

Kale Consultants Limited



CORPORATE OFFICE &
DEVELOPMENT CENTRE

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Tel: + 91-0832- 651 1526

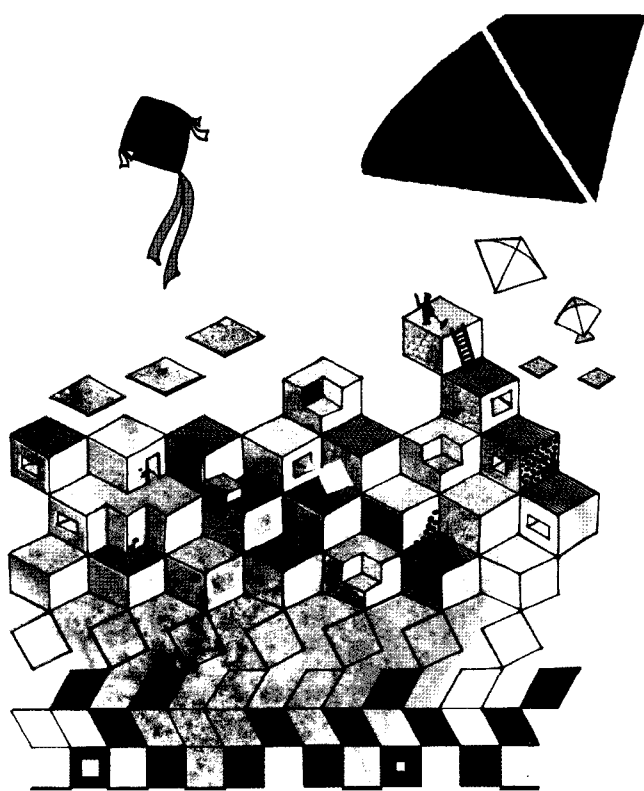
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United Kingdom.
Tel: +44 20 8783 2390 / 92
Fax: +44 20 8783 2391



22nd Annual Report 2007-08**Board of Directors**

Narendra Kale

Vipul Jain

K.K. Nohria

Prabhakar Deodhar

Pravin Gandhi

Chairman**Managing Director****Director****Director****Director****Auditor**

M/s. D.G. Kurundwadkar

Chartered Accountant

Company Secretary

Ninad Umrani

Bankers

State Bank of India

Axis Bank Ltd.

Citibank N.A.

The Hongkong and Shanghai Banking Corporation Ltd.

ICICI Bank Ltd.

Barclays Bank Plc.

Registered Office

Kale Enclave, 685/2B & 2C,

1st Floor, Sharada Arcade,

Satara Road,

Pune - 411 037.

Tel. No. +91 20 6608 3777

Fax No. +91 20 2423 1639

Website : www.kaleconsultants.com

Registrar and Share Transfer Agent

Karvy Computershare Pvt. Ltd.,

Plot No. 17 to 24,

Near Image Hospital,

Vittalrao Nagar, Madhapur,

Hyderabad - 500 081.

Tel. : +91-40-2342 0815 / 2342 0817

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Letter to Shareholders

Dear Shareholders,

FY 08 has been an eventful year at Kale. The acquisition of Zero Octa and the alliance with Airline Tariff Publishing Company (ATPCO, USA), have clearly strengthened our leadership position in the airline industry. The logistics and travel industry in India is a big emerging opportunity and we are well positioned in this market. We expect to realise tremendous growth potential in these sectors in India and are gearing up to offer our global expertise to the domestic market.

Kale's growth during the year can be gauged by the fact that our client base has swelled to nearly 95 customers and includes 12 of the top 20 airlines. During the year Kale's employee strength grew from 900 to over 1500 techno-functional professionals, spread across 3 large software development centres, 4 managed process outsourcing centres in India and global presence in USA, UK, New Zealand and Argentina.

In line with our global ambitions, Kale has adopted a new positioning – "Industry Solutions, Customised Approach". The brand repositioning initiative is geared towards articulating enhanced capabilities, as well as to differentiate Kale's capabilities from its competition.

Kale's vision is to offer solutions that incorporate domain knowledge with industry best practices. Kale thus offers

holistic "Industry Solutions" that deliver planned business benefits and cater to current as well as future needs. This is further augmented by in-depth partnerships with industry bodies like IATA. At the same time, Kale recognises that every customer has unique business need that is shaped by their business goals, competitive challenges, size, operational constraints, cultural sensitivities, etc. Kale therefore takes a "Customised Approach" and works collaboratively to architect solutions that optimise value to the customer. These also include flexibility in choosing delivery models and pricing structures.

Kale has never been the typical IT company. Starting as a product company when not many companies were willing to invest in building IPR, we have built world renowned products and platforms. We have continuously invested and innovated new business models like platform based BPO and hosted solutions and are also now getting into end to end solutions.

The success of our focussed endeavours is best shown in the growth of our Airline, Logistics and Travel business from a \$ 2 million in 2001 to close to \$ 29 million business at the end of this year. The new positioning reflects these successes and positively positions us towards the target of becoming a \$100 million company in the next three to four years.



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Letter to
Shareholders**The Future**

Kale has very aggressive plans for the future. We have outlined a market strategy till the year 2010 wherein we are focusing on growth on three fronts 1) increased penetration of current products and markets 2) expansion of our solutions portfolio 3) reaching out to new market segments. The overriding objective of the new strategy is to transform Kale from a niche provider to an omnibus solution provider to the Airline, Logistics and Travel industry in the next 3 years.

To elaborate on each of these initiatives.

1. Kale is a globally respected player in certain niche markets such as Airline Revenue Management, Cargo Management, Logistics technology etc. We are looking at ways to increase our market share in these segments by robust alliances, acquisitions etc.
2. Kale has a large customer base of more than 95 globally known Airline, Logistics and Travel customers – we have analyzed what they are looking for in terms of technology or BPO solutions and have planned to expand our offerings and thus be able to better leverage our customer relationships.
3. Kale's current revenues are largely from airline companies. Yet, our capabilities and solutions are extendable to other players such as, hotels, airports, tour operators,

freight forwarders, railways etc. We will thus increase the market segments that we address.

In the coming years, we expect the IT and ITeS business opportunity within the Airlines, Logistics and Travel markets to show strong growth. The drivers for growth is the need to simplify and standardise processes, reduce costs and changing character of distribution and customer relationships. Kale's growth in the European and American markets will be driven by the need for simplification of operations and a greater thrust on outsourcing. The booming Asia Pacific and Middle East regions will look towards harnessing the right technology to manage the needs of rapid expansion.

We at Kale are very optimistic about a sustained growth of the business in the decades to come. We are very excited about the new challenges that we have set for ourselves within Kale, and are sure our stakeholders, current and prospective clients will look forward to our future engagements.

As a famous entertainer once said – Imagination is the highest kite one can fly. We invite you to hold on to the strings of growth (kite) that Kale is on, so that we soar to greater heights together.

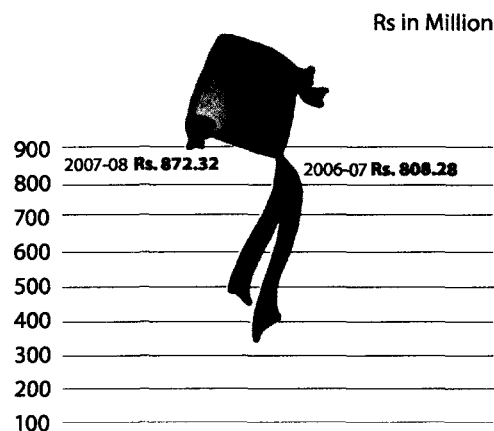


Vipul Jain
Managing Director

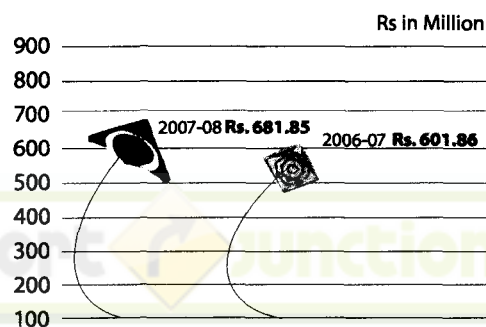


Financial Highlights

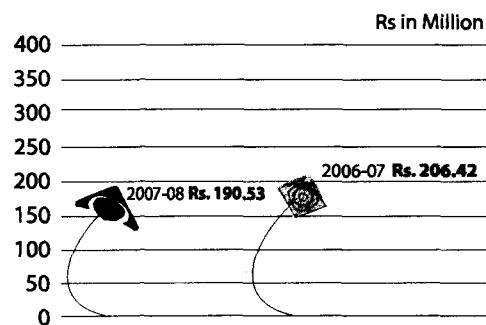
Total Revenue
increased by 8%



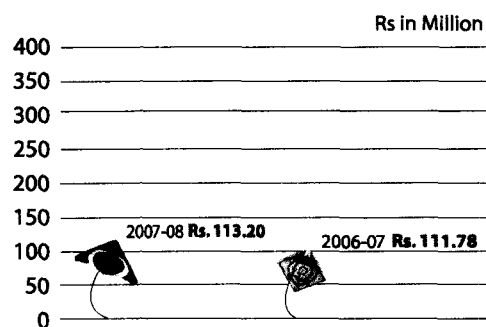
Operating Expenses
increased by 13 %



PBIDT
decreased by 8 %



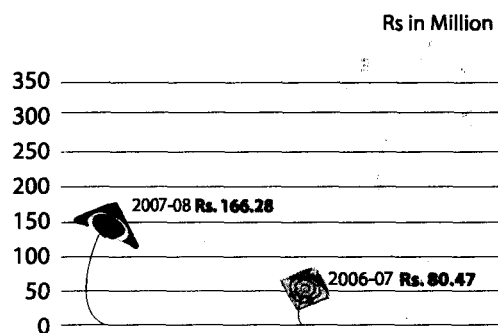
Depreciation and
Amortisation Cost
increased by 1 %



22nd Annual Report 2007-08

Financial
Highlights

Profit After Tax
increased by 107 %



Performance Indicators

Rs. in Million

Sr. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
1	Total Revenue	481.37	505.99	637.19	808.28	872.38
2	Operating Revenue	463.63	492.92	625.84	795.06	861.86
3	PBIDT	109.41	119.86	178.41	206.42	190.53
4	Operating PBT	31.67	36.72	69.62	88.62	71.94
5	PAT	31.66	7.52	64.84	80.47	166.28
6	Net Fixed Assets	350.20	359.75	419.97	446.56	344.74
7	Borrowings	150.56	166.49	120.85	101.01	65.60
8	Equity Capital	116.00	116.83	128.46	132.21	133.51
9	Net Worth	555.46	540.41	629.29	696.23	849.93
10	Capital Employed	706.02	706.90	750.14	797.25	915.53
11	EPS-Diluted (Rs)	2.75	0.10	5.17	6.09	11.96

Directors Report

To,
The Members,

Your Directors are pleased to present the Twenty Second report on the business and operations of the Company for the year ended March 31, 2008.

Financial Results

Rs. in Million

Particulars	2007-08	2006-07
Total Revenue		
- Domestic	264.15	184.89
- Export	597.72	610.17
- Other Income	10.51	13.22
Total	872.38	808.28
Total Expenditure	681.85	601.86
PBIDT	190.53	206.42
Interest	5.38	6.03
Depreciation and Goodwill	52.81	55.24
Amortisation of Product Cost	60.39	56.53
Profit Before Tax and Exceptional Item	71.94	88.62
Exceptional Item	101.16	-
Profit Before Tax	173.11	88.62
Provision for Tax	3.04	4.50
Provision for Fringe Benefit Tax	3.78	3.65
Profit After Tax	166.28	80.47
Add/(Less) : Prior Period Items	(6.79)	(0.34)
Profit brought forward from earlier years	188.36	129.58
Profit available for appropriation	347.85	209.71
Appropriations:		
- Transferred to/(from) General Reserves	-	2.01
- Proposed Dividend	10.01	16.52
- Dividend Tax	1.70	2.80
- Balance Transferred to Balance Sheet	336.14	188.36

Dividend

Your Directors are pleased to recommend a dividend of Rs.0.75 per equity share for the financial year ended March 31, 2008.

Operating Results and Business:

The Company continued to see strong and profitable growth in the financial year 2007-08 across its chosen markets driven by good performance in its focussed areas of business.



22nd Annual Report 2007-08

Directors'
Report

During the year under review, your Company generated revenues of Rs. 872.38 million compared to Rs. 808.28 million in 2006-07, an increase of 7.93% over the previous year. Operating Revenues for the year 2007-08 grew from Rs. 795.06 million in 2006-07 to Rs. 861.87 million, a growth of 8.40%. Revenues from domestic sales has increased by 42.87% to Rs. 264.15 million from Rs.184.89 million in the previous year.

Operating expenditure for the year 2007-08 stood at Rs 681.85 million as against Rs.601.86 million during the previous year, an increase of 13.29%. The operating profits stood at Rs. 71.94 million as against Rs. 88.62 million in the previous year. Profit after tax for the current year has increased to Rs.166.28 million from Rs. 80.47 million in the previous year, an upsurge of Rs.85.81 million. The Profit After Tax includes an exceptional item of Rs.101.16 million which is primarily a net of profit on sale of property of Rs.127.51 million and impairment of Goodwill and certain own software products for Rs. 26.35 million.

Airlines Practice: The year has seen significant traction for the Airlines practice. With the acquisition of Zero Octa and the alliance with ATPCO, your company is now the acknowledged leader in revenue accounting and management space. Your company now has the largest pool of resources, most number of clients and widest solution range in this niche for the airline industry.

Logistics Practice: The logistics practice has taken quite a few concrete steps during the year. The steady growth of the logistics industry, has opened up a lot of opportunities for the Company's domain-led solutions. Significant customers added during the year include, ASJ (Air India Singapore Airline Terminal Services Joint Venture), HTL Logistics and Globalink Logistics, Dubai.

Kale Managed Process Services (Kale-MPS®): Kale-MPS® now has the capacity to process over 75 million transactions annually. The total number of clients being serviced through MPS has now grown to 28, having added over 10 new projects during the year. The revenues generated by Kale-MPS® grew by 23.66% from Rs. 481.66 million during the previous year to Rs. 595.63 million.

Strategic Acquisitions and Alliances:

Zero Octa: During the year, the Company acquired Zero Octa, a UK based leading provider of airline revenue assurance, protection and audit services world wide.

Zero Octa is a strategic addition to your Company's Revenue Management portfolio aimed specifically at the Airline industry. The acquisition has helped the Company extend its revenue management, protection and revenue integrity service capabilities and also significantly increase its airline client base. Zero Octa offers a fully managed end-to-end solution that works in conjunction with an airline's existing processes to maximize the efficiency of their systems, processes and personnel. Zero Octa has been chosen by Star Alliance and

other leading airlines such as Continental Airlines, Qantas, Cathay Pacific, South African Airways, Singapore Airlines amongst others.

ATPCO: The Company and ATPCO have entered an alliance to jointly offer one best-practice proration solution to the airline industry.

The airline industry had been looking for a simplified way for interline settlements. In 2003, Kale and ATPCO were selected as the only two neutral solution providers for the First & Final™ billing service. In 2007, ATPCO and Kale entered into a strategic alliance to offer a unified NFP solution, which will be powered by Kale's APEX®.

Customers:

The Company's client base now includes over 95 customers worldwide, this includes 12 of the top 20 airlines. The Company's airline customer base also includes two of the world's largest airline alliances, SkyTeam and Star Alliance. Other international clientele include Qatar Airways, bmi, Continental Airlines, American Airlines, Mercury Travels, lastminute.com amongst others.

Finnair Cargo, one of the leading cargo carriers in Northern Europe, has signed a contract with the Company, under which Kale will provide a complete outsourced airmail cargo revenue accounting service to Finnair Cargo. This service will be carried out at Kale-MPS® centre in Mumbai, India. This contract further cements the strong relationship that has existed between Finnair Cargo and Kale for many years.

QuikJet Cargo, a Bangalore based all cargo carrier, also signed a contract with the Company to implement Kale's CSP® end-to-end cargo ERP solution in their organization. The integrated solution suite will be hosted by Kale on a complete J2EE architecture.

ASJ selected the Company to provide Airport Infrastructure Support services and Cargo Custodian Management System for the Bangalore Airport Operations.

Globalink Transportation & Logistics Dubai, a leading international freight forwarder operating in the CIS, European and Middle East regions, has chosen Kale's Freight Management System to automate its end-to-end operations. This web-enabled solution will streamline Globalink's ocean, air and multi-modal freight operations. The solution will encompass various functions including sales, export, import, international trade documentation, tracking and integration with third-party applications.

HTL Logistics Limited, a Sri Lanka based leading freight forwarding company, has chosen the Company to develop a web-enabled solution to automate their ocean, air and multi-modal freight operations. The solution will automate manual processes and will help HTL in reducing human errors and optimise operational costs.

Directors' Report

Branding:

In line with global ambitions, the Company has embarked upon a brand repositioning initiative in order to articulate and propagate its enhanced capabilities. The initiative is intended to increase awareness of the Company in the global marketplace, as well as differentiate its capabilities from its competition.

In line with the initiative, the Company has changed its positioning to - "Industry Solutions, Customised Approach".

The first part of the statement articulates that the Company has an industry focus (Airline, Logistics and Travel industry) and that we are creating solutions that incorporate industry trends, standards, best practices. It also reflects our alignment and partnerships with industry bodies. The second part of the statement says that while the Company's solutions represent industry needs, the approach is customer centric and customised to meet the needs of each client. Thus showcasing the Company's flexible delivery models and pricing models to suit the requirements of each customer. The new positioning goes well beyond highlighting the unparalleled domain knowledge and positions the Company as industry experts.

Subsidiaries:

Kale Softech Inc., USA (KSI) has shown improved results this year. In line with Kale's growth strategy, KSI's focus is on the Travel and Transportation business. During this year, SkyTeam alliance has selected APEX® for NFP - a huge achievement for Kale and a resounding affirmation by the industry of our proration solution. KSI has also strengthened its ties with IATA for cargo solutions space in India.

Synetairios Technologies Ltd. continues to focus in the consultancy space.

During the year, the Company received permission from Reserve Bank of India to wind up the operations of its subsidiary company viz. Kale Consultants (Australia) Pty. Ltd, Australia. A liquidator was appointed for the liquidation of its assets and liabilities. The process of the liquidation was completed in October 2007.

Quality Initiatives:

The Company has moved forward in its commitment to quality and process improvement by obtaining the CMMI Level 3 certification. The Company has been appraised at level 3 for all its development centres namely Thane, Pune and Noida. The Capability Maturity Model Integration (CMMI) of the Carnegie Mellon® Software Engineering Institute (SEI) is an internationally recognized process model based on industry best practices for developing products and services. CMMI is a process improvement approach that provides organizations with the essential elements of effective processes.

Directors

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

Mr. Deodhar holds B. E. (Telecommunications) degree from the University of Poona. He is a distinguished Fellow I.E.T.E. India; Fellow, I.E.E.E., USA; Fellow, Institution of Engineers, India; Fellow, Indian Academy of Engineers and Hon. Fellow, Broadcast Engineering Society. He is the founder of APLAB Group which he started as a private R & D Lab in 1963-64. He has won various International Awards like Engineering Manager of the Year 1990 from the Engineering Management Society, IEEE, USA. Mr. Deodhar has also held various posts in Public Service.

Companies in which Mr. Deodhar is a director

Aplab Limited	Printquick Pvt. Ltd.
Contech Electronics Pvt. Ltd.	Sebalab Electronics Pvt. Ltd.
Deodhar Electro Design Pvt. Ltd.	Sprylogic Technologies Ltd.
Devize (India) Pvt. Ltd.	Concepts & Solutions GmbH
Kale Consultants Ltd.	Telematrics Inc.
Origin Instrumentation Pvt. Ltd.	

Mr. Deodhar does not hold any equity shares of the Company.

Reappointment of Mr. Vipul Jain as Managing Director

The term of Mr. V. P. Jain as Managing Director expires on May 31, 2008. The Board of Directors re-appointed Mr. V. P. Jain as Managing Director for a period of 5 years with effect from June 1, 2008. The appointment is subject to the approval of the members in general meeting.

Mr. Vipul Jain, 50, is a B.Tech. from I.I.T., Kanpur and a Post Graduate in Management from IIM Ahmedabad. He was responsible for development and implementation of the country's first on-line Hotel Management System in 1982. In 1986, he, alongwith Mr. Narendra Kale, promoted Kale Consultants and took on marketing responsibility for the company. He also led the Company's efforts in building the Hospital Management System, a pioneering effort that won him the Young Consultants Award from the Government of India. In 1992, he took on the responsibility of Managing Director. The setting up of the airlines line of business has been at his initiative and he has personally been responsible for the company's success in marketing products in the fiercely competitive international market.