Annual Report 2005-2006

Cranes Software International Limited

Global Scientific & Engineering Software Products & Solutions Provider

CRANES®

An Innovative
Global Corporation

As the globe seems to shrink, opportunities grow bigger, and challenges loom larger. Innovation and innovativeness is no longer a part of the business strategy, it IS the strategy itself.

Board of Directors	Dr. Rudra Pratap	– Chairman
	Mr. Asif Khader	– Co-founder & Managing Director
	Mr. Mukkaram Jan	– Co-founder & Director
	Mr. Mueed Khader	– Director
	Mr. Richard Gall	– Director
	Mr. Ronald Brown	– Director
	Mr. Ajay Singh	– Director
	Mr. Mirza Yawar Baig	– Director
	Dr. Manju Bansal	– Director
	Dr. Peter Ryser	– Director
Company Secretary	Mr. B. Parasuram	
Bankers	The Jammu & Kashmir Bank Ltd., Bangalore. State Bank of Travancore, Bangalore. HSBC Bank, Bangalore.	
Auditors	S. Janardhan & Associates, Chartered Accountants, Apt. Nos. 104 & 203, Embassy Centre, No. 11, Crescent Road, Bangalore - 560 001.	
Registered Office	Cranes Software International Ltd., Shankar Narayana Building, Block I, 4th Floor, #25, M.G. Road, Bangalore - 560 001.	
Registrars	Alpha Systems Pvt. Ltd., #39, Ramana Residency, 4th Cross, Sampige Road, Malleswaram, Bangalore - 560 003.	
Website	www.cranessoftware.com	

(All references in this report to Cranes Software International Limited prior to 2001-2002 refer to the erstwhile Cranes Software International Limited before amalgamation.)

Cranes – an innovative

Global Corporation

It would seem logical for a player in the Scientific and Engineering software space to believe that innovation in the product and solutions arena would be the means to the end of excellence. Not for us - at Cranes, innovation doesn't end at creating and bringing new products to market, it only sets the scene for commercial innovation that leads to competitive advantage and business excellence in the global market.

The global environment demands that an institution embrace innovation; innovation in decision-making to deal-making to communications to product introduction. Our innovativeness more often than not, ends up being the competitive differentiator. This sense of innovativeness has been the driver of our improved performance, year after year.

So much so, that the industry has begun to sit up and take notice. Our 'Acquire-Enhance-Expand' business model was deemed the 'Value Multiplier Business Model' by Microsoft at their 'India is Innovation' Summit in April, 2006. Also, we were recently felicitated with Marico Foundation and Business World's 'Innovation for India Award' 2006.

Acquire-Enhance-Expand – Excel

BUSINESS MODEL

Cranes' 'Acquire-Enhance-Expand' business model has delivered significant operating and financial growth since its institution about five years back. The Company has leveraged upon this model to transform itself from a domestic distributor of third-part software to a leading player in the global technical software space. Recent recognition from 'Innovation for India' awards, a forum evaluating innovation in business, is encouraging external endorsement to a business model that has created a US$ 35 million global technology business in just four years.

Cranes' core business innovation lies in its unique 'Acquire-Enhance-Expand' business model. This model has enabled the creation of a significant, IP driven technology business within the focus area of scientific and engineering software over the last five years. It has also clearly differentiated Cranes from the usual process-driven and labor arbitrage focused Indian IT company, allowing the company to compete successfully in global markets and expand revenues and PAT at a CAGR of 72% and 83% respectively between FY2001 and FY2006.

As is probably evident, Cranes' core business model is based on:

Acquire: Cranes has constantly scoured the global markets, identifying and acquiring IP and business assets.

Enhance: Post acquisition, these IPs are refurbished at Cranes' development facilities, with the product authors/architect at the helm, through continuous optimization of their value/capabilities.

Expand: A go-to-market strategy is then created by leveraging Cranes' focused and expanding sales, marketing and distribution network and localized marketing strategies to expand global usage.

Cranes received Innovations for India awards by Innovations for India - Marico Foundation and Business World. The jury adjudged Cranes' 'Acquire-Enhance-Expand' mode of doing business as unique and commended the Company's ability in identifying the right products and resell the enhanced products in various markets across the globe.

For a decade after initiating operations in 1991, Cranes forged local distribution alliances with leading international technology players in the technical computing software segment. Through its global interactions, the management identified software brands with strong recall, a history of extensive usage but languishing sales due to a number of factors. Thus seeing an opportunity, Cranes has created a unique business model in the software products space using India's high quality, cost-efficient talent pool to create a globally competitive business.

Many other software IP driven ventures from this country have failed to achieve their objectives due to their limitations in sustained brand building. In this respect, Cranes has derived the advantage from its deep understanding of the market and its history of being a customer-centric business.

Acquisitions have included a suite of scientific data visualization software in 2000; award winning statistical software SYSTAT in 2001; the Sigma product line in the data presentation and analysis space in 2003; and NISA in the Computer Aided Engineering space in 2005. Each of these acquisitions expanded Cranes' software portfolio addressing the needs of global community of scientists and engineers, thereby deepening domain focus. Thus, Cranes has cost-efficiently created an IP-based portfolio of strong, established software brands, some with decades of use aggregating 360,000 worldwide.

Following its acquisition, Cranes released SYSTAT 10.2 and thereafter SYSTAT 11 that transitioned the product from FORTRAN to C environment, increased its distributions from 13 to 33, added Markov Chain Monte Carlo features, new statistical features for Quality Analysis, enhanced the user interface, thereby revamping the look and feel as well as technical capabilities of the software. These enhancements were well accepted by users and critics alike.

Cranes recently has launched SigmaPlot 10 with expanded graphing and data analysis capability in mid-2006, and more recently NISA 14, an advanced version of this finite element analysis software. In addition, some local language versions have been launched in collaboration with Cranes' strong regional partners, addressing the latent demand in key markets. While the Japanese and Korean versions of Cranes' portfolio have met significant success, several other language versions are in the pipeline to address the needs of localization.

This pipeline of regular versions/updates has been made possible by dedicated R&D teams, some working under the supervision of the original authors of the software, and led by software architects and domain experts. At present, Cranes employs over 300 people in its multiple R&D teams located in Bangalore and USA.

Cranes has adopted localized selling strategies in each region supported by a network of 11 direct overseas offices and 29 distributors that provide reach in 33 countries globally, supported by product re-sellers and a robust web-based sales initiative. Cranes' client list covers a variety of customer groups, including leading global corporations,Government/development agencies and the world's foremost academic institutions.

Cranes has thus achieved through innovation what may not have been possible for an Indian company following a scratch-up strategy. Cranes' revenues from its proprietary software was US$ 35 million in FY 2006 from zero in FY 2002.

Fuelling intellectual endeavour

CLIENTELE

Many Indian software products Companies have started off as technology hotspots but floundered at the point of sale. Cranes started life as a sales and marketing driven organization and remains one at its core. Realizing that building a global market for scratch-up software products developed in India was a complex task, the management turned convention on its head by acquiring a series of established global brands.

With subsequent enhancements, Cranes has developed a significant base of clients in the corporate, government and academic sectors across the world.

Clientele

Eli Lilly Ford Motor Co. GE Capital GE Electrical Honeywell Johns Hopkins Hospital L'Oreal MIT NASA Glenn Research Center Proctor & Gamble Toyota US Army US Environmental Protection Agency Xerox Corp Bristol - Myers Squibb Prudential Financial Co. Chevron Exxon Mobil Chemical Co. GE Global Research Lab Hewlett Packard Johnson & Johnson Merck Unilever Research & Development 3M Corp Baush & Lomb, Inc. Bridgestone Firestone Eastman Kodak Company Estee Lauder Goddard Space Center NASA - Langley Research Lab Pfizer Inc. Shell Oil Company Harvard University Yale University Stanford University US Air Force Dupont Gillette Havard School of Medicine Carnegie Mellon University Caterpillar, Inc. Nike, Inc. Intel Lockheed Martin Siemens VDO Goodyear Kraft US Olympic Committee Rolls Royce Corporation Bosch IBM Shell Canon Inc. General Motors Apple Computer Volvo AT&T Novo Nordisk A/S Bayer AG Max Planck Institute Sony International GmbH Siemens AG Braun GmbH Asia Pacific Novartis Animal Healthcare Fuji Photo Film Co. Ltd. Mazda Corp. Mitsubishi Japan Petroleum Exploration Co. World Agroforestry Centre Rohde and Schwarz Systems & Communications Korea Atomic Energy Research Institute LG Chemical Ltd Samsung Rolls Royce Marine CSIRO United Nations Statistical Institute Asia Pacific SKODA Praha a.s., Czech Republic Diamler Chrysler AG Siemens PGI Naval Research LabsMcGill University University of California University of Florida University of Texas University of Washington Cornell University Purdue University University of Chicago Bell Aerospace Astra Zeneca DOW Chemicals Biogen Enivormental Canada National Institutes of Health Praxair US Forest Services US Geological Survey Perot Systems Abbott Labs Aerojet Boehringer Ingelheim University of Toronto British American Tobacco Fluiddrive Engineering Mashikian Associates Menasha Corporation Porter Corporation M&T Design Butler Polymer Zeren Fluid Research Wickes Manufacturing Strand Engineering Zeren Fluid Research Penford Products Link Engineering Excel Industries TRW DEC Engineering Sparton Defense Electronics Delco Moraine Jackson Assembly Gen Corporation Clark Material System Ft. Howard Cup Corporation Textron Inca Presswood Pallets Ltd. Cooper Industries International Technology Corporation Kent Moore Valeo Acustar Lamb Technicon Bendix Allied Signal Associated Spring Prime Tube, Inc. Abbott GmbH Aventis Pharma 3M Laboratories Sandoz GmbH Bosch Telecom GmbH FSG mbH & Co. KG ABB Turbo Systems, Switzerland Aerodyn Energiesysteme GmbH Fossil Fuel Power Systems Division Carlton and United Beverages Defense Science & Technology Organization University of Melbourne University of New South Wales Tel Aviv University Mayekawa Meg Chiyoda Corporation Fuji Heavy Industries NDC Toho Tenax Komori Akebono Brake Industry University of Auckland International Rice Research Institute National University of Singapore Qinetiq, Farnborough General Dynamics, Hastings BAe Systems, Plymouth Hart - Fenton, Portsmouth Fierco Interconsult Aket Kvaerner Kleven Design Projekti Insinoorit OY KCI Konecranes OY VTT/RTE7 FY-Composites Patria Finavitec OY Systems Aeronautical Development Agency Jawaharlal Nehru University DRDO BARC BHEL TVS Kinetic L&T Dunlop Kuwait University King Saud University GlaxoSmithKline Birla Institute of Technology GE - John F Welch Technology Center Indian Institute of Management Indian Institute of Technology Indian Institute of Science Indian Statistical Institute Infosys Indian Space Research Organization Oil and Natural Gas Corp. Wipro NAL NIMHANS Wockhardt Research Center VSSC DND

Cranes initiated business operations 16 years back, with a license to market anti-virus software and soon transitioned to selling technical computing software to the country's defense establishments located around Bangalore. Thereafter, sensing the strong opportunity, it widened its horizons by engaging global technology leaders through distribution relationships for their globally renowned and established players. In turn, Cranes was instrumental in establishing the concept of technical tool usage by the research community in India.

Thus, Cranes established itself as a marketing company much before opening its innings as a serious player in the technology arena. It created a strong foothold in the segment by servicing the unique requirements of a niche market-the country's scientists and engineers, which it subsequently leveraged to participate in the vast global opportunity in this space. A strong customer focus continues to underlie its operations. This, the management believes, is the key differentiator Cranes has vis-à-vis most other Indian software products companies.

Many software product companies from the country have been unable to make a mark on the global landscape due to their inability to fully gauge the customer's dynamic requirements. Brand building in differentiated global markets has also been a challenge for quite a few. Here, Cranes' innovative approach has made the difference.

Even at the time of transitioning its business from software distribution to IP ownership, the Cranes management, with its significant experience in selling to research-focused communities, understood that the target audience displays a high level of loyalty to its existing environment, and thus usage patterns for technical software tools are largely stable over a much longer term than in other markets. This accentuated the importance of owning strong brands. As competing in established markets with a range of new and unknown products was seen to be an onerous task, Cranes thought out-of-the-box to acquire some established software brands. Thus decreasing the risk factor and creating a technology driven organization.

With each acquisition came thousands of user relationships in niche market segments, a significant number extended over decades. These relationships have been nurtured post acquisition by maintaining a continuous pipeline of upgrades and version launches. Customers are also serviced closer to their domicile through an extensive and still expanding marketing network across the world. As a consequence, the usage patterns for each of the acquired brands have seen a quantum jump following their transition to Cranes. Now, having already created a basket of software in its focus domains, the Company continues to deploy several innovative initiatives to develop the brands of more significant proportions in the international technology marketplace.

Software	Year of acquisition	Acquisition cost	Revenues when acquired	Current revenues
AISN data visualization software suite	2001	US$ 1.75 million	US$ 1 million	US$ 2.25 million
SYSTAT	2002	US$ 2.25 million	US$ 2 million	US$ 8.5 million
Sigma products suite	2003	US$ 15 million	US$ 6.8 million	US$ 23 million
NISA	2005	US$ 1.5 million	(negligible)	US$ 1.5 million

Making the thinkable happen

TECHNOLOGY

Cranes' strong credentials as an innovation-driven organization have attracted top intellectual talent to its fold. The Company has continued to invest in an extensive R&D initiative that spans its core domains of Visualization, Analytics and Engineering. It has also focused on niche research programs in some promising emerging technologies. Many of the original authors of software acquired by Cranes have remained closely associated with the Company. The research pipeline has churned out a spate of enhanced versions and local language releases that have been well-received, in-turn contributing to increased usage patterns.

SYSTAT | SigmaPlot | SigmaStat | SigmaScan | TableCurve 2D | TableCurve 3D | PeakFit | AutoSignal | NISA | InvestX | XID

Ongoing R&D is an intrinsic part of Cranes' core business strategy. Post-IP acquisition, the Company's objective has been to enhance the value of its software portfolio by investing in R&D. Here, Cranes' strong credentials as an innovation-driven organization have been of immense value. Such credentials have allowed it to attract and retain some very talented individuals who have taken forward its multi-disciplinary R&D initiatives. The resultant research pipeline has provided a series of versions/updates of the proprietary software portfolio. At the same time, Cranes' R&D initiatives have also focused on some new, emerging technologies. The Company's R&D infrastructure is located at Bangalore, Richmond, CA and Troy, MI with many of the key research initiatives driven by the original authors of the respective software.

The statistical product line is headed by Prof. T. Krishnan, a renowned statistician, who leads a 50-member core R&D team out of Bangalore is the chief architect of the statistical product line. In addition, SYSTAT's author Dr. Lee Wilkinson has also remained associated with SYSTAT development. Soon after acquiring the software, Cranes launched SYSTAT's Version 10.2, followed by its Version 11 in May 2004, that moved the software from FORTRAN to C environment. Local language versions have been launched in Japanese and very recently in Korean. Going forward, Cranes plans to launch user-specific modules and subsequently move the product to a new architecture.

SYSTAT development is in turn, a part of the larger initiatives in the analytics domain, which are headed by Dr. Rajeeva Karandikar, renowned probabilist and statistician, and expert in Stochastic Processes, Financial Mathematics, Cryptography and Psephology. A recent addition to Cranes' analytics portfolio is Analytix, an embedded decision support intelligence software. Dr. Sridhar and Dr. Usha, the authors of Analytix's product line have joined the company to take forward the upgrades and updates of the products and also assist Cranes' foray into the Analytics domain.

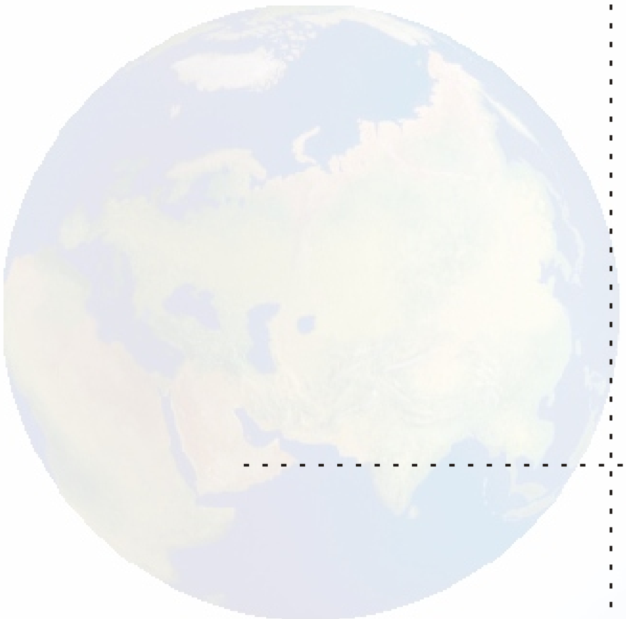
In the visualization domain, R&D initiatives for the Sigma product are led by a three-member team that includes its original authors, Dr. Richard Mitchell and Mr. John Norby. Post-acquisition, Cranes launched SigmaPlot 9 in August 2004 with expanded scientific graphing and data analysis capability and more recently, Version 10 that has many workflow efficiency improvements apart from an even wider range of graphing options. In addition, Mr. Ron Brown, the original author of TableCurve and PeakFit software products is now supervising a 2D/3D combined version of this curve/surface fitting software.

During the third quarter of the last financial year the Company also acquired InventX ePM, a project and portfolio management tool. Along with the acquisition the authors of these products Mr. Srik Soogoor and Mr. John Eastman have joined the Company to take forward the upgrades and updates of the products.

Following the EMRC acquisition, Cranes now has a 45-member, domain-centric product development team dedicated to ongoing enhancements of the CAE-focused NISA family of software products. This team also contributes to the Company's engineering domain R&D initiatives. In April 2006, Cranes launched NISA 14, an enhanced version of this Finite Element Analysis package, which offers more than 30 new features. Cranes also launched a completely enhanced version of the Civil Engineering package, NISA Civil, for the international market and a Linux version for those using open source operating systems.

Apart from the discussed IP enhancement initiatives, Cranes is also involved in some scratch-up IP development initiatives. The philosophy followed here is to commit judiciously and look for long term commercial upsides. Cranes has developed IP cores for wireless communications systems and wireless LAN test solutions, focused on automated testing equipment. Cranes has also partnered with the Indian Institute of Science (IISc) to set-up CranesSci MEMS Lab located at the IISc's campus in Bangalore. Recently, Cranes' in association with Indian Institute of Science and Society for innovation and Development has entered into a Collaborative Research Programme called 'Cranes – IISc Research Programme'. The Company and Indian Institute of Science shall be joint owners of any Intellectual Property Rights and innovation that may be realized through this programme. This set up at the Indian Institute of Science campus, Cranes Innovation Center, is in a unique position to imbibe the best traditions of research available in India and work with the best in the business from various disciplines.

Overall, Cranes' R&D-focused resources now number over 300, or 60% of the company's employee strength during the year under review. The company continues to look at commercial viability and ROI across all its initiatives, and its R&D investments have delivered superlative performance over the last few years.



A far-reaching presence worldwide

GLOBAL REACH

Cranes has extended its focus on innovation to its market reach initiatives. The Company acquired a series of software brands with established usage patterns in the US and Europe. In the first phase of post-acquisition expansion, the Company focused on expanding usage in other markets with strong latent demand. Asia has been a key driver of growth over the last five years and constitutes a substantial part of global revenues at present. With a post-acquisition IP enhancement roadmap in place, the Company expects to be in a position to take significantly upgraded software products to a captive audience of existing global users, apart from seeking greenfield opportunities in the next phase of growth.

Global

Innovations in global marketing

Cranes has delivered significant business growth over the last few years, with key successes across the globe, by employing market-specific selling strategies. In that sense it has emerged as a 'globally local' Company. Having acquired a suite of technical software with established usage bases in the US and Europe, the Company has continued to leverage marketing presence and user base in these regions to further identify and acquire undervalued IP assets of significant growth potential. At the same time, deep relationships developed within the Asian region have led to the emergence of a differentiated pipeline through localized versions.

Overall, the key to Cranes' past successes and strong business outlook is the ability to clearly evaluate and deliver on distinct, innovative, market-driven strategies in each region. At present, Cranes' regional revenue profile is well-diversified. Less than half the sales are in the US and less than 10% in Asia, with a large part of the remaining business being almost equally divided between Europe and India.

In the North American market, Cranes' range of technical software has a long history of usage and enjoys a user base running into a few hundred thousand, scientists, researchers and engineers. Leveraging this captive audience, Cranes plans to migrate users to new releases. Cranes' regional sales network includes four direct offices, a wide re-seller network and a web-based channel that allows downloads of trial versions.

Cranes has expanded its European resource base organically and on the back of some of its acquisitions. It has two direct offices, in the UK and Germany, backed by a network of distributors that extend presence in most of the largest markets in Europe. Through past initiatives, Cranes has already established a wide usage base in this geography and more recently the focus has been on maintenance, license renewal and upgrade led opportunities. Cross-selling, bundling of software, local language versions are expected to add to the growth momentum.

Asia is the fastest growing region globally and provides significant potential for demand expansion. Cranes has established direct offices in Singapore and the UAE, apart from creating extensive coverage through distributors across the region. Deep local relationships in the region have led to the launch of local language versions in Japan, Korea. The customer base now extends to Japan, South Korea, China, Taiwan, Australia and New Zealand.

In India, Cranes pioneered the use of scientific and engineering tools, creating a market for high performance technical products. Its software, sold to defense establishments, scientific research organizations, aerospace companies, technical education institutes, and high-tech, engineering and IT companies, has enabled substantial scientific and research activity in the country. More recently, Cranes has introduced its proprietary range of software to the Indian markets, leveraging its long-standing relationships to open up a potentially significant market. The Company has also extended its traditionally India-based software distribution business to overseas markets, initially the ASEAN region, thus opening another vital area of revenue expansion.

Reach

Trail-blazers of creativity

PEOPLE

Cranes aspires to build a business that thrives on creative thinking. The management has encouraged an innovative approach across all levels of the organization. This in turn, has attracted some creative minds to drive the Company's initiatives. Many of the authors of the software IPs acquired by Cranes remain associated with the ongoing development roadmap. The Company's Board includes prominent scientists. A significant number of its employees are dedicated to the core R&D function. The objective now is to develop innovative thinking into a repeatable process.

Our people

Cranes has harnessed the creative power of its greatest asset, its people. It has channelized the creative ideas of its employees to bring a steady pipeline of profitable new innovations to the marketplace, quickly and efficiently.

The Company's management realized early the importance of nurturing the creativity of its people to gain global competitiveness in a business domain that supports innovative activities globally and expects similar out-of-the-box thinking from those associated with it. Cranes is positioned as a cradle of innovative activity and attracts the most inventive thinkers across the various levels of its organization. The Company's objective has been to turn its people into opportunistic entrepreneurs who are constantly looking for new ways of improving upon proven methodologies.

Leveraging user relationships for business advantage has been a key growth strategy for Cranes and is in many ways instrumental in the ongoing successes recorded by the business. Over the years, many from Cranes' customer organizations acknowledged its strategic business vision and its core innovation led business philosophy to participate in its key management resource team. For instance, Dr. Rudra Pratap, Chairman of Cranes' Board and leader of its MEMS research initiative - CranesSci-MEMS Lab, was a MATLAB customer at IISc, Bangalore. Mr. Ron Brown, author of the data visualization software products acquired by Cranes, is now the Chief Software Architect overseeing ongoing development of the visualization suite and also sits on its Board. Mr. Richard Gall, also a former MATLAB customer while heading Texas Instruments' Indian operations, is now a President of Cranes' US subsidiaries and also a member of its Board. Even SYSTAT author Dr. Lee Wilkinson saw the Cranes management's creative vision and endorsed the acquisition of the software by Cranes. Since then, he has remained involved in further Cranes' development initiatives.

Pursuant to the SYSTAT acquisition all other acquisitions have also followed the same method. The expertise of the core authoring teams of these acquisitions namely Sigma product line, NISA, InventX and Analytix have been retained by the Company. Today each product line has a dedicated team of product architects, domain experts and development staff focussed on a continual development and upgrades of these product lines.

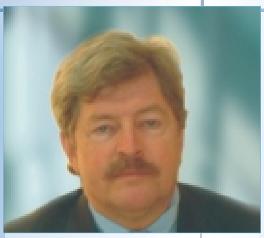
Over the last two years, Cranes' Board has been enhanced with the appointment of two senior technology research persons, Dr. Manju Bansal, one of India's foremost computational biologists with 28 years of outstanding experience in her areas of specialization and Dr. Peter Ryser, who has previously been responsible for the Siemens' global research activities with annual allocations of US$ 1 billion. As a result, at present, there are four eminent scientists on the Board of Directors, including Dr. Rudra Pratap and Mr. Ron Brown.

Cranes' executive management team is also focused on creating technology ideas and turning them into commercial business sense. It has supported a culture that supports risk taking, invention and the creation of value across the organization. The objective has been to inculcate systematic innovation processes, attracting creative minds from across the world to commit themselves to the pursuit of creative excellence practiced at Cranes. This has also ensured that there has been very low turnover in the core R&D team as those within have recognized the opportunity presented by Cranes to deploy their inventive thinking processes efficiently.

Board of Directors

Dr. Rudra Pratap
Chairman

Mr. Asif Khader
Co-founder & Managing Director



Mr. Ronald Brown
Director

Mr. Mukkaram Jan
Co-founder & Director

Mr. Mueed Khader
Director

Mr. Richard Gall
Director

Mr. Ajay Singh
Director

Dr. Peter Ryser
Director

Mr. Mirza Yawar Baig
Director

Dr. Manju Bansal
Director

Cranes' Board of Directors comprises a group of eminent individuals in a range of areas such as technology innovation, governance policy, general management, consulting and leadership of diverse businesses. The considerable experience they bring to the company has been drawn upon advantageously to enable Cranes' evolution into a technology company of growing international repute.

Chairman's Message

Dear Shareowners,

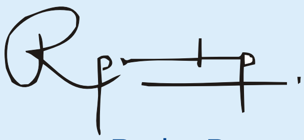
Knowledge-led endeavors drive industrial activity and economic growth worldwide. Most significant advancements in technology have been driven by the initiatives of thousands of engineers, scientists and researchers. It is this community of scientists and engineers that drives technology, delivering solutions for today's problems and anticipating the needs of tomorrow, it is this community that uses all our products, and that places us in the unenviable position of anticipating the needs of these visionaries.

Addressing the requirements of the scientific and engineering community is a demanding task. To enable the innovators of this world, we need to drive constant improvements in our products. This is both an imperative for delivering growth and our responsibility to the society at large. The addressable market may be niche but its demands and spend are high and its impact on society is significant. We understood relatively early in our journey that the levels of excellence required to address this market far exceed that in retail business but meeting exacting expectations results in a loyal customer base and substantial monetary reward. Our aggressive investments in research too have delivered well on financial parameters.

We have already made some good progress up the innovation curve. We have delivered strong and sustained growth from our 'Acquire-Enhance-Expand' business model that has received critical acclaim from forums of innovation. We introduced technical tool training in India, an innovative concept that bridged the gap between the education provided by engineering colleges and corporate requirements. We have partnered with the Indian Institute of Science to set-up a MEMS Lab, a venture I have the privilege of leading.

We now want to be the home for innovation. We want to provide an environment for technology-lead talent where they can continuously hone their creative thought processes, leaving behind process-driven tasks that do little justice to their genius. We want to create teams of radical thinkers, nurture eco-systems that stimulate innovation. But we also remain fully aware of the importance of driving returns across all our initiatives, including those from R&D.

We will remain focused on developing a framework that leverages innovation for quantum growth. We are convinced that this is the way to propel India into the center-stage of global business leadership. All too often, there is a tendency to stick with the familiar and the known. But we realize that the world is changing too fast for that to be effective. Continuous evaluation and ability to change quickly are key requirements for our growth and success.



Rudra Pratap
Chairman

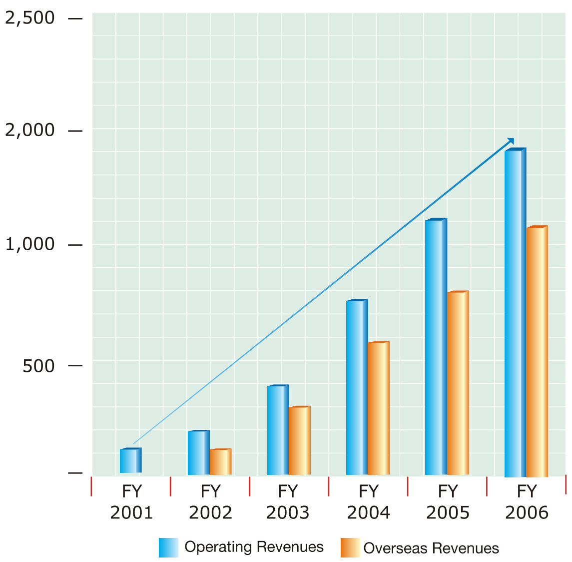
Managing Director's Message

Dear Shareowners,

In the year gone by, Cranes Software has made significant strides in its endeavor to emerge as a preferred technology partner for the global scientific and engineering community. We have further strengthened our software IP portfolio focused on the requirements of the community and broadly outlined the areas Visualization, Analytics and Engineering in which we would endeavor to establish global leadership. Key achievements for the year were the introduction of new versions of our proprietary software product range; acquisition of the NISA range of software, with which we forayed into the engineering domain; several other alliances and acquisitions such as InventX, Ariel, Capella, Analytics and Karna, that extended our presence in our focus areas; expansion of operations into new geographies; strengthening of the financial position; and addition of key talent in R&D and front-end sales functions.

Financial Performance

Operating revenues grew by 31% to Rs. 2,138.2 million in FY2006. Our proprietary software products business delivered another strong operating performance, expanding by 26%. Revenues from the third party software distribution business increased by 56% to Rs. 411.5 million driven by MATLAB sales. Operating profit grew by 27.1% to Rs. 1,179.8 million and operating margins improved by 165 basis points to 55.2%. Net profit after tax grew by 36% to Rs. 624.9 million and translated into earnings of Rs. 5.77 per share on an expanded capital base.



Between FY2001 and FY2006, Cranes' revenues have grown at a CAGR of 72% and net profit has expanded by 83%. Even more importantly, in this period, we have leveraged our existing strengths and capitalized on opportunities to transform Cranes from an India-centric business based on distribution relationships to a global, IP-driven, proprietary software products led operation. The successful implementation of our Acquire-Enhance-Expand strategy has been the underlying factor for this growth.

Acquisitions and Alliances

During the course of the year, we announced several acquisitions that have provided us a strong core across our focus areas. We now expect to build upon the IPs available to us as a result of these transactions to propel us even further within these domains.

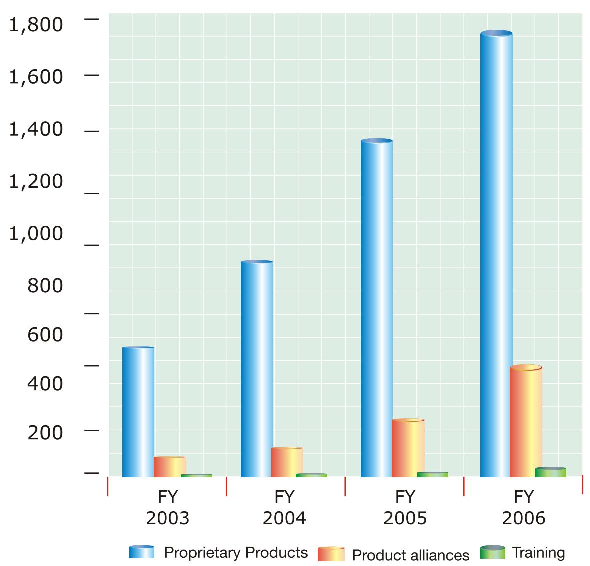
Early in the year under review, we acquired computer aided engineering (CAE) software player EMRC, the developer of the NISA suite of products and provider of consulting services and customized software in this domain. EMRC's acquisition marked our entry into the US$ 1 billion Finite Element Analysis (FEA) software market, a key constituent of the larger market for engineering software globally. We are now in a position to address the high potential mechanical, civil, automobile, aerospace and electrical engineering space.

We acquired Texas-based InventX, Inc., a web-based project portfolio management software company. Its flagship product, InventX ePM has met with reasonable success in the marketplace and is endorsed by such users as Texas Instruments, World Vision, Novartis, Dell and Target. We have now started investing in further version development and significant enhancements.

The acquisition of Karna India was in line with our strategy to gain a stronger presence in the banking and financial services vertical, a key focus area for us going forward. The development team that came to Cranes along with the acquisition has several years of experience in creating e-banking solutions for its international customers and thereby commands strong domain expertise.

After the close of FY2006, we have announced two more acquisitions that take forward inorganic initiatives further supporting our existing initiatives. The first one being Bangalore-based Analytix Systems, which has capabilities in the embedded analytics space, including mobile solutions, data analysis and data mining, which will allow us to take forward our business support solutions initiative. Analytix Systems' client portfolio already includes leading players in the automobile, banking and media domains. The other acquisition we announced was Capella an automated report writing, scheduling and distribution tool. Capella comes along with Alerts - an information distribution tool packaged with Capella.

I would like to highlight here that on aggregate, we have spent less than US$ 10 million on the transactions consummated during the year. However, in line with our strategy to expand the capability of our IP portfolio, we expect to invest several times the considerations paid for these acquisitions to develop a robust roadmap that integrates and optimizes all our initiatives.



New software launches

The second part of our core business strategy is to expand the competence of our IPs through ongoing enhancements and upgradations. During the year, we introduced the Japanese language version of SYSTAT 11, which has graphic user interface in Japanese and translated technical manuals. Japan is the world's second largest software market and therefore a high potential market for us.

Cranes is committed to creating localized offerings for its customers and several other language versions are in the pipeline to address the needs of localization. During the year, we also released NISA Version 14 in April 2006. The latest version of this Finite Element Analysis suite includes 30 new features that have significantly improved performance and usability. We also launched an upgraded version of the civil engineering module of NISA 14 software and subsequently a Linux-compatible version.

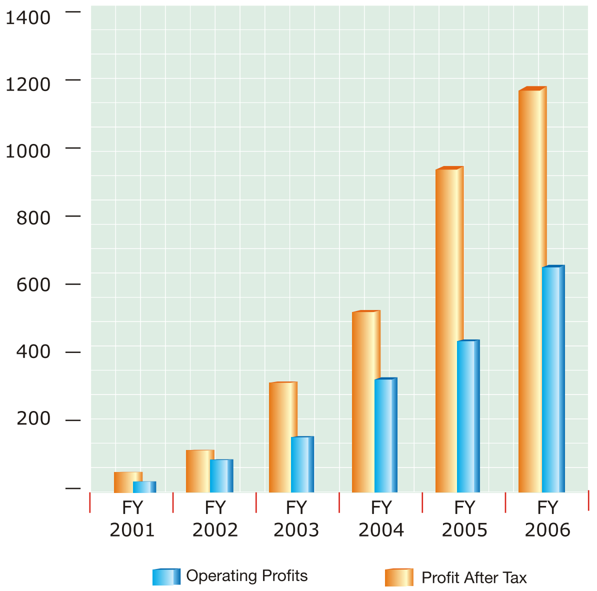
In May 2006, Cranes launched SigmaPlot 10, the latest version of our scientific graphing and data analysis software package. The new version enables the creation of accurate, publication-quality graphs that best present research results for publication, presentation or upload to the web.

Other corporate developments

During the year, Cranes expanded its capital base to fund its aggressive future initiatives. We issued equity shares on preferential basis to promoters and strategic investors, aggregating more than Rs. 1 billion, underscoring our confidence in the long term growth story emerging rapidly at Cranes.We also issued five-year tenured FCCBs, aggregating at ð 42 million, to high profile global investors and thereafter re-aligned our overall debt structure.

In addition, we issued bonus equity shares in the ratio of one share for every share held and split the Cranes stock into five shares of Rs. 2 each. The objective of this exercise was to improve trading liquidity for our shareholders.

Recently, we have appointed well-known statistician and probabilist, Dr. Rajeeva. L. Karandikar to the position of Executive Vice President in charge of our initiatives in the analytics domain. Dr. Karandikar was previously a Professor at the Indian Statistical Institute, New Delhi, and has received several coveted awards during his career. Stochastic calculus, a key area of his expertise, is considered to be the backbone of modern mathematical finance. We look forward to his significant contribution in our future growth.



Awards and Recognition

The Scientific Computing and Instrumentation Journal recognized SYSTAT as the “Top Statistical Data Analysis Product” globally for the second successive year. The award was based on feedback received from users and the Editorial Board of the publication.

Cranes was presented the "Distinguished Application Product Company Award" by Indian Institute of Management, Bangalore (IIMB) under the aegis of NASSCOM Product Forum. Cranes was so adjudged on the basis of its product range, financial performance, senior management team, alliance partnerships and market share.

Microsoft commended Cranes' innovative practices and featured the 'Acquire-Enhance-Expand' model in the 'Innovative Business Model' section at their 'India is Innovation' Summit. Besides this, our business also received the CII Innovation Award at the CII Innovation Summit 2006.

For the third year in succession, Cranes was named amongst the fastest growing technology companies in the Asia Pacific region by Deloitte Tohmatsu Touche. The recognition was based on the Company's financial performance over the FY2002-05 period.

We are indeed honored to receive these glorious commendations from organizations of global repute.

Future Outlook

We believe that our customers, largely research-focused entities and individuals in the corporate, government and academic sectors, have continued to derive sustained value from our initiatives. Furthermore, successes of the year under review have further strengthened the platform for realizing our objective of being a truly 'innovative global enterprise'. While we remain focused on balancing our objectives of long term IP expansion and near term financial returns, we are confident that Cranes' businesses would deliver growing value over the years to come.

Asif Khader
Co-founder & Managing Director

Cranes Software International Limited

Regd. Office: Shankar Narayana Building, Block 1, 4th Floor, # 25, M G Road, Bangalore 560 001.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 21st Annual General Meeting of the Shareholders of the Company will be held on Monday the 11th September, 2006 at 3.00 p.m. at Hotel Le Meridian, # 28, Sankey Road, Bangalore 560 052, to transact the following business.

1. To receive, consider and adopt the Balance Sheet as at March 31, 2006 and the Profit & Loss Account for the year ended on that date and the Report of Auditors and Directors thereon.
2. To declare Dividend on Equity Shares.
3. To appoint a Director in place of Mr. Ajay Singh, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Mueed Khader, who retires by rotation and being eligible, offers himself for reappointment.
5. To resolve not to fill the vacancy, for the time being, caused by the retirement of Mr. Mirza Yawar Baig, who retires by rotation and does not offer himself for reappointment.
6. To appoint Auditors to hold office from the conclusion of this annual general meeting until the conclusion of next annual general meeting and to fix their remuneration. The retiring auditors viz. M/s S Janardhan & Associates, Chartered Accountants are eligible for reappointment.

Special Business:

7. 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(1A), and all other applicable provisions of the Companies Act 1956, the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as “SEBI Guidelines”) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, the consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee, including the Compensation Committee which the Board shall constitute to exercise its powers, including the powers, conferred by this resolution), to create, offer, issue and allot at any time to or to the benefit of such person(s) who are in permanent employment of the Company, including any Director of the Company, whether whole time or otherwise (herein after referred to as the “Option Grantees”) options exercisable into not more than 4,500,000 (Forty five lakhs only) equity shares of the Company of a face value of Rs. 2/- (Rupees two only) each fully paid-up, on payment of the requisite Exercise Price to the Company, by way of one or more Employee Stock Option Schemes, in one or more tranches, and on such terms and conditions as may be fixed or determined by the Board in accordance with the provisions of the law or guidelines issued by the relevant Authority.

   RESOLVED FURTHER THAT, in case of any corporate action (s) such as rights issues, bonus issues, merger and sale of division and others, if any additional equity shares are issued by the Company to the Option Grantees for the purpose of making a fair and reasonable adjustment to the options granted earlier, the above ceiling of 4,500,000 equity shares shall be deemed to be increased to the extent of such additional equity shares issued.

   RESOLVED FURTHER THAT, the Board be and is hereby authorised to issue and allot Equity shares upon exercise of options from time to time in accordance with the Employee Stock Option Scheme and such equity shares shall rank pari passu in all respects with the then existing Equity Shares of the Company.

   RESOLVED FURTHER THAT, in case the equity shares of the Company are either sub-divided or consolidated, then the number of shares to be allotted and the price of acquisition payable by the Option Grantees under the schemes shall automatically stand augmented or reduced, as the case may be, in the same proportion as the present face value of Rs. 2/- (Rupees two only) per equity share bears to the revised face value of the equity shares of the Company after such sub-division or consolidation, without affecting any other rights or obligations of the said allotees.

   RESOLVED FURTHER THAT, the Board be and is hereby authorized to make modifications, changes, variations, alterations or revisions in the said schemes as it may deem fit, from time to time in its sole and absolute discretion in conformity with the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company, SEBI Guidelines and any other applicable laws.”

8. 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(1A), and all other applicable provisions of the Companies Act 1956, the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as “SEBI Guidelines”) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, the consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee, including the Compensation Committee which the Board shall constitute to exercise its powers, including the powers, conferred by this resolution), to create, offer, issue and allot at any time to or to the benefit of such person(s) who are in permanent employment of:

1. Systat Software Asia Pacific Ltd, or
2. Cranes Software International Pte Ltd, Singapore,or
3. Systat Software Inc., USA, or
4. Systat Software UK Ltd, or
5. EMRC Engineering Mechanics Research (India) Ltd, or
6. Systat Software GmbH, Germany, or
7. Cranes Software Inc., USA,

the subsidiaries of the Company, including any Director of the above mentioned Subsidiaries, whether whole time or otherwise (herein after referred to as the "Option Grantees"), options exercisable into not more than 5,00,000 (Five lakh only) equity shares of a face value of Rs.2/- (Rupees two only) each fully paid-up, on payment of the requisite exercise price to the Company, under one or more Employee Stock Option Schemes, in one or more tranches, and on such terms and conditions as may be fixed or determined by the Board in accordance with the provisions of the law or guidelines issued by the relevant Authorities.

RESOLVED FURTHER THAT, in case of any corporate action (s) such as rights issues, bonus issues, merger and sale of division and others, if any additional equity shares are issued by the Company to the Option Grantees for the purpose of making a fair and reasonable adjustment to the options granted earlier, the above ceiling of 500,000 (Five lakh only) equity shares shall be deemed to be increased to the extent of such additional equity shares issued.

RESOLVED FURTHER THAT, the Board be and is hereby authorised to issue and allot equity shares upon exercise of options from time to time in accordance with the Employee Stock Option Scheme and such equity shares shall rank pari passu in all respects with the then existing equity shares of the Company.

RESOLVED FURTHER THAT, in case the equity shares of the Company are either sub-divided or consolidated, then the number of shares to be allotted and the price of acquisition of the shares by the aforesaid Option Grantees under the schemes shall automatically stand augmented or reduced, as the case may be, in the same proportion as the present face value of Rs. 2/- (Rupees two only) per equity share bears to the revised face value of the equity shares of the Company after such sub-division or consolidation, without affecting any other rights or obligations of the said allottees.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to make modifications, changes, variations, alterations or revisions in the said schemes as it may deem fit, from time to time in its sole and absolute discretion in conformity with the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company, SEBI Guidelines and any other applicable laws."

9. To consider and if thought fit, to pass with or without modification, the following resolution as a **Special Resolution**:

"RESOLVED THAT, pursuant to Section 309(4) and other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereto or modifications or re-enactments thereof) (the Act) and in accordance with the provisions of the Memorandum and Articles of Association of the Company, the Company be and is hereby authorised to pay remuneration by way of Commission to any one or more or all of the Non-Executive Directors of the Company (Other than the Managing / Whole Time Directors) such sum not exceeding one percent of the net profits of the Company (to be calculated in accordance with the provisions of Section 349 and 350 of the Companies Act, 1956) in aggregate for a period of three years from the financial year ending on 31st March, 2007, to be divided among the Non-Executive Directors in such manner and in such proportion as the Board of Directors (herein referred to as the Board which expression shall include any Committee of the Directors thereof) may determine from time to time."

10. To consider and if thought fit, to pass with or without modification, the following resolution as a **Special Resolution**:

"RESOLVED THAT, pursuant to Section 81(1A) and other applicable provisions of the Companies Act, 1956 (the Act) and subject to the Regulations and Guidelines of Securities and Exchange Board of India (SEBI), Listing Agreement (s) entered into with the Stock Exchange (s) and in accordance with the provisions of the Memorandum and Articles of Association of the Company and subject to the consent / approval, if any, of other authorities and subject to such terms and conditions as may be prescribed by such other authorities while granting such consent and approval and which may be agreed to by the Board, and on such other terms and conditions as may be decided and deemed appropriate by the Board, the consent of the Company be and is hereby accorded to the Board of Directors (hereinafter referred to as the Board which expression shall include any Committee of the Directors thereof) to create, issue and allot upto 10,00,000 (ten lakh) equity shares of Rs.2/- each at a price of Rs. 100/- per share (including premium of Rs. 98/- per share) or at such other price (including premium) being not less than that determined in accordance with the SEBI (Disclosure and Investor Protection) Guidelines 2000 (herein after referred to as the "SEBI Guidelines") on preferential allotment basis to the Strategic Investor(s) or their associate company(s) stated in the Explanatory Statement annexed hereto to the notice convening the meeting subject interalia, to the following terms and conditions:

a) the equity share shall be issued / allotted within 15 days from the date of this resolution or within 15 days from the date of receipt of regulatory approvals, whichever is later.
b) the entire consideration money of equity shares shall be paid before the allotment.
c) the equity shares shall be locked in for such period as prescribed under the SEBI Guidelines.
d) the equity shares as aforesaid shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari-passu in all respects with the existing equity shares of the Company.

FURTHER RESOLVED THAT, the "Relevant Date" for the purpose of determining the issue price of share pursuant to the SEBI (Disclosure and Investors Protection) Guidelines 2000 shall be 12th August, 2006.

FURTHER RESOLVED THAT, the Board be and is hereby authorised to apply for and seek listing of the aforesaid equity shares on the Stock Exchange(s) with which the securities of the Company are already listed and to execute necessary listing agreement and other documents as may be required in connection therewith.

FURTHER RESOLVED THAT, the Board be and is hereby authorised, for the purpose of giving effect to this resolution, to do all such acts, deeds, matters and things including variation in the size, price and terms of the issue as it may, in its absolute discretion, deem necessary, proper or desirable and to settle any question, difficulty or doubts that may arise in regard to the offer, issue and allotment of the aforesaid equity shares and in complying with any requirements of Regulations thereof without being required to seek any further consent or approval of the members in respect thereof.

FURTHER RESOLVED THAT, the Board be and is hereby authorised to agree to and accept such amendments, modifications, variations and alterations as the SEBI, Stock Exchange (s) or any other authority may stipulate in that behalf."

By order of the Board
for Cranes Software International Ltd.

Bangalore
July 27, 2006

(**B Parasuram)**
Company Secretary

NOTES :

1. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business as given in the notice is annexed.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING MAY APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY**. Proxies in order to be valid, should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. The Register of Members of the Company will remain closed from 06.09.2006 to 11.09.2006 (both days inclusive) for the purpose of payment of dividend.
4. The dividend, if declared at the Annual General Meeting, will be paid to those members whose names appear on the Register of Members as on 05.09.2006 or to their mandatees.
5. Members are requested to notify immediately any change in their address to the Company's Share-Transfer Agents.
6. Members who are holding shares in identical order of names and addresses in more than one account are requested to intimate to the Company the ledger folio of such accounts together with the share certificate(s) to enable the company to consolidate all the holdings into one account. The share certificate(s) will be returned to the members after endorsements in due course.
7. Members / bodies corporate / proxies should bring the attendance slip duly filled in for attending the meeting.
8. Members are requested to bring their copies of Annual Report to the meeting.
9. To avail the facility of nomination, members are requested to submit to the Company the nomination form, which may be supplied on request.
10. Members who have not encashed their dividend warrants for any of the financial years 2002-03, 2003-04 and / or 2004-05 may write to the Company or Share Transfer Agents for issuance of duplicate / revalidated dividend warrant (s).

    In terms of provisions of Section 205(A) of the Companies Act, 1956, dividends not encashed or claimed within 7 years from the date of its transfer to the Unpaid Dividend Account is required to be transferred to the Investor Education and Protection Fund (IEPF) established by the Central Government and on such transfer no claim shall lie against the Company or IEPF.

Explanatory Statement.
Pursuant to Section 173(2) of the Companies Act, 1956.

In respect of Item 7 and 8.

The Company recognizes and appreciates the critical role played by the employees of the Company and its subsidiaries in bringing about growth of the organization. It strongly feels that the value created by them should be shared with them. To promote the culture of employee ownership in the company, approval of the shareholders is being sought for issue of stock options to the employees of the Company and its Subsidiaries.

The main features of the Employee Stock Option Schemes are as under:

1. **Total number of options to be granted**:

A total of 4,500,000 (Forty five lakh) options for the employees of the Company and 500,000 (Five lakh) options for the employees of the Subsidiaries will be available for being granted under one or more schemes. Each option when exercised would be converted into one Equity share of Rs. 2/- (Rupees two only) each fully paid-up.

Vested options that lapse due to non-exercise or unvested options that get cancelled due to resignation of employees or otherwise, will be available for being re-granted at a future date.

SEBI Guidelines require that in case of any corporate action (s) such as rights issues, bonus issues, merger and sale of division and others, a fair and reasonable adjustment needs to be made to the options granted. Accordingly, if any additional equity shares are issued by the Company to the Option Grantees for making such fair and reasonable adjustment, the ceiling of 4,500,000 equity shares for the employees of the Company and 500,000 equity shares for the employees of the Subsidiaries as stated above shall be deemed to be increased to the extent of such additional equity shares issued.

2. **Identification of classes of employees entitled to participate in the Employee Stock Option Scheme(s)**:

All permanent employees of the Company and its Subsidiaries, including Directors (excluding any Director who directly or indirectly holds more than 10% of the outstanding equity shares of the Company) but excluding the promoters of the Company, as may be decided by the Compensation Committee from time to time, will be entitled to be granted stock options under the ESOP Scheme(s).

3. **Transferability of Employee Stock Options**

The stock options granted to an employee will not be transferable to any person and shall not be pledged, hypothecated, mortgaged or otherwise alienated in any manner. However, in the event of the death of an Option Grantee while in employment, the right to exercise all the options granted to him till such date shall be transferred to his legal heirs or nominees.

4. **Requirements of vesting and period of vesting**:

The Options granted shall vest so long as the employee continues to be in the employment of the Company and / or its Subsidiaries, as the case may be. Vesting of the Options shall take place over a maximum period of 5 (five) years with a minimum period of 1 (one) year from the date of grant. The exact proportion in which and the period over which the options would vest will be determined by the Compensation Committee, subject to the minimum vesting period of one year from the date of grant of Options.

The Compensation Committee may, at its discretion, lay down certain performance metrics on the achievement of which granted Options will vest, the detailed terms and conditions relating to such performance-based vesting, and the proportion in which Options granted will vest (subject to minimum and maximum vesting period as specified above).

5. **Exercise Price:**

The Compensation Committee may, at its discretion grant Options at any of the following prices :

i) At Face Value (Rs. 2 per share currently)
ii) At a discount of 50% to the prevailing market price.
iii) Prevailing Market Price.

"Prevailing Market Price" means the latest available closing price, prior to the date of the meeting of the Board of Directors / Compensation Committee in which options are granted, on the stock exchange on which the shares of the Company are listed. If the shares are listed on more than one exchange, then the price on the stock exchange where there is highest trading volume on the said date shall be considered.

6. **Exercise Period and the process of Exercise**:

The Exercise period will commence from the date of vesting of Options and will expire not later than 3 (three) years from the date of vesting. The exact Exercise period shall be decided by the Compensation Committee subject to a maximum period of 3 (three) years from the date of vesting.

The Options will be exercisable by the employees by a written application to the Company to exercise the Options in such manner, and on execution of such documents, as may be prescribed by the Compensation Committee from time to time. The Options will lapse if not exercised within the specified Exercise period.

7. **Appraisal Process for determining the eligibility of the employees to ESOP**:

The appraisal process for determining the eligibility of the employee will be specified by the Compensation Committee, and will be based interalia on criteria such as role / designation of the employee, length of service with the Company and its Subsidiaries, as the case may be, past performance record, future potential of the employee and/or such other criteria that may be determined by the Compensation Committee at its sole discretion.

8. **Maximum number of options to be issued per employee and in aggregate**:

The number of options that may be granted to any specific employee under the Scheme shall not exceed 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant of Options.

9. **Disclosure and Accounting Policies**:

The Company shall comply with the disclosure and the accounting policies prescribed as per SEBI Guidelines and other concerned Authorities.

10.Method of Option Valuation

To calculate the employee compensation cost, the Company shall use the Fair Value Method for valuation of the Options granted.

In case the Company calculates the employee compensation cost using the Intrinsic Value of the stock options, the difference between the employee compensation cost so computed and the cost that shall have been recognized if it had used the Fair Value of the options, shall be disclosed in the Directors' Report and also the impact of this difference on profits and on EPS of the Company shall also be disclosed in the Directors' Report.

As the Employee Stock Option Schemes provide for issue of shares to be offered to persons other than existing shareholders of the Company, consent of the Members is being sought pursuant to Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 and the SEBI Guidelines.

None of the Directors of the Company, are in any way, concerned or interested in the resolution, except to the extent of the shares that may be offered to them under the Scheme.

In respect of Item 9.

The Non-executive Directors are devoting considerable time and effort in providing guidance to the Company and it is proposed that they be remunerated for the same. At present sitting fee of Rs. 3000/- (Rupees Three thousand only) is payable to each Non-Executive Director for every meeting of the Board or Committee thereof attended by them.

The Companies Act, 1956 permits remunerating the Non-Executive Directors by way of commission at a rate not exceeding 1% of the net profits of the Company with the approval of the Shareholders by a Special Resolution. Approval of the Members is sought for payment of Commission to the Non-Executive Directors at such percentage of the net profits not exceeding 1% as may be decided by the Board of Directors of the Company for a period of three years.

The Directors recommended the resolution for approval of the Members.

Except Mr. Asif Khader, Mr. Mukkaram Jan and Mr. Mueed Khader, all other Directors may be deemed to be concerned or interested in this Resolution.

In respect of Item 10.

The Company's business has grown many folds. As a part of its strategy to 'Acquire-Enhance-Expand' the Company is on the look out for products / businesses which have good future potential and will fit into its product profile thereby harnessing the growing opportunities existing in the Information Technology industry. To achieve this end the Company requires infusion of funds for both capital expenditure and for augmenting working capital to meet the requirement of increasing business activities.

The Board of Directors deemed expedient to raise the additional capital by private placement of equity shares to Strategic Investors in view of immediate requirement of funds and economy of raising such funds. Accordingly the Board has proposed to issue 10,00,000 equity shares at a price being not less than that determined in accordance with the SEBI Guidelines to Strategic Investors.

The disclosures pursuant to the provisions of SEBI (Disclosure and Investors Protection) Guidelines, 2000 - Preferential Allotment are furnished below :

1) The objects of the issue

The main object of the issue is to raise funds for meeting the capital expansion programs, acquisition of marketing rights and augmentation of working capital requirements of the Company and also to exploit the emerging opportunities for growth through acquisition, joint ventures and strategic alliance both abroad and in India.

2) Intention of the Promoters / Directors / Key Management persons to subscribe to the offer to the above issue.

The Promoters / Directors / Key Managerial personnel are not subscribing to this offer.

3) The share holding pattern of the Company pre and post preferential issue is given below:

SHAREHOLDING PATTERN BEFORE & AFTER THE PROPOSED ISSUE

Sl. No	Category	Pre Issue		Post Issue	
		No. of Equity Shares	% of Pre-Issue Capital	No. of Equity Shares	% of Post - Issue Capital
a)	Promoters and their Associates	43,193,000	38.00	43,193,000	37.67
b)	Non Promoters				
	i. MFs / FIIs / Banks	46,420,531	40.84	46,420,531	40.48
	ii.Bodies Corporate	10,449,231	9.20	10,449,231	9.11
	iii.Indian Public	10,280,917	9.04	10,280,917	8.97
	iv.Others	3,324,309	2.92	3,324,309	2.90
c)	Proposed Strategic Investor(s)	–	–	1,000,000	0.87
	Total Non Promoter Holdings (b+c)	70,474,970	62.00	71,474,970	62.33
	Grand Total (a+b+c)	**113,667,970**	**100.00**	**114,667,970**	**100.00**

4) Proposed time within which allotment shall be completed.

The allotment of shares will be completed within the prescribed time limit of 15 days from the date of passing the resolution of members or within 15 days from the receipt of regulatory approvals, which ever is later.

5) Identity of Proposed Allottees

Name of the proposed allottee (s)	Pre Issue		Post Issue	
	No. of Equity Shares	% of Pre-Issue Capital	No. of Equity Shares	% of Post - Issue Capital
Strategic Investor (s) - InventX Inc., USA	–	–	10,00,000	0.87
Total	**–**	**–**	**10,00,000**	**0.87**

6) Issue Price

At a price of Rs. 100/- per share or such other price being not less than the price determined in accordance with the provisions of Chapter XIII of SEBI (Disclosure and Investors Protection) Guidelines, 2000 based on the Relevant date 12th August, 2006.

The full consideration value of 10,00,000 equity shares being allotted shall be paid before allotment of shares.

7) Consequential Changes, if any, in the Board of Directors /control of the Company / Voting rights.

There will be no change in the control of the Company as the existing Promoters will continue to hold majority voting rights and on the Board.

The voting rights of the existing promoters will change in tandem with post issue share holding pattern.

8) Auditors Certificate

The Certificate of Auditors of the Company obtained pursuant to the SEBI Guidelines will be placed before the shareholders at the meeting.

The resolutions seek the approval of the members pursuant to Section 81(1A) of the Act to the proposed preferential issue.

The Directors recommended the resolutions for approval of the members.

None of the Directors are concerned or interested in the resolution.

By order of the Board
for Cranes Software International Ltd.,

Bangalore
July 27, 2006

(B Parasuram)
Company Secretary

Information about Directors seeking reappointment in this Annual General Meeting in respect of item No. 3 & 4 of the Notice :

(in accordance with clause 49 of the Listing Agreement)

Name of the Director	**Mr. Ajay Singh**
Father's Name	Mr. Vijendra Singh
Date of birth	29-12-1965
Educational Qualifications	BTech., MBA
Date of appointment	18.02.2003
Other Directorships in Public Limited Companies.	Spice Jet Ltd
Committee Memberships in Cranes Software International Ltd.	Audit Committee - Chairman Remuneration Committee - Chairman

Name of the Director	**Mr. Mueed Khader**
Father's Name	Mr. Syed Abdul Khader
Date of birth	19.10.1970
Educational Qualifications	B.Sc, Dip. Comp. Sc.
Date of appointment	30.04.2002
Other Directorships in Public Limited Companies	1. Systat Software Asia Pacific Ltd., 2. EMRC Engineering Mechanics Research (India) Ltd
Committee Memberships in Cranes Software International Ltd.	Share Transfer Committee Member

Cranes Software International Limited

Shankar Narayana Building, Block 1, 4th Floor, # 25, M G Road, Bangalore 560 001.

Annual General Meeting at 3.00 p.m. on Monday the 11th September, 2006 at
Hotel Le Meridian, # 28, Sankey Road, Bangalore 560 052.

ATTENDANCE SLIP

To be handed over at the entrance of the meeting hall.

Name of First named Shareholder	No. of shares	Folio No.	If held in dematerialised form	
			D P ID No.	Client ID No.

I certify that I am a registered Shareholder of the Company.

I hereby record my presence at the above **Annual General Meeting** of the Company.

A member/proxy wishing to attend the meeting must complete this attendance slip and hand it over at the entrance of the meeting hall.

Name of Proxy (if any) in BLOCK LETTERS

Signature of Member/Proxy

Cranes Software International Limited

Shankar Narayana Building, Block 1, 4th Floor, # 25, M G Road, Bangalore 560 001.

PROXY FORM

I/We .... of .... being a member/members

of **Cranes Software International Limited,** hereby appoint .... of

.... or failing him .... of .... as

my/our proxy to attend and vote for me/us on my/our behalf at the **21st Annual General Meeting** of the Company to be held at 3.00 p.m.

on 11th September, 2006 or at any adjournment thereof.

Signature
affixing Re.1.00
Revenue Stamp

No. of shares	Folio No.	If held in dematerialised form	
		D P ID No.	Client ID No.

NOTE : Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member. The form duly completed should be deposited at the Registered Office of the Company at Bangalore not less than 48 hours before the commencement of the meeting.

CRANES SOFTWARE INTERNATIONAL LIMITED

FINANCIAL STATEMENTS

2005-2006

REPORT OF THE BOARD OF DIRECTORS

To the Members of Cranes Software International Limited,

Your Directors have pleasure in presenting to you the Twenty-first Annual Report together with the audited accounts on the business and operations of the Company for the year ended March 31, 2006, by itself and it's seven Wholly – Owned Subsidiary Companies viz.

1. Systat Software Asia Pacific Ltd.,
2. EMRC Engineering Mechanics Research (India) Ltd.,
3. Systat Software Inc., USA.
4. Systat Software UK Ltd., (WOS of Systat Software Inc., USA)
5. Cranes Software International Pte Ltd.,
6. Systat Software GmbH.
7. NISA Software Inc., USA.

The Audited Accounts for the same period, of the above subsidiary companies have also been incorporated as per relevant regulations in the Consolidated Financial Statements, also being presented.

Financial Performance **(Rs. million)**

Particulars	2005-06	2004-05	2005-06	2004-05
			Consolidated	
Sales and Operating Revenues	1,893.81	1,317.62	2,138.24	1,632.65
Profit before tax	820.98	577.60	812.51	595.50
Provision for tax	186.59	128.70	190.52	134.98
Profit after tax	634.39	448.90	621.99	460.52
Prior Period tax adjustments	–	(0.13)	2.88	(0.24)
Net Profit	634.39	448.77	624.87	460.27
Surplus brought forward	227.07	36.26	240.35	35.43
Amount available for appropriation	861.46	485.03	865.22	495.70

Business

During the year, your Company achieved a Sales and Operating Revenue of Rs.1,893.81 million from Rs. 1,317.62 million – a growth rate of 44%. The Profit Before Tax increased by 42% from Rs. 577.60 million to Rs. 820.98 million while Net Profit increased to Rs. 634.39 million from Rs. 448.77 million (higher by 41 %).

On a consolidated basis, during the year, your Company together with its above named subsidiaries, achieved a Sales and Operating Revenue of Rs. 2,138.24 million from Rs. 1,632.65 million – a growth rate of 31%. The Profit before Tax increased by 36% from Rs. 595.50 million to Rs. 812.51 million while Net Profit increased to Rs. 624.87 million from Rs. 460.27 million (higher by 36 %).

Operations

During the year under review, the following developments were noteworthy:

1. The Registered Office of the Company was shifted from Golden Enclave, Airport Road, Bangalore to 4th Floor, Block - 1, Shankar Narayan Building, # 25, M G Road, Bangalore w.e.f 15th June, 2005. The new office has helped consolidate the corporate operations into one centralized location and provide additional infrastructure for the operations of the Group in Bangalore. This initiative will allow the Company and the Group to grow employee strength and thereby support sustained growth with improved administrative controls.
2. During the year your Company together with its subsidiary Systat Software Inc., USA jointly acquired the Intellectual Property Rights in and to InventX ePM along with the ongoing business of InventX Inc., USA, for an amount of about USD 3.50 million.
3. Your Company also acquired selected businesses and marketing relationships and commercial rights of Karna Softek India Pvt Ltd., at a consideration of Rs. 42 million in cash.
4. Your Company also took over the entire business operations of its wholly owned subsidiary Systat Software Asia Pacific Ltd, as a part of a Corporate re-organization process, including internationalizing the 'Cranes' Corporate brand and attracting and retaining talent within the Group.
5. For similar reasons, the business of another subsidiary EMRC Engineering Mechanics Research (India) Ltd. has also been taken over w.e.f 1st April'06.

Appropriation

Your Directors, are pleased to recommend a regular dividend of 20% on the equity shares and a special equity dividend of 40% (thereby aggregating to 60%) for the year under review.

Members may note that this is on the enhanced capital, post the Bonus issue made last year. The amount on account of the above Dividend including Dividend Tax and Surcharge thereon on distributed profits works out to Rs.155.53 million, leaving the Company with Rs. 705.92 million, of which Rs.300 million is transferred to General Reserve and the balance of Rs.405.92 million is retained as surplus in the Profit and Loss Account.

Capital Structure

During the year the Company issued and allotted 1,200,000 equity shares of Rs.10 each on preferential basis to promoters / strategic investors at a premium of Rs.890 per share.

It may be recalled that Members had, at the last Annual General Meeting, approved sub-division of equity shares of the Company from a face value of Rs.10/- to a face value of Rs.2/-. The shares have accordingly been sub divided into shares of face value of Rs. 2/- each. The Share holders had also approved issue of Bonus shares in the ratio of 1:1 by capitalization of Reserves. The same has also been given effect to. Consequently the Issued, Subscribed and Paid-up Equity Share Capital of the Company has increased to Rs. 227.34 million.

Further, Members had, at the Extra Ordinary General Meeting of the Company held on April 25, 2005 authorized the Board of Directors to issue upto USD 50 million in the form of GDRs / FCCBs or other such convertible instruments for meeting the expansion plans. Your Company came out with an issue of Foreign Currency Convertible Bonds (Bonds) due 2011 aggregating to Euro 42 million during February '06. The issue closed successfully in March '06. The Bonds carry an interest rate of 2.5% p.a payable semi-annually and are convertible into fully paid up equity shares or GDRs by the holders at any time between 27th April, 2006 till maturity at an initial conversion price of Rs. 143.293 per share with a fixed rate of exchange of INR 52.6828 = EUR 1.00. The conversion price is subject to adjustments in certain specified circumstances. The Bonds may also be redeemed at the option of the Company after 8th April, 2008 subject to satisfaction of specified conditions. Unless previously converted, redeemed or repurchased and cancelled the Bonds will mature on 18th March, 2011 at 112.833% of their principal amount. The Bonds are listed at the Singapore Stock Exchange and the GDRs arising out of the Conversion of the Bonds will be listed on the Luxembourg Stock Exchange.

Subsidiary Companies / Joint Ventures

As per Sec 212(1) of the Companies Act, 1956 the Company is required to attach to its accounts, the Directors Report, Profit & Loss Account, Balance Sheet of each of the subsidiaries given here under. Your Company applied to the Government of India seeking an exemption from such attachment since the Company is presenting its Consolidated Financial Statements in the Annual Report. The Company received approval for the same and hence the financial statements of the Subsidiaries are not enclosed. As per the terms of this approval, certain details relating to the Subsidiaries are being published in the Consolidated Financial Statements section. The Annual Accounts and the related information on the Subsidiaries are available for inspection at the Registered Office of the Company and copies shall be provided on request.

In accordance with the Accounting Standard AS-21 on Consolidated Financial Statements, your Directors have pleasure in attaching the Consolidated Financial Statements which form a part of the Annual Report and Accounts. This along with the Company's results, we believe, present a full view of the state of affairs of the Company.

Wholly Owned Subsidiaries:

Systat Software Inc: This Company was incorporated during the year 2000. The total investment in this subsidiary is USD 3.89 million till 31st March, 2006. All intellectual property rights in Systat, Peakfit, Tablecurve 2D and Tablecurve 3D is owned by Systat Software Inc. During the year this Company generated a revenue of USD 6.34 million with a profit before tax of USD 0.18 million.

Systat Software UK Ltd: This Company was formed during 2002 mainly to market and distribute products in Europe as a wholly owned subsidiary of Systat Software Inc., USA. The total capital invested in this Company by Systat Software Inc., is GBP 100. The turnover during the year was GBP 0.512 million and profit before tax amounted to GBP 0.05 million.

Systat Software Asia Pacific Limited: Became a subsidiary during 2002-03. This Company undertook the development work for the Systat range of products as an ODC arm of Systat Software Inc. As part of the Corporate restructuring exercise, your Company acquired the entire business operations of this subsidiary during December, 2005 at a price of Rs. 5 million based on the valuation of the business by M/s. S Janardhan & Associates, Chartered Accountants. The reorganisation would help your Company to integrate all the Indian operations under the parent Company and also utilise the Cranes brand optimally.

Systat Software GmbH: This 100% subsidiary was incorporated in 2003-04 mainly to take over the European operations of the Sigma Product Series which was acquired by your Company at that time. The investments in this Company as of 31st March, 2006 amounted to EUR 25000. The Company generated a revenue of EUR 1.08 million and a Loss of EUR 0.05 million; Efforts are in progress to improve the profitability of its operations.

Cranes Software International Pte Ltd: This subsidiary was incorporated during 2003-04 mainly to develop local infrastructure and support its relationship with Texas Instruments (TI) in the ASEAN region. Started with this objective, now this subsidiary caters to the distribution of your Company's products in the entire ASEAN region and thereby has strengthened sales initiatives in the ASEAN region, which have just begun. The investments made in this Company as of 31st March, 2006 amounted to SGD 0.17 million. The Company generated a revenue of SGD 0.92 million and a Profit of SGD 0.01 million.

EMRC Engineering Mechanics Research (India) Ltd (EMRC India): Your Company acquired the 100% shares of EMRC India, during April, 2005. The acquisition is effective from 1st January, 2005. The total investment in this Company is Rs. 2.18 million. The Company was converted into a public limited Company during July, 2005. The revenue for the first full year ended 31st March, 2006 which is included in the Consolidated Accounts of your Company amounted to Rs. 28.45 million which resulted in a Profit for the said period of Rs. 0.32 million. As a part of the Corporate restructuring exercise, your Company has acquired the entire business operations of this subsidiary with effect from 1st April, 2006 at a price of Rs 2.07 million based on the valuation of the business by M/s. S Janardhan & Associates, Chartered Accountants.

NISA Software Inc: Has been formed primarily to take over the US operations of EMRC in USA as part of the acquisition of EMRC and its NISA suite of products. The Company reported a turnover of USD 0.25 million and a loss of USD 0.23 million for the year under review. The operations are still in gestation and the Company is confident of the profitability of this subsidiary in due course.

Deposits

Your Company has not accepted deposits from the public during the current year.

Directorate

Mr. Ajay Singh, Mr. Mirza Yawar Baig and Mr. Mueed Khader retire by rotation in the forth coming annual general meeting. All of them, except, Mr. Mirza Yawar Baig, being eligible, offer themselves for re-appointment. Mr. Mirza Yawar Baig has expressed his intention not to seek re-appointment. Your company has been immensely benefited from the insights of Mr. Mirza Yawar Baig and the board places on record on their deep appreciation for the services rendered by him during his tenure on the board.

Conservation of Energy

Even though the operations of your Company are not energy-intensive, adequate measures have been taken to reduce energy consumption by using efficient equipments. Since it is a software products Company, primarily dealing with scientific and engineering software products and product related projects and consulting, energy cost forms a very small part of total cost and its impact on total cost is not material.

Research & Development Activities

Research and development to a true technology company is as basic as air and water to living beings on earth. However, it is neither as readily available nor in such abundance. It takes years to build a culture of R&D in any company. It does not happen automatically; it requires a careful cultivation. A strong R&D culture with adequate financial prudence holds a company in good stead, in times good and bad, and provides longevity that is so dear to all stakeholders of a company—investors and customers alike. Your company has been committed to building this culture from day one. The statement giving information as required under Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988 is enclosed to this report.

Foreign Exchange Earnings and Outgo

Foreign exchange earned (FOB) during 2005-06 is Rs. 1,415.37 million and foreign exchange outgo is Rs. 524.36 million during the year.

Employees

The particulars of employees as per Section 217 (2A) of the Companies Act 1956, read with the Companies (Particulars of Employees) Rules, 1975 is enclosed.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act 1956, the Directors hereby confirm that they have:

i. Followed the applicable accounting standards in the preparation of the annual accounts;
ii. Selected such accounting policies and applied them consistently and made judgments and estimates that were 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 profits of the Company for the year under review;
iii. 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 detecting fraud and other irregularities;
iv. Prepared the accounts for the financial year on a 'going concern' basis.

Corporate Governance

A detailed report on Corporate Governance & Management Discussion and Analysis are attached.

The Board members and the Senior Management Personnel have affirmed compliance with the Code of Conduct. Declaration of Confirmation by the Managing Director to this effect is annexed hereto.

Auditors

The auditors of the Company, Messrs. S.Janardhan & Associates, Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for reappointment. The declaration under Section 224(1)(B) of the Companies Act 1956 has been received from them.

Acknowledgement

Your Directors wish to place on record their sincere appreciation for the assistance and co-operation received from Banks, Financial Institutions, Government, Customers, Suppliers, Business Partners and Shareholders for the year under review.

Your Directors also wish to place on record their appreciation for the Contribution made by employees at all levels of the Company, whose committed efforts are a reflection of our results and look forward to their continued support.

for and on behalf of the Board

Bangalore
July 27, 2006

Asif Khader
Managing Director

Mukkaram Jan
Director

Form - B

Information as per section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended March 31, 2006.

Research & Development Activities and Technology Absorption:

The entire business model of your Company of 'Acquire – Enhance – Expand', which has won considerable acclaim in the industry and by the knowledgeable public is based on acquisition of technologically superior IPs, which need considerable re – engineering and modernization, from global sources, put them through such re – engineering and add new features and applications, before readiness to take to an expanded market. Backing the acquisition strategy has been a well-structured post-acquisition software development and evolution process. Dedicated R&D teams, some under the supervision of the original authors, and led by software architects and domain experts are focused on evolving these products in line with a defined roadmap, thereby sharpening the globally competitive cutting-edge of the portfolio. New versions, launched with significantly enhanced features, have created greater demand-pull from existing and new users. This calls for investment in Product R & D. To support the same, your Company has invested and continues to invest significant resources into high – end technical resources / software and related facilities. Such investment is entirely put to use in India thereby evidencing full absorption of technology.

Apart from the above IP enhancement initiatives, your Company is also committed to judicious R&D investments with some long term commercial upsides like in Wireless Communication Systems and LAN test solutions.

Additionally, your Company, in association with the Centre for Sponsored Schemes and Projects of Indian Institute of Science (IISc), Bangalore, has helped set up a MEMS (Micro-Electro-Mechanical systems) design and test laboratory inside IISc. This lab, named CranesSci MEMS Lab, has been in operation now for three years. This is a unique experiment where we work side by side with the cutting edge research in MEMS and Nanotechnology, continuously evaluating the commercial potential of research and charting out development paths for products that are five to ten years in the future. This is in line with our vision and commitment to support and nurture the ecosystem of research and innovation that drives technology based economies. The Indian Institute of Science and the Company will jointly own the Intellectual Property rights and patents for technologies and products developed by this lab.

Your Company has also invested the seed capital of Rs. 10 million in ESQUBE, a venture of eminent scientists, that is focused on creating IP in innovative communication technologies.

Very few companies of the size of Cranes invest as much in research as is done in your Company. But then, very few perform as well as we do. All our products are used by people—scientists and engineers—who drive technology, delivering solutions for today's problems and anticipating the needs of tomorrow. We are in the unenviable position of anticipating the needs of these anticipators. Without intense R&D effort, there is little that can be delivered to our discerning clientele. With this realization, we have been strengthening our R&D efforts with every passing year, attracting the best talent and providing the right environment for them to flourish. The Company in association with Indian Institute of Science and Society for innovation and Development has entered into Collaborative Research Programme called "Cranes – IISc Research Programme". The Company and Indian Institute of Science shall be joint owners of any Intellectual Property Rights and innovation that may be realized through this programme. This set up at the Indian Institute of Science campus, Cranes Innovation Center, is in a unique position to imbibe the best traditions of research available in India and work with the best in the business from various disciplines. Several projects with the faculty of the Institute have been signed up, some to deliver cutting edge solutions for today's problems in engineering analysis, some that explore completely unchartered territories. It is the right balance of such 'pick and choose' R&D that keeps a technology company, such as your Company, in good health to take confident steps from the present to the future.

We continue to encourage out-of-the-box thinking and pursuit of radical ideas, along side the innovative solutions for the down-to-earth problems of our clients today. As we go forward, we are committed to making our R&D effort even bigger, both in size and scope. Simultaneously, we are creating a tighter metric for measuring the outcome and the return on investments.

for and on behalf of the Board

Bangalore
July 27, 2006

Asif Khader
Managing Director

Mukkaram Jan
Director

DECLARATION REGARDING COMPLIANCE BY BOARD MEMBERS AND SENIOR MANAGEMENT WITH THE COMPANY'S CODE OF CONDUCT

This is to confirm that the Company has adopted a Code of Conduct for it's employees. The Board Members and Senior Management Personnel have affirmed compliance with the same for the year ended March 31, 2006.

For the purpose of this declaration, Senior Management Personnel means the employees in Executive Vice President Cadre and Company Secretary as on March 31, 2006.

For Cranes Software International Ltd.,

Bangalore
July 27, 2006

Asif Khader
Managing Director

ANNEXURE TO DIRECTORS' REPORT

Information as per Sec 217(2a) 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 March 31, 2006

Sl. No.	Name	Designation	Qualifications	Age in years	Remuneration	Total Exp. in Years	Date of Joining	Particulars of the previous employment
a) Employed for the full Financial Year								
1	Shankar H	Executive Vice President & CFO	B.Tech (IIT M) and PG Diploma (IIM A) in Business Administration	56	3,775,326	32	10-May-04	Managing Director - Saint-Gobain Sepr Refractories India Limited
2	Jude Coelho	Executive Vice President - HR	B.A, PG Diploma in PM & IR (XLRI)	51	3,415,362	27	19-Jan-04	Principal Consultant - Jude coelho & associates
3	Pradeep Kumar M K	Sr. Vice President	B.E & PG Diploma in Marketing Management	36	2,953,498	14	13-Apr-94	Sales Engineer - Mecord Marketing Limited - Chennai
B) Employed for part of the year under review and was in receipt of remuneration in the aggregate of not less than Rs.2.00 lakhs per month								
1	Krishna Lakshmi Narasimhan	Sr. Vice President - Analytics Group	B.Tech (IIT M) & MBA (insead)	45	1,513,759	23	05-Oct-05	Executive Vice President - Gavs Information Services Pvt. Ltd.
2	Syed Aarif Hashmi	Sr. Vice President - Sales	B.E	42	716,636	16	20-Dec-05	Senior Vice President - Systat Software AsiaPacific Ltd.

Note: Remuneration shown above comprises of basic salary, allowances and taxable value of perquisites
The above employees are not related to any Director of the company

For and on behalf of the Board

Bangalore
June 27, 2006

Asif Khader
Managing Director

Mukkaram Jan
Director

CORPORATE GOVERNANCE REPORT 2005-06

ANNEXURE TO DIRECTORS REPORT

The Corporate Philosophy, as enshrined in its mission statement of “Exploring for a Better Tomorrow” is to optimize and increase the value to all stakeholders, creditors, employees and the society at large through adherence to corporate values, codes of conduct and other standards of behaviour. The Company seeks to ensure professionalism and proper transparency and disclosures in all its dealings. The Board believes in conforming to, and exceeding wherever possible, the prevalent mandatory guidelines on Corporate Governance.

Board of Directors:

The composition of the Board is as follows:

Promoter Group:

Asif Khader
Mukkaram Jan
Mueed Khader

Non-Executive Directors:

Dr. Rudra Pratap
Richard Gall
Ronald Brown
Ajay Singh - Independent Director
Mirza Yawar Baig - Independent Director
Dr. Manju Bansal - Independent Director
Dr. Peter Ryser - Independent Director

Details of attendance at Board Meetings and last AGM and details of memberships in other Boards and Board Committees:

The Board met 10 times during the year, as follows:

During the quarter ended June 30, 2005	June 3, 2005 June 28, 2005
During the quarter ended September 30, 2005	July 28, 2005, August 29, 2005
During the quarter ended December 31, 2005	October 11, 2005, October 27, 2005, November 17, 2005, December 20, 2005
During the quarter ended March 31, 2006	January 30, 2006 and March 13, 2006

The Board being represented by members from various parts of the world, it may not be possible for all to be physically present at all Board Meetings; such Directors who are unable to be present invariably participate in the proceedings through telephonic conference calls.

Name of the Director	Date of Appointment	No. of Board Meetings attended	Whether attended last AGM	Membership in other Boards[1]	Committees[2]	
					Membership	Chairmanship
Dr. Rudra Pratap	June 21, 2002	7	No	–	3	1
Asif Khader	April 30, 2002	10	Yes	2	1	–
Mukkaram Jan	April 30, 2002	9	Yes	3	1	–
Mueed Khader	April 30, 2002	10	Yes	2	–	–
Richard Gall	May 16, 2002	4	Yes	–	–	–
Ronald Brown	November 21, 2002	4	Yes	–	–	–
Ajay Singh	February 18, 2003	3	No	1	2	2
Mirza Yawar Baig	March 31, 2003	3	No	–	2	–
Dr. Manju Bansal	March 31, 2004	5	Yes	–	2	–
Dr. Peter Ryser	March 29, 2005	3	No	–	–	–

Audit Committee:

The scope of reference of the committee, interalia, includes:

- Review of scope of audit with Statutory Auditors & Internal Auditors.
- Limited Review of Quarterly accounts with Statutory Auditors.
- Review of annual financial statements with auditors and management before submission to the Board.
- Review of adequacy of internal control systems and internal audit function.
- Other matters as set at in the Listing Agreement and Section 292A of the Companies Act, 1956.

[1] Excludes companies exempted under Section 278 of the Companies Act, 1956 and Foreign Companies

[2] Membership in Audit Committee, Remuneration Committee and Investor Grievance Committee only considered

The Committee consists of the following Directors:

Ajay Singh	-	Chairman
Mirza Yawar Baig	-	Member
Dr. Rudra Pratap	-	Member
Dr. Manju Bansal	-	Member

The Committee met three times during the year. The dates of the meetings with details of attendance of the Directors there at is given below:

	June 28, 2005	October 27, 2005	January 30, 2006
Ajay Singh	Yes	–	Yes
Dr. Rudra Pratap	–	Yes	Yes
Mirza Yawar Baig	Yes	–	–
Dr. Manju Bansal	Yes	Yes	–

The Company Secretary is the Secretary of the Committee.

The Auditors and Mr. H Shankar, CFO, attended the meetings.

Remuneration Committee:

The Board has constituted a Remuneration Committee under the provisions of Schedule XIII of the Companies Act, 1956 to finalize and propose the remuneration for Whole time Directors and Managing Director. There was no change in the remuneration payable to the Whole time Directors and Managing Director during the year under review.

The details of remuneration of the managerial personnel for the year 2005-06 is given in item II (3) of Notes on Accounts, Schedule No. 19.

For Non-Executive Directors:

Sitting fee is paid to Non-Executive Directors for attending Board Meetings, Audit committee meetings and other committee meetings. The sitting fee for attending Board / Committee meetings is Rs.3,000/- for every meeting attended by the Directors, apart from reimbursement of actual travel and out of pocket expenses incurred by them for attending the meetings. No other remuneration was paid to Non-Executive Directors, during 2005-06.

For the period commencing April 1, 2006 onwards, there is a proposal for payment of Commission to Non-executive Directors, as per the provisions of Sec 309 of the Companies Act, 1956. The same is being presented to the share holders for approval.

The Non-Executive Directors do not hold any shares of the Company.

Share Holder Grievance Committee:

The Company has a Shareholder Grievance Committee consisting of Dr. Rudra Pratap, and M/s Mukkaram Jan and Asif Khader to look into the grievances of investors. During the year there were no unresolved grievances from the investors /shareholders as on March 31, 2006.

Annual General Meetings:

Details of last three Annual General Meetings and the Special Resolutions passed thereat are as under :

Date of AGM	Time	Venue	Special Resolutions passed
September 22, 2003	3.00 p.m.	Hotel Le Meridian 28, Sankey Road, Bangalore – 560 052.	Keeping the Register / Index of Members with the R&T agents.
August 12, 2004	3.00 p.m	Hotel Gateway on Residency Road, No. 66, Residency Road Bangalore – 560 025.	To increase the limit of FII investment in the Company from 24% to 49%.
September 27, 2005	3.00 p.m	Hotel Le Meridian 28, Sankey Road, Bangalore – 560 052.	a) Issue of shares on preferential basis to promoters / strategic investors. b) Sub-division of equity shares from Rs.10/- to Rs. 2/- face value. c) Increase in Authorised share capital and the related changes in the Memorandum of Association. d) Alteration of Article 5(a) and Article 124 of the Articles of Association of the Company. e) Issue of Bonus shares.

During the year, an Extraordinary General meeting was also held on April 25, 2005 at 3.00 p.m at Block-1, 4th Floor, Shankar Narayan Building, # 25, M G Road, Bangalore, and the following Special Resolutions were passed thereat - Increase in Authorized share capital and issue of GDRs / FCCBs / such other convertible instruments upto USD50 million.

For AGM 2006, the Company does not have any proposal for postal ballot.

Disclosures:

The Department of Company Affairs, conducted an inspection of the books of accounts under Section 209 of the Companies Act, 1956 and pointed out certain non-compliances. The Company opted and applied for compounding of the alleged offences pointed out by the Department. The Company Law Board, Southern Region, Chennai has on April 19, 2006 compounded the offences.

During the year the Company did not enter into any transactions of material nature with any of the Promoters, Directors, Management or relative etc., which may have potential conflict with the interest of the Company.

Insider Trading:

Pursuant to the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, the Company has adopted a code of conduct for prevention of insider trading and the required disclosure practices.

Means of Communication:

The quarterly results are published generally in "Business Standard" & "Samyukta Karnataka" (Kannada). The results are also uploaded on the corporate web site (www.cranessoftware.com). The quarterly results and the share holding pattern are uploaded in the website of SEBI under EDIFAR Menu.

General Share Holder Information:

The Company's shares are listed on the Bombay Stock Exchange Ltd.,(BSE) and National Stock Exchange of India Ltd.,(NSE).

Pursuant to the offer of Global Depository Receipts (GDRs) made by the Company in 2003-04, the GDR's are listed on the Luxembourg Stock Exchange. There are no outstanding GDRs as on March 31, 2006 and all the GDR holders have converted their holdings into shares.

Pursuant to the Euro 42 million, 2.50% Foreign Currency Convertible Bond (FCCBs) issue made by the Company during the year, the FCCBs are listed at the Singapore Stock Exchange. The FCCBs are convertible into Shares or GDRs and the GDRs would be listed at the Luxembourg Stock Exchange and the shares with BSE & NSE in India.

Annual General Meeting : September 11, 2006

Financial Calendar of Board Meetings (Tentative) for approval of:

i. Annual Accounts 2005-06 – June 15, 2006
ii. Unaudited Results – I Qtr – Last week of July, 2006
iii. Unaudited Results – II Qtr – Last week of October, 2006
iv. Unaudited Results – III Qtr – Last week of January, 2007
v. Annual Accounts – 2006-07 – First week of June, 2007

Book Closure – September 6, 2006 to September 11, 2006 (Both days inclusive)
Dividend payment – On or after September 20, 2006.

Listing on Stock Exchanges

Name & Address of the Stock Exchange	Stock Code
Bombay Stock Exchange Ltd., P J Towers, Dalal Street, Mumbai – 400 001	512093
The National Stock Exchange of India Ltd., Exchange Plaza, Bandra Kurla Complex Bandra (E), Mumbai – 400 051	CRANESSOFT –EQ

Listing Fee: Annual Listing fee for 2005-06 has been paid to all the Stock Exchanges where the shares are listed.

Share Price Data: The Share price data on the Bombay Stock Exchange Ltd.,(BSE) and the National Stock Exchange of India Ltd.,(NSE) during the year 2005-06 is given below:

Month	BSE		NSE		BSE Sensex	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)	High	Low
Apr' 05	537.85	500.05	544.90	495.15	6649.42	6118.42
May' 05	580.00	482.35	590.00	485.00	6772.74	6140.97
Jun' 05	631.90	467.00	632.00	450.25	7228.21	6647.36
Jul' 05	710.00	640.00	719.25	651.00	7708.59	7123.11
Aug' 05	1057.40	685.00	1055.75	670.00	7921.39	7537.50
Sept' 05	1138.50	885.00	1128.50	885.00	8722.17	7818.90
Oct' 05	1108.95	920.00	1125.20	901.10	8821.84	7656.15
Nov' 05	1037.90	103.55*	1039.90	103.50*	9033.99	7891.23
Dec' 05*	113.85	99.55	113.90	99.30	9422.98	8769.56
Jan' 06*	129.75	106.00	130.30	106.35	9945.19	9158.44
Feb' 06*	115.00	93.60	114.90	93.60	10422.65	9713.51
Mar' 06*	111.00	99.95	118.00	99.90	11356.95	10344.26

* Post Split, face value of Rs.2/- each.

Registrar & Transfer Agents:

Share Transfer work is being done by Alpha Systems Pvt. Ltd, No.30 Ramana Residency, 4th Cross, Sampige Road, Malleswaram, Bangalore – 560 003 who are SEBI registered Registrars & Transfer Agents for both physical and demat shares.

Share Transfer System:

The power to approve transfer of shares has been delegated by the Board to the Share Transfer committee. Share transfers are processed within 15 days from their receipt.

Secretarial Audit:

As required by SEBI Circular No. D&CC/FITTC/CIR-16/2002 dt. 31.12.2002, secretarial audit was carried out by a Practicing Company Secretary on quarterly basis to reconcile the total admitted capital with both the depositories and the total issued and listed capital. The total number of shares in physical form and the total number of dematerialized shares held with the depositories were in agreement with the total issued / paid-up capital.

Compliance with Corporate Governance Norms:

The Board periodically reviews the Compliance of all applicable laws and give appropriate directions wherever necessary.

The Company has complied with all mandatory requirements of Corporate Governance Norms as enumerated in Clause 49 of the Listing Agreements with Stock Exchanges. The Company has obtained a Certificate from the Statutory Auditors of the Company regarding compliance with the provisions of the above clause and is same as attached hereto.

Distribution of Shareholdings as on March 31, 2006.

No. of shares held	Folios		Shares	
	Number	%	Number	%
Upto 500	4713	79.76	755,326	0.66
501–1000	477	8.07	414,411	0.37
1001–2000	245	4.15	393,910	0.35
2001–3000	95	1.61	255,010	0.22
3001–4000	40	0.68	151,366	0.13
4001–5000	70	1.18	339,711	0.30
5001–10000	87	1.47	674,449	0.59
Above 10001	182	3.08	110,683,787	97.38
Total	**5,909**	**100.00**	**113,667,970**	**100.00**

Pattern of Share Holding as on March 31, 2006

Sl. No.	Category	No. of shares	% of Share Holding
1	Promoters	43,193,000	38.00
2	Mutual Funds	4,391,370	3.86
3	Banks	33,364	0.03
4	Insurance Companies	1,000,000	0.88
5	Private Bodies Corporate	11,974,074	10.53
6	Foreign Company	1,500,200	1.32
7	FII's	37,986,695	33.42
8	NRI's / OCB	1,995,520	1.76
9	Individuals & Others	11,593,747	10.20
	Total	**113,667,970**	**100.00**

Dematerialisation of Shares: The Company has entered into necessary agreements with NSDL & CDSL for dematerialization of shares held by investors. As of March 31, 2006 about 96% of the Company's shares are held in dematerialised form.

The demat ISIN Number allotted to the Company is **INE234B01023**.

Office Locations: Being a scientific software products Company, it has its product development center at Bangalore and its branches at New Delhi, Hyderabad, Pune and Thiruvananthapuram.

Address for Communication:

1. To the Company:
   H Shankar
   CFO & Compliance Officer
   Cranes Software International Ltd.,
   Shankar Narayana Building, 4th Floor, Block 1,
   # 25, M G Road, Bangalore -560 001.

2. To the Registrar & Transfer Agent – for Share Transfers / Transmissions etc.,
   Guruswamy Babu
   Asst. Vice President
   Alpha Systems Pvt. Ltd.,
   No. 30, Ramana Residency, 4th Cross, Sampige Road,
   Malleswaram, Bangalore – 560 003.

AUDITOR'S CERTIFICATE

(Under Clause 49 of the Listing Agreement)

To the Members of Cranes Software International Limited, Bangalore.

We have examined the compliance of conditions of Corporate Governance by CRANES SOFTWARE INTERNATIONAL LIMITED, for the year ended 31.3.2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us:

We certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/ Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

for S.JANARDHAN & ASSOCIATES
CHARTERED ACCOUNTANTS

(BALAKRISHNA S.BHAT)
PARTNER
Membership No.202976

Place : BANGALORE
Date : July 27, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

ANNEXURE TO DIRECTOR'S REPORT

Note: This discussion covers the consolidated financial performance of Cranes Software International Limited and its fully owned subsidiaries Systat Software Inc. USA; Systat Software Inc.'s subsidiary Systat Software UK Limited; Systat Software Gmbh, Germany; Cranes Software International Pte. Ltd, Singapore; Systat Software Asia Pacific Ltd., India; NISA Software Inc., USA; and EMRC Engineering Mechanics Research (India) Limited, India.

Global Business Environment

The global business economy continued on its high growth trajectory exceeding expectations and demonstrating resilience against higher oil prices. The year witnessed improved economic performance in almost every region of the world. However, emerging Asia was the fastest growing region during the period, delivering strong growth on the back of increased industrial activity. Continued evolution of outsourcing services also led to the creation of several opportunities for economic development.

Growth in IT/ITES spending worldwide meant that large-scale ramp was seen in offshoring capabilities. The Indian IT industry consolidated its position through acquisitions in key markets to drive the next level of growth.

The scenario for the Indian software products business is also changing rapidly as companies take the leap to match the growth of Indian IT services sector. Industry analyst IDC expects the global pre-packaged software industry to reach USD350 billion in 2007. According to a report - 'Indian software product sector: Challenges and a Roadmap' by the IIM Bangalore faculty, the Indian software products industry has the potential of generating revenues to the tune of USD7 billion and creating one million jobs by 2010. The sector currently has a market share of only 0.2% in the global marketplace. Given the 1.5% global market share captured by the Indian software services industry, there is potentially a significant growth opportunity for the country's software products players.

Business Initiatives

Over the last few years, the Company has established itself as a key player in the software products market catering to the needs of the global scientific and engineering community. During the year under review, the Company launched initiatives to create, acquire greater mindshare of the end user. Its successful implementation of its 'Acquire, Enhance, Expand' strategy has been key to its success in expanding foothold across domain areas.

During the year, the Company made a series of acquisitions including:

- the business of Engineering Mechanics Research Corporation (EMRC), a key player in the CAE software space and the developer of the NISA suite of products, along with its Indian subsidiary which had been integrated in the previous year.
- the business of InventX Inc., the developer of InventX™ ePM, a project portfolio management solution.
- the business of Karna Softek India, a strong domain expert in the Banking & Financial Services (BFS) field that provides a robust front end while addressing opportunities in the Analytics space.

The acquired technological capabilities, business relationships and IP portfolio complement the Company's existing range of software and business solutions. Acquisitions made during the year are to be followed up with the investment of significant resources towards the expansion/optimization of the acquired IPs.

During the year, the Company launched NISA Version 14.0 with several new features, enhancing the performance and robustness of the software suite. The Company also introduced the Japanese language version of SYSTAT 11.0 to penetrate deeper into the world's second largest software market, Japan.

In line with the objective to deepen presence in selected domain areas, the Company broadened portfolio of offerings by forging distribution alliances with some leading software players. In partnership with Mapusoft Technologies, the Company launched OS Changer & OS Abstractor software for the Indian embedded software industry. It also entered into a partnership with Equbits LLC, the leading provider of Support Vector Machines (SVM) based predictive modeling software to bring automated SVM modeling to the data mining space.

The Company expanded its market reach to the Middle East by opening an office in Dubai through a minority holding in a joint venture with the Kanoo Group, one of the larger conglomerates in the Middle East region.

After close of FY 2006, two more acquisitions announced are:

- The Bangalore based Analytix Systems, with capabilities in embedded analytics space.
- An automated report writing tool - Capella from Ariel Business Information Systems, UK.

These acquisitions will also help in taking forward our business initiatives further.

During the year, the Company received several accolades for its consistent performance and quality software offerings. For the third year in succession, Cranes was selected as one of the fastest growing technology companies in the Asia Pacific region by Deloitte Touche Tohmatsu. Based on our product range, financial performance, senior management team, alliance partnerships and market share, Cranes was awarded the 'Distinguished Application Product Company Award' by the Indian Institute of Management, Bangalore (IIMB) under the aegis of NASSCOM Product Forum. More recently, Cranes' 'Acquire-Enhance-Expand' business model was adjudged a winner in the Business Innovation category at the Innovation for India awards 2006 instituted by Innovation for India-Marico Foundation and Businessworld. Systat 11.0 was recognized as the "Top Statistical Data Analysis Product" globally by the Scientific Computing & Instrumentation industry magazine for the second consecutive year.

Overall, the Company has advanced several steps towards its objective of developing a multi-dimensional, technology driven global business. The business is driven by the unique structure created around the strategy to acquire undervalued but technically strong IPs and develop them to deliver superior products.

Going forward, the Company expects to further optimise value from current investments in acquired IPs and leverage its global presence to provide new directions to the portfolio. It has developed a Product / Market Strategy to keep itself abreast of all developments in the space of offering Value added solutions around its base technology and products for complete wrap around solutions in its focus areas.

Opportunities

- The Company has created a strong position in the niche area of scientific and engineering software and has an expanding IP portfolio in this niche space. The recognized brand value of its software products provides substantial visibility that has been effectively leveraged to expand the available opportunity.
- The horizontal width and range of its proprietary products offers the Company the opportunity to expand its focus to deliver into new vertical segments and specific applications, this creates business visibility from more specialized and niche versions of its software products. It plans to upgrade the technology offerings to enterprise wide application compared to its current desktop level usage in user industries currently.
- The Company has significantly expanded geographical presence on a global basis including new offices in USA and strengthened distributors and re-seller network. The Company has employed localized strategies in key markets globally, leading to strong business expansion. Increasing direct presence going forward is likely to benefit the business dynamics further.
- The Company has taken specific actions to strengthen its eMarketing initiatives to expand it beyond its current trial facilities in Americas, where such exploration has met with success.
- The Company intends to further strengthen its marketing initiatives by executing partnerships with OEMs / Channel Partners thereby using such tools for more effective market penetration.
- The Company is moving into a systems and processes driven mode. This shift, in the way the Company operates is expected to create a more scalable model that supports its medium to long term growth initiatives. This is also expected to provide cost-related benefits, enabling stronger contribution from further initiatives.

Threats

- The market in which the Company operates has traditionally been fragmented, with several niche products targeting the requirements of relatively limited technical and research-related segments. Thereby competition is high on a global basis. The Company seeks to overcome this threat by providing value added solution that deliver deep into specific applications of its products into specific industry verticals.
- The Company derives over 80% of its revenue from exports. The recent trend of currency re-alignment in line with shifting economic fundamentals has created increased volatility, which may be expected to continue in the short to medium term. The currency exchange risk stands increased as a result despite efforts at hedging.
- The Company has invested in some new technology business ventures where the returns could be expected only over the longer term horizon. However, in doing so, the Company has backed the initiatives of some highly renowned and talented individuals/teams of individuals and is confident about their capabilities. Also, the investment in these ventures is a small portion of the aggregate capital employed and a fractional portion of the Company's profitability.

FINANCIAL CONDITION

Sources of funds:

Share capital:

During the year, the Company's authorized share capital increased from Rs. 140 million to Rs. 350 million constituting 165 million equity shares of Rs. 2/- each and 200,000 preference shares of Rs. 100/- each. During the year, the Company effected a stock split as a result of which each of its previously Rs. 10/- paid up equity shares have been sub-divided into five shares of Rs. 2/- each.

During the year, the Company's paid-up equity capital increased by approximately Rs 125.7 million. Consequent to the preferential issue of 1.2 million equity shares at a price of Rs. 900 per share (pre-bonus, pre-split) to the promoters of the Company and to strategic investors, the Company's nominal paid-up share capital increased by Rs. 12 million. Subsequently, the Company issued bonus shares to its members in the ratio of one share for every share held by them. This resulted in the capitalization of reserves to the extent of approximately Rs. 113.7 million.

Reserves and surplus:

The Company's total reserves and surplus position stood at Rs. 2,897.1 million at the end of the fiscal year, increasing by Rs. 1,429.4 million. The contribution to such increase came from the premium on shares issued to promoters and strategic investors (Rs. 1,068.0 million) and retentio n of the year's profits Rs. 475.1 million, offset by capitalisation of reserve to the tune of Rs.113.7 million.

Loan funds:

Loan funds outstanding amounted to Rs 3,237.3 million at the end of FY2006 compared to Rs. 1,155.6 million at the end of FY2005. The Company reduced the secured loan component in the overall debt mix to Rs. 494.4 million from Rs. 1,155.6 million. A large component was the reduction of cash credit and short term loans from banks. The Company also successfully issued euro-denominated Foreign Currency Convertible Bonds (FCCBs) of value Rs. 2,207.7 million during the year. These FCCBs bear an interest of 2.5% per annum and are convertible into equity shares/GDRs of the Company till 11 March, 2011 at an initial conversion price of Rs. 143.293 per share.

Following these changes in the debt capital structure, the Company has successfully lowered the cost of its debt funds, increased the average tenure of re-payment and reduced the external lien on its asset base.

Deferred tax liability:

The deferred tax liability increased by Rs. 131.0 million to Rs. 257.8 million as the Company continued to invest in the expansion of its asset base.

Applications of funds:

Fixed assets:

The Company's gross block of assets expanded by Rs. 569 million to Rs. 2,221.7 million during FY2006. In addition, capital work in progress was significantly higher at Rs. 698.3 million compared to Rs. 21.9 million. Overall, this amounted to an increase of Rs. 1,245.3 million in the asset base at the gross level. Of this, more than Rs. 950 million has been invested into future version development by the Company, following a clearly defined strategy. Some of the software developed have been launched during the year while others are in the pipeline for subsequent launch.

Cumulative Depreciation charged on the asset base was higher at Rs. 697.0 million in FY2006 compared to Rs. 414.0 million in the previous year. Computer software (IP) is a significant component of the asset base .

Investments:

The Company's investments remained stable at Rs. 11.9 million during FY2006. Key components of the portfolio are the investment of Rs. 10.0 million in Esqube Communications, a wireless technology related venture of eminent scientists, and Rs. 1.8 million as minority interest in the joint venture with the Kanoo Group in the UAE.

Inventories:

The Company's inventory position was much lower than that at the close of last year. This was on account of higher sales of third-party products, particularly MATLAB, in the domestic market towards the end of FY2006.

Sundry Debtors:

During the year under review, the Company directed energies towards shortening its average debtors' payment cycle. As a result, Sundry Debtors reduced to Rs. 1,055.7 million at the close of FY2006 compared to Rs. 1,163.4 million a year ago even though the business expanded by more than 29% during the year under review. Aggressive market promotion supported by the Company alongwith the global distributor base resulted in substantial liquidation of receivables and Days' Sales Outstanding (DSO) for the Company stood at 180 days compared with 260 days in the previous year.

Cash and Bank Balances:

Cash and bank balances increased from Rs. 417.6 million to Rs. 2,905.2 million. During the year, the Company issued equity share on a preferential basis (Rs. 1,080.0 million) and FCCBs (Rs. 2,207.7 million). As on March 31, 2006, the Company had utilized Rs. 836.9 million of the funds generated from the FCCB issue, the details of which are in the notes to the Company's consolidated accounts available in this Annual Report. Funds generated from the preferential issue are still available with the Company for funding future growth prospects.

Loans and Advances:

Loans and advances stood at Rs. 698.4 million compared with Rs. 324.0 million a year ago. The increase of Rs. 374.4 million includes approximately Rs. 200 million paid towards the acquisition of InventX during the year under review. The InventX transaction was concluded in April 2006. In addition, the increase in loans and advances was on account of payment of advance tax and some payments made in relation with third-party software development activities undertaken by the Company.

Current Liabilities:

Sundry creditors stood at Rs. 556.7 million as against Rs. 222.6 million at the close of the previous year. Year end liability includes amounts due for the acquisition of the business of InventX Inc.

Provisions:

Provisions increased to Rs. 220.9 million from Rs. 207.3 million a year ago.

Miscellaneous Expenditure:

Miscellaneous expenditure (to the extent not written off or adjusted) was higher at Rs. 471.5 million compared to Rs. 36.0 million. A large component of the increase was from global sales and marketing expenditure (treated as deferred revenue expenditure) of approximately Rs. 330 million. Such expenditure was incurred on the conduct of conferences, roadshows, participation in trade exhibitions, set up of overseas offices, eMarketing initivatives, etc. to support product launches and will be written off over three years. In addition miscellaneous expenditure includes FCCB issue expenses of Rs. 62.4 million.

OPERATING RESULTS

Income:

The Company reported a 31% increase in revenues to Rs. 2,138.2 million. The overseas business, largely comprising global sales of proprietary technical software products, expanded by 30.9% to Rs. 1,626.0 million from Rs. 1,242.0 million. Thus exports comprised 77% of the year's revenues.

The domestic business, largely comprising distribution of third party products, grew by 25% to Rs. 427.5 million. The Company sells a range of products in the Indian market for its global principals. These include the leading product modelling software MATLAB and other leading products in such areas as communication technology and business intelligence. A part of the domestic software business also comprises proprietary software products sold in the Indian market. The software training business grew by 4.2% to Rs. 55.2 million.

Expenditure:

During FY2006, cost of goods sold increased by 37% to Rs. 400.3 million from Rs. 291.1 million last year. This represents the cost of shrink-wrapped software products sold in India for third parties through the Company's multiple distribution alliances together with direct costs involved in the manufacture and logistics of distribution of proprietary software.

Personnel costs were higher by 67.4% at Rs. 263.5 million. Total human resource strength expanded from 356 last year to 517 people. The focus was on adding employees in its sales, product development and wraparounds.

Administrative expenses increased by 15.1% to Rs. 294.6 million. However the proportion of such expenses to revenues has diminished significantly compared to the previous year.

Interest and financial charges (net) decreased by 25.1% to Rs. 81.5 million in FY2006. While such expenses increased from Rs. 119.9 million to Rs. 124.7 million on a gross basis, the Company earned higher interest on fixed deposits as the quantum of available funds increased during the year.

Depreciation charged during FY2006 amounted to Rs. 285.8 million, an increase of 27.6% from FY2005.

Profit analysis:

The Company posted profit before tax of Rs. 812.5 million in FY2006 compared to Rs. 595.5 million in FY2005. Profit before tax as a proportion of revenues increased to 38% from 36.5%.

Current income tax reduced from Rs. 88.7 million to Rs. 63.4 million due to STPI approval of the development facilities. This increased the level of tax exemptions enjoyed by the Company. However, deferred tax was higher at Rs. 125.2 million compared to Rs. 46.3 million as the Company remained in investment mode. The recently introduced fringe benefit tax (FBT) resulted in an additional provision of Rs. 1.9 million during FY2006.

The Company earned net profit of Rs. 624.9 million, a 35.8% increase over FY2005. Adding back non-cash charges, the Company's cash profit was Rs. 910.7 million in FY2006 compared to Rs. 684.2 million in FY2005.

LIQUIDITY:

In FY2006, cash generated by the Company's operating activities increased to Rs. 1,167.9 million from Rs. 467.3 million in FY 2005. The key variances were higher profitability, reduction in inventory levels and debtors over the year, and current liabilities that increased along with the growth in business. An increase in loans and advances during the year includes an advance paid towards the acquisition of InventX that was completed in April 2006 and advances paid in relation to some third party software development work undertaken by the Company.

During the year, the Company invested Rs. 1,661.7 million in its investing activities. The main components were Rs. 676.4 million towards capital WIP, which largely includes product development investments for upcoming versions of SigmaPlot and SYSTAT; Rs. 568.9 million towards purchase of software assets alongwith the acquisitions completed during the year; and Rs. 459.4 million towards deferred revenue expenditure, which includes special sales promotion expenses (participation in conferences, roadshows etc., to support product launches) and expenses relating to the FCCB issue.

The net cash generated from financing activities was Rs. 2,981.4 million. This included Rs. 1,080.0 million from the issue of 1.2 million shares to promoters and strategic investors on preferential basis; and Rs 2207.7 million from the FCCB offering completed during the year. The Company also changed its debt profile from secured loans to unsecured loans, thus reducing the external lien on its asset base.

As a cumulative result of these activities, the cash and cash equivalents increased from Rs. 417.6 million to Rs. 2,905.2 million during FY2006.

Internal Control systems:

Having grown to a sizeable operation, the management has focused on augmenting its internal control systems and processes to support further growth opportunities. To this effect, the Company was assessed at SEI-CMM Level 5 during FY 2005. The Company has also obtained certification under ISO 27001 Information Security Standards and initiated SEI-CMMI Level 5 assessment for its processes during the year.

Human Resources

The Company has continued to focus on business expansion while limiting the resources deployed to achieve such expansion. Its manpower strength increased to 517 nos in the year. The mix of such members consists of Domain Experts as also technology architects apart from Sales and Marketing personnel manning the global offices. Acquisitions made in the year also served to augment manpower strength and quality.

SAFE HARBOUR:

Certain statements in this release concerning our growth prospects are forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties, including government actions; local political or economic developments; technological risks; risks inherent in the Company's growth strategy; dependence on certain clients; dependence on availability of technical consultants and other factors that could cause our actual results to differ materially from those contemplated by the relevant forward looking statements. The Company undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

AUDITOR'S REPORT

The Members of Cranes Software International Limited

1. We have audited the attached Balance Sheet of M/s. Cranes Software International Limited, Bangalore as at 31st March 2006, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) order, 2004 as issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

   i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;

   iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   iv) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   v) On the basis of written representations received from the Directors, as on 31st March 2006 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2006 from being appointed as Director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      (a) in case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2006;

      (b) in case of the Profit and Loss Account, of the Profit for the year ended on that date; and

      (c) in case of the Cash Flow Statement, of the cash flows for the year ended on that date.

for S.JANARDHAN & ASSOCIATES
CHARTERED ACCOUNTANTS

(BALAKRISHNA S.BHAT)
PARTNER
Membership No.202976

Place : Bangalore
Date : 15.06.2006

ANNEXURE

Re: Cranes Software International Limited

(Referred to in paragraph 3 of our report of even date)

(i) (a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

(b) All the assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) The company has not disposed off substantial part of fixed assets during the year.

(ii) (a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

(b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.

(c) The company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

(iii) The Company has not granted/taken any loans, secured or unsecured, to/from companies, firms and other parties covered in the register maintained under section 301 of the companied Act, 1956. In view of the above, clause 4 (iii), (a), (b), (c), (d), (e), (f) and (g) are not applicable.

(iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

(v) (a) According to the information and explanations given to us, we are of the opinion that the particulars of all contracts and arrangements referred to in section 301 of the companies Act 1956 have been entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.

(b) In our opinion and according to the information and explanations given to us, the contracts and arrangements entered in the register maintained under section 301 of the companies Act 1956 have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

(vi) The company has not accepted any deposit from the public and as such the provisions of clause 4(vi) of the said Order are not applicable.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) The Central Government has not prescribed the maintenance of cost records as required under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956.

(ix) (a) Undisputed statutory dues including, provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, service tax, wealth-tax, custom duty, excise duty and cess have been regularly deposited with the appropriate authorities.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of wealth-tax, service tax, customs duty, excise duty, sales tax and cess where in arrears as at March 31, 2006 for a period of more 6 months from the date they became payable.

(c) According to the information and explanations given to us, there are no dues of sales-tax, service tax, income-tax, customs duty, wealth-tax, excise duty and cess which have not been deposited on account of any dispute.

(x) The Company does not have any accumulated losses as at March 31, 2006. The company has not incurred any cash losses in the financial year ended on that date and in the immediately preceding financial year.

(xi) The Company has not defaulted in repayment of dues to a financial institution and banks and there are no dues debenture holders.

(xii) According to information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, and according to the explanation given to us, the Company is not a chit fund or a nidhi/mutual benefit fund/society.

(xiv) In our opinion, the company is not dealing in or trading in shares, securities, debentures and other investments.

(xv) In our opinion and according to information and explanations given to us, and as per our examination of relevant records, the company has not given any guarantee for loan taken by others from banks or financial institutions.

(xvi) In our opinion and according to the information and explanations given to us, the term loans have been applied for the purpose for which they were raised.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) During the year the company has made preferential allotment of shares to a company covered in the register maintained under section 301 of the Companies Act , 1956. In our opinion the price at which shares have been issued is not prejudicial to the interest of the company.

(xix) During the period, the company has not raised any funds by issue of debentures during the year.

(xx) According to the information and explanation given to us and on examination of relevant records, we have verified the end use of money raised by issue of Global Depository Receipts, preferential issues and Foreign Currency Convertible bonds as disclosed in the Notes on Accounts to the financial statements.

(xxi) During the course of our examination of the Books of Accounts carried out in accordance with the generally accepted auditing practices in India and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

for S.JANARDHAN & ASSOCIATES
CHARTERED ACCOUNTANTS

(BALAKRISHNA S.BHAT)
PARTNER
Membership No.202976

Place : Bangalore
Date : 15.06.2006

BALANCE SHEET

AS AT MARCH 31, 2006

	PARTICULARS	Sch.No.	As at March 31, 2006 Rs.	As at March 31, 2006 Rs.	As at March 31, 2005 Rs.	As at March 31, 2005 Rs.
I	**Sources of Funds**					
1	Shareholders' Funds:					
	(a) Capital	1	227,335,940		101,667,970	
	(b) Reserves and Surplus	2	2,889,588,190		1,456,402,738	
				3,116,924,130		**1,558,070,708**
2	Loan Funds					
	(a) Secured Loans	3	494,436,452		1,155,584,070	
	(b) Unsecured Loans	4	2,742,877,998		–	
				3,237,314,450		**1,155,584,070**
3	Deferred Tax Liability			241,901,000		116,901,000
	TOTAL			**6,596,139,580**		**2,830,555,778**
II	**Application of Funds**					
1	Fixed Assets	5				
	(a) Gross Block		2,037,222,995		1,405,165,589	
	(b) Less: Depreciation		551,803,816		298,655,642	
	(c) Net Block		1,485,419,179		1,106,509,947	
	(d) Capital Work in Progress		132,584	1,485,551,763	13,557,877	1,120,067,824
2	Investments	6		266,178,647		208,769,522
3	Deferred Tax Asset			614,500		457,000
4	Current Assets, Loans & Advances:					
	(a) Inventories	7	21,018,642		60,435,780	
	(b) Sundry Debtors	8	1,061,918,554		1,108,751,198	
	(c) Cash and Bank Balances	9	2,886,038,519		408,228,165	
	(d) Loans and Advances	10	1,161,154,447		262,214,518	
			5,130,130,162		**1,839,629,661**	
	Less: Current Liabilities & Provisions	11				
	(a) Current Liabilities		536,794,619		164,099,529	
	(b) Provisions		217,281,883		204,596,284	
			754,076,502		**368,695,813**	
	Net Current Assets			**4,376,053,660**		**1,470,933,848**
5	Miscellaneous Expenditure: (To the extent not written off or adjusted)	12		467,741,010		30,327,584
	Significant Accounting Policies and Notes on Financial Statements	19				
	TOTAL			**6,596,139,580**		**2,830,555,778**

Schedules Nos. 1 to 12 and 19 form an integral part of Balance Sheet

As per our report of even date
For S.Janardhan & Associates
Chartered Accountants

For and on behalf of the Board

Balakrishna S. Bhat	**Asif Khader**	**Mukkaram Jan**	**Parasuram B**
Partner	Managing Director	Director	Company Secretary

Place : Bangalore
Date : June 15, 2006

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED MARCH 31, 2006

PARTICULARS	Sch.No.	Year ended March 31, 2006 Rs.	Year ended March 31, 2006 Rs.	Year ended March 31, 2005 Rs.	Year ended March 31, 2005 Rs.
INCOME					
Sales	13	1,870,200,772		1,318,815,489	
Other Income	14	23,607,954	**1,893,808,726**	(1,195,224)	**1,317,620,265**
EXPENDITURE					
Cost of Goods Sold	15	401,256,145		265,481,603	
Personnel Expenses	16	134,280,316		51,780,272	
Administrative Expenses	17	207,189,419		147,161,446	
Interest and Financial Charges (Net)	18	80,859,753		107,920,764	
Depreciation		249,245,288	**1,072,830,921**	167,679,005	**740,023,090**
PROFIT BEFORE TAX			**820,977,805**		**577,597,175**
Less: Provision for					
(i) Income Tax			60,000,000		87,710,323
(ii) Deferred Tax			124,842,500		40,986,000
(iii) Fringe Benefit Tax			1,750,000		_
PROFIT AFTER TAX			**634,385,305**		**448,900,852**
Less: Adjustments relating to earlier years			_		131,023
NET PROFIT			634,385,305		448,769,829
Add: Balance brought forward from previous year			227,070,634		36,264,256
Profit available for appropriation			861,455,939		485,034,085
Appropriations					
Proposed Equity Dividend			136,401,564		50,833,985
Tax on Dividend			19,130,319		7,129,466
General Reserve - Transfer			300,000,000		200,000,000
Balance carried to Balance Sheet			405,924,056		227,070,634
			861,455,939		**485,034,085**
Earnings Per Share					
- Basic			5.88		4.41
- Diluted			5.86		4.41
Significant Accounting Policies and Notes on Financial Statements	19				

Schedule Nos 13 to 19 form an integral part of the Profit and Loss Account

As per our report of even date
For S.Janardhan & Associates
Chartered Accountants

For and on behalf of the Board

Balakrishna S. Bhat	Asif Khader	Mukkaram Jan	Parasuram B
Partner	Managing Director	Director	Company Secretary

Place : Bangalore
Date : June 15, 2006

SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET

AS AT MARCH 31, 2006

PARTICULARS		As at March 31, 2006 Rs.	As at March 31, 2005 Rs.
SCHEDULE NO.1: SHARE CAPITAL:			
AUTHORISED:			
165,000,000 Equity Shares of Rs.2/- each		330,000,000	120,000,000
[Previous year 12,000,000 Equity shares of Rs.10/- each]			
200,000 Preference shares of Rs.100/- each		20,000,000	20,000,000
[Previous year 200,000 Preference shares of Rs.100/- each]			
	TOTAL	**350,000,000**	**140,000,000**
ISSUED, SUBSCRIBED & PAID-UP:			
113,667,970 [Previous year 10,166,797 of Rs.10/- each] Equity shares of Rs. 2/- each fully paid up.		227,335,940	101,667,970
[Of the above 40,912,200 [Previous year 8,182,440 Equity shares of Rs. 10/- each] Equity shares of Rs.2/- each fully paid up were issued pursuant to the scheme of amalgamation of the erstwhile Cranes Software International Limited with the Company] and 56,833,985 shares (Previous year Nil) are allotted as fullly paid up by way of bonus shares.			
	TOTAL	**227,335,940**	**101,667,970**
SCHEDULE NO.2: RESERVES AND SURPLUS:			
a) General Reserve - As at April 1, 2005		643,000,000	443,000,000
Add: Transfer from Profit and Loss Account		300,000,000	200,000,000
		943,000,000	643,000,000
b) Share Premium Account - As at April 1, 2005		566,332,104	566,332,104
Add: Receipts on issue of preferential allotment		1,068,000,000	_
		1,634,332,104	566,332,104
Less: Capitalised for Issue of bonus shares		93,667,970	_
		1,540,664,134	566,332,104
c) Capital Redemption Reserve		20,000,000	20,000,000
Less: Capitalised for issue of bonus shares		20,000,000	_
		_	20,000,000
d) Balance in profit and loss account		405,924,056	227,070,634
	TOTAL	**2,889,588,190**	**1,456,402,738**
SCHEDULE NO.3: SECURED LOANS:			
Jammu & Kashmir Bank Limited			
Cash Credit Account		155,005,290	235,404,508
Term Loan Account		333,317,400	392,437,500
Short Term Loan		_	525,207,306
(For Security, refer Note No 7 (a))			
HDFC Bank Limited			
Short Term Loan		6,113,762	2,534,756
(For Security, refer Note No 7 (b))			
	TOTAL	**494,436,452**	**1,155,584,070**
SCHEDULE NO.4: UNSECURED LOANS:			
From Scheduled Banks:			
– State Bank of Travancore		200,000,000	_
– Hongkong and Shanghai Banking Corporation Limited		266,477,998	_
From others:			
Foreign Currency Convertible Bonds		2,276,400,000	_
(Refer Note No 15 (c))			
	TOTAL	**2,742,877,998**	_

SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET

AS AT MARCH 31, 2006.

SCHEDULE NO 5: FIXED ASSETS

(In Rupees)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	COST AS ON April 1, 2005	ADDITIONS	TRANSFER	TOTAL AS ON March 31, 2006	UPTO April 1, 2005	FOR THE YEAR	TRANSFER	TOTAL UPTO March 31, 2006	AS ON March 31, 2006	AS ON March 31, 2005
LAND	27,730,037	–	–	27,730,037	–	–	–	–	27,730,037	27,730,037
FURNITURE & FIXTURES	20,615,453	13,873,312	954,556	35,443,321	6,939,422	1,614,375	79,695	8,633,492	26,809,829	13,676,031
COMPUTERS	53,451,467	12,940,882	7,259,002	73,651,351	31,619,250	8,171,948	2,294,648	42,085,846	31,565,505	21,832,217
COMPUTER SOFTWARE	1,282,110,981	574,615,056	5,879,223	1,862,605,260	256,807,408	237,355,219	1,405,378	495,568,005	1,367,037,255	1,025,303,573
PLANT & MACHINERY	12,183,729	7,259,546	982,974	20,426,249	1,961,694	765,715	69,080	2,796,489	17,629,760	10,222,035
VEHICLE	9,073,922	7,795,729	497,126	17,366,777	1,327,868	1,338,031	54,085	2,719,984	14,646,793	7,746,054
TOTAL	**1,405,165,589**	**616,484,525**	**15,572,881**	**2,037,222,995**	**298,655,642**	**249,245,288**	**3,902,886**	**551,803,816**	**1,485,419,179**	**1,106,509,947**
PREVIOUS YEAR	604,863,037	800,302,552	–	1,405,165,589	130,976,637	167,679,005	–	298,655,642	1,106,509,947	473,081,016

SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET
AS AT MARCH 31, 2006.

PARTICULARS		As at March 31, 2006 Rs.	As at March 31, 2005 Rs.
SCHEDULE NO.6: INVESTMENTS:			
(At cost - non trade - unquoted)			
(i) Systat Software, Inc. USA 974,166 Equity shares of face value USD 1/- each fully paid up [Previous year 974,166 Equity shares of face value USD 1/- each fully paid up]		185,117,768	185,117,768
(ii) Systat Software Asia Pacific Limited 380,000 Equity Shares of Rs.10/- each fully paidup [Previous year 380,000 Equity shares of Rs.10/- each fully paid up]		3,800,000	3,800,000
(iii) Systat Software Gmbh-Germany 1 Equity Share of 25,000 Euros fully paid up [Previous year 1 Equity share of 25,000 Euros fully paid up]		1,447,500	1,447,500
(iv) Cranes Software International Pte Limited - Singapore 165,692 Equity shares of Singapore Dollars 1/- each fully paid up. [Previous year 165,692 Equity shares of Singapore Dollars 1/- each fully paid up]		4,430,582	4,430,582
(v) Esqube Communication Solutions Private Limited 1,765 Equity shares of Rs.10/- each fully paid up [Previous Year -1,765 Equity shares of Rs.10/- each fully paid up]		10,000,000	10,000,000
(vi) Cranes Software Middle East LLC - UAE 147 Equity shares of UAE Dirham 1,000/- each fully paid up [Previous 147 Equity shares of UAE Dirham 1,000/- each fully paid up]		1,786,172	1,786,172
(vii) EMRC Engineering Mechanics Research India Ltd 5,000 Equity Shares of Rs. 100/- each fully paid up (Previous year 1,000 Equity shares of Rs.100/- each fully paid up)		2,740,000	2,187,500
(viii) NISA Software Inc 316,885 Equity shares of USD 1 each fully paid up (Previous year Nil)		56,856,625	–
	TOTAL	**266,178,647**	**208,769,522**
SCHEDULE NO.7: INVENTORIES:			
(Valued at lower of cost or market value, as valued and certified by the management)			
Stock - in - trade		21,018,642	60,435,780
	TOTAL	**21,018,642**	**60,435,780**
SCHEDULE NO.8: SUNDRY DEBTORS:			
(Unsecured - Considered Good)			
– Outstanding for more than six months		174,511,908	628,018,978
– Others		887,406,646	480,732,220
	TOTAL	**1,061,918,554**	**1,108,751,198**
SCHEDULE NO.9: CASH AND BANK BALANCES:			
(i) Balances with Scheduled Banks in Indian Rupees:			
– Current Accounts		8,992,501	2,648,932
– Deposit Accounts		1,503,804,235	404,812,065
– Dividend Accounts		144,859	66,452
(ii) Balances with Scheduled Banks in ForeignCurrency			
– Current Accounts		343,021,859	700,716
– Deposit Account		1,030,075,065	–
– Cash on Hand		–	–
	TOTAL	**2,886,038,519**	**408,228,165**

SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET

AS AT MARCH 31, 2006.

PARTICULARS		As at March 31, 2006 Rs.	As at March 31, 2005 Rs.
SCHEDULE NO.10: LOANS AND ADVANCES:			
(unsecured, considered good)			
(i) Advances recoverable in cash or kind or for value to be received		1,120,326,965	236,768,985
(ii) Deposits		40,827,482	25,445,533
	TOTAL	**1,161,154,447**	**262,214,518**
SCHEDULE NO.11: CURRENT LIABILITIES & PROVISIONS:			
CURRENT LIABILITIES:			
(i) Sundry Creditors		536,655,678	164,039,203
(ii) Unclaimed Dividend		138,941	60,326
	TOTAL	**536,794,619**	**164,099,529**
PROVISIONS:			
– Proposed Equity Dividend		136,401,564	50,833,985
– Dividend Tax		19,130,319	7,129,466
– Income Tax		60,000,000	146,632,833
– Fringe Benefit Tax		1,750,000	–
	TOTAL	**217,281,883**	**204,596,284**
SCHEDULE NO.12: MISCELLANEOUS EXPENDITURE			
(To the extent not written off or adjusted)			
Amalgamation Expenses		922,394	1,523,230
Deferred Revenue Expenditure		29,405,190	2,298,381
		30,327,584	3,821,611
Additions during the year		459,352,988	35,320,000
		489,680,572	39,141,611
Less: Written off during the year		21,939,562	8,814,027
	TOTAL	**467,741,010**	**30,327,584**

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED MARCH 31, 2006.

PARTICULARS		Year ended March 31, 2006 Rs.	Year ended March 31, 2005 Rs.
SCHEDULE - 13: SALES:			
Software Sales & Services:			
Gross Sales:			
Exports		1,415,393,158	930,690,098
Domestic		399,630,404	338,486,671
		1,815,023,562	1,269,176,769
Software Training		55,177,210	49,638,720
	TOTAL	**1,870,200,772**	**1,318,815,489**
SCHEDULE - 14: OTHER INCOME:			
Exchange Fluctuation		23,555,271	(1,195,224)
Dividend received		52,683	–
	TOTAL	**23,607,954**	**(1,195,224)**
SCHEDULE -15: COST OF GOODS SOLD:			
Opening Stock		60,435,780	22,695,235
ADD: Purchases		341,621,185	295,657,060
ADD: Direct Expenses:		20,217,822	7,565,088
		422,274,787	325,917,383
LESS: Closing Stock		21,018,642	60,435,780
	TOTAL	**401,256,145**	**265,481,603**
SCHEDULE -16: PERSONNEL EXPENSES:			
Salaries		116,124,215	46,265,839
Retirement Benefits		3,453,301	1,560,935
E.S.I Contribution		34,914	44,263
P.F. Contribution		6,588,684	1,737,255
Staff Welfare		8,079,202	2,171,980
	TOTAL	**134,280,316**	**51,780,272**
SCHEDULE -17: ADMINISTRATIVE EXPENSES:			
Auditors Remuneration		269,376	192,850
General Expenses		60,274,486	36,655,932
Sales Commission		12,723,358	2,789,205
Insurance		408,469	359,271
Office Rent		26,169,571	8,386,345
Electricity & Water Charges		6,597,093	2,603,855
Rates and Taxes		2,150,928	1,009,050
Directors remuneration		4,642,800	4,642,800
Travelling and Conveyance		22,043,497	15,470,076
Repairs & Maintenance		1,764,918	1,104,533
Loss on Sale of Asset		-	310,901
Deferred Revenue Expenditure written off		21,939,562	8,814,027
Directors Sitting Fees		78,000	84,000
Consultancy Charges		47,790,000	64,264,865
Bad debts		337,361	473,736
	TOTAL	**207,189,419**	**147,161,446**
SCHEDULE -18: INTEREST & FINANCIAL CHARGES			
Interest on Fixed Loans			
– Foreign Currency Convertible Bonds Loan		2,411,087	–
– Term Loan		33,609,264	38,944,215
Interest on Others			
– Cash Credit Account		24,494,462	25,798,610
– Short Term Loan		63,559,442	54,322,132
		124,074,255	119,064,957
Less: Interest received on Fixed Deposit [TDS: Rs 9,493,294] [Previous Year TDS: Rs.2,269,950]		43,214,502	11,144,193
	TOTAL	**80,859,753**	**107,920,764**

SCHEDULE NO. 19
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON FINANCIAL STATEMENTS

I. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

Generally mercantile systems of accounting is followed except for those associated with significant uncertainty and are in accordance with the Accounting Standards referred in sub-section (3C) of Section 211 of the Companies Act, 1956.

2. Revenue Recognition

i. Sale is recognized on delivery of goods to the Customer, net of taxes and duties, if any.
ii. Revenue on Software Development is recognized on the basis of achievement of prescribed milestone as relevant to each contract or proportionate completion method.
iii. Technical Service / Training Income is recognized over the duration of the contract/course.

3. Fixed Assets

i. Fixed Assets are stated at historical cost less accumulated depreciation.
ii. At the Balance Sheet date, an assessment is done to determine whether there is any indication of impairment in the carrying amount of the Company's Fixed Assets. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

4. Depreciation And Amortization

i. Depreciation has been provided on Straight Line method at the rates prescribed under Schedule XIV of the Companies Act, 1956. In respect of additions during the year, depreciation is charged on a pro-rata basis corresponding to the date of installation and put into use.
ii. Customized software/commercial rights procured for specific application are amortized over the estimated useful life of 3 years on a straight line basis.
iii. After recognition of impairment loss, the depreciation charge for the asset is adjusted in future periods to allocate the revised carrying amount of the asset, less its residual value (if any), on Straight Line basis over its remaining useful life.
iv. Depreciation on assets costing less than Rs. 5,000 is provided for in full in the year of purchase irrespective of date of installation.

5. Inventories

i. Software products are valued at lower of the cost or market value on weighted average basis.
ii. Software products developed/being developed are valued at allocated cost on specific identification method.

6. Investments

i. Long term investments are stated at cost.
ii. Investments in Foreign Subsidiaries have been reflected at the exchange rates prevailing at the date of transactions.
iii. Provision for diminution in the value of long term investments is made only if such a decline is not temporary in the opinion of the Management.

7. Exchange Fluctuation

i. Foreign currency translations are recorded on the basis of exchange rates prevailing on the date of the transaction.
ii. Monetary current assets and current liabilities denominated in foreign currency outstanding are translated at the exchange rate prevalent at the date of Balance Sheet. The resulting difference is recorded in the profit and loss account.
iii. Foreign currency translation differences relating to liabilities incurred for acquiring fixed assets are adjusted in the carrying cost of the related fixed assets.

8. Research And Development

i. The Company in association with the Centre for Sponsored Schemes and Projects of Indian Institute of Science, Bangalore has set up a designing and testing laboratory. The Indian Institute of Science and the Company will jointly own the Intellectual Property rights and patents for technologies and products developed by the laboratory.
ii. The Company, also in association with Indian Institute of Science, and Society for Innovation and Development has entered into Collaborative Research Programme called "Cranes – IISc" Research Programme. The Parties shall be joint owners of any Intellectual Property Rights and Inventions that may be realized through this programme.
iii. Expenditure incurred relating to the above are treated as advances and capitalized or written off on completion of projects.

9. Employees' Retirement Benefits

i. Provident Fund remittances to the Government are charged against the revenue on accrual basis.
ii. Gratuity liability has been determined by actuarial valuation as of the Balance Sheet date, based upon which the Company contributes all the ascertained liabilities to the "Cranes Software International Limited – Employees Comprehensive Gratuity Scheme.
iii. Leave encashment liability has been determined by an actuarial valuation as of the Balance Sheet date.

10. Deferred Tax

i. Deferred tax is recognized, subject to the consideration of prudence in respect of deferred tax assets on timing differences being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred Tax Assets are recognized only if there is reasonable certainty that they will be realized.
ii. Deferred tax in respect of timing differences which originate during the tax holiday period and reversed during the same period is not recognized to the extent the Gross Total Income is subject to such deductions.

11. Treatment Of Contingent Liabilities

Contingent liabilities not provided for are reflected in Notes to Financial Statements.

12. Earning Per Share

a. Basic Earnings per share is calculated by dividing the net earning available to the Equity Shareholders by the weighted average number of Equity Shares outstanding during the year.
b. Diluted Earnings per share is calculated by dividing the net earning available to existing and potential Equity Shareholders by the weighted number of Equity Shares outstanding and potential further issues as contracted.

(Amount in Rupees)

II NOTES ON FINANCIAL STATEMENTS		Year ended March 31, 2006	Year ended March 31, 2005
1. Contingent liabilities not provided for			
a. Bank Guarantees outstanding		2,454,424	1,168,595
b. Claims against the Company not acknowledged as debts Tax matters in dispute under appeal		5,801,849	1,054,586
2. Estimated amount of contracts remaining to be executed on capital account and not provided for		1,668,538	3,512,500
3. Directors' Remuneration			
Managing Director			
– Basic Salary		840,000	840,000
– House Rent Allowance		336,000	336,000
– Special Allowance		504,000	504,000
– Contribution to Provident Fund		100,800	100,800
	(a)	1,780,800	1,780,800
Wholetime Directors			
– Basic Salary		1,350,000	1,350,000
– House Rent Allowance		540,000	540,000
– Special Allowance		810,000	810,000
– Contribution to Provident Fund		162,000	162,000
	(b)	2,862,000	2,862,000
Total Managerial Remuneration	**(a + b)**	**4,642,800**	**4,642,800**
4. Value of goods calculated on CIF basis			
Capital Goods:		334,817,478	463,448,485
Trading Goods:		255,814,894	177,971,317
5. Earnings in Foreign Currency – FOB value of exports		1,415,372,373	918,077,222
6. Expenditure incurred in Foreign Currency		524,361,325	81,232,524
– Membership & Subscription		275,887	25,624
– Travelling, Boarding & Lodging Expenses		4,221,901	3,547,098
– Marketing Expenses		396,521,847	1,919,298
– Legal/Professional/Consultancy Expenses		48,651,300	74,347,694
– Dividend		2,296,350	1,392,810
– Expenses on issue of FCCB		62,818,700	–
– Commission & Brokerage		9,260,086	–
– Training Expenses		288,756	–
– Others		26,498	–

7. a) Bank finances are secured by hypothecation of stocks of software, book debts, document of title to goods and collaterally secured by Properties and personally guaranteed by Wholetime Directors.
   b) Finance for purchase of vehicles are secured by hypothecation of respective vehicles.

8. Some of the Debtors and Creditors balances are subject to confirmation.

9. a) Debtors includes, dues from Companies under the Same Management, as under:

(Amount in Rupees)

Particulars		Year ended March 31, 2006	Year ended March 31, 2005
Systat Software Gmbh		1,612,829	–
Systat Software UK Limited		3,881,465	5,084,783
Systat Software Asia Pacific Limited		–	8,443,390
Systat Software Inc, USA		73,264,756	–
	Total	**78,759,050**	**13,528,173**

b) Loans & Advance includes, due from Companies under the Same Management, as under:

(Amount in Rupees)

Particulars		Year ended March 31, 2006	Year ended March 31, 2005
Cranes Software International Pte Ltd-Singapore		1,008,590	–
EMRC Engg. Mech. Res (India) Ltd		30,292,227	–
NISA Software Inc		4,852,581	–
Systat Software GmbH		5,420,000	–
Systat Software Inc USA		490,623,000	–
	Total	**532,196,398**	**–**

10. There are no amounts outstanding to Small Scale Industrial undertaking as ascertained and certified by the Management.
11. All Current Assets, Loans and advances, have at least the value as stated in the Balance Sheet if realized in the ordinary course of the Business.
12. a) Deferred revenue expenditure and amalgamation expenses are written off over a period of 5 years.
    b) Specific product launch and market promotion expenses, benefits of which are expected over an extended period are written off over a period of 3 years.
13. Previous year's figures have been regrouped and reclassified wherever necessary.
14. Dividend equivalent of Rs.2,296,350 (Previous year Rs.1,392,810) in foreign currency has been paid to two share holders (Previous year - two) holding 459,270 nos. (Previous year 464,270 nos.) shares.
15. a) The Company issued and allotted on March 31, 2004, the Global Depositary Receipts (GDRs) aggregating to USD 11.59 million representing 1,744,357 Equity Shares of Rs.10/- each at USD 6.65 per share amounting to a total of Rs.523.80 Million. The GDR proceeds were fully utilized as follows.

(Rs. in Million)

Particulars		Till March 31, 2006	Till March 31, 2005
Share issue expenses		13.51	13.51
Capital expenditure		11,53	11.53
Term Loan repayment to Jammu & Kashmir Bank Ltd		114.00	114.00
Investments		105.00	105.00
Working capital		279.76	279.14
	Total	**523.80**	**523.18**

The Balance of Rs. Nil (previous year Rs.0.62 million) is forming part of Balances with Scheduled Banks in Foreign Currency, as of March 31, 2006.

b) The Company has issued 1,200,000 equity shares of Rs.10 each on preferential basis to the promoter group/strategic investors on October 11, 2005 at a premium of Rs.890 per share. Pending utilization of the amount of Rs.1,080.00 million is forming part of Balances with Scheduled Banks in Indian Rupees – Deposit Accounts as on March 31, 2006 (Previous year - Nil).

c) The Company issued and allotted on March 17, 2006 Foreign Currency Convertible Bonds for Euro 42 Million (Equivalent for Rs. 2,207.73 Million) bearing an interest at 2.5% per annum payable half yearly. The bonds are convertible at any time on and after April 27, 2006 and till close of business on March 11, 2011 and are convertible into shares or GDRs at an initial conversion price of Rs. 143.293 per share with a fixed rate of exchange on conversion of Euro 1.00 = Rs. 52.6828. The application of funds against the issue is as below:

Rs. In Million

Particulars		Till March 31,2006
Issue expenses		62.37
Capital expenditure		186.51
Term Loan repayment to Jammu & Kashmir Bank Limited		79.81
Advance to Subsidiaries		519.42
Software Imports		59.26
Others (Exchange Variation)		(70.44)
	Total	**836.93**

Balance amount of Rs. 1,370.80 Million is forming part of Balances with Scheduled Banks in Foreign Currency as on March 31, 2006 (Previous year Nil)

16. Quantitative Details

Year ended March 31, 2006 (No)

Item Description	Opening Stock April 1, 2005	Receipts	Issues	Balance as on March 31, 2006
Matlab Media CD Kits	47	829	730	146
Dongles	12	385	397	0
Matlab	141	681	644	178
Simulink	57	401	377	81
Toolboxes	1,093	3,101	2,842	1,352
DSP Starter kits	59	1,533	1,536	56
Statistics	175	332	300	207
Calculators – TI	79	627	635	71
BWD	890	–	585	305
TOTAL	**2,553**	**7,889**	**8,046**	**2,396**

Year ended March 31, 2005 (No)

Item Description	Opening Stock April 1, 2004	Receipts	Issues	Balance as on March 31, 2005
Matlab Media CD Kits	208	334	495	47
Dongles	59	344	391	12
Matlab	163	428	450	141
Simulink	119	185	247	57
Toolboxes	1,338	1,512	1,757	1,093
DSP Starter kits	109	420	470	59
Statistics	20	555	400	175
Calculators – TI	–	491	412	79
BWD	–	1,008	118	890
TOTAL	**2,016**	**5,277**	**4,740**	**2,553**

The Company is in the business of software development and trading hence information on Licensed and installed capacity is not applicable.

17. Repairs and Maintenance includes

(Amount in Rupees)

Particulars		Year ended March 31, 2006	Year ended March 31, 2005
Repairs	(i) Building	633,394	456,371
	(ii) Machinery	348,325	576,970
	(iii) Others	783,199	71,192
	Total	**1,764,918**	**1,104,533**

18. Details of Auditors Remuneration

(Amount in Rupees)

Particulars	Year ended March 31, 2006	Year ended March 31, 2005
Statutory Audit fees	269,376	192,850
Others	12,765	5,363
Total	**282,141**	**198,213**

Legal & Professional charges includes Rs. 211,688 (Previous year Rs.100,120) paid to M/s. S.Janardhan & Associates, Statutory Auditors, towards other professional service availed.

19. Earnings per Share

The following reflects the income and share data used in the computation of Basic and Diluted Earnings per Share

Particulars	Year ended March 31, 2006	Year ended March 31, 2005
Net Profit after Tax (Rs)	634,385,305	448,769,829
Weighted average number of shares-Basic	107,821,369	101,667,970
Earnings Per Share – Basic (Rs)	5.88	4.41
Adjustment for interest on Foreign Currency Convertible Bonds(FCCB) net of Taxes (Rs)	1,599,515	–
Profit after Tax (net of interest attributable to FCCB) (Rs)	635,984,820	448,769,829
Weighted average number of shares-Diluted	108,521,369	101,667,970
Earnings Per Share – Diluted (Rs)	5.86	4.41
Nominal value per share (Rs) *	2.00	2.00

* Previous years shares of nominal value Rs. 10 has been converted into shares of nominal value Rs. 2 on a 5:1 split and bonus shares have been issued at the ratio 1:1 during the year

20. Deferred Tax

Deferred tax at the year end are attributable to the following:

(Amount in Rupees)

Deferred Tax Asset		Year ended March 31, 2006	Year ended March 31, 2005
Carry forward capital loss		34,000	34,000
Retirement Benefits		580,500	423,000
	Total	**614,500**	**457,000**
Deferred Tax Liabilities			
Depreciation		195,318,514	113,899,000
Expenses yet to be written off in the Books		46,582,486	3,002,000
	Total	**241,901,000**	**116,901,000**

21. Related Party Disclosures as ascertained by the Management

Year ended March 31, 2006 (Amount in Rupees)

Particulars	Subsidiaries	Associates	Key Management Personnel	Relatives of Key Management Personnel	Total Related Parties
Purchases of Goods/software	40,367,030	–	–	–	40,367,030
Sales of Goods	71,591,275	–	–	–	71,591,275
Purchase of Fixed Assets	11,669,995	–	–	–	11,669,995
Investment in Subsidiary	57,409,125	–	–	–	57,409,125
Rendering of Services	49,441,317	–	–	–	49,441,317
Receiving of Services	58,233,532	–	–	–	58,233,532
Loans/advances/equity contributions given	514,145,014	–	–	–	514,145,014
Loans/advances/equity contributions taken	–	–	–	–	–
Directors Remuneration	–	–	4,642,800	–	4,642,800
Balance as on 31.03.06 receivable	610,955,448	–	–	–	610,955,448
Balance as on 31.03.06 payable	13,331,982	–	–	–	13,331,982

Year ended March 31, 2005 (Amount in Rupees)

Particulars	Subsidiaries	Associates	Key Management Personnel	Relatives of Key Management Personnel	Total Related Parties
Purchases of Goods/software	11,365,035	562,891	–	–	11,927,926
Sales of Goods	81,826,304	–	–	–	81,826,304
Purchase of Fixed Assets	54,203,448	32,295	–	–	54,235,743
Investment in Subsidiary	8,404,200	–	–	–	8,404,200
Rendering of Services	14,799,948	–	–	–	14,799,948
Receiving of Services	755,434	–	–	–	755,434
Loans/advances/equity contributions given	289,410,213	–	–	–	289,410,213
Loans/advances/equity contributions taken	221,385,783	–	–	–	221,385,783
Directors Remuneration	–	–	4,642,800	–	4,642,800
Balance as on 31.03.05 receivable	208,324,024	–	–	–	208,324,024
Balance as on 31.03.05 payable	12,057,275	–	–	–	12,057,275

Note:
Names of related parties and description of relationship

Holding Company	:	NIL
Subsidiaries	:	1. Systat Software Inc., USA 2. Systat Software Asia Pacific Limited, 3. Systat Software Limited, UK 4. Cranes Software International Pte. Ltd, Singapore 5. Systat Software GmbH, Germany 6. EMRC Engineering Mechanics Research (India) Ltd 7. NISA Software Inc., USA
Key Management Personnel		Mr.Asif Khader Mr.Mukkaram Jan Mr.Mueed Khader
Relatives of Key Management Personnel	:	Nil
Other Related Parties	:	Orca Infotech Private Limited K&J Holdings Private Limited Jansons Jansons Telecom Private Limited Jansons Land & Property Development Pvt Ltd SPSS South Asia Private Limited Keysoft Solutions Private Limited Spice Capital Fund Private Limited Sea Equity Private Limited

In respect of the above parties, there is no provision for doubtful debts as at the financial year and no amount has been written off/written back during the year in respect of debts due from/to them.

22. Segment Reporting

Products and Training were the divisions identified for primary segment reporting hitherto. Considering the lower proportion of Training revenue compared to the total turnover, the company has revised the segments identified as under:

i) Primary Segments - a) Exports and
b) Domestic

ii) Secondary Segments - a) Proprietary Products and Services
b) Product Alliances

Accordingly, Training revenues of Rs.55.18 Million. (Previous year Rs.49.64 Million), Profit /(Loss) before Interest and Tax Rs.34.20 Million. (Previous year Rs.23.21 Million.) and Capital employed Rs.175.71 Million (Previous year Rs.98.45 Million) has been regrouped under the respective item of the Domestic Primary Segment. This does not have any impact on the profits reported.

i. Primary Segment Information
Geographical Segment

(Rs.in Million)

Sl.No.	Particulars		Year ended March 31, 2006	Year ended March 31, 2005
1.	Segment Revenue:			
	a) Export		1,415.39	930.69
	b) Domestic		454.81	388.13
		Total	**1,870.20**	**1,318.82**
	Add/(Less) Other un-allocable Income		23.61	(1.20)
	Total Income		1,893.81	1,317.62
2.	Segment Results (Profit(+)/Loss(-) before tax and interest			
	a) Export		835.89	637.01
	b) Domestic		65.95	48.51
		Total	**901.84**	**685.52**
	Less: Interest		80.86	107.92
	Total Profit Before Tax		820.98	577.60
3.	Capital Employed (Segment assets-Segment Liabilities)			
	a) Export		4,958.23	1,987.83
	b) Domestic		997.16	807.77
		Total	**5,955.39**	**2,795.60**
4	Additions to Fixed Assets and Intangible Assets			
	a) Export		518.28	686.69
	b) Domestic		113.90	137.59
		Total	**632.18**	**824.28**

ii. Secondary Segment

(Rs.in Million)

Sl.No.	Particulars		Year ended March 31, 2006	Year ended March 31, 2005
1	Segment Revenue			
	Proprietary Products and Services		1,471.50	1,090.04
	Product Alliances		398.70	228.78
		Total	**1,870.20**	**1,318.82**
2	Segment Results			
	(Profit(+)/Loss(-) before tax and interest			
	Proprietary Products and Services		862.20	663.10
	Product Alliances		39.64	22.42
		Total	**901.84**	**685.52**
3	Capital Employed			
	Proprietary Products and Services		4,976.13	2,001.53
	Product Alliances		979.26	794.07
		Total	**5,955.39**	**2,795.60**

As per our report of even date
For S.Janardhan & Associates
Chartered Accountants

For and on behalf of the Board

Balakrishna S Bhat
Partner

Asif Khader
Managing Director

Mukkaram Jan
Director

Parasuram B
Company Secretary

Place : Bangalore
Date : June 15, 2006

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I Registration Details

Registration # 31621 State code 08

Balance sheet date 31 03 06

II Capital raised during the year (Amount in Rs. Thousands)

Public issue Nil Rights issue Nil

Bonus issue 113668 Private placement/Preferentail issue 12000

III Position of mobilisation and deployment of funds (Amount in Rs. Thousands)

Total liabilities 6596140 Total assets 6596140

Sources of funds

Paid up capital 227336 Reserves & Surplus 2889588

Secured Loans 494436 Unsecured loans 2742878

Deferred Tax Liability 241901

Application of funds

Net fixed assets 1485552 Investments 266179

Net current assets 4376054 Miscellaneous expenditure 467741

Accumulated losses Nil Deferred Tax Asset 615

* Including capital work in progress

IV Performance of the Company (Amount in Rs. Thousands)

Turnover 1893809 Total expenditure 1072831

(Please tick appropriate box + for profit, - for loss)

+ √ Profit / Loss before tax 820978 + √ Profit / Loss after tax 634385

Earnings per share in Rs. Dividend rate % 60%

– Basic 5.88

– Diluted 5.86

V Generic names of three principal products / services of the Company (As per monetary terms)

Item code # (ITC Code) 85249009

Product description Software

As per our report of even date
For S Janardhan & Asssociates
Chartered Accountants

For and on behalf of the Board

(Balakrishna S Bhat)
Partner

Asif Khader
Managing Director

Mukkaram Jan
Director

Parasuram B
Company Secretary

Place : Bangalore
Date : June 15, 2006

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006.

PARTICULARS	Year ended March 31, 2006 Rs.	Year ended March 31, 2005 Rs.
Cash flows from operating activities		
Net profit before taxation	820,977,805	577,597,175
Adjustments for:		
Prior period adjustment	–	(131,023)
Loss on sale of asset	–	310,901
Depreciation	249,245,288	167,679,005
Preliminary expenses	21,939,562	8,814,027
Other Income	(52,683)	–
Interest income	(43,214,502)	(11,144,193)
Interest expense	124,074,255	119,064,957
Operating profit before working capital changes	1,172,969,725	862,190,849
Adjustments for working capital		
Inventory	39,417,138	(37,740,545)
Debtors	46,832,644	(623,432,415)
Loans and advances	(918,278,367)	190,385,522
Provision for gratuity	–	(2,691,030)
Current liabilities	370,324,564	(39,060,803)
Cash generated from operations	711,265,704	349,651,578
Adjustments		
Taxes paid	(127,241,711)	(41,247,662)
Net cash from Operating Activities	584,023,993	308,403,916
Cash flows from investing activities		
Investments	(57,409,125)	(13,399,200)
Capital work in progress	13,425,293	(7,771,524)
Deferred revenue expenditure	(459,352,988)	(35,320,000)
Interest received on Fixed Deposits	43,214,502	11,144,193
Sale of fixed assets	–	992,000
Purchase of fixed assets	(628,154,520)	(802,410,837)
Net cash from Investing Activities	(1,088,276,838)	(846,765,368)
Cash flows from financing activities		
Share Capital	12,000,000	(20,000,000)
Share Premium	1,068,000,000	–
Dividend and Dividend Tax	(57,884,836)	(37,115,754)
Interest on borrowed funds	(121,782,344)	(119,064,957)
Secured Loans / Borrowings	(661,147,618)	344,030,524
Unsecured Loans	2,742,877,998	–
Net cash from Financing Activities	2,982,063,201	167,849,813
Net increase/(decrease) in Cash and Cash Equivalents	2,477,810,356	(370,511,639)
Opening cash and cash equivalents	408,228,165	778,739,804
Closing cash and cash equivalents	2,886,038,519	408,228,165

As per our report of even date
For S. Janardhan & Associates
Chartered Accountants

For and on behalf of the Board

(Balakrishna S Bhat)
Partner

Asif Khader
Managing Director

Mukkaram Jan
Director

Parasuram B
Company Secretary

Place : Bangalore

Date : June 15, 2006

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, RELATING TO COMPANY'S INTEREST IN SUBSIDIARY COMPANIES

Sl. No.	Particulars							
1	Name of the Subsidiary Company	Systat Software Inc. USA (Consolidated with Systat Software UK Ltd)	Systat Software UK Ltd	Cranes Software International Pte Ltd	Systat Software GmbH	NISA Software Inc USA	Systat Software Asia Pacific Ltd	EMRC Engineering Mechanics Research India Ltd
2	The Financial Year of the subsidiary	31.03.2006	31.03.2006	31.03.2006	31.03.2006	31.03.2006	31.03.2006	31.03.2006
3	a) No. of shares held	974,166	100 *	165,692	1	316,885	380,000	5,000
	b) Face value per share	USD 1	GBP 1	SGD 1	EUR 25,000	USD 1	INR.10	INR.100
	c) Extent of interest as at year end	100%	100%	100%	100%	100%	100%	100%
4	The Net aggregagte amount, of Profit/(Loss) of the subsidiary so far as it concerns members of Cranes Software International Ltd.							
	a) Not dealt with in the holding Company 's accounts							
	1) For the financial year ended 31st March, 2006	USD 173,965	GBP 39,971	SDG 12,528	(EUR 47,542)	(USD 226,160)	INR 243,284	INR. 215,957
	2) For the previous financial years of the subsidiary companies since it became the holding Company's subsidiary	USD 517,850	GBP 70,161	(SDG 30,139)	(EUR 77,258)	–	INR 4,640,323	(INR. 1,055,803)
	b) Dealt with in the holding Company's accounts							
	1) For the financial year ended 31st March, 2006	–	–	–	–	–	–	–
	2) For the previous financial years of the subsidiary companies since it became the holding Company's subsidiary	–	–	–	–	–	–	–

* Held by Systat Software Inc. USA.

For and on behalf of the Board

Asif Khader
Managing Director

Mukkaram Jan
Director

Parasuram B
Company Secretary

Place: Bangalore
Date: June 15, 2006

CRANES SOFTWARE INTERNATIONAL LIMITED

CONSOLIDATED ACCOUNTS

2005-2006

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CONSOLIDATED AUDITOR'S REPORT

We have examined the attached Consolidated Balance Sheet of M/s Cranes Software International Limited, Bangalore and its subsid iaries as at 31st March, 2006 and the Consolidated Profit and Loss account and Consolidated Cash Flow Statement for the year then ended.

These financial statement are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement based on our audit. We conducted our audit in accordance with the generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statement of the foreign subsidiaries. These financial statements have been audited by other Auditors wherever applicable, whose report has been furnished to us and our opinion in so far as its relates to the amounts included in respect of the subsidiaries, is based solely on the report of the other auditor.

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statement of M/s Cranes Software International Limited and financial statements of its subsidiaries included in the Consolidated Financial Statements refer Note No.1 in Notes forming part of Accounts for the year ended March 31, 2006.

Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

a. in the case of the Consolidated Balance Sheet of the consolidated state of affairs of the Company and its subsidiaries as at March 31, 2006; and

b. in the case of the Consolidated Profit and Loss Account of the consolidated profits of the Company and its subsidiaries for the year then ended.

c. In the case of the Consolidated Cash Flow Statement of the consolidated cash flows of the company and its subsidiaries for the year then ended.

for S.JANARDHAN & ASSOCIATES
CHARTERED ACCOUNTANTS

(BALAKRISHNA S.BHAT)
PARTNER
Membership No.202976

Place : Bangalore
Date : 15.06.2006

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2006

PARTICULARS	Sch.No.	As at March 31, 2006 Rs.	As at March 31, 2006 Rs.	As at March 31, 2005 Rs.	As at March 31, 2005 Rs.
I. Sources of Funds					
1 Shareholders' Funds:					
(a) Capital	1	227,335,940		101,667,970	
(b) Reserves and Surplus	2	2,897,056,317		1,467,655,618	
			3,124,392,257		**1,569,323,588**
2 Loan Funds					
(a) Secured Loans	3	494,436,452		1,155,584,070	
(b) Unsecured Loans	4	2,742,877,998		–	
			3,237,314,450		**1,155,584,070**
3 Deferred Tax Liability			257,809,331		126,818,755
TOTAL			**6,619,516,038**		**2,851,726,413**
II. Application of Funds					
1 Fixed Assets	5				
(a) Gross Block		2,221,666,225		1,652,717,369	
(b) Less: Depreciation		696,993,354		413,970,880	
(c) Net Block		1,524,672,871		1,238,746,489	
(d) Capital Work in Progress		698,281,387	**2,222,954,258**	21,870,377	**1,260,616,866**
Goodwill on consolidation		6,204,777		6,052,277	
2 Investments	6		11,886,172		11,886,172
3 Deferred Tax Asset			689,639		532,137
4 Current Assets, Loans & Advances:					
(a) Inventories	7	24,517,495		61,548,795	
(b) Sundry Debtors	8	1,055,693,135		1,163,397,547	
(c) Cash and Bank Balances	9	2,905,235,528		417,589,351	
(d) Loans and Advances	10	698,413,901		324,033,769	
		4,683,860,059		**1,966,569,462**	
Less: Current Liabilities & Provisions	11				
(a) Current Liabilities		556,686,562		222,602,210	
(b) Provisions		220,867,715		207,284,975	
		777,554,277		**429,887,185**	
Net Current Assets			**3,906,305,782**		**1,536,682,277**
5 Miscellaneous Expenditure: (To the extent not written off or adjusted)	12		471,475,410		35,956,684
Significant Accounting Policies and Notes on Consolidated Financial Statements	19				
TOTAL			**6,619,516,038**		**2,851,726,413**

Schedules Nos. 1 to 12 and 19 form an integral part of Balance Sheet

As per our report of even date
For S.Janardhan & Associates
Chartered Accountants

For and on behalf of the Board

Balakrishna S. Bhat
Partner

Asif Khader
Managing Director

Mukkaram Jan
Director

Parasuram B.
Company Secretary

Place : Bangalore
Date : June 15, 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED MARCH 31, 2006.

PARTICULARS	Sch.No.	Year ended March 31, 2006 Rs.	Year ended March 31, 2006 Rs.	Year ended March 31, 2005 Rs.	Year ended March 31, 2005 Rs.
INCOME					
Sales	13	2,108,722,384		1,633,845,467	
Other Income	14	29,518,570	**2,138,240,954**	(1,194,635)	**1,632,650,832**
EXPENDITURE					
Cost of Goods Sold	15	400,311,636		291,125,804	
Personnel Expenses	16	263,469,995		157,390,226	
Administrative Expenses	17	294,644,570		255,903,967	
Interest and Financial Charges (Net)	18	81,512,419		108,803,348	
Depreciation		285,791,990	**1,325,730,610**	223,923,378	**1,037,146,723**
PROFIT BEFORE TAX			**812,510,344**		**595,504,109**
Less: Provision for					
(i) Income Tax			63,366,162		88,657,428
(ii) Deferred Tax			125,225,362		46,317,588
(iii) Fringe Benefit Tax			1,924,825		–
PROFIT AFTER TAX			**621,993,995**		**460,529,093**
Add: Depreciation writenback			2,769,516		–
Add/(Less) Prior period adjustments			112,450		(247,124)
NET PROFIT			**624,875,961**		**460,281,969**
Add: Balance brought forward from previous year			237,747,161		35,532,271
Add: Transfer to goodwill on consolidation			3,964,777		–
Less: Revenue loss on consolidation			(1,357,220)		–
Less: Deferred tax provision on initial adoption			–		(103,628)
Profit available for appropriation			**865,230,679**		**495,710,612**
Appropriations			–		
Proposed Equity Dividend			136,401,564		50,833,985
Tax on Dividend			19,130,319		7,129,466
General Reserve - Transfer			300,000,000		200,000,000
Balance carried to Balance Sheet			409,698,796		237,747,161
			865,230,679		**495,710,612**
Earnings Per Share					
– Basic			5.80		4.52
– Diluted			5.77		4.52
Significant Accounting Policies and Notes on Consolidated Financial Statements	19				

Schedule Nos 13 to 19 form an integral part of the Profit and Loss Account

As per our report of even date
For S.Janardhan & Associates
Chartered Accountants

For and on behalf of the Board

Balakrishna S. Bhat	**Asif Khader**	**Mukkaram Jan**	**Parasuram B.**
Partner	Managing Director	Director	Company Secretary

Place : Bangalore
Date : June 15, 2006

SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET

AS AT MARCH 31, 2006

PARTICULARS		As at March 31, 2006 Rs.	As at March 31, 2005 Rs.
SCHEDULE NO.1: SHARE CAPITAL:			
AUTHORISED:			
165,000,000 Equity Shares of Rs.2/- each		330,000,000	120,000,000
[Previous year 12,000,000 Equity Shares of Rs.10/- each]			
200,000 Preference Shares of Rs.100/- each		20,000,000	20,000,000
[Previous year 200,000 Preference Shares of Rs.100/- each]		350,000,000	140,000,000
ISSUED, SUBSCRIBED & PAID-UP			
113,667,970 [Previous year 10,166,797 of Rs.10/- each] Equity shares of Rs. 2/- each fully paid up. Of the above 40,912,200 [Previous year 8,182,440 Equity shares of Rs. 10/- each] Equity shares of Rs.2/- each fully paid up were issued pursuant to the scheme of amalgamation of the erstwhile Cranes Software International Limited with the Company} and 56,833,985 shares (Previous year Nil) are allotted as fullly paid up by way of bonus shares.		227,335,940	101,667,970
	TOTAL	**227,335,940**	**101,667,970**
SCHEDULE NO.2: RESERVES AND SURPLUS			
a) General Reserve - As at April 1, 2005		643,000,000	443,000,000
Add: Transfer from Profit and Loss Account		300,000,000	200,000,000
		943,000,000	643,000,000
b) Share Premium Account - As at April 1, 2005		566,332,104	566,332,104
Add: Receipts on issue of preferential allotment		1,068,000,000	–
		1,634,332,104	566,332,104
Less: Capitalised for Issue of bonus shares		93,667,970	–
		1,540,664,134	566,332,104
c) Capital Redemption Reserve		20,000,000	20,000,000
Less: Capitalised for issue of bonus shares		20,000,000	–
		–	20,000,000
d) Capital Reserve		576,353	576,353
e) Foreign Currency Transation reserve		3,117,054	–
f) Balance in profit and loss account		409,698,776	237,747,161
	TOTAL	**2,897,056,317**	**1,467,655,618**
SCHEDULE NO.3: SECURED LOANS:			
Jammu & Kashmir Bank Limited			
Cash Credit Account		155,005,290	235,404,508
Term Loan Account		333,317,400	392,437,500
Short Term Loan		–	525,207,306
(For Security, refer Note No 8(a)			
HDFC Bank Limited			
Short Term Loan		6,113,762	2,534,756
(For Security, refer Note No 8(b)			
	TOTAL	**494,436,452**	**1,155,584,070**
SCHEDULE NO.4: UNSECURED LOANS:			
From Scheduled Banks:			
– State Bank of Travancore		200,000,000	–
– Hongkong and Shanghai Banking Corporation Limited		266,477,998	–
From others:			
– Foreign Currency Convertible Bonds		2,276,400,000	–
(Refer Note No 5(c)			
	TOTAL	**2,742,877,998**	**–**

SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET

AS AT MARCH 31, 2006

SCHEDULE NO: 5 FIXED ASSETS

(In Rupees)

PARTICULARS	GROSS BLOCK					DEPRECIATION					NET BLOCK	
	COST AS ON April 1, 2005	Regrouping / Rearrangement	ADDITION	DELETIONS	TOTAL AS ON March 31, 2006	UPTO April 1, 2005	Regrouping/ Rearrangement	For the period	Withdrawn	TOTAL March 31, 2006	March 31, 2006	March 31, 2005
LAND & BUILDINGS	31,205,189	–	–	–	31,205,189	2,317,078	–	56,645	1,553,347	820,376	30,384,813	28,888,111
FURNITURE & FIXTURES	23,352,561	–	14,341,569	–	37,694,130	8,368,919	–	1,982,590	492,572	9,858,937	27,835,193	14,983,643
COMPUTERS	68,382,346	1,470,216	13,495,928	–	80,408,058	41,259,176	211,419	9,285,475	397,323	50,358,747	30,049,311	27,123,170
COMPUTER SOFTWARE	1,503,295,739	–	525,296,514	–	2,028,592,253	357,114,966		271,755,763	103,621	628,767,108	1,399,825,145	1,146,180,773
PLANT & MACHINERY	16,910,486	(1,470,216)	8,019,116	–	26,399,818	3,562,947	(211,419)	1,339,327	222,653	4,468,202	21,931,616	13,347,538
VEHICLE	9,571,048	–	7,795,729	–	17,366,777	1,347,794		1,372,190	–	2,719,984	14,646,793	8,223,254
TOTAL	**1,652,717,369**	**–**	**568,948,856**	**–**	**2,221,666,225**	**413,970,880**	**–**	**285,791,990**	**2,769,516**	**696,993,354**	**1,524,672,871**	**1,238,746,489**
PREVIOUS YEAR	790,911,240	–	863,914,414	2,108,285	1,652,717,369	190,852,886	–	223,923,378	805,384	413,970,880	1,238,746,489	597,979,798

SCHEDULES ANNEXED TO AND FORMING PART OF BALANCE SHEET

AS AT MARCH 31, 2006

PARTICULARS		As at March 31, 2006 Rs.	As at March 31, 2005 Rs.
SCHEDULE NO.6: INVESTMENTS:			
(i) Esqube Communication Solutions Private Limited 1,765 Equity shares of Rs.10/- each fully paid up [Previous Year - 1,765 Equity shares of Rs.10/- each fully paid up]		10,000,000	10,000,000
(ii) Cranes Software Middle East LLC UAE 147 Equity Shares of UAE Dirham 1,000/- each fully paid up [Previous year 147 Equity shares of UAE Dirhams 1000 each fully paid]		1,786,172	1,786,172
(iii) S.Wave Systems Private Limited 10,000 Equity Shares of Rs 10/- each fully paid (Previous 10,000 Equity shares of Rs. 10/- each fully paid)		100,000	100,000
	TOTAL	**11,886,172**	**11,886,172**
SCHEDULE NO.7: INVENTORIES:			
(Valued at lower of cost or market value, as valued and certified by the management)			
Stock - in - trade		24,517,495	61,548,795
	TOTAL	**24,517,495**	**61,548,795**
SCHEDULE NO.8: SUNDRY DEBTORS:			
(Unsecured - Considered Good)			
– Outstanding for more than six months		184,062,906	629,348,959
– Others		871,630,229	534,048,588
	TOTAL	**1,055,693,135**	**1,163,397,547**
SCHEDULE NO.9: CASH AND BANK BALANCES:			
(i) Balances with Scheduled Banks in Indian Rupees:			
– Current Accounts		27,571,996	11,900,487
– Deposit Accounts		1,504,358,888	404,812,065
– Dividend Accounts		144,859	66,452
(ii) Balances with Others:			
Balances with Scheduled Banks in Foreign Currency			
– Current Accounts		343,021,859	700,716
– Deposit Account		1,030,075,065	–
		2,905,172,667	417,479,720
– Cash on Hand		62,861	109,631
	TOTAL	**2,905,235,528**	**417,589,351**
SCHEDULE NO.10: LOANS AND ADVANCES:			
(unsecured, considered good)			
(i) Advances recoverable in cash or kind or for value to be received		657,586,419	295,423,878
(ii) Deposits		40,827,482	28,609,891
	TOTAL	**698,413,901**	**324,033,769**
SCHEDULE NO.11: CURRENT LIABILITIES & PROVISIONS:			
CURRENT LIABILITIES:			
(i) Sundry Creditors		556,547,621	222,541,884
(ii) Unclaimed Dividend		138,941	60,326
	TOTAL	**556,686,562**	**222,602,210**
PROVISIONS:			
– Proposed Equity Dividend		136,401,564	50,833,985
– Dividend Tax		19,130,319	7,129,466
– Income Tax		63,480,590	147,795,833
– Gratuity and other employee related provision		–	1,525,691
– Fringe Benefit Tax		1,855,242	–
	TOTAL	**220,867,715**	**207,284,975**
SCHEDULE NO.12: MISCELLANEOUS EXPENDITURE			
(To the extent not written off or adjusted)			
Amalgamation Expenses		949,894	1,578,230
Deferred Revenue Expenditure		35,006,790	9,767,181
		35,956,684	11,345,411
Additions during the year		459,352,988	35,320,000
		495,309,672	46,665,411
Less: written off during the year		23,834,262	10,708,727
	TOTAL	**471,475,410**	**35,956,684**

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED MARCH 31, 2006.

PARTICULARS		Year ended March 31, 2006 Rs.	Year ended March 31, 2005 Rs.
SCHEDULE - 13: SALES:			
Software Sales & Services:			
Gross Sales			
Exports		1,626,007,164	1,241,997,303
Domestic		427,538,010	342,209,444
		2,053,545,174	1,584,206,747
Software Training		55,177,210	49,638,720
	TOTAL	**2,108,722,384**	**1,633,845,467**
SCHEDULE - 14: OTHER INCOME:			
Exchange Fluctuation		28,364,035	(1,227,254)
Dividend received		52,683	–
Miscellaneous Income		1,101,852	32,619
	TOTAL	**29,518,570**	**(1,194,635)**
SCHEDULE -15: COST OF GOODS SOLD:			
Opening Stock		61,548,795	28,020,449
ADD: Purchases		351,702,226	315,393,558
ADD: Direct Expenses		11,668,889	9,260,592
		424,919,910	352,674,599
LESS: Closing Stock		24,608,274	61,548,795
	TOTAL	**400,311,636**	**291,125,804**
SCHEDULE -16: PERSONNEL EXPENSES:			
Salaries		242,607,089	144,370,424
Retirement Benefits		3,837,353	1,636,316
E.S.I Contribution		55,973	49,067
P.F. Contribution		7,765,590	3,702,894
Staff Welfare		9,203,990	7,631,525
	TOTAL	**263,469,995**	**157,390,226**
SCHEDULE -17: ADMINISTRATIVE EXPENSES:			
Auditors Remuneration		820,712	693,752
General Expenses		84,026,995	97,516,831
Sales Commission		12,212,376	2,789,205
Insurance		2,046,930	451,893
Office Rent		42,009,901	28,865,577
Advertisement		38,367,285	2,247,171
Electricity & Water Charges		7,062,863	2,603,855
Rates and Taxes		2,888,601	1,009,050
Remuneration to Directors		4,642,800	4,642,800
Travelling and Conveyance		39,650,023	24,722,997
Repairs & Maintenance		5,076,760	1,961,451
Deferred Revenue Expenses Writen Off		23,834,262	10,708,727
Directors Sitting Fees		78,000	84,000
Consultancy Charges		17,502,993	64,832,430
Loss on sale of Asset		–	310,901
Legal & Professional Charges		14,086,708	11,989,590
Bad debts		337,361	473,736
	TOTAL	**294,644,570**	**255,903,967**
SCHEDULE -18: INTEREST & FINANCIAL CHARGES			
Interest on Fixed Loans			
– Foreign Currency Convertible Bonds		2,411,087	–
– Term Loan		33,609,264	38,944,215
Interest - Others			
– Cash Credit Account		24,494,462	25,798,610
– Short Term Loan		64,212,108	55,204,716
		124,726,921	119,947,541
Less: Interest received on Fixed Deposit [TDS: Rs 9,493,294] [Previous Year TDS: Rs.2,269,950]		43,214,502	11,144,193
	TOTAL	**81,512,419**	**108,803,348**

SCHEDULE NO. 19 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON CONSOLIDATED FINANCIAL STATEMENTS

I. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Consolidation

The Consolidated Financial statements of the Company and its Subsidiaries are prepared under historical cost convention in accordance with the generally accepted accounting principles applicable in India and in accordance with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India.

The Financial Statements of the Company, its Subsidiary Companies have been combined on a line by line basis, by adding back together the book value of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions and resulting unrealized profits and losses on stocks.

The Consolidated Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate Financial Statements.

The translation of accounts of non-integral foreign operations into Indian Rupees (reporting currency) is performed for Balance Sheet items using the current exchange rates in effect at the Balance Sheet date. For revenues, cost and expenses the simple average of the average monthly rates prevailing during the reporting period has been used.

2. Revenue Recognition

i. Product Sale is recognized on delivery of goods to the Customer, net of taxes and duties, if any.
ii. Revenue on Software Development is recognized on the basis of achievement of prescribed milestone as relevant to each contract or proportionate completion method.
iii. Technical Service / Training Income is recognized over the duration of the Contract / Course

3. Fixed Assets

i. Fixed Assets are reflected at historical cost less accumulated depreciation.
ii. At the Balance Sheet date, an assessment is done to determine whether there is any indication of impairment in the carrying amount of the Fixed Assets. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

4. Depreciation and Amortization

i. Depreciation has been provided on Straight Line method at the rates prescribed under respective statutes and accounting standards governing the preparation of the financial statements of each Company included in the Consolidated Financial Statements, bearing in mind the corresponding useful life of the assets. In respect of additions during the year, depreciation is charged on a pro-rata basis corresponding to the date of installation and put into use.
ii. Customized software/commercial rights procured for specific application are amortized over the estimated useful life of 3 years on a straight line basis
iii. After recognition of impairment loss, the depreciation charge for the asset is adjusted in future periods to allocate the revised carrying amount of the asset, less its residual value (if any), on Straight Line basis over its remaining useful life.
iv. Depreciation on assets costing less than Rs.5,000 is provided for in full in the year of purchase irrespective of date of installation.

5. Inventories

i. Software products are valued at lower of the cost or market value on weighted average method.
ii. Software products developed/being developed are valued at allocated cost on specific identification method.

6. Investments

Long term investments are stated at cost. Provision for diminution in the value of investments is made only if such a decline is not temporary.

7. Exchange Fluctuation

i. Foreign currency translations are recorded on the basis of exchange rate prevailing on the date of transaction.
ii. Monetary current assets and current liabilities denominated in foreign currency are translated at the exchange rate prevalent at the date of Balance Sheet. The resulting difference is recorded in the profit and loss account.
iii. Foreign currency translation differences relating to liabilities incurred for acquiring fixed assets are adjusted in the carrying cost of the related fixed assets.

8. Income Tax and Deferred Tax

i. Current taxes are computed in respect of taxable income for the period the related revenue and expense arise.
ii. Deferred tax is recognized, subject to the consideration of prudence in respect of deferred tax assets on timing difference being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred Tax Assets are recognized only if there is reasonable certainty that they will be realized.
iii. Deferred tax in respect of timing differences which originate during Tax Holiday period and reversed during the same period is not recognized to the extent Gross Total Income is subject to such deductions.

9. Leases

i. Finance Lease

In respect of assets taken on finance lease, the same is capitalized at their cash price and the same is depreciated over the shorter of the estimated useful life of the asset or the lease term.

ii. Operating Lease

Rent paid under operating leases is recognized as an expense in the income statement on a straight line basis over the lease term.

10. Earning Per Share

i. Basic Earnings per share is calculated by dividing the net earning available to the Equity Shareholders by the weighted average number of Equity Shares outstanding during the year.

ii. Diluted Earnings per share is calculated by dividing the net earning available to existing and potential Equity Shareholders by the weighted number of Equity Shares outstanding and potential further issues.

II. NOTES ON CONSOLIDATED FINANCIAL STATEMENTS

1. The Subsidiary Companies considered in the consolidated financial statements and their reporting dates are as under :

Companies having same reporting dates as that of the Parent Company

Name of Company	Country of incorporation	% of voting power held	Reporting date as at
Systat Software Inc	United States of America	100%	March 31, 2006
(Including its Wholly Owned step down subsidiary)			
Systat Software UK Limited, United Kingdom			
Systat Software Asia Pacific Limited	India	100%	March 31, 2006
Systat Software GmbH	Germany	100%	March 31, 2006
Cranes Software International Pte Limited	Singapore	100%	March 31, 2006
EMRC Engineering Mechanics Research (India) Limited	India	100%	March 31, 2006
NISA Software Inc.,	United States of America	100%	March 31, 2006

2. During the period under review,

i. The parent Company has invested in its new subsidiary Nisa Software Inc., USA to the tune of Rs. 56,856,625. NISA is in the field of engineering analysis and a pioneer in Computer Aided Engineering. The NISA umbrella consists of a wide range of applications structured around the Finite Element Analysis (FEA). FEA is one of the techniques for computer simulation of the response of physical systems and forms a part of the larger domain of Computer Aided Engineering.

ii. The business of software development and trading carried out by M/s.Systat Software Asia Pacific Limited, India a wholly owned subsidiary of the parent Company in the previous year was taken over by the parent effective December 20, 2005.

(Amount in Rupees)

		Year ended March 31, 2006	Year ended March 31, 2005
3. Directors' Remuneration			
Managing Director			
– Basic Salary		840,000	840,000
– House Rent Allowance		336,000	336,000
– Special Allowance		504,000	504,000
– Contribution to Provident Fund		100,800	100,800
	(a)	1,780,800	1,780,800
Wholetime Directors			
– Basic Salary		1,350,000	1,350,000
– House Rent Allowance		540,000	540,000
– Special Allowance		810,000	810,000
– Contribution to Provident Fund		162,000	162,000
	(b)	2,862,000	2,862,000
Total Managerial Remuneration	(a+b)	4,642,800	4,642,800

4. All Current Assets, Loans and Advances have at least the value as stated in the Balance Sheet if realized in the ordinary course of the Business.

5. a) The Parent Company issued and allotted on March 31, 2004, the Global Depositary Receipts (GDRs) aggregating to USD 11.59 million representing 1,744,357 Equity Shares of Rs.10/- each at USD 6.65 per share amounting to a total of Rs.523.80 Million. The GDR proceeds were fully utilized as follows.

(Rs. in Million)

Particulars	Till March 31, 2006	Till March 31, 2005
– Share issue expenses	13.51	13.51
– Capital expenditure	11.53	11.53
– Term Loan repayment to Jammu & Kashmir Bank Ltd	114.00	114.00
– Investments	105.00	105.00
– Working capital	279.76	279.14
Total	**523.80**	**523.18**

The Balance of Rs.Nil (previous year Rs.0.62 million) is forming part of Balances with Scheduled Banks in Foreign Currency as of March 31, 2006

b) The Company has issued 1,200,000 equity shares of Rs.10 each on preferential basis to the promoter group/strategies investors on October 11, 2005 at a premium of Rs.890 per share. Pending utilization of the amount of Rs.1080.00 million is forming part of Balances with Scheduled Banks in Indian Rupees – Deposit Accounts as on March 31, 2006 (Previous year - Nil)

c) The Parent Company issued and allotted on March 17, 2006 Foreign Currency Convertible Bonds for Euro 42 Million (Equivalent for Rs. 2,207.73 Million) bearing an interest at 2.5% per annum payable half yearly. The bonds are convertible at any time on and after April 27,2006 and till close of business on March 11, 2011 and are convertible into shares or GDRs at an initial conversion price of Rs. 143.293 per share with a fixed rate of exchange on conversion of Euro 1.00 = Rs. 52.6828. The application of funds against the issue is as below

Rs. In Million

Particulars	Till March 31,2006
– Issue expenses	62.37
– Capital expenditure/Advances	705.93
– Term Loan repayment to Jammu & Kashmir Bank Limited	79.81
– Software Imports	59.26
– Others (Exchange Variation)	(70.44)
Total	**836.93**

Balance amount of Rs. 1,370.80 Million is forming part of Balances with Scheduled Banks in Foreign Currency as on March 31, 2006 (Previous year - Nil)

6. a) Deferred revenue expenditure and amalgamation expenses are written off over a period of 5 years.
   b) Specific product launch and market promotion expenses, benefits of which are expected over an extended period are written off over a period of 3 years.

7. Previous years figures have been regrouped and reclassified wherever necessary.

8. a) Bank Finances are secured by hypothecation of stocks of software, book debts, document of title to goods and collaterally secured by properties and additionally guaranteed by the Wholetime Directors of the Parent Company
   b) Finance for purchase of vehicles are secured by hypothecation of respective vehicles.

9. One of the subsidiary companies, EMRC Engineering Mechanics Research India Limited has synchronized rate of depreciation to the rates prescribed in Schedule XIV of the Company's Act 1956. Had the rate of depreciation been at the previous rates, the depreciation would have been more by Rs.276,496 during the year and loss of this Subsidiary Company would have gone up by Rs.276,496 whereby the Consolidated Net Profit would have been reduced by this amount, to Rs 624,599,465.

10. Earnings per Share
    The following reflects the income and share data used in the computation of Basic and Diluted Earnings per share

		Year ended March 31, 2006	Year ended March 31, 2005
1.	Net Profit after Tax (Rs.)	624,875,961	460,281,969
2.	Weighted average number of ordinary shares-Basic	107,821,369	101,667,970
3.	Earnings per share - Basic (Rs.)	5.80	4.52
4.	Adjustment for Interest on Foreign Currency Convertible Bonds (FCCB), net of Tax (Rs)	1,599,515	–
5.	Profit after Tax (net of interest attributable to FCCB (Rs)	626,475,476	460,281,969
6.	Weighted average number of ordinary shares-Diluted	108,521,369	101,667,970
7.	Earnings per share - Diluted (Rs.)	5.77	4.52
8.	Nominal value per share (Rs) *	2.00	2.00

* Previous years shares of nominal value Rs.10 has been converted into shares of nominal value Rs.2 on a 5:1 split and bonus shares have been issued at the ratio 1:1 during the year

11. Deferred tax asset / liability are attributable to depreciation and expenses having different treatment for Income Tax Act.

12. Contingent Liabilities not provided for

		Year ended March 31, 2006	Year ended March 31, 2005
a.	Bank Guarantees outstanding (Rs.)	2,454,424	1,168,595
b.	Claims against the Company not acknowledged as debts		
	Tax matters in dispute under appeal (Rs.)	5,801,849	1,054,586

13. Related Party Disclosures as ascertained by the Management

Particulars	Associates (Rs.)	Key Management Personnel (Rs.)	Total Related Parties (Rs.)
Purchases of Goods/services/software	–	–	–
Sales of Goods	–	–	–
Directors Remuneration	–	4,642,800	4,642,800
Balance as on 31.03.06 receivable	–	–	–
Balance as on 31.03.06 payable	–	–	–

Names of related parties and description of relationship

Key Management Personnel : Mr.Asif Khader
Mr.Mukkaram Jan
Mr.Mueed Khader

Other Related Parties : Orca Infotech Private Limited
K&J Holdings Private Limited
Jansons
JansonsTelecom Private Limited
Jansons Land & Property Development Pvt Ltd
SPSS South Asia Private Limited
Keysoft Solutions Private Limited
Spice Capital Venture Fund Private Limited

In respect of the above parties, there is no provision for doubtful debts as on March 31, 2006 and no amount has been written o ff/written back during the year in respect of debts due from/to them

Segment Reporting

i. Primary Segment Information
Geographical Segment

(Rs. in MIllion)

Sl.No.	Particulars	Year ended March 31, 2006	Year ended March 31, 2005
1.	Segment Revenue:		
	a) International	1,626.00	1,242.00
	b) Domestic	482.72	391.85
	Total	**2108.72**	**1,633,85**
	Add/(Less) Other un-allocable Income	29.52	(1.19)
	Total Income	2,138.24	1,632.66
2.	Segment Results		
	(Profit(+)/Loss(-) before tax and interest		
	a) International	830.54	654.76
	b) Domestic	66.25	49.54
	Total	**896.79**	**704.30**
	Less: Interest	81.51	108.80
	Total Profit Before Tax	815.28	595.50
3.	Capital Employed (Segment assets-Segment Liabilities)		
	a) International	5,134.71	2,283.99
	b) Domestic	1,084.75	720.60
	Total	**6,219.46**	**3,004.59**
4	Additions to Fixed Assets and Intangible Assets		
	a) International	1,151.23	725.82
	b) Domestic	116.00	138.10
	Total	**1,267.23**	**863.92**

ii. Secondary Segment

(Rs. in MIllion)

Sl.No.	Particulars		Year ended March 31, 2006	Year ended March 31, 2005
1	Segment Revenue			
	Proprietary Products and Services		1,705.22	1,242.00
	Product Alliances		403.50	391.85
		Total	**2,108.72**	**1,633.85**
2	Segment Results			
	(Profit(+)/Loss(-) before tax and interest			
	Proprietary Products and Services		856.19	654.76
	Product Alliances		40.60	49.54
		Total	**896.79**	**704.30**
3	Capital Employed			
	Proprietary Products and Services		5,239.00	2,308.99
	Product Alliances		980.46	695.60
		Total	**6,219.46**	**3.004.59**

As per our report of even date
For S.Janardhan & Associates
Chartered Accountants

For and on behalf of the Board

Balakrishna S Bhat	**Asif Khader**	**Mukkaram Jan**	**Parasuram B**
Partner	Managing Director	Director	Company Secretary

Place : Bangalore
Date : June 15, 2006

STATEMENT OF CASH FLOWS

PARTICULARS	Year ended March 31, 2006 (Rs.)	Year ended March 31, 2005 (Rs.)
Cash flows from operating activities		
Net profit before taxation	812,510,344	595,504,109
Adjustments for		
Prior period adjustment	112,450	(247,124)
Other Income	(52,683)	–
Interest income	(43,214,502)	(11,144,193)
Interest expense	124,726,921	119,947,541
Depreciation	283,022,474	223,923,378
Preliminary expenses / Deferred revenue written off	23,834,262	10,708,727
Operating profit before working capital changes	1,200,939,267	938,692,439
Adjustments for working capital		
Inventory	37,031,300	(33,528,346)
Debtors	107,704,412	(651,054,420)
Loans and advances	(380,104,257)	176,613,225
Provision for gratuity	(1,525,691)	(1,165,339)
Current liabilities	331,713,826	79,986,086
Cash generated from operations	1,295,758,856	509,543,643
Adjustments		
Taxes paid	(127,872,361)	(42,256,153)
Net cash from Operating Activities	**1,167,886,495**	**467,287,491**
Cash flows from investing activities		
Interest received	43,214,502	11,144,193
Investments	–	(6,881,172)
Capital work in progress	(676,411,010)	(16,084,024)
Deferred revenue expenditure	(459,352,988)	(35,320,000)
Goodwill on acquisition	(152,500)	(6,052,277)
Purchase in fixed assets	(568,948,856)	(864,690,069)
Net cash from Investing Activities	**(1,661,650,852)**	**(917,883,348)**
Cash flows from financing activities		
Share Capital	12,000,000	(20,000,000)
Share Premium	1,068,000,000	–
Interest paid (net)	(122,435,010)	(119,947,541)
Dividend and Dividend Tax	(57,884,836)	(37,115,754)
Secured Loans / Borrowings	(661,147,618)	257,090,805
Unsecured Loans	2,742,877,998	–
Net cash from Financing Activities	**2,981,410,534**	**80,027,511**
Net increase/(decrease) in Cash and Cash Equivalents	2,487,646,176	(370,568,347)
Opening cash and cash equivalents	417,589,351	788,157,698
Closing cash and cash equivalents	2,905,235,528	417,589,351

As per our report of even date
For S. Janardhan & Associates
Chartered Accountants

For and on behalf of the Board

(Balakrishna S Bhat)
Partner

Asif Khader
Managing Director

Mukkaram Jan
Director

Parasuram B
Company Secretary

Place : Bangalore
Date : June 15, 2006

STATEMENT REGARDING SUBSIDIARY COMPANIES

FOR THE YEAR ENDED MARCH 31, 2006

(Pursuant to approval No. 47/46/2006-CL-III dated February 21, 2006, received from the Ministry of Company Affairs under Section 212 (8) of the Companies Act, 1956.

Wholly Owned Subsidiaries	Systat Software, Inc.		Systat Software UK Ltd.		Systat Software GmbH.		Cranes Software International Pte Ltd.		Systat Software Asia Pacific Ltd.	EMRC Engineering Mechanics Research (India) Ltd.	NISA Software, Inc.	
Currency	**USD**	**INR**	**GBP**	**INR**	**EUR**	**INR**	**SGD**	**INR**	**INR**	**INR**	**USD**	**INR**
Exchange Rate as on March 31, 2006	44.61		77.80		54.20		27.53				44.61	
Capital	3,894,996	173,755,772	100	7,780	25,000	1,355,000	165,692	4,561,501	3,800,000	500,000	316,885	14,136,240
Reserves	513,791	22,920,217	110,132	8,568,270	(124,800)	(6,764,175)	(17,611)	(484,831)	4,883,606	(4,804,623)	(257,182)	(11,472,880)
Total Assets	17,683,053	788,840,994	110,232	8,576,050	340,984	18,481,333	272,942	7,514,093	9,940,605	500,000	1,334,767	59,543,950
Total Liabilities	17,683,053	788,840,994	110,232	8,576,050	340,984	18,481,333	272,942	7,514,093	9,940,605	500,000	1,334,767	59,543,950
Details of investments	145	6,468	–	–	–	–	–	–	–	100,000	–	–
Turnover	6,347,207	283,148,913	512,795	39,895,451	1,081,196	58,600,813	923,368	25,420,321	57,984,418	28,449,532	250,686	11,183,118
Profit before taxation	181,234	8,084,849	49,335	3,838,263	(47,542)	(2,576,775)	12,528	344,896	(314,319)	321,199	(226,160)	(10,088,980)
Provision for taxation	78,817	3,516,026	9,364	728,519	–	–	–	–	557,603	105,242	–	–
Profit after taxation	102,417	4,568,823	39,971	3,109,744	(47,542)	(2,576,775)	12,528	344,896	243,284	215,957	(226,160)	(10,088,980)
Proposed dividend	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

For and on behalf of the Board

Asif Khader
Managing Director

Mukkaram Jan
Director

Cranes Software International Limited

Shankar Narayan Building, Block 1, 4th floor, #25, M.G. Road, Bangalore-560 001
Ph: +91 80 4112 0000, Fax: +91 80 4123 1274
www.cranessoftware.com