

ICICI SECURITIES, INC.

4TH ANNUAL REPORT AND ACCOUNTS 2003-2004

Directors

Sripat Pandey , President
Nitin Jain
Devesh Kumar

Auditors

M/s. Grant Thornton LLP
Accountants and Management Consultants

Registered Office

1013 Centre Road
City of Wilmington
County of New Castle
Delaware 19805

directors' report

to the members

Your Directors have pleasure in presenting the Fourth audited Statement of Accounts of ICICI Securities Inc. (the Company) for the year ended March 31, 2004.

INDUSTRY OVERVIEW

Capital market environment in the US improved during the year under review. The economic indicators continued to improve, suggesting economic recovery and expansion. Supporting market strength, stock markets continued to gain ground throughout the year. While these gains present a welcome relief from the poor market performance of the past several years, there is no guarantee that challenging market conditions will not return.

The US equity mutual funds and hedge funds received good inflows throughout the year from the retail US investors. The institutional investors showed a marked preference for investments into emerging markets this year. Emerging markets as an asset class performed very well, with the Indian markets being the second best performing market in Asia.

FINANCIAL HIGHLIGHTS

| | <i>(Rupees in '000s)</i> | |
|-------------------|--------------------------|--------------------|
| | Fiscal 2004 | Fiscal 2003 |
| Gross Income | 35,335.13 | 10,036.36 |
| Profit before Tax | 16,111.88 | (5,489.22) |
| Provision for Tax | — | — |
| Profit after Tax | 16,111.88 | (5,489.22) |

OPERATIONAL REVIEW

The Company was formed to undertake securities business in the United States of America (USA). The Company, a broker-dealer registered with the Securities and Exchange Commission and a member National Association of Securities Dealers (NASD), commenced its operations in 2001. Since commencement of its operations, the Company has been providing brokerage and research services to US Institutional Investors and has been focusing on institutional clients in the USA who have been actively investing in the Indian equity markets.

The Company expanded its footprint by taking registration with Ontario Securities Commission as an International dealer. This will allow the Company to sell foreign securities to institutional investors in the province of Ontario, Canada.

Besides, the Company also expanded its membership with NASD to add fixed income business. The Company has been granted permission to undertake fixed income business as a principal and on agency basis.

During the period under review, the Company added a significant number of large institutional clients based in the US including some of the largest fund management companies who have been actively investing in stocks listed on Indian stock exchanges. With a view to expanding its business activities, the Company last year entered into an arrangement with BNY Clearing Services LLC, a subsidiary of the Bank of New York, for availing of clearing and execution facility for American Depository Receipts (ADRs) listed on the U.S. stock exchanges and internationally listed Global Depository Receipts (GDRs) issued by Indian companies. The business performed well in its very first year, and is expected to build on its strong foundation in the current year.

In its first underwriting assignment the company worked as a co-manager for the Vedanta Resources Inc. offering on the London Stock Exchange.

In addition, a few brand building efforts were undertaken throughout the year, with road shows involving various Indian companies and analysts from ICICI Securities Limited (formerly ICICI Securities and Finance Company Limited), a second level holding company of the Company, making presentations to major fund management companies based in the U.S.A. The Company also successfully organized its second 'India Unlimited Investor Conference' in New York in September 2003 and its third 'India Unlimited Investor Conference' in Singapore in March 2004.

DIRECTORS

Sripat Pandey, Nitin Jain and Devesh Kumar continue as directors of the Company. Meher Baburaj resigned as a Director of the Company with effect from April 20, 2004. The Board places on record their appreciation of the valuable advice and guidance given by her during her tenure as Director.

AUDITORS

The Auditors, M/s. Grant Thornton LLP, Accountants and Management Consultants, who had been appointed at the previous Annual General Meeting, will retire at the ensuing Annual General Meeting and offer themselves for re-appointment.

Besides, M/s. N. M. Raiji & Co., Chartered Accountants, Mumbai, have conveyed to the Company that they were not offering themselves for re-appointment as the Auditors of the Company. Accordingly, the Board at its meeting held on April 21, 2004 proposed the appointment of M/s. S. R. Batliboi & Co., Chartered Accountants as the Auditors of the Company for fiscal 2005.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

1. that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
2. that 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;
3. 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; and
4. that they have prepared the annual accounts on a going concern basis.

For and on behalf of the Board

Mumbai, April 21, 2004

Director

auditors' report

to the Members of ICICI Securities, Inc.

We have audited the attached Balance Sheet of ICICI SECURITIES INC. as at March 31, 2004 and the annexed Profit and Loss Account for the year ended on that date. 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.

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.

- (1) As required by the Companies (Auditors' Report) Order, 2003 (the Order) issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in the said Order to the extent applicable to the Company.
- (2) Further to our comments in the Annexure referred to in paragraph (1) above:
 - (a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose 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 of the Company;
- (d) in our opinion, the Balance Sheet and 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 and are in agreement with the books of account;
- (e) on the basis of written representations received from the directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director u/s 274(1)(g) of the Companies Act, 1956.
- (f) in our opinion, to the best of our information and according to the explanations given to us, the said accounts read 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:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2004 and
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date.

For N. M. RAIJI & CO.
Chartered Accountants

J. M. GANDHI
Partner

Mumbai, April 21, 2004

Membership No.: 37924

annexure

to the Auditor's Report of even date to the Members of ICICI Securities, Inc.

- (i) The Company is a foreign company rendering services and has no borrowings outstanding during the year. Further, it does not hold any fixed assets, it has not made any preferential allotment of shares and has not raised money by public issue. In our opinion, therefore, clauses (i), (ii), (iii), (v), (vi), (viii), (ix), (xi), (xiii), (xiv), (xvi), (xvii), (xviii), (xix) and (xx) of the order are not applicable to the company.
- (ii) The Company has adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase and sale of assets and services.
- (iii) The Company has a system of internal audit which, in our opinion, is commensurate with its size and nature of its business.
- (iv) The Company has not completed five years from the date of incorporation and hence clause (x) of the Order in respect of accumulated cash loss is not applicable.
- (v) Based on our examination and 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.

- (vi) On the basis of the information and explanations given to us the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (vii) Based on the audit procedures performed and information and explanations given to us by the management, we report that no fraud on or by the Company has been noticed or reported during the year.

For N. M. RAIJI & CO.
Chartered Accountants

J. M. GANDHI
Partner

Mumbai, April 21, 2004

Membership No.: 37924

balance sheet profit and loss account



as at March 31, 2004

for the year ended March 31, 2004

| Schedule | (Rs. in '000s) | March 31, 2003 | Schedule | (Rs. in '000s) | March 31, 2003 | | |
|---|----------------|-------------------|---|-------------------------------|-------------------|--------------------|-------------|
| SOURCES OF FUNDS | | | INCOME FROM OPERATIONS | | | | |
| Shareholders' Funds | | | (a) Income from Services | G | 35,312.59 | 9,841.49 | |
| A. Share Capital | A | 48,309.55 | 48,309.55 | (b) Interest Income | H | 22.54 | 194.87 |
| B. Reserves & Surplus | B | (8,807.90) | (22,040.22) | | | 35,335.13 | 10,036.36 |
| | | <u>39,501.65</u> | <u>26,269.33</u> | Less: Operating Expenditure | | | |
| | | | Financial Charges and | | | | |
| | | | Operating Expenses | I | 345.83 | — | |
| | | | | | <u>34,989.30</u> | <u>10,036.36</u> | |
| APPLICATION OF FUNDS | | | EXPENDITURE | | | | |
| Current Assets, Loans & Advances | | | Less: Administrative | | | | |
| A. Current Assets - | | | Expenditure | | | | |
| (a) Sundry Debtors | C | 1,844.40 | 219.90 | - Establishment and Other | | | |
| (b) Cash & Bank Balances | D | 38,158.97 | 21,367.32 | Expenses | J | 18,877.42 | 15,525.58 |
| B. Loans & Advances | E | 4,645.65 | 4,748.49 | | | 16,111.88 | (5,489.22) |
| | | <u>44,649.02</u> | <u>26,335.71</u> | Profit before Taxation | | 16,111.88 | (5,489.22) |
| | | | | Less: Provision for Taxation | | — | — |
| Less: Current Liabilities & Provisions | F | 5,147.37 | 66.37 | Profit After Taxation | | 16,111.88 | (5,489.22) |
| NET CURRENT ASSETS | | <u>39,501.65</u> | <u>26,269.34</u> | Brought forward from | | (23,622.72) | (18,133.50) |
| | | <u>39,501.65</u> | <u>26,269.33</u> | previous years | | | |
| | | | Amount available for | | | | |
| | | | appropriations | | (7,510.84) | (23,622.72) | |
| | | | Balance carried to | | | | |
| | | | Balance Sheet | | <u>(7,510.84)</u> | <u>(23,622.72)</u> | |
| | | | | | | | |
| Notes forming part of the Accounts and Accounting Policies | | | Notes forming part of the Accounts and Accounting Policies | K | | | |
| | | | | | | | |

Per our Report attached
For N.M.RAJI & CO.
Chartered Accountants

J. M. GANDHI
Partner
Membership No.: 37924
Mumbai, April 21, 2004

For and on behalf of the Board

SRIPAT PANDEY
President

DEVESH KUMAR
Director

schedules

SCHEDULE "A" - SHARE CAPITAL

Authorized:

10,000,000 Equity Shares of USD 1 each

Issued Subscribed & Paid Up:

Common stock, USD 1 par value; 1,050,000 shares authorised

(Rs. in '000s) March 31, 2003

48,309.55 48,309.55

SCHEDULE "B" - RESERVES AND SURPLUS

Profit and Loss Account
Translation Reserve

Total

| Balance as on April 1, 2003 | Balance as on March 31, 2004 | Balance as on March 31, 2003 |
|--------------------------------|---------------------------------|---------------------------------|
| (23,622.72) | (7,510.84) | (23,622.72) |
| 1,582.50 | (1,297.06) | 1,582.50 |
| <u>(22,040.22)</u> | <u>(8,807.90)</u> | <u>(22,040.22)</u> |

SCHEDULE "C" - SUNDRY DEBTORS (Unsecured)

Receivables outstanding for a period
not exceeding six months (considered good)

Total

| | |
|-----------------|---------------|
| 1,844.40 | 219.90 |
| <u>1,844.40</u> | <u>219.90</u> |

schedules

| Schedule | (Rs. in '000s) | March 31, 2003 |
|--|------------------|-------------------|
| SCHEDULE "D" - CASH AND BANK BALANCES | | |
| In Current Accounts with Banks | 38,158.97 | 21,367.32 |
| Total | 38,158.97 | 21,367.32 |
| SCHEDULE "E" - LOANS AND ADVANCES (Unsecured and considered good unless otherwise stated) | | |
| Advances: (Recoverable in cash or in kind or for value to be received) | | |
| Other Advances and Deposits | 4,645.65 | 4,748.49 |
| Total | 4,645.65 | 4,748.49 |
| SCHEDULE "F" - CURRENT LIABILITIES | | |
| Sundry Creditors For Expenses | 5,147.37 | 66.37 |
| Total | 5,147.37 | 66.37 |
| SCHEDULE "G" - INCOME FROM SERVICES | | |
| Brokerage and Commission | 24,097.50 | 9,841.49 |
| Financial Advisory Services | 11,215.09 | — |
| Total | 35,312.59 | 9,841.49 |
| SCHEDULE "H" - INTEREST INCOME | | |
| Interest on Other Loans and Advances | 22.54 | 194.87 |
| Total | 22.54 | 194.87 |
| SCHEDULE "I" - FINANCIAL CHARGES AND OPERATING EXPENSES | | |
| Bank Charges | 345.83 | — |
| Total | 345.83 | — |
| SCHEDULE "J" - ESTABLISHMENT AND OTHER EXPENSES | | |
| Rates and Taxes | 287.11 | 231.50 |
| Insurance | 67.02 | — |
| Subscription and Periodicals | 792.41 | — |
| Professional Fees | 3,116.26 | — |
| Auditors' Remuneration | 794.00 | 756.46 |
| Service Charges | 13,808.67 | 14,537.62 |
| Miscellaneous Expenses | 11.95 | — |
| Total | 18,877.42 | 15,525.58 |

SCHEDULE "K" - NOTES FORMING PART OF THE ACCOUNTS AND ACCOUNTING POLICIES:

1. Significant Accounting Policies:

(i) Method of Accounting

The accounts are prepared in accordance with accounting principles generally accepted in India. The Company follows accrual method of accounting.

(ii) Revenue Recognition

In case of non-fund based activities such as issue management, loan syndication, financial advisory services etc., the revenue is recognized based on the stage of completion of assignments and the bills raised for the recovery of fees.

(iii) Conversion to Indian Rupees

For the purpose of the accounts during the year all income and expense items are converted at the average rate of exchange applicable for the year. All assets and liabilities are translated at the closing rate as on the Balance Sheet date. The exchange difference arising out of the year-end translation is being debited or credited to Translation Reserve. The Equity Share Capital and is carried forward at the rate of exchange prevailing on the transaction date. The resulting exchange difference on account of translation at the year-end are transferred to Translation Reserve account and the said account is being treated as "Reserves and Surplus"

(iv) Deferred Tax

The tax effects of significant temporary differences are reflected through a Deferred Tax Asset /Liability, which has been reflected in the Balance Sheet and the corresponding effect of the same is given in the Profit and Loss Account.

2. The Company is a wholly owned subsidiary of ICICI Securities Holdings Inc. The accounts have been prepared and audited to attach with the accounts of ICICI Securities Ltd., the Holding Company, to comply with the provisions of the Indian Companies Act, 1956.

3. Deferred Tax

Deferred Tax asset resulting from accumulated losses have not been accounted because of uncertainty of availability of sufficient future taxable income.

4. For the purpose of conversion of the local currency (USD) into Indian Currency (Indian Rupees) the exchange rate applied is as per para (iii) of the accounting policies.

5. Related Party Disclosures

The following are the details of transactions with related parties: -

| (Rs. in '000s) | | |
|--|------------------------|-----------|
| Name of the related Party | Type of Transactions | Amount |
| ICICI Securities Holdings Inc. | | |
| – The Holding Company | Establishment expenses | 13,808.67 |
| ICICI Brokerage Services Limited | | |
| – Subsidiary of ICICI Securities Limited | Brokerage & Commission | 23,002.25 |

6. For the purpose of comparison, figures for the previous year have been given, which have been regrouped or reclassified wherever necessary.

Signatures to schedules A to K

Per our Report attached
For N.M.RAJI & CO.
Chartered Accountants

J. M. GANDHI
Partner
Membership No.: 37924
Mumbai, April 21, 2004

For and on behalf of the Board

SRIPAT PANDEY
President

DEVESH KUMAR
Director