



# Kotak Mahindra (International) Ltd.

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ANNUAL REPORT 2006-2007

BOARD OF DIRECTORS: KISHORE SUNIL BANYMANDHUB, ASHRAF RAMTOOLA, RAVI LOCHAN POLA, SHYAM KUMAR, CLAUDE AK SHING, GIJO JOSEPH, ASHISH NANDA, LOUIS DIDIER MERLE

## Director's Report

To the shareholders of  
**Kotak Mahindra (International) Limited**

The Directors present their report and the audited financial statements of Kotak Mahindra (International) Limited (the "Company") for the year ended 31 March, 2007.

### PRINCIPAL ACTIVITY

The Company's principal activity is to carry on business in financial services, more specifically investment in securities and investment management.

### RESULTS AND DIVIDEND

The Company's profit for the financial year ended 31 March, 2007 amounted to Rs. 130,096,295 (2006 - of Rs. 90,106,316).

The Directors do not recommend the payment of any dividend for the year under review.

### CHANGE IN SHARE CAPITAL

During the year, the Company issued 2,081,650 shares at USD 1 each to Kotak Mahindra Bank Limited. As at March 31, 2007, the revised share capital of the Company stood at Rs. 161,597,644 (2006 : Rs. 67,174,000).

### CHANGE IN CONTROLLER

During the year Goldman Sachs sold its holding in one of the corporate controllers of the Company to Kotak Securities Limited, Indian broking affiliate of the Company. Thereafter, the Company became a first level subsidiary of Kotak Mahindra Bank Limited consequent to a further fresh issue of shares. Kotak Mahindra Bank directly holds 51% of the paid up share capital of the Company.

### STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial year which present fairly the financial position, financial performance and cash flows of the company. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then applied them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2001. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### AUDITORS

The auditors, KPMG, have indicated their willingness to continue in office.

By Order of the Board  
International Management  
(Mauritius) Ltd.  
Company Secretary

Date: 4th May, 2007.

## Auditors Report

To the Members of  
**Kotak Mahindra (International) Limited**

The financial statements of Kotak Mahindra (International) Limited as at 31st March 2007, being a company registered in the Mauritius, are audited by KPMG, Public Accountants, Mauritius, and we have been furnished with their audit report dated 24th April 2007.

We are presented with the accounts in Indian Rupees prepared on the basis of aforesaid accounts to comply with the requirements of Section 212 of Companies Act, 1956. We give our report hereunder:

1. We have audited the attached Balance Sheet of Kotak Mahindra (International) Limited as at 31st March, 2007, 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 the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - (i) 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;
  - (ii) 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;

- (iii) 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;
- (iv) 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;
- (v) On the basis of written representations received from the directors, we report that none of the directors is disqualified as on 31st March, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
- (vi) In our opinion, on the basis of information and explanations given to us and relying upon the above referred financial statements and auditor's report thereon, the 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 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 31st March 2007;
  - (b) in the case of the Profit and Loss account of the profit for the year ended on that date; and
  - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place : Mumbai  
Date : 4th May, 2007

**For V. C. Shah & Co.**  
Chartered Accountants

**A. N. Shah**  
Partner  
Membership No.: 42649

## Annexure to the Auditors' Report

Referred to in paragraph 3 of the Auditors' Report of even date to the members of Kotak Mahindra (International) Limited on the financial statements for the year ended 31st March 2007.

1. (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets;
- (b) The fixed assets of the Company have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification;
- (c) The company has not disposed off substantial part of fixed assets during the year.
2. (a) The Company has granted unsecured loan to a fellow subsidiary company. At the year end outstanding balance of loan granted to said company was Rs. 42,88,820/- which is also the maximum amount involved during the year.
- (b) The rate of interest and other terms and conditions of such loans are, in our opinion, prima facie not prejudicial to the interest of the Company.
- (c) The company is regular in repaying the principal amounts as stipulated and has also been regular in the payment of interest as stipulated to the Company.
- (d) The Company has not taken any loans, secured or unsecured from fellow subsidiary and hence sub clause (e), (f), and (g) are not applicable
3. 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, for purchase of fixed assets and for services. There are no purchase of inventory and sale of goods.
4. As informed to us, the Company does not have an internal audit system.
5. The company has maintained proper records of its transaction and contracts in shares, securities and other investments and timely entries have been made therein. The shares, securities and other investments are held by the Company, in its own name.
6. 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.
7. The Company is a foreign company rendering services. In our opinion clauses (ii), (v), (vi), (viii), (ix), (x), (xi), (xii), (xiii), (xv), (xvi), (xvii), (xviii), (xix), (xx) of the order are not applicable to the company for the year ended under report.

For V. C. Shah & Co.  
Chartered Accountants

A. N. Shah  
Partner  
Membership No.: 42649

Place : Mumbai  
Date : 4th May, 2007

## Balance Sheet as at 31st March, 2007

	Schedule	As at 31st March 2007 Rupees	As at 31st March 2006 Rupees
<b>Sources of Funds</b>			
<b>Shareholders' Funds:</b>			
Share Capital	1	161,597,644	67,174,000
Reserves and Surplus	2	320,851,221	204,711,314
<b>Total</b>		<b>482,448,865</b>	<b>271,885,314</b>
<b>Application of Funds</b>			
<b>Fixed Assets:</b>			
Gross Block	3	2,700,006	2,467,841
Less : Depreciation		1,483,509	1,052,110
Net Block		1,216,497	1,415,731
Investments	4	63,154,571	48,862,583
<b>Current Assets, Loans and Advances:</b>			
Sundry Debtors	5	90,448,781	57,763,606
Cash and Bank Balances	6	303,047,421	158,887,932
Loans and Advances	7	51,234,091	43,476,172
		444,730,294	260,127,710
<b>Less: Current Liabilities and Provisions:</b>			
Liabilities	8	21,474,441	34,122,121
Provisions	9	5,178,056	4,398,590
		26,652,497	38,520,711
<b>Net Current Assets</b>		<b>418,077,797</b>	<b>221,606,999</b>
<b>Total</b>		<b>482,448,865</b>	<b>271,885,314</b>
Significant Accounting Policies and Notes to Financial Statements	14		
Schedules referred to above form an integral part of the Balance Sheet			

In terms of our report of even date  
For V. C. Shah and Co.  
Chartered Accountants

A. N. Shah  
Partner

Mumbai, 4th May, 2007

For and on behalf of the Board of Directors

S. Shyam Kumar  
Director

Ravi Lochan Pola  
Director

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

	Schedule	For the year ended 31st March 2007 Rupees	For the year ended 31st March 2006 Rupees
<b>Income</b>			
Income from Services		133,459,405	156,592,637
Profit/(Loss) on Sale of Investments (Net)		42,192,214	15,377,804
Other Income	10	13,478,273	3,424,169
<b>Total Income</b>		<b>189,129,892</b>	<b>175,394,609</b>
<b>Expenditure</b>			
Personnel	11	16,752,916	29,417,349
Interest and Other Financial Charges	12	14,144,907	8,382,931
Other Expenses	13	24,517,044	43,345,779
<b>Total Expenditure</b>		<b>55,414,867</b>	<b>81,146,059</b>
Profit before depreciation and Taxation		133,715,025	94,248,551
Depreciation		474,629	827,443
<b>Profit before Taxation</b>		<b>133,240,396</b>	<b>93,421,108</b>
<b>Provision for Taxation</b>		<b>3,144,101</b>	<b>3,314,792</b>
<b>Profit after Taxation</b>		<b>130,096,295</b>	<b>90,106,316</b>
Add: Balance brought forward from Previous Year		174,726,214	84,619,898
<b>Profit Carried to Balance Sheet</b>		<b>304,822,509</b>	<b>174,726,214</b>
Significant Accounting Policies and Notes to Financial Statements	14		
Schedules referred to above form an integral part of the Profit and Loss Account			

In terms of our report of even date  
For V. C. Shah and Co.  
Chartered Accountants

A. N. Shah  
Partner

Mumbai, 4th May, 2007

For and on behalf of the Board of Directors

S. Shyam Kumar  
Director

Ravi Lochan Pola  
Director

## Cash Flow Statement for the Year Ended 31st March, 2007

	2006-2007 Rupees	2005-2006 Rupees
Net Profit before taxation	133,240,396	93,421,108
Adjustments for:		
Depreciation	474,629	827,443
Interest	(1,924,608)	(553,972)
Change in Translation Reserve	(13,956,388)	8,507,998
(Profit)/loss on sale of Investments	(42,192,214)	(15,377,804)
<b>Operating Profit before Working Capital Changes</b>	<b>75,641,815</b>	<b>86,824,774</b>
Adjustments for:		
(Increase)/Decrease in loans and advances	(7,757,919)	65,648,141
(Increase)/Decrease in Sundry Debtors	(32,685,176)	(23,673,212)
Increase/(Decrease) in current liabilities	(12,647,679)	25,306,189
Increase/(Decrease) in Provisions	1,095,217	(1,085,239)
<b>Cash (Used in)/generated from Operations</b>	<b>23,646,258</b>	<b>153,020,654</b>
Direct taxes paid	(3,459,853)	(1,610,613)
<b>Net Cash Flow from Operating Activities (A)</b>	<b>20,186,405</b>	<b>151,410,041</b>
<b>Cash Flow from Investing Activities</b>		
(Purchase)/Sale of investments (net)	27,900,226	98,872,752
Purchase of fixed assets	(677,196)	(1,832,416)
Sale of fixed assets	401,801	1,191,059
Interest	1,924,608	553,972
<b>Net Cash Flow (Used in)/from Investing Activities (B)</b>	<b>29,549,439</b>	<b>98,785,367</b>
<b>Cash Flow from Financing Activities</b>		
Proceeds/(repayment) of term borrowings	—	(164,827,689)
Issue of Share Capital	94,423,644	—
<b>Net Cash Flow (Used in)/from Financing Activities (C)</b>	<b>94,423,644</b>	<b>(164,827,689)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents (A + B + C)</b>	<b>144,159,488</b>	<b>85,367,720</b>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	<b>158,887,932</b>	<b>73,520,213</b>
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>303,047,421</b>	<b>158,887,932</b>
	<b>144,159,488</b>	<b>85,367,719</b>

1. The Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard-3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outflow.
3. The previous year's figures have been re-grouped, wherever necessary in order to conform to this year's presentation.

This is the Cash Flow Statement referred to in our report of even date  
For V. C. Shah and Co.  
Chartered Accountants

A. N. Shah  
Partner

For and on behalf of the Board of Directors

S. Shyam Kumar  
Director

Ravi Lochan Pola  
Director

Mumbai, 4th May, 2007

## Schedules forming part of the Balance Sheet

	As at 31st March 2007 (Rupees)	As at 31st March 2006 (Rupees)								
<b>Schedule 1 – Share Capital</b>										
<b>Authorised</b>										
4,081,650 ordinary shares of US \$1 each										
<b>Issued, Subscribed and Paid-up</b>										
4,081,650 (Previous Year 2,000,000) ordinary shares of US \$1 each fully paid up	161,597,644	67,174,000								
Note: During the year 2,081,650 shares of \$1 each were issued at par as fully paid up to Kotak Mahindra Bank Limited Of the above 2,081,650 shares of \$1 each are held by the holding company, Kotak Mahindra Bank Limited. (Previous year 2,000,000 shares of \$1 each were held by the holding company Kotak Mahindra Capital Company Limited)										
<b>Total</b>	<b>161,597,644</b>	<b>67,174,000</b>								
<b>Schedule 2 – Reserves and Surplus</b>										
Profit and Loss Account	304,822,509	174,726,214								
Translation Reserve	16,028,712	29,985,100								
<b>Total</b>	<b>320,851,221</b>	<b>204,711,314</b>								
<b>Schedule 3 – Fixed Assets (at cost)</b>										
	Rupees									
Description	Gross Block			Depreciation			Net Block			
	As at 1st April, 2006	Additions	Deduction	As at 31st March, 2007	As at 1st April, 2006	For the year	Withdrawn	As at 31st March, 2007	As at 31st March, 2007	As at 31st March, 2006
<b>Assets</b>										
Office Equipments and Furniture	1,532,243	6,990	445,031	1,094,202	408,257	152,798	43,230	517,825	576,377	1,123,986
Vehicles	428,418	—	—	428,418	356,271	26,951	—	383,222	45,196	72,147
Computers	507,180	670,206	—	1,177,386	287,582	294,880	—	582,462	594,924	219,598
<b>Total</b>	<b>2,467,841</b>	<b>677,196</b>	<b>445,031</b>	<b>2,700,006</b>	<b>1,052,110</b>	<b>474,629</b>	<b>43,230</b>	<b>1,483,509</b>	<b>1,216,497</b>	<b>1,415,731</b>
Previous Year	4,105,587	1,832,416	3,470,162	2,467,841	2,503,769	827,443	2,279,103	1,052,110	1,415,731	1,601,818
Note: Fixed asset includes translation reserve of Rs. 103,257 (Previous year Rs. 104,984) Depreciation for the year includes translation reserve of Rs. 6,499 (Previous year Rs. 6,288)										
								As at 31st March 2007 (Rupees)	As at 31st March 2006 (Rupees)	
<b>Schedule 4 – Investments</b>										
<b>Long Term</b>										
<b>Unquoted (at cost)</b>										
4,70,000 equity shares of Sterling Pound 1 each fully paid up of Kotak Mahindra (UK) limited								26,287,576	26,287,576	
100 Management shares of USD 1 each in Global Investment Opportunities Fund Limited								4,818	4,818	
1 Equity share (Previous year 1) each fully paid up of Kotak Mahindra Inc								45	45	
<b>Current Investments</b>										
WM India Fund Limited								—	12,536,819	
Kotak Infinity Fund								14,548,163	—	
Seaf Management LLC								300,902	—	
Quoted (Refer note 7 of schedule 15)								22,013,069	10,033,326	
								<b>63,154,571</b>	<b>48,862,583</b>	

## Schedules Forming Part of the Balance Sheet (Contd.)

	As at 31st March 2007 (Rupees)	As at 31st March 2006 (Rupees)
<b>Schedule 5 – Sundry Debtors (Unsecured)</b>		
Considered good		
Over six months	—	—
Others	90,448,781	57,763,606
<b>Total</b>	<b>90,448,781</b>	<b>57,763,606</b>
<b>Schedule 6 – Cash and Bank Balances</b>		
Cash on hand	84,037	27,929
Bank balances with unscheduled Banks (Refer note 9 of schedule 15)	302,963,384	158,860,003
<b>Total</b>	<b>303,047,421</b>	<b>158,887,932</b>
<b>Schedule 7 – Loans and advances</b> (Unsecured, considered good unless otherwise stated)		
Loans and Advances to Subsidiary Company	4,288,384	23,953,339
Margin held towards futures and options trading	8,083,004	207,364
Advances recoverable in cash or in kind or for value to be received	38,862,702	19,315,469
<b>Total</b>	<b>51,234,091</b>	<b>43,476,172</b>
<b>Schedule 8 – Liabilities</b>		
Sundry creditors	3,119,718	23,989,359
Other liabilities	18,354,724	10,132,762
<b>Total</b>	<b>21,474,441</b>	<b>34,122,121</b>
<b>Schedule 9 – Provisions</b>		
Provision for gratuity	1,632,010	536,792
Provision for tax	3,546,047	3,861,798
<b>Total</b>	<b>5,178,056</b>	<b>4,398,590</b>

## Schedules Forming Part of the Profit and Loss Account (Contd.)

	For the year ended 31st March 2007 (Rupees)	For the year ended 31st March 2006 (Rupees)
<b>Schedule 10 – Other Income</b>		
Dividend	618,293	2,870,197
Interest	1,924,608	553,972
Foreign Exchange gain	10,935,372	—
<b>Total</b>	<b>13,478,273</b>	<b>3,424,169</b>

### Schedule 11 – Personnel

Salaries and other allowances	15,160,267	25,176,445
Gratuity	1,148,905	883,652
Other related costs	443,744	3,357,252
<b>Total</b>	<b>16,752,916</b>	<b>29,417,349</b>

### Schedule 12 – Interest and other Financial Charges

Interest on:		
– Bank overdraft	6,048,039	5,444,249
– Other interest/Bank charges	8,096,867	2,938,682
<b>Total</b>	<b>14,144,907</b>	<b>8,382,931</b>

### Schedule 13 – Establishment and other Expenses

Travelling	3,413,509	5,013,402
Foreign Auditors remuneration	1,165,432	980,920
Legal and consultancy charges	8,373,672	11,729,551
Rent	1,876,861	1,300,266
Communication expenses	1,570,418	3,692,035
Directors Remuneration	5,836,414	1,875,839
Other expenses	2,280,739	18,753,766
<b>Total</b>	<b>24,517,044</b>	<b>43,345,779</b>

## Schedule 14 – Significant Accounting Policies and Notes to the Accounts

### 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) Conversion to Indian Rupees

For the purpose of accounts, 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 debited or credited to Translation Reserve.

The Share Capital and Investments in subsidiary are 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 "Reserve and Surplus".

#### (iii) Revenue Recognition

Commission, fees and other revenue is invoiced and recognised on an accrual basis. Interest income is recognised in the income statement as accrued.

Dividends are recognised as income on the dates the securities are first quoted "ex-dividend" to the extent that information thereon is reasonably available to the group and the Company.

#### (iv) Securities lending and borrowings

Securities borrowing and lending transactions are recorded at the amount of cash collateral advanced or received. Securities borrowing transactions require the borrower to provide collateral in the form of cash and cash collateral is received for securities lending transactions. For these transactions, the fee income is recognized over the period of contract. On a daily basis, the group monitors the market value of securities borrowed or lent against the collateral value. The collateral value received against lending of securities is based on the risk assessment procedure of the group.

#### (v) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of the assets over the expected useful lives of such assets. Additions during the year bear a due proportion of the annual depreciation charge. The annual depreciation rates are as under:

Office Equipment, furniture and Fittings	20% - 33 1/3%
Motor Vehicles	33 1/3%
Computers	33.1/3%

#### (vi) Investments

Investment in subsidiary is stated at cost.

The Company has classified its investments in equity securities as current investment and in respect of GDRs securities sold short, the same is classified as liabilities held for trading. Investments are initially recognised at cost, including transaction costs. Long equity securities and equity securities sold short are subsequently carried at cost or market value on an overall category basis, whichever is less, based on the quoted bid and offer prices, respectively. When current bid and offer prices are unavailable, the price of the most recent transaction is used. Provision for decline in value is recognized in the accounts.

All derivative financial instruments are classified as held for trading. Derivative financial instruments are initially recognised at cost and subsequently measured at cost or market value whichever is less.

Futures contracts are collateralised by cash and changes in the futures contracts values are settled with the exchange on a daily basis. The fair values of open positions in futures contracts are calculated as the difference between the contract prices and the settlement prices established each day by the exchange on which the contracts are traded.

All investment transactions are recorded on a trade date basis and costs of investments are determined on a first-in, first-out basis.

## Schedule 14 – Significant Accounting Policies and Notes to the Accounts (Contd.)

### (vii) Retirement benefits

Provision for employees' end of service benefits represents the liability that would arise if the employment of all eligible staff of the representative office were terminated as of the balance sheet date and is calculated in accordance with the UAE Federal Law.

### (viii) Taxes

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 periods.

## 2. Notes to the accounts:

1. During the year ended March 31, 2007, the Company increased the authorized shares from 2,000,000 to 4,081,650 and issued 2,081,650 shares of its common stock to the parent. Prior to the issuance, the Company was majority owned subsidiary of Kotak Mahindra Capital Company ("KMCC"). As a result of this issuance, as of March 31, 2007, the parent owns 51% of the Company and KMCC owns 49% of the Company. The accounts have been prepared and audited for the purpose of attachment to the accounts of the Holding Company to comply with the provisions of the Indian Companies Act, 1956. The accounts have been prepared and audited for the purpose of attachment to the accounts of the Holding Company to comply with the provisions of the Indian Companies Act, 1956.

2. The transactions are in local currency, which have been converted into Indian Currency for reporting and the rate applied is as per para (ii) of the significant accounting policies.

## 3. Contingent Liability:

Guarantee to third parties given by the Company's bankers outstanding at the year end amounted to Rs. 305,130,000/- (Previous year Rs. 312,270,000). No loss is expected on this guarantee at the balance sheet date.

4. The Company has an overdraft facility of Rs. 1,002,570,000/- (Previous year Rs. 713,760,000) that is secured by guarantee of Kotak Mahindra Capital Company Limited., a fellow subsidiary company. Interest is payable on the amounts drawn at Libor plus 1.0%

5. The Company is subject to income tax in Mauritius at 15%. It is entitled, however, to a tax credit equivalent to the higher of the actual foreign tax suffered and 80% of the Mauritius tax on its foreign source income. The subsidiary is subject to UK corporation tax at 30%

6. Deferred tax assets have not been recognized in respect of the tax losses carried forward as the directors consider it prudent not to recognize these assets based on current trading level.

## 7. List of Quoted Investments:

Scrip name	Quantity 31.03.07	Quantity 31.03.06	Book Value as at 31.03.07	Book Value as at 31.03.06
<b>Equity Stock</b>				
ITC Ltd.	—	1,150	—	190,317
Solar Explosive Limited	—	39,958	—	7,583,463
Jayprakash Hydro Power Ltd.	350,000	—	9,861,583	—
Manglore Refinery and Petrochemicals Limited	44,500	—	1,488,086	—
<b>Total</b>	<b>394,500</b>	<b>41,108</b>	<b>11,349,669</b>	<b>7,773,780</b>
<b>ADR/GDR Stock</b>				
ITC Ltd. – GDR	—	5,600	—	—
EIH Ltd. – GDR	—	4,000	—	2,026,454
Grasim Industries Ltd. – GDR	—	25	—	34,746
Hindalco Industries Ltd. – GDR	—	1,500	—	1,98,346
Reliance Energy Limited	7,297	—	10,663,392	—
<b>Total</b>	<b>7,297</b>	<b>11,125</b>	<b>10,663,392</b>	<b>2,259,546</b>
<b>Grand Total</b>	<b>401,797</b>	<b>52,233</b>	<b>22,013,061</b>	<b>10,033,326</b>
<b>Short positions on Investments</b>				
ITC Ltd.	—	5,600	—	1,334,475
<b>Total</b>	<b>—</b>	<b>5,600</b>	<b>—</b>	<b>1,334,475</b>

## Schedule 14 – Significant Accounting Policies and Notes to the Accounts (Contd.)

### 8. Details of Bank Balances:

	As on 31st March, 2007	As on 31st March, 2006
Scheduled Banks	41,710,370	155,594,569
Others:		
Standard Chartered Bank Dubai	2,452,216	103,545
HSBC Bank	258,800,798	3,161,889
<b>Total</b>	<b>261,253,014</b>	<b>3,265,434</b>
<b>Total</b>	<b>302,963,384</b>	<b>158,860,003</b>

### 9. Leases:

The total annual commitments of the Company under non-cancelable operating leases are as under:

	31st March, 2007	31st March, 2006
<b>Land and Buildings:</b>		
Operating leases which expire Within One year	—	170,990

### 10. Related Party Transactions:

Related parties	Nature of relationship	Nature of transactions	Volume of transaction for the period ended		Debit/(credit) Balance as at	
			31-Mar-07 Rupees	31-Mar-06 Rupees	31-Mar-07 Rupees	31-Mar-06 Rupees.
Kotak Mahindra (UK) Ltd..	Subsidiary	Facilitation charges	11,096,626	3,173,120	—	—
		Conversion Charges	7,351,732	—	—	—
		Advisory fees	—	30,751,155	—	—
		Referral fees	(62,952,345)	—	—	—
		Performance fees	91,408,432	—	—	—
		Subordinated loan	—	—	4,288,384	3,878,840
Global IOFL	Fund managed	Current account	—	(12,530,432)	70,224,667	(12,530,432)
		Advisory income	(15,863,900)	85,536,699	—	25,932,821
		Placement fee	(1,761,636)	310,410	—	235,942
Kotak Securities Limited	Broker/investment advisory services	Performance fees	(3,343,431)	—	—	—
		Referral fees	1,353,028	868,812	—	—
Kotak Mahindra Inc.	Group company	Margin deposit	—	—	2,350,068	—
		Loan receivable	—	—	—	20,074,500
Kotak Mahindra AMC Co. Ltd..	Group company	Advisory fees	(27,815,455)	21,369,213	(1,916,042)	(2,301,341)
		Advisory Fees	4,181,810	16,809,546	—	(3,262,075)
Kotak Mahindra Bank Limited	Ultimate holding company	PCM Services	457,898	213,349	41,120,539	(266)
		Referal Fees		(11,063,925)		
					Current year Rs.	Previous year Rs.
		Directors remuneration included in "personnel expenses"			5,836,414	1,875,839

All related parties transactions entered during the year are priced on commercial terms and conditions.

11. Previous year figures have been regrouped and reclassified wherever necessary.

12. Immediate and ultimate holding companies

Kotak Mahindra Capital Company Limited and Kotak Mahindra Bank Limited, companies incorporated in India, are the company's shareholders. Kotak Mahindra Bank Limited is the company's ultimate holding company.

Signatures to Schedules 1 to 14

Per our report attached

For V. C. Shah and Co.

Chartered Accountants

A. N. Shah

Partner

Mumbai, 4th May, 2007

For and on behalf of the Board of Directors

S. Shyam Kumar

Director

Ravi Lochan Pola

Director