

**From the CEO's desk.....**



Dear friends,

I take pleasure in presenting the 14<sup>th</sup> Annual Report of your company.

When Danlaw was created, its mission was simple : provide the best Engineering and IT solutions to businesses worldwide. Over the past decade its passion for offering world-class engineering and specialized software solutions has not only remained unchanged but its mission also broadened with pioneering forays into products and services in embedded solutions, state of the art algorithms and solutions in digital signal processing, products in security access controls, eGovernance services and web based products for international clients in Information Technology.

Quality is our forte. Its infact our backbone and an expression of our corporate culture & values. Technical excellence is a hallmark of the products created and produced by Danlaw. This has been possible only with a highly qualified and motivated workforce and an uncompromising quality management system. During the current year, the Engineering Solutions Division has completed prestigious projects for leaders in automotive, defense and aeronautical industries. For the second consecutive time the ISS Division bagged the "Best Performer Award in Asia for 2006" from Keico Hightech Inc. of Korea for achieving the highest sales of its products. The turnover of ISS Division rose by 73% when compared to the previous fiscal. After a successful MAS & MMIS for the Department of Municipal Administration of AP Government, the IT division has made strategic alliances with IT

Giants for promoting the Municipal Administration system in the state of West Bengal. The division is also working on marketing MAS across other states of India. The company's JV, Danlaw CNA has commenced its operations. It will be principally engaged in the business of providing enterprise level management software and services to real estate, airports, healthcare, industrial and various infrastructure and facilities management sectors in the Indian and North American markets.

I hereby extend a special word of thanks to all our associates. I look forward to your continued support once again in all our endeavours.

With warm regards,



**Raju S Dandu**  
**Chairman & Managing Director**



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**BOARD OF DIRECTORS**

Raju S Dandu  
Chairman & Managing Director

V K Menon  
Director

Prakash S Kenjale  
Director

Lloyd R Lawrence  
Director

M A Ashok Kumar  
Alternate Director to Lloyd R Lawrence

D S N Raju  
Director

**COMPANY SECRETARY**

Amara Bhaskara Rao

**MANAGEMENT TEAM**

B V Ramana  
Executive Vice President (ESD)

Prakash B Kulkarni  
Executive Vice President (IT)

V R K Chary  
Vice President (Finance & Accounts)

G Govardhan Rao  
Vice President

Kishan Chowbene  
General Manager (ISS)

E U S Prabhakar  
General Manager (ESD)

**REGISTERED OFFICE**

No.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.

**USA SUBSIDIARY**

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

**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**

The Dhanalakshmi Bank Ltd,  
Banjara Hills Branch, Hyderabad

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

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## NOTICE

NOTICE is hereby given that the Fourteenth Annual General Meeting of M/s. DANLAW TECHNOLOGIES INDIA LIMITED will be held on Saturday, the 29<sup>th</sup> day of September, 2007 at 11.00 a.m. at the Registered Office of the company at No. 43, Sagar Society, Road No. 2, Banjara Hills, Hyderabad-500034, to transact the following business:

### ORDINARY BUSINESS

1. To receive, consider, and adopt the Audited Balance Sheet as at 31<sup>st</sup> March, 2007 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 Mr. Lloyd R Lawrence, 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.

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

Place: Hyderabad  
Date : 30<sup>th</sup> July, 2007

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 be a member of the company. The instrument appointing a proxy should 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 alongwith 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 26<sup>th</sup> September, 2007 to 29<sup>th</sup> September, 2007 (both days inclusive).
4. Members seeking any additional information on the accounts of the company should write to the Company Secretary on or before 26<sup>th</sup> September, 2007 to facilitate the compilation of data for clarifications.
5. Members are requested to send all communications relating to shares to the company's Share Transfer Agents (Physical and Electronic) M/s. Sathguru Management Consultants Pvt. Ltd, Plot No. 15, Hindi Nagar, Punjagutta, Hyderabad-500082, Phones: 040-23356507, 23350586; E-mail : sta@sathguru.com
6. Information about the re-appointing director:

Mr. Lloyd R Lawrence Lloyd has been with engineering industry for more than thirty-five years. He is one of the co-founders of Danlaw Inc. in 1984.

He was a project engineer in General Motors, way back in 1965. Subsequently, he moved to Xycom Inc. in 1973 as a senior engineer responsible for new product development that led to electronic engine controls. Later on he worked for Dana Corp., building CNC controls for various applications like robots and EDI machines. Lloyd holds a B.S. in electrical engineering from Lawrence Technological University, Michigan.

He has no shareholding in DTIL.

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## DIVISIONAL REPORTS

### ENGINEERING SOLUTIONS DIVISION

The division is a new generation framework for technology innovators who have become the trailblazers for spawning several end to end engineering product realization services through hardware and software design, development and implementation.

Engineering Division offers design test solutions and innovative product realization services to the global automotive industry. At Danlaw, we combine a thorough understanding of the automotive marketplace with a better approach to developing incremental, cost-justified products. Our expertise is built around successful client engagements, dedicated domain and product experts who can implement engineering design solutions and industry specific packages. Our highly acclaimed application product development competencies are leveraged by the state-of-the-art technologies:

- ❖ Embedded Software Development
- ❖ Digital Signal Processing (DSP)
- ❖ Speech Compression and Filtering
- ❖ GUI
- ❖ Embedded webserver applications
- ❖ Real time operating systems
- ❖ Automotive applications and protocols

Danlaw brings its in-depth domain knowledge as well as its embedded systems expertise in messaging, diagnostics, and testing to the automotive original equipment manufacturers and first tier supplier markets. Through proven automotive industry know-how and a comprehensive suite of cost effective products & design test solutions it helps its clientele in finding the competitive edge. Experience in software development across multiple mission critical automotive applications strengthens the offerings in the areas of software verification & validation, software test plan development, messaging and development of specific hardware and software testing tools for the automotive industry.

The division has generated scalable enterprise-wide high secure, and reliable products, which span across the technology requirements of the automotive segment. Some of the division's revolutionary products are:

#### DPRD

Danlaw's ECU reprogramming device DPRD was developed to provide the automotive community, a handheld ECU reflashing tool. High speed reprogramming, stand-alone simplicity, portability, low cost solution and rugged design are the main features of this product. The need for the DPRD was driven by Danlaw's own experience with networked automotive electronics solutions development, and perfected to provide the benefits of its experience to its customers.

#### DFD

Digital Frequency Demultiplexer (DFD) assists the Ground control staff in analyzing various important parameters of Aircraft while in flight and post flight. This equipment forms an integral part of the ground control equipment in the Flight Test Control Centres.

#### FMDGS

FM Demodulator Gauging System (FMDGS) is a single channel FM demodulator based on DSP blocks implemented in FPGA technology. This equipment forms an integral part of the ground control equipment in the Flight Test Control Centres.

#### RESEARCH & DEVELOPMENT

Danlaw is driven by innovation because it is a part of its heritage. And this principle coupled with vast industry experience and domain knowledge enables the R&D division to integrate, design real time software systems and engineering solutions combining the most advanced digital signal processing technology in the market.

Energy of international expertise, passion for customer & quality, excellence in products, services and system integration makes Danlaw a preferred technology solutions partner for customers and more importantly a preferred employer of knowledge professionals. In all, it is Danlaw's plethora of powerful and innovative next-generation products that transcend global boundaries and help clients worldwide harness the power of technology to a greater advantage.

## INFORMATION TECHNOLOGY DIVISION

IT division was founded with a mission to deliver effective real time business solutions and specialized products through customized softwares. The division's total product realization services encompass hardware and software design, development, implementation, testing, maintenance, and support.

It has a state-of-the-art infrastructure and alliances. This enables it to offer optimum value to the company's esteemed clientele. Portfolio of support solutions include Product Management Services, Application Management Services, Consulting, Enterprise Application Solutions Practice and eGovernance.

With a wide-ranging expertise in the most advanced and high-powered integrated enterprise solutions, the division has successfully executed the projects relating to ERP Implementation, Resource Tracking Systems etc., The division has also made Strategic Alliances for promoting Municipal Administration System in the State Government of West Bengal.

Various other software modules in the development scope are Financial and Accounting System, Property Tax Management System, Trade License System, Building Plan approval system, Ward Wise Management Information System, Birth & Death Registration System, Infrastructure Management System, Integration with GIS, Public Grievance & Redressal Module, Health System, ULB Infrastructure, Water Work Management systems, E-education system, MIS (Management Information System), City Web Portal etc.,

**ESAP**, the company's web-based application software for the public schools in complying with the federal laws of United States of America relating to the disabled is being extensively used in Colorado school districts.

The newly developed products ESAPsp and ESAPpc have been enhanced further based on the real life experience of users. These have been made much simpler and easier. Based on this success, these products are being demonstrated to other billing companies also for their use. The team is also exploring the RTI (Response To Intervention) process and is planning to develop additional product to provide solution for the same.

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## INTELLIGENT SECURITY SOLUTIONS DIVISION

ISS division supplies, installs & maintains a wide range of products and security solutions ranging from simple stand alone automation systems to high-end Biometric, Card and RFID systems with complete integration with the enterprise applications.

Following gives you a glimpse of the products & solution wherein the division provides customized solutions:

### **Biometric (Fingerprint) & Cards based Systems for Access Control and Time and Attendance**

DanTAS is a Web Enabled Time & Attendance Software, which provides Employee Attendance Data in various formats to the concerned Departments or Individuals of an Organization, which would help in analyzing the data and take appropriate steps to improve Employee Efficiency and thus increase overall Productivity. The same can also be intergraded with Doors, Turnstiles and Booms to provide Access Control and to prevent Un-authorized access

### **CCTV & Surveillance**

ISS supplies all ranges of CCTV systems from Analog to Digital. Danlaw being a systems integrator has the expertise to supply and design solutions from simple stand-alone to complex multiplex.

### **Canteen Management System**

This system provides a fully integrated, networkable Canteen Point of Sale Management System designed to simplify and enhance canteen management. This card-based system, utilizing existing employee attendance or access cards or separate canteen cards that are linked to valid employee accounts, offers a reliable method of payment while the resulting cashless environment ensures increased security

### **Fire Alarm & Fire Fighting System**

As a systems integrator and supplier of all kinds of fire alarm systems both conventional and analog type. DTIL also undertakes Fire Fighting contract on Sprinkler and Gas Based Technologies.

### **Systems based on Radio Frequency Identification Technology**

Radio Frequency Identification (RFID) is a technology used in identifying and tracking stationary and moving objects automatically, with no contact or viewing required with them, basically avoiding line of sight. It is a more reliable replacement to many Automatic Data Capture (ADC) based applications. The products herein are:

- Employee Identification Tracking System (EITS)
- Visitor Tracking System
- Asset Tracking & Inventory System

The others include Biometric based Guard Monitoring System, Finger Print Door Locks, Electronic Article Surveillance (EAS) Library Security System, Locking devices, fire alarms, fire detection / fire suspension systems, PA Systems etc.,

ISS division offers holistic, reliable, cost effective Intelligent Security Solutions to a diverse customer base. Cutting edge technologies are being used by the division by forging partnerships and alliances with world leaders.

For the second consecutive time the division received "Best Performer Award in Asia for 2006" from Keico Hightech Inc. of Korea for achieving the highest sales of its products. The turnover of the division rose by 73% when compared to the previous fiscal. During the year the division has added over 40 new customers. It has also added three new System Integrators (system integrators) in Bangalore, Chennai and Hyderabad.

The division has also launched its own website [www.danlaw-iss.com](http://www.danlaw-iss.com) which provides more information to its prospects, partners, and clients.

## DIRECTORS' REPORT

The Directors take pleasure in presenting the financials of your company for the year ended 31<sup>st</sup> March 2007.

### FINANCIAL PERFORMANCE

Key aspects of your company's financial performance for the year 2006-07 are tabulated below :

in Rs. Lakhs

Particulars	2006-07			2005-06		
	DTIL	WOS	Cons.	DTIL	WOS	Cons.
Net sales/Income from operations	887.29	372.56	1259.85	870.20	332.59	1202.79
Other Income	62.63	-	62.63	59.40	-	59.40
Total Income	949.92	372.56	1322.48	929.60	332.59	1262.19
Direct cost	651.49	248.58	900.07	563.86	167.58	731.44
Gross Profit / (Loss)	298.43	123.98	422.41	365.74	165.01	530.75
Selling expenses	57.79	148.58	206.37	53.33	140.68	194.01
General & Admin expenses	187.74	26.96	214.70	199.94	20.05	219.99
Profit (Loss) before Interest, Depreciation and Tax	52.90	(51.56)	1.34	112.47	4.28	116.75
Interest	1.34	-	1.34	0.49	-	0.49
Depreciation	39.44	1.45	40.89	49.51	0.55	50.06
Net Profit / (Loss) before tax	12.12	(53.01)	(40.89)	62.47	3.73	66.20
Income tax	3.56	-	3.56	8.99	-	8.99
Deferred taxes	2.92	(23.04)	(20.12)	22.55	-	22.55
Profit / (Loss) after tax	5.64	(29.97)	(24.33)	30.93	3.73	34.66
Paid up equity share capital	372.03	295.66	372.03	372.03	295.66	372.03
Reserves and Surplus (excl. revaluation reserve)	2795.40	(174.73)	2620.67	2757.26	(131.99)	2625.27
Earnings per share	0.15	-	(0.65)	0.89	-	0.99

The total sales of the company have marginally gone up by 4.74% thereby posting total sales of Rs.1259.85 Lakhs. The increased costs had a bearing on the total profits of the company thereby resulting in a Net loss of Rs.24.33 Lakhs. The company has allotted Five Lakh convertible warrants in September 2005. The up front money paid by the applicants has been forfeited as they have not availed the option of conversion. The same has been transferred to reserves.

### CORPORATE GOVERNANCE

We believe corporate governance is at the heart of shareholder value creation. Our governance practices are described separately in page no. 11 of this Annual Report. We have obtained a certification from the statutory auditors of the company as to the compliance of the provisions of the relevant clauses of the Listing Agreement. This certificate is given in page no. 17.

### EMPLOYEE PARTICULARS

No employee of the company falls within the limits prescribed under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

### FIXED DEPOSITS

The company has not accepted or invited any deposits and consequently no deposit has matured / become due for repayment as on 31<sup>st</sup> March 2007.



**WHOLLY OWNED SUBSIDIARY**

The company has a wholly owned subsidiary in USA, Danlaw Technologies Inc. The financial statements of the said company have been attached herewith for complying with the provisions of Section 212 of the Companies Act, 1956.

**JOINT VENTURES**

The company has entered into a Joint Venture with M/s.CNA Group Ltd. of Singapore. The JV company is named as Danlaw CNA Systems Limited. It will be principally engaged in the business of providing enterprise level management software and services to real estate, airports, healthcare, industrial and various infrastructure and facilities management sectors in the Indian and North American markets.

**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.

**DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the provisions of 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 31<sup>st</sup> March 2007, 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 were made so as to give a true and fair view of the state of affairs of the company for the financial year ended 31<sup>st</sup> March 2007 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 2006-2007 have been prepared on a going concern basis.

**DIRECTORS**

Mr. D S N Raju who was re-appointed as an Executive Director in the previous AGM resigned to the said position. However, he continues to be on the Board as a Non-Executive Director. The said change in the designation has been approved by the Board.

Mr. Lloyd R Lawrence retires by rotation and being eligible offers himself for re-appointment. His profile is given in page no. 4

**AUDITORS**

M/s. A M Reddy & Co., Chartered Accountants, Statutory Auditors retire at the conclusion of the ensuing 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.

**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**

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**a) Conservation of Energy:**

The Company is technology driven. It is engaged in the business of Software and Information Technology. The primary resources are the employees and their valuable 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:**

(i) **Research & Development :** Your Company has a team of persons working on R&D. The Company incurred a deferred revenue expenditure of Rs.1,31,82,407 on R & D during the year under review as compared to Rs.1,85,36,195 /- during the previous year.

(ii) **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.

(iii) **Foreign Exchange Earnings and Outgo :** The particulars of foreign exchange earnings and outgo are given below

Particulars	2006-2007 INR	2005-2006 INR
Earnings	3,80,22,031	3,68,53,403
Outgo	72,44,220	1,76,29,071

**APPRECIATION & ACKNOWLEDGEMENTS**

The Board desires to place on record its appreciation for the co-operation that the company received from its suppliers, customers, strategic partners, bankers, auditors, registrar and transfer agents and all others associated with the company.

Your directors also take this opportunity to acknowledge the employees' hard work, unstinting efforts, dedication and commitment. The company has always looked upon them as partners in its progress and has happily shared the rewards of growth.

It will also 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  
30<sup>th</sup> July, 2007

Raju S Dandu  
Chairman & Managing Director

## REPORT ON CORPORATE GOVERNANCE

### 1. The Philosophy and the Policy

The company's philosophy on corporate governance is based on the principles of ethical and responsible decision-making, integrity in financial reporting and recognizing the legitimate interest of the stakeholders. This is achieved through adoption of competitive corporate strategies, prudent business plans and strategic monitoring and mitigation of risks.

Corporate Governance has been a continuous journey at Danlaw always taking into account the welfare of its stakeholders in all its business decisions. Its business culture and practices are founded upon a common set of values that govern its relationships with customers, employees, shareholders, suppliers and the communities in which the company operates. The company follows sound and healthy business practices in all facets of its operations and conducts its business in a transparent manner.

### 2. The Board and its Meetings

The Board consists of five directors of whom three are Independent Non-Executive directors. The Board has appointed Mr. M A Ashok Kumar as alternate director to Mr. Lloyd R Lawrence.

Five meetings were held during the Financial Year 2006-2007 on 28<sup>th</sup> April '06, 12<sup>th</sup> May '06, 26<sup>th</sup> July '06, 18<sup>th</sup> October '06, 25<sup>th</sup> January '07.

The particulars of directors, their attendance and other directorships, memberships / chairmanships of committees for the financial year 2006-2007 are given below :

Name	Category	Attendance at		Particulars of other Indian Directorships, Committee Memberships / Chairmanships		
		Board	Last AGM	Directorship	Committee Membership	Committee Chairmanships
Raju S Dandu	Promoter Executive	5	Yes	1	Nil	Nil
D S N Raju *	Promoter Non-Executive	5	Yes	1	Nil	Nil
V. K. Menon	Independent Non -executive	4	Yes	Nil	-	-
Prakash Kenjale	Independent Non -executive	4	No	1	-	-
M. A. Ashok Kumar **	Independent Non -executive	5	Yes	2	-	-
Lloyd R Lawrence	Independent Non -executive	-	-	-	-	-
PVS Jagan Mohan Rao ***	Independent Non -executive	2	-	-	-	-

\* Mr. D S N Raju's resigned from his Executive position w.e.f. 25.01.2007. He continues to be on the Board as a Non-Executive Director.

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

\*\* Dr. P V S Jagan Mohan Rao ceased to be director w.e.f. 09.06.2006

### 3. The Committees of the Board

#### a) Audit Committee

As on date the Audit Committee consists of three directors as its members, out of whom two are independent non-executive directors and one is promoter managing director. Its members as on

date are : Mr. V K Menon (Chairman), Mr. Prakash S Kenjale and Mr. Raju S Dandu. The Company Secretary Mr. A Bhaskara Rao is the Secretary to the committee.

The Committee met four times during the financial year 2006-2007, on 28<sup>th</sup> April '06, 26<sup>th</sup> July '06, 18<sup>th</sup> October '06 and 25<sup>th</sup> January '07.

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.

**b) Remuneration Committee**

The company has a Remuneration Committee comprising the Non-executive Directors Mr. M A Ashok Kumar [Chairman], Mr. V K Menon, Mr. Prakash S Kenjale. 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.

**Details of remuneration to directors**

Non-Executive directors are not paid any remuneration, except sitting fee @ Rs.5,000/- per meeting attended by them.

The Managing Director is paid monthly remuneration by way of salary as approved by the committee, board and the members. The following is the remuneration paid to the directors during the financial year 2006 - 2007 :

Name	Salary	Contribution To PF	Perks	Sitting Fee	TOTAL
Raju S Dandu	2,70,000	32,400	-	-	3,02,400
D S N Raju *	4,05,000	48,600	4,22,889	-	8,76,489
V K Menon **	-	-	-	-	-
Prakash S Kenjale	-	-	-	40,000	40,000
M A Ashok Kumar	-	-	-	15,000	15,000
PVS Jagan Mohan Rao	-	-	-	15,000	15,000

\* Mr. D S N Raju's resigned from his Executive position w.e.f. 25.01.2007. He continues to be on the Board as a Non-Executive Director.

\*\* 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 and Mr. Raju S Dandu are members of the committee. While Mr. Ashok is the Chairman, Mr. A Bhaskara Rao, Company Secretary is the Compliance Officer and is 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. Only two investor complaints were received during the entire financial year. They were duly resolved.

#### 4. General Body Meetings

Year	Meeting	Date, Venue & Time	Special Resolutions passed at the meetings
2003 -2004	AGM	29 <sup>th</sup> September , 2004 Regd. Office 11.00 a.m.	Nil
2004 -2005	AGM	17 <sup>th</sup> September , 2005 Regd. Office 11.00 a.m.	<ol style="list-style-type: none"> <li>1. Alter ation of Articles of Association so as to confer power to issue warrants and other financial instruments.</li> <li>2. Preferential Allotment of five lakhs equity shares to non-promoters</li> <li>3. Preferential Allotment of five lakhs fully convertible warrants to promoters.</li> <li>4. De -listing of shares from Madras Stock Exchange.</li> </ol>
2005 -2006	AGM	28 <sup>th</sup> September , 2006 Regd. Office 11.00 a.m.	<ol style="list-style-type: none"> <li>1. Re -appointment of Sri Raju S Dandu as Managing Director</li> <li>2. Re -appointment of Sri D S N Raju as Executive Director</li> </ol>

#### 5. Disclosures

The details of transactions with related parties are given in 16.2.7 of the 'Notes on Accounts' at page no. 31 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 periodical financial results are being released in the prescribed format within the prescribed time period from time to time. They were also sent to the Stock Exchanges promptly. These results were published in Business Standard and Andhra Bhoomi and were also posted on the website of the company, [www.danlawtechnologies.com](http://www.danlawtechnologies.com).

The quarterly financial results and the shareholding patterns were also uploaded onto EDIFAR (Electronic Data Information and Retrieval) of SEBI pursuant to the provisions of clause 51 of the Listing Agreement.

Official news releases, if any, shall also be promptly informed to the stock exchange alongwith posting of the same on the company's website. The company has not made any presentations to any institutional investors or analysts during the year under review.

## GENERAL SHAREHOLDERS INFORMATION

### (A) GENERAL INFORMATION

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

### (B) OTHER INFORMATION

#### Annual General Meeting

Day : Saturday  
Date : 29<sup>th</sup> September, 2007  
Time : 11.00 A.M.  
Venue : Registered Office, at  
Plot No. 43, Sagar Society,  
Road No. 2, Banjara Hills,  
Hyderabad 500082

Date of Book Closure : 26<sup>th</sup> to 29<sup>th</sup> September, 2007 (both days inclusive)

#### Financial Calendar (Provisional) :

UFR of 1st quarter April 1 to June 30, 2007 : 30<sup>th</sup> day of July, 2007 (held)  
UFR of 2nd quarter July 1 to Sept. 30, 2007 : Last week of October, 2007  
UFR of 3rd quarter Oct. 1 to Dec., 31, 2007 : Last week of January, 2008  
UFR of 4th quarter Jan. 1 to Mar., 31, 2008 : Last week of April, 2008  
Audited results of FY 2007-2008 : Last week of July, 2008

Listing on Stock Exchanges : Bombay Stock Exchange Ltd.  
The Hyderabad Stock Exchange Ltd.

Stock Codes : BSE "532329"  
HSE "VGH"

ISIN No. For NSDL & CDSL "INE310B01013"

(C) Market Price Data\*

Month	Danlaw		Sensex	
	High	Low	High	Low
April,2006	98.90	78.20	12102	11008
May	106.00	71.10	12671	9827
June	70.20	45.00	10627	8799
July	61.60	44.10	10940	9875
August	57.40	44.60	11794	10646
September	60.95	48.00	12485	11444
October	53.00	46.00	13076	12179
November	52.50	39.35	13799	12937
December	50.50	33.50	14035	12802
January, 2007	50.90	42.50	14326	13303
February	44.40	32.25	14724	12801
March	41.80	31.80	13387	12316

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, 2007

Category	Shareholders	%	Shares	%
1 - 500	1032	73.87	1,64,990	4.43
501 - 1000	150	10.74	1,22,827	3.30
1001 - 2000	88	6.30	1,39,196	3.74
2001 - 3000	30	2.15	73,855	1.99
3001 - 4000	18	1.29	62,522	1.68
4001 - 5000	17	1.22	81,209	2.18
5001 - 10000	21	1.50	1,53,882	4.14
10001 & above	41	2.93	29,21,819	78.54
<b>TOTAL</b>	<b>1397</b>	<b>100.00</b>	<b>37,20,300</b>	<b>100.00</b>

E) **Categories of Shareholders as on March 31, 2007**

<u>Category</u>	<u>Shares</u>	<u>%</u>
Promoters (incl. PAC.s)	1850605	49.74
Non - promoters		
Banks/FI/MFs/CG,SG Inst.	43000	1.16
Bodies Corporate	383944	10.32
NRI / OCB	1191	0.03
Indian Public	1441560	38.75
<b>TOTAL</b>	<b>37,20,300</b>	<b>100.00</b>

F) **Shares and Dematerialization**

As per SEBI regulations, the shares of the company are brought under compulsory dematerialized form. The shares can be traded 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. More than 95% of shares are dematerialized by June 30, 2007. The Registrar and Transfer Agents, 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 or other instruments pending conversion into equity shares.



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**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 31<sup>st</sup> March, 2007 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 31<sup>st</sup> March, 2007, no investor grievances are pending against the company as on 30<sup>th</sup> April, 2007 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.

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

Place : Hyderabad  
Date : 30.07.2007

(CA. Ramana Reddy A.V.)  
Partner  
Membership No. 024329

**DECLARATION OF COMPLIANCE OF CODE OF CONDUCT**

I hereby declare 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 : 30.07.2007

Raju S Dandu  
Chairman & Managing Director

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### **Industry Structure and Development**

Rapid technological innovations, globalization, fast changing business & economic conditions are making the markets and the business environments more and more competitive. The engineering sector is also facing stiff competition since many local peers and International IT services companies have started to offer these services. However the sector is expected to deliver a double-digit growth with increase in overall outsourcing of services.

### **Opportunities and Threats**

Offshore outsourcing has shown significant growth over the last several years and India has emerged as the leading destination for global corporations, delivering quality services and cost advantages. The list of companies outsourcing their IT and engineering requirements to offshore locations in India continues to increase, as does their offshore outsourcing budgets. Industry analysts expect that India, given its intrinsic advantages as an offshore destination, would continue to be the dominant force in the foreseeable future. AT Kearny in their Global Services Location Index 2007, ranked India as the top ahead of China, Czech Republic and Philippines for offshore IT services. We believe our robust quality process and our access to skilled talent base at lower costs of providing services places us in a unique position to take advantage of the trend towards outsourcing IT services.

Ability to retain skilled professionals in the face of increasing demand for these resources, coupled with wage increases locally and strengthening of the rupee in the global markets may affect our existing cost structure and impact our growth prospects.

### **Performance and Outlook**

ESD has been working for leaders in automotive, defense and aeronautical industries. The ISS division has been quite vibrant in the last fiscal. For achieving the highest sales in Asia Keico Hightech Inc. has presented the "Best Performer Award in Asia for 2006". The turnover of the Division rose by 73% when compared to the previous fiscal. The IT division has successfully completed the maintenance of its MAS & MMIS project Municipal Administration of AP Government. It is now exploring for strategic alliances for marketing the project in other states of the country.

### **Internal Control System and its Adequacy**

The company maintains proper and adequate internal control systems. 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.

In order to ensure that the financial transactions comply with current legislative requirements and accounting standards, the company has developed a Financial Accounting Procedure Manual (FAM). The FAM contains procedures, which cover the effective and efficient financial administration of the company.

### **Financial Performance**

The company hasn't gone for any issue of shares during the fiscal. However, the allottees of convertible warrants didn't opt for the conversion of the same. The upfront amount paid on the same has been forfeited pursuant to the provisions of the SEBI DIP Guidelines. Rs.32.50 Lakhs on account of the aforesaid Forfeiture and the Profit Rs. 5.64 Lakhs of the current fiscal accumulated into the reserves and surplus. During the year the company has invested in a 40% share of Danlaw CNA Systems Limited, the company being a joint venture with CNA Group Limited of Singapore. The company has obtained a secured overdraft facility to the tune of Rs.1 Crore and a Non-fund based Facility of about Rs.61 Lakhs by securing the Assets of the company. Despite the tough year, the company is not only able to maintain the turnover, but also could show a marginal profit.

### **Material development in Human Resources**

Retention of skilled workforce is the main focus of the company. The attrition rate in Danlaw is quite lower when compared to the industry. As on date the company has 124 employees as against the previous year's figure of 123.

### **Cautionary Statement**

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable laws and regulations. Actual results could differ materially from those expressed or implied.

## AUDITORS' REPORT

The Members of  
DANLAW TECHNOLOGIES INDIA LIMITED,  
HYDERABAD.

1. We have audited the attached Balance Sheet of M/s. DANLAW TECHNOLOGIES INDIA LIMITED as at 31st March, 2007, 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
  3. As required by the Companies (Auditor's Report) Order, 2003 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, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March 2007 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 31<sup>st</sup> March 2007;
- (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.

PLACE : HYDERABAD.  
DATE : 30.07.2007

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

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

**ANNEXURE TO THE AUDITORS' REPORT**  
( Referred to in paragraph (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, 2007 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 31.03.2007 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 31<sup>st</sup> March, 2007. 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.

PLACE : HYDERABAD.  
DATE : 30.07.2007

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

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

### Balance Sheet as at

		in Rs.	
	Schedule	31-03-2007	31-03-2006
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Share Capital	1	3,72,03,000	4,04,53,000
Reserves and Surplus	2	27,95,39,968	27,57,25,645
Secured Loans	3	17,28,060	11,87,547
		31,84,71,028	31,73,66,192
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>	4		
Gross Block		5,19,62,992	5,21,10,430
Less: Depreciation		3,26,87,673	2,87,80,942
Net Block		1,92,75,319	2,33,29,488
INVESTMENTS	5	3,04,52,905	2,95,66,245
DEFERRED TAX ASSET (NET)	6	2,03,51,815	2,06,43,479
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Sundry Debtors	7	5,20,82,323	3,38,27,827
Cash and bank balances	8	9,53,04,126	9,15,93,853
Loans and advances	9	1,72,07,990	2,24,40,021
Inventory		85,50,548	1,27,09,144
		17,31,44,987	16,05,70,845
Less: Current liabilities & Provisions	10	2,50,77,592	38,85,052
NET CURRENT ASSETS		14,80,67,395	15,66,85,793
Miscellaneous Expenditure: (to the extent not written off or adjusted)	11	10,03,23,594	8,71,41,187
		31,84,71,028	31,73,66,192
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS</b>			
	16		

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**  
Director

**A.V. RAMANA REDDY**  
Partner

Hyderabad  
July 30, 2007

**VRK CHARY**  
VP-Finance&Accounts

**A BHASKARA RAO**  
Company Secretary



**Profit and Loss Account for the period ended**

		in Rs.	
	Schedule	31-03-2007	31-03-2006
<b>INCOME</b>			
Income from Operations			
- Exports		3,80,22,031	3,65,51,315
- Domestic		4,75,53,828	4,20,66,317
- Work-in-progress		31,53,044	84,02,568
Other income	12	62,63,452	59,40,397
		<b>9,49,92,355</b>	<b>9,29,60,597</b>
<b>EXPENDITURE</b>			
Direct Cost	13	6,51,48,805	5,63,85,749
Selling Expenses	14	57,78,509	53,33,483
General and Administration expenses	15	1,87,74,710	1,99,16,756
Miscellaneous Expenses written off		-	77,135
		<b>8,97,02,024</b>	<b>8,17,13,123</b>
Operating Profit [PBIDT]		52,90,331	1,12,47,474
Interest		1,34,564	49,208
Depreciation		39,43,888	49,50,717
<b>Profit before tax</b>		<b>12,11,879</b>	<b>62,47,549</b>
Less: Fringe benefit tax		2,19,919	1,98,900
Provision for current year income tax		1,35,973	5,25,731
Short provision for earlier years		-	1,74,719
Deferred Tax		2,91,664	22,55,024
<b>Profit after tax</b>		<b>5,64,323</b>	<b>30,93,175</b>
Profit carried forward from last year		99,18,245	68,25,070
<b>AMOUNT TRANSFERRED TO BALANCE SHEET</b>		<b>1,04,82,568</b>	<b>99,18,245</b>
Basic & diluted EPS		<b>0.15</b>	<b>0.89</b>

**SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS**

16

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

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**  
Director

**A.V. RAMANA REDDY**  
Partner

Hyderabad  
July 30, 2007

**VRK CHARY**  
VP-Finance&Accounts

**A BHASKARA RAO**  
Company Secretary

### Schedules to the Balance Sheet as at

		in Rs.								
		31-03-2007	31-03-2006							
<b>1.</b>	<b>SHARE CAPITAL</b>									
	<b>AUTHORISED</b>									
	50,00,000 Equity Shares of Rs.10/- each	5,00,00,000	5,00,00,000							
	<b>ISSUED, SUBSCRIBED AND PAID UP</b>									
	37,20,300 Equity Shares of Rs.10/- each Fully Paid	3,72,03,000	3,72,03,000							
	<b>Fully convertible warrants</b> (500000 warrants of Rs.65/- each, Rs..6.50 Paid-up)	-	32,50,000							
		<b>3,72,03,000</b>	<b>4,04,53,000</b>							
<b>2.</b>	<b>RESERVES AND SURPLUS</b>									
	Share premium account	26,58,07,400	26,58,07,400							
	Convertible warrants forfeited	32,50,000	-							
	Transferred from Profit and Loss Account	1,04,82,568	99,18,245							
		<b>27,95,39,968</b>	<b>27,57,25,645</b>							
<b>3.</b>	<b>SECURED LOANS</b>									
	Car loans from HDFC Bank Limited	4,32,226	11,87,547							
	The Dhanalakshmi Bank Ltd	12,95,834	-							
		<b>17,28,060</b>	<b>11,87,547</b>							
<b>4.</b>	<b>FIXED ASSETS</b>									
		<b>Gross Block</b>		<b>Depreciation</b>				<b>Net Block</b>		
Assets	Cost as at 31-03-2006	Additions during the year	Deductions during the year	Cost as at 31-03-2007	Total upto 31-03-2006	For the year	Deductions during the year	As at 31-03-2007	As at 31-03-2007	As at 31-03-2006
Additions to Leasehold premises	15,81,920			15,81,920	1,44,177	25,785		1,69,962	14,11,958	14,37,743
Computers & software	2,93,49,799	23,020		2,93,72,819	2,32,79,828	26,41,642		2,59,21,470	34,51,349	60,69,971
Office Equipment	20,10,862	42,222	2,12,680	18,40,404	4,23,743	91,495	37,157	4,78,081	13,62,323	15,87,119
Electrical Equipment	13,01,864			13,01,864	3,07,252	61,839		3,69,091	9,32,773	9,94,612
Lab Equipment	14,56,827			14,56,827	2,41,115	69,199		3,10,314	11,46,513	12,15,712
D G Set	6,84,171			6,84,171	1,51,660	32,498		1,84,158	5,00,013	5,32,511
Elevator	3,25,123			3,25,123	93,945	15,443		1,09,388	2,15,735	2,31,178
Air-conditioners	22,33,849			22,33,849	5,28,475	1,06,108		6,34,583	15,99,266	17,05,374
Furniture & Fixtures	80,93,920			80,93,920	26,50,721	5,12,345		31,63,066	49,30,854	54,43,199
Office Interiors	19,85,586			19,85,586	4,87,874	94,315		5,82,189	14,03,397	14,97,712
Vehicles	30,86,509			30,86,509	4,72,152	2,93,219		7,65,371	23,21,138	26,14,357
Grand Total	5,21,10,430	65,242	2,12,680	5,19,62,992	2,87,80,942	39,43,888	37,157	3,26,87,673	1,92,75,319	2,33,29,488
Previous Year	5,08,63,447	12,59,983	13,000	5,21,10,430	2,38,36,182	49,50,717	5,957	2,87,80,942	2,33,29,488	2,70,27,265

**Schedules to the Balance Sheet as at**

		in Rs.	
		31-03-2007	31-03-2006
<b>5.</b>	<b>INVESTMENTS</b>		
	Investment in Danlaw Technologies Inc (WOS)	2,95,66,245	2,95,66,245
	Investment in Danlaw CNA Systems Ltd	8,86,660	-
		<b>3,04,52,905</b>	<b>2,95,66,245</b>
<b>6.</b>	<b>DEFERRED TAX ASSET (NET)</b>		
	Fixed Assets	53,26,116	45,80,687
	Investments	91,75,415	91,75,415
	Others	58,50,284	68,87,377
		<b>2,03,51,815</b>	<b>2,06,43,479</b>
<b>7.</b>	<b>SUNDRY DEBTORS</b>		
	Debts outstanding for a period less than six months		
	Unsecured considered good	2,16,11,935	3,23,28,419
	Debts outstanding for a period exceeding six months	3,04,70,388	14,99,408
		<b>5,20,82,323</b>	<b>3,38,27,827</b>
<b>8.</b>	<b>CASH AND BANK BALANCES</b>		
	Cash on hand	6,140	19,810
	Balances with banks		
	- in current accounts	27,18,179	27,69,806
	- in EEFC accounts	2,45,663	305
	- in deposit accounts in Indian rupees	9,23,34,144	8,88,03,932
		<b>9,53,04,126</b>	<b>9,15,93,853</b>
<b>9.</b>	<b>LOANS AND ADVANCES</b>		
	<i>Unsecured, considered good</i>		
	<i>Advances recoverable in cash or in kind or for value to be received</i>		
	Earnest Money Deposit	44,508	1,10,500
	Power Incentive receivable	2,94,425	4,22,399
	Advances for expenses	3,28,763	2,70,001
	Rent deposits	7,65,000	24,29,000
	Deposit with Government Agencies	5,09,585	5,13,157
	Prepaid Expenses	1,52,031	2,36,689
	Interest Accrued but not due	30,88,001	45,55,831
	Tax Deduction at Source	71,49,403	57,38,445
	Intercorporate Deposits	48,76,274	81,63,999
		<b>1,72,07,990</b>	<b>2,24,40,021</b>

### Schedules to the Balance Sheet as at

		in Rs.	
		31-03-2007	31-03-2006
<b>10.</b>	<b>CURRENT LIABILITIES</b>		
	Sundry Creditors - for goods	41,74,647	6,79,005
	- for services	86,86,675	50,017
	- for expenses	102,30,171	23,02,027
	Advances from customers	18,28,119	2,76,462
	Provision for Current Year Income Tax	1,35,973	5,25,731
	Provision for Fringe Benefit Tax	22,007	51,810
		<b>2,50,77,592</b>	<b>38,85,052</b>
<b>11.</b>	<b>MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED:</b>		
	R&D Expenses	10,03,23,594	8,71,41,187
		<b>10,03,23,594</b>	<b>8,71,41,187</b>

### Schedules to P & L Account

<b>12.</b>	<b>OTHER INCOME</b>		
	Income from Investments:		
	- Profit on sale of investments	-	2,06,028
	Interest Income	54,45,440	52,72,363
	(TDS - Rs.12,23,201/-, Previous year Rs.11,77,499/-)		
	Exchange Gain (net)	4,62,328	3,02,088
	Interest on IT Refund	-	1,55,139
	Miscellaneous Income	3,55,684	4,779
		<b>62,63,452</b>	<b>59,40,397</b>
<b>13.</b>	<b>DIRECT COST</b>		
	Salaries & other benefits	2,74,65,118	2,80,31,899
	Sub-contract works	80,98,015	70,70,000
	Cost of software packages & biometrics goods sold	1,31,13,068	89,00,165
	Cost of electronic components	52,07,923	43,67,929
	Work-in-progress (opening)	84,02,568	53,33,280
	Transit insurance	16,907	14,837
	Sales Tax	16,79,029	9,95,344
	Travel & Conveyance	11,66,177	16,72,295
		<b>6,51,48,805</b>	<b>5,63,85,749</b>
<b>14.</b>	<b>SELLING EXPENSES</b>		
	Salaries & other benefits	44,29,806	42,21,801
	Travel & Conveyance	6,65,332	6,51,585
	Business development expenses	1,34,121	3,27,766
	Sales commission	5,39,250	83,437
	Sales Discount	-	48,894
	Advertisement	10,000	-
		<b>57,78,509</b>	<b>53,33,483</b>

<b>15. ADMINISTRATION AND OTHER EXPENSES</b>		
Advertisement	23,717	33,209
AGM Expenses	12,166	12,004
Audit expenses	2,100	1,240
Auditor's remuneration - audit fees	56,120	55,100
Bank charges and commission	2,09,769	64,475
Books & Periodicals	15,494	20,463
Bad debts written off	4,31,396	-
Depository Registrar Fee	54,532	54,532
Directors sitting fee	70,000	59,000
Insurance Charges	4,00,968	3,51,082
Internet Service Charges	7,27,997	7,83,347
Legal & Professional Charges	1,42,676	2,33,575
Listing Fee	10,000	49,700
Loss on sale of assets	41,723	1,543
Membership Fee	29,916	2,64,415
Miscellaneous Expenses	1,23,426	2,14,840
Office Maintenance	15,27,447	16,99,771
Postage & Telegrams	1,14,505	1,12,812
Power and Fuel	13,03,202	13,70,070
Printing and Stationery	1,92,665	2,75,680
Registration, Licence & Filing Fee	87,086	1,19,704
Rent, Rates & Taxes	49,42,311	48,68,871
Salaries & other benefits	50,94,100	62,42,305
Staff Recruitment & Training	4,14,193	2,31,925
Staff welfare	7,22,837	8,27,642
Telephone charges	11,83,158	9,13,873
Travel and Conveyance - Directors	5,41,465	7,91,532
Others	2,99,741	2,64,046
	<b>1,87,74,710</b>	<b>1,99,16,756</b>

## 16. Significant Accounting Policies And Notes On Accounts

### 16.1 Significant accounting policies

#### 16.1.1 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.

#### 16.1.2 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.

#### 16.1.3 Expenditure

Expenses are accounted on accrual basis.

#### 16.1.4 Fixed assets

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

**16.1.5 Inventory**

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

**16.1.6 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.

**16.1.7 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.

**16.1.8 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.

**16.1.9 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.

**16.2 Notes on accounts**

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

**16.2.1 Contingent liabilities**

The Company has outstanding counter guarantees of Rs.9,09,85,560/- as at March 31, 2007, to various banks, in respect of guarantees given by the said banks in favor of bodies corporate to the extent of Rs. 9,04,67,852/- and Rs.5,17,708/- to government authorities. The counter guarantees outstanding as at the previous year-end was Rs.8,01,00,337/- and Rs.23,58,122/- respectively.

**6.2.2** The Company has secured funded and non funded limits by way of first charge of all its movable and immovable properties (except vehicles) to The Dhanalakshmi Bank Ltd, Banjara Hills Branch, Hyderabad.

**16.2.3 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.

**16.2.4** The Company has issued 500000 fully convertible warrants of Rs.65/- each on September 21, 2005, convertible within period of 18 months against which 10% was received upfront mounting to Rs.32,50,000/-. Since the option is not exercised within the stipulated period, the upfront payment is forfeited.

#### 16.2.5 Taxes on Income as per Accounting Standard 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.3.19 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 -

Rs.

Year ended March 31	2007	2006
Fixed Assets	7,45,429	8,08,410
Investments	--	--
Others	(10,57,008)	(23,41,961)
Total	(3,11,579)	(15,33,551)

#### 16.2.6 Managerial Remuneration

The following managerial remuneration was paid as per the Board of directors' decision and approved by the shareholders.

##### Whole time Directors

Rs.

Particulars	Raju S Dandu CMD	DSN Raju ED
Salary	2,70,000	4,05,000
Contribution to PF	32,400	48,600
Other perquisites	--	4,22,889
Total	3,02,400	8,76,489

#### 16.2.7 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 Mrs. Lakshmi Dandu wife of Mr.Raju S Dandu is director. Mr. Raju S Dandu, Chairman & Managing Director (CMD); Mr. D S N Raju, Director; and Mrs.D Lakshmi, wife of Mr. D S N Raju.

Contd..

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

Rs. in Lakhs

Nature of transaction	Transactions for the year ended March 31,		Balance as at March 31	
	2007	2006	2007	2006
<b>Receipts</b>				
Software Services	326.22	313.41	306.16	230.96
<b>Payments</b>				
Remuneration	11.79	23.02	--	--
Lease Rentals	40.43	39.07	--	--
Productization expenses	45.75	83.16	--	--
ICD	--	--	*77.72	*108.40
Investment (WOS)	--	--	295.66	295.66

\* Includes accrued interest

#### 16.2.8 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.

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

#### 16.2.10 Imports on CIF basis

In Rs.

Year ended March 31	2007	2006
Capital goods	Nil	9,054

#### 16.2.11 Expenditure in foreign currency

In Rs.

Year ended March 31	2007	2006
Expenditure	72,44,220	1,76,20,017

Contd..



**16.2.12 Earnings in foreign exchange**

In Rs.

Year ended March 31	2007	2006
Income from software development services and products on accrual basis	3,80,22,031	3,68,53,403

Signatures to Schedules 1 to 16

for and on behalf of the Board

For **A.M. REDDY & CO**  
Chartered Accountants

**RAJU S DANDU**  
Chairman &  
Managing Director

**D.S.N. RAJU**  
Director

**A.V. RAMANA REDDY**  
Partner

Hyderabad  
July 30, 2007

**VRK CHARY**  
VP-Finance & Accounts

**A BHASKARA RAO**  
Company Secretary

### Statement of cash flows for the year ended March 31

	in Rs.	
	2007	2006
<b>Cash flows from operations</b>		
Profit from operations	12,11,879	62,47,549
Depreciation and depletion	39,43,888	49,50,717
Income Taxes paid	(2,19,919)	(3,73,619)
Loss on sale of fixed assets	41,723	1,543
Decrease (increase) in sundry debtors	(1,82,54,496)	(1,85,24,325)
Decrease (increase) in loans and advances	52,32,031	22,08,238
Decrease (increase) in inventory	41,58,596	(42,79,330)
Increase (decrease) in current liabilities	2,11,92,540	11,65,021
Increase (decrease) in provisions	(1,35,973)	(5,25,731)
Decrease (Increase) in miscellaneous expenditure	(1,31,82,407)	(1,84,59,060)
<b>Net cash from operations</b>	<b>39,87,862</b>	<b>(2,75,88,997)</b>
<b>Cash flows from financing</b>		
Additional share capital	-	50,00,000
Share premium	-	2,60,67,400
Fully convertible warrants	(32,50,000)	32,50,000
Convertible warrant forfeited	32,50,000	
Secured loans	5,40,513	(2,77,002)
<b>Net cash from financing</b>	<b>5,40,513</b>	<b>3,40,40,398</b>
<b>Cash flows from investing</b>		
Proceeds of sale of fixed assets	1,33,800	5,500
Purchase of Fixed Assets	(65,242)	(12,59,983)
Investments	(8,86,660)	(1,36,21,980)
<b>Net cash from investing</b>	<b>(8,18,102)</b>	<b>(1,48,76,463)</b>
Total increase (decrease) in cash and equivalents during the year	37,10,273	(84,25,062)
Cash and equivalents at the beginning of the year	9,15,93,853	10,00,18,915
<b>Cash and equivalents at the end of the year</b>	<b>9,53,04,126</b>	<b>9,15,93,853</b>

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

For **A.M. REDDY & CO**  
Chartered Accountants

for and on behalf of the Board

**A.V. RAMANA REDDY**  
Partner

**RAJU S DANDU**  
Chairman &  
Managing Director

**D.S.N. RAJU**  
Director

Hyderabad  
July 30, 2007

**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)	Capital raised during the year (Amount in Rs.)			
	Public Issue	- NIL -	Right Issue	- NIL -
	Bonus Issue	- NIL -	Private Placement	- NIL -
III)	Position of Mobilization and deployment of funds:			<i>(Amount in Rs. in '000)</i>
	Total Liabilities	3,18,471	Total Assets	3,18,471
	<i>Sources of Funds</i>		<i>Application of Funds</i>	
	Paid-up Capital	37,203	Net Fixed Assets	19,275
	Reserves & Surplus	2,79,540	Investments	30,453
	Secured Loans	1,728	Deferred Tax Asset (Net)	20,352
			Net Current Assets	1,48,067
			Miscellaneous Expenditure	1,00,324
IV)	Performance of Company			<i>(Amount in Rs.)</i>
	Turnover	94,992	Total Expenditure	93,780
	Profit/Loss before Tax	1,212	Profit after Tax	564
	Earning per share (Rs.)	0.15	Dividend Rate	- NIL -
V)	Generic Names of principal products, services of the Company			
	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**

Director

**A.V. RAMANA REDDY**

Partner

Hyderabad

July 30, 2007

**VRK CHARY**

VP-Finance & Accounts

**A BHASKARA RAO**

Company Secretary

**Statement Pursuant To Section 212 Of The Companies Act, 1956 Relating To The  
Company's Interest In Subsidiary Company**

Name of the Subsidiary : Danlaw Technologies Inc.  
 Financial year of the subsidiary : April 2006 to March 2007  
 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 2006-07 :

No.	Particulars	In USD		In Rs. Lakhs	
		2006-07	2005-06	2006-07	2005-06
1.	Revenue	1,547,888	1,105,282	699.73	485.97
2.	Cost of Sales	1,272,867	740,446	575.76	320.97
3.	Gross Profit	275,021	364,836	123.97	165.00
4.	General and Administrative Expenses	391,845	356,123	176.98	161.27
5.	Net Income / (Loss)	(116,824)	8,713	(53.01)	3.73
6.	Paid up Equity Share Capital	640,000	640,000	295.66	295.66

The sales for the current year have grown 44% but there was a corresponding increase in expenses to the extent of 80%. This resulted in decrease in the gross profits of the company. Since the general and administrative costs have gone up by 9.7% the company has shown a net loss of Rs.53.01 Lakhs. The annual results were closed with a positive note of increase in sales. However there are no further investments from the parent company during the current year.

**Raju S Dandu  
President**

**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, 2007 and 2006 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.**

July 12, 2007



**DANLAW TECHNOLOGIES, INC.**  
**BALANCE SHEETS**  
**March 31, 2007 and 2006**

**ASSETS**

	2007	2006
<b>Current Assets:</b>		
Cash	\$ 6,803	\$ 13,408
Accounts Receivable	54,496	51,958
Accounts Receivable - Parent	104,960	-
Accounts Receivable - Affiliate	754,902	593,077
Advances	67,000	67,000
<b>Total Current Assets</b>	<b>988,161</b>	<b>725,443</b>
<b>Property and Equipment:</b>		
Computer Equipment	12,704	12,704
Office Furniture and Equipment	5,275	5,275
	17,979	17,979
Less: Accumulated Depreciation	(4,539)	(1,244)
<b>Total Property and Equipment</b>	<b>13,440</b>	<b>16,735</b>
<b>Other Assets:</b>		
Goodwill	205,000	205,000
<b>TOTAL ASSETS</b>	<b>\$ 1,206,601</b>	<b>\$ 947,178</b>

**LIABILITIES AND STOCK HOLDER'S EQUITY**

<b>Current Liabilities:</b>		
Accounts Payable - Affiliate	\$ 194,210	\$ 292,678
Accounts Payable - Other	79,880	60,349
Accounts Payable - Parent	559,483	158,294
Accrued Payroll and Payroll Taxes	13,850	64,838
Customer Deposits	1,000	1,000
Loans	104,983	-
<b>Total Current Liabilities</b>	<b>9,53,406</b>	<b>577,159</b>
<b>Stockholder's Equity:</b>		
Common Stock - \$10 Par Value; 34,000 Shares Authorized, Issued and Outstanding	340,000	340,000
Additional Paid-in Capital	300,000	300,000
Accumulated Deficit	(386,805)	(269,981)
<b>Total Stockholder's Equity</b>	<b>253,195</b>	<b>370,019</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 1,206,601</b>	<b>\$ 947,178</b>

*Read Accountants' Report and Notes to Financial Statements*

## STATEMENTS OF OPERATIONS

For the Years Ended March 31, 2007 and 2006

	2007	2006
<b>Revenue:</b>		
Automotive Electronics	\$ 1,185,114	\$ 879,118
IT Applications	-	62,653
Security Products	99,736	32,664
ESAP cm Sales	25,731	18,974
ESAP sp Sales	237,307	111,873
<b>Total Revenue</b>	<b>1,547,888</b>	<b>1,105,282</b>
<b>Cost of Sales:</b>		
Subcontract Work - Parent	524,846	298,311
Subcontract Work - Affiliate	-	41,458
Cost of Products - Parent	198,479	48,030
Security Product Costs	21,905	34,686
Technical Salaries	276,143	197,652
Billing Salaries	192,468	68,916
Payroll Taxes	36,304	24,145
Employee Benefits	22,722	14,233
ESAP sp Processing Fees	22,596	10,266
Other Expenses	-	2,749
<b>Total Cost of Sales</b>	<b>1,295,463</b>	<b>740,446</b>
<b>Gross Profit</b>	<b>252,425</b>	<b>364,836</b>
<b>General and Administrative Expenses:</b>		
Business Development	96,000	96,000
Travel & Lodging	65,838	17,905
Sales Salaries	96,612	125,512
Payroll Taxes	6,511	8,980
Sales Commissions	24,035	51,000
Payroll Preparation	3,522	3,100
Auto Expense	17,504	10,027
Telephone	2,486	2,702
Meals & Entertainment	8,611	3,616
Rent & Utilities	21,855	22,354
Professional Services	6,544	4,305
Server Hosting	5,230	-
Insurance	-	481
Repairs & Maintenance	4,390	2,812
Depreciation	3,294	1,244
Office Expenses	6,817	2,862
Michigan Single Business Tax	-	1,301
Other	-	1,922
<b>Total General and Administrative Expenses</b>	<b>369,249</b>	<b>3,56,123</b>
<b>NET INCOME</b>	<b>\$ (116,824)</b>	<b>\$ 8,713</b>

*Read Accountants' Report and Notes to Financial Statements*

## STATEMENTS OF STOCKHOLDER'S EQUITY

For the Years Ended March 31, 2007 and 2006

	Accumulated Deficit	Additional Paid-in Capital	Common Stock	Total
<b>Balance March 31, 2005</b>	\$ (278,694)	\$ -	\$ 340,000	\$ 61,306
Additional Capital	-	300,000	-	300,000
Net income	8,713	-	-	8,713
<b>Balance March 31, 2006</b>	(268,981)	-	340,000	370,019
Net income (loss)	(116,824)	-	-	(116,824)
<b>Balance March 31, 2007</b>	\$ (386,805)	\$ -	\$ 340,000	\$ 253,195

## STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2007 and 2006

	2007	2006
<b>Cash Flows From Operating Activities:</b>		
Net Income (Loss)	\$ (116,824)	\$ 8,713
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	3,294	1,244
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(269,323)	(119,747)
Employee Advances	-	(21,000)
Accounts Payable	322,252	72,141
Accrued Payroll and Payroll Taxes	(50,987)	(7,718)
Customer Deposits	-	1,000
Net Cash Provided by (used in) Operating Activities	(111,588)	(65,367)
<b>Cash Flows from Investing Activities:</b>		
Purchase of Property and Equipment	-	(17,979)
Payment for Goodwill	-	(205,000)
Net Cash Used in Investing Activities	-	(222,979)
<b>Cash Flows from Financing Activities:</b>		
Additional Capital Received	-	300,000
Loans Received	104,983	-
Net Cash Provided by Financing Activities	104,983	300,000
<b>(Decrease) Increase in Cash</b>	(6,605)	11,654
<b>Cash at Beginning of Year</b>	13,408	1,754
<b>Cash at End of Year</b>	\$ 6,803	\$ 13,408

*Read Accountants' Report and Notes to Financial Statements*



## NOTES TO FINANCIAL STATEMENTS

March 31, 2007 and 2006

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, 2007 and March 31, 2006, 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, 2007 and 2006

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.

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		205,000
		\$ 250,000

NOTE 3 - **Income Taxes:**

No provision for income taxes has been included in the 2007 or 2006 statement of operations due to the net operating losses available to offset taxable income. The current income tax provision is as follows:

	2007	2006
Current tax provision		
Tax on current income	\$ -	\$ 4,200
Benefit of net operating loss carry over	-	(4,200)
Total Current Income Tax	\$ -	\$ -

The deferred tax asset is as follows at March 31:

	2007	2006
Deferred income tax		
Benefit of net operating loss carry over	\$ 141,100	\$ 89,400
Valuation allowance	(141,100)	(89,400)
Total Deferred Income Tax	\$ -	\$ -

## Notes To Financial Statements (continued)

March 31, 2007 and 2006

NOTE 3 - **Income Taxes (Continued):**  
For income tax purposes at March 31, 2007, the Company has net operating loss carryovers which expire as follows:

Fiscal Years Ended March 31	
2027	\$144,000
2024	\$148,000
2023	\$123,000

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:

	2007	2006
<u>Sales</u>		
Danlaw Inc.	\$ 1,080,154	\$ 876,004
Danlaw Technologies India Ltd	104,960	-
<u>Purchases</u>		
Danlaw Technologies India, Ltd.	\$ 723,325	\$ 349,090
Danlaw, Inc.	-	41,458
<u>Rent Expense</u>		
Danlaw, Inc.	\$ 7,896	\$ 7,896
<b>Balances as of March 31:</b>		
<u>Accounts Receivable</u>		
Danlaw, Inc.	\$ 754,902	\$ 593,077
Danlaw Technologies India Ltd	104,960	
<u>Accounts Payable</u>		
Danlaw Technologies India, Ltd.	\$ 559,482	\$ 158,294
Danlaw, Inc.	194,210	292,678

NOTE 5 - **Lease Commitments**  
The Company rents office space from Danlaw, Inc. on a month-to-month basis. For the years ended March 31, 2007 and 2006, 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, 2007 and 2006.



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## 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, 2007, 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, 2007; 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 : 30.07.2007

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

**Consolidated Balance Sheet as at**

		in Rs.	
	Schedule	31-03-2007	31-03-2006
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	3,72,03,000	4,04,53,000
Reserves and Surplus	2	26,73,77,764	26,54,04,772
Secured Loans	3	17,28,060	11,87,547
		<b>30,63,08,824</b>	<b>30,70,45,319</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Gross Block	4	5,27,46,697	5,29,09,417
Less: Depreciation		3,28,85,528	2,88,36,225
Net Block		1,98,61,169	2,40,73,192
<b>INVESTMENTS</b>			
DEFERRED TAX ASSET (NET)	5	8,86,660	-
	6	2,26,05,418	20,643,479
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Sundry Debtors	7	6,17,79,025	5,53,82,688
Cash and bank balances	8	9,56,00,669	9,21,89,705
Loans and advances	9	2,01,28,520	2,54,17,501
Inventory		85,50,548	1,27,09,144
		<b>18,60,58,762</b>	<b>18,56,99,038</b>
Less: Current liabilities & Provisions	10	3,76,73,490	2,24,99,413
<b>NET CURRENT ASSETS</b>		<b>14,83,85,272</b>	<b>16,31,99,625</b>
Goodwill		89,35,950	91,10,200
Miscellaneous Expenditure: (to the extent not written off or adjusted)	11	10,03,23,594	8,71,41,187
Profit & Loss Account		53,10,761	28,77,636
		<b>30,63,08,824</b>	<b>30,70,45,319</b>
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS</b>			
	16		

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**  
Director

**A.V. RAMANA REDDY**  
Partner

Hyderabad  
July 30, 2007

**VRK CHARY**  
VP-Finance&Accounts

**A BHASKARA RAO**  
Company Secretary

### Consolidated Profit and Loss Account for the period ended

		in Rs.	
	Schedule	31-03-2007	31-03-2006
<b>INCOME</b>			
Income from Operations		12,28,30,696	11,18,76,184
Work-in-progress		31,53,044	84,02,568
Other income	12	62,63,452	59,40,397
		<b>13,22,47,192</b>	<b>12,62,19,149</b>
<b>EXPENDITURE</b>			
Direct Cost	13	9,00,06,718	7,31,44,381
Selling Expenses	14	2,06,36,131	1,94,01,266
General and Administration expenses	15	2,14,69,750	2,19,20,995
Miscellaneous Expenses written off		-	77,135
		<b>13,21,12,599</b>	<b>11,45,43,777</b>
Operating Profit [PBIDT]		1,34,593	1,16,75,372
Interest		1,34,564	49,208
Depreciation		40,89,384	50,06,000
<b>Profit before tax</b>		<b>(40,89,355)</b>	<b>66,20,164</b>
Less: Fringe benefit tax		2,19,919	1,98,900
Provision for current year income tax		1,35,973	5,25,731
Short provision for earlier years		-	1,74,719
Deferred Tax		<b>(20,12,122)</b>	<b>22,55,024</b>
<b>Profit after tax</b>		<b>(24,33,125)</b>	<b>34,65,790</b>
Profit carried forward from last year		<b>(28,77,636)</b>	<b>(63,43,426)</b>
<b>AMOUNT TRANSFERRED TO BALANCE SHEET</b>		<b>(53,10,761)</b>	<b>(28,77,636)</b>
Basic & diluted EPS		<b>(0.65)</b>	<b>0.99</b>

**SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS**

16

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**  
Director

**A.V. RAMANA REDDY**  
Partner

Hyderabad  
July 30, 2007

**VRK CHARY**  
VP-Finance&Accounts

**A BHASKARA RAO**  
Company Secretary

## Schedules to the Consolidated Balance Sheet as at

		in Rs.								
		31-03-2007	31-03-2006							
<b>1. SHARE CAPITAL</b>										
<b>AUTHORISED</b>										
50,00,000 Equity Shares of Rs.10/- each		5,00,00,000	5,00,00,000							
<b>ISSUED, SUBSCRIBED AND PAID UP</b>										
37,20,300 Equity Shares of Rs.10/- each Fully Paid		3,72,03,000	3,72,03,000							
<b>Fully convertible warrants</b> (500000 warrants of Rs.65/- each, Rs.6.50 Paid-up)		-	32,50,000							
		<b>3,72,03,000</b>	<b>4,04,53,000</b>							
<b>2. RESERVES AND SURPLUS</b>										
Share premium account		26,58,07,400	26,58,07,400							
Convertible warrants forfeited		32,50,000	-							
Exchange conversion reserve		(16,79,636)	(4,02,628)							
		<b>26,73,77,764</b>	<b>26,54,04,772</b>							
<b>3. SECURED LOANS</b>										
Car loans from HDFC Bank Limited		4,32,226	11,87,547							
The Dhanalakshmi Bank Ltd		12,95,834	-							
		<b>17,28,060</b>	<b>11,87,547</b>							
<b>4. FIXED ASSETS</b>										
Assets	Gross Block				Depreciation			Net Block		
	Cost as at 31-03-2006	Additions during the year	Deductions during the year	Cost as at 31-03-2007	Total upto 31-03-2006	For the year	Deductions during the year	As at 31-03-2007	As at 31-03-2007	As at 31-03-2006
Additions to Leasehold premises	15,81,920			15,81,920	1,44,177	25,785		1,69,962	14,11,958	14,37,743
Computers & software	2,93,49,799	23,020		2,93,72,819	2,32,79,828	26,41,642		2,59,21,470	34,51,349	60,69,971
Office Equipment	20,10,862	42,222	2,12,680	18,40,404	4,23,743	91,495	37,157	4,78,081	13,62,323	15,87,119
Electrical Equipment	13,01,864			13,01,864	3,07,252	61,839		3,69,091	9,32,773	9,94,612
Lab Equipment	14,56,827			14,56,827	2,41,115	69,199		3,10,314	11,46,513	12,15,712
D G Set	6,84,171			6,84,171	1,51,660	32,498		1,84,158	5,00,013	5,32,511
Elevator	3,25,123			3,25,123	93,945	15,443		1,09,388	2,15,735	2,31,178
Air-conditioners	22,33,849			22,33,849	5,28,475	1,06,108		6,34,583	15,99,266	17,05,374
Furniture & Fixtures	80,93,920			80,93,920	26,50,721	5,12,345		31,63,066	49,30,854	54,43,199
Office Interiors	19,85,586			19,85,586	4,87,874	94,315		5,82,189	14,03,397	14,97,712
Vehicles	30,86,509			30,86,509	4,72,152	2,93,219		7,65,371	23,21,138	26,14,357
WOS Equipment	7,83,705			7,83,705	54,226	143,629		197,855	5,85,850	7,43,704
Grand Total	5,28,94,135	65,242	2,12,680	5,27,46,697	2,88,35,168	40,87,517	37,157	3,28,85,528	1,98,61,169	2,40,73,192
Previous Year	5,08,63,447	20,58,970	13,000	5,29,09,417	2,38,36,182	50,06,000	5,957	2,88,36,225	2,40,73,192	2,70,27,265

**Schedules to the Balance Sheet as at**

		in Rs.	
		31-03-2007	31-03-2006
<b>5.</b>	<b>INVESTMENTS</b>		
	Investment in Danlaw CNA Systems Ltd	8,86,660	-
		8,86,660	-
<b>6.</b>	<b>DEFERRED TAX ASSET (NET)</b>		
	Fixed Assets	53,26,116	45,80,687
	Investments	91,75,415	91,75,415
	Others	81,03,887	68,87,377
		226,05,418	20,643,479
<b>7.</b>	<b>SUNDRY DEBTORS</b>		
	Debts outstanding for a period less than six months		
	Unsecured considered good	4,41,37,879	5,38,83,280
	Debts outstanding for a period exceeding six months	1,76,41,146	14,99,408
		6,17,79,025	5,53,82,688
<b>8.</b>	<b>CASH AND BANK BALANCES</b>		
	Cash on hand	6,140	19,810
	Balances with banks		
	- in current accounts	30,14,722	33,65,658
	- in EEFC accounts	2,45,663	305
	- in deposit accounts in Indian rupees	9,23,34,144	8,88,03,932
		9,56,00,669	9,21,89,705
<b>9.</b>	<b>LOANS AND ADVANCES</b>		
	<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	44,508	1,10,500
	Power Incentive receivable	2,94,425	4,22,399
	Advances for expenses	32,49,293	32,47,481
	Rent deposits	7,65,000	24,29,000
	Deposit with Government Agencies	5,09,585	5,13,157
	Prepaid Expenses	1,52,031	2,36,689
	Interest Accrued but not due	30,88,001	45,55,831
	Tax Deduction at Source	71,49,403	57,38,445
	Intercorporate Deposits	48,76,274	81,63,999
		2,01,28,520	2,54,17,501



**Schedules to the Balance Sheet as at**

		in Rs.	
		31-03-2007	31-03-2006
<b>10.</b>	<b>CURRENT LIABILITIES</b>		
	Sundry Creditors - for goods	41,74,647	6,79,005
	- for services	1,60,59,052	1,57,38,537
	- for expenses	154,10,102	51,83,428
	Advances from customers	18,71,709	3,20,902
	Provision for Current Year Income Tax	1,35,973	5,25,731
	Provision for Fringe Benefit Tax	22,007	51,810
		<b>3,76,73,490</b>	<b>2,24,99,413</b>
<b>11.</b>	<b>MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED:</b>		
	R&D Expenses	10,03,23,594	8,71,41,187
		<b>10,03,23,594</b>	<b>8,71,41,187</b>
<b>Schedules to P &amp; L Account</b>			
<b>12.</b>	<b>OTHER INCOME</b>		
	Income from Investments:		
	- Profit on sale of investments	-	2,06,028
	Interest Income	54,45,440	52,72,363
	(TDS - Rs.12,23,201/-, Previous year Rs.11,77,499/-)		
	Exchange Gain (net)	4,62,328	3,02,088
	Interest on IT Refund	-	1,55,139
	Miscellaneous Income	3,55,684	4,779
		<b>62,63,452</b>	<b>59,40,397</b>
<b>13.</b>	<b>DIRECT COST</b>		
	Salaries & other benefits	5,13,10,582	4,14,71,657
	Sub-contract works	80,98,015	88,64,944
	Cost of software packages & biometrics goods sold	1,41,25,517	1,04,24,095
	Cost of electronic components	52,07,923	43,67,929
	Work-in-progress (opening)	84,02,568	53,33,280
	Transit insurance	16,907	14,837
	Sales Tax	16,79,029	9,95,344
	Travel & Conveyance	11,66,177	16,72,295
		<b>9,00,06,718</b>	<b>7,31,44,381</b>
<b>14.</b>	<b>SELLING EXPENSES</b>		
	Salaries & other benefits	91,18,095	1,01,40,863
	Travel & Conveyance	43,94,776	18,84,014
	Business development expenses	54,67,546	49,99,182
	Sales commission	16,45,714	23,28,313
	Sales Discount	-	48,894
	Advertisement	10,000	-
		<b>2,06,36,131</b>	<b>1,94,01,266</b>

<b>15. ADMINISTRATION AND OTHER EXPENSES</b>		
Advertisement	23,717	33,209
AGM Expenses	12,166	12,004
Audit expenses	2,100	1,240
Auditor's remuneration - audit fees	56,120	55,100
Bank charges and commission	2,09,769	64,475
Books & Periodicals	15,494	20,463
Bad debts written off	4,31,396	-
Depository Registrar Fee	54,532	54,532
Directors sitting fee	70,000	59,000
Insurance Charges	4,00,968	3,72,304
Internet Service Charges	7,27,997	7,83,347
Legal & Professional Charges	6,01,707	5,61,026
Listing Fee	10,000	49,700
Loss on sale of assets	41,723	1,543
Membership Fee	29,916	2,64,415
Miscellaneous Expenses	1,23,426	2,14,840
Office Maintenance	22,91,847	20,36,106
Postage & Telegrams	1,14,505	1,12,812
Power and Fuel	13,03,202	13,70,070
Printing and Stationery	1,92,665	2,75,680
Registration, Licence & Filing Fee	87,086	1,19,704
Rent, Rates & Taxes	59,15,464	59,10,320
Salaries & other benefits	50,94,100	62,42,305
Staff Recruitment & Training	4,14,193	2,31,925
Staff welfare	11,11,486	9,85,873
Telephone charges	12,92,965	10,33,424
Travel and Conveyance - Directors	5,41,465	7,91,532
Others	2,99,741	2,64,046
	<b>2,14,69,750</b>	<b>2,19,20,995</b>

#### Schedule 16

### 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 1<sup>st</sup> to March 31<sup>st</sup> 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, 2007 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.43.59 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.45.28, Rs.46.22, Rs.44.97 & Rs.44.17 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. 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.699.73 lakhs during the year ended March 31, 2007 of which the sales made to the company are Rs 327.18 lakhs.

for and on behalf of the Board

For **A.M. REDDY & CO**  
Chartered Accountants

**RAJU S DANDU**  
Chairman &  
Managing Director

**D.S.N. RAJU**  
Director

**A.V. RAMANA REDDY**  
Partner

Hyderabad  
July 30, 2007

**VRK CHARY**  
VP-Finance & Accounts

**A BHASKARA RAO**  
Company Secretary

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**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 14<sup>th</sup> Annual General Meeting of the Company to be held on September 29<sup>th</sup>, 2007 at 11.00 a.m. and at any adjournment thereof.

In witness whereof, I / We have set my / our hand / hands this \_\_\_\_ day of \_\_\_\_\_ 2007.

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**

14<sup>th</sup> Annual General Meeting on September 29<sup>th</sup>, 2007 at 11.00 A.M. at the 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 14<sup>th</sup> Annual General Meeting of the company held at the Registered Office at Plot No. 43, Sagar Society, Road No.2, Banjara Hills, Hyderabad-500 034 on September 29, 2007 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.**