

## DIRECTORS' REPORT

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

### I. FINANCIAL RESULTS AND OPERATIONS

During the year under review, the total income of the Company was Rs. 47,06,690/- as compared to Rs. 1,44,80,856/- in the previous year. The Company incurred a loss of Rs. 52,01,217/- during the year 2006-07.

### II. OUTLOOK

The foreign exchange markets remained volatile with Rupee significantly appreciating through the year. Coupled with strong foreign currency inflows resultant surge in liquidity and measures taken by RBI Rupee interest rates firmed leading to volatility in forward premiums. These trend are expected to continue during 2007-08.

### III. DIVIDEND

In view of the losses, no dividend is recommended.

### IV. ISSUE AND REDEMPTION OF DEBENTURES

During the year, the Company redeemed 225, 8.50%, Fully Convertible Redeemable Debentures of Rs. 1,00,000/- each, aggregating to Rs. 2.25 crores issued to Kotak Mahindra Prime Limited.

The Company, during the year issued and allotted 175, 8.50%, Fully Convertible Redeemable Debentures of Rs. 1,00,000/- each, aggregating to Rs. 1.75 crores to Kotak Securities Limited. The Company also issued 7,50,000 equity shares of Rs. 10/- each at par aggregating to Rs. 75,00,000/- to Kotak Securities Limited.

### DIRECTORS

Mr. Dipak Gupta retires by rotation and, being eligible, offers himself for re-appointment.

### AUDITORS

The Company's Auditors, Messrs. V. C. Shah & Co., Chartered Accountants, Mumbai, retire at the ensuing Annual General Meeting and are eligible for re-appointment. You are requested to re-appoint them and fix their remuneration.

### COMPLIANCE CERTIFICATE

As required by proviso to Section 383A of the Companies Act, 1956, a copy of the Compliance Certificate is being attached with this Report.

### STATUTORY INFORMATION

The Company did not have any employees falling within the scope of sub-section (2A) of Section 217 of the Companies Act, 1956, nor did it accept any deposits from the public during the year.

There were no earnings or outgo of foreign exchange and the other requirements pursuant to the Companies (Disclosure of Particulars in Report of Board of Directors) Rules, 1988, do not apply since the company is not a manufacturing company.

### DIRECTORS' RESPONSIBILITY STATEMENT

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

- (i) the Company has, in the preparation of the annual accounts, followed the applicable accounting standards along with proper explanation relating to material departures, if any.
- (ii) the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2007 and of the loss of the Company for the financial year ended 31st March, 2007;
- (iii) the Directors have taken proper and sufficient care to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (iv) the Directors have prepared the annual accounts on a going concern basis.

For and on behalf of the Board of Directors

Dipak Gupta  
Director

Chandrashekhar Sathe  
Director

Mumbai, 2nd May, 2007

## COMPLIANCE CERTIFICATE

Registration No. of the Company: 11-48450.

Nominal Capital: 2,50,00,000/-.

To,  
The Members,  
**Kotak Forex Brokerage Limited,**  
Bakhtawar, 1st Floor,  
229, Nariman Point,  
Mumbai - 400 021.

We have examined the registers, records, books and papers of KOTAK FOREX BROKERAGE LIMITED (hereinafter referred to as 'the Company') as required to be maintained under the Companies Act, 1956 (hereinafter referred to as 'the Act') and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2007. In our opinion and to the best of our information and according to the examinations carried out by us and explanations furnished to us by the Company, its officers and agents, we certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions of the Act and the rules made there under and all entries therein have been duly recorded.
2. The Company has duly filed all the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities within the time prescribed under the Act, and the rules made there under.
3. The Company, being a public limited company, has the prescribed minimum paid up capital.
4. The Board of Directors duly met 4 (Four) times respectively on 2nd May 2006, 29th August 2006, 20th December 2006 and 31st March 2007 in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose. There were no circular resolutions passed during the financial year.
5. The Company was not required to close its Register of Members or Debenture holders during the financial year.
6. The annual general meeting for the financial year ended on 31st March, 2006 was held on 19th July, 2006 after giving due notice to the members of the Company and other concerned and the resolutions passed there at were duly recorded in Minutes Book maintained for the purpose.
7. One extra-ordinary general meeting was held during the financial year after giving due notice to the members of the company and other concerned and the resolutions passed there at were duly recorded in Minutes Book maintained for the purpose.
8. The Company has not advanced any loan to its directors and/or persons or firms or companies referred in the Section 295 of the Act.
9. The Company has duly complied with the provision of Section 297 of the Act in respect of contracts specified in that Section.
10. The Company has made necessary entries in the register maintained under Section 301 of the Act.
11. As there were no instances falling within the purview of Section 314 of the Act, the company has not obtained any approvals from the Board of Directors, members or Central Government.
12. The Company has not issued any duplicate share certificates during the financial year.
13. The Company:
  - (i) has delivered all the certificates on allotment of securities and on lodgement thereof for transfer/transmission or any other purpose in accordance with the provisions of the Act;
  - (ii) has not deposited any amount in a separate Bank Account as no dividend was declared during the financial year.
  - (iii) has not posted warrants to any member of the Company as no dividend was declared during the financial year.
  - (iv) was not required to transfer any amount to Investor Education and Protection Fund, since there were no amounts in unpaid dividend account and there was no application money due for refund, matured deposits, matured debentures and the interest accrued thereon which have remained unclaimed or unpaid for a period of seven years.
  - (v) has duly complied with the requirements of Section 217 of the Act.
14. The Board of Directors of the Company is duly constituted. There was no appointment of additional directors, alternate directors and directors to fill casual vacancy during the financial year.
15. The Company has not appointed any Managing Director/Whole-time Director/Manager during the financial year.
16. The Company has not appointed any sole selling agents during the financial year.
17. The Company was not required to obtain any approvals of the Central Government, Company Law Board, Regional Director, Registrar and/or such authorities prescribed under the various provisions of the Act during the financial year.
18. The Directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under.

19. The Company has issued 8.50% 175 Unsecured Fully Convertible Debentures of Rs. 1,00,000/- each during the financial year and complied with the provisions of the Act.
20. The Company has not bought back any shares during the financial year.
21. The Company has redeemed 8.50% 225 Unsecured Fully Convertible Debentures of Rs. 1,00,000/- each during the financial year after complying with the provisions of the Act.
22. There were no transactions necessitating the company to keep in abeyance rights to dividend, right shares and bonus shares pending registration of transfer of shares.
23. The Company has not invited/accepted or renewed any deposits including any unsecured loans falling within the purview of Section 58A during the financial year.
24. The amounts borrowed by the Company from others during the financial year ending 31st March, 2007 are within the borrowing limits of the Company and that necessary resolutions as per Section 293(1)(d) of the Act have been passed in duly convened extraordinary general meeting held on 18th July, 2005.
25. The Company has not made any loans or advances or given guarantees or provided securities to other bodies corporate.
26. The Company has not altered the provisions of the Memorandum with respect to situation of the Company's registered office from one state to another during the year under scrutiny.
27. The Company has not altered the provisions of the Memorandum with respect to the objects of the company during the year under scrutiny.
28. The Company has not altered the provisions of the Memorandum with respect to name of the company during the year under scrutiny.
29. The Company has altered the provisions of the Memorandum with respect to share capital of the Company during the year under scrutiny and complied with the provisions of the Act.
30. The Company has not altered its Articles of Association during the financial year.
31. As per the information and explanations given by officers of the Company, there was no prosecution initiated against or show cause notices received by the Company and no fines or penalties or any other punishment was imposed on the Company during the financial year for offences under the Act.
32. The Company has not received any money as security from its employees during the financial year.
33. As per the information and explanations given by officers of the Company, the Company is not required to make any contribution under the Provident Act. However the Company has voluntarily made contribution to the Provident Fund.

Place: Mumbai.

Dated: 30th April, 2007.

## ANNEXURE A

### REGISTERS AS MAINTAINED BY THE COMPANY:

#### STATUTORY REGISTERS:

1. Register of Members u/s 150.
2. Register of Debentureholders u/s 152.
3. Register of Directors u/s 303.
4. Register of Directors Shareholding u/s 307.
5. Minutes Book of meetings of the Board of Directors u/s 193.
6. Minutes Book of General Meetings of the members u/s 193.
7. Books of Accounts u/s 209.
8. Register of Particulars of Contracts in which Directors are interested u/s 301.

#### OTHER REGISTERS

1. Register of Transfers.

Note:- The Company has not maintained the following registers during the year as it was informed that there were no entries/transactions to be recorded therein:

1. Register of Securities bought back u/s 77A.
2. Foreign Register of members or Debentureholders u/s 157.
3. Register of Destruction of Records/Documents.
4. Register of Deposits u/s 58A.
5. Register of Renewed and Duplicate Certificates.
6. Register of Investments or Loans made, Guarantee Given or Security provided u/s 372A.
7. Register of Charges u/s 143.
8. Register of Investments not held in Company's name u/s 49.

## ANNEXURE B

Forms and Returns as filed by the Company with Registrar of Companies, Regional Director, Central Government or other authorities during/for the financial year ending 31st March, 2007.

Sr. No.	Form No/Return	Filed under Section	For	Date of filing	Whether filed within prescribed time Yes/No	If delay in filing whether requisite additional fee paid
1.	Annual Return with Form 20B	159(1)	2006-2007	14/09/06	Yes	N.A.
2.	Balance Sheet with Form 23AC	220	2006-2007	04/09/06	Yes	N.A.
3.	Compliance Certificate with Form 62	383A	2006-2007	04/09/06	Yes	N.A.
4.	Form No. 23	192	Preferential Issue of Shares & Increase in Share Capital	05/04/07	Yes.	N.A.
5.	Form No. 5	95/97	Increase in Share Capital	11/04/07	Yes	N.A.
6.	Form No. 2	75(1)	Allotment of shares	28/04/07	Yes	N.A.

## AUDITORS' REPORT

To,

The Members of  
Kotak Forex Brokerage Limited

1. We have audited the attached Balance Sheet of KOTAK FOREX BROKERAGE LIMITED as at 31st March, 2007 and the Profit and Loss Account and Cash Flow Statement of the Company 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 have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by Companies (Auditors' Report) Order, 2003 as amended thereafter, issued by the Central Government of India in terms of sub-Section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit;
  - (ii) In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of those books;

- (iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (iv) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- (v) On the basis of the written representations received from the directors, 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.
- (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2007;
  - (b) in the case of Profit and Loss Account, of the loss for the year ended on that date; and
  - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For V. C. Shah & Co.  
Chartered Accountants

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

Mumbai,  
Dated 2nd May, 2007.

### Annexure to the Auditors' Report referred to in paragraph 3 of our report of even date

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets;
- (b) The assets of the Company have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification;
- (c) The Company has not disposed off any fixed assets during the year under report;
- (ii) The Company, being engaged in foreign exchange broking business, does not have any inventory hence sub-clause (a), (b) and (c) of this clause are not applicable;
- (iii) (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act and hence sub-clauses (b), (c) and (d) of this clause are not applicable;
- (b) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act and hence sub-clauses (f) and (g) of this clause are not applicable;
- (iv) In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for purchase of fixed assets and for the services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system;
- (v) (a) 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;
- (b) In our opinion and according to the information and explanations given to us, transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time;
- (vi) The Company has not accepted any deposits from the public during the year under report;
- (vii) The Company does not have an internal audit system;
- (viii) The provisions of Section 209 (1) (d) of the Companies Act, 1956 in respect of maintenance of cost records as may be prescribed by the Central Government, are not applicable to the Company;
- (ix) (a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues, if any, applicable to it;
- (b) According to the information and explanations given to us, there are no dues of income tax, sales tax, wealth tax, service tax, custom duty, excise duty or cess that have not been deposited on account of any dispute;
- (x) In our opinion, the accumulated losses of the Company at the end of the financial year are more than fifty percent of its net worth. The Company has also incurred cash loss of Rs. 13,23,568 during the year but not in the immediately preceding financial year;
- (xi) In our opinion and according to the explanations given to us, the Company has not defaulted in repayment of dues to debenture holders. There are no borrowings from a financial institution or a bank;
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities during the year under report;
- (xiii) The Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company;
- (xiv) The Company is not dealing or trading in shares, securities, debentures or other investments and hence clause 4(xiv) is not applicable;
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions;
- (xvi) The Company has not taken any term loans during the year under report;
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long term investment;
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered under Section 301 of the Companies Act, 1956;
- (xix) The Company has issued unsecured debentures during the current year, hence no securities or charge was required to be created by the Company;
- (xx) The Company has not raised any money by public issues, during the year under report;
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year under report.

For V. C. Shah & Co.  
Chartered Accountants  
A. N. Shah  
Partner.  
Membership No.: 42649

Mumbai,  
Dated: 2nd May, 2007.

## Balance Sheet as at 31st March, 2007

	Schedule	As at 31st March, 2007 Rupees	As at 31st March, 2006 Rupees
<b>I. Sources of Funds</b>			
Shareholder's Funds			
Share Capital	1	25,000,000	17,500,000
Reserves & Surplus	2	1,900,000	1,900,000
Loan Funds			
Unsecured	3	17,500,000	22,500,000
<b>Total</b>		<b>44,400,000</b>	<b>41,900,000</b>
<b>II. Application of Funds</b>			
Fixed Assets			
Gross Block	4	58,339,927	58,281,755
Less: Depreciation		(43,281,911)	(39,429,834)
Net Block		15,058,016	18,851,921
Investments			
	5	2,271,769	1,832,938
Current Assets, Loans & Advances			
Sundry Debtors	6	844,894	1,012,376
Cash and Bank Balances	7	1,732,492	1,763,187
Loans and Advances	8	4,364,447	3,949,936
		6,941,833	6,725,499
Less : Current Liabilities & Provisions			
Current Liabilities	9	985,873	1,447,985
Provisions	10	157,715	104,000
		1,143,588	1,551,985
Net Current Assets		5,798,245	5,173,514
Profit and Loss Account		21,271,970	16,041,627
<b>Total</b>		<b>44,400,000</b>	<b>41,900,000</b>
Significant Accounting Policies and Notes to the Financial Statements	14		

As per our report attached.  
For V. C. Shah & Co.  
Chartered Accountants

A. N. Shah  
Partner

Mumbai  
Dated: 2nd May, 2007

For and on behalf of the Board of Directors

Dipak Gupta  
Director

Chandrashekhar Sathe  
Director

## Profit and Loss Account for the Year Ended 31st March, 2007

	Schedule	For the year ended 31st March, 2007 Rupees	For the year ended 31st March, 2006 Rupees
<b>Income</b>			
Income from services	11	4,535,463	3,747,595
Interest and other financial charges (TDS Rs. Nil, P.Y. Rs. Nil)		—	10,484,972
Interest - others (TDS Rs. 20,779/-; P.Y. Rs. 19,096/-)		100,467	90,548
Profit on sale of current investments		—	34,790
Dividend on current investments		63,832	88,706
Provision for Doubtful Debts (net)		2,259	19,890
Other Income		4,669	14,355
<b>Total</b>		<b>4,706,690</b>	<b>14,480,856</b>
<b>Expenditure</b>			
Interest on fixed period loans and debentures		1,900,856	7,215,457
Interest – others		131,678	—
Personnel	12	2,073,389	1,472,621
Other Expenses	13	1,924,335	2,008,214
<b>Total</b>		<b>6,030,258</b>	<b>10,696,292</b>
<b>Profit/(Loss) before Depreciation and Tax</b>		<b>(1,323,568)</b>	<b>3,784,565</b>
Depreciation		3,852,076	7,483,778
<b>Profit/(Loss) before Tax</b>		<b>(5,175,644)</b>	<b>(3,699,214)</b>
Provision for Taxation:			
Current Tax		—	—
Deferred Tax		—	—
Fringe Benefit Tax		25,573	31,930
<b>Profit/(Loss) after Tax</b>		<b>(5,201,217)</b>	<b>(3,731,144)</b>
Prior period expenses		—	(96,762)
Prior Period Income		—	31,133
Add : Surplus/(Deficit) brought forward from previous year		(16,041,627)	(12,244,854)
Less : Provision for gratuity for earlier years (Refer Note No. 3 of Schedule 14)		(29,126)	—
<b>Balance Carried to Balance Sheet</b>		<b>(21,271,970)</b>	<b>(16,041,627)</b>
Basic and Diluted earnings per share (Refer Note No. II (5) of Schedule 14)		(2.94)	(2.13)
Significant Accounting Policies and Notes to the Financial Statements	14		

As per our report attached.  
For V. C. Shah & Co.  
Chartered Accountants

For and on behalf of the Board of Directors

A. N. Shah  
Partner

Dipak Gupta  
Director

Chandrashekhar Sathe  
Director

Mumbai  
Dated: 2nd May, 2007

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

Particulars	2006-2007 Rupees	Rupees	2005-2006 Rupees	Rupees
<b>Cash Flow from Operating Activities</b>				
Net Profit/(Loss) after Taxes	(5,201,217)		(3,731,144)	
Adjustments for :				
Depreciation	3,852,076		7,483,778	
(Profit)/loss on sale of current investments	—		(34,790)	
Dividend on current investments	(63,832)		(88,706)	
Prior Period Expenses (net of income)	—		(65,629)	
Provision for Fringe Benefit Tax	25,573		31,930	
Provision for gratuity	(29,126)		—	
<b>Operating Profit Before Working Capital Changes</b>	<b>(1,416,526)</b>		<b>3,595,439</b>	
Adjustments for :				
Decrease/(Increase) in Sundry Debtors	167,482		(255,934)	
(Increase)/Decrease in Loans & Advances	143,472		766,123	
Increase/(Decrease) in Current Liabilities	(462,111)		(720,446)	
(Decrease)/Increase in Provisions	53,715		22,000	
<b>Cash Used in Operations</b>	<b>(1,513,967)</b>		<b>3,407,182</b>	
(Income Taxes paid)/Refund Received	(583,555)		(1,204,312)	
<b>Net Cash flow from Operating Activities</b>	<b>(A)</b>	<b>(2,097,523)</b>		<b>2,202,870</b>
<b>Cash Flow from Investing Activities</b>				
Purchase of Fixed Assets	(58,172)		—	
Purchase of Investment	(2,488,832)		(42,063,707)	
Sale of Investment	2,050,000		40,265,557	
Dividend received on investments	63,832		88,706	
<b>Net Cash from Investing Activities</b>	<b>(B)</b>	<b>(433,172)</b>		<b>(1,709,444)</b>
<b>Cash Flow from Financing Activities</b>				
(Decrease)/Increase in Equity Share Capital	7,500,000		—	
(Decrease)/Increase in unsecured loans	(5,000,000)		(2,500,000)	
<b>Net Cash used in Financing Activities</b>	<b>(C)</b>	<b>2,500,000</b>		<b>(2,500,000)</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	<b>(A + B + C)</b>	<b>(30,695)</b>		<b>(2,006,574)</b>
Cash & Cash Equivalents at the beginning of the Year		263,186		2,269,760
Cash & Cash Equivalents at the end of the Year		232,492		263,186
		(30,695)		(2,006,574)

### Notes :

1. Cash and cash equivalent include:			
Cash on hand		6,334	1,171
Bank Balances/overdraft		226,158	262,016
<b>Total cash and cash equivalents</b>		<b>232,492</b>	<b>263,186</b>

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

3. The corresponding amounts of previous year have been re-grouped, wherever necessary.

As per our report attached.  
For V. C. Shah & Co.  
Chartered Accountants

For and on behalf of the Board of Directors

A. N. Shah  
Partner

Dipak Gupta  
Director

Chandrashekhar Sathe  
Director

Mumbai  
Dated: 2nd May, 2007

## Schedules Forming Part of the Balance Sheet as at 31st March, 2007

	As at 31st March, 2007 Rupees	As at 31st March, 2006 Rupees
<b>Schedule 1 – Share Capital</b>		
<b>Authorised</b>		
25,00,000 (P.Y. 17,50,000 ) Equity Shares of Rs. 10 each	25,00,000	17,50,000
	<b>25,00,000</b>	<b>17,50,000</b>
<b>Issued, subscribed and paid up</b>		
25,00,000 Equity Shares of Rs. 10 each, fully paid up (of the above, 17,50,000 equity shares are held by Kotak Mahindra Bank Limited, the holding company and its nominees)	25,00,000	17,50,000
<b>Total</b>	<b>25,00,000</b>	<b>17,50,000</b>

### Schedule 2 – Reserves and Surplus

<b>Capital Redemption Reserve</b>		
As per last Balance Sheet	1,900,000	1,900,000
<b>Total</b>	<b>1,900,000</b>	<b>1,900,000</b>

### Schedule 3 – Unsecured Loans

8.50% 175 (P.Y. – 225) Unsecured Fully Convertible Debentures of Rs. 1,00,000/- each fully paid up (Redeemable at par on or before 25th March 2012, at the exercise of put or call option exercisable after 3 years from the date of allotment, being 26th March 2007. If option to redeem is not exercised, the debentures shall be convertible into equity shares of Rs. 10/- each on maturity date, i.e. 25th March 2012, at book value as per audited financials on 30th September, 2011.)	17,500,000	—
8.50% 225 (P.Y. NIL) Unsecured Fully Convertible Debentures of Rs. 1,00,000/- each fully paid up (Redeemable at par on or before 14th March 2011, at the exercise of put or call option exercisable after 3 years from the date of allotment, being 14th March 2006. If option to redeem is not exercised, the debentures shall be convertible into equity shares of Rs. 10/- each on maturity date, i.e. 14th March 2011, at book value as per audited financials on 30th September, 2010.)	—	22,500,000
<b>Total</b>	<b>17,500,000</b>	<b>22,500,000</b>

### Schedule 4 – Fixed Assets

Description	Gross Block			Depreciation/Amortisation						
	As at 1st April, 2006	Additions	Deductions	As at 31st March, 2007	Upto 1st April 2006	For the year	Deductions	Upto 31st March, 2007	As at 31st March 2007	As at 31st March, 2006
Goodwill	18,840,000	—	—	18,840,000	18,840,000	—	—	18,840,000	—	—
Office Equipment	941,271	7,000	—	948,271	933,241	3,194	—	936,435	11,836	8,030
Furniture & Fixtures	85,355	—	—	85,355	72,298	13,057	—	85,355	—	13,058
Computers	115,129	51,172	—	166,301	115,129	5,825	—	120,954	45,347	—
Forex Broking Business Rights	38,300,000	—	—	38,300,000	19,469,167	3,830,000	—	23,299,167	15,000,833	18,830,833
<b>Total</b>	58,281,755	58,172	—	58,339,927	39,429,835	3,852,076	—	43,281,911	15,058,016	18,851,921
Previous Year	58,281,755	—	—	58,281,755	31,946,057	7,483,777	—	39,429,833	18,851,921	26,335,698

## Schedules Forming Part of the Balance Sheet as at 31st March, 2007 (Contd.)

### Schedule 5 – Current Investments

(Non Trade, at cost or market value, whichever is lower)

	Face Value	No. of Units 31st March 2007	Amount (Rs.) as on 31st March 2007	No. of units 31st March 2006	Amount (Rs.) as on 31st March 2006
In units (Unquoted and fully paid) :					
Kotak Mahindra Mutual Fund- K-Liquid					
Institutional (Daily Dividend)	10	185,782.6728	2,271,769	149,895.53	1,832,938
Total			2,271,769		1,832,938
Aggregate of Unquoted Investments – at cost			2,271,769		1,832,938

	As at 31st March 2007 Rupees	As at 31st March 2006 Rupees
--	------------------------------------	------------------------------------

### Schedule 6 – Sundry Debtors

Unsecured, considered good		
– more than six months	—	—
– others	844,894	1,012,376
Unsecured, considered doubtful		
– more than six months	5,996	8,255
– others	—	—
	5,996	8,255
Less : Provision for doubtful debts	5,996	8,255
Total	844,894	1,012,376

	As at 31st March 2007 Rupees	As at 31st March 2006 Rupees
--	------------------------------------	------------------------------------

### Schedule 7 – Cash and Bank Balances

Cash balance on hand	6,334	1,171
Balance with scheduled banks - in current accounts	226,158	262,016
– in Fixed Deposit	1,500,000	1,500,000
Total	1,732,492	1,763,187

### Schedule 8 – Loans and Advances

(unsecured, considered good)

Advances recoverable in cash or in kind or for value to be received	783,259	926,730
Advance payment of Taxes and Tax deducted at source	3,581,188	3,023,206
Total	4,364,447	3,949,936

### Schedule 9 – Current Liabilities

Sundry Creditors (other than small scale industrial undertakings)	246,717	564,046
Interest accrued but not due	40,753	94,315
Other Liabilities	698,403	789,624
Total	985,873	1,447,985

### Schedule 10 – Provisions

Provision for Gratuity	132,142	104,000
Provision for FBT	25,573	—
Total	157,715	104,000

## Schedules Forming Part of the Profit and Loss Account as at 31st March, 2007

	For the year ended 31st March, 2007 Rupees	For the year ended 31st March, 2006 Rupees
<b>Schedule 11 – Income from Services</b>		
Brokerage (Gross)	6,571,356	5,197,485
Less: Sub brokerage and discounts	2,035,893	1,449,890
<b>Total</b>	<b>4,535,463</b>	<b>3,747,595</b>

## Schedule 12 – Personnel Expenses

Salaries, Allowances and Bonus	1,897,239	1,346,348
Contribution to Provident Fund and other Funds	93,887	87,777
Staff Welfare	82,263	38,496
<b>Total</b>	<b>2,073,389</b>	<b>1,472,621</b>

## Schedule 13 – Other Expenses

Rent	612,360	612,360
Electricity Charges	152,458	143,218
Maintenance expenses	84,996	188,887
Telephone Expenses	313,595	353,679
Reuters Screen Rentals	235,342	304,341
Business Promotion Expenses	126,104	152,213
Printing and Stationery	6,157	6,611
Professional Charges	33,145	18,155
Filing Fees	3,000	2,500
Auditor's Remuneration:		
– Audit Fees	50,000	40,000
– Tax Audit Fees	20,000	15,000
– In other capacity	1,102	1,500
Travel and Conveyance	32,421	62,927
Debenture Issue Expenses	148,875	—
Share Issue Expenses	60,000	—
Rates and Taxes	1,700	1,700
Bad Debts written off	5,596	59,189
Miscellaneous Expenses	37,484	45,934
<b>Total</b>	<b>1,924,335</b>	<b>2,008,214</b>

## Schedules Forming Part of the Balance Sheet and Profit and Loss Account

### SCHEDULE 14 – Significant Accounting Policies and Notes forming part of the Financial Statements for the year ended 31st March, 2007

#### I. SIGNIFICANT ACCOUNTING POLICIES

##### A. ACCOUNTING METHODOLOGY

The accounts have been prepared on historical cost basis of accounting in accordance with the generally accepted accounting principles. The Company adopts accrual method of accounting.

##### B. REVENUE RECOGNITION

- (a) Brokerage is recognized as income on accrual basis.
- (b) Interest Income including financial charges is recognised on accrual basis.

##### C. FIXED ASSETS

- (a) Fixed Assets have been stated at cost less accumulated depreciation.
- (b) Depreciation/Amortization Policy
  - (i) The Company adopts the Straight Line Method of depreciation at rates higher than those prescribed in Schedule XIV to the Companies Act, 1956, based on the management's estimates of useful life of the assets as follows:

Asset Type	Useful Life in Years
Computers	3
Office Equipment	5
Furniture & Fixture	6

- (ii) Forex Broking Business right acquired is treated as an asset and the value paid to acquire such right is amortised over a period of 10 years from the date of acquisition on prorata basis, as considered appropriate by the management.

##### D. INVESTMENTS

Current investments are valued weighted average cost of acquisition or fair/market value, whichever is lower.

##### E. 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 when due.
- (b) Gratuity liability is defined benefit obligation and is wholly unfunded. The Company accounts for liability for future gratuity benefits based on actuarial valuation.
- (c) Actuarial gains/losses are immediately taken to the profit and loss account and are not deferred.
- (d) The undiscounted amount of short-term employee 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.

The company has chosen to early adopt revised Accounting Standard 15 (AS 15) "Employee Benefits" which is mandatory from accounting period beginning on or after December 7, 2006. As per transitional provisions of AS 15, the difference in liability (net of tax effect) on account of employee benefits created by the Company has been included in Schedule 2 ("Reserves and Surplus").

##### F. TAXES ON INCOME

Current tax is determined as the amount of tax payable in respect of taxable income for the year. Deferred tax is recognized subject to the consideration of prudence in respect of deferred tax assets, on timing differences, being the difference between taxable income and accounting income that originates in one period and are capable of reversal in one or more subsequent periods.

##### G. BORROWING COST

Borrowing costs other than those directly attributable to qualifying Fixed Assets are recognised as an expense in the period in which they are incurred.

##### H. SEGMENTAL ACCOUNTING

In accordance with Accounting Standard 17 on Segment Reporting issued by the Institute of Chartered Accountants of India, the Company has determined one geographical segment, i.e. India and two business segments as under:

Segment	Principal Activity
Forex broking	Broking activity in forex market
Financing activity	Financing against securities

##### I. TREATMENT OF CONTINGENT LIABILITIES

Contingent Liabilities are disclosed by way of notes in the Balance Sheet. Provision is made in accounts for those liabilities, which are likely to materialise after the year end and having effect on the position stated in Balance Sheet as at the year end.

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

### II. NOTES TO ACCOUNTS

- In terms of Section 117C of the Companies Act, 1956, the Company is required to create a Debenture Redemption Reserve of an adequate amount in respect of debentures issued. However, no Redemption Reserve has been created by the Company and the same would be created in future years, subject to availability of adequate profits.
- Components of net deferred tax asset/liability as at 31st March, 2007:

	As at 31st March, 2007 Amount Rs.	As at 31st March, 2006 Amount Rs.
<b>Deferred Tax Asset</b>		
Allowance for unabsorbed depreciation	1,837,385	2,273,647
Total	1,837,385	2,273,647
<b>Deferred Tax Liability</b>		
Depreciation on fixed assets	1,837,385	2,273,647
Total	1,837,385	2,273,647
Net Deferred Tax Asset/Liability	NIL	NIL

The recognition of unabsorbed depreciation as deferred tax asset is duly supported by tax computation statements.

### 3. Employee Benefit Scheme

The company has adopted the revised AS 15 during the current financial year covering the recognition and measurement principles laid down therein. In view of the first time adoption, disclosures in respect of previous periods have not been given.

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

	Amount in Rs. As of 31st March, 2007
<b>Change in Unfunded benefit obligations</b>	
Present value of unfunded benefit obligations, 1st April, 2006	133,126
Current Service cost	35,249
Interest cost	9,868
Benefits paid	(24,675)
Actuarial (gain)/loss on obligations	(21,426)
<b>Present value of unfunded benefit obligations as at 31st March, 2007</b>	<b>132,142</b>
Reconciliation of present value of the obligation and the fair value of the plan assets	
Fair value of plan assets as at 31st March, 2007	—
<b>Present value of unfunded benefit obligations as at 31st March, 2007</b>	<b>132,142</b>
<b>Net asset/(liability) as at 31st March, 2007</b>	<b>(132,142)</b>
<b>Cost recognised for the period</b>	
Current service cost	35,249
Interest cost	9,868
Expected return on plan assets	—
Actuarial (gain)/loss	(21,426)
<b>Net gratuity cost</b>	<b>23,691</b>
<b>Actuarial assumptions used</b>	
Discount rate	8.20% p.a.
Salary escalation rate	15.0 % p.a. for first 2 years 10.0 % p.a. for next 2 years & 6 % p.a. thereafter

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.

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

### II. NOTES TO ACCOUNTS (Contd).

#### 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.

#### Provident fund:

In accordance with Indian regulations, employees of the Company are entitled to receive benefits under the provident fund, a defined contribution plan, in which, both the employee and the Company contribute monthly at a determined rate. These contributions are made to a recognised provident and administered by a Board of Trustees. The employee contributes 12% of his or her basic salary and the Company contributes an equal amount. The investments of the funds are made according to rules prescribed by the Government of India.

As per the transitional provision of AS 15, the difference in the liability on account of employee benefits created by the Company amounting to Rs. 21,426 (net of tax effect) has been added to the accumulated balance of profit and loss account.

#### 4. Quantitative information in respect of investment in units of mutual funds:

Description	31st March, 2007		31st March, 2006	
	Quantity	Amount Rs.	Quantity	Amount Rs.
<b>K-Liquid (Regular) – Growth</b>				
Opening Stock	—	NIL	—	NIL
Add: Purchases	—	NIL	267,876.8598	3,550,000
Less: Sales	—	NIL	267,876.8598	3,584,790
Closing Stock	—	NIL	—	NIL
<b>K-Liquid Institutional Dividend Scheme – Daily Dividend</b>				
Opening Stock	149,895.5273	1,832,938	—	NIL
Add: Purchases	203,533.7956	2,488,832	3,149,606.7000	38,513,706
Less: Sales	167,646.6501	2,050,000	2,999,711.1727	36,680,768
Closing Stock	185,782.6728	2,271,770	149,895.5273	1,832,938

#### 5. Related Party Disclosures:

##### Parties where control exist :

Nature of relationship	Related Party
Holding Company	Kotak Mahindra Bank Limited holds 70.00% of the share capital along with its nominees Mr. Uday Kotak along with relatives and enterprise in which he has beneficial interest holds 51.46% of Share capital of Kotak Mahindra Bank Limited.
Fellow Subsidiary	Kotak Securities Limited holds 30.00% of the share capital
<b>Other related parties:</b> Fellow Subsidiaries	Kotak Securities Ltd. Kotak Mahindra Capital Company Limited Kotak Mahindra Prime Ltd.
<b>Others:</b> Mutual Fund managed by Fellow Subsidiary	Kotak Mahindra Mutual Fund (managed by Kotak Mahindra Asset Management Company Limited)

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

### II. NOTES TO ACCOUNTS (Contd.)

The following transactions were carried out with the related parties in the ordinary course of business:

Nature of Transaction	Holding Company	Fellow Subsidiaries	Amount Rs.
			Mutual Fund managed by Fellow Subsidiary
Shares issued		7,500,000	
Debentures issued		17,500,000 (22,500,000)	
Debentures redeemed		22,500,000 (25,000,000)	
<b>Liabilities</b>			
Outstandings payable	47,990 (50,630)		
Interest accrued but not due		40,753 (94,315)	
Demat Charges payable		4,074 (4,669)	
<b>Unsecured Loans</b>			
Unsecured fully convertible debentures outstanding		17,500,000 (22,500,000)	
<b>Outstandings</b>			
Balance in Current accounts	226,158 (262,016)		
<b>Expenses</b>			
Rent Paid	612,360 (612,360)		
Interest on Debentures		1,900,856 (94,315)	
<b>Other Transactions</b>			
Expense Reimbursements to companies	346,268 (267,133)	23,310 (20,165)	
Expenses Reimbursements from companies	—	—	
<b>Investments – Mutual Fund units</b>			
Purchases			2,488,832 (42,063,706)
Sales			2,050,000 (40,265,559)

Figures in bracket indicates previous year figures.

#### 6. Earnings Per Share (EPS)

The numerators and denominators used to calculate Basic and Diluted Earnings Per Share

		For the year ended 31st March, 2007	For the year ended 31st March, 2006
Profit attributable to the Equity Shareholders (Rs.)	(A)	(5,201,217)	(3,731,144)
Basic/Weighted average number of equity shares outstanding during the period	(B)	1,768,493	1,750,000
Nominal Value of Equity Share (Rs.)	(C)	10	10
Basic and Diluted Earnings Per Share (Rs.)	D = (A) / (C)	(2.94)	(2.13)

The Company has issued fully convertible debentures to be converted into equity shares of Rs. 10/- each, if not redeemed, at book value based on the audited accounts as on 30th September 2011. The break up value of the equity shares as on the date of issue of debentures being negative, the potential equity shares have an anti-dilutive effect and hence have been ignored for the purpose of calculation of diluted EPS.

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

### II. NOTES TO ACCOUNTS (Contd).

#### 7. Segment Reporting

In accordance with Accounting Standard 17 on Segment Reporting issued by the Institute of Chartered Accountants of India, the Company has determined business segments as outlined in Note H of Significant Accounting Policies:

Segment information:	31st March, 2007	31st March, 2006
<b>1. Segment Revenue</b>		
a. Forex broking	4,706,690	3,983,029
b. Financing activity	—	10,497,827
<b>Total</b>	<b>4,706,690</b>	<b>14,480,856</b>
<b>2. Segment Results</b>		
a. Forex broking	(5,044,561)	(7,075,899)
b. Financing activity	(131,083)	3,376,685
<b>Total Profit Before Tax</b>	<b>(5,175,644)</b>	<b>(3,699,214)</b>
<b>3. Segment Assets</b>		
a. Forex broking	20,690,430	24,387,151
b. Financing activity	—	—
<b>Total</b>	<b>20,690,430</b>	<b>24,387,151</b>
<b>4. Segment Liabilities</b>		
a. Forex broking	18,639,514	24,047,316
b. Financing activity	4,074	4,669
<b>Total</b>	<b>18,643,588</b>	<b>24,051,985</b>
<b>5. Unallocated Assets net of Liabilities</b>	<b>3,581,188</b>	<b>3,023,206</b>
<b>6. Capital expenditure</b>		
a. Forex broking	58,172	—
b. Financing activity	—	—
<b>Total</b>	<b>58,172</b>	<b>—</b>
<b>7. Depreciation</b>		
a. Forex broking	3,852,076	7,483,778
b. Financing activity	—	—
<b>Total</b>	<b>3,852,076</b>	<b>7,483,778</b>

8. The Company has taken office premise under operating lease It is cancelable and renewable by mutual consent on mutually agreeable terms. Lease payments recognized in Profit and Loss Account under the head 'Rent Expenses' Rs. 6,12,360/- (P. Y. Rs. 6,12,360/-).

9. The Company has not received any intimation from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid/ payable as required under the said Act have not been given.

10. Previous year's figures have been regrouped/reclassified wherever necessary to conform to figures of the current year.

As per our report attached.  
For V. C. Shah & Co.  
Chartered Accountants

For and on behalf of the Board of Directors

A. N. Shah  
Partner

Dipak Gupta  
Director

Chandrashekar Sathe  
Director

Mumbai  
Dated: 2nd May, 2007

## Balance Sheet Abstract And Company's General Business Profile

Additional information pursuant to Part IV of Schedule V of the Companies Act, 1956

### I. Registration details

Registration Number   4  8  4  5  0 State code  1  1

Balance Sheet Date  3  1  0  3  2  0  0  7

Date Month Year

### II. Capital raised during the year (Amount in Rs. '000)

Public Issue <input type="text"/> <input type="text"/> <input type="text"/> N I L	Rights Issue <input type="text"/> <input type="text"/> <input type="text"/> N I L
Bonus Issue <input type="text"/> <input type="text"/> <input type="text"/> N I L	Private placement <input type="text"/> <input type="text"/> 7 <input type="text"/> 5 <input type="text"/> 0 <input type="text"/> 0

### III. Position of mobilisation and deployment of funds (Amount in Rs. '000)

Total Liabilities <input type="text"/> <input type="text"/> <input type="text"/> 4 <input type="text"/> 5 <input type="text"/> 5 <input type="text"/> 4 <input type="text"/> 4	Total Assets <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 4 <input type="text"/> 5 <input type="text"/> 5 <input type="text"/> 4 <input type="text"/> 4
Sources of Funds	Reserves and surplus
Paid up Capital <input type="text"/> <input type="text"/> <input type="text"/> 2 <input type="text"/> 5 <input type="text"/> 0 <input type="text"/> 0 <input type="text"/> 0	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 1 <input type="text"/> 9 <input type="text"/> 0 <input type="text"/> 0
Secured Loans <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L	Unsecured Loans <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 1 <input type="text"/> 7 <input type="text"/> 5 <input type="text"/> 0 <input type="text"/> 0
Application of Funds	Investments
Net Fixed Assets <input type="text"/> <input type="text"/> <input type="text"/> 1 <input type="text"/> 5 <input type="text"/> 0 <input type="text"/> 5 <input type="text"/> 8	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 2 <input type="text"/> 2 <input type="text"/> 7 <input type="text"/> 2
Net Current assets <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 5 <input type="text"/> 7 <input type="text"/> 9 <input type="text"/> 8	Miscellaneous Expenditure <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L
Accumulated Losses <input type="text"/> <input type="text"/> <input type="text"/> 2 <input type="text"/> 1 <input type="text"/> 2 <input type="text"/> 7 <input type="text"/> 2	

### IV. Performance of Company (Amount in Rs. '000)

Turnover <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 4 <input type="text"/> 7 <input type="text"/> 0 <input type="text"/> 6	Total Expenditure <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 9 <input type="text"/> 8 <input type="text"/> 8 <input type="text"/> 2
+ - Profit/loss before Tax <input type="text"/> - <input type="text"/> <input type="text"/> 5 <input type="text"/> 1 <input type="text"/> 7 <input type="text"/> 6	+ - Profit after Tax <input type="text"/> - <input type="text"/> <input type="text"/> 5 <input type="text"/> 2 <input type="text"/> 0 <input type="text"/> 1
+ - Prior Period Adjustment <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	Dividend Rate (%) <input type="text"/> N I L
Earning per share in Rs. <input type="text"/> - <input type="text"/> <input type="text"/> 2 <input type="text"/> . <input type="text"/> 9 <input type="text"/> 4	

### V. Generic Names of three Principal Products/Services of the Company (as per Monetary terms)

Item Code No. (ITC Code)  N  A

Product Description  F  O  R  E  X   B  R  O  K  I  N  G

For and on behalf of the Board of Directors

Dipak Gupta  
Director

Chandrashekhar Sathe  
Director

Mumbai  
Dated: 2nd May, 2007