



BOARD OF DIRECTORS : Paul Parambi, Shyam Kumar, V. Varadarajan

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 31 December, 2001

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Indian stock markets went through a very difficult phase during the year. The year witnessed significant changes being introduced in the Indian equity markets. The settlement system in India has been revamped, derivatives have been introduced, secondary market purchase and sale of shares by Overseas Corporate Bodies owned by non-resident Indians has been banned, two way fungibility has been introduced between Indian depository receipts and underlying stock.

While the Company believes that these changes are good for the long term health of the markets, in the short term trading volumes were severely impacted. This has also affected the overall trading revenues of the Company during the year.

The Company commenced Securities Lending and Borrowing Activity during the year. This has significantly benefited client trading on the ADR markets. The ADR markets are gaining increasing importance in the activities of the Company, with new listings of Indian companies, and due to the greater liquidity and volatility of these markets as compared to the markets for Indian GDRs.

The Company obtained membership of the London Stock Exchange during the year. An important development has been the transfer of 11 of the most actively traded Indian GDRs to the International order book trading system of the London Stock Exchange. As a member of the London Stock Exchange, the Company is in a position to trade these GDRs through the order book. During the year the Company commenced trading in Indian eurobonds and other debt paper. The Company has succeeded in building a good network with various market players. This new activity should benefit the Company in future.

As a Foreign Institutional Investor (FII) registered with the Securities and Exchange Board of India, the Company has set up a number of sub-accounts during the year. The trading volumes through the sub-accounts have been growing steadily.

Over the year the Company has focussed on improving its systems and processes as well as on automating large parts of its backoffice processes.

The Company is regulated by the Financial Services Authority in the United Kingdom.

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FUTURE DEVELOPMENT

The Company plans to continue its thrust on building its network of clients during the coming year and sees substantial further growth in its ADR business. Efforts will be focused on this segment of the business.

With permission to FIIs to participate in the domestic derivatives market, and with the introduction of two way fungibility between Indian depository receipts and underlying stock, the Company sees significant growth potential for Indian Securities. This will be an important element of its growth strategy for the future.

The Company also sees a growth potential into trading Eurobonds. The Company intends to extend its trading activity to Eurobonds of non-Indian entities as well.

The Company sees its activities getting more complex over time and intends to continue focussing significant resources on its systems, processes and on automation, so as to adequately address compliance, and risk management issues.

RESULTS AND DIVIDENDS

The Profit and Loss Account is set out on page 8 of the financial statements. The loss on ordinary activities after taxation for the year ended 31 st December 2001 was USD 231,000 (31st December, 2000; Profit USD 384,000).

The Directors do not recommend payment of a dividend (2000:USD 300,000).

The loss for the year has been deducted from reserves brought forward.

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DIRECTORS AND DIRECTORS' INTEREST

The Directors as on the date of this Report and who served during the year are Mr. Uday Kotak, Mr. Chengalath Jayaram, Mr. Sanjay Tantia, Mr. Viswanathan Varadarajan and Mr. Paul Verghese Parambi.

None of the Directors has, or had during the year, any interest in the shares of the Company. As the Company is a subsidiary of the ultimate parent company incorporated outside of Great Britain, the directors are not required to notify the Company of interest in shares of that or any other body corporate incorporated outside of Great Britain.

FIXED ASSETS

Information on the tangible fixed assets of the Company is given in Note 7 to the financial statements.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers as Auditors of the Company will be proposed at the next Annual General Meeting

By Order of the Board of Directors,
PAUL V. PARAMBI
Director & CEO
London

London, March 26, 2002

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DIRECTORS' RESPONSIBILITIES

The Directors are required by UK Company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2001. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Paul V Parambi
Director & CEO
London

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KOTAK MAHINDRA (UK) LIMITED

We have audited the financial statements on pages 8 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act, 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act, 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

London
March 26, 2002

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**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001**

	Notes	2001	2000
		\$'000	\$'000
Turnover – continuing operations	2	1,666	2,604
Net Operating expenses – continuing Operations		(2,065)	(2,140)
Operating (Loss)/Profit – continuing operations		(399)	464
Interest receivable and similar income	3A	134	101
Interest payable and similar expenses	3B	(81)	(3)
(Loss)/Profit on ordinary activities before taxation	4	(346)	562
Taxation on (Loss)/Profit on ordinary activities	6	115	(178)
(Loss)/Profit on ordinary activities after taxation	14	(231)	384
Proposed Dividend		—	(300)
Accumulated (Loss)/Retained Profit for the financial year		(231)	84

The Company has no recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented

There is no difference between the (Loss)/profits on ordinary activities before taxation and the accumulated (Loss)/retained profit for the year stated above and their historical cost equivalents.

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BALANCE SHEET AS AT 31 DECEMBER 2001

	Notes	2001	2001	2000	2000
		\$'000	\$'000	\$'000	\$'000
FIXED ASSETS					
Tangible Assets	7		20		43
CURRENT ASSETS					
Debtors	8	6,308		3,215	
Cash at Bank and in hand	9	4,902		5,789	
		11,211		9,004	
CREDITORS					
Amounts falling due within one year	10	(9,990)		(7,572)	
NET CURRENT ASSETS			1,221		1,432
TOTAL ASSETS LESS CURRENT LIABILITIES			1,241		1,475
CREDITORS					
Amounts falling due after more than one year	11		(72)		(75)
NET ASSETS			1,169		1,400
CAPITAL AND RESERVES					
Called up Share Capital	12		731		731
Profit and Loss Account	13		438		669
EQUITY SHAREHOLDERS' FUNDS	14		1,169		1,400

The financial statements on pages 8-16 were approved by the Board of Directors on and were signed on its behalf by

PAUL PARAMBI
Director & CEO

Place : London

Date : March 26, 2002

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NOTES TO THE FINANCIAL STATEMENTS — YEAR ENDED 31 DECEMBER 2001

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important policies, which have been applied consistently, is set out below:

A. BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

B. TANGIBLE FIXED ASSETS

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purposes are :

Fixtures and Fitting – 33.33%	Computers –33.33%
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C. FOREIGN CURRENCY

The company's reporting currency is US Dollars as the majority of its transactions are denominated in that currency. Monetary assets and liabilities in foreign currencies are translated into US Dollars at the rates of exchange ruling at the balance sheet date (£= \$1.4401, 2000: £= \$1.4938). Revenues and costs denominated in other currencies are recorded at the rate of exchange during the day in which they are incurred. All exchange differences arising are taken to the profit and loss account in the year in which they arise.

D. OPERATING LEASES

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

E. CASH FLOW STATEMENT

In accordance with the revised Financial Reporting Standard No.1 the Company has not prepared a cash flow statement. The Company's results are consolidated in the financial statements of its immediate parent company, Kotak Mahindra International Limited, which are publicly available.

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F. TAXATION

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

G. SECURITIES LENDING & BORROWING

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions required Kotak Mahindra (UK) Limited to provide the counterparty with collateral in the form of cash or other acceptable securities. Kotak Mahindra (UK) Limited received collateral in the form of cash or other collateral for securities loaned transactions. For these transactions, the fee income is recognised over the period of contract in terms of the agreement with the respective clients. On a daily basis, Kotak Mahindra (UK) Limited monitors the market value of securities borrowed or loaned against the collateral value. The collateral value received against lending of securities is based on the risk assessment procedures of Kotak Mahindra (UK) Limited.

H. TURNOVER

Turnover represents invoiced commission and fees and other revenue net of value added tax.

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2. TURNOVER – COMMISSIONS AND FEES

	2001	2000
	\$'000	\$'000
Commissions and Fees	1,557	2,578
Other trading revenue	109	26
	<u>1,666</u>	<u>2,604</u>

Turnover represents invoice commission and fees and other revenue net of value added tax. Other trading revenue for the current year represents brokerage and syndication fees earned on India Millenium Deposits of State Bank of India, revenue from securities lending to clients, and referral fees received for trades introduced from foreign institutional investors to Kotak Securities in India.



NOTES TO THE FINANCIAL STATEMENTS — YEAR ENDED 31 DECEMBER 2001

	2001	2000
	\$'000	\$'000
3. INTEREST RECEIVABLE AND SIMILAR INCOME		
3A. Interest Receivable		
Interest Receivable – Banks	36	71
Interest Receivable – Clients	78	4
Interest Receivable – Others	20	26
	134	101
3B. Interest Payable		
Interest Payable – Banks	(3)	(3)
Interest Payable – Clients	(78)	—
	(81)	(3)
4. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		
(Loss)/Profit on ordinary activities before taxation is stated after charging:		
Depreciation	28	23
Auditor's Remuneration	42	41
Staff Costs (excluding directors' emoluments)	767	504
Directors' emoluments	146	270
Operating lease rentals – motor vehicles	5	5
5. STAFF COSTS AND DIRECTORS' EMOLUMENTS		
Particulars of employees remuneration are as shown below:-		
Wages and Salaries	737	466
Social security costs	30	38
	767	504

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5 STAFF COSTS AND DIRECTORS' EMOLUMENTS (Continued)**Directors' Emoluments**

Aggregate emoluments

270

270

Directors' emoluments include an amount for bonus paid during the year but accrued for in the prior year.

The emoluments of Mr. Uday Kotak, Mr. Sanjay Tantia (appointed 26/09/2001) and Ms. Falguni Nayar (resigned 26/09/2001) are paid by the parent company. Their services to this Company and a number of other fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the parent company. Accordingly, the above details include no emoluments in respect of these directors.

Employee Information

The average monthly number of persons (including executive directors) employed by the Company during the year was :

Number

Number

9

7

6 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

UK corporation tax at 30% (2002:30%)

(65)

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Prior Period Adjustment for (over)/under provision

(50)

—

(115)**178****7 TANGIBLE FIXED ASSETS**

The movement in the year was as follows:

	Fixtures & Fittings	Computers	Total
	\$'000	\$'000	\$'000
Cost			
As at 1 January 2001	94	56	150
Additions	2	2	4
As at 31 December 2001	96	58	154
Depreciation			
As at 1 January 2001	75	32	107
Charge for the year	13	15	28
As at 31 December 2001	88	47	135
Net Book Value			
As at 31 December 2001	9	11	20
As at 31 December 2000	19	24	43

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NOTES TO THE FINANCIAL STATEMENTS — YEAR ENDED 31 DECEMBER 2001

	2001	2000
	\$'000	\$'000
8. DEBTORS		
Amounts falling due within one year:		
Amounts due from brokers	6,160	2,082
Amounts due from Parent Undertaking	—	137
Amounts due from clients	1	162
Other debtors	47	814
Corporation Tax	65	—
Prepayments and accrued Income	36	20
	6,309	3215
9. BANK BALANCES		
The amount show as 'cash at bank and in hand' is made up as follows		
Client segregated funds	3,509	3,998
Non-segregated funds	1,393	1,791
	4,902	5,789

As required by the United Kingdom's Financial Services and Markets Act 2000 and the Rules of the Financial Services Authority, the Company maintains certain balances on behalf of clients with banks and clearing houses in segregated accounts totalling \$3,509,000 as at 31 December 2001 (as at 31 December 2000 : \$3,998,000). These amounts and the related liabilities are included in the Company's Balance Sheet.

	2001	2000
	\$'000	\$'000
10. CREDITORS - Amounts falling due within one year		
Amounts falling due within one year:		
Bank overdraft	7	578
Amounts due to parent undertaking	1,190	—
Amounts due to brokers	1,928	2,186
Amounts due to clients	6,523	4,004
Other creditors	73	144
Other taxation and social security	20	185
Accruals and deferred income	249	175
Proposed Dividend	—	300
	9,990	7,572
11. CREDITORS - Amounts falling due after more than one year		
Amount falling due after more than one year:		
Subordinated loan from parent undertaking	72	75
	72	75

The amount outstanding as at 31 December 2001 represents a long term subordinated loan of Sterling 50,000 (2000: Sterling 50,000) from the Company's parent undertaking Kotak Mahindra (International) Limited. The loan is unsecured and interest free and constitutes regulatory capital as approved by the Regulatory Authority- The Financial Services Authority. It is repayable upon giving or receiving two years notice to or from the parent undertaking. No such notice had been given or received at the Balance Sheet Date.



NOTES TO THE FINANCIAL STATEMENTS — YEAR ENDED 31 DECEMBER 2001

	2001	2000
	£'000	£'000
12 CALLED UP SHARE CAPITAL		
Authorised		
Ordinary Shares of £ 1.00 each	1,000	1,000
Allotted, called up and fully paid:		
Ordinary Shares of £ 1.00 each	470	470
Translated into US Dollars (£ 1= \$1.558)	731	731
13 RESERVES		
Profits brought forward at 1 January 2001	669	585
(Loss)/Profit for the year	(231)	84
Profit carried forward at 31 December 2001	438	669
14. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS		
(Loss)/Profit for the year	(231)	384
Dividends	—	(300)
Opening Shareholders' Funds at 1 January 2001	1,400	1,316
Closing Shareholders' Funds at 31 December 2001	1,169	1,400

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15. COMMITMENTS AND CONTINGENCIES

As at 31 December 2001, the company had annual Commitments under non-cancelable operating leases as follows :

	Land and Buildings (\$'000)	Other Operating leases (\$'000)
Operating leases which expire		
Within one year	25	4
Between one year and five years	29	2

16. SECURITIES LENDING AND BORROWING

The Company has paid USD 1,805,882 (2000: Nil) for borrowing stock valued at USD 1,702,394 (2000 : Nil) and has accepted collateral from clients against the same to the value of USD 2,224,435 (2000: Nil). The cash amounts relating to the collateral have been included in amounts due to/from clients and brokers.

17. RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemptions in Financial Reporting Standard No. 8 "Related Party Transactions", not to disclose transactions with Kotak Mahindra (International) Limited and other group companies. The parent company's financial statements are available at St John's Square Secretaries Limited, 78, Hatton Garden, London ECIN 8AJ.

During the year Mr R Parambi, a related party of Mr P Parambi, a director of the Company entered into a number of transactions with the Company to buy and sell securities, with a total value of \$ 14,741.78 and \$ 9,458.75 respectively. The transactions were entered into in accordance with the Company's standard terms of business and generated commission for the Company of \$ 160.03. There was a balance outstanding at the year end date of \$ 1,063.16 due to Mr. R Parambi.

18. ULTIMATE PARENT COMPANY

The Company's immediate parent company is Kotak Mahindra (International) Limited which is incorporated in Mauritius. The Company's ultimate parent company and controlling party is Kotak Mahindra Finance Limited, a Company incorporated in India.

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