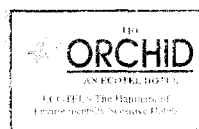
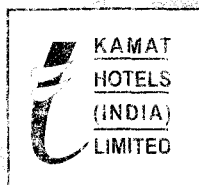


19th Annual Report 2005-2006

KAMAT HOTELS (INDIA) LIMITED



Annual Report 2005 - 2006



KAMAT HOTELS (INDIA) LIMITED

BOARD OF DIRECTORS

- Mr. Vithal Venketesh Kamat**
Executive Chairman & Managing Director
- Mr. K. P. Kannampilly**
Wholetime Technical Director
- Padmashree Thangam Elizabeth Philip**
Director
- Mr. S. S. Thakur**
Director
- Mr. Pravin N. Ghatalia**
Director
- Mr. Ved Prakash Khurana**
Director (Small Shareholders' Nominee)
- Mrs. Rajyalakshmi Rao**
Director
- Mr. Ramesh N. Shanbhag**
Whole-Time Director
- Mr Vishal V. Kamat**
Executive Director
- Mr. Suhail Kannampilly**
Director
- Mr. T. M. Mohan Nambiar**
Director (Appointed as additional Director on 30-4-2006)
- Mr. Vikram V. Kamat**
Director (Appointed as additional Director on 22-7-2006)

AUDITORS

M/s. J. G. Verma & Co.
Chartered Accountants

M/s. Anay Gogte & Co.
Chartered Accountants

COMPANY SECRETARY

Mr. R. V. Joshi

BANKERS

Canara Bank
Andhra Bank
Oriental Bank of Commerce
UTI Bank Limited

REGISTERED OFFICE

70-C, Nehru Road,
Near Santacruz Airport,
Vile Parle (E), Mumbai – 400 099
Tel No. 26164000 Fax No. 26164201

REGISTRARS AND SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd.
C-13, Pannalal Silk Mills Compound
L. B. S. Marg, Bhandup, Mumbai – 400 078
Tel No. 25963838 Fax No. 25946969

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NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of Kamat Hotels (India) Limited will be held at "Shubham Hall", Landmark Bldg., Opp. Vile Parle Railway Str., Junction of Besant Road & V. P. Road, Vile Parle (West), Mumbai - 400 056 on Saturday the 23rd September, 2006 at 11.00 a.m. to transact the following business:

ORDINARY BUSINESS:

- 1) To receive, consider and adopt the Audited Profit and Loss Account for the year ended on 31st March, 2006 and the Balance Sheet as at that date together with the Reports of the Board of Directors and Auditors thereon.
- 2) To declare dividend
- 3) To appoint a Director in place of Mr. K. P. Kannampilly, who retires by rotation and being eligible offers himself for reappointment.
- 4) To appoint a Director in place of Mr. S. S. Thakur, who retires by rotation and being eligible offers himself for reappointment.
- 5) To appoint a Director in place of Mr. Vishal V. Kamat, who retires by rotation and being eligible offers himself for reappointment.
- 6) To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS:

- 7) To consider and, if thought fit, to pass with or without modification(s) the following Resolution as an **Ordinary Resolution**.

"RESOLVED THAT Mr. T. M. Mohan Nambiar who was appointed as an additional Director in the meeting of the Board of Directors of the Company held on 30th April, 2006 and who holds office as such upto the 19th Annual General Meeting and in respect of whom notice under section 257 of the Companies Act 1956 has been received from a member proposing the candidature of Mr. T. M. Mohan Nambiar for the office of Director, be and is hereby appointed as Director of the Company liable to retire by rotation."

- 8) To consider and, if thought fit, to pass with or without modification(s) the following Resolution as an **Ordinary Resolution**.

"RESOLVED THAT Mr. Vikram V. Kamat who was appointed as an additional Director in the meeting of the Board of Directors of the Company held on 22nd July, 2006 and who holds office as such upto the 19th Annual General Meeting and in respect of whom notice under section 257 of the Companies Act 1956 has been received from a member proposing the candidature of Mr. Vikram V. Kamat for the office of Director, be and is hereby appointed as Director of the Company liable to retire by rotation."

- 9) To consider and, if thought fit, to pass with or without modification(s) the following Resolution as an **Ordinary Resolution**.

"RESOLVED THAT pursuant to the provisions of Sections 198, 269 and 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof for the time being in force) Mr. K. P. Kannampilly be and is hereby re-appointed as Wholtime Technical Director of the Company for a period of 3 years from 21st September, 2006 on the terms of appointment including remuneration and perquisites as set out in the annexed explanatory statement in respect of Item No. 9 with authority to the Board of Directors to alter and vary the said terms of appointment including remuneration and perquisites in such manner as may be agreed to between the Board of Directors and Mr. K. P. Kannampilly, within the limits specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary, expedient or desirable to give effect to this Resolution."

- 10) To consider and, if thought fit, to pass with or without modification(s) the following Resolution as a **Special Resolution**

"RESOLVED THAT subject to the approval pursuant to the provisions of Sections 16 and 94 and other applicable provisions, if any, of the Companies Act, 1956, the un-issued 1,45,00,000 (One Crore Forty Five Lacs Only) Preference Shares of Rs. 10/- (Rupees Ten Only) each aggregating to Rs. 14,50,00,000 (Rupees Fourteen Crores Fifty Lacs Only) be and are hereby cancelled for the purposes of reclassification of authorised share capital of the Company and that the Authorised Share Capital of the Company be and is hereby reclassified to Rs. 30,00,00,000 (Rupees Thirty Crores Only) divided into 3,00,00,000 (Three Crores Only) Equity Shares of Rs. 10/- (Rupees Ten Only) each.

RESOLVED FURTHER THAT the Memorandum of Association of the Company be altered by substitution of the following new Clause V for the existing Clause V of the Memorandum of Association of the Company:

V. The Authorised Share Capital of the Company is Rs. 30,00,00,000 (Rupees Thirty Crores Only) divided into 3,00,00,000 (Three Crores Only) Equity Shares of Rs. 10/- (Rupees Ten Only) each with such rights privileges and conditions attaching thereto as are provided in the Articles of Association of the Company. The Company shall have power to increase or reduce,

consolidate or subdivide the capital of the Company for the time being and from time to time divide the shares in the capital of the Company into several classes and denominations and to issue any shares of the original or further capital of the Company for the time being with such preferential, qualified or special rights, privileges or conditions attached thereto respectively including rights to dividend and distribution of assets of the Company from time to time in accordance with the Articles of the Association of the Company and subject to the provisions of the Companies Act, 1956, for the time being in force.

- 11) To consider and, if thought fit, to pass with or without modification(s) the following Resolution as a **Special Resolution**

"RESOLVED THAT pursuant to the provisions of Section 81, 81 (1A) and other applicable provisions, if any, of the Companies Act, 1956, (including any amendment(s) thereto or modification(s) or re-enactment(s) thereof) and subject to the Memorandum and Articles of Association of the Company the guidelines/approvals if any of the Securities and Exchange Board of India ("SEBI"), Reserve Bank of India (RBI), and/or Government of India (GOI), or such other concerned authorities and also subject to such other approvals or consents as may be necessary, and subject to such conditions and modifications if any imposed by such authorities or as may be considered necessary by the Board of Directors (hereinafter referred to as "the Board") which term shall be deemed to include any committee thereof formed or to be formed for exercising the powers conferred on the Board by this Resolution) or as may be prescribed or made in granting such consents and approvals and which may be agreed to by the Board, the consent of the members be and is hereby accorded to the Board to create, offer, issue and allot in one or more tranches and in one or more public offer and/or on a private placement basis in domestic and/or one or more international markets, such number of equity shares of a nominal value of Rs. 10 each or equity shares underlying securities in the form of Global/American Depository Receipts, Foreign Currency Convertible Bonds, debentures convertible into equity shares, and/or securities linked to equity shares and/or securities with or without warrants or any other instrument convertible into equity shares or otherwise with or without premium (hereinafter collectively referred to as "Securities"), if so required through a prospectus and/or offer letter and/or offering circular for a total issue amount not exceeding USD 50/- Million or its equivalent in any other foreign currency to persons, whether or not an existing shareholder of the Company, and on such terms and conditions as may be decided by the Board from time to time as it may deem appropriate in the interest of the Company.

RESOLVED FURTHER THAT such of the securities offered from time to time as are not subscribed may be disposed of by the Board in its absolute discretion in such manner as it may deem fit.

RESOLVED FURTHER THAT for the purpose of giving effect to the above Resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary and/or desirable for such purpose including but not limited to the class of investors to whom the Securities are to be allotted, number of securities to be allotted in each tranche, inclusive of green shoe option if any, issue price, face value, premium, creating mortgages/charges on all or any of the Company's assets present and future, such charge if agreed or given to rank pari-passu/second/subordinate to all mortgage/charges created/to be created by the Company for existing and further borrowing and facilities whatsoever under Section 293 (1) (a) of the Companies Act, 1956, in respect of the aforesaid securities and signing all applications, filings, deeds, documents and writings, entering into underwriting, marketing, depository, custodian arrangements and remunerating such and all other agencies by way of commission, brokerage, fees and settling any question, difficulty or doubt that may arise in regard to the offer, allotment and utilising of the issue proceeds of the securities Company's projects/other corporate needs as it may deem fit and also seeking the listing of such Securities in one or more Stock Exchanges in India and/or abroad as it may deem fit.

- 12) To consider and, if thought fit, to pass with or without modification(s) the following Resolution as a **Special Resolution**

RESOLVED THAT in accordance with the provisions of Section 81 (1A) and other applicable provisions of the Companies Act, 1956 including any statutory modification or re-enactment thereof, for the time being and in accordance with SEBI (Employees Stock Option Scheme and employees stock Purchase Scheme) Guidelines, 1999 in force, the Board of Directors of the Company (hereinafter referred to as "The Board", which terms shall include any committee of Directors duly authorized in this behalf), be and is hereby authorised to issue or earmark additional equity shares as may be decided by the Board directly or through the medium of warrants/fully convertible debentures and/or any other appropriate instrument(s) or security, not exceeding 5% of the present paid up share capital of the Company, to its employees (hereinafter referred to as "associates") and/or Directors other than promoter Directors, whether shareholders of the Company or not, at such price and other terms and conditions as the Board may in its absolute discretion think fit, under the

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ESOS in compliance of the guidelines issued by Securities and Exchange Board of India (SEBI) on issue of shares to employees and/or Directors from time to time, through the Trust to be set up for the purpose of implementing the plan of Stock Option and/or directly to the employees and/or Directors.

RESOLVED FURTHER THAT the members hereby authorize the Board to take all the necessary steps for listing of the securities/shares allotted under the Employees Stock Option Plan, on the stock exchanges where the Company's shares are listed, as per the terms and conditions of the listing agreement with the concerned stock exchanges and other applicable guidelines, rules and regulations.

RESOLVED FURTHER THAT the Board be and is authorised to delegate all or any of the powers herein conferred to any committee of Directors of the Company to give effect to the aforesaid resolution.

RESOLVED FURTHER THAT for the purpose of giving effect to the above, the Board is authorised to do all things necessary including appointing Merchant Banker and take such action as may be necessary or expedient to formulate or amend or alter or adopt any modifications or re-define the proposal or scheme or plan of Employees Stock Option based on the guidelines issued by the SEBI or any other statutory authority from time to time.

- 13) To consider and, if thought fit, to pass with or without modification(s) the following Resolution as a **Special Resolution**

"RESOLVED THAT pursuant to Sections 258 and 259 and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government, the number of Directors of the Company be increased from 12 (Twelve) to 18 (Eighteen) as and when necessary."

"RESOLVED FURTHER THAT pursuant to the provisions of Section 31 and all other applicable provisions of the Companies Act, 1956, the consent of the members be and is hereby given for substituting the existing Article No. 89 of the Articles of Association of the Company by the following Article:

89 Until otherwise determined by the Company in General Meeting the number of Directors shall not be less than 3 and not more than 18".

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board of Directors be and is hereby authorised to do all such things and acts as may be necessary and expedient including giving effect to the direction of the Central Government with regard to their approval for the maximum number of directors and to settle any matters that may arise in connection therewith".

Registered Office:

70-C, Nehru Road,
Near Santacruz Airport,
Vile Parle (East),
Mumbai 400 099.

Place : Mumbai.

Date: 26th July, 2006

By order of the Board of Directors
FOR KAMAT HOTELS (INDIA) LIMITED

(R. V. Joshi)
Company Secretary

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL ONLY INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The instrument appointing Proxy must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in relation to the Special Business of Meeting is annexed as Annexure I hereto.
4. A Member or his Proxy is requested to bring with him the Annual Report as extra copy of the same will not be supplied at the Meeting as per usual practice.
5. The Shareholders are requested to notify changes, if any, in their address to their depository participants and also to the Registrars and Transfer Agents of the Company, M/s. Intime Spectrum Registry Ltd., C-13, Pannafal Silk Mills Compound, L. B. S. Marg, Bhandup (W), Mumbai - 400 078 Tel No. 25963838 and Fax No. 25946969.
6. The Register of Members and Share Transfer Books of the Company will remain closed from 12th September, 2006 to 23rd September, 2006 (both days inclusive).
7. The Dividend on Equity Shares, if any, declared as recommended by the Directors for the financial year ended 31st March, 2006 will be paid within the prescribed time limit:
 - a) to those Members whose names appear on the Register of Members of the Company at the close of business on 23rd September, 2006 or to

their order,

- b) in respect of shares held in electronic form to those "Deemed Members" whose names appear in the Statement of Beneficial Ownership" furnished by the National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL) at the end of business hours on 23rd September, 2006.
8. Members may please note that dividend warrants are payable at par at the designated branches of the bank printed overleaf of the dividend warrant for an initial period of 3 months only. Thereafter, the dividend warrants on revalidation will be payable only at limited centers/ branches. The members are therefore advised to encash dividend warrants within the initial validity period.
 9. Members are requested to inform their bank account numbers and bank branch details to the Company to enable it to get these details included on the dividend warrants and thus minimise the malpractices of theft of dividend warrants. Such information should be given to the Company's Registered Office immediately.
 10. Consequent upon introduction of Section 205C of the Companies Act, 1956, the dividend remaining unclaimed for 7 years shall be transferred to the Investor Education and Protection Fund by 17th December, 2007. Members who have not encashed their dividend warrants so far for the year ended 31st March, 2000 or any subsequent financial year are requested to approach the Company or Registrars and Transfer Agents for revalidation of their dividend warrants urgently. **It may also be noted that once the unclaimed dividend for the year ended 31st March, 2000 is transferred to the Central Government by 17th December, 2007, as above, no claim shall lie in respect thereof.**

The dividend for the year 1997-1998 which remained unclaimed for 7 years from the date of declaration, is being transferred to Investors Education and Protection Fund established by the Central Government pursuant to Section 205C of the Companies Act, 1956 by 17th September, 2006.

11. Appointment /Re-appointment of Directors.

Mr. K. P. Kannampilly, Mr. S. S. Thakur and Mr. Vishal V. Kamat retire by rotation and being eligible offer themselves for re-appointment at the ensuing Annual General Meeting. Further, Mr. T. M. Mohan Nambiar and Mr. Vikram V. Kamat are proposed to be appointed as Directors liable to retire by rotation at the ensuing Annual General Meeting. The details pertaining to these Directors as required to be provided under Clause 49 of the Listing Agreement are furnished in Annexure II to the Notice.

12. In view of the various advantages offered by the depository system, members are requested to avail the facility of dematerialisation of the Company's shares.
13. The members are requested to handover the enclosed Attendance Slip duly signed in accordance with their specimen signature(s) registered with the Company for admission to the meeting hall.

ANNEXURE I TO THE NOTICE

EXPLANATORY STATEMENT UNDER SECTION 173 OF THE COMPANIES ACT, 1956.

ITEM NO. 7

Mr. T. M. Mohan Nambiar was appointed as an additional Director of the Company by the Board of Directors on 30th April, 2006 pursuant to Section 260 of the Companies Act, 1956 and holds office of Director upto the date of the forthcoming Annual General Meeting. The Company has received a notice in writing from a member proposing the candidature of Mr. T. M. Mohan Nambiar as a Director alongwith the requisite deposit under the provisions of Section 257 of the Companies Act, 1956.

None of the Directors, except Mr. T. M. Mohan Nambiar, is interested in this Resolution.

ITEM NO. 8

Mr. Vikram V. Kamat was appointed as an additional Director of the Company by the Board of Directors on 22nd July, 2006 pursuant to Section 260 of the Companies Act, 1956 and holds office of Director upto the date of the forthcoming Annual General Meeting. The Company has received a notice in writing from a member proposing the candidature of Mr. Vikram V. Kamat as a Director alongwith the requisite deposit under the provisions of Section 257 of the Companies Act, 1956.

Except Mr. Vikram V. Kamat himself and Mr. Vithal Venketesh Kamat, Executive Chairman and Managing Director being father of Mr. Vikram V. Kamat and Mr. Vishal V. Kamat, Executive Director being brother of Mr. Vikram V. Kamat no other director is interested in the above Resolution.

ITEM NO. 9

The Board of Directors in its meeting held on 22nd July, 2006 approved the reap-

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pointment of Mr. K. P. Kannampilly as Wholtime Technical Director and decided to pay him remuneration as recommended by the Remuneration Committee, pursuant to Sections 198, 269 and 309 read with Schedule XIII and other applicable provisions of the Companies Act and its amendments, subject to the approval of members in general meeting. The material terms of his reappointment are as follows:

As the Wholtime Technical Director Mr. K. P. Kannampilly shall, subject to the supervision and control of the Board of Directors and/or Chairman and Managing Director of the Company, manage the business and affairs of the Company.

Tenure : 21st September, 2006 to 20th September, 2009

The remuneration payable to Mr. K. P. Kannampilly will be determined by the Board of Directors from time to time on the recommendation of the Remuneration Committee within the maximum limit set forth under item 5 below:

Remuneration:

1. Basic salary Rs. 1,17,000/- per month.
2. City compensatory allowance Rs.12,000/- per month.

| 3. Other monthly allowances | Rupees |
|-------------------------------|--------------------|
| - House Keeping | 14,000/- |
| - News papers and periodicals | 4,000/- |
| - Entertainment allowance | 3,000/- |
| Total | 21,000/- per month |

4. Medical expenses upto Rs. 50,000/- per annum will be reimbursed. In addition, Mediclaim Coverage for self and family as per the rules of the company will be available to Mr. K. P. Kannampilly

5. The total remuneration by way of salary and allowances for the first year commencing from 21-9-2006 will be Rs. 1,50,000/- per month and may subsequently be increased by the Board upto Rs. 3,00,000/- p.m. or such higher monetary limit as may be prescribed pursuant to provisions of the Companies Act.

6. The following perquisites shall not be included in the computation of ceiling on "remuneration".

- i) Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- ii) Gratuity payable as per the rules of the Company, so as not to exceed half month's salary for each completed year of service.
- iii) Encashment of leave: As per the Company's Rules, at the end of the tenure.

7. Other perquisites:

- a) Reimbursement of electricity charges.
- b) Telephone at residence will be provided but all personal calls to be borne by Mr. K. P. Kannampilly.
- c) Club fee: Mr. K. P. Kannampilly is entitled for annual subscription fee of one club.
- d) Leave travel allowance: As per the provisions of Income Tax Act 1961
- e) Mr. K. P. Kannampilly will be entitled to all other staff benefits/ various staff welfare schemes as per the rules of the Company prevailing from time to time.

- Mr. K. P. Kannampilly will not be paid any fee for attending the meetings of the Board or any Committee thereof.

- Mr. K. P. Kannampilly will be liable to retire by rotation.

The appointment may be terminated at any time by either party giving to the other party three months notice of such termination and neither party will have any claim against the other for damages or compensation by reason of such termination. In any event, the appointee will not be entitled to any compensation in cases mentioned in Section 318(3) of the Companies Act, 1956.

Notwithstanding anything to the contrary contained herein, where in any financial year during the currency of the tenure of the appointee, the Company has no profits or its profits are inadequate, the Company will pay him remuneration by way of salary, allowances and perquisites not exceeding the ceiling laid down in Section II of Part II of Schedule XIII of the Companies Act, 1956, and as may be decided by the Board of Directors of the Company.

INFORMATION ABOUT THE APPOINTEE

Background, recognition or awards, job profile and suitability:

Mr. K. P. Kannampilly, Wholtime Technical Director of Kamat Hotels (India) Limited, is a Post Graduate in Hotel Management & Catering Technology and a

Fellow of the Hotel Catering Institutional Management Association of London, having 31 years experience in the Hotel & Catering Industry. He has expert technical knowledge of Hospitality Industry and is well versed with Restaurant, Marketing, Sales, Accommodation, Hotel Accounting and Financial Management.

Comparative remuneration profile with respect to the Industry, size of the Company and profile/ position of Mr. K. P. Kannampilly:

The salary structure of the managerial personnel has undergone a major change in the industry in the recent past. Keeping in view the type of the industry, the size of the Company and the responsibilities and capabilities of Mr. K. P. Kannampilly, the proposed remuneration is comparable with the remuneration paid by other companies for similar positions.

Pecuniary relationship with the company, or relationship with the managerial personnel:

Mr. K. P. Kannampilly is a Wholtime Technical Director of the Company. He has no relationship with any managerial personnel, except Mr. Suhail Kannampilly who is the son of Mr. K. P. Kannampilly and a Director of the Company.

GENERAL INFORMATION

Nature of the Industry:

- The hotel industry in India in general is seasonal in nature. Financial results are impacted by performance in peak seasons.
- A company in the hotel industry operates in a highly competitive environment thus affecting its performance.
- The economic conditions in India and abroad also affect the prospects of the hotel industry.
- The hotel industry is capital intensive and there exists a high composition of fixed cost in the operative cost structure.
- The hotel industry is highly sensitive to government policies, political and economic conditions both in India as well as abroad.

Commercial Operations:

- The Company is operating a five star hotel and a four star hotel in Mumbai, Maharashtra

Foreign Exchange Earnings:

- During the year ended 31st March, 2006, the Company earned foreign exchange equivalent to Rs. 28.56 crores

Foreign Investments and Collaborations:

- The Company has not made any investments abroad. There is no foreign collaboration.

Financial performance:

| Particulars | Rs. In lacs | |
|---|------------------------------|------------------------------|
| | Year ended March 31, 2006 | Year ended March 31, 2005 |
| Total Income | 8234.08 | 5,403.21 |
| Profit Before Interest, Dupreciation & Taxation | 3604.63 | 2,231.62 |
| Less: Interest | 1227.86 | 965.06 |
| Less: Depreciation | 555.82 | 444.81 |
| Profit Before Tax | 1720.93 | 821.75 |
| Less : Provision for taxation (current tax) | 143.00 | 71.20 |
| Less: Provision for taxation (Deferred Tax) | 0.00 | 340.07 |
| Less: Fringe benefit Tax | 15.00 | - |
| Less: Provision for wealth tax | 0.02 | 0.07 |
| Profit after tax before adjustments | 1557.91 | 410.41 |

Other Information:

Performance of the Company

During the financial year 2005-06, the Company's performance improved significantly as compared to 2004-05. The net profit for the year ended 31st March, 2006 amounted to Rs. 1557.91 lakhs as compared to Rs. 410.41 lakhs in the previous financial year. The improved operating results have been recorded due to higher revenues and lower financial costs on account of successful restructuring of the debts of the Company.

Expected Increase in productivity and profits

The prospects for the financial year 2006-2007 as a whole seem to be encouraging and the Company is hopeful of achieving better performance with substantial increase in the gross revenue.

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The above terms and conditions may be treated as an abstract under Section 302 of the Companies Act, 1956.

The Directors recommend the passing of this resolution

Except Mr. K. P. Kannampilly himself and Mr. Suhail Kannampilly, Director of the Company, no other Director is interested in this Resolution.

ITEM NO. 10

The present authorised share capital of the Company is Rs. 30,00,00,000/- divided into 1,55,00,000 equity shares of Rs. 10/- each and 1,45,00,000 preference shares of Rs. 10/- each. The existing issued equity share capital is Rs.13,19,73,950. The Company will need to raise resources as and when required by way of debt as well as equity. Infusion of additional equity capital will be necessary for business growth as also to maintain a healthy capital adequacy and debt equity ratio and enhance the borrowing capacity of the Company.

It is therefore, proposed to reclassify the Authorised Share Capital of the Company by cancelling the un-issued 1,45,00,000 Preference Shares of Rs. 10/- each and consequently increasing the authorised equity capital from 1,55,00,000 Equity Shares of Rs. 10/- each to 3,00,00,000 Equity Shares of Rs. 10/- each aggregating to Rs. 30,00,00,000 (Rupees Thirty Crores Only) The Memorandum of the Company is proposed to be amended/alterd as specified in the proposed special resolution.

None of the Directors is concerned or interested in the Resolution.

ITEM NO. 11

The Company has expansion plans to increase its room capacity and set up new hotels at Nagpur and in the Konkan Region of Maharashtra, Baddi in Himachal Pradesh, Raipur in Chhatisgarh and other places.

In terms of the provisions of Section 81 (1A) of the Companies Act, 1956 and the Listing Agreement entered with the Stock Exchange, in case of any proposal to increase the subscribed capital of the Company by a further issue and allotment of shares, the shares should first be offered to the existing shareholders in the manner laid down in the said section unless the shareholders decide otherwise in a general meeting.

The consent of the members is therefore being sought for authorizing the Board to raise additional capital so as to augment the capital resources for financing the expansion plans, reduce the outstanding debts and meet other business needs by way of issue of Foreign Currency Convertible Bonds, American/Global Depository Receipts, equity shares as well as other securities in domestic or international markets in one or more public offers and/or on private placement basis upto USD 50/- Million.

Your Directors recommend the resolution for approval of the members.

None of the Directors of the Company is in any way concerned or interested in the above resolution.

ITEM NO. 12

Employee Stock Option Scheme

Human resource plays a vital role in the growth and success of an organisation. In order to reward the employees and to enable them to participate in the future growth and financial success of the Company, the Board proposes to offer the employees an option to acquire the equity shares of the Company under Employee Stock Option Scheme (ESOS). The Board has formulated an ESOS in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 under which the maximum number of equity shares of the Company that could be created, offered, issued and allotted should not exceed five per cent of the issued equity shares of the Company, as on the date(s) of grant of option(s) under ESOS. The Board has accordingly decided to seek the approval of the Members for the same. The salient features of the ESOS are set out below:

Total number of options/shares that could be issued under ESOS:

Up to five per cent of the aggregate of the number of issued equity shares of the Company, from time to time, on the date(s) of grant of option(s) to eligible employees [being employees / Directors of the Company, its subsidiary companies and holding company, if any]. The options which lapse/expire are forfeited and will be available for grant to eligible employee(s). The date of the meeting of the Board/Committee at which grant of option(s) is approved shall be the effective date for grant of options under ESOS.

Eligibility for grant of options:

- Persons who are in the permanent employment of the Company, its subsidiary companies and holding company in such grade and with such experience / association with the Company, as may be decided by the Board/Committee.
- Directors of the Company, its subsidiary companies and holding company at any time.

Employees not eligible for grant of options:

An employee who is a promoter or belongs to the promoter group or a director who either by himself or through his relative or through any body corporate, directly or indirectly holds more than 10 per cent of the outstanding equity shares of the

Company at the time of granting of option shall not be eligible to participate in ESOS.

Vesting, requirements of vesting and maximum period of vesting: The vesting period shall commence on the expiry of one year from the 'grant date' and may extend up to four years or such further or other period as the Board/Committee may determine, from the grant date. The options may vest in tranches subject to the terms and conditions as may be stipulated by the Board/Committee, which may include satisfactory performance of the employees/Directors and their continued employment with the Company, as the case may be, unless such employment is discontinued on account of death, permanent/total disability or on retirement. If the employee/Director voluntarily terminates employment with the Company, the options to the extent not vested shall lapse/expire and be forfeited forthwith. However, this shall not be applicable to the employee/Director of the Company who has resigned or who may resign from time to time to join companies, approved by the Board/Committee, that have been established or promoted or set up (whether solely or jointly with any other entity) by the Company.

Exercise price: The equity shares would be issued at a market price (exercise price), which would be the latest available closing price on the stock exchange, which records highest trading volume in the Company's equity shares on the date prior to the date of the meeting of the Board/Committee at which options are granted or at such price as the Board/Committee may determine on the date(s) of grant of option(s).

Exercise period and process of exercise: The exercise period shall commence from the date of vesting and expire at the end of five years from the date of vesting or ten years from the grant date, whichever is later. The options would be exercisable by submitting the requisite application form/exercise notice to the Company or such other person as the Company may prescribe, subject to conditions for payment of exercise price in the manner prescribed by the Board/Committee.

Appraisal process: The Board/Committee shall determine the eligibility criteria for the employees and the Directors under ESOS based on evaluation of the employees/Directors on various parameters, such as length of service, grade, performance, technical knowledge, leadership qualities, merit, contribution and conduct, future potential, etc., and such other factors as may be deemed appropriate by it.

Maximum number of options to be issued per employee and in aggregate: The maximum number of options granted to any eligible employee in a year will not exceed 0.05% of the issued equity shares of the Company at the time of granting of the options. The aggregate of all such options granted shall not exceed five per cent of the aggregate of the number of issued equity shares of the Company, from time to time, on the date(s) of grant of option(s).

Disclosure and accounting policies: The Company shall comply with the disclosure and accounting policies prescribed by Securities and Exchange Board of India (SEBI) and any other appropriate authority, from time to time.

Method of valuation: The Company will follow the intrinsic value method for computing the compensation cost, if any, for the options granted. The difference between the compensation cost so calculated and compensation cost that would have been recognised if the Company had used fair value method and its impact on the profits and earnings per share would be disclosed in the Directors' Report. The fair value would be determined using the Black-Scholes model. In terms of the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, approval of the Members is sought to issue equity shares, pursuant to the options granted under ESOS, not exceeding in aggregate, five per cent of the number of issued equity shares of the Company, from time to time, as on the date(s) of grant of option(s) under ESOS.

The Board may, in its absolute discretion, provide for an appropriate ESOS to be operated through any ESOS Trust, which shall be governed and operated in terms of the provisions stipulated therein. The Board/Committee shall have the absolute authority to vary or modify the terms of ESOS in accordance with the regulations and guidelines prescribed by SEBI or regulations that may be issued by any appropriate authority, from time to time, unless such variation, modification or alteration is detrimental to the interests of the employees/Directors. The Board of Directors accordingly recommends the resolution set out at Item No. 12 of the accompanying Notice for the approval of the Members.

All the Directors of the Company, except promoter directors may be deemed to be concerned or interested in this resolution to the extent of the benefit they may derive under ESOS.

ITEM NO. 13

The Company has plans for substantial expansion of its business for which it is proposing to raise additional capital. The present strength of the Board is 12, which is fully occupied. It is also necessary to create sufficient vacancies on the Board for other eminent personnel whose experience would be beneficial to the Company

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and/or for appointment of nominee directors from financial institutions subscribing to the additional capital of the Company or extending long term financial support for its expansion plans. It is therefore necessary to amend Article No.89 of the Articles of Association of the Company and increase the number of Directors upto 18 subject to the approval of Central Government for the maximum number of directors that could be inducted on the Board of the Company.

A copy of the Memorandum and Articles of Association is open for inspection during 10.00 a.m. to 12.00 noon on all working days at the Registered office of the Company, till the date of Annual General Meeting.

None of the Directors of the Company is interested in the above resolution

By order of the Board of Directors
FOR KAMAT HOTELS (INDIA) LIMITED

(R. V. Joshi)

Company Secretary

Place: Mumbai

Date: 26th July, 2006

ANNEXURE II TO THE NOTICE

As required under Clause 49 of the Listing Agreement given below are the details of the Directors proposed to be re-appointed/ appointed:

1. Name : Mr. K. P. Kannampilly

Mr. K. P. Kannampilly, Wholtime Technical Director of Kamat Hotels (India) Limited, is a Post Graduate in Hotel Management & Catering Technology and a Fellow of the Hotel Catering Institutional Management Association of London, having 31 years experience in the Hotel & Catering Industry. He has expert technical knowledge of the Hospitality Industry and is well versed with Restaurant, Marketing, Sales, Accommodation, Hotel Accounting and Financial Management.

Directorships held in other Companies

1. Concept Hospitality Ltd.
2. Himco Financial Management Pvt Ltd

Audit Committee Membership in other companies - NIL

2. Name : Mr. S. S. Thakur

Mr. S. S. Thakur has held important positions in his long professional career in the field of banking and foreign exchange. He was the Controller of Foreign Exchange, Reserve Bank of India, Senior Adviser of United Nations Development Programme (UNDP) and Chairman of HDFC Bank. After serving the Reserve Bank of India in different capacities, Mr. Thakur joined the U. N. International Civil Service as Senior Adviser, UNDP and worked in Zambia as Adviser to the Governor, Bank of Zambia for 6 years (1988-1993). He was thereafter appointed as the Chairman of HDFC Bank and worked in that capacity for 7 years (1994-2000). Currently, he is the Chairman of Central Depository Services (India) Ltd.

Directorships held in other Companies.

1. Shrenuj & Co Ltd
2. DSP Merrill Lynch Trustee Co. (Pvt.) Ltd.
3. Quantum Information Services Pvt. Ltd.
4. Kotak Mahindra Old Mutual Life Insurance Co. Ltd
5. Central Depository Services (India) Ltd.
6. KEC International Ltd.
7. KEC Infrastructure Ltd
8. HDFC Securities Ltd.
9. Quantum Trustee Co. Pvt Ltd
10. Urban Infrastructure Venture Capital Ltd
11. Latarge India Pvt Ltd

Audit Committee Membership in

other public limited companies

1. Shrenuj & Co. Ltd
2. Kotak Mahindra Old Mutual Life Insurance Co. Ltd
3. HDFC Securities Ltd
4. KEC International Ltd

3. Name : Mr. Vishal V. Kamat

Mr. Vishal V. Kamat is a science graduate (BSc) and he has completed his Hotel Management course from the Institute of Hotel Management and Technology and Applied Nutrition (IHMCATAN), Mumbai. In April 2005, was appointed as Executive Director of the Company. He has extensive experience in Hotel Industry and has been

associated with the Company at the grass root level. He is also a Director in other companies of the Kamat Group.

Directorships held in other Companies.

1. Vishal Amusements Ltd.
2. Karaoke Amusements Pvt. Ltd.
3. Kamats Club Pvt. Ltd.
4. Kamotel Resorts Pvt. Ltd.
5. Kamats Eateries Pvt. Ltd.
6. Kamats Restaurants Pvt. Ltd.
7. Karnat Holdings Pvt. Ltd.
8. Kamats Super Snacks Pvt. Ltd.
9. Venketesh Hotels Pvt. Ltd.
10. Kamat Holiday Resorts Pvt. Ltd.
11. Himco Financial Management Pvt. Ltd.
12. Kamats Amusements Pvt. Ltd.
13. Kamburger Foods Pvt. Ltd.
14. Kamats Development Pvt. Ltd.
15. Indira Investments Pvt. Ltd.
16. Swastik Amusements & Hotels Pvt. Ltd

Audit Committee Membership in other companies - NIL

4. Name: Mr. T. M. Mohan Nambiar

Mr. T.M. Mohan Nambiar is a senior Chartered Accountant. He has held key positions in Finance. He had been associated with ACC for a long period and held the office of Managing Director of ACC. He is Director on the Board of various reputed companies.

Directorships held in other Companies

1. Coromandal Fertilisers Ltd
2. Carborandam Universal Ltd
3. Navin Fluorine International Ltd
4. ION Exchange (India) Ltd
5. ION Exchange Envio -Farms Ltd
6. Ficom Organics Ltd
7. NRC Ltd

Audit Committee Membership

in other public limited companies

1. Coromandal Fertilisers Ltd.
2. Carborandam Universal Ltd.
3. Navin Fluorine International Ltd.
4. ION Exchange (India) Ltd.

5. Name: Mr. Vikram V. Kamat

Mr. Vikram V. Kamat is a science graduate (BSc) and he has completed his Hotel Management course from the Institute of Hotel Management and Technology and Applied Nutrition (IHMCATAN), Mumbai. In July 2006, he was inducted as additional Director of the Company. He has extensive experience in Hotel Industry and has been associated with the Company at the grass root level. He is also a Director in other Companies of the Kamat Group.

Directorships held in other Companies

1. Kamat Holiday Resorts (Silvassa) Pvt. Ltd.
2. Kamat Holiday Resorts Pvt. Ltd.
3. Kamats Eateries Pvt. Ltd.
4. Kamburger Foods Pvt. Ltd
5. Kamats Super Snacks Pvt. Ltd.
6. Kamats Restaurants Pvt. Ltd.
7. Venketesh Hotels Pvt. Ltd.
8. Kamat Holdings Pvt. Ltd.
9. Indira Investments Pvt. Ltd.
10. Karaoke Amusements Pvt. Ltd
11. Swastik Amusements & Hotels Pvt. Ltd.
12. Kamats Development Pvt. Ltd
13. Joel Stock Brokers Pvt Ltd

Audit Committee Membership in other companies - NIL

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DIRECTORS' REPORT

DIRECTORS' REPORT

To

The Members,

Your Directors are pleased to present the Nineteenth Annual Report together with the Audited Accounts of the Company for the year ended 31st March, 2006.

YEAR IN RETROSPECT:

The year under review was yet another very fruitful year for the Indian hotel industry witnessing encouraging increase in the foreign tourists arrival which reversed the declining trend of the past. Consequently, leading hotels reported a marked increase in the Average Room Rate (ARR) and occupancy levels depending on their location and status.

Hotel "The Orchid", the flagship of your Company has fared very well in terms of higher income and profitability. The improved performance was complimented by various cost cutting measures coupled with major reduction in borrowing costs on account of restructuring of debt during the year. The average occupancy level during the year was also higher at 89% as compared to 83.80% in the previous year. The performance of hotel "The Lotus Suites" has also been satisfactory with 86.60% occupancy during the year under review. The total turnover for the year amounted to Rs. 8234.08 lakhs (of which Rs. 6373.93 lakhs pertains to The Orchid, Mumbai and Rs. 1418.95 Lakhs to The Lotus Suites, Mumbai and others Rs. 441.20 lakhs) as against Rs. 5403.21 lakhs in the previous year registering an increase of 52.39% over the last year. The increase in turnover is partly due to the merger of The Himco (India) Ltd with your Company.

FINANCIAL RESULTS:

The figures for the financial year under review are summarised below.

| Particulars | (Rs. in Lakhs.) | |
|---|------------------------------|------------------------------|
| | Year ended March 31, 2006 | Year ended March 31, 2005 |
| Total Income | 8234.08 | 5,403.21 |
| Profit Before Interest, Depreciation & Taxation | 3604.63 | 2,231.62 |
| Less: Interest | 1227.88 | 965.06 |
| Less: Depreciation | 655.82 | 444.81 |
| Profit Before Tax | 1720.93 | 821.75 |
| Less: Provision for taxation (current tax) | 148.00 | 71.20 |
| Less: Provision for taxation (Deferred Tax) | - | 340.07 |
| Less: Fringe benefit Tax | 15.00 | - |
| Less: Provision for wealth tax | 0.02 | 0.07 |
| Profit after tax before adjustments | 1557.91 | 410.41 |
| Add/(Less): Prior periods' adjustments | - | (3.50) |
| Profit After adjustments | 1557.91 | 406.91 |
| Add: Balance Brought Forward | 344.38 | 58.94 |
| Distributable Profits | 1902.29 | 465.85 |
| Appropriations: | | |
| i) Proposed Dividend on Equity Shares | 197.96 | - |
| ii) Interim Dividend on Equity Shares | - | 107.43 |
| iii) Tax on proposed dividend on (i) above | 27.76 | - |
| iv) Tax on Interim dividend | - | 14.04 |
| v) Transferred to General Reserve | 78.00 | - |
| vi) Balance carried over to Balance Sheet | 1598.57 | 344.38 |

DIVIDEND :

Your Directors are pleased to recommend dividend @ 15% (Rs. 1.50 per share) for the year ended 31st March, 2006 (Previous year 10%). The dividend tax will be paid by the Company and will be exempt in the hands of the shareholders.

AWARDS

"The Orchid", Asia's first certified Ecofriendly Five Star Hotel continues to maintain the track record of winning awards. The Directors are proud to inform that the following prestigious awards have been added to the kitty of awards during the period under review:

Hospitality India presented The Orchid with the award for "Best Environment Friendly Hotel" for the year 2005. This award was presented by Shri Lt. Gen T.P. S Rawat, Hon'ble Minister for Tourism, Uttaranchal.

United States Asia Environmental Partnership presented to The Orchid the "Environmental Leadership Award" in October 2005. This award recognizes the outstanding contributions made through working in partnership to improve the environment and quality of life for the people of Asia.

Since its inception "The Orchid" has bagged 13 international and 29 national awards. Most of these awards have been won mainly because of the environment awareness created by our flagship Hotel "The Orchid". Your Chairman has also been awarded the prestigious Special Achievement Award of FIE Foundation which was presented to him by Hon'ble Chief Minister of Maharashtra, Mr. Vilasrao Deshmukh.

It would be advisable for the Government of India to encourage such ventures by providing grants, interest subsidy, etc. so that more hotels follow the path set by "THE ORCHID."

Amalgamation

The Members and Hon'ble High Court at Bombay approved the Scheme of Amalgamation of The Himco (India) Ltd with Kamat Hotels (India) Ltd. w.e.f. 1st July, 2005, the Appointed Date as per the scheme of amalgamation. 2454545 Equity Shares of Rs. 10/- each of the Company have been issued to the shareholders of The Himco (India) Ltd pursuant to the Bombay High Court's approval to the said Scheme of Amalgamation. The shares were allotted in the swap ratio of 3:22.

Projects Envisaged by the Group

There are many projects which are in the pipeline. Some of the projects which have been crystallised are as follows:

The Orchid Heritage in Pune (Jadhav Gadhi Fort)

This will be a Five Star Hotel with 42 rooms in a heritage (Fort) location surrounded by 15 acres of plain land at a height to enjoy scenic beauty and cool environment. It will be specially suited to high-class foreign tourists and will be an ideal marriage location with grandeur. The project work has started in Jan 2006 and at present it is in full swing.

The Orchid Mumbai - Expansion.

This is a 126 Rooms extension project of the existing "The Orchid", and would be a premium wing to the hotel. The existing facilities of "The Orchid" including its staff would be shared for operating the extended wing of "The Orchid" and the economics of scale would add straight to the bottom line.

The Lotus Suites Baddi in Himachal Pradesh.

This will be first Three Star Hotel with 94 rooms in Baddi, North India's growing Industrial Town housing, an emerging ambitious SEZ project. One acre of land has already been acquired for this project.

The Lotus Suites, Amboli, Konkan

A three Star Hotel with 60 Rooms at Amboli, Konkan has been planned. This hotel would be themed as a hunters' lodge and will be a recreational hotel for families and corporates.

Kamfotel, Nashik, Maharashtra

Your Company has entered into a management contract for 35 years for management of 32 room Hotel Siddharth at Nashik. Since it is more profitable to redevelop the property by demolishing the existing structure, the Company proposes to make a Three Star Kamfotel with about 145 rooms.

ONGC, MRPL & The Company Tie Up.

Your Company will operate the traveler-related facilities like motels and restaurants at selected ONGC & MRPL Retail Petrol outlets. It will also provide architectural services for the Retail Outlets.

The restaurant expansion plans include approximately 50 restaurants of ONGC and MRPL spread across India and will get integrated in your company's overall restaurant division.

The Restaurant Division Vithal Kamat Veg. Restaurant.

The "Kamats" restaurant once synonymous with 'Vithal Kamat', will once again see itself spreading all over the country. The company has embarked upon to achieve a target of 75 restaurants under this brand in the next 5 years. Currently there are 4 restaurants under this brand.

FIXED DEPOSITS:

The Company has neither invited nor accepted any fixed deposits during the year under review.

PARTICULARS OF EMPLOYEES:

Information in accordance with sub-section (2A) of Section 217 of the Companies Act 1956 read with the Companies (particulars of Employees) Rules 1975, and forming part of the Directors' Report for the year ended 31st March, 2006 is given in the Annexure- A to the Report.

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DIRECTORS' RESPONSIBILITY STATEMENT:

As required by Section 217(2AA) of the Companies Act, 1956 the Directors hereby confirm:

1. That in the preparation of the annual accounts, the applicable accounting standards have been followed;
2. That the selected accounting policies were applied consistently and the Directors 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 and of the Profit of the Company for the financial year ended 31st March, 2006 ;
3. That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies (Amendment) Act, 2000 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities ;
4. The annual accounts have been prepared on a going concern basis.

ADDITIONAL INFORMATION REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988:

- a. Conservation of Energy: The Company continued the energy conservation efforts during the year. It has closely monitored power consumption and running hours on day to day basis thus resulting in optimum utilisation of energy. The hotel is fitted with energy saving devices to conserve energy in the long run.
- b. Technology Absorption : The activities of Company at present do not involve technology absorption and research and development.
- c. Foreign exchange earnings and outgo :

Earnings : Rs. 2,856.19 lakhs
Utilisation (including capital goods) : Rs. 65.07 lakhs

DIRECTORS :

Mr. K. P. Kannampilly, Mr. S. S. Thakur and Mr. Vishal V. Kamat retire by rotation and being eligible, offer themselves for reappointment. Your Directors recommend their reappointment.

Mr. T. M. Mohan Nambiar was appointed as Additional Director on 30th April, 2006. He holds office upto the forthcoming Annual General Meeting. The Company has received notice in writing from a member proposing the candidature of Mr. T. M. Mohan Nambiar for the office of Director, alongwith the requisite deposit under the provisions of Section 257 of the Companies Act, 1956. The Board recommends his appointment as Director retiring by rotation.

Mr. Vikram V. Kamat was appointed as Additional Director on 22nd July, 2006. He holds office upto the forthcoming Annual General Meeting. The Company has received notice in writing from a member proposing the candidature of Mr. Vikram V. Kamat for the office of Director, alongwith the requisite deposit under the provisions of Section 257 of the Companies Act, 1956. The Board recommends his appointment as Director retiring by rotation.

Brief profiles of Mr. K. P. Kannampilly, Mr. S. S. Thakur, Mr. Vishal V. Kamat, Mr. T. M. Mohan Nambiar and Mr. Vikram V. Kamat proposed to be re-appointed / appointed as Directors of the Company are given in Annexure II to the notice convening the ensuing Annual General Meeting.

CORPORATE GOVERNANCE:

As per Clause 49 of the Listing Agreement with the Stock Exchanges, a separate section on Corporate Governance and Management Discussions and Analysis Report together with a certificate from the Company's Auditors confirming compliance is given in the annexure forming part of this report.

AUDITORS :

M/s. J. G. Verma & Co. and M/s. Anay Gogte & Co. Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment. Observations made by the Auditors in their report in para 11 of the annexure in conjunction with notes on accounts are self explanatory and, therefore, do not call for any further comments.

VOLUNTARY DELISTING OF THE COMPANY'S EQUITY SHARES FROM MADRAS STOCK EXCHANGE LIMITED

Madras Stock Exchange Limited has delisted the securities of your Company from their Exchange.

EMPLOYEE RELATIONS:

The relations of the management with staff and workers remained cordial during the entire year.

ACKNOWLEDGEMENTS:

The Directors place on record their appreciation for the sincere and whole hearted co-operation extended by all concerned, particularly Securities & Exchange Board of India, Stock Exchanges, Department of Tourism, company's bankers, Municipal authorities, Government of Maharashtra, Central Government, suppliers, clients and staff and look forward to their continued support. The Directors also thank the Shareholders for continuing their support and confidence in the Company and its management.

ON BEHALF OF THE BOARD OF DIRECTORS'

V. V. Kamat

Executive Chairman & Managing Director

Place : Mumbai

Date : 26th July, 2006

ANNEXURE- A TO THE DIRECTORS' REPORT, 2006.

Information as per Section 217 (2A) read with the Companies (Particulars of Employee) Rules, 1975 and forming part of the Directors' Report for the period ended 31st March 2006.

| Name | Designation | Qualifications | Remuneration (Rupees) | Experience Years | Age year | Date of Commencement of employment | Particulars of last employment |
|---------------------|--|--------------------------------|-----------------------|------------------|----------|------------------------------------|--------------------------------|
| Mr. Vishal V. Kamat | Executive Chairman & Managing Director | Dip. In Elect. Engg. (IV Sem.) | 44,91,949 | 33 | 54 | 1-4-94 | Plaza Hotels Pvt. Ltd. |

Notes :

1. The nature of employment is contractual.
2. The Remuneration shown above is gross and comprises salary and house rent allowance and is for twelve months period.

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ANNEXURE TO THE DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

BUSINESS ENVIRONMENT, INDUSTRY STRUCTURE, DEVELOPMENT & OUTLOOK

The year gone by has been remarkable for India's tourism recovery. The Indian economy has been strong and its growth rate is amongst the fastest in the world. The country is witnessing a phase of high growth in all sectors and there is a sense of optimism and buoyancy. The tourism sector too is not lagging behind in this era of growth. In fact, the travel and tourism sector is poised to play a key role in the economic growth of the country.

Tourist arrival, hotel occupancies and room rates have touched an all time high. Success of "Incredible India" campaign, introduction of low cost airlines, growing infrastructure thrust by the government and India's emergence as a dominant outsourcing hub have led to a 20% surge in foreign tourists arrival during the first five months of this year compared to the same period last year.

India has always had the potential of being a favoured tourist destination. However, the lack of adequate and sustained all around initiatives on the part of the government as well as the industry has prevented it from realising the potential of the tourism sector. The Government is now acknowledging the potential and role of this sector. Some of the examples of the Government initiatives are the 'Incredible India' campaign, the focus on infrastructure, privatization of the Delhi and Mumbai airports, open sky policy, development of new tourist destinations and circuits, increased fund allocation towards tourism etc. The Indian hotel industry stands to gain considerably from this proactiveness shown by the Government.

The hotel industry is one of the largest and fastest growing industry in the world today. The World Travel and Tourism Council (WTTC) has identified India as one of the foremost tourist growth centres. According to WTTC, India's tourism economy is rising at 8.8% annually against the global growth rate of 5% and has the potential to earn around \$24 bn in foreign exchange through tourism by 2015.

As per current market estimates, the Indian tourism industry is expected to be amongst the most rapidly growing tourism markets in the world as is substantiated by the tourist arrival and revenue output figures for the past two years. In the year 2005, the number of foreign tourist arrivals in India saw a growth of around 13.2% over the previous year, and the number of tourist arrivals touched 3.91 million.

Other factors that have contributed and will continue to contribute to the growth of the tourism industry include increase in number of international patients coming to India for treatment and entry of increasing number of private players, including low cost airlines, in the aviation industry.

India's hotel industry is also increasingly being viewed as investment-worthy, both within the country and outside, and several international chains are keen to establish or enhance their presence here. The Federation of Hotel & Restaurant associations of India has pegged the room shortage in the hospitality sector at 1,00,000. It is predicted that only 10,000 rooms can be added by the end of 2006 which is woefully inadequate.

With shifting of The 2008, Commonwealth Youth Games from Delhi to Pune, there will be requirement of additional hotel rooms in Pune. Similarly, Delhi, which will be hosting the Commonwealth Games in 2010, alone needs 30,000 more rooms of which 15,000 are needed in the branded segment. With India also co-hosting the Cricket World Cup in 2011 hoteliers have a major task ahead in making accommodation available within a given time frame. The infotech revolution too has brightened the prospects of the Indian hospitality industry.

OPPORTUNITIES, THREATS, RISKS AND CONCERNS

Despite the apparent strides taken by the tourism industry in India, some worries still remain. There is a sizeable mismatch between the demand and supply of star category hotel accommodation. The existing inventory of approximately 95,000 rooms in the country is grossly inadequate to attract and service the increasing numbers of foreign tourists thronging the country.

The existing infrastructure in the country to support the requirements of the increasingly discerning foreign traveler is far from adequate and there has to be a

quantum improvement in the airport facilities, road and transport network and facilities at tourist locales if the momentum in the growth of the industry has to be sustained. The following are some of the risks envisaged by the Hotel Industry.

- Airports at major metros and smaller tourist hotspots do not have adequate infrastructure to cater to high traffic volumes.
- There is lack of adequate, good quality highways and other means of transport
- Taxation increases the cost of package tours offered by tour operators thereby making the tours unattractive and expensive, which in turn affects the business of the Company.
- Major negative events (such as tourist attacks, bird flu, natural calamities like floods, diseases and communal disturbances) can spoil the fortunes of this sector at least for that year.
- Growing competitive environment and seasonality of the hotel industry could also affect the performance and financial results of the company.

REVIEW OF OPERATIONAL AND FINANCIAL PERFORMANCE

The Company has achieved an aggregate turnover of Rs. 8,234.08 lakhs for the financial year ended on 31st March, 2006 (of which Rs. 6,373.93 lakhs pertains to The Orchid, Mumbai and Rs. 1,418.95 Lakhs to The Lotus Suites, Mumbai and others Rs. 441.20 Lakhs) This was against a turnover of Rs.5,403.21 Lakhs for the previous year.

Profit after taxes for the year under review was Rs. 15.58 crores as against Rs.4.10 crores for the previous year.

During the year under review the Average Room Occupancy was 89% at The Orchid, Mumbai and 86.60% at The Lotus Suites, Mumbai.

SEGMENT WISE PERFORMANCE

The Company is presently operating in only one segment i.e. hospitality.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Adequate internal controls have been laid down by the Company to safeguard and protect its assets as well as to improve the overall productivity of its operations. The internal audit department is complemented by the internal auditors M/s. Lovi Mehrotra & Associates in ensuring compliance with the internal control procedures laid down by the Company. Internal audits are carried out at regular intervals and the audit reports are periodically laid before the Audit Committee for review.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS.

The Company values its employees as of its key assets. Hence efforts are made on an ongoing basis to improve the efficiency of the employees by way of training, providing them with better working conditions and keeping them motivated at all times.

The Company provides its employees with opportunity to grow and prosper. The authority and responsibility chain is clearly defined and the employees are free to convey their ideas, suggestions and apprehensions to their superiors. Team meetings are held at frequent intervals to improve communication and interactions between the employees.

CAUTIONARY STATEMENT

Statements contained in the Management Discussion and Analysis Report describing the Company's estimates, projections and expectations are forward looking statements and based upon certain assumptions and expectations of future events over which the Company has no control and which could cause actual results to differ materially from those reflected in such statements. Readers should carefully review other information in this Annual Report and in the Company's periodic reports. The Company undertakes no obligation to publicly update or revise any of these futuristic statements, whether as a result of new information, future events, or otherwise.