

KALE CONSULTANTS LIMITED



20TH ANNUAL REPORT 2005-2006



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<p>Board of Directors</p> <p>Narendra Kale Chairman Vipul Jain Managing Director K.K. Nohria Director Prabhakar Deodhar Director Pravin Gandhi Director</p> <p>Auditor</p> <p>M/s. D.G. Kurundwadkar Chartered Accountant</p> <p>Company Secretary</p> <p>Ninad Umranikar</p> <p>Bankers</p> <p>State Bank of India Citibank N.A. ABN AMRO Bank N.V. The Hongkong and Shanghai Banking Corporation Ltd. ICICI Bank Ltd. Barclays Bank Plc.</p> <p>Registered Office</p> <p>Kale Enclave, 685/2B & 2C, 1st Floor, Sharada Arcade, Satara Road, Pune – 411 037 Tef. No. +91 20 6608 3777 Fax No. +91 20 2423 1639 Website : www.kaleconsultants.com</p> <p>Registrar and Share Transfer Agent</p> <p>Karvy Computershare Pvt. Ltd., "Karvy House" 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad-500 034 Tel. : +91-40-2342 0818 Fax : +91-40-2342 0814</p>	<p>Letter to Shareholders 2</p> <p>Financial Highlights 4</p> <p>Directors' Report..... 6</p> <p>Management Discussion and Analysis 21</p> <p>Kale's Social Initiative 31</p> <p>Auditor's Report 33</p> <p>Financial Statements 36</p> <p>Consolidated Financial Statements 53</p> <p>Financial Statements of Subsidiaries 66</p> <ul style="list-style-type: none"> ■ Kale Softech, Inc. ■ Kale Consultants Australia Pty. Ltd. ■ Antah Kale Sdn. Bhd. ■ Kale Technologies Ltd. ■ Synetairos Technologies Ltd. <p>Shareholder Information 121</p> <p>AGM Notice 125</p>
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Letter to Shareholders

*Greatness is not in where we stand, but in what direction we are moving.
We must sail sometimes with the wind and sometimes against it
— but sail we must and not drift, nor lie at anchor.*

· Oliver Wendell Holmes

All through our existence since the last 20 years, Kale has believed in winning for our customers, our employees, our shareholders and the society at large. We have geared up, not only to meet present challenges, but also future challenges as the future is but a couple of days away from yesterday.

Our journey has been hard and we have made some short term sacrifices in order to get long term gains to build a business capable of sustained growth and profitability. This has meant that our shareholders have had to be patient.



Vipul Jain
Managing Director

The most direct demonstration of keeping the faith in an organization is the people. As long as you align your business with the interest of your customers and you have a team of passionate and committed people, you have to keep faith in them, empower them and what you will see is growth and tangible business and financial results.

2005-06 was a year which demonstrated the value of keeping the faith for Kale and all its stakeholders. The benefit of focused strategy coupled with continuously improving execution has begun to reflect in our business results. Kale, today is financially a healthier organization and at the tipping point in our corporate development.

We have always pursued our belief in our mission and strategy. A cornerstone of our mission is globally to be one of the top three providers of choice in the markets that we serve through innovation, modern technology and global outsourcing. To complete this mission, we have pursued the strategy of becoming a complete solutions provider to the travel & transportation industry.

At Kale, we are proud to have built a culture on anticipating and understanding our customer's needs and then working in close partnership with the customers to make their business stronger – more productive, more profitable, more capable of capturing market opportunities – and thus more valuable. The fact that approximately 85% of our revenue in 2005-06 came from existing customers clearly demonstrates their recognition of the value we bring to their business.

Letter to Shareholders

Customers need a partner who not only “speaks the language” of their business, but also provides leadership on their key competitive issues. Kale has a vertical focus and therefore, we have built deep domain expertise and insight into the industry challenges and opportunities. Kale has also perfected the Global Delivery Model that leverages the high quality resource base in India and yet ensures quality delivery to customers across the world.

Looking ahead to 2006 and beyond, we continue to see healthy, growing demand of our solutions and services. The industry is returning to a more normal growth pattern after the shocks that began in 2001. The theme for the airline industry as very well articulated by IATA is to “Simplify the Business” and thereby reduce costs and gain operational flexibility. Kale’s solutions help customers achieve precisely these goals – the revenue accounting portfolio helps airlines to reduce back office processing costs and prevent revenue losses. The cargo solution suite delivers end-to-end process management capability to enable the business to increase cargo yields, enhance customer service and reduce transaction processing costs and delays. Kale’s Managed Process Services enables customers to outsource their business process and focus on their strategic business drivers. The growth of internet travel sales has been phenomenal presenting huge opportunity as never before. Kale is well-positioned to benefit from this industry dynamic, having invested in expanding our portfolio of services, adding highly capable and motivated team members, deepening our industry expertise and broadening our geographic footprint.

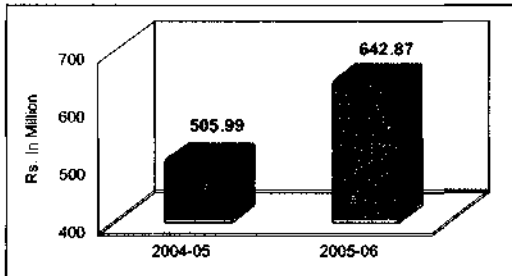
The road ahead is exciting and challenging. But challenge is what we relish – as it helps us rekindle our passion to build a company that will win for its stakeholders. We will strive to live up to the faith that you have vested in us.

I thank you all for the confidence and trust you have in Kale. I along with Team Kale will endeavor to work towards achieving the leadership position that we desire, and you as stakeholders deserve.

Vipul Jain
Managing Director

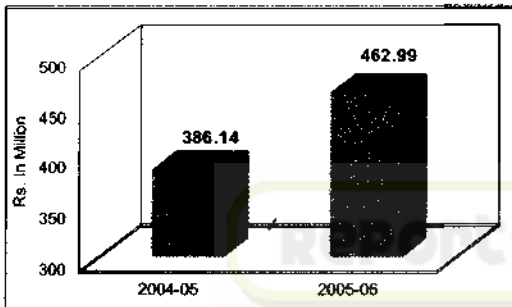
Financial Highlights

Total Revenue



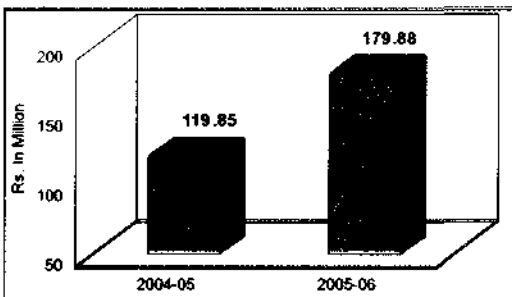
Revenue increased by 27%

Operating Expenses



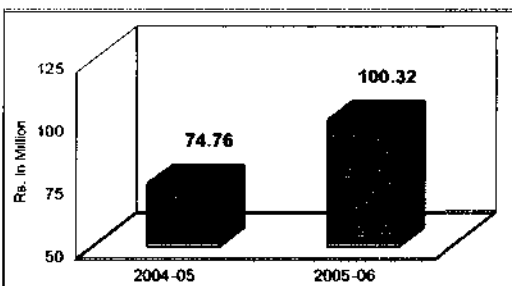
Operating Expenses increased by 20%

PBIDT



PBIDT increased by 50%

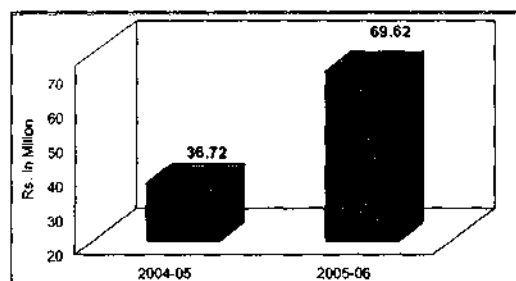
Depreciation and Amortisation Cost



Depreciation and Amortisation Cost increased by 34%

Financial Highlights

Operating PBT



Operating Profit Before Tax increased by 90%

Performance Indicators

Rs. in Million

Sr. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1	Total Revenue	504.59	507.01	481.37	505.99	642.87
2	Operating Revenue	495.31	499.48	463.63	492.92	625.84
3	PBIDT	94.59	108.27	109.41	119.86	179.88
4	Operating PBT	20.27	31.92	31.67	36.72	69.62
5	PAT	20.26	31.42	31.66	7.52	64.84
6	Net Fixed Assets	380.98	394.10	350.20	359.75	419.97
7	Borrowings	86.56	97.82	150.56	166.49	120.85
8	Equity Capital	114.99	115.00	116.00	116.83	128.46
9	Net Worth	518.50	541.17	555.46	540.41	629.29
10	Capital Employed	605.06	638.99	706.02	706.90	750.14
11	EPS - Diluted (Rs)	1.76	2.73	2.75	0.10	5.17

Directors' Report

To,
The Members,

Your Directors present the Twentieth Report on the Business and Operations of your Company for the year ended 31st March, 2006.

Financial Results

Rs. in Million

Particulars	2005 - 2006	2004 - 2005
Total Revenue		
- Domestic	118.05	68.80
- Export	507.79	424.12
- Other Income	17.03	13.07
Total	642.87	505.99
Total Expenditure	462.99	386.14
PBIDT	179.88	119.85
Interest	9.94	8.37
Depreciation and Goodwill	44.11	29.62
Amortisation of Product Cost	56.21	45.14
Profit Before Tax and Provision for Diminution in the Value of Investments	69.62	36.72
Provision for Diminution in Value of Investments	-	29.19
Profit Before Tax	69.62	7.53
Provision for Tax	1.78	0.01
Provision for Fringe Benefit Tax	3.00	-
Profit After Tax	64.84	7.52
Add/(Less) : Prior Period Items	1.27	(6.26)
Profit brought forward from earlier year	83.39	82.13
Profit available for appropriation	149.50	83.39
Appropriations:		
- Transferred to/(from) General Reserves	1.62	-
- Proposed Dividend	16.06	-
- Dividend Tax	2.25	-
- Balance Transferred to Balance Sheet	129.57	83.39

Dividend

Your Directors are pleased to recommend a dividend of Rs. 1.25 per equity share for the financial year ended 31st March, 2006. The dividend, if approved, will be paid to those members whose names appear in the Register of Members as on the date of the ensuing Annual General Meeting.

Overview

Your Directors are pleased to report your Company's remarkable improvement in terms of revenues and net margins during the year under review.

This year the Company has consolidated its position as a very strong and major player in the Travel and Transportation vertical. The year has also seen an encouraging response from global customers to your Company's initiative in the Travel and Transportation industry.

The business outlook for the Travel and Transportation industry has improved this year and your Company was well prepared to focus on the global opportunities. Your Company is the only India-based software player with a complete integrated suite of solutions and services for Revenue Accounting and Cargo Management, two most important functions in the airline industry. As a focused global player in the Travel & Transportation industry, your Company has proved to be a strategic long-term partner for its customers.

Directors' Report

Operations

During the year under review, your Company recorded revenues of Rs. 642.87 million against Rs. 505.99 million in the previous year, an increase of 27.05% over the previous year. Revenues from sale of software products and services grew 26.96% to Rs 625.84 million in 2005-06 from Rs. 492.92 million in 2004-05. Export revenues rose to Rs 507.79 million from Rs. 424.12 million in the previous year, a growth of 19.73%.

Operating expenditure stood at Rs 462.99 million as against Rs. 386.14 million during the previous year, an increase of 19.90%. The operating margins increased by 50.08% to Rs. 179.88 million from Rs. 119.86 million. Profit after tax for the current year has increased to Rs. 64.84 from Rs. 7.52 million in the previous year, an upsurge of 762.23%.

Customer Acquisitions

Cebu Pacific, the "on time, great value" airline from Philippines has signed a five-year contract with the Company for REVERA™, the comprehensive Passenger Revenue Accounting Solutions.

During the year, the Company also bagged an order from Bangkok Airways and has signed a five-year contract for REVERA™. With REVERA™, Bangkok Airways will be able to reduce the per unit transaction cost while ensuring increased throughput and timely, actionable MIS to senior and top management. REVERA™ has been successfully implemented at Bangkok Airways and the airline has commenced operations.

The Company has signed an agreement with a leading airline in Europe for the implementation of Revenue Accounting Solutions.

Managed Process Services (Kale MPS™)

Kale MPS™ which includes End-to-End Revenue Accounting, Revenue Recovery and Protection Service (RRPS) and Cargo Sales Audit, has shown increased growth potential during the year adding 4 new customers. The total number of customers has increased to 14.

The revenues generated by Kale MPS™ grew by 21.87% from Rs. 224.92 million during the previous year to Rs. 274.11 million.

CSP™ - The year in perspective

Last year, your Company globally launched CSP™ - Modern Integrated Enterprise-Wide Cargo Solution. CSP™ has established itself as a leading software solution for cargo carriers within the first year of its release. The first year of CSP™ saw remarkable growth in terms of revenue generation, customer acquisition and retention.

The solution which was globally launched in June, 2004, today has two of the world's top 20 airlines as its customers and enjoys the credit of being a modern end-to-end cargo solution in the market.

Asiana Airlines, one of the top 20 cargo airlines and a CSP™ user since December 2003, has reinstated its faith in the solution by renewing its contract with the Company.

During the year under review, the Company also signed a five year contract with Indian Airlines, one of the largest regional airlines in Asia for CSP™ - Modern Integrated Enterprise-Wide Cargo Solution. The Company would provide complete CSP™ suite on a hosted basis to Indian Airlines. The solution will be used by the airline's entire domestic and international network and includes the provision and maintenance of equipment at Indian Airlines' stations.

Amalgamation

The Company has received permission from the Honorable High Court of Judicature at Bombay on 15th July, 2005 to amalgamate Kale eTravel Technologies Limited ("Kale eTravel"), a wholly owned subsidiary of the Company, with the Company with effect from 1st April, 2005. Kale eTravel was engaged in the business of development of software for Travel industry. The amalgamation has enabled your Company to provide total travel related solutions, reduce cost of operation, stimulate development of integrated software and acquire competitive edge.

Subsidiaries

As a result of the amalgamation of Kale eTravel Technologies Limited ("Kale eTravel"), formerly known as Cognosys Software Limited, with the Company, Kale Technologies Limited which was earlier the wholly owned subsidiary of Kale eTravel, has become direct wholly owned subsidiary of the Company with effect from 1st April, 2005.

Directors

Mr. Narendra Kale - Chairman retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

Mr. Narendra Kale, 54, is M. Tech. in Computer Science from I.I.T., Kanpur and Advanced Management program from Harvard University, USA. He is one of the best known IT experts in the country. Over the years Mr. Kale grew to become a recognised expert in the sphere of IT and more particularly in bank automation, where he was a respected member of various committees at the industry level. Mr. Kale was a consultant to the Computerisation Committee of the Indian Banks Association. He was also a

Directors' Report

member of the Rangarajan Committee for computerisation of Banks. He has participated in several other Committees / Working Groups at the Reserve Bank of India and the Indian Banks Association.

Mr. Narendra Kale is a director in the following companies:

Public Limited Companies	Other Bodies Corporate
Kale Consultants Limited	Kale Softech, Inc. Kale Consultants Australia Pty. Ltd. Antah Kale Sdn. Bhd.

Mr. Kale holds 1,015,000 equity shares of the Company.

Auditors

M/s. D. G. Kurundwadkar, Chartered Accountant, Auditor of the Company, retires at the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

Directors' Responsibility Statement

Your Directors confirm that -

- in the preparation of the annual accounts, the applicable Accounting Standards had been followed along with proper explanation relating to material departures.
- the directors had 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 at the end of the financial year and of the profit or loss of the Company for that period.
- the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- the directors had prepared the annual accounts on a going concern basis.

Human Resource

During the year under review, the Remuneration and Compensation Committee of the Board granted 185,000 options under Kale Consultants Limited Employee Stock Option Scheme - 2003. Following are the details required to be given under the SEBI (Employee Stock Option Scheme and Stock Purchase Scheme) Guidelines, 1999:

a) Options granted	A total number of 185,000 options were granted during the year.
b) Pricing formula	Exercise price for the stock options is decided by the Remuneration and Compensation Committee ("the Committee"). So far, the Committee has granted options at the closing market price on the National Stock Exchange on the date of grant of options. The price is payable at the time of exercise of options.
c) Options vested	A total number of 983,211 options have vested. Out of these vested options, 70,022 options have lapsed till 31 st March, 2006.
d) Options exercised	A total number of 546,090 options have been exercised till 31 st March, 2006.
e) The total number of shares arising as a result of exercise of options	The options exercised till 31 st March, 2006 have given rise to 546,090 equity shares.
f) Options lapsed	Till date 399,496 options have lapsed. As per the ESOP Scheme, these options shall be pooled back and may be granted at the discretion of the Remuneration and Compensation Committee to any Eligible Employee as defined in the ESOP Scheme.