

ANNUAL REPORT

2005-06

DYNAMATIC TECHNOLOGIES LIMITED

**THINK
BECOME
MAKE THE WORLD**

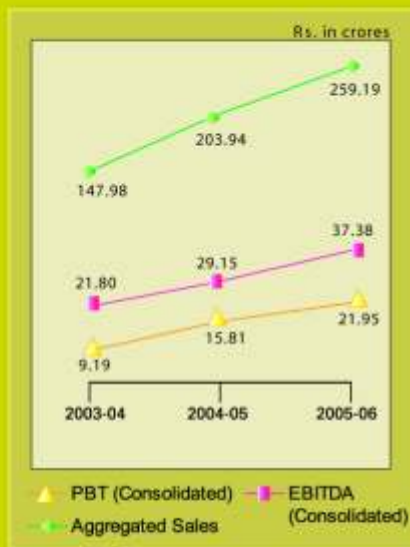


**“What we think, we become.
With our thoughts, we make the world.”**

The Buddha

Dear Fellow Shareholder,

On behalf of the Board of Directors of Dynamatic Technologies Limited and its Subsidiaries, I take pleasure in presenting you with audited financial statements for the year 2005-2006.



During the year under review, your Company along with its Subsidiaries has recorded a growth rate of 27.1% in Aggregated Sales and 38.84% in Consolidated Net Profit before Tax. Gross Sales of Rs. 2,591.9 Million (aggregated with Subsidiaries) was the highest ever recorded by your Company.

This growth is consistent with your Company's performance over the last 15 years, and has been driven by a combination of values, skills and economic metrics. At the centre of this triad of growth

drivers is a strong customer-centric focus that enables your Company to constantly create value for all stakeholders.

Long term Shareholders have witnessed the evolution of Dynamatic Technologies Limited from a small manufacturer of Hydraulic Gear Pumps to the complex organization it is today with market leadership in Mobile Hydraulics, Automotive Components, and Metallurgy.

As your Company built its skill-sets around customer needs, newer opportunities have constantly been available to the Company.



capabilities soon after the economic reforms in India during 1991. As the Hydraulics Business grew, your Company was able to backward-integrate into manufacturing specialized non-ferrous alloys and castings thereof, which became the Dynametal® division.

On a stand-alone basis, your Company, incorporating these two Divisions recorded sales turnover exceeding Rs. 100 Crores (Rs. 1 Bn.) for the first time ever during the year under review.

Chance favours the prepared mind.

Louis Pasteur

The original business, Dynamatic® Hydraulics, was supplemented with R&D



The combination of your Company's skills in precision engineering and metallurgy, enabled it to exploit new opportunities in the Automotive sector, with the entry of next-generation car makers like Hyundai, TATA, FIAT, Ford & GM into India in the late 1990s. Today, your Company's Subsidiary, JKM Daerim® is the premier supplier of sophisticated engine and transmission products to these customers, and it is now exploiting growth opportunities in export markets. Products have successfully been developed and delivered globally to Ford, Honeywell, John Deere and Cummins. During the year under review, this Subsidiary's sales turnover exceeded Rs. 150 Crores (Rs. 1.5 Bn.) for the first time ever. All three operating divisions enjoy timely market positioning as the Indian economy begins a new phase of accelerated growth, in addition to the large outsourcing opportunities that have presented themselves in an era of increasing globalization.

Your Company's Precision Engineering facilities at Dynamic Park in Bangalore have now been expanded to produce exacting Aerospace Products. In a virtual replay of



Mr. Udayant Malhoutra, Chief Executive Officer & Managing Director, Dynamatic Technologies Limited handing over the first set of aerostructures for the Su 30 MKI fighter-bomber to Mr. K P Puri, Managing Director (MIG Complex), in the presence of Mr. Ashok Baweja, Chairman, Hindustan Aeronautics Limited (center).

Also seen in the picture are Mr. Ravish Malhotra, Chief Operating Officer & SBU Head, Dynamatic Aerospace® (extreme right) and Mr. G Parasurami Reddy, Vice President, Dynamatic Aerospace® (extreme left).



Pictured above is the Sukhoi 30-MKI, fighter-bomber, with the major airframe structures manufactured by Dynamatic Aerospace® shown shaded.

your Company's prior experiences in setting up integrated customer-centric solutions, comprehensive facilities have been set up to machine and form detail parts, which will then be heat-treated and painted, before being assembled into complete aerostructures, ready for integration into aircraft. These facilities are fully Aero certified, and your Company is the first Indian company to be certified under AS9100 for

aerostructures. These facilities are being expanded continuously as we build our order book, with a focus on the Indian Defence Sector, and International Civil Aviation.

Having successfully transitioned from small to mid-size, your Company is now preparing itself for its next stage of growth, into a large and sophisticated global supplier of high quality products with comprehensive design and development capabilities.

The empires of the future are the empires of the mind.

Sir Winston Churchill



The JKM Science Center (architect's visualization pictured right) is almost ready and will house 225 engineers, technicians and scientists in a cutting edge environment designed to foster creativity and innovation. The Center will have a large prototyping facility, two self-contained design laboratories, the Dynamic Material Sciences Laboratory and a learning center for educating and training employees on an ongoing basis.

As we have grown, we have taken care to match speed with balance, and high growth with stability. Your Company continuously strives to acquire and nurture the finest talent available, and then to align individual efforts wholly in pursuit of stakeholder interests.

Wheresoever you go, go with all your heart.

Confucius

I would like to take this opportunity to compliment your Company's Senior Management for their stewardship of your Company's most valuable asset - its people. By minimizing hierarchy and bureaucracy, they have kept our employees passionate and fully engaged.

I report with pride that your Company also scores well on its commitment to the Environment and to Social Development. Both Industrial complexes owned by your Company (at Bangalore and Chennai), are completely non-



polluting, and treat and recycle effluents. Your Company received certification under ISO 14001 for its Environment Management System during the year under review.

Additionally, your Company

reaches out to the communities it is part of, to assist in local area development, both social and environmental.

On behalf of our Board of Directors and Senior Management, I thank you for your continued support.

Udayant Malhoutra
Chief Executive Officer
and Managing Director

SALES GROWTH



C O R P O R A T E S T R U C T U R E

Dynamatic Technologies Limited

Chairman

Mr. J. K. Malhoutra
Industrialist, Parliamentarian
Founder Chairman of the JKM Group
Past President - Bombay Management Association

Director

Mr. Vijai Kapur
Management Consultant
Former Dy. Managing Director, GKW Limited
Past President - AIEI (now called CII)

Director

Dr. K. Aprameyan
Distinguished Technocrat
Former Chairman and Managing Director, Bharat Earth Movers Limited
Former Member, National Council, Confederation of Indian Industries (CII)
Member, Governing Council, Institute of Robotics and Intelligence Systems (IRIS)

Director

Air Chief Marshal (Retd.) S Krishnaswamy
Distinguished Former Head of Indian Defence Services
Chairman, Chiefs of Staff Committee, 2004
Chief of Air Staff, Indian Air Force, 2002-04

Director

Mr. N. R. Mohanty
Distinguished Technocrat
Former Chairman, Hindustan Aeronautics Limited
Former Chairman, Indo Russian Aviation Limited
Former Chairman, British Aerospace -HAL Software Limited
President, Aeronautical Society of India (2003)
Recipient of the National Award 'Padmashree' (2004)

Director

Mr. B. Seshnath***
Company Executive
Executive Director & Chief Operating Officer,
JKM Daerim® Automotive Limited
Former Director Commercial, Dynamatic®
Former Head of Marketing Dept., Dynamatic®

President & Group Chief Financial Officer

Mr. V. Sunder**
Company Executive
Former CEO and Executive Director,
JKM Daerim® Automotive Limited
Former Head of Corporate Planning &
Company Secretary of Dynamatic®

Executive Director & Chief Operating Officer

Mr. N. Rajagopal****
Company Executive
Former Director, JKM Daerim® Automotive Limited
Former Head of Production, Materials,
R & D Depts. at Dynamatic®

Chief Executive Officer and Managing Director

Mr. Udayant Malhoutra*
Industrialist
Chairman, JKM Daerim® Automotive Limited
Member, Board of Governors, IIT Kanpur (1997-2001)
Chairman, CII National Technology Committee and
Member, CII National Council (2001-2002)
President, Fluid Power Society of India, 2004-06

BOARD OF DIRECTORS



Vijai Kapur
Director, DTL
Chairman, Audit Committee
Member, HRD &
Remuneration Committee



J K Malhoutra
Chairman of the Board, DTL
Member, Audit Committee
Director, JDAL



Dr K Aprameyan
Director, DTL
Member & Alternate Chairman,
Audit Committee
Chairman, Technical
Development Committee
Member & Alternate Chairman,
HRD & Remuneration Committee
Director, JDAL



**Air Chief Marshal (Retd.)
S Krishnaswamy**
Director, DTL
Member, Audit Committee
Member & Alternate Chairman,
Technical Development Committee
Chairman, Shareholders Committee
Member, HRD & Remuneration Committee



Udayant Malhoutra*
CEO & Managing Director, DTL
Member, Technical Development Committee
Member, Shareholders Committee
Chairman, JDAL
Chairman, JKM Research Farm Ltd
Director, JKM Global Pte Ltd



N R Mohanty
Director, DTL
Member, Audit Committee
Member, Technical
Development Committee
Member, Shareholders
Committee
Chairman, HRD &
Remuneration Committee



**Air Cmde (Retd)
Ravish Malhotra**
Chief Operating Officer
& SBU Head
Dynamatic Aerospace®



B Seshnath***
Director, DTL
Member, Audit Committee
ED & COO, JDAL



V Sunder**
President and Group CFO
Member, Shareholders Committee
Director, JKM Research Farm Ltd
Director, JKM Global Pte Ltd



N Rajagopal****
ED & COO,
Dynamatic® Hydraulics &
Dynametal®
Member, Technical
Development Committee



Anil Kumar Katti
Sr. General Manager
& SBU Head
Powermetric® Design



G Parasurami Reddy
Vice President
Dynamatic Aerospace®



G Srinivasan
Vice President
Operations
JDAL



S K Kapur
Vice President
Corporate Affairs, DTL



P K Ray Choudhury
Sr. General Manager
Engineering Head
DTL Research & Development



P S Ramesh
Sr. General Manager
& Operations Head
Dynamatic® Hydraulics



V K Heblkar
General Manager
Head - Material Sciences
DTL



G Parasurami Reddy
Vice President
Dynamatic Aerospace®



K R Srinivasan
Vice President
Finance &
Corporate Affairs
JDAL



Ram Mohan
General Manager
Finance
DTL



G V Gururaj
General Manager
Marketing
Dynamatic® Hydraulics



Altaf Shareef
General Manager
Information Systems
DTL



G V Gururaj
General Manager
Marketing
Dynamatic® Hydraulics



Kwangtae Kim
Vice President
Technical
JDAL



G Haritha
Company Secretary
DTL

SENIOR MANAGEMENT

JKM Daerim Automotive Limited

Chairman

Mr. Udayant Malhoutra

Vice-Chairman

Mr. Hyo Kyon Lee

Director

Mr. Jayant Kumar Malhoutra

Director

Dr. K. Aprameyan

CEO & Executive Director

Mr V. Sunder**

ED & COO

Mr. B. Seshnath***

Auditors

Price Waterhouse & Co.
Chartered Accountants, Bangalore

JKM Research Farm Limited

Chairman

Mr. Udayant Malhoutra

Director

Mrs. Pramilla Malhoutra

Director

Mr. V. Sunder

Auditors

B N Govinda Prasad
Chartered Accountants, Bangalore

JKM Global Pte Limited

Director

Mr. Udayant Malhoutra

Director

Mr. V. Sunder

Director

Mr. Lim Tiong Beng

Auditors

RSM Chio Lim., Singapore
Certified Public Accountants

Your Company's Organisational Structure is based on a network of highly talented people who have been empowered to deliver results. A concerted effort has been made to remove hierarchy in everything we do.

*Udayant Malhoutra, President & Managing Director of DTL, was redesignated as Chief Executive Officer & Managing Director of DTL with effect from July 23, 2006

**V Sunder was the Chief Executive Officer & Executive Director of JKM Daerim Automotive Limited until August 24, 2006. He was appointed as President & Group Chief Financial Officer of DTL from August 24, 2006

*** B Seshnath was the Director Commercial of DTL until August 24, 2006. He was appointed as Executive Director & Chief Operating Officer of JKM Daerim Automotive Limited, and Additional Director of DTL (Non Executive Director) with effect from August 24, 2006.

****N Rajagopal, Director Operations of DTL, was redesignated as Chief Operating Officer & Executive Director of Dynamatic® Hydraulics and Dynametal® with effect from August 24, 2006

REGISTERED OFFICE
Dynamatic Park Peenya
Bangalore 560 058

AUDITORS
Price Waterhouse & Co.,
Chartered Accountants, Bangalore

COMPANY SECRETARY
Ms. G. Haritha

REGISTRAR & TRANSFER AGENTS
Karvy Computershare Pvt. Ltd
Reliance Cyber Villa, Plot No. 17-24
Vittal Roa Nagar, Madhapur,
Hyderabad 500 081

BANKERS
Kotak Mahindra Bank
UTI Bank
Punjab National Bank
Standard Chartered Bank

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DYNAMATIC TECHNOLOGIES LIMITED

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AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF DYNAMATIC TECHNOLOGIES LIMITED

1. We have audited the attached consolidated balance sheet of Dynamatic Technologies Limited and its subsidiaries (Dynamatic Technologies Limited Group) as at March 31, 2006, the consolidated profit and loss account for the year ended on that date annexed thereto, and the consolidated cash flow statement for the year ended on that date, which we have signed under reference to this report. These consolidated financial statements are the responsibility of the Dynamatic Technologies Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these consolidated 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets of Rs. 38,914,426 as at March 31, 2006, total revenues of Rs. 4,200,000 and net cash inflow amounting to Rs. 443,229 for the year ended on that date (before eliminations on consolidation). These financial statements and other information of these subsidiaries have been audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of the other auditors.
4. We report that the consolidated financial statements have been prepared by Dynamatic Technologies Limited's management in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements, issued by The Institute of Chartered Accountants of India.
5. Based on our audit and on consideration of the reports of other auditors on separate financial statements and on the other financial information of the components, in our opinion and to the best of our information and according to the explanations given to us, the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the consolidated balance sheet, of the state of affairs of the Dynamatic Technologies Limited Group as at March 31, 2006;
 - ii) in the case of the consolidated profit and loss account, of the profit for the year ended on that date; and
 - iii) in the case of the consolidated cash flow statement, of the cash flows for the year ended on that date.


S. Duttā

Partner

Membership Number. : F 50081

For and on behalf of

Price Waterhouse & Co.,

Chartered Accountants

PLACE : BANGALORE

DATE : 22nd JULY, 2006

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2006

	Schedule	2006 Rs.	2005 Rs.
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	41,935,600	41,935,600
Reserves and Surplus	2	300,344,480	207,977,500
Minority Interest			
Capital		21,601,400	21,601,400
Reserves and Surplus		30,438,321	18,398,949
Loan Funds			
Secured Loans	3	549,407,973	579,041,947
Unsecured Loans	4	76,405,059	71,244,797
Deferred Tax Liability [Schedule 21 Note 8]		86,261,588	87,496,650
		1,106,394,421	1,027,696,843
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	5	1,236,425,794	1,148,066,804
Less: Depreciation		518,913,810	433,027,964
Net Block		717,511,984	715,038,840
Capital Work-in-Progress		100,993,327	19,125,458
Incidental Expenditure during Construction Period	6	21,098,066	4,815,712
		839,603,377	738,980,010
Investments	7	115,001	207,653
Current Assets, Loans and Advances			
Inventories	8	275,267,584	236,404,265
Sundry Debtors	9	427,538,029	339,345,817
Cash and Bank Balances	10	33,331,470	29,745,155
Other Current Assets	11	16,599,062	16,611,063
Loans and Advances	12	67,226,093	48,902,626
		819,962,238	671,008,926
Less: Current Liabilities and Provisions			
Liabilities	13	512,172,709	370,754,467
Provisions	14	41,184,274	16,498,067
		553,356,983	387,252,534
Net Current Assets		266,605,255	283,756,392
Miscellaneous Expenditure (To the extent not written off or adjusted)		70,788	4,752,788
		1,106,394,421	1,027,696,843
Notes on Accounts	21		

The Schedules referred to above and notes thereon form an integral part of the Accounts.
This is the Consolidated Balance Sheet referred to in our report of even date.



S. Dutta
Partner
For and on behalf of
Price Waterhouse & Co.,
Chartered Accountants


J. K. MALHOUTRA
Chairman


VIJAI KAPUR
Director


V. SUNDER
Director



Air Chief Marshal S. KRISHNASWAMY (Retd)
Director


N. R. MOHANTY
Director

PLACE : BANGALORE
DATE : 22ND JULY, 2006


B. SESHNATH
Director Commercial


UDAYANT MALHOUTRA
President & Managing Director


N. RAM MOHAN
G M - Finance


G. HARITHA
Company Secretary

PLACE : BANGALORE
DATE : 22ND JULY, 2006


CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedule	2006 Rs.	2005 Rs.
INCOME			
Sales and Services	15	2,375,359,470	1,849,053,909
Less: Excise duty included therein		391,467,881	317,369,712
Net Sales		1,983,891,589	1,531,684,197
Other Income	16	33,007,332	27,674,426
		<u>2,016,898,921</u>	<u>1,559,358,623</u>
EXPENDITURE			
Materials Consumed	17	1,154,487,555	846,153,756
Employee Cost	18	184,680,804	160,935,928
Other Operating Expenses	19	303,950,415	260,744,733
		<u>1,643,118,774</u>	<u>1,267,834,417</u>
Operating Profit before Depreciation and Interest (EBITDA)		373,780,147	291,524,206
Depreciation	88,968,367	88,968,367	76,205,158
(Less): Transfer from Revaluation Reserve	(345,417)	(345,417)	(345,417)
Interest	20	61,662,894	57,571,892
		<u>223,494,303</u>	<u>158,092,573</u>
Profit before Taxation and Extraordinary/Prior Period Items		223,494,303	158,092,573
Prior Period Depreciation (Schedule 21 Note 11)		1,870,620	-
Extraordinary Item (Capital Work-in-Progress written-off)		2,114,233	-
		<u>219,509,450</u>	<u>158,092,573</u>
Profit before Taxation		219,509,450	158,092,573
Provision for Taxation			
Current Tax [Net of Excess provision in respect of earlier years written-back Rs. 4,005,477 (2005: Rs. 3,411)]		(79,838,548)	(34,824,106)
Deferred Tax (charge)/credit [Schedule 21 Note 8]		1,235,062	(19,116,990)
Fringe Benefit Tax		(3,817,669)	-
Wealth Tax		(60,433)	(106,168)
		<u>137,027,862</u>	<u>104,045,309</u>
Profit after Taxation before Minority Interest		137,027,862	104,045,309
Minority Interest in Profits		18,207,090	14,224,819
		<u>118,820,772</u>	<u>89,820,490</u>
Profit after Taxation		118,820,772	89,820,490
Profit brought forward from previous year		47,103,015	17,838,619
		<u>165,923,787</u>	<u>107,659,109</u>
Appropriations			
Dividend :			
- Interim		8,387,120	6,290,340
- Final (Proposed)		12,580,680	8,387,120
Dividend Tax		5,016,416	3,524,939
Transferred to General Reserve		63,128,984	42,353,695
Balance Carried to Balance Sheet		76,810,587	47,103,015
		<u>165,923,787</u>	<u>107,659,109</u>
Earnings Per Share – Basic and Diluted (Schedule 21 Note 14)			
Before Extraordinary items		28.84	21.42
After Extraordinary items		28.33	21.42

Notes on Accounts

21

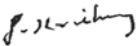
The Schedules referred to above and notes thereon form an integral part of the Accounts. This is the Consolidated Profit and Loss Account referred to in our report of even date.

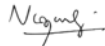

S. Dutta
Partner
For and on behalf of
Price Waterhouse & Co.,
Chartered Accountants


J. K. MALHOUTRA
Chairman


VIJAI KAPUR
Director


V. SUNDER
Director



Air Chief Marshal S. KRISHNASWAMY (Retd)
Director



N. R. MOHANTY
Director

PLACE : BANGALORE
DATE : 22nd JULY, 2006


B. SESHNATH
Director Commercial


UDAYANT MALHOUTRA
President & Managing Director


N. RAM MOHAN
G M - Finance


G. HARITHA
Company Secretary

PLACE : BANGALORE
DATE : 22nd JULY, 2006

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	2006 Rs.	2005 Rs.
A. Cash flow from operating activities:		
Net profit before tax and extraordinary item:	221,623,683	158,092,573
Adjustments for:		
Depreciation	90,493,570	75,859,741
Interest Expense	61,662,894	57,571,892
Interest Income	(2,874,120)	(1,763,890)
Income from Investment – Dividends	(18,000)	(10,475)
(Profit)/Loss on Fixed Assets sold	456,345	(189,545)
Deferred revenue expenditure written off	4,682,000	4,682,000
Debts / Advances Written off	2,826,879	4,452,563
Provision for Bad & Doubtful Debts	4,098,434	–
Liability no longer required written back	(2,343,474)	(1,360,867)
Provision for Gratuity & Leave Encashment	2,594,251	870,402
Provision for diminution in value of Investments	92,152	–
Unrealised foreign exchange (gain) /loss	1,221,865	(466,537)
Provision for warranty	629,000	171,000
Operating profit before working capital changes	385,145,479	297,908,857
Adjustments for changes in working capital:		
– (INCREASE)/DECREASE in Sundry Debtors	(93,724,188)	(88,818,957)
– (INCREASE)/DECREASE in Other Receivables	(19,519,259)	(18,849,749)
– (INCREASE)/DECREASE in Inventories	(38,863,319)	(67,096,368)
– INCREASE/(DECREASE) in Trade and Other Payables	140,834,849	105,647,154
Cash generated from operations	373,873,562	228,790,937
– Direct Tax paid	(64,896,931)	(21,918,197)
– Fringe Benefit Tax paid	(4,046,156)	–
Cash flow before extraordinary items	304,930,475	206,872,740
Extraordinary items	(2,114,233)	–
Net cash from operating activities	302,816,242	206,872,740
B. Cash flow from Investing activities:		
Adjustments for changes in :		
(INCREASE)/DECREASE in Other Receivables	(1,951)	–
Purchase of fixed assets	(95,345,133)	(279,310,920)
Capital Work in Progress	(98,150,223)	33,688,516
Proceeds from Sale of fixed assets	1,450,547	2,140,818
Proceeds from Sale of Investments	500	500
Loans/ICDs extended during the year	(774,600)	–
Loans/ICDs refunds received	1,021,683	–
Interest Received (Revenue)	3,222,822	1,763,890
Dividend Received	18,000	10,475
Proceeds from Government Subsidy	–	1,500,000
Redemption of Preference Shares	–	(24,000,000)
Net cash used in investing activities	(188,554,453)	(264,206,721)


	2006 Rs.	2005 Rs.
C. Cash flow from financing activities:		
Proceeds from long term borrowings	(64,748,424)	146,185,179
Proceeds from short term borrowings (NET)	(10,197,431)	(23,738)
Proceeds from fixed deposits (NET)	5,385,000	2,763,000
Proceeds from Cash Credits (NET)	44,935,883	6,187,906
Interest Paid	(60,359,474)	(57,571,892)
Dividend Paid	(21,094,240)	(25,443,779)
Dividend Tax Paid	(4,596,788)	(2,357,919)
Net cash used in financing activities	(110,675,474)	69,738,757
Net Increase/(Decrease) in Cash and Cash Equivalents	3,586,315	12,404,776
Cash and cash equivalents as at 31.03.2005	29,745,155	17,340,379
Cash and cash equivalents as at 31.03.2006	33,331,470	29,745,155
	3,586,315	12,404,776

Notes :

- 1 The above Consolidated Cash Flow Statement has been compiled from and is based on the Consolidated Balance Sheet as at March 31, 2006 and the relative Consolidated Profit and Loss Account for the year ended on that date.
- 2 The above Consolidated Cash Flow Statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statements issued by The Institute of Chartered Accountants of India.
- 3 Previous year's figures have been regrouped/ reclassified wherever necessary in order to confirm with current year's classification.

This is the Consolidated Cash Flow Statement referred to in our report of even date.

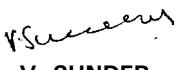
For and on behalf of the Board of Directors


S. Dutta
 Partner
 For and on behalf of
Price Waterhouse & Co.,
 Chartered Accountants

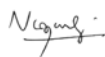
PLACE : BANGALORE
 DATE : 22nd JULY, 2006


J. K. MALHOUTRA
 Chairman


VIJAI KAPUR
 Director



V. SUNDER
 Director


Air Chief Marshal S. KRISHNASWAMY (Retd)
 Director


N. R. MOHANTY
 Director


B. SESHNATH
 Director Commercial


UDAYANT MALHOUTRA
 President & Managing Director


N. RAM MOHAN
 G M - Finance


G. HARITHA
 Company Secretary

PLACE : BANGALORE
 DATE : 22nd JULY, 2006

SCHEDULES TO CONSOLIDATED ACCOUNTS

	2006	2005
	Rs.	Rs.
1 CAPITAL		
Authorised:		
20,000,000 (2005 - 20,000,000) Equity Shares of Rs. 10 each	200,000,000	200,000,000
500,000 (2005 - 500,000) Redeemable Cumulative Preference shares of Rs. 100 each	<u>50,000,000</u>	<u>50,000,000</u>
	<u>250,000,000</u>	<u>250,000,000</u>
Issued, Subscribed and Paid-up:		
4,193,560 (2005 - 4,193,560) Equity Shares of Rs. 10 each fully paid up	<u>41,935,600</u>	<u>41,935,600</u>
	<u>41,935,600</u>	<u>41,935,600</u>
Note:		
Of the above, 1,048,390 (2005: 1,048,390) shares are allotted by way of bonus shares by capitalisation of securities premium and capital redemption reserve.		
2 RESERVE AND SURPLUS		
Securities Premium Account	600,000	600,000
Capital Reserve	4,000,000	4,000,000
Capital Redemption Reserve	24,000,000	24,000,000
Foreign Currency Translation Reserve	1,950	-
Revaluation Reserve :		
As per Last Balance Sheet	18,578,613	18,924,030
(Less):		
– Additional depreciation charge on revalued fixed assets transferred to Profit and Loss Account [Schedule 21 Note 1 (b)]	(345,417)	(345,417)
– Valuation Adjustment on Fixed Assets discarded during the year	<u>(126,109)</u>	<u>-</u>
	18,107,087	18,578,613
General Reserve :		
As per Last Balance Sheet	113,695,872	95,342,177
Add/(Less):		
– Transferred from Profit and Loss account	63,128,984	42,353,695
– Transferred to Capital Redemption Reserve	<u>-</u>	<u>(24,000,000)</u>
Profit and Loss Account	<u>76,810,587</u>	<u>47,103,015</u>
	<u>300,344,480</u>	<u>207,977,500</u>

	2006 Rs.	2005 Rs.
3 SECURED LOANS		
Term Loans:		
Kotak Mahindra Bank Ltd (Note 1 below) [Repayable within one year Rs. 22,254,449 (2005: Rs. 11,670,019)]	72,196,685	33,865,028
UTI Bank Ltd (Note 1 below) [Repayable within one year Rs. 22,769,492 (2005: Rs. 22,884,035)]	57,662,250	80,280,793
Punjab National Bank (Note 1 below) [Repayable within one year Rs. 18,434,805 (2005: Rs. 9,246,772)]	51,551,737	31,171,704
ICICI Bank (Note 1 below) [Repayable within one year Rs. 22,648,928 (2005: Rs. 24,020,680)]	35,955,415	66,629,344
Infrastructure Leasing and Financial Services (Note 3 below) [Repayable within one year Rs. 21,250,000 (2005: Rs. 15,937,500)]	69,062,500	85,000,000
GE Capital Services India (Note 3 below) [Repayable within one year Rs. 4,220,004 (2005: Rs. 4,220,004)]	14,769,994	18,989,998
Foreign Currency Non-Repatriable Loan [FCNR(B)] from HDFC Bank	-	60,000,000
Interest Accrued and Due	151,260	-
Cash Credit and Working Capital Loans:		
From Banks (Note 2 below)	238,121,896	193,186,013
Vehicle Loans: (Note 4 below)		
From Banks	9,795,950	9,580,116
From Financial Institutions	140,286	338,951
	549,407,973	579,041,947

Notes:

1. Secured by first charge on Fixed Assets and second charge on Current Assets of Dynamatic Technologies Limited and JKM Dae Rim Automotive Limited, both present and future. The charges are ranking Pari passu.
2. Secured by first charge on inventories of Raw Materials, Components, Stores, Work-in-progress, Finished Goods, Book Debts and second charge on Fixed Assets of Dynamatic Technologies Limited and JKM Dae Rim Automotive Limited.
3. Secured by charge on specified movable assets of JKM Dae Rim Automotive Limited.
4. Secured by way of Hypothecation of Vehicles of Dynamatic Technologies Limited and JKM Dae Rim Automotive Limited.

4 UNSECURED LOANS

Short Term Loans:

Standard Chartered Bank	-	20,000,000
Punjab National Bank	10,000,000	-
ICICI Bank	-	143,056
Loan from a Director	800,000	800,000
Inter Corporate Deposits	10,050,000	10,104,375
Public Deposits [Repayable within one year Rs. 6,536,500 (2005: Rs. 4,519,000)]	16,015,500	10,630,500
Others		
Sales Tax Deferred	39,539,559	29,566,866
	76,405,059	71,244,797

5 FIXED ASSETS

[Schedule 2.1 Note 1(b)]

Rupees

	GROSS BLOCK - AT COST OR REVALUATION				DEPRECIATION			NET BLOCK		
	2005		2006		2005		2006		2005	
	Additions	Deletions	Additions	Deletions	Additions	Deletions	Additions	Deletions	2006	2005
Tangible Assets										
Land and Development (Note 1)	29,764,132	-	29,764,132	-	-	-	-	-	29,764,132	29,764,132
Buildings	126,306,565	18,198,073	144,113,783	390,855	4,587,953	128,585	25,178,070	118,935,713	105,587,863	105,587,863
Plant and Machinery (Note 2, 3, 4 and 5)	813,162,001	47,569,304	855,931,382	4,799,923	69,354,536	3,881,464	393,347,172	462,584,210	485,287,901	485,287,901
Measuring Instruments	14,141,568	1,444,393	15,585,961	-	666,602	-	8,277,295	7,308,666	6,530,875	6,530,875
Electrical Installations	24,330,290	2,126,100	26,456,390	-	1,223,785	-	8,365,916	18,090,474	17,188,159	17,188,159
Data Processing Equipments	31,670,145	5,212,862	36,883,007	-	3,081,102	-	25,591,436	11,291,571	9,159,811	9,159,811
Office Equipments	13,901,638	2,716,488	16,610,726	7,400	866,001	627	5,610,292	11,000,434	9,156,720	9,156,720
Furniture and Fixtures	14,869,612	941,866	15,811,478	-	1,808,359	-	7,453,809	8,357,669	9,224,162	9,224,162
Tools, Dies and Moulds	38,681,586	9,504,545	47,469,262	716,869	4,278,547	5,395	23,706,218	23,763,044	19,248,520	19,248,520
Vehicles (Note 7)	24,696,207	5,635,402	29,260,513	1,071,096	2,357,576	937,070	7,488,761	21,771,752	18,627,952	18,627,952
Intangible Assets										
Application Software	16,543,060	1,996,100	18,539,160	-	2,614,526	-	13,894,841	4,644,319	5,262,745	5,262,745
2005	1,148,066,804	95,345,133	1,236,425,794	6,986,143	90,838,987	4,953,141	518,913,810	717,511,984	715,038,840	715,038,840
Capital Work in Progress (Including Capital Advances of Rs. 19,469,368 (2005: Rs. 9,672,209))	873,249,824	279,310,921	1,148,066,804	4,493,942	76,205,158	2,542,668	433,027,964	100,993,327	19,125,458	19,125,458
								818,505,311	734,164,298	734,164,298

NOTES:

- Land and Developments includes leasehold land Rs. 11,133,621 (2005: Rs. 11,133,621).
- Plant and Machineries includes Machinery spares of irregular usage. [Original cost Rs. 4,102,615 (2005: Rs. 4,102,615), Written Down Value Rs. 208,822 (2005: Rs. 725,216)].
- Book Value of Plant and Machinery is net of subsidy received from the Tamilnadu Industrial Investment Corporation Limited Rs. 1,877,000 (2005: Rs. 1,877,000).
- Plant and Machineries includes Machineries leased to third parties and held by them Rs. 20,923,478 (2005: Rs. 21,781,131).
- Additions to Plant and Machinery are net of foreign exchange gain Rs 417,250 (2005: Rs. Nil).
- Land and Development, Buildings and Electrical Installations includes value added on revaluation Rs. 18,107,087 (2005: Rs. 18,578,613).
- Vehicles includes Vehicles pending registration in the name of JKM Dae Rim Automotive Limited.
- Plant and Machinery, Tools, Dies and Moulds and Capital Work-in-progress includes borrowing costs capitalised during the year Rs. 1,366,657 (2005: Rs. 3,755,817).

9. Depreciation for the year
 Depreciation as above
 Less: Prior Period Depreciation
88,968,367

	2005 Rs.	Additions Rs.	2006 Rs.	2005 Rs.
6 INCIDENTAL EXPENDITURE DURING CONSTRUCTION PERIOD (IEDC)				
COST OF MATERIALS				
Opening Stock of Raw materials and Components	1,919,118	-	1,919,118	260,144
Raw Materials and Components Purchased	580,609	1,352,201	1,932,810	3,974,810
Closing Stock of Raw materials and Components	-	(273,434)	(273,434)	(1,919,118)
	2,499,727	1,078,767	3,578,494	2,315,836
EXPENDITURE ON EMPLOYEES				
Salaries, Wages, Allowances, etc.	-	10,705,032	10,705,032	90,000
OTHER EXPENSES				
Power and Fuel	-	1,453,011	1,453,011	99,641
Stores and Spares Consumed	-	2,796,653	2,796,653	-
Raw Material Labour Charges	-	126,455	126,455	-
Communication	65,302	-	65,302	263,656
Travelling and Conveyance	3,198,088	3,290,722	6,488,810	5,391,648
Interest and other borrowing cost on loans	-	-	-	700,116
Bank Charges	16,530	-	16,530	17,357
Carriage Outward	576,725	119,900	696,625	706,624
Miscellaneous Expenses	168,719	140,734	309,453	269,759
	6,525,091	19,711,274	26,236,365	9,854,637
Less:				
i) Sale out of Trial Production	(50,405)	(1,314,687)	(1,365,092)	(50,405)
ii) Allocated to Plant and Machinery	-	-	-	(4,988,520)
iii) Written off to Profit and Loss account	(2,114,233)	-	(2,114,233)	-
iv) Stock used for commercial production and included under Raw Materials Consumed (Schedule 17)	(1,658,974)	-	(1,658,974)	-
	2,701,479	18,396,587	21,098,066	4,815,712

	2006 Rs.	2005 Rs.
7 INVESTMENTS		
[Schedule 21 Note 1 (d)]		
Long term-Other than Trade – unquoted:		
Fully Paid up Shares at Cost:		
921,530 fully paid Equity Shares of Rs. 10 each of Murablack (India) Ltd.	9,215,300	9,215,300
Other Investments at Cost:		
3 Deep Discount Bonds of Rs. 5,000 each of Krishna Bhagya Jala Nigam Ltd.	15,000	15,000
4,000 Equity Shares of Rs. 25 each of Shamrao Vithal Co-op Bank Ltd.	100,000	100,000
Indira Vikas Pathra (Encashed during the year)	–	500
	<u>9,330,300</u>	<u>9,330,800</u>
Less: Provision for Diminution in Value of Investments	<u>9,215,299</u>	<u>9,123,147</u>
	<u>115,001</u>	<u>207,653</u>
8 INVENTORIES		
[Schedule 21 Note 1 (e)]		
Stores and Spares	32,258,900	26,079,866
Raw Materials including components (Note)	162,327,091	133,458,813
Rose Plants	12,463,453	12,463,453
Work-in-Progress	22,821,253	27,149,876
Finished Goods	45,396,887	37,252,257
	<u>275,267,584</u>	<u>236,404,265</u>
Note:		
Including:		
– Raw materials in transit Rs. 18,527,463 (2005: Rs. 28,096,708)		
– Raw materials and components lying with Third parties Rs. 29,110,415 (2005: Rs. 23,169,543)		
9 SUNDRY DEBTORS		
(Unsecured)		
Exceeding Six months –		
Considered Good	27,509,842	23,808,916
Considered Doubtful	4,098,434	–
Other Debts –		
Considered Good	400,028,187	315,536,901
	<u>431,636,463</u>	<u>339,345,817</u>
Less: Provision for Doubtful Debts	<u>4,098,434</u>	<u>–</u>
	<u>427,538,029</u>	<u>339,345,817</u>
10 CASH AND BANK BALANCES		
Cash on hand	331,346	438,143
Balance with Scheduled Banks:		
Current Accounts (Note)	9,097,436	8,118,756
Fixed Deposits	12,955,319	13,077,360
Margin Money Account	10,947,369	8,110,896
	<u>33,331,470</u>	<u>29,745,155</u>
Note:		
Includes Balances in Unpaid Dividend Accounts Rs. 1,209,277 (2005: Rs. 992,418)		

	2006 Rs.	2005 Rs.
11 OTHER CURRENT ASSETS		
(Unsecured, Considered Good)		
Accrued Interest	-	348,702
Balance with Excise Authority	179,156	340,712
Other Deposits	16,419,906	15,921,649
	<u>16,599,062</u>	<u>16,611,063</u>
12 LOANS AND ADVANCES		
(Unsecured, Considered Good except as otherwise stated)		
Inter-Corporate Loans	23,500,000	23,747,083
Loans to Employees	2,884,908	1,975,813
Prepaid Expenses	3,305,786	2,172,527
Advances recoverable in cash or in kind or for value to be received [Including Rs. 840,495 (2005: Rs. Nil) considered doubtful]	38,147,407	20,399,234
Advance Income Tax [Net of Provision (2005: Rs. 36,015,089)]	-	607,969
Advance Fringe Benefit Tax [Net of Provision Rs. 3,817,669 (2005: Rs. Nil)]	228,487	-
	<u>68,066,588</u>	<u>48,902,626</u>
Less: Provision for Doubtful Advances	840,495	-
	<u>67,226,093</u>	<u>48,902,626</u>
13 CURRENT LIABILITIES		
Sundry Creditors:		
Small Scale Industrial undertakings	54,142,645	37,502,526
Others	310,568,656	229,674,925
Advance from Customers	7,567,934	8,237,121
Interest Accrued but not Due	2,060,764	908,604
Unclaimed Dividend	1,208,732	988,802
Other Liabilities	136,623,978	93,442,489
	<u>512,172,709</u>	<u>370,754,467</u>
14 PROVISIONS		
Gratuity	2,054,441	650,070
Leave Encashment	5,500,663	4,310,783
Product Warranty Provision [Schedule 21 Note 7]	1,000,000	371,000
Current Taxation (Net of Advance payments of tax Rs. 63,637,923)	15,002,050	-
Proposed Dividend	14,740,680	9,467,120
Dividend Tax thereon	2,886,440	1,699,094
	<u>41,184,274</u>	<u>16,498,067</u>

	2006 Rs.	2005 Rs.
15 SALES AND SERVICES		
Sales:		
– Manufactured Goods	2,357,769,037	1,836,958,168
– Traded Items	3,733,046	3,449,254
Services:		
– Sub Contract Charges	11,539,254	4,171,143
– Service Charges	1,076,697	3,335,499
– Handling Charges	1,241,436	1,139,845
	<u>2,375,359,470</u>	<u>1,849,053,909</u>
16 OTHER INCOME		
Interest		
– Banks (Gross) [Tax deducted at source Rs. 187,950 (2005: Rs. 57,402)]	1,660,159	813,401
– Others (Gross) [Tax deducted at source Rs. 229,490 (2005: Rs. 186,083)]	1,213,961	950,489
Dividend Income	18,000	10,475
Rental Income [Schedule 21 Note 6]	868,642	609,072
Sale of Scraps [Net of excise duty Rs. 4,287,358 (2005: Rs. 3,085,225)]	25,613,347	19,108,998
Liabilities written back	2,343,474	1,360,867
Exchange Gain (Net)	–	3,074,344
Gain on Sale of Fixed Assets (Net)	–	189,545
Miscellaneous Receipts	1,289,749	1,557,235
	<u>33,007,332</u>	<u>27,674,426</u>
17 MATERIALS CONSUMED		
Raw Materials and Components (Note)	1,153,004,347	856,105,217
Traded Items	1,186,842	1,226,514
	<u>1,154,191,189</u>	<u>857,331,731</u>
Movements in Stocks:		
Opening Stock		
– Work-in-progress	27,149,876	21,652,208
– Finished Goods	37,252,257	29,540,916
	<u>64,402,133</u>	<u>51,193,124</u>
Closing Stock:		
– Work-in-progress	22,821,253	27,149,876
– Finished Goods	45,396,887	37,252,257
	<u>68,218,140</u>	<u>64,402,133</u>
(Increase)/ Decrease	(3,816,007)	(13,209,009)
Excise Duty on Opening Stock of Finished Goods	6,176,712	4,145,678
Excise Duty on Closing Stock of Finished Goods	10,289,085	6,176,712
Increase/ (Decrease)	4,112,373	2,031,034
	<u>1,154,487,555</u>	<u>846,153,756</u>

Note:

- Including Value of Stock written down Rs. 4,581,606 (2005: Rs. 1,160,649)
- Including transfer from IEDC stock Rs. 1,658,974 (2005: Rs. Nil)

	2006 Rs.	2005 Rs.
18 EMPLOYEE COST		
Salaries, Wages and Allowances (Note 1 below)	148,803,824	131,755,357
Contribution to Provident and Other Funds (Note 2 below)	15,592,338	12,203,413
Staff Welfare Expenses	20,284,642	16,977,158
	<u>184,680,804</u>	<u>160,935,928</u>

Notes:

1. Including Provision for Leave Encashment Rs. 1,189,880 (2005: Rs. 838,250)
2. Including Provision for Gratuity Rs. 2,054,441 (2005: Rs. 650,070)

19 OTHER OPERATING EXPENSES

Power, Fuel and Utilities	52,773,568	46,915,615
Stores and Spares Consumed	79,329,571	63,390,242
Rates and Taxes	7,472,269	3,412,883
Rent (Schedule 21 Note 6)	5,506,830	5,143,238
Insurance	3,725,775	2,997,137
Repairs and Maintenance		
– Plant and Machinery	10,775,211	10,003,013
– Buildings	1,901,783	844,197
– Others	10,084,069	10,524,716
Travelling and Conveyance Expenses	26,668,488	23,995,886
Vehicle Maintenance	4,727,446	4,184,252
Printing and Stationery	4,444,541	3,877,461
Communication Expenses	7,374,591	6,117,770
Professional and Consultancy Charges	12,087,645	10,949,534
Royalty	5,022,907	8,394,312
Exchange Loss (Net)	4,709,998	–
Bad Debts written off	1,986,384	4,452,563
Loss on Sale/Scrapping of Fixed Assets (Note)	456,345	–
Product Warranty Expenses	1,701,344	271,000
Technical Assistance Charges	3,034,382	3,268,391
Advertisement and Sales Promotion Expenses	4,548,128	6,509,446
Packing and Forwarding Expenses (Net)	21,316,627	15,338,372
Discount on Sales	4,479,207	7,203,911
Bank Charges	7,235,599	5,899,540
Directors Sitting Fees	620,000	505,000
Miscellaneous Expenditure Written Off	4,682,000	4,682,000
Provision for Bad and Doubtful Debts	4,098,434	–
Provision for Doubtful Advances	840,495	–
Provision for Diminution in the value of Investment	92,152	–
Miscellaneous Expenses	12,254,626	11,864,254
	<u>303,950,415</u>	<u>260,744,733</u>

Note:

Net of amount transferred from Revaluation Reserve Rs. 126,109 (2005: Rs. Nil)

20 INTEREST

On Fixed Loans	45,691,039	50,192,264
On Others	15,971,855	7,379,628
	<u>61,662,894</u>	<u>57,571,892</u>

21 NOTES ON ACCOUNTS

1 Significant Accounting Policies

a. Basis of Preparation of Consolidated Financial Statements

The Consolidated financial statements relate to Dynamic Technologies Limited (the Company) and its subsidiaries (the Group). The Consolidated Financial Statements are prepared in accordance with Accounting Standard (AS 21) on Consolidated Financial Statements issued by the Institute of Chartered Accountants of India. The consolidated financial statements are prepared by adopting uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate financial statement. Accounting policies have been consistently applied except where a newly-issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use.

b. Fixed Assets and Depreciation

Fixed Assets are stated at their original cost of acquisition and subsequent improvements thereto including taxes, duties, freight, borrowing costs, where applicable and other incidental expenses related to the acquisition and installation of the assets concerned and is net of subsidy. Incidental expenditure incurred during construction period is also capitalised where appropriate.

Certain Land, Buildings, Plant and Machineries and Electrical Installations are stated at valuations made by a professional valuer in 1991-92 at the then current value.

Operating softwares are capitalised with the related fixed assets, while application softwares are charged off to revenue except for major application softwares which are capitalised as intangible assets and amortised over the useful life as estimated by the management.

Depreciation is provided on a straight line method at rates prescribed in Schedule XIV to the Companies Act, 1956, (Note 11 below).

Depreciation on revalued items of fixed assets is calculated on their respective revalued amounts at rates considered applicable by the valuers on straight line method as against the methods/rates/bases which would have otherwise been adopted for the purpose of the annual accounts of the company and accordingly includes additional depreciation charge. An amount equivalent to the aforesaid additional depreciation charge is transferred to the credit of the Profit and Loss Account from Revaluation reserve of fixed assets.

c. Impairment of Assets

At each balance sheet date, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the Profit and Loss Account to the extent the carrying amount exceeds recoverable amount.

d. Investments

Investments are stated at cost, except in the case of a permanent diminution in value, where cost is written down.

Dividend Income is recognized when the Company's right to receive dividend is established.

e. Inventories

Inventories are valued at lower of cost and net realisable value. Cost is generally determined under First-in-First-out

method. Consumable Stores and spares are treated as consumed on issue to production.

f. Revenue Recognition and Product Warranty

Revenue from the sale of goods is recognised on despatch of goods. Gross Sales are inclusive of Excise Duty and net of Value Added Tax or Sales Tax.

Product warranties ranging for a period from 1 to 2 years against manufacturing and other defects, as per terms of contract(s) with the customer, are provided for based on estimates made by the Company [Note 7 below].

g. Research and Development (R&D)

The expenditure incurred on acquisition of Fixed Assets in respect of R&D activities are capitalised. The Revenue expenditure incurred on R&D is charged off in the year in which such expenditure is incurred. Income from R&D activities is included under Income from Services.

h. Foreign Currency Transactions

Foreign Currency transactions are recorded in the books at the rate of exchange prevailing on the date of such transactions.

Foreign Currency liabilities pertaining to the fixed assets, acquired from a country outside India, are restated at the rates prevailing at the year end or at the forward contract rates, as may be applicable and resultant differences arising out of such restatement are adjusted to the cost of fixed assets.

The monetary items included under Current liabilities and Current assets are restated at the rates prevailing at the year end and the differences arising from such restatement are adjusted to Profit and Loss Account.

Exchange differences on forward contracts are recognized in the Profit and Loss Account in the reporting period in which the exchange rates changes. Any profit or loss arising on cancellation or renewal of such forward contracts is recognised as income or expense for the year. The premium or discount arising at the inception of such forward contract is amortised as expenses or income over the life of such contract.

In respect of overseas subsidiary company, Income and Expenses are translated at average exchange rate for the year. Assets and liabilities, both monetary and non-monetary, are translated at the year-end exchange rates. The differences arising out of translation are included in the foreign currency translation reserve.

i. Provisions

Provisions are recognised when the Company has a present obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

j. Retirement Benefits

Retirement benefits are paid to the approved funds maintained on behalf of the Company / accrued in the books, as per statutes/ amounts advised by the funds, except for the liability for the encashment of unavailed leave which is accrued in the books based on actuarial valuation.

k. Accounting for Subsidies

Subsidy receivable against an expense is deducted from such expense and subsidy against fixed asset is deducted from the cost of the relevant fixed asset.

Investment subsidy not specifically related to a specific fixed asset is credited to Capital Reserve and retained till the requisite conditions are fulfilled.

l. Taxes on Income

Tax on income for the current year is determined on the basis of the Income Tax Act, 1961.

Fringe benefit tax is determined at current applicable rates on expenses falling within the ambit of 'Fringe Benefit' as defined under the Income Tax Act, 1961.

Deferred tax is recognised on timing differences between the accounting income and the taxable income for the year and quantified using the tax rates and laws enacted or substantively enacted as on the Balance Sheet date.

Deferred tax assets are recognised and carried forward to the extent that there is a virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Overseas subsidiary company recognised their tax liabilities in accordance with the applicable local laws.

m. Expenditure

Expenses are net of service tax, where applicable as and when these are available for set-off against excise duty and service tax liabilities.

n. Earnings per Share

Earnings (basic and diluted) per equity share are arrived at based on Net Profit after taxation before extraordinary items to the basic/weighted average number of equity shares.

o. Miscellaneous Expenditure

Deferred Revenue Expenditure incurred by the company prior to March 31, 2003 is amortised over a period of three to five years.

2 Principles of Consolidation

- i. The financial statements of the company and that of JKM Dae Rim Automotive Limited and JKM Research Farm Limited have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) applicable in India and the financial statements of JKM Global Pte Limited have been prepared as per the Singapore Financial Reporting Standards, realigned to GAAP applicable in India for the purpose of consolidation. These financial statements have been prepared by consolidation of the financial statements of the Company and its subsidiaries on a line-by-line basis after fully eliminating the inter-Company transactions.
- ii. The consolidated financial statements of the Group have been prepared in Indian Rupees ("Rs."), the legal currency of India and the Company's reporting currency.

3 Subsidiaries considered in the Consolidated Financial Statements

Sl. No.	Name of the Companies	Country of Incorporation	Proportion of ownership interest (%)	
			2006	2005
1	JKM Dae Rim Automotive Limited	India	73	73
2	JKM Research Farm Limited	India	100	100
3	JKM Global Pte Limited (Note)	Singapore	100	-

Note:

Incorporated on August 10, 2005 in Singapore as its 100% subsidiary.

4 Capital Commitment

Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided

	2006	2005
	Rs.	Rs.

	<u>66,128,035</u>	<u>75,697,105</u>
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5 Director's Remuneration *

Salary	2,535,149	1,866,375
Contributions to Provident and Other Funds	259,440	215,820
Perquisites (including those calculated as per Income Tax Rules, 1962)	434,908	191,888
	<u>3,229,497</u>	<u>2,274,083</u>

* excluding contribution to Group Gratuity Fund and Provision for Leave Encashment.

6 Leasing Arrangements

- a) Buildings, Vehicles and other facilities (including those for employee residences) are taken on operating lease. Such leases are generally for a period of 11 to 60 months with options of renewal against increased rent and premature termination of agreement through notice period of 2 to 3 months. The particulars of those leases are as follows:

	2006 Rs.	2005 Rs.
Minimum Lease payments		
– Included in Rent (Schedule 19)	5,506,830	5,143,238

There are no Contingent Rents.

- b) Rental Income includes lease rental received by leasing out machines. These Operating leases are for a period of 1 year with option of renewal with mutual consent and right of lessor to permanently terminate the lease if lessee violates the terms of lease.

Class of Assets:

Plant and Machinery		
– Gross Value	20,923,478	21,405,401
– Accumulated Depreciation	15,692,707	16,609,264
– Depreciation for the year	868,642	1,201,246
Minimum Lease payments received		
– Included in Other Income (Schedule 16)	868,642	609,072

7 Provisions

Product Warranty (Note Below)

At beginning of the year	371,000	200,000
Additional provisions made during the year	1,701,344	271,000
	<u>2,072,344</u>	<u>471,000</u>
Utilised during the year	1,072,344	100,000
At the end of the year	<u>1,000,000</u>	<u>371,000</u>

Note:

Provision has been made based on management estimation

8 Deferred Taxation

The Net Deferred Tax Liability has been arrived at as follows:

(A) Deferred Tax Assets arising from:

(i) Expenses charged in the financial statements but allowable as deductions in future years under the Income Tax Act, 1961		
– Expenses allowable for tax purposes when paid	3,136,525	1,508,568
– Provision towards Warranty	67,320	–
– Provision towards doubtful debts and advances	1,662,444	–
– Provision towards diminution in value of Investments	31,018	–
	<u>4,897,307</u>	<u>1,508,568</u>

(B) (Less): Deferred Tax Liabilities arising from:

(i) Difference between carrying amount of fixed assets in the financial statements and the Income Tax Return	(91,135,067)	(88,093,260)
(ii) Difference between carrying amount of Miscellaneous Expenditure in the financial statements and the Income Tax Return	(23,828)	(757,123)
(iii) Expenses allowed under the Income Tax Act, 1961, but to be charged in the financial statements in future years	–	(154,835)
Net Deferred Tax Liability (A-B)	<u>(86,261,588)</u>	<u>(87,496,650)</u>
Net Deferred Tax (Charge)/Credit for the year	<u>1,235,062</u>	<u>(19,116,990)</u>

9 Related Party Disclosure

Summary of the transactions with related parties are as follows:

Rupees

Description of relationship	Related Party	Companies over which Key management personnel and relatives of such personnel are able to exercise significant influence						Key management personnel						Total			
		Greenearth Biotechnologies Limited	JKM Human Resources Pvt Limited	Others (Note 1)	Dae Rim Enterprise Co. Ltd. Korea (Note 4)	J K Malhoutra	Udayant Malhoutra	Sunder V	Rajagopal N	Seshnath B	Non-Executive Directors (Note 3)						
i	Income																
	Interest Earned	2006 2005	855,331 888,012	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	855,331 888,012
ii	Expenses																
	Rent	2006 2005	- -	- -	384,000 384,000	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	384,000 384,000
	Salaries and Wages	2006 2005	- -	- -	2,803,990 1,068,068	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	2,803,990 1,068,068
	Interest on Deposit	2006 2005	- -	- -	- -	- -	- -	94,112 94,112	- -	- -	- -	- -	- -	- -	- -	- -	94,112 94,112
	Managerial Remuneration	2006 2005	- -	- -	- -	- -	- -	- -	1,360,800 1,070,464	1,180,394 978,639	1,360,800 978,639	1,070,464 978,639	- -	- -	- -	- -	4,590,297 3,332,163
	Directors Sitting Fees	2006 2005	- -	- -	- -	- -	- -	70,000 25,000	889,533 15,000	889,533 15,000	1,058,100 125,000	773,450 -	410,000 375,000	- -	- -	- -	620,000 505,000
iii	Dividend Paid	2006 2005	- -	- -	- -	- -	- -	- -	5,400,000 4,320,000	- -	- -	- -	- -	- -	- -	- -	5,400,000 4,320,000
iv	Loans Extended during the year	2006 2005	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -
v	Loans Refunded during the year	2006 2005	800,000 -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	2,999 -
vi	Balances as on March 31,																
	Outstanding Payables	2006 2005	- -	- -	- -	- -	2,160,000 1,080,000	23,528 23,528	- -	- -	- -	- -	- -	- -	- -	- -	2,183,528 1,103,528
	Outstanding Receivables	2006 2005	83,729 -	469,029 -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	552,758 -
	Outstanding Loan Receivables	2006 2005	18,500,000 18,747,082	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	18,500,000 18,747,082

Notes:

- Others include:
 - Vita Private Limited
 - JKM Holdings Private Limited
- Executive Directors:
 - Udayant Malhoutra
 - V Sunder
 - N Rajagopal
 - B Seshnath
- Non- Executive Directors:
 - J K Malhoutra
 - Air Chief Marshal S. Krishnaswamy (Retd.)
 - Dr. K Aprameyan
 - Vijai Kapur
 - Utam Singh
 - Hyo Kyon Lee
 - Udayant Malhoutra (Non Executive Director in One of the Subsidiary)
- Party having substantial interest in one of the subsidiary companies.
- The above information has been determined to the extent such parties have been identified on the basis of information provided, which has been relied upon by the auditors.

11. Dynamatic Technologies Limited, the Parent Company, has decided to charge depreciation at the rate of 100% in the year of its acquisition on all of its fixed assets, having original cost of Rs. 5,000 or below, with retrospective effect, which had hitherto been depreciated at the applicable rates for specific class of assets, specified in Schedule XIV of The Companies Act, 1956.

Accordingly, depreciation pertaining to the years upto March 31, 2005 amounting to Rs. 1,870,620 has been recognised as Prior Period Item in these accounts.

12. JKM Dae Rim Automotive Limited, one of the subsidiary companies, pursuant to negotiation with a foreign customer, agreed to change its plan to supply different auto components instead of the auto components, earlier intended to be purchased by the customer. Consequently, the related Incidental Expenditure during Construction Period incurred for the discontinued project amounting to Rs. 2,114,233 has been written off during the year as extraordinary item.
13. Dynamatic Technologies Limited, the parent company and JKM Dae Rim Automotive Limited, one of the subsidiary companies have imported certain machinery under the 'Export Promotion Capital Goods' (EPCG) scheme. According to the said scheme, the Company is entitled to import machinery at concessional customs duty with an obligation to export eight times of duty savings within a period of eight years.

Further the company has utilized quantity based advance licenses for importing of raw materials.

The details of export obligation are as under:

	2006 Rs.	2005 Rs.
a) <i>EPCG</i>		
Export Obligation at the beginning of the year	448,022,967	287,938,808
Add: Export Obligation accrued during the year	67,096,928	186,896,808
(Less): Exports made during the year	(128,032,639)	(26,812,649)
Export Obligation as at the end of the year	<u>387,087,256</u>	<u>448,022,967</u>
b) <i>Advance License</i>		
Export Obligation at the beginning of the year	12,876,714	-
Add: Export Obligation accrued during the year	17,010,000	15,296,057
(Less): Exports made during the year	(18,999,357)	(2,419,343)
Export Obligation as at the end of the year	<u>10,887,357</u>	<u>12,876,714</u>
	<u>397,974,613</u>	<u>460,899,681</u>

14. Earnings per Share

a) Before Extraordinary item:

Net Profit after tax available for equity shares	118,820,772		
Add: Extraordinary items	<u>2,114,233</u>	120,935,005	89,820,490
Basic/Weighted Average number of Equity Shares of Rs. 10 each		4,193,560	4,193,560
Basic and Diluted Earnings Per Share (Rs.)		28.84	21.42

b) After Extraordinary item:

Net Profit after tax available for equity shares		118,820,772	89,820,490
Basic/Weighted Average number of Equity Shares of Rs. 10 each		4,193,560	4,193,560
Basic and Diluted Earnings Per Share (Rs.)		28.33	21.42

15. As required under Section 205C of the Companies Act, 1956, the Company has transferred Rs. 73,966 (2005: Rs. 110,531) to the Investor Education and Protection Fund (IEPF) during the year. As of March 31, 2006, no amount was due for transfer to the IEPF.
16. Previous year's figures are not comparable with the figures of the current year to the extent of financial impact of inclusion of new subsidiary.
17. Figures for the previous year have been regrouped/rearranged, wherever necessary.

NOTICE TO SHAREHOLDERS

Notice is hereby given that the **Thirty First Annual General Meeting** of the members of Dynamatic Technologies Limited will be held at the Registered Office of the Company at Dynamatic Park Peenya, Bangalore 560 058 on **Saturday, 16th September, 2006 at 3.00 P.M** to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet and the Profit and Loss Account for the year ended on 31st March, 2006 together with the report of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. J.K Malhoutra, who retires by rotation and being eligible offers himself for re-election.
3. To appoint a Director in place of Mr. Vijai Kapur, who retires by rotation and being eligible offers himself for re-election.
4. To appoint a Director in place of Mr. B. Seshnath, who retires by rotation and being eligible offers himself for re-election.
5. To declare a Dividend.
6. To appoint Auditors & fix their remuneration. The retiring Auditors, M/s. Price Waterhouse & Co., Chartered Accountants, Bangalore are eligible for re-appointment.

SPECIAL BUSINESS

1. **To consider and, if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution:**

"RESOLVED THAT Mr. N. R. Mohanty who was appointed as an Additional Director by the Board of Directors of the Company on 22nd July, 2006, pursuant to Article 117 of the Articles of Association of the Company and who holds office up to the date of the ensuing Annual General Meeting of the Company under Section 260 of The Companies Act, 1956 and in respect of whom the Company has received notice in writing from a member under Section 257 of The Companies Act, 1956, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

2. **To consider and, if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution:**

"RESOLVED THAT subject to the provisions of Sections 198, 269, 309, 310 and other applicable provisions, if any, read with Schedule XIII of The Companies Act, 1956, including any statutory modification(s), or re-enactment thereof, for the time being in force, the Company hereby approves the appointment of Mr. V. Sunder as Whole-time Director (to be designated as President & Group Chief Financial Officer) of the Company, for a period of three years commencing from 24th August, 2006 on the following terms of remuneration and benefits :

a. **Salary** : Rs.80,000/- per month.

b. **Perquisites** :

Category A

i. **Housing** : The Company will provide unfurnished accommodation, subject to the condition that expenditure by the Company on hiring such accommodation will not exceed one month's Basic Salary.

ii. **Medical Reimbursement** : Medical expenses will be paid by the Company for Mr. V. Sunder and his family, viz. wife, dependent children and dependent parents, subject to a ceiling of one months Basic Salary in a year.

iii. **Leave Travel Concession** : Mr. V. Sunder will be paid expenses incurred on actual basis, subject to a ceiling of one month's Basic Salary in a year, in accordance with the rules of the Company, for himself, his wife, dependent children and dependent parents.

iv. **Club** : Will be paid fees of clubs subject to a maximum of two clubs, which will not include admission and life membership fees.

Category B

i. **Provident Fund** : He will be entitled to Company's contributions to P.F. as per prevailing rules.

ii. **Gratuity** : Shall be paid as per provisions of The Payment of Gratuity Act.

Category C

i. **Telephone** : Will be provided with a telephone at his residence for the purpose of Company's business.

c. **Allowances**:

i. A special allowance of Rs.61,283/- per month will be paid.

RESOLVED FURTHER THAT in the event of any loss or inadequacy of profits in any financial year during the aforesaid period, the above terms of remuneration and perquisites will be admissible as minimum remuneration paid to Mr. V. Sunder, subject to compliance with the provisions of Schedule XIII to The Companies Act, 1956.

RESOLVED FURTHER THAT any further alteration, variation and modification of the terms of the said appointment/ remuneration including salary, allowances and perquisites shall be in such a manner as may be agreed to between the Board of Directors and Mr. V. Sunder, within and in accordance with and subject to the limits prescribed in Schedule XIII to The Companies Act, 1956, or any amendment or any statutory modifications thereto and conditions, if any, as may be stipulated by the Central Government and as may be agreed to accordingly between the Board of Directors and Mr. V. Sunder."

3. **To consider and, if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution:**

"RESOLVED THAT subject to the provisions of Sections 198, 269, 309, 310 and other applicable provisions, if any, read with Schedule XIII of The Companies Act, 1956, including any statutory modification(s), or re-enactment thereof, for the time being in force, the Company hereby approves the re-appointment of Mr. N. Rajagopal as Whole-time Director (to be designated as Executive Director & Chief Operating Officer - Dynamatic® Hydraulics & Dynametal®) of the Company, for a further period of three years commencing from 24th August, 2006, on the following revised terms of remuneration and benefits with effect from 24th August, 2006:

a. **Salary** : Rs.80,000/- per month.

b. **Perquisites** :

Category A

i. **Housing** : Will be provided with unfurnished accommodation at Bangalore, subject to the condition that expenditure by the Company on hiring such accommodation will not exceed Rs.20,000/- per month.

ii. **Medical Reimbursement** : Medical expenses will be paid by the Company for Mr. N. Rajagopal and his family, viz. wife, dependent children and dependent parents, subject to a ceiling of one month's Basic Salary in a year.

iii. **Leave Travel Concession** : Mr. N. Rajagopal will be paid expenses incurred on actual basis, subject to a ceiling of one month's Basic Salary in a year, in accordance with the rules of the Company, for himself, his wife, dependent children and dependent parents.

iv. **Club** : Will be paid fees of clubs subject to a maximum of two clubs, which will not include admission and life membership fees.

Category B

i. **Provident Fund** : He will be entitled to Company's contributions to P.F. as per prevailing rules.

ii. **Gratuity** : Shall be paid as per provisions of The Payment of Gratuity Act.

Category C

i. **Telephone** : Will be provided with a telephone at his residence for the purpose of Company's business.

c. **Allowances** :

i. A special allowance of Rs.14,733/- per month will be paid.

RESOLVED FURTHER THAT in the event of any loss or inadequacy of profits in any financial year during the aforesaid period, the above terms of remuneration and perquisites will be admissible as minimum remuneration paid to Mr. N. Rajagopal, subject to compliance with the provisions of Schedule XIII to The Companies Act, 1956.

RESOLVED FURTHER THAT any further alteration, variation and modification of the terms of the said appointment / remuneration including salary, allowances and perquisites shall be in such a manner as may be agreed to between the Board of Directors and Mr. N. Rajagopal, within and in accordance with and subject to the limits prescribed in Schedule XIII to The Companies Act, 1956, or any amendment or any statutory modifications thereto and conditions, if any, as may be stipulated by the Central Government and as may be agreed to accordingly between the Board of Directors and Mr. N. Rajagopal."

4. **To consider and, if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution:**

"RESOLVED THAT Mr. B. Seshnath who has been appointed as an Additional Director by the Board of Directors of the Company with effect from 24th August, 2006 at their meeting held on 22nd July, 2006, pursuant to Article 117 of the Articles of Association of the Company and who holds office up to the date of ensuing Annual General Meeting of the Company under Section 260 of The Companies Act, 1956 and in respect of whom the Company has received notice in writing from a member under Section 257 of The Companies Act, 1956, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

5. **To consider and, if thought fit, to pass with or without modifications the following resolution as an Ordinary Resolution:**

"RESOLVED THAT subject to the provisions of Sections 198, 269, 309, 310 read with Schedule XIII to The Companies Act, 1956, and other applicable provisions, if any, the consent of the Company be and is accorded for the re-designation of Mr. Udayant Malhoutra, the President and Managing Director as the Chief Executive Officer & Managing Director of the Company with effect from 22nd July, 2006 and on the revised terms of remuneration and benefits as may be agreed to between the Board of Directors and Mr. Udayant Malhoutra, with effect from 24th August, 2006 within the limits and in accordance with the approval granted by the members at the Annual General Meeting held on 23rd July, 2005."

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

"RESOLVED THAT in accordance with the provisions of Section 293(1)(d) and other applicable provisions, if any, of The Companies Act, 1956, and also subject to other approvals as may be required, the Board of Directors of the Company be and is hereby authorized to borrow monies for the purpose of the business of the Company and that the monies to be so borrowed by the Company (apart from the temporary loans obtained from the Company's bankers in the ordinary course of business) may exceed the aggregate for the time being of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided that the total amount

including the money/s already borrowed by the Board of Directors shall not exceed Rs. 75 crores (Rupees Seventy Five Crores only) at any one time.”

By order of the Board of Directors



PLACE : BANGALORE
DATE : 22nd JULY, 2006

G. HARITHA
Company Secretary

7. Information in respect of such Unclaimed Dividends when due for transfer to the said fund is given below:

Dividend for the year	Date of declaration of Dividend	Last date for claiming Unpaid Dividend	Due date for transfer to IEPF
1998-00 (18 months)			
Interim Dividend	22.03.2000	22.03.2007	02.05.2007
Final Dividend	12.08.2000	12.08.2007	22.09.2007
2000-01	28.09.2001	28.09.2008	27.10.2008
2002-03	24.09.2003	24.09.2010	23.10.2010
2003-04	30.08.2004	30.08.2011	30.09.2011
2004-05			
Interim Dividend	29.10.2004	29.10.2011	29.11.2011
Final Dividend	23.07.2005	23.07.2012	23.08.2012
2005-06			
Interim Dividend	25.11.2005	25.11.2012	25.12.2012

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend the meeting, and vote on a poll instead of himself/herself and a proxy need not be a member of the Company.
2. An Explanatory Statement pursuant to Section 173 (2) of The Companies Act, 1956 in respect of items of Special Business is annexed hereto.
3. The instrument appointing the proxy should be deposited at the **Registered Office** of the Company not less than 48 hours before the commencement of the meeting.
4. The Register of Members and Share Transfer Books of the Company will remain closed from **11th September, 2006 to 16th September, 2006** (both days inclusive).
5. The Register of Directors' shareholdings, maintained under Section 307 of The Companies Act, 1956 is available for inspection by the members at the Annual General Meeting.
6. Pursuant to the provisions of Section 205A (5) of The Companies Act, 1956, as amended, and with the introduction of Section 205 C of The Companies Act, 1999, the amount of Dividends unpaid or unclaimed for a period of seven years from the date of payment is required to be transferred to the Investor Education and Protection Fund (IEPF), constituted by the Central Government. Accordingly, the Company has transferred the unpaid and Unclaimed Dividend amount pertaining to 1997-98 to IEPF during May, 2006. Further, Members who have not yet encashed the Dividends paid by the Company are requested to make their claim to the Company/Registrar and Share Transfer Agent, without any delay as relevant provisions of the Act as amended specifies, no claims shall lie against the said Fund or the Company for the amounts of Dividend so transferred to the said Fund.

8. Members are requested to address all correspondence, including matters relating to Dividend, to the Registrar and Share Transfer Agents - **M/s. Karvy Computershare Private Limited**, Reliance Cyber Villa, Plot No. 17-24, Vittal Rao Nagar, Madhapur, Hyderabad, Andhra Pradesh- 500081. Tel No. + 91 040 23420815-20.
9. Members holding shares in dematerialised (electronic) form are requested to intimate address notifications and updation of savings bank account details to their respective Depository Participants.
10. The Company's shares have been listed on Bombay Stock Exchange Limited (BSE). The Company has paid the listing fee for the year 2006-2007 to the above mentioned stock exchange. The Company's application for Listing of shares on the National Stock Exchange Limited (NSE) is at an advanced stage of processing.

11. Re-appointment of Directors

Pursuant to Clause 49 (VI) (A) of the Listing Agreement with Bombay Stock Exchange Limited, the particulars of the Directors seeking re-appointment is given below:

a. Mr. J.K. Malhoutra, Chairman – Retiring Director

The profile of Mr. J. K. Malhoutra, Chairman and Director retiring by rotation and seeking re-appointment as Director at the forthcoming Annual General Meeting is given below:

Mr. J. K. Malhoutra, aged 70 years is an Industrialist, Former Parliamentarian and Founder Chairman of the JKM Group, and was the past President, Bombay Management Association. He is a Promoter Director of the Company since 1973. He has been the Chairman of the Board of Directors of the Company since 1st October, 1979 and is a member of the Audit Committee.

None of the Directors of the Company are concerned or interested in passing of this resolution except Mr. J.K. Malhoutra and Mr. Udayant Malhoutra.

Your Directors commend the resolution for your approval.

b. Mr. Vijai Kapur – Retiring Director

The profile of Mr. Vijai Kapur, Director retiring by rotation and seeking re-appointment as Director at the forthcoming Annual General Meeting is given below:

Mr. Vijai Kapur, aged 75 years, is a Former Dy. Managing Director, GKW Limited and past President of – AIEI (now called CII). He has been the Director of your Company since 1992. He possesses rich business and managerial experience. He is the Chairman of the Audit Committee and a member of HRD & Remuneration Committee of the Company.

None of the Directors of the Company are concerned or interested in passing of this resolution except Mr. Vijai Kapur.

Your Directors commend the resolution for your approval.

c. Mr. B. Seshnath - Retiring Director

The profile of Mr. B. Seshnath, Director retiring by rotation and seeking re-appointment as Director at the forthcoming Annual General Meeting is given under item no. 4 to explanatory statement to the notice.

None of the Directors of the Company are concerned or interested in passing of this resolution except Mr. B. Seshnath.

Your Directors commend the resolution for your approval.

12. EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956 TO ITEMS OF SPECIAL BUSINESS :

ITEM NO. 1

The Board of Directors at their meeting held on 22nd July, 2006, appointed Mr. N.R. Mohanty as an Additional Director of the Company. The Company has received notice in writing from a member proposing the candidature of Mr. N. R. Mohanty for the office of Director under the provisions of Section 257 of The Companies Act, 1956.

Mr. N. R. Mohanty, has had a distinguished career at Hindustan Aeronautics Limited (HAL). In 1971, he joined HAL as a middle level manager and rose steadily to become its Chief Executive in 2001. During his tenure as Chairman, HAL was adjudged the best Public Sector Undertaking, and received the Prime Minister's Gold Trophy. Ensuring all round improvement in performance, he led HAL to its rightful place on the Global map of Aviation Industries. He superannuated from HAL in 2004.

He graduated in Mechanical Engineering in 1965 from Regional Engineering College, Rourkela and was the topper of the University in his batch. He started his professional career as a lecturer at his Alma Mater. In 1966, he stood second in the All India Engineering Services Examination and joined the Indian Ordnance Factories Service (IOFS). He worked at the Gun Carriage Factory, Jabalpur and the Heavy Vehicles Factory, Avadi before joining HAL.

As a member of the Kelkar Committee constituted by the Ministry of Defence, he has made significant contributions in formulating the policy for Private Industry's participation in Defence Production. He has also chaired the Committee on Offset. He continues as a member of the Task Force constituted by the Department of Public Enterprise to finalise and evaluate the annual MOUs of various Public Sector Undertakings. He is a fellow member of the Aeronautical Society of India, and also of the Institution of Engineers India. He was the President of Aeronautical Society of India during the year 2003. He was the Chairman of The Society of Defence Technologists (SODET).

During his distinguished career, he received numerous honours, before receiving the coveted National Award "Padmashri" from the Govt. of India in 2004, in recognition of his outstanding contribution in the field of Aviation.

None of the Directors of the Company are concerned or interested in passing of this resolution except Mr. N. R. Mohanty.

Your Directors commend the resolution for your approval.

ITEM NO. 2

Mr. V. Sunder has been a Director of the Company since 2002.

In order to ensure that the services of Mr. V. Sunder are available to meet the Company's growing needs, the Board of Directors of the Company at their meeting held on 22nd July, 2006, approved the appointment of Mr. V. Sunder as President & Group Chief Financial Officer of the Company with effect from 24th August, 2006 on the terms and conditions stated in the notice. The terms of appointment is subject to the approval of the members of the Company .

Mr. V. Sunder is a Senior Member of The Institute of Company Secretaries of India. He has served as CEO & Executive Director of JKM Dae Rim Automotive Limited (hereinafter referred to as JDAL), your Company's Subsidiary for the past five years. During his tenure the Company grew manifold in terms of Sales and Profitability, and Acquisition of new customers. He has served your Company for the past eleven years in various Senior Management positions, prior to his appointment as CEO & Executive Director of JDAL. Prior to taking charge as Executive Director of JDAL, he was the General Manager - Corporate Planning & Company Secretary of your Company.

In view of the Company's rapid growth in recent years and its much larger aspirations in future, a Corporate treasury is being set up to evaluate and monitor business investments. Effective 24th August, 2006, he will retain group oversight of financial plans of each business unit.

Mr. V. Sunder will head the Corporate functioning of finance and work along with Mr. Udayant Malhoutra, CEO & Managing Director in planning & driving Corporate Strategy.

The Whole-time Directors of the Company are covered by the Company's rules of Annual increment based on their performance at a scale of Rs.50,000/- to Rs.250,000/-. Approval from the members is also sought to empower the Board to effect any revision in his remuneration as recommended by HRD & Remuneration Committee and approved by the Board of Directors of the Company from time to time.

The resolution for the proposed appointment and the terms of remuneration and explanatory statement in relation thereto may be treated as an abstract of the terms of contract required to be sent to members under Section 302 of The Companies Act, 1956.

None of the Directors of the Company are concerned or interested in passing of this resolution except Mr. V. Sunder.

Your Directors commend the resolution for your approval.

ITEM NO. 3

The Board of Directors at their meeting held on 14th August, 2003 re-appointed Mr. N. Rajagopal as Director Operations of the Company for a period of three years commencing from 24th August, 2003. The members of the Company at their meeting held on 24th September, 2003 approved the appointment of Mr. N. Rajagopal as Director Operations on the terms and conditions as was set forth in the explanatory statement to the notice convening the Twenty Eighth Annual General Meeting. Further, the members of the Company at their meeting held on 23rd July, 2005 approved the revision in the remuneration on the terms and conditions as was set forth in the explanatory statement to the notice convening the Thirtieth Annual General Meeting.

In the need of growing business of the Company, it is necessary to re-designate Mr. N. Rajagopal as Executive Director & Chief Operating Officer- Dynamatic® Hydraulics & Dynametal®. The Board of Directors of the Company at their meeting held on 22nd July, 2006, approved the appointment of Mr. N. Rajagopal as Whole-time Director (designated as Executive Director & Chief Operating Officer-Dynamatic®Hydraulics & Dynametal®) of the Company with effect from 24th August, 2006 on the terms and conditions stated in the notice. The terms of appointment is subject to the approval of the members of the Company.

Mr. N. Rajagopal is a Mechanical Engineer with over three decades of rich, comprehensive experience in engineering. He has served your Company in various capacities since 1980 and has competently managed various operative functions of the Company such as production, materials, design and development, etc. He has been the Director Operations of the Company with effect from 24th August, 2002. On the recommendation of the HRD & Remuneration Committee, the Board of Directors of the Company at their Board meeting held on 22nd July, 2006, subject to the approval of the members, proposed to re-appoint him as Whole-time Director (to be designated as Executive Director & Chief Operating Officer-Dynamatic® Hydraulics & Dynametal®) of the Company for a period of three years commencing from 24th August, 2006, on the terms and conditions as detailed in the notice.

Effective 24th August, 2006, he will be responsible for managing the entire Business cycle of the operating business units, Dynamatic® Hydraulics & Dynametal® in order to achieve Corporate objectives and the Annual Business Plan. This includes manufacturing, procurement, marketing and finance.

The Whole-time Directors of the Company are covered by the Company rules of Annual increment based on their performance at a scale of Rs.50,000/- to Rs.250,000/-. Approval from the members is also sought to empower the Board to effect any revision in his remuneration as recommended by the HRD & Remuneration Committee and approved by Board of Directors of the Company from time to time.

The terms and conditions of re-appointment of Mr. N. Rajagopal, Whole-time Director, are set out in detail in the notice .

The resolution for proposed re-appointment and revision in terms of remuneration and explanatory statement in relation thereto may be treated as an abstract of the terms of contract required to be sent to members under Section 302 of The Companies Act, 1956.

None of the Directors of the Company are concerned or interested in passing of this resolution except Mr. N. Rajagopal.

Your Directors commend the resolution for your approval.

ITEM NO. 4

At its meeting held on 22nd July, 2006 the Board of Directors of the Company appointed Mr. B. Seshnath as an Additional Director of the Company with effect from 24th August, 2006, further to his term of expiry as Director Commercial of the Company with effect from 24th August, 2006. Further, the Company has received notice in writing from a member proposing the candidature of Mr. B. Seshnath for the office of Director under the provisions of Section 257 of The Companies Act, 1956.

Mr. B. Seshnath is a Mechanical Engineer with an MBA from the Indian Institute of Management, Bangalore. He has two decades of marketing experience in the Automotive, Pneumatic and Hydraulic Industries, having worked in different parts of India in senior management positions. His managerial abilities has enabled your Company to considerably develop its network of branch offices and distributors, which has in turn resulted in the expansion of the Company's operations in India and abroad. He is proposed to be appointed as Executive Director & Chief Operating Officer of JKM Dae Rim Automotive Limited, a Subsidiary of Dynamatic®, in place of Mr. V. Sunder, Director of the Company.

The Board of Directors at their meeting held on 14th August, 2003 re-appointed Mr. B. Seshnath as Director Commercial of the Company for a period of three years commencing from 24th August, 2003. The members of the Company at their meeting held on 24th September, 2003 approved the appointment of Mr. B. Seshnath as Director Commercial on the terms and conditions as was set forth in the explanatory statement to the notice convening the Twenty Eighth Annual General Meeting. Further, members of the Company at their meeting held on 23rd July, 2005 approved the revision in remuneration on the terms and conditions as was set forth in the explanatory statement to the notice convening the Thirtieth Annual General Meeting.

None of the Directors of the Company are concerned or interested in passing of this resolution except Mr. B. Seshnath.

Your Directors commend the resolution for your approval.

ITEM NO.5

Mr. Udayant Malhoutra was re-appointed as President & Managing Director of the Company for a period of five years with effect from 22nd July, 2004. The members of the Company at their meeting held on 30th August, 2004, approved the appointment of Mr. Udayant Malhoutra as President & Managing Director on terms and conditions as was set forth in the explanatory statement to the notice convening the Twenty Ninth Annual General Meeting of the Company.

In view of the increasing business activities of the Group and keeping in mind the substantial contribution of Mr. Udayant Malhoutra in providing strategic guidance in the management of the Company, the Board of Directors of the Company, subject to the approval of the members, at their meeting held on 22nd July, 2006, re-designated

Mr. Udayant Malhoutra as Chief Executive Officer & Managing Director of the Company with effect from 22nd July, 2006 and on revised terms of remuneration with effect from 24th August, 2006, which are within the limits specified under Schedule XIII of The Companies Act, 1956.

Mr. Udayant Malhoutra, as Chief Executive Officer & Managing Director, is responsible for overall Corporate Strategy, Brand Equity, Maintenance of Key Relationships, Technology Management and achieving the Annual Business Plan of the Company and its Subsidiaries. He is also responsible for leading Dynamic Senior management in transforming the Company into a world class design and manufacturing organization.

The resolution for the proposed re-designation and revision in terms of remuneration may be considered as a variation in the terms of his appointment and accordingly, the explanatory statement in relation thereto may be treated as an abstract of the terms of contract required to be sent to members under Section 302 of The Companies Act, 1956.

None of the Directors of the Company are concerned or interested in passing of this resolution except Mr. J. K. Malhoutra and Mr. Udayant Malhoutra.

Your Directors commend the resolution for your approval.

ITEM NO. 6

Under the provisions of Section 293(1)(d) of The Companies Act, 1956, the Board of Directors shall not, except with the approval of the Company in General Meeting, borrow money, where the money to be borrowed together with the monies already borrowed, exceeds the aggregate of its paid-up capital and free reserves of the Company. Earlier, members of the Company, at their Twentieth Annual General Meeting held on 28th March, 1995, had permitted the Board under this Section to borrow up to Rs. 50 crores. In view of the business expansion, growing operations, and the need for higher credit requirements, it is now proposed to obtain the permission of the members to increase this limit to Rs. 75 crores.

None of the Directors of the Company are concerned or interested in passing of this resolution.

Your Directors commend the resolution for your approval.

By order of the Board of Directors



PLACE : BANGALORE
DATE : 22nd JULY, 2006

G. HARITHA
Company Secretary

DIRECTORS' REPORT TO SHAREHOLDERS

Your Directors have pleasure in presenting the Thirty First Annual Report together with the audited statement of accounts for the year ended **31st March, 2006**.

FINANCIAL RESULTS

The Financial Results of the Company (stand alone) for the year ended 31st March, 2006 were as follows:

Particulars	(Rs. In Lacs)	
	Year ended 31.03.2006	Year ended 31.03.2005
Gross Profit (Before Interest, Depreciation & Taxation) (EBITDA)	2,011.18	1504.44
Interest	353.33	361.12
Depreciation (including prior period depreciation of Rs.18.71 lacs)	379.18	301.46
Net Profit before Taxation	1278.66	841.86
Provision for Current Year Taxation (including short provision of earlier years)	444.36	216.99
Provision for Deferred Tax / (Reduction in Deferred tax liability)	(58.35)	34.16
Provision for Fringe Benefit Tax	21.68	-
Provision for Wealth Tax	0.60	0.42
Net Profit after Tax	870.37	590.29
Amount available for appropriation	870.37	590.29
Appropriations		
Dividend on Equity Shares – Interim	83.87	62.90
Proposed Final Dividend on Equity Shares	125.81	83.87
Tax on Dividend	29.40	19.98
Balance carried to balance sheet	631.29	423.54

Notes:

Previous year figures have been recast wherever necessary.

DIVIDEND

An Interim Dividend of 20% has already been declared and paid on 4,193,560 Equity Shares absorbing Rs.8,387,120/-. Your Directors recommend a Final Dividend of 30% on 4,193,560 Equity Shares of Rs.10/- each absorbing Rs.12,580,680/- for the year under report. Hence the total Dividend payout for the year under review is Rs.20,967,800/- (exclusive of tax).

TRANSFER TO RESERVES

Your Directors propose to transfer Rs.631 lacs to General Reserve, during the year under report.

PERFORMANCE OF YOUR COMPANY

Your Directors are pleased to inform you that your Company has posted a Gross Turnover of **Rs.10,689 lacs** as against the previous year of Rs.8,664 lacs, showing a growth of 23%. The Net Profit for the year under review is **Rs.1,279 lacs** as against the previous year of Rs.842 lacs, showing a growth of 52%. This has been made possible due to the continuing thrust of your Company on sale of value-added products in both the domestic and export sectors, vigorous cost-optimisation measures and innovative value engineering initiatives.

Exports continue to be the growth driver with sales touching **Rs.1,152 lacs**, against Rs.734 lacs last year. This represents a significant growth of 57%. The world's two largest tractor manufacturers, John Deere and Case New Holland, have now classified your Company as a Strategic Global Source for pumps and other machined castings. The

export of machined castings to Tenneco Engineering Germany, is proceeding well.

RESEARCH & DEVELOPMENT

Your Company continues to design, develop and supply variants of the existing range of hydraulic gear pumps. In fact, it now has one of the largest product portfolios in the world.

The production of hydraulic motors started in real earnest during the year under review. Apart from supplying these as Original Equipment to JCB UK, your Company has now started supplying to a host of Indian infrastructure equipment companies, in the face of stiff MNC competition.

A range of pumps, valves and hydraulic aggregates have been approved for supply to Renault Agriculture, France.

The full range of tractor hydraulics is under development for a special project of John Deere, USA. This will represent a major step in your Company's thrust to expand into Global market.

A broad range of compressor housings castings have been developed for Honeywell Garrett, France. This constitutes almost 15% of their Global requirements.

QUALITY MANAGEMENT SYSTEM

Your Company successfully completed the third surveillance audit for ISO 9001:2000.

The certification audit for ISO 14001:2004, Environment Management System (EMS), was successfully completed in the year under report. The Aerospace Division successfully completed the certification audit for AS 9100 and is therefore now in a position to comfortably bid for business with Global aerospace majors.

DEPOSITS

Deposits accepted under the provisions of Section 58A of The Companies Act, 1956, of Rs.316,000/- from the public remained unclaimed as on 31st March, 2006. The same has been informed to deposit-holders for claiming.

SUBSIDIARY COMPANIES

JKM Dae Rim Automotive Limited, India, a Subsidiary of your Company, is involved in the production of high quality ferrous and non-ferrous automotive engine and transmission components. The Directors' Report, Audited Statement of Accounts, the Auditors' Report thereon and the Statement pursuant to Section 212 of The Companies Act, 1956, for the year ended 31st March, 2006, of this Subsidiary are annexed. Further, as required under Accounting Standard AS-21 issued by The Institute of Chartered Accountants of India, in compliance with the Listing Agreement with Bombay Stock Exchange Limited, Consolidated Statement of Accounts together with the Auditors' Report thereon are annexed.

JKM Research Farm Limited, India, is a Wholly Owned Subsidiary of your Company. The Directors' Report, Audited Statement of Accounts, the Auditors' Report thereon and the

Statement pursuant to Section 212 of The Companies Act, 1956, for the year ended 31st March, 2006, of this Subsidiary are annexed. Further, as required under Accounting Standard AS-21 issued by The Institute of Chartered Accountants of India, in compliance with the Listing Agreement with Bombay Stock Exchange Limited, Consolidated Statement of Accounts together with the Auditors' Report thereon are annexed.

JKM Global Pte. Limited, Singapore, is a Wholly Owned Subsidiary of your Company. The Director's Report, Audited Statement of Accounts, the Auditor's Report thereon and the Statement pursuant to Section 212 of The Companies Act, 1956, for the year ended 31st March, 2006, of this Subsidiary are annexed. Further, as required under Accounting Standard AS-21 issued by The Institute of Chartered Accountants of India, in compliance with the Listing Agreement/s with Bombay Stock Exchange Limited, Consolidated Statement of Accounts together with the Auditors' Report thereon are annexed.

DIRECTORS

Under Section 256 of The Companies Act, 1956, Mr. J. K. Malhoutra, Mr. Vijai Kapur and Mr. B. Seshnath retire by rotation and being eligible, offer themselves for re-election.

Mr. N. R. Mohanty, who has been appointed as an Additional Director of the Company at the Board Meeting held on 22nd July, 2006 is being proposed to be appointed as a Director of the Company as set out in the Notice.

Mr. V. Sunder was appointed as a Director of the Company at the Board Meeting held on 24th August, 2002. The Board of Directors of the Company at their Board meeting held on 22nd July, 2006 proposed to appoint Mr. V. Sunder as Whole-time Director (to be designated as President & Group Chief Financial Officer) of the Company as set out in the Notice.

Mr. N. Rajagopal was appointed as Director Operations of the Company at the Board Meeting held on 24th August, 2002, on the terms and conditions set out in the Notice to the Twenty Seventh Annual General Meeting. The Board of Directors of the Company at their Board Meeting held on 22nd July, 2006 proposed to appoint Mr. N. Rajagopal as Wholetime Director (to be designated as Executive Director & Chief Operating Officer-Dynamatic® Hydraulics & Dynametal®) of the Company as set out in the Notice.

Mr. B. Seshnath was appointed as Director Commercial of the Company at the Board Meeting held on 24th August, 2002, on the terms and conditions set out in the Notice to the Twenty Seventh Annual General Meeting. The Board of Directors at their Board meeting held on 22nd July, 2006 appointed Mr. B. Seshnath as an Additional Director of the Company with effect from 24th August, 2006, is being proposed to be appointed as a Director of the Company as set out in notice. Further Mr. B. Seshnath has been proposed to be appointed as Executive Director & Chief Operating Officer of JKM Dae Rim Automotive Limited, a Subsidiary of Dynamatic®, in place of Mr. V. Sunder.

Your Directors place on record the excellent services rendered by Mr. B. Seshnath during his tenure as Director Commercial of the Company .

Mr. Udayant Malhoutra was re-appointed as President & Managing Director of the Company at the Board Meeting held on 7th June, 2005 on the terms and conditions set out in

the Notice to Twenty Ninth Annual General Meeting of the Company. The Board of Directors at their Board Meeting held on 22nd July, 2006 proposed to re-designate Mr. Udayant Malhoutra as Chief Executive Officer & Managing Director of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors' Responsibility Statement as required under Section 217(2AA) of The Companies (Amendment) Act, 2000, in respect of the financial statements is annexed to this report.

CONSOLIDATED FINANCIAL STATEMENTS

Your Directors have pleasure in attaching the Consolidated Financial Statements in accordance with the Accounting Standard AS-21, issued by The Institute of Chartered Accountants of India, which form part of the Annual Report and Accounts.

AUDITORS

M/s. Price Waterhouse & Co., Chartered Accountants, Bangalore, retire at this Annual General Meeting and are eligible for re-appointment.

PARTICULARS OF EMPLOYMENT

During the year under review, relations between the employees and management remained cordial.

There are no employees drawing more than Rs.2,400,000/- or more per annum or Rs.200,000/- or more per month during the year under review as required under the provisions of Section 217 (2A) of The Companies Act, 1956.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The information relating to energy conservation, technology absorption, foreign exchange earnings and outgo required to be disclosed under The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in **Annexure – I** forming part of this report.

CORPORATE GOVERNANCE

A separate section on corporate governance and a Certificate from a Practising Company Secretary regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited together with the Management Discussion and Analysis of the financial position of the Company, form part of this Report.

ACKNOWLEDGMENT

Your Directors would like to express their grateful appreciation for the co-operation received from the Financial Institutions, Banks, Government authorities, Customers, Vendors, Shareholders and Investors during the year under review. Your Directors also wish to place on record their deep sense of appreciation for the committed services of Executives, Managers, Staff and Workers of the Company and look forward their continued support in the future.

By order of the Board of Directors



J.K. MALHOUTRA
Chairman

PLACE : BANGALORE
DATE : 22nd JULY, 2006

ANNEXURE TO DIRECTORS' REPORT

ANNEXURE – I

Statement under Section 217(1)(e) read with The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March, 2006.

Disclosure of particulars with respect to absorption, adoption and innovation

Research and Development (R & D)

1. Specific areas in which R & D is carried out by your Company

Major thrust areas for R & D activities are outlined below:

- Development of new design for robust hydraulic gear pumps for Earthmoving Sectors.
- Development of new Machine Tools, Machine Tool Structures including CNC machines and Special Purpose Machines.
- Factory Automation.
- New projects for Defence sector.
- Mechatronics application in Tractor Hydraulics.
- Development of total Tractor Hydraulic aggregates.
- Value engineering for existing products and processes.
- Analysis coupled with experimentation towards product design optimization, product performance enhancement and application understanding and problem solving.
- Introduction of Product Life Cycle Management Tools.

2. Benefits derived as a result of the above R & D

All these efforts have led to innovative product and process developments leading to new market creation and higher value addition.

Few of the key mile-stones achieved are mentioned below:

- New product development, targeting an enhanced customer base in domestic and export markets.
- Opening new business opportunities viz. Machine Tool development program.
- Participating in India's Defence indigenisation and technological upgradation programs.
- New process improvements through value engineering towards cost reduction and import substitution.

3. Future plan of action

The Company plans to increase its efforts in developing new and cost-effective applications in the above sectors, through continuous innovation.

4. Expenditure on R & D

	Rs.
(a) Capital	2,779,386
(b) Recurring	20,433,527
Total	23,212,913

5. Total expenditure as a percentage of turnover (Net): 2.49%

6. Technology absorption, adoption and innovation

Efforts, in brief, made towards technology absorption, adoption and innovation.

The Dynamatic Knowledge Center has enabled your Company to gain expertise in developing high precision engineering products. Consequently, your Company has been recognized by Department of Scientific and Industrial Research (DSIR), Government of India, as a 'Recognized In-house R & D Unit'. This is a prestigious honor conferred on the Company.

JKM Research Farm, the first of its kind in India's private sector, facilitates testing and validation of the products developed by the Company's customers. This is a unique facility and aids in relationship-building with the Company's customers.

The above facilities have enabled the Company to develop the following:

- New Generation Cast Iron Gear Pumps with very high pressure operational capability built with patented interlocking concepts.
- Electro – Hydraulic Aggregates for Defence application.
- New Optimized Die – Casting Machine Tools for Foundry application.
- Total Tractor Hydraulic Aggregates for MNC's including Gear Pump, Control Valve and Rock Shaft Assembly.
- New types of Gear Pumps and Motors built with special configuration for various applications, for both domestic and export markets.
- Development of Lubricating Oil Pump suitable for Heavy Duty Engine for export market.
- ANSYS and CFD analysis towards product design optimization and product performance & application analysis.
- Rapid proto-typing.

Also, the following International Patent applications have been filed pertaining to the development of Heavy Duty Gear Pumps, viz.

- "An Interlocking Device for Holding Body and Flange of Machines using Oval – Shaped Dowels ", and
- "An Interlocking Device for Holding Body and Flange of Machines using Bean – Shaped Dowels "

7. In case of imported technology (imported during last 5 years – reckoned from the beginning of the financial year), following information may be furnished:

- | | |
|---|-----|
| a) Technology imported: | NIL |
| b) Year of import: | NA |
| c) Has technology been fully absorbed: | NA |
| d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action : | NA |

Foreign Exchange Earnings and Outgo: During the year under report, the foreign exchange outgo has been to the extent of Rs.54,379,790/- (which includes import of raw materials, components, stores and spares to the extent of Rs.27,661,856/-, Foreign Travel expense of Rs.3,807,951/-, Royalty fee (net of tax) to an extent of Rs.4,001,224/-, subscription fees of Rs.201,045/-,

technical fee of Rs.2,837,154/-, and Capital Expenditure to the extent of Rs.15,870,560/-) and the foreign exchange earned is Rs.104,638,990/-.

ANNEXURE – II

ANNEXURE TO DIRECTORS' REPORT FOR THE YEAR ENDED 31st MARCH, 2006.

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATED TO SUBSIDIARY COMPANIES.

Particulars	JKM Dae Rim Automotive Ltd.	JKM Research Farm Ltd.	JKM Global Pte. Limited
1. Financial Year ended on	31.03.2006	31.03.2006	31.03.2006
2. Shares of the Subsidiary held by the Company on the above date :			
a. Number and face value	5,839,930 fully paid Equity shares of Rs.10/- each	1,999,930 fully paid Equity shares of Rs.10/- each	5,000 fully paid Equity shares of Singapore \$1 each
b. Extent of holding	73%	100%	100%
	Rs. in lacs	Rs. in lacs	Rs. In lacs
3. The net aggregate of Profit / (Loss) of the Subsidiaries so far as they concern the members of the Company:			
a. Dealt with in the account of the Company for the year ended 31 st March, 2006.	492.26	13.34	(2.93)
b. Not dealt with in the account of the Company for the year ended 31 st March, 2006.	-	-	-
4. The net aggregate of Profit / (Loss) of the Subsidiaries for previous years, since it became subsidiary so far as they concern members of the Company:			
a. Dealt with in the account of the Company for the year ended 31 st March, 2005.	384.60	10.91	NA
b. Not dealt with in the account of the Company for the year ended 31 st March, 2005.	-	-	-

By order of the Board of Directors



PLACE : BANGALORE
DATE : 22nd JULY, 2006

J.K. MALHOUTRA
Chairman

ANNEXURE -III

The Directors' responsibility statement as required under Section 217(2AA) of The Companies (Amendment) Act, 2000.

The Board of Directors hereby confirm:

That in the preparation of the accounts for the financial year ended 31st March, 2006, the applicable Accounting Standards have been followed with proper explanation relating to material departures.

That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss account of the Company for the year under review.

That the Directors have taken proper and sufficient care for maintenance of adequate 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.

That the Directors have prepared the accounts for the financial year ended 31st March, 2006 on a 'going concern' basis.

By order of the Board of Directors



PLACE : BANGALORE
DATE : 22nd JULY, 2006

J.K. MALHOUTRA
Chairman

CERTIFICATION BY CEO & MANAGING DIRECTOR AND GM-FINANCE (CFO) OF THE COMPANY

We, Udayant Malhoutra, CEO & Managing Director and N. Ram Mohan, GM-Finance, of Dynamatic Technologies Limited, to the best of our knowledge and belief, certify that:

a. We have reviewed the balance sheet and profit and loss account (Dynamatic®), and all its schedules and notes on accounts, as well as the cash flow statements and the Director's Report.

Based on our knowledge and information, these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.

To the best of our knowledge and belief, the financial statements and other information included in this report, present a true and fair view of the Company's affairs and are in compliance with existing Accounting Standards as issued by the Institute of Chartered Accountants of India, and / or applicable laws and regulations.

b. To the best of our knowledge and belief, no transactions have been entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's Code of Conduct.

c. We are responsible for establishing and maintaining internal controls for financial reporting of the Company, regularly evaluating the effectiveness of internal control systems of the Company pertaining to financial reporting and disclosure to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any.

d. The Company's respective functional heads and we have disclosed all relevant information wherever applicable, to the Company's Auditors and the Audit Committee of the Company's Board of Directors :

- We have eliminated all significant deficiencies in the design or operation of internal controls, which could adversely effect the Company's ability to record, process, summarize and report financial data and have evaluated the effectiveness of internal control systems of the Company in consultation with the statutory and internal auditors of the Company.

- We have indicated to the auditors and audit committee, significant changes in internal control over financial reporting during the year, significant changes in accounting policies during the year and the same have been disclosed in notes to financial statements.



UDAYANT MALHOUTRA
Chief Executive Officer &
Managing Director



N. RAM MOHAN
Chief Financial Officer
GM-Finance

PLACE : BANGALORE
DATE : 22nd JULY, 2006

DECLARATION ON COMPLIANCE OF THE CODE OF CONDUCT

To,

The Board of Directors,
Dynamatic Technologies Limited.

The Company has framed a specific Code of Conduct for the members of the Board of Directors and senior management personnel of the Company pursuant to Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited.

All members of the Board and Senior management personnel of the Company have affirmed due observance of the said Code in so far as it is applicable to them and there is no non-compliance thereof during the year ended 31st March, 2006.



UDAYANT MALHOUTRA
Chief Executive Officer &
Managing Director

PLACE : BANGALORE
DATE : 22nd JULY, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

A. INDUSTRY STRUCTURE AND DEVELOPMENTS

Your Company is Asia's largest producer of Hydraulic Gear Pumps and one of the Top Five Worldwide. Dynamatic® also manufactures a wide range of sophisticated Hydraulic Valves and custom tailored Hydraulic Solutions extending from simple Hydraulic Pumping Units to sophisticated Marine Power Packs, complex Aircraft Ground Support Systems to turnkey industrial installations.

All these products are produced at the state-of-the-art manufacturing facility located at Bangalore, and assembly is done in a clean-room environment to avoid contamination. Dynametal® produces high quality Non-Ferrous Alloy and Castings for Industrial, Automotive and Aerospace applications. Your Company's foundry located at Chennai incorporates use of the latest metallurgical technologies.

Powermetric® Design is a world class design centre capable of total product and system design, with advanced capabilities in structural, thermal and dynamic engineering for design validation, analysis and optimisation.

Dynamatic Aerospace® produces exacting Airframe Structures and Precision Aerospace components. Products include the vertical stabilisers, horizontal stabilisers, ventral fins, canards, slats and air brakes for the Sukhoi 30MKI fighter bomber; the Wing and Rear Fuselage for the LAKSHYA, India's Pilotless Target Aircraft; and Ailerons and Wing Flaps for the HJT-36 Intermediate Jet Trainer. This is the first time such capabilities have been developed in the Indian Private Sector.

The Company produces the Hydraulic Transmission System for India's T-72 Battle Tanks including Hydraulic Pumps, Hydraulic Transmission couplings and Distribution Mechanisms. Additionally, the Company has designed the Steering Control System, Turret Control System and Braking System for ARJUN Main Battle Tank.

Over 85% of all agricultural tractors and construction equipment produced in India are powered by pumps produced by Dynamatic® Hydraulics. 45% of all passenger cars made in India are built using critical engine & transmission products manufactured by JKM Daerim®. The Nation's borders are secured by products and technologies developed by your Company.

B. OPPORTUNITIES AND THREATS

Your Company is now supplying Hydraulic Gear Pumps to all 14 tractor manufacturers in India. Your Company has leveraged the deep relationships and large market share built-up over the years with existing customers, to offer additional products which incorporate state-of-the-art features at attractive price levels. Hitch Control Valves for 5 tractor manufacturers have been designed, developed, extensively tested and are being commercially supplied to all of them. The export of these valves and Hydraulic Blocks to one of these manufacturers, who is based Overseas, have also commenced.

In keeping with the increasing value-perception of the products of your Company, many Indian and Overseas tractor manufacturers have asked for feasibility studies to be conducted, with regard to supply of Lift Assemblies. This will not result in vastly higher sales turnover, but also enable it to move up the value chain rapidly, thereby improving the bottom-line.

Your Company is continuing to develop numerous variants of pumps used in the Industrial sector, with an aim of increasing penetration in this lucrative and growing market.

With an aim to tap into the rapidly growing Infrastructure sector, your Company is putting in serious R&D efforts, to develop a range of Cast-iron body pumps. This will open up new revenue streams for your Company.

Exports continue to be the growth driver. Your Company has now been approved as a Global Strategic Source by the world's leading agricultural and construction equipment manufacturers such as John Deere, Case New Holland, CLAAS, JCB, etc. Exports continue to rise and now account for 11% of total sales turnover, compared to 8% last year. Exports are projected to account for 25% of turnover, in the next 3-4 years. This will greatly benefit the Company, in terms of both Turnover and Profitability.

Your Company, as approved at the last Annual General Meeting, has incorporated a Subsidiary during the year, JKM Global Pte. Limited, based in Singapore, with the aim of better focusing its efforts on the opportunities in the Global Market.

The Aerospace division has rapidly positioned itself as India's premier Private Sector Manufacturer of Airframe Structures. This division has commenced commercial production of the SU-30 MKI work packages, and is also actively pursuing business with HAL, for manufacture of various components for the Advanced Light Helicopter program.

This Division is now well placed to benefit from the nascent outsourcing boom in this sector.

Your Company's subsidiary JKM Dae Rim Automotive Limited has gone from strength to strength. Apart from firmly establishing itself as one of India's leading auto component manufacturing units, catering to almost all the Country's major automobile companies. It is now successfully executing Global scale orders for Turbocharger Compressor Housings for Honeywell Garrett, the World's largest manufacturer of Turbochargers. Besides, its products are exported to Ford Motor Company, Volvo, Tenneco, John Deere, etc. It is now certified to exacting TS 16949 standards.

C. SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

The sales revenues from each of the major business segments that the Company is involved in, are as follows :

Segment	Amount (Rs. In lacs)	Percentage (%)
Hydraulics & Precision Engg	7,935.95	30
Aluminium Castings	2,753.17	11
Automotive Components	15,230.39	59
Total	25,919.51	100

D. OUTLOOK

Your Company's reputation for developing innovative and cost-effective products continues to grow, both in India and in Overseas markets. In the medium-term, the Company is expected to maintain a Compounded Annual Growth rate of 30%.

Continuous efforts for developing innovative and cost-effective products is possible through constant Research and Development activities.

E. RISKS AND CONCERNS

With the Customs duty levels continuing to drop (and projected to reach WTO levels by 2007-08), the pricing structure may have to be suitably modified to counter expected imports.

Cost-push inflation, in terms of spiraling aluminium price increases, is a cause of concern. However, your Company is offsetting this through not only seeking appropriate sales price increases from its customers, but also adopting innovative cost-optimisation measures and Value Engineering solutions.

The possible risks of Product Liability, Warranty, etc. consequent upon entry into Global markets; are being mitigated through commensurate insurance policies and other de-risking strategies.

F. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has deployed a comprehensive internal audit system, which is commensurate with the scale of operations. Competent and qualified professionals who are external to the Company's business, conduct regular and detailed Internal Audits, both at the manufacturing locations and its branch offices.

The Board level Audit Committee of the Company meets at regular intervals to review internal control systems and take stock of the situation from time to time.

G. DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Your Company's Net Profit has grown by 52% against the Sales Turnover growth of 23%. This has come about due to the relentless drive to eliminate operational inefficiencies, introduction of more value-added products and innovative Value Engineering initiatives.

Your Company's investments in its automotive subsidiary and foundry unit in Chennai has paid off handsomely, as can be evidenced by the rapid growth in turnover of both units and their ever-increasing contributions to the overall turnover.

The improved overall performance, has been leveraged by your Company to negotiate substantial reductions in financial costs. It has also enabled it to make fresh and necessary Capital investments in Capacity, Research & Development and Product Development.

H. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED:

Your Company has constantly increased the productivity levels during the year. This has been achieved through a combination of re-engineering of processes, imparting training to workmen for working on multiple machines, outsourcing low value-add activities and imparting extensive training programs both on the job and class room training to bring about awareness on all facets of your Company's business.

Your Company's Environmental Management System has been certified for ISO 14001:2004. This process has enabled your Company's employees to be trained on health, safety and enviro-legal aspects of industrial working such as safety at the workplace, first aid, fire fighting and evacuation exercises.

During the year under review, your Company has also been able to impart extensive training programs on 5S quality systems, by which your Company has been able to eliminate wastage, and improve utilization of all material resources and space. This has also helped in bringing about more orderliness and cleanliness in all processes carried out within your Company.

Further, 6-sigma problem-solving techniques have been employed, to find lasting and permanent solutions to operational problems.

Your Company's Aerospace division has been certified to AS 9100 (Rev. B) standards and also has undergone surveillance audit, which shows that the division's systems and processes are robust and in place.

Your Company's employees have been trained on automotive quality standards to meet the exacting certification standards of TS 16949.

Some of the important training programs conducted include, among others:

- Training on environmental issues
- Inculcated discipline on the legal requirements
- Requirements of AS 9100 (rev. B)
- Training on 5S quality systems
- Omnex training for tools used by the automotive sector (TS 16949)
- Fire evacuation and fire safety programs.
- Basics of Hydraulics and its Application in Pumps
- Project Management
- Product Design and Development
- Computer Aided Analysis
- Windchill Operations Training
- Quality Management System
- Material Sciences
- First Aid Techniques and Fire Fighting
- Computer Literacy
- Disciplinary Issues and Procedures
- Supply Chain Management and Logistics
- Interpersonal Skills
- Assertiveness Training
- Customer Relationship Management
- Quality in Aerospace
- Sealants and Sealants Application in Aerospace
- Aircraft Fasteners & Installation Techniques.

The number of people employed during the year under review is 538, as on 31st March 2006.

CORPORATE GOVERNANCE REPORT

PURSUANT TO CLAUSE 49 OF LISTING AGREEMENT WITH BOMBAY STOCK EXCHANGE LIMITED:

THE COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Dynamatic's long-standing commitment to high standards of corporate governance and ethical business practices is a fundamental shared value of its Board of Directors, management and employees. The Company's philosophy of corporate governance stems from its belief that timely disclosures, transparent accounting policies, and a strong and Independent Board go a long way in preserving shareholders' trust while maximizing long-term shareholder value, whilst simultaneously enabling the Company to fulfill its obligations to other stakeholders such as customers, suppliers, financiers, employees, the government and to society at large. Your Company firmly believes that such practices are founded upon the core values of transparency, professionalism, empowerment, equity and accountability. Your Company makes its best endeavours to uphold and nurture these core values in all facets of its operations and aims to increase and sustain its corporate value through growth and innovation. Good corporate governance flows out of the commitment

of the Management and the Board of Directors and when this commitment is backed by the fundamental beliefs of maximizing national wealth; transparency in business and mutual trust and respect amongst all constituents of the business, the organization elevates itself onto a higher leadership plane.

This approach of Dynamatic® has always helped it in achieving its desired results, and has transformed the Company's culture to one that is relentlessly focused on the speedy translation of technological discoveries into innovative products. Your Company's commitment towards corporate governance started well before law mandated such practices.

In this Annual Report, the procedures and practices of corporate governance that are followed at Dynamatic® has been outlined.

I. BOARD OF DIRECTORS

The Board of Dynamatic® comprises of nine Directors, three of whom are Executive Directors and six are Non-Executive Directors including the Chairman of the Company, with the majority of them being Independent Directors.

a. Composition of the Board and Directorships held during the Year 2005-2006

Name of Director	Category of Director	No. of Directorships held in Public Companies in India	No. of other Committees where he is a member	No. of other Committees where he is a Chairman	No. of shares held in the Company
Non-Executive					
Mr. J. K. Malhoutra	P & NI	3	1	Nil	100
Mr. Vijai Kapur	I	1	2	2	Nil
Mr. S. H. Utamsingh*	I	1	2	1	Nil
Mr. V. Sunder	NI	3	4	Nil	Nil
Dr. K. Aprameyan	I	2	5	1	Nil
Air Chief Marshal S. Krishnaswamy (Retd)	I	1	4	1	Nil
Mr. N. R. Mohanty**	I	5	5	0	Nil
Executive					
Mr. N. Rajagopal	NI	1	1	0	278
Mr. B. Seshnath***	NI	1	1	0	Nil
Mr. Udayant Malhoutra	P & NI	5	2	2	1,050,854

Notes:

P- Promoter; NI- Non Independent; I- Independent.

* Ceased as a Director with effect from 23rd July, 2005.

** Co-opted as an Additional Director with effect from 22nd July, 2006.

*** Ceased as a Director Commercial with effect from 24th August, 2006 and Co-opted as an Additional Director with effect from 24th August, 2006.

None of the Directors are relatives under Section 2(41) and Section 6 read with Schedule IA of The Companies Act, 1956, except Mr. J. K. Malhoutra and Mr. Udayant Malhoutra.

b. Details of Sitting fees/Remuneration paid to all the Directors for the Year 2005-2006

Amount in Rupees

Name of Director	Sitting Fees paid for Attending Board/ Committee Meetings (p.a)	Remuneration (p.a)		Total Compensation (p.a)
		Basic Salary	Perquisites/allowances	
	(A)	(B)		(A) + (B)
Mr. J.K. Malhoutra	65,000	-	-	65,000
Mr. Vijai Kapur	60,000	-	-	60,000
Mr. S. H. Utamsingh *	30,000	-	-	30,000
Mr. V. Sunder	125,000	-	-	125,000
Dr. K. Aprameyan	175,000	-	-	175,000
Air Chief Marshal	125,000	-	-	125,000
S. Krishnaswamy (Retd) **				
Mr. N. Rajagopal	-	680,000	405,998	1,085,998
Mr. B. Seshnath	-	680,000	404,039	1,084,039
Mr. Udayant Malhoutra	-	802,000	905,787	1,707,787

Notes:

- * Ceased as a Director with effect from 23rd July, 2005.
- ** Co-opted as a Director with effect from 7th June, 2005.

None of the Non-Executive Directors have any material financial interest in the Company apart from the remuneration by way of sitting fees received by them.

c. Meetings of the Board, its Committee/s and procedures

During the year, Board meetings were held on 19th April, 2005, 7th June, 2005, 22nd July, 2005, 23rd July, 2005, 27th October, 2005, 25th November, 2005 and 24th January, 2006.

Name of Director	Board Meeting/s attended during the year	Whether attended the last AGM
Mr. J. K. Malhoutra	4/7	Yes
Mr. S.H. Utamsingh*	3/7	Yes
Mr. Vijai Kapur	3/7	No
Mr. V. Sunder	6/7	Yes
Dr. K. Aprameyan	7/7	Yes
Air Chief Marshal	5/7	Yes
S. Krishnaswamy (Retd) **		
Mr. N. Rajagopal	7/7	Yes
Mr. B. Seshnath	7/7	Yes
Mr. Udayant Malhoutra	7/7	Yes

Notes:

At the Board meeting held on 25th November, 2005, Mr. J. K. Malhoutra, Mr. V. Sunder and Air Chief Marshal S. Krishnaswamy (Retd), Directors of the Company participated through teleconferencing and have not been included for attendance at the Board Meeting in the attendance statistics furnished above.

- * Ceased as a Director with effect from 23rd July, 2005.
- ** Co-opted as a Director with effect from 7th June, 2005.

i. Organization decision making process

As a process of good corporate governance for corporate affairs and all matters requiring discussion / decisions by the Board / Committee, the Company has a policy for Board and Committee meetings. This policy ensures that the decision making process at Board / Committee meetings is done in an informed, systematic and in the most efficient manner.

ii. Scheduling and selection of Agenda items for Board / Committee meetings

● Your Company holds a minimum of four Board/respective Committee meetings in each year, which are pre-scheduled at the end of each financial quarter. Apart from the four pre-scheduled Board meetings, additional Board meetings can be convened by giving appropriate notice at any time to address the Company's specific needs. The Board may also approve permitted urgent matters by passing resolutions by circulation. The HRD & Remuneration Committee meeting is held once a year and has now been restructured to meet half-yearly for reviewing the Company's Human Resource Policies.

● All divisions / departments in the Company are required to plan their functions well in advance, particularly with regard to matters requiring discussions / approval / decision in the Board / Committee meetings. All such matters are communicated to the Company Secretary in advance so that it can be included in the agenda for discussion, at the Board / Committee meetings thereof.

● The Board has unencumbered access to any relevant information of the Company. The information regularly supplied to the Board/Committee at its meetings include:

- * Annual operating plans, budgets, quarterly performance of the Company and updates;
- * Minutes of the meetings of the Board and its Committees;
- * Compliance with statutory / regulatory requirements and review of legal issues if any;
- * Adoption of quarterly / half yearly / annual results;
- * Labour issues and other industrial related matters;
- * Transactions pertaining to purchase and disposal of property;

- ★ Major accounting provisions and write offs;
- ★ Information on recruitment of officers just below the Board level, including the Compliance officer;
- ★ Such other information which is required to be informed or where it requires to obtain consent/approval of the Board/Committee as may be necessary for the management of the Company under any statute in India/abroad from time to time or otherwise.

The Board's annual agenda includes recommending dividend keeping in view of the Company's profitability and the requirement of funds for the future growth of the Company, determining Directors who shall retire by rotation and recommending appointment of Directors/Auditors, authentication of annual accounts and approving Director's Report, long-term strategic plans of the Company and principal issues that the Company expects to face in the future. Board meetings also note and review functions of its Committees regularly.

- The Chief Executive Officer & Managing Director of the Company and the Company Secretary in consultation with other Executive Directors of the Company, finalises the agenda papers for the Board / Committee meetings.

- The Company Secretary acts as the Secretary to the Board / Committees.

iii. Board / Committee Information

- The Agenda for the Board / Committee meetings is circulated to the Directors, in a pre-defined format. All material information is incorporated in the agenda for facilitating meaningful and focussed discussions at the meeting. Where it is not practicable to attach any document to the agenda, the same is placed on the table at the meeting with specific reference to this effect in the agenda.

- In special and exceptional circumstances, additional or supplementary item(s) on the agenda are permitted with the permission of the Chairman of the Board / Committee. Urgent matters may be discussed at the meeting without written material being circulated in advance.

iv. Recording minutes of proceedings at Board / Committee meetings

The Company Secretary records the minutes of the proceedings of each Board and Committee meetings. Draft minutes are circulated to all the members of the Board / Committee for their comments. The minutes of proceedings of a meeting are entered in the Minutes Book within 30 days of conclusion of the meeting.

v. Post meeting follow up mechanism

The Policy for Board and Committee meetings facilitate an effective post meeting follow-up, review and reporting process for the decisions taken by the Board / Committees.

vi. Compliance

The Company Secretary, while preparing the agenda, notes on agenda, minutes etc. of the meeting(s), is responsible for and is required to ensure adherence to all applicable provisions of law including the Companies Act, 1956 and the Secretarial Standards recommended by the Institute of Company Secretaries of India, New Delhi.

vii. Code of Conduct

As a process of good Corporate Governance, the Company has framed and adopted a detailed Code of Conduct for its Directors and senior management. The Code outlines our values, principles and guidelines on a variety of subjects. The Board of Directors and members of the senior management are expected to ensure adherence to the set of moral values and policies enjoined in the Code.

The details of the Code of Conduct are posted on the web site of the Company (www.dynamics.com). In terms of Clause 49 of the Listing Agreement, the declaration signed by Mr. Udayant Malhoutra, re-designated as Chief Executive Officer & Managing Director of the Company, is given in **Annexure I** to this report.

d. Human Resource Development & Remuneration Committee

The Company had constituted a Remuneration Committee at its Board Meeting held on 7th July, 2002, which has been re-designated as Human Resource Development (HRD) & Remuneration Committee with effect from 22nd July, 2006.

Your Company's HRD & Remuneration Committee is vested with all the powers and authority to review market practices by taking into account the financial position of the Company, qualification of appointees, experience, past performance etc., and to decide on or make recommendations to the Board on remuneration packages applicable to the Executive Directors of the Company. Further, the Committee has overall responsibility for approving and evaluating the roles and responsibilities of Executive Directors of the Company and to review the Human Resource Development policies of the Company from time to time.

i. The Committee comprises of the following members:

Mr. Vijai Kapur	Chairman
Mr. S.H. Utamsingh*	Member
Dr. K. Aprameyan	Alternative Chairman
Air Chief Marshal	
S. Krishnaswamy (Retd)**	Member
Mr. Udayant Malhoutra***	Member
Mr. N. R. Mohanty****	Member

Notes:

- * Ceased as a Director with effect from 23rd July, 2005.
- ** Co-opted as a member with effect from 25th November, 2005.
- *** Ceased as a member with effect from 22nd July, 2006, on reconstituting the Committee consisting of only Non-Executive Directors, as required under Clause 49 of the Listing Agreement.
- **** Co-opted as a member-Chairman with effect from 22nd July, 2006 on re-structuring of the Committee.

ii. HRD & Remuneration Committee meetings held during the Year 2005-2006

Name of Director	No. of Meetings held	Meetings attended
Mr. Vijai Kapur	1	0
Mr. S.H. Utamsingh*	1	1
Dr. K. Aprameyan	1	1
Mr. Udayant Malhoutra	1	1

Notes:

* Ceased as a Director with effect from 23rd July, 2005.

HRD & Remuneration Committee meeting was held on 7th June, 2005 during the year.

e. Technical Development Committee

Board level Technical Development Committee constituted on 24th September, 2003 with an objective:

“To render constant improvement and continuous learning to satisfy the customers stated and unstated needs, by understanding applications and anticipating future trends”.

i. The Committee comprises of the following members:

Dr. K. Aprameyan	Chairman
Air Chief Marshal	
S. Krishnaswamy (Retd)	Alternative Chairman
Mr. Udayant Malhoutra	Member
Mr. N. Rajagopal	Member
Mr. B. Seshnath	Member
Mr. N. R. Mohanty*	Member

Notes:

* Mr. N. R. Mohanty Co-opted as member with effect from 22nd July, 2006.

ii. Technical Development Committee attendance during the year 2005-2006.

Name	No. of Meetings held	Meetings attended
Dr. K. Aprameyan	4	4
Air Chief Marshal		
S. Krishnaswamy (Retd)*	4	3
Mr. Udayant Malhoutra	4	4
Mr. N. Rajagopal	4	4
Mr. B. Seshnath	4	4

Notes:

* Air Chief Marshal S Krishnaswamy (Retd) co-opted as member at the Board of Directors meeting held on 7th June, 2005.

Technical Development Committee meetings were held on 18th April, 2005, 22nd July, 2005, 26th October, 2005 and 23rd January, 2006.

II. AUDIT COMMITTEE

Your Company has a qualified and independent Audit Committee with an Independent Director as its Chairman. The Board has constituted an Audit Committee and has defined its powers and terms of reference at its meeting held on 21st July, 2001. The Board reviews the scope of the Committee and its terms of reference from time to time.

i. Presently the Committee comprises of the following members:

Mr. Vijai Kapur	Chairman
Mr. J.K. Malhoutra	Member
Dr. K. Aprameyan	Member, Alternative Chairman

Mr. V. Sunder*	Member
Air Chief Marshal	
S. Krishnaswamy (Retd)	Member
Mr. N. R. Mohanty**	Member
Mr. B. Seshnath***	Member

Notes:

* Co-opted as an Executive Director with effect from 24th August, 2006 and will be attending Audit Committee meetings as an Invitee.

** Co-opted as a member with effect from 22nd July, 2006.

*** Co-opted as a member with effect from 24th August, 2006.

Majority of the members of the Audit Committee are Non-Executive and Independent Directors of the Company. Mr. Vijai Kapur, an Independent Director, is the Chairman of the Committee and Dr. K. Aprameyan, also an Independent Director, will act as Alternative Chairman to Mr. Vijai Kapur. All the members of the Audit Committee are financially literate, having rich and vast experience in industry being either industrialists or technical experts with exposure to finance, accounting and financial management. Mr. V. Sunder, member of the Audit Committee is also a Company Secretary, being a senior member of The Institute of Company Secretaries of India, and has wide and varied experience and exposure in finance and Corporate affairs for more than two decades.

Dr. K. Aprameyan, Alternative Chairman of the Audit Committee, was present at the Annual General Meeting held on 23rd July, 2005 to answer queries raised by the shareholders. Ms. G. Haritha, Company Secretary is the Secretary to the Committee.

ii. Audit Committee meetings held during the Year 2005-2006

During the year, Audit Committee meetings were held on 19th April, 2005, 7th June, 2005, 22nd July, 2005, 27th October, 2005 and 24th January, 2006.

Name of Director	No. of Meetings held	Meetings Attended
Mr. J.K. Malhoutra	5	3
Mr. Vijai Kapur	5	3
Mr. V. Sunder	5	5
Dr. K. Aprameyan	5	5
Air Chief Marshal	5	3
S. Krishnaswamy (Retd)*		

Notes:

* Co-opted as a member of the Audit Committee at the Board of Directors Meeting held on 7th June, 2005.

At the invitation of the Committee, Executive Directors of the Company/ Subsidiary Company/s, Internal Auditors, Statutory Auditors and Financial Controller attend and participate in Committee meeting/s to review and discuss financial performance, disclosure practices, internal control systems, internal audit reports, feedback reports of management and financial policies of the Company so that the Committee is able to oversee the financial reporting process, make appropriate financial disclosures and implement the terms of reference as mandated by the Board and the terms of the Listing Agreement.

iii. Terms of reference and powers of Audit Committee:

- Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- Recommending to the Board, the appointment, re-appointment and if required, replacement or removal of the Statutory Auditor, fixation of audit fee as well as approval of payments to the Statutory Auditors for any other services rendered to the Company;

- Reviewing with the management the annual financial statements before submission to the Board for approval;
- Reviewing with the management the performance of Statutory and Internal Auditors, and adequacy of internal control systems of the Company;
- Reviewing adequacy of internal audit function ;
- Discussion with Internal Auditors about any significant findings and follow up thereon;
- Reviewing the findings of any internal investigations by Internal Auditors into matters where there is a suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;
- Discussion with the Statutory Auditors before the audit commences about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
- Reviewing the Company's financial and risk management policies;
- To look into reasons for substantial defaults in payments to depositors, debenture holders, shareholders (in case of non-payment of declared Dividends) and creditors, if any;
- Reviewing the financial statements, in particular, investments made by the Subsidiary Company/ies;
- Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

III. SUBSIDIARY COMPANIES

As a part of good Corporate Governance practices, your Company has evolved a specific Management Information System (MIS) structure for periodical reporting of material developments of Subsidiary Companies to the Board.

Dynamatic® has the following Subsidiary Companies:

JKM Dae Rim Automotive Limited, India
 JKM Research Farm Limited, India
 JKM Global Pte. Limited, Singapore

a. Pursuant to Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited, JKM Dae Rim Automotive Limited is a 'Material non-listed Indian Subsidiary Company' and as per the requirement of the said Clause, Dr. K. Aprameyan, being a Independent Director of the Company, is also a Non Executive Independent Director on the Board of the Subsidiary.

b. As per the terms of reference of Audit Committee, the Committee reviews the financial statements and all material developments of the Subsidiary Companies on a periodic basis.

c. The minutes of the meetings of the Board and General Meeting of the Subsidiary Companies are placed before the Board of Directors of the Company for information and necessary advice thereon. As a matter of policy, the Board of Directors periodically review all significant transactions of Subsidiary Companies.

IV. DISCLOSURES

a. Basis of Related Party Transactions

All related party transactions have been entered into in the ordinary course of business and were placed before the Audit Committee in summary form. During the year, there were no materially significant related party transactions i.e. transactions of the Company of material nature, with its Promoters, Directors or the Management, their Subsidiaries or Relatives etc. that may potentially conflict with the

interests of the Company at large. Periodically, a summarized statement of transactions entered into with related parties is placed before the Audit Committee for consideration. All individual transactions with related parties were on arms length basis.

Details are provided in Note No. 18 under Schedule 21 to the Notes forming part of the Accounts in accordance with provisions of Accounting Standard 18.

b. Disclosure of accounting treatment

All Accounting Standards as applicable from time to time, issued by The Institute of Chartered Accountants of India have been complied with in preparation of the financial statements. The Company has not deviated from these standards during the year.

c. Board Disclosure – Risk Management

Risk assessment and its minimization procedure have been laid down in consultation with the members of the Board. These procedures are periodically reviewed to ensure that the executive management controls risk by means of a properly defined framework. The Board acknowledges responsibility for Dynamatic's systems of internal control and conducts periodic reviews of its effectiveness and adequacy.

d. Proceeds from Public Issues, Rights Issues, Preferential Issues etc.,

No money was raised through any of the aforesaid means during the financial year under review.

e. Remuneration of Directors

All pecuniary relationship or transactions including number of shares held by Directors have been disclosed in Para No. I a. and b. of this report.

The Board of Directors defines the criteria for fixing of remuneration of Executive and Non Executive Directors. Details of the criteria are available on the Company's website (www.dynamatics.com).

f. Management

Management Discussion and Analysis report forms part of the Annual Report to the shareholders.

g. Shareholders

Your Company has constituted two committees for servicing the share transfer requests and for attending to investors' grievances, if any.

i. Shareholders' Committee

The Shareholders' Committee looks into the review/redressal of shareholders/investors queries/complaints pertaining to transfer of shares, non-receipt of shares, non-receipt of declared dividend/s, duplicate shares and to ensure timely processing and due care to shareholders/ investors.

1. The Committee comprises of the following members:

Air Chief Marshal	
S. Krishnaswamy (Retd)*	Chairman
Mr. V. Sunder	Member
Mr. Udayant Malhoutra	Member
Mr. N. R. Mohanty**	Member

Notes:

* Co-opted as a member and Chairman of the Committee at the Board Meeting held on 23rd July, 2005.

** Co-opted as a member with effect from 22nd July, 2006.

2. Name and Designation of Compliance Officer

Ms. G. Haritha Company Secretary

ii. Share Transfer Committee (sub committee of Shareholders' Committee)

The Share Transfer Committee comprises of the following members:

Mr. Udayant Malhoutra Chairman
Mr. N. Rajagopal Member
Ms. G. Haritha Member

The Committee has the mandate to approve all share transfers, transmissions, transpositions, duplicate share certificates, exchange, rejections, consolidations, de-mats, re-mats etc, on a bi-monthly basis.

3. Complaints received during the Year 2005-2006

Sl. No.	Particulars	Complaint/s received	Resolved
1.	Non-receipt of Dividend Warrants	8	8
2.	Non- Receipt of Share certificates	8	8
3.	Legal Notice	1	1
4.	Letter from Stock Exchange/ SEBI	7	7
5.	Transfer of shares	5	5
	Total	29	29

j. Details of the Directors to be appointed / re-appointed / re-designated at the ensuing Annual General Meeting to be held on 16th September, 2006 are given below:

Name of Director	N R Mohanty	V. Sunder	N. Rajagopal	B. Seshnath	Udayant Malhoutra
	Appointment	Appointment	Re-appointment & Re-designation	Appointment	Re-designation
Appointment/ Re-appointment/ Re-designation	Appointed as a Non-Executive Director of the Company	Appointed as a Wholetime Director (designated as President & Group Chief Financial Officer)	Re-appointment as a Wholetime Director (designated as Executive Director & Chief Operating Officer-Dynamatic® Hydraulics & Dynametal®)	As a Non-Executive Director of the Company	Re-designated as a Chief Executive Officer & Managing Director of the Company
Date of appointment/ Cesation	w.e.f 22 nd July, 2006.	w.e.f 24 th August, 2006.	w.e.f 24 th August, 2006.	w.e.f 24 th August, 2006.	w.e.f 22 nd July, 2006.
Expertise in the specific field	B.Sc. (Mechanical Engineering), Honors from Regional Engineering College, Rourkela, Padmashri Awardee, having rich experience in the field of Science and Technology and worked as Former Chairman of the Hindustan Aeronautics Limited and is member of various National Committees.	Fellow Member of the Institute of Company Secretaries of India having two decades of rich experience in Finance and Legal. Worked as CEO & Executive Director of JDAL for last five years	Mechanical Engineer with over three decades of rich, comprehensive experience in engineering.	Mechanical Engineer with an MBA from the IIM, Bangalore with over two decades of marketing experience in Automotive and Engineering Industry.	An Industrialist, Member, Board of Governors, IIT Kanpur (1997-2001), Chairman, CII National Council(2001-2002) President, Fluid Power Society of India, 2004-06
List of other Directorship held	As specified in Corporate Governance report I a.	As specified in Corporate Governance report I a.	As specified in Corporate Governance report I a.	As specified in Corporate Governance report I a.	As specified in Corporate Governance report I a.
Companies where he is Chairman/ member of Committee	As specified in Corporate Governance report I a.	As specified in Corporate Governance report I a.	As specified in Corporate Governance report I a.	As specified in Corporate Governance report I a.	As specified in Corporate Governance report I a.

V. CFO CERTIFICATION

The certificate of Mr. Udayant Malhoutra, Chief Executive Officer & Managing Director and Mr. N. Ram Mohan, GM-Finance, CFO of the Company, certifying compliance with

Clause 49 V of the Listing Agreement with Bombay Stock Exchange Limited has been provided elsewhere in the Annual Report.

VI. COMPLIANCE CERTIFICATE

Compliance certificate, certifying compliances as required under Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited from a Practicing Company Secretary is annexed herewith as **Annexure II**.

VII. GENERAL BODY MEETINGS

a. Details of last three Annual General Meetings held:

Year	Date	Venue	Time
2002-03	24.09.2003	Dynamatic Park, Peenya Bangalore 560 058.	3.00 p.m
2003-04	30.08.2004	Dynamatic Park, Peenya Bangalore 560 058.	3.00 p.m
2004-05	23.07.2005	Dynamatic Park, Peenya Bangalore 560 058.	3.00 p.m

During the year 2004-2005, there was no such resolution which was required to be passed through Postal Ballot within the meaning of Section 192A of The Companies Act, 1956.

b. The business transacted by Special Resolution at the last Annual General Meeting held on 23rd July, 2005 is given below:

- Approval under Section 372A of The Companies Act, 1956 to invest in JKM Global Pte. Limited, Singapore and to invest in Dynamatic International Limited, Hong Kong.
- Approval under Section 314 (1) of The Companies Act, 1956, for payment of sitting fees for attending the Board/ Committee meetings thereof at JKM Dae Rim Automotive Limited (JDAL), a Subsidiary of Dynamatic® by Mr. J. K. Malhoutra, Chairman, Mr. Udayant Malhoutra, President & Managing Director and Dr. K. Aprameyan, Director of the Company, who are also Non Executive Directors of JDAL.

c. Details of non-compliance by the Company penalties, and strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

None

d. Whether Management Discussion and Analysis section is part of annual report or not.

Yes

e. Means of Communication

The Quarterly, Half-yearly and Annual results of the Company are published in Business Standard, all India Edition and in Sanjevani, Bangalore Edition.

VIII. GENERAL SHAREHOLDERS INFORMATION

Registered Office/ Bangalore Plant : Dynamatic Park Peenya Bangalore, Karnataka 560 058.

Chennai Plant : Dynametal Division JKM Park SIPCOT Irrungattukottai Kanchipuram Dist Tamil Nadu 602 105.

Annual General Meeting

Date & Time	: 16 th September, 2006 at 3.00 p.m.
Venue	: Dynamatic Park Peenya Bangalore 560 058.
Financial Calendar	: 1 st April to 31 st March
Date of Book Closure	: 11 th September, 2006 to 16 th September, 2006 (Both days inclusive)
Dividend Payment Date	: After September, 2006 but within the statutory time limit of 30 days.
Listing on Stock Exchange/s	: Bombay Stock Exchange Limited (BSE) Phiroze Jeejeebhoy Towers, Dalal Street Mumbai -400 001. BSE Code- 505242

Currently the Company is in the process of listing its Equity Shares with National Stock Exchange of India Limited.

IX. SHARE MARKET PRICE DATA

The monthly high and low quotations and volume of shares traded on Bombay Stock Exchange Limited:

Month	High Rs.	Low Rs.	Volume of shares traded
April 2005	539.30	415.00	6,690
May 2005	698.00	465.00	19,780
June 2005	700.00	584.00	8,422
July 2005	1,100.00	641.00	7,240
August 2005	1,090.00	863.00	8,000
September 2005	1,090.00	876.00	2,010
October 2005	1,285.00	715.00	9,161
November 2005	1,016.00	779.00	2,490
December 2005	1,248.00	901.00	3,455
January 2006	1,291.15	1,100.00	4,023
February 2006	1,340.00	1,134.05	371
March 2006	1,482.00	1,250.00	722

Notes:

High and Low are in rupees per traded share

Volume is the total monthly shares traded.

X. DISTRIBUTION SCHEDULE AS ON 31st MARCH, 2006

No. of Equity Shares held	No. of Share holders	% of total Share holders	No. of Shares	% of Total Shares
1 - 5,000	4,446	90.16	491,437	11.72
5,001 - 10,000	260	5.27	192,655	4.60
10,001 - 20,000	118	2.40	170,690	4.07
20,001 - 30,000	38	0.78	94,346	2.25
30,001 - 40,000	21	0.43	74,582	1.78
40,001 - 50,000	7	0.14	32,691	0.78
50,001 - 100,000	16	0.32	109,866	2.62
100,001 - above	25	0.50	3,027,293	72.18
Total	4,931	100.00	4,193,560	100.00

XI. SHAREHOLDING PATTERN

Category	31 st March, 2005		31 st March, 2006	
	No. of Shares held	Percentage	No. of Shares held	Percentage
PROMOTERS HOLDING				
Indian Promoters				
Barota Malhoutra	4,938	0.12	4,938	0.12
Christine Hoden (I) Pvt Ltd	100	0.00	100	0.00
J. K. Malhoutra	100	0.00	100	0.00
JKM Holdings Pvt Ltd	803,135	19.15	803,135	19.15
JKM Offshore India Pvt Ltd	414,769	9.90	414,769	9.90
Primella Sanitary Products Pvt Ltd	100	0.00	100	0.00
Udayant Malhoutra	1,050,854	25.05	1,050,854	25.05
Udita Malhoutra Nabha	3,333	0.09	3,333	0.09
Udayant Malhoutra & Co., Pvt Ltd	100	0.00	100	0.00
Vita Pvt Ltd	100	0.00	100	0.00
Wavell Investments Pvt Ltd	119,790	2.86	119,790	2.86
Total	2,397,319	57.17	2,397,319	57.17
NON-PROMOTERS HOLDING				
Institutional Investors	0	0.00	0	0.00
Mutual Funds	12,400	0.29	41,231	0.98
Banks, Financial Institutions, Insurance Companies	2,038	0.05	392	0.01
Foreign Institutional Investors	117,092	2.80	363,464	8.67
Total	131,530	3.14	405,087	9.66
Others				
Private Corporate Bodies	182,424	4.35	187,027	4.46
Indian Public	1,468,879	35.02	1,176,184	28.05
NRIs/OCBs	9,334	0.22	24,119	0.57
Trust	4,074	0.10	3,824	0.09
Total	1,664,711	39.69	1,391,154	33.17
Grand Total	4,193,560	100.00	4,193,560	100.00

XII. STATUS OF DEMATERIALIZED OF SHARES AS ON 31st MARCH, 2006

Particulars	No. of Shares	% of Total Capital
National Securities Depository Limited	1,419,319	33.84
Central Depository Services (I) Limited	89,642	2.14
Total Dematerialised	1,508,961	35.98
Physical	2,684,599	64.02
Grand Total	4,193,560	100.00

XIII. REGISTRAR AND TRANSFER AGENTS

Karvy Computershare Private Ltd
(Formerly Karvy Consultants Limited)
Registrar & Share Transfer Agents
Reliance Cyber Villa
Plot No. 17-24
Vittal Rao Nagar
Madhapur
Hyderabad -500 081
Tel No. 040 23420815 -20
Email : sanjayrao@karvy.com / kiran@karvy.com

Investor Correspondence may be addressed to Karvy
Computershare Private Limited, Hyderabad.

XIV. FOR ANY GENERAL ASSISTANCE AT THE REGISTERED OFFICE INVESTORS MAY CALL ON:

G. Haritha
Company Secretary
Ph: +91 80 28394933, 28394934
Fax: +91 80 28395823
Email: haritha@dynamics.net

ANNEXURE II

CORPORATE GOVERNANCE COMPLIANCE CERTIFICATE

Registration No : L85110KA1973PLC002308

Nominal Capital : Rs. 25 crores

To,

The Members,
Dynamatic Technologies Limited,
Dynamatic Park, Peenya,
Bangalore 560 058.

In accordance with Clause 49 of the Listing Agreement entered into by Dynamatic Technologies Limited with Bombay Stock Exchange Limited for the purpose of certifying compliance of the conditions of Corporate Governance as stipulated in Clause 49 for the financial year ended 31st March, 2006, I have examined all the relevant records of the Company and obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my certification.

On the basis of my examination of the records produced, explanations and information furnished, I certify that the Company has complied with :

- a) all the mandatory requirements of the said Clause 49 of the Listing Agreement.
- b) Annexure 1C containing the suggested list of items to be included in the report on Corporate Governance in the Annual Report.
- c) Clause (2) of the Non-Mandatory requirements relating to Remuneration Committee referred to in Annexure 1D of Clause 49 of the Listing Agreement.

PLACE: BANGALORE
DATE : 20th JULY, 2006



V. SREEDHARAN
Practising Company Secretary
FCS 2347; CP NO. 833



1. OUR VISION, BUSINESS PHILOSOPHY AND SUSTAINABILITY

Message From The C.E.O. & Managing Director

If Dynamatic Technologies has been successful in consistently achieving high growth rates, it is largely due to its philosophy of proactively pursuing balanced and sustainable business policies.

A description of balanced and sustainable business policies would include a deep commitment to improving the quality of its products on a continual basis, providing improved value to its customers, improving the quality of life of its employees, providing a secure environment for its financiers and suppliers, and contributing to our Society, Environment and Nation.

At first sight, this may seem to militate against the proximate corporate objective of enhancing shareholder wealth. I would like to take this opportunity to share my experience at Dynamatic® which suggests the very opposite.

Our approach towards sustainability has not been based on stand-alone initiatives, rather, on a holistic and integrated approach to business development. Happy employees are performers. They develop innovative products efficiently, and serve customers' needs by delivering value for money. This ensures the long-term economic relevance of our enterprise, in turn creating a secure environment for financiers and suppliers. From this basic business cycle, come profits on a sustainable basis.

KEY LEARNINGS:

A business philosophy that abjures waste and is based on conservation and optimal utilization of resources, will also simultaneously deliver superior financial results along with a positive ecological impact.

A focus on Safety, Human Resource Development and enhancement of Intellectual Property will help de-risk the Company, and also contribute to societal development.

Eventually, sustainable business policies form an important and integral part of good corporate governance.

Udayant Malhoutra
Chief Executive Officer and
Managing Director

- To secure market leadership, technological competence and brand equity as a global leader
- To provide a safe and nurturing environment for our human resources
- To have a zero tolerance of any transmission of wastes into the environment
- To secure and de-risk financiers and suppliers
- To transform the Company into a global R&D organization, with a pre-eminent market position in the Hydraulic, Automotive & Defense sectors in Asia
- To consistently achieve returns higher than the cost of capital
- To enhance shareholder wealth
- To help in the creation of a strong, modern and vibrant India.

Our Vision & Business Philosophy is driven by our Values, which are:

1.1. CUSTOMER CENTRIC RESEARCH

Over the years, Dynamatic® Divisions and Subsidiaries have forged deep and lasting relationships with all their stakeholders, which have enabled them to grow continuously. These relationships are based on mutual trust and respect, and upon their collective capabilities in delivering complex technological solutions, at economically viable price levels.

We are geared towards providing innovative and creative solutions to our customers on a continuous basis. Every business process is built around the customer. We firmly believe that our success is merely a reflection of our ability to delight our customers.

We interact constantly with our customers, understand their needs and endeavor to satisfy them. We strive to satisfy the customers' stated and unstated needs, by understanding applications and anticipating future trends.

SOCIAL DEVELOPMENT FACTOID

5 workers from the Hydraulics division were promoted to management cadre during the past year.

91 workers were retrained in Aerospace manufacturing, and deployed towards this activity.



We spend considerable time in the field, listening to farmers, mechanics, drivers, equipment handlers..... And very often suggest improvements to our customer, before their customers do. Our technology and quality processes are therefore predictive in nature, anticipating change, rather than reacting to it.

1.2 EMPHASIS ON KNOWLEDGE ACQUISITION AND APPLICATION

Dynamatic® has been adopting and following world-class business practices, at modern manufacturing facilities located at Bangalore and Chennai. Both are eco-friendly and designed to eliminate waste. We constantly strive to deliver superior value to our customers by challenging ourselves and pushing the boundaries of knowledge through imagination and diligence. This approach has led us to continuously innovate and develop highly engineered products, through investment in R&D, process improvements and elimination of operational inefficiencies. This has resulted in us building a successful business model for ourselves, capable of returning high yields to investors and improving the quality of life of all employees, as well as the society/community in which we exist and work.

1.3 HUMAN CAPITAL

Dynamatic® is built upon a foundation of basic values, and its commitment to quality and equal opportunity. Your Company strives to attract the finest talent available and then provides a result-oriented environment based on meritocracy and egalitarianism.

At Dynamatic® we firmly believe that the key to sustained growth is not mere addition to physical capacities but is actually the ability to dramatically enhance and utilize human capabilities.

1.4 SOCIETAL LINKAGES

We are proud of our civilization heritage, and the values of our ancient land; the values of trust and integrity. The need to contribute to society, and to care for our environment. The value of enduring relationships.

At the same time, we believe that there are no limits to our dreams, if only we align our own aspirations, with a vision of a strong, modern and vibrant India.

2. DIMENSIONS OF SUSTAINABILITY

2.1. SUSTAINABILITY POLICY

We at Dynamatic®, are driven by the fundamental objective of enhancing the value of the Company to all stakeholders, such as shareholders, customers, suppliers, financiers, employees and to the society at large. We firmly believe that sustained growth can only be fostered through developing a work ethic founded upon the core values of integrity, transparency, professionalism, empowerment and accountability. We endeavor to uphold and nurture these core values in all facets of operations.

Being a responsible corporate citizen, we understand that sustained growth can only come about when equal attention is paid to all elements of the Triad of Sustainability, namely; Economic growth, Environment-friendliness and Social Equity. We believe that such growth can only be achieved through a firm commitment to these elements over the long term, and are prepared to take actions commensurate to this goal.

We cannot build today at the cost of our tomorrow. We at Dynamatic®, are concerned about the rapidly deteriorating environment and have taken concrete steps to improve areas surrounding our industrial sites. We have great pleasure in presenting a report of our current efforts and performance, in terms of Corporate Sustainability.

Udayant Malhoutra
Chief Executive Officer and
Managing Director

ENVIRONMENTAL

FACTOID

5231

trees, plants and shrubs were planted at Dynamatic Park Peenya during the year, to compensate for loss of garden cover as new facilities were built.

All the leaves pictured on the cover and within this balance sheet, are genuine scans of leaves collected from the company's gardens.

Recycled water at JDAL & DTL:

10.196

Million litres of Waste-water was treated and recycled at JKM Park, during the year &

4.68

Million litres of Waste-water was treated and recycled at Dynamatic Park.



2.2.b. ENVIRONMENT-FRIENDLINESS

- Treatment of waste-water and using it for gardening as a process of water conservation.
- Rainwater harvesting
- All business processes are designed to ensure that no wastage is transmitted to our environment
- Energy consumption in each plant is monitored, optimized and minimized.
- Design and Redesign products that are safe, energy saving and environment friendly
- Design all our processes with efficiency and energy conservation in mind.

2.2 THE TRIAD OF SUSTAINABILITY

At Dynamic®, the path to sustainability has the following elements:

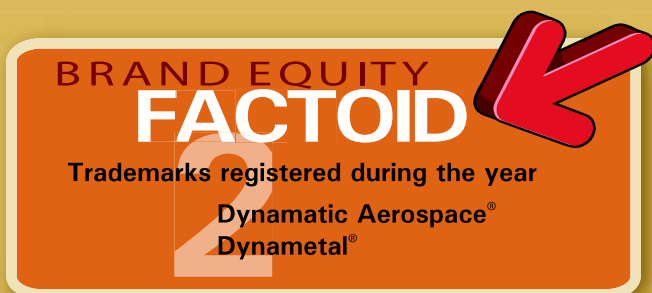
Economic Growth, Environment-Friendliness and Social Equity.

2.2.a. ECONOMIC GROWTH

- Value Engineering: reduction of raw material consumption by optimizing product design
- Maximize our efforts in developing new products and cost effective applications through continuous innovation
- Development of complete hydraulic solutions for mechanized agriculture, earth moving, material handling, machine tools, defense and precision parts for aerospace applications
- We continue to enhance the value of the Company to the shareholders
- Secure market leadership, technological competence and brand equity as a global leader
- Maximization of productivity and maintenance of cost leadership

2.2.c. SOCIAL EQUITY

- Not allowing any form of discrimination in employment or promotion
- Imparting training and development programs to facilitate multi-tasking and multi-skilling
- Practicing safety norms and health protection. Standing as a model by winning safety awards
- Emissions: the air quality in our plants is continuously monitored for suspended particulate matter, and is kept well within safe limits.
- Foster a culture of empowerment
- Elevation of workers into management cadre
- Promote the usage of six sigma practices amongst all employees
- Practice open dialogue with employees, customers, government agencies, trade associations and with communities all around our facilities
- Undertaking relief programs in times of needs like, Tsunami relief program, etc., on a war footing
- Interactive sessions with local community
- Employment of Women.



AUDITORS' REPORT

TO THE MEMBERS OF DYNAMATIC TECHNOLOGIES LIMITED

1. We have audited the attached Balance Sheet of Dynamatic Technologies Limited as at March 31, 2006 and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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 have 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, as amended by the Companies (Auditor's Report)(Amendment) Order, 2004, (together the 'Order') 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 give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a) 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;
 - b) 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;
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) 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 Act;
 - e) On the basis of written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - f) In our opinion and to the best of our information and according to the explanations given to us the said financial statements, together with the notes thereon and attached thereto, give, in the prescribed manner, the information required by the Act, and also give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006,
 - ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date and
 - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.



S. Dutta

Partner

Membership No.: F50081

For and on behalf of

Price Waterhouse & Co.,

Chartered Accountants

PLACE: BANGALORE

DATE: 22nd JULY, 2006

ANNEXURE TO THE AUDITORS' REPORT REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE:

- i)(a) The Company has maintained proper records to show full particulars including quantitative details and situation of its fixed assets.
- (b) The fixed assets of the Company are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which we consider reasonable. Pursuant to the programme, a physical verification was carried out during the year and this revealed no material discrepancies.
- (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.
- ii)(a) The inventory of the Company has been physically verified by the management during the year except for stocks of raw materials, including components, aggregating to Rs.19,756,601 lying with third parties, which, however, have been confirmed by them. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company has maintained proper records of inventory, and the discrepancies between the physical inventory and the book stocks, which have been properly dealt with in the books, were not material.

- iii(a) As detailed in Schedule 21 Note 9 to the accounts, the Company has granted unsecured loans to three companies listed in the register maintained under Section 301 of the Act. The maximum amount involved during the year and the year-end balance of such loans aggregates to Rs.39,545,416 and Rs.35,141,061 respectively.
- (b) In our opinion, the rate of interest and other terms and conditions of such loans were not prima facie prejudicial to the interests of the Company.
- (c) In respect of the aforesaid loans, the parties are repaying the principal amounts as stipulated and also regular in payment of interest, where applicable.
- (d) In respect of the aforesaid loan, there is no overdue amount.
- (e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under Section 301 of the Act and accordingly clause (iii)(f) and (iii)(g) of the Order are not applicable.
- iv) In our opinion, having regard to the information and explanations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, we have neither come across nor have been informed of any major weaknesses in the internal control system in the aforesaid areas.
- v(a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements that are required to be entered in the register in pursuance of Section 301 of Act have been so entered.
- (b) In our opinion, the transactions made in pursuance of contract or arrangements entered in register maintained under Section 301 of Act have been made at prices, which are reasonable having regard to prevailing market prices at the relevant time.
- vi) In the cases of public deposits accepted by the Company, the directives issued by the Reserve Bank of India and the provision of Section 58A of the Act and the rules framed there under where applicable, have been complied with.
- vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- viii) On the basis of the records produced, we are of the opinion that, prima facie, the cost records and accounts prescribed by the Central Government of India under Section 209(1)(d) of the Act have been maintained. However, we are not required to and have not carried out any detailed examination of such accounts and records.
- ix)(a) In our opinion, the Company is generally regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, customs duty, excise duty, cess, as may be applicable and any other material statutory dues with the appropriate authorities as observed by us during the course of our examination of the books of account carried out in accordance with generally accepted auditing practices in India.
- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of income-tax, sales tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute.
- x) The Company has neither accumulated losses as at March 31, 2006 nor has it incurred any cash loss either during the financial year ended on that date or in the immediately preceding financial year.
- xi) According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank as at the balance sheet date.
- xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company, for loans taken by others from banks or financial institutions during the year, are not prejudicial to the interest of the Company.
- xiv) In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.
- xv) On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
- xvi) During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices in India, no fraud on or by the Company has been noticed or reported during the year nor have we been informed of such case by the management.
- xvii) The other clauses of the Order namely clauses (xiii), (xiv), (xviii), (xix) and (xx) were not applicable to the Company during the year.



S. Dutta
Partner

Membership No.: F50081
For and on behalf of
Price Waterhouse & Co.,
Chartered Accountants


PLACE: BANGALORE
DATE: 22nd JULY, 2006

BALANCE SHEET AS AT 31ST MARCH, 2006

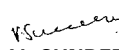
	Schedule	2006 Rs.	2005 Rs.
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	41,935,600	41,935,600
Reserves and Surplus	2	221,031,943	158,374,485
Loan Funds			
Secured Loans	3	334,133,844	294,240,799
Unsecured Loans	4	64,970,687	64,060,391
Deferred Tax Liability [Schedule 21 Note 15]		37,002,348	42,837,355
		<u>699,074,422</u>	<u>601,448,630</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	5	588,718,023	534,381,096
Less: Depreciation		296,486,878	263,176,231
Net Block		<u>292,231,145</u>	<u>271,204,865</u>
Capital Work-in-progress		61,491,790	4,969,243
Incidental Expenditure during Construction Period	6	13,895,158	-
		<u>367,618,093</u>	<u>276,174,108</u>
Investments			
	7	78,644,151	78,606,253
Current Assets, Loans and Advances			
Inventories	8	155,048,189	118,669,489
Sundry Debtors	9	288,302,155	228,481,808
Cash and Bank Balances	10	17,685,119	17,493,847
Other Current Assets	11	12,864,449	12,411,582
Loans and Advances	12	61,320,960	50,503,036
		<u>535,220,872</u>	<u>427,559,762</u>
Less: Current Liabilities and Provisions			
Liabilities	13	248,281,899	171,971,864
Provisions	14	34,126,795	13,113,313
		<u>282,408,694</u>	<u>185,085,177</u>
Net Current Assets		<u>252,812,178</u>	<u>242,474,585</u>
Miscellaneous Expenditure (To the extent not written off or adjusted)		-	4,193,684
		<u>699,074,422</u>	<u>601,448,630</u>
Notes on Accounts	21		
Balance Sheet Abstract and Company's General Business Profile	22		

The Schedules referred to above and notes thereon form an integral part of the Accounts.

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


S. Dutta
 Partner
 For and on behalf of
Price Waterhouse & Co.,
 Chartered Accountants


J.K. MALHOUTRA
 Chairman


V. SUNDER
 Director



VIJAI KAPUR
 Director


Air Chief Marshal S.KRISHNASWAMY (Retd)
 Director


N.R. MOHANTY
 Director


B. SESHNATH
 Director Commercial


UDAYANT MALHOUTRA
 President & Managing Director


N. RAM MOHAN
 G M - Finance


G. HARITHA
 Company Secretary

PLACE: BANGALORE
 DATE: 22ND JULY, 2006

PLACE: BANGALORE
 DATE: 22ND JULY, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedule	2006 Rs.	2005 Rs.
INCOME			
Sales and Services	15	1,068,912,387	866,382,809
Less: Excise duty included therein		<u>135,642,031</u>	<u>114,474,749</u>
Net Sales		933,270,356	751,908,060
Other Income	16	<u>39,078,360</u>	<u>24,900,855</u>
		<u>972,348,716</u>	<u>776,808,915</u>
EXPENDITURE			
Materials Consumed	17	451,592,922	343,213,861
Employee Cost	18	119,704,896	108,296,153
Other Operating Expenses	19	<u>199,933,235</u>	<u>174,855,153</u>
		<u>771,231,053</u>	<u>626,365,167</u>
Operating Profit before Depreciation and Interest (EBITDA)		201,117,663	150,443,748
Depreciation		36,393,169	30,491,161
(Less): Transfer from Revaluation Reserve		<u>(345,417)</u>	<u>(345,417)</u>
		<u>36,047,752</u>	<u>30,145,744</u>
Interest	20	<u>35,332,651</u>	<u>36,112,267</u>
Profit before Taxation and Prior Period Items		129,737,260	84,185,737
Prior Period Depreciation [Schedule 21 Note 24]		<u>1,870,621</u>	<u>-</u>
Profit before taxation		127,866,639	84,185,737
Provision for Taxation			
Current Tax [including provision in respect of earlier years Rs.821,340 (2005: Rs.21,017)]		(44,436,026)	(21,698,534)
Deferred Tax credit [Schedule 21 Note 15]		5,835,007	(3,415,516)
Fringe Benefit Tax		(2,167,669)	-
Wealth Tax		(60,433)	(42,168)
Profit after taxation available for appropriation		<u>87,037,518</u>	<u>59,029,519</u>
Appropriations			
Dividend :			
-Interim		8,387,120	6,290,340
-Final (Proposed)		12,580,680	8,387,120
Dividend Tax thereon		2,940,734	1,998,363
Balance Transferred to General Reserve		<u>63,128,984</u>	<u>42,353,696</u>
		<u>87,037,518</u>	<u>59,029,519</u>
Earnings Per Share - Basic and Diluted [Schedule 21 Note 28]		20.76	14.08

Notes on Accounts

Balance Sheet Abstract and Company's General Business Profile

The Schedules referred to above and notes thereon form an integral part of the Accounts.

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

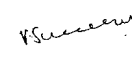


S. Dutta
Partner
For and on behalf of
Price Waterhouse & Co.,
Chartered Accountants

PLACE: BANGALORE
DATE: 22nd JULY, 2006

21


J.K. MALHOUTRA
Chairman



V. SUNDER
Director


VIJAI KAPUR
Director


22


Air Chief Marshal S.KRISHNASWAMY (Retd)
Director


N.R. MOHANTY
Director


B. SESHNATH
Director Commercial


UDAYANT MALHOUTRA
President & Managing Director


N. RAM MOHAN
G M - Finance


G. HARITHA
Company Secretary

PLACE: BANGALORE
DATE: 22nd JULY, 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	2006 Rs.	2005 Rs.
A. Cash flow from operating activities:		
Net profit before tax	127,866,639	84,185,737
Adjustments for:		
Depreciation	37,918,372	30,145,744
Interest Expense	35,332,651	36,112,267
Interest Income	(1,850,653)	(1,177,718)
Income from Investment - Dividends	(17,538,000)	(8,770,475)
(Profit)/Loss on Fixed Assets sold	190,695	(189,545)
Deferred revenue expenditure written off	4,193,684	4,193,684
Debts / Advances Written off	2,826,879	-
Provision for Bad & Doubtful Debts	4,098,434	-
Liability no longer required written back	(2,341,797)	(849,525)
Provision for Gratuity & Leave Encashment	2,400,577	744,961
Provision for diminution in value of Investments	92,152	-
Unrealised foreign exchange (gain) / loss	402,645	(466,537)
Provision for warranty	200,000	-
Operating profit before working capital changes	193,792,278	143,928,593
Adjustments for changes in working capital :		
- (INCREASE)/DECREASE in Sundry Debtors	(65,511,016)	(61,295,461)
- (INCREASE)/DECREASE in Other Receivables	(8,812,344)	14,591,632
- (INCREASE)/DECREASE in Inventories	(36,378,700)	(24,354,283)
- INCREASE/(DECREASE) in Trade and Other Payables	77,451,815	73,902,472
- Adjustment for Unrealised foreign exchange (gain) / loss	-	-
Cash generated from operations	160,542,033	146,772,953
- Direct Tax paid	(30,159,290)	(40,538,017)
- Fringe Benefit Tax paid	(2,151,156)	-
Net cash from operating activities	128,231,587	106,234,936
B. Cash flow from Investing activities:		
Purchase of fixed assets	(61,323,070)	(101,868,522)
Capital Work in Progress	(70,417,705)	(1,353,163)
Proceeds from Sale of fixed assets	1,716,197	1,891,435
Proceeds from Sale of Investments	500	500
Purchase of investments	(130,550)	-
Loans/ICDs extended during the year	(2,629,370)	-
Loans/ICDs refunds received	4,447,945	-
Interest Received (Revenue)	1,850,653	1,177,718
Dividend Received	11,698,000	8,770,475
Proceeds from Government Subsidy	-	1,500,000
Redemption of Preference Shares	-	(24,000,000)
Net cash used in investing activities	(114,787,400)	(113,881,557)
C. Cash flow from financing activities:		
Proceeds from long term borrowings	42,907,852	(5,710,630)
Proceeds from short term borrowings (NET)	(10,054,375)	9,590,760
Proceeds from fixed deposits (NET)	5,385,000	2,763,000
Proceeds from Cash Credits (NET)	2,413,604	64,735,455
Interest Paid	(34,778,168)	(36,112,267)
Dividend Paid	(16,774,240)	(18,277,460)
Dividend Tax Paid	(2,352,588)	(2,357,919)
Net cash used in financing activities	(13,252,915)	14,630,939
Net Increase/(Decrease) in Cash & Cash Equivalents	191,272	6,984,318
Cash and cash equivalents as at 31.03.2005	17,493,847	10,509,529
Cash and cash equivalents as at 31.03.2006	17,685,119	17,493,847
	191,272	6,984,318

Notes:

1. The above Cash Flow Statement has been compiled from and is based on the Balance Sheet as at March 31, 2006 and the relative Profit and Loss Account for the year ended on that date.
2. The above cash flow statement has been prepared under the indirect method as set out in the Accounting Standard - 3 on cash flow statements issued by The Institute of Chartered Accountants of India .
3. Previous year's figures have been regrouped/reclassified wherever necessary in order to confirm with current year's classification.

This is the Cash Flow Statement referred to in our report of even date.

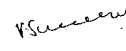
For and on behalf of the Board of Directors



S. Dutta
Partner
For and on behalf of
Price Waterhouse & Co.,
Chartered Accountants



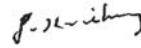
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VIJAI KAPUR
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Director



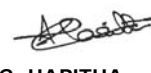
B. SESHNATH
Director Commercial



UDAYANT MALHOUTRA
President & Managing Director



N. RAM MOHAN
G M - Finance



G. HARITHA
Company Secretary

PLACE: BANGALORE
DATE: 22nd JULY, 2006

SCHEDULES TO ACCOUNTS

	2006 Rs.	2005 Rs.
1 CAPITAL		
Authorised:		
20,000,000 (2005 - 20,000,000) Equity Shares of Rs. 10 each	200,000,000	200,000,000
500,000 (2005 - 500,000) Redeemable Cumulative Preference shares of Rs 100 each	<u>50,000,000</u>	<u>50,000,000</u>
	<u>250,000,000</u>	<u>250,000,000</u>
Issued, Subscribed and Paid-up:		
4,193,560 (2005 - 4,193,560) Equity Shares of Rs.10 each fully paid up	<u>41,935,600</u>	<u>41,935,600</u>
	<u>41,935,600</u>	<u>41,935,600</u>
Note:		
Of the above,1,048,390 (2005: 1,048,390) shares are allotted by way of bonus shares by capitalisation of securities premium and capital redemption reserve.		
2 RESERVES AND SURPLUS		
Securities Premium Account	600,000	600,000
Capital Reserve	1,500,000	1,500,000
Capital Redemption Reserve	24,000,000	24,000,000
Revaluation Reserve:		
As per last Balance Sheet	18,578,613	18,924,030
(Less):		
- Additional depreciation charge on revalued fixed assets transferred to Profit and Loss Account [Schedule 21 Note 1(b)]	(345,417)	(345,417)
- Valuation adjustment on fixed assets discarded during the year	<u>(126,109)</u>	<u>-</u>
	18,107,087	18,578,613
General Reserve:		
As per last Balance Sheet	113,695,872	95,342,177
Add/(Less):		
- Transferred from Profit and Loss account	63,128,984	42,353,695
- Transferred to Capital Redemption Reserve	<u>- 176,824,856</u>	<u>(24,000,000)</u>
	<u>221,031,943</u>	<u>158,374,485</u>
3 SECURED LOANS		
Term Loans:		
Kotak Mahindra Bank Ltd (Note 1 below) [Repayable within one year Rs. 22,254,449 (2005: Rs. 11,670,019)]	72,196,685	33,865,028
UTI Bank Ltd (Note 1 below) [Repayable within one year Rs. 22,769,492 (2005: Rs. 22,884,035)]	57,662,250	80,280,793
Punjab National Bank (Note 1 below) [Repayable within one year Rs. 18,434,805 (2005: Rs. 9,246,772)]	51,551,737	31,171,704
Interest Accrued and Due	151,260	-
Cash Credit and Working Capital Loans:		
From Banks (Note 2 below)	146,470,168	144,056,564
Vehicle Loans: (Note 3 below)		
From Banks	5,961,458	4,527,759
From Financial Institutions	140,286	338,951
	<u>334,133,844</u>	<u>294,240,799</u>
Notes:		
1. Secured by first charge on Fixed Assets and second charge on Current Assets, both present and future and ranking Pari passu among the lenders.		
2. Secured by first charge on inventories of Raw Materials, Components, Stores, Work-in-progress, Finished Goods, Book Debts and second charge on Fixed Assets of the Company.		
3. Secured by way of Hypothecation of Vehicles.		

	2006 Rs.	2005 Rs.
4 UNSECURED LOANS		
Short Term Loans:		
Standard Chartered Bank	-	20,000,000
Punjab National Bank	10,000,000	-
Loan from a Director	800,000	800,000
Inter Corporate Deposits	10,050,000	10,104,375
Public Deposits	16,015,500	10,630,500
[Repayable within one year Rs.6,536,500 (2005: Rs.4,519,000)]		
Others:		
Sales Tax Deferred [Schedule 21 Note 20]	28,105,187	22,525,516
	<u>64,970,687</u>	<u>64,060,391</u>
6 INCIDENTAL EXPENDITURE DURING CONSTRUCTION PERIOD		
[Schedule 21 Note 21]		
Project: Aerospace- Sukhoi- 30		
Employee Cost:		
Salaries, Wages and Allowances	10,281,913	-
Other Expenses:		
Raw Material Labour Charges	126,455	-
Consumables and Tools	1,225,876	-
Power and Fuel	931,343	-
Travelling Expenses	1,792,625	-
Miscellaneous Expenses	9,946	-
	<u>14,368,158</u>	-
(Less): Sale out of Trial Production	(473,000)	-
	<u>13,895,158</u>	-
7 INVESTMENTS		
[Schedule 21 Note 1 (d)]		
Long term-Other than Trade- unquoted:		
Fully Paid up Shares at Cost:		
Investments in Subsidiaries:		
58,39,930 Equity Shares of Rs.10 each of JKM Dae Rim Automotive Limited	58,399,300	58,399,300
19,99,930 Equity Shares of Rs.10 each of JKM Research Farm Limited	19,999,300	19,999,300
5,000 Equity Shares of S \$ 1 each of JKM Global Pte. Limited, Singapore	130,550	-
Investment in other Companies:		
9,21,530 Equity Shares of Rs.10 each of Murablack (India) Ltd.	9,215,300	9,215,300
Other Investments at Cost:		
3 Deep Discount Bonds of Rs 5,000 each of Krishna Bhagya Jala Nigam Ltd.	15,000	15,000
4,000 Equity Shares of Rs. 25 each of Shamrao Vithal Co-op Bank Ltd	100,000	100,000
Indira Vikas Pathra (Encashed during the year)	-	500
	<u>87,859,450</u>	<u>87,729,400</u>
Less: Provision for Diminution in Value of Investments	9,215,299	9,123,147
	<u>78,644,151</u>	<u>78,606,253</u>
8 INVENTORIES		
[Schedule 21 Note 1 (e)]		
Stores and Spares	6,719,586	5,355,724
Raw Materials including components (Note)	93,759,383	62,924,391
Work-in-progress	19,930,181	19,983,084
Finished Goods	34,639,039	30,406,290
	<u>155,048,189</u>	<u>118,669,489</u>
Note:		
Including:-		
-Raw materials in transit Rs.1,900,664 (2005: Rs.127,952)		
-Raw materials and components lying with Third parties Rs 19,756,601 (2005: Rs 16,228,367)		

	GROSS BLOCK- AT COST OR REVALUATION						DEPRECIATION			NET BLOCK	
	2005	Additions	Deletions	2006	2005	Additions	Deletions	2006	2006	2005	
	Tangible Assets										
Land and Development	18,340,917	-	-	18,340,917	-	-	-	-	18,340,917	18,340,917	
Buildings	65,320,495	10,215,285	390,855	75,144,925	13,718,164	2,379,405	128,585	15,968,984	59,175,941	51,602,331	
Plant And Machinery (Note 1 and 2 below)	303,245,689	25,119,975	4,799,923	323,565,741	176,785,550	21,699,616	3,881,464	194,603,702	128,962,039	126,460,139	
Measuring Instruments	14,141,568	1,444,393	-	15,585,961	7,610,693	666,602	-	8,277,295	7,308,666	6,530,875	
Electrical Installations	22,751,877	2,103,160	-	24,855,037	6,504,845	1,148,542	-	7,653,387	17,201,650	16,247,032	
Data Processing Equipments	26,287,070	3,785,892	-	30,072,962	19,806,923	2,173,114	-	21,980,037	8,092,925	6,480,147	
Office Equipments	10,099,960	2,456,005	7,400	12,548,565	3,681,199	689,579	629	4,370,149	8,178,416	6,418,761	
Furniture And Fixtures	7,137,581	728,620	-	7,866,201	3,253,093	1,349,518	-	4,602,611	3,263,590	3,884,488	
Tools, Dies And Moulds	38,681,586	9,504,545	716,869	47,469,262	19,433,066	4,278,547	5,395	23,706,218	23,763,044	19,248,520	
Vehicles	14,950,470	4,645,195	1,071,096	18,524,569	4,221,559	1,422,181	937,070	4,706,670	13,817,899	10,728,911	
Intangible Assets											
Application Software	13,423,883	1,320,000	-	14,743,883	8,161,139	2,456,686	-	10,617,825	4,126,058	5,262,744	
2005	534,381,096	61,323,070	6,986,143	588,718,023	263,176,231	38,263,790	4,953,143	296,486,878	292,231,145	271,204,865	
	436,560,096	101,868,522	4,047,522	534,381,096	235,030,702	30,491,161	2,345,632	263,176,231	61,491,790	4,969,243	
Capital Work-in-progress: Tangible Assets [Including capital advances Rs. 8,590,983 (2005 : Rs. 425,763)]											
									353,722,935	276,174,108	

Notes:

- Plant and Machinery includes machineries leased to third parties Rs. 20,923,478 (2005: Rs. 21,405,401)
- Additions to Plant and Machinery are net of foreign exchange gain Rs 417,250 (2005: Rs. Nil).
- Land and Development, Buildings and Electrical Installations includes value added on revaluation Rs. 18,107,087 (2005: Rs. 18,578,613) (Schedule 21 Note 25)
- Plant and Machinery, Tools, Dies and Moulds and Capital Work-in-progress includes borrowing costs capitalised during the year Rs 1,366,657 (2005: Rs. 3,755,817).
- Fixed Assets used for Research and Development Activities :

Particulars	Original Cost
Plant and Machinery	76,322,125
Measuring Instruments	3,235,421
Electrical Installations	664,829
Data Processing Equipments	29,780,033
Office Equipments	1,151,129
Furniture And Fixtures	1,672,589
Tools, Dies And Moulds	415,208
	113,241,334

	2006 Rs.	2005 Rs.
9 SUNDRY DEBTORS (Unsecured)		
Exceeding Six months -		
Considered Good	16,433,085	15,976,715
Considered Doubtful	4,098,434	-
Other Debts -		
Considered Good (Note)	<u>271,869,070</u>	212,505,093
	<u>292,400,589</u>	<u>228,481,808</u>
Less: Provision for Doubtful Debts	<u>4,098,434</u>	-
	<u>288,302,155</u>	<u>228,481,808</u>
Note:		
Includes dues from a subsidiary Rs 59,970,102 (2005: Rs 55,161,134)		
10 CASH AND BANK BALANCES		
Cash on hand	115,960	317,657
Balance with Scheduled Banks:		
Current Accounts (Note)	5,666,426	5,662,712
Fixed Deposits	955,364	3,402,582
Margin Money Account	<u>10,947,369</u>	<u>8,110,896</u>
	<u>17,685,119</u>	<u>17,493,847</u>
Note:		
Includes Balances in Unpaid Dividend Accounts Rs. 1,209,277 (2005: Rs. 992,418)		
11 OTHER CURRENT ASSETS (Unsecured, Considered Good)		
Balance with Excise Authority	154,156	205,746
Other Deposits	<u>12,710,293</u>	<u>12,205,836</u>
	<u>12,864,449</u>	<u>12,411,582</u>
12 LOANS AND ADVANCES (Unsecured, Considered Good except as otherwise stated)		
Inter-Corporate Loans (Schedule 21 Note 9)	35,141,061	36,959,636
Loans to Employees	2,294,753	1,354,406
Prepaid Expenses	2,126,809	1,435,869
Advances recoverable in cash or in kind or for value to be received [Including Rs.840,495 (2005: Rs. Nil) considered doubtful]	22,598,832	10,030,642
Advance Tax [Net of Provision (2005: Rs.21,677,517)]	-	722,483
	<u>62,161,455</u>	<u>50,503,036</u>
Less: Provision for Doubtful Advances	<u>840,495</u>	-
	<u>61,320,960</u>	<u>50,503,036</u>
13 CURRENT LIABILITIES		
Sundry Creditors:		
Small Scale Industrial undertakings [Schedule 21 Note 17]	26,176,339	22,611,058
Others	177,544,176	111,168,529
Advance from Customers	7,368,434	5,235,321
Interest Accrued but not Due	403,223	-
Unclaimed Dividend	1,208,732	988,802
Other Liabilities	<u>35,580,995</u>	<u>31,968,154</u>
	<u>248,281,899</u>	<u>171,971,864</u>
14 PROVISIONS		
Gratuity	1,274,357	-
Leave Encashment	4,676,119	3,549,899
Product Warranty (Schedule 21 Note 22)	200,000	-
Current Taxation (Net of Advance payments Rs 30,000,000)	13,614,686	-
Fringe Benefit Tax [Net of Advance payments Rs 2,151,156; (2005: Rs.Nil)]	16,513	-
Proposed Final Dividend	12,580,680	8,387,120
Dividend Tax thereon	<u>1,764,440</u>	<u>1,176,294</u>
	<u>34,126,795</u>	<u>13,113,313</u>

	2006 Rs.	2005 Rs.
15 SALES AND SERVICES		
Sales:		
- Manufactured Goods	1,051,321,954	854,287,068
- Traded Goods	3,733,046	3,449,254
Services:		
- Sub Contract Charges	11,539,254	4,171,143
- Service Charges	1,076,697	3,335,499
- Handling Charges	1,241,436	1,139,845
	<u>1,068,912,387</u>	<u>866,382,809</u>
16 OTHER INCOME		
Interest		
- Banks (Gross) [Tax deducted at source Rs 58,425 (2005: Rs 6,849)]	636,692	227,229
- Others (Gross) [Tax deducted at source Rs 229,490 (2005: Rs 186,083)]	1,213,961	950,489
Dividend	17,538,000	8,770,475
Rental Income [Schedule 21 Note 19 (b)]	868,642	609,072
Sale of Scraps [Net of excise duty Rs 2,514,985 (2005: Rs 1,987,291)]	15,554,485	12,246,910
Liabilities no longer required written back	2,341,797	849,525
Exchange Gain (Net)	-	466,537
Profit on Sale of Fixed Assets (Net)	-	189,545
Miscellaneous Receipts	924,783	591,073
	<u>39,078,360</u>	<u>24,900,855</u>
17 MATERIALS CONSUMED		
Raw Materials and Components (Note)	451,143,195	348,099,818
Traded Items	1,186,842	1,226,514
	<u>452,330,037</u>	<u>349,326,332</u>
Movements in Stocks:		
Opening Stock		
- Work-in-progress	19,983,084	18,618,373
- Finished Goods	30,406,290	23,800,846
	<u>50,389,374</u>	<u>42,419,219</u>
Closing Stock:		
- Work-in-progress	19,930,181	19,983,084
- Finished Goods	34,639,039	30,406,290
	<u>54,569,220</u>	<u>50,389,374</u>
(Increase)/ Decrease	(4,179,846)	(7,970,155)
Excise Duty on Opening Stock of Finished Goods	5,120,224	3,262,540
Excise Duty on Closing Stock of Finished Goods	8,562,955	5,120,224
Increase/ (Decrease)	3,442,731	1,857,684
	<u>451,592,922</u>	<u>343,213,861</u>
Note:		
Including value of stock written down Rs 4,581,606 (2005: Rs 1,160,649).		
18 EMPLOYEE COST		
Salaries, Wages and Allowances (Note 1 below)	100,167,040	91,769,096
Contribution to Provident and Other Funds (Note 2 below)	11,658,804	9,389,872
Staff Welfare Expenses	7,879,052	7,137,185
	<u>119,704,896</u>	<u>108,296,153</u>
Notes:		
1. Including Provision for Leave Encashment Rs.1,126,220 (2005: Rs.744,961).		
2. Including Provision for Gratuity Rs.1,274,357 (2005: Rs. Nil).		

	2006 Rs.	2005 Rs.
19 OTHER OPERATING EXPENSES		
Power, Fuel and Utilities	35,529,730	31,825,052
Stores and Spares Consumed	37,077,418	32,171,508
Rates and Taxes	7,076,819	3,193,440
Rent [Schedule 21 Note 19 (a)]	9,336,785	8,898,823
Insurance	2,608,497	1,871,287
Repairs and Maintenance		
- Plant and Machinery	8,850,593	8,483,533
- Buildings	1,865,533	774,879
- Others	4,921,240	5,533,980
Travelling and Conveyance Expenses	13,193,147	14,716,931
Vehicle Maintenance	3,032,091	2,505,332
Printing and Stationery	2,942,357	2,528,043
Communication Expenses	5,204,633	4,228,781
Professional and Consultancy Charges (Schedule 21 Note 11)	7,473,943	6,618,434
Royalty	5,022,907	8,394,312
Exchange Loss (Net)	4,082,002	-
Bad Debts written off	1,986,384	4,452,209
Loss on Sale/ Scrapping of Fixed Assets (Note)	190,695	-
Product Warranty Expenses	200,000	-
Technical Assistance Charges	3,034,382	3,268,391
Advertisement and Sales Promotion Expenses	2,278,023	5,299,157
Packing and Forwarding Expenses (Net)	16,302,224	10,695,660
Discount on Sales	4,479,207	3,843,977
Bank Charges	4,929,643	3,332,384
Directors Sitting Fees	580,000	505,000
Deferred Revenue Expenditure Written Off	4,193,684	4,193,684
Provision for Bad and Doubtful Debts	4,098,434	-
Provision for Doubtful Advances	840,495	-
Provision for Diminution in the value of Investment	92,152	-
Miscellaneous Expenses	8,510,217	7,520,356
	<u>199,933,235</u>	<u>174,855,153</u>

Note:

Net of Amount transferred from Revaluation Reserve Rs. 126,109 (2005: Rs. Nil)

20 INTEREST

On Fixed Loans	32,654,090	35,774,701
On Others	<u>2,678,561</u>	<u>337,566</u>
	<u>35,332,651</u>	<u>36,112,267</u>

21. NOTES ON ACCOUNTS

1. Significant Accounting Policies

a. Basis of accounting and preparation of Financial Statements

The Company adopts the historical cost concept and accrual basis in accordance with generally accepted accounting principles (GAAP) for the preparation of its accounts and complies with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

b. Fixed Assets and Depreciation

Fixed Assets are stated at their original cost of acquisition and subsequent improvements thereto including taxes, duties, freight, borrowing costs, where applicable and other incidental expenses related to the acquisition and installation of the assets concerned. Incidental expenditure incurred during construction period is also capitalised where appropriate.

Certain Land, Building, Plant and Machineries and Electrical Installations are stated at valuations made by a professional valuer in 1991-92 at the then current value.

Operating softwares are capitalised with the related fixed assets, while application softwares are charged off to revenue except for major application softwares which are capitalised as intangible assets and amortised over the useful life as estimated by the management.

Depreciation is provided on a straight line method at rates prescribed in Schedule XIV to the Companies Act, 1956 (Note 24 below).

Depreciation on revalued items of fixed assets is calculated on their respective revalued amounts at rates considered applicable by the valuers on straight line method as against the methods/rates/bases which would have otherwise been adopted for the purpose of the annual accounts of the company and accordingly includes additional depreciation charge. An amount equivalent to the aforesaid additional depreciation charge is transferred to the credit of the Profit and Loss Account from Revaluation reserve of fixed assets.

c. Impairment of Assets

At each balance sheet date, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the profit and loss account to the extent the carrying amount exceeds recoverable amount.

d. Investments

Investments are stated at cost, except in the case of a permanent diminution in value, where cost is written down. Dividend Income is recognized when the Company's right to receive dividend is established.

e. Inventories

Inventories are valued at lower of cost and net realisable value. Cost is generally determined under First-in-First-out method. Consumable Stores and spares are treated as consumed on issue to production.

f. Revenue Recognition and Product Warranty

Revenue from the sale of goods is recognised on despatch of goods. Gross Sales are inclusive of Excise Duty and net of Value Added Tax or Sales Tax.

Product warranties ranging for a period from 1 to 2 years against manufacturing and other defects, as per terms of contract(s) with the customer, are provided for based on estimates made by the Company. [Note 22 below]

g. Research and Development (R&D)

The expenditure incurred on acquisition of Fixed Assets in respect of R&D activities are capitalised. The Revenue expenditure incurred on R&D is charged off in the year in which such expenditure is incurred. Income from R&D activities is included under Income from Services.

h. Foreign Currency Transactions

Foreign Currency transactions are recorded in the books at the rate of exchange prevailing on the date of such transactions.

Foreign Currency liabilities pertaining to the fixed assets, acquired from a country outside India, are restated at the rates prevailing at the year end or at the forward contract rates, as may be applicable and resultant differences arising out of such restatement are adjusted to the cost of fixed assets.

The monetary items included under Current liabilities and Current assets are restated at the rates prevailing at the year end and the differences arising from such restatement are adjusted to Profit and Loss Account.

Exchange differences on forward contracts are recognized in the Profit and Loss Account in the reporting period in which the exchange rates changes. Any profit or loss arising on cancellation or renewal of such forward contracts is recognised as income or expense for the year. The premium or discount arising at the inception of such forward contract is amortised as expenses or income over the life of such contract.

i. Provisions

Provisions are recognised when the Company has a present obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

j. Retirement Benefits

Retirement benefits are paid to the approved funds maintained on behalf of the Company / accrued in the books, as per statutes/ amounts advised by the funds, except for the liability for the encashment of unavailed leave which is accrued in the books based on actuarial valuation.

k Accounting for Subsidies

Subsidy receivable against an expense is deducted from such expense and subsidy against fixed asset is deducted from the cost of the relevant fixed asset.

Investment subsidy not specifically related to a specific fixed asset is credited to Capital Reserve and retained till the requisite conditions are fulfilled.

l Taxes on Income

Tax on income for the current year is determined on the basis of the Income Tax Act, 1961.

Fringe benefit tax is determined at current applicable rates on expenses falling within the ambit of 'Fringe Benefit' as defined under the Income Tax Act, 1961.

Deferred tax is recognised on timing differences between the accounting income and the taxable income for the year and quantified using the tax rates and laws enacted or substantively enacted as on the Balance Sheet date.

Deferred tax assets are recognised and carried forward to the extent that there is a reasonable/virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

m Expenditure

Expenses are net of service tax, where applicable as and when these are available for set-off against excise duty and service tax liabilities.

n Earnings per Share:

Earnings (basic and diluted) per equity share are arrived at based on Net Profit after taxation before extraordinary items to the basic/weighted average number of equity shares.

o Miscellaneous Expenditure

Deferred Revenue Expenditure incurred by the Company prior to March 31, 2003 is amortised over a period of three to five years.

2 Capital Commitment

	2006	2005
	Rs.	Rs.
Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided	45,277,492	4,779,356

3 Contingent Liabilities

Corporate Guarantee given on behalf of JKM Dae Rim Automotive Limited	90,000,000	1,43,500,000
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4 Particulars in respect of class of goods manufactured

Class of Goods	Unit	Licensed Capacity	Installed Capacity [refer Note (i) below]	Actual Production			
				Pumps	Valves	Castings	Others
Hydraulic Division	Nos	-	375,000	298,869	13,089	-	28,644
		-	(340,000)	(252,350)	(10,870)	-	(16,412)
Foundry Division	MT/ Nos	-	1,500 MT	-	-	524,129	-
		-	(1,219) MT	-	-	(451,769)	-

Note:

- i). As certified by the management and accepted by the auditors, this being a technical matter.
- ii). Figures in the brackets are for previous year.

5 Particulars of opening and closing stock and turnover:

Rupees

Class of Goods	Opening Stock				Turnover				Closing Stock			
	2006		2005		2006		2005		2006		2005	
	Qty (Nos.)	Value	Qty (Nos.)	Value	Qty (Nos.)	Value	Qty (Nos.)	Value	Qty (Nos.)	Value	Qty (Nos.)	Value
a. Manufactured												
Hydraulic Gear Pump	14,321	29,704,591	11,867	23,298,769	295,014	532,856,491	249,190	464,839,312	14,517	30,341,675	14,321	29,704,591
Valves	261	434,580	136	295,949	13,030	57,804,000	10,745	49,906,680	62	55,580	261	434,580
Castings	-	-	-	-	342,233	238,466,573	279,765	206,814,919	4,985	4,209,422	-	-
Others	78	267,119	69	206,128	28,682	86,552,859	16,403	18,251,408	18	32,362	78	267,119
		<u>30,406,290</u>		<u>23,800,846</u>		<u>915,679,923</u>		<u>739,812,319</u>		<u>34,639,039</u>		<u>30,406,290</u>
b. Traded												
Seal Kits	-	-	-	-	27,861	3,733,046	40,053	3,449,254	-	-	-	-
		<u>-</u>		<u>-</u>		<u>3,733,046</u>		<u>3,449,254</u>		<u>-</u>		<u>-</u>

Notes:

i) Closing stock is after adjustment for shortage / excess, write-off, etc.

6 Particulars of Purchase of Traded Items:

Class of Goods	2006		2005	
	Qty (Nos.)	Value	Qty (Nos.)	Value
Seal kits	27,861	1,186,842	40,053	1,226,514

7 Analysis of raw materials including components consumed:

Particulars	Unit	2006		2005	
		Quantity	Value	Quantity	Value
Aluminium Extrusions	MT	341.76	47,206,238	341.23	44,543,671
Castings	Nos	2,204,039	88,756,231	1,612,259	65,690,912
Forgings	Nos	719,713	35,839,248	520,774	26,720,535
Components	Nos	11,825,409	190,290,624	10,424,894	133,553,393
Aluminium Alloy	MT	1,387.85	89,050,854	953.00	77,591,307
			<u>451,143,195</u>		<u>348,099,818</u>
Whereof:					
	%		Value	%	Value
Imported	30		135,183,593	17	60,430,378
Indigenous	70		315,959,602	83	287,669,440
	100		<u>451,143,195</u>	100	<u>348,099,818</u>

Note

The value of consumption of raw materials and components has been arrived at on the basis of opening stock plus purchases less closing stock. Consumption therefore includes adjustment for shortage / excess, write-off, etc.

8 Consumption of Stores and Spare Parts

	%	Value Rs	%	Value Rs
Imported	3	1,031,198	3	1,037,852
Indigenous	97	36,046,220	97	31,133,656
	100	<u>37,077,418</u>	100	<u>32,171,508</u>
			2006	2005
			Rs	Rs

9 Inter- Corporate Loans Includes

Interest free loans to subsidiaries			16,641,061	18,212,553
Loan to a Company in which one of the Directors is also a Director of the Company			18,500,000	18,747,083
			<u>35,141,061</u>	<u>36,959,636</u>

10 Directors' Remuneration*

Salary		2,535,149	1,866,375
Contributions to Provident and Other Funds		259,440	215,820
Perquisites (including those calculated as per Income-tax Rules, 1962)		434,908	191,888
		<u>3,229,497</u>	<u>2,274,083</u>

*excluding contribution to Group Gratuity Fund and provision for Leave Encashment.

11 Auditors' Remuneration*:

(included in Professional and Consultancy Charges in Schedule – 19)

Audit Fees		4,00,000	325,000
Tax Audit		-	40,000
Others		500,000	7,500
Reimbursement of out of pocket expenses		551	58,875
		<u>900,551</u>	<u>431,375</u>

*Excluding Service Tax

12 Value of Imports on CIF Basis:

Raw materials including components		63,929,799	34,284,142
Stores and spares		79,256,937	23,837,573
Capital Goods		1,824,900	26,615,317
		<u>145,011,636</u>	<u>84,737,032</u>

13 Expenditure in Foreign Currency:

Technical Assistance Charges		2,837,154	3,032,169
Royalty		4,001,224	6,306,545
[Net of tax deducted at source Rs. 801,314 (2005:Rs. 1,307,172)]			
Others			
Travel		3,807,951	27,558,361
Subscription		201,045	179,770
		<u>10,610,435</u>	<u>37,076,845</u>

14 Earnings in Foreign Currency:

FOB Value of Exports		104,638,990	73,273,946
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15 Taxation:

Deferred taxation	2006	2005
The net Deferred Tax Liability has been arrived at as follows	Rs	Rs

A Deferred Tax Assets arising from:

i Expenses charged in the financial statements but allowable as deductions in future years under the Income Tax Act, 1961		
-Expenses allowable for tax purposes when paid	2,002,931	1,194,896
-Provision towards Warranty	67,320	-
-Provision towards doubtful debts and advances	1,662,444	-
-Provision towards diminution in value of Investments	31,018	-
	<u>3,763,713</u>	<u>1,194,896</u>

B (Less): Deferred Tax Liabilities arising from:

i Difference between carrying amount of fixed assets in the financial statements and the Income Tax Return.	(40,766,061)	(43,308,487)
ii Difference between carrying amount of Miscellaneous Expenditure in the financial statements and the Income Tax Return.	-	(723,764)
Net Deferred Tax Liability(A-B)	<u>37,002,348</u>	<u>42,837,355</u>
Net Deferred Tax Charge/(Credit) for the year	<u>(5,835,007)</u>	<u>3,415,516</u>

Notes:

The tax impact for the above purpose has been arrived by applying a tax rate of 33.66 % (2005: 33.66 %) being the prevailing tax rate for Indian companies under the Income Tax Act, 1961.

- 16** The Company's Research and Development (R&D) Centre has been recognised by Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology (Govt. of India). The following Income and Expenditure, incurred during the year by R&D Centre, has been included under respective heads of accounts in Profit and Loss Account.

	2006	2005
	Rs	Rs
Income:		
Income From Services	<u>1,075,367</u>	<u>3,291,602</u>
Expenditures:		
Materials Consumed	174,326	1,283,431
Expenditure On Employees	2,869,463	3,473,503
Interest	540,000	694,031
Other Expenses	8,204,900	8,184,865
	<u>11,788,689</u>	<u>13,635,830</u>

- 17** Names of Small Scale Industrial Undertakings (SSI) to whom amounts are due for more than 30 days, but within the usual terms of purchases as on the Balance Sheet date are as follows

SI No.	Name of SSI	SI No.	Name of SSI
1	Ammarun Foundries	15	Parvath Industries
2	Anu Engineering Works	16	Shree Venkateshwara Eng Works
3	Auto Shell Perfect Moulders	17	Shree Banashankari Industries
4	Chandrakala Engineering Works	18	Sri Bhagyalakshmi Engineering Works
5	Emmkay Tools	19	Sri Manjunatha Enterprises
6	Fine Technologies	20	Suja Rubber Industries
7	G S Precision Industries	21	Sun Adchem P Ltd
8	Hi Tech Punch N Pack	22	Swetha Engineering Works
9	Hindustan Hydro Products	23	Trimurthy Cnc
10	Jayashree Horological P Ltd.,	24	V R Foundries
11	M J Enterprises	25	V3 Cnc
12	Mithila Engineering Works	26	Padma Metals
13	Omshree Industries	27	Soori Hydraulics
14	Ovee Enterprises	28	Sri Balaji Brush Industry

Note:

The above information and that given in Schedule 13 – "Current Liabilities" regarding Small Scale Industrial Undertakings has been determined to the extent such parties have been identified on the basis of information provided by the Company, which has been relied upon by the auditors.

18. Related Party Disclosure

Summary of the transactions with related parties is as follows :

Description of relationship		Parties under common control and Fellow Subsidiaries				Companies over which key management personnel and relatives of such personnel are able to exercise significant influence			Key management personnel							
Related Party			JKM Daerim Automotive Limited (Subsidiary)	JKM Research Farm Limited (Subsidiary)	JKM Global PTE Limited, Singapore (Subsidiary)	Greearth Biotechnologies Limited	JKM Human Resources Pvt Limited	Others (Note 1)	J K Malhoutra (Chairman)	Udayant Malhoutra (Managing Director)	Rajagopal N (Executive Director)	Seshnath B (Executive Director)	Non Executive Directors (note3)	Total		
i	Sales (incl of all applicable duties and taxes)	2006	263,795,521	-	-	-	-	-	-	-	-	-	-	263,795,521		
		2005	232,274,989	-	-	-	-	-	-	-	-	-	-	232,274,989		
ii	Other Income															
		Dividend Received	2006	17,520,000	-	-	-	-	-	-	-	-	-	-	17,520,000	
			2005	8,760,000	-	-	-	-	-	-	-	-	-	-	8,760,000	
		Interest	2006	-	-	-	855,331	-	-	-	-	-	-	-	855,331	
	2005	-	-	-	888,012	-	-	-	-	-	-	-	-	888,012		
iii	Materials															
		Purchase of Scrap	2006	967,737	-	-	-	-	-	-	-	-	-	-	967,737	
	2005	262,064	-	-	-	-	-	-	-	-	-	-	-	262,064		
iv	Fixed Assets															
		Plant and Machinery	2006	-	-	-	-	-	-	-	-	-	-	-	-	
	2005	-	253,124	-	-	-	-	-	-	-	-	-	-	253,124		
v	Expenses															
		Rent	2006	-	4,200,000	-	-	-	384,000	-	-	-	-	-	4,584,000	
			2005	-	4,200,000	-	-	-	384,000	-	-	-	-	-	4,584,000	
		Salaries & Wages	2006	-	-	-	-	2,803,990	-	-	-	-	-	-	2,803,990	
			2005	-	-	-	-	1,068,068	-	-	-	-	-	-	1,068,068	
		Reimbursements	2006	2,288,265	-	-	-	-	-	-	-	-	-	-	2,288,265	
			2005	1,469,398	-	-	-	-	-	-	-	-	-	-	1,469,398	
		Interest on deposit	2006	-	-	-	-	-	-	94,112	-	-	-	-	-	94,112
			2005	-	-	-	-	-	-	94,112	-	-	-	-	-	94,112
		Managerial Remuneration	2006	-	-	-	-	-	-	-	1,180,394	1,070,464	978,639	-	3,229,497	
			2005	-	-	-	-	-	-	-	889,533	773,450	611,100	-	2,274,083	
		Directors Sitting Fees	2006	-	-	-	-	-	-	65,000	-	-	-	515,000	580,000	
	2005	-	-	-	-	-	-	25,000	-	-	-	480,000	505,000			
vi	Loans Extended during the year	2006	-	1,350,530	805,000	2,999	-	-	-	-	-	-	-	2,158,529		
		2005	-	2,103,796	-	-	-	-	-	-	-	-	-	-	2,103,796	
vii	Loans Refunded during the year	2006	-	-	-	800,000	-	-	-	-	-	-	-	800,000		
		2005	-	-	-	-	-	-	-	-	-	-	-	-		
viii	Investments made during the year	2006	-	-	130,550	-	-	-	-	-	-	-	-	130,550		
		2005	-	-	-	-	-	-	-	-	-	-	-	-		
ix	Contingent Liability															
		Corporate Guarantee Outstanding	2006	90,000,000	-	-	-	-	-	-	-	-	-	-	90,000,000	
	2005	143,500,000	-	-	-	-	-	-	-	-	-	-	-	143,500,000		

Description of relationship	Parties under common control and Fellow Subsidiaries			Companies over which key management personnel and relatives of such personnel are able to exercise significant influence			Key management personnel					Total	
	Related Party	JKM Daerim Automotive Limited (Subsidiary)	JKM Research Farm Limited (Subsidiary)	JKM Global PTE Limited, Singapore (Subsidiary)	Greenearth Biotechnologies Limited	JKM Human Resources Pvt Limited	Others (Note 1)	J K Malhoutra (Chairman)	Udayant Malhoutra (Managing Director)	Rajagopal N (Executive Director)	Seshnath B (Executive Director)		Non Executive Directors (note3)
X Balances as on March 31,													
Out-standing Payables	2006	-	-	-	-	-	-	23,528	-	-	-	-	23,528
	2005	-	-	-	-	-	-	23,528	-	-	-	-	23,528
Outstanding Receivables	2006	60,237,908	305,563	-	83,729	469,029	-	-	-	-	-	-	61,096,229
	2005	55,913,934	-	-	-	-	-	-	-	-	-	-	55,913,934
Outstanding Loans Receivables	2006	-	16,000,000	641,161	18,500,000	-	-	-	-	-	-	-	35,141,161
	2005	-	18,212,553	-	18,747,082	-	-	-	-	-	-	-	36,959,635

Notes:

1. Others includes:

Vita Private Limited
JKM Holdings Private Limited

2. Executive Directors:

Udayant Malhoutra
N Rajagopal
B Seshnath

3. Non-Executive Directors includes:

J K Malhoutra
Air Chief Marshal S Krishnaswamy (Retd.)
Dr. K Aprameyan
Vijai Kapur
V Sunder
S H Utamsingh

4. The above information has been determined to the extent such parties have been identified on the basis of information provided by the company, which has been relied upon by the auditors.

19 Leasing arrangements

a) Buildings, Vehicles and other facilities (including those for employee residences) are taken on operating lease. Such leases are generally for a period of 11 to 60 months with options of renewal against increased rent and premature termination of agreement through notice period of 2 to 3 months. The particulars of those leases are as follows:

	2006 Rs	2005 Rs
Minimum Lease payments		
Included in Rent (Schedule 19)	9,336,785	8,898,823

There are no contingent rents.

b) Rental Income includes lease rental received by leasing out machines. These Operating leases are for a period of 1 year with option of renewal with mutual consent and right of lessor to permanently terminate the lease if lessee violates the terms of lease.

Class of Assets:	2006	2005
	Rs.	Rs.
Plant and Machinery		
Gross Value	20,923,478	21,405,401
Accumulated Depreciation	15,692,707	16,609,264
Depreciation for the year	868,642	1,201,246

Minimum Lease payments received		
Included in Other Income (Schedule 16)	868,642	609,072

20 The Company is allowed to defer the payment of Sales tax to the extent of Rs 28,605,000, for a period of nine years from August 1, 1998 to July 31, 2007. The sales tax so deferred is in the nature of interest free unsecured loan repayable after the expiry of the deferment period, on a year to year basis. Accordingly, the sales tax of Rs 28,105,187 (2005: Rs 22,525,516) so deferred has been disclosed as Unsecured Loan.

21 The Company has undertaken a new project (Aerospace - Sukhoi - 30) and all related incidental expenditure incurred has been carried forward as Incidental Expenditure during Construction Period and will be allocated to individual fixed assets on completion of project.

22 Provisions

Product Warranty (Note below)
(Schedule 14)

	2006 Rs	2005 Rs
At beginning of the year	100,000	-
Additional provisions made during the year.	<u>200,000</u>	<u>100,000</u>
Charged to income statement	200,000	100,000
Utilised during the year	<u>100,000</u>	<u>-</u>
At the end of the year.	<u>200,000</u>	<u>100,000</u>

Note:i) Provision has been made based on management estimation
ii)Provision for warranty in respect of 2005 was included under other liabilities.

23 Unlike earlier years, final dividend declared by its subsidiary, JKM Dae Rim Automotive Limited amounts Rs 5,840,000, has been recognized in these accounts, which had hitherto been recognized on receipt basis. Had this been accounted for on receipt basis, the profit for the year would have been lower by Rs 5,840,000 with corresponding effect in net-worth of the Company.

24 The Company has decided to charge depreciation at the rate of 100% in the year of its acquisition on all of its fixed assets, having original cost of Rs 5,000 or below, with retrospective effect, which had hitherto been depreciated at the applicable rates for specific class of assets, specified in Schedule XIV of The Companies Act, 1956. Accordingly, depreciation pertaining to the years upto March 31, 2005 amounting to Rs 1,870,620 has been recognised as Prior Period Item in these accounts.

25 Fixed assets includes certain assets, which were revalued during the year ended March 31, 1992. The details of such revaluations are as under.

<i>Particulars of Fixed Assets</i>	<i>Value added on Revaluation</i>	<i>Value added on Revaluation included under Net Block</i>
Land and Development	13,014,093	12,903,031
Buildings	9,509,673	4,982,981
Electrical Installations	<u>616,781</u>	<u>221,075</u>
	<u>23,140,547</u>	<u>18,107,087</u>

26 The Company publishes stand-alone financial statement along with the consolidated financial statements in the annual report. In accordance with Accounting Standard 17, Segment Reporting, the Company has disclosed the segment information in the Consolidated Financial Statement.

27 The Company has imported certain machinery under the 'Export Promotion Capital Goods' (EPCG) scheme. According to the said scheme, the Company is entitled to import machinery at concessional customs duty with an obligation to export eight times of duty savings within a period of eight years.

Further the company has utilized quantity based advance licenses for importing of raw materials. The details of export obligation are as under:

	2006	2005
<i>a) EPCG</i>		
Export Obligation at the beginning of the year	51,008,557	-
Add: Export Obligation accrued during the year	846,928	70,796,640
(Less): Exports made during the year	<u>(51,855,485)</u>	<u>(19,788,083)</u>
Export Obligation as at the end of the year	<u>-</u>	<u>51,008,557</u>
<i>b) Advance License</i>		
Export Obligation at the beginning of the year	12,876,714	-
Add: Export Obligation accrued during the year	17,010,000	15,296,057
(Less): Exports made during the year	<u>(18,999,357)</u>	<u>(2,419,343)</u>
Export Obligation as at the end of the year	<u>10,887,357</u>	<u>12,876,714</u>
	<u>10,887,357</u>	<u>63,885,271</u>

28 Earnings Per Share

	2006	2005
Net Profit after tax available for equity shares (Rs.)	87,037,518	59,029,519
Basic/Weighted Average number of Equity Shares of Rs.10 each	4,193,560	4,193,560
Basic and Diluted Earnings Per Share (Rs.)	20.76	14.08

29 As required under Section 205C of the Companies Act, 1956, the Company has transferred Rs. 73,966 (2005: Rs. 110,531) to the Investor Education and Protection Fund (IEPF) during the year. As of March 31, 2006, no amount was due for transfer to the IEPF.

30 Figures for the previous year have been regrouped / rearranged, wherever necessary.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

1.Registration Details

Registration No : L85110KA1973PLCOO2308 State Code 08
 Balance Sheet Date : March 31, 2006

2. Capital raised during the period :

(Amount in Rs. Thousands)

Public issue	Nil	Rights issue	Nil
Bonus issue	Nil	Private Placement	Nil

3. Position of Mobilisation and Deployment of Funds : (Amount in Rs Thousands)

Total Liabilities	718,516	Total assets	981,483
	(Including net deferred tax liability Rs. 37,002)		

Source of funds

Paid up Capital	41,936	Secured Loans	334,134
Reserves and Surplus	221,032	Unsecured Loans	64,971

Application of Funds

Net Fixed Assets	367,618	Investments	78,644
Net Current Assets	252,812	Miscellaneous Expenditure	Nil

Accumulated Losses Nil

4. Performance of Company : (Amount in Rs Thousands)

Turnover (including Other Income Rs.23,524)	972,349	Total Expenditure	844,482
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Profit/(Loss) Before Tax	127,867	Profit/Loss After Tax (after deferred tax credit of Rs.5,835)	87,038
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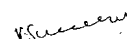
Earning Per Share Rs.	20.76	Dividend Rate %	50%
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5. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No	8413.19	8479.10	8481.80
Product Description	Hydraulic Gear Pumps	Power Pack Pump Unit	Valves
Services Description			

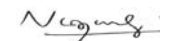
Signatures to Schedules 1 to 22 forming part of the Accounts



J.K. MALHOUTRA
 Chairman


V. SUNDER
 Director



VIJAI KAPUR
 Director


Air Chief Marshal S.KRISHNASWAMY (Retd)
 Director


N.R. MOHANTY
 Director


B. SESHNATH
 Director Commercial


UDAYANT MALHOUTRA
 President & Managing Director


N. RAM MOHAN
 G M - Finance


G. HARITHA
 Company Secretary

PLACE: BANGALORE
 DATE: 22nd JULY, 2006

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ANNUAL REPORT

2005-06

JKM DAERIM AUTOMOTIVE LIMITED



JKM **DAE** RIM™

BOARD OF DIRECTORS

Mr. Udayant Malhoutra	...	Chairman
Mr. Hyo Kyon Lee	...	Vice Chairman
Mr. Jayant Kumar Malhoutra	...	Director
Dr. K Aprameyan	...	Director
Mr. V Sunder	...	CEO and Executive Director (upto August 24, 2006)
Mr. B. Seshnath	...	Executive Director & Chief Operating Officer (with effect from August 24, 2006)

HEAD ACCOUNTS & COSTING AND COMPANY SECRETARY

Mr. M S Shankar

AUDITORS

Price Waterhouse & Co.
Chartered Accountants Bangalore

BANKERS

HDFC Bank
UTI Bank
ICICI Bank
Kotak Mahindra Bank

FINANCIAL INSTITUTIONS

Infrastructure Leasing & Financial Services Ltd
GE Capital Services India

REGISTERED OFFICE

Dynatomic Park Peenya Bangalore 560 058

MANUFACTURING FACILITY

JKM Park SIPCOT Irrungattukottai
Sriperumbudur Tamil Nadu 602 105

CORPORATE OFFICE

JKM Daerim House 16 Wallace Garden 1st Street
Chennai 600 006

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DIRECTORS' REPORT TO SHAREHOLDERS

CHAIRMAN'S REVIEW

Dear Shareholders,

JKM Daerim Automotive witnessed an impressive growth during the Financial Year 2005-2006. The Financial Year 2005-2006 is another landmark for the Company as it has crossed Rs 150 Crores in turnover. The Company is actively in pursuit of positioning itself as a key strategic partner and to act as a complete solution provider to its customers.

During the current year, the Company continued to capitalize on the outsourcing boom of Auto Component Industry. The Company is already exploring the Non-Automotive Business in order to gear up for the rainy days.

The overall sales grew by 30%. The Company has evolved a new strategy for de-risking the Business which is detailed in the Directors' Report. The Company continued to increase its Domestic Share of Business. The Export Sales witnessed an impressive growth from 1% to 6.3% of turnover.

The Company has also managed Cost Reduction pressure from OEMs by building on its design and development skills, compressing costs by process and product innovations, developing new products, value engineering, moving up the value chain & Global Sourcing.

The Profit Before Tax increased by 37%, while EPS increased by 32%.

The Company has also bagged new business from HONEYWELL GARRETT for supply of Compressor Housings and also from CUMMINS for supply of Water Pumps.

During the year, the Company has launched various initiatives like Comprehensive Supplier Development Programme and Six Sigma Programme.

With the above encouraging signs, I wish to present the Eighth Annual Report for the year 2005-2006.

Directors' Report to Shareholders

Your directors have pleasure in presenting their Eighth Annual Report together with Audited Statement of Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

The Financial Results of the Company for the year ended 31st March, 2006 were as follows:

Rs. in Lacs

PARTICULARS	Year Ended 31.03.2006	Year Ended 31.03.2005
Gross Profit (before interest, depreciation&taxation) (EBITDA)	1,880.91	1,468.62
Interest	263.30	214.60
Depreciation	518.45	449.24
Net Profit/(Loss) Before Taxation	1,099.16	804.78
Provision for Current Year Taxation	356.64	117.76
Provision for Deferred Tax	47.03	160.18
Net Profit After Tax	674.34	526.85
Profit/(Loss) brought forward from previous year	641.93	335.50
Amount available for appropriation	1,316.27	862.35
Interim Dividend (Including Tax)	137.21	135.68
Proposed Dividend (Including Tax)	91.22	45.23
Transferred to General Reserve	67.43	39.51
Profit Carried to Balance Sheet	1,020.41	641.93

DIVIDEND

Your Directors recommended an Interim Dividend of 15% during March 2006 and further recommended a final Dividend of 10%. The total Dividend declared is 25% for the year under review.

PERFORMANCE OF YOUR COMPANY

Your company has posted a Gross turnover of **Rs.15230.38 Lacs** during the year under review as against a Gross turnover of Rs.11730.38 Lacs in the previous year, thus posting an impressive growth of **30%**. Further, your Company has generated a Profit Before Tax of **Rs.1099.16 Lacs** during the year under review as against Rs.804.78 Lacs last year, an increase of 37%.

Your Company has also earned a Net Profit of **Rs.674.34 Lacs** (as against Rs.526.85 Lacs in 2004-05) **after providing for normal taxes Rs.356.64 Lacs and Provision for Deferred Tax Rs.47.03 Lacs** during the year under review.

HIGHWAY VEHICLES

HYUNDAI MOTOR INDIA (HMI)

During the year under review, your Directors are pleased to inform that your Company has fully met the requirements of HMI. Also, the Company has successfully started commercial supplies of new Rocker Arms.

PA Epsilon Engine: Your Company has received LOI for the supply of PA Engine parts. Your Company is targeting for more assembly items that would give better value additions.

FORD

Your Company has successfully productionised and has supplied FORD Oil Pumps to the South African and Indian Market. The successful implementation of this project has opened up new vistas of business opportunities with FORD Motors.

Your Company has received enquiries for development of Aluminium Oil Pumps, Water Pumps and Exhaust Manifolds for their various engines. Your Company has completed the technical review & is in the process of submitting its proposal. These components are being developed for their domestic requirement and also an opportunity exists for exports.

NISSAN

Your Company has received enquiries for development of Aluminium components, Oil Pumps, Water Pumps and Exhaust Manifolds. Your Company has successfully passed their stringent audits and is in the process of making the quotations. These enquiries are for their worldwide requirements with large volumes.

OFF-HIGHWAY VEHICLES

JOHN DEERE

Your Company has commenced commercial supplies of Skid Steering Handles during the Financial Year under review.

CUMMINS

Your Company has developed a Water Pump for Cummins for their High Horse power engines which is presently under validation tests. Further enquiries have been received from Cummins for few more products which are in advanced stages of negotiation.

TECHNOLOGY

HONEYWELL GARRETT

Your Company has received several LOIs from Honeywell for supply of Compressor Housing for their Domestic and Export requirement.

Honeywell Garrett is the largest producer of Turbochargers under the Brand name "GARRETT" with 55% market share Worldwide. The products are likely to be productionized in the next Financial Year 2006-2007.

Your Directors wish to state that your Company is in the final stages of receiving orders for few more types of Compressor

Housing. The Company will be supplying almost One Million Compressor Housings per annum in the years to come. This is in line with the Company's objective to widen the Product Base and Customer Base.

RESEARCH & DEVELOPMENT

Your Company continued the development of new products for both the Original Equipment Manufacturers and also to cater to the after-market requirements.

QUALITY MANAGEMENT SYSTEM

Your Directors have pleasure in informing you that your Company has improved the quality levels and has successfully maintained less than 50 PPM targets with Hyundai. Your Company is working towards achieving Zero PPM in the years to come. Your Company has successfully completed the TS 16949 Audit and obtained Certification.

NEW INITIATIVES

Your Company has initiated CSDP (Comprehensive Supplier Development Programme) with the suppliers wherein, all the learning received from HMI is being proposed to be implemented at the suppliers' place. As part of this, the vendor companies launched the 100 PPM programme at their plants.

Your Company is working towards certification of ISO 14001:2004 & OHSAS 18001:2002 and expects to complete during next year.

SIX SIGMA

Your Company has launched the Six Sigma programme during the last Financial Year. This programme was conducted by Tenneco Automotive. The Company intends to train many more employees and take up more projects in the years to come.

DIRECTORS

Under Section 256 of The Companies Act, 1956, Mr. H. K. Lee & Dr. K. Aprameyan retire by rotation and being eligible, offer themselves for reappointment.

Mr. V. Sunder's Contract of Employment expires in December 2006. The Board of Directors at their meeting held on 12th July 2006 proposed to appoint Mr B Seshnath as Executive Director & Chief Operating Officer in place of Mr V Sunder on the terms and conditions as set out in the Notice.

Mr. B. Seshnath is a Mechanical Engineer with an MBA from IIM, Bangalore, with over two decades of Marketing Experience in Automotive and Engineering Industries. He was on the Board of Dynamatic Technologies Ltd as Director-Commercial. He comes on to the Board of JKM Dae Rim Automotive Ltd with effect from 24th August, 2006.

The Board places on record the excellent services rendered by Mr. V. Sunder as CEO & Executive Director of the Company during his tenure.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors' Responsibility Statement as required under section 217(2AA) of The Companies (Amendment) Act, 2000.

Directors hereby confirm:

The Financial Statements are prepared in conformity with the Accounting Standards issued by The Institute of Chartered

Accountants of India and the requirements of The Companies Act, 1956, to the extent applicable to us; on the historical cost convention; as a going concern and on the accrual basis. There are no material departures from prescribed Accounting Standards in the adoption of the Accounting Standards.

We accept the responsibility for the integrity and objectivity of these financial statements. The accounting policies used in the preparation and presentation of the Financial Statements have been consistently applied except otherwise stated in the notes. The estimates and judgements relating to Financial Statements have been made on prudent and reasonable basis, in order that the Financial Statements reflect a true and fair view and reasonably present our state of affairs and the Profit and Loss account of the Company.

We have taken proper and sufficient care in installing an internal control system and maintenance of adequate records in accordance with the provisions of The Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting frauds as well as other irregularities which is reviewed, evaluated and updated on an ongoing basis and periodically reviewed with the Internal Auditors and Statutory Auditors at the Audit Committee meeting/s of the Company.

AUDITORS

M/s. Pricewaterhouse & Co., Chartered Accountants, Bangalore, retire at this Annual General Meeting and are eligible for reappointment.

AUDIT COMMITTEE:

In compliance with the provisions of Section 292A Schedule XIII and other applicable provisions, of The Companies Act 1956, your Company's Audit Committee comprises of the following members:

Mr. Udayant Malhoutra	Chairman
Dr. K. Aprameyan	Member
Mr. V. Sunder*	Member
Mr. B Seshnath**	Member

* ceases to be a member with effect from 24th August 2006.

** co-opted as a member with effect from 24th August 2006.

REMUNERATION COMMITTEE:

Your Company's Remuneration Committee comprises of the following members:

Mr. Udayant Malhoutra	Chairman
Dr. K. Aprameyan	Member
Mr. V. Sunder*	Member
Mr. B Seshnath**	Member

* ceases to be a member with effect from 24th August 2006.

** co-opted as a member with effect from 24th August 2006.

PARTICULARS OF EMPLOYMENT

During the year under review, relations between the employees and management remained cordial. There are no employees drawing more than Rs.2,400,000/- or more per annum or Rs.200,000/- or more per month during the year under review.

Disclosure as per Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

The required particulars are set out in the annexure, forming part of the report.

By Order of the Board of Directors



PLACE : BANGALORE
DATE : 21st JUNE, 2006

UDAYANT MALHOUTRA
Chairman

ANNEXURE TO DIRECTORS' REPORT

Statement under section 217(1)(e) read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2006

Disclosure of particulars with respect to absorption, adoption and innovation

Research and Development (R & D)

1. Specific areas in which R & D has been carried out by the Company

Development of auto components for new generation automobile manufacturers in India.

2. Benefits derived as a result of the above R & D

All these efforts have led to product development, improvement, cost reduction and import substitution for the Company as well as Country.

3. Future plan of action

The Company plans to increase its efforts in developing new and more economical applications in the above sectors through continuous innovation.

4. Expenditure on R & D

	(Rupees in Lacs)
Capital	5.75
Total expenditure as a percentage of turnover	0.05%

5. Technology absorption, adoption and innovation

The Company has received active support from both Dae Rim Enterprise Company Ltd., the Korean Partner and Dynamic Technologies Limited, the Holding Company in establishing best Global Practices in manufacturing high quality auto components.

The Company has established facilities to undertake development of high quality auto components for new customers like Tenneco Automotive, Ford, Honeywell Garrett etc.

Efforts, in brief, made towards technology absorption, adoption and innovation

6. In case of imported technology (imported during last 5 years – reckoned from the beginning of the financial year), following information may be furnished:

a) Technology imported

None of the technology was imported. All the above mentioned products have been developed/being developed completely indigenously.

b) Year of Import : Not Applicable

c) Has technology been fully absorbed ? : Not Applicable

d) If not fully absorbed, areas where this has not taken place, reasons thereof and future plans of action : Not Applicable

e) Foreign Exchange Earnings and Outgo :

During the year under report the Foreign Exchange outgo has been to an extent of Rs. 3,21,221,615/- (which includes import of Raw Materials to an extent of Rs. 314,306,351/-, Stores and Spares to an extent of Rs. 6,18,546/-, Capital Goods to an extent of Rs. 2,413,097/-, Foreign Travel expense of Rs.38,83,621/-) while the Foreign Exchange earned is Rs. 77,900,022/-.

CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

JDAL's Philosophy on Corporate Governance envisages a combination of business practices that result in enhancement of the value of the Company to the Shareholders and simultaneously enable the Company to fulfill its obligations to other stakeholders such as Customers, Suppliers, Financiers, Employees, Government and to the Society at large. Your Company firmly believes that such practices are founded upon the core values of Transparency, Professionalism, Empowerment, Equity and Accountability. Your Company makes best endeavours to uphold and nurture these core values in all facets of its operations and aim to increase and sustain its corporate value through growth and innovation.

2. BOARD OF DIRECTORS

Composition of Board :

The Board of Directors consists of 5 members with 1 Executive Director and 4 Non-Executive Directors.

The following is the list of the Directors of the Company:

Mr. Udayant Malhoutra	Chairman
Mr. H.K.Lee	Vice Chairman
Mr. J.K.Malhoutra	Director
Dr. K.Aprameyan	Director
Mr. V.Sunder*	CEO & Executive Director
Mr. B. Seshnath**	Executive Director & Chief Operating Officer

* ceases to be a CEO & Executive Director of the Company with effect from 24th August 2006

** co-opted as an Executive Director & Chief Operating Officer of the Company with effect from 24th August 2006

Mr. Udayant Malhoutra, Chairman and Mr. H.K. Lee, Vice Chairman, Non-Executive Directors of the Company play an important role on Board in maintaining long term relationship with Company's key stake holders and in guidance of overall strategic management.

Day to day management of the Company is conducted by Mr. V. Sunder, CEO & Executive Director subject to supervision and control of Board of Directors of the Company, and he is responsible for achievement of the Annual Business Plan of the Company.

Availability of Information to the Board:

The Board has unencumbered access to any relevant information of the Company. At the meetings of the Board, the information regularly supplied to the Board includes:

- 1 Annual operating plans and budgets, updates ;
- 2 Compliance with Statutory/regulatory requirements ;
- 3 Adoption of quarterly/half yearly/annual results ;
- 4 Major accounting provisions and write-offs ;
- 5 Minutes of the meetings of the Audit and other committees of the Board ;

The Company Secretary acts as the Secretary to the Board/ Committees.

3. BOARD COMMITTEES

a. Audit Committee :

The following Directors are the current members of the Audit Committee:

Mr. Udayant Malhoutra

Dr. K.Aprameyan

Mr. V.Sunder*

Mr. B. Seshnath**

* ceases to be a member with effect from 24th August 2006.

** co-opted as a member with effect from 24th August 2006.

The Members of the Committee possess knowledge of Accounts, Finance, Audit and Legal Matters.

The terms of reference of the Audit Committee, inter alia, include overseeing financial reporting process, disclosure of financial information to ensure that the Financial Statements are correct, sufficient, credible, reviewing annual and quarterly Financial Statements with management before submission to the Board, Reviewing the adequacy of the internal control systems with the Management, external and internal auditors and reviewing the Company's Financial risk and Management Policies.

b. Remuneration Committee :

The following Directors are the current members of the Remuneration Committee:

Mr. Udayant Malhoutra

Dr. K.Aprameyan

Mr. V.Sunder*

Mr. B. Seshnath**

* ceases to be a member with effect from 24th August 2006.

** co-opted as a member with effect from 24th August 2006.

The terms of reference of the remuneration committee, inter alia, include determination of compensation package of Executive Directors. The remuneration policy of the Company is broadly based on the following terms:

- a) Job Responsibilities
- b) Key performance areas of the Employees/Directors
- c) Industry Trend
- d) Remuneration packages in other comparable industries.

MANAGEMENTS' DISCUSSION AND ANALYSIS

1. INDUSTRY STRUCTURE AND DEVELOPMENT

India-based automotive components manufacturing has the potential to grow 500 per cent from its current level to revenues of US\$ 33-40 billion by 2015, including US\$ 20-25 billion in exports and US\$ 13-15 billion in domestic consumption and indirect exports. Such growth could create 2.5-3 million additional direct and indirect jobs, especially for the rural/small town population. (Source: ACMA report).

2. OPPORTUNITIES AND THREATS

The automotive components industry is poised to witness significant change over the next decade. The outsourcing boom in Auto Component Industry offers great opportunities for growth. However, enormous pricing pressures from OEM customers, can seriously pressurize margins which appears to be the biggest threat to this industry.

Your Company presently operates predominantly in the Highway vehicle segment which is characterized by high volumes and thin margins. However, growth opportunities available in this segment makes it very attractive for any business. Your Company wishes to grow rapidly in this segment and counter the pricing pressures by adding global customers like Ford, Nissan & PSA and build higher value-add in its existing supplies by graduating to supplying complete assemblies wherever possible rather than only parts.

In addition to the efforts being made to counter pricing pressure, your Company is aggressively growing business in the Off-Highway segment. The strategic relationship enjoyed by the Parent Co., Dynamatic Technologies Ltd with some of the customers in this segment and its reputation for supply of technology intensive, precision engineered products has helped your Company to launch itself in this segment. This segment offers opportunities for supply of high value products having limited volumes. In pursuance of this objective, your Directors are pleased to inform that your Company has already commenced business with John Deere and Cummins. This segment is likely to grow manifold in the future.

Further to growing business in the off-highway segment, your Company is making enormous efforts to build business in highly specialized niche products like 'Compressor Housing' for Turbo Chargers. It is rather heartening to note that significant progress has been made by your Company in procuring orders for large numbers of Compressor Housing from Honeywell Garrett, a Global Leader in Turbo Chargers. Supplies have already commenced and your Company expects this business to grow very rapidly in the near future.

3. INTERNAL CONTROLS

The Company has well established internal control systems for operations of the Company. The transactions are processed with the help of ERP system. The Departments are well staffed and with experienced and qualified personnel

who play an important role in implementing and monitoring the internal control environment and compliance with statutory requirements. The Company also has the system of training employees on new technologies on a regular basis. The Company's internal control system is designed to:

- 1) Safeguard the Company's assets and to identify liabilities and manage it;
- 2) To ensure that transactions are properly recorded and authorised;
- 3) To ensure maintenance of proper records and processes that generates a flow of timely, relevant and reliable information and
- 4) To ensure compliance with applicable laws and regulations.

The Internal Audit is conducted by an independent firm of Chartered Accountants.

The Audit Committee addresses significant issues raised by the Internal and Statutory Auditors and the Management of JDAL duly considers and takes appropriate action on recommendations made by the Statutory Auditors, Internal Auditors and the Audit Committee.

4. DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Your Company has posted a Gross turnover of **Rs. 15230.38 Lacs** during the year under review as against a Gross turnover of Rs.11730.38 Lacs in the previous year, thus posting an impressive growth of 30%. Further, your Company has generated a Profit Before Tax of **Rs. 1099.16 Lacs** during the year under review as against Rs.804.78 Lacs last year, **an increase of 37%**.

Your Company has also earned a Net Profit of **Rs. 674.34 Lacs** (as against Rs.526.85 lacs in 2004-05) **after providing for normal taxes Rs 356.64 Lacs and Provision for Deferred Tax Rs 47.03 Lacs** during the year under review.

During the year under review, the Company declared an Interim Dividend of 15% and a Final Dividend of 10%. The total Dividend declared for the year is 25%.

5. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES & INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED

Your Company has recruited over 280 employees on its rolls including Management Graduates, Chartered Accountants, Company Secretaries, Engineers, Diploma Holders and ITI's. The work force is very young, vibrant and open to new challenges. All the key managers have been trained at Daerim Enterprise Ltd., Korea on the various facets of manufacturing technology & process, quality systems, planning process, etc.

By Order of the Board of Directors


Udayant Malhoutra
Chairman

PLACE: BANGALORE
DATE : 21st JUNE, 2006

CERTIFICATION BY CHIEF EXECUTIVE OFFICER & EXECUTIVE DIRECTOR (CEO & ED) AND VP-FINANCE & CORPORATE AFFAIRS (CFO) OF THE COMPANY

We, V. Sunder, Chief Executive Officer & Executive Director and K. R. Srinivasan, VP Finance, and Corporate Affairs of JKM Dae Rim Automotive Limited, to the best of our knowledge and belief, certify that:

1. We have reviewed the Balance Sheet and Profit and Loss Account (JKM Dae Rim Automotive Limited) and all its schedules and notes on accounts, as well as the Cash Flow Statement and the Director's Report.

2. Based on our knowledge and information, these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading with respect to the statements made.

3. Based on our knowledge and belief, the Financial Statements and other information included in this report, present a true and fair view of the Company's affairs and are in compliance with existing Accounting Standards as issued by The Institute of Chartered Accountants of India, and /or applicable laws and regulations;

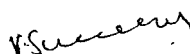
4. The Company's respective functional heads and we have disclosed, wherever applicable, to the Company's Auditors and the Audit Committee of the Company's Board of Directors :

- All significant deficiencies in the design or operation of internal controls, which could adversely affect the Company's ability to record, process, summarize and

report financial data and have evaluated the effectiveness of internal control systems of the Company in consultation with the statutory and internal auditors of the Company.

- We have indicated to the Auditors and Audit Committee significant changes in internal control over financial reporting during the year, significant changes in accounting policies during the year and the same have been disclosed in notes to financial statements; and instances of significant fraud of which they have become aware and the involvement therein, if any of the management or an employee having a significant role in the Company's internal control system over financial reporting.

Mr. V. Sunder, Chief Executive Officer & Executive Director of the Company, further state that the Board has laid a code of conduct to all the Board Members and the Senior Management of the Company.



V SUNDER
Chief Executive Officer
& Executive Director



K R SRINIVASAN
Chief Financial Officer
VP- Finance & Corporate
Affairs

PLACE : BANGALORE
DATE : 21st JUNE, 2006

AUDITOR'S REPORT TO THE MEMBERS OF JKM DAE RIM AUTOMOTIVE LIMITED

1. We have audited the attached Balance Sheet of JKM DAE RIM AUTOMOTIVE LIMITED as at March 31, 2006, related Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto, all of which we have signed under reference to this report. 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.
 - a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006
 - b) in the case of the Profit and Loss Account, of the profit for the year ended on that date and
 - c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.
2. We have 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, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, (together the Order) issued by the Central Government of India in terms of Section 227 (4A) 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:
 - 4.1 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;
 - 4.2 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;
 - 4.3 The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - 4.4 In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report have been prepared in compliance with the applicable accounting standards referred to in Section 211(3C) of the Act;
 - 4.5 On the basis of written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act on the said date;
 - 4.6 In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with notes thereon and attached thereto, give, in the prescribed manner, the information required by the Act, and also give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) (a) The Company is maintaining proper records to show full particulars including quantitative details and situation of its fixed assets.
 - (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
 - (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.
 - (ii) (a) The inventory including inventory with third parties has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
 - (b) In our opinion, the procedures of physical verification of inventory 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 the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
 - (iii) (a) The Company has not granted any loans, secured or unsecured, to Companies, firms or other parties listed in the register maintained under Section 301 of



S. Dutta

Partner

Membership No.: F50081

For and on behalf of

Price Waterhouse & Co.,

Chartered Accountants

PLACE : BANGALORE

DATE : 21st JUNE, 2006

Annexure to the Auditors' Report referred to in paragraph 3 of our report of even date:

- (i) (a) The Company is maintaining proper records to show full particulars including quantitative details and situation of its fixed assets.
- (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
- (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.
- (ii) (a) The inventory including inventory with third parties has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion, the procedures of physical verification of inventory 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 the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- (iii) (a) The Company has not granted any loans, secured or unsecured, to Companies, firms or other parties listed in the register maintained under Section 301 of

the Act and accordingly clauses iii (b), (c) and (d) of paragraph 4 of the Order are not applicable.

there are no dues of income tax, sales tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute.

- (b) The Company has not taken any loans, secured or unsecured, from Companies, firms or other parties covered in the register maintained under Section 301 of the Act and accordingly clauses iii (f) and (g) of the Order are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system of the aforesaid areas.
- (v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements that are required to be entered in the register in pursuance of Section 301 of Act have been so entered.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lakhs in respect of a party during the year are of special nature for which suitable alternative sources do not exist for obtaining comparative quotation.
- (vi) The Company has not accepted any deposits from the public
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- (ix) (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education and 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 with the appropriate authorities.
- (b) According to the information and explanations given to us and the records of the Company examined by us,
- (x) The Company has no accumulated losses as at March 31, 2006 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
- (xi) According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
- (xiv) In our opinion and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purpose for which they were obtained.
- (xv) On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
- (xvi) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.
- (xvii) The other clauses (xiii), (xiv), (xviii), (xix) and (xx) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, are not applicable in the case of the company for the current year, since in our opinion there is no matter which arises to be reported in the aforesaid order.



S. Dutta
Partner

Membership No.: F50081
For and on behalf of
Price Waterhouse & Co.,
Chartered Accountants


PLACE : BANGALORE
DATE : 21st JUNE, 2006

BALANCE SHEET AS AT 31ST MARCH, 2006

SOURCES OF FUNDS	Schedule	2006 Rs.	2005 Rs.
Shareholders' Funds			
Capital	1	80,000,000	80,000,000
Reserves and Surplus	2	112,734,522	68,144,255
Loan Funds			
Secured Loans	3	215,274,129	284,801,148
Unsecured Loans	4	11,434,372	7,184,406
Deferred tax			
Deferred tax liabilities [Schedule 21 Note 16(b)]		46,963,340	42,260,095
		466,406,363	482,389,904
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	5	630,208,289	596,027,366
Less: Depreciation		214,858,862	163,013,482
Net Block		415,349,427	433,013,884
Capital Work-in-Progress		31,802,665	6,477,343
Incidental Expenditure during Construction Period	6	7,202,908	4,815,712
		454,355,000	444,306,939
Current Assets, Loans and Advances			
Inventories	7	108,440,896	105,271,323
Sundry Debtors	8	194,472,335	162,044,303
Cash and Bank Balances	9	15,161,521	12,209,707
Other Current Assets	10	3,676,973	4,192,421
Loans and Advances	11	26,545,684	14,424,353
		348,297,409	298,142,107
Less: Current Liabilities and Provisions			
Liabilities	12	323,745,362	253,397,180
Provisions	13	12,571,472	7,221,066
		336,316,834	260,618,246
Net Current Assets		11,980,575	37,523,861
Miscellaneous Expenditure (to the extent not written off or adjusted)	14	70,788	559,104
		466,406,363	482,389,904
Notes on Accounts			
Balance Sheet Abstract and Company's General Business Profile	21		
	22		



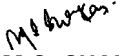
The schedules referred to above and the notes thereon form an integral part of the accounts.

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


S. Dutta
 Partner
 For and on behalf of
PRICE WATERHOUSE & CO.
 Chartered Accountants


UDAYANT MALHOUTRA
 Chairman

V. SUNDER
 CEO & Executive Director


Dr. K. APRAMEYAN
 Director

K.R. SRINIVASAN
 VP - Finance & Corporate Affairs

M.S. SHANKAR
 Company Secretary

PLACE : BANGALORE
 DATE : 21ST JUNE, 2006


PLACE: BANGALORE
 DATE : 21ST JUNE, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedule	2006 Rs.	2005 Rs.
INCOME			
Sales (Gross)	15	1,523,038,803	1,173,037,805
Less: Excise duty included therein		<u>255,825,850</u>	<u>202,894,963</u>
Sales (Net)		1,267,212,953	970,142,842
Other Income	16	<u>12,248,559</u>	<u>11,533,571</u>
		<u>1,279,461,512</u>	<u>981,676,413</u>
EXPENDITURE			
Cost of Materials	17	919,420,863	693,306,600
Expenditure on Employees	18	64,975,908	52,639,775
Other Expenses	19	<u>106,973,435</u>	<u>88,868,315</u>
		<u>1,091,370,206</u>	<u>834,814,690</u>
Operating Profit before Depreciation and Interest		188,091,306	146,861,723
Depreciation [Schedule 5 Note 2]		51,845,380	44,923,736
Interest	20	<u>26,330,243</u>	<u>21,459,625</u>
Profit before Taxation and Extraordinary items		109,915,683	80,478,362
Extraordinary items:			
Capital Work-in-Progress written off [Net of Income Rs.50,405 (2005 - Rs.Nil)] [Schedule 21 Note 25]		2,114,233	-
Profit before Taxation but after Extraordinary items		107,801,450	80,478,362
Provision for Taxation			
-Current [Schedule 21 Note 16(a)]		34,014,538	11,775,572
-Fringe Benefit Tax		1,650,000	-
-Deferred [Schedule 21 Note 16(b)]		<u>4,703,245</u>	<u>16,018,274</u>
Profit after Taxation and Extraordinary items		67,433,667	52,684,516
Profit brought forward from previous year		<u>64,192,916</u>	<u>33,550,939</u>
Profit Available for appropriation		<u>131,626,583</u>	<u>86,235,455</u>
Appropriations			
Dividend:			
Interim [including tax thereon Rs.1,721,400 (2005: Rs.1,568,400)]		13,721,400	13,568,400
- Proposed Final [including tax thereon Rs.1,122,000 (2005: Rs.522,800)]		9,122,000	4,522,800
Transferred to General Reserve		6,743,367	3,951,339
Profit Carried to Balance Sheet		<u>102,039,816</u>	<u>64,192,916</u>
		<u>131,626,583</u>	<u>86,235,455</u>
Earning per Share - Basic and Diluted [Schedule 21 Note 24]		8.69	6.59
Notes on Accounts			
Balance Sheet Abstract and Company's General Business Profile	21		
	22		



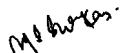
The schedules referred to above and the notes thereon form an integral part of the accounts.

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


S. Dutta
 Partner
 For and on behalf of
PRICE WATERHOUSE & CO.
 Chartered Accountants


UDAYANT MALHOUTRA
 Chairman

V. SUNDER
 CEO & Executive Director


Dr. K. APRAMEYAN
 Director

K.R. SRINIVASAN
 VP - Finance & Corporate Affairs

M.S. SHANKAR
 Company Secretary

PLACE : BANGALORE
 DATE : 21ST JUNE, 2006

PLACE : BANGALORE
 DATE : 21ST JUNE, 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	2006 Rs.	2005 Rs.
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit/(loss)		
before tax but after extraordinary items Adjustments for :	109,915,683	80,478,362
Depreciation	51,845,380	44,923,736
Unrealised Foreign Exchange Loss / (Gain)	2,892,997	254,997
Miscellaneous Expenses written off	488,316	488,316
Provision for warranty	429,000	171,000
Liabilities no longer required written back	-	(511,342)
Provision - Others	193,674	125,441
Interest Expense	26,330,243	21,459,625
Interest Income	(1,023,467)	(586,172)
Operating profit before working capital changes	191,071,826	146,803,963
(Increase)/decrease in Trade and other receivables	(43,978,920)	(65,102,422)
(Increase)/decrease in Inventories	(3,169,573)	(42,742,085)
Increase/(decrease) in Trade payables	73,392,993	106,785,751
Cash generated from operations	217,316,326	145,745,207
Direct taxes paid	(35,781,006)	(9,180,237)
Cash flow before extraordinary items	181,535,320	136,564,970
Extraordinary items	(2,114,233)	-
Cash flow after extraordinary items and net cash from operating activities	179,421,087	136,564,970
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(68,738,883)	(179,130,290)
Interest received	1,372,169	391,842
Net cash used in investing activities	(67,366,714)	(178,738,448)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds/(Repayment) of long term loans	(47,799,332)	82,281,311
Proceeds/(Repayment) from cash credits	(17,477,721)	1,452,450
Interest paid	(25,581,306)	(22,560,799)
Dividends paid	(16,000,000)	(12,000,000)
Tax on distributed profit	(2,244,200)	(1,568,400)
Net cash used in financing activities	(109,102,559)	47,604,562
Net increase in cash and cash equivalents	2,951,814	5,431,084
Cash and cash equivalents as at March 31, 2005	12,209,707	6,778,623
Cash and cash equivalents as at March 31, 2006	15,161,521	12,209,707
	2,951,814	5,431,084

Notes :

- The above Cash Flow Statement has been compiled from and is based on the Balance Sheet as at March 31, 2006 and the related Profit and Loss Account for the year ended on that date
- The above Cash Flow Statement has been prepared under the indirect method as set out in the Accounting Standard on Cash Flow Statements issued by The Institute of Chartered Accountants of India and reallocation required for this purpose are as made by the Company
- Previous year's figures have been regrouped wherever necessary in order to confirm to this year's presentation

This is the Cash Flow Statement referred to in our report of even date

For and on behalf of the Board of Directors



S Dutta

Partner

For and on behalf of

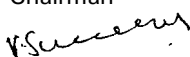
PRICE WATERHOUSE & CO.

Chartered Accountants



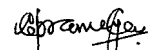
UDAYANT MALHOUTRA

Chairman



V. SUNDER

CEO & Executive Director



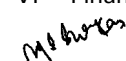
Dr.K. APRAMEYAN

Director



K.R. SRINIVASAN

VP - Finance & Corporate Affairs



M.S. SHANKAR

Company Secretary

PLACE : BANGALORE

DATE : 21ST JUNE, 2006

PLACE : BANGALORE

DATE : 21ST JUNE, 2006

SCHEDULES TO ACCOUNTS

	2006 Rs.	2005 Rs.
1 CAPITAL		
Authorised:		
15,000,000 (2005:15,000,000) Equity Shares of Rs.10/- each	<u>150,000,000</u>	<u>150,000,000</u>
Issued, Subscribed and Paid up:		
8,000,000 (2005:8,000,000) Equity Shares of Rs.10/- each fully paid up	<u>80,000,000</u> <u>80,000,000</u>	<u>80,000,000</u> <u>80,000,000</u>
Of the above shares		
i) 977,687 (2005:977,687) shares are allotted as fully paid up pursuant to a contract without payments being received in cash.		
ii) 5,839,930 (2005: 5,839,930) shares are held by Dynamatic Technologies Limited, the holding company.		
2 RESERVES AND SURPLUS		
General Reserve:		
Balance as on April 1, 2005	3,951,339	-
Add: Transferred from Profit and Loss Account	<u>6,743,367</u>	<u>3,951,339</u>
	<u>10,694,706</u>	3,951,339
Profit and Loss Account balance	<u>102,039,816</u> <u>112,734,522</u>	<u>64,192,916</u> <u>68,144,255</u>
3 SECURED LOANS		
Term Loan:		
ICICI Bank against purchase of fixed assets (Note 1) [Repayable within one year Rs.22,648,928 (2005: Rs.24,020,680)]	35,955,415	66,629,344
Infrastructure Leasing & Financial Services Limited (Note 2) [Repayable within one year Rs.21,250,000 (2005: Rs.15,937,500)]	69,062,500	85,000,000
GE Capital Services India (Note 3) [Repayable within one year Rs.4,220,004 (2005: Rs.4,220,004)]	14,769,994	18,989,998
HP loan against purchase of vehicles (Note 4) [Repayable within one year Rs.2,143,016 (2005: Rs.2,025,519)]	3,834,492	5,052,357
Short Term Loan: (Note 5)		
Foreign Currency Non-Repatriable Loan [FCNR(B)] from HDFC Bank	-	60,000,000
Bank Overdraft (Note 5)	<u>91,651,728</u> <u>215,274,129</u>	<u>49,129,449</u> <u>284,801,148</u>
Notes:		
1) Secured by first charge on immovable properties and all movable fixed assets other than certain specific movable fixed assets for which separate charges have been created for specific loans taken as indicated in Notes (2), (3) and (4) below.		
2) Secured by charge on specified movable assets.		
3) Secured by charge on specified movable assets.		
4) Secured by hypothecation of vehicles purchased out of the loan.		
5) Secured by first charge on inventory, book debts, and a second charge on fixed assets ranking pari passu among the lenders.		
4 UNSECURED LOANS		
Term Loan :		
Interest free Sales tax loan (Schedule 21 Note 18) ICICI Bank [Repayable within one year Rs.Nil (2005: Rs.143,056)]	11,434,372 - <u>11,434,372</u>	7,041,350 143,056 <u>7,184,406</u>

5. FIXED ASSETS [Schedule 21 Note 1(iii)]:

	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	2005	Additions	Deletions	2006	2005	Additions	Deletions	2006	2006	2005
Tangible Assets										
Land - Leasehold	11,133,621	-	-	11,133,621	-	-	-	-	11,133,621	11,133,621
Buildings	56,196,213	7,982,788	-	64,179,001	5,644,487	2,048,567	-	7,693,054	56,485,947	50,551,726
Plant and Machinery (Note 1 and 2)	499,476,153	22,631,129	-	522,107,282	146,741,584	47,169,107	-	193,910,691	328,196,591	352,734,569
Computers	5,383,074	1,426,970	-	6,810,044	2,703,412	907,988	-	3,611,400	3,198,644	2,679,662
Office Equipment	3,801,678	260,483	-	4,062,161	1,063,719	176,422	-	1,240,141	2,822,020	2,737,959
Furniture and Fixtures	7,630,208	213,246	-	7,843,454	2,327,643	452,396	-	2,780,039	5,063,415	5,302,565
Motor Vehicles (Note 3)	9,287,242	990,207	-	10,277,449	1,413,461	933,060	-	2,346,521	7,930,928	7,873,781
Intangible Assets										
Application Softwares	3,119,177	676,100	-	3,795,277	3,119,176	157,840	-	3,277,016	518,261	1
2005	596,027,366	341,80,923	-	630,208,289	163,013,482	51,845,380	-	214,858,862	415,349,427	433,013,884
	418,584,968	177,442,398	-	596,027,366	118,089,746	449,23,736	-	163,013,482		

Capital Work-in-Progress [including capital advances Rs.3,179,513 (2005: Rs.1,567,574)]

31,802,665 6,477,343
447,152,092 439,491,227

Notes:

1. Includes Machinery spares of irregular usage. [Original Cost Rs.4,102,615 (2005: Rs.4,102,615) , Written Down Value Rs.208,822 (2005: Rs 725,216)]
2. Book value of Plant and Machinery is net of Subsidy received from The Tamilnadu Industrial Investment Corporation Limited Rs.Nil (2005: Rs. 1,877,000)
3. Includes vehicles pending registration in the name of the Company.

6 INCIDENTAL EXPENDITURE DURING CONSTRUCTION PERIOD (IEDC) [SCHEDULE 21 NOTE 1(ii) AND 20]

	2005 Rs.	Additions Rs.	2006 Rs.	2005 Rs.
COST OF MATERIALS				
Opening Stock of Raw Materials and Components	1,919,118	-	1,919,118	260,144
Raw Materials and Components Purchased	580,609	1,352,201	1,932,810	3,974,810
Closing Stock of Raw Materials and Components	-	(273,434)	(273,434)	(1,919,118)
	2,499,727	1,078,767	3,578,494	2,315,836
EXPENDITURE ON EMPLOYEES				
Salaries, Wages, Allowances, etc.	-	423,119	423,119	90,000
OTHER EXPENSES				
Power and Fuel	-	521,668	521,668	99,641
Stores and Spares Consumed	-	1,570,777	1,570,777	-
Communication	65,302	-	65,302	263,656
Travelling and Conveyance	3,198,088	1,498,097	4,696,185	5,391,648
Interest and other borrowing cost on loans	-	-	-	700,116
Bank Charges	16,530	-	16,530	17,357
Carriage Outward	576,725	119,900	696,625	706,624
Miscellaneous Expenses	168,719	130,788	299,507	269,759
	6,525,091	5,343,116	11,868,207	9,854,637
Less:				
i) Sale out of Trial Production	50,405	841,687	892,092	50,405
ii) Allocated to Plant and Machinery	-	-	-	4,988,520
iii) Written off to Profit and Loss account	2,114,233	-	2,114,233	-
iv) Stock used for commercial production and included under Raw Materials Consumed (Schedule 17)	1,658,974	-	1,658,974	-
	2,701,479	4,501,429	7,202,908	4,815,712
			2006 Rs.	2005 Rs.
7 INVENTORIES [Schedule 21 Note 1 (iii)]				
Stores and Spares			25,539,314	20,724,142
Raw Materials and Components [Including In-transit Rs.16,626,799 (2005: Rs.27,968,756) and stock transferred from IEDC Rs.273,434 (2005: Rs.1,919,118)]			68,779,445	70,534,422
Work in Progress [Including Job in progress Rs.Nil (2005:Rs.3,153,121)]			3,017,206	7,166,792
Finished Goods			11,104,931	6,845,967
			108,440,896	105,271,323
8 SUNDRY DEBTORS (Unsecured, Considered good)				
Exceeding six months			6,343,117	3,098,561
Other Debts			188,129,218	158,945,742
			194,472,335	162,044,303
9 CASH AND BANK BALANCES				
Cash on hand			215,386	120,486
Balances with Scheduled Banks:				
On Current Accounts			2,946,180	2,414,443
On Deposit Accounts			11,999,955	9,674,778
			15,161,521	12,209,707

	2006 Rs.	2005 Rs.
10 OTHER CURRENT ASSETS (Unsecured, Considered Good)		
Balance with Excise Authority	25,000	134,966
Deposits	3,651,973	3,708,753
Interest accrued	-	348,702
	<u>3,676,973</u>	<u>4,192,421</u>
11 LOANS AND ADVANCES (Unsecured, considered good)		
Inter Corporate Loan to J.S.Auto Cast Foundry India Pvt Ltd.	5,000,000	5,000,000
Advances recoverable in cash or in kind or for value to be received	21,300,684	9,424,353
Advance payment of Fringe Benefit Tax [net of provision Rs.1,650,000 (2005: Rs.Nil)]	245,000	-
	<u>26,545,684</u>	<u>14,424,353</u>
12 CURRENT LIABILITIES		
Acceptances	93,079,407	51,999,066
Sundry Creditors		
Dues to Small Scale Industrial Undertakings (Note below)	27,966,306	14,891,468
Others	192,985,622	174,367,347
Advance from Customers	199,500	3,001,800
Other Liabilities	7,856,986	8,228,895
Interest Accrued but not due on loans	1,657,541	908,604
	<u>323,745,362</u>	<u>253,397,180</u>
Note : The information regarding Small Scale Industrial Undertakings has been determined to the extent such parties have been identified on the basis of information provided by the Company, which has been relied upon by the auditors.		
13 PROVISIONS		
Gratuity	780,084	650,070
Leave Encashment	824,544	760,884
Provision for Income Tax [Net of Advance tax Rs.32,695,443 (2005 : Rs. 10,859,260)]	1,044,844	916,312
Warranty (Schedule 21 Note 22)	800,000	371,000
Proposed final dividend [including tax thereon Rs.1,122,000 (2005: 522,800)]	9,122,000	4,522,800
	<u>12,571,472</u>	<u>7,221,066</u>
14 MISCELLANEOUS EXPENDITURE [Schedule 21 Note 1(ix)] (to the extent not written off or adjusted)		
Preliminary Expenses	70,788	99,106
Deferred Revenue Expenditure	-	459,998
	<u>70,788</u>	<u>559,104</u>
15 SALES [Schedule 21 Note 1(v)]		
Sales - Manufactured Goods and Tools	1,523,038,803	1,173,037,805
	<u>1,523,038,803</u>	<u>1,173,037,805</u>
16 OTHER INCOME		
Interest		
-from Banks (Gross)[Tax Deducted at Source: Rs.129,525 (2005:Rs.50,553)]	1,023,467	586,172
Sale of Scrap [Net of excise duty Rs.1,772,373 (2005: Rs.1,097,934)]	10,860,126	6,862,088
Liability written back	-	511,342
Miscellaneous Income	364,966	3,573,969
	<u>12,248,559</u>	<u>11,533,571</u>

	2006 Rs.	2005 Rs.
17 COST OF MATERIALS		
Raw Materials and Components Consumed [Including transfer from IEDC stock Rs.1,658,974 (2005:Rs.Nil)]	918,860,599	698,372,104
Movements in Stocks:		
Opening Stock		
Finished Goods	6,845,967	5,740,070
Work in Progress	7,166,792	3,033,835
	<u>14,012,759</u>	<u>8,773,905</u>
Closing Stock:		
Finished Goods	11,104,931	6,845,967
Work in Progress	3,017,206	7,166,792
	<u>14,122,137</u>	<u>14,012,759</u>
(Increase) / Decrease	(109,378)	(5,238,854)
Excise Duty on Opening stock of Finished Goods	1,056,488	883,138
Excise Duty on Closing stock of Finished Goods	1,726,130	1,056,488
Increase / (Decrease)	<u>669,642</u>	<u>173,350</u>
	<u>919,420,863</u>	<u>693,306,600</u>
18 EXPENDITURE ON EMPLOYEES		
Salaries, Wages, Allowances, etc.(Note 1 below)	48,636,784	39,986,261
Contribution to Provident and Other Funds (Note 2 below)	3,933,534	2,813,541
Staff Welfare	12,405,590	9,839,973
	<u>64,975,908</u>	<u>52,639,775</u>
Notes:		
1. Including provision for leave encashment Rs.63,660 (2005 :Rs.93,289).		
2. Including provision for gratuity Rs.780,084 (2005:Rs.650,070)		
19 OTHER EXPENSES		
Rent (Schedule 21 Note 15)	370,045	444,415
Rates and Taxes	393,922	279,233
Insurance	1,089,196	1,101,681
Stores and Spares Consumed	42,517,803	31,218,734
Power and Fuel	17,243,838	15,090,563
Exchange Loss (Net)	627,996	-
Repairs and Maintenance:		
-Plant and Machinery	1,924,618	1,519,480
-Buildings	36,250	69,318
-Others	6,858,184	6,669,656
Legal and Professional Fees	3,914,326	3,636,489
Communication Expenses	2,169,958	1,888,989
Travelling and Conveyance	13,471,301	9,245,697
Bank Charges	2,305,134	2,556,510
Advertisement and Sales Promotion	2,270,105	1,210,289
Printing and Stationery	1,502,146	1,347,458
Bad debts written off	-	5,207,380
Less: Provision no longer required written back	-	<u>5,207,380</u>
Security Charges	525,669	495,499
Discounts	-	3,359,934
Freight and Handling Charges	5,014,403	4,642,712
Warranty Claim [Including provision Rs.429,000 (2005: Rs.171,000)]	1,501,344	414,303
Miscellaneous Expenditure written off	488,316	488,316
Miscellaneous Expenses	2,748,881	3,189,039
	<u>106,973,435</u>	<u>88,868,315</u>
20 INTEREST		
Fixed Loans	13,036,949	14,417,563
Others	13,293,294	7,042,062
	<u>26,330,243</u>	<u>21,459,625</u>

21. NOTES ON ACCOUNTS

1. STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES

(i) METHOD OF ACCOUNTING

The accounts have been prepared under the historical cost convention and on an accrual basis.

(ii) FIXED ASSETS AND DEPRECIATION

Fixed Assets are stated at their original cost of acquisition and subsequent improvements thereto including taxes, duties, freight and other incidental expenses including borrowing costs where applicable related to the acquisition and installation of the assets concerned. Incidental expenditure during construction period is also capitalised where appropriate.

Operating software are capitalised with the related fixed assets while application software is charged off to revenue except for major application software which are capitalised as intangible assets and amortised over the useful life as estimated by the management.

Depreciation is provided on a straight line method (SLM) at rates prescribed in Schedule XIV of the Companies Act, 1956, except for the following, based on the management's estimate of the useful lives of the assets concerned:

Particulars of Fixed Assets	Rates of Depreciation
Plant and Machinery:	
-Machinery spares of irregular usage	20%
Office Equipment	
-Mobile Phones	50%

Land has been acquired on lease for a period of ninety nine years, with an option for renewal over a further period of ninety nine years. The cost of land is, however, not being amortised over the lease period.

(iii) INVENTORIES

Inventories are valued at lower of cost or net realisable value. Costs are generally determined on first in first out (FIFO) method.

Stores and Spares include:

- Material handling items, which are written off over their estimated useful lives.
- Tools, which are treated as consumed on issue to production.

(iv) FOREIGN CURRENCY TRANSACTIONS

a) Foreign Currency transactions are recorded in the books at the rate of exchange prevailing on the date of such transactions.

b) Foreign Currency liabilities pertaining to the fixed assets, acquired from a country outside India are restated at the rates prevailing at the year end or at the forward contract rates, as may be applicable and resultant differences arising out of such restatement are adjusted to the cost of fixed assets.

c) The monetary items included under Current Liabilities and Current assets are restated at the rates prevailing at the year end and the differences arising from such restatement are adjusted to Profit and Loss Account.

d) Exchange differences on forward contracts are recognised in the Profit and Loss Account in the reporting period in which the exchange rate changes. Any profit or loss arising on cancellation or renewal of such forward contracts is recognised as income or expense for the year. The premium or discount arising at the inception of such forward exchange contract is amortised as expenses or income over the life of such contract.

(v) REVENUE RECOGNITION AND PRODUCT WARRANTY

Sales are recognised on despatch to customers and are inclusive of excise duty but exclude sales tax. Product warranty expense is provided for on an estimated basis.

(vi) RETIREMENT BENEFITS

Retirement benefits are paid to the approved funds maintained on behalf of the Company / accrued in the books, as per statutes/ amounts advised by the funds, except for the liability for the encashment of unavailed leave which is accrued in the books based on actuarial valuation.

(vii) ACCOUNTING OF SUBSIDIES

a) Subsidy receivable against an expense is deducted from such expense and subsidy/grant receivable against a specific fixed asset is deducted from the cost of the relevant fixed asset.

b) Investment subsidy not specifically related to a specific fixed asset is credited to Capital Reserve and retained till the requisite conditions are fulfilled.

(viii) TAXES ON INCOME

Tax on income for the current year is determined on the basis of the Income Tax Act, 1961.

Fringe Benefit Tax has been determined at current applicable rates on expenses falling within the ambit of "Fringe Benefit" as defined under the Income Tax Act, 1961.

Deferred tax is recognised subject to consideration of prudence, on timing differences, being the difference between the taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred tax assets are recognised and carried forward to the extent that there is a reasonable/virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

(ix) MISCELLANEOUS EXPENDITURE

Preliminary expenses incurred within March 31, 1998 are amortised over a period of ten years from the date of commercial production. Deferred Revenue Expenditure incurred within March 31, 2003 is written off over a period of three to five years.

(x) EARNINGS PER SHARE

Earnings (basic and diluted) per equity share is arrived at based on Net Profit/(Loss) after taxation before extraordinary items to the basic/weighted average number of equity shares.

(xi) PROVISIONS

Provisions are recognised when the Company has a present obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation. Where the company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

	2006	2005
2. Estimated amount of contracts remaining to be executed on capital account (net of advances) and not provided for	20,850,543	70,917,749

3. Contingent liabilities

- -

4. The Company received a favourable order from the Customs, Excise and Service tax Appellate Tribunal against additional customs duty demanded for import of certain material from group companies. Necessary application has been made to the appropriate authority for the refund of an aggregate amount of Rs.721,408 (2005: Rs.1,421,408) which is included under Loans and Advances [(Rs.721,408 (2005: Rs.721,408)].

5. Particulars in respect of goods manufactured.

Class of goods	Unit [Note (i) below]	Licensed capacity [Note (ii) below]	Installed capacity [Note (iii) below]	Production
Automotive components	Nos.	NA	9,923,636 (6,806,836)	5,497,671 (4,202,178)

Notes:

(i) The Company is exempt from the licensing provisions of the Industries (Development Regulation) Act, 1951.

(ii) The Installed capacity has been certified by the management and relied upon by the Auditors, this being a technical matter.

(iii) Includes 3727 nos. (2005: 35 nos.) out of trial production.

(iv) Figures in brackets relate to previous year.

6. Particulars of stocks and turnover of automotive components manufactured:

Class of goods	Opening stock	Turnover [Note (i) below]		Closing stock		
Automotive Components						
Case Front	1,325 (629)	533,041 (300,360)	470,480 (274,079)	222,211,091 (114,812,751)	3,178 (1,325)	1,960,067 (533,041)
Water pump.	2,515 (1,284)	943,283 (617,126)	329,873 (342,984)	149,715,893 (111,973,654)	3,631 (2,515)	1,302,454 (943,283)
Intake manifold.	813 (439)	1,098,440 (569,372)	239,233 (208,391)	335,566,377 (295,051,377)	1,645 (813)	2,128,549 (1,098,440)
Rocker cover.	633 (360)	236,296 (316,648)	210,026 (187,526)	107,950,895 (94,536,358)	1,523 (633)	661,063 (236,296)
Exhaust-manifold	1,562 (2,504)	1,077,282 (1,445,324)	218,201 (199,051)	333,425,603 (303,296,052)	565 (1,562)	626,726 (1,077,282)
Rocker arm. - A & B	22,514 (3,681)	1,189,857 (166,233)	1,830,855 (1,714,620)	185,083,921 (106,638,254)	46,804 (22,514)	3,721,713 (1,189,857)
Others [Note (ii) below]	26,718 (30,771)	1,767,768 (2,325,007)	2,179,052 (1,259,115)	189,926,709 (146,747,630)	18,685 (26,718)	704,359 (1,767,768)
	56,080 (39,668)	6,845,967 (5,740,070)	5,477,720 (4,185,766)	1,523,880,489 (1,173,056,076)	76,031 (56,080)	11,104,931 (6,845,967)

Notes:

i) Includes 3727 nos. (2005: 35 nos.) amounting to Rs.841,687 (2005: Rs. 18,271) out of trial production.

(ii) The individual values of these do not exceed 10% of turnover

(iii) Figures in brackets relate to previous period.

7. Analysis of Raw materials and Components Consumed:

	2006		2005	
	Quantity (Nos.)	Value Rs.	Quantity (Nos.)	Value Rs.
Raw material and Components				
Castings	5,236,005	563,215,870	4,954,877	467,827,041
Others		356,723,496		231,653,293
		<u>919,939,366</u>		<u>699,480,334</u>
Less: Consumed for trial production included under IEDC		1,078,767		1,108,230
		<u>918,860,599</u>		<u>698,372,104</u>
Whereof:				
Imported	37%	342,950,231	29%	201,498,474
Indigenous	63%	575,910,368	71%	496,873,630
	<u>100%</u>	<u>918,860,599</u>	<u>100%</u>	<u>698,372,104</u>

8. Analysis of Stores and Spare Parts Consumed:

Stores and Spares		42,517,803		31,218,734
Whereof:				
Imported	4%	1,776,847	10%	3,166,074
Indigenous	96%	40,740,956	90%	28,052,660
	<u>100%</u>	<u>42,517,803</u>	<u>100%</u>	<u>31,218,734</u>

9. Value of Imports on CIF basis:

Raw materials and components		314,306,351		190,793,493
Capital Goods		2,413,097		76,693,985
Stores and Spares		618,546		1,461,559
		<u>317,337,994</u>		<u>268,949,037</u>

10. Expenditure in foreign currency

Travel		3,883,621		2,658,998
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11. Earnings in Foreign Exchange

FOB value of Exports		77,900,022		9,193,176
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12. Dividend remitted in Foreign Currency

(i) Number of non-resident shareholder		1		1
(ii) Number of shares on which dividend paid		2,160,000		2,160,000
(iii) Details of remittance				
- 2005 Interim		-		3,240,000
- 2005 Final		1,080,000		-
- 2006 Interim		3,240,000		-

13. Managerial Remuneration

Executive Directors' remuneration (excluding contribution to group gratuity fund and provision for leave encashment)

Salaries		1,061,200		919,500
Contribution to Provident and Other Funds		93,600		75,600
Other benefits [including those valued as per Income Tax Rules]		206,000		63,000
		<u>1,360,800</u>		<u>1,058,100</u>

14. Auditors' Remuneration included under

Legal and Professional Fees*

Audit Fees		900,000		900,000
Tax Audit Fees		100,000		100,000
Other Matters		60,000		-
Reimbursement of Out-of-pocket Expenses		40,213		18,044
		<u>1,100,213</u>		<u>1,018,044</u>

* excluding Service Tax

15. Leasing arrangements

a) The significant leasing arrangements entered into by the Company include the following:

b) Buildings (including those for employee residences) are taken on operating lease. Such leases are generally for a period of 11 to 36 months with options of renewal against increased rent and premature termination of agreement through notice period of 3 months.

c) Lease payments recognised under rent expenses in Schedule 19:

	2006	2005
Minimum lease payments	315,000	301,916
There are no contingent rents.		

16. Taxation

a) Provision for Income tax is

Including provision for assessment year 2003-04 and

Net of excess provision written back for assessment year 2005-06

514,538	-
<u>(5,444,339)</u>	-
<u>(4,929,801)</u>	-

b) The net Deferred Tax Liability as on March 31, 2006

A) Deferred Tax Asset arising from:

i) Expenses allowable for tax purposes when paid

<u>1,133,594</u>	<u>313,672</u>
<u>1,133,594</u>	<u>313,672</u>

B) Deferred Tax Liabilities arising from:

i) Differences between carrying amount of fixed assets in the financial statements and the Income tax Return

48,073,106	42,385,573
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ii) Differences in carrying amount of Preliminary expenses in the financial statements and the Income Tax Return

23,828	33,359
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iii) Expenses allowed under the Income Tax Act, 1961, but to be charged in the financial statements in future years.

-	154,835
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Net deferred tax liabilities (A)-(B)

<u>48,096,934</u>	<u>42,573,767</u>
<u>46,963,340</u>	<u>42,260,095</u>

Accounted as:

Deferred tax charge for the year

<u>4,703,245</u>	<u>16,018,274</u>
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The tax impact for the above purpose has been arrived by applying a tax rate of 33.66% (2005: 33.66%) being the prevailing tax rate for Indian Companies under the Income Tax Act, 1961.

21. NOTES ON ACCOUNTS

17. Related Party Disclosures

A) Summary of the transactions with related parties is as follows:

	Holding Company		Party having substantial interest		Key Management Personnel		Total
	2006	2005	2006	2005	2006	2005	
	[B(a)(i)]		[B(a)(ii)]		[B(b)]		Rupees
i. Purchase of Fixed Assets	1,099,643	* 6,351,855	-	-	-	-	2005
ii. Other Income						1,099,643	2006
Scrap sales	273,623	262,064	-	-	-	-	2005
Other sales	694,114		-	-	-	273,623	2006
Materials			-	-	-	694,114	2005
iii. Purchase of Raw materials,							
Components	261,767,528	224,148,134	-	-	-	-	2005
Tool Cost	928,350	1,775,000	-	-	-	928,350	2006
Expenses							
iv. Managerial Remuneration							
Directors Sitting fees	-	-	-	-	1,360,800	1,058,100	2005
Dividend	14,600,000	11,680,000	-	-	40,000	-	2006
Reimbursement of Expenses	2,288,265	1,469,398	5,400,000	4,320,000	-	-	2005
Balance outstanding							
at the year end	60,237,908	55,913,934	2,160,000	1,080,000	-	-	2006
							2005
							6,351,855
							262,064
							-
							224,148,134
							1,775,000
							1,058,100
							40,000
							20,000,000
							2,288,265
							1,469,398
							56,993,934

* Net of reversal of liability pertaining to earlier years Rs.Nil [2005: Rs.1,771,478]

B) Names of related parties and description of relationship:

a) Parties where control exists:

(i) Holding Company	Dynumatic Technologies Limited , India
(ii) Party having substantial Interest in the Company	DaeRim Enterprises Company Limited, Korea
b) Key Management Personnel	

Directors of the Company

Mr Udayant Malhoutra, Chairman
Mr Hyo Kyon Lee, Vice Chairman
Mr Jayant Kumar Malhoutra
Dr K Aprameyan
Mr V Sunder, CEO & Executive Director

Note : The above information has been determined to the extent such parties have been identified on the basis of information provided by the company which has been relied upon by the auditors.

18. The Company, is eligible, vide certificate issued by State Industries Promotion Corporation of Tamilnadu Ltd, for deferment of Sales tax, for a period of nine years from March 1, 1998 to February 28, 2007. The tax deferred is in the nature of interest free unsecured loan repayable after the expiry of the deferment period, on a year to year basis. Accordingly, the sales tax of Rs. 11,434,372 (2005: 7,041,350) so deferred has been disclosed as Unsecured Loan.

19. The Finance Act 2001 has introduced, with effect from Assessment Year 2002-03, detailed Transfer Pricing Regulations for computing the taxable income from 'International transactions' between 'associated enterprises' on an 'arms length basis'. These regulations, inter alia, also require the maintenance of prescribed documents and information including furnishing a report from an Accountant within the due date of filing the Return of Income. As there are no international transactions with associate Companies, the study of transfer pricing as envisaged under the IT rules is not applicable.

20. The Company has undertaken an expansion project and all related incidental expenditure incurred has been carried forward as Incidental Expenditure during Construction to be allocated to project assets in Schedule 6 to Accounts.

21. The Company has imported certain machinery under the 'Export Promotion Capital Goods' (EPCG) scheme. According to the said scheme, the Company is entitled to import machinery at concessional customs duty with an obligation to export eight times of duty savings within a period of eight years. The details of export obligation are as under:

	2006 Rs.	2005 Rs.
Export Obligation at the beginning of the year	397,014,410	287,938,808
Add : Export Obligation accrued during the year	66,250,000	116,100,168
Less : Exports made during the year	(76,177,154)	(7,024,566)
Export Obligation as at the year end	<u>387,087,256</u>	<u>397,014,410</u>

	2006 Rs.	2005 Rs.
22. Provisions		
Product Warranty (Note)		
At beginning of the year	371,000	200,000
Additional provisions made during the year.	<u>1,501,344</u>	<u>171,000</u>
Charged to income statement	1,872,344	371,000
Utilised during the year	<u>1,072,344</u>	<u>-</u>
At the end of the year	<u>800,000</u>	<u>371,000</u>

Note: Warranty provision has been made based on the average of preceding three years warranty claimed.

23. Segmental Reporting

The Company's operations relate only to manufacture and sale of 'Engine and Transmission components', and accordingly, which are used in the automotive industry. Accordingly, primary reporting disclosure for business segment, as envisaged in Accounting Standard 17 on 'Segment Reporting' issued by The Institute of Chartered Accountants of India, is not applicable to the Company. The Company sells 'Engine and Transmission components' mainly in the domestic market. Accordingly, secondary segment reporting has been confined to sales in India and exports outside India. Fixed assets used in the Company's business and liabilities contracted in respect of its sole manufacturing facility, are not identifiable in line with the following reportable segments as the fixed assets and liabilities contracted are used interchangeably between the segments. Accordingly, except for sundry debtors, no disclosures relating to other segment assets and liabilities have been made.

Secondary Segment Reporting:

	India	Outside India	Total
External Sales (Net of returns and including excise duty)	1,445,138,781 (1,163,844,629)	77,900,022 (9,193,176)	1,523,038,803 (1,173,037,805)
Sundry Debtors (gross)	168,278,137 (158,741,339)	26,194,198 (3,302,964)	194,472,335 (162,044,303)

Note: Figures in bracket are in respect of previous year

24. Earning per Share * [Refer Note 1(x) above]

	2006	2005
a) Net Profit after tax available for equity shares	67,433,667	
Add: Extraordinary items	<u>2,114,233</u>	69,547,900
b) Basic/Weighted Average number of Equity Shares of Rs.10 each	8,000,000	8,000,000
c) Basic and Diluted Earnings /(Loss) Per Share (Rs.)	8.69	6.59
* before extraordinary items		

25. Pursuant to negotiation with a foreign customer, the Company agreed to change its plan to supply different auto components instead of the auto components, earlier intended to be purchased by the customer. Consequently, the related Incidental Expenditure during Construction Period incurred for the discontinued project amounting to Rs. 2,114,233 has been written off during the year as extraordinary item.

26. Previous year's figures have been rearranged/regrouped wherever necessary.

22 BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE.

I. Registration Details

Registration No. 08/22429 of 1997 State Code : 08
 Balance Sheet Date : 31-03-2006
 Date Month Year

II. Capital Raised during the period (Amount In Rs.'000)

Public Issue - Rights Issue -
 Bonus Issue - Private Placement -

III. Position of Mobilisation and Deployment of Funds (Amount in Rs.'000)

Total Liabilities 609,989 Total Assets 802,652
 (including net deferred tax liability of Rs.46,963)

Sources of Funds

Paid-up Capital 80,000 Reserves and Surplus 112,735
 Secured Loans 215,274 Unsecured Loans 11,434

Application of Funds

Net Fixed Assets 454,355* Investments Nil
 Net Current Assets 11,981
 Accumulated Loss - Misc. Expenditure 71

* Includes Capital Work in Progress Rs.31,802 and Incidental Expenditure during Construction Period Rs 7,203

IV. Performance of Company (Amount in Rs.'000)

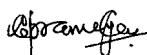
Turnover 1,279,462 Total Expenditure 1,091,370
 (includes Other Income)
 Profit/(Loss) before Tax 109,916 Profit/(Loss) after Tax 67,434
 Earnings per share in Rs. 8.69 Dividend Rate % 25

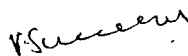
V. Generic Names of Three Principal Products / Services of the Company (as per monetary terms)

Item Code No. (ITC Code) 870790.01
 Product Description Automotive Components

Signatures to Schedules 1 to 22 forming part of the Balance Sheet and Profit and Loss Account.

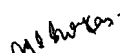

UDAYANT MALHOUTRA
 Chairman


Dr.K. APRAMEYAN
 Director


V.SUNDER
 CEO & Executive Director

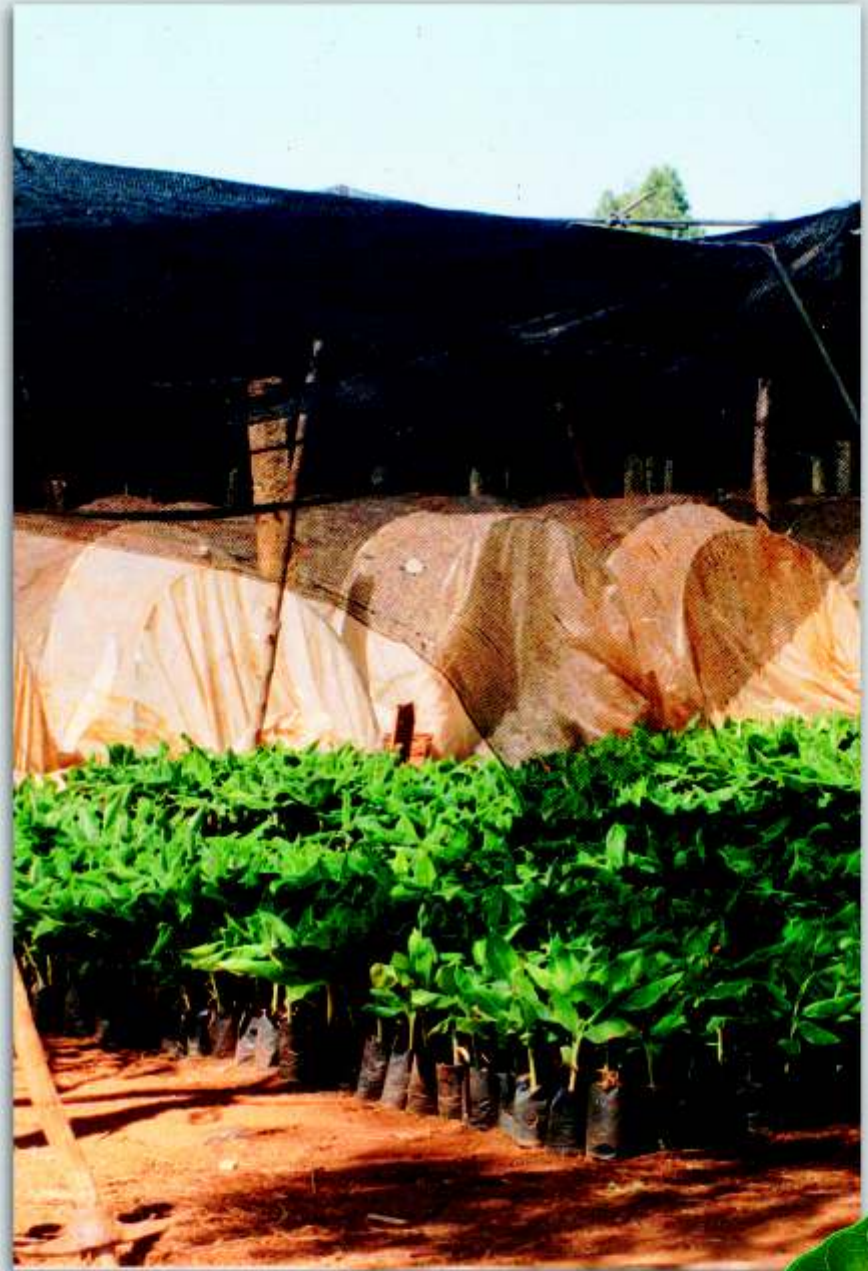

K.R. SRINIVASAN
 VP - Finance & Corporate Affairs

PLACE : BANGALORE
 DATE : 21ST JUNE, 2006


M.S. SHANKAR
 Company Secretary

ANNUAL REPORT
2005-06

JKM RESEARCH FARM LIMITED



BOARD OF DIRECTORS

Mr. Udayant Malhoutra	...	Chairman
Mrs. Pramilla Malhoutra	...	Director
Mr. V. Sunder	...	Director

AUDITORS

B N Govinda Prasad
Chartered Accountants Bangalore

REGISTERED OFFICE

Dynamatic Park Peenya Bangalore 560 058

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DIRECTORS' REPORT TO SHAREHOLDERS

Your Directors have pleasure in presenting the Twelfth Annual Report together with the audited statement of accounts for the year ended **31st March, 2006**.

FINANCIAL RESULTS

The Financial Results of the Company for the year ended 31st March, 2006 were as follows:

	Year ended 31. 03. 2006	(Rs in Lacs) Year ended 31. 03. 2005
Gross Profit (before interest, depreciation & taxation) (EBITDA)	32.45	29.15
Interest	-	-
Depreciation	7.39	7.90
Net Profit/(Loss) Before Taxation	25.06	21.25
Provision for Current year Taxation	12.85	13.50
Provision for Deferred Tax	(1.03)	(3.16)
Net Profit / (Loss) After tax	13.24	10.91
Short provision of taxation of earlier years	1.03	-
Loss brought forward from previous year	(55.62)	(66.53)
Amount available for appropriation	-	-

Dividend

No Dividend is recommended for the year under review.

PERFORMANCE OF YOUR COMPANY

During the year under report, your Company has made an operational income of **Rs.42 lacs** as against Rs.42 lacs for the previous year. The pre-tax profit for the year amounted to **Rs.25 lacs** as against Rs.21 lacs for the previous year.

Your Company continues to be the **Research & Development facilitator** to its Holding Company, Dynamatic Technologies Limited during the year under review.

DIRECTORS

Mrs. Pramilla Malhoutra retires by rotation and being eligible offers herself for re-appointment.

DIRECTORS RESPONSIBILITY STATEMENT

The Directors' Responsibility Statement as required under Section 217(2AA) of The Companies (Amendment) Act, 2000.

Directors hereby confirm:

(i) That in the preparation of the accounts for the financial year ended 31st March, 2006, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;

(ii) That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss account of the Company for the year under review;

(iii) That the Directors have taken proper and sufficient care for the maintenance of adequate 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;

(iv) That the Directors have prepared the accounts for the financial year ended 31st March, 2006 on a 'going concern' basis.

Auditors

M/s. B.N. Govinda Prasad, Chartered Accountants, retires at this Annual General Meeting and are eligible for re-appointment.

Statutory Information

None of the statutory information pursuant to section 217(1)(e) and Section 217(2A) of The Companies Act, 1956, are applicable to the Company for the year under review.

By Order of the Board of Directors



UDAYANT MALHOUTRA
Chairman

PLACE : BANGALORE
DATE : 22nd JULY, 2006

AUDITORS' REPORT TO THE MEMBERS OF JKM RESEARCH FARM LIMITED

1. We have audited the attached Balance Sheet of JKM RESEARCH FARM LIMITED as at March 31, 2006, related Profit and Loss account for the year ended on that date annexed thereto, all of which we have signed under reference to this report. 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 have 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, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, (together the Order), issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956 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:

4.1 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;

4.2 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;

4.3 The Balance Sheet, Profit and Loss Account dealt with by this report are in agreement with the books of account;


4.4 In our opinion, the Balance Sheet, Profit and Loss account dealt with by this report have been prepared in compliance with the applicable accounting standards referred to in Section 211 (3C) of the Companies Act, 1956.

4.5 On the basis of written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

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

• In the case of the Balance Sheet, of the Company's State of Affairs of the Company as at March 31, 2006; and

• In the case of the Profit and Loss account, of the PROFIT for the year ended on that date.



B.N.GOVINDA PRASAD

Partner

Membership No.23521

For & on behalf of

M/s. B.N.GOVINDA PRASAD

Chartered Accountants

PLACE : BANGALORE

DATE : 22nd JULY, 2006

Annexure to the Auditors' Report referred to in paragraph 3 of our report of even date

(i)a) The Company is maintaining proper records to show full particulars including quantitative details and situation of it's fixed assets.

b) The fixed assets are physically verified by the management during the year. In our opinion, the frequency of verification of the fixed assets by the management is reasonable having regard to the size of the Company and the nature of it's assets. No material discrepancies have been noticed between the book records and the physical inventory.

c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the company during the year.

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

b) The procedure of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of it's business.

c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material and have been properly dealt with in the books of account.

(iii) a) The Company has not taken loans, secured or unsecured, from companies, firms or other parties listed in the Register maintained under Sec.301 of the Companies Act, 1956.

b) The Company had taken intercorporate unsecured loan from it's holding company in earlier years. The maximum amount outstanding during the year in respect of the aforesaid loan is Rs. 182.12 Lakhs and the year end

balance is Rs.160.00 Lakhs. In our opinion, the terms and conditions on which the loan mentioned has been taken are not, prima facie, prejudicial to the interest of the Company. No interest is stipulated on the said loan. While no repayment schedule has been agreed upon for the repayment of principal in respect of the said loan, the Company has repaid amounts towards part satisfaction of the loan.

(iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and for sale of goods and services.

(v) In our opinion and according to the information and explanations given to us, there were no transactions of purchase of goods, materials / services and for sale of goods, materials / services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, which are not reasonable having regard to the prevailing market prices for such goods, materials or services at the relevant time.

(vi) The Company has not accepted any deposits from the public.

(vii) The Company does not have a formal internal audit system. However, as per the explanations given to us, there are adequate internal checks at appropriate levels commensurate with the size and nature of the Company's business.

(viii) As per the information and explanations furnished, the Central Government has not prescribed maintenance of cost records as required under Section 209(1) (d) of the Companies Act, 1956, in respect of the Company's activities.

(ix) a) The Company is regular in depositing with appropriate authorities undisputed statutory dues as applicable to it.

b) According to the information and explanations given to us and the books and records examined by us, there were no undisputed tax liabilities outstanding as at March 31, 2006 for over six months from the date they became payable.

(x) In our opinion, the accumulated losses of the Company are not more than fifty percent of its net-worth. The Company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

(xi) During the year, the Company did not have any outstanding dues to a financial institution, bank or debenture holders.

(xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund / nidhi / mutual benefit fund / society and clause 4(xiii) of the Order is not applicable.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Order is not applicable.

(xv) On the basis of the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

(xvi) There were no term loans outstanding during the year.

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

(xviii) 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.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money by public issues during the year.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported by the management during the course of our audit.



B.N.GOVINDA PRASAD

Partner

Membership No.23521

For & on behalf of

M/s. B.N.GOVINDA PRASAD

Chartered Accountants

PLACE : BANGALORE

DATE : 22nd JULY, 2006

BALANCE SHEET AS AT 31ST MARCH, 2006

SOURCES OF FUNDS	Schedule	2006 Rs.	2005 Rs.
Shareholders Fund			
Capital	I	20,000,000	20,000,000
Reserves & Surplus	II	2,500,000	2,500,000
Deferred Tax Liability (Net)		2,295,900	2,399,200
Loan Funds			
Unsecured Loans	III	16,000,000	18,212,553
		<u>40,795,900</u>	<u>43,111,753</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	IV	17,681,282	17,658,345
Less: Depreciation		<u>7,578,164</u>	<u>6,838,252</u>
Net Block		10,103,118	10,820,093
Advances on Capital Account		7,698,872	7,678,872
Current Assets, Loans and Advances			
Inventories	V	12,463,453	12,463,453
Sundry Debtors	VI	4,733,640	4,733,640
Cash & Bank Balances	VII	40,779	41,601
Loans & Advances	VIII	<u>3,296,620</u>	<u>4,461,162</u>
		20,534,492	21,699,856
Less: Current Liabilities and Provisions			
Liabilities	IX	597,095	87,357
Provisions	X	<u>1,285,000</u>	<u>2,562,000</u>
		1,882,095	2,649,357
Net Current Assets		18,652,397	19,050,499
Profit and Loss Account		4,341,513	5,562,290
		<u>40,795,900</u>	<u>43,111,753</u>

Significant Accounting Policies & Notes on Accounts

XII

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



UDAYANT MALHOUTRA
Director



V. SUNDER
Director



B.N.GOVINDA PRASAD
Partner
Membership No.23521
For & on behalf of
M/s. B.N.GOVINDA PRASAD
Chartered Accountants

PLACE : BANGALORE
DATE : 22nd JULY, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedule	2006 Rs.	2005 Rs.
INCOME			
Operational Income			
Income from letting out facilities		<u>4,200,000</u>	<u>4,200,000</u>
EXPENDITURE			
Operating and Other Expenses	XI	954,627	1,285,265
OPERATING PROFIT (EBITDA)		3,245,373	2,914,735
Depreciation		739,912	790,261
PROFIT BEFORE TAX		2,505,461	2,124,474
Provision for tax - for the year		1,285,000	1,350,000
- Deferred Tax		(103,300)	(316,800)
PROFIT/(LOSS) AFTER TAX		1,323,761	1,091,274
Excess/(Short) provision of taxation of earlier years		(102,984)	-
BROUGHT FORWARD		(5,562,290)	(6,653,564)
CARRIED FORWARD		(4,341,513)	(5,562,290)

Significant Accounting Policies &
Notes on Accounts

XII

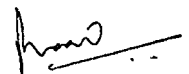
This is the Profit & Loss Account referred
to in our report of even date



UDAYANT MALHOUTRA
Director



V. SUNDER
Director



B.N.GOVINDA PRASAD
Partner
Membership No.23521
For & on behalf of
M/s. B.N.GOVINDA PRASAD
Chartered Accountants

PLACE : BANGALORE
DATE : 22ND JULY, 2006

SCHEDULES TO ACCOUNTS

	2006 Rs.	2005 Rs.
SCHEDULE I - SHARE CAPITAL		
Authorised: 20,00,000 Equity Shares of Rs.10 each	<u>20,000,000</u>	<u>20,000,000</u>
Issued, Subscribed and Paid-up 20,00,000 (20,00,000) Equity Shares of Rs.10 each, fully Paid-up	<u>20,000,000</u>	<u>20,000,000</u>
SCHEDULE II - RESERVES & SURPLUS		
Capital Reserve: Subsidy Received from National Horticulture Board under Back Ended Subsidy Scheme	<u>2,500,000</u>	<u>2,500,000</u>
SCHEDULE III - UNSECURED LOANS		
Received from Dynamatic Technologies Limited, the holding company	<u>16,000,000</u>	<u>18,212,553</u>
SCHEDULE V - INVENTORIES (As taken, Valued and Certified by the Mgt)		
Rose Plants - At cost	<u>12,463,453</u>	<u>12,463,453</u>
SCHEDULE VI - SUNDRY DEBTORS (Unsecured; Considered Good)		
Debts outstanding for a period exceeding six months	<u>4,733,640</u>	<u>4,733,640</u>
SCHEDULE VII - CASH AND BANK BALANCES		
Balance with Scheduled Banks: In Current Accounts	<u>40,779</u>	<u>41,601</u>
SCHEDULE VIII - LOANS AND ADVANCES (Unsecured, considered good)		
Advances	2,296,500	2,302,304
Income Tax and TDS	942,480	2,151,798
Deposits	57,640	7,060
	<u>3,296,620</u>	<u>4,461,162</u>
SCHEDULE IX - CURRENT LIABILITIES		
Sundry Creditors: Dues to Small Scale Industries	-	-
Others	276,766	52,983
Other Current Liabilities	320,329	34,374
	<u>597,095</u>	<u>87,357</u>
SCHEDULE X - PROVISIONS		
Provision for Tax	<u>1,285,000</u>	<u>2,562,000</u>

SCHEDULE - IV FIXED ASSETS AT 31ST MARCH, 2006

D E S C R I P T I O N	G R O S S B L O C K			D E P R E C I A T I O N B L O C K			N E T B L O C K	
	As at 01.04.2005	Additions/ (Deletions)	As at 31.03.2006	As at 01.04.2005	For the year	Deletions	As at 31.03.2006	As at 31.03.2005
a) Let out(See Note 1 below)								
Land	289,594	-	289,594	-	-	-	289,594	289,594
Building	4,789,857	-	4,789,857	1,356,051	159,981	-	3,273,825	3,433,806
Plant and Machinery	10,440,159	-	10,440,159	4,346,966	495,908	-	5,597,285	6,093,192
Electrical Installations	1,578,413	22,940	1,601,353	637,286	75,243	-	888,824	941,127
Sub total (a)	17,098,023	22,940	17,120,963	6,340,303	731,132	-	10,049,528	10,757,719
b) Other Assets								
Furniture & Fixtures	101,823	-	101,823	64,714	6,445	-	30,664	37,108
Vehicles	458,495	-	458,495	433,235	2,335	-	22,925	25,265
Sub total (b)	560,318	-	560,318	497,949	8,780	-	53,589	62,373
Total	17,658,341	22,940	17,681,282	6,838,252	739,912	-	10,103,118	10,820,093
Previous Year	18,104,765	(446,420)	17,658,345	6,245,024	790,261	(197,037)	10,820,093	-

NOTE

1. Let out to M/s. Dynamic Technologies Limited, the holding Company

2006
Rs.

2005
Rs.

SCHEDULE XI - OPERATING AND OTHER EXPENSES:

Rates and Taxes	1,528	4,210
Insurance	28,082	24,169
Watch and Ward	495,900	491,783
Legal Expenses	34,119	157,341
Legal & Professional Charges	350,265	526,250
Other Establishment Expenses	17,183	70,492
Audit Fee - for audit	27,550	11,020
	954,627	1,285,265

SCHEDULE XII

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS FOR THE YEAR ENDED 31ST MARCH' 2006

A. ACCOUNTING POLICIES

- 1 The financial statements have been prepared under the historical cost convention.
- 2 All income and expenditure having a material bearing on the financial statements are recognised on accrual basis.
- 3 Fixed Assets are stated at cost of acquisition including the relatable direct costs incurred till the assets are ready to be put to use.
- 4 Depreciation on Straight Line method has been provided on the fixed assets at the rates prescribed under Schedule XIV of the Companies Act, 1956.
- 5 Rose plants forming part of inventory are self-generating in nature and therefore are valued at cost and not amortised. Work in Progress is valued at cost.

B. NOTES TO ACCOUNTS

- 1 Subsidy of Rs.25 Lakhs (Rs.25 Lakhs) received from National Horticulture Board, under their Back Ended Subsidy Scheme has been shown under Capital Reserves in Schedule II.
- 2 Rs.160.00 Lakhs (Rs.182.13 Lakhs) shown in Schedule III represents interest free advances given by M/s.Dynamatic Technologies Limited, the holding Company.
- 3 Advances on capital account amounting to Rs.76.99 Lakhs (Rs.76.79 Lakhs) expended for land and its developmental expenses, of which, the transfer and ownership to the Company is pending completion of several legal formalities. In respect of 49 acres and 4 guntas of land, a suit for specific performance had been filed before the Civil Judge (Senior division), Doddaballapur court. The Company has obtained an ad-interim injunction against the Vendor from alienating the property and the same is continuing.
- 4 There were no employees in receipt of remuneration in excess of limits set under Section 217 (2A) of the Companies Act, 1956.
- 5 The Company has rented out its facilities to M/s Dynamatic Technologies Limited, the holding Company, and earned Rs.42.00 Lakhs (Rs.42.00 Lakhs) as rental income arising out of this transaction.
- 6 The transaction as per Note No.5 above is not in the nature of leases contemplated in Accounting Standard 19 issued by the Institute of Chartered Accountants of India.
- 7 The Company has written back deferred tax saving of Rs. 1,03,300/- (Rs.3,16,800/-) during the year arising out of the timing differences on account of depreciation.
- 8 Capacity, Production, Turnover and Stocks:

a) Capacities

- Licenced Capacity	2 Million Stems
- Installed Capacity	Not Ascertainable

b) Production

Not Ascertainable

c) Sales

Rs.Nil (Rs.Nil)

d) Opening Stock

- Rose (Mother) Plants	Rs.124.63 Lakhs (Rs.124.63 Lakhs)
------------------------	-----------------------------------

e) Closing Stock

- Rose (Mother) Plants	Rs.124.63 Lakhs (Rs.124.63 Lakhs)
------------------------	-----------------------------------

In view of the nature of the commodity and the mortality factor, it is not able to ascertain the quantitative particulars in respect of the above.

9 Previous year's figures have been re-grouped and re-classified wherever necessary to conform to current year's classifications.

10 Figures in brackets relate to that of the previous year.

11 Information as required under part IV of the Schedule VI of the Companies Act, 1956:-

I. Company's Registration Details

- Registration No.	16696
- State Code	08
- Balance Sheet Date	31.3.2006

II. Capital raised during the year

Nil

III. Details of mobilisation and deployment of funds

Rs. ' 000

- Total Liabilities	40,795.90
- Total Assets	40,795.90

Sources of Funds

- Paid-up Capital	20,000.00
- Reserves and Surplus	2,500.00
- Deferred Tax Liability	2,295.90
- Unsecured Loans	16,000.00
	<u>40,795.90</u>

Application of Funds

- Net Fixed Assets	10,103.12
- Advances on Capital Account	7,698.87
- Net Current Assets	18,652.40
- Profit and Loss account	4,341.51
	<u>40,795.90</u>

IV. Performance of the Company

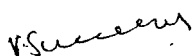
- Operational Income	4,200.00
- Total Expenditure	1,694.54
- Profit before tax	2,505.46
- Profit after tax	1,323.76
- Earnings per Share	Nil
- Dividend	Nil

V. Generic names of three principal products

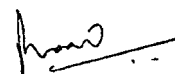
Item Code	Description
060210.00	Unrooted cuttings and slips
060240.00	Rose, grafted or not
06.03	Cut flowers



UDAYANT MALHOUTRA
Director



V. SUNDER
Director



B.N.GOVINDA PRASAD
Partner
Membership No.23521
For & on behalf of
M/s. B.N.GOVINDA PRASAD
Chartered Accountants

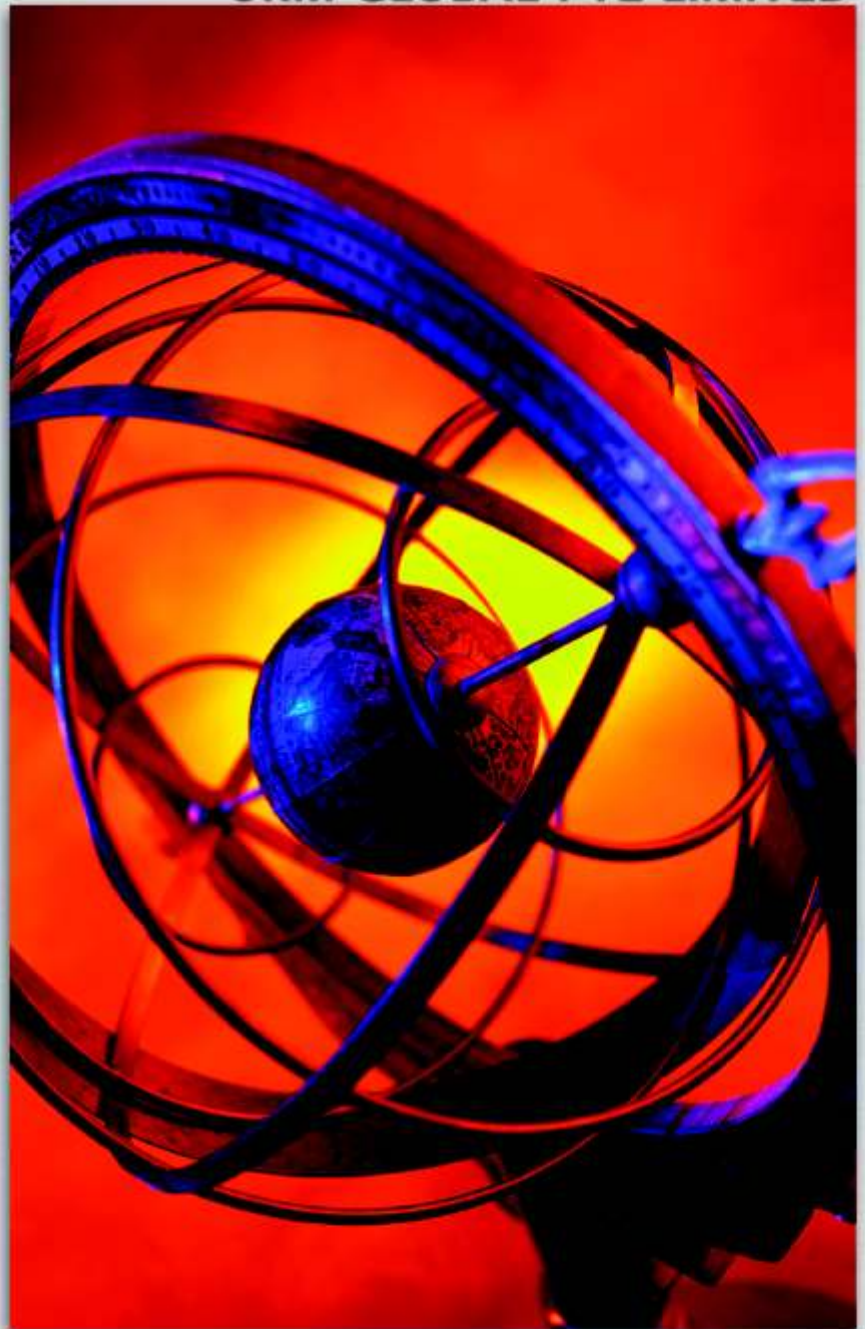
PLACE : BANGALORE
DATE : 22nd JULY, 2006

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A N N U A L R E P O R T

2005-06

JKM GLOBAL PTE LIMITED



BOARD OF DIRECTORS

Mr. Udayant Malhoutra	...	Director
Mr. V. Sunder	...	Director
Mr. Lim Tiong Beng	...	Director

AUDITORS

RSM Chio Lim., Singapore
Certified Public Accountants

REGISTERED OFFICE

8 Temasek Boulevard
35-03 Suntec Tower 3
Singapore 038988

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Income Statement	...	JG-3
Cash Flow Statement	...	JG-4
Notes on Accounts	...	JG-4

REPORT OF THE DIRECTORS

The Directors of the Company are pleased to present their report together with the audited financial statements of the Company for the financial year ended 31st March, 2006. The financial year covers the period since incorporation on 10th August, 2005 to 31st March, 2006.

1. DIRECTORS AT DATE OF REPORT

The Directors of the Company in office at the date of this report are :

Mr.Udayant Malhoutra
Mr.V. Sunder
Mr. Lim Tiong Beng

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The Directors of the Company holding office at the end of the financial year had no interests in the share capital of the Company as recorded in the register of Directors' shareholdings kept by the Company under Section 164 of The Companies Act, Cap. 50, except as follows:

Name of Directors	At beginning of year or date of appointment if later		At end of year
	Shares of Rs 10 each		

In the Holding Company
Dynamatic Technologies
Limited

Mr.Udayant Malhoutra	1,050,854	1,050,854
----------------------	-----------	-----------

By virtue of Section 7 of The Companies Act, Cap.50, the above Director with shareholding is deemed to have an interest in the Company and in all the related corporations of the Company.

4. CONTRACTUAL BENEFITS OF DIRECTORS

Since incorporation, no Director of the Company has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Companies Act, Cap. 50, by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a Company in which he has a substantial financial interest.

5. OPTIONS TO TAKE UP UNISSUED SHARES

During the financial year, no option to take up unissued shares of the Company was granted.

6. OPTIONS EXERCISED

During the financial year, there were no shares of the Company issued by virtue of the exercise of an option to take up unissued shares.

7. UNISSUED SHARES UNDER OPTION

At the end of the financial year, there were no unissued shares under option.

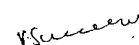
8. AUDITORS

The Auditors, RSM Chio Lim, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS



UDAYANT MALHOUTRA
Director



V. SUNDER
Director

SINGAPORE
7th JUNE, 2006

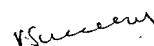
STATEMENT OF DIRECTORS

In the opinion of the Directors, the accompanying financial statements are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2006 and of the results, changes in equity and cash flows of the Company for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE DIRECTORS



UDAYANT MALHOUTRA
Director



V. SUNDER
Director

SINGAPORE
7th JUNE, 2006

AUDITORS' REPORT TO THE MEMBER OF JKM GLOBAL PTE. LIMITED

We have audited the accompanying financial statements of JKM Global Pte. Limited for the year ended 31 March 2006. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. 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 the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31 March 2006 and the results, changes in equity and cash flows of the Company for the year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Without qualifying our opinion, we draw attention to Note 8 to the financial statements. As at 31 March 2006, the Company has net capital deficit of \$5,624. The financial statements have been prepared on a going concern basis as the ultimate holding Company has agreed to provide continued financial support to the Company to meet its liabilities as and when they fall due and not to recall its advance to the Company until the Company is in a financial position to repay its debts.



RSM Chio Lim
Certified Public Accountants

SINGAPORE
7th JUNE, 2006

Partner-in-charge of audit: Goh Swee Hong

BALANCE SHEET AS AT 31ST MARCH, 2006

	<u>Notes</u>	<u>2006</u> \$
ASSETS		
Current assets:		
Cash and cash equivalents	4	16,118
Other receivables	5	<u>4,860</u>
Total current assets		<u>20,978</u>
Total assets		<u>20,978</u>
 LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	6	<u>26,602</u>
Total current liabilities		<u>26,602</u>
Total liabilities		<u>26,602</u>
Equity:		
Share capital	7	5,000
Accumulated losses		<u>(10,624)</u>
Net capital deficit	8	<u>(5,624)</u>
Total liabilities and equity		<u>20,978</u>

See accompanying notes to financial statements.

INCOME STATEMENT YEAR ENDED 31ST MARCH, 2006

	Notes	2006 \$
Revenue		-
Administrative expenses		<u>(10,624)</u>
Loss profit before income tax		<u>(10,624)</u>
Income tax expense	9	-
Net loss for the year		<u>(10,624)</u>

STATEMENT OF CHANGES IN EQUITY Year ended 31 March 2006

	Share capital \$	Accumulated losses \$	Total equity \$
Subscribers' shares at date of incorporation	5,000	-	5,000
Net loss for the year	-	<u>(10,624)</u>	<u>(10,624)</u>
Balance at 31 March 2006	<u>5,000</u>	<u>(10,624)</u>	<u>(5,624)</u>

See accompanying notes to financial statements.

CASH FLOW STATEMENT YEAR ENDED 31ST MARCH 2006

	2006
	\$
Cash flows from operating activities:	
Net loss for the year	(10,624)
Operating loss before working capital changes	(10,624)
Trade and other receivables	(4,860)
Trade and other payables	3,333
Net cash used in operating activities	(12,151)
Cash flow from financing activities	
Proceeds from issuing shares	5,000
Amount due to holding Company	23,269
Net cash from financing activities	28,269
Net increase in cash	16,118
Cash at date of incorporation	-
Cash at end of year	16,118

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS 31ST MARCH 2006

1. GENERAL

The Company is incorporated in Singapore. The financial statements are presented in Singapore dollars. They are drawn up in accordance with the provisions of the Companies Act, Cap. 50 and the Singapore Financial Reporting Standards. The financial statements were approved and authorised for issue by the board of Directors on 7 June 2006.

The principal activities of the Company are to buy, sell and deal in goods/services from Indian companies and other associated Companies, in different parts of the world.

The Company has not commenced business since its date of incorporation.

The registered office is: 8 Temasek Boulevard, #35-03, Suntec Tower 3, Singapore 038988. The Company is domiciled in Singapore.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING CONVENTION – The financial statements are prepared under the historical cost convention, modified to include the revaluation of financial assets and financial liabilities as disclosed where appropriate in these financial statements.

BASIS OF PRESENTATION – The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult,

subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this footnote, where applicable.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents include bank and cash balances and highly liquid debt instruments purchased with an original maturity of three months or less. Cash for the cash flow statement includes cash and cash equivalents.

LOANS AND OTHER RECEIVABLES – Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those held for trading, designated as available for sale and those that are not substantially recoverable, other than because of credit deterioration, which are classified as available for sale. Items with a short duration are not discounted. After initial recognition such financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for the non-current financial assets that are loans and receivables which are measured at amortised cost using the effective interest method less provision for impairment. These items are included in the balance sheet in loan receivables and trade and other receivables as current assets or as non-current assets where the maturities are greater than 12 months after the balance sheet date.

IMPAIRMENT OF FINANCIAL ASSETS – All financial assets except those measured at fair value through profit or loss are subject to review for impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

FINANCIAL LIABILITIES – Financial liabilities including bank and other borrowings when recognised initially are measured at fair value plus, in the case of items not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition these are measured at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value. Liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

LIABILITIES AND PROVISIONS – A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These include trade and other payables and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

SHARE CAPITAL – Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Where the Company reacquires its own equity instruments as treasury shares, the consideration paid, including any directly attributable incremental cost is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders and no gain or loss is recognised in the income statement.

FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying values of current financial assets and financial liabilities including cash, accounts receivable, accounts payable approximate their fair values due to the short-term maturity of these instruments

FOREIGN CURRENCY TRANSACTIONS – The functional currency is the Singapore dollar as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in Singapore dollars at the rates ruling at the dates of the transactions. At each balance sheet date, recorded monetary balances and balances measured at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet and fair value dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in the income statement.

INCOME TAX – The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Income tax expense represents the sum of the tax currently payable and deferred tax. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences.

CRITICAL JUDGEMENTS, ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

There were no critical judgements made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. There were no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS

GENERAL RISK MANAGEMENT PRINCIPLES – The entity's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade and other receivables, trade and other payables, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the entity's operations. The main risks arising from the entity's financial instruments are credit risk, liquidity risk and foreign currency risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

CREDIT RISK ON FINANCIAL ASSETS – Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations consist principally of cash, cash equivalents and trade and other accounts receivable. The management believes that the financial risks associated with these financial instruments are minimal. The cash and cash equivalents and other liquid financial assets are placed with high credit quality institutions. An ongoing credit evaluation is performed of the debtors' financial condition and a loss from impairment is recognised in the income statement. There is no significant concentration of credit risk, as the exposure is spread over a large number of counterparties and customers unless otherwise disclosed in the notes to the financial statements.

OTHER RISKS ON FINANCIAL INSTRUMENTS – The main risks arising from the entity's financial instruments are liquidity risk and foreign currency risk. The operations are financed through a mixture of retained earnings and borrowings from the ultimate holding Company. There is exposure to liquidity. As regards liquidity, the policy has to ensure continuity of funding and where necessary a certain percentage of the borrowings should mature in two to five years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Short term flexibility is achieved by advances from ultimate holding Company. There is also exposure to changes in foreign exchange rates arising from foreign currency transactions and balances and changes in fair values.

These exposures and changes in fair values from time to time are monitored and any gains and losses are included in the income statement unless otherwise stated in the notes to the financial statements. There is no policy to reduce currency exposures through forward currency contracts, derivatives transactions or other arrangements.

3. RELATED PARTY TRANSACTIONS

A related party is an entity or person that directly or indirectly through one or more intermediaries controls, is controlled by, or/is/under common or joint control with, the entity in governing the financial and operating policies, or that has an interest in the entity that gives it significant influence over the entity in financial and operating decisions. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence by or for which significant voting power in such entity resides with, directly or indirectly, any such individual. This includes parents, subsidiaries, fellow subsidiaries, associates, joint ventures and post-employment benefit plans, if any.

3.1 Related companies:

The Company is a wholly-owned subsidiary of Dynamic Technologies Limited, incorporated in India which is also the Company's ultimate holding Company. Related companies in these financial statements refer to members of the ultimate holding Company's group of companies.

There are transactions and arrangements between the Company and members of the group and the effects of these on the basis determined between the parties are reflected in these financial statements. The current intercompany balances are unsecured without fixed repayment terms and interest unless stated otherwise. For non-current balances an interest is imputed based on the cost of borrowing less the interest rate if any provided in the agreement for the balance.

3.2 Other payables to related companies:

The movements in other payables to related companies are as follow:

	Parent 2006 \$
Balance at date of incorporation	—
Amounts received during the year	(23,269)
Balance at end of year	<u>(23,269)</u>

4. CASH AND CASH EQUIVALENTS

	2006 \$
Not restricted in use	<u>16,118</u>
Analysis of above amount denominated in foreign currency:	
United States dollar	<u>16,118</u>

5. OTHER RECEIVABLES

Deposits	<u>4,860</u>
Analysis of above amount denominated in foreign currency:	
United States Dollar	<u>4,860</u>

Current receivables with a short duration are not discounted and the carrying values are assumed to approximate the fair value.

6. TRADE AND OTHER PAYABLES

Trade payables:	
Accrued liabilities	3,333
Other payables:	
Holding Company (Note 3)	<u>23,269</u>
Total trade and other payables	<u>26,602</u>

7. SHARE CAPITAL

	Number of shares	Issued share capital \$
Ordinary shares		
Subscribers' shares at date of incorporation and at 31 March 2006	<u>5,000</u>	<u>5,000</u>

With the changes to the Companies Act, Cap 50, effective from 30 January 2006, there is the removal of the concept of par value and authorised capital.

The ordinary shares carry no right to fixed income

8. NET CAPITAL DEFICIT

The Company has net capital deficit of \$4,791 as at 31 March 2006. The financial statements have been prepared on a going concern basis as the ultimate holding Company has agreed to provide continued financial support to the Company to meet its liabilities as and when they fall due and not to recall its advance to the Company until the Company is in a financial position to repay its debts.

9. INCOME TAX

The income tax benefit varied from the amount of income tax expense determined by applying the Singapore income tax rate of 20% to loss before income tax as a result of the following differences:

	2006 \$
Loss before tax	(10,624)
Income tax benefit at the statutory rate	(2,125)
Non-allowable items	2,125
Total income tax expense	<u>—</u>

10. FUTURE CHANGES IN ACCOUNTING STANDARDS

The following Singapore Financial Reporting Standards that have been issued will be effective in future. The transfer to the new standards from the effective dates is not expected to have a material impact on the financial statements.

FRS 40 Investment Property, effective from 1.1.2007 (*)

FRS 106 Exploration for and Evaluation of Mineral Resources, effective from 1.1.2006 (*)

FRS 107 Financial Instruments: Disclosures, effective from 1.1.2008

INT FRS 104 – Determining whether an Arrangement contains a Lease (*)

INT FRS 105 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (*)

INT FRS 106 – Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (*)

INT FRS 107 – Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies(*)

Amendments to FRS 1 Presentation of Financial Statements on Capital Disclosures

Amendments to FRS 21 Net Investment in a Foreign Operation (*)

Amendments to FRS 39 Financial Instruments: Recognition and Measurement on hedge accounting provision, fair value option and financial guarantee contracts (*)

Amendments to FRS 101 First-time Adoption of Financial Reporting Standards on comparative disclosures for FRS 106 Exploration for and Evaluation of Mineral Resources (*)

Amendments to FRS 104 Insurance Contracts on financial guarantee contracts (*)

(*) Not applicable to the entity.

11. COMPARATIVE FIGURES

The financial statements cover the financial year since incorporation on 10 August 2005 to 31 March 2006. This being the first set of financial statements, there are no comparative figures.

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Dynamic Stock Performance at the BSE during the period April 2005 to March 2006



Dynamatic® Hydraulics

A Division of Dynamatic Technologies Limited

Dynamatic Aerospace®

A Division of Dynamatic Technologies Limited

Dynametal®

A Division of Dynamatic Technologies Limited

Powermetric® Design

A Division of Dynamatic Technologies Limited

JKM Daerim® Automotive Limited

A Dynamatic Technologies Company

JKM Global Pte Limited, Singapore

A Dynamatic Technologies Company

JKM Research Farm Limited

A Dynamatic Technologies Company

Over the years, Dynamatic® Divisions and Subsidiaries have forged deep and lasting relationships with all their stakeholders, which have enabled them to grow continuously. These relationships are based upon mutual trust and respect, and on their collective capabilities in delivering complex technological solutions, at economically viable price levels.

We are geared towards providing innovative and creative solutions to our customers on a continuous basis. Every business process is built around the customer.

We firmly believe that our success is merely a reflection of our ability to delight our customers.

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JKM Daerim® Automotive Limited



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