

## ICICI SECURITIES HOLDINGS, INC.

### 6TH ANNUAL REPORT AND ACCOUNTS 2005-2006

#### Directors

Sripat Pandey, *President*  
Nitin Jain  
Devesh Kumar  
J Niranjana  
Subir Saha

#### Auditors

S. R. Batliboi & Company  
Chartered Accountants

#### Registered Office

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

## directors' report

### to the members

The Directors take pleasure in presenting the Sixth Annual Report of ICICI Securities Holdings, Inc. (the Company) with the audited Statement of Accounts for the year ended March 31, 2006.

#### INDUSTRY OVERVIEW

The Indian economy continues to do well and attract interest from international financial and strategic investors. This has been helped by incremental interest in Indian distress debt market, real estate and retail sectors. Your Company is strategically placed to exploit this opportunity and was able to advise many US-based companies to look at investing in India. It advised clients in chemicals, automobile and services sectors.

The Company also provided necessary capital support to its broker dealer subsidiary ICICI Securities, Inc. by subscribing to its equity shares to the tune of US\$ 10mn.

#### FINANCIAL HIGHLIGHTS

	(Rupees in '000s)	
	Fiscal 2006	Fiscal 2005
Gross Income	35,130.57	23,071.78
Profit before Tax	3,098.45	(13,361.58)
Provision for Tax	(14,192.03)	—
Profit after Tax	17,290.48	(13,361.58)

#### OPERATIONAL REVIEW

The Company, a wholly owned subsidiary of ICICI Securities Limited provides corporate advisory services to the investors in the U.S. who wish to enter the Indian financial market and Indian investors who wish to enter the financial market in the U.S.

#### INCREASE IN CAPITAL

During the year, the paid-up equity share capital of the Company was increased by US\$ 10.1mn from US\$ 1.6mn to US\$ 11.7mn.

#### DIRECTORS

Sripat Pandey and Nitin Jain continue as Directors of the Company. During the year, Devesh Kumar, J. Niranjana and Subir Saha were appointed on the Board of the Company as Directors. Joseph Bosco resigned from the Board with effect from October 31, 2005. The Board places on record its appreciation for the valuable services rendered by him.

#### AUDITORS

The Statutory Auditors, S. R. Batliboi & Co., Chartered Accountants, Mumbai, will retire at the ensuing Annual General Meeting. The Board at its Meeting held on

April 19, 2006 has proposed their re-appointment as Auditors to audit the accounts of the Company for the year ended on March 31, 2007. S. R. Batliboi & Co., the retiring Auditors, have indicated their willingness to be re-appointed. You are requested to consider their re-appointment.

#### ANNUAL ACCOUNTS OF SUBSIDIARY

As required under Section 212 of the Companies Act, 1956, the audited statements of accounts for the year 2005-2006, together with the reports of Directors and Auditors for the year ended March 31, 2006, of the subsidiary company, namely, ICICI Securities Inc., are attached.

#### DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of the Company confirm –

- that the applicable Accounting Standards have been followed in preparation of final accounts and that there have been no material departures;
- that such accounting policies have been selected and applied consistently and such judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2006 and of the profit of the Company for the period ended on that date;
- that proper and sufficient care has been taken 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;
- that the annual accounts have been prepared on a going concern basis.

#### ACKNOWLEDGEMENTS

The Directors thank the clients for the confidence reposed, which has enabled the Company successfully deliver well structured solutions and timely execution, in a preferred way.

The Directors also thank the Company's bankers and the statutory authorities for their continued support to the Company.

The Directors express their gratitude for the unstinted support and guidance received from its shareholders, ICICI Securities Limited and other group companies.

For and on behalf of the Board

Mumbai, April 19, 2006

SRIPAT PANDEY  
President

# auditors' report

## to the members of ICICI Securities Holdings, Inc.

We have audited the attached Balance Sheet of ICICI Securities Holding Inc. ('the Company') as at March 31, 2006 and also the Profit and Loss Account and 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.

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 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.

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- a. in the case of the balance sheet, of the State of affairs of the Company as at March 31, 2006;
- b. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
- c. in case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For S.R. Batliboi & Co.  
*Chartered Accountants*

per VIREN H. MEHTA  
*Partner*

*Membership No.: 48749*

*Mumbai, April 19, 2006*

# balance sheet      profit and loss account

**ICICI Securities Holdings, Inc.**

as at March 31, 2006

for the year ended March 31, 2006

Schedule	(Rs. in '000s)	(US\$ in '000s)	Schedule	(Rs. in '000s)	(US\$ in '000s)
	March, 2005	March, 2005		March, 2005	March, 2005
<b>SOURCES OF FUNDS</b>			<b>Income from Operations</b>		
<b>Shareholders' Funds</b>			(a) Income from Services	I 885.46	6,892.41
A. Share Capital	A 522,280.50	75,025.00	(b) Other Income	J 34,245.11	16,179.37
B. Reserves & Surplus	B (3,576.03)	(21,110.43)		35,130.57	23,071.78
	518,704.47	53,914.57	Less: Operating Expenditure		
		11,666.19	Financial Charges and		
		1,178.12	Operating Expenses	K 132.98	1,099.44
				34,997.59	21,972.34
<b>APPLICATION OF FUNDS</b>				790.50	488.90
1. Fixed Assets	C		<b>Expenditure</b>		
Gross Block		847.07	Less: Administrative Expenditure		
Less: Depreciation		646.79	(a) Payments to and		
Net Block		200.28	Provisions for Employees	L 19,616.40	22,676.35
			(b) Establishment and		
			Other Expenses	M 12,170.31	12,543.56
2. Investments	D 491,212.05	48,309.55	(c) Depreciation	112.43	114.01
		11,050.00		31,899.14	35,333.92
3. Current Assets,				3,098.45	(13,361.58)
Loans & Advances			<b>Profit before Taxation</b>		
A. Current Assets -			Less: Provision for Taxation	(14,192.03)	—
(a) Sundry Debtors	E —	1,093.63	<b>Profit After Taxation</b>		
(b) Cash & Bank			Brought forward from	17,290.48	(13,361.58)
Balances	F 14,347.49	929.72	previous years	(18,866.73)	(5,505.15)
B. Loans & Advances	G 16,739.63	5,034.30	Amount available for		
	31,087.12	7,057.65	appropriations	(1,576.25)	(18,866.73)
		696.78	Balance carried to		
Less: Current Liabilities &			Balance Sheet	(1,576.25)	(18,866.73)
Provisions:	H 3,794.98	1,760.09	Earnings per share		
<b>NET CURRENT ASSETS</b>			(Basic & Diluted)	0.60	(8.35)
	27,292.14	5,297.56	(Face value US. \$1 per share)		
	518,704.47	53,914.57	<b>Notes to Accounts</b>	N	
		11,666.19			
		1,178.12			
<b>Notes to Accounts</b>	N	-			
<b>The Schedules referred above and the notes to accounts form an integral part of the Accounts</b>			<b>The Schedules referred above and the notes to accounts form an integral part of the Accounts</b>		

This is the Balance Sheet referred to in our report of even date.

For S.R. BATLIBOI & CO.  
Chartered Accountants

per VIREN H. MEHTA  
Partner  
Membership No.: 48749  
Mumbai, April 19, 2006

This is the Profit and Loss Account referred to in our report of even date.

For and on behalf of the Board

SRIPAT PANDEY  
President

NITIN JAIN  
Director

# schedules

## forming part of the Accounts

	(Rs. in '000s)	March, 2005	(US\$ in '000s)	March, 2005
--	----------------	-------------	-----------------	-------------

### SCHEDULE "A" - SHARE CAPITAL :

#### Authorized:

15,000,000 Equity Shares of US\$ 1/- each

#### Issued Subscribed & Paid Up:

Common stock, \$1 par value; 11,700,000 shares (Previous year 1,600,000 shares)	<u>522,280.50</u>	<u>75,025.00</u>	<u>11,700.00</u>	<u>1,600.00</u>
---	-------------------	------------------	------------------	-----------------

### SCHEDULE "B" - RESERVES AND SURPLUS:

Profit and Loss Account	(1,576.25)	(18,866.73)	(33.81)	(421.88)
Translation Reserve	(1,999.78)	(2,243.70)	—	—
<b>TOTAL</b>	<u>(3,576.03)</u>	<u>(21,110.43)</u>	<u>(33.81)</u>	<u>(421.88)</u>

### SCHEDULE C - FIXED ASSETS

SCHEDULE C - FIXED ASSETS													
	(Rupees in Thousand)								(US\$ in Thousand)				
	Gross Block (At Cost)				Accumulated Depreciation				Net Block			Net Block	
	April 1 2005	Additions	Sale/Adj	Mar 31, 2006	April 1 2005	Additions	Sale/Adj	Mar 31, 2006	Mar 31, 2006	Mar 31, 2005	Mar 31, 2006	Mar 31, 2005	
Office Equipment	529.52	10.53	—	540.05	391.13	77.22	—	468.35	71.70	138.39	1.61	3.17	
Furniture & Fixtures	301.03	5.99	—	307.02	131.96	46.48	—	178.44	128.58	169.07	2.88	3.86	
<b>TOTAL</b>	830.55	16.52	—	847.07	523.09	123.70	—	646.79	200.28	307.46	4.49	7.03	
Previous Period	650.60	179.95	—	830.55	411.86	111.23	—	523.09	307.46				

Note :

- Fixed Assets includes Translation Reserve of Rs. (17) Thousand
- Depreciation for the year includes Translation Reserve of Rs. (11.27) Thousand

### SCHEDULE "D" - INVESTMENTS - LONG TERM: - (AT COST)

			(Rupees in Thousand)		(US\$ in Thousand)	
\Name of the Company	Quantity in thousands	FV per unit Rs.	As at Mar 31 , 2006	As at Mar 31, 2005	As at Mar 31 , 2006	As at Mar 31, 2005
In Equity Shares of Subsidiary Company – Unquoted and fully paid up						
ICICI Securities Inc.	1,050.00	*	491,212.05	48,309.55	11,050.00	1,050.00
TOTAL			491,212.05	48,309.55	11,050.00	1,050.00

\* Face Value of US Dollar 1.00 per unit.

### SCHEDULE "E" - SUNDRY DEBTORS (Unsecured):

Receivables outstanding for a period not exceeding six months (considered good)	—	1,093.63	—	25.00
<b>TOTAL</b>	<u>—</u>	<u>1,093.63</u>	<u>—</u>	<u>25.00</u>

### SCHEDULE "F" - CASH AND BANK BALANCES:

In Current Accounts with Banks	<u>14,347.49</u>	<u>929.72</u>	<u>321.58</u>	<u>21.25</u>
<b>TOTAL</b>	<u>14,347.49</u>	<u>929.72</u>	<u>321.58</u>	<u>21.25</u>

# schedules

	(Rs. in '000s)	March, 2005	(US\$ in '000s)	March, 2005
<b>SCHEDULE "G" - LOANS AND ADVANCES:</b>				
<b>(Unsecured and considered good unless otherwise stated)</b>				
<b>Advances :</b>				
(Recoverable in cash or in kind or for value to be received)				
Other Advances and Deposits*	2,459.26	4,947.68	55.12	113.10
Security Deposit for Leased Premises	88.34	86.62	1.98	1.98
Advance Tax (net of Provisions)	14,192.03	-	318.10	—
<b>TOTAL</b>	<b>16,739.63</b>	<b>5,034.30</b>	<b>375.20</b>	<b>115.08</b>
*Includes an amount of Rs. 2.46 million receivable from Subsidiary Company (Previous year Rs. 4.95 million)				
<b>SCHEDULE "H" - CURRENT LIABILITIES AND PROVISIONS:</b>				
Sundry Creditors for Expenses	1,326.05	1,760.09	29.74	40.24
Other Liabilities	2,468.93	—	55.34	—
<b>TOTAL</b>	<b>3,794.98</b>	<b>1,760.09</b>	<b>85.08</b>	<b>40.24</b>
Includes amount payable to SSI units Rs. Nil (Previous year Rs. Nil)				
<b>SCHEDULE "I" - INCOME FROM SERVICES :</b>				
Financial Advisory Services	885.46	6,892.41	20.00	153.36
<b>TOTAL</b>	<b>885.46</b>	<b>6,892.41</b>	<b>20.00</b>	<b>153.36</b>
<b>SCHEDULE "J" - OTHER INCOME:</b>				
Service Charges	18,594.63	16,179.37	420.00	360.00
Dividend Income from Mutual Funds / Companies	15,650.48	—	353.50	—
<b>TOTAL</b>	<b>34,245.11</b>	<b>16,179.37</b>	<b>773.50</b>	<b>360.00</b>
<b>SCHEDULE "K" - FINANCIAL CHARGES AND OPERATING EXPENSES:</b>				
Bank Charges	132.98	59.97	3.00	1.33
Procurement Expenses	—	1,039.47	—	23.13
<b>TOTAL</b>	<b>132.98</b>	<b>1,099.44</b>	<b>3.00</b>	<b>24.46</b>
<b>SCHEDULE "L" - PAYMENTS TO AND PROVISIONS FOR EMPLOYEES:</b>				
Salaries, Wages and Incentive	19,173.23	22,223.59	433.07	494.49
Staff Welfare Expenses	443.17	452.76	10.01	10.07
<b>TOTAL</b>	<b>19,616.40</b>	<b>22,676.35</b>	<b>443.08</b>	<b>504.56</b>
<b>SCHEDULE "M" - ESTABLISHMENT AND OTHER EXPENSES:</b>				
Rent and Amenities	3,061.41	2,742.81	69.15	61.03
Business Promotion, Travelling and Conveyance Expenses	1,891.64	2,670.55	42.73	59.42
Repairs, Maintenance and Upkeep	—	19.53	—	0.43
Rates and Taxes	640.20	667.78	14.46	14.86
Communication Expenses	1,238.94	1,778.79	27.98	39.58
Printing and Stationery	62.62	29.55	1.41	0.66
Subscription and Periodicals	50.80	363.26	1.15	8.08
Professional Fees	4,862.55	3,958.33	109.83	88.08
Miscellaneous Expenses	362.15	312.96	8.20	6.95
<b>TOTAL</b>	<b>12,170.31</b>	<b>12,543.56</b>	<b>274.91</b>	<b>279.10</b>

# schedules

## forming part of the Accounts

Continued

### SCHEDULE "N": NOTES FORMING PART OF THE ACCOUNTS AND ACCOUNTING POLICIES:

#### 1. Significant Accounting Policies:

##### (i) Method of Accounting

The Financial statements are prepared under the historical cost convention on the accrual basis of accounting and in accordance with the accounting standards issued by the Institute of Chartered Accountants of India and referred to in Section 211 (3C) of the Companies Act, 1956.

##### (ii) Revenue Recognition

Revenue from issue management, loan syndication, financial advisory services etc., is recognized based on the stage of completion of assignments and terms of agreement with the client.

##### (iii) Investments

- Securities acquired with the intention of holding till maturity or for a longer period are classified as investments.
- Investments are carried at cost arrived at on weighted average basis. Commissions earned in respect of securities acquired upon devolvement are reduced from the cost of acquisition. Appropriate provision is made for other than temporary diminution in the value of investments.

##### (iv) Conversion to Indian Rupees

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 Equity Share Capital and Investments in subsidiary 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"

##### (v) Fixed Assets and Depreciation

Fixed assets are stated at historical cost. Depreciation on fixed assets is provided on straight line method at the rates which are equal or higher than the rates prescribed in Schedule XIV of the Companies Act, 1956. Such rates are fixed after considering applicable laws in the United States of America and management estimation of the useful life of the asset.

Depreciation of Assets	Estimate Life
Office Equipment & Computers	3 Years
Furniture & Fixtures	7 Years

##### (vi) Income Tax

Tax expense comprises both current and deferred taxes. Current income-tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised

##### (vii) Earnings Per Share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the period.

##### (viii) Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

##### (ix) Segment Reporting

Segment information is disclosed in the consolidated financial statement and hence not furnished in the separate financial statement.

##### (x) Long Term Incentive Scheme

Accounting for Long Term Incentive Scheme (the scheme) is done as per intrinsic value method specified in the guidance note on Accounting for Employee share based payments. Intrinsic value at each reporting date is calculated using the price/earnings method of valuation given in the scheme for measuring benefits accrued to the employees.

2. The Company is a wholly owned subsidiary of ICICI Securities Ltd. 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 in the absence of virtual certainty 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 (iv) of the accounting policies.

##### 5. Related Party Disclosures

The Company being a finance company the transactions in the normal course of business have not been disclosed. The following are the details of transactions with related parties:

Name of the Related Party	Type of Transactions	(Rs. in '000s)	
		2005-06	2004-05
ICICI Securities Inc.			
— Subsidiary Company	Other Income	18,594	16,179
	Investments	491,212	48,310
ICICI Bank Ltd			
	Establishment & Other Expenses	3,061	2,743
	Current Liabilities	297	—
ICICI Securities Ltd			
— Parent Company	Share Capital	522,280	—
	Current Liabilities	64	—
	Establishment & Other Expenses	64	—

##### 6. Earnings per equity share (EPS)

EPS has been calculated based on the net profit after taxation of Rs. 3,098.45 thousands (previous year Loss Rs. 13,361.58 thousands) and the weighted average number of equity shares outstanding during the year of 5,158.08 thousands (previous year 1,600 thousands).

7. As per the tax laws of United States of America, tax is payable on a consolidated profits of the Company. In the current year, the brought forward losses of the Company have been set off against the profits of its subsidiary by availing tax credit on its losses. The tax liability of the Company is less than tax on a consolidated basis; hence the Company has a credit balance in current tax account.

##### 8. Long Term Incentive Scheme

During the year, the Company approved a Long Term Incentive Scheme (the scheme) for employees. As per the scheme, long term incentive units (incentive units) are granted to employees, which vests over a vesting period specified in the scheme. Each incentive unit is equal to one notional share of ICICI Securities Ltd (The Holding Company).

With respect to the incentive units granted to the employees during the year, the Company has provided Rs.410 thousand using the price/earnings method of valuation given in the scheme for measuring benefits accrued to the employees. The number of incentive units forfeited/exercised during the year is Nil. The intrinsic value of each incentive unit granted in the scheme is Rs. 152.64 as at March 31, 2006.

Details of scheme are as follows:

Date of Grant	30.09.2005
Number Granted	7,411
Contractual life	5 years

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

Per our Report attached

For S. R. BATILBOI & CO.  
Chartered Accountants

per VIREN H. MEHTA  
Partner  
Membership No.: 48749

Mumbai, April 19, 2006

Signatures to Schedules A to N

For and on behalf of the Board

SRIPAT PANDEY  
President

NITIN JAIN  
Director



# cash flow statement



for the year ended March 31, 2006

	(Rs. in '000s) March, 2005	(US\$ in '000s) March, 2005		
<b>Cash Flow Statement for the period ended March 31, 2006</b>				
<b>A. Cash Flow From Operating Activities</b>				
Profit Before Tax	3,098.45	(13,361.58)	69.97	(297.30)
– Depreciation	112.43	114.01	2.54	2.54
– Exchange adjustments	255.19	365.00	—	—
Operating Profit before Changes in Operating Assets and Liabilities	3,466.07	(12,882.57)	72.51	(294.76)
Adjustments for net change in Operating Assets and Liabilities				
– Current Assets excluding Cash and Cash equivalents	1,093.63	6,775.52	25.00	155.00
– Loans and advances relating to Operations	2,486.70	(1,368.92)	57.98	(31.24)
– Current Liabilities relating to Operations	2,034.89	610.79	44.85	13.94
	5,615.22	6,017.39	127.83	137.70
Cash generated from Operations	9,081.29	(6,865.18)	200.34	(157.06)
Payment of Taxes (Net)	—	—	—	—
Net Cash from Operating Activities	9,081.29	(6,865.18)	200.34	(157.06)
<b>B. Cash Flow From Investment Activities</b>				
– Acquisition of Equity Investments in Subsidiary Companies	(442,902.50)	—	(10,000.00)	—
– (Purchase) / Sale of Investments (Net)	—	—	—	—
– (Purchase) / Sale of Fixed Assets (Net)	(16.52)	(179.95)	(0.01)	(4.11)
Net cash used in Investment Activities	(442,919.02)	(179.95)	(10,000.01)	(4.11)
<b>C. Cash Flow From Financing Activities</b>				
– Increase/ (Decrease) in Borrowings	—	—	—	—
– Proceeds from Issue of Share Capital	447,255.50	—	10,100.00	—
– Proceeds from Issue of Debentures	—	—	—	—
– Dividends & Dividend Tax paid	—	—	—	—
Net Cash used in Financing Activities	447,255.50	—	10,100.00	—
Net Change in Cash & Cash Equivalents	13,417.77	(7,045.13)	300.33	(161.17)
Cash and Cash Equivalents at the beginning of the year	929.72	7,974.85	21.25	182.42
Cash and Cash Equivalents at the end of the year	14,347.49	929.72	321.58	21.25

This is the Cash Flow Statement referred to in our report of even date.

For S. R. BATILBOI & CO.  
Chartered Accountants

per VIREN H. MEHTA  
Partner  
Membership No.: 48749

Mumbai, April 19, 2006

For and on behalf of the Board

SRIPAT PANDEY  
President

NITIN JAIN  
Director