BOARD OF DIRECTORS : Paul Parambi, Ravi Lochan Pola, V. Vardarajan, Shyam Kumar.

DIRECTORS' REPORT

The Directors present their Third Annual Report and Audited Financial Statements of the Company for the year ended December 31, 2001

ACTIVITY AND OPERATIONS

The Company is regulated by the Securities and Exchange Commission in the conduct of its Brokerage Business. The Company's main activity was to maintain institutional customer accounts who regularly deal in Indian Securities listed on National Stock Exchange and Bombay Stock Exchange in India.

The Company also provided cross border advisory services to group companies pertaining to their customer dealings in the United States

NEW DEVELOPMENTS

In January 2002, the Company received permission from National Association of Securities Dealers (NASD) to expand the scope of its business to include retailing of Corporate Debt , Equity and US Government Securities to High Net Worth Individuals and to engage in proprietary trading. Therefore the Company expects to provide its services to the large Non Resident Indian (NRIs) community in the USA for their investments into India.

RESULTS AND DIVIDENDS

The Company's loss for the year ended December 31, 2001 amounts to USD 161,260 (2000: Profit USD 44,629). The Directors do not recommend payment of any dividend.

AUDITORS

The financial statements have been audited by Rothstein Kass and Company, P.C., Certified Public Accountants. The audit was conducted in accordance with generally accepted auditing standards and included an evaluation of internal control structure and selective tests of transactions. The reports of the Accountants follow this Report. A Resolution to reappoint Rothstein Kass and Company, P.C as Auditors of the Company will be proposed at the next Annual General Meeting.

MANAGEMENT RESPONSIBILITIES

We, the management of Kotak Mahindra Inc., are responsible for the financial statements and the information and representations contained in this Report. The financial statements have been prepared in conformity with generally accepted accounting principles. Financial information elsewhere in this report is consistent with that in the financial statements.

For and on behalf of the Board of Directors

Ravilochan Pola

New York, 7th February 2002

INDEPENDENT AUDITORS' REPORT

Board of Directors

Kotak Mahindra, Inc.

We have audited the accompanying statement of financial condition of Kotak Mahindra, Inc. as of December 31, 2001, and the related statements of operations, changes in stockholders' deficit, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kotak Mahindra, Inc. as of December 31, 2001, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

For ROTHSTEIN KASS & COMPANY, P.C.
Certified Public Accountants

Roseland, New Jersey

February 4, 2002

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2001

ASSETS

Cash	$	228,279
Due from affiliates		10,747
Office equipment, net of accumulated depreciation of **$ 7,073**		3,969
Other assets		16,439
	$	259,434

LIABILITIES AND STOCKHOLDERS' DEFICIT

Liabilities, accounts payable and accrued expenses	$	17,883
Liabilities subordinated to claims of general creditors		300,000
Commitments and contingencies		
Stockholders' deficit		
Common stock, $.01 par value, authorized 1,000,000 shares issued and outstanding 350,001 shares		3,500
Additional paid-in capital		346,501
Accumulated deficit		(408,450)
Total stockholders' deficit		(58,449)
	$	259,434

See accompanying notes to financial statements

STATEMENT OF OPERATIONS

DECEMBER 31, 2001

Revenues		
Business development fees	$	360,000
Advisory fees		13,000
Commissions		89,757
		462,757
Expenses		
Employee compensation and benefits		401,555
Professional fees		49,914
Communications		68,093
Clearance		1,212
Occupancy		19,800
Depreciation		2,537
Other		80,906
		624,017
Net loss	$	(161,260)

See accompanying notes to financial statements

STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT

DECEMBER 31, 2001

	Common Stock		Additional Paid-in	Accumulated
	Shares	Amount	Capital	Deficit
Balances, beginning of year	350,001	$ 3,500	$ 346,501	$ (247,190)
Net loss				(161,260)
Balances, end of year	350,001	$ 3,500	$ 346,501	$ (408,450)

See accompanying notes to financial statements

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

DECEMBER 31, 2001

Balance, beginning of year	$	100,000
Additional subordinated borrowings		200,000
Balance, end of year	$	300,000

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS

DECEMBER 31, 2001

Cash flows from operating activities	
Net loss	$ (161,260)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	2,537
Changes in operating assets and liabilites:	
Due from affiliates	(10,747)
Due from customer	42,932
Other assets	(7,962)
Securities failed to receive	(42,932)
Accounts payable and accrued expenses	(2,937)
Net cash used in operating activities	(180,369)
Net cash used in investing activities, purchases of office equipment	(291)
Net cash provided by financing activity, borrowings under subordinated debt agreements	200,000
Net increase in cash	19,340
Cash, beginning of year	208,939
Cash, end of year	$ 228,279

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

1. **Organization and nature of business**

Kotak Mahindra, Inc. (the "Company"), a majority owned subsidiary of Kotak Mahindra Capital Company Limited("the Parent"), is a broker dealer registered with the Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers, Inc. (NASD). The Company's operations consist primarily of engaging in agency transactions in Indian Shares, which are executed through an affiliate, Kotak Securities Limited(KS) and settled on a delivery versus payment basis, Indian Global Depository Receipts (GDR Business) and American Depository Receipts (ADR Business) which are executed through Kotak Mahindra (UK) Limited (KMUK) and settled on a delivery versus payment basis. The Company also provides investment advisory services.

2. **Liquidity**

The Company has suffered losses from operations and is dependent on the Parent for support. The Parent has committed to provide $100,000 to the Company through an additional subordinated loan with a three year maturity. In addition, in June 2001, the Company has amended a clearing agreement with K S. As a result of the amendment, the Company will execute all of its Indian share trades through KS and use it's facilities to clear such trades. Additionally, the amendment reduced the Company's settlement charges relative to such trades.

3. **Summary of significant accounting policies**

Office equipment

Office equipment is stated at cost less accumulated depreciation. The Company provides for depreciation using the straight-line method over an estimated useful life of 5 years.

Revenue and Expense Recognition from Securities Transactions

Securities transactions and the related revenues and expenses are recorded on a trade-date basis.

Income Taxes

The Company complies with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes". SFAS 109 requires the recognition of deferred tax assets and liabilities for both the expected future tax impact of differences between the financial statement and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss carryforwards. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. **Related party transactions**

The Company appointed Kotak Mahindra (UK) Limited, an affiliate, as its clearing agent for the ADR and GDR Business. In 2001, the Company received a total fee of $360,000, paid in equal installments of $30,000 per month, as payment for appointing the clearing agent and for building the franchise for the GDR Business. The Company has extended its agreement with KMUK to continue to build the GDR business through March 2002 and will earn an additional $90,000 from KMUK. During 2001, the Company paid approximately $1,200 in commissions, which are included in the statement of operations as clearance expense.

The Company provided advisory services to Kotak Mahindra (International) Limited, an affiliate. During the year ended December 31, 2001, advisory fees from this affiliate amounted to approximately $13,000. Amounts due from the affiliate at December 31, 2001 were $4,000.

For the year ended December 31, 2001, commissions earned through transactions cleared through KS approximated $85,000. At December 31, 2001, amounts due from KS were $6,747.

5. Liabilities subordinated to claims of general creditors

At December 31, 2001, the Company has amounts due of $200,000 under two subordinated loans for $100,000 each with Kotak Mahindra (International) Limited, which are pursuant to agreements approved by the NASD. The two loans mature September 30, 2003 and September 30, 2004, respectively, and are non-interest bearing.

The Company also has an amount due under a subordinated loan from the Parent in the amount of $100,000 pursuant to an agreement approved by the NASD. The loan matures on October 30, 2004 and is non-interest bearing.

6. Income taxes

The Company has a deferred tax asset of approximately $164,000 which is primarily attributable to approximately $409,000 of federal and New York State net operating loss carryforwards. The Company has established a valuation allowance in the same amount due to the uncertainty as to the realization of these carryforwards. These carryforwards begin to expire in 2019.

7. Contingencies

The Company has paid the security deposit and guaranteed the rent payments for two of its employees' apartment leases. Future minimum payments under these leases are approximately $3,400 a month through October 31, 2002.

8. Off-balance-sheet risk and concentrations of credit risk

In the normal course of business, the Company's activities involve the execution and settlement of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event a counter-party is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

Pursuant to a clearance agreement, the Company will introduce all domestic securities transactions to its clearing broker on a fully-disclosed basis. All of the customers' money balances and long and short security positions are carried on the books of the clearing broker. In accordance with the clearance agreement, the Company has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing broker monitor collateral on the customers' accounts.

9. Net capital requirement

The Company is a member of the NASD, and is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1. This Rule requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1, and that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2001, the Company's net capital was approximately $210,000, which was approximately $110,000 in excess of its minimum requirement of $100,000.

10. Exemption from Rule 15c3-3

The Company is exempt from the SEC Rule 15c3-3 and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers".

11. Subsequent event

In January 2002, the Company received approval from the NASD to expand its securities business to include retailing of corporate debt, equity and US government securities to high net worth individuals, as well as allowing for proprietary trading.

SUPPLEMENTARY INFORMATION

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION

DECEMBER 31, 2001

Total stockholders' deficit		**$ (58,449)**
Add: Liabilities subordinated to claims of general creditors allowable in computation of net capital		**300,000**
		241,551
Less nonallowable assets		**31,155**
Net capital		**$ 210,396**
Aggregate indebtedness		**$ 17,883**
Computed minimum net capital required (6.67% of aggregate indebtedness)		**$ 1,192**
Minimum net capital required		**$ 100,000**
Excess net capital ($210,396 - $100,000)		**$ 110,396**
Percentage of aggregate indebtedness to net capital	$ 17,883 / $ 210,396	**8.5%**

There are no material differences between the computation of net capital presented above and the computation of net capital reported on the Company's unaudited Form X-17A-5, Part II filing as of December 31, 2001.