

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



Dear friends,

I take pleasure in presenting the 15<sup>th</sup> Annual Report of your Company.

Danlaw has been instrumental in providing world-class products, services and solutions in the areas of automotive embedded electronics, security and surveillance solutions, and information technology focused on education, health, banking, and e-governance. According to a recent NASSCOM - McKinsey report on India's IT industry, annual revenue projections for India's IT industry in 2008 are US \$ 87 billion and market openings are emerging across four broad sectors, IT services, software products, IT enabled services, and e-businesses thus creating a number of opportunities for Indian Companies. In addition to India's continued growth expectations, rapid globalisation and privatisation plans of government owned entities in Asia and Central and Eastern Europe has allowed for expanded opportunities for Danlaw's expertise in the areas of automotive and consumer electronics.

In an attempt to capture revenue-generating opportunities from these expanding markets, your Company strives to build quality into its products and services to achieve the highest degree of customer and shareholder satisfaction. The turnover of Danlaw's ISS Division rose to 45 % when compared to the previous fiscal year. The ISS division has worked diligently to add over 40 new customers and five system integrators during the year. The division also has geographically widened its scope of operations in various parts of the country. These efforts are aimed at expanding growth and revenue potential well into future. Danlaw's Engineering Division, with significant strengths in embedded software, is focused on development of automotive software, particularly in the areas of vehicle message bus protocol development, diagnostics and testing. The Engineering Division continues to maintain its reputation for providing high-quality solutions and services to the global automotive OEM and Tier-1 community. Over the course of the past year, Danlaw has seen an increase in R&D related projects from major OEMs in rapidly growing areas including connected vehicle technology development and vehicle-to-consumer product integrated solutions. Danlaw's combined strengths in Automotive Electronics and IT solutions has created a unique opportunity for Danlaw to attack the ever-

expanding need to communicate critical vehicle data to back office server applications. Over the course of 2007, Danlaw has leveraged its unique know-how of automotive network communications and IT network data exchange, to create a platform for products and services that will lead the way to even greater opportunities in the coming years. Meanwhile, the IT division continues its ongoing efforts toward delivering effective, real-time business solutions and specialized products to meet the specific demand of Danlaw's clients. Future growth initiatives have been spurred by increased sales activity, specifically in the states of Kerala and Maharashtra, for Danlaw's eMAS product.

In 2007, Danlaw's Board agreed to dissolve its Joint Venture, M/s. Danlaw CNA Systems Ltd and has divested its stake of 40% equity shares held in it at their face value. This was a need-based decision, which allowed Danlaw, to redefine its focus of its resources, on the Company's core competencies.

The year 2007-2008, as we all know, has been truly a testing time for an industry managing the difficulties of increased inflation, a softening of the US economy and rupee value appreciation. Your Company has managed to control the administrative expenses but the exchange loss of more than Rs.25 lakhs has affected the earnings of this fiscal.

The key challenge for your Company will be to realize and tap the emerging opportunities in the global market and to leverage its unique combination of Embedded Electronics and Information Technology expertise to create sustained revenue generating solutions to an ever-increasing technology driven market. Committed to delivering innovation, Danlaw works with its clients to help them achieve optimal solution performance. We, at Danlaw, strongly believe that only those who can optimize on speed, cost, quality and expertise are equipped to meet the challenges faced in today's highly competitive markets. Our professionals leverage leading-edge technologies and tools to identify new opportunities to optimize business process improvements.

I take this opportunity to express my thanks to all the shareholders for their continued trust in the Board and management of the Company.

With warm regards,

**Raju S Dandu**  
Chairman & Managing Director

**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

DSN Raju  
Director

**COMPANY SECRETARY**

Sindhu M S

**MANAGEMENT TEAM**

B V Ramana  
Executive Vice President - ESD

Prakash B Kulkarni  
Executive Vice President - IT

G Govardhan Rao  
Vice President

Kishan Chowbene  
Vice President - Marketing & Sales

E U S Prabhakar  
General Manager - ESD

A V R K Varma  
Chief Manager - Accounts

**REGISTERED OFFICE**

Plot 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 500 028.

**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 Fifteenth Annual General Meeting of the Company will be held on Saturday, the 27<sup>th</sup> day of September, 2008 at 11.00 a.m. at the Registered Office of the Company at Plot No.43, Sagar Society, Road No. 2, Banjara Hills, Hyderabad 500 034, to transact the following business:

### ORDINARY BUSINESS

1. To receive, consider, and adopt the Audited Balance Sheet as at 31<sup>st</sup> March, 2008 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. D S N Raju, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Statutory Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.

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

Place: Hyderabad  
Date: 11<sup>th</sup> July, 2008

Sindhu M S  
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 however be deposited at the Registered Office, not less than 48 hours before the commencement of the meeting.
2. Members / Proxies are requested to bring their copies of Annual Report along with and the duly filled-in attendance slips for attending the meeting. No copies of Annual Report will be distributed at the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, the 24<sup>th</sup> of September 2008 to Saturday, the 27<sup>th</sup> of September 2008 (both days inclusive).
4. Members seeking any additional information on the accounts of the Company should write to the Company Secretary on or before 24<sup>th</sup> September 2008, 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) to M/s. Sathguru Management Consultants Pvt. Ltd, Plot No. 15, Hindi Nagar, Punjagutta, Hyderabad 500 082, Phones: 040-23356507, 23350586; E-mail: sta@sathguru.com
6. Information about the re-appointing director:

Mr. DSN Raju is the Non- Executive Director of the Company.

He graduated in Science and Law. He has also completed MBA (Marketing) and M.Phil (Management). Mr. DSN Raju has been associated with industrial sectors like Chemical, Construction, Real Estate, Engineering Trade, Food Processing etc., in various capacities as founder, director and operating chief. Currently, he is also on the board of Sugam Agro-Tech Limited.

He has been associated with our Company right from its inception. Mr. DSN Raju holds NIL equity shares in the Company.

## DIRECTORS' REPORT

To,  
The Members,

Your Directors take pleasure in presenting the 15<sup>th</sup> Annual Report and the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2008.

### FINANCIAL PERFORMANCE

Key aspects of your Company's financial performance for the year 2007-08 are tabulated below:

*Rs. in Lakhs*

Particulars	2007-08			2006-07		
	DTIL	WOS	Cons.	DTIL	WOS	Cons.
Net sales/Income from operations	825.12	152.38	977.50	887.29	372.56	1259.85
Other Income	55.97	-	55.97	62.63	-	62.63
Total Income	881.09	152.38	1033.47	949.92	372.56	1322.48
Direct cost	572.45	114.35	686.80	651.49	248.58	900.07
Gross Profit / (Loss)	308.64	38.03	346.67	298.43	123.98	422.41
Selling expenses	57.12	53.11	110.23	57.79	148.58	206.37
General & Admin expenses	210.29	24.51	234.80	187.74	26.96	214.70
Profit (Loss) before Interest, Depreciation and Tax	41.23	(39.59)	1.64	52.90	(51.56)	1.34
Interest	5.80	-	5.80	1.34	-	1.34
Depreciation	32.70	1.32	34.02	39.44	1.45	40.89
Net Profit / (Loss) before tax	2.73	(40.91)	(38.18)	12.12	(53.01)	(40.89)
Income tax	2.11	-	2.11	3.56	-	3.56
Deferred taxes	13.96	(13.56)	0.40	2.92	(23.04)	(20.12)
Profit / (Loss) after tax	(13.34)	(27.35)	(40.69)	5.64	(29.97)	(24.33)
Paid up equity share capital	372.03	295.66	372.03	372.03	295.66	372.03
Reserves and Surplus (excl. revaluation reserve)	2782.06	(165.36)	2616.70	2795.40	(174.73)	2620.67
Earnings per share	(0.36)	-	(1.09)	0.15	-	(0.65)

The total sales of the Company have come down by 22.4 %, mainly on the account of 60% drop in the sales of Danlaw Technologies Inc., the WOS. In spite of losses caused by dollar fluctuations, the net loss before tax has been reduced by 6.6%.

### CORPORATE GOVERNANCE

The Corporate governance practices are described separately in page no.8 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.14

### 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 2008.

#### **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.

#### **DISSOLUTION OF JOINT VENTURE**

The Company has dissolved its Joint Venture, M/s. Danlaw CNA Systems Ltd (entered into by the Company with M/s. CNA Group Ltd & Mr. G V Subba Rao), and has divested its stake of 40% equity shares held in it at their face value.

#### **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 2008, 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 to the financial statements have been selected and applied consistently and judgments and estimates that are reasonable and prudent 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 2008 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 2007-2008 have been prepared on a going concern basis.

#### **DIRECTORS**

Mr. D S N Raju 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 of the Company, retire at the conclusion of the ensuing annual general meeting. They have expressed their willingness to accept re- appointment.

M/s. A M Reddy & Co., Chartered Accountants have confirmed that their appointment, if made, shall be in accordance with the provisions of Section 224(1B) of the Companies Act, 1956.

#### **CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO AS REQUIRED U/s.217 (1)(e) OF THE COMPANIES ACT, 1956**

**a) Conservation of Energy :**

The Company is engaged in the business of Software and Information Technology. The activity of the Company does not require huge energy/power. The Company is monitoring the consumption of energy and is identifying measures for saving energy. During the year the Company has taken adequate measures to use energy efficiently and reduce avoidable energy consumption.

**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. 41,51,523 on R & D during the year under review as compared to Rs.1, 31,82,407 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	2007-2008 INR	2006-2007 INR
Earnings	3,97,18,129	3,80,22,031
Outgo	1,28,36,687	72,44,220

**APPRECIATION & ACKNOWLEDGEMENTS**

Your Directors take this opportunity to place on record their sincere thanks to the suppliers, customers, bankers, auditors, registrar and transfer agents and all others associated with the Company for their support and co-operation extended to the Company from time to time.

Your Directors express gratitude to the shareholders of the Company for the confidence reposed in the management. Your directors are also pleased to record their appreciation of the dedicated and sincere services of the employees of the Company.

By Order of the Board  
For Danlaw Technologies India Ltd.

Hyderabad  
11<sup>th</sup> July, 2008

Raju S Dandu  
Chairman & Managing Director

## REPORT ON CORPORATE GOVERNANCE

### 1. The Philosophy and the Policy

At Danlaw, we strongly believe that the core value of corporate governance truly does rest in the principles of integrity, fairness, equality, transparency and accountability. Corporate Governance is, for us, the means by which the values, principles and policies of the Company are manifested.

The Company recognizes the importance of good Corporate Governance to ensure sustainable returns to all shareholders of the Company.

### 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.

Four meetings of the Board of Directors were held during the financial year 2007-2008 on 30<sup>th</sup> April '07, 30<sup>th</sup> July '07, 26<sup>th</sup> October '07 and on 30<sup>th</sup> January '08.

The particulars of directors, their attendance and other directorships, memberships / chairmanships of committees for the financial year 2007-2008 are given below:

Name	Category	Attendance At		Particulars of other Indian Directorships, Committee Memberships/Chairmanships		
		Board	Last AGM	Directorship	Committee Membership	Committee Chairmanship
Raju S Dandu	Promoter Executive	4	Yes	1	Nil	Nil
DSN Raju	Promoter Non -Executive	4	Yes	1	Nil	Nil
V. K. Menon	Independent Non-executive	3	Yes	-	-	-
Prakash Kenjale	Independent Non-executive	4	No	1	Nil	Nil
Lloyd R Lawrence	Independent Non-executive	-	-	-	-	-
M. A. Ashok Kumar*	Independent Non-executive	4	Yes	2	Nil	Nil

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

### 3. The Committees of the Board

#### a) Audit Committee

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

The composition of the Audit Committee as on date is given below:

Name of the Member	Category
Mr. V K Menon (Chairman)	Independent, Non-Executive
Mr. Raju S Dandu	Promoter, Executive
Mr. Prakash S Kenjale	Independent, Non-Executive
Ms. Sindhu M S	Secretary



The Audit Committee met 4 times during the year and the gap between two meetings did not exceed four months. The dates on which the Audit Committee Meetings were held were as follows: 30<sup>th</sup> April '07, 30<sup>th</sup> July '07, 26<sup>th</sup> October '07 and on 30<sup>th</sup> January '08.

The Chairman of the Audit Committee, Mr. V K Menon was present at the Annual General Meeting of the Company held on 29<sup>th</sup> September, 2007.

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 and 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**

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 Board Members during the financial year 2007-2008:

Name	Salary	Contribution To PF	Perks	Sitting Fee	TOTAL
Raju S Dandu	1080000	129600	598	-	1210198
D S N Raju	-	-	-	-	-
V K Menon	-	-	-	-	-
Prakash S Kenjale	-	-	-	40000	-
M A Ashok Kumar	-	-	-	-	-

**c) Share Transfer and Investors' Grievance Committee**

Mr. M A Ashok Kumar chairs the Committee; with the other member being Mr. Raju S Dandu. Mr. A Bhaskara Rao, Company Secretary was the Compliance Officer and was responsible for the share transfers / demat and remat requests. M/s. Sathguru Management Consultants Pvt. Ltd., the Registrars and Share Transfer Agents, maintains the share accounting package and upgrades the data on weekly basis, as per the information received from NSDL / CDSL . Only one investor complaint was received during the entire financial year, which was duly resolved.

Mr. A Bhaskara Rao, resigned from the post of Company Secretary w.e.f. 11<sup>th</sup> March, 2008. The Company Secretary Ms. Sindhu MS is appointed as the Compliance Officer w.e.f. 4<sup>th</sup> April, 2008.

#### 4. General Body Meetings

<u>Year</u>	<u>Meeting</u>	<u>Date, Venue &amp; Time</u>	<u>Special Resolutions passed at the meetings</u>
2004-2005	AGM	17 <sup>th</sup> September, 2005 Regd. Office 11.00 a.m.	1. Alteration of Articles of Association so as to confer power to issue warrants and other financial instruments. 2. Preferential Allotment of five lakhs equity shares to non-promoters 3. Preferential Allotment of five lakhs fully convertible warrants to promoters. 4. De-listing of shares from Madras Stock Exchange.
2005-2006	AGM	28 <sup>th</sup> September, 2006 Regd. Office 11.00 a.m.	1. Re-appointment of Sri Raju S Dandu as Managing Director 2. Re-appointment of Sri D S N Raju as Executive Director
2006-2007	AGM	29 <sup>th</sup> September, 2007 Regd. Office 11.00 a.m.	NIL

#### 5. Disclosures

The details of transactions with related parties are given in 16.2.5 of the 'Notes on Accounts' at page no. 28 forming part of the accounts. There were no potentially conflicting transactions with the related parties. There were no 'charges of non-compliance' against the Company.

#### 6. Means of Communication

The Company published its quarterly and half yearly results in the prescribed format within the prescribed time limit. The results were forthwith sent to the Stock Exchanges where the shares of the Company are listed and the same was published in two newspapers, in Financial Express and Andhra Prabha (Telugu). The financial results are also posted on the website of the Company, [www.danlawtechnologies.com](http://www.danlawtechnologies.com).

The quarterly financial results and the shareholding patterns are also uploaded onto the EDIFAR (Electronic Data Information and Retrieval) of SEBI, thereby complying with the provisions of clause 51 of the Listing Agreement.

The Company made no presentations during the year under review to any institutional investors or analysts.

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## 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	:	27 <sup>th</sup> September, 2008
Time	:	11.00 a.m.
Venue	:	Registered Office, at Plot No. 43, Sagar Society, Road No. 2, Banjara Hills, Hyderabad 500 034.
Date of Book Closure	:	24 <sup>th</sup> to 27 <sup>th</sup> September, 2008 (both days inclusive)

#### Financial Calendar (Provisional):

UFR of 1 <sup>st</sup> quarter April 1 to June 30, 2008	:	11 <sup>th</sup> day of July, 2008 (Held)
UFR of 2 <sup>nd</sup> quarter July 1 to Sept. 30, 2008	:	Last week of October, 2008
UFR of 3 <sup>rd</sup> quarter Oct. 1 to Dec., 31, 2008	:	Last week of January, 2009
UFR of 4 <sup>th</sup> quarter Jan. 1 to Mar., 31, 2009	:	Last week of April, 2009
Audited results of FY 2008-2009	:	Last week of July, 2009
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\*

<u>Month</u>	<u>Danlaw</u>		<u>Sensex</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
April, 2007	36.00	30.00	14,383.72	12,425.52
May	41.00	30.60	14,576.37	13,554.34
June	42.85	28.55	14,683.36	13,946.99
July	55.00	37.05	15,868.85	14,638.88
August	42.60	30.00	15,542.40	13,779.88
September	36.95	30.50	17,361.47	15,323.05
October	33.75	26.10	20,238.16	17,144.58
November	32.00	21.00	20,204.21	18,182.83
December	41.30	25.20	20,498.11	18,886.40
January, 2008	43.40	23.10	21,206.77	15,332.42
February	26.85	20.75	18,895.34	16,457.74
March	23.00	16.05	17,227.56	14,677.24

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, 2008

<u>Category</u>	<u>Shareholders</u>	<u>%</u>	<u>Shares</u>	<u>%</u>
1 - 500	1141	72.44	1,87,904	5.05
501 - 1000	188	11.94	1,56,340	4.20
1001 - 2000	93	5.90	1,44,216	3.88
2001 - 3000	39	2.48	99,057	2.66
3001 - 4000	15	0.95	52,667	1.42
4001 - 5000	25	1.59	1,18,048	3.17
5001 - 10000	32	2.03	2,32,850	6.26
10001 & above	42	2.67	27,29,218	73.36
<b>TOTAL</b>	<b>1575</b>	<b>100.00</b>	<b>37,20,300</b>	<b>100.00</b>

(E) Categories of Shareholders as on March 31, 2008

<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	360409	9.69
NRI / OCB	5703	0.15
Indian Public	1460583	39.26
<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 in dematerialized form only. The Company entered into agreement with NSDL and CDSL whereby shareholders have the option to dematerialize their shares with either of the Depositories. 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.

More than 95% of shares are dematerialized by June 30, 2008. There are no outstanding ADRs / GDRs or other instruments pending conversion into equity shares.

## CORPORATE GOVERNANCE CERTIFICATE

The Members of  
M/s Danlaw Technologies India Limited  
Hyderabad

We have examined the compliance of the conditions of Corporate Governance by M/s. Danlaw Technologies India Limited for the year ended on 31st March, 2008 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges in India.

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

In our opinion and to the best of our information and explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended 31st March, 2008 no investor grievances are pending against the Company as on 30th April, 2008, as per the records maintained by the Company and presented to the Investors/Shareholders Grievance Committee.

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

Place : Hyderabad.  
Date : July 11, 2008

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

(CA. Kishore Kumar. K)  
Partner  
Membership No. 215459

## 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 : 11.07.2008

Raju S Dandu  
Chairman & Managing Director

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### **Industry Structure and Development**

Danlaw has been in the business of providing a range of quality driven engineering and software services in the areas of embedded software engineering, information technology and project management. Your Company is facing stiff competition from various IT majors since many Indian companies have expertise on embedded software development and they all are looking to move up the value chain.

A recent Nasscom-Mckinsey study said that the domestic embedded systems market was geared to generate exports worth Rs.41000 crore by 2008.

Danlaw endeavors to contribute to the growth story by using cutting edge technologies and by forging partnerships and alliances with world leaders. Your Company envisions itself as a products Company that pioneers innovations.

The key areas of focus of your Company are Engineering Software, Information Technology, Security Systems and Research & Development.

### **Opportunities And Threats**

#### **Opportunities**

New budgetary allocation and new policies for the development of the Indian software industries and its allied sectors was a major focus area of budget 2008. The tax breaks and sops offered by Indian government for upcoming software firms has made India one of the most attractive markets for setting up Software shop.

#### **Threats, Risks and Concerns**

The major area of concern for the software industry during the fiscal was the appreciation of Rupee and softening of in the US economy. Your Company is constantly endeavoring to adopt the best methods to mitigate the threats and concerns, which are common to the IT industry in general.

#### **Performance and Outlook**

The ISS division has grown from strength to strength and has posted an increase in the turnover by almost 45% when compared to the previous fiscal.

The IT division of Danlaw, in consortium with Wipro, has signed an agreement for Design, Development, Implementation and maintenance of Municipal Administration System for Kolkata Urban Services for Poor (KUSP), Government of West Bengal. The sales efforts are in progress for couple of states like Kerala, Karnataka, Maharashtra etc. for eMAS product.

The Engineering Division primarily provides service to Automotive Customers. The services involve Software Development, Software Verification & Validation and Test Plan Development. Engineering division has also diversified development into other fields.

### **Business Outlook**

During the year under review, your Company has made significant progress in implementing initiatives aimed at meeting its long-term objectives. Your Company has continued to strengthen its relationships with existing customers, while exploring new opportunities. The strategy to focus on where the Company enjoys a clear competitive advantage combined with new strategic alliances should enable your Company to deliver progressive performance and result in greater value creation for the Company's shareholders over the long-term.

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

Your Company has a policy of maintaining effective internal control system and also focuses on strict implementation of these policies and procedures so as to safe guard the assets and interests of the Company.

Your Company has an Audit Committee comprising of two-thirds of Independent Directors of the Company. The findings of internal audit are periodically placed before the Audit committee and the Board of directors of the Company. The Audit Committee also reviews periodically the performance of statutory and internal auditors, and adequacy of the internal control systems.

In order to ensure that the financial transactions comply with current legislative requirements and accounting standards, your 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**

During the year under review the Paid up Share Capital of the Company as on date is Rs.3,72,03,000 comprising of 37,20,300 Equity Shares of Rs.10/- each. Your Company hasn't gone for any issue of shares during the fiscal.

Your Company has dissolved its Joint Venture, M/s. Danlaw CNA Systems Ltd (entered into by the Company with M/s. CNA Group Ltd & Mr. G V Subba Rao), and has divested its stake of 40% equity shares held in it at their face value.

The Company has obtained a Non fund based facility of about Rs.60 Lakhs.

The exchange loss of Rs.25.70 Lakhs as against the gain last year to the tune of Rs.4.62 lakhs has affected the earnings for the current fiscal.

### **Material Development In Human Resources**

Your Company believes that the quality of its employees is the key to success in the long run and is committed to provide the necessary training opportunities to enable them to adapt to the latest technological advancements. Additionally, we are taking steps to ensure the resources we have are utilized optimally.

As on date the Company has a total strength of 96 Employees.

### **Cautionary Statement**

Statements in the Management Discussion and Analysis describing the Companies objectives, projections, estimates and expectations may be forward-looking statements. Actual results may vary materially from those expressed or implied.



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## 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, 2008, 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, 2008, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - (vi) In our opinion to the best of our information and according to the explanations given to us, the said accounts together with the notes thereon and attached thereto give in the prescribed manner the information required by the Companies Act, 1956 and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2008;
- (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 : July 11, 2008

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

(CA. KISHORE KUMAR. K)  
PARTNER  
Membership No. 215459

**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, 2008 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 31.03.2008 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 company has not given any guarantees for loans taken by others from banks or financial institutions, the terms and conditions, whereof, in our opinion are prima facie prejudicial to the interest of the company.
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: July 11, 2008

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

(CA. KISHORE KUMAR. K)  
PARTNER  
Membership No. 215459

## Balance Sheet as at

		in Rs.	
	Schedule	31-03-2008	31-03-2007
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Share Capital	1	3,72,03,000	3,72,03,000
Reserves and Surplus	2	27,82,05,782	27,95,39,968
Secured Loans	3	5,09,400	17,28,060
		<b>31,59,18,182</b>	<b>31,84,71,028</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Gross Block	4	5,28,77,685	5,19,62,992
Less: Depreciation		3,59,57,683	3,26,87,673
Net Block		<b>1,69,20,002</b>	<b>1,92,75,319</b>
INVESTMENTS	5	2,95,66,245	3,04,52,905
DEFERRED TAX ASSET (NET)	6	1,89,55,610	2,03,51,815
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Sundry Debtors	7	6,68,77,583	5,20,82,323
Cash and bank balances	8	6,67,65,313	9,53,04,126
Loans and advances	9	2,24,10,121	1,72,07,990
Inventory		1,30,85,692	85,50,548
		<b>16,91,38,709</b>	<b>17,31,44,987</b>
Less : Current liabilities & Provisions	10	2,31,37,501	2,50,77,592
NET CURRENT ASSETS		<b>14,60,01,208</b>	<b>14,80,67,395</b>
Miscellaneous Expenditure: (to the extent not written off or adjusted)	11	10,44,75,117	10,03,23,594
		<b>31,59,18,182</b>	<b>31,84,71,028</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

**M.A. ASHOK KUMAR**  
Director

**(CA.KISHORE KUMAR.K)**  
Partner

Hyderabad  
July 11, 2008

**M.S. SINDHU**  
Company Secretary

## Profit and Loss Account for the period ended

		in Rs.	
	Schedule	31-03-2008	31-03-2007
<b>INCOME</b>			
Income from Operations			
- Exports		3,97,18,129	3,80,22,031
- Domestic		3,69,40,078	4,75,53,828
- Work-in-progress		58,53,758	31,53,044
Other income	12	55,97,101	62,63,452
		<b>8,81,09,066</b>	<b>9,49,92,355</b>
<b>EXPENDITURE</b>			
Direct Cost	13	5,72,45,340	6,51,48,805
Selling Expenses	14	57,11,665	57,78,509
General and Administration expenses	15	2,10,29,340	1,87,74,710
		<b>8,39,86,345</b>	<b>8,97,02,024</b>
Operating Profit [PBIDT]		41,22,721	52,90,331
Interest		5,80,183	1,34,564
Depreciation		32,70,009	39,43,888
<b>Profit before tax</b>		<b>2,72,529</b>	<b>12,11,879</b>
Less: Fringe benefit tax		1,82,712	2,19,919
Provision for current year income tax		27,798	1,35,973
Deferred Tax		13,96,205	2,91,664
<b>Profit after tax</b>		<b>(13,34,186)</b>	<b>5,64,323</b>
Profit carried forward from last year		1,04,82,568	99,18,245
<b>AMOUNT TRANSFERRED TO BALANCE SHEET</b>		<b>91,48,382</b>	<b>1,04,82,568</b>
Basic & diluted EPS		<b>- 0.36</b>	0.15

### 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

**M.A. ASHOK KUMAR**  
Director

**(CA.KISHORE KUMAR.K)**  
Partner

Hyderabad  
July 11, 2008

**M.S. SINDHU**  
Company Secretary

## Schedules to the Balance Sheet as at

		in Rs.	
		31-03-2008	31-03-2007
<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>3,72,03,000</b>	<b>3,72,03,000</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	32,50,000
	Transferred from Profit and Loss Account	91,48,382	1,04,82,568
		<b>27,82,05,782</b>	<b>27,95,39,968</b>
<b>3.</b>	<b>SECURED LOANS</b>		
	Car loans from HDFC Bank Limited	5,09,400	4,32,226
	The Dhanalakshmi Bank Ltd	-	12,95,834
		<b>5,09,400</b>	<b>17,28,060</b>

		in Rs.									
		Gross Block				Depreciation				Net Block	
Assets	Cost as at 31-03-2007	Additions during the year	Deductions during the year	Cost as at 31-03-2008	Total upto 31-03-2007	For the year	Deductions during the year	As at 31-03-2008	As at 31-03-2008	As at 31-03-2007	
Additions to Leasehold premises	15,81,920			15,81,920	1,69,962	25,856		1,95,818	13,86,102	14,11,958	
Computers & software	2,93,72,819	1,26,789		2,94,99,608	2,59,21,470	19,27,269		2,78,48,739	16,50,869	34,51,349	
Office Equipment	18,40,404	1,031		18,41,435	4,78,081	87,659		5,65,740	12,75,695	13,62,323	
Electrical Equipment	13,01,864	1,568		13,03,432	3,69,091	62,023		4,31,114	8,72,318	9,32,773	
Lab Equipment	14,56,827			14,56,827	3,10,314	69,389		3,79,703	10,77,124	11,46,513	
D G Set	6,84,171	12,199		6,96,370	1,84,158	32,589		2,16,747	4,79,623	5,00,013	
Elevator	3,25,123			3,25,123	1,09,388	15,486		1,24,874	2,00,249	2,15,735	
Air-conditioners	22,33,849	47,728		22,81,577	6,34,583	1,06,405		7,40,988	15,40,589	15,99,266	
Furniture & Fixtures	80,93,920	84,473		81,78,393	31,63,066	5,15,038		36,78,104	45,00,289	49,30,854	
Office Interiors	19,85,586			19,85,586	5,82,189	94,573		6,76,762	13,08,824	14,03,397	
Vehicles	30,86,509	6,40,905		37,27,414	7,65,371	3,33,722		10,99,093	26,28,321	23,21,138	
<b>Grand Total</b>	5,19,62,992	9,14,693	-	5,28,77,685	3,26,87,673	32,70,009	-	3,59,57,682	1,69,20,003	1,92,75,319	
Previous Year	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	

**Schedules to the Balance Sheet as at**

		in Rs.	
		31-03-2008	31-03-2007
<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>2,95,66,245</b>	<b>3,04,52,905</b>
<b>6.</b>	<b>DEFERRED TAX ASSET (NET)</b>		
	Fixed Assets	(27,40,259)	(32,98,400)
	Investments	70,48,963	70,48,963
	Others	1,46,46,906	1,66,01,252
		<b>1,89,55,610</b>	<b>2,03,51,815</b>
<b>7.</b>	<b>SUNDRY DEBTORS</b>		
	Debts outstanding for a period less than six months		
	Unsecured considered good	3,03,43,305	2,16,11,935
	Debts outstanding for a period exceeding six months	3,65,34,278	3,04,70,388
		<b>6,68,77,583</b>	<b>5,20,82,323</b>
<b>8.</b>	<b>CASH AND BANK BALANCES</b>		
	Cash on hand	4,816	6,140
	Balances with banks		
	- in current accounts	23,54,486	27,18,179
	- in EEFC accounts	141	2,45,663
	- in deposit accounts in Indian rupees	6,44,05,870	9,23,34,144
		<b>6,67,65,313</b>	<b>9,53,04,126</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	53,502	44,508
	Power Incentive receivable	2,71,309	2,94,425
	Advances for expenses	9,70,121	3,28,763
	Rent deposits	24,27,000	7,65,000
	Deposit with Government Agencies	5,19,685	5,09,585
	Prepaid Expenses	1,21,907	1,52,031
	Interest Accrued but not due	39,92,905	30,88,001
	Tax Deduction at Source	75,49,306	71,49,403
	Intercorporate Deposits	65,04,386	48,76,274
		<b>2,24,10,121</b>	<b>1,72,07,990</b>



**Schedules to the Balance Sheet as at**

		in Rs.	
		31-03-2008	31-03-2007
<b>10.</b>	<b>CURRENT LIABILITIES</b>		
	Sundry Creditors - for goods	63,68,116	41,74,647
	- for services	86,57,229	86,86,675
	- for expenses	75,89,349	1,02,30,171
	Outstanding dues of micro and small enterprises	-	-
	Advances from customers	4,75,542	18,28,119
	Provision for Current Year Income Tax	27,798	1,35,973
	Provision for Fringe Benefit Tax	19,467	22,007
		<b>2,31,37,501</b>	<b>2,50,77,592</b>
<b>11.</b>	<b>MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED:</b>		
	R&D Expenses	10,44,75,117	10,03,23,594
		<b>10,44,75,117</b>	<b>10,03,23,594</b>

**Schedules to P & L Account**

		in Rs.	
		31-03-2008	31-03-2007
<b>12.</b>	<b>OTHER INCOME</b>		
	Interest Income	53,46,871	54,45,440
	(TDS - Rs.11,99,071/-, Previous year Rs.12,23,201/-)		
	Exchange Gain (net)	-	4,62,328
	Interest on IT Refund	75,985	-
	Miscellaneous Income	1,74,245	3,55,684
		<b>55,97,101</b>	<b>62,63,452</b>
<b>13.</b>	<b>DIRECT COST</b>		
	Salaries & other benefits	2,69,75,421	2,74,65,118
	Sub-contract works	7,37,212	80,98,015
	Cost of software packages & biometrics goods sold	1,92,99,508	1,31,13,068
	Cost of electronic components	52,51,589	52,07,923
	Work-in-progress (opening)	31,53,044	84,02,568
	Freight outward	2,08,090	-
	Transit insurance	28,489	16,907
	Sales Tax	-	16,79,029
	Travel & Conveyance	15,91,987	11,66,177
		<b>5,72,45,340</b>	<b>6,51,48,805</b>
<b>14.</b>	<b>SELLING EXPENSES</b>		
	Salaries & other benefits	45,18,276	44,29,806
	Travel & Conveyance	8,62,467	6,65,332
	Business development expenses	1,95,706	1,34,121
	Sales commission	1,35,216	5,39,250
	Advertisement	-	10,000
		<b>57,11,665</b>	<b>57,78,509</b>

<b>15. ADMINISTRATION AND OTHER EXPENSES</b>		
Advertisement	35,201	23,717
AGM Expenses	15,580	12,166
Audit expenses	1,235	2,100
Auditor's remuneration - audit fees	56,180	56,120
Bank charges and commission	76,636	2,09,769
Books & Periodicals	15,948	15,494
Bad debts written off	-	4,31,396
Depository Registrar Fee	77,243	54,532
Directors sitting fee	40,000	70,000
Exchange Loss (Net)	25,70,059	-
Insurance Charges	4,37,092	4,00,968
Internet Service Charges	4,58,363	7,27,997
Legal & Professional Charges	2,80,739	1,42,676
Listing Fee	10,300	10,000
Loss on sale of assets	-	41,723
Membership Fee	16,039	29,916
Miscellaneous Expenses	79,849	1,23,426
Office Maintenance	13,32,635	15,27,447
Postage & Telegrams	33,352	1,14,505
Power and Fuel	14,21,602	13,03,202
Printing and Stationery	1,74,109	1,92,665
Registration, Licence & Filing Fee	26,918	87,086
Rent, Rates & Taxes	61,97,460	49,42,311
Salaries & other benefits	51,15,112	50,94,100
Staff Recruitment & Training	1,22,090	4,14,193
Staff welfare	7,28,312	7,22,837
Telephone charges	7,77,442	11,83,158
Travel and Conveyance -		
Directors	7,17,622	5,41,465
Others	2,12,222	2,99,741
	<b>2,10,29,340</b>	<b>1,87,74,710</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**

Long-term investments are stated at cost. 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.1,22,25,508/- as at March 31, 2008, to various banks, in respect of guarantees given by the said banks in favor of bodies corporate to the extent of Rs.1,10,20,400/- and Rs.12,05,108/- to government authorities. The counter guarantees outstanding as at the previous year-end was Rs.9,04,67,852/- and Rs.5,17,708/- respectively.

### 16.2.2 Quantitative details

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

### 16.2.3 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.13.96 lakhs has been recognized in Profit & Loss Account as Deferred Tax liability accrued during the year.

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

Year ended March 31	Rs.	
	2008	2007
Fixed Assets	5,58,141	7,45,429
Investments	--	--
Others	(19,54,346)	(10,57,008)
Total	(13,96,205)	(3,11,579)

### 16.2.4 Managerial Remuneration

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

Whole time Director

Particulars	Rs.
	Raju S Dandu CMD
Salary	10,80,000
Contribution to PF	1,29,600
Medical	598
Total	12,10,198

### 16.2.5 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; 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. DSN Raju, Director; and Mrs. D Lakshmi, wife of Mr. DSN 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	
	2008	2007	2008	2007
<u>Sales</u>				
Software Services	344.82	326.22	487.03	363.41
<u>Purchases</u>	10.95	57.25	71.11	57.25
<u>Payments</u>				
Remuneration	12.10	11.79	--	--
Lease Rentals	38.57	40.43	19.03	24.97
Productization expenses	Nil	45.75	45.75	45.75
ICD	--	--	*96.69	*77.72
Investment (WOS)	--	--	295.66	295.66

\* Includes accrued interest

#### 16.2.6 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.

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

#### 16.2.8 Imports on CIF basis

In Rs.

Year ended March 31	2008	2007
Capital goods	Nil	Nil

#### 16.2.9 Expenditure in foreign currency

In Rs.

Year ended March 31	2008	2007
Expenditure	1,28,36,687	72,44,220

#### 16.2.10 Earnings in foreign exchange

In Rs.

Year ended March 31	2008	2007
Income from software development services and products on accrual basis	3,97,18,129	3,80,22,031

16.2.11 Outstanding dues to Micro, Small and Medium Enterprises under the MSME Development Act, 2006 have been determined based on the information available with the Company and the required

disclosures are given below.

Year ended March 31	2008	2007
a) Principal amount remaining unpaid	Nil	Nil
b) Interest due thereon	Nil	Nil
c) Interest paid by the Company in terms of Section 16 of MSME Development Act, 2006 along with the amount of the payment made to the supplier beyond the appointed day during the year	Nil	Nil
d) Interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSME Development Act, 2006.	Nil	Nil
e) Interest accrued and remaining unpaid	Nil	Nil
f) Further interest remaining due and payable even in the succeeding years until such date when the interest dues as above are actually paid to the small enterprise	Nil	Nil

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

**M.A. ASHOK KUMAR**  
Director

**(CA.KISHORE KUMAR.K)**  
Partner

Hyderabad  
July 11, 2008

**M.S. SINDHU**  
Company Secretary

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

	in Rs.	
	2008	2007
<b>Cash flows from operations</b>		
Profit from operations	2,72,529	12,11,879
Depreciation and depletion	32,70,009	39,43,888
Income Taxes paid	(1,82,712)	(2,19,919)
Loss on sale of fixed assets	-	41,723
Decrease (increase) in sundry debtors	(1,47,95,260)	(1,82,54,496)
Decrease (increase) in loans and advances	(52,02,131)	52,32,031
Decrease (increase) in inventory	(45,35,144)	41,58,596
Increase (decrease) in current liabilities	(19,40,091)	2,11,92,540
Increase (decrease) in provisions	(27,798)	(1,35,973)
Decrease (Increase) in miscellaneous expenditure	(41,51,523)	(1,31,82,407)
<b>Net cash from operations</b>	<b>(2,72,92,121)</b>	<b>39,87,862</b>
<b>Cash flows from financing</b>		
Fully convertible warrants	-	(32,50,000)
Convertible warrant forfeited	-	32,50,000
Secured loans	(12,18,660)	5,40,513
<b>Net cash from financing</b>	<b>(12,18,660)</b>	<b>5,40,513</b>
<b>Cash flows from investing</b>		
Proceeds of sale of fixed assets	-	1,33,800
Purchase of Fixed Assets	(914,692)	(65,242)
Investments	8,86,660	(8,86,660)
<b>Net cash from investing</b>	<b>(28,032)</b>	<b>(8,18,102)</b>
Total increase (decrease) in cash and equivalents during the year	<b>(285,38,813)</b>	37,10,273
Cash and equivalents at the beginning of the year	9,53,04,126	9,15,93,853
<b>Cash and equivalents at the end of the year</b>	<b>6,67,65,313</b>	<b>9,53,04,126</b>

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

for and on behalf of the Board

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

**RAJU S DANDU**  
Chairman &  
Managing Director

**M.A. ASHOK KUMAR**  
Director

**(CA.KISHORE KUMAR.K)**  
Partner

Hyderabad  
July 11, 2008

**M.S. SINDHU**  
Company Secretary

## Balance Sheet Abstract And Company's General Profile

I)	Registration No.	<b>15099</b>	State Code :	<b>01</b>
	Corporate Identification No. (CIN)	<b>L72200AP1992PLC015099</b>		
II)	Capital raised during the year		<i>(Amount in Rs. in '000)</i>	
	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	<b>3,15,918</b>	Total Assets	<b>3,15,918</b>
	<i>Sources of Funds</i>		<i>Application of Funds</i>	
	Paid-up Capital	<b>37,203</b>	Net Fixed Assets	<b>16,920</b>
	Reserves & Surplus	<b>2,78,206</b>	Investments	<b>29,566</b>
	Secured Loans	<b>509</b>	Deferred Tax Asset (Net)	<b>18,956</b>
			Net Current Assets	<b>1,46,001</b>
			Miscellaneous Expenditure	<b>1,04,475</b>
IV)	Performance of Company		<i>(Amount in Rs. in '000)</i>	
	Turnover	<b>88,109</b>	Total Expenditure	<b>87,836</b>
	Profit/Loss before Tax	<b>273</b>	Profit after Tax	<b>(1,334)</b>
	Earning per share (Rs.)	<b>(0.36)</b>	Dividend Rate	- NIL -
V)	Generic Names of principal products, services of the Company			
	Item Code No.	<b>85249009.1</b>		
	Product Description	<b>Computer Software</b>		

for and on behalf of the Board

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

**RAJU S DANDU**  
Chairman &  
Managing Director

**M.A. ASHOK KUMAR**  
Director

**(CA.KISHORE KUMAR.K)**  
Partner

Hyderabad  
July 11, 2008

**M.S. SINDHU**  
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 2007 to March 2008  
 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 2007-08.

No.	Particulars	In USD		Rs. in lakhs	
		2007-08	2006-07	2007-08	2006-07
1	Revenue	1,223,324	1,547,888	491.41	699.73
2	Cost of Sales	1,129,760	1,272,867	453.38	575.76
3	Gross Profit	93,564	275,021	38.03	123.97
4	General and Administrative Expenses	196,691	391,845	78.94	176.98
5	Net Income/(Loss)	(103,127)	(116,824)	(40.91)	(53.01)
6	Paid up equity share capital	640,000	640,000	295.66	295.66

The sales in US Dollars for the current year have gone down by 20%. The general and administrative expenses have been reduced by 50% and hence the losses have been reduced by 12% compared to last year. The financial results in rupees represent approximately 11 % change in the "rupee vs. dollar" exchange rate.

**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, 2008 and 2007 and the related statements of operations, stockholder's equity and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Danlaw Technologies, Inc.

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

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

**GRANT, MILLMAN & JOHNSON, P.C.**

**June 17, 2008**

**DANLAW TECHNOLOGIES, INC.**  
**BALANCE SHEETS**  
**March 31, 2008 and 2007**

**ASSETS**

	2008	2007
<b>Current Assets:</b>		
Cash	\$ 27,314	\$ 6,803
Accounts Receivable	89,545	54,496
Accounts Receivable - Parent	118,028	104,960
Accounts Receivable - Affiliate	854,371	754,902
Advances	67,000	67,000
<b>Total Current Assets</b>	<b>1,156,258</b>	<b>988,161</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	(7,833)	(4,539)
<b>Total Property and Equipment</b>	<b>10,146</b>	<b>13,440</b>
<b>Other Assets:</b>		
Software Development Cost	151,136	-
Goodwill	205,000	205,000
<b>Total Other Assets</b>	<b>356,136</b>	<b>205,000</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,522,540</b>	<b>\$ 1,206,601</b>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

<b>Current Liabilities:</b>		
Accounts Payable - Affiliate	\$ 132,707	\$ 194,210
Accounts Payable - Other	27,336	79,880
Accounts Payable - Parent	908,668	559,483
Accrued Payroll and Payroll Taxes	10,004	13,850
Customer Deposits	8,774	1,000
Loans	284,983	104,983
<b>Total Current Liabilities</b>	<b>1,372,472</b>	<b>953,406</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	(489,932)	(386,805)
<b>Total Stockholder's Equity</b>	<b>150,068</b>	<b>253,195</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 1,522,540</b>	<b>\$ 1,206,601</b>

*Read Accountants' Report and Notes to Financial Statements*

**STATEMENTS OF OPERATIONS**  
For the Years Ended March 31, 2008 and 2007

	2008	2007
<b>Revenue:</b>		
Automotive Electronics	\$ 912,372	\$ 1,185,114
Security Products	15,365	99,736
ESAP cm Sales	37,051	25,731
ESAP sp Sales	258,536	237,307
<b>Total Revenue</b>	<b>1,223,324</b>	<b>1,547,888</b>
<b>Cost of Sales:</b>		
Subcontract Work - Parent	710,485	524,846
Subcontract Work - Affiliate	18,600	-
Cost of Products - Parent	135,750	198,479
Security Product Costs	11,155	21,905
Technical Salaries	55,785	276,143
Billing Salaries	164,749	192,468
Payroll Taxes	17,456	36,304
Employee Benefits	15,780	22,722
ESAP sp Processing Fees	25,589	22,596
<b>Total Cost of Sales</b>	<b>1,155,349</b>	<b>1,295,463</b>
<b>Gross Profit</b>	<b>67,975</b>	<b>252,425</b>
<b>General and Administrative Expenses:</b>		
Business Development	72,000	96,000
Travel & Lodging	31,382	65,838
Sales Salaries	-	96,612
Payroll Taxes	-	6,511
Sales Commissions	-	24,035
Payroll Preparation	4,906	3,522
Auto Expense	3,169	17,504
Telephone	3,070	2,486
Meals & Entertainment	338	8,611
Rent & Utilities	20,757	21,855
Professional Services	6,865	6,544
Server Hosting	5,640	5,230
Repairs & Maintenance	901	4,390
Depreciation	3,294	3,294
Office Expenses	13,096	4,032
Bank Charges	642	25
Other	5,042	2,760
<b>Total General and Administrative Expenses</b>	<b>171,102</b>	<b>369,249</b>
<b>NET LOSS</b>	<b>\$ (103,127)</b>	<b>\$ (116,824)</b>

*Read Accountants' Report and Notes to Financial Statements*

**STATEMENTS OF STOCKHOLDER'S EQUITY**  
For the Years Ended March 31, 2008 and 2007

	Accumulated Deficit	Additional Paid-in Capital	Common Stock	Total
<b>Balance March 31, 2006</b>	\$ (269,981)	\$ 300,000	\$ 340,000	\$ 370,019
Net Loss	(116,824)	-	-	(116,824)
<b>Balance March 31, 2007</b>	(386,805)	300,000	340,000	253,195
Net Loss	(103,127)	-	-	(103,127)
<b>Balance March 31, 2008</b>	\$ (489,932)	\$ 300,000	\$ 340,000	\$ 150,068

**STATEMENTS OF CASH FLOWS**  
For the Years Ended March 31, 2008 and 2007

	2008	2007
<b>Cash Flows From Operating Activities:</b>		
Net Loss	\$ (103,127)	\$ (116,824)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation	3,294	3,294
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(147,586)	(269,323)
Accounts Payable	235,138	322,252
Accrued Payroll and Payroll Taxes	(3,846)	(50,987)
Customer Deposits	7,774	-
Net Cash Used in Operating Activities	(8,353)	(111,588)
<b>Cash Flows from Investing Activities:</b>		
Software Development	(151,136)	-
<b>Cash Flows from Financing Activities:</b>		
Loan Proceeds	180,000	104,983
<b>Increase (Decrease) in Cash</b>	20,511	(6,605)
<b>Cash at Beginning of Year</b>	6,803	13,408
<b>Cash at End of Year</b>	\$ 27,314	\$ 6,803

*Read Accountants' Report and Notes to Financial Statements*

## Notes To Financial Statements

March 31, 2008 and 2007

NOTE1- **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, 2008 and March 31, 2007, 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.

## Notes To Financial Statements (continued)

March 31, 2008 and 2007

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.

**Software Development Cost**

Capitalized software development costs represent costs incurred after technological feasibility has been established in connection with the development of enhancements to one or more particular software programs. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenues, estimated economic life, and changes in software and hardware technology. The software development cost will be amortized using the straight-line method over the estimated economic life of the software not to exceed three years.

**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 - **Income Taxes:**

No provision for income taxes has been included in the 2008 or 2007 statement of operations due to the net operating losses available to offset taxable income.

The deferred tax asset is as follows at March 31:

	2008	2007
Deferred income tax		
Benefit of net operating loss carry over	\$ 175,200	\$ 141,100
Valuation allowance	(175,200)	(141,100)
Total Deferred Income Tax	\$ -	\$ -

## Notes To Financial Statements (continued)

March 31, 2008 and 2007

**NOTE 3 - Income Taxes (Continued):**

For income tax purposes at March 31, 2008, the Company has net operating loss carryovers which expire as follows:

Fiscal Years Ended March 31	
2023	\$123,000
2024	\$148,000
2027	\$128,000
2028	\$116,000

**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 :

	2008	2007
<i>Sales</i>		
Danlaw, Inc.	\$ 821,769	\$ 1,080,154
Danlaw Technologies India Ltd	\$ 13,068	\$ 104,960
<i>Purchases</i>		
Danlaw Technologies India Ltd.	\$ 846,235	\$ 723,325
Danlaw, Inc.	\$ 18,600	\$ -
<i>Administration Fees</i>		
Danlaw, Inc.	\$ 10,000	\$ -
<i>Rent Expense</i>		
Danlaw, Inc.	\$ 7,896	\$ 7,896
<b>Balances as of March 31:</b>		
<i>Accounts Receivable</i>		
Danlaw, Inc.	\$ 854,371	\$ 754,902
Danlaw Technologies India Ltd	\$ 118,028	\$ 104,960
<i>Accounts Payable</i>		
Danlaw Technologies India Ltd.	\$ 908,668	\$ 559,483
Danlaw, Inc.	\$ 132,706	\$ 194,210



## Notes To Financial Statements (continued)

March 31, 2008 and 2007

**NOTE 5- Lease Commitments**

The Company rents office space from Danlaw, Inc. on a month-to-month basis. For the years ended March 31, 2008 and 2007, 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, 2008 and 2007.

## 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, 2008, 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, 2008; 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: July 11, 2008

(CA. KISHORE KUMAR. K)  
PARTNER  
Membership No - 215459

## Consolidated Balance Sheet as at

		in Rs.	
	Schedule	31-03-2008	31-03-2007
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	3,72,03,000	3,72,03,000
Reserves and Surplus	2	27,10,49,148	26,73,77,764
Secured Loans	3	5,09,400	17,28,060
		<b>30,87,61,548</b>	<b>30,63,08,824</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>	4		
Gross Block		5,35,96,306	5,27,46,697
Less: Depreciation		3,62,70,768	3,28,85,528
Net Block		1,73,25,538	1,98,61,169
<b>INVESTMENTS</b>	5	-	8,86,660
<b>DEFERRED TAX ASSET (NET)</b>	6	2,59,58,354	2,26,05,418
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Sundry Debtors	7	6,76,45,059	6,17,79,025
Cash and bank balances	8	6,78,57,054	9,56,00,669
Loans and advances	9	2,50,88,111	2,01,28,520
Inventory		1,30,85,692	85,50,548
		<b>17,36,75,916</b>	<b>18,60,58,762</b>
Less: Current liabilities & Provisions	10	3,62,87,325	3,76,73,490
<b>NET CURRENT ASSETS</b>		<b>13,73,88,591</b>	<b>14,83,85,272</b>
Goodwill		81,93,850	89,35,950
Miscellaneous Expenditure : (to the extent not written off or adjusted)	11	11,05,16,023	10,03,23,594
Profit & Loss Account		93,79,192	53,10,761
		<b>30,87,61,548</b>	<b>30,63,08,824</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

**M.A. ASHOK KUMAR**  
Director

**(CA.KISHORE KUMAR.K)**  
Partner

Hyderabad  
July 11, 2008

**M.S. SINDHU**  
Company Secretary

## Consolidated Profit and Loss Account for the period ended

		in Rs.	
	Schedule	31-03-2008	31-03-2007
<b>INCOME</b>			
Income from Operations		9,18,96,228	12,28,30,696
Work-in-progress		58,53,758	31,53,044
Other income	12	55,97,101	62,63,452
		<b>10,33,47,087</b>	<b>13,22,47,192</b>
<b>EXPENDITURE</b>			
Direct Cost	13	6,86,79,804	9,00,06,718
Selling Expenses	14	1,10,22,890	2,06,36,131
General and Administration expenses	15	2,34,80,031	2,14,69,750
		<b>10,31,82,725</b>	<b>13,21,12,599</b>
Operating Profit [PBIDT]		1,64,362	1,34,593
Interest		5,80,183	1,34,564
Depreciation		34,02,268	40,89,384
<b>Profit before tax</b>		<b>(38,18,089)</b>	<b>(40,89,355)</b>
Less: Fringe benefit tax		1,82,712	2,19,919
Provision for current year income tax		27,798	1,35,973
Deferred Tax		39,832	(20,12,122)
<b>Profit after tax</b>		<b>(40,68,431)</b>	<b>(24,33,125)</b>
Profit carried forward from last year		(53,10,761)	(28,77,636)
<b>AMOUNT TRANSFERRED TO BALANCE SHEET</b>		<b>(93,79,192)</b>	<b>(53,10,761)</b>
Basic & diluted EPS		(1.09)	(0.65)
<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 Profit and Loss Account  
This is the Profit and 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

**M.A. ASHOK KUMAR**  
Director

**(CA.KISHORE KUMAR.K)**  
Partner

Hyderabad  
July 11, 2008

**M.S. SINDHU**  
Company Secretary

## Schedules to the Consolidated Balance Sheet as at

		in Rs.	
		31-03-2008	31-03-2007
<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>3,72,03,000</b>	<b>3,72,03,000</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	32,50,000
	Exchange conversion reserve	19,91,748	(16,79,636)
		<b>27,10,49,148</b>	<b>26,73,77,764</b>
<b>3.</b>	<b>SECURED LOANS</b>		
	Car loans from HDFC Bank Limited	5,09,400	4,32,226
	The Dhanalakshmi Bank Ltd	-	12,95,834
		<b>5,09,400</b>	<b>17,28,060</b>

								in Rs.		
Assets	Gross Block				Depreciation			Net Block		
	Cost as at 31-03-2007	Additions during the year	Deductions during the year	Cost as at 31-03-2008	Total upto 31-03-2007	For the year	Deductions during the year	As at 31-03-2008	As at 31-03-2007	
Additions to Leasehold premises	15,81,920			15,81,920	1,69,962	25,856		1,95,818	13,86,102	14,11,958
Computers & software	2,93,72,819	1,26,789		2,94,99,608	2,59,21,470	19,27,269		2,78,48,739	16,50,869	34,51,349
Office Equipment	18,40,404	1,031		18,41,435	4,78,081	87,659		5,65,740	12,75,695	13,62,323
Electrical Equipment	13,01,864	1,568		13,03,432	3,69,091	62,023		4,31,114	8,72,318	9,32,773
Lab Equipment	14,56,827			14,56,827	3,10,314	69,389		3,79,703	10,77,124	11,46,513
D G Set	6,84,171	12,199		6,96,370	1,84,158	32,589		2,16,747	4,79,623	5,00,013
Elevator	3,25,123			3,25,123	1,09,388	15,486		1,24,874	2,00,249	2,15,735
Air-conditioners	22,33,849	47,728		22,81,577	6,34,583	1,06,405		7,40,988	15,40,589	15,99,266
Furniture & Fixtures	80,93,920	84,473		81,78,393	31,63,066	5,15,038		36,78,104	45,00,289	49,30,854
Office Interiors	19,85,586			19,85,586	5,82,189	94,573		6,76,762	13,08,824	14,03,397
Vehicles	30,86,509	6,40,905		37,27,414	7,65,371	3,33,722		10,99,093	26,28,321	23,21,138
WOS Equipment	7,18,621			7,18,621	1,81,424	1,31,662		3,13,086	4,05,535	5,85,850
Grand Total	5,26,81,613	9,14,693	-	5,35,96,306	3,28,69,097	34,01,671	-	3,62,70,768	1,73,25,538	1,98,61,169
Previous Year	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

**Schedules to the Balance Sheet as at**

in Rs.

	31-03-2008	31-03-2007
<b>5. INVESTMENTS</b>		
Investment in Danlaw CNA Systems Ltd	-	8,86,660
	-	8,86,660
<b>6. DEFERRED TAX ASSET (NET)</b>		
Fixed Assets	(27,40,259)	53,26,116
Investments	70,48,963	91,75,415
Others	2,16,49,650	81,03,887
	2,59,58,354	2,26,05,418
<b>7. SUNDRY DEBTORS</b>		
Debts outstanding for a period less than six months		
Unsecured considered good	4,64,87,785	4,41,37,879
Debts outstanding for a period exceeding six months	2,11,57,274	1,76,41,146
	6,76,45,059	6,17,79,025
<b>8. CASH AND BANK BALANCES</b>		
Cash on hand	4,816	6,140
Balances with banks		
- in current accounts	34,46,227	30,14,722
- in EEFC accounts	141	2,45,663
- in deposit accounts in Indian rupees	6,44,05,870	9,23,34,144
	6,78,57,054	9,56,00,669
<b>9. 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	53,502	44,508
Power Incentive receivable	2,71,309	2,94,425
Advances for expenses	36,48,111	32,49,293
Rent deposits	24,27,000	7,65,000
Deposit with Government Agencies	5,19,685	5,09,585
Prepaid Expenses	1,21,907	1,52,031
Interest Accrued but not due	39,92,905	30,88,001
Tax Deduction at Source	75,49,306	71,49,403
Intercorporate Deposits	65,04,386	48,76,274
	2,50,88,111	2,01,28,520

**Schedules to the Balance Sheet as at**

in Rs.

	31-03-2008	31-03-2007
<b>10. CURRENT LIABILITIES</b>		
Sundry Creditors - for goods	63,68,116	41,74,647
- for services	96,65,725	1,60,59,052
- for expenses	1,93,79,980	1,54,10,102
Outstanding dues of micro and small enterprises	-	-
Advances from customers	8,26,239	18,71,709
Provision for Current Year Income Tax	27,798	1,35,973
Provision for Fringe Benefit Tax	19,467	22,007
	<b>3,62,87,325</b>	<b>3,76,73,490</b>
<b>11. MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED:</b>		
R&D Expenses	11,05,16,023	10,03,23,594
	<b>11,05,16,023</b>	<b>10,03,23,594</b>

**Schedules to the Consolidated P & L Account**

in Rs.

	31-03-2008	31-03-2007
<b>12. OTHER INCOME</b>		
Interest Income (TDS - Rs.11,99,071/-, Previous year Rs.12,23,201/-)	53,46,871	54,45,440
Exchange Gain (net)	-	4,62,328
Interest on IT Refund	75,985	-
Miscellaneous Income	1,74,245	3,55,684
	<b>55,97,101</b>	<b>62,63,452</b>
<b>13. DIRECT COST</b>		
Salaries & other benefits	3,72,29,689	5,13,10,582
Sub-contract works	14,77,120	80,98,015
Cost of software packages & biometrics goods sold	1,97,39,796	1,41,25,517
Cost of electronic components	52,51,589	52,07,923
Work-in-progress (opening)	31,53,044	84,02,568
Freight outward	2,08,090	-
Transit insurance	28,489	16,907
Sales Tax	-	16,79,029
Travel & Conveyance	15,91,987	11,66,177
	<b>6,86,79,804</b>	<b>9,00,06,718</b>

<b>14. SELLING EXPENSES</b>		
Salaries & other benefits	45,18,276	91,18,095
Travel & Conveyance	22,47,202	43,94,776
Business development expenses	41,22,196	54,67,546
Sales commission	1,35,216	16,45,714
Advertisement	-	10,000
	<b>1,10,22,890</b>	<b>2,06,36,131</b>
<b>15. ADMINISTRATION AND OTHER EXPENSES</b>		
Advertisement	35,201	23,717
AGM Expenses	15,580	12,166
Audit expenses	1,235	2,100
Auditor's remuneration - audit fees	56,180	56,120
Bank charges and commission	1,02,175	2,09,769
Books & Periodicals	15,948	15,494
Bad debts written off	-	4,31,396
Depository Registrar Fee	77,243	54,532
Directors sitting fee	40,000	70,000
Exchange Loss (Net)	25,70,059	-
Insurance Charges	4,37,092	4,00,968
Internet Service Charges	4,58,363	7,27,997
Legal & Professional Charges	7,55,206	6,01,707
Listing Fee	10,300	10,000
Loss on sale of assets	-	41,723
Membership Fee	16,039	29,916
Miscellaneous Expenses	79,849	1,23,426
Office Maintenance	23,14,366	22,91,847
Postage & Telegrams	33,352	1,14,505
Power and Fuel	14,21,602	13,03,202
Printing and Stationery	1,74,109	1,92,665
Registration, Licence & Filing Fee	26,918	87,086
Rent, Rates & Taxes	70,30,715	59,15,464
Salaries & other benefits	51,15,112	50,94,100
Staff Recruitment & Training	1,22,090	4,14,193
Staff welfare	7,41,886	11,11,486
Telephone charges	8,99,567	12,92,965
Travel and Conveyance -		
Directors	7,17,622	5,41,465
Others	2,12,222	2,99,741
	<b>2,34,80,031</b>	<b>2,14,69,750</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 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 st to March 31 st 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 stated at the cost of acquisition, less accumulated depreciation. Cost comprises of purchases and attributable cost. Depreciation on fixed assets is provided on straight line method based on the Companies Act 1956 for the Indian assets and for the assets of subsidiary, on declining straight line method over estimated useful lives of the asset.

**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. The transactions of the subsidiary are in US dollars and Euro. There is no foreign currency transaction per se. But on account of consolidation all the outstanding entries of the subsidiary as on March 31, 2008 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.39.97 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.41.20, Rs.40.52, Rs.39.47 & Rs.39.78 per US dollar for the respective quarters.

**7. Investments**

Long-term investments are state at cost. 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 Inc., USA. The CMD of the company is also CEO of the Danlaw Inc. The Danlaw Technologies Inc had sales of Rs.491.41 lakhs during the year ended March 31, 2008 of which the sales made to the Danlaw Inc are Rs 327.53 lakhs. During the year ended March 31, 2008 Danlaw Technologies Inc has purchased services of Rs.30.94 lakhs from Danlaw Inc.

for and on behalf of the Board

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

**RAJU S DANDU**  
Chairman &  
Managing Director

**M.A. ASHOK KUMAR**  
Director

**(CA.KISHORE KUMAR.K)**  
Partner

Hyderabad  
July 11, 2008

**M.S. SINDHU**  
Company Secretary



### PROXY FORM

I / We \_\_\_\_\_ of \_\_\_\_\_ being member / members of Danlaw Technologies India Ltd. do hereby appoint \_\_\_\_\_ or failing him / her \_\_\_\_\_ of \_\_\_\_\_ as my / our Proxy in my / our absence to attend and vote for me / us, and on my / our behalf at the 15<sup>th</sup> Annual General Meeting of the Company to be held on September 27<sup>th</sup>, 2008 at 11.00 a.m. and at any adjournment thereof.

In witness whereof, I / We have set my / our hand / hands this \_\_\_\_ day of \_\_\_\_\_ 2008.

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

15<sup>th</sup> Annual General Meeting on September 27<sup>th</sup>, 2008 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 15<sup>th</sup> Annual General Meeting of the Company held at Registered Office at Plot No.43, Sagar Society, Road No.2, Banjara Hills, Hyderabad - 500 034 on September 27, 2008 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.**