

**D-Link**  
Building Networks for People



**D-Link (India) Limited**  
Annual Report 2005-2006

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Report



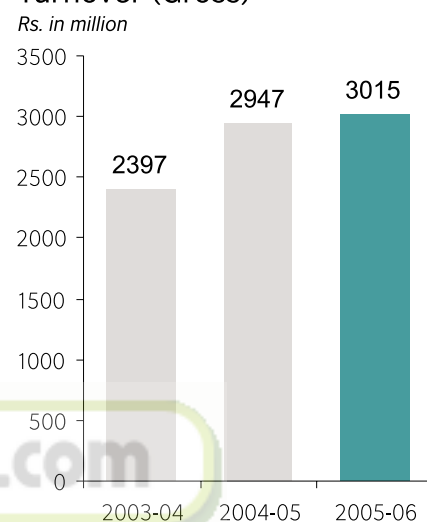
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## Financial Overview

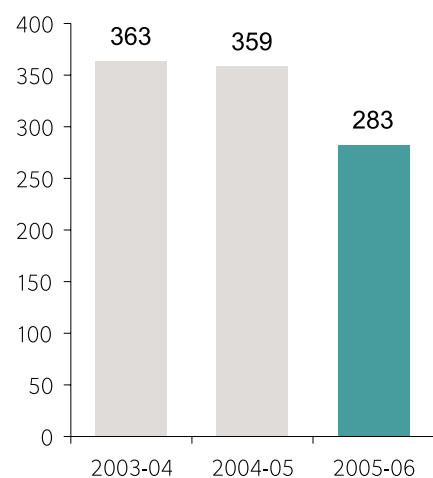
(Rs. in million)	2003-04	2004-05	2005-06
Turnover (Gross)	2397	2947	3015
Profit before Depreciation & Tax	404	413	344
Profit before Tax	363	359	283
Net Profit	313	286	232
Equity Share Capital	60	60	60
Reserves	1306	1526	1689
Shareholders' Funds	1366	1589	1756
Gross Fixed Assets	627	807	856
Net Fixed Assets	506	626	650
Earnings per Share of Face Value Rs.2 (Rs.)	10.46	9.54	7.73
Net Asset Value per Share of Face Value Rs.2 (Rs.)	46	53	59

### Turnover (Gross)



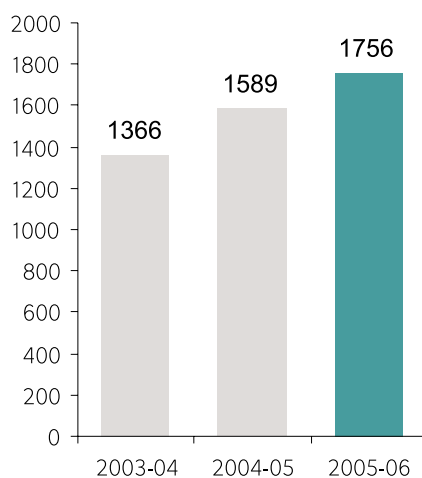
### Profit before Tax

Rs. in million



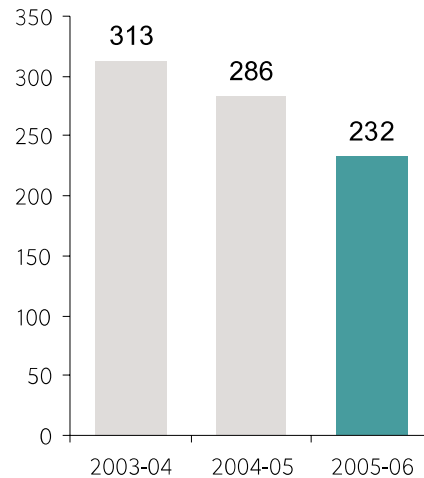
### Shareholders' Funds

Rs. in million



### Net Profit

Rs. in million





K.R. Naik, Chairman & Managing Director

## Chairman's Letter

Dear Shareholders,

I am pleased to report your company's progress in the last financial year and share with you our vision for the future. While our overall turnover grew marginally, the growth in our core networking business was satisfactory. We incurred high expenses in developing our own products and increasing customer service support which had a major impact on our bottom-line during the year under review.

## Brand and Product Coverage

In the networking market, D-Link is a recognized brand and due to convergence, we have been adding many products in voice and entertainment area. In the Channel business, D-Link is No.1 due to the acceptance by market mainly on account of the wide product range, quality and service that we offer throughout India through our Branch Offices, various Service Centers and Distribution Network.

## R&D

In the field of information technology, one has to constantly innovate and introduce new technology products. For the past two years, our R&D division is focused completely on product development and is working on latest technology products in the areas of Networking and VoIP for the SOHO and Small/Medium Business segments. Besides other vendors, we also work with leading chip vendors like Intel, Texas Instruments, Freescale, etc. and have developed products such as Multi-Function Routers, IP-PBX, Gateways and IP Phones. I am confident that these products, based on in-house technical know-how, will give us a competitive edge not only in the local market but also open up export opportunities.





Directors (l to r): A.P. Chen, Tony Tsao, Dattaraj V. Salgaocar, K.M. Gaonkar, Chandrasekhar Kopparapu, Pankaj Baliga and R.T. Krishnan

## IP PBX-IP Phones

IP PBX-IP Phones are emerging as the next big opportunity with traditional voice based PBX being replaced by IP PBX and IP Phones. We have been in this technology for the past three years and have also introduced them in the U.S. market where they have been well accepted. Being one of the early entrants in this area definitely gives us an edge over others and with the co-operation of our parent company, we will be able to launch these products worldwide.

## Wi-Fi World

India is slowly moving towards a wireless world. D-Link Corporation is known world-wide for its wireless products and is launching new and better products in the wireless segment every quarter. With the backing of the parent company, our market share has been significantly increasing in wireless products and strongly feel that with wireless gaining increasing acceptance from both Enterprise and Small Office and Home Office (SOHO) segments, we would be in a position to further consolidate and increase our market share in this segment.

## Broadband

The broadband penetration in the country has been slow but appears to have taken off finally and the end-user base is now increasing at a significant pace. This augurs well for us as the demand for our broadband products from the end-user will increase substantially given the quality of our products, our service and support and our nationwide distribution network.

I wish to express my thanks to all our shareholders, customers, suppliers and business associates for their continued support and patronage. Your Company has always valued employees as its greatest asset and takes pride in the commitment and dedication shown by them in the growth of the company.

I seek your continued support in our endeavour towards growth, both now and in the future years.

I thank you all for your faith in D-Link.

Sincerely,

K.R. Naik

Chairman & Managing Director

## Management and Other Data

### Board of Directors

K.R. Naik, Chairman and Managing Director  
A.P. Chen  
Tony Tsao  
Dattaraj V. Salgaocar  
K.M. Gaonkar  
Chandrasekhar Kopparapu  
Pankaj Baliga  
R.T. Krishnan

### Company Secretary

K.G. Prabhu

### Bankers

HDFC Bank  
Citi Bank

### Auditors

M/s Deloitte Haskins & Sells  
Chartered Accountants

### Corporate Office

D-Link House  
Bandra-Kurla Complex Road, Plot No.5  
Off C.S.T. Road, Santacruz (East)  
Mumbai 400 098.

### Registered Office

L-5, Verna Electronic City,  
Verna Plateau, Goa 403 722.

### Software and R&D Center

#65, 35th Main, 100 ft. Ring Road,  
2nd Stage, BTM Layout,  
Bangalore 560 076.

### Senior Executives

J.V. Avadhanulu  
*Director - R&D*  
Dharmendra Kumar  
*Director - Enterprise Sales*  
Bhushan Prabhu  
*Director - Finance*  
Shyam Anaokar  
*Director - HR*  
C.M. Gaonkar  
*Director - Corporate Affairs*  
KVSSS G. Rao  
*Director - ISP & Telecom*  
Nitin Kunkolienker  
*VP - Commercial & Administration*  
Tushar Sighat  
*VP - Channel Business*  
Aravindan S.  
*VP - R&D*  
Milind Tamhane  
*VP - Manufacturing*  
Shridhar Kadam  
*VP - Product Engineering*  
Vijay Rane  
*VP - Manufacturing - (Active)*  
Deepak Chodankar  
*VP - R&D*

[www.dlink.co.in](http://www.dlink.co.in)

## Directors' Report

To,  
The Members,

The Directors hereby present their 13th Annual Report on the business and operation of the Company and the financial accounts for the year ended 31st March, 2006.

### 1. Financial Results and Appropriations

(Rs. in million)

	2005-06	2004-05
Turnover (Gross)	3014.77	2947.20
Profit Before Depreciation and Tax	343.74	412.90
Less: Depreciation for the year	60.67	54.23
Profit Before Tax (PBT)	283.07	358.67
Less: Provision for Tax		
a) Current Tax	40.50	56.00
b) Deferred Tax	6.40	19.14
c) Fringe Benefit Tax	3.36	-
Profit After Tax	232.81	283.53
Tax adjustment of Previous Year	(0.75)	2.71
Net Profit	232.06	286.24
Balance of profit brought forward	858.04	711.68
Amount taken over on amalgamation of Virtual Computers Private Limited	-	(0.80)
Amount available for Appropriations	1090.10	997.12
Transfer to General Reserve	25.00	30.00
Dividend		
- Interim	-	48.01
- Final	60.00	48.01
Tax on Dividend		
- Interim	-	6.34
- Final	8.42	6.73
Balance carried forward to Balance Sheet	996.68	858.04
Earning per Share (Rs.)	7.73	9.54

### 2. Performance

In the financial year 2005-06, your Company achieved a Turnover of Rs.3014.77 million as compared to Rs.2947.20 million in the previous year. The Net Profit of the Company stood at

Rs.232.06 million as compared to Rs.286.24 million in the previous year. The Turnover grew marginally by 2.3%. The Net Profit was lower primarily due to increase in R&D expenses on In-house product development and increase in number of service centers (RMA) which have been opened with a view to reach the customers more effectively and to give better after sales services for growth of business. Though the profits were lower during the current year, the benefits of the above investment will be felt in the coming years.

Your Company has shown significant growth in its core networking products business and also maintained its market share in Structured Cabling Products. On account of lower revenues from our motherboards business, the turnover registered only a marginal increase.

During the year, the Company has started construction of new R&D Office at Bangalore which is expected to be completed in the financial year 2006-07.

From the current financial year, Technical Support Center has been used to support the local networking products business while the Software Division has been engaged in development of software for our own use in R&D, hence there will not be any significant revenues from these businesses in future and they have also ceased to be separate business segments from the year ended 31st March, 2006.

### 3. Significant Developments

Your Company made some significant changes in the business organization by splitting it into two major categories i.e., **Channel Business** and **Enterprise Business**.

The Channel Business will primarily cater to the Small Office Home Office (SOHO)/SMB market through our existing distributors present throughout the country and in SAARC region. The Enterprise business, which is a solution oriented business, has been separated to cater to enterprise customers by direct approach as we are coming up with more high-end products.

During the year, the Company launched Routers and Core Switches for the enterprise segment as well as locally developed Multi-access Routers DRO-200i/DRO-250i and IP-PBX and IP-Phones.

The company also launched intelligent Smart Patch Panels under its Structured Cabling products primarily designed to boost excellent cable management coupled with robust construction.

Your Company was able to make significant inroads in the enterprise networking market through its tie-up with Foundry Networks wherein the revenues from high-end switches grew more than 90% as compared to previous year.

Your Company has created direct service locations throughout the country which will help the company in providing better after sales service to its customers.

#### 4. Dividend

Your Directors have recommended for your consideration the payment of dividend for the year 2005-06 @100% on the paid up equity capital, i.e., Rs.2/- per share, to be paid, if approved by Members, at the Annual General Meeting.

#### 5. Employee Stock Option Plan

The Company has an ongoing Employee Stock Option Scheme, which is being administered by the D-Link (India) Ltd. ESOP Trust and Compensation Committee of Directors constituted as per SEBI Regulations.

During the year under the said Scheme D-Link (India) Limited - ESOP Trust granted 32,500 options to its eligible employees at Rs.2/- per share and 38,500 options at Rs.60/- per share.

The Information and details of options granted under D-Link (India) Limited ESOP plan for the year ended 31st March, 2006 is given in Annexure – II to this Report.

#### 6. Management Discussion & Analysis Report

In accordance with Clause 49 of the Listing Agreement with the Stock Exchanges, Management Discussion & Analysis Report is appended to this report.

#### 7. Corporate Governance

A separate section on corporate governance as well as Certificate from the Auditors of the Company regarding compliance to conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the stock exchanges forms part of the Annual Report.

#### 8. Awards & Recognition

D-Link was ranked among the top 5 MNC brands in 2005 by PC Quest. Your Company has also received the following awards during the year under review:

- a) PC Quest User Choice Award – 2005 for Structured Cabling
- b) Voice & Data Award for Top Modem Company
- c) Channel's Choice Award 2006 for Best Networking Solutions from DQ Channels
- d) VAR India Starnite Award 2005 for Networking
- e) 360 Magazine – Golden Rhino Award 2005 for Routers, Switches and Structured Cabling
- f) Channel Champions - 2005 for Networking

#### 9. Directors

The Board of Directors at its meeting held on 29th May, 2006 have reappointed Mr. K.R. Naik as Managing Director for a further period of five years with effect from 25th December, 2006 subject to the approval of shareholders of the Company in the next Annual General Meeting.

Mr. K. M. Gaonkar, Director of the Company who retires by rotation at the forthcoming Annual General Meeting and being eligible offers himself for re-appointment.

The revised Clause 49 of the Listing Agreement came into effect from the 1st January, 2006 and in compliance of the same, the Company, has inducted two Additional Directors on the Board, Mr. Pankaj Baliga and Prof. R.T. Krishnan w. e. f. 22nd December, 2005, during the year. The Board has proposed to appoint both the Additional Directors who retire at the forthcoming Annual General Meeting, as the Directors of the Company liable to retire by rotation.

#### 10. Fixed Deposits

Your Company has not accepted any fixed deposits during the year under review and, as such, no amount of principal or interest was outstanding as on the date of Balance Sheet.

#### 11. Auditors

The Auditors, M/s Deloitte Haskins & Sells, Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offers themselves for reappointment.

#### 12. Conservation of Energy, Research and Development, Technology Absorption, Foreign Exchange Earnings and Outgo

##### 1. Conservation of Energy

Your Company, in an endeavour to improve its performance has consistently initiated Environmental Management Programmes focusing on energy conservation. Your Company's plants at Goa are certified under ISO 14001:2004 for Environmental Management System. Some of the initiatives taken during the year in conservation of energy are as follows.

- Installation of FRP fans in the cooling towers of Air Handling Units, in place of heavy metallic fans.
- Implementation of Six Sigma project in certain manufacturing processes.
- Educational drives are being carried out monthly to appraise personnel of D-Link's environmental initiatives and need to conserve energy.
- Energy efficient CFL lamps have been used in production floors and Variable frequency drives, have been installed for motors in AHUs.

##### 2. Technology Absorption

Imported machinery is used in the manufacturing process. The Company is, always, on the look out for ways and means to improve quality and productivity further by introducing/adopting new technology and constantly improving the existing methods of manufacturing.

##### 3. Foreign Exchange Earnings and Outgo

Total foreign exchange earnings and outgo is stated in Notes forming part of the Accounts.

#### 13. Particulars of Employees

As required under the provisions of section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other



particulars of employees are set out in the Annexure I attached to this report.

#### 14. Director's Responsibility Statement

Pursuant to the provisions of Section 217(2AA) of the Companies (Amendment) Act, 2000, the Directors hereby state and confirm that:

- in the preparation of annual accounts, the applicable accounting standards have been followed.
- the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the Company as at March 31, 2006 and the profit of the Company for the financial year ending on March 31, 2006.
- the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- the annual accounts have been prepared on a 'going concern' basis.

#### 15. Subsidiary Companies

Gigabyte Technology (India) Limited during the year under review achieved a turnover of Rs.611.87 million as compared to Rs.136.33 million in the previous year. It has incurred a net loss of Rs.8.41 million as compared to a net profit of Rs.3.33 million in the previous year mainly due to increase in manpower, administrative and sales expenses. The increase

in expenses was mainly due to the fact that the company has entered into new segments such as laptops, keyboards, serverboards and other peripheral products. Your Company along with Gigabyte Technology, Taiwan invested a sum of Rs.64.5 million each in the equity capital of Gigabyte Technology (India) Limited during the year ended 31st March, 2006.

Intercorridor Systems Limited, during the year achieved a turnover of Rs.2.36 million as compared to Rs.0.81 million in the previous year. It has earned a profit after Tax of Rs.0.41 million as compared to a loss of Rs.0.17 million in the previous year.

As required by Section 212 of the Companies Act, 1956 the audited accounts of the subsidiaries, Gigabyte Technology (India) Limited and Intercorridor Systems Limited and the reports thereon of the Directors and the Auditors are attached and forms part of the Annual Report.

#### 16. Acknowledgments

Your Directors place on record their appreciation for the wholehearted support received from clients, vendors, dealers, distributors, investors and bankers throughout the year.

Your Directors thank the Goa Industrial Development Corporation, State Industries and Electricity Departments for their valuable support.

Your Directors also thank all the employees who have shown remarkable dedication and sincerity.

For and on behalf of the Board

Mumbai  
dated 29th May, 2006

K.R. Naik  
Chairman & Managing Director

#### Annexure – I to the Directors' Report for the year ended 31st March, 2006

Information under Section 217(2A) of The Companies Act, 1956 read with The Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors, Report for the year 1st April, 2005 to 31st March, 2006.

Name	Age	Designation and nature of duties	Remuneration (Rupees)	Qualification	Experience (Years)	Date of joining	Name of last employer, post held and period
K. R. Naik	59	Chairman and Managing Director	5,057,745	D.M.E., P.G. Diploma in Industrial Engineering, Diploma in Business Management	31	31.03.1993	Virtual Computers Pvt. Ltd., Director 8 years
J.V. Avadhanulu	59	Director R&D	3,441,745	B.E., M. Tech, IIT (Kharagpur)	25	01.12.2000	Sigmattech, Promoter
Dharmendra Kumar*	40	Director Enterprise - Sales	1,888,749	B.Tech (Computers)	15	26.07.2005	Cisco Systems, as Sales Head for 2 years
Aravindan S.	40	VP - R&D	2,869,332	M.E. (Electrical Engineering) IISc, Bangalore	15	07.01.2002	Cradle Technologies, as Manager
Prabodh Vyas*	51	Director- Sales	1,056,442	B.E. Electronics (Hons) from BITS Pilani	19	02.07.1996	Gebbs India Ltd, as Vice President.

\* Employed for part of the year.

Notes: Remuneration has been calculated in accordance with the clarification given by the Department of Company Affairs. Accordingly, perquisites have been valued as per the Income Tax Act.

Mumbai, dated 29th May, 2006

For and on behalf of the Board

K.R. Naik  
Chairman & Managing Director

Information to be provided under the Securities and Exchange Board of India (Employee Stock Options Scheme and Employee Stock Purchase Scheme) Guidelines, 1999:

Per Share (EPS) pursuant to	Not applicable since the shares will be transferred
on exercise of options	upon exercise of the option and the company will
	issue any new shares
	Vesting in equal installments over a period of 4
	No Lock in period. A minimum Vesting period of
	The Company has calculated the employee com

Sr.	Names of Senior Managerial Persons	No of Options Granted	No. of options Exercised
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