

## Directors' Report

To the Members of

### Kotak Mahindra Capital Company Limited

The Directors present their Twelfth Annual Report together with the audited accounts of your Company for the year ended 31st March 2007.

#### 1. Financial Results

	Year Ended 31st March, 2007 Rupees in Lakhs	Year ended 31st March 2006 Rupees in Lakhs
Gross Income	20,518	25,989
Profit before Tax	9,390	18,215
Provision for Tax	2,602	1,992
Profit after Tax	6,788	16,223
Balance of Profit from previous years	21,979	9,001
Amount available for appropriation	28,767	25,224
<b>Appropriations:</b>		
Special Reserve under section 45 I C of The Reserve Bank of India Act, 1934.	(8,693)	3,245
Difference between the value of assets and liabilities transferred pursuant to a scheme of demerger	17,141	—
General Reserve	—	—
Dividend (including Distribution Tax)	—	—
Surplus carried forward to the Balance Sheet	20,319	21,979

#### 2. Dividend

The Directors do not recommend any dividend for the year.

#### 3. Business Operations

##### • Franchise Business

##### (a) Equities

The buoyancy in the primary market continued this year also with 85 public issues all of them being equity share issues. The total amount of funds raised in the year 2006-07 through public issues was approximately Rs. 2,499,336.56 lakhs.

Your Company once again maintained its dominant position in the equity market in India with a market share of about 19.7%. The issues managed by your Company include large equity offerings such as SUN TV Limited, Tech Mahindra Limited, Lanco Infratech, Limited, Power Finance Corporation, Mindtree Consulting Limited, Sobha Developers and ICRA Limited.

Your Company once again was the recipient of prestigious awards such as the Best Investment Bank in India 2006 by Finance Asia and as best domestic investment bank, 2006 from Asset Asia.

Your Company has a robust pipeline of mandates in across various sectors and would strive to be positioned as the most preferred Investment Banker.

Your Company's associate companies handled two GDR issues, which maintained the cross border execution capabilities of the Group.

##### (b) Advisory

Your Company was recently involved in many significant M&A transactions such as being exclusive financial advisor to Bombay Stock Exchange Ltd. ("BSE") in its demutualization, involving a private placement of 51% of BSE to strategic investors, sole financial advisor to the approx. Rs. 20 billion sale of promoter holding in Anchor Electricals (AEPL) to Matsushita Electric Works, Advisor to Hutchison Telecom for the US\$ 18.8 billion sale of its Indian operations to Vodafone, sole investment banking advisor to both the Blackstone Group and Ushodaya Enterprises in the US\$ 275 million financing for Ushodaya, the owner of the Eenadu newspaper and ETV channels, the largest ever media financing in the country, exclusive advisor to the INX group in the financing for both its entertainment and news media company.

Your Company did significant work for the Mahindra and Mahindra as financial advisors to their acquisition of controlling stake in Punjab Tractors Ltd., for their acquisition of 67.9% stake in JECO Holding AG of Germany, the largest outbound auto component acquisition by an Indian Company, for their acquisition of Schoneweiss & Co., GmbH, a leading company in the forgings sector in Germany and on acquisition of the Chakan unit of Amforge.

Your Company established its leadership position in real estate sector. It was the sole financial Advisor to Kingston Properties Private Limited for US\$150 million private equity funding by Morgan Stanley, as well as sole financial advisor to Divyasree Group for the Rs. 4.6 billion private equity funding by TPG-Axon.

Other significant transactions were being exclusive financial advisor to IFFCO for the sale of its holding in Godavari Fertilizers and Chemicals to Coromandel Fertilizers Ltd. and Manager to the consequent open offer, Advisor to Pioneer Global Asset Management, a USD 370 billion asset management subsidiary of Unicredit Group of Italy, in a majority joint venture with Bank of Baroda for mutual funds in India, sole financial advisors to Raymond in setting up a transnational joint venture denim company with UCO textiles of Belgium, by contribution of their respective existing denim businesses, creating a company with an estimated enterprise value of Euro 200 million, exclusive financial advisors to Great Eastern Shipping Limited for de-merger of the Offshore division.

Your Company has a healthy pipeline of advisory transactions and hopes to close significant transactions during FY08.

##### (c) Clearing

Your Company continued with its clearing business as a Professional Clearing Member (PCM) of the National Securities and Clearing Corporation where it acts as clearing member to its clients for derivative transactions executed on the National Stock Exchange. Your Company has earned good revenues from this business.

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 KMSL 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.

- **Principal Business**

**Primary Dealership and Treasury Operations**

A Petition was also 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 Bank Limited (KMBL), Kotak Mahindra Capital Company Limited (KMCC) and their respective shareholders and creditors for demerger of undertaking comprising of the Principal and Trading including Primary Dealership business of KMCC to KMBL. The Hon'ble Bombay High Court granted its approval to the same vide Order dated 15th February 2007. This scheme has become effective from March 20, 2007.

**4. Human Resources**

Your Company considers human capital to be very important for the success of its business and focus on recruitments as well as retention of its employees. Remuneration is constantly benchmarked with the best in the Industry.

**5. Subsidiaries**

During the Year Kotak Mahindra Securities Limited, Kotak Mahindra (UK) Limited, Kotak Mahindra International Limited, Kotak Mahindra Inc and Global Investment Opportunities Fund Limited ceased to be subsidiaries of your Company as they become the direct subsidiaries of Kotak Mahindra Bank Limited. However your Company still holds about 49% of the equity capital in these Companies.

**6. Directors**

Mr. Jaimin Bhatt and Ms. Shanti Ekambaram retire at the Twelfth Annual General Meeting and are eligible for re-appointment.

**7. Audit Committee**

The constitution of the Audit Committee of the Company is as set out below:

Mr. Uday Kotak  
Mr. Dipak Gupta  
Mr. Jaimin Bhatt

**8. Auditors**

The statutory auditors Messrs. Deloitte Haskins & Sells, Chartered Accountants retire at the ensuing Annual General Meeting and are eligible for reappointment.

**9. Statutory Information**

A statement giving the particulars of employees as required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, is annexed.

During the year under review, your Company did not accept any deposits from the public. There are no deposits due and outstanding as on 31st March, 2007.

Your Company's foreign exchange income was Rs. 1918 Lakhs while the outgo was Rs. 25 Lakhs. The other particulars under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are not applicable since your Company is not a manufacturing Company.

**10. Director's Responsibility Statement**

Based on representations from the Management, the Directors state, in pursuance of Section 217 (2AA) of the Companies Act, 1956, that:

Your 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;

The Directors have selected such accounting policies and applied them consistently and made judgments 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 profit/loss of the Company for the financial year ended 31st March, 2007;

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

The Directors have prepared the annual accounts on a going concern basis.

**11. Acknowledgements**

Your Directors would like to place on record their gratitude for the valuable support received from the Reserve Bank of India, 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

Uday S. Kotak  
Chairman

Mumbai, 2nd May, 2007

## Auditors Report

To The Members of  
Kotak Mahindra Capital Company Limited

1. We have audited the attached balance sheet of Kotak Mahindra Capital Company 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 and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give 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:
  - (a) 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;
  - (b) 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;
  - (c) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
  - (d) In our opinion, the balance sheet, profit and loss account and 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;
  - (e) On the basis of written representations received from the directors, as on 31st March, 2007 and taken on record by the Board of 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;
  - (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts 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:
    - (i) in the case of the balance sheet, of the state of affairs of the company as at 31st March, 2007;
    - (ii) in the case of the profit and loss account, of the profit for the year ended on that date; and
    - (iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

R. Laxminarayan  
Partner  
Membership Number: 33023  
  
For Deloitte Haskins & Sells  
Chartered Accountants

Mumbai  
Dated: 2nd May, 2007

## Annexure to the Auditors' Report

(Referred to in paragraph 3 of our Report of even date to the Members of Kotak Mahindra Capital Company Limited on the accounts for the year ended 31st March, 2007)

The nature of the Company's activities during the year has been such that clauses (ii), (viii) and (xiii) of paragraph 4 of the Order are not applicable to the Company for the year.

1. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.  
(b) Some of the fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us, no material discrepancies were noticed on such verification.  
(c) The Company has sold a substantial part of fixed assets during the year under the scheme of arrangement entered into with its holding Company Kotak Mahindra Bank Limited and their respective shareholders and creditors under Section 391 – 394 of the Companies Act 1956, which was sanctioned by the Honourable High Court of Judicature at Bombay. The fixed assets disposed off constitute assets attributable to its trading and principal business segment and operations relating to the other business segment continue as before. Such disposal has, in our opinion, not affected the going concern status of the Company.
2. (a) The Company has granted loans to a Company covered in the register maintained under Section 301 of the Companies Act, 1956. At the year-end the outstanding balance of loans granted to the party was Rs. Nil and the maximum amount involved during the year was Rs. 2,485 Lakhs.  
(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 has repaid the principal amounts as stipulated and has also been regular in the payment of interest to the Company.  
(d) There is no overdue amount in excess of Rs. 1 lakh in respect of loans granted to the Company covered in the register maintained under section 301 of the Companies Act, 1956.  
(e) According to the information and explanations given to us, the Company has taken an unsecured loan from a Company covered in the register maintained under Section 301 of the Companies Act, 1956. At the year-end, the outstanding balance of such loan taken was Rs. Nil and the maximum amount involved during the year was Rs. 2,000 Lakhs.
- (f) In our opinion, the rate of interest and other terms and conditions of such loan taken from the said Company covered in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
- (g) The payment of principal amounts and interest in case of the aforesaid loan is as per stipulations.
3. 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 for the purchase of fixed assets and for the sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal control system.
4. In respect of the contracts or arrangements entered in the Register maintained in pursuance of Section 301 of the Companies Act, 1956:
  - (a) To the best of our knowledge and belief and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section; and
  - (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding the value of rupees five lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
5. The Company has not accepted any deposits from the public during the year. Hence, clause (vi) of paragraph 4 of the said Order is not applicable to the Company.
6. In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.
7. In respect of Statutory dues:
  - (a) According to the information and explanations given to us, the Company has been regular in depositing undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs Duty, Excise Duty, Cess and any other material statutory dues applicable to it with the appropriate authorities during the year.
  - (b) According to the information and explanations given to us, no undisputed amounts payable in respect of Income tax, Wealth tax, Service tax, Sales tax, Customs duty, Excise duty and cess were outstanding as at March 31, 2007 for a period of more than six months from the date they became payable.

8. The Company has no accumulated losses as at 31st March, 2007 and has not incurred any cash loss during the financial year ended on that date and in the immediately preceding financial year.
9. According to the books and records and as per the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institution or bank during the year.
10. According to the information and explanations given to us, the Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.
11. Based on our examination of the records and evaluation of the related internal controls, the Company has maintained proper records of transactions and contracts in respect of its dealing in securities and timely entries have been made therein. The aforesaid securities have been held by the Company in its own name, except to the extent of the exemption granted under Section 49 of the Companies Act, 1956.
12. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for loans taken by others from banks and financial institutions, are not prima facie prejudicial to the interests of the Company.
13. To the best of our knowledge and belief and according to the information and explanations given to us, there have been no term loans availed during the year. Hence clause (xvi) of paragraph 4 of the said Order is not applicable to the Company.
14. According to the information and explanations given to us and on an overall examination of the Balance Sheet and other records of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
15. The Company has not made any preferential allotment of shares during the year. Hence clause (xviii) of paragraph 4 of the said Order is not applicable to the Company.
16. According to the information and explanations given to us, the Company has not issued any debentures during the year and hence clause (xix) of paragraph 4 of the Order is not applicable to the Company for the year.
17. According to the information and explanations given to us, the Company has not raised any money by public issue during the year. Hence, clause (xx) of paragraph 4 of the Order is not applicable to the Company for the year.
18. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

**R. Laxminarayan**  
Partner  
Membership Number: 33023  
**For Deloitte Haskins & Sells**  
Chartered Accountants

Mumbai  
Dated: 2nd May, 2007

## Balance Sheet as at 31st March, 2007

	Schedule	(Rs. in Lakhs)	As at 31st March, 2007 (Rs. in Lakhs)	As at 31st March, 2006 (Rs. in Lakhs)
<b>Sources of Funds</b>				
<b>Shareholders' Funds :</b>				
Capital	1	396		396
Reserves and Surplus	2	26,509		41,537
			26,905	41,933
<b>Loan Funds :</b>				
Secured Loans	3	—		156
Unsecured Loans	4	3,419		18,025
			3,419	18,181
<b>Total</b>			<b>30,324</b>	<b>60,114</b>
<b>Application of Funds</b>				
<b>Fixed Assets :</b>				
Gross Block	5	2,542		846
Less : Depreciation		528		532
Net Block			2,014	314
Investments	6		27,316	24,899
Deferred Tax Asset (Net)			218	36
<b>Current Assets, Loans and Advances :</b>				
Stock-in-trade	7	—		27,227
Sundry Debtors	8	2,228		4,747
Cash and Bank Balances	9	55,026		40,367
Other Current Assets	10	576		768
Loans and Advances	11	1,500		9,598
			59,330	82,707
<b>Less : Current Liabilities and Provisions :</b>				
Liabilities	12	58,187		47,729
Provisions	13	367		113
			58,554	47,842
Net Current Assets			776	34,865
<b>Total</b>			<b>30,324</b>	<b>60,114</b>
Significant Accounting Policies and Notes to Accounts	20			

As per our attached report of even date  
For Deloitte Haskins and Sells  
Chartered Accountants

R. Laxminarayan  
Partner

Mumbai, 2nd May, 2007

For and on behalf of the Board of Directors

Uday Kotak  
Chairman

Ajay Vaidya  
Company Secretary

Falguni Nayar  
Managing Director

Shanti Ekambaram  
Director

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

	Schedule	Year Ended 31st March, 2007 (Rs. in Lakhs)	Year Ended 31st March, 2006 (Rs. in Lakhs)
<b>Income</b>			
Financial Advisory and Transactional Services	14	8,936	9,596
Interest and Discounting Income	15	8,985	3,958
Profit on Sale of Current Investments (Net)		539	470
Profit on Sale of Long Term Investments		—	10,565
Profit on Trading in Securities (Net)		919	26
Other Income	16	1,139	1,374
<b>Total Income</b>		<b>20,518</b>	<b>25,989</b>
<b>Expenditure</b>			
Personnel	17	4,060	3,680
Interest and other Financial Charges	18	4,589	2,137
Other Expenses	19	2,322	1,797
Depreciation		157	160
<b>Total Expenditure</b>		<b>11,128</b>	<b>7,774</b>
<b>Profit Before Taxation *</b>		<b>9,390</b>	<b>18,215</b>
<b>Provision for Taxation *</b>			
Current Tax		2,686	1,918
(Excess) Provision in Respect of Earlier Years		(9)	(9)
Deferred Tax		(112)	36
Fringe Benefits Tax		37	47
		<b>2,602</b>	<b>1,992</b>
<b>Profit After Taxation</b>		<b>6,788</b>	<b>16,223</b>
Balance Brought Forward from Previous Year		21,979	9,001
		<b>28,767</b>	<b>25,224</b>
<b>Appropriations</b>			
Transfer (from)/to Special Reserve Under Section 45IC of The Reserve Bank of India Act, 1934		(8,693)	3,245
Less: Difference Between the Value of Assets and Liabilities Transferred Pursuant to a Scheme of Demerger (Refer Note No. 3 of Schedule 20)		17,141	—
Balance Carried to Balance Sheet		20,319	21,979
		<b>28,767</b>	<b>25,224</b>
Basic and Diluted Earnings Per Share (In Rs.) Including Discontinuing Operations		171.41	409.65
Basic and Diluted Earnings Per Share (In Rs.) Excluding Discontinuing Operations (Refer Note 27 of Schedule 20)		120.90	127.10
* Includes Profit from Discontinuing Operations Rs. 2,115 Lakhs (Previous Year Rs. 12,584 Lakhs) and Related Tax Expense thereon Rs. 115 lakhs (Previous Year Rs. 98 Lakhs)			
Significant Accounting Policies and Notes to Accounts	20		

As per our attached report of even date

**For Deloitte Haskins and Sells**  
Chartered Accountants

**R. Laxminarayan**  
Partner

Mumbai, 2nd May, 2007

For and on behalf of the Board of Directors

**Uday Kotak**  
Chairman

**Ajay Vaidya**  
Company Secretary

**Falguni Nayar**  
Managing Director

**Shanti Ekambaram**  
Director

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

	Rs. in Lakhs 2006-2007	Rs. in Lakhs 2005-2006
<b>Cash Flow from Operating Activities</b>		
Net Profit before taxation	9,390	18,215
Adjustments for:		
Depreciation	157	160
Diminution in value of current Investments	208	—
(Profit) on sale of Current Investments (net)	(539)	(470)
(Profit) on sale of Long Term Investments (net)	—	(10,565)
Interest/dividend received on Investments	(1,207)	(951)
Interest on Income Tax Refund	(34)	—
Diminution in value of long term investments written back	(172)	—
(Profit)/loss on sale of assets	(14)	(9)
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<b>7,789</b>	<b>6,380</b>
Adjustments for:		
(Increase)/Decrease in stock-in-trade	27,227	(2,727)
Increase/(Decrease) in money market borrowings	(14,606)	8,025
(Increase)/Decrease in loans and advances	7,676	(7,843)
Decrease in sundry debtors	2,519	752
(Increase)/Decrease in other current assets	190	(382)
Increase/(Decrease) in current liabilities	10,457	40,286
Increase in provision for gratuity and leave encashment	226	18
Leave encashment/gratuity provision adjusted in General Reserve - gross of Deferred Tax	(210)	—
Net current assets transferred under the scheme of demerger	(7,833)	—
<b>Cash Generated from Operations</b>	<b>33,435</b>	<b>44,511</b>
Direct taxes paid (net of refunds and Interest thereon)	(2,229)	(2,107)
<b>Net Cash Flow from Operating Activities (A)</b>	<b>31,206</b>	<b>42,404</b>
<b>Cash Flow from Investing Activities</b>		
Purchase of fixed assets	(1,974)	(198)
Sale of fixed assets	86	25
Purchase of other investments	(97,413)	(85,983)
Sale of other investments	95,500	83,035
Transfer of investments under demerger	(13,776)	—
Interest/dividend received on Investments	1,207	951
<b>Net Cash Flow (Used in)/from Investing Activities (B)</b>	<b>(16,370)</b>	<b>(2,170)</b>

## Cash Flow Statement for the Year Ended 31st March, 2007 (Contd.)

	Rs. in Lakhs 2006-2007	Rs. in Lakhs 2005-2006
<b>Cash Flow from Financing Activities</b>		
Proceeds/(repayment) of long term borrowings	(156)	49
<b>Net Cash Flow (Used in)/from Financing Activities (C)</b>	<b>(156)</b>	<b>49</b>
Cash transferred pursuant to the scheme of demerger	(21)	—
<b>Net Increase/(Decrease) in Cash and Cash Equivalents (A + B + C)</b>	<b>14,659</b>	<b>40,283</b>
<b>Cash and Cash Equivalents at the beginning of the Year</b>	<b>40,367</b>	<b>84</b>
<b>Cash and Cash Equivalents at the end of the Year</b>	<b>55,026</b>	<b>40,367</b>
	<b>14,659</b>	<b>40,283</b>

### Notes:

1. 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.
2. Direct Taxes paid are treated as arising from operating activities and are not bifurcated between investing and financing activities.
3. Figures of the previous year are recast wherever necessary to conform to figures of the previous year.

As per our attached report of even date

**For Deloitte Haskins and Sells**  
Chartered Accountants

**R. Laxminarayan**  
Partner

Mumbai, 2nd May, 2007

For and on behalf of the Board of Directors

**Uday Kotak**  
Chairman

**Ajay Vaidya**  
Company Secretary

**Falguni Nayar**  
Managing Director

**Shanti Ekambaram**  
Director

## Schedules forming part of the Balance Sheet

	(Rs. in Lakhs)	31st March, 2007 (Rs. in Lakhs)	31st March, 2006 (Rs. in Lakhs)
<b>Schedule 1 – Capital</b>			
<b>Authorised</b>			
10,000,000 equity shares of Rs. 10 each		1,000	1,000
<b>Total</b>		<b>1,000</b>	<b>1,000</b>
<b>Issued and Subscribed</b>			
3,960,020 equity shares of Rs. 10 each fully paid up		396	396
(Of the above, 2,970,005 shares are held by Kotak Mahindra Bank Limited, the holding company and its nominees and 990,015 (Previous year NIL) shares are held by Kotak Securities Limited, a subsidiary of the holding company)			
<b>Total</b>		<b>396</b>	<b>396</b>
<b>Schedule 2 – Reserves and Surplus</b>			
<b>Share Premium Account</b>			
As per last Balance Sheet		6,190	6,190
<b>Special Reserve under Section 45-IC of The Reserve Bank of India Act, 1934</b>			
As per last Balance Sheet	8,693		5,448
(Less)/Add: Transfer (to)/from Profit and Loss Account	(8,693)		3,245
		—	8,693
<b>General Reserve</b>			
As per last Balance Sheet	4,675		4,675
Less: Leave encashment/gratuity liability as on 01.04.06 adjusted	(140)		—
Less: Difference between the value of assets and liabilities transferred pursuant to scheme of Demerger (Refer Note No. 3 of Schedule 20)	(4,535)		—
		—	4,675
Balance in Profit and Loss Account		20,319	21,979
<b>Total</b>		<b>26,509</b>	<b>41,537</b>

### Schedule 3 – Secured Loans

<b>Loan from a Financial Institution</b>			
(Secured against hypothecation of vehicles purchased under Hire Purchase Agreement)			
Less : Unmatured Charges		—	174
<b>Total</b>		<b>—</b>	<b>18</b>

### Schedule 4 – Unsecured Loans

(Repayable within one year)			
Money at call/short notice - from banks		—	7,500
Commercial Paper (Maximum balance outstanding during the year Rs. 4,917 Lakhs; Previous year Rs. 4,931 Lakhs)		3,419	—
Intercompany deposits		—	10,525
<b>Total</b>		<b>3,419</b>	<b>18,025</b>

### Schedule 5 – Fixed Assets

Description	Gross Block (At Cost)			Depreciation				Net Block		
	As at 1st April, 2006	Additions	Deduction	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
<b>Tangible Assets</b>										
Buildings - Leased out	—	1,773	—	1,773	—	7	—	7	1,766	—
Leasehold Improvement	100	—	—	100	95	3	—	98	2	5
Computers	258	16	45	229	199	43	39	203	26	59
Furniture	49	0	0	49	34	6	0	40	9	15
Office Equipment #	111	6	36	81	91	10	28	73	8	20
Vehicles **	286	172	182	276	100	73	80	93	183	186
<b>Intangible Assets</b>										
Software	42	8	16	34	13	15	14	14	20	29
<b>Total</b>	846	1,975	279	2,542	532	157	161	528	2,014	314
Previous Year	705	198	57	846	414	160	42	532	314	

# Office equipments include assets aggregating to Rs. 6.22 Lakhs (50% of the original cost) jointly owned with other enterprises. The depreciation for the year is Rs. 0.04 lakh (Previous Year Rs.1 Lakh) and the written down value of the asset as on 31st March 2007 is Rs. NIL (Previous year Rs. 0.04 Lakh).

\*\* Vehicles include Rs. NIL (Previous Year Rs. 287 Lakhs) being cost of vehicles purchased on hire – purchase basis on which the lenders have a lien.

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

	Face Value (Rupees)	Quantity		Amount	
		As at 31st March, 2007	As at 31st March, 2006	31st March, 2007 (Rs. in Lakhs)	31st March, 2006 (Rs. in Lakhs)
<b>Schedule 6 – Investments (Non Trade)</b>					
Long Term Investments (at cost, fully paid)					
<b>In Equity Shares of Subsidiary Companies (Unquoted)</b>					
Kotak Mahindra (International) Limited	US \$ 1	—	2,000,000	—	718
Kotak Mahindra Inc	US \$ 0.01	—	750,000	—	344
Kotak Mahindra Securities Limited	10	—	2,250,070	—	226
<b>In Equity Shares of Other Companies (Unquoted)</b>					
Kotak Mahindra (International) Limited @	US \$ 1	2,000,000	—	718	—
Kotak Mahindra Inc @	US \$ 0.01	750,000	—	344	—
Kotak Mahindra Securities Limited @	10	2,250,070	—	226	—
Kotak Securities Limited @	10	400,010	—	12,300	—
Multifaced Finstock Private Limited	10	660,040	660,040	66	66
Kotak Mahindra Old Mutual Life Insurance Limited @	10	21,979,721	—	2,198	—
INX Media Private Ltd.	10	128,400	—	13	—
@ Companies under the same management					
<b>In Units of Venture Capital Fund (partly paid) (Unquoted)</b>					
Kotak India Growth Fund	1,000	—	50,000	—	153
Kotak India Real Estate Fund	100,000	—	1,000	—	100
<b>In Bonds (Quoted - Previous Year Unquoted)</b>					
SIDBI Capital Gains Bond	10,000	105,247	105,247	10,525	10,525
				26,390	12,132
Less: Provision for diminution in value				—	(172)
(A)				26,390	11,960
<b>Current Investments (Fully paid)</b> (at cost or fair/market value, whichever is lower)					
<b>In Units of Mutual Fund (Unquoted)</b>					
<b>Kotak Mahindra Mutual Fund:</b>					
Kotak 30 Dividend Plan	10	—	2,048,061	—	398
Kotak Floater Short term Plan – Weekly dividend	10	9,247,472	95,609,834	926	9,568
Kotak Midcap Dividend Plan	10	—	1,195,178	—	120
Kotak Oppurtunities Dividend Plan	10	—	4,263,188	—	725
<b>HDFC Mutual Fund:</b>					
HDFC Top 200 Fund – Dividend Plan	10	—	889,126	—	199
HDFC Equity Fund – Dividend Plan	10	—	1,915,214	—	600
<b>Franklin Templeton Mutual Fund:</b>					
Franklin India Blue Chip Fund – Dividend Plan	10	—	905,751	—	196
Franklin India Prima Fund – Dividend Plan	10	—	1,235,789	—	508
Birla Sunlife Equity Fund – Dividend Plan	10	—	944,064	—	400
Prudential ICICI Power Dividend	10	—	1,194,268	—	225
(B)				926	12,939
(A)+(B)				27,316	24,899
Aggregate Value of Quoted Investments – At Book Value				10,525	—
– Market Value				# —	—
Aggregate Value of Unquoted Investments – At Book Value				16,790	24,899
# - Listed but not traded, hence market value is not ascertainable.					

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

	Face Value		Amount	
	31st March, 2007	31st March, 2006	31st March, 2007 (Rs. in Lakhs)	31st March, 2006 (Rs. in Lakhs)
<b>Schedule 7 – Stock-in-Trade</b>				
[At cost or market/ fair value whichever is lower]				
<b>A. Government Dated Securities and Treasury Bills</b>				
182 Day Treasury Bill 05/05/2006	—	250,000,000	—	2,486
364 Day Treasury Bill 14/04/2006	—	4,700,000	—	47
364 Day Treasury Bill 01/09/2006	—	124,625,000	—	1,214
364 Day Treasury Bill 29/09/2006	—	30,000,000	—	291
06.01% Government of India 2028	—	9,600,000	—	78
6.13% Government of India 2028	—	3,650,000	—	30
06.35% Government of India 2020	—	600,000	—	5
6.85% Government of India 2012	—	300,000	—	3
07.37% Government of India 2014	—	9,900,000	—	98
07.40% Government of India 2035	—	30,000,000	—	286
07.49% Government of India 2017	—	3,500,000	—	35
07.55% Government of India 2010	—	80,000	—	1
07.95% Government of India 2032	—	12,580,000	—	128
08.07% Government of India 2017	—	250,000,000	—	2,596
09.00% Government of India 2013	—	100,000	—	1
09.39% Government of India 2011	—	50,000,000	—	545
09.81% Government of India 2013	—	2,990,000	—	34
09.85% Government of India 2015	—	42,900,000 *@	—	496
10.18% Government of India 2026	—	5,300,000	—	66
11.03% Government of India 2012	—	4,000,000 @	—	47
11.19% Government of India 2005	—	—	—	—
11.30% Government of India 2010-I	—	500,000	—	6
11.40% Government of India 2008	—	2,800,000	—	31
11.43% Government of India 2015-I	—	33,300,000	—	416
11.50% Government of India 2009	—	8,900,000	—	99
11.50% Government of India 2010	—	200,000	—	2
11.50% Government of India 2011-I	—	1,500,000	—	18
11.68% Government of India 2006	—	10,000	—	—
11.75% Government of India 2006-I	—	250,000,000	—	2,373
11.83% Government of India 2014	—	900,000	—	11
11.99% Government of India 2009	—	400,000 @	—	5
12.29% Government of India 2010	—	1,400,000	—	16
12.30% Government of India 2016-I	—	850,000	—	11
12.40% Government of India 2013	—	12,700,000	—	162
13.85% Government of India 2006-III	—	10,000,000	—	103
10.47% Government of India 2015	—	900,000	—	11
10.5% Government of India 2014	—	9,000,000	—	107
10.95% Government of India 2011	—	200,000	—	2
12.6% Government of India 2018	—	500,000	—	7
07.53% Uttar Pradesh State Development Loan 2015	—	4,500,000	—	44
07.77% Uttar Pradesh State Development Loan 2015	—	100,000	—	1
12.50% Goa State Development Loan 2008	—	10,000,000	—	111
5.85% Maharashtra State Development Loan 2015	—	600,000	—	5
07.79% Tamilnadu State Development Loan 2016	—	14,900,000	—	149
<b>Total</b>	<b>(A)</b>			<b>12,177</b>

\* Partially or wholly endorsed as security for obtaining intra day liquidity facility from Reserve Bank of India and towards settlement guarantee fund of Clearing Corporation of India Limited.

@ Excludes security sold under repurchase agreement.

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

	Face Value (Rupees)	Quantity 31st March, 2007	31st March, 2006	Amount 31st March, 2007 (Rs. in Lakhs)	31st March, 2006 (Rs. in Lakhs)
<b>Schedule 7 – Stock-in-Trade (Contd.)</b>					
<b>B. Equity Shares *</b>					
Allahabad Bank	10	—	29,400	—	23
Andhra Bank	10	—	52,900	—	43
Associated Cement Companies Limited	10	—	7,500	—	59
Bank of Baroda	10	—	382,200	—	870
Bharat Electronics Limited	10	—	41,250	—	546
Bongaigaon Refinery & Petrochemicals Limited	10	—	38,250	—	25
Century Textiles & Industries Limited	10	—	12,750	—	50
C E S C Limited	10	—	9,900	—	33
Chennai Petroleum Corporation Limited	10	—	16,150	—	36
Colgate-Palmolive (India) Limited	10	—	51,450	—	195
Cummins India Limited	2	—	76,000	—	181
Divis Laboratories Limited	10	—	14,750	—	258
Gujarat Narmada Valley Fertilizers Company Limited	10	—	238,950	—	276
Gujarat Ambuja Cements Limited	2	—	90,750	—	94
Industrial Development Bank of India Limited	10	—	33,600	—	26
Indian Hotels Company Limited	10	—	47,950	—	641
India Cements Limited	10	—	26,100	—	43
Indian Petrochemicals Corporation Limited	10	—	13,200	—	32
IVRCL Infrastructure & Projects Limited	2	—	162,000	—	445
Jindal Stainless Limited	2	—	48,000	—	55
LIC Housing Finance Limited	10	—	40,800	—	77
New Delhi Television Limited	4	—	95,700	—	203
Polaris Software Lab Limited	5	—	44,800	—	52
Punj Lloyd Limited	10	—	107,400	—	1,150
Ranbaxy Laboratories Limited	5	—	10,400	—	42
Reliance Capital Limited	10	—	462,000	—	2,346
Siemens Limited	10	—	2,100	—	119
SRF Limited	10	—	210,000	—	697
State Bank of India	10	—	399,650	—	3,706
Syndicate Bank	10	—	277,400	—	249
Tata Steel Limited	10	—	250,425	—	1,342
Tata Tea Limited	10	—	102,300	—	887
Wockhardt Limited	5	—	50,400	—	249
* Earmarked towards initial margin – equity index/stock futures account to the extent of Rs. 37 crores.					
<b>Total</b>	<b>(B)</b>			—	15,050
<b>Grand Total</b>	<b>(A) + (B)</b>			—	27,227
Aggregate Value of Quoted Stock in Trade – Book value				—	27,227
– Market value				—	27,602
				<b>31st March 2007, (Rs. in Lakhs)</b>	<b>31st March, 2006 (Rs. in Lakhs)</b>
<b>Schedule 8 – Sundry Debtors (Unsecured)</b>					
Debts outstanding for a period exceeding six months					
– considered good			—	—	—
– considered doubtful			28	—	14
			28	—	14
Less: Provision for doubtful debts			(28)	—	(14)
Other debts (considered good)				2,228	4,747
<b>Total</b>				<b>2,228</b>	<b>4,747</b>

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

	31st March, 2007 (Rs. in Lakhs)	31st March, 2006 (Rs. in Lakhs)
<b>Schedule 9 – Cash and Bank Balances</b>		
Cash on hand	—	1
Balances with :		
– Scheduled banks in current account	17	488
– Scheduled banks in Deposit account (Including Rs. 43,893 Lakhs; previous year Rs. 33,690 Lakhs) under lien of National Securities Clearing Corporation Limited and Rs. 12.50 Lakhs (Previous year Rs. 12.50 Lakhs) under lien for Bank Guarantee)	55,009	39,867
– Reserve Bank of India in current account	—	11
<b>Total</b>	<b>55,026</b>	<b>40,367</b>
<b>Schedule 10 – Other Current Assets</b>		
Interest accrued on Investments	189	2
Interest accrued on stock in trade of securities	—	381
Interest accrued – others	387	384
Dividend receivable	—	1
<b>Total</b>	<b>576</b>	<b>768</b>
<b>Schedule 11 – Loans and Advances</b> (Unsecured, considered good unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received [includes deposit with the Clearing Corporation of India Limited Rs. 0.01 Lakh (Previous year Rs. 106 Lakhs) and capital advances of Rs. Nil (Previous year Rs. 0.01 Lakh)]	861	530
Repo Price Adjustment	—	145
Initial margin – equity index/stock futures account	—	3,723
Equity Index/Stock Option Premium account	—	493
Less: Provision for loss	—	(1)
	—	492
Lending in Call Market	—	450
Deposits with National Securities Clearing Corporation Limited	639	3,835
Advance tax (net of provision for taxation) (Previous year Rs. 7,207 Lakhs)	—	423
<b>Total</b>	<b>1,500</b>	<b>9,598</b>
Advances include:		
Due from Kotak Mahindra Securities Ltd., a company under the same management	250	—
Maximum amount during the year	250	—
<b>Schedule 12 – Liabilities</b>		
Sundry creditors (Other than small scale industrial undertakings)	57,718	46,723
Other liabilities	469	420
Repo Interest Adjustment	—	137
Equity Index/Stock Option Premium account	—	246
Less: Provision for loss	—	(132)
	—	114
Mark-to-market margin – equity index/stock futures account	—	55
Provision for loss-equity index/stock futures account	—	208
Interest accrued but not due on loans	—	72
<b>Total</b>	<b>58,187</b>	<b>47,729</b>
<b>Schedule 13 – Provisions</b>		
Provision for Gratuity and Leave encashment	339	113
Provision for Tax (Net of Advance Tax Rs. 4,642 Lakhs)	28	—
<b>Total</b>	<b>367</b>	<b>113</b>

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

	For the year ended 31st March, 2007 (Rs. in Lakhs)	For the year ended 31st March, 2006 (Rs. in Lakhs)
<b>Schedule 14 – Advisory and Transactional Services</b>		
Issue management and placement fees and underwriting commission (Net) (Refer note 8 of Schedule 20)	3,321	4,180
Financial advisory fees	4,664	5,055
Clearing Commission	951	361
<b>Total</b>	<b>8,936</b>	<b>9,596</b>
<b>Schedule 15 – Interest and Discounting Income</b>		
Interest on:		
– Stock-in-trade (Government dated securities, bonds and debentures)	4,560	2,512
– Repo Lendings	1	—
– Current investments (Gross)	571	2
– Call lendings and money at short notice	2	3
– Income tax refund	34	—
Other interest (Gross) (Tax deducted at source Rs. 692 Lakhs; Previous Year Rs. 199 Lakhs)	3,083	885
Discounting and redemption premium income on:		
– Stock in trade – treasury bills	734	556
<b>Total</b>	<b>8,985</b>	<b>3,958</b>
<b>Schedule 16 – Other Income</b>		
Dividend Income on:		
Long term investments (others)	—	—
Current investments	635	951
Stock-in-trade	21	200
Profit on sale of fixed assets (net)	14	9
Income Distribution by Venture Capital Funds	—	1
Provision for doubtful debts no longer required written back	14	19
Foreign Exchange gain	3	—
Provision for diminution in value of Long term Investments no longer required written back	172	—
Rent Income	26	—
Service Income	179	143
Interest on Staff Loan	—	2
Miscellaneous income	75	49
<b>Total</b>	<b>1,139</b>	<b>1,374</b>
<b>Schedule 17 – Personnel</b>		
Salaries, allowances and bonus	4,081	3,791
Contribution to employees' provident and other funds	116	77
Gratuity and Leave encashment benefits	99	20
Staff welfare	24	20
Less: Recovery of expenses	(260)	(228)
<b>Total</b>	<b>4,060</b>	<b>3,680</b>

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

	For the year ended 31st March, 2007 (Rs. in Lakhs)	For the year ended 31st March, 2006 (Rs. in Lakhs)
<b>Schedule 18 – Interest and Other Financial Charges</b>		
Interest on :		
– Inter corporate deposits	23	9
– Borrowings on call/short notice	841	711
– Interest Rate Swaps	3,135	640
– Repo borrowings	478	657
– Commercial paper	95	109
Other interest	15	10
Bank and other charges	2	1
<b>Total</b>	<b>4,589</b>	<b>2,137</b>

## Schedule 19 – Other Expenses

Travelling, conveyance and vehicle	379	251
Auditors' remuneration		
– Audit fees	10	8
– Tax audit fees	2	—
– In other capacity	1	2
– Out of pocket expenses	—	—
	13	10
Legal and professional fees	273	223
Office	163	128
Advertisement	110	149
Electricity	43	25
Communication	82	79
Rent	207	167
Rates and taxes	2	1
Insurance	18	13
Repairs and maintenance – others	49	41
Common establishment expenses – reimbursement	610	472
Service charges	60	54
Diminution in value of investments – Current investments	208	—
– Long term investments	—	—
Commission to a Non-Wholetime Director	—	75
Donation	12	1
Bad debts written off	55	19
Provision for doubtful debts	28	14
Foreign exchange loss (net)	—	11
Other expenses	128	124
Less: Recovery of expenses	(118)	(60)
<b>Total</b>	<b>2,322</b>	<b>1,797</b>

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

### Schedule 20 – Significant Accounting Policies and Notes to the Financial Statements

#### 1. Significant Accounting Policies:

##### A. BASIS OF ACCOUNTING

The accounts are prepared on accrual basis under the historical cost convention and to comply in all material aspects with applicable accounting principles in India, the accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

The preparation of financial statements requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reported period. Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates.

##### B. REVENUE RECOGNITION

Revenue is recognized when there is reasonable certainty of its ultimate realization/collection.

- (i) Issue management and placement fees, underwriting commission and financial advisory fees are accounted based on stage of completion of assignments.
- (ii) Brokerage on fixed income securities placements are accounted net of sub-brokerage on completion of the transaction.
- (iii) Revenue excludes Service Tax.

##### C. FIXED ASSETS AND DEPRECIATION

- (i) Fixed assets are stated at cost inclusive of incidental expenses less accumulated depreciation.
- (ii) The Company adopts the Straight Line Method of depreciation so as to write off 100% of the cost of the assets at rates higher than those prescribed under Schedule XIV of the Companies Act, 1956 based on the Managements estimate of the useful lives of all the assets as follows:

Leasehold improvements	Over the primary period of lease
Computers and software	3 years
Furniture	6 years
Office Equipment	5 years
Vehicles	4 years
Premises	58 years

- (iii) Fixed assets costing less than Rs. 5,000 are fully depreciated in the year of purchase.
- (iv) Fixed assets leased out on Operating lease are shown at cost.

##### D. INTANGIBLE ASSETS

Intangible assets (software) are amortised over a period of three years, on straight-line basis.

##### E. IMPAIRMENT OF ASSETS

An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. An impairment loss is charged to the Profit and Loss account in the year in which an asset is identified as impaired. An impairment loss recognized in prior accounting periods is reversed if there has been a change in the estimate of the recoverable amount.

##### F. INVESTMENTS

Investments are classified into long-term investments and current investments.

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

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 debt instruments, fair value is worked out on the basis of rates provided by the Fixed Income Money Market and Derivatives Association [FIMMDA] and in their absence, on the basis of yield to maturity rates given by FIMMDA.

In case of investments in units of mutual funds, the net asset value of units is considered as the market/fair value.

Investments include investments in shares of companies registered outside India. They are stated at cost by converting at the rate of exchange prevalent at the time of acquisition thereof.

### G. STOCK-IN-TRADE

Securities acquired with the intention to trade are considered as stock in trade. Stock-in-trade is valued at cost (inclusive of brokerage and stamp charges in case of equity shares), calculated by applying the weighted average cost method or market/fair value whichever is lower. In case of debt instruments, fair value is worked out on the basis of latest available stock exchange quotations/rates provided by the Fixed Income Money Market and Derivatives Association [FIMMDA] and in their absence, on the basis of yield to maturity rates given by FIMMDA.

### H. REPURCHASE AND RESALE TRANSACTIONS (REPO)

In accordance with the guidelines issued by the Reserve Bank of India, reverse repo/repo transactions are treated as buy/sale transactions. Securities sold under repo are excluded from stock in trade, and securities bought under reverse repo are included in stock in trade.

### I. ZERO COUPON INSTRUMENTS

The difference between the acquisition cost/issue price and redemption value of treasury bills, commercial paper and bonds is apportioned on a time basis and recognised as discounting income. The acquisition cost of these securities is increased accordingly.

### J. FOREIGN CURRENCY TRANSACTIONS

- (i) Transactions in foreign currencies are recorded at the rate of exchange in force at the time of occurrence of the transactions.
- (ii) Exchange differences arising on settlement of revenue transactions are recognized in the profit and Loss account.
- (iii) Monetary items (other than those related to acquisition of fixed assets) denominated in a foreign currency are restated using the exchange rates prevailing at the date of balance sheet and the resulting net exchange difference is recognized in the profit and loss account, if no forward cover is taken.

### K. TAXES ON INCOME

Income Taxes are accounted for in accordance with Accounting Standard (AS 22) – “Accounting for Taxes on Income” issued by the Institute of Chartered Accountants of India. Income Tax comprises of Current and Deferred tax.

Current tax is measured on the basis of estimated taxable income and tax credits computed in accordance with the provisions of the Income Tax Act, 1961.

Provision for Fringe Benefits Tax is made in accordance with Chapter XII-H of the Income Tax Act, 1961.

The tax effect of the timing differences that result between taxable income and accounting income and are capable of reversal in one or more subsequent periods are recorded as a deferred tax asset or deferred tax liability. They are measured using the substantively enacted tax rates and tax regulations as of the Balance Sheet date.

Deferred Tax assets arising mainly on account of brought forward losses and unabsorbed depreciation under tax laws, are recognized, only if there is virtual certainty of its realization, supported by convincing evidence. Deferred tax assets on account of other timing differences are recognized only to the extent there is reasonable certainty of its realization.

### L. EMPLOYEE BENEFITS

- (a) Provident fund is a defined contribution scheme and the contributions as required by the statute to Government Provident Fund are charged to profit and loss account.

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

- (b) Gratuity liability is defined benefit obligation and is wholly unfunded. The Company accounts for liability for future gratuity benefits based on actuarial valuation at the end of each financial year.
- (c) Superannuation fund is a defined contribution scheme. The Company contributes a sum equivalent to 15% (Previous year 0.15%), subject to a maximum of Rs. 1.00 Lakh, of eligible employees' salary to Superannuation Fund administered by trustees and managed by a life insurance Company. The Company recognizes such contribution as an expense as and when incurred.
- (d) The undiscounted amount of short-term employees benefits expected to be paid in exchange for the services rendered by employee is recognized during the period when the employee renders the service. These benefits include performance incentives and non-vesting accumulated compensated absences.

### M. Borrowing costs

Borrowing costs other than those directly attributable to qualifying fixed assets are recognized as an expense in the period in which they are incurred.

### N. Provisions, Contingent Liabilities & Contingent Assets

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognized but are disclosed in the notes. Contingent assets are neither recognized nor disclosed in the financial statements.

### O. Operating lease:

As lessee:

Assets acquired on leases where significant portions of the risks and rewards incidental to ownership are retained by the lessors are classified as Operating Leases. Lease rentals are charged to the Profit and Loss account on accrual basis.

As Lessor:

Assets given on leases where significant portions of risks and rewards incidental to ownership are retained by the Company are classified as Operating Leases. Lease incomes are recognized in the Profit and Loss account on accrual basis. Initial direct costs incurred specifically to earn revenue from operating leases are charged to Profit and Loss account as and when incurred.

### P. SEGMENT ACCOUNTING POLICIES

#### (a) Segment assets and liabilities:

All Segment assets and liabilities are directly attributable to the segment.

Segment assets include all operating assets used by the segment and consist principally of fixed assets, investments, stock in trade, sundry debtors, loans and advances and cash and bank balances. Segment assets and liabilities do not include share capital, reserves and surplus and income tax (both current and deferred).

#### (b) Segment revenue and expenses:

Segment revenue and expenses are directly attributable to segment. It does not include provision for income tax.

### Q. DERIVATIVE TRANSACTIONS

Derivative transactions comprising of Interest rate swaps , equity index/stock futures and Options are disclosed as off balance sheet exposures.

#### I. Equity Index/stock Futures and Options

- (a) Gains are recognized only on settlement/expiry of the derivative instruments.
- (b) All open positions are marked to market and the unrealized loss is netted off on a scrip wise basis. Mark to market gains, if any are not recognized.
- (c) Debit/credit balance on open positions are shown as current assets/current liabilities, as the case may be.

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

### II. Interest Rate Swaps (IRS)

- (a) Interest rate swap transactions are entered into for trading purposes.
- (b) Income/expenses and gains/losses relating to these swaps are accounted for on accrual basis over the life of the swap.
- (c) Gains/losses on termination/expiry are recorded as income/expense on termination/expiry date.
- (d) IRS contracts outstanding as at the balance sheet date are marked to market and unrealized losses are provided for in the profit and loss account. Mark to market gains, if any, are not recognized.

### 2. Contingent Liability:

- (a) Guarantee of Rs. 4,359 Lakhs (Rupee equivalent of US \$10,000,000) [(Previous year Rs. 4,461 Lakhs] given to Standard Chartered Bank (Mauritius) Limited in respect of borrowings by an associate (previous year subsidiary company).
- (b) Guarantee of Rs. Nil (Rupee equivalent of US \$3,000,000) [Previous year Rs. 1,338 Lakhs] given to Deutsche Bank AG on behalf of a subsidiary company.
- (c) Guarantee of Rs. 436 Lakhs (Rupee equivalent of US \$1,000,000) [Previous year Rs. 446 Lakhs] given to Bank of India on behalf of an associate (previous year – subsidiary company).
- (d) Guarantee of Rs. 5,667 Lakhs (Rupee equivalent of US \$13,000,000) [Previous year Rs. 5,799] given to Hongkong and Shanghai Banking Corporation Limited on behalf of an associate (previous year subsidiary company).
- (e) Guarantee of Rs. 2,500 Lakhs (Previous year Rs. 2500 Lakhs) given to Standard Chartered Bank, Mumbai on behalf of an associate (previous year subsidiary company). Amount of guarantee issued by the bank to the associate (previous year subsidiary) and outstanding as at the year end Rs. 500 Lakhs (Previous year Rs. NIL).
- (f) Guarantee of Rs. 574 Lakhs (Rupee equivalent of Singapore \$2,000,000) [Previous year Rs. Nil] given to Hongkong and Shanghai Banking Corporation Limited on behalf of an associate.
- (g) Counter Guarantee of Rs. 25 Lakhs (Previous year Rs. 25 Lakhs) given on behalf of the Company in favor of National Securities Clearing Corporation Limited towards base capital.
- (h) Commitment towards investment in venture capital funds – Kotak India Growth fund Rs. NIL (Previous year Rs. 350 Lakhs) and Kotak India Real Estate Fund Rs. NIL (Previous year Rs. 900 Lakhs).
- (i) Show cause cum demand in respect of service tax Rs. 10 Lakhs (Previous year Rs. 10 Lakhs).
- (j) Taxation matters in respect of which appeal is pending Rs. 283 Lakhs (Previous year Rs. 80 Lakhs).

3. The Board of Directors of the Company at their meeting held on 19th July 2006 have approved a Scheme of Arrangement (Scheme) between the Company, its holding company Kotak Mahindra Bank Limited (KMBL) and their respective shareholders and creditors under section 391-394 of the Companies Act, 1956, which was sanctioned by the Honorable High Court of Judicature at Bombay on February 15, 2007.

Upon coming into effect of the same on March 20, 2007, the appointed date as per the scheme, the Company has discontinued the Primary Dealership and Trading and Principal business (demerged undertaking) and the assets and liabilities of the demerged undertaking have been transferred to KMBL at the values appearing in the books of accounts of the Company as on the appointed date.

The difference between the value of the assets and the value of the liabilities transferred pursuant to the scheme as aforesaid amounting to Rs. 21,676 Lakhs has been adjusted to the extent of Rs. 4,535 Lakhs from General Reserves and the balance of Rs 17,141 Lakhs has been debited to the Profit and Loss Account for the year.

The disclosures in terms of the accounting standard AS – 24 Discontinuing Operations, issued by the Institute of Chartered Accountants of India are as follows:

- (a) The discontinued operations comprise the primary dealership and trading and principal business of the Company. The operations are reported under the Trading and Principal business segment for the purpose of segment reporting under AS – 17 Segment Reporting.
- (b) During the current year, the Scheme for transfer of the demerged undertaking was approved, announced and executed. The date of the Initial Disclosure Event was July 19, 2006 and the Effective date on which the discontinuance was completed was March 20, 2007.

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

(c) Disclosures in respect of the Ordinary Activities of continuing and discontinuing operations are as under:

	31st March, 2007		31st March, 2006	
	Continuing	Discontinuing	Continuing	Discontinuing
Total Assets	88,878	—	64,450	47,702
Total liabilities	61,973	—	62,219	8,000
Total Income	12,912	7,606	10,488	15,501
Total Expenditure	5,637	5,491	4,857	2,917
Net cash flows	7,978	6,681	43,171	(2,888)

4. Pursuant to the sanction obtained from Reserve Bank of India (RBI) to discontinue its Primary Dealership business with effect from March 20, 2007, the Company had applied to the RBI to deregister the Company as a Non Banking Finance Company (NBFC) effective March 20, 2007. The RBI in exercise of its powers conferred under Section 45-IA of the Reserve Bank of India Act, 1934 has passed an order dated April 12, 2007 cancelling the Certificate of Registration as a NBFC with effect from March 20, 2007.

Consequently the Reserve amount of Rs. 8,693 Lakhs created by the Company in terms of Section 45 IC of the Reserve Bank of India Act, 1934 in the previous years has been credited back to the Profit and Loss account. Further, the disclosures required to be made by an NBFC in its Financial statements have not been made.

5. The Company was classified as an investment Company by the Reserve Bank of India upto 19th March, 2007. During the period 20th March, 2007 to 31st March, 2007, the Company has purchased and sold 29,210,988 units of the face value of Rs. 10/- each costing Rs. 2,927 Lakhs of Kotak Floater Short Term Plan – Weekly Dividend scheme of Kotak Mahindra Mutual Fund.
6. The Company has a 49% equity stake in Kotak Mahindra Securities Limited (KMSL), a fellow subsidiary of the Company.

In terms of a scheme of arrangement approved by the Honourable High Court of Bombay on February 15, 2007, the operations of KMSL's undertaking in relation to the Trading and Clearing membership of the National Stock Exchange of India Limited along with the long term investments are to be merged at book values with the Company under the Companies Act, 1956.

The aforesaid scheme is awaiting the approval of the concerned regulatory authorities and will be given effect to in the books of accounts on receipt of the necessary approvals.

7. Components of deferred tax balances:

	(Rupees in Lakhs)	
	31st March, 2007	31st March, 2006
<b>Deferred tax liability</b>		
Differential treatment of accounting and valuation of stock of debt securities and interest thereon	—	45
	—	45
<b>Deferred tax asset</b>		
Provision for doubtful debts	10	5
Depreciation	54	35
Provision for gratuity and leave encashment	115	38
Unabsorbed Capital loss	37	—
Others	2	3
	218	81
<b>Deferred Tax Asset (Net)</b>	<b>218</b>	<b>36</b>

Deferred tax benefits are recognized on assets to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized.

Deferred Tax assets on Unabsorbed Capital Loss is recognized as the Company has investments which it intends to sell and the capital gains there from will be used for setting off the unabsorbed capital loss.

8. Issue management and placement fees and underwriting commission is net of incentives/brokerages paid to investors/brokers and fees/commission shared aggregating to Rs. 2,595 Lakhs (Previous year Rs. 2,847 Lakhs).

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

9. At the General meeting of the holding company, Kotak Mahindra Bank Limited ("the bank"), the shareholders of the Bank had unanimously passed Special Resolutions on 28th July, 2000, 26th July, 2004, and 26th July, 2005, to grant options to the eligible employees of the Bank and its subsidiary companies.

Pursuant to these resolutions, the following three Employees Stock Option schemes have been formulated and adopted

- Kotak Mahindra Equity Option Scheme 2001-02
- Kotak Mahindra Equity Option Scheme 2002-03
- Kotak Mahindra Equity Option Scheme 2005

Consequent to the above, the Bank has granted stock options to employees of the Company under the above schemes. In terms of the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock purchase) Guidelines, 1999, the option discount (being excess of the market price of the share over the exercise price of the option) is to be accounted for as employee compensation and shall be amortised on a straight line basis over the vesting period. The Company has reimbursed the Bank Rs. 563 Lakhs (Previous year Rs. 173 Lakhs) on account of such costs and the same is forming part of Employee costs under Schedule 17.

10. Recovery of expenses in schedule 17 and schedule 19 are amounts recovered from the holding company, subsidiaries and fellow subsidiaries towards the value of costs apportioned of the Company's employees and facilities in accordance with the agreements on allocation of expenses with the companies.
11. The Company has adopted the revised AS 15 – Employee benefits issued by the Institute of Chartered Accountants of India during the current financial year. Consequently, the Company has accounted for the liability on account of Short Term Compensated balances in respect of leave outstanding to the credit of its employees and in respect of gratuity. In accordance with the transitional provisions of the standard, the liability determined on the basis of the management's estimates as on 1st April, 2006 of Rs. 140 Lakhs (net of deferred tax) has been adjusted to the General Reserve account of the Company.
12. The Company has adopted the revised AS 15 – Employee benefits issued by the Institute of Chartered Accountants of India during the current financial year. Previous years figures have not been disclosed as this is the first year of implementation of this Accounting standard and comparable data is not available.

Reconciliation of opening and closing balance of the present value of the defined benefit obligation for gratuity benefits is given below:

	Rs. in Lakhs
	<b>As of 31st March, 2007</b>
<b>Change in Unfunded benefit obligations</b>	
Present value of unfunded benefit obligations, 1st April, 2006	72
Service cost	15
Interest cost	5
Benefits paid	—
Actuarial (gain)/loss on obligations	14
Benefits paid	(41)
<b>Present value of unfunded benefit obligations as at 31st March, 2007</b>	<b>65</b>
	Rs. in Lakhs
<b>Reconciliation of present value of the obligation and the fair value of the plan assets</b>	
Fair value of plan assets as at 31st March, 2007	—
Present value of benefit obligations as at 31st March, 2007	65
<b>Net asset/(liability) as at 31st March, 2007</b>	<b>(65)</b>
<b>Cost recognised for the period</b>	
Current service cost	15
Interest cost	5
Expected return on plan assets	—
Actuarial (gain)/loss	14
<b>Net gratuity cost</b>	<b>34</b>
<b>Actuarial assumptions used</b>	
Discount rate	8.20% p.a.
Salary escalation rate	15% p.a. for first 2 years; 10% p.a. for next 2 years and 6% p.a. thereafter
Expected return on plan assets	N.A.

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

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

### Gratuity

In accordance with Payment of Gratuity Act, the Company provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's salary and the years of employment with the Company subject to maximum of Rs. 3.50 Lakhs.

The gratuity benefit is provided through unfunded plan and annual contributions are charged to profit and loss account. Under the scheme, the settlement obligation remains with the Company.

### 13. Quantitative information in respect of trading in securities.

	2006-07		2005-06	
	Quantity Nos.	Value Rs. in Lakhs	Quantity Nos.	Value Rs. in Lakhs
<b>Opening Stock</b>				
Equity shares of Rs. 2 each	328,750	720	—	—
Equity shares of Rs. 4 each	95,700	203	—	—
Equity shares of Rs. 5 each	153,600	398	264,600	285
Equity shares of Rs. 10 each	2,868,375	13,729	1,206,200	4,037
Treasury bills*	—	4,038	—	7,836
Government dated securities*	—	8,139	—	12,342
<b>Total (a)</b>		<b>27,227</b>		<b>24,500</b>
<b>Purchases</b>				
Equity shares of Re. 1 each	3,698,505	6,578	1,124,499	3,153
Equity shares of Rs. 2 each	2,260,397	6,243	2,853,161	7,188
Equity shares of Rs. 4 each	14,950	37	287,073	600
Equity shares of Rs. 5 each	1,768,346	9,207	1,922,326	11,918
Equity shares of Rs. 10 each	15,410,145	56,815	28,715,540	110,700
Treasury bills*	—	887,790	—	1,082,866
Government dated securities*#	—	2,210,955	—	2,823,109
<b>Total (b)</b>		<b>3,171,045</b>		<b>4,039,534</b>
<b>Sales</b>				
Equity shares of Re. 1 each	3,698,505	6,568	1,124,499	3,059
Equity shares of Rs. 2 each	2,589,147	6,820	2,524,411	7,016
Equity shares of Rs. 4 each	110,650	235	191,373	410
Equity shares of Rs. 5 each	1,921,946	9,613	2,033,326	12,320
Equity shares of Rs. 10 each	18,369,805	70,207	27,053,365	102,780
Treasury bills*#	—	891,784	—	1,086,625
Government dated securities*#	—	2,218,686	—	2,826,806
<b>Total (c)</b>		<b>3,197,343</b>		<b>4,039,016</b>
<b>Closing Stock</b>				
Equity shares of Rs. 2 each	—	—	328,750	720
Equity shares of Rs. 4 each	—	—	95,700	203
Equity shares of Rs. 5 each	—	—	153,600	397
Equity shares of Rs. 10 each	—	—	2,868,375	13,730
Treasury bills*#	—	—	—	4,038
Government dated securities*#	—	—	—	8,139
<b>Total (d)</b>				<b>27,227</b>
Profit/(loss) on trading in futures (net) (e)		1,850		(1,819)
Profit/(loss) on trading in Interest Rate Swaps (net) (f)		259		(98)
Securities transaction tax (g)		253		267
<b>Profit/(loss) on trading in securities = c + d + e + f - a - b - g</b>		<b>919</b>		<b>26</b>

\* represents securities purchased and sold during the year on the basis of face value

# includes/excludes securities bought/sold under reverse repos/repos transactions

Purchase and sale transactions of equity stock futures have not been considered.

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

### 14. Open Interest in equity stock/index futures and options

Equity Stock/Index Futures \$*	Expiration date	No contracts	Open short position
<b>As at 31st March, 2007</b>	N.A.	NIL	NIL
As at 31st March, 2006			(number of shares)
Associated Cement Companies Limited	27 April, 2006	10	(7,500)
Allahabad Bank	27 April, 2006	12	(29,400)
Andhra Bank	27 April, 2006	23	(52,900)
Bank of Baroda	27 April, 2006	273	(382,200)
Bharat Electronics Limited	27 April, 2006	75	(41,250)
Bongaigaon Refinery & Petrochemicals Limited	27 April, 2006	17	(38,250)
Century Textiles & Industries Limited	27 April, 2006	15	(12,750)
C E S C Limited	27 April, 2006	9	(9,900)
Chennai Petroleum Corporation Limited	27 April, 2006	17	(16,150)
Colgate-Palmolive (India) Limited	27 April, 2006	49	(51,450)
Cummins India Limited	27 April, 2006	40	(76,000)
Divis Laboratories Limited	27 April, 2006	59	(14,750)
Gujarat Narmada Valley Fertilizers Company Limited	27 April, 2006	81	(238,950)
Gujarat Ambuja Cements Limited	27 April, 2006	22	(90,750)
Industrial Development Bank of India Limited	27 April, 2006	14	(33,600)
Indian Hotels Company Limited	27 April, 2006	137	(47,950)
India Cements Limited	27 April, 2006	9	(26,100)
Indian Petrochemicals Corporation Limited	27 April, 2006	6	(13,200)
I V R C L Infrastructure & Projects Limited	27 April, 2006	81	(162,000)
Jindal Stainless Limited	27 April, 2006	24	(48,000)
L I C Housing Finance Limited	27 April, 2006	48	(40,800)
New Delhi Television Limited	27 April, 2006	87	(95,700)
S & P CNX Nifty	27 April, 2006	968	(96,800)
Polaris Software Lab Limited	27 April, 2006	16	(44,800)
Punj Lloyd Limited	27 April, 2006	358	(107,400)
Ranbaxy Laboratories Limited	27 April, 2006	26	(10,400)
Reliance Capital Limited	27 April, 2006	420	(462,000)
State Bank Of India	27 April, 2006	800	(400,000)
Siemens Limited	27 April, 2006	14	(2,100)
S R F Limited	27 April, 2006	140	(210,000)
Syndicate Bank	27 April, 2006	73	(277,400)
Tata Steel Limited	27 April, 2006	371	(250,425)
Tata Tea Limited	27 April, 2006	186	(102,300)
Wockhardt Limited	27 April, 2006	84	(50,400)

\$ – The Company has earmarked equity shares held as stock in trade towards initial margin. Aggregate value of such equity securities as at 31st March, 2007 is Rs. NIL (Previous Year Rs. 3,723 Lakhs)

\* – The Company enters into equity derivative contracts for the purpose of arbitrage

### 15. Repo/Reverse Repo transactions:

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	(Rupees in Lakhs) As at March 31, 2007
Securities sold under repos	1,066	21,814	7,728	NIL
Securities purchased under reverse repos	2,987	4,417	20	NIL

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

### 16. (a) Managerial Remuneration under Section 198 of the Companies Act, 1956

	(Rupees in Lakhs)	
	2006-2007	2005-2006
Salaries, allowances and incentives	375	350
Contribution to provident fund	5	4
Perquisites	5	4
Employee stock option plan	85	29
	<b>470</b>	<b>387*</b>

# Less than Rs. 1 Lakh

The above excludes provision for gratuity, since it is based on actuarial valuation done on an overall Company basis.

\* Includes Rs. 94 Lakhs to a Managing Director for the period from 1st April, 2005 to June 30, 2005 and Rs. 293 Lakhs to another Managing Director for the period from July 1, 2005 to 31st March, 2006.

### (b) Computation of net profits as per Section 349 read with Section 309 (5) and Section 198 of the Companies Act, 1956

	2006-2007 Rs. in Lakhs	2005-2006 Rs. in Lakhs
Profit before taxation as per Profit and Loss account	—	18,215
Add:		
Depreciation as per financial statements	—	160
Managerial remuneration	—	462
Provision for doubtful debts	—	14
Provision for doubtful debts no longer required	—	(19)
Book deficit/(surplus) on fixed assets sold (net)	—	(9)
	—	18,823
Less:		
Depreciation under Section 350 of the Companies Act, 1956	—	160
Deficit/(surplus) (net) on disposal of fixed assets under Section 350 of the Companies Act, 1956	—	9
Profits on sale of Long Term Investments	—	10,565
Net Profit for Section 198 of Companies Act, 1956	—	8,089
Calculation of Commission to a non-whole time director @ 1% of net profit as above in terms of Special Resolution of the Members dated April 27, 2006	—	81
Determined and limited by the Board to	—	75
Figures for the current year have not been furnished since Commission as a percentage of the net profits is not payable for the year to any Director of the Company.		

	2006-2007 (Rupees in Lakhs)	2005-2006 (Rupees in Lakhs)
<b>17. Earnings in foreign exchange</b>		
Financial advisory fees	1,918	2,991
Other income	—	48
<b>18. CIF Value of Imports</b>		
Computers	—	5
<b>19. Expenditure in foreign currency</b>		
Travelling	8	25
Professional fees	4	17
Membership and subscription	11	#
Insurance	—	4
Other expenses	2	8

# Less than Rs. 1 Lakh

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

### 20. Dividend remittances to non-resident shareholders:

	2006-2007	2005-2006
(a) Number of non-resident shareholders	—	1
(b) Number of equity shares held by them	—	990,015
(c) Amount of dividend paid	—	Rs. 119 Lakhs
(d) Year to which dividend relates	—	2004-2005 (Interim)

### 21. Segmental Information:

The Company is organised into three segments namely – “Advisory and Transactional services” “Trading and Principal Investments” and “Long Term Investments.

The “Advisory and Transactional services” segment provides financial advisory services such as mergers and acquisition advice; equity-debt issue management services and Professional Clearing operations of National Securities Clearing Corporation Limited.

The “Trading and Principal Investments” segment deals in debt, equity, money markets and loans/deposits.

The “Long Term Investments” segment includes long term and strategic investments.

Segments have been identified and reported taking into account the nature of products and services, the differing risks and returns and the internal financial reporting system.

#### Segment information:

(Rupees in Lakhs)

	31st March, 2007				31st March, 2006			
	Advisory and Transactional Services	Trading and Principal Investments	Long Term Investments	Total	Advisory and Transactional Services	Trading and Principal Investments	Long Term Investments	Total
<b>Segment Revenue</b>								
Income from external customers	12,109	7,606	743	20,458	10,486	15,501	2	25,989
Income from inter segments	—	—	—	—	—	—	—	—
<b>Total Revenue</b>	<b>12,109</b>	<b>7,606</b>	<b>743</b>	<b>20,458</b>	<b>10,486</b>	<b>15,501</b>	<b>2</b>	<b>25,989</b>
<b>Segment result</b>								
<b>Results</b>	<b>6,472</b>	<b>2,115</b>	<b>743</b>	<b>9,330</b>	<b>5,632</b>	<b>12,581</b>	<b>2</b>	<b>18,215</b>
Add: Unallocated income	—	—	—	60	—	—	—	—
Less: Unallocated expenses	—	—	—	—	—	—	—	—
Less :Income tax (including deferred tax and fringe benefit tax)	—	—	—	2,602	—	—	—	1,992
<b>Net Profit</b>				<b>6,788</b>				<b>16,223</b>
<b>Other Information</b>								
Carrying amount of segment assets	59,768	—	26,579	86,347	47,551	46,520	11,707	1,05,778
Unallocated corporate assets	—	—	—	2,531	—	—	—	6,375
<b>Total Assets</b>				<b>88,878</b>				<b>1,12,153</b>
Carrying amount of segment liabilities	61,944	—	—	61,944	46,975	18,525	—	65,500
Unallocated corporate liabilities	—	—	—	29	—	—	—	4,719
<b>Total Liabilities</b>				<b>61,973</b>				<b>70,219</b>
<b>Capital Expenditure</b>								
Tangible	1,932	35	—	1,967	135	41	—	176
Intangible	8	—	—	8	24	18	—	22
Depreciation/Amortisation	124	33	—	157	118	41	—	160
Non cash expenses other than depreciation	104	225	—	329	50	535	—	585

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

Segment revenue comprises of:

	31st March, 2007	31st March, 2006
Income from services	8,936	9,596
Interest and discounting income	8,951	3,958
Profit on sale of long term investments (net)	—	10,565
Profit on sale of current term investments (net)	539	470
Profit on trading in securities (net)	919	26
Other Income:		
Dividend income on :		
Current investments	635	951
Stock-in-trade	21	200
Provision for doubtful debts no longer required written back	14	19
Provision for diminution in value of long term investments no longer required	172	—
Others	271	204
<b>Total Segment Revenue</b>	<b>20,458</b>	<b>25,989</b>
Add: Unallocated Income	60	—
<b>Total Income</b>	<b>20,518</b>	<b>25,989</b>

# less than Rs. 1 Lakh

### 22. Related parties disclosures

#### (i) Relationships (During the year)

##### A. Related parties where control exists:

###### Nature of relationship

Holding Company

###### Related Party

Kotak Mahindra Bank Limited (KMBL) (Holds 74.99% of the equity share capital)

Mr. Uday S. Kotak along with relatives and companies controlled by him holds 51.46% of the equity share capital of KMBL

###### Subsidiary Companies:

(100% equity capital held by the Company)

Kotak Mahindra Securities Limited (upto 29th September, 2006)

Kotak Mahindra Inc. (upto 15th October, 2006)

Kotak Mahindra (International) Limited (KMIL) (upto 16th October, 2006)

Kotak Mahindra (UK) Limited (upto 12th October 2006) (100% equity capital held by KMIL)

Global Investment Opportunities Fund Limited

(100% voting shares held by KMIL) (upto 12th October, 2006)

##### B. Other Related parties:

###### (i) Fellow Subsidiaries:

Kotak Securities Limited

Kotak Mahindra Prime Limited

Kotak Mahindra Asset Management Company Limited

Kotak Mahindra Old Mutual Life Insurance Limited

Kotak Forex Brokerage Limited

Kotak Mahindra Investments Limited

Kotak Mahindra Securities Limited (from 30th September, 2006)

Kotak Mahindra Inc. (from 16th October, 2006)

Kotak Mahindra (International) Limited (KMIL) (from 17th October, 2006)

Kotak Mahindra (UK) Limited (from 13th October, 2006) (100% equity capital held by KMIL)

Global Investment Opportunities Fund Limited (48.78% voting shares held by KMIL)

(from 13th October, 2006)

###### (ii) Associates (Enterprises in which the Company has significant influence)

Multifaced Finstock Private Limited

###### (iii) Venturer in respect of which the Company is an associate or joint venture

Goldman Sachs (Mauritius) LLC (upto 30th May, 2006)

###### (iv) Joint Venture

Kotak Mahindra Old Mutual Life Insurance Limited-Joint Venture with Kotak Mahindra Bank Limited; Old Mutual Plc; Kotak Mahindra Prime Limited

###### (v) Key management personnel

Mr. Uday S. Kotak, Non-executive Chairman

Ms. Falguni Nayar, Managing Director

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

The following transactions were carried out with related parties in the ordinary course of business (all figures in Rupees Lakhs)

Nature of Transaction	Holding Company	Subsidiary Companies				Total
	Kotak Mahindra Bank Ltd.	Kotak Mahindra Securities Ltd.	Kotak Mahindra (International) Ltd.	Kotak Mahindra (UK) Ltd.	Kotak Mahindra Inc.	
<b>Finance</b>						
Interest paid	3,139 (643)	— (6)	— —	— —	— —	— (6)
Loans given	2,985 (5,549)	— —	— —	— —	— —	— —
Loan taken	2,000 (1,880)	— (1,500)	— —	— —	— —	— (1,500)
Loans given repaid	2,985 (5,549)	— —	— —	— —	— —	— —
Loan taken repaid	2,000 (1,880)	— (1,500)	— —	— —	— —	— (1,500)
Interest received	6,298 (1,525)	— —	— —	— —	— —	— —
Fixed Deposit Placed	331,598 (111,879)	— —	— —	— —	— —	— —
Fixed Deposit encashed/Matured	288,657 (72,024)	— —	— —	— —	— —	— —
Outstanding Loan taken	— —	— —	— —	— —	— —	— —
Loan given	— —	— —	— —	— —	— —	— —
Bank Balance	11 (329)	— —	— —	— —	— —	— —
Investments Purchase/subscription	— —	— —	— —	— —	— —	— —
Sale/redemption	— —	703 —	— —	— —	— —	703 —
Interest/Dividend/Premium on Investments	— —	— —	— —	— —	— —	— —
Stock-in-trade (Securities) Purchases/subscription	4,881 (13,615)	— —	— —	— —	— —	— —
Sales	230,935 (98,587)	— —	— —	— —	— —	— —
Interest/dividend – stock-in-trade	— —	— —	— —	— —	— —	— —

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

Figures in brackets relates to the previous year.

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

Fellow subsidiary Companies									Joint Venture	Associates	Key Management Personnel	Key Management Personnel	Other related parties
Kotak Mahindra Securities Ltd.	Kotak Mahindra (Int'l) Ltd.	Kotak Mahindra (UK) Ltd.	Kotak Mahindra Inc.	Kotak Securities Ltd.	Kotak Mahindra Asset Management Company Ltd.	Kotak Mahindra Prime Ltd	Kotak Mahindra Invs. Ltd.	Total	Kotak Mahindra Old Mutual Life Insurance Ltd.	Multifaced Finstock Private Ltd.	Ajay Sondhi	Falguni Nayar	Goldman Sachs (Mauritius) LLC
—	—	—	—	—	—	15	—	15	—	23	—	—	—
—	—	—	—	—	(30)	(9)	—	(39)	—	(26)	—	—	—
250	—	—	—	—	—	—	—	250	—	—	—	—	—
—	—	—	—	—	—	133	—	133	—	—	—	—	—
—	—	—	—	—	(9,220)	(106)	—	(9,326)	—	(10,525)	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	289	—	289	—	10,525	—	—	—
—	—	—	—	—	(9,220)	(60)	—	(9,280)	—	—	—	—	—
1	—	—	—	—	—	—	—	1	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
250	—	—	—	—	—	—	—	250	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	80,294 #	1,723	—	82,017	475	—	—	—	12,300
—	—	—	—	—	(73,115) #	—	—	(73,115)	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	77,532 #	—	—	77,532	—	—	—	—	—
—	—	—	—	—	(69,583) #	—	—	(69,583)	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	285	—	—	285	—	—	—	—	—
—	—	—	—	—	(392)	—	—	(392)	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	501,933	274,214 #	—	—	776,148	—	—	—	—	—
—	—	—	—	(133,559)	(158,082)	—	—	(291,641)	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	538,786	273,590 #	—	—	812,375	—	—	—	—	—
—	—	—	—	(112,649)	(160,674) #	—	—	(273,323)	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	56	—	—	56	—	—	—	—	—
—	—	—	—	—	(29)	—	—	(29)	—	—	—	—	—

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

The following transactions were carried out with related parties in the ordinary course of business (all figures in Rupees Lakhs)

Nature of Transaction	Holding Company	Subsidiary Companies				Total
	Kotak Mahindra Bank Ltd.	Kotak Mahindra Securities Ltd.	Kotak Mahindra (International) Ltd.	Kotak Mahindra (UK) Ltd.	Kotak Mahindra Inc.	
Outstandings in Respect of Stock-in-trade Payables	—	—	—	—	—	—
Receivable	—	—	—	—	—	—
Other receipt and payments						
Sale of Fixed assets	36	—	—	—	—	—
Purchase of Fixed assets	2	—	—	—	—	—
Income from Services	—	5	—	203	—	208
	—	(12)	—	(266)	—	(278)
Others - Receipts	9	—	—	—	—	—
Expenses reimbursement to other companies	260	—	—	—	1	1
	(275)	—	—	—	(1)	(1)
Expenses reimbursement by other companies	130	—	—	—	—	—
	(105)	—	—	—	—	—
Other expenses paid/brokerage paid/fee/ commission sharing	964	—	—	—	—	—
	(418)	(52)	—	—	—	(52)
Remuneration*	—	—	—	—	—	—
	—	—	—	—	—	—
Dividend paid/payable - Gross	—	—	—	—	—	—
	—	—	—	—	—	—
Guarantees given	—	—	—	—	—	—
	—	(2,500)	(5,759)	—	—	(8,259)
Payables	67	—	—	—	—	—
	(144)	(4)	—	—	—	(4)
Receivables	—	—	—	—	—	—
	(66)	—	—	—	—	—
Guarantees Outstanding	—	—	—	—	—	—
	—	(2,500)	(11,599)	(446)	—	(14,545)
Net Assets transferred under scheme of demerger	21,676	—	—	—	—	—

\* Excludes provision for gratuity and leave encashment, since these are based on actuarial valuations done on an overall Company basis. Figures in brackets relates to the pervious year.

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

Fellow subsidiary Companies									Joint Venture	Associates	Key Management Personnel	Key Management Personnel	Other related parties
Kotak Mahindra Securities Ltd.	Kotak Mahindra (Intl) Ltd.	Kotak Mahindra (UK) Ltd.	Kotak Mahindra Inc.	Kotak Securities Ltd.	Kotak Mahindra Asset Management Company Ltd.	Kotak Mahindra Prime Ltd	Kotak Mahindra Invs. Ltd.	Total	Kotak Mahindra Old Mutual Life Insurance Ltd.	Multifaced Finstock Private Ltd.	Ajay Sondhi	Falguni Nayar	Goldman Sachs (Mauritius) LLC
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	(598)	—	—	—	(598)	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(0)	(0)	—	—	—	—	—
—	—	—	—	(12)	(2)	—	—	(14)	—	—	—	—	—
7	—	—	—	193	—	—	—	200	—	—	—	—	—
—	—	—	—	(224)	—	(1)	—	(225)	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	(19,910)	(4)	—	—	(19,914)	—	—	—	—	—
—	—	—	—	440	—	—	—	440	—	—	—	—	—
—	—	—	—	(395)	—	—	—	(395)	—	—	—	—	—
—	—	—	—	438	18	—	—	456	—	—	—	—	—
—	—	—	—	(337)	(17)	—	(1)	(356)	—	—	—	—	—
—	—	—	—	2,576	—	—	—	2,576	3	—	—	—	—
—	—	—	—	(25,355)	—	—	(5)	(25,360)	(0)	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	(94)	365	—
—	—	—	—	—	—	—	—	—	—	—	—	(293)	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	574	—	—	—	—	—	574	—	—	—	—	—
6	—	—	1	559	—	—	—	567	—	—	—	—	—
—	—	—	—	(593)	—	—	—	(593)	—	—	—	—	—
—	—	—	—	—	—	(3)	—	(3)	—	—	—	—	—
2,500	10,026	1,010	—	—	—	—	—	13,536	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—

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

### 23. Operating Lease

#### A. Assets taken on lease

- (i) The Company has taken office and residential premises under operating lease or leave and license agreements. These are generally renewable or cancelable at the option of the Company and range between 11 months to 36 months.
- (ii) Rent payments are recognized in the Profit and Loss Account under "Rent" and are disclosed in Schedule 19.
- (iii) The future minimum lease payments under non-cancellable operating lease –not later than one year as at 31st March, 2007 aggregate to Rs. NIL Lakhs (Previous year Rs. 4 Lakhs) and those for period between one to five years aggregate to Rs. Nil (Previous year Rs. Nil).

#### B. Assets given on lease

- (i) The Company has leased out certain assets under operating leases
- (ii) Rent receipts are recognized in the Profit and Loss Account under "Rent" and are disclosed in Schedule 16.
- (iii) The future minimum lease payments under non-cancellable operating lease –not later than one year as at 31st March, 2007 aggregate to Rs. 72 Lakhs (Previous year Rs. NIL) and those for period between one to five years aggregate to Rs. 92 (Previous year Rs. Nil).

24. The Company has not received any intimation from the "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence the disclosures relating to amount unpaid as at the end of the year together with interest paid/payable as required under the said Act has not been furnished and provision for interest, if any, on delayed payments, is not ascertainable at this stage.

### 25. Issuer composition of investments in non-government securities (Rs. In Lakhs)

Sr. No.	Issuer	Amount	Extent of Private placement	Extent of "below investment grade" securities	Extent of 'unrated' securities	Extent of 'unlisted' securities
1.	Public Sector Units	—	—	—	—	—
2.	Financial Institutions	* (10,525)	—	—	—	—
3.	Banks	—	—	—	—	—
4.	Other Primary Dealers	—	—	—	—	—
5.	Private Corporates	—	—	—	—	—
6.	Subsidiaries/Joint Ventures	—	—	—	—	—
7.	Others	—	—	—	—	—
8.	Provision held towards depreciation	—	—	—	—	—

\* Not applicable, since the Company has ceased to be a Primary Dealer effective 20th March, 2007  
Figures in brackets relates to the previous year.

### 26. Interest Rate Swaps (IRS) as at the Balance Sheet date

	2006-07		2005-06	
	Nos.	(Rs. In Lakhs)	Nos.	(Rs. In Lakhs)
Notional Principal Amount Outstanding	—	—	9	22,500
Fair value of IRS Contracts outstanding	—	—	—	(15)
Credit Exposure*	—	—	—	79
Credit Concentration				
Banks	—	—	9	100%
Non Banks	—	—	—	—

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

Credit exposure is the potential loss, if the counter parties failed to fulfill their contractual obligation under the IRS contracts. It is computed using the Current Exposure Method prescribed by Reserve Bank of India vide circular no. DBOD. No. BP.BC. 48/21.03.054/2002-2003.

As per the prevailing market practices, collateral is not insisted upon from counter parties of IRS contracts.

27. Earnings per Share (EPS) – The numerator and denominator used to calculate Basic and Diluted Earnings per share:

	31st March, 2007		31st March, 2006	
	Including Discontinuing	Excluding Discontinuing	Including Discontinuing	Excluding Discontinuing
Profit attributable to Equity shareholders (Rs.) – (A)	678,787,000	478,780,304	1,622,300,000	503,300,000
Basic/Weighted average number of Equity shares outstanding during the year – (B)	3,960,020	3,960,020	3,960,020	3,960,020
Nominal value of Equity shares (Rs.)	39,600,200	39,600,200	39,600,200	39,600,200
Basic Earnings per share (Rs.) – (A)/(B)	171.41	120.90	409.65	127.10

28. In terms of a joint venture agreement entered into by the Company with Kotak Mahindra Bank Limited, Old Mutual Plc. and Kotak Mahindra Prime Limited, the Company has acquired 6.65% ownership interest in Kotak Mahindra Old mutual Life insurance Limited (incorporated in India) which falls under the category of Jointly Controlled Entity as per accounting Standard 27 Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India.

Aggregate amounts of assets, liabilities, income and expenses related to the interest in the jointly controlled entity based on the accounts for the year ended 31st March, 2007 (subject to audit).

	Rupees in Lakhs
Assets	13,009
Liabilities	12,324
Income	7,220
Expenses	7,608

29. Figures for the previous year have been regrouped wherever necessary to conform to current year classification.

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

### 30. Balance Sheet Abstract and Company's General Business Profile

(a) Position of Mobilisation and Deployment of Funds	(Amount in Rs. Lakhs)
Total Liabilities	88,878
Total Assets	88,878
<b>Sources of Funds</b>	
Paid up Capital	396
Reserves and Surplus	26,509
Secured Loans	—
Unsecured Loans	3,419
Current Liabilities	58,554
<b>Application of Funds</b>	
Net Fixed Assets	2,014
Investments	27,316
Deferred Tax Asset	218
Current Assets	59,330
Miscellaneous Expenditure	—
<b>(b) Performance of Company</b>	
Turnover/Income	20,518
Total Expenditure	11,128
Profit before Tax	9,390
Profit after Tax	6,788
Earnings Per Share (in Rs.)	171.41
Dividend Rate (%)	Nil
<b>(c) Generic Names of Three Principal Products/Services of Company</b>	
<b>Product Description</b>	<b>Item Code No.</b>
Investment Banking and Clearing	N/A
Primary Dealer in Government of India Securities (upto 19th March 2007)	N/A

For and on behalf of the Board of Directors

Uday Kotak  
Chairman

Falguni Nayar  
Managing Director

Ajay Vaidya  
Company Secretary

Shanti Ekambaram  
Director

Mumbai, 2nd May, 2007