



## Directors' Report

The Directors have pleasure in presenting their Thirteenth Annual Report together with the audited accounts of the Company for the year ended 31st March, 2007.

### 1. FINANCIAL RESULTS AND OPERATIONS

In view of the buoyancy prevalent in the secondary market throughout last year, the industry has been able to improve its performance over the previous year.

During the year, your Company provided trading services to its clients. The company earned an income of Rs. 27,248,054 (Previous Year Rs. 329,536,471) resulting in a net profit before tax of Rs. 6,018,683 (Previous Year Rs. 313,837,588).

### 2. DIVIDEND

With a view to conserve resources, the Directors do not recommend any Dividend.

### 3. DEMERGER

During the year a petition was filed before the Hon'ble High Court of Judicature at Bombay pursuant to Sections 391 to 394 of the Companies Act, 1956 in respect of a Scheme of Arrangement between Kotak Mahindra Securities Limited (KMSL), Kotak Mahindra Capital Company Limited (KMCC) and their respective shareholders and creditors for demerger of undertaking comprising of the Trading and Clearing operations and strategic investments of KMSL to KMCC. The Hon'ble Bombay High Court granted its approval to the same vide Order dated 15th February, 2007. This scheme as of date is pending approval of the Securities and Exchange Board.

Prior to the demerger your Company was a Trading and Clearing Member of the Cash, Future & Options and Wholesale Debt Market segment of the National Stock Exchange of India Limited. The demerger is being done with a view to consolidate all capital market related activities into KMCC, which has a substantially higher net worth than KMSL.

### 4. DIRECTORS

Mr. Jaimin Bhatt, Director of the Company, retires at the forthcoming Annual General Meeting and, being eligible, offer himself for reappointment.

### 5. AUDITORS

The Company's Auditors, Messrs Price Waterhouse, Chartered Accountants, Mumbai, retire at the Annual General Meeting and are eligible for reappointment.

### 6. STATUTORY INFORMATION

During the year under review, the Company has not accepted any deposits from the public.

The Company did not have any employees falling within the scope of Section 217(2A) of the Companies Act, 1956.

The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, require the disclosure of particulars regarding Conservation of Energy in Form A and Technology Absorption in Form B prescribed by the Rules. Since the Company is not a manufacturing company, Forms A & B are not applicable to it. As regards foreign exchange, there were no earnings or outgo on this account.

In pursuance of Section 217(2AA) of the Companies Act, 1956 ("the Act"), the Directors state as an averment of their responsibility that:

- (i) the Company has, in the preparation of the annual accounts for the year ended 31st March, 2007, followed the applicable accounting standards along with proper explanations relating to material departures, if any;
- (ii) the Directors 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 as at 31st March, 2007 and of the profit of the Company for the financial year ended 31st March, 2007;
- (iii) the Directors have taken proper and sufficient care to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (iv) the Directors have prepared the annual accounts on a going concern basis.

### 7. ACKNOWLEDGEMENTS

Your Directors would like to place on record their gratitude for the valuable guidance and support received from the Securities and Exchange Board of India and other Government and Regulatory agencies. Your Directors acknowledge and wish to place their appreciation of employees for their commendable efforts, teamwork and professionalism.

For and on behalf of the Board of Directors

Falguni Nayar  
Director

Chandrashekhhar Sathe  
Director

Mumbai, 2nd May, 2007

## Auditors' Report

To the Members of

**KOTAK MAHINDRA SECURITIES LIMITED**

1. We have audited the attached Balance Sheet of **KOTAK MAHINDRA SECURITIES LIMITED** (the Company), as at 31st March, 2007, the related Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date, which we have signed under reference to this report. These financial statements are the responsibility of the Management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have 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 the Management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. We draw attention to Note 10 on Schedule 15 regarding the approval of the Scheme of Arrangement (the "Scheme") to demerge the trading and clearing operations of the Company which has not been given effect to in these financial statements as the said Scheme is pending approval from the regulatory authorities.
4. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Companies Act, 1956 of India (the Act), 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.
5. 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.
6. 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.
7. The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account.
8. In our opinion, the financial statements dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act.
9. On the basis of written representations received from the Directors of the Company, as on 31st March, 2007, and taken on record by the Board of Directors of the Company, none of the Directors of the Company 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 Act;
10. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we further report that:
  - (i)
    - (a) The Company has maintained proper records to show full particulars including quantitative details and situation of its fixed assets.
    - (b) The fixed assets of the Company have been physically verified by the Management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
    - (c) There have been no disposal of fixed assets by the Company during the year.
  - (ii)
    - (a) The Company has not granted any loans, secured or unsecured, to companies, firms, or other parties covered in the register maintained under Section 301 of the Act.
    - (b) The Company has not taken any loans, secured or unsecured, from companies, firms, or other parties covered in the register maintained under Section 301 of the Act.
  - (iii) In our opinion and according to the information and explanations given to us there is an adequate internal control system commensurate with the size of the Company and the nature of its business in respect of purchase of fixed assets and sale of services. Further on the basis of our examination of the books of account and according to the information and explanations given to us, we have not come across nor have we been informed of any instance of major weaknesses in internal control system.
  - (iv) According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the year to be entered in the register required to be maintained under that Section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.

- (v) The Company has not accepted any deposits from the public under the provisions of Section 58A and 58AA of the Act and the rules framed there under.
- (vi) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (vii) (a) According to the books of account and records of the Company as produced and examined by us, in accordance with generally accepted auditing practices in India and also management representations, in our opinion the Company is generally regular in depositing undisputed statutory dues in respect of provident fund in the provident fund account of its holding company/fellow subsidiary (Refer Schedule 15 – Note 5), investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities in India.
- (b) According to the information and explanations given to us as at 31st March, 2007 there are no disputed dues in respect of sales tax, income-tax, customs duty, wealth tax, service tax, excise duty and cess except as follows:

Name of Statute	Nature of dues	Amount (Rs.)	Assessment Year	Forum where dispute is pending
The Income Tax Act, 1961	Rectification application filed under section 154 for short credit of tax deducted at source	61,324	1997 – 1998	Assistant Commissioner of Income Tax

- (viii) The Company has neither accumulated losses as at 31st March, 2007 nor has it incurred any cash loss either during the financial year ended on that date or in the immediately preceding financial year.

- (ix) According to the books of account and records of the Company, there has been no default in respect of dues to any financial institution or bank or debenture holders during the year.
- (x) In our opinion the Company has maintained proper records of transactions and contracts relating to dealing in shares, securities, debentures and other investments during the year and timely entries have been made therein. Further such securities have been held by the Company in its own name except to the extent of exemption granted under Section 49 of the Act.
- (xi) Based on the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, in our opinion there are no funds raised on a short term basis which have been used for a long term investment.
- (xii) The Company has not made any preferential allotment of shares to parties and companies listed in the register maintained under Section 301 of the Act during the year.
- (xiii) During the course of examination of the books of account and records of the Company carried out in accordance with the generally accepted auditing practices in India, we have not come across any fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the Management.
- (xiv) The other clauses of the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India are not applicable to the Company for the current year.

For and on behalf of  
Price Waterhouse  
Chartered Accountants

Vivek Prasad  
Partner  
Membership No. F104941

Place : Mumbai  
Date : 2nd May, 2007

## Balance Sheet as at 31st March, 2007

	Schedule	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Sources of Funds</b>			
<b>Shareholders' Funds</b>			
Capital	1	45,920,000	22,500,700
Reserves and Surplus	2	340,562,080	337,191,946
Unsecured Loans	3	25,000,000	—
Deferred Tax Liability (Refer Note 3 on Schedule 15)			
Deferred Tax Liability		193,358	354,771
<b>Total</b>		<b>411,675,438</b>	<b>360,047,417</b>
<b>Application of Funds</b>			
<b>Fixed Assets</b>			
Gross Block	4	3,538,139	3,163,538
Less: Depreciation		2,536,221	1,401,541
Net Block		1,001,918	1,761,997
Investments	5	315,331,695	280,025,812
Deferred Tax (Refer Note 3 on Schedule 15)			
Deferred Tax Asset		18,134	14,646
<b>Current Assets, Loans and Advances</b>			
Sundry Debtors	6	649,725	591,792
Cash and Bank Balances	7	62,500,214	57,888,931
Other Current Assets	8	11,951,070	561,465
Loans and Advances	9	26,693,151	26,696,731
		101,794,160	85,738,919
Less:			
<b>Current Liabilities and Provisions</b>			
Liabilities	10	6,417,111	7,450,444
Provisions	11	53,358	43,513
		6,470,469	7,493,957
<b>Net Current Assets</b>		<b>95,323,691</b>	<b>78,244,962</b>
<b>Total</b>		<b>411,675,438</b>	<b>360,047,417</b>
Notes to the Financial Statements	15		
Schedules referred to above form an integral part of the Balance Sheet			

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

For and on behalf of  
Price Waterhouse  
Chartered Accountants

Vivek Prasad  
Partner  
Membership No. F104941

Uthra Parameswaran  
Company Secretary

For and on behalf of the Board of Directors

Falguni Nayar  
Director

Jaimin Bhatt  
Director

Mumbai  
Dated: 2nd May, 2007

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

	Schedule	Rupees	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Income</b>				
Brokerage and clearing fees			7,896,895	32,114,179
Profit on sale of long term investments (Net)			—	209,424,689
Profit on sale of current investments (Net)			—	16,421
Interest on :				
Fixed deposits – Gross (Tax deducted at source Rs. 1,249,003 previous year Rs. 19,013,965)		5,513,461		83,443,018
Long term investments		11,499,400		94,516
Income tax refund		—		284,751
Inter corporate deposit		—	17,012,861	891,097
Dividend on long term investments			324,182	—
Dividend on current investments			2,014,116	3,245,679
Other income			—	22,121
<b>Total</b>			<b>27,248,054</b>	<b>329,536,471</b>
<b>Expenditure</b>				
Personnel	12		2,852,873	648,907
Interest and other financial charges	13		4,053,363	530,007
Administrative and operating expenses	14		13,188,455	13,482,977
Depreciation			1,134,680	1,036,992
<b>Total</b>			<b>21,229,371</b>	<b>15,698,883</b>
<b>Profit Before Taxation*</b>			<b>6,018,683</b>	<b>313,837,588</b>
Taxation				
Current tax		2,700,000		34,200,000
Provision for tax of earlier years		—		(58,051)
Deferred tax		(126,451)	2,573,549	35,715
<b>Profit after Taxation</b>			<b>3,445,134</b>	<b>279,659,924</b>
Balance brought forward from previous year			331,691,946	52,032,022
Less : Provision for gratuity (Net) (Refer Note 6 (i) on Schedule 15)			(7,824)	—
Provision for leave encashment (Net) (Refer Note 6 (i) on Schedule 15)			(67,176)	—
Balance carried to balance sheet			<b>335,062,080</b>	<b>331,691,946</b>
Earnings per share on equity shares of Rs. 10 each Basic and Diluted (Refer Note 9 on Schedule 15)			<b>1.00</b>	<b>124.29</b>

\* Includes Loss from Discontinuing Operations Rs. 5,480,717 (Previous year: Profit Rs. 313,743,042) and related tax expense thereon Rs. Nil (Previous year Rs. 34,187,964) (Refer Note 10 on Schedule 15)

Notes to the Financial Statements 15  
Schedules referred to above form an integral part of the Profit and Loss Account

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

For and on behalf of  
Price Waterhouse  
Chartered Accountants

Vivek Prasad  
Partner  
Membership No. F104941

Uthra Parameswaran  
Company Secretary

For and on behalf of the Board of Directors

Falguni Nayar  
Director

Jaimin Bhatt  
Director

Mumbai  
Dated: 2nd May, 2007

## Cash Flow Statement for the year ended 31st March, 2007

	2006-2007 Rupees	2005-2006 Rupees
<b>Cash Flow from Operating Activities</b>		
Net Profit before taxation	6,018,683	313,837,588
Adjustments for:		
Depreciation	1,134,680	1,036,992
Profit on sale of long term Investments (net)	—	(209,424,689)
Profit on sale of current Investments (net)	—	(16,421)
Dividend on current Investments	(2,014,116)	(3,245,679)
Dividend on long term Investments	(324,182)	—
Interest on long term investments	(11,499,400)	(94,516)
Interest on intercorporate deposit	—	(891,097)
Interest on Income tax refund	—	(284,751)
Interest on intercorporate deposit borrowed	3,419,452	—
<b>Operating Profit before Working Capital Changes</b>	<b>(3,264,883)</b>	<b>100,917,427</b>
Adjustments for:		
(Increase)/Decrease in loans and advances	14,433	945,258,355
(Increase)/Decrease in sundry debtors	(57,933)	145,306,422
(Increase)/Decrease in other current assets	(11,389,605)	8,871,505
Increase/(Decrease) in current liabilities	(989,046)	(3,226,017,371)
Increase/(Decrease) in provision for gratuity and leave encashment	(103,605)	18,051
<b>Cash (used in)/Generated from Operations</b>	<b>(15,790,639)</b>	<b>(2,025,645,611)</b>
Direct taxes paid (net of refunds and Interest thereon)	(2,710,853)	(34,908,138)
<b>Net Cash Flow from Operating Activities (A)</b>	<b>(18,501,492)</b>	<b>(2,060,553,749)</b>
<b>Cash Flow from Investing Activities</b>		
Purchase of fixed assets	(374,601)	(74,000)
Purchase of investments	(279,505,883)	(1,053,426,650)
Sale of investments	244,200,000	1,017,704,548
Interest/dividend received on "Investments"	13,837,698	3,340,195
<b>Net Cash Flow (used in)/from Investing Activities (B)</b>	<b>(21,842,786)</b>	<b>(32,455,907)</b>
<b>Cash Flow from Financing Activities</b>		
Issue of share capital	23,419,300	—
Interest received on intercorporate deposits	—	891,097
Interest paid on intercorporate deposits	(3,419,452)	—
Intercorporate deposits borrowed	25,000,000	—
<b>Net Cash Flow from Financing Activities (C)</b>	<b>44,999,848</b>	<b>891,097</b>
Net Increase/(Decrease) in Cash and Cash Equivalents (A + B + C)	4,655,570	(2,092,118,559)
Cash and Cash Equivalents at the beginning of the year	57,844,644*	2,149,963,203
Cash and Cash Equivalents at the end of the year	62,500,214	57,844,644*
	<b>4,655,570</b>	<b>(2,092,118,559)</b>

\* Net of temporary book overdraft Rs. 44,287

### Notes:

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

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

For and on behalf of  
Price Waterhouse  
Chartered Accountants

Vivek Prasad  
Partner  
Membership No. F104941

Uthra Parameswaran  
Company Secretary

For and on behalf of the Board of Directors

Falguni Nayar  
Director

Jaimin Bhatt  
Director

Mumbai  
Dated: 2nd May, 2007

## Schedules forming part of the Balance Sheet

	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Schedule 1 — Capital</b>		
<b>Authorised</b>		
5,000,000 (Previous Year 2,500,000) equity shares of Rs. 10 each	50,000,000	25,000,000
Nil (Previous Year 250) preference shares of Rs. 100,000 each	—	25,000,000
<b>Total</b>	<b>50,000,000</b>	<b>50,000,000</b>

The authorised share capital of the Company has been reclassified to 5,000,000 equity shares of Rs. 10 each by cancellation of 250 preference shares of Rs. 100,000 each and concurrent creation of 2,500,000 equity shares of Rs. 10 each at the extra ordinary general meeting of the Company held on August 10, 2006

### Issued and Subscribed

4,592,000 (Previous year 2,250,070) equity shares of Rs. 10 each fully paid up	45,920,000	22,500,700
<b>Total</b>	<b>45,920,000</b>	<b>22,500,700</b>

### Notes

1. Of the above 2,341,930 equity shares of Rs. 10 each are held by the holding company, Kotak Mahindra Bank Limited (Previous Year: 2,250,700 equity shares of Rs. 10 each were held by the holding company, Kotak Mahindra Capital Company Limited)
2. During the year 2,341,930 equity shares of Rs. 10 each were issued for cash at par as fully paid up to Kotak Mahindra Bank Limited at the extra ordinary general meeting of the Company held on August 10, 2006. Consequently, Kotak Mahindra Bank Limited has become the holding company since that date.

## Schedule 2 — Reserves and Surplus

Capital Redemption Reserve	5,500,000	5,500,000
Profit and Loss Account	335,062,080	331,691,946
	<b>340,562,080</b>	<b>337,191,946</b>

## Schedule 3 — Unsecured Loans

(Repayable within one year)

Intercompany deposit	25,000,000	—
	<b>25,000,000</b>	<b>—</b>

## Schedule 4 — Fixed Assets (At Cost)

DESCRIPTION	GROSS BLOCK			DEPRECIATION/AMORTISATION				NET BLOCK		
	As at 1st April, 2006	Additions	Deductions	As at 31st March, 2007	As at 1st April, 2006	For the year	Deductions	As at 31st March, 2007	As at 31st March, 2007	As at 31st March, 2006
Software	710,170	249,801	—	959,971	318,986	289,164	—	608,150	351,821	391,184
Computers	2,453,368	124,800	—	2,578,168	1,082,555	845,516	—	1,928,071	650,097	1,370,813
<b>Total</b>	<b>3,163,538</b>	<b>374,601</b>	<b>—</b>	<b>3,538,139</b>	<b>1,401,541</b>	<b>1,134,680</b>	<b>—</b>	<b>2,536,221</b>	<b>1,001,918</b>	<b>1,761,997</b>
Previous Year	3,089,538	74,000	—	3,163,538	364,549	1,036,992	—	1,401,541	1,761,997	

## Schedules forming part of the Balance Sheet (Contd.)

	Face value Rupees	31st March, 2007 Quantity	31st March, 2006 Quantity	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Schedule 5 — Investments</b>					
Long Term Investments (Non-Trade) (At Cost)					
In Equity Shares of Other Companies (Unquoted, fully paid up)					
Multifaced Finstock Private Limited	10	440,200	440,200	4,402,000	4,402,000
In Bonds of Housing Bank (Unquoted, Fully Paid up)					
5.50% National Housing Bank Capital Bonds 2002	10,000	20,908	20,908	209,080,000	209,080,000
In Units of Venture Capital Funds (Unquoted, Partly Paid Up)					
Kotak India Real Estate Fund 1	100,000	1,000	—	75,000,000	—
India Growth Fund	1,000	50,000	—	25,302,466	—
Current Investments (Non Trade) (At Cost or Market/Fair Value, whichever is lower)					
In Units of Mutual Fund (Unquoted, Fully Paid up)					
Kotak Mahindra Mutual Fund					
Kotak Mahindra Liquid Scheme – Institutional Premium – Daily Dividend	10	126,530	5,441,877	1,547,229	66,543,812
Units purchased during the year:					
Kotak Mahindra Liquid Scheme – Institutional Premium – Daily Dividend: 14,655,050 units					
Units sold during the year:					
Kotak Mahindra Liquid Scheme – Institutional Premium – Daily Dividend: 19,970,397 units					
<b>Total</b>				<b>315,331,695</b>	<b>280,025,812</b>
Aggregate Value of Unquoted Investments :					
– At Book value				<b>315,331,695</b>	<b>280,025,812</b>
				<b>31st March, 2007 Rupees</b>	<b>31st March, 2006 Rupees</b>
<b>Schedule 6 — Sundry Debtors (Unsecured)</b>					
Considered good					
– Over six months				—	—
– Others [includes Rs. 649,725 (previous year Rs. 430,481) due from fellow subsidiary (previous year : holding company)]				649,725	591,792
<b>Total</b>				<b>649,725</b>	<b>591,792</b>
<b>Schedule 7 — Cash and Bank Balances</b>					
Cash on hand				36	4,036
Balances with scheduled banks on - current account				931,980	884,895
– Fixed deposit account (Refer note 4 on Schedule 15)				61,568,198	57,000,000
<b>Total</b>				<b>62,500,214</b>	<b>57,888,931</b>

## Schedules forming part of the Balance Sheet (Contd.)

	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Schedule 8 — Other Current Assets</b>		
Interest accrued on		
– fixed deposits	451,670	466,949
– long term investments	11,499,400	94,516
<b>Total</b>	<b>11,951,070</b>	<b>561,465</b>

## Schedule 9 — Loans And Advances

(Unsecured, considered good)

Advances recoverable in cash or in kind or for value to be received	744,052	708,485
Deposits with National Stock Exchange of India Limited	21,000,000	21,000,000
Deposits with National Securities Clearing Corporation Limited	4,000,000	4,050,000
Other Deposits	330,000	330,000
Advance payment of income taxes (net of provision for tax: Rs. 59,850,000) (previous year – Rs. 57,150,000)	619,099	608,246
<b>Total</b>	<b>26,693,151</b>	<b>26,696,731</b>

## Schedule 10 — Liabilities

Temporary book overdraft	—	44,287
Sundry creditors (Other than small scale industrial undertaking)*	4,310,074	7,369,137
Interest accrued but not due	39,045	—
Other liabilities	2,067,992	37,020
<b>Total</b>	<b>6,417,111</b>	<b>7,450,444</b>

\* There are no amounts due and outstanding to be credited to investor education and protection fund.

## Schedule 11 — Provisions

Gratuity	16,098	43,513
Leave encashment	37,260	—
<b>Total</b>	<b>53,358</b>	<b>43,513</b>

## Schedules forming part of the Profit and Loss Account

	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Schedule 12 — Personnel</b>		
Salaries, allowances and bonus	2,728,015	608,426
Gratuity and leave encashment	64,963	18,051
Contribution to provident and other funds	59,895	22,430
	<b>2,852,873</b>	<b>648,907</b>

## Schedule 13 — Interest and Other Financial Charges

Interest on		
– Inter corporate deposits	3,419,452	—
– Overdraft	—	402,807
– Others	1,410	1,003
Guarantee commission	630,617	116,840
Bank charges	1,884	9,357
	<b>4,053,363</b>	<b>530,007</b>

## Schedule 14 — Administrative and Operating Expenses

National Stock Exchange of India Limited charges	1,311,033	1,257,424
Insurance	121,383	32,856
Rates and taxes	1,600	1,600
Professional charges (including Rs. Nil of earlier years and previous year Rs. 20,000)	268,283	118,210
Stamping	630,798	661,404
Auditors' remuneration		
– Audit fees	250,000	250,000
– Tax audit fees	100,000	100,000
– In other capacity	25,000	25,000
– Out of pocket expenses	2,985	2,825
Service charges	9,026,016	9,792,472
Repairs and Maintenance - others	—	271,559
Membership and subscription	896,620	206,647
Other expenses	554,737	762,980
	<b>13,188,455</b>	<b>13,482,977</b>

## Schedule forming part of the Balance Sheet and Profit and Loss Account

### SCHEDULE 15 — NOTES TO THE FINANCIAL STATEMENTS

#### 1. Significant Accounting Policies

##### A. Accounting Convention

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

##### B. Revenue Recognition

Brokerage and clearing fees are recognized net of service tax as on the date of contract.

##### C. Fixed Assets and Depreciation

(a) Fixed assets are stated at cost inclusive of incidental expenses less accumulated depreciation.

(b) Depreciation is provided on the straight-line method over the useful life of the fixed assets on pro rata basis for additions and deletions during the year as under:

Computers and software:	3 years
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(c) Fixed assets costing less than Rs. 5,000 are fully depreciated in the year of purchase.

##### 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 the carrying value, other than temporary in nature is provided for. Current investments are valued at cost or market/fair value whichever is lower. In case of investments in mutual funds, the net asset value of units is considered as market/fair value.

##### E. Taxation

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 difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

##### F. Employee Benefits

###### (a) Short-Term Employee Benefits:

The employees of the Company are entitled to leave encashment as per the leave policy of the Company. The liability in respect of leave encashment is provided on the basis of unavailed accumulated leave balances of employees on the basis of their current salaries.

###### (b) Long-Term Employee Benefits:

###### Defined Contribution Plan

The Company contributes to a Defined Contribution plan for post employment benefits namely; Provident Fund; of its holding company/ fellow subsidiary (Refer Note 5 below) and has no further obligation beyond making its contribution.

The Company's contribution to the above fund is charged to revenue every year.

###### Defined Benefit Plan

Provision for gratuity is determined on the basis of an actuarial valuation at the year end.

Actuarial gains and losses comprise experience adjustments and the effects of changes in actuarial assumptions and are recognized immediately in the Profit and Loss Account as income or expense.

## Schedule forming part of the Balance Sheet and Profit and Loss Account (Contd.)

2. (a) Guarantees given by scheduled banks on behalf of the Company in favour of National Securities Clearing Corporation Limited towards base capital – cash segment Rs. Nil (Previous Year Rs. 2,500,000), towards base capital – derivatives segment Rs. 2,500,000 (Previous Year Rs. 2,500,000) and towards additional base capital – derivatives segment Rs. 50,000,000 (Previous Year: Rs. 50,000,000).
- (b) The Company is contingently liable in respect of calls on 50,000 partly paid units of India Growth Fund aggregating Rs. 25,000,000 and on 1,000 partly paid units of Kotak India Real Estate Fund 1 aggregating Rs. 25,000,000.
3. Components of deferred tax balances are as follows:

	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Deferred tax liability</b>		
Depreciation	(193,358)	(354,771)
<b>Total</b>	<b>(193,358)</b>	<b>(354,771)</b>
<b>Deferred tax asset</b>		
Provision for gratuity/leave encashment	18,134	14,646
<b>Total</b>	<b>18,134</b>	<b>14,646</b>
<b>Net Deferred Tax (Liability)/Asset</b>	<b>(175,224)</b>	<b>(340,125)</b>

In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the level of historical taxable income and projections for future taxable income over the period in which the deferred tax assets are deductible, Management is of the view that it is more likely than not that the Company will realize the benefits of these deductible differences.

4. Fixed deposits with scheduled banks include Rs. 22,500,000 (Previous Year Rs. 20,000,000) which is under lien with National Securities Clearing Corporation Limited and Rs. 26,261,363 (Previous Year Rs. 27,500,000) which is under lien with scheduled banks as margin for issuance of bank guarantees.
5. As the Company does not have the minimum number of employees required for registration with the provident fund authorities, provident fund dues, have been deposited in the provident fund account of its holding company/fellow subsidiary.
6. (i) The Accounting Standard 15 (AS 15) (Revised 2005) on "Employee Benefits" issued by the Institute of Chartered Accountants of India has been early adopted by the Company with effect from April 1, 2006. Consequently, the transitional liability on account of gratuity amounting to Rs. 7,824 (net of deferred tax Rs. 4,366) and leave encashment amounting to Rs. 67,176 (net of deferred tax Rs. 34,084) has been debited to the opening balance of the Profit and Loss Account.
- (ii) The Company has classified the various benefits provided to employees as under:-

- (a) Defined Contribution Plan – Provident Fund

During the year, the Company has recognised the following amounts in the Profit and Loss Account –

Employers' Contribution to Provident Fund	Rs. 59,895*
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\* Included in Contribution to provident and other funds (Refer Schedule 12)

- (b) Defined Benefit Plan – Contribution to Gratuity Fund

In accordance with Accounting Standard 15 (Revised 2005), actuarial valuation was done in respect of the aforesaid defined benefit plan of gratuity based on the following assumptions:

Discount rate (per annum)	8.20%
Rate of increase in compensation levels	15% p.a. for first 2 years; 10% p.a. for next 2 years and 6% p.a. thereafter
Rate of return on plan assets	Not applicable
Expected average remaining working lives of employees	The employees are assumed to retire at the age of 58 years

## Schedule forming part of the Balance Sheet and Profit and Loss Account (Contd.)

	Rupees
<b>A. Changes in the Present Value of Obligation</b>	
Present value of obligation as at April 1, 2006	55,703
Interest cost	4,180
Past service cost	Nil
Current service cost	9,284
Curtailement cost	Nil
Settlement cost	Nil
Benefits paid	(67,308)
Actuarial (gain)/loss on obligations	14,239
Present value of obligation as at March 31, 2007	16,098
<b>B. Amount recognized in the Balance Sheet</b>	
Present value of obligation as at March 31, 2007	16,098
Fair value of plan assets as at March 31, 2007	Nil
<b>Liability recognized in the Balance Sheet</b>	<b>**16,098</b>
** Included in Provisions – Gratuity (Refer Schedule 11)	
<b>C. Expenses recognized in the Profit and Loss Account</b>	
Current service cost	9,284
Past service cost	Nil
Interest cost	4,180
Net actuarial (gain)/loss recognized during the year	14,239
<b>Total expense recognized in the Profit and Loss Account</b>	<b>***27,703</b>
*** Included in Personnel – Gratuity and leave encashment (Refer Schedule 12)	

### 7. Related parties disclosures

#### Relationships (During the year)

##### (a) Related parties where control exists:

Nature of relationship	Related Party
Holding Company	Kotak Mahindra Bank Limited (KMBL) (holds 51% of the equity share capital with effect from September 29, 2006) Kotak Mahindra Capital Company Limited (KMCC) (held 100% of the equity share capital until September 28, 2006; holds 49% thereafter) Mr. Uday S. Kotak along with relatives and companies controlled by him holds 51.46% of the equity share capital of KMBL

##### (b) Other Related parties:

(i) Fellow Subsidiaries:	Kotak Mahindra Capital Company Limited (with effect from September 29, 2006) Kotak Securities Limited Kotak Mahindra Asset Management Company Limited Kotak Mahindra Prime Limited Kotak Mahindra Investments Limited
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## Schedule forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(ii) The following transactions were carried out with related parties in the ordinary course of business

Nature of Transactions	Holding Company		Fellow Subsidiary Companies					Total
	Kotak Mahindra Bank Limited	Kotak Mahindra Capital Company Limited	Kotak Mahindra Capital Company Limited	Kotak Securities Limited	Kotak Mahindra Asset Management Company Limited	Kotak Mahindra Prime Limited	Kotak Mahindra Investment Limited	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Finance</b>								
Interest paid	—	—	50,342	—	—	3,369,110	—	3,369,110
Inter corporate deposits taken	—	—	25,000,000	—	—	70,000,000	—	95,000,000
Inter corporate deposits repaid	—	—	—	—	—	70,000,000	—	70,000,000
Inter corporate deposits given	—	(150,000,000)	—	—	—	—	(80,000,000)	(80,000,000)
Inter corporate deposits repaid	—	(150,000,000)	—	—	—	—	(80,000,000)	(80,000,000)
Fixed deposit placed	73,761,363 (6,876,100,000)	—	—	—	—	—	—	—
Fixed deposit withdrawn	69,193,165 (8,989,949,952)	—	—	—	—	—	—	—
Interest received	3,016,253 (83,171,412)	— (593,014)	—	—	—	—	— (298,083)	— (298,083)
<b>Outstanding</b>								
Bank balance								
– Fixed deposit account	36,568,198 (32,000,000)	—	—	—	—	—	—	—
– Current account	342,884 *(503,938)	—	—	—	—	—	—	—
Interest accrued on fixed deposits	383,671 (195,282)	—	—	—	—	—	—	—
Brokerage/Commission Receivable	—	— (430,481)	649,725	—	—	—	—	—
<b>Investments</b>								
Purchase/subscription	\$5,000,000	\$70,302,466	—	—	#179,203,417 #(844,346,650)	—	\$25,000,000	#204,203,417 #(844,346,650)
Sale/redemption	—	—	—	—	#244,200,000 #(807,019,859)	—	—	#244,200,000 #(807,019,859)
Share Capital Issued	23,419,300	—	—	—	—	—	—	—
<b>Other Receipts and Payments</b>								
Service/other expenses paid/payable	175,427 (48,234)	600,000 (1,200,000)	600,000	7,827,959 (8,615,536)	—	—	—	8,427,959 (8,615,536)
Dividend Received	\$324,182	—	—	—	#2,014,116 #(3,245,679)	—	—	#2,014,116 #(3,245,679)
Payable	260,175	—	39,045	3,180,481 (6,400,808)	—	—	—	3,219,526 (6,400,808)

\* Net of temporary book overdraft of Rs. 44,287.

# Includes income/transactions in respect of investments in, and purchase from/redemptions to-schemes of Kotak Mahindra Mutual Fund, managed by a fellow subsidiary.

\$ Includes income/transactions in respect of investments in India Growth Fund and Kotak India Real Estate Fund managed by holding company and fellow subsidiary respectively.

Figures in brackets relates to the previous year.

## Schedule forming part of the Balance Sheet and Profit and Loss Account (Contd.)

### 8. Segmental Information

The Company acts as a broking and clearing member on the National Stock Exchange of India Limited. As the Company is engaged only in one business segment and there are no geographical segments, the Balance Sheet as at March 31, 2007 and March 31, 2006 and the Profit and Loss Account for the year ended March 31, 2007 and March 31, 2006 pertain to one business segment.

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

	31st March, 2007	31st March, 2006
Profit attributable to equity shareholders (Rs.)	3,445,134	279,659,924
Weighted/Basic number of equity shares outstanding during the year	3,430,972	2,250,070
Earnings per share (basic and diluted) (Rs.)	1.00	124.29
Nominal value of equity shares (Rs.)	10.00	10.00

10. The Board of Directors and the shareholders of the Company, at their respective meetings held on September 29, 2006 have approved the Scheme of Arrangement (the "Scheme") to demerge the operations of the Company's undertaking in relation to the trading and clearing membership of the National Stock Exchange of India Limited, along with the long-term investments of the Company at book values on a going concern basis ("Demerged Undertaking") to Kotak Mahindra Capital Company Limited. The Scheme has been approved by the Hon'ble High Court of Mumbai on February 15, 2007. However the transfer of membership is pending approval by the regulatory authorities. Accordingly, the said Scheme has not been given effect in these financial statements. The amounts attributable to the Demerged Undertaking of the Company are as follows:

	31st March, 2007 Rupees	31st March, 2006 Rupees
Total Assets	196,929,274	157,743,966
Total Liabilities	31,470,469	7,493,957
Income	15,748,654	329,441,955
Expenditure	21,229,371	15,698,883
Net cash flow (used in)/from:		
(a) operating activities	(4,385,755)	(2,025,551,095)
(b) investing activities	(33,342,186)	176,529,577
(c) financing activities	44,999,848	891,097

11. Information with regard to other matters specified in paragraphs 4, 4A, 4C and 4D of Part II of Schedule VI to the Companies Act 1956 is either Nil or not applicable to the Company for the financial year ended 31st March, 2007.

## Schedule forming part of the Balance Sheet and Profit and Loss Account (Contd.)

### 12. BALANCE SHEET ABSTRACT AND COMPANY GENERAL BUSINESS PROFILE

#### (a) Registration Details

Registration Number 

			7	7	4	7	2
--	--	--	---	---	---	---	---

  
 Balance Sheet Date 

3	1		0	3		2	0	0	7
---	---	--	---	---	--	---	---	---	---

  
Date Month Year

State Code 

1	1
---	---

#### (b) Capital raised during the year (Rs. '000s)

Public Issue 

					N	I	L
--	--	--	--	--	---	---	---

  
 Bonus Issue 

					N	I	L
--	--	--	--	--	---	---	---

Right Issue 

					N	I	L
--	--	--	--	--	---	---	---

  
 Private Placement 

			2	3	4	1	9
--	--	--	---	---	---	---	---

#### (c) Position of Mobilization and Deployment of Funds (Rs. '000s)

Total Liabilities 

			3	1	6	6	3
--	--	--	---	---	---	---	---

  
 Sources of Funds (Rs. '000s)  
 Paid up Capital 

			4	5	9	2	0
--	--	--	---	---	---	---	---

  
 Secured Loans 

					N	I	L
--	--	--	--	--	---	---	---

  
 Deferred Tax Liability 

					1	9	4
--	--	--	--	--	---	---	---

Total Assets 

			4	1	8	1	4	6
--	--	--	---	---	---	---	---	---

  
 Reserves and Surplus 

			3	4	0	5	6	2
--	--	--	---	---	---	---	---	---

  
 Unsecured Loans 

			2	5	0	0	0
--	--	--	---	---	---	---	---

#### Application of Funds (Rs. '000s)

Net Fixed Assets 

			1	0	0	2
--	--	--	---	---	---	---

  
 Deferred Tax Asset 

					1	8
--	--	--	--	--	---	---

  
 Miscellaneous Expenditure 

					N	I	L
--	--	--	--	--	---	---	---

Investments 

			3	1	5	3	3	2
--	--	--	---	---	---	---	---	---

  
 Net Current Assets 

			9	5	3	2	3
--	--	--	---	---	---	---	---

  
 Accumulated Losses 

					N	I	L
--	--	--	--	--	---	---	---

#### (d) Performances of the Company (Rs. '000s)

Turnover/Income 

			2	7	2	4	8
--	--	--	---	---	---	---	---

  
 Profit Before Tax 

			6	0	1	9
--	--	--	---	---	---	---

  
 Earning Per Share (in Rs.) 

			1	.	0	0
--	--	--	---	---	---	---

Total Expenditure 

			2	1	2	2	9
--	--	--	---	---	---	---	---

  
 Profit after Tax 

			3	4	4	5
--	--	--	---	---	---	---

  
 Dividend Rate (%) 

					N	I	L
--	--	--	--	--	---	---	---

#### (e) Generic Names of Three Principal Products/Services of Company

Item Code No. 

N	A
---	---

  
 (ITC Code)  
 Product Description 

B	R	O	K	I	N	G		A	N	D		C	L	E	A	R	I	N	G
---	---	---	---	---	---	---	--	---	---	---	--	---	---	---	---	---	---	---	---

13. Figures for the previous year have been regrouped wherever necessary to conform to current year's classification.

Signatures to Schedules 1 to 15 forms part of the financial statements and to the above notes.

For and on behalf of  
**Price Waterhouse**  
 Chartered Accountants

Vivek Prasad  
 Partner  
 Membership No. F104941

Uthra Parameswaran  
 Company Secretary

For and on behalf of the Board of Directors

Falguni Nayar  
 Director

Jaimin Bhatt  
 Director

Mumbai  
 Dated: 2nd May, 2007