oil prices. The sharp and spiraling increase in international oil prices from late 2003, combined with considerable week-to-week and even day-to-day volatility, posed considerable challenge in the maintenance of macroeconomic stability. Nevertheless, the virtuous expansion in the current phase of economic upturn has been maintained without an undue escalation of domestic prices.

The weakening of the US dollar vis-à-vis other major global currencies, which resulted in valuation losses of US\$5.0 billion in reserves in the first half of 2005-06, also got reflected in the movements of the Rupee vis-à-vis the US dollar. During 2005-06, on an average, the Rupee strengthened against all major currencies.

Securities markets' performance in terms of information-processing, risk management and liquidity-provision functions improved further in 2005. In December 2005, there were 2,540 companies, where stock market trading took place on at least two-thirds of the days. These companies had a market capitalization of Rs.24.7 lac crore or \$550 billion. Household and institutional investor participation increased through growing confidence in the transparency

and robustness of the market design which was put in place over the period 1993-2001. Such participation was also assisted by stock market index returns of 11 per cent in 2004 followed by 36 per cent in 2005.

The Union Budget 2006-07 was announced on February 28, 2006. This year's budget is oriented towards achieving a GDP growth rate of above 8% by emphasizing on all the three drivers of the economy – services, manufacturing and agriculture. The Budget has attempted to provide continuity to the current policy approach, rather than pushing any new reform agenda. By reducing the fiscal deficit to 4.1% of GDP for FY05-06 and projecting a fiscal deficit of 3.8% for FY06-07 the government has successfully addressed concerns regarding the state of its financials.

CAPITAL MARKETS

The year 2005-06 saw the Indian equity markets reach record highs, with the Sensex breaching the 10,000 mark in early February for the first time ever. The Sensex gained a massive 4,787 points or 73.73% to end the year at 11,279.96; while the Nifty gained 67.15% to close at 3402.55. The CNX Midcap Index gained by 63.56% to end the year at 4787.15. FIIs continued to be bullish on Indian equities, investing USD 10.98 billion during 2005-06. The Indian Mutual Fund Industry also pumped in a record Rs 14,308 crores during the year, with net purchases of Rs 4,042 crores in March itself.

The trading intensity of Indian stock exchanges during the year was impressive by world standards. Among the biggest exchanges, measured by the number of trades per calendar year, the National Stock Exchange (NSE) retained rank 3 during 2005 and the Bombay Stock Exchange (BSE) stayed at rank 5. The Shanghai exchange lost ground, going from rank 4 to rank 6 in the latest year. The volatility of the equity market in 2005 was at a low level. While this partly reflected the end of the uncertainty associated with the general elections of 2004, the volatility was also lower than that in the preceding two years.

NSE and BSE spot market turnovers added up to Rs.20.9 LAC crore in 2005, and NSE and BSE derivatives turnover added up to Rs.39.5 lac crore in 2005. Both these values showed significant growth when compared with the previous year. The total equity market turnover went up from Rs.43 lac crore in 2004 to Rs.60.2 lac crore in 2005. This growth is partly mere arithmetic, for rupee turnover goes up commensurate with higher stock prices.

In terms of the composition of market participants, the equity market continued to be dominated by retail investors. The average transaction size on the spot market dropped in 2005 on both NSE and BSE. Across both the derivatives market and the spot market, the average transaction is one which is accessible to a very large number of households in the country. The number of depository accounts at NSDL continued to grow rapidly, with a rise of 21.9 per cent in 2005, which corresponds to over 5,000 accounts being opened per working day. In addition to NSDL, CDSL had 1,270,071 accounts as of 2005. The total number of NSDL and CDSL accounts stood at 85 lac.

The policy directions of the equity market and the debt market have taken different paths from 1992 onwards. In contrast with the blossoming institutional sophistication and growing liquidity of the equity market, the debt market has continued to turn in poor outcomes. With

the continuation of substantial fiscal deficits, a large volume of bond issuance had taken place every year. However, this growing market size has not been translated into liquidity and market efficiency as yet. Impact cost, which is the best measure of liquidity of a market, is not observed on the bond market owing to non-transparent trading procedures. The turnover ratio, which is the best available proxy, dropped every year from 2002 onwards, to a level of 71 per cent in 2005. The number of bonds with a turnover ratio in excess of 75 per cent dropped from 40 bonds in 2003 to just 13 bonds in 2005.

Interest rates on the GoI bonds have risen from 2004 onwards. The zero-coupon rate on a 1-year bond rose from 4.75 per cent in 2003 to 6.09 per cent in 2004 and further to 6.28 per cent in 2005. Similarly, the zero coupon rate on a 10-year bond rose from 5.38 per cent in 2003 to 6.78 per cent in 2004 and further to 7.22 per cent in 2005. Owing to these increases in interest rates, the returns on a broad portfolio of government bonds (the GOI bond index) were negative in both 2004 and 2005. The volatility of this portfolio also rose significantly to 0.66 per cent per day in 2005.

MUTUAL FUND INDUSTRY

During the year, in order to encourage mutual funds' participation in the derivatives market and to bring about a level playing field vis-à-vis FIIs, SEBI permitted mutual funds to enter into all types of derivative transactions with adequate disclosures made to the investors. Gold exchange traded Funds have also been allowed by SEBI based on two models: (i) Mutual Fund Custodian Bank Integrated Model, and (ii) Mutual Fund Warehouse Receipt Model. Gold ETF product launches based on these models are expected in 2006.

During the year, the total resources mobilised by the mutual fund industry stood at Rs 10,98,149 crores (Previous year Rs. 8,39,708 crores) while the total repurchase/redemption amount was Rs. 10,45,370 crores (Previous year Rs. 8,37,508 crores) (source :SEBI website). The industry thus saw a net inflow of Rs. 52,779 crores (Previous year Rs. 2,200 crores) during the year. The total Assets under management as on 31st March, 2006 stood at Rs. 2,31,862 crores (Previous year Rs. 1,49,600 crores).

The equity funds got maximum inflows during the year in view of the bullish sentiment continuing to prevail. The new fund offers for equity-oriented funds broke all previous records. Out of the total net inflow of Rs. 52,779 crores, the share of tax-saving and growth-oriented equity funds was Rs. 35,231 crores. Income/Debt oriented Funds and Balanced funds contributed Rs. 16, 621 crores and Rs. 927 crores respectively.

PERFORMANCE OVERVIEW & FUTURE PLANS

SBI Mutual Fund saw a total inflow of Rs. 48,167 crores (Previous year Rs. 27,743 crores) in the domestic open and close-ended funds during the year. The inflow took place predominantly in the equity-oriented funds. The total redemption amounted to Rs. 43,974 crores (Previous year Rs. 26,123 crores), leaving a net inflow of Rs. 4,193 crores as against a net inflow of Rs. 1,620 crores in the previous year. SBI Mutual Fund had a market share of 7.94% out of the net inflow of Rs. 52,779 crores during the year.

In March, 2005, SBI Mutual Fund had a market share of 4.44% which stands at 5.71% as on 31st March 2006. The market share has increased as we have created new markets, increased the thrust on cross-selling and have introduced new products. The Assets under Management, which were at Rs. 6,635 crores as on 31st March, 2005; rose to Rs. 13,249 crores as at the end of March, 2006. The composition of equity funds in the overall assets grew substantially during the year. We are sanguine of maintaining the performance of our equity schemes and improve the performance of liquid and income/debt funds during the year 2006-07 and expect an additional inflow of 8% of the total market inflows in our liquid, debt and equity schemes.

During the year, SBI Mutual Fund launched four new open-ended schemes viz. Magnum Comma Fund, Magnum Multicap Fund, MMIP Floater and SBI Blue Chip Fund. The fund also launched two fixed maturity plans under Magnum Debt Fund Series during the year. The mobilization by the schemes is as under:

SCHEME	OFFER PERIOD	AMOUNT MOBILISED Rs. Crs.	NUMBER OF APPLICATIONS RECEIVED
Magnum Debt Fund Series 60 Days -3	11 th & 12 th April, 05	48	47
Magnum Comma Fund	30 th June,05 to 25 th July,05	967.61	192,610
Magnum Multicap Fund	22nd August, 05 to 16th September, 05	2100	373,000
Magnum Debt Fund Series – 13 Months (Oct 2005)	26th & 27th October, 05	87.05	43
MMIP Floater	9th November, 05 to 30th November, 05	96.20	7467
SBI Blue Chip Fund	23 rd December, 05 to 20 th January, 06	2,855	720,430
TOTAL		6153.86	1,293,597

Resurgent India Opportunities Fund – an off-shore fund was also launched during the year and mobilized Rs. 99 crore (USD 23 Million).

Portfolio management service was started in February, 2006. The Company received a mandate from SG Asset Management (Singapore) Limited to manage their portfolio. The value of assets managed as on 31st March, 2006 was Rs. 120 crores.

During the year, the number of AMFI certified Agents increased to 10,166 as on 31st March, 2006 from 5,180 as on 31st March, 2005. Further thrust is being made to increase this number constantly.

The Fund has set a gross mobilisation target of Rs. 60,190 crores and a net mobilisation target of Rs. 11,815 crores for the financial year 2006-07. The net mobilization target includes expected contribution of Rs. 3,002 crores from the SBI and Associate Bank Branches.

As a result of the Joint Venture Agreement with Société Générale Asset Management (SGAM) which was entered into in December, 2004, the Company was able to improve its

investment risk and process controls, research and systems and was successful in getting business from Multinationals. We plan to utilize their expertise for launching new innovative products and for mobilizing fresh funds for our off-shore fund in future.

During the year, to facilitate better investor servicing to NRIs, the Company opened 3 overseas points of acceptance at Dubai, Doha and Kuwait. In India, 3 Investor Service Desks(ISDs) at Amritsar, Ghaziabad and Jammu taking the total number of ISDs as on 31st March, 2006 to 21. The number of Investor Service Agents(ISAs) was also increased to 29 by commissioning 6 more ISAs at Durgapur, Navsari, Rourkela, Dharampuri, Cuttack and Dhanbad to improve customer service and provide a contact point to the investors. As on 31st March, 2006, the Company operated Investor Service Centres (ISCs) in 26 major cities.

AWARDS

The directors are pleased to inform that various schemes of SBI Mutual Fund won thirteen awards for their performance during the year as follows:

ICRA Online Mutual Awards 2006

Scheme Name	Category	Award	Period	Funds in the Category
SBI Magnum Balanced Fund - Growth	Balanced	Silver	1 year	18
SBI Magnum Balanced Fund - Growth	Balanced	Silver	3 year	16
SBI Magnum Global Fund 94 – Growth	Diversified Equity-Aggressive	Gold	1 year	47
SBI Magnum Sector Umbrella - Contra - Growth	Diversified Equity-Aggressive	Silver	3 year	28
SBI Magnum Sector Umbrella - Emerging Businesses - Growth	Diversified Equity-Aggressive	Silver	1 year	47
SBI Magnum Sector Umbrella - Infotech	Sectoral-Technology	Gold	1 year	7
SBI Magnum Tax Gain Scheme 93	Equity Linked Savings Schemes (ELSS)	Gold	1 year	14
SBI Magnum Tax Gain Scheme 93	Equity Linked Savings Schemes (ELSS)	Gold	3 year	15

CNBC TV18 - CRISIL Mutual Fund Year Award 2006

Scheme Name	Category	Funds in the Category
Magnum Global Fund	Equity diversified	43
Magnum Sector Fund Umbrella Contra Fund	Equity diversified	43
Magnum Taxgain	Equity linked savings schemes (ELSS)	9
Magnum Balanced Fund	Balanced Fund	14

LIPPER FUND AWARDS INDIA 2006

Scheme Name	Category	Period
SBI Magnum Balanced Fund- Dividend	Mixed Asset INR Balanced	3 Year

V COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES 1988

In terms of the above rules issued by the Central Government the following information is furnished.

i) CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION:

Since the Company does not own any manufacturing facility, the disclosure under this head is not applicable. Further, the other particulars in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988 are also not applicable.

ii) FIXED DEPOSITS:

During the year, the Company has not accepted any deposits from the public under Section 58-A of the Companies Act, 1956.

iii) FOREIGN EXCHANGE EARNINGS AND OUTGO

During the financial year under review, the Company earned Rs. 5.99 lacs in foreign exchange as portfolio management fee. The foreign exchange outgo on account of traveling and business promotion was Rs. 75.86 lacs.

VI DIRECTORS

During the year under review, Mr. A. G. Kalmankar resigned from the Board with effect from 14th May, 2005.

The term of Mr. P.G. R. Prasad as the Managing Director ended on 31st December, 2005 consequent upon his retirement from the services of State Bank of India.

In his place, Mr. Deepak Chawla has been appointed as the Managing Director with effect from. 1st January, 2006

The Board places on record its appreciation of the invaluable contributions made by Mr. A.G. Kalmankar and Mr. P.G.R. Prasad as Directors of the Company.

The Board also extends a warm welcome to Mr. Deepak Chawla who has joined the Board of the Company.

VII BOARD MEETINGS:

Five board meetings were held during the financial year under review – on 28th April,2005, 12th May,2005, 22nd July,2005, 24th October,2005 and 17th January,2006.

The attendance of each director at the meetings of the Board of Directors is as under:

Directors	Number of Board Meetings Attended
Mr. A. K. Purwar(Chairman)	5
Mr. P.G. Kakodkar	4
Mr. Alain Clot	1
Mr. Christian d'Allest	3
Mr. Manu Chadha	5
Mr. Ashwin Dani	3
Mr. Pradeep Mallick	3
Mr. Didier Turpin (Alternate to Mr. Christian d'Allest)	2
Mr. A.G. Kalmankar (up to 14 th May, 2005)	2
Mr. P. G. R. Prasad (Managing Director) up to 31 st December, 2005	4
Mr. Deepak Chawla (Managing Director) w.e.f. 1 st January, 2006	1

VIII AUDIT COMMITTEE OF DIRECTORS:

The Committee reviews the reports of internal and statutory auditors placed before them from time to time. An independent director who is a Chartered Accountant chairs the audit committee. The Committee met seven times during the year.

IX MODEL CODE OF CONDUCT

The Directors confirm that all Board members and Senior Management have affirmed compliance with the Company's code of conduct for the financial year 2005-2006.

X DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217 (2AA) OF THE COMPANIES ACT, 1956.

The Directors hereby confirm: -

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) that reasonable and prudent accounting policies have been selected and applied consistently and reasonable and prudent judgments and estimates have been made 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 the profit or loss of the company for that period;
- (iii) that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that the annual accounts have been prepared on a going concern basis.

XI PERSONNEL

Employee relations remained cordial during the year. The Directors place on record their appreciation of the dedicated work put in by all the employees.

XII PARTICULARS OF EMPLOYEES

The details of employees covered by Section 217 (2A) of the Companies Act 1956 read with Companies (Particulars of Employees) Rules 1975 are given in the annexure to the Directors' Report. In terms of the provisions of Section 219(1)(b)(iv) of the Act, the Directors' Report is being sent to the shareholders of the company excluding annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the company secretary at the registered office of the Company.

XIII AUDITORS

M/s. Deloitte, Haskins and Sells and M/s. Khandelwal, Jain & Co. joint Statutory Auditors of the Company, retire at the conclusion of the fourteenth Annual General Meeting and being eligible offer themselves for re-appointment.

M/s. Deloitte, Haskins and Sells and M/s. Khandelwal, Jain & Co. have given their consent to act as our Statutory Auditors and have also certified that their appointment would be within the limits specified under Section 224(1B) of the Companies Act, 1956.

XIV ACKNOWLEDGEMENTS

The Directors take this opportunity to express their gratitude for the continued support and co-operation extended by the Securities and Exchange Board of India, Reserve Bank of India, State Bank of India, Société Générale Asset Management, the Registrars & Transfer Agents, the Custodians, the Bankers, Market Intermediaries and Distributors, Government Agencies, Auditors, Association of Mutual Funds of

India and the Board of Directors of SBI Mutual Fund Trustee company Private limited.

The Directors also express their gratitude to the large body of investors of various schemes of SBI Mutual Fund for the faith reposed in the Fund and look forward to their continued patronage.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Mumbai
Date: May 11, 2006

SD/-
A.K.PURWAR
CHAIRMAN

AUDITORS' REPORT TO THE SHAREHOLDERS.

1. We have audited the attached Balance Sheet of **SBI Funds Management Private Limited** as at March 31, 2006, the Profit and Loss account and also the Cash flow statement 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 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we give in 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 in paragraph 3 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 those books;
 - c) The Balance Sheet, Profit and Loss account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - e) On the basis of written representations received from the directors, as on March 31 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 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 together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006;
 - ii) in the case of the Profit and Loss account, of the profit for the year ended on that date; and
 - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**For Deloitte Haskins & Sells.
Chartered Accountants**

**SD/-
R. LAXMINARAYAN
Partner
Membership No: 33023**

**Mumbai,
Dated: May 11, 2006**

**For Khandelwal Jain & Co
Chartered Accountants**

**SD/-
SHIVRATAN AGARWAL
Partner
Membership No: 104180**

ANNEXURE TO THE AUDITORS' REPORT

Referred to in Paragraph 3 of our report of even date on the accounts for the year ended March 31, 2006 of **SBI Funds Management Private Limited**.

The nature of the Company's activities during the year has been such that clauses (ii), (viii) and (xiii) of Paragraph 4 of the Order are not applicable to the Company for the year.

- (i) 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) Fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion, provides for physical verification of all the fixed assets at reasonable intervals. 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 its fixed assets during the year.
- (ii) According to the information and explanations given to us the Company has neither granted nor taken 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.

In view of what has been stated above, reporting requirements under sub-clauses (b), (c), (d), (f) and (g) of clause (iii) of paragraph 4 of the Order are not applicable to the Company for the year.

- (iii) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in the aforesaid internal control systems.
- (iv) To the best of our knowledge and belief and according to the information and explanations given to us, we report that there are no particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 that need to be entered into the register maintained under section 301 of the Companies Act, 1956.
- (v) The Company has not accepted any deposits from the public during the year.
- (vi) In our opinion, the internal audit function carried out by a firm of Chartered accountants is commensurate with the size of the Company and the nature of its business.
- (vii) According to the information and explanations given to us in respect of statutory and other dues:
 - (a) The Company has been generally 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 Custom Duty, Excise Duty, cess and any other material statutory dues as applicable with the appropriate authorities during the year.

- (b) No undisputed amounts payable in respect of Income Tax ,Wealth Tax, Service Tax, Investor Education and Protection Fund, Sales Tax were outstanding as at March 31, 2006 for a period of more than six months from the date they became payable.
- (c) There are no dues of Income tax, Wealth Tax, Service Tax and Cess, which have not been deposited on account of any dispute. We have been informed that the provisions of Sales Tax, Custom Duty and Excise Duty are not applicable to the company for the year.
- (viii) The company has no accumulated losses as at 31st March, 2006 and has not incurred any cash loss during the financial year ended on that date and in the immediately preceding financial year.
- (ix) In our opinion and according to the information and explanations given to us, the company did not have any dues to a financial institution or bank or debenture holders.
- (x) According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xi) Based on our examination of the records and evaluation of the related internal controls, the Company has maintained proper records of transactions and contracts in respect of its dealing in shares, securities, debentures and other investments and timely entries have been made therein. The aforesaid securities have been held by the Company in its own name, except to the extent of the exemption granted under Section 49 of the Companies Act, 1956.
- (xii) 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) To the best of our knowledge and belief and according to the information and explanations given to us, there have been no term loans availed during the year.
- (xiv) According to the information and explanations given to us and on an overall examination of the Balance sheet and other records of the company, we report that no funds raised on short-term basis have been used for long term investment.
- (xv) The Company has not made any preferential allotment of shares during the year.
- (xvi) The company has not issued any debentures during the year.

- (xvii) The Company has not raised any money by public issues during the year.
- (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
SD/-
R. LAXMINARAYAN
Partner
Membership No: 33023.

For Khandelwal Jain & Co
Chartered Accountants
SD/-
SHIVRATAN AGARWAL
Partner
Membership No: 104180

Mumbai,
Dated: May 11, 2006

SBI FUNDS MANAGEMENT PRIVATE LIMITED

BALANCE SHEET AS AT MARCH 31, 2006

	<u>Schedules</u>	<u>Rs.</u>	<u>As at 31.03.2006 Rs.</u>	<u>As at 31.03.2005 Rs.</u>
<u>SOURCES OF FUNDS</u>				
Shareholders' Funds				
Capital	1		500,000,000	500,000,000
Reserves and Surplus	2		279,857,067	207,495,743
Deferred Tax Liability (Net)			4,078,854	2,536,887
TOTAL			<u>783,935,921</u>	<u>710,032,630</u>
<u>APPLICATION OF FUNDS</u>				
Fixed Assets				
Gross block	3	72,588,851		72,641,211
Less : Depreciation		<u>40,523,515</u>		<u>43,686,645</u>
Net block			32,065,336	28,954,566
Investments	4		401,498,177	336,942,359
Current Assets, Loans and Advances				
Sundry debtors	5	90,293,302		81,892,295
Cash and bank balances	6	135,173,227		69,382,855
Other Current Assets	7	15,694,524		9,294,009
Loans and advances	8	<u>373,362,525</u>		<u>349,770,615</u>
		614,523,578		510,339,774
Less: Current Liabilities and Provisions				
Liabilities	9	148,054,009		73,515,209
Provisions	10	<u>116,097,161</u>		<u>92,688,860</u>
		264,151,170		166,204,069
Net Current Assets			350,372,408	344,135,705
TOTAL			<u>783,935,921</u>	<u>710,032,630</u>
Significant Accounting Policies and Notes to the Accounts	16			

As per our attached report of even date

**For Deloitte Haskins & Sells
Chartered Accountants**

For and on behalf of the Board of Directors

SD/-
R Laxminarayan
Partner

SD/-
A.K. PURWAR
CHAIRMAN

SD/-
DEEPAK CHAWLA
MANAGING DIRECTOR

**For Khandelwal Jain & Co
Chartered Accountants**

SD/-
Shivratan Agarwal
Partner
Mumbai
11-May-06

SD/-
DIDIER TURPIN
DY. CHIEF EXECUTIVE OFFICER
Mumbai
11-May-06

SD/-
HEMANTI WADHWA
COMPANY SECRETARY

SBI FUNDS MANAGEMENT PRIVATE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	<u>Schedules</u>	For the Year Rs.	Previous Year Rs.
INCOME:			
Management Fees (Gross)		609,659,708	309,055,453
[Tax deducted at source Rs.34,204,622 (Previous year Rs.16,045,788)]			
Portfolio Advisory Fee		598,715	-
Income from Investments	11	32,985,100	67,076,789
Other Income	12	19,198,070	121,339,775
		<u>662,441,593</u>	<u>497,472,017</u>
EXPENDITURE:			
Employee Costs	13	135,080,427	96,888,046
Administrative and other Expenses	14	239,497,030	183,382,983
Depreciation on fixed assets		12,032,409	10,152,304
Diminution in value of investments		-	10,258
		<u>386,609,866</u>	<u>290,433,591</u>
Prior Period Adjustments (Net)	15	(4,722,601)	(6,471,413)
Profit before tax		271,109,126	200,567,013
Excess Provision for Tax in respect of previous years written back		3,802,771	
Provision for tax			
Current Tax	(82,683,606)		(48,300,000)
Deferred tax	(1,541,967)		(1,745,723)
Fringe Benefit Tax	(4,300,000)	(88,525,573)	(50,045,723)
Profit after tax		<u>186,386,324</u>	<u>150,521,290</u>
Balance brought forward from previous year		58,749,130	49,575,964
Profit available for appropriation		<u>245,135,454</u>	<u>200,097,254</u>
APPROPRIATIONS			
Transfer to general reserve		20,000,000	50,000,000
Proposed Dividend		100,000,000	80,000,000
Tax on proposed dividend		14,025,000	11,348,125
Surplus carried to Balance Sheet		111,110,454	58,749,130
		<u>245,135,454</u>	<u>200,097,255</u>
Basic and diluted earnings per share [Refer note 11 of schedule 16]		37.28	30.10

Significant Accounting Policies and Notes to the Accounts 16

As per our attached report of even date

**For Deloitte Haskins & Sells
Chartered Accountants**

For and on behalf of the Board of Directors

SD/-
R Laxminarayan
Partner

SD/-
A.K. PURWAR
CHAIRMAN

SD/-
DEEPAK CHAWLA
MANAGING DIRECTOR

**For Khandelwal Jain & Co
Chartered Accountants**

SD/-
Shivratan Agarwal
Partner
Mumbai
11-May-06

SD/-
DIDIER TURPIN
DY. CHIEF EXECUTIVE OFFICER
Mumbai
11-May-06

SD/-
HEMANTI WADHWA
COMPANY SECRETARY

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	As at 31.03.2006 Rs.	As at 31.03.2005 Rs.
SCHEDULE 1		
SHARE CAPITAL		
<u>Authorised</u>		
5,000,000 Equity Shares of Rs.100 each	<u>500,000,000</u>	<u>500,000,000</u>
<u>Issued, Subscribed and Paid Up</u>		
5,000,000 Equity Shares of Rs. 100 each fully paid up	500,000,000	500,000,000
TOTAL	<u>500,000,000</u>	<u>500,000,000</u>

Notes: Out of the above shares:

1. 31,50,000 shares are held by State Bank of India, the Company's holding entity, and its nominees;
2. 20,00,000 shares are allotted as fully paid up bonus shares by capitalisation of General Reserves

SCHEDULE 2

RESERVES AND SURPLUS

General Reserve		
As per last Balance Sheet	148,746,613	98,746,613
Add: Transfer from Profit and Loss Account	<u>20,000,000</u>	<u>50,000,000</u>
	168,746,613	148,746,613
Balance in profit and loss account	111,110,454	58,749,130
TOTAL	<u>279,857,067</u>	<u>207,495,743</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

SCHEDULE 3

FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK (At Cost)				DEPRECIATION / AMORTISATION				NET BLOCK	
	As at 01.04.2005	Additions for the year	Deductions for the year	As At 31.03.2006	Upto 01.04.2005	For the Year	Deductions for the year	Upto 31.03.2006	As at 31.03.2006	As at 31.03.2005
A. Intangible Assets										
Computer Software	8,913,243	2,844,637	-	11,757,880	4,223,491	2,962,910	-	7,186,401	4,571,479	4,689,752
Website Development Cost	1,850,000	-	-	1,850,000	1,253,228	596,772	-	1,850,000	-	596,772
B. Tangible Assets										
Leasehold Improvement	-	5,756,492	-	5,756,492	-	831,030	-	831,030	4,925,462	-
Computers	41,193,981	3,914,330	13,103,956	32,004,355	28,618,405	5,604,947	12,739,630	21,483,722	10,520,633	12,575,576
Motor Car	1,568,330	-	-	1,568,330	411,529	299,496	-	711,025	857,305	1,156,801
Office Equipment	14,782,582	3,006,557	2,121,584	15,667,555	6,603,336	1,380,199	1,469,853	6,513,682	9,153,873	8,179,246
Furniture & Fixtures	4,333,075	836,721	1,185,557	3,984,239	2,576,656	357,055	986,056	1,947,655	2,036,584	1,756,419
TOTAL	72,641,211	16,358,737	16,411,097	72,588,851	43,686,645	12,032,409	15,195,539	40,523,515	32,065,336	28,954,566
<i>Previous Year</i>	62,629,143	15,705,490	5,693,422	72,641,211	38,279,698	10,152,304	4,745,357	43,686,645	28,954,566	

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

**SCHEDULE 4
INVESTMENTS**

In Equity shares of Subsidiary Companies
(Non-trade, unquoted, Fully paid)

	Face value (Rs.)	No. of Units	As at 31.03.2006		As at 31.03.2005	
			Rs.	No. of Units	Rs.	No. of Units
A. Long Term Investments (at cost)						
In Equity Shares of Subsidiary Company						
SBI Funds Management (International) Pvt. Ltd.	US\$ 1	10,000	444,400	-	-	-
			444,400			-
B. Current Investments (At lower of cost or market/fair value)						
In schemes of SBI Mutual Fund						
Magnum Income Fund ('MIF') - Floating Rate Plan -LT-INS-GR	10	2,072,321	22,555,138	2,072,887	20,728,873	20,728,873
Magnum Institutional Income Fund Savings Growth	10	27,635,783	303,017,212	24,228,738	256,723,744	256,723,744
Magnum Debt Fund Series 180 -2- Growth	10	-	-	5,000,000	50,000,000	50,000,000
Magnum Gilt Fund - Short Term - Dividend	10	-	-	248,385.49	2,489,742	2,489,742
Magnum Gilt Fund - Short Term - Growth	10	-	-	518,219	7,000,000	7,000,000
Magnum Debt Fund -13 Months Growth	10	5,000,000	50,000,000	-	-	-
Magnum Insta Cash Liquid Floater Dividend	10	2,495,724	25,481,427	-	-	-
			401,053,777			336,942,359
Total			401,498,177			336,942,359

Note: In addition to the above, following investments in units of SBI Mutual Fund were purchased as well as sold during the year

Name of the Scheme		No. of Units		No. of Units	
		Purchased	Sold	Purchased	Sold
Magnum Insta Cash Liquid Floater Dividend	10	8,322,756	8,322,756	-	-
MICF - Cash Plan	10	-	-	6,998,341	6,998,341
Magnum Sector Fund Umbrella -Pharma	10	4,372,540	4,372,540	-	-
Magnum Income Fund - Floating Rate Plan -LT INS-GR	10	2,072,321	2,072,321	3,927,113	3,927,113
Magnum Income Fund - Floating Rate Plan -LT INS-Div	10	2,190,670	2,190,670	-	-
Magnum Institutional Income Fund Savings Growth	10	11,914,658	11,914,658	16,684,290	16,684,290

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	Rs.	As at 31.03.2006 Rs.	Rs.	As at 31.03.2005 Rs.
SCHEDULE 5				
SUNDRY DEBTORS				
(Unsecured and considered good)				
Debts outstanding for a period exceeding six months		549,167		-
Other Debts		89,744,135		81,892,295
Total		<u>90,293,302</u>		<u>81,892,295</u>

SCHEDULE 6

CASH & BANK BALANCES

Cash on hand		6,143		14,319
Balances with scheduled banks				
in current accounts	5,109,070		4,310,522	
in fixed deposits	130,058,014		65,058,014	
Total		<u>135,167,084</u>		<u>69,368,536</u>
		<u>135,173,227</u>		<u>69,382,855</u>

SCHEDULE 7

OTHER CURRENT ASSETS

Interest Accrued on Fixed Deposits		13,989,472		7,437,780
Interest Accrued on Staff Loan		1,705,052		1,856,229
Total		<u>15,694,524</u>		<u>9,294,009</u>

SCHEDULE 8

LOANS AND ADVANCES

(Unsecured, considered good, unless otherwise specified)

Advances recoverable in cash or in kind or for value to be received		26,396,746		19,594,806
Deposits		7,100,752		7,604,552
Advance payment of taxes and tax deducted at source (net of provision for taxation of Rs.272,895,897 previous year Rs.165,612,292)		339,865,027		322,571,257
Advances considered doubtful		1,333,993		1,333,993
Less: Provision for doubtful advances		(1,333,993)		(1,333,993)
Total		<u>373,362,525</u>		<u>349,770,615</u>

From companies under same Management

SBI Capital Markets Ltd

Outstanding		2,715,011		860,268
Maximum outstanding during the year		2,715,011		2,909,673

State Bank of India

Outstanding		-		7,827,090
Maximum outstanding during the year		-		7,827,090

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	As at 31.03.2006 Rs.	As at 31.03.2005 Rs.
SCHEDULE 9		
CURRENT LIABILITIES		
Sundry Creditors (other than Small Scale Industries)	47,307,801	64,314,390
Other Liabilities	100,746,208	9,200,819
Total	<u>148,054,009</u>	<u>73,515,209</u>
 SCHEDULE 10		
PROVISIONS		
Proposed dividend	100,000,000	80,000,000
Tax on proposed dividend	14,025,000	11,220,000
Gratuity	2,072,161	1,468,860
Total	<u>116,097,161</u>	<u>92,688,860</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Year Ended 31.03.2006 Rs.	Year Ended 31.03.2005 Rs.
SCHEDULE 11		
INCOME FROM INVESTMENTS		
Profit on Sale of Current Investments (net)	32,495,999	67,043,505
Dividend from Current Investments	489,101	33,284
Total	<u>32,985,100</u>	<u>67,076,789</u>

SCHEDULE 12

OTHER INCOME

Interest on loans to employees	472,601	593,267
Interest on Bank deposits (gross) [Tax deducted at Source Rs.16,32,680 (Previous Year Rs.975,232)]	8,184,891	4,707,368
Realisation of Devolved Investments	709,942	100,718,907
Recovery of Funded guarantee from Schemes	7,077,868	3,038,716
Diminution in value of investments written back	-	11,695,087
Miscellaneous Income	992,024	586,430
Excess provision in respect of earlier years written back (net)	1,760,744	
Total	<u>19,198,070</u>	<u>121,339,775</u>

SCHEDULE 13

EMPLOYEE COSTS

Salaries, allowances and bonus	102,240,147	68,340,733
Contribution to provident and other funds	10,462,176	9,371,090
Staff welfare expenses	22,378,104	19,176,223
Total	<u>135,080,427</u>	<u>96,888,046</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

SCHEDULE 14

ADMINISTRATIVE AND OTHER EXPENSES

	Year Ended 31.03.2006 Rs.	Year Ended 31.03.2005 Rs.
Rent	27,795,115	27,578,169
Rates and taxes	473,267	356,936
Electricity charges	4,367,853	3,646,558
Repairs and maintenance :		
- Equipment	2,020,462	2,149,901
- Others	<u>3,593,846</u>	<u>2,751,215</u>
	5,614,308	4,901,116
Insurance	545,479	757,143
Travelling and conveyance	15,940,877	17,623,847
Recruitment and training	1,748,570	2,014,574
Printing and stationery	6,141,780	5,473,253
Postage and telegram	9,159,891	5,899,612
Telephone	9,624,590	7,022,073
Scheme expenses	73,873,180	16,029,953
Reimbursement of NAV computation error amount to Magnum Balanced Fund	-	1,304,316
Business Promotion	39,334,655	19,666,872
Provision for registrar related reconciliation differences in schemes of SBI Mutual Fund	-	163,843
Advertising and publicity	23,220,075	44,330,284
Legal and professional fees	2,669,205	3,217,580
Membership and subscription	10,957,603	7,496,507
Auditor's Remuneration:		
-Audit fee *	300,000	90,625
-Tax audit fee	-	28,125
-Consolidation and certification fees	-	106,250
-Out of pocket expenses	-	8,550
Service tax on above services	36,720	12,113
Service tax input credit	<u>(36,720)</u>	<u>(12,113)</u>
	300,000	233,550
Directors' sitting fees	134,500	114,030
Donation to Prime Minister's National Relief Fund	-	1,000,000
Registrar Migration Expenses	-	8,665,626
Loss on sale of assets (net)	1,004,638	684,744
Miscellaneous expenses	<u>6,591,444</u>	<u>5,202,398</u>
Total	<u>239,497,030</u>	<u>183,382,983</u>

* inclusive of Tax audit, Consolidation and certification fees for the current year

SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Year Ended 31.03.2006 Rs.	Year Ended 31.03.2005 Rs.
SCHEDULE 15		
PRIOR PERIOD ADJUSTMENTS (NET)		
Prior Period Income		
Recovery From Funded Guarantee Scheme	5,129,749	-
Management fee	-	(129,528)
Others	44,374	31,049
	<u>5,174,123</u>	<u>(98,479)</u>
Prior Period Expenses		
Salaries and allowances	62,940	396,812
Telephone and telex	2,905	68,393
Advertisement expenses	282,339	4,683,609
Office rent	9,071,442	1,133,882
Printing and stationery	-	4,731
Postage and telegram	-	85,507
Subscription fee	300,905	-
Internal audit fees	15,000	-
Scheme expenses	161,193	-
	<u>9,896,724</u>	<u>6,372,934</u>
Total	<u>(4,722,601)</u>	<u>(6,471,413)</u>

SBI FUNDS MANAGEMENT PRIVATE LIMITED
Cash Flow Statement for the year ended March 31, 2006

	2005-06	2004-05
	RS.	RS.
A. CASH FLOW FROM OPERATING ACTIVITIES	202,471,928	125,919,750
B. CASH FLOW FROM INVESTING ACTIVITIES	(45,461,556)	(71,652,420)
C. CASH FLOW FROM FINANCING ACTIVITIES	(91,220,000)	(56,534,375)
NET CHANGE IN CASH & CASH EQUIVALENTS	65,790,372	(2,267,045)
D. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	69,382,855	71,649,900
E. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	135,173,227	69,382,855
(A) Cash flow from operating activities		
Net profit before taxation	271,109,126	200,567,013
<i>Adjustments for:</i>		
Depreciation on fixed assets	12,032,409	7,396,310
Amortization of intangible assets	-	2,755,994
Loss on sale of fixed assets of fixed assets	1,004,638	684,744
Profit on sale of investments	(32,495,999)	(67,043,505)
Interest income	(8,657,492)	(5,300,635)
Dividend income	(489,101)	(33,284)
Provision for Gratuity	603,301	1,468,860
Diminution in value of investments written back	-	(11,695,087)
Diminution in value of investments/investments written off	-	10,258
Operating profit before working capital changes	243,106,882	128,810,668
Decrease/(Increase) in sundry debtors	(8,401,009)	13,419,081
(Increase)/Decrease in Loans and Advances	(6,298,139)	(8,594,539)
Increase/(Decrease) in Current Liabilities & Provisions	74,538,799	51,760,476
Cash generated from operations	302,946,533	185,395,686
Income taxes paid	(100,474,605)	(59,475,936)
A. CASH FLOW FROM OPERATING ACTIVITIES	202,471,928	125,919,750
Cash flows from investing activities		
Purchase of fixed assets	(16,358,737)	(15,705,490)
Proceeds from sale of fixed assets	210,921	263,321
Purchase of investments	(739,365,250)	(728,394,338)
Proceeds from sale of investments	707,305,432	671,006,125
Interest received	2,256,977	1,144,678
Dividends received	489,101	33,284
B. CASH FLOW FROM INVESTING ACTIVITIES	(45,461,556)	(71,652,420)
Cash flows from financing activities		
Dividends paid	(80,000,000)	(50,000,000)
Tax on dividend paid	(11,220,000)	(6,534,375)
C. CASH FLOW FROM FINANCING ACTIVITIES	(91,220,000)	(56,534,375)
NET CHANGE IN CASH & CASH EQUIVALENTS	65,790,372	(2,267,045)
D. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR		
Cash in hand	14,319	20,408
Balances with Banks and Money at Call and Short Notice	69,368,536	71,629,492
	69,382,855	71,649,900
E. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Cash in hand	6,143	14,319
Balances with Banks and Money at Call and Short Notice	135,167,084	69,368,536
	135,173,227	69,382,855

1. The Cash Flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.

2. The corresponding figures of the previous year are re-grouped wherever necessary

As per our attached report of even date

For Deloitte Haskins & Sells

Chartered Accountants

SD/-

R Laxminarayan

Partner

SD/-

For Khandelwal Jain & Co

Chartered Accountants

Shivratan Agarwal

Partner

Mumbai

11-May-06

For and on behalf of the Board of Directors

SD/-

A.K. PURWAR

CHAIRMAN

SD/-

DIDIER TURPIN

DY. CHIEF EXECUTIVE OFFICER

Mumbai

11-May-06

SD/-

DEEPAK CHAWLA

MANAGING DIRECTOR

SD/-

HEMANTI WADHWA

COMPANY SECRETARY

SCHEDULE 16 - SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting.

(b) REVENUE RECOGNITION

- Management fee is recognised at specific rates agreed with the relevant schemes, applied on the average daily net assets of each scheme (excluding inter-scheme investments, where applicable, and investments made by the Company in the respective scheme), and are in conformity with the limits specified under SEBI (Mutual Funds) Regulations, 1996.
- Portfolio Advisory Service income is recognized on accrual basis as per the terms of the contract.
- Gains and losses on sale of investments are determined using the weighted average cost method.
- Revenue is recognised only when it is reasonably certain that the ultimate collection will be made.
- Dividend income is recognised when the right to receive the same is established.
- Recovery, if any, on realisation of devolved investments of schemes acquired by the Company, in terms of the right of subrogation, is accounted on the basis of receipts.

(c) Fixed Assets:

Fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is provided on the written down value method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956. Assets costing individually Rs.5,000 or less are fully depreciated in the year of purchase. Leasehold improvements are amortised over the primary period of lease subject to maximum period of 5 years.

Intangible Assets:

Intangible Assets (Software & Website Development Cost) are amortised over a period of three years, on a Straight Line Method.

(d) **Investments:**

Investments are classified into long term investments and current investments. Investments which are intended to be held for more than one year, are classified as long term investments and investments, which are intended to be held for less than one year are classified as current investments. Long term investments are accounted at cost and any decline in value, other than temporary is provided for. Current investments are valued at cost or market value/fair value whichever is lower.

Investments include investments in shares of subsidiary companies registered outside India. They are stated at cost by converting at the rate of exchange prevalent at the time of acquisition thereof.

(e) **Retirement Benefits:**

Retirement benefits on account of Provident Fund and Pension are charged to the Profit & Loss Account of the year when the contributions to the respective Funds are due. Gratuity and Superannuation contributions have been funded with the Life Insurance Corporation of India (LIC) under the Group Gratuity and Superannuation Schemes of LIC and any difference between actuarial valuation of gratuity carried out as of the end of the year and fund in the scheme is provided for.

(f) **Foreign Currency Transactions:**

Transactions in foreign currencies are recorded at the exchange rate prevailing at the time of occurrence of the transactions.

Monetary items denominated in foreign currency remaining unsettled at the end of the year are translated at the buying rates as at the last day of the year.

Any gains or losses on account of exchange difference either on settlement or translation are recognized in Profit and Loss Account except in case where it relates to the acquisition of fixed assets from a country outside India in which case it is adjusted to the carrying cost of such asset.

(g) **Reimbursement of Shortfall to Schemes:**

In case of schemes managed by the Company, where the redemption value / returns are guaranteed by the Company, the shortfall in redemption value / returns reimbursable to the respective scheme is accounted for in the year in which it occurs. In case any shortfall in guaranteed redemption value is anticipated in any scheme, adequate provision as determined by the management is made over the balance duration of the scheme.

(h) **Scheme Expenses**

Expenses of schemes of SBI Mutual Fund in excess of the stipulated rates are required to be borne by the company, in accordance with the requirements of SEBI (Mutual Fund) Regulations, 1996, and as such, are charged to the Profit and Loss account.

(i) **Treatment of Contingent Liabilities**

Provision involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Liabilities are not recognized but are disclosed in the notes. Contingent assets are neither recognized nor disclosed in the financial statements.

(j) **Taxes on Income**

Current tax is determined as the amount of tax payable in respect of taxable income for the year. Deferred tax is recognized subject to the consideration of prudence in respect of deferred tax assets, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent years

(k) **Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the lease term, are classified as operating leases. Operating lease rentals are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

Notes to the Accounts

2. Contingent Liabilities(not provided for):

- i) Demands raised by the Income Tax Authorities against which the Company has preferred appeals to the Appellate Authorities are Rs 30,65,44,130 (Previous Year Rs. 317,513,430). Amount paid under protest / adjusted against refunds for other assessment years against the above is Rs. 30,96,84,108 (Previous Year Rs. 318,290,303).
- ii) Claims against the company not acknowledged as debts – Investor claims pending in consumer courts – Rs. 3,433,084 (Previous Year Rs. 2,849,062)

3. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 4,045,035 (Previous Year Rs. 2,518,386).

4. **Deferred Tax Liability (net):**

	As at 31.03.2006 (Rs.)	II. As at 31.03.20 05 (Rs.)
Deferred Tax Liabilities		IV.
Amortization /Depreciation on fixed assets/intangible Assets	5,225,365	3,480,327
Gross Deferred Tax Liabilities	5,225,365	3,480,327
Deferred Tax Assets		
Provision for gratuity	697,489	494,418
Provision for doubtful advances recoverable	449,022	449,022
Gross Deferred Tax Assets	1,146,511	9,43,440
Deferred Tax Liabilities (net)	4,078,854	2,536,887

5. **Managerial Remuneration:**

i) The Managing Director is on deputation from State Bank of India and his remuneration is in accordance with the Service Rules of the Bank. The particulars of the remuneration of the Managing Director are as under:

	Year ended 31.03.2006 (Rs.)	VI. Year ended 31.03.2 005 (Rs.)
		VIII.
IX. Salaries and Allowances	609,188	390,157
Contribution to Provident & Pension fund	43,640	90,636
Perquisites	230,480	1,78,161
Total	883,308	658,954

The above:

(i) Includes Rs. 6.52 lakhs to a Managing Director for the period from 1st April 2005 to 31st December 2005 and Rs. 2.31 lakhs

to another Managing Director for the period from 1st January 2006 to 31st March 2006.

- ii) The Deputy Chief Executive Officer is employee of the Company and also an Alternate Director and his remuneration has been approved by the Board of Directors. The particulars of the remuneration of the Deputy Chief Executive Officer for the current year are as under:

	Year ended 31.03.2006 (Rs.)	XI. Year ended 31.03.2005 (Rs.)**
		XIII.
XIV. Salaries and Allowances	35,81,856	895,464
Contribution to Provident & Pension fund	-	-
Perquisites	287,515	28,219
Total	38,69,371	923,683

** joined with effect from January 1, 2005.

6. Related Party Disclosure

Parties where control exists:

Holding Company	State Bank of India holds 63% of the share capital
Enterprise having significant influence	Societe Generale Asset Management holds 37% of the share capital
Enterprise over which the company has control	SBI Funds Management (International) Private Limited (100% subsidiary)

Other Related parties:

Fellow Subsidiaries	SBI Capital Market Limited SBI Life Insurance Company Limited SBI Commercial and International Limited State Bank of Patiala State Bank of Hyderabad State Bank of Bikaner & Jaipur
Key Management Personnel	Mr. P G R Prasad (Managing Director (up to 31 st Dec 05) Mr. Deepak Chawla (Managing Director, w.e.f 1 st Jan 06) Mr. Didier Turpin Deputy Chief Executive Officer
Mutual Fund managed by the company	SBI Mutual Fund

Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises having significant influence over the company	Mutual Fund managed by the Company	Enterprises over which the company is having control
Finance:						
Bank Deposit:						
SBI Commercial and International Limited		1,300,58,014				
		(5,300,635)				
Interest Income on Bank Deposit with SBI Commercial and International Limited		8,184,891				
		(5,300,635)				
Outstandings:						
Interest Receivable - SBI Commercial and International Limited		13,989,472				
		(7,437,780)				
Investments:						444,400
Purchases					738,920,850	
					(740,089,425)	
Sales					674,809,433	
					(603,972,878)	
Dividend Income					489,101	
					(33,284)	
Corporate Dividend paid						
	(50,400,000)			(29,600,000)		
Renovation Expenses Receivable						
Recoverable on account of Renovation expenses – SBI Capital Markets Ltd.		2,715,011				
		(860,268)				
Miscellaneous Payments -						
	(278,000)					
State Bank of Patiala						
		(13,000)				

State Bank of Hyderabad						
		(53,000)				
Nature of transaction	Holding Company	Fellow Subsidiary	Key Management Personnel	Enterprise having significant influence over the company	Mutual Fund Managed by the company	Enterprise over which the company is having control
State Bank of Bikaner & Jaipur						
		(39,000)				
Management Fees Income					609,659,708	
					(309,055,453)	
Management Fees Receivable					89,107,800	
					(71,138,221)	
Rent Paid						
SBI Capital Markets Ltd		21,816,000				
	12,656,733	(21,816,000)				
	(3,599,851)					
Rent Payable	10,062,409					
Remuneration Paid to Key Management Personnel						
MR .PGR Prasad			652,837			
			(390,157)			
Mr. Didier Turpin			3,869,371			
			(923,683)			
Others			230,471			
Bank Charges paid	425,107					
	(137,139)					
Insurance Premium Paid						
SBI Life Insurance Co Ltd		136,862				
		(860,184)				

Note: Figures in the brackets represents previous year figures.

7. Segmental Reporting:

The segmental reporting disclosure as required by Accounting Standard (AS) – 17 on “Segment Reporting”, issued by the Institute of Chartered Accountants of India is not applicable, since the company has a single

reportable business segment of providing asset management services to the schemes floated by SBI Mutual Fund.

8. Operating lease payments

	Year ended 31.03.2006 (Rs.)	XVI. Year ended 31.03.2005 (Rs.)
Lease payments for the year	36,866,557	30,694,231
Minimum Lease Payments:-		
Not later than one year	28,826,820	25,795,200
Later than one year but not later than five years	42,032,805	9,404,200
Later than five years	18,127,800	-

9. Expenditure in Foreign Currency:

	II. Year ended 31.03.2006 (Rs.)	XVIII. Year ended 31.03.2005 (Rs.)
Travelling Expenses	18,00,385	928,716
Business Promotion	57,85,714	-

10. Earnings in Foreign Currency:

	K. Year ended 31.03.2006 (Rs.)	XX. Year ended 31.03.2005 (Rs.)
Portfolio Advisory Fees	598,715	NIL

11. Earnings Per Share (EPS):

Earnings Per Share ('EPS') – The numerators and denominators used to calculate Basic and Diluted Earnings Per Share:

	31-03-2006	31-03-2005
(a) Nominal Value of an Equity Share (Rs.)	100	100
(b) Net profit available to Equity Shareholders (Rs.)	186,386,324	150,521,291
(c) Weighted average number of shares outstanding	50,00,000	50,00,000
(d) Basic and Diluted EPS (Rs.) = (b) / (c)	37.28	30.10

12. Dividend remittances to non-resident shareholders:

	2005-2006	2004-2005
(a) Number of non-resident shareholders	1	1

(b) Number of equity shares held by them	1,850,000	1,850,000
(c) Amount of dividend paid (Rupees)	29,600,000	-
(d) Year to which dividend relates	2004-2005	-

13. Previous year figures have been regrouped/reclassified, wherever necessary, to conform to the current year's classification.

As per our attached report of even date

Signatories to schedules 1 to 15

For Deloitte, Haskins & Sells For Khandelwal Jain & Co. For and on behalf of the Board of Directors

Chartered Accountants

Chartered Accountants

SD/-

SD/-

SD/-

SD/-

R. LAXMINARAYAN
Partner

SHIVRATAN AGARWAL
Partner

A. K. PURWAR

CHAIRMAN

DEEPAK CHAWLA

MANAGING DIRECTOR

SD/-
DIDIER TURPIN

SD/-
HEMANTI WADHWA

DY. CHIEF EXECUTIVE OFFICER
MUMBAI,
May 11, 2006

COMPANY SECRETARY

MUMBAI,
May 11, 2006

SBI FUNDS MANAGEMENT PRIVATE LIMITED

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS
PROFILE FOR THE YEAR ENDED 31ST MARCH 2006**

(in thousands of Rupees)

Registration details	
Registration number	11-65289
State code	11
Balance Sheet date	31.03.2006
Capital raised during the period	Nil
Public issue	Nil
Rights issue	Nil
Private Placement	Nil
Position of Mobilisation and Deployment of funds:	
Total liabilities and shareholders' funds	783,936
Total assets	783,936
Sources of funds :	
Paid -up capital	500,000
Reserves and surplus	279,857
Deferred Tax Liability(Net)	4,079
Secured loans	Nil
Unsecured loans	Nil
Application of funds :	
Fixed Assets	27,494
Intangible Assets	4,571
Investments	401,498
Net current assets	350,373
Miscellaneous expenditure	Nil
Accumulated losses	Nil
Performance of the Company :	
Turnover	662,442
Total expenditure	386,610
Prior period adjustments (net)	(4,723)
Profit /(loss) before tax	271,109
Profit /(loss) after tax	186,386
EPS (in Rupees)	37.28
Dividend rate %	20%

Generic names of three principal services of the
Company (as per Monetary Terms):

Item Code No.
Product Description

N.A.
Asset Management Company

For and on behalf of the Board of Directors

SD/-
A K PURWAR
CHAIRMAN

SD/-
DEEPAK CHAWLA
MANAGING DIRECTOR

SD/-
DIDIER TURPIN
DY. CHIEF EXECUTIVE OFFICER
Mumbai
Dated: May 11, 2006

SD/-
HEMANTI WADHWA
COMPANY SECRETARY