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<p><b>Board of Directors</b></p> <p>Narendra Kale                      Chairman  Vipul Jain                              Managing Director  K.K. Nohria                            Director  Prabhakar Deodhar                Director  Pravin Gandhi                        Director</p> <p><b>Auditor</b></p> <p>M/s. D.G. Kurundwadkar        Chartered Accountant</p> <p><b>Company Secretary</b></p> <p>Ninad Umranikar</p> <p><b>Bankers</b></p> <p>State Bank of India  Citibank N.A.  ABN AMRO Bank N.V.  ICICI Bank Ltd.  Barclays Bank Plc.</p> <p><b>Registered Office</b></p> <p>Kale Enclave, 685/2B &amp; 2C,  1<sup>st</sup> Floor, Sharada Arcade,  Satara Road,  Pune – 411 037  Tel. No. +91 20 5608 3777  Fax No. +91 20 2423 1639  Website : www.kaleconsultants.com</p> <p><b>Registrar and  Share Transfer Agent</b></p> <p>Karvy Computershare Pvt. Ltd.,  "Karvy House" 46, Avenue 4,  Street No. 1, Banjara Hills,  Hyderabad-500 034  Tel. : +91-40-2331 2454  Fax : +91-40-2331 1968</p>	<p><b>Letter to Shareholders ..... 2</b></p> <p><b>Financial Highlights ..... 4</b></p> <p><b>Directors' Report ..... 6</b></p> <p><b>Management Discussion and Analysis ..... 22</b></p> <p><b>Kale's Social Initiative ..... 30</b></p> <p><b>Auditor's Report ..... 31</b></p> <p><b>Financial Statements ..... 34</b></p> <p><b>Consolidated Financial Statements ..... 50</b></p> <p><b>Financial Statements of Subsidiaries ..... 63</b></p> <ul style="list-style-type: none"> <li>■ Kale Softech, Inc.</li> <li>■ Kale Consultants Australia Pty. Ltd.</li> <li>■ Antah Kale Sdn. Bhd.</li> <li>■ Kale eTravel Technologies Ltd.</li> <li>■ Cognosys Software Ltd.</li> <li>■ Synetairos Technologies Ltd.</li> </ul> <p><b>Shareholder Information ..... 135</b></p> <p><b>AGM Notice ..... 139</b></p>
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## Letter to Shareholders

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Dear Shareholders,

The year – 2004- 2005 is a milestone year for your Company. It is the first full year post restructuring and the beginning of a new and exciting phase in the Company's development.

At this milestone , it is probably useful to reflect upon the journey so far and how the company has evolved over the past 19 years.

The Company was founded in 1986, with a capital of Rs. 1 million, a team of 8 and single room offices in Mumbai and Pune. Our vision was simple but compelling – to build world class products and make the Kale brand globally recognized and respected.

Our first products – QB™ and Examiner™ for schools – must have been among the very first "Made in India" products in the Indian market. While our educational software did reach around 2000 schools in India, we soon realized that we were way ahead of our time and it would take quite some time before the PC installed base would be adequate to make the market viable.

Next, we built Enterprise –wide application software solutions for the domestic Hospitals and Banking industry. Our approach was to do a build a solution on the back of a development project and subsequently go to other customers in the same vertical and thereby evolve a packaged solution. Our products enjoyed great success in the Indian market because we were pioneers to offer such solutions. In the hospital industry for example, starting with Breach Candy Hospital, our hospital management solution was installed at over 40 hospitals that were the crème-de-la-crème of the healthcare industry. Our Banking software – Plutus™ was installed at more than 500 branches of leading banks – including nationalized, private and cooperative banks.

While Kale grew and earned a great reputation, we did not generate adequate funds to sustain the heavy investments required to break into the global market. This period - the nineties – was a boom period for the IT services industry and yet to remain true to our vision, we had to close our eyes to those opportunities. So, it was a challenging time and one that tested our grit and determination.



**Vipul Jain**  
Managing Director

## Letter to Shareholders

Then, a very successful IPO in 1999, that was over subscribed a record breaking 72 times and created this very supportive community of around 32,000 Kale shareholders, provided us with the funds to establish ourselves into the global market.

In October 2000, we crafted out the strategy that was played out over the next 5 years. The mission was, globally, to be among the top three providers of choice in the businesses we choose to be in. To realize this mission we decided to focus entirely on the Airline industry and in consonance with the same mission statement, later divested other businesses.

We decided upon five strategic goals 1) renew and diversify our product and service portfolio 2) increase our customer base 3) build brand in the industry 4) create more annuity revenue streams 5) to enhance our front-end and customer facing capability.

Today, it is with a sense of achievement that we can state that we have substantially achieved all of these five strategic objectives.

Our product and service portfolio covers both passenger and cargo solutions and the entire value chain from products to entire business process management. The airline industry has chosen us as one of two providers of a commercially sensitive and mission critical service – a strong endorsement of our brand. Our customer base includes more than 40 airlines, travel agencies and logistic companies including many of the global leaders. We have innovated our revenue model to reduce the risks of the product business. Equally significant has been the induction of new talent and building of a world class account management, sales and marketing and customer engagement teams.

We now enter a new phase for the company – where the goals are to leverage the assets that we have created and achieve sustainable and profitable growth. Our goals over the next 5 years are threefold : 1) to exceed industry growth rates 2) to achieve industry leader profitability levels and 3) to make our business model sustainable and scalable.

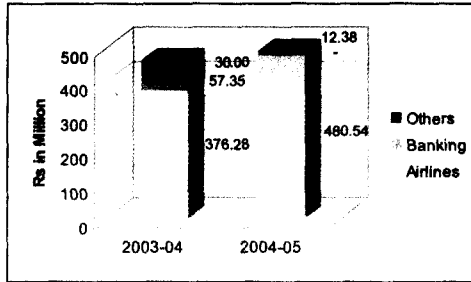
In this eventful journey, I would like to express my gratitude to the support of our shareholders over the past five years and on behalf of myself and my colleagues, renew our commitment to deliver superior shareholder value.



**Vipul Jain**  
Managing Director

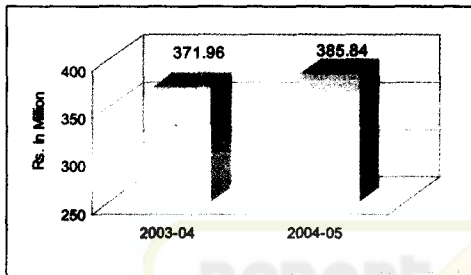
## Financial Highlights

### Segmentwise Operating Revenue



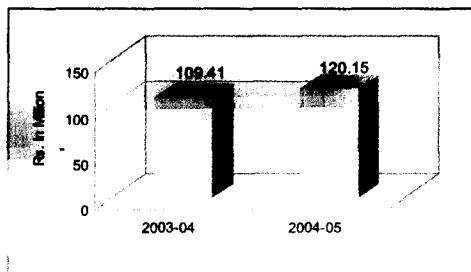
... Operating Revenues increased by 6% and Revenues from Airlines Business showed an impressive growth of 28%

### Operating Expenses



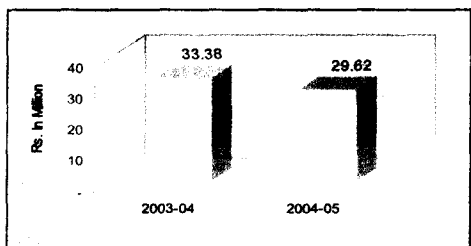
... Operating Expenses increased by 4%

### PBIDT



... PBIDT increased by 10%

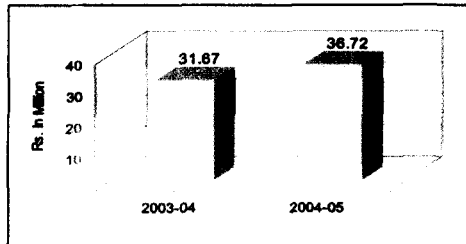
### Depreciation Cost



... Depreciation Cost reduced by 11%

## Financial Highlights

## Operating PBT



... net result, Operating PBT increased by 16%

## Performance Indicators

Rs. in Million

Sr.No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1	Total Revenue	350.82	504.59	507.01	481.37	505.99
2	Operating Revenue	345.99	495.31	499.48	463.63	492.92
3	PBIDT	(16.94)	94.59	108.27	109.41	120.15
4	Operating PBT	(66.39)	20.27	31.92	31.67	36.72
5	PAT	(67.31)	20.26	31.42	31.66	7.52
6	Net Fixed Assets	358.15	380.98	394.10	350.20	359.75
7	Borrowings	81.24	86.56	97.82	150.56	166.49
8	Equity Capital	114.99	114.99	115.00	116.00	116.83
9	Net Worth	500.15	518.50	541.17	555.46	540.41
10	Capital Employed	581.39	605.06	638.99	706.02	706.90
11	EPS-Diluted (Rs)	(5.85)	1.76	2.73	2.75	0.10

## Directors' Report

To,  
The Members,

Your Directors present the Nineteenth Report on the Business & Operations of your Company for the year ended March 31, 2005.

### Financial Results

Rs. in Million

Particulars	2004 - 2005	2003 - 2004
<b>Total Revenue</b>		
- Domestic .....	68.80	67.46
- Export .....	424.12	396.16
- Other Income .....	13.07	17.75
<b>Total .....</b>	<b>505.99</b>	<b>481.37</b>
<b>Total Expenditure .....</b>	<b>385.84</b>	<b>371.96</b>
<b>PBIDT .....</b>	<b>120.15</b>	<b>109.41</b>
Interest .....	8.67	4.29
Depreciation .....	29.62	33.38
Amortisation of Product Cost .....	45.14	40.07
<b>Profit Before Tax and Provision for diminution in the value of Investments .....</b>	<b>36.72</b>	<b>31.67</b>
Provision for diminution in value of investments .....	29.19	-
<b>Profit Before Tax .....</b>	<b>7.53</b>	<b>31.67</b>
Provision for Tax .....	0.01	0.01
<b>Profit After Tax .....</b>	<b>7.52</b>	<b>31.66</b>
Add/(Less) : Prior Period Items .....	(6.26)	0.20
Profit brought forward from earlier year .....	82.13	50.27
<b>Profit available for appropriation .....</b>	<b>83.39</b>	<b>82.13</b>
<b>Appropriations:</b>		
- Transferred to/(from) General Reserves .....	-	-
- Balance Transferred to Balance Sheet .....	<b>83.39</b>	<b>82.13</b>

### Overview

Your Directors are pleased to report that your Company achieved significant growth and recorded impressive operational performance during the year under review.

The Travel and Transportation industry is growing significantly and given its IPR, domain knowledge, client base and flexible product and service options, your company is ideally suited to assist customers in this industry. With this view, in last fiscal the company undertook a restructuring exercise of its operations that spanned businesses, brands, people and strategy and saw the company deciding to focus on the Travel and Transportation industry and exiting from all other verticals. As a result of this successful restructuring, this year the company has emerged as a very strong, dominant and vertically integrated player offering clients a basket of services from software solutions to custom development to managing entire business processes on an outsourced basis.

The focus on the Travel and Transportation sector has started paying off handsome results with high customer acquisitions, penetration into newer markets and renewal of long-term multi-million dollar contracts by existing customers. This has also led to a significant rise in revenues from this segment. Your Company shall continue to invest significant management energies and marketing efforts, to build and consolidate this position in the years to come.

While the global Travel and Transportation industry is growing significantly, there is also increased pressure for cost efficiencies. These are creating greater opportunities for your company's products and services. To exploit these better, your company will continue to make substantial investments in the areas of product development, sales and marketing.



## Directors' Report

### Review of Performance

#### Focus on Travel and Transportation vertical

Today your company is a vertically integrated player in the industry offering a whole basket of value to its customers from specialized products to customized development to managing services on an outsourced basis.

#### Financial Performance

During the year under review, your Company registered revenues of Rs. 505.99 million against Rs. 481.37 million in the previous year, a growth of 5.1% over the previous year. Revenues from sale of software products and services increased by 6.3% at Rs. 492.92 million, as compared to Rs. 463.63 million in the previous year. Export revenues grew by 7% to Rs. 424.12 million as compared to Rs. 396.16 million in the previous year.

Revenues for the previous year included Rs. 57.47 million from the Banking vertical. Thus on a comparable basis, Airlines segment continued its robust growth and reported revenue of Rs. 480.54 million, a growth of 28% over the previous year. The Airlines vertical has grown with a CAGR of 42% over the last five years.

Another significant aspect of the company's revenues, over the last few years has been that annuity type recurring revenues have increased substantially. For FY 2004-05 these revenues were Rs. 394.52 million up 50% from Rs. 262.73 million in the last fiscal. Over the last five years, annuity type revenues have grown with a CAGR of 132%, reducing the lumpiness of earnings significantly.

Operating expenditure stood at Rs. 385.84 million as compared to Rs. 371.96 million, an increase of 3.7%. Increase in revenues at a rate higher than expenses, resulted in PBIDT for the year at Rs. 120.15 million compared to Rs. 109.41 million in the previous year. As a result of one time provision for diminution in value of investments in its subsidiary and joint venture (see below) to the tune of Rs. 29.19 million, profit after tax for the current year was Rs. 7.52 million compared to Rs. 31.66 million of previous year.

#### Diminution in value of investments

During the year the Company reviewed the operations of its subsidiaries and joint venture. Based on the review, your Company has assessed a decline, other than temporary, in the carrying amount of investments in a subsidiary viz. Kale Consultants Australia Pty. Limited and a joint venture viz. Antah Kale Sdn. Bhd. As a result of this assessment, a provision has been made for diminution in the value of investments of Rs. 25.19 million and Rs. 4 million respectively, which your Company believes would match the residual carrying value to its share of net worth of the said entities.

#### Discontinued Operations

During the year 2003-04, your Company had restructured its business and decided to focus on the Travel and Transportation vertical. As a result of this decision your company sold its Banking Products Division to Onward Technologies Limited, transferred its Healthcare software WINCARE™ to Sobha Renaissance Information Technology Limited and the Generic Software Services Business was hived off to an independently managed subsidiary Synetairos Technologies Limited.

During the year under review, some outstanding amounts pertaining to these discontinued businesses mentioned earlier, have not been received as of 31<sup>st</sup> March, 2004. Also, there have been expenses pertaining to these discontinued businesses, which were not accurately and / or fully estimated during the previous year. The said items pertain to discontinued businesses and accordingly have been set off against General Reserves and not debited to Profit and Loss Account. The details of these items have been disclosed in the Notes to Accounts, which form part of the financial statements.

#### New customer acquisition, extension of services

The focus on the Travel and Transportation sector also paid off in terms of high customer acquisitions, penetrated new markets and renewed long term contracts with existing customers.

Last year, IATA approved Kale's APEX™, as an industry standard for Neutral Fare Proration (NFP) – (one among only two to be so approved along with CIPS by ATPCO). This has had a significant impact on the company's new client acquisition process. Over the last one year, three of the world's top-ten airlines have chosen Kale for their NFP services.

Overall your company added ten new customers including four for its Kale MPS™ division. The total number of Kale MPS™ customers now stands at nine.

The Neutral Fare Proration (NFP) service continued to be a thrust area adding two new customers this year. With these two new wins, your Company now boasts to have three of the top ten airlines in the world i.e. Delta, Continental and a large US airline, as their APEX™ customers.

The success of your company's value to its customers can be gauged from the repeat orders it gets. During the year several of the company's customers including Continental, Qatar Airways, Oman Air and Gulf Air renewed / signed long-term multi-million dollar deals. Today the company has an order book of over Rs. 2.1 billion to be completed over the next 4-5 years.

## Directors' Report

### Managed Process Services (Business Process Outsourcing)

Kale MPST<sup>™</sup> continues to surge ahead, delivering both growth and enhanced customer value. Kale MPST<sup>™</sup> has been the biggest growth driver for your Company this year. The Managed Process Service business added four customers during the year taking the total number of customers to nine. This business reported revenues of Rs. 224.92 million as against Rs. 137.63 million during the previous year, showing a growth of 63%.

To cater to the growing needs of its customers, this year your Company has expanded the infrastructure, which now includes 32,000 sq.ft area in the state of the art facility at Andheri, Mumbai.

Kale MPST<sup>™</sup> services include, End-to-End Revenue Accounting, Revenue Recovery & Protection Service (RRPS) and Cargo Sales Audit.

### Global Launch of CSP<sup>™</sup>

This year, we globally launched CSP<sup>™</sup>, an enterprise-wide modern technology cargo solution. CSP<sup>™</sup> is a cargo management system designed to meet the end-to-end needs of cargo carriers of all sizes. A truly modern, integrated system, CSP<sup>™</sup> is expected to replace the existing legacy systems and provide the users with significantly enhanced functional flexibility and improvements in the business processes.

The successful implementation of CSP<sup>™</sup> at Asiana, a leading cargo airline, has helped that airline set a new benchmark and raised the bar for cargo automation achievements aimed at improving yield, receiving accurate and reliable information to enable management to take better informed decisions based on comprehensive MIS reports covering all areas of business – all of which reduce costs and ensure a quality cargo experience for their customers.

Kale and Asiana have enjoyed a strong relationship that has resulted in unprecedented efficiencies and management capabilities. This implementation will help your Company scale greater heights in the days to come.

### Outlook

The calendar year 2004 has ended with the strongest traffic rebound in the last decade and half. Industry estimates put the worldwide growth in passenger traffic at around 15% and the growth in cargo traffic at around 13%.

But while the traffic has been showing significant increase, globally, because of the rising oil prices, airlines have been facing enormous pressure on their profitability.

While most industry experts predict the industry to grow at a compounded annual growth rate of over 6%, they also see passenger fares and cargo yields continuing to decline. This will further build up pressure on airlines' margins and consequently profitability.

The industry is thus faced with a dual challenge of managing growth while continuing to make their operations more cost effective.

This presents an unique opportunity for a company like yours whose flexible business model and products & services offer clients advantages like improved operational efficiency, better business intelligence, reduction in back office processing costs, revenue recovery and protection and reduction in trade commissions by embracing e-business strategies. This opportunity combined with strong user base, healthy order book and robust pipeline would translate into significant growth in the coming years.

### Subsidiaries

During the year, your company acquired the balance equity shares in its subsidiary Cognosys Software Pvt. Ltd, thus making it a wholly owned subsidiary of your company. Subsequently, the name of the company was changed to Kale eTravel Technologies Limited. This subsidiary is engaged in the business of development of software for Travel industry and has considerable expertise, recognition and goodwill in this business. Your Company formulated a Scheme of Amalgamation with Kale eTravel Technologies Limited, which has been approved by the shareholders of both the companies. The petition has been filed with the Hon'ble High Court of Judicature at Bombay for approval of the amalgamation.

### Directors

#### Mr. K. K. Nohria

Mr. K. K. Nohria – Director, retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

Mr. Nohria is a fellow of the Institute of Electrical Engineers, UK, Fellow of Indian Society for Value Engineering and Life Fellow of All India Management Association. He graduated in Electrical Engineering and subsequently pursued his studies in Power Engineering and Management at Manchester Technical College, UK. Mr. Nohria has a total experience of more than 5 decades in the Electrical Industry.

Mr. Nohria is a director on the Board of various reputed companies in India. He is a member of Bombay Chamber of Commerce and Industry and member of ASSOCHAM. He is also a Member, EU Chamber of Commerce.