

From the Chairman's Desk...



Dear Members,

I take pleasure in presenting the 13th Annual Report of your company.

The business strategy of your company is designed keeping in mind the long-term prospects and to sustain the present business levels. The company believes that this process nurtures both - the customers and the company. The company is continuing to build strategic relationships with the customers and other global players in the industry. I am confident that these relationships help the company to service the potential needs of our clients effectively. I feel that we have reached a point to see the growth phase of your company soon.

Your company adopted a consistent policy of quality in all its operational divisions as well as its human resource management. The quality policy has enabled your company to achieve the desired result and enhancing the customer satisfaction year after year. The thrust for quality continues to haunt all the professionals there by making them progress towards CMMi - level 5 and P-CMM level 3, followed by level 5 soon. Moving forward, your company is marching ahead into the future with an optimistic note.

Innovation is imperative so as to be able to meet the ever-growing global challenges and to create newer revenue streams. Your company continues to spend considerable amount of money and time for Research and Development with a hope to meet the above objective.

During the financial year the ESD division of the company has undertaken and completed projects for prestigious entities like HAL in the defense sector. The company continues to be a partner with all the auto giants globally and is serving their project needs.

The I.T division of your company is working on marketing of the eMunicipal Administration System (*Suvidha*) in other states of the country. It is planning for strategic alliances for promoting *Suvidha* in Madhya Pradesh and West Bengal. The division is also exploring an outbound call centre to improve our business development strategies. ESAP, the company's education product is being used extensively in the state of Colorado. During the year the company came out with another module *ESAPsp* for simplifying the billing processes.

The ISS division has been successful in reaching its targets. The division received the "Best Performer Award in Asia for 2005" from Keico Hightech Inc. of Korea. The turnover of the division rose by 69% when compared to the previous fiscal. The division has added 29 new customers and three new business partners, thereby covering the corners of the country.

The company has also bagged the "Performance of Excellence Award" for being the "Top Start Up Company (Hardware Sector)" from the Government of Andhra Pradesh. The Chief Minister Dr. Y.S.Rajasekhara Reddy has presented this award at the GITEX India 2006 function at Hyderabad.

I know that the company's proposal of Danlaw Inc's merger with your company is in the limelight and is of much interest to the stakeholders. In this regard I wish to inform you that the Boards of both the companies have agreed for the merger in-principle. The company has appointed legal consultants to develop a schema and is in progress.

I wish to acknowledge and thank our Associates for their commitment and tireless efforts in serving our esteemed customers. I place on record my sincere thanks to all the stakeholders for their continued and valuable support.

A handwritten signature in black ink, appearing to read "Raju S Dandu".

Raju S Dandu
Chairman & Managing Director

BOARD OF DIRECTORS

Raju S Dandu
Chairman & Managing Director

V K Menon
Additional Director

Prakash S Kenjale
Additional Director

Lloyd R Lawrence
Director

M A Ashok Kumar
Alternate director to Lloyd R Lawrence

D S N Raju
Executive Director

COMPANY SECRETARY

Amara Bhaskara Rao

MANAGEMENT TEAM

B V Ramana
Executive Vice President (ESD)

Prakash B Kulkarni
Executive Vice President (IT)

Dr. Y V Subrahmanyam
Vice President (HR)

V R K Chary
Vice President (Finance & Accounts)

Kishan Chowbene
General Manager (ISS)

AUDITORS

M/s. A M Reddy & Co.
Chartered Accountants
10-5-6/A, "My Home Plaza"
Off: 103, II Floor
Masab Tank, Hyderabad – 50028

BANKERS

HDFC Bank, Banjara Hills Branch, Hyderabad.

DEPOSITORY & SHARE TRANSFER AGENTS

Sathguru Management Consultants (P) Ltd.
Plot No. 15, Hindi Nagar,
Punjagutta, Hyderabad – 500 082
Phones: 040-23356507, 23350586
E-mail: sta@sathguru.com

REGISTERED OFFICE

43, Sagar Society,
Road No.2, Banjara Hills
Hyderabad – 500 034
info@danlawinc.com

BRANCH OFFICE

1271, Road No.63
Jubilee Hills
Hyderabad – 500 033.

U.S. SUBSIDIARY

Danlaw Technologies Inc.
23700, Research Drive,
Farmington Hills,
MI 48335 - 2624, USA

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NOTICE

NOTICE is hereby given that the Thirteenth Annual General Meeting of DANLAW TECHNOLOGIES INDIA LIMITED will be held on Thursday, the 28th day of September 2006 at 11.00 a.m. at the Registered Office of the company at 43, Sagar Society, Road No. 2, Banjara Hills, Hyderabad – 500 034, to transact the following business :

ORDINARY BUSINESS

1. To receive, consider, and adopt the Audited Balance Sheet as at March 31, 2006 and the Profit & Loss Account for the year ended as on that date, along with the Auditors' Report and Directors' Report thereon.
2. To appoint a director in place of Sri. D S N Raju, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint Statutory Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

4. **Appointment of Sri V K Menon as Director**
To consider and, if thought fit, to pass, with or without modifications, the following resolution as an ORDINARY RESOLUTION :

“RESOLVED THAT Sri. V K Menon, who was appointed as an Additional Director by the Board of Directors at its meeting held on January 27, 2006 and who holds office as such, upto the date of this Thirteenth Annual General Meeting and in respect of whom, the company has received a notice in writing from a member proposing his candidature for the office of directorship (under Section 257 of the Companies Act, 1956), be and is hereby appointed as Director of the company whose period of office shall be liable to determination by retirement of directors by rotation.”

5. **Appointment of Sri. Prakash S Kenjale as Director**

To consider and, if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION :

“RESOLVED THAT Sri. Prakash S Kenjale, who was appointed as an Additional Director by the Board of Directors at its meeting held on April 28, 2006 and who holds office as such, upto the date of this Thirteenth Annual General Meeting and in respect of whom, the company has received a notice in writing from a member proposing his candidature for the office of directorship (under Section 257 of the Companies Act, 1956), be and is hereby appointed as Director of the company whose period of office shall be liable to determination by retirement of Directors by rotation.”

6. **Re-appointment of Sri. Raju S Dandu as Managing Director**

To consider and, if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION :

“RESOLVED THAT pursuant to the applicable provisions of the Companies Act, 1956 and subject to the approval of the Central Government, Sri. Raju S Dandu, be and is hereby *re-appointed* as the Chairman and Managing Director of the company for a term of five years w.e.f. April 1, 2006 as per the terms and conditions specified in the following resolutions :

“RESOLVED THAT pursuant to sections 198, 269, 309, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of the Central Government, the remuneration package of the appointee be, a basic pay of Rs. 60,000/- per month *plus* all other benefits, perquisites and other allowances as permitted by the Companies Act, 1956, within the rules of the company as applicable from time to time, which are broadly described hereunder :

- 1) Basic Salary Rs. 60,000/- per month

- 2) Dearness Allowance – 50% of basic salary
- 3) CCA – 15% of basic salary

The Chairman and Managing Director shall also be eligible for the following perquisites :

Category I: Included in the remuneration

- a) Housing: The expenditure incurred by the company on hiring furnished accommodation.
- b) House Maintenance: The expenditure incurred by the company on gas, electricity, water and furnishings.
- c) Medical Reimbursement: Expenses incurred for self and family subject to a ceiling of one-month salary per annum.
- d) Club fee subject to a maximum of two clubs.
- e) Premium on Medical / Personal Accident Insurance Policy, which does not exceed Rs. 5,000/- per month.
- f) The company will reimburse the wages of one servant at residence.
- g) Children's education allowance up to a maximum of Rs.5, 000 per month, per child.

Category II: Not included in the remuneration

- a) Contribution to Provident Fund and Annuity Fund are as per the rules of the company and to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- b) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service.
- c) Encashment of Leave at the end of his tenure.
- d) Leave: As per the rules of the company.
- e) Leave Travel Concession for self and family incurred in accordance with the service rules of the company.
- f) Provision of car with driver for use on company's business.
- g) Telephone at residence.
- h) Cellular phone for self.

“RESOLVED FURTHER THAT the Chairman and Managing Director shall be paid a commission up to a maximum of 2% on Net Profits as

computed u/s 349 and 350, the actual amount of which will be determined by the Board of Directors from time to time, subject to the overall ceiling of Managerial Remuneration as prescribed in the Companies Act, 1956.”

“RESOLVED FURTHER THAT notwithstanding to anything specified above, where in any financial year, during the currency of the tenure of the appointee, the company has no profits or its profits are inadequate, the company shall pay remuneration by way of salary, perquisites and allowances as mentioned above.”

“RESOLVED FURTHER THAT subject to the provisions of the Companies Act, 1956 and subject to the accordance of the requisite approvals, the Board be and is hereby authorized to revise the gross salary of the appointee by a maximum of 50% per annum.”

7. **Re-appointment of Sri. D S N Raju as Executive Director**

To consider and if thought fit, to pass, with or without modification, the following resolution as a SPECIAL RESOLUTION :

“RESOLVED THAT pursuant to the applicable provisions of the Companies Act, 1956, Sri. D S N Raju be and is hereby *re-appointed* as the Executive Director of the company for a further term of five years with effect from April 1, 2006 as per the terms and conditions specified in the following resolutions :

“RESOLVED THAT pursuant to sections 198, 269, 309, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Sri. D S N Raju be and is hereby *re-appointed* as the Executive Director at a remuneration of a basic pay of Rs.30,000/- per month *plus* all other benefits, perquisites and other allowances as permitted by the Companies Act, 1956, within the rules of the company as applicable from time to time, the details of which are broadly described hereunder :

- 1) Basic Salary Rs. 30,000/- per month
- 2) Dearness Allowance – 50% of basic salary
- 3) CCA – 15% of basic salary

The Executive Director shall also be eligible for the following perquisites:

Category I: Included in the remuneration

- a) Housing: The expenditure incurred by the company on hiring furnished accommodation.
- b) House Maintenance: The expenditure incurred by the company on gas, electricity, water and furnishings.
- c) Medical Reimbursement: Expenses incurred for self and family subject to a ceiling of one-month salary per annum.
- d) Club fee subject to a maximum of two clubs.
- e) Premium on Medical / Personal Accident Insurance Policy, which does not exceed Rs. 5,000/- per month.
- f) The company will reimburse the wages of one servant at residence.
- g) Children's education allowance up to a maximum of Rs.5, 000 per month per child.

Category II: Not included in the remuneration

- a) Contribution to Provident Fund and Annuity Fund are as per the rules of the company and to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- b) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service.
- c) Encashment of Leave at the end of his tenure.
- d) Leave: As per the rules of the company.
- e) Leave Travel Concession for self and family incurred in accordance with the service rules of the company.

- f) Provision of car with driver for use on company's business.
- g) Telephone at residence .
- h) Cellular phone for self.

“RESOLVED FURTHER THAT subject to the applicable provisions of the Act, the Executive Director shall be paid a commission up to a maximum of 2% on Net Profits as computed u/s 349 and 350, the actual amount of which will be determined by the Board of Directors from time to time, subject to the over all ceiling of managerial remuneration as prescribed in the Companies Act, 1956.”

“RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year, Sri. D S N Raju shall be paid remuneration as prescribed above.”

“RESOLVED FURTHER THAT subject to the applicable provisions of the Act, the Board be and is hereby authorized to revise the gross salary of the Executive Director by a maximum of 50% per annum.”

By Order of the Board
For Danlaw Technologies India Ltd.,

Place : Hyderabad

Date : 26th July 2006

A Bhaskara Rao
Company Secretary

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy and such proxy need not a member of the company. The instrument appointing a proxy should however be deposited at the Registered Office, not less than 48 hours before the commencement of the meeting.
2. Members / Proxies are requested to bring their copies of Annual Report with and the duly filled-

- in attendance slips for attending the meeting. No copies of Annual Report will be distributed at the meeting.
3. The Register of Members and Share Transfer Books of the company will remain closed from Monday, the 25th of September 2006 to Thursday, the 28th of September 2006 (both days inclusive).
 4. The relative Explanatory Statements pursuant to Section 173(2) of the Companies Act, 1956 in respect of special businesses as set out above are annexed herewith.
 5. Members seeking any additional information on the accounts of the company should write to the company Secretary on or before 25th September 2006, to facilitate the compilation of data for clarifications.
 6. Members are requested to send all communications relating to shares to the company's Share Transfer Agents (Physical and Electronic) to M/s. Sathguru Management Consultants Pvt. Ltd, Plot No. 15, Hindi Nagar, Punjagutta, Hyderabad – 500 082, Phones: 040-23356507, 23350586; E-mail: sta@sathguru.com

EXPLANATORY STATEMENT

[Pursuant to Section 173(2) of the Companies Act, 1956]

Item No. 4

Appointment of Sri. V K Menon as Director

The Board has appointed Sri. V K Menon as an Additional Director with effect from January 27, 2006. He was also appointed as a Member of the Audit Committee.

He has no shareholding in the company. He is not a director in any other company. He holds office of directorship upto the date of the ensuing thirteenth annual general meeting. The company received a notice in writing from a member along with a deposit of Rs.500/- proposing the candidature of Mr. Menon for the office of directorship under the provisions of Section 257 of the Companies Act, 1956.

The Board of Directors recommends the resolution for the approval of the members. None of the directors of the company, except Mr. Menon himself, are considered as concerned or interested in the proposed resolution.

Information about Mr. VK Menon

Born in 1954, Mr. V K Menon is an 'Electronics & Communications' Engineer. He did PGD in Marketing from IIM, Bangalore during 1980-82

He has a rich and varied industrial experience spanning over two and half decades. He worked in different positions in Philips [Calcutta], Escorts Communications Ltd., [New Delhi] and BPL US West Cellular Ltd., [Kerala]. He also worked as Professor [Marketing] for six years in SDM Institute for Management Development, Mysore.

Presently, he is the 'Director – Career Advancement Services' at 'Indian School of Business', a prestigious Institute in Hyderabad.

Item No. 5

Appointment of Mr. Prakash S Kenjale as Director

The Board has appointed Mr. Prakash Kenjale as an Additional Director with effect from April 28, 2006. He was also appointed as a Member of the Audit Committee.

He has no shareholding in the company. He is not a director in any other company. He holds the office of directorship upto the date of the ensuing thirteenth

annual general meeting. The company received a notice in writing from a member along with a deposit of Rs.500/- proposing the candidature of Mr. Kenjale for the office of the directorship under the provisions of Section 257 of the Companies Act, 1956.

The Board of Directors recommends the resolution for approval of the members. None of the directors of the company, except Mr. Kenjale himself, are considered as concerned or interested in the proposed resolution.

Information about Mr. Prakash Kenjale

Mr. Kenjale did his M.Tech. from IIT, Kanpur in 1974. Soon after, he joined Tata Consultancy Services Ltd. as Trainee and rose to Senior Consultant. Held several concurrent positions, including CEO, Tata-Intraco Systems Pvt. Ltd., Singapore. Helped it grow from a 300 people to a 3000 people company. He was with TCS Group until 1988. Later, he joined Syntel Inc. and worked with it till 2005. Mr. Ken held several positions in Syntel Inc., such as Senior Consultant, Chief Technology Officer, Chief Delivery Officer etc., He helped the Company grow from a mere 70 people to a 5000 people company.

He has traveled widely and worked for 31 years in U.S, U.K, France, Netherlands, Switzerland, Spain, Portugal, India, Singapore, Malaysia, Australia and New Zealand. Mr. Ken has proven competencies for new initiative set up; sales and sales support services; delivery management capabilities and also architect level expertise. His special skill and attributes include strategic and tactical thinking, creating new initiatives, solving complex problems, mentoring and training.

Mr. Ken is a US Citizen with Indian Origin. He currently stays in Michigan, US and teaches Architecture.

Item No. 6

Re-appointment of Mr. Raju S Dandu as Chairman & Managing Director

The Board of Directors had appointed Mr. Raju S Dandu as the Chairman & Managing Director of the

Company with effect from April 1, 2001 *for a term of five years*. The appointment was approved by the members of the company at the annual general meeting held on July 28, 2001. His term of five years expired on March 31, 2006. The Board approved his re-appointment for another term of five years, w.e.f. April 1, 2006. The remuneration committee has also reviewed the terms & conditions of appointment and approved the same. Since he is an N.R.I, the approval of the Central Government is also required to be obtained. The company has applied for the same.

The Board of Directors recommends the resolution for approval. Mr. Raju S Dandu, himself and Mr. D S N Raju, ED, are considered as concerned or interested in the said resolution.

For the information of the members, his detailed profile is appended herein below :

Information about Mr. Raju S Dandu

Danlaw is the brainchild of Mr. Raju, who has been its Promoter Director. He is instrumental in spearheading the progress of the company during all these years. He is not a director in any company in India. Mr. Raju has been the source of getting business from US clientele – both for Engineering and I.T divisions. He has formulated the core culture and policies of the company and chiseled the future of Danlaw. The growth of the Company is as per his vision and future plans. Being the CMD of the company, Mr. Raju is propagating the image of Danlaw among the industry circles. He has long drawn plans for the future of the company, which would be implemented in phased manner with due approvals from the Board and the Members of the company as per the statutory requirements.

Mr. Raju is a highly qualified Technocrat from Andhra Pradesh, India. He is B.E. in Electronics and Communications, M.E. in Electronics and Controls, M.S in Electrical and Computer Engineering from University of Iowa, USA and MBA from University of Detroit, USA. He is a member of IEEE, Society of

Automotive Engineers and the Society of Manufacturing Engineers.

Raju started his professional career in 1977 as a programmer analyst with University of Iowa hospitals where he was responsible for systems programming for the cancer institute. He moved on to Dearborn, Michigan in 1978 to work for Ford Motor Company as software engineer where he developed controls based on first 16-bit microprocessors as well as the first automated engine control software tester. He moved to Dana Corporation in 1980 where he was responsible for development of general purpose CNC and developed the first ever GUI and application logic on CNC control. Raju worked as an independent consultant for General Motors from 1982 to 1984 and responsible for Engine control and Body computer modules.

He then founded Danlaw Inc. in Detroit, USA, in 1984, which is today synonymous with vehicle diagnostics, testing and messaging and is a tier-1 vendor to GM. After having gained rich experience as a technocrat and as an entrepreneur from India for over a period of two decades, Mr. Raju has set up another company by name Danlaw Technologies India Ltd. in his homeland. The company provides employment to over 150 technical people at various levels. He is much admired by his colleagues and staff for his strong core values, ethics, principles and far reaching vision.

Item No. 7

Re-appointment of Sri. D S N Raju as Executive Director

The Board of Directors had appointed Mr. DSN Raju as the Executive Director of the company with effect from April 1, 2001 *for a term of five years*. The appointment was approved by the members of the Company at the annual general meeting held on July 28, 2001.

The term of five years expired on March 31, 2006. The Board approved his re-appointment as Executive Director of the company for another term of five years, w.e.f. April 1, 2006, at the same remuneration as is

being paid since his first appointment. The remuneration committee also approved the terms and conditions of appointment. He has no shareholding in the company. He is also a director in Sugam Agro-Tech Limited.

The Board of Directors recommends the resolution for approval. Mr. Raju S Dandu, CMD and Mr. Raju himself are considered as concerned or interested in the aforesaid resolution. For the information of the members, his detailed profile is appended herein below :

Information about Mr. DSN Raju

Mr. DSN Raju is the Executive Director of DTIL. He is in charge for overall management of corporate affairs including finance, legal, secretarial affairs, corporate governance and public relations.

DSN, as he is known, packs within himself nearly two decades of entrepreneurial and industrial experience. He has been associated with industrial sectors like Chemical, Construction, Real Estate, Engineering Trade, Food Processing etc., in various capacities as founder, director and operating chief. He has been associated with DTIL right from its inception.

DSN Raju graduated in Science and Law. He has also completed MBA (Marketing) and M.Phil (Management).

By Order of the Board
For Danlaw Technologies India Ltd.,

Place : Hyderabad
Date : 26th July 2006

A Bhaskara Rao
Company Secretary

DIVISIONAL REPORTS

I. ENGINEERING SOLUTIONS DIVISION (ESD)

The Engineering Division of the company, with significant strengths in embedded software, is focused on development of automotive software, particularly in the areas of messaging, diagnostics and testing. This division develops products for testing and diagnostics in vehicles. Strong experience in software development across multiple mission-critical automotive applications strengthens Danlaw's offering to the Industry. Its services involve Software Development, Software Verification and Validation & Test Plan Development.

The activities of the division during the financial year include:

- v Engineering division assisted DI in design and development of GMLAN RT project. A significant amount of participation has been in defining the architecture of a System Integration Bench. As a follow up, Integration of AuotBOB-R with ESBI has been awarded to Danlaw. The project was successfully delivered and GM has carried out ATP.
- v Data Acquisition Sub System with GPS synchronization has also been developed and delivered to the client.
- v 'Auto Giant' Ford has selected the company as an Independent Testing Vendor (ITV). The division expects more assignments from Ford in the near future. In a proactive decision, the company has updated its SDATT tool to cater for Ford and its first tier suppliers. Maintenance Support work for SDATT has been carried out during the year.
- v The division has developed and delivered sizeable number of Media Engines to US based clients. Orders were received for supply of more numbers of these units.
- v M/s. AutoLiv has selected the company for developing a User Interface on PDA for their LDW (Lane Deviation Warning) project. The

project was successfully completed on time and additional requirements from the client were also implemented. The company is expecting more projects in the next year.

- v M/s. Eaton has approached the company to review their HW design. Danlaw has significantly contributed by suggesting important changes to the design. M/s. Eaton has also assigned WIN Vehicle SW module development. The same has been delivered on time. Thus Danlaw could successfully add two more clients to the ever-growing list of clients.
- v The company has successfully conducted training to CMC engineers on SDATT. M/s. CMC is happy with the quality of the training and support extended to them on SDATT.
- v M/s. TRW has selected Danlaw to perform Highline and Baseline Honda TPMS testing. The same was successfully carried out.
- v Support activity to M/s. Vetronix on J2534 equipment continued during the year of 2005-2006.
- v Danlaw has extended developmental support for Wideband CODEC Development on ADSP 218X processors and porting activities on Blackfin processors to M/s. Analog Devices, India.
- v Production Division will continue to manufacture and supply Danlaw products to various customers. In addition, it has undertaken the task of TRW Highline and Baseline Honda TPMS testing.
- v Danlaw has taken up the Product development 'Danlaw Portable Reprogramming Device' (DPRD). Danlaw intend to field this product during the coming financial year.

Aeronautical Research Industry

Engineering division has successfully delivered various models of FM Demodulators to Aeronautical research

Industry. Danlaw has also received supply orders for additional Demodulators

Defense Sector

The division has successfully completed projects with Defense labs. These labs have approached Danlaw for taking up product development. 4 Channel VoIP gateway with encryption has been developed and supplied to Defense Labs. M/s. BEL, Bangalore for supply of these units, also approached the division.

Research and Development

Research and Development is a continuous process. Research and development of new services, designs, frameworks, processes and methodologies continue to be of importance to us. This allows us to enhance quality, productivity and customer satisfaction through continuous innovation. R&D has been instrumental in building expertise in the areas of testing.

Presently the main focus of the division's R&D is on improving voice quality and communications in hostile environments like acoustic, line echo, noise, random and burst-error channels. Other focal areas are speaker identification, speech codecs, voice/fax/data pumps, effective bandwidth utilization and system-on-chip for simultaneous metering and communications. The division follows the best practices, including Rational Unified Process (RUP) Approach, in the various phases of product and project development lifecycle and project management.

During the financial year, R&D division played a major role in closing the defense projects. Necessary design changes as per the client's requirements were incorporated. R&D division was also responsible for conducting the Acceptance tests at Client's site for DSP based defense projects.

R&D division has also assisted Engineering division in validating the design of FM Demodulators developed for Aeronautical Industry besides developing necessary algorithms.

II. INFORMATION TECHNOLOGY DIVISION

The Information Technology division of company is into developing, deploying and maintaining of scalable, stable & secure applications on emerging technologies. This, in conjunction with the company's quality processes under ISO 9001: 2000, ensures that the division consistently delivers high quality solutions to the customers.

The division has proven expertise and experience to provide complete, end-to-end solutions involving study, design, architecture development, integration, implementation, maintenance and support phases of the 'software development life cycle'. The division follows the globally accepted best practices, in the product/project development and management lifecycles.

The division offers a wide range of products and services focusing mainly the following domains:

- √ Customer Relation Management (CRM)
- √ Supply Chain Management (SCM)
- √ Data Warehousing and Mining Applications
- √ Portals, E-Commerce and E-Business Applications
- √ Enterprise Application Integration
- √ Application / Product Maintenance and
- √ Knowledge Management.

During the year the division has designed and executed prototypes for automated car parking systems also could also successfully execute prototype project for 'Prime Health' for digitizing its business records. The division is also offering support services to TRW, Validex, GM for several on and off shore projects.

The division also developed an RFID Solution and demonstrated in a lab environment as an exercise to win the confidence of the CRIS to take part in the call for POC at identified site. It also demonstrated a proof concept solution to Clasma Inc, towards their request for development of a tool, helping them in their business processes.

Municipal Administration System and Municipal Management Information System for the Directorate of Municipal Administration (DMA), Government of Andhra Pradesh.

The application software is being implemented successfully at 114 Urban Local Bodies across the state of Andhra Pradesh. 122 professionals are deployed across the state at each ULB facilitating the application maintenance and extending the implementation services to the department. The project is under the third year of maintenance.

The various stakeholders of this project are Municipal Administration and Urban Development Department, AP Urban Services for Poor, HMWSSB, Public Health Engineering Department, APFIDC, UDAs, Municipal Corporations, APTS and IT&C. The project provides integrated solution for harvesting the benefits through the computerization of the major functional aspects/ areas of the ULB like

Property Tax	File Movement
Vacant Land Tax	Projects & Works
Water Tax	Advertisement Tax
Financial Accounting System	Solid Waste Management
Building Permissions	Court Cases
Assets and Inventory Management	Grievance Redressal System
Trade Licenses	Schemes
Birth & Death Registrations	Municipal Management Information System (MMIS)

The division is now working on marketing of the Suvidha Electronic Municipal administration system in other states. The company is planning for strategic alliances with a Delhi based company for promoting *Suvidha* in the state of Madhya Pradesh and with Wipro Technologies in the state of West Bengal. It also has responded to 'Expression of Interest' called by KUSP for the automation of the Municipal

functions in 40 districts under '*Kolkata Urban Services for Poor Scheme*'. Subsequent to the EOI, Danlaw has been short-listed and submitted its proposal for study, design, development, implementation and maintenance of the desired functionality for KUSP. In accordance to the process, for getting empanelled at the national level, the division has also given a presentation before the Ministry of Urban Development and Ministry of Information Technology, Government of India. The company is expected to obtain the status of one of the five preferred solution providers for the municipal domain across the country.

Manpower Outsourcing

Manpower Outsourcing has become a buzz in India. Your company has also entered the arena. As a start up, the division has outsourced professionals to *Inside View Inc. U.S.A* for developing "Business Intelligence Tool".

Outbound Call Centre

To explore business opportunities and to supplement and support the US sales team through the sales cycles, the division has envisaged to start an India-based out-bound call center at its Hyderabad I.T center. It has identified Application Maintenance Services as one of the growth driver and offering such services to small and medium sized enterprises in United States could give us a good start.

ESAP™ [Exceptional Student Administration Program] is a web-based application software to help all the concerned authorities to keep track of the activities related to special education provided to children falling under IDEA (Individuals with Disabilities Education Act) and section 504 of Federal Rehabilitation Act, so as to facilitate the public schools in complying with the federal laws of United States of America.

ESAP™ is a suite of 3-products being used by Colorado school districts. While the 'Service Provider' [ESAP_{sp}] is being used by 45 clients, the 'Case Management' [ESAP_{cm}] is under evaluation in the Texas State of U.S.A. Further, as a part of simplification of the claiming & billing processes a new module namely ESAPpc has been developed.

III. INTELLIGENT SECURITY SOLUTIONS DIVISION (ISS)

Intelligent Security Solutions (ISS), is a vibrant division of DTIL. The division provides Industrial Security Solutions integrating cutting edge technologies like Card Technology, Biometrics, RFID, CCTV, Surveillance and Alarm Systems (Fire and Intruder).

20,000 Square Feet, 2000+ employees, R&D Labs, Manufacturing Organizations, Corporate Houses, IT Houses, Proprietary Information, Patented Inventions, Trade Secrets, Restricted Areas, Personal and Confidential Information, Money Transfers, Stocks and Bonds are some words that are often heard in the Corporate World.

The World has used several conventional or traditional methods to secure people and assets. But with the Globe being threatened by Terrorist Attacks newer methods and technologies needs to be introduced to make Life & Assets safer and secure.

Words like Safety and Security are slowly but steadily gaining prominence as words such as Terrorism, Impersonation, Breach, Pilferage, Espionage, Fraud and Hacking are echoing Globally. The list doesn't stop here; there are umpteen words that kill the very essence of Security, assisted ably by human or system errors, which in turn results in unbearable trauma to economies and to the population.

What it actually means, Security - the State of being secured; freedom from danger.

The sense of security and safety in the minds of the people, who have gone through traumas and fear, cannot be explained in words.

Herein where the ISS Division steps in with its range of Security Products & Solutions.

ISS suite of Security Solutions Protects, Secures, Identifies, Authenticates & Tracks People and Assets giving online information thus Enhancing Security Multifold. ISS supplies, installs, and maintains holistic, reliable and cost effective security solutions. They range from simple standalone security automation systems

to a high-end integrated Security, Tracking and Surveillance System. ISS Suite of Security Solutions includes:

- ü Time & Attendance Management
- ü Access Control (Booms, EM Locks, Turnstiles)
- ü CCTV and Surveillance
- ü Fire Alarm
- ü Visitor Management
- ü Canteen Management
- ü PC Logon and Software / Data Security
- ü Fire and Intruder Alarm Systems
- ü RFID Based Employee Tracking, Visitor Tracking and Asset Tracking & Inventory Management

The division received “**Best Performer Award in Asia for 2005**” from Keico Hightech Inc. of Korea for achieving the highest sales of its products. The turnover of the division rose by 69% when compared to the previous fiscal. During the year the division has added 29 new customers. It has also added three new business partners (system integrators) in Kolkata, Coimbatore and Bhuvanesar. With this the division has eight business partners. This is in addition to sub-dealers in Nagpur, Nashik, Pune, Aurangabad and Raipur.

The division is planning to alliance consortiums with large networking & electrical contractors and architects. It is also proposed to establish full-fledged offices in regions like Bangalore, Chennai & Mumbai to improve visibility and brand. During the next year, the division is set to increase its Customer Base by providing complete security solutions with Integrated Software relating to Time Management, Access Control, Staff/ Employee Identification & Authorization, CCTV Surveillance, Fire Alarm & Protection, Canteen Management, Visitor Management with Authorization & Identification, Data Security, Turnstiles & Barriers.

Some of ISS esteemed customers include Appolo Health Street, Grasim, Coromandel, Nipuna, Satyam, Value Labs, Vedanta etc.,

DIRECTORS' REPORT

The directors of your company are happy to inform you that the company was adjudged as "Top Start Up Company (Hardware Sector)" by the Government of Andhra Pradesh. The company had the honor of receiving the award from the Hon'ble Chief Minister Dr. Y.S.Rajasekhara Reddy on January 11, 2006 at Hyderabad. The Directors have pleasure in presenting the financials of your company for the year ended 31st March 2006.

Financial Highlights

(Rs. In lakhs)

No. Particulars	2005-2006			2004-2005		
	DTIL	WOS	Consolidated	DTIL	WOS	Consolidated
1 Net sales/Income from operations	873.22	332.59	1205.81	789.71	355.44	1145.15
2 Other Income	56.38	0.00	56.38	86.76	0.00	86.76
3 Total Income	929.60	332.59	1262.19	876.47	355.44	1231.91
4 Software development expenses	607.15	258.71	865.86	571.56	277.69	849.25
5 Gross Profit	322.45	73.88	396.33	304.91	77.75	382.66
6 Administrative & General expenses	210.47	69.60	280.07	202.38	58.91	261.29
7 Depreciation	49.51	0.55	50.06	52.18	0.00	52.18
8 Net Profit (Loss) before tax	62.47	3.73	66.20	50.35	18.84	69.19
9 Income tax	8.99	0.00	8.99	2.20	0.00	2.20
10 Deferred taxes	22.55	0.00	22.55	14.85	0.00	14.85
11 Profit (Loss) after tax	30.93	3.73	34.66	33.30	18.84	52.14
12 Paid up equity share capital	372.03	295.66	372.03	322.03	159.44	322.03
13 Reserves & Surplus (excluding revaluation reserve)	2757.26	(103.21)	2654.05	2465.65	(70.09)	2395.56
14 Earnings per share	0.89	-	0.99	1.03	-	1.62

Your company's total sales have gone up to Rs.1205.81 Lakhs during the current year from Rs.1145.15 Lakhs of the previous year registering a growth of 5.3 %. The gross profit margin is maintained intact at 31% during the current year also. The current year gross profit is Rs.396.33 lakhs as against Rs.382.66 lakhs during the previous year. The software development expenses as a percentage of sales from operations have come down to 71.81% as against 74.16 % during the previous year. In absolute terms the software development expenses are Rs.865.86 lakhs as against Rs.849.25 Lakhs of the previous year. During the year the increase in equity is on account of a fresh issue of 5 lakhs equity shares of Rs.10 each at a premium of Rs.55 per share through a preferential issue.

THE MERGER

The Board of your company has in-principle approved for the proposed merger of Danlaw Inc., with your company. Danlaw Inc (DI) is a company incorporated in the state of Michigan, USA. Danlaw Inc is also engaged in similar line of business as your company is, and has an experienced team of professionals with multi-functional skills. It also has a proven track record of delivering high technology solutions to diverse industry segments across the globe. The Board has appointed management and legal consultants to study process of the merger and to detail the process.

The Industry Scenario

India's software and back office services' Industry recorded 33% growth in export revenue to \$23.6 bn. in the year to March 2006. This included \$ 6.3 bn. from services like call centres, payroll processing, claims management and high-end financial analysis. Including the domestic market, the sector expanded 31% year on year to \$ 29.6 bn. Overall software and services revenue is projected to grow 25% to \$36 bn in the year to March 2007. Exports are likely to grow 27% to between \$29 bn. The United States is the biggest market for Indian software firms, accounting for as much as 70% of revenue.

The Indian software sector is showing its positive trend from a long-term perspective. Offshoring has developed as an industry and is in the 'growth phase' presently and India is attempting to skim the growth. NASSCOM, the apex organization of Indian IT & ITES industry prepared a detailed report on the future potential of the industry and what India needs to do, to get a larger share of the global off shoring cake.

The Indian software story has surpassed the turbulent times after the bursting of the 'tech bubble' and the dot-com bust and came back with vengeance in the year 2005. The Industry grew at its faster rate when compared to the recent past. Offshoring, as a trend, is well established. The very fact that the Accenture, the Microsoft and the IBM etc., are scaling up their own offshore delivery centres in India and other low cost destinations is the biggest proof for the trend. The offshore centers of these companies are appearing to be an offshoot of their clients demand. Hence the scope for growth of this industry looks imminent.

However, India should consider the following risk factors that are likely to impact the industry's growth.

1. India though pioneer for opening the global offshore software Industry, its leadership could be threatened by the emergence of other off shoring destinations such as China, Eastern Europe and South East Asian countries. The low cost advantage may soon be frittered away. Hence the Indian companies moving to higher-end tasks, such as consulting and package implementation etc, is the

only way to ensure a sustainable competitive advantage and maintain India as an off shoring destination.

2. The software industry is a people-intensive, where skilled human resources are scarce and costly with a wage inflation of 15% per annum. The demand for people is regularly beating the supply. Hence attracting and retaining the right talent will be difficult for any software company.

3. Global technology companies such as Accenture and IBM have started opening centres offshore. The Indian software industry is of the opinion that the main reason for these companies going offshore is because of their client's directions. This clearly signifies that offshoring has made many global corporations more competitive and are literally challenging the Indian corporate to compete with these giants.

DIRECTORS

As per the provisions of Section 256 of the Companies Act, 1956 and the Articles of Association of the Company, Mr. D S N Raju is to retire by rotation at the ensuing thirteenth annual general meeting and being eligible offers himself for reappointment. His profile is given at page no. 9.

Dr. P V S Jagan Mohan Rao resigned from his directorship with effect from June 9, 2006 due to his busy schedules and pre-occupations. He had also been the Chairman of the Audit Committee. He served on the Board of the Company for a period of over 2½ years. The Board conveys its appreciation for the valuable contribution of Dr. Jagan Mohan Rao. Mr. V K Menon and Mr. Prakash Kenjale were appointed by the Board of Directors as Additional directors at its meetings held on January 27, 2006, April 28, 2006 respectively. Their appointment as directors by the members is being sought at the ensuing AGM. The profile of the said directors is given at page no. 7 & 8 respectively.

The approval of the members is also sought for the re-appointment of Mr. Raju S Dandu as Managing Director of the company. His profile is given in page no. 8.

AUDITORS

M/s. A M Reddy & Co., Chartered Accountants, Hyderabad, Statutory Auditors of the Company, retire at the conclusion of the thirteenth annual general meeting. They have confirmed their eligibility and willingness to accept the office for another term i.e., till the conclusion of the next annual general meeting. The Audit committee of the Board recommended their re-appointment.

WHOLLY OWNED SUBSIDIARY

The financial statements of the company’s U.S based wholly owned subsidiary have been attached herewith, thereby complying with the provisions of Section 212 of the Companies Act, 1956.

DELISTING FROM MADRAS STOCK EXCHANGE

Pursuant to the special resolution passed at the 12th AGM, the company has applied for and obtained voluntary de-listing permission from Madras Stock Exchange. The shares of the company will continue to trade in the Hyderabad and Bombay Stock Exchanges.

ISSUE OF EQUITY SAHRES & CONVERTIBLE WARRANTS

Pursuant to the special resolutions passed at the twelfth annual general meeting, the board of directors of the company has allotted five lakh equity shares to non-promoters and five lakh convertible-warrants to the promoters. The option of conversion is yet to be exercised by the promoters.

FIXED DEPOSITS

The company has not accepted or invited any deposits and consequently no deposit has matured / become due for re-payment as on 31st March 2006.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT :

A management discussion and analysis report, pursuant to clause 49 of the listing agreement, forms part of this report and is annexed hereto.

CORPORATE GOVERNANCE :

The company has implemented the procedures and adopted practices in conformity with the code of corporate governance enunciated in clause 49 of the Listing Agreement with the Stock Exchanges. A separate report on Corporate Governance is annexed herewith, as a part of the Annual Report along with the Auditor’s Certificate on its compliance.

INFORMATION AND EXPLANATION AS REQUIRED U/S 217 OF THE COMPANIES ACT, 1956

The particulars are required u/s 217 sub-sections 1(e), 2A, 2AA and 3 are furnished below:

(A) Conservation of Energy, Research and Development, Technology Absorption, Foreign Exchange Earnings and Outgo as required u/s 217 (1)(e) of the Companies Act, 1956.

a) Conservation of Energy:

The Company is engaged in the business of software and Information Technology. It is technology driven; the primary resources are the employees and their excellent talent. The activity of the company do not require huge energy/power. The power used is electricity and sometimes diesel (only to run generators, that too occasionally during power cuts). The company believes that energy saved is energy produced. Therefore, adequate measures have been taken to use energy efficiently.

b) Research & Development and Technology Absorption:

1. Research & Development: Your Company has a team of persons working on R&D. The main thrust is on the embedded software relating to digital signal processing and echo cancellation technologies; and also on the ESAP Product.

The Company incurred a deferred revenue expenditure of Rs.1,85,36,195 /- on R & D during the year under review as compared to Rs.2,37,56,775/- during the previous year.

2. Technology Absorption: Your Company continues to use state of the art technology for improving the productivity and quality of its products and services. To create adequate infrastructure, your Company continues to invest in the latest hardware and software.

c) Foreign Exchange Earnings and Outgo:

The particulars of foreign exchange earnings and outgo are given below:

Particulars	Rs.	
	2005-2006	2004-2005
Earnings	3,68,53,403	3,87,87,716
Outgo	1,76,29,071	1,95,93,027

(B) Employee Particulars: No employee of the Company falls within the limits prescribed under the Companies (Particulars of Employees) Rules, 1975, read with section 217 (2A) of the Companies Act, 1956.

- (C) **Directors Responsibility Statement:** Pursuant to section 217 (2AA) of the Companies Act, 1956, the Board of Directors of the Company confirm that:
- a) In the preparation of annual accounts for the year ended March 31, 2006, the applicable accounting standards have been followed along with proper explanation relating to any material departures.
 - b) Such accounting policies as mentioned in schedule of the notes of the financial statements have been selected and applied consistently and judgments and estimates that are reasonable and prudent made so as to give a true and fair view of the state of affairs of the company for the financial year ended March 31, 2006 and of the loss of the Company for the year ended on that date
 - c) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
 - d) The annual accounts for the financial year 2005-2006 have been prepared on a going concern basis.

APPRECIATION & ACKNOWLEDGEMENTS

Your directors wish to place on record their appreciation to employees at all levels for their hard work, dedication and commitment. The Board also desires to place on record its sincere appreciation for the support and co-operation that the company received from the suppliers, customers, strategic partners, bankers, auditors, registrar and transfer agents and all others associated with the company. The company has always looked upon them as partners in its progress and has happily shared the rewards of growth. It will be the company's endeavour to build and nurture strong links with trade based on mutuality, respect and co-operation.

By Order of the Board
For Danlaw Technologies India Ltd.

Hyderabad
26th July 2006

Raju S Dandu
Chairman & Managing Director

REPORT ON CORPORATE GOVERNANCE

1. The Philosophy and the Policy

Corporate Governance for the company is not a mere compliance with the regulatory requirements but is also to ensure that high standards of ethical and responsible conduct are met throughout the organisation. The company's philosophy on Corporate Governance envisages attainment of high levels of transparency, accountability and equity in all the facets of the operations of the company vis-à-vis interactions with employees, stakeholders, creditors, and customers. In addition to this, it envisages the fullest commitment of the Management, the Board and the employees of the company that they subscribe to the corporate values and apply them in their conduct.

The work culture, policies, business plans and strategies are all framed to fit into the above philosophy of the company and to reach the ultimate goal of making the company a value driven organization.

2. The Board and the Meetings

The Board consists of five directors of whom two are promoter and executive directors; and three other are Independent non-executive directors. The Board has appointed Mr. M A Ashok Kumar as alternate director to Mr. Lloyd R Lawrence, who stays in U.S.

Six meetings of the Board of Directors were held during the financial year 2005-2006 on April 29, July 29, August 22, September 21, and October 27 of 2005 and on January 27, 2006.

The particulars of directors, their attendance and other directorships, memberships / chairmanships of committees for the financial year 2005-2006 are given below :

Name	Category	Attendance at		Particulars of other Directorships, Committee Memberships/Chairmanships		
		Board	Last AGM	Directorship	Committee Membership	Committee Chairmanships
Raju S Dandu	Promoter Executive	3	Yes	Nil	Nil	Nil
D S N Raju	Promoter Executive	6	Yes	1	Nil	Nil
Lloyd R Lawrence	Independent Non-executive	Nil	No	Nil	Nil	Nil
PVS Jagan Mohan Rao*	Independent Non-executive	6	Yes	Nil	Nil	Nil
V. K. Menon **	Independent Non-executive	1	NA	Nil	Nil	Nil
Prakash Kenjale	Independent Non-executive	NA	NA	Nil	Nil	Nil
M. A. Ashok Kumar ***	Independent Non-executive	6	Yes	1	Nil	Nil

* Dr. P V S Jagan Mohan Rao resigned w.e.f. 09.06.2006

** Mr. V K Menon, Mr. Prakash Kenjale and were appointed as additional directors w.e.f. January 27, 2006, April 28, 2006 respectively.

*** Mr. M A Ashok Kumar, being the alternate director to Mr. Lloyd R Lawrence, attended the meetings.

3. The Committees of the Board

a) Audit Committee

The Audit Committee consisted of four directors as its Members, out of whom three are independent non-executive directors and one is promoter executive director. During the financial year 2005-2006, the Audit Committee was reconstituted and its members as on March 31, 2006 were: Dr. P V S Jagan Mohan Rao (Chairman of the Committee), Mr. V K Menon, Mr. Prakash Kenjale and Mr. D S N Raju.

The Committee met four times during the financial year 2005-2006, on April 29, 2005, July 29, 2005, August 22, 2005 and January 27, 2006. All members except Mr. B Bowonder attended the meetings.

The terms of reference to the Audit Committee are in line with the powers, duties and responsibilities stipulated in the 'Audit Committee Charter' drafted as per Clause 49 of the Listing Agreement and adopted by the Board.

As the chairman of the committee Dr. PVS Jagan Mohan Rao resigned w.e.f. 09.06.2006, the audit committee is reconstituted again and the committee as of date stood as follows : Mr. V K Menon [chairman], Mr. Prakash Kenjale, Mr. D S N Raju.

b) Remuneration Committee

The company has a Remuneration Committee comprising the Non-executive Directors Mr. M A Ashok Kumar [Chairman], Dr. P V S Jagan Mohan Rao, Mr. V K Menon. The terms of reference are review of the compensation policy for the Executive Directors. Accordingly, they are authorised to negotiate, finalise and approve the terms of appointment for Managing Director/Whole-time Directors on behalf of the company. The Committee has overall responsibility for approving and evaluating and recommending plans, policies and programs relating to remuneration of whole-time Directors.

Independent non-executive directors are not paid any remuneration, except sitting fee @ Rs.5,000/- per meeting attended by them. The two executive directors are paid monthly remuneration by way of salary as approved by the committee, board and the members. All the members attended meetings of the committee. The following is the remuneration paid to the Board Members during the financial year 2005-2006 :

<u>Name</u>	<u>Salary</u>	<u>Contribution To PF</u>	<u>Perks</u>	<u>Sitting Fee</u>	<u>TOTAL</u>
Raju S Dandu	10,80,000	1,29,600	Nil	Nil	12,09,600
D S N Raju	5,40,000	64,800	4,87,793	Nil	10,92,593
V K Menon	Nil	Nil	Nil	Nil	Nil
PVS Jagan Mohan Rao	Nil	Nil	Nil	32,000	32,000
M A Ashok Kumar	Nil	Nil	Nil	27,000	27,000

* Mr. V K Menon does not take any sitting fee, as a matter of Principle.

c) Share Transfer and Investors' Grievance Committee

Mr. M A Ashok Kumar chairs the Committee; with the other Member being Mr. D S N Raju. Mr. B S Bhaskar, Company Secretary was the Compliance Officer and was responsible for the share transfers / demat and remat requests. M/s. Sathguru Management Consultants Pvt. Ltd., the Registrars and Share Transfer Agents, maintains the share accounting package and upgrades the data on weekly basis, as per the information received from NSDL / CDSL. There are no pending investor complaints. Mr. B S Bhaskar, resigned from the post of Company Secretary w.e.f. 30th June 2006. Mr. A. Bhaskara Rao is appointed as the Compliance Officer w.e.f. 12th July 2006.

4. General Body Meetings

<u>Year</u>	<u>Meeting</u>	<u>Date, Venue & Time</u>	<u>Special Resolutions passed at the meetings</u>
2002-2003	AGM	Sept. 29, 2003 Regd. Office 11.00 a.m.	Nil
2003-2004	AGM	Sept. 29, 2004 Regd. Office 11.00 a.m.	Nil
2004-2005	AGM	Sept. 17, 2005 Regd. Office 11.00 a.m.	1. To alter the Articles of Association so as to confer power to issue warrants and other financial instruments. 2. Preferential Allotment of 5 lakh equity shares to non-promoters 3. Preferential Allotment of Five lakh fully convertible warrants to promoters. 4. De-listing of shares from Madras Stock Exchange.

5. Disclosures The details of transactions with related parties are given in 14.2.7 of the 'Notes on Accounts' at page no.39 forming part of the accounts. There were no potentially conflicting transactions with the related parties. There were no 'charges of non-compliance' against the company.

6. Means of Communication The company published its quarterly and half yearly results in the prescribed format within the prescribed time limit. The results were forthwith sent to the Stock Exchanges where the shares of the company are listed and the same was published in two newspapers, usually in Business Standard and Andhra Bhoomi (Telugu). The financial results are also posted on the website of the company, www.danlawtechnologies.com. The quarterly financial results and the shareholding patterns are also uploaded onto the EDIFAR (Electronic Data Information and Retrieval) of SEBI, thereby complying with the provisions of clause 51 of the Listing Agreement. The company made no presentations during the year under review to any institutional investors or analysts.

GENERAL SHAREHOLDERS INFORMATION

(A) GENERAL INFORMATION

The general information about the company, viz., contact information, names of directors, company secretary, management team, addresses of registered office, branches, statutory auditors, demat agents are provided at page no. 2.

(B) OTHER INFORMATION

Annual General Meeting

Day :	Thursday
Date:	28 th September 2006
Time:	11.00 a.m.
Venue:	Registered Office, at 43, Sagar Society, Road No 2 Banjara Hills, Hyderabad – 500 082

Financial Calendar (Provisional):

UFR of 1 st quarter April 1 to June 30, 2006:	26 th day of July 2006 (held)
UFR of 2 nd quarter July 1 to Sept. 30, 2006:	Last week of October, 2006
UFR of 3 rd quarter Oct. 1 to Dec., 31, 2006:	Last week of January 2007
UFR of 4 th quarter Jan. 1 to Mar., 31, 2007:	Last week of April, 2007
Audited results of FY 2006-2007:	Last week of July 2007

Date of Book Closure:	25 th September 2006 to 28 th September 2006
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Listing on Stock Exchanges:	Bombay Stock Exchange Ltd., The Hyderabad Stock Exchange Ltd.
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The Madras Stock Exchange has approved the application made by the company for voluntary delisting and the same has been granted w.e.f. 25.04.2006

Stock Codes:	BSE – “532329” HSE – “VGH”
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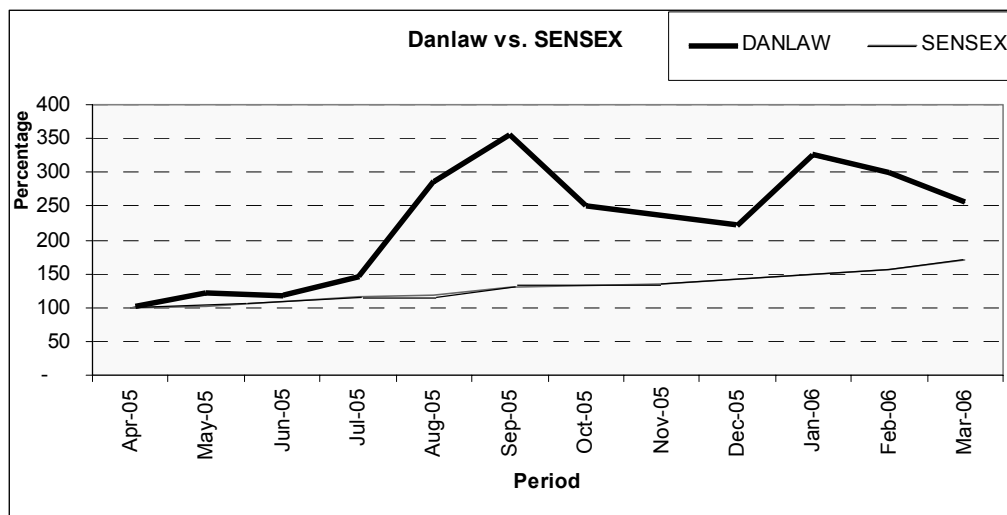
ISIN No. For NSDL & CDSL	“I N E 3 1 0 B 0 1 0 1 3”
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C) Market Price Data *

Month	DANLAW		SENSEX	
	High	Low	High	Low
April, 2005	41.00	24.10	6,649.42	6,118.42
May	49.90	28.70	6,772.74	6,140.97
June	48.00	35.00	7,228.21	6,647.36
July	60.20	35.00	7,708.59	7,123.11
August	117.30	53.00	7,921.39	7,537.50
September	145.50	95.50	8,722.17	7,818.90
October	102.75	62.35	8,821.84	7,656.15
November	96.00	70.25	9,033.99	7,891.23
December	91.60	78.00	9,442.98	8,769.56
January, 2006	133.00	87.35	9,945.19	9,158.44
February	122.75	85.00	10,422.65	9,713.51
March	104.50	79.25	11,356.95	10,344.26

source: www.bseindia.com

* The above data pertains to the trading at the BSE only. The scrip was never traded at the HSE during the financial year.



D) Distribution of Shareholding as on March 31, 2006

<u>Category</u>	<u>Shareholders</u>	<u>%</u>	<u>Shares</u>	<u>%</u>
1 – 500	974	74.70	1,55,634	4.19
501 – 1000	126	9.66	1,07,265	2.88
1001 – 2000	78	5.98	1,17,645	3.16
2001 – 3000	29	2.22	77,645	2.09
3001 – 4000	19	1.46	68,310	1.84
4001 – 5000	18	1.38	87,945	2.36
5001 – 10000	20	1.53	1,52,654	4.10
10001 & above	40	3.07	29,53,202	79.38
TOTAL	1304	100.00	37,20,300	100.00

E) Categories of Shareholders as on March 31, 2006

<u>Category</u>	<u>Shares</u>	<u>%</u>
Promoters	1850605	49.74
Non – promoters		
Banks/FI/MFs/CG,SG Inst.	43000	1.16
Bodies Corporate	352029	9.46
NRI / OCB	2089	0.06
Indian Public	1472577	39.58
TOTAL	37,20,300	100.00

F) Shares and Dematerialization

As per SEBI regulations, the shares of the company are brought under compulsory dematerialize form, whereby the shares can be traded only in dematerialized form only. The company entered into agreement with NSDL and CDSL whereby shareholders have the option to dematerialize their shares with either of the Depositories. About 95% of shares are dematerialized as on March 31, 2006. The Registrar and Transfer Agent, M/s. Sathguru Management Consultants Pvt. Ltd., process the physical share transfer and demat / remat requests, with intimation to the company. There are no outstanding ADRs / GDRs. The company has allotted 5 lakh fully convertible warrants on 21st September 2005. The company expects that the allottees would opt for conversion during the '06-07' fiscal.

CORPORATE GOVERNANCE CERTIFICATE

The Members of
M/s Danlaw Technologies India Limited
Hyderabad

We have examined the compliance of the conditions of Corporate Governance by M/s. Danlaw Technologies India Limited for the year ended on 31st March, 2006 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of 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 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 in respect of investor grievances received during the year ended 31st March, 2006 no investor grievances are pending against the Company as on 29th April, 2006 as per the records maintained by the Company and presented to the Investors/Shareholders 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.

PLACE : HYDERABAD.
DATE : 26/07/2006

for A.M.REDDY & CO.,
CHARTERED ACCOUNTANTS

(CA. RAMANA REDDY A.V.)
PARTNER
Membership No. 024329

DECLARATION OF COMPLIANCE OF CODE OF CONDUCT

Pursuant to the circular no. SEBI/CFD/DIL/CG/1/2004/12/10 dated 29th October 2004, it is hereby declared that the company has obtained confirmation from all the board members and senior management personnel of the company for the compliance of the code of conduct of the company for the year.

Place : Hyderabad
Date : 26th July 2006

Raju S Dandu
Chairman and Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS

Engineering Division

The Engineering Division of the company is primarily involved in development of testing tools for the automotive industry across the globe. The exercise of continuous technological upgradation is enabling Danlaw to provide its customers all the benefits of the prevailing technology in engineering optimal products for the automotive sector. Wide-ranging engineering expertise and industry domain knowledge, strong experience in software development in automotive applications strengthened Danlaw's presence in the Industry. The company is also supporting prestigious defense labs like DRDL.

The world market for embedded software is said to grow at a pace of an average annual growth rate of 16%. The company is making all its efforts to gain its market share in the growth potential of the industry. Presently the company is catering to the needs of a globally renowned client-base which includes Autoliv, Eaton, Internal, Elsec, Ecolab, Vetronix, TRW, ADA, Analog devices, BE(I).

Information Technology Division

The I.T. Division has successfully implemented the Municipal Administration System and Municipal Management Information System for the Department of Municipal Administration, Government of Andhra Pradesh and the division was asked to maintain the project for a period of next two years. The department could also successfully support US projects and delivered the on-shore/off-shore projects of TRW, Validex, GM SMAD.

Intelligence Security Solutions

Innovative technology is being recognized allover the world. The ISS division of the company is in the area of implementing the biometric products in India. These products have great market-potential and hence the company has established several partnerships and opened different offices in the cities like Bangalore,

Chennai, Coimbatore and Visakhapatnam. The division supported by the strong principles from allover the world and effective marketing arrangements in India, is poised to penetrate through this emerging market. The company is dealing in the products like Time Management, Access Control, Staff /Employee Identification & Authorization, CCTV Surveillance, Fire Alarm & Protection, Canteen Management, Visitor Management with Authorization & Identification, Data Security, Turnstiles & Barriers.

Opportunities and Threats

Changing business and economic conditions, rapid technological innovation, and globalization are creating an increasingly competitive market environment that is driving corporations to transform the manner in which they operate. Customers are increasingly demanding improved products and services with accelerated delivery times and at lower prices. To adequately address these needs, corporations are focusing on their core competencies and are using outsourced technology service providers to help improve productivity, develop new products, conduct research and development activities, reduce business risk, and manage operations more effectively. Danlaw keeps itself abreast of the latest changes and continuously endeavours to provide its customers all the benefits of the prevailing technology thereby improving the quality of service.

In India, people are seeing everything going online. Firstly, the private sector, and now the Government Organisations. Innovations became order of the day. The company believes that the I.T. industry in India has a lot to explore and exploit. The Biometric products are also gaining importance. The Intelligence security solutions division of the company is set ready to grab every kind of opportunity.

INTERNAL CONTROL SYSTEM AND ITS ADEQUACY

The company has adequate internal control systems and procedures commensurate with the size and nature of its business. The company has also clearly defined roles and responsibilities for all managerial positions and all operating parameters are monitored and controlled. Standard operating procedures and guidelines are issued from time to time to support best practices for internal control.

DISCUSSION AND FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

SHARE CAPITAL

	31-03-2006	31-03-2005
AUTHORISED 50,00,000 Equity Shares of Rs.10/- each	50000000	50000000
ISSUED, SUBSCRIBED AND PAID UP 32,20,300 Equity Shares of Rs.10/- each Fully Paid	37203000	32203000
Fully convertible warrants (500000 warrants of Rs.65/- each, Rs.6.50 Paid-up)	3250000	0
	40453000	32203000

During the year, your Company has made a preferential issue of 500000 equity shares of Rs.10/- each at a premium of Rs.55/- per share. The issue was fully subscribed. Your Company has also issued fully convertible warrants at the same price of Rs.65/-. The amount called up on each warrant is Rs.6.50. The warrants are fully convertible into equity of Rs.10/- each at a premium of Rs.55/- per share on payment of balance of Rs.58.50 within a period of 18 months.

RESERVES AND SURPLUS

	31-03-2006	31-03-2005
Share premium account	265807400	239740000
Transferred from Profit and Loss Account	9918245	6825070
	275725645	246565070

The increase in share premium account is on account of issue of 500000 equity shares at a premium. The increase in profit and loss account is on account of earning of a profit after tax amounting to Rs.30,93,175/- during the year.

INVESTMENTS

	31-03-2006	31-03-2005
Investment in Danlaw Technologies Inc (WOS)	29566245	15944265
	29566245	15944265

During the year, your Company has made an investment in its wholly owned subsidiary at USA to the tune of USD 300000 as additional paid in capital.

SUNDRY DEBTORS

	31-03-2006	31-03-2005
Debts outstanding for a period less than six months Unsecured considered good	32328419	14492239
Debts outstanding for a period exceeding six months	1499408	811263
	33827827	15303502

The increase in receivables to the extent of Rs.1,85,24,325/- is on account of increase in sales during the March 2006 quarter.

CASH AND BANK BALANCES

	31-03-2006	31-03-2005
Cash on hand	19810	3344
Balances with banks - in current accounts	2769806	13955491
- in EEFC accounts	305	11345
- in deposit accounts in Indian rupees	88803932	86048735
	91593853	100018915

The cash balances during the previous year are on account of redemption of units from mutual fund investments in the month of March 2005. The increase in deposits is on account of renewal of deposits with bank together with interest accumulations.

CURRENT LIABILITIES

	31-03-2006	31-03-2005
Sundry Creditors - for goods	679005	483159
- for services	50017	2039
- for expenses	2302027	1930966
Advances from customers	276462	83780
Provision for Current Year Income Tax	525731	220087
Provision for Fringe Benefit Tax	51810	0
	3885052	2720031

The increase in current liabilities is on account of outstanding expenses provided during the month of March 2006.

MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED

	31-03-2006	31-03-2005
Public Issue Expenses	0	77135
R&D Expenses	87141187	68604992
Deferred Tax Asset - Fixed Assets	4580687	3772277
Investments	9175415	9175415
Others	6887377	9950811
	107784666	91580630

The public issue expenses of Rs.77,135/- has been written off during the year and with this, the total public issue expenses have been written off under this head. The increase in R&D expenses is on account of development cost incurred on ESAP product.

INCOME

	31-03-2006	31-03-2005
Sales		
- Exports	36853403	38787716
- Domestic	19867072	28864217
- Software Services	22199245	5985947
- Work-in-progress	8402568	5333280
Dividend & Other income	5638309	8676072
	92960597	87647232

During the year, your company had increased its total revenue to Rs.9,29,60,597/- during the current year as against Rs.8,76,47,232/- during the previous year. The increase in revenue of the software services is on account of revenues received from the Municipal Administration project.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCES :

This year has been a year of consolidation and process re-engineering in all the corporate services activities. Processes are defined for campus recruitment with visits to esteemed engineering colleges and related tests for selection to work at DTIL. In addition, excellent path way has been laid down to plan and achieve higher levels of CMMi assessment jointly for Danlaw Inc. at USA and DTIL at India. DTIL has undergone necessary surveillance audits for ISO 9001:

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2000. All necessary documented processes for streamlined design, development and testing of Hardware products has been in practice and after careful reviews and identifications of preventive actions, the processes have been suitably modified.

While retention has been the main focus of this year, efforts to ensure person power with assured delivery capability has also been significantly achieved. We could strengthen all the divisions with required work force to ensure timely delivery and customer satisfaction.

Danlaw has successfully established operations similar to that of a BPO for technical call center, with the augmentation and deployment of around 130 professionals across various AP municipalities for the necessary help and implementation services. The new concept of Outbound Call Centre to market DTIL capabilities to various international customers to sell our various services like ESAP, Application Management etc is in progress.

For and on behalf of the Board

Hyderabad
July 26, 2006

Raju S Dandu
Chairman and Managing Director

CAUTIONERY STATEMENT : Statements in the Management Discussion and Analysis describing the company's objectives and expectations may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied.

AUDITORS' REPORT

The Members of
 DANLAW TECHNOLOGIES INDIA LTD.,
 HYDERABAD.

1. We have audited the attached Balance Sheet of M/s. DANLAW TECHNOLOGIES INDIA LIMITED as at 31st March, 2006, the Profit and Loss Account and also 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 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 mis-statement. 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 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956 of India (the Act) and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we set out 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 in paragraph 3 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 a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

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

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

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

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

for **A.M.REDDY & CO.**,
 Chartered Accountants

Place : Hyderabad
 Date: 26/07/2006

(**CA. RAMANA REDDY A.V.**)
 PARTNER
 Membership No. 024329

Annexure to the Auditors' Report

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

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

(b) The fixed assets of the company have been physically verified by the management during the year as per a programme of verification, which in our opinion is reasonable having regard to the size of the company and the nature of its fixed assets. No material discrepancies were noticed on such verification.

(c) In our opinion and according to the information and explanations given to us, during the year, the company has not disposed off any substantial part of its fixed assets so as to affect its going concern.

2. (a) The stock of goods of the company has been physically verified by the management during the year, 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 stock followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.

(c) On the basis of our examination of records of stock, in our opinion, the company has maintained proper records of stock. The discrepancies noticed on physical verification between the physical stocks and the book records were not material.

3. (a) The company has not granted any loans secured or unsecured to companies, firms or other parties listed in the register maintained u/s.301 of the Act.

(b) The company has not taken any interest free loans from companies, firms or other parties listed in the register maintained u/s.301 of the Act.

4. In our opinion and according to the information and explanations given to us, there is adequate internal control system with the size of the company and the

nature of its business, for the purchase of plant and machinery, equipment and other and with regard to services rendered. Further, on the basis of our examination and information and according to the explanations given to us, we have neither come across nor have we been informed of any instance of major weaknesses in the aforesaid internal control system.

5. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements that need to be entered into the Register maintained under section 301 of Act, have been so entered.

(b) In our opinion, and according to the information and explanations given to us, the company has made contracts or arrangements that need to be entered in the register maintained under section 301 of the Act, and exceeding the value of five lakh rupees in respect of each party during the year. However, the terms and conditions are not prejudicial to the interest of the company.

6. In our opinion and according to the information and explanations given to us, the company has not accepted any deposits from the public to which the provisions of sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed thereunder are applicable.

7. In our opinion, the company has an internal audit system commensurate with the size and nature of its business.

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

9. (a) The company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund investor education protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues as applicable to it.

(b) According to the information and explanations

given to us, no undisputed amounts payable in respect of income tax, wealth tax, service tax, sales tax, customs duty, excise duty and cess were in arrears, as at 31st March, 2006 for a period of more than six months from the date they became payable.

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

10. The company has neither accumulated losses as on 31.03.2006 nor has it incurred any cash losses during the financial year ended on that date or in the immediately preceding financial year.

11. The company has not defaulted in repayment of dues to any financial institution, bank or debenture holders.

12. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion, the company is not a chit fund or a nidhi mutual benefit fund/ society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to this company.

14. In our opinion, the company has maintained proper records of transactions and contracts relating to dealing or trading in shares, securities, debentures, and other investments during the year and timely entries have been made therein. Further, such securities have been held by the company in its own name or are in the process of transfer in its name except to the extent of exemption granted u/s.49 of the Act.

15. The guarantees provided to two bodies corporate by the company are continuing as at 31st March, 2006. In the absence of detailed terms and conditions in writing, we are unable to express any opinion whether the guarantees given by the company are prima facie, prejudicial to the interest of the company or not.

16. In our opinion and according to the information and explanations given to us and on an overall examination, we report that the company has not availed any term loan during the year under report.

17. Accordingly 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.

18. According to the information and explanations given to us, the company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act, 1956.

19. According to the information and explanations given to us, during the period covered by our audit report, the company has not issued any debentures.

20. The company has not raised any money by public issue, during the year.

21. According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of our audit.

for A.M.REDDY & CO.,
Chartered Accountants

Place : Hyderabad.

Date : 26/07/2006

(CA. RAMANA REDDY A.V.)
PARTNER
Membership No. 024329

Balance Sheet as at

in Rs.

	Schedule	31-03-2006	31-03-2005
<u>SOURCES OF FUNDS</u>			
SHAREHOLDERS' FUNDS			
Share Capital	1	40453000	32203000
Reserves and Surplus	2	275725645	246565070
Secured Loans	3	1187547	1464549
		317366192	280232619
<u>APPLICATION OF FUNDS</u>			
FIXED ASSETS			
Gross Block	4	52110430	50863447
Less: Depreciation		28780942	23836182
Net Block		23329488	27027265
INVESTMENTS	5	29566245	15944265
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry Debtors	6	33827827	15303502
Cash and bank balances	7	91593853	100018915
Loans and advances	8	22440021	24648259
Inventory		12709144	8429814
		160570845	148400490
Less: Current liabilities & Provisions	9	3885052	2720031
NET CURRENT ASSETS		156685793	145680459
Miscellaneous Expenditure: (to the extent not written off or adjusted)	10	107784666	91580630
		317366192	280232619

SIGNIFICANT ACCOUNTING POLICIES AND

NOTES ON ACCOUNTS

14

The schedules referred to above and the notes thereon form an integral part of the Balance Sheet

This is the Balance Sheet referred
to in our report of even date

for and on behalf of the Board

For A.M. REDDY & CO
Chartered Accountants

RAJU S DANDU
Chairman & Managing Director

D.S.N. RAJU
Executive Director

A.V. RAMANA REDDY
Partner
Hyderabad, July 26, 2006

VRK CHARY
VP-Finance&Accounts

A BHASKARA RAO
Company Secretary

Danlaw - A preferred employer of knowledge professionals.

Profit and Loss Account for the period ended

	Schedule	31-03-2006	31-03-2005
<i>in Rs.</i>			
INCOME			
Sales			
- Exports		36853403	38787716
- Domestic		19867072	28864217
- Software Services		22199245	5985947
- Work-in-progress		8402568	5333280
Dividend & Other income	11	5638309	8676072
		92960597	87647232
EXPENDITURE			
Software development expenses	12	60715274	57156362
Administration and other expenses	13	20969922	20160905
Miscellaneous Expenses written off		77135	77135
		81762331	77394402
Operating Profit [PBIDT]		11198266	10252830
Depreciation		4950717	5217850
Interest		0	0
Profit before tax		6247549	5034980
Less: Fringe benefit tax		198900	0
Provision for current year income tax		525731	220087
Short provision for earlier years		174719	0
Deferred Tax		2255024	1484904
Profit after tax		3093175	3329989
Profit carried forward from last year		6825070	3495081
AMOUNT TRANSFERRED TO BALANCE SHEET		9918245	6825070
Basic & diluted EPS		0.89	1.03
Number of weighted average shares for calculating EPS		3483314	3220300

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

14

The Schedules referred to above and the notes thereon form an integral part of the Profit and Loss Account

This is the Profit & Loss Account referred to in our report of even date

for and on behalf of the Board

For A.M. REDDY & CO
Chartered Accountants

RAJU S DANDU
Chairman & Managing Director

D.S.N. RAJU
Executive Director

A.V. RAMANA REDDY
Partner
Hyderabad,
July 26, 2006

VRK CHARY
VP-Finance&Accounts

A BHASKARA RAO
Company Secretary

Schedules to the Balance Sheet as at

		<i>in Rs.</i>	
		31-03-2006	31-03-2005
1.	SHARE CAPITAL		
	AUTHORISED		
	50,00,000 Equity Shares of Rs.10/- each	50000000	50000000
	ISSUED, SUBSCRIBED AND PAID UP		
	37,20,300 Equity Shares of Rs.10/- each Fully Paid	37203000	32203000
	Fully convertible warrants	3250000	0
	(500000 warrants of Rs.65/- each, Rs..6.50 Paid-up)		
		40453000	32203000
2.	RESERVES AND SURPLUS		
	Share premium account	265807400	239740000
	Transferred from Profit and Loss Account	9918245	6825070
		275725645	246565070
3.	SECURED LOANS		
	Car loans from HDFC Bank Limited	1187547	1464549
		1187547	1464549

4. FIXED ASSETS

in Rs.

ASSETS	Gross Block			Depreciation			Net Block			
	Cost as at 01-04-2005	Additions during the year	Deductions during the year	Cost as at 31-03-2006	Total upto 01-04-2005	For the year	Deductions during the year	As at 31-03-2006	As at 31-03-2006	As at 31-03-2005
Additions to Leasehold premises	1581920	-	-	1581920	118392	25785	-	144177	1437743	1463528
Computers & software	28882699	467100	-	29349799	19609447	3670381	-	23279828	6069971	9273252
Office Equipment	1810622	200240	-	2010862	332390	91353	-	423743	1587119	1478232
Electrical Equipment	1301864	-	-	1301864	245413	61839	-	307252	994612	1056451
Lab Equipment	1422629	34198	-	1456827	172850	68265	-	241115	1215712	1249779
D G Set	684171	-	-	684171	119162	32498	-	151660	532511	565009
Elevator	325123	-	-	325123	78502	15443	-	93945	231178	246621
Air-conditioners	2233849	-	-	2233849	422367	106108	-	528475	1705374	1811482
Furniture & Fixtures	8083720	10200	-	8093920	2138633	512088	-	2650721	5443199	5945087
Office Interiors	1985586	-	-	1985586	393559	94315	-	487874	1497712	1592027
Vehicles	2551264	548245	13000	3086509	205467	272642	5957	472152	2614357	2345797
Grand Total	50863447	1259983	13000	52110430	23836182	4950717	5957	28780942	23329488	27027265
Previous Year	48475876	2733203	345632	50863447	18784988	5217850	166656	23836182	27027265	29690888

Schedules to the Balance Sheet as at

		<i>in Rs.</i>	
		31-03-2006	31-03-2005
5.	INVESTMENTS		
	Investment in Danlaw Technologies Inc (WOS)	29566245	15944265
		29566245	15944265
6.	SUNDRY DEBTORS		
	Debts outstanding for a period less than six months		
	Unsecured considered good	32328419	14492239
	Debts outstanding for a period exceeding six months	1499408	811263
		33827827	15303502
7.	CASH AND BANK BALANCES		
	Cash on hand	19810	3344
	Balances with banks		
	- in current accounts	2769806	13955491
	- in EEFC accounts	305	11345
	- in deposit accounts in Indian rupees	88803932	86048735
		91593853	100018915
8.	LOANS AND ADVANCES		
	<i>Unsecured, considered good</i>		
	<i>Advances recoverable in cash or</i>		
	<i>in kind or for value to be received</i>		
	Earnest Money Deposit	110500	330500
	Power Incentive receivable	422399	1070981
	Advances for expenses	270001	118000
	Rent deposits	2429000	2396000
	Deposit with Government Agencies	513157	510085
	Prepaid Expenses	236689	192473
	Interest Accrued but not due	4555831	3279262
	Tax Deduction at Source	5738445	7736959
	Intercorporate Deposits	8163999	9013999
		22440021	24648259
9.	CURRENT LIABILITIES		
	Sundry Creditors - for goods	679005	483159
	- for services	50017	2039
	- for expenses	2302027	1930966
	Advances from customers	276462	83780
	Provision for Current Year Income Tax	525731	220087
	Provision for Fringe Benefit Tax	51810	0
		3885052	2720031

10. MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED:

Balance as on 1-4-2005:		
Public Issue Expenses	77135	154270
Less: <u>Written Off during the year</u> Public Issue Expenses (1/10 of Rs.771350)	77135	77135
Balance as on 31-03-2006:		
Public Issue Expenses	0	77135
	0	77135
R&D Expenses	87141187	68604992
Deferred Tax Asset		
Fixed Assets	4580687	3772277
Investments	9175415	9175415
Others	6887377	9950811
	20643479	22898503
	107784666	91580630

Schedules to the Profit and Loss Account

11. OTHER INCOME		
Income from Investments:		
- Profit on sale of investments	206028	2627532
Interest Income (TDS - Rs.9,94,585/-, Previous year Rs.11,83,505/-)	5272363	5646674
Investment subsidy	0	400000
Interest on IT Refund	155139	0
Miscellaneous Income	4779	1866
	5638309	8676072
12. SOFTWARE DEVELOPMENT EXPENSES		
Salaries & other benefits	32253700	24984844
Cost of software packages & biometrics goods sold	8900165	20865691
Cost of electronic components	4367929	6267761
Communication Expenses	783347	703542
Work-in-progress (opening)	5333280	0
Software development charges	7070000	1830288
Sales Commission	83437	18000
Sales Discount	48894	0
Staff welfare	827642	895573
Foreign tour and travel	1046880	1590663
	60715274	57156362

13. ADMINISTRATION AND OTHER EXPENSES		
Advertisement	33209	40724
AGM Expenses	12004	6453
Audit expenses	1240	1200
Auditor's remuneration - audit fees	55100	55100
Bank charges and commission	64475	63739
Books & Periodicals	20463	41970
Business Development Expenses	327766	438915
Conveyance	614975	776145
Depository Registrar Fee	54532	44694
Directors sitting fee	59000	32000
Insurance Charges	365919	280292
Legal & Professional Charges	233575	151388
Listing Fee	49700	24700
Loss on sale of assets	1543	60475
Membership Fee	264415	220466
Miscellaneous Expenses	214840	184781
Office Maintenance	1699771	1514154
Postage & Telegrams	112812	71342
Power and Fuel	1370070	1294905
Printing and Stationery	275680	253413
Registration, Licence & Filing Fee	119704	284774
Rent, Rates & Taxes	4868871	4375830
Salaries	6242305	5799031
Sales Tax	995344	819926
Staff Recruitment & Training	231925	425519
Finance Charges	49208	3110
Telephone charges	913873	773683
Travelling expenses -		
- Directors	791532	986352
- Others	926071	1135824
	20969922	20160905

14. Significant Accounting Policies And Notes On Accounts

14.1 Significant accounting policies

14.1.1 Basis for preparation of financial statements

The financial statements have been prepared under the historical-cost convention and as a going concern as per the Generally Accepted Accounting Principles and the Provisions of the Companies Act, 1956. All income and expenditure having a material bearing on the financial statements are recognized on accrual basis.

14.1.2 Revenue recognition

Revenue from software development is recognized based on software developed and billed to clients as per the terms of specific contracts. In the case of fixed-price contracts, revenue is recognized based on the work completed.

14.1.3 Expenditure

Expenses are accounted on accrual basis.

14.1.4 Fixed assets

Fixed assets are stated at the cost of acquisition, less accumulated depreciation. Cost comprises of purchases and attributable cost.

14.1.5 Inventory

Inventory is valued at cost and work-in-progress is valued at cost or realizable value whichever is less.

14.1.6 Depreciation

Depreciation on fixed assets is provided on pro-rata basis on straight-line method at the rates specified in Schedule XIV of the Companies Act, 1956.

14.1.7 Research and development

Revenue expenditure – direct expenses on R&D incurred during the year for the development of products are treated as deferred revenue expenditure. The amount shall be amortized against the revenues to be earned over a period of time, to be determined at the time of product launch.

14.1.8 Foreign currency transactions

In the case of sales made to clients outside India, income is accounted on the basis of the exchange rate as on the date of the transaction. Adjustments are made for any variations in the sale proceeds on conversion into Indian currency upon actual receipt. In the case of expenditure in foreign currency, the expenses are accounted on the basis of exchange rate as on the date of the transaction. In case expenses are met out of EEFC accounts, the same is accounted for at the rate at which the EEFC funds are maintained in the books of account.

14.1.9 Investments

The short-term investments are valued and carried at cost or fair value whichever is lower. In case of sale of investments, the gain/loss is brought into the books of account.

14.2 Notes on accounts

The previous year's figures have been regrouped, reclassified / restated, wherever necessary, to conform to the current year's classification.

14.2.1 Contingent liabilities

The Company has outstanding counter guarantees of Rs.8,24,58,459/- as at March 31, 2006, to various banks, in respect of guarantees given by the said banks in favor of bodies corporate to the extent of Rs. 8,01,00,337/- and Rs.23,58,122/- to government

authorities. The counter guarantees outstanding as at the previous year-end was Rs.7,46,91,767/- and Rs.22,57,835/- respectively.

14.2.2 Quantitative details

The information as required under paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956 are not applicable to this company.

14.2.3 The Company has issued 500000 equity shares of Rs.10/- each on September 21, 2005 through preferential issue at a premium of Rs.55/- per share amounting to Rs.3,25,00,000/-. The Company has also issued 500000 fully convertible warrants of Rs.65/- each, convertible within a period of 18 months against which 10% was received upfront amounting to Rs.32,50,000/-.

14.2.4 The proceeds from preferential issue and convertible warrants were utilized for productization and marketing of ESAP™.

14.2.5 Taxes on Income as per A.S - 22

a) In accordance with the Accounting Standard (AS) 22 relating to "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India, an amount of Rs.15.34 lakhs has been recognized in Profit & Loss Account as Deferred Tax liability accrued during the year.

b) Major components of deferred tax assets on account of timing differences are -

Year ended March 31	Rs.	
	2006	2005
Fixed Assets	808410	417295
Investments	--	--
Others	(2341961)	(1902199)
Total	(1533551)	(1484904)

14.2.6 Managerial Remuneration

The following managerial remuneration was paid as per the board of director's decision and approved by the shareholders.

Particulars	Rs.	
	Raju S Dandu	DSN Raju
Salary	1080000	540000
Contribution to PF	129600	64800
Other perquisites	--	487793
Total	1209600	1092593

14.2.7 Related Party transactions

The Company had transactions with the following related parties:

Danlaw Inc., USA (DI) in which Mr. Raju S Dandu is CEO; Danlaw Technologies Inc., USA, (DTI) which is 100% Subsidiary of Danlaw Technologies India Ltd., and Danlaw Systems India Ltd. in which Mr. Raju S Dandu and Mr. DSN Raju are directors. Mr. Raju S Dandu, Chairman & Managing Director (CMD); Mr. D S N Raju, Executive Director (ED); and Mrs. D Lakshmi, relative of ED.

Summary of the transactions with the above related parties is as follows:

Nature of transaction	Transactions for the year ended March 31		Balance as at March 31	
	2006	2005	2006	2005
<u>Receipts</u>				
Software Services	313.41	205.56	230.96	--
<u>Payments</u>				
Remuneration	23.02	22.92	--	--
Lease Rentals	39.07	33.32	--	--
Productization expenses	83.16	104.13	--	--
ICD	--	--	*108.40	*109.65
Investment (WOS)	136.22	--	295.66	159.44

* Includes accrued interest

14.2.8 Segment reporting

The company's sales are basically related to providing software development services delivered to customers situated at USA. Hence the primary and secondary segment reporting is based on the software development services to USA only.

14.2.9 There are no dues to small Scale Industrial undertakings outstanding above Rs. one lakh and exceeding 30 days.

14.2.10 Imports on CIF basis

Year ended March 31	Rs.	
	2006	2005
Capital goods	9,054	1,35,054

14.2.11 Expenditure in foreign currency

Year ended March 31	Rs.	
	2006	2005
Expenditure	1,76,20,017	1,94,57,973

14.2.12 Earnings in foreign exchange

Year ended March 31	Rs.	
	2006	2005
Income from software development services and products on accrual basis	3,68,53,403	3,87,87,716

for and on behalf of the Board

Signatures to Schedules 1 to 14

For A.M. REDDY & CO
Chartered Accountants

RAJU S DANDU
Chairman & Managing Director

D.S.N. RAJU
Executive Director

A.V. RAMANA REDDY
Partner

VRK CHARY
VP-Finance&Accounts

A BHASKARA RAO
Company Secretary

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Statement of cash flows for the year ended March 31

	in Rs.	
	2006	2005
Cash flows from operations		
Profit from operations	6247549	5034980
Depreciation and depletion	4950717	5217850
Income Taxes paid	(373619)	0
Loss on sale of fixed assets	1543	60475
Decrease (increase) in sundry debtors	(18524325)	1389299
Decrease (increase) in loans and advances	2208238	262437
Decrease (increase) in inventory	(4279330)	(5620147)
Increase (decrease) in current liabilities	1165021	1145367
Decrease (Increase) in miscellaneous expenditure	(18984791)	(23899727)
Net cash from operations	(27588997)	(16409466)
Cash flows from financing		
Additional share capital	5000000	0
Share premium	26067400	0
Fully convertible warrants	3250000	0
Secured loans	(277002)	1464549
Net cash from financing	34040398	1464549
Cash flows from investing		
Proceeds of sale of fixed assets	5500	0
Purchase of Fixed Assets	(1259983)	(2614702)
Investments	(13621980)	32028041
Net cash from investing	(14876463)	29413339
Total increase (decrease) in cash and equivalents during the year	(8425062)	14468422
Cash and equivalents at the beginning of the year	100018915	85550493
Cash and equivalents at the end of the year	91593853	100018915

These are the Cash Flow Statements referred to in our report of even date

for and on behalf of the Board

For A.M. REDDY & CO
Chartered Accountants

RAJU S DANDU
Chairman & Managing Director

D.S.N. RAJU
Executive Director

A.V. RAMANA REDDY
Partner
Hyderabad;ad
July 26, 2006

VRK CHARY
VP-Finance&Accounts

A BHASKARA RAO
Company Secretary

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL PROFILE

I) Registration No.	15099	State Code:	01
Corporate Identification No. (CIN)	L72200AP1992PLC015099		
II) <u>Capital raised during the year (Amount in Rs.)</u>			
Public Issue	- NIL -	Right Issue	- NIL -
Bonus Issue	- NIL -	Private Placement	5000000
III) <u>Position of Mobilization and deployment of funds: (Amount in Rs.)</u>			
Total Liabilities	317366192	Total Assets	317366192
<u>Sources of Funds</u>		<u>Application of Funds</u>	
Paid-up Capital	37203000	Net Fixed Assets	23329488
Reserves & Surplus	275725645	Investments	29566245
Fully convertible warrant (Partly paid)	3250000	Net Current Assets	156685793
Secured Loans	1187547	Miscellaneous Expenditure	107784666
IV) <u>Performance of Company (Amount in Rs.)</u>			
Turnover	92960597	Total Expenditure	86713048
Profit/Loss before Tax	6247549	Profit after Tax	3093175
Earning per share (Rs.)	0.89	Dividend Rate	- NIL -
V) <u>Generic Names of principal products, services of the Company</u>			
Item Code No.	85249009.1		
Product Description	Computer Software		

for and on behalf of the Board

For A.M. REDDY & CO
Chartered Accountants

RAJU S DANDU
Chairman & Managing Director

D.S.N. RAJU
Executive Director

A.V. RAMANA REDDY
Partner

VRK CHARY
VP-Finance&Accounts

A BHASKARA RAO
Company Secretary

Hyderabad;ad
July 26, 2006

**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES
ACT, 1956 RELATING TO COMPANY'S INTEREST IN SUBSIDIARY
COMPANY**

Name of the subsidiary company : Danlaw Technologies Inc.
 Financial year of the subsidiary company : April 2005 to March 2006
 Extent of holding company's interest : 100 %

**DANLAW TECHNOLOGIES INC.
DIRECTORS' REPORT**

Your directors take pleasure in presenting the financial results of the company for the year 2005-06 :

No.	Particulars	Rs. Lakhs	
		<u>Period ended 31.03.2006</u>	<u>Period ended 31.03.2005</u>
1	Net sales/Income from operations	332.59	355.44
2	Other Income	0.00	0.00
3	Total Income	332.59	355.44
4	Software development expenses	258.71	277.69
5	Gross Profit	73.88	77.75
6	Administrative & General expenses	69.60	58.91
7	Depreciation	0.55	0.00
8	Net Profit (Loss) before tax	3.73	18.84
9	Income tax	0.00	0.00
10	Deferred taxes	0.00	0.00
11	Profit (Loss) after tax	3.73	18.84
12	Paid up equity share capital	295.66	159.44

The company has received funds during the year from their parent Danlaw Technologies India Limited an amount of Rs.136.22 lakhs for investment in a billing company. The gross margin is maintained at 22 %.

For and on behalf of the Board
Danlaw Technologies Inc.

Raju S Dandu
Chairman

CERTIFIED PUBLIC ACCOUNTANT CERTIFICATE
ON WHOLLY OWNED SUBSIDIARY

GRANT, MILLMAN & JOHNSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS CONSULTANTS
30180 ORCHARD LAKE ROAD, SUITE 300
FARMINGTON HILLS, MICHIGAN 48334-2266

Accountants' Review Report

To the Board of Directors
Danlaw Technologies, Inc.
Farmington Hills, Michigan

We have reviewed the accompanying balance sheets of Danlaw Technologies, Inc. (a wholly owned subsidiary of Danlaw Technologies India, Ltd.) as of March 31, 2006 and 2005 and the related statements of operations, stockholder's equity and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Danlaw Technologies, Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

GRANT, MILLMAN & JOHNSON, P.C.

June 30, 2006

DANLAW TECHNOLOGIES, INC.

BALANCE SHEET
March 31, 2006 and 2005

ASSETS

	2006	2005
Current Assets :		
Cash	\$ 13,408	\$ 1,754
Accounts Receivable	51,958	18,623
Accounts Receivable - Affiliate	593,077	506,665
Advances	67,000	46,000
Total Current Assets	725,443	573,042
Property and Equipment :		
Computer Equipment	12,704	--
Office furniture and Equipment	5,275	--
	17,979	--
<u>Less : Accumulated Depreciation</u>	<u>(1,244)</u>	<u>--</u>
Total Property and Equipment	16,735	--
Other Assets :		
Goodwill	205,000	--
TOTAL ASSETS	\$ 947,178	\$ 573,042

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities :		
Accounts Payable - Affiliate	\$ 292,678	\$ 193,808
Accounts Payable - Other	60,349	6,476
Accounts Payable - Parent	158,294	177,896
Accrued Payroll and Payroll Taxes	64,838	72,556
Customer Deposits	1,000	--
Total Current Liabilities	577,159	511,736
Stockholder's Equity		
Common Stock - \$10 Par Value; 34,000 Shares Authorised, Issued and Outstanding	340,000	340,000
Additional Paid-in Capital	300,000	--
Accumulated Deficit	(269,981)	(278,694)
Total Stockholder's Equity	370,019	61,306
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 947,178	\$ 573,042

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DANLAW TECHNOLOGIES, INC.
STATEMENTS OF OPERATIONS
 For the Years Ended March 31, 2006 and 2005

Revenue:	2006	2005
Automotive Electronics	\$ 8 79,118	\$ 961,061
IT Applications	62,653	108,188
Security Products	32,664	8,547
ESAP cm Sales	18,974	2,348
ESAP sp Sales	111,873	-
Total Revenue	1,105,282	1,080,144
Cost of Sales:		
Subcontract Work-Parent	298,311	282,596
Subcontract Work-Affiliate	41,458	100,237
Cost of Products-Parent	48,030	-
Secuurity Product Costs	34,686	7,390
Technical Salaries	197,652	258,031
Billing Salaries	68,916	-
Payroll Taxes	24,145	19,286
Employee Benefits	14,233	12,682
ESAP spProcessing Fees	10,266	-
Other Experenses	2,749	13,435
Total Cost of Sales	740,446	693,657
Gross Profit	364,836	386,487
General and Administrative Expenses :		
Business Development	96,000	96,000
Travel & Lodging	17,905	14,548
Sales Promotion	-	2,000
Sales Salaries	125,512	125,431
Payroll Taxes	8,980	7,338
Sales Commissions	51,000	60,000
Payroll Preparation	3,100	1,304
Auto Expense	10,027	5,400
Telephone	2,702	816
Meals & Entertainment	3,616	3,996
Rent & Utilities	22,354	21,250
Professional Services	4,305	6,420
Insurance	481	-
Repairs & Maintenance	2,812	-
Depreciation	1,244	-
Office Expenses	2,862	945
Michigan Single Business tax	1,301	-
Other	1,922	-
Total General and Adminstrative Expenses	3,56,123	345,448
NET INCOME	8,713	41,039

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DANLAW TECHNOLOGIES, INC.
STATEMENTS OF STOCKHOLDER'S EQUITY
For the Years Ended March 31, 2006 and 2005

	Accumulated Deficit	Additional Paid-in Capital	Common Stock	Total
Balance March 31, 2004	\$ (319,733)	-	\$ 340,000	\$ 20,267
Net Income	41,039	-	-	41,039
Balance March 31, 2005	(278,694)	-	340,000	61,306
Additional Capital	-	300,000	-	300,000
Net Income	8,713	-	-	8,713
Balance March 31, 2006	<u>\$ (269,981)</u>	<u>\$ 300,000</u>	<u>\$ 340,000</u>	<u>\$ 370,019</u>

STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2006 and 2005

	2006	2005
Cash Fows From Operating Activities :		
Net Income	\$ 8,713	\$ 41,309
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities :		
Depreciation	1,244	-
Changes in Operating Assets and Liabilities		
Accounts Receivable	(119,747)	(398,988)
Employee Advances	(21,000)	(30,000)
Advances-Officer	-	4,900
Accounts Payable	72,141	391,158
Accrued Liabilities	-	(3,547)
Accrued Payroll and Payroll Taxes	(7,718)	(2,787)
Customer Deposits	1,000	(775)
<i>Net Cash Provided by (used in) Operating Activities</i>	<u>(65,367)</u>	<u>1,000</u>
Cash Flows from Investing Activities :		
Purchase of Property and Equipment	(17,979)	-
Payment for Goodwill	(205,000)	-
<i>Net Cash Used in Investing Activities</i>	<u>(222,979)</u>	<u>-</u>
Cash Flows from Financing Activites		
Additional Capital Received	300,000	-
<i>Net Cash Provided by Financing Acitivites</i>	<u>300,000</u>	<u>-</u>
Increase (Decrease) in Cash	<u>11,654</u>	<u>1,000</u>
Cash at Beginning of Year	<u>1,754</u>	<u>754</u>
Cash at End of Year	<u>\$ 13,408</u>	<u>\$ 1,754</u>

READ ACCONTANTS' REPORT AND NOTES TO FINANCIAL STTEMENTS

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DANLAW TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2006 and 2005

NOTE 1 - Summary of Accounting Policies:

Business Activity

The Company is in the business of providing engineering and software development consulting services. Danlaw Technologies Inc. (DTI) is a wholly owned subsidiary of Danlaw Technologies India Ltd., a foreign corporation organized in India. DTI was incorporated in September 2001 to market engineering and information technology services to customers in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition Policy

The Company's policy is to recognize revenue as services are provided. Revenue is calculated based on the hours of service provided at contractual rates and adjusted for expected realization upon final invoicing.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash includes amounts in corporate bank accounts, which may exceed Federal Deposit Insurance Corporation insurance limits of \$100,000.

Accounts Receivable and Concentration of Credit Risk

The Company's receivables are concentrated in the automotive industry. At March 31, 2006 and March 31, 2005, the Company's accounts receivable are due mainly from automotive suppliers and manufacturers. Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

Depreciation

The Company depreciates its property, plant and equipment using declining balance and straight-line methods over estimated useful lives ranging from three to seven years for financial reporting purposes.

DANLAW TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED..)
 March 31, 2006 and 2005

NOTE 1 - Summary of Accounting Policies (Continued):

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial tax reporting. Deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Goodwill

Goodwill is recognized for the excess of the purchase price of business acquired over the fair value of net assets acquired. The Company follows Statement of Financial Accounting Standards No.142. Goodwill is reviewed annually for impairment of stated value. There were no losses for goodwill impairment recognized during the year ended March 31, 2006.

NOTE 2 – Acquisition:

Effective November 10, 2005, the Company acquired the assets of Centennial State Billing Services, LLC for \$250,000. The Company purchased only certain assets and did not assume liabilities in connection with the purchase. The purchase price of \$ 250,000 was allocated as follows:

Cash	\$ 31,802
Accounts Receivable	2,923
Property and Equipment	10,275
Goodwill	<u>205,000</u>
	\$ 250,000

NOTE 3 – Income Taxes :

No provision for income taxes has been included in the 2006 or 2005 statement of operations due to the net operating losses available to offset taxable income. The current income tax provision is as follows:

	<u>2006</u>	<u>2005</u>
Tax on current income	\$ 4,200	\$ 14,600
Benefit of net operating loss carry over	<u>(4,200)</u>	<u>(14,600)</u>
Total Current Income tax	<u>--</u>	<u>--</u>

The deferred tax asset is as follows at March 31 :

Benefit of net operating loss carry over	\$ 89,400	\$ 93,600
Value allowance	<u>(89,400)</u>	<u>(93,600)</u>
Total Deferred Income tax	<u>--</u>	<u>--</u>

DANLAW TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED..)
 March 31, 2006 and 2005

NOTE 3 – Income Taxes (Continued) :

For income tax purposes at March 31, 2006, the Company has net operating loss carryovers which expire as follows:

Fiscal Years Ended March 31	
2024	\$ 148,000
2023	\$ 127,000

NOTE 4 - Related Party Transactions :

The Company is related by common ownership to Danlaw Technologies India Ltd. and by common management to Danlaw Inc. The following summarizes transactions and outstanding balances with the related entities :

Transactions For The Year Ended March 31 :

	2006	2005
<u>Sales</u>		
Danlaw Inc.	\$ 876,004	\$ 961,062
<u>Purchases</u>		
Danlaw Technologies India Ltd.,	\$ 349,090	\$ 282,596
Danlaw, Inc.	41,458	100,237
<u>Rent Expense</u>		
Danlaw, Inc.	\$ 7,896	\$ 7,896
Balances as of March 31 :		
<u>Accounts Receivable</u>		
Danlaw, Inc.	\$ 593,077	\$ 506,665
<u>Accounts Payable</u>		
Danlaw Technologies India Ltd.,	\$ 158,294	\$ 177,896
Danlaw, Inc.	292,678	193,808

NOTE 5 – Lease Commitments

The Company rents office space from Danlaw, Inc. on a month-to-month basis. For the years ended March 31, 2006 and 2005, rent paid was \$7,896 per year.

NOTE 6 – Retirement Plan

The Company maintains a 401(k) Profit Sharing Plan available to all employees meeting certain age and service requirements. The plan allows employees to contribute up to 15% of their salary to the plan, subject to Internal Revenue Code limitations. The Company may elect to match a portion of the employees' contribution to the plan and contribute additional amounts at its discretion. There were no employer contributions for the years ended March 31, 2006 and 2005.

NOTE 7 – Reclassification

Certain amounts for the year ended March 31, 2005 have been reclassified to conform to the current year presentation.

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A.M.Reddy & Co.,
Chartered Accountants

10-5-6/B, "My Home Plaza",
Off: 103, IInd Floor, Masabtank, Hyderabad - 500 028.
Phones: 23316426, 23316912

Auditors' Report on the Consolidated Financial Statements

The Board of Directors
Danlaw Technologies India limited
Hyderabad.

We have examined the attached Consolidated Balance Sheet of Danlaw Technologies India Limited and its subsidiary as at March 31, 2006, the Consolidated Profit and Loss Account for the year then ended.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit. We have conducted our audit of the parent Company in accordance with 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 assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit for the parent Company provides a reasonable basis for our opinion.

We did not audit the financial statements of the subsidiary, Danlaw Technologies, Inc., which have been reviewed by M/s Grant, Millman & Johnson, P.C., Michigan State, USA. The report of the Certified Public Accountant has been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the CPA.

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 statements of Danlaw Technologies India Limited and reviewed financial statements of the subsidiary are included in the consolidated financial statements.

On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Danlaw Technologies India Limited and its aforesaid subsidiary, we are of the opinion that:

a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of Danlaw Technologies India Limited and its subsidiaries as at March 31, 2006; and b) the Consolidated Profit & Loss Account gives a true and fair view of the consolidated results of operations of Danlaw Technologies India Limited and its subsidiary for the year then ended.

for AM REDDY & CO
CHARTERED ACCOUNTANTS

Place :Hyderabad
Date : 26/07/2006

(CA. RAMANA REDDY A.V.)
PARTNER
Membership No. 024329

CONSOLIDATED BALANCE SHEET AS AT

		<i>in Rs.</i>	
	Schedule	31-03-2006	31-03-2005
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	40453000	32203000
Reserves and Surplus	2	265404772	239555810
Secured Loans	3	1187547	1464549
		307045319	273223359
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	4	52909417	50863447
Less: Depreciation		28836225	23836182
Net Block		24073192	27027265
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry Debtors	5	55382688	30311212
Cash and bank balances	6	92189705	100095039
Loans and advances	7	25417501	26644659
Inventory		12709144	8429814
		185699038	165480724
Less: Current liabilities	8	22499413	17208686
NET CURRENT ASSETS		163199625	148272038
Goodwill		9110200	0
Miscellaneous Expenditure: (to the extent not written off or adjusted)	9	107784666	91580630
Profit & Loss Account		2877636	6343426
		307045319	273223359

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

13

The schedules referred to above and the notes thereon form an integral part of the Balance Sheet

This is the Balance Sheet referred to in our report of even date

for and on behalf of the Board

For A.M. REDDY & CO
Chartered Accountants

RAJU S DANDU
Chairman & Managing Director

D.S.N. RAJU
Executive Director

A.V. RAMANA REDDY
Partner

VRK CHARY
VP-Finance&Accounts

A BHASKARA RAO
Company Secretary

Danlaw - A preferred employer of knowledge professionals.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED

		<i>in Rs.</i>	
	Schedule	31-03-2006	31-03-2005
INCOME			
Sales			
- Exports		70111955	74331108
- Domestic		19867072	28864217
- Software Services		22199245	5985947
- Work-in-progress		8402568	5333280
Dividend & Other income	10	5638309	8676072
		126219149	123190624
EXPENDITURE			
Software development expenses	11	86586080	84924807
Administration and other expenses	12	27929770	26052255
Miscellaneous Expenses written off		77135	77135
		114592985	111054197
Operating Profit [PBIDT]		11626164	12136427
Depreciation		5006000	5217850
Interest		0	0
Profit before tax		6620164	6918577
Less: Fringe benefit tax		198900	0
Provision for current year income tax		525731	220087
Short provision for earlier years		174719	0
Deferred Tax		2255024	1484904
Profit after tax		3465790	5213586
Profit carried forward from last year		(6343426)	(11557012)
AMOUNT TRANSFERRED TO BALANCE SHEET		(2877636)	(6343426)
Basic & diluted EPS		0.99	1.62
Number of weighted average shares for calculating EPS		3483314	3220300
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS			
	13		

The Schedules referred to above and the notes thereon form an integral part of the Profit and Loss Account

This is the Profit & Loss Account referred to in our report of even date

for and on behalf of the Board

For A.M. REDDY & CO
Chartered Accountants

RAJU S DANDU
Chairman & Managing Director

D.S.N. RAJU
Executive Director

A.V. RAMANA REDDY
Partner
Hyderabad;ad
July 26, 2006

VRK CHARY
VP-Finance&Accounts

A BHASKARA RAO
Company Secretary

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT

		<i>in Rs.</i>	
		31-03-2006	31-03-2005
1.	SHARE CAPITAL		
	AUTHORISED		
	50,00,000 Equity Shares of Rs.10/- each	50000000	50000000
	ISSUED, SUBSCRIBED AND PAID UP		
	37,20,300 Equity Shares of Rs.10/- each Fully Paid	37203000	32203000
	Fully convertible warrants (500000 warrants of Rs.65/- each, Rs.6.50 Paid-up)	3250000	0
		40453000	32203000
2.	RESERVES AND SURPLUS		
	Share premium account	265807400	239740000
	Exchange conversion reserve	(402628)	(184190)
		265404772	239555810
3.	SECURED LOANS		
	Car loans from HDFC Bank Limited	1187547	1464549
		1187547	1464549

4. FIXED ASSETS

ASSETS	Gross Block				Depreciation			Net Block		
	Cost as at 01-04-2005	Additions during the year	Deductions during the year	Cost as at 31-03-2006	Total upto 01-04-2005	For the year	Deductions during the year	As at 31-03-2006	As at 31-03-2006	As at 31-03-2005
Additions to Leasehold premises	1581920	-	-	1581920	118392	25785	-	144177	1437743	1463528
Computers & software	28882699	467100	-	29349799	19609447	3670381	-	23279828	6069971	9273252
Office Equipment	1810622	200240	-	2010862	332390	91353	-	423743	1587119	1478232
Electrical Equipment	1301864	-	-	1301864	245413	61839	-	307252	994612	1056451
Lab Equipment	1422629	34198	-	1456827	172850	68265	-	241115	1215712	1249779
D G Set	684171	-	-	684171	119162	32498	-	151660	532511	565009
Elevator	325123	-	-	325123	78502	15443	-	93945	231178	246621
Air-conditioners	2233849	-	-	2233849	422367	106108	-	528475	1705374	1811482
Furniture & Fixtures	8083720	10200	-	8093920	2138633	512088	-	2650721	5443199	5945087
Office Interiors	1985586	-	-	1985586	393559	94315	-	487874	1497712	1592027
Vehicles	2551264	548245	13000	3086509	205467	272642	5957	472152	2614357	2345797
WOS Equipment	-	798987	-	798987	0	55283	-	55283	743704	0
Grand Total	50863447	2058970	13000	52909417	23836182	5006000	5957	28836225	24073192	27027265
Previous Year	48475876	2733203	345632	50863447	18784988	5217850	166656	23836182	27027265	29690888

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31

	<i>In Rs.</i>	
	31-03-2006	31-03-2005
5. SUNDRY DEBTORS		
Debts outstanding for a period less than six months		
Unsecured considered good	53883280	29499949
Debts outstanding for a period exceeding six months	1499408	811263
	55382688	30311212
6. CASH AND BANK BALANCES		
Cash on hand	19810	3344
Balances with banks		
- in current accounts	3365658	14031615
- in EEFC accounts	305	11345
- in deposit accounts in Indian rupees	88803932	86048735
	92189705	100095039
7. LOANS AND ADVANCES		
<i>Unsecured, considered good</i>		
<i>Advances recoverable in cash or</i>		
<i>in kind or for value to be received</i>		
Earnest Money Deposit	110500	330500
<i>Power incentive receivable</i>	422399	1070981
Advances for expenses	3247481	2114400
Rent deposits	2429000	2396000
Deposit with Government Agencies	513157	510085
Prepaid Expenses	236689	192473
Interest Accrued not received	4555831	3279262
Tax Deduction at Source	5738445	7736959
Intercorporate Deposits	8163999	9013999
	25417501	26644659
8. CURRENT LIABILITIES		
Sundry Creditors - for goods	679005	483159
- for services	50017	2039
- for expenses	20871948	16419621
Advances from customers	320902	83780
Provision for Current Year Income Tax	525731	220087
Provision for Fringe Benefit Tax	51810	0
	22499413	17208686

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31

9. MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED:

Balance as on 1-4-2005:		
Public Issue Expenses	77135	154270
Less: <u>Written Off during the year</u>		
Public Issue Expenses (1/10 of Rs.771350)	77135	77135
Balance as on 31-03-2006:		
Public Issue Expenses	0	77135
	0	77135
R&D Expenses	87141187	68604992
Deferred Tax Asset		
Fixed Assets	4580687	3772277
Investments	9175415	9175415
Others	6887377	9950811
	20643479	22898503
	107784666	91580630

SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED

		<i>in Rs.</i>	
		31-03-2006	31-03-2005
10.	OTHER INCOME		
	Income from Investments:		
	- Profit on sale of investments	206028	2627532
	Interest Income	5272363	5646674
	(TDS - Rs.9,94,585/-, Previous year Rs.11,83,505/-)		
	Investment Subsidy	0	400000
	Interest on IT refund	155139	0
	Miscellaneous Income	4779	1866
		5638309	8676072

**SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS
ACCOUNT FOR THE PERIOD ENDED**

		<i>in Rs.</i>	
		31-03-2006	31-03-2005
11.	SOFTWARE DEVELOPMENT EXPENSES		
	Salaries	53232076	46261810
	Sub-contract works/services	1794944	4456713
	Cost of software packages & biometrics goods sold	10424095	21189060
	Cost of electronic componets	4367929	6850034
	Communication Expenses	783347	703542
	Work-in-progress (opening)	5333280	0
	Software development charges	7070000	1830288
	Sales Commission	83437	18000
	Sales Discount	48894	0
	Staff welfare	1611194	1640896
	Foreign tour and travel	1836884	1974464
		86586080	84924807
12.	ADMINISTRATION AND OTHER EXPENSES		
	Advertisements	33209	40724
	AGM Expenses	12004	6453
	Audit expenses	1240	1200
	Auditor's remuneration - audit fees	55100	55100
	Bank charges and commission	64475	63739
	Books & Periodicals	20463	41970
	Business Development Expenses	4546246	5064835
	Conveyance	1057400	1016109
	Depository Registrar Fee	54532	44694
	Directors sitting fee	59000	32000
	Insurance Charges	387141	280292
	Legal & Professional Charges	561026	151388
	Listing Fee	49700	24700
	Loss on sale of assets	1543	60475
	Membership Fee	264415	220466
	Miscellaneous Expenses	214840	184781
	Office Maintenance	2495816	2151275
	Postage & Telegrams	112812	71342
	Power and Fuel	1370070	1294905
	Printing and Stationery	275680	253413
	Registration, Licence & Filing Fee	119704	284774
	Rent, Rates & Taxes	5903545	4727794
	Salaries	6242305	5799031
	Sales Tax	995344	819926
	Staff Recruitment & Training	231925	425519
	Finance Charges	49208	3110
	Telephone charges	1033424	810064
	Travelling expenses -		
	Directors	791532	986352
	Others	926071	1135824
		27929770	26052255

Statement of Significant Accounting Policies for the consolidated financial statements

Scope of Business units

Danlaw Technologies India Limited is a company engaged in providing technology services in the areas of engineering services, internet, developing software products and security solutions for the clients. The Company has also entered into the business of biometric products providing security solutions to the clients. The company has a single subsidiary at USA in the name of 'Danlaw Technologies Inc' for promoting the services provided by the Danlaw Technologies India Limited to US clients. The subsidiary is wholly owned by the company by virtue of its total holding of equity of the subsidiary. The Chairman and Managing Director supported by three marketing staff members and five technical staff members mans the WOS. The Danlaw Technologies Inc (DTI) is basically engaged in providing Engineering and software development and consultancy services to USA clients. The wholly owned subsidiary of the company together with the parent shall hereinafter be referred as Danlaw for the purposes of consolidated accounts. The accounting year for the parent company and the US subsidiary is the same i.e. from April 1st to March 31st every year.

Significant Accounting Policies And Notes On Accounts:

1. Basis for consolidation of financial statements

The consolidation of financial statements of Danlaw has been made as per the Generally Accepted Accounting Principles and the Provisions of the Accounting standard 21 issued by the Institute of Chartered Accountants of India. The consolidation of accounts of Danlaw took place based on the audited financial statements of the parent by the statutory auditors of the company and reviewed financial statements of the subsidiary by the Certified Public Accountants of Michigan State. While consolidation Inter Company balances and transactions are eliminated in full. The consolidation is based on the concepts of accrual, going concern and conservatism. All income and expenditure having a material bearing

on the financial statements are recognized on the accrual basis.

2. Revenue recognition

Revenue from software development of Danlaw is recognized based on software developed and billed to clients considering the men and material used for the specific project. In the case of fixed-price contracts, revenue is recognized based on the work completed.

3. Expenditure

All expenses of Danlaw are accounted on the accrual basis.

4. Fixed assets

Fixed assets are there only for the parent company. They are stated at the cost of acquisition, less accumulated depreciation. Cost comprises of purchases and attributable cost. Depreciation on fixed assets is provided based on the Companies Act, 1956 for the Indian assets and there are no depreciable assets in the subsidiary.

5. Foreign currency transactions

In the case of sales made to clients outside India for the parent, income is accounted on the basis of the exchange rate as on the date of the transaction. Adjustments are made for any variations in the sale proceeds on conversion into Indian currency upon actual receipt.

In the case of expenditure in foreign currency, the expenses are accounted on the basis of exchange rate as on the date of the transaction. In case expenses are met out of EEFC accounts, the same is accounted for at the rate prevailing on the date of receipt of funds in EEFC account or at the rate at which the EEFC funds are maintained.

All transactions of the subsidiary are only in US dollars. There is no foreign currency transaction *per se*. But on account of consolidation all the outstanding entries of the subsidiary as on March 31, 2006 have been converted into Indian rupees and consolidation was affected.

6. Foreign Currency translations

The accompanying financial statements of WOS are reported in U.S. dollars. The functional currency of the parent company in India is the Indian rupee ("Rs."). Hence translation of U.S. dollars to Rs. is performed for balance sheet accounts using the exchange rate prevailing as at the balance sheet date, and for revenue and expense accounts using a quarterly average exchange rate for the respective quarters. The gains or losses resulting from such translation are reported as "Exchange conversion reserve", a separate component of reserves and surplus head in the consolidated accounts. The method for translating expenses of overseas operations depends upon the timing of the funds used. The balance sheet items of the WOS have been converted at the rate Rs.44.44 per dollar. For conversion of the income statement, the statement figures have been segregated based on the quarter to which the transaction pertains and translated at the average quarterly exchange rate of Rs.43.26, Rs.43.33, Rs.45.06 & Rs.44.12 per US dollar for the respective quarters.

7. Investments

The short-term investments of the parent company are valued and carried at cost or fair value whichever is lower. In case of sale of investments, the gain/loss is brought into the books of account. There is no income earning investments in the subsidiary.

8. Related Party transactions

The company entered into related party transactions during the year with Danlaw Technologies Inc., USA a wholly owned subsidiary of the company. The CMD of the company is also CEO of the wholly owned Subsidiary and Danlaw Inc. The company had invested USD 640000 in the form of equity divided in 64000 shares of USD 10 each. The Danlaw Technologies Inc had sales of Rs.485.96 lakhs during the year ended March 31, 2006 of which the sales made to the company are Rs 153.38 lakhs. Both the company and the subsidiary have entered into transactions with Danlaw Inc, which is a related party.

Statement of sales and work orders

In US Dollars

S A L E S	WORK ORDERS			
		DTIL	DTI	DI
	DTIL	NA	3,49,090	3,61,775
	DTI	0	NA	0
	DI	0	41,458	NA

for and on behalf of the Board

For A.M. REDDY & CO
Chartered Accountants

RAJU S DANDU
Chairman & Managing Director

D.S.N. RAJU
Executive Director

A.V. RAMANA REDDY
Partner
Hyderabad, July 26, 2006

VRK CHARY
VP-Finance&Accounts

A BHASKARA RAO
Company Secretary



PROXY FORM

I / We _____ of _____ being member / members of Danlaw Technologies India Ltd. do hereby appoint _____ or failing him / her _____ of _____ as my / our Proxy in my / our absence to attend and vote for me / us, and on my / our behalf at the 13th Annual General Meeting of the Company to be held on September 28th, 2006 at 11.00 a.m. and at any adjournment thereof.

In witness whereof, I / We have set my / our hand / hands this ____ day of _____ 2006.

Re. 1/- Revenue Stamp

(Signature of the member across the stamp)

Note: *The proxy must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the meeting.*



ATTENDANCE SLIP

13th Annual General Meeting on September 28, 2006 at 11.00 A.M. at Registered Office.

Ledger Folio / Ben. A/c. No. _____

Full Name of the Shareholder _____

Name of the Proxy _____

I certify that I am a member / proxy for the member, of the company.

I hereby record my presence at the 13th Annual General Meeting of the company held at Registered Office at 43, Sagar Society, Road No.2, Banjara Hills, Hyderabad-500 034 on September 28, 2006 at 11.00 A.M.

Shareholder's / Proxy's Signature _____

Note: Please fill in this attendance slip and hand it over at the entrance of the hall.

Danlaw - A preferred employer of knowledge professionals.

