

**DSP MERRILL LYNCH MUTUAL FUND  
TULSIANI CHAMBERS, WEST WING, 11<sup>th</sup> FLOOR,  
NARIMAN POINT, MUMBAI – 400 021**

**HALF YEARLY FINANCIAL RESULTS (UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2006**

**NOTES TO ACCOUNTS**

**1. Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting, under the historical cost convention, as modified for investments, which are 'marked to market'. The financial statements have been prepared in accordance with the Securities and Exchange Board of India ('SEBI') (Mutual Funds) Regulations, 1996 as amended from time to time.

**2. Investments**

**a) Accounting for investment transactions**

Investments are accounted on the date of the transaction at cost after considering transaction costs as applicable excluding custodian transaction charges. The front end fee receivable, if any, is reduced from the cost of such investment. Bonus entitlements are recognised as investments on the 'ex- bonus date'. Rights entitlements are recognised as investments on the 'ex-rights date'.

**b) Valuation of investments**

During the year, the Fund has valued its investments in accordance with SEBI (Mutual Funds) Regulations, 1996, as amended from time to time. All investments are marked to market and are stated in the balance sheet at their market / fair value. In valuing the Scheme's investments:

**I. Valuation of Traded Securities**

**I.I. Equity and Equity related Securities**

Traded Equity and Equity related Securities are valued at the last quoted closing price on the National Stock Exchange (NSE) or other Stock Exchange (SE) (in case where security is either not listed on NSE or not traded on NSE). In case where a security is not traded on the valuation day then it is valued at last traded price on the NSE or any other SE on which it traded provided it is not more than thirty days prior to the date of valuation.

**I.II. Debt Securities**

Traded Debt Securities (other than Government Securities) are valued at the last quoted price on the NSE on the day of valuation.

**II. Valuation of Thinly Traded Securities/ Non-traded and Unlisted Securities**

**II.I Equity & Equity related Securities**

Thinly Traded, Non-traded and unlisted Equity and Equity Related securities are valued "in good faith" on the basis of net worth per share and earnings capitalization as prescribed by the SEBI.

**II.II. Debt Securities of upto 182 Days to Maturity**

Non-traded / thinly traded / unlisted debt securities of upto 182 days to maturity are valued at cost or last valuation price (in case of securities having maturity period of more than 182 days at the time of purchase) plus difference between the redemption value and the cost or last valuation price spread uniformly over the remaining maturity period of the securities.

### **II.III. Debt Securities of over 182 Days to Maturity**

Non traded / thinly traded / unlisted debt securities of over 182 days to maturity are valued in good faith by the investment manager on the basis of valuation principles laid down by the SEBI. The approach in valuation of a non-traded / thinly traded / unlisted debt security is based on the concept of using spreads over the benchmark rate to arrive at the yields for pricing the security.

### **III. Valuation of Non Traded /Thinly Traded and Unlisted Floating Rate Debt Securities (Floaters)**

There are no valuation guidelines prescribed by SEBI for Valuation of Non Traded / Thinly Traded and Unlisted Floating Rate Debt Securities. These securities are valued as determined by the investment manager based on policy as approved by the Board of Trustees.

### **IV. Valuation of Government Securities**

Government Securities are valued at the prices provided by the agency (currently Crisil Limited) approved by the Association of Mutual Funds of India (AMFI), on a daily basis.

### **V. Valuation of securities with Put/Call Options**

#### **V.I. Securities with Call option**

The securities with call option are valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is taken as the value of the instrument.

#### **V.II. Securities with Put option**

The securities with put option are valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is taken as the value of the instruments.

#### **V.III. The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.**

### **VI. Valuation of Money Market Instruments**

Investments in call money, Collateralized Borrowing and Lending Obligations and short-term deposits with banks are valued at cost plus accrued interest.

Money market instruments are valued at the last traded yield on the date of valuation. In case the security is not traded on the valuation day then it is valued on straight-line amortization over the maturity period of the instruments

In accordance with the Guidance Note on Accounting for Investments in the Financial Statements of Mutual Funds issued by the Institute of Chartered Accountants of India (pursuant to the Eleventh Schedule to the SEBI Regulations), the net unrealised gain or loss in the value of investments is determined separately for each category of investments. The change in the net unrealised loss, if any, between two balance sheet dates is

recognised in the revenue account and the change in net unrealised gain, if any, is adjusted in an unrealised appreciation reserve. The loss on investments sold/transferred during the period is charged to the revenue account instead of being first adjusted against the provision for depreciation, if already created in the prior period, as recommended by the Guidance Note. However, this departure from the Guidance Note does not have any net impact on the Scheme's net assets

**c) Equity Derivatives**

- Initial Margin paid against equity derivatives is accounted as current assets.
- Open position of exchange traded equity derivatives (ETED) are mark-to-market on daily basis at the closing prices provided by the respective stock exchanges.
- Realised gain / loss on closure / expiry of ETED are accounted as realised gain / loss on investments.

**3. Open position of ETED as at September 30, 2006 is as under:**

Scheme	Name of Stock Futures	No. of contracts	No. of units Long /(short)
OF	NIFTY NSE Oct 2006	170	17,000
ITF	ICICI Bank NSE Oct 2006	14	9,800

**4. Income Distribution**

Income distribution during the current period was made from the distributable surplus of current period's earning and accumulated reserves of earlier years.

**5. Details of Transactions with Associates in terms of Regulation 25(8):**

Name of Associate: DSP Merrill Lynch Limited

Scheme Name	Securities transaction in the form of investments in various Public issues / Private placements where the associate was the sole or one of the several lead managers – Rs Crores	Payment of Brokerage on Secondary Market transactions – Rs Lakhs	Payment of Brokerage for Distribution and Sale of Units – Rs Lakhs
BF	-	-	5.68
EF	2.28	11.54	34.90
LF	-	-	23.94
BaF	1.39	5.96	64.50
GSFA	-	-	0.44
GSFB	-	-	0.72
TF	-	0.47	4.05
OF	4.48	12.07	60.85
STF	-	-	3.63
TEF	0.80	8.70	24.17
SPF-M	0.65	1.76	23.15
FRF	-	-	21.14
SPF-C	0.04	0.07	0.84
SPF-A	0.17	0.76	7.82
ITF	4.51	12.87	23.14
LPLUS	-	-	20.13
FTP- Series 3	-	-	0.35
FTP- Series 2	-	-	0.91
FTP- Series 1B	-	-	0.49
FTP- Series 1C	-	-	0.92
FTP- Series 1D	-	-	0.16

BF-Bond Fund, EF - Equity Fund, LF - Liquidity Fund, BaF – Balanced Fund, GSFA – Government Securities Fund – Plan A (Longer Duration Plan), GSFB – Government Securities Fund – Plan B (Shorter Duration Plan), TF – Technology.com fund, OF - Opportunities Fund, STF – Short Term Fund., TEF- Top 100 Equity Fund, SPF-M – Savings Plus Fund - Moderate, FRF- Floating Rate Fund, SPF-A - Savings Plus Fund - Aggressive,

SPF-C - Savings Plus Fund - Conservative, ITF - India T.I.G.E.R. Fund, FTP: - Fixed Term Plans (Closed Ended Schemes)

Note: Brokerage on distribution and sale of units paid / payable represents the amount paid / payable for the year and does not necessarily reflect the amount charged to the Scheme's revenue account.

**6. Large holdings in any of the Schemes (over 25% of the NAV of the Scheme):**

Scheme	No. of Investors	Percentage of holding
GSFB	1	25.88%

**7. Investments made in companies which have invested more than five percent of the net asset value of the Schemes of DSP Merrill Lynch Mutual Fund in terms of Regulation 25 (11):**

- Investment in Companies includes investment in subsidiaries.
- Purchases represents purchases (including derivatives transactions and inter scheme transactions) made during the period prescribed under regulation 25(11).
- Value represents closing market value of investments as of September 30<sup>th</sup>, 2006

**Open Ended Schemes**

**Rupees in Crores**

Companies	Investment by Schemes		Rupees in Crores													
			LF	LPLUS	BaF	BF	EF	FRF	ITF	OF	SPF-A	SPF-C	SPF-M	STF	TEF	TF
HCL Technologies Ltd	STF	Value	-	-	-	-	-	-	-	-	22.30	-	-	-	-	-
		Purchases	-	-	1.34	-	3.84	-	-	-	15.53	-	-	-	-	3.92
HDFC Ltd	LF	Value	60.02	-	45.01	5.00	-	305.65	10.28	-	5.00	-	25.06	-	-	-
		Purchases	360.03	149.45	-	-	-	-	4.57	20.01	-	-	-	-	-	-
Hindalco Industries Ltd	FRF	Value	-	-	2.85	-	6.78	-	-	8.83	0.24	0.02	0.52	-	3.95	
		Purchases	-	-	2.35	-	8.32	-	10.49	11.81	0.23	0.01	0.50	-	3.14	
Hindustan Lever Limited	LF	Value	-	-	9.18	-	19.49	-	-	28.31	1.23	0.10	3.00	-	11.72	
		Purchases	-	-	2.41	-	2.90	-	-	-	1.15	0.09	2.82	-	7.32	
ICICI Bank Limited	LF	Value	307.55	162.90	10.09	4.94	18.80	-	18.44	23.55	0.42	0.14	1.05	18.80	10.32	
		Purchases	804.87	212.90	8.23	-	14.63	-	42.39	52.56	0.40	0.13	1.00	18.80	11.25	
Infosys Technologies Ltd	LF	Value	-	-	5.92	-	13.76	-	-	80.02	-	-	-	-	6.41	
		Purchases	-	-	3.78	-	5.16	-	-	30.24	-	-	-	-	4.17	
IPCL Ltd	LF	Value	-	-	-	-	-	-	-	12.60	-	-	-	-	-	
		Purchases	-	-	-	-	-	-	-	12.47	-	-	-	-	-	
ITC Ltd	FRF, LF, STF	Value	-	-	-	-	-	-	-	29.81	-	-	-	-	-	
		Purchases	-	-	5.06	-	8.88	-	-	4.76	0.62	0.02	0.43	-	3.37	
Jet Airways Ltd	LF	Value	-	-	-	-	-	-	-	-	-	-	-	-	-	
		Purchases	-	-	-	-	-	-	3.51	-	-	-	-	-	2.23	
Larsen & Toubro Limited	TEF	Value	25.00	-	11.17	-	27.64	-	56.13	47.56	0.76	0.07	2.01	-	14.57	
		Purchases	25.00	-	5.67	-	13.33	-	31.59	22.62	0.94	0.06	2.83	-	9.55	
Maruti Udyog Ltd	LF	Value	-	-	2.81	-	-	-	-	14.00	-	-	-	-	5.58	
		Purchases	-	-	2.59	-	-	-	5.70	17.84	-	-	-	-	3.76	
Punjab National Bank	STF	Value	89.34	74.39	3.02	-	-	-	-	-	-	-	-	-	5.17	
		Purchases	629.51	-	0.73	-	-	-	-	-	-	-	-	-	5.50	
Reliance Industries Ltd.	LF	Value	-	-	11.51	-	25.04	5.03	46.62	49.56	7.77	0.23	6.87	-	15.75	
		Purchases	-	-	7.48	-	12.52	-	19.87	12.23	9.32	0.38	10.72	-	19.36	
Reliance Petroleum Ltd.	LF	Value	-	-	-	-	-	-	-	-	-	-	-	-	-	
		Purchases	-	-	0.80	-	1.30	-	2.05	2.61	0.12	0.03	0.45	-	0.50	
State Bank of India	ITF	Value	68.66	490.06	9.16	-	20.57	-	28.61	37.74	-	-	-	-	8.66	
		Purchases	530.93	-	2.46	-	4.22	-	5.19	1.47	-	-	-	28.98	2.49	
Tata Iron and Steel Co Ltd.	LF	Value	-	-	2.22	-	8.06	-	9.16	10.43	0.12	0.02	0.24	-	3.72	
		Purchases	-	-	3.30	-	10.34	-	9.20	9.43	0.92	0.11	1.99	-	8.24	
The Bombay Dyeing & Mfg Co Ltd	GSFA	Value	-	-	-	-	-	-	15.31	12.45	-	-	-	-	-	
		Purchases	-	-	-	-	-	-	19.65	11.92	-	-	-	-	-	
UCO Bank	STF	Value	221.40	209.47	-	-	-	-	-	-	-	-	-	18.54	-	
		Purchases	381.89	-	-	-	-	-	-	-	-	-	-	18.55	-	

Companies	Investment by Schemes		LF	LPLUS	BaF	BF	EF	FRF	ITF	OF	SPF-A	SPF-C	SPF-M	STF	TEF	TF
Ultratech Cement Ltd	STF	Value	-	-	8.81	-	-	-	-	-	-	-	-	-	-	-
		Purchases	-	-	5.41	-	-	-	-	-	-	-	-	-	-	0.36
Wipro Ltd	STF	Value	-	-	4.00	-	4.19	-	-	-	-	-	-	-	2.68	0.62
		Purchases	-	-	3.98	-	7.64	-	-	3.43	0.69	0.06	1.68	-	5.44	2.45
Hindustan Zinc Limited	STF	Value	-	-	2.93	-	8.17	-	-	-	-	-	-	-	-	-
		Purchases	-	-	3.07	-	8.55	-	-	-	-	-	-	-	-	-
IDFC Ltd	STF	Value	-	-	-	-	-	-	11.92	-	-	-	-	-	-	-
		Purchases	-	-	-	-	-	-	10.26	-	-	-	-	-	-	-
Tech Mahindra Ltd	STF	Value	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Purchases	-	-	0.37	-	0.62	-	-	1.18	0.07	0.02	0.23	-	0.26	0.03

**Closed Ended Schemes**

**Rupees in Crores**

Companies	Investment by Schemes		FTP3	FTP3A
ICICI Bank Limited	LF	Value	-	148.51
		Purchases	-	9.25
State Bank of India	ITF	Value	35.65	-
		Purchases	-	-

The Investment Manager is of the opinion that the investments are made by the schemes in such companies since they are perceived as fundamentally strong and possess a high potential for growth. Further, investments in bonds issued by the aforesaid companies would yield attractive returns commensurate with the risks associated with the issuer.

**8. Contingent Liability:**

Uncalled liability on Hindalco Limited rights shares in following schemes:

Scheme	No. of Shares	Amount in rupees
EF	159,548	11,487,456
BaF	63,571	4,577,112
OF	226,791	16,328,952
TEF	243,221	17,511,912

9. Unit-holders can obtain from the mutual fund a copy of the Annual Report of the scheme in which he /she has invested
10. The unaudited financial results have been approved by the Directors of the Board of DSP Merrill Lynch Fund Managers Limited and DSP Merrill Lynch Trustee Co. Pvt. Ltd.
11. The Auditors of the Fund have performed a limited review of the above unaudited financial results.

**For DSP Merrill Lynch Trustee Company Private Limited      For DSP Merrill Lynch Fund Managers Limited**

**Shitin Desai**  
*Chairman*

Mumbai; October 30, 2006

**S. S. Thakur**  
*Director*

**Hemendra Kothari**  
*Chairman*

Mumbai; October 20, 2006

**Piyush Mankad**  
*Director*