

Swaraj Mazda Limited

BOARD OF DIRECTORS

S.K. TUTEJA - Chairman
HARKIRAT SINGH
T. YOSHIMOTO
A.K. THAKUR
P.K. NANDA
K. MACHIDA
M. SATO
Y. WATANABE
PANKAJ BAJAJ
DONALD PECK
STEVEN ENDERBY
YASH PAUL MAHAJAN - Managing Director
T. HASHIMOTO - Alternate Director to K. Machida
H. FUZIMOTO - Alternate Director to M. Sato

VICE PRESIDENT - FINANCE & COMPANY SECRETARY

GOPAL BANSAL

AUDITORS

PRICE WATERHOUSE

BANKERS

CANARA BANK
INDIAN OVERSEAS BANK

REGISTERED OFFICE & WORKS

VILLAGE ASRON,
DISTT. NAWANSHAHAR-144 533
(PUNJAB)

CORPORATE OFFICE

SCO : 204-205,
SECTOR 34-A,
CHANDIGARH-160 022

SHAREHOLDERS' INFORMATION

1. **Annual General Meeting** : **9th September, 2006 at 2.00 PM**
Venue : **Swaraj Mazda Limited**
Village Asron, Distt. Nawanshahar, Punjab
2. **Financial Calendar (tentative)**
Financial reporting for
Quarter ended 30th June, 2006 : Taken on record on 29th July, 2006
Quarter ending 30th September, 2006 : 3rd / 4th week of October, 2006
Quarter ending 31st December, 2006 : 3rd / 4th week of January, 2007
Year ending 31st March, 2006 : May / June, 2007
3. Book Closure : 22nd August, 2006 to 29th August, 2006 (both days inclusive)
4. Dividend Payment : On or after 9th September, 2006, but with in the statutory time limit.
5. Listing on Stock Exchanges : Bombay Stock Exchange (BSE) & National Stock Exchange (NSE).
Listing fee for 2006-07 for both these stock exchanges has been paid.
6. Stock Market Data
Monthwise high and low price for one equity share of Rs.10 at BSE & NSE is given below :

Month	Bombay Stock Exchange		National Stock Exchange	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
2005				
April	380	293	388	288
May	370	300	374	310
June	390	330	390	331
July	405	363	405	362
August	460	359	423	352
September	388	341	389	325
October	380	335	379	342
November	389	349	424	356
December	395	370	400	351
2006				
January	435	375	440	376
February	401	353	402	354
March	390	337	410	345
April	370	340	384	324
May	362	275	374	282
June	299	207	300	201
July	266	212	274	210

7. **Stock Code: BSE - 505192 & NSE - SWARAJMAZD**

8. Dematerialisation of Shares:

The Securities & Exchange Board of India (SEBI), with effect from 28th August, 2000 has included the shares of Swaraj Mazda Limited in the compulsory demat list for all categories of investors. The Company has joined National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd. (CDSL) to avail this facility. On date, over 78% of the company's shares are now held in electronic form.

International Securities Identifications Number : INE294B01019 (with NSDL and CDSL)

Shares held in electronic form, all instructions regarding change of address, nomination, power of attorney etc., should be given directly to their Depository Participants and the Company will not entertain any such requests directly from shareholders.

9. Transfer System for physical shares

Share transfer would be registered & returned within a period of 30 days from the date of receipt, if the documents are clear in all respect.

Total no. of shares transferred during 2005-06 was 1730562 (Previous Year 51156)

10. Share Transfer & other Communication : Swaraj Mazda Limited, OR MCS Limited,
regarding Share Certificates, Dividends SCO : 204-205, Sri Venkatesh Bhawan,
and Change of Address etc. may be Sector 34-A, W-40, Okhla Industrial Area,
addressed to Chandigarh-160 022 Phase-II,
Tele : 0172-2647700-10 New Delhi-110 020
Fax : 0172-2615111 Tele : 011-41404149
Fax : 011-41709881

11. Shareholding pattern as on 31st July, 2006

Category	No. of Share-holders	Voting Strength %	No. of Shares held
Promoters	2	55.07	5,775,000
Mutual Funds & UTI	9	7.93	831,403
Other Bodies Corporate	149	1.75	183,267
FII's/NRI's/OCB's	1203	20.03	2,100,582
Individuals	10364	15.22	1,596,448

12. Distribution of Shareholdings as on 31st July, 2006

No. of Equity Shares held	No. of Share-holders	No. of Shares	%age of Share-holdings
1-100	9909	718,594	6.85
101-200	853	156,504	1.49
201-500	599	211,319	2.02
501-1000	175	134,720	1.28
1001-5000	153	312,005	2.98
5001-above	38	8,953,558	85.38

13. The Company has not issued any GDRs/ADRs/ Warrants or any convertible instruments.

14. Plant Location : Swaraj Mazda Limited,
Village Asron, Distt. Nawanshahar,
Punjab.

15. Investor queries etc. with respect to the financial statement and secretarial matters may be addressed to :

Mr. Gopal Bansal

Vice President – Finance & Company Secretary
Swaraj Mazda Limited
SCO: 204-205
Sector 34 – A
Chandigarh – 160022
Tele: 0172-2647700-10
Fax: 0172-2615111

16. Website Address : www.swarajmazda.net

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty Second Annual General Meeting of the Company will be held at its Registered Office at Village Asron, Distt. Nawanshahar – 144533 (Punjab) on 9th September, 2006 at 2.00 P.M. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet and Profit & Loss Account for the year ended 31st March, 2006 together with the Directors' Report and Auditors' Report thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. S. K. Tuteja who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. K. Machida who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. Harkirat Singh who retires by rotation and, being eligible, offers himself for re-appointment.
6. To appoint a Director in place of Mr. Donald Peck who retires by rotation and, being eligible, offers himself for re-appointment.
7. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass with or without modification(s) the following resolutions:

8. As an Ordinary Resolution:
"RESOLVED THAT Mr. Steven Enderby, who has been co-opted as Director of the Company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General Meeting and in respect of whom the Company has received notice in writing 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".
9. As an Ordinary Resolution:
"RESOLVED THAT Mr. A. K. Thakur, who has been co-opted as Director of the Company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General meeting and in respect of whom the Company has received notice in writing 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".
10. As an Ordinary Resolution
"RESOLVED THAT Mr. Pankaj Bajaj, who has been co-opted as Director of the Company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General meeting and in respect of whom the Company has received notice in writing 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".
11. As an Ordinary Resolution:
"RESOLVED THAT Mr. P. K. Nanda, who has been co-opted as Director of the Company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General meeting and in respect of whom the Company has received notice in writing 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".
12. As an Ordinary Resolution:
"RESOLVED THAT subject to the provisions of Sections 198, 269, 309, 310 & 311, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such other approvals if any, consent of the Company be and is hereby accorded to the fresh terms of employment of Mr. Yash Paul Mahajan as Managing Director of the Company for a period of 5 years commencing from 1st June, 2006 on the following terms and conditions :
A. SALARY
 - I) Rs. 280000/- per month from 01.06.2006 in the scale of Rs.200000-150000-350000.
 - II) Dearness Allowance of Rs. 20000/- per month.
 - III) Annual Increment will be effective from 01.04.2007 and the additional increment will be decided by the Board of Directors having regard to corporate profits.

B. COMMISSION

1% of net profits subject to a maximum of 100% of annual salary (Basic + Dearness Allowance).

C. PERQUISITES AND ALLOWANCES

- i) Company contribution to Provident Fund, Superannuation and Gratuity Funds as applicable to Senior Management staff in Swaraj Mazda Limited from time to time.
- ii) Medical reimbursement for self and family.
- iii) Reimbursement of expenditure on gas, water, electricity and furnishings.
- iv) Leave, its accumulation and encashment as applicable to Senior Management staff in Swaraj Mazda Limited from time to time.
- v) Provision of a car and telephone at residence.
- vi) Premium in respect of personal accident insurance.

Provided that the remuneration payable to the Managing Director (including the salaries, commission, perquisites, benefits and amenities) shall not exceed the limits laid down in Sections 198 and 309 of the Companies Act, 1956, and the Rules made thereunder or any statutory modification or re-enactment thereof.

D. MINIMUM REMUNERATION

Notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of Mr. Yash Paul Mahajan, Managing Director, the Company has no profits or profits are inadequate, the remuneration by way of salary, allowances and perquisites payable to him shall not exceed the limits prescribed under the Companies Act, 1956, and the Rules made thereunder or any statutory modification or re-enactment thereof.

13. As an Ordinary Resolution:

“RESOLVED THAT in supersession of the resolution passed by the members at the Statutory Meeting held on 12.03.1984, the consent of the Company be and is hereby accorded under the provisions of Section 293(1)(d) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force) and the Articles of Association of the Company, to borrow from time to time all such sums of money as they may deem requisite for the purpose of the business of the Company notwithstanding that moneys to be borrowed together with the moneys already borrowed by the Company (apart from temporary loans obtained from the Company’s bankers in the ordinary course of business) will exceed the aggregate 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 up to which monies may be borrowed by the Board of Directors shall not exceed the sum of Rs. 500 crores and that the Board of Directors be and is hereby empowered and authorised to arrange or fix the terms and conditions of all such monies to be borrowed from time to time as to interest, repayment, security or otherwise as it may think fit.”

“Resolved Further that the Board of Directors be and is hereby authorised to take such steps and do such acts, deeds, matters and things as they may deem fit and proper and give/ send such notices/directions as may be necessary for the purpose of giving effect to the above resolution.”

By Order of the Board

Regd. Office:
Village Asron,
Distt. Nawanshahar (Punjab)
Dated: 29th July, 2006

(GOPAL BANSAL)
Vice President-Finance & Company Secretary

NOTES:

1. An explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 is enclosed hereto and forms part of the Notice.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND INSTEAD OF HIMSELF. SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies in the Form Annexed hereto must be lodged at the Registered Office of the Company not later than 48 hours before the commencement of the meeting.
3. The Register of Members and Transfer Books of the Company will remain closed from 22nd August to 29th August, 2006 (both days inclusive).
4. Members are requested to bring their copy of Annual Report to the Meeting. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their question in writing to the Company Secretary of the Company at least 7 days before the date of the Meeting so that information required may be made available at the Meeting.
5. Subject to the provisions of section 206A of the Companies Act, 1956, dividend, as recommended by the Board of Directors, if approved at the Meeting, will be payable on or after 9th September, 2006 but within the Statutory time limit, to those Members whose names appear in the Register of Members as on 29th August, 2006. In respect of shares held in electronic form, the dividend will be payable to the beneficial owners of the shares as on the closing hours of business on 21st August, 2006 as per details furnished by the depositories for this purpose.
6. Members who have not encashed their Dividend warrant(s) for the financial year ended 31st March, 2000 and onward are requested to make their claims to the Company, without any delay. **It may also be noted that once the unclaimed dividend is transferred to the Central Government, no claim shall lie in respect thereof with the Company.**
7. Members are requested to notify any change in their address, mandates etc., to the Company's Registrar and Share Transfer Agents, M/s MCS Limited, Sri Venkatesh Bhawan, W- 40, Okhla Industrial Area, Phase – II, New Delhi – 110020.
In case of dematerialised shares, the change of address requests, bank mandates etc. should be directly sent to the concerned Depository Participant.
8. Members holding shares in Demat form may please note that the bank account details given by them to their Depository Participants (DPs) and passed on to the Company by such DPs would be printed on the dividend warrants of the concerned members. However, if any Member wants to receive dividend in any other bank account, such Member should change / correct the bank account details with their concerned DPs. The Company would not entertain any request from such shareholders directly for deletion / change in the bank account details printed on the dividend warrants on the basis of information furnished by the DPs to the Company.
Members holding shares in physical form are advised to submit particulars of their bank account, viz., name and address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number latest by 29th August, 2006 to the Company or the Registrar M/s MCS Limited, Sri Venkatesh Bhawan, W-40, Okhla Industrial Area, Phase II, New Delhi - 110020.
9. Members who hold shares in physical form may nominate a person in respect of all the shares held by them whether singly or jointly. Members who hold shares singly are advised to avail nomination facility by filling Form 2B in their own interest. Blank forms will be supplied by the Company on request. Members holding shares in demat form may contact their respective depository participants for recording of nomination.
10. Members having multiple folios are requested to intimate to the registrar MCS Limited, New Delhi such folios to enable the Company to consolidate all shareholdings into one folio.
11. Members / Proxy holders are requested to produce the Attendance Slip duly completed and signed, for admission to the Meeting Hall.

12. Appointment / Re-appointment of Directors:

Information / details as required under the Corporate Governance Code in respect of persons being appointed as Directors at the forthcoming Annual General Meeting is given below:

- a) Mr. S. K. Tuteja holds a Master's degree in Commerce and is a founder Chairman of the Chandigarh Chapter of the Institute of Company Secretaries of India.

Mr. Tuteja belonged to the Indian Administrative Service and retired as Secretary, Food & Public Distribution, Government of India. During his distinguished service career spanning 38 years, Mr. Tuteja has held several key positions with the State and Central Government. He has, over the years, acquired vast experience in finance, commerce, industry, management and company affairs.

Mr. Tuteja has been associated with the Company for several years and has made invaluable contributions to the growth of the Company by lending crucial support and providing strategic guidance. Keeping these aspects in mind, the Board of Directors of the Company at their meeting held on 29th June, 2005, had appointed Mr. S.K. Tuteja as non-executive Chairman of the Company - an aspect appropriately stated in the Directors Report for Financial Year 2004-05.

Mr. Tuteja does not hold any shares in the Company.

In addition to Swaraj Mazda, Mr. Tuteja is also the Chairman of Central Warehousing Corporation, Chairman of Abhishek Industries Ltd. and Chairman of CWC Cold Chains (Pvt.) Ltd.

Details of Mr. Tuteja's Membership in Committees are given below:

Name of the Company	Name of committee
Swaraj Mazda Ltd.	Audit Committee – Chairman Shareholder/ Investor Relation Committee
Abhishek Industries Ltd.	Audit Committee – Chairman Investor Relation Committee

Mr. Tuteja's appointment would be in the category of Independent Directors.

- b) Mr. K. Machida is a nominee director of Sumitomo Corporation (SC) Japan and has been a Director of the Company Since June 2001.

Mr. Machida is graduate with Economics from KEIO University, Tokyo. Mr. K. Machida joined SC in 1975 and has held various key positions. Presently he is the General Manager. He has vast and varied experience in Marketing and Management.

Mr. Machida does not hold any shares in the Company.

Mr. Machida's appointment would be in the category of Promoter Directors.

- c) Mr. Harkirat Singh holds a Master's degree in Economics and retired as Executive Director of Life Insurance Corporation of India. He has been a Director of the Company since 1990 and is Chairman of Shareholder / Investor Relation Committee of the Board and is also Member of the Audit Committee.

Mr. Singh does not hold any shares in the Company.

Mr. Harkirat Singh's appointment would be in the category of Independent Directors.

- d) Pursuant to nomination by Punjab Tractors Ltd., Mr. Donald Peck was appointed a Director of the Company at the Meeting of the Board held on 29th May, 2004.

Based in Delhi, Mr. Peck is currently Managing Partner of Actis Capital.

Mr. Peck holds a Ph.D. in Economic History from Oxford University. He worked for thirteen years in Merchant Banking at Lloyds Bank, Morgan Grenfell and then in Equity Investment / Fund Management at IFC (Washington)

before joining the CDC Group at its London headquarters in 1991.

Mr. Peck does not hold any shares in the Company.

Mr. Peck is also on the Board of Punjab Tractors Ltd., Swaraj Engines Ltd., Industrial Development Finance Company Ltd., Alumunus Software Ltd., CICO Technologies Ltd., Avtec Ltd. and Dalmia Cement (Bharat) Ltd. and a member of the Shareholder / Investor Relations Committee of Punjab Tractors Ltd.

Mr. Donald Peck's appointment would be in the category of Promoter Directors.

- e) Pursuant to letter received from Actis Agribusiness Ltd. for appointment of Mr. Steven Enderby as a Director of the Company, the Board had co-opted him as a Director of Swaraj Mazda Ltd. on 31st January, 2006.

Mr. Enderby is based in Delhi and is currently a Partner in Actis Capital.

Mr. Enderby has a degree in Economics and is a qualified accountant. He is associated with CDC / Actis since 1990.

Mr. Enderby does not hold any shares in the Company.

Mr. Enderby is also on the Board of Punjab Tractors Ltd., TEMA Ltd. and Nitrex Chemicals (India) Ltd. He is also a member of the Audit Committee of Punjab Tractors Ltd. and Nitrex Chemicals (India) Ltd.

Mr. Steven Enderby's appointment would be in the category of Independent Directors.

- f) Mr. A. K. Thakur was co-opted on the Board of Swaraj Mazda Ltd. on 31st January, 2006.

Mr. Thakur is a Chartered Accountant by qualification with a Bachelor's degree in Commerce and retired as Executive Director of Unit Trust of India, after 23 years of service. He has vast experience in accounting, finance and corporate affairs.

Mr. Thakur does not hold any shares in the Company.

Mr. Thakur is also on the Board of GPI Textiles Ltd. and Rama Industries Ltd. He is Chairman of the Audit Committee of the GPI Textiles Ltd. and a Member of the Audit committee of Rama Industries Ltd.

Mr. A.K. Thakur's appointment would be in the category of Independent Directors.

- g) Pursuant to letter received from Sumitomo Corporation, Japan for appointment of Mr. Pankaj Bajaj as a Director of the Company, the Board had co-opted him as a Director of Swaraj Mazda Ltd. on 29th July, 2006.

Mr. Bajaj is a Fellow member of Institute of Chartered Accountants of India (FCA), Associate Member of Institute of Company Secretaries of India (ACS) and Associate member of Institute of Cost & Works Accountants of India (AICWA) with a Bachelor's degree in Law and Commerce and Management Development Programme from University of Maryland.

Mr. Bajaj joined Sumitomo Corporation India Pvt. Ltd. in 1997 is currently Company Secretary.

Mr. Bajaj does not hold any shares in the Company.

Mr. Pankaj Bajaj's appointment would be in the category of Promoter Directors.

- h) Mr. P.K. Nanda was co-opted on the Board of Swaraj Mazda Ltd. on 29th July, 2006.

Mr. Nanda is a Chartered Accountant by qualification. His professional career, with a base in India and UK, has covered global corporate scene – India, Europe, U.S.A., South America, Canada, West Indies, Africa, South East Asia and Australia.

In India, Mr. Nanda has held several key managerial positions with Multi-national Corporates – Remington Rand, Imperial Tobacco (now ITC), Philips and Metal Box. In Metal Box India, Mr. Nanda had the distinction of being the first Indian appointed as Chairman and Managing Director. On completion of his tenure, Mr. Nanda was relocated to Metal Box UK as Chief Executive & Chairman, International Operations, excluding Great Britain & Ireland.

Mr. Nanda was the founder president of CII – Confederation of Indian Industry, earlier known as AIEI. He has been a guest lecturer at International Management Institute - Geneva.

Mr. Nanda's expertise in Finance, Trade, Commerce and Corporate Affairs has been utilized from time to time by Government of India as Member of several core groups / committees.

Mr. Nanda has also been the Non-Executive Director of Bata International Shoe Organisation, Member of Committees of Confederation of British Industries and UKSATA.

Mr. Nanda is currently heading a consultancy firm focussing on International Business Strategy.

Mr. Nanda does not hold any shares in the Company.

Mr. Nanda is also on the Board of M/s Irplast Adhesives India Ltd.

Mr. P.K. Nanda's appointment would be in the category of Independent Directors.

- i) Mr. Yash Paul Mahajan is a Commerce Graduate and a Chartered Accountant, qualified in UK (1962). He is a Fellow Member of the Institute of Chartered Accountants (England and Wales) and also a Member of the Institute of Chartered Accountants of India.

Mr. Mahajan has been the Managing Director of the Company since 1983. Virtually since the very beginning, he has nurtured and successfully spearheaded Swaraj Mazda Ltd. to its present position of eminence.

In the last two years, Mr. Mahajan has played the pivotal role in the successful conclusion of the Technical Assistance Agreement with Isuzu Motors Ltd., Japan

Mr. Mahajan's achievements were nationally recognized in 2000 when he was selected as one of the thirty nominees for the prestigious Ernst and Young entrepreneur award of the year.

Mr. Mahajan has 2010 shares in the Company including 10 shares subscribed at the time of incorporation.

Mr. Mahajan is also a Director on the Boards of Pidilite Industries Ltd. and Aptech Ltd.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 8

Pursuant to letter received from Actis Agribusiness Ltd. recommending Mr. Steven Enderby for appointment as a Director of the Company, the Board had co-opted him as a Director on 31st January, 2006 and as Additional Director he holds office upto the date of the forthcoming Annual General Meeting.

It is the considered view of the Board that Mr. Steven Enderby's association as Director would be of value to the Company and recommends the resolution for approval.

A notice under section 257 of the Companies Act, 1956 has been received proposing the appointment of Mr. Steven Enderby as a Director. Hence, the resolution for approval.

None of the Directors of the Company except Mr. Enderby is in any way concerned or interested in the resolution.

Item No. 9

Mr. A. K. Thakur was co-opted as Director on 31st January, 2006 and as Additional Director he holds office upto the date of the forthcoming Annual General Meeting.

It is the considered view of the Board that Mr. Thakur's association as Director would be of value to the Company and recommends the resolution for approval.

A notice under section 257 of the Companies Act, 1956 has been received proposing the appointment of Mr. Thakur as a Director. Hence, the resolution for approval.

None of the Directors of the Company except Mr. Thakur is in any way concerned or interested in the resolution.

Item No. 10

Pursuant to letter received from Sumitomo Corporation, Japan nominating Mr. Pankaj Bajaj as their nominee Director on the Board of the Company, the Board had co-opted him as Director with effect from 29th July, 2006 and as Additional Director he holds office upto the date of the forthcoming Annual General Meeting.

It is the considered view of the Board that Mr. Bajaj's association as Director would be of value to the Company and recommends the resolution for approval.

A notice under section 257 of the Companies Act, 1956 has been received proposing the appointment of Mr. Bajaj as a Director. Hence, the resolution for approval.

None of the Directors of the Company except Mr. Bajaj is in any way concerned or interested in the resolution.

Item No. 11

Mr. P. K. Nanda was co-opted as Director with effect from 29th July, 2006 and as Additional Director holds office upto the date of the forthcoming Annual General Meeting.

It is the considered view of the Board that Mr. Nanda's association as Director would be of value to the Company and recommends the resolution for approval.

A notice under section 257 of the Companies Act, 1956 has been received proposing the appointment of Mr. Nanda as a Director. Hence, the resolution for approval.

None of the Directors of the Company except Mr. Nanda is in any way concerned or interested in the resolution.

Item No. 12

Mr. Yash Paul Mahajan is a Commerce Graduate and a Chartered Accountant, qualified in UK (1962). He is a Fellow Member of the Institute of Chartered Accountants (England and Wales) and also a Member of the Institute of Chartered Accountants of India.

Members are aware that Mr. Mahajan has been the Managing Director of the Company from its very inception (1983). Virtually since then he has nurtured and successfully spearheaded Swaraj Mazda to its present position of eminence.

In the last two years, Mr. Mahajan has played the pivotal role in the successful conclusion of the Technical Assistance Agreement with Isuzu Motors Ltd., Japan.

Members' attention is focused to the fact that Mr. Mahajan's appointment in Swaraj Mazda Ltd. as approved by the shareholders at the Annual General Meeting of the Company on 28th August, 2004, was without any remuneration package as he was drawing emoluments from Punjab Tractors Ltd. Members may note that Mr. Mahajan stepped down from the position of Vice Chairman & Managing Director of Punjab Tractors Ltd. on 31st May, 2006.

In this background, fresh terms of employment for Mr. Yash Paul Mahajan were approved by the Company's Board on 31st May, 2006.

Upon consideration of Mr. Yash Paul Mahajan's pivotal role and invaluable contributions to the Company as aforesaid and guided by the imperatives of Company's future growth plans, the Board of Directors of the Company commend acceptance of fresh terms of employment of Mr. Yash Paul Mahajan in terms of resolution set out in Item 12.

Mr. Yash Paul Mahajan is interested in Item No. 12 as the resolution relates to his appointment.

Item No. 13

Keeping in view the expansion plans and consequent fund requirements of the Company, it is proposed to increase the borrowing limits of the Company up to a maximum amount of Rs. 500 crores. As per Section 293(1)(d) of the Companies Act, 1956, the proposal to increase the borrowing limits of the company requires members approval by way of an ordinary resolution.

The Board of Directors accordingly recommends the resolution for the approval of the members.

None of the Directors is interested or concerned in the resolution.

REPORT OF THE DIRECTORS

The Directors present their Twenty Second Annual Report together with Audited Accounts for Financial Year ended 31st March, 2006.

FINANCIALS

	Year ended 31 st March, 2006 Rs. Million	Year ended 31 st March, 2005 Rs. Million
Net Operating Revenue	6125.7	5899.3
Operating Profit	352.9	443.0
Profit Before Tax	252.8	378.0
Tax Provisions		
— Current	86.0	143.0
— Fringe Benefit	7.0	—
— Deferred	(8.0)	(7.5)
Profit After Tax	167.8	242.5
Balance of Profit from Prior Years	95.8	73.1
Surplus available for Appropriation :	263.6	315.6
Appropriations :		
Transfer to General Reserve	85.0	130.0
Proposed Dividend	57.7	78.6
Tax on Dividend	8.1	11.2
Balance carried to Balance Sheet	112.8	95.8

As members had been cautioned by the Directors in their last report, operations for fiscal 2005-06 were dented due to sharp rise in material costs, continuing uptrend in diesel prices and rising interest burden – negatives that impacted profitability as Company had to absorb additional cost burdens on a flat sale volume.

DIVIDEND

In the background of the profit decline, the Directors have decided to recommend scaling down of dividend to 55% from 2004-05 level of 75%.

HUMAN RESOURCES

Industrial Relations and work atmosphere remained stable throughout the year. Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 is annexed to this Report.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION ETC.

Particulars in respect of the above activity under the Companies (Disclosure of particulars in the Report of Directors) Rules 1988 is annexed to this report.

CURRENT PERFORMANCE

The impact of negative factors as earlier stated has also been severely felt in the first quarter April-June, 2006 performance. On a net revenue of Rs. 1181 million (Rs. 1477 million), profit before tax fell sharply to Rs. 6 million against April-June, 2005 level of Rs. 101 million. Operations have suffered because of volume drop as also sharp rise in material cost which the Company had to absorb due to tough market conditions.

DEVELOPMENTS OF SIGNIFICANCE

Directors report with satisfaction that early this year, Company's strenuous efforts with the Govt. of Punjab, in the Department of Forests, which began in May, 2004, bore fruit when it received clearance from the State Govt. to go ahead with its Expansion Project on the Company's existing plot of land. Following this development, activities connected with setting up of new facilities for in-house production of luxury buses, expansion of existing vehicle manufacturing facilities and new assembly line for medium & heavy duty vehicles have been kicked off with a missionary spirit. This outcome positions the Company to save on capital outlays, time frame and also provides a built-in mechanism to save on the operating costs when production starts from the new facilities.

Another development of significance relates to procurement of designs and transfer of technology for luxury buses for which the Company had been interacting with two overseas parties for the last 18 months. Members would be glad to know that the Company has already procured global and modern designs for ultra luxury bus-bodies alongwith relevant jigs & fixtures, moulds, tools etc. and also provided overseas training to its key technical personnel to ensure smooth transfer of technology and successful implementation of the bus project. On current reckoning, the Company plans to roll out buses from its own stable by middle of fiscal 2007-08. Members would have also learnt from the press reports that the Company has recently signed a Technical Assistance Agreement with Isuzu Motors Ltd., Japan. Directors believe this tie-up with a global giant will further strengthen Company's operations in the years to come.

DIRECTORS

Pursuant to letter received from Actis Agribusiness Ltd. for appointment of Mr. Steven Enderby as a Director of the Company, the Board had co-opted him as a Director of Swaraj Mazda Ltd. on 31st January, 2006.

Mr. Steven Enderby holds office upto the forthcoming Annual General Meeting and the Company has received Notice u/s 257 of the Companies Act, 1956 proposing his appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. A.K. Thakur was co-opted as a Director of the Company on 31st January, 2006 and holds office upto the forthcoming Annual General Meeting. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr. Thakur's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Pursuant to letter received from Sumitomo Corporation for appointment of Mr. Pankaj Bajaj as Director of the company, the Board co-opted him as a Director of Swaraj Mazda Ltd. on 29th July, 2006. Mr. Pankaj Bajaj holds office upto the forthcoming Annual General Meeting and the Company has received Notice u/s 257 of the Companies Act, 1956 proposing his appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. P.K. Nanda was co-opted as a Director of the Company on 29th July, 2006 and holds office upto the forthcoming Annual General Meeting. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr. Nanda's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Members are aware that Mr. Yash Paul Mahajan's association as Managing Director of the Company has been from the very beginning (1983). Over the years, he has provided strong and purposeful leadership to the Company, both during Swaraj Mazda's formative difficult years and the extremely stressful period that followed when the Company became sick under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985. It is also a matter of record that from the brink of financial bankruptcy, Swaraj Mazda's transformation into a dividend paying Company owes a great deal to Mr. Mahajan's monumental efforts, bold initiatives, commercial thrust and inspirational direction.

Upon consideration of Mr. Yash Paul Mahajan's pivotal role and invaluable contributions to Swaraj Mazda Ltd. as aforesaid and guided by the imperatives of Company's future growth plans, the Board of Directors have decided to give Mr. Yash Paul Mahajan

fresh terms of employment as Managing Director of the Company for a period of 5 years with effect from 1st June, 2006. Appropriate resolution for Mr. Mahajan's fresh terms of employment as Managing Director of the Company have been proposed at the forthcoming Annual General Meeting.

Mr. S. K. Tuteja, Mr. K. Machida, Mr. Harkirat Singh and Mr. Donald Peck retire by rotation and being eligible offer themselves for re-appointment.

CORPORATE GOVERNANCE

As required by provisions of the Listing Agreement with Stock Exchanges, reports on Management Discussion and Analysis, Corporate Governance as well as the Auditors' Certificate regarding compliance of conditions of Corporate Governance are annexed to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of provision of Section 217(2AA) of the Companies Act, 1956, it is hereby confirmed that :

- i) in the preparation of annual accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- ii) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- iii) 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 safe guarding the assets of the Company and preventing and detecting fraud and other irregularities;
- iv) The Directors have prepared annual accounts on a 'going concern' basis.

AUDITORS

Observations made by the Auditors, when read with the relevant notes under schedule 'N' to the Accounts, are self-explanatory. As such, in the opinion of the Directors, they do not call for a specific reply.

M/s Price Waterhouse, Chartered Accountants, Auditors of the Company, retires at the ensuing Annual General Meeting and are eligible for reappointment. The Company has received a certificate from them that their reappointment, if made, would be within the limits prescribed under Section 224(1)(B) of the Companies Act, 1956.

FOR AND ON BEHALF OF THE BOARD

S.K. TUTEJA
Chairman

YASH PAUL MAHAJAN
Managing Director

Dated : 29th July, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Swaraj Mazda Limited (SML) is a Company engaged in the manufacture of vehicles for both goods and passenger applications.

1. COMPANY UPDATE

SML commenced operations in 1985-86, with sale of Swaraj Mazda LCVs in 2 wheel bases – 3.3m and 2.5m and GVW of 6 Ton, based on Mazda T-3500 model vehicles.

Over the years, SML has, on the strength of own R&D efforts, built-up a wide product portfolio catering to regular as well as the niche segments for cargo and passenger applications. In the category of trucks, 3 more wheelbases have been added – 2.8m, 3.9m and 4.7m. The GVW range has been raised to 10.25 Ton. Thus, SML's current range of 5.8 – 10.25 Ton GVW has 6 distinct models with several variants.

In the passenger segment, from the original 26 seater version, SML models today span a far wider, 12 – 41 seat range. A host of specialty vehicles like ambulances, dumper placers, water tankers, troop carriers etc. have also been developed through SML's own initiatives and efforts.

In addition to the above product spread, 4 wheel drive & CNG vehicles plus Airbrake versions, entirely outside Mazda's stable, have been developed through Company's internal initiatives & endeavours and now form part of SML's well expanded portfolio.

SML has also achieved Bharat Stage III compliance (equal to Euro III), raising in the process the power of the engine from 80 to 100 bhp.

Since the commencement of commercial production in 1986, SML has sold over 98,000 vehicles till March 2006. Out of this aggregate, 68,000 represent goods applications while balance 30,000 has been for passenger applications.

As is the matter of record, SML's commercial journey of 20 years has not been exactly a smooth walk – the phase till 1998-99 had infact been dominated by agonies and anxieties. Drastic economic changes brought in by Government of India in 1991-92 made the Company a sick unit. It is also a matter of record that in the subsequent years, SML not only tided over the financial crisis and wiped off the accumulated losses but also came on the dividend list from fiscal 1999-2000, with maiden dividend of 10%. This year's dividend recommendation of 55% adequately reflects business and profit growth which has taken place during the last 6 years.

For financial year 2005-06, SML's total vehicle sales reached 11,887, with passenger applications representing 46% against corresponding industry average of 23%. SML's market share in the comparable 5 to 10 Ton GVW range (market size 97,500 vehicles) was 12%. However, SML's market share in the comparable passenger segment was higher at 18.5% which reflected the distinct customer preference for Swaraj Mazda Buses.

During the period 1998-99 through 2005-06, Swaraj Mazda's volumes have grown at 22% p.a. In moving to Rs. 253 million by 2005-06, PBT has grown at a higher rate of 35% p.a. over the same period. Market capitalization at 31st March, 2006 stood at Rs. 3680 million, a compound annual growth of 38% based on March, 1999 valuations.

2. FINANCIAL ANALYSIS 2005-06

A. Profit & Loss Account

Total net revenue for the year was Rs. 6126 million (Rs.5899 million) with the following break down:

	(Rs. Million)	
	2005-06	2004-05
Sale of Vehicles	5768	5590
Sale of Spare Parts	335	286
Sale of Scrap etc.	23	23
Total Revenue	<u>6126</u>	<u>5899</u>

Rapid and large increase in cost of raw materials and components and additional cost burden due to regulatory requirements pushed material costs to their highest levels in last six years. In the highly competitive operating environment, much of the additional burden had to be absorbed by the Company. Under the circumstances, material cost as a percentage of net revenue for fiscal 2005-06 rose to 83.8% (80.3%) although for the last quarter, it peaked to 85.2%.

Imported raw materials and components represented 4.4% of total material consumption (6.7%).

While personnel costs at Rs. 208 million (Rs.191 million), manufacturing and administrative expenses at Rs. 168 million (Rs. 148 million) respectively represented 3.4% (3.2%) and 2.7% (2.5%) of net revenue, spending on marketing activities was down to Rs. 264 million against Rs. 374 million for the previous year and represented 4.3% of net revenue against 6.4% for fiscal 2004-05.

In the face of enhanced working capital needs and rise in borrowing rates, interest cost for the year moved to Rs. 73 million (Rs. 40 million).

In the result, Profit Before Tax was Rs. 253 million (Rs. 378 million) and the PBT margin at 4.1% against 6.4% for previous year.

Corporate tax at Rs. 86 million works out to an effective rate of 34% (37.8%). Deferred tax (Assets) for the current year was Rs.8 million.

Outgo on dividend account inclusive of tax at Rs. 66 million would translate to a payout ratio of 39% (37%).

B. Balance Sheet

Company's net worth on 31st March 2006 stood at Rs. 663 million comprising of an Equity component of Rs.105 million and Reserves of Rs. 558 million.

Year-end borrowings from Banks towards working capital requirements to support enhanced operations stood at Rs.1135 million (Rs. 236 million).

Gross Block and Net Block of assets stood at Rs. 415 million (Rs. 412 million) and Rs. 174 million (Rs. 179 million) respectively. These assets represent a double shift production capacity of 12,000 vehicles p.a. Year-end value of inventories stood at Rs. 911 million (Rs. 886 million).

Year-end dues to creditors were Rs. 2113 million (Rs. 1989 million).

At the end of fiscal 2005-06, trade debtors representing dues against supply of vehicles and spares stood at Rs. 2534 million (Rs.1641 million). Intensely competitive market conditions including customer resistance to prices necessitated extension of additional credit to dealers.

3. INTERNAL CONTROL SYSTEM AND ADEQUACY

In Swaraj Mazda, Finance & Accounts function is adequately staffed and manned by professionally qualified and experienced personnel. Established systems and procedures for internal control are in place on a Company-wide basis. Prior to the commencement of every financial year, Annual Business Plan (ABP) is formulated on the basis of well-defined processes and the ABP is subsequently approved by the Company's Board of Directors. The reporting and monitoring system is elaborate and the same is reviewed at the meetings of the Audit committee and the Board while considering quarterly business performance. Policies and procedures have been laid down to provide reasonable assurance that assets are safeguarded from risks of unauthorised use/disposition and transactions are recorded and reported with propriety, accuracy and speed. These aspects of operations are regularly reviewed and verified by the Internal Audit department and by the Company's Statutory Auditors. The same are also subsequently put up to the Audit Committee of the Board for consideration.

4. HUMAN RESOURCES

The Company's thrust from the very beginning has been on a lean organization manned by involved and motivated employees with team orientation as a major focus. The Company encourages learning on the job and pays special attention towards creation of cordial environment at the work place. Employee strength on 31st March, 2006 stood at 710 (799).

5. INDUSTRY STRUCTURE AND DEVELOPMENT

In 1985-86 when the new generation Indo-Jap LCVs were commercially introduced including Swaraj Mazda vehicles, the total LCVs market was a size of 34,000 vehicles while the HCV segment was nearly 60,000. By 1996-97, the total LCV segment had grown to 85,000 and HCV segment had crossed 150,000 mark. At the close of fiscal 2005-06, the total LCV segment has moved to 194,000 (out of which 96,600 are outside SML range) and the total HCV segment has reached 197,300. The growth in the last 4 years has been impressive mainly achieved on the strength of progress in road construction, easier availability of credit at lower interest rates and sharp uptrend in industrial activities.

During this period, SML vehicle sales moved up from 6222 to 11887 (12,353 in 2004-05). On this sale of 11,887 vehicles, SML's market share in its range was 12.2% - 46% being for the passenger applications.

While commercial vehicle industry as a whole recorded an impressive 29.6% growth between 2001-02 and 2004-05, the rate of growth for fiscal 2005-06 has been around 11% owing to slowdown in infrastructure spending, customer resistance to repetitive price increases and escalating diesel costs.

Notwithstanding slack demand witnessed during 2005-06, mid-term and long-term outlook for the commercial vehicle industry appears encouraging on account of ongoing road development programme slated to get completed by 2010-11, enforcement of overloading norms, stable of buses with State Transport Undertakings needing replacement and India becoming a destination for tourists.

However, increasing material and fuel costs continue to be a cause of concern.

6. INDUSTRY FUTURE & SWARAJ MAZDA RESPONSE

The ongoing road development programme would improve connectivity to ports, cities and villages through a network of highways and interconnecting roads by 2010-11. This in turn would help in faster movement of goods and people between villages, towns, cities & Metros. With the continuous rise in travelling population and railways not likely to cope-up adequately, demand for buses is expected to rise in a significant manner in the coming years.

Added to this changing phenomenon is the rising urge of the young to discover India by road. This is giving a boost to tourism industry and with India becoming a focused destination for visitors from overseas both for business & pleasure including the NRIs, demand for luxury buses is expected to rise sharply with every passing year.

Keeping in view these positive indicators, the Company's response has been timely and appropriate steps to broad-base its product portfolio have already been put in place. These include expansion of vehicle production capacity, new assembly line for ISUZU vehicles and setting up of in-house facilities for the manufacture of luxury buses based on existing Mazda chassis as also on Isuzu chassis for which the Company has already procured relevant designs from overseas parties and also recently concluded a Technical Assistance Agreement with Isuzu Motors Limited, Japan.

7. BUSINESS RISKS AND CONCERNS

Commercial Vehicle industry has a close linkage with economic growth and infrastructure development. India is heavily reliant on imported oil, thus oil prices have a bearing on economic development. Stability in rupee valuation vis-à-vis other currencies and availability of retail finance at low cost would impact demand for commercial vehicles. Freight rates too would have a strong bearing on vehicle demand.

Since more than 70% of input materials in a commercial vehicle comprises of steel-based components, any abnormal rise in steel prices and other raw materials would inevitably have an adverse impact on manufacturing costs, more so when the additional cost burden might have to be absorbed by manufacturers because of the intensely competitive operating environment. In recent years, increasing regulatory requirements with regard to new features and emission norms have also raised cost of vehicles. Fresh emission and safety requirements could bring new complexities for automotive and component manufacturers.

The Company regularly evaluates marketing and environmental trends and cost factors for developing effective and timely counter measures. Appropriate initiatives and steps towards value engineering, securing better terms from vendors and period contracts with steel suppliers would mitigate the impact, but some gap would still remain. It is expected that Company's Plans to broaden its product range, strengthen manufacturing and R&D capabilities and new facilities would help sustain growth and enhance market presence in the years to come.

8. CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report describing Company's objectives, projections, estimates and expectations may constitute "forward looking statements" with the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

CORPORATE GOVERNANCE REPORT

1. Company's philosophy on Code of Governance

Swaraj Mazda Ltd. (SML) has been practicing the principles of good corporate governance, disclosure and transparency in all its activities and processes right from the beginning. It has been a core belief and practice with the Company to consider itself the custodian and trustee of all the constituencies of our business – customers, business associates, shareholders and society. SML has sought and will continue to seek corporate excellence and profits through ethics, passion and perseverance.

2. Board of Directors

The Company's Board now comprises of 12 Directors of which the Managing Director is the only Whole-time Director. The Non-Executive Directors bring wide ranging experience and independent judgement to the Board's deliberations and decisions.

The Directors meet at regular Meetings of the Board where in addition to setting up of corporate goals, formulation of policies & approval of Annual Business Plans, they regularly review corporate operations and provide advice, guidance & direction to the operating team. In addition, the Directors have set up following committees of the Board :

- Audit Committee
- Shareholder / Investor Relations Committee

None of the Directors on the Board is a Member on more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49), across all the Companies in which he is a Director.

The information on Composition of the Board, category of Directors, attendance at Board meetings held during the year and at the last Annual General Meeting, Directorships in other public companies and Committees of other public companies of which the Director/ Chairman is as under:-

Name of Directors	Category	Financial Year 2005-06		Attendance at the last AGM	Number of Directorships in other public companies incorporated in India'	Committee Position held in other companies#	
		Board Meetings held ^s	Board Meetings attended			**C	#M
Mr. S.K.Tuteja (Chairman)	Non Executive Independent	5	5	Yes	1	1	1
Mr. K. Machida@	Non Executive	5	Nil	No	Nil	Nil	Nil
Mr.Donald Peck@	Non Executive	5	3	No	7	Nil	1
Mr. M. Sato@	Non Executive	2	1	No	Nil	Nil	Nil
Mr. Y. Watanabe@	Non Executive	2	1	Yes	Nil	Nil	Nil
Mr. Harkirat Singh	Non Executive Independent	5	5	Yes	Nil	Nil	Nil
Mr. T. Yoshimoto@	Non Executive	5	Nil	No.	Nil	Nil	Nil
Mr. Steven Enderby	Non Executive Independent	1	1	N.A.	3	Nil	2
Mr. A.K. Thakur	Non Executive Independent	N.A.	N.A.	N.A.	2	1	1

Mr. P.K. Nanda	Non Executive Independent	N.A.	N.A.	N.A.	1	Nil	Nil
Mr. Pankaj Bajaj@	Non Executive	N.A.	N.A.	N.A.	Nil	Nil	Nil
Mr. Yash Paul Mahajan Managing Director	Executive	5	5	Yes	2	Nil	Nil
Mr. T. Hashimoto	Alternate Director to Mr. K. Machida	5	N.A.	N.A.	Nil	Nil	Nil
Mr. H. Fujimoto	Alternate Director to Mr. M. Sato	5	1	N.A.	Nil	Nil	Nil
Ex-Directors							
Mr. Y. Tatsuta@ (Ceased effective 30.09.2005)	Non Executive	3	Nil	No	Nil	Nil	Nil
Mr. Malcom D Gough @ (Ceased effective 30.09.2005)	Non Executive	3	Nil	No	Nil	Nil	Nil
Mr. H. Nagaoka (Ceased effective 31.05.2006)	Alternate Director to Mr. K. Machida	5	4	Yes	Nil	Nil	Nil
Mr. T. Miyazaki (Ceased effective 31.05.2006)	Alternate Director to Mr. M. Sato	2	1	Yes	Nil	Nil	Nil
Mr. T. Nagashima (Ceased effective 30.09.2005)	Alternate Director to Mr. Y. Tatsuta	3	1	No	Nil	Nil	Nil

@ Deemed to be promoters within the meaning of SEBI (Substantial Acquisition of Shares & Takeovers) Regulation, 1997.
* excluding private, foreign and companies registered under Section 25 of the Companies Act, 1956.

** C : Chairman # M : Member N.A. : Not Applicable

\$ Indicates the board meetings held during the tenure of Director(s)

Board Meetings and Attendance

During the Financial Year 2005-06, 5 Board Meetings were held on 8th June, 2005, 29th June, 2005, 29th July, 2005, 14th October, 2005 and 31st January, 2006.

3. Audit Committee

Terms of Reference

The role, terms of reference and the authority and powers of this Committee are in conformity with the requirements of the Companies Act, 1956 and the Listing Agreements. The essential functions of the Audit Committee include review of systems and procedures, overseeing the functioning of internal audit, the effectiveness of controls and regulatory compliances. It also reviews Company's financial reporting process, disclosure of financial information, observation of auditors and recommends the appointment of statutory auditors, their fees and reviews with management annual financial statements before submission to the Board.

Composition and Attendance

During the year, the Audit Committee comprised of Mr. S.K. Tuteja Chairman, Mr. Harkirat Singh and Mr. H. Nagaoka, who possess vast experience in and knowledge of Corporate Affairs & Finance.

Mr. A. K. Thakur, an Independent Director and by qualification a Chartered Accountant, has been made a member of the Audit Committee of the Board with effect from 29th July, 2006.

As and when necessary, senior functionaries are called to the meeting.

The Company Secretary acts as the Secretary of the Committee.

During the Financial Year under review, 5 meetings of the Audit Committee of the Board were held on 29th June, 2005, 29th July, 2005, 5th October, 2005, 14th October, 2005 and 31st January, 2006.

Attendance record of the members of the Audit Committee is as under :

Name of the Member Director	No. of Meetings Held	No. of Meetings Attended
Present Members		
Mr. S.K.Tuteja, Chairman	5	5
Mr. Harkirat Singh	5	5
Mr. H. Nagaoka	5	3

Remuneration of Directors (for the year ended 31st March, 2006)

The directors do not draw any remuneration from the Company other than sitting fees for attending meetings of the Board and Committees thereof.

Details of sitting fee paid to Directors during the year ended 31st March 2006 is given below.

Non-Executive Directors

Name of Director	Sitting Fee (Rs.)
Mr. S.K. Tuteja	2,40,000
Mr. Harkirat Singh	4,05,000

4. Shareholder / Investor Relations Committee

Terms of Reference

The Committee meets at frequent intervals, to approve inter-alia, transfer / transmission of shares, issue of duplicate share certificates and review status of investors' grievances and the functioning of Company's Registrar and Transfer Agents to render effective and quality services to investors.

Composition

During the year, the Shareholder / Investor Relation Committee comprised of Mr. Harkirat Singh, Chairman, Mr. S. K. Tuteja and Mr. Yash Paul Mahajan.

The Company received 16 shareholders' complaints from Stock Exchanges / SEBI / Department of Company Affairs / Registrar of Companies which inter-alia include non-receipt of dividend, annual report, transfer of shares etc. The complaints were duly attended to and the Company has furnished necessary documents / information to the shareholders. The company had Nil shares pending for transfers at the close of the financial year.

During the financial year ended 31st March, 2006, 17 meetings of the committee were held.

5. General Body Meetings

Details of last three Annual General Meetings of the Company are given below:

Financial Year	Date	Time	Venue
2002-03	30 th September, 2003	11.30 AM	Swaraj Mazda Limited, Village Asron, Distt. Nawanshahar, Punjab.
2003-04	28 th August, 2004	11.30 AM	Swaraj Mazda Limited, Village Asron, Distt. Nawanshahar, Punjab.
2004-05	30 th September, 2005	11.00.AM	Swaraj Mazda Limited, Village Asron, Distt. Nawanshahar, Punjab.

The following Special Resolutions were taken up in the last three AGMs, and were passed with requisite majority.

2002-03

- i) Delisting of Company's equity shares from the Stock Exchanges at Ludhiana and Delhi.

2003-04

- i) To increase FII investment ceiling in Company's equity to 49%.

2004-05

Nil

Pursuant to the provisions of Section 192A of the Companies Act, 1956, there was no matter required to be dealt by the Company to be passed through postal ballot.

6. Code of Ethics & Conduct

Company's Board has laid down a well-defined Code of Ethics & Conduct (the "Code") to be followed by Board Members and employees of the Company for ethical professional conduct. The Code is available on the website of the Company (www.swarajmazda.net). All the Directors and senior management personnel have affirmed compliance with the Code as approved and adopted by the Board of Directors.

7. Disclosures

- a) The Company has not entered into any transaction of material nature with the promoters, the Directors or the management that may have any potential conflict with the interest of the Company. The Company has no subsidiary. Details of related parties and transaction with them are furnished under para 6 of Schedule N of the Annual Accounts.
- b) There has neither been any non-compliance of any legal provision of applicable law, nor any penalty, stricture imposed by the Stock Exchanges or SEBI or any other authorities, on any matters related to capital market during the last three years.
- c) The Company has complied with the mandatory requirement of the Code of Corporate Governance as stipulated under clause 49 of the listing agreement with the Stock Exchanges. The Company has also complied with the requirements of amended Clause 49 after it came into force.
- d) Adoption of non-mandatory requirements
 - i) The Board
The Company does not maintain the office of the non-executive Chairman.
No specific tenure has been specified for the Independent Directors.

ii) Company regularly publishes its quarterly results in the leading national / regional newspapers. These results are also available on Company's website www.swarajmazda.net and at SEBI website www.sebiedifar.nic.in.

iii) Audit Qualifications

During the financial year under review, there is no fresh audit qualification in Company's financial statements.

iv) Training of Board Members / Mechanism for evaluating non-executive Board Members.

All non-executive Directors are given presentations by Wholetime Director / Management Team from time to time for an overview of Company operations. The Company's Board of Directors consists of professionals with expertise in their respective fields and industry. They endeavour to keep themselves updated with the trends in economy and changes in the legislation.

v) Whistle Blower Policy

Company encourages employees and business associates to raise their concerns relating to any unethical business practice at work place with protection against victimisation.

8. Means of Communication

- a) In compliance with the requirements of Listing Agreement, the un-audited/audited financial results are filed with the Stock Exchanges immediately after they are taken on record by the Board, published in Newspapers and are also displayed on the website of the Company www.swarajmazda.net. Results are not sent individually to the shareholders;
- b) The official news releases are displayed on the Company's website;
- c) During the year ended 31st March, 2006, no presentations were made to institutional investors or analysts;
- d) Management Discussions and Analysis Report forms part of the Directors' Report.

9. General Shareholders Information

Covered under separate section in this Annual Report.

**AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE
UNDER CLAUSE 49 OF THE LISTING AGREEMENT(S)****To the Members of Swaraj Mazda Limited**

We have examined the compliance of conditions of Corporate Governance by Swaraj Mazda Limited, for the year ended March 31, 2006 as stipulated in Clause 49 of the Listing Agreement(s) of the said Company with Stock Exchange(s) in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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

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

New Delhi, 4th August, 2006

V. Nijhawan
Partner
M. No. F87228
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

BALANCE SHEET AS AT 31ST MARCH, 2006

(Rs. in lacs)

	Schedule	2006	2005
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	1049.38	1049.38
Reserves and Surplus	B	<u>5582.44</u>	<u>4561.88</u>
		6631.82	5611.26
Loan Funds			
Secured Loans	C	6836.00	2362.82
Unsecured Loans	D	4512.00	–
Deferred Tax Liabilities	E	24.29	104.29
		<u>18004.11</u>	<u>8078.37</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	F	4152.46	4122.50
Less : Depreciation		<u>2416.71</u>	<u>2333.25</u>
Net Block		1735.75	1789.25
Capital Work-in-Progress		517.97	169.43
Capital Spares		6.70	8.37
Current Assets, Loans & Advances			
Inventories	G	9114.46	8855.51
Sundry Debtors		25342.01	16411.15
Cash and Bank Balances		1903.41	1600.73
Other Current Assets		601.03	342.80
Loans and Advances		<u>2704.72</u>	<u>1663.12</u>
		39665.63	28873.31
Less :			
Current Liabilities and Provisions	H	<u>23921.94</u>	<u>22761.99</u>
Net Current Assets		15743.69	6111.32
		<u>18004.11</u>	<u>8078.37</u>
Significant Accounting Policies	M		
Notes to Accounts	N		

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

The Schedules referred to above form an integral part of the Balance Sheet.

 For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

 P. SIVARAM
Executive Director
(Marketing & Finance)

FOR AND ON BEHALF OF THE BOARD

 S.K. TUTEJA
Chairman

 V. NIJHAWAN
Partner
M.No. : F87228

 GOPAL BANSAL
Vice President - Finance
& Company Secretary

 YASH MAHAJAN
Vice Chairman &
Managing Director

New Delhi, 1st June, 2006

Village Asron, 31st May, 2006

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

(Rs. in lacs)

Schedule	2006	2005
INCOME		
Sales (Refer Note 2 on Schedule M)	70042.48	67477.43
Less : Excise Duty	9020.22	8717.90
Net Sales Revenue	61022.26	58759.53
Other Income I	234.31	233.44
	<u>61256.57</u>	<u>58992.97</u>
EXPENDITURE		
Manufacturing and Other Expenses J	57727.66	54563.25
Finance Charges (Net) L	729.27	395.48
Depreciation F	271.42	253.88
	<u>58728.35</u>	<u>55212.61</u>
Profit for the year before Tax Expense	2528.22	3780.36
Tax Expense/(Saving) (Refer Note 10 on Schedule M)		
- Current Tax	860.00	1430.00
- Deferred Tax (Refer Note 8 on Schedule N)	(80.00)	(75.00)
- Fringe Benefit Tax	70.00	—
Profit for the year after Tax Expense	1678.22	2425.36
Balance brought forward from previous year	958.03	731.36
Profit available for Appropriation	<u>2636.25</u>	<u>3156.72</u>
APPROPRIATIONS		
Proposed Dividend	576.77	786.50
Dividend Tax and Surcharge	80.89	112.19
General Reserve	850.00	1300.00
Balance Carried to Balance Sheet	<u>1128.59</u>	<u>958.03</u>
	<u>2636.25</u>	<u>3156.72</u>
Earning Per Share (Refer Note 7 on Schedule N)		
- Basic/Diluted Earning per share (Rs.)	16.00	23.13
Significant Accounting Policies M		
Notes to Accounts N		

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

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

FOR AND ON BEHALF OF THE BOARD

For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

P. SIVARAM
Executive Director
(Marketing & Finance)

S.K. TUTEJA
Chairman

V. NIJHAWAN
Partner
M. No. F87228

GOPAL BANSAL
Vice President - Finance
& Company Secretary

YASH MAHAJAN
Vice Chairman &
Managing Director

New Delhi, 1st June, 2006

Village Asron, 31st May, 2006

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE A

(Rs. in lacs)

	2006	2005
SHARE CAPITAL		
Authorised		
2,00,00,000 Equity Shares of Rs. 10/- each	<u>2000.00</u>	<u>2000.00</u>
Issued, Subscribed & Paid-Up		
1,04,86,700* Equity Shares (Previous year 1,04,86,700) of Rs. 10/- each fully paid-up	1048.67	1048.67
Add : Forfeited Shares [Amount paid up on 13,300 Equity Shares (Previous year 13,300) of Rs. 10/- each]	0.71	0.71
	<u>1049.38</u>	<u>1049.38</u>

*Includes 100 Equity Shares (Previous year 100) of Rs. 10/- each fully paid up and held by a NRI but not allotted pending clearance from the Reserve Bank of India.

SCHEDULE B

(Rs. in lacs)

	2006	2005
RESERVES AND SURPLUS		
Capital Reserve	15.00	15.00
(Refer Note 11 on Schedule M)		
General Reserve		
Balance Brought Forward	3588.85	2288.85
Add : Transferred from Profit and Loss Account	<u>850.00</u>	<u>1300.00</u>
	4438.85	3588.85
Profit and Loss Account	<u>1128.59</u>	<u>958.03</u>
	<u>5582.44</u>	<u>4561.88</u>

SCHEDULES FORMING PART OF THE ACCOUNTS
SCHEDULE C

(Rs. in lacs)

	2006	2005
SECURED LOANS		
From Banks		
- Short term loans	<u>6836.00</u>	<u>2362.82</u>
	<u>6836.00</u>	<u>2362.82</u>

Notes :

1. The limits sanctioned by the bankers are secured by a first charge by way of hypothecation of the Company's Current Assets i.e. Stocks, Bills Receivable, Book Debts and other movables of the Company and also by way of a second mortgage and charge on the Company's immovable property. The said second charge is yet to be created by the Company.
2. The Company had in an earlier year taken loans from Financial Institutions against first charge on its movable and immovable property. The said loans have since been repaid, however the charges in respect of these loans are in the process of being vacated.

SCHEDULE D

(Rs. in lacs)

	2006	2005
UNSECURED LOANS		
From Banks		
- Short Term Loans	<u>4512.00</u>	<u>—</u>
	<u>4512.00</u>	<u>—</u>

SCHEDULE E

(Rs. in lacs)

	2006	2005
DEFERRED TAX LIABILITIES		
(Refer Note 10 on Schedule M & Note 8 on Schedule N)		
Deferred Tax Liability (net)		
- At the beginning of the year	104.29	179.29
- Adjustment during the year	<u>(80.00)</u>	<u>(75.00)</u>
	<u>24.29</u>	<u>104.29</u>
	<u>24.29</u>	<u>104.29</u>

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE F (Refer Notes 3, 4, 9 and 12 on Schedule M)

FIXED ASSETS

(Rs. in lacs)

Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.04.2005	Additions during the year	Adjust- ments	As at 31.03.2006	As at 01.04.2005	For the year	Adjust- ments	As at 31.03.2006	As at 31.03.2006	As at 31.03.2005
Freehold Land	48.74	–	–	48.74	–	–	–	–	48.74	48.74
Factory Building	862.43	–	–	862.43	393.76	28.46	–	422.22	440.21	468.67
Plant and Machinery	2332.70	114.02	131.10	2315.62	1346.73	154.83	124.20	1377.36	938.26	985.97
Jigs and Fixtures	378.87	23.06	18.05	383.88	283.84	29.71	14.23	299.32	84.56	95.03
Furniture, Fixtures & Office Equipments	326.85	43.20	28.01	342.04	227.14	33.48	27.67	232.95	109.09	99.71
Vehicles	172.91	48.70	21.86	199.75	81.78	24.94	21.86	84.86	114.89	91.13
Total	4122.50	228.98	199.02	4152.46	2333.25	271.42	187.96	2416.71	1735.75	1789.25
Previous Year	3860.22	262.28	–	4122.50	2079.37	253.88	–	2333.25	1789.25	
Capital Work-in-Progress/Capital Advances									517.97	169.43

Note : Additions to Plant & Machinery includes Rs. 0.07 Lacs (Previous year Rs. 0.15 Lacs) loss on account of Foreign Currency transactions.

SCHEDULES FORMING PART OF THE ACCOUNTS
SCHEDULE G

(Rs. in lacs)

	2006		2005
CURRENT ASSETS, LOANS & ADVANCES			
CURRENT ASSETS			
Inventories			
(Refer Note 5 on Schedule M)			
Raw Materials & Components	4252.49		3754.92
Raw Materials & Components-in-Transit	546.10		1502.15
Stores and Spare Parts	72.51		38.55
Loose Tools	28.00		20.27
Work-in-Progress	604.16		550.54
Finished Goods			
– Vehicles	3198.23	2620.46	
– Spares	<u>412.97</u>	<u>3611.20</u>	<u>2989.08</u>
		<u>368.62</u>	<u>8855.51</u>
		<u>9114.46</u>	
Sundry Debtors			
(Considered good unless otherwise stated)			
Debts outstanding for more than six months :			
– Secured		39.66	5.00
– Unsecured [Including Rs. 240.05 lacs considered doubtful (Previous year Rs. 250.02 lacs)]	1243.89	543.71	
Less : Provision for doubtful debts	<u>240.05</u>	<u>1003.84</u>	<u>293.69</u>
		<u>250.02</u>	<u>298.69</u>
		<u>1043.50</u>	
Other Debts :			
– Secured	226.80	242.97	
– Unsecured	<u>24071.71</u>	<u>15869.49</u>	<u>16112.46</u>
		<u>25342.01</u>	<u>16411.15</u>
Cash and Bank Balances			
Cash in hand		21.99	19.71
[Includes Stamps in Hand Rs. 1.35 lacs (Previous Year Rs. 1.35 lacs)]			
Balances with Scheduled Banks on :			
– Current Accounts	1762.31	1503.26	
– Cash Credit Accounts	23.36	–	
– Unpaid/Unclaimed Dividend Accounts	82.83	61.37	
– Fixed Deposits	12.92	16.39	1581.02
(Pledged as Margin money with banks against issue of letters of credit & bank guarantees)			
	<u>1881.42</u>	<u>1600.73</u>	
	<u>1903.41</u>		<u>1600.73</u>
Other Current Assets			
(Unsecured considered good unless otherwise stated)			
Prepaid Expenses		9.54	4.26
Export Incentives Receivables	591.49		338.54
(Refer Note 2 on Schedule M)			
	<u>601.03</u>		<u>342.80</u>

SCHEDULES FORMING PART OF THE ACCOUNTS
SCHEDULE G (Continued)

(Rs. in lacs)

	2006	2005
LOANS & ADVANCES		
(Unsecured considered good unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	1830.44	893.76
[Including Rs. 0.43 lacs considered doubtful (Previous year Rs. 0.92 lacs)]		
Less : Provision for doubtful advances	<u>0.43</u>	<u>0.92</u>
	1830.01	892.84
Security Deposits	88.80	60.53
[Including Rs. 0.36 lacs considered doubtful (Previous year Rs. 0.36 lacs)]		
Less : Provision for doubtful advances	<u>0.36</u>	<u>0.36</u>
	88.44	60.17
Balance with Excise Authorities (Refer Note 2 on Schedule N)	614.43	742.70
Advance Tax [Net of Provision Rs. 4320.00 lacs (Previous Year Rs. 3460.00 Lacs)]	171.84	(32.59)
	<u>2704.72</u>	<u>1663.12</u>

SCHEDULE H

(Rs. in lacs)

	2006	2005
CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES		
Acceptances*	5922.74	5031.11
Sundry Creditors#		
– Small scale industrial undertakings (Refer Note 17 on Schedule N)	2343.50	1893.30
– Others	<u>12862.33</u>	<u>12966.30</u>
Customer Advances	415.84	259.49
Unclaimed Dividends	82.83	61.37
Other Liabilities	<u>818.72</u>	<u>978.22</u>
	22445.96	21189.79
PROVISIONS		
Fringe Benefit Tax Payable	8.85	–
Proposed Dividend	576.77	786.50
Tax on Proposed Dividend	80.89	110.31
Retirement benefits (Refer Note 6 on Schedule M)	378.47	325.39
Provisions for Warranty [Refer Note 8 on Schedule M & Note 4(b) on Schedule N]	<u>431.00</u>	<u>350.00</u>
	23921.94	22761.99

* Secured to the extent of Rs. 880.58 lacs (Previous year Rs. 1954.80 lacs) against hypothecation of Components.

As certified by the management.

SCHEDULES FORMING PART OF THE ACCOUNTS
SCHEDULE I

(Rs. in lacs)

	2006	2005
OTHER INCOME		
(Refer Note 2 on Schedule M)		
Sale of Scrap	159.25	202.19
Liabilities/Provisions no longer required written back	9.97	–
Miscellaneous Income	65.09	31.25
	<u>234.31</u>	<u>233.44</u>

SCHEDULE J

(Rs. in lacs)

	2006	2005
MANUFACTURING AND OTHER EXPENSES		
Material Consumed		
Raw Materials and components consumed*	49733.13	45921.72
* Net of import Duty Benefit of Rs. 455.38 lacs (Previous year Rs. 153.79 Lacs)		
(Refer Note 11 on Schedule N)		
Movement of Finished Goods and Work-in-Progress		
Opening Stock		
– Finished Goods	2989.08	2657.73
– Work-in-Progress	550.54	426.82
	<u>3539.62</u>	<u>3084.55</u>
Add : Purchases of Finished Goods	2352.75	2021.06
	<u>5892.37</u>	5105.61
Less : Closing Stock		
– Finished Goods	3611.20	2989.08
– Work-in-Progress	604.16	550.54
	<u>4215.36</u>	<u>3539.62</u>
Total consumption	<u>1677.01</u>	1565.99
	<u>51410.14</u>	47487.71
Operating, Administrative and Other Expenses (as per Schedule K)	6317.52	7075.54
	<u>57727.66</u>	<u>54563.25</u>

SCHEDULES FORMING PART OF THE ACCOUNTS
SCHEDULE K

(Rs. in lacs)

	2006	2005
OPERATING, ADMINISTRATIVE & OTHER EXPENSES		
Salaries, Wages and Bonus	1886.96	1725.69
Contribution to Provident and Other Funds (Refer Note 6 on Schedule M)	196.71	184.62
Workmen and Staff Welfare	142.98	128.80
Consumption of Stores, Spares and Tools (including Capital Spares)	148.75	142.26
Repair and Maintenance :		
– Machinery	0.16	11.50
– Building	5.11	1.84
– Others	37.70	23.39
Power and Fuel	396.80	377.25
Rent (Refer Note 13 on Schedule M & 19 on Schedule N)	83.69	66.20
Rates and Taxes	199.06	124.97
Legal and Professional	58.73	34.55
Insurance	59.53	42.97
Printing, Stationery, Postage and Telephone	111.78	125.35
Travelling and Conveyance	349.16	339.92
Provision for Doubtful Debts/Advances	–	94.76
Marketing, Sales and Promotion Expenses (Refer Note 4 on Schedule N)	2451.90	3242.13
Royalty	–	280.19
Research and Development (Refer Note 7 on Schedule M)	89.00	60.65
Directors' Sitting Fees	6.45	0.90
Miscellaneous expenses (Refer Note 20 on Schedule N)	173.11	131.07
Exchange loss/(gain) on Foreign Currency Transactions (Refer Note 9 on Schedule M)	(77.66)	(63.00)
	<u>6319.92</u>	<u>7076.01</u>
Less : Expenditure Transferred to Capital account	2.40	0.47
	<u>6317.52</u>	<u>7075.54</u>

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE L

(Rs. in lacs)

	2006		2005
FINANCE CHARGES / INCOME			
(Refer Note 12 on Schedule M)			
Interest on Loans	617.64		266.21
Interest on Vehicle Booking Deposits	—		1.17
Interest others	41.41		51.03
Bank Charges	77.22		84.34
	<u>736.27</u>		<u>402.75</u>
LESS :			
Interest on Fixed Deposits (Gross)	0.73	0.70	
[Tax deducted at source Rs. 0.06 lacs (Previous Year Rs. 0.13 lacs)]			
Interest others	<u>6.27</u>	6.57	<u>7.27</u>
	<u>729.27</u>		<u>395.48</u>

SCHEDULES FORMING PART OF THE ACCOUNTS**SCHEDULE M****SIGNIFICANT ACCOUNTING POLICIES****1) ACCOUNTING CONVENTION**

These accounts have been prepared in accordance with historical cost convention, applicable accounting standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

2) REVENUE RECOGNITION

Sales are recognized at the time of despatches to customers and include excise duty, wherever applicable. In case of export sales, revenue is recognized as on the date of bill of lading, being the effective date of despatch. Export benefits are accounted for on accrual basis.

3) FIXED ASSETS

Fixed assets are recorded at cost of acquisition. Cost includes freight, duties, taxes and expenses incidental to acquisition and installation of fixed assets. In case of self-constructed fixed asset, appropriate overheads including salaries & wages are allocated to the cost of the asset. The Cost of Capital Spares is capitalized along with the cost of the related asset.

4) DEPRECIATION

Depreciation on fixed assets is provided on a straight-line method on a monthly pro-rata basis at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except on following assets which are being depreciated at the rates mentioned below:

Motor Cars and Air Conditioners	25.00%
Computers	33.33%

All assets costing up to Rs. 5,000/- are being fully depreciated in the year of purchase.

Capital spares are amortised in a systematic manner over a period not exceeding the useful life of the asset to which they relate.

5) INVENTORIES

Finished goods, raw material and components, loose tools, stores & spares, work in progress and goods in transit are valued at lower of cost and net realisable value. Cost for the purpose of valuation is calculated on a quarterly weighted average method. In respect of finished goods & work in progress, applicable manufacturing overheads and other costs incurred in bringing the items of inventory to their present location and condition are also included. Excise duty is included in finished goods valuation.

6) RETIREMENT BENEFITS

The Company has various schemes of retirement benefits, namely Employees' Provident & Pension Fund, Superannuation Fund, Gratuity and Leave Encashment. The Company has created trusts which have taken Master Policy with the Life Insurance Corporation of India to cover its liability towards employees' superannuation and gratuity.

The Company contributes to the appropriate authorities its share of the Employees' Provident & Pension Fund, which is charged to revenue every year.

The estimated liability towards Gratuity and leave encashment is being provided for based on the actuarial valuation carried out at the year-end.

7) RESEARCH & DEVELOPMENT

Revenue expenditure on research and development is charged to the Profit and Loss Account in the year in which it is incurred. Capital expenditure on research and development is shown as an addition to fixed assets and depreciated at the rate as applicable to respective assets.

8) WARRANTY EXPENSES

Provision for warranty is made in the accounts on the basis of technical estimate of costs to be incurred in respect of vehicles sold.

9) FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are recorded at exchange rates prevailing at the date of transaction. Exchange differences, if any, arising on settlement of transactions, except those relating to fixed assets are recognized as income or expense in the year in which they arise. In case of fixed assets, the cost is adjusted for exchange differences arising on repayment of liabilities incurred for the purpose of acquiring such fixed assets.

At the balance sheets date all monetary assets, other than fixed assets, and monetary liabilities denominated in foreign currency are reported at the exchange rates prevailing at the balance sheet date and the resultant exchange fluctuation, if any, is recognized in the Profit & Loss Account. The cost of the respective fixed assets are adjusted for increase or decrease in liabilities incurred for the purpose of acquiring such fixed assets due to restatement of liabilities at the exchange rates prevailing at the balance sheet date.

The difference between the forward rate and the exchange rate at the date of transaction is recognized as income or expense over the life of the forward exchange contract, except in respect of liabilities incurred for acquiring fixed assets, in which case, such difference is adjusted in the carrying amount of the respective fixed assets.

Profit or loss arising on cancellation of a forward contract is recognized as income or expense in the year in which such cancellation or renewal has been made except in the case of a forward contract relating to liabilities incurred for acquiring fixed assets, where the profit or loss is adjusted in the cost of respective fixed assets.

At the balance sheet date all assets and liabilities covered by forward contracts are stated at forward contract rates.

10) TAXATION

Tax Expense, comprising current tax & deferred tax, is included in determining the net profit for the year.

A provision is made for the current tax and fringe benefit tax based on tax liability computed in accordance with relevant tax rates and tax laws.

In accordance with Accounting Standard – 22 ‘Accounting for Taxes on Income’, issued by the Institute of Chartered Accountants of India, the deferred tax for timing differences between the book and the tax profits for the year is accounted for using the tax rates and laws that have been enacted or substantially enacted as of the balance sheet date. However, in the year of transition the accumulated deferred tax liabilities / (assets) at the beginning of the year has been recognized with a corresponding charge to the General Reserve.

Deferred tax assets arising from temporary timing difference are recognized to the extent there is a reasonable certainty that the assets can be realised in the future and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

11) GOVERNMENT GRANTS

Grants in the form of Capital/Investment subsidy are treated as Capital Reserve.

12) BORROWING COST

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

13) LEASES

As lessee:

Lease rental in respect of assets taken on “Operating Lease” are charged to profit & loss account on straight-line basis over the lease term.

14) IMPAIRMENT OF ASSETS

In accordance with Accounting Standard – 28 on ‘Impairment of Assets’, recoverable amount of relevant assets is computed and compared with the carrying amount for determining impairment loss, if any, at the Balance Sheet date in case there is an indication that any asset may be impaired.

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE N

NOTES TO ACCOUNTS

1. There are Contingent Liabilities in respect of :

a) Claims against the Company not acknowledged as debts :

Details of various cases against which the Company has not deposited the respective demands for which the Company is in appeal are given below.

Name of the statute	Nature of dues	Amount	Period to which the amount relates	Forum-where the dispute is pending
Central Sales Tax Act, 1956	Demand raised by Sales Tax authorities for difference in the rate of tax	Rs. 130.93 lacs (Net of Rs.87.30 lacs deposited by the Company)	1 st April 2000 to 30 th September 2000	Sales Tax Tribunal, Chandigarh.
Central Sales Tax Act, 1956	Surety bonds for vehicles impounded for inadequacy of papers	Rs.7.23 lacs (Net of Rs. 2.42 lacs deposited by the Company)	May 2001	Asstt. Excise and Taxation Commissioner, Patiala.
Central Excise Act, 1944	Denial of benefit of notification for fuel efficient Motor Vehicles for Chassis	Rs 147.66 lacs (already deposited by the Company)	1995-96 to 96-97	Supreme Court of India
Central Excise Act, 1944	Demand raised by Excise Authorities to re-determine the assessable value of components supplied to spare parts division under Rule 7.	Rs 5.42 lacs (Includes penalty Rs. 2.71 lacs)	1-04-2000 to 31-03-2004	Commissioner (Appeals), Central Excise
Income Tax Act, 1961	Disallowance of provision for bad and doubtful debts.	Rs.36.74 lacs for the assessment year 1992-93 (representing the amount of provision)	1991-92	High Court, Chandigarh (Appeal filed by Department)
Income Tax Act, 1961	Demand raised by Income Tax authority under section 234 B & C	Rs.22.02 lacs for the assessment year 1998-99 (Rs.12.52 lacs deposited by the Company)	1997-98	High Court, Chandigarh.
Income Tax Act, 1961	Demand raised by Income Tax authority for excess deduction claimed u/s 80HHC	Rs.3.36 lacs for the assessment year 2003-04.	2002-03	Appeal filed with Commissioner of Income Tax (Appeals).

- b) Counter Guarantees given by the Company to its bankers and outstanding as on 31.03.2006 amounting to Rs. 85.30 lacs (Previous Year Rs. 119.08 lacs).
- c) Letters of credit issued on behalf of the Company by its bankers and outstanding as on 31.03.2006 amounting to Rs.998.25 lacs (Previous Year Rs.3108.27 lacs).
2. Through issue of excise notification no 11/95 dated March 16, 1995 Government sought to lapse Rs. 488 lacs out of Modvat Credit Receivable balance as on March 16, 1995. Petition by the Company and others with the Delhi High Court challenging the said notification on grounds of law and equity was allowed by the Supreme Court vide order dated January 28, 1999. The Finance Act, 1999 has, however, brought in retrospective amendment w.e.f. March 16, 1995 in the Central Excise Act, empowering the Central Government to lapse such modvat. On legal advice obtained by the Company to seek redressal against the action of the Government, the Company has filed writ petition before the Delhi High Court on the ground that the Government action violates the doctrine of promissory estoppel/expectation principle beside other grounds. The Court has already admitted the petition. Accordingly, pending Company's petition and decision thereupon, the amount of Rs. 488 lacs though adjusted in excise records has not been provided in the books of account.
3. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs. 332.49 lacs (Previous Year Rs. 128.57 lacs).
4. (a) Market promotion expenses (Schedule K) include discounts on sales allowed to customers during the year amounting to Rs.376.12 lacs (Previous Year Rs. 176.65 lacs) and Commission on Sales amounting to Rs.90.38 lacs (Previous Year Rs. 288.25 lacs).

(b) Provision For Warranty*	<u>2005-06</u> <u>(Rs. in Lacs)</u>	<u>2004-05</u> <u>(Rs. in Lacs)</u>
Opening Balance	350.00	274.06
Additions During the Year	291.00	226.00
Utilized during the year	200.00	150.06
Reversed during the year	10.00	-
Closing Balance	431.00	350.00

*As per warranty policy, the company is required to provide free repair and replacement of parts required to be replaced due to manufacturing defects which appears during the warranty period.

5. As the Company's business activities fall within a single primary business segment, viz., "Commercial Vehicles and Spares", the disclosure requirement of Accounting Standard (AS) – 17 "Segment Reporting", issued by the Institute of Chartered Accountants of India are not applicable.
6. In accordance with Accounting Standard on "Related Party Disclosures" (AS 18), the disclosure in respect of transactions with the company's related parties are as follows:
- | | |
|------------------------------|--|
| i) Associate Companies * | Punjab Tractors Limited
Swaraj Engines Limited
Swaraj Automotives Limited
Mazda Motor Corporation, Japan
Sumitomo Corporation, Japan |
| ii) Key management personnel | Mr. Yash Mahajan - Vice Chairman &
Managing Director |

* As identified and certified by the Management

iii) Transactions with Associate Companies

	<u>2005-2006</u> (Rs. in lacs)		<u>2004-2005</u> (Rs. in lacs)	
a. Purchase of components/spares :				
Sumitomo Corporation, Japan	2404.09		2521.26	
Punjab Tractors Limited	2481.66		2189.20	
Swaraj Engines Limited	2472.71		2162.95	
Swaraj Automotives Limited	<u>615.45</u>	7973.91	<u>619.40</u>	7492.81
b. Purchase of fixed assets				
Sumitomo Corporation, Japan	38.32		5.76	
Punjab Tractors Limited	<u>7.06</u>	45.38	<u>1.00</u>	6.76
c. Sale of components				
Punjab Tractors Limited	30.23		254.75	
Swaraj Engines Limited	974.05		921.43	
Swaraj Automotives Limited	<u>13.55</u>	1017.83	<u>31.09</u>	1207.27
d. Sale of finished goods				
Punjab Tractors Limited	164.46		148.52	
Swaraj Automotives Limited	<u>14.08</u>	178.54	<u>-</u>	148.52
e. Expenses reimbursement in respect of services received				
Punjab Tractors Limited	197.44		168.58	
Swaraj Engines Limited	<u>18.51</u>	215.95	<u>18.45</u>	187.03
f. Royalty expense (gross)				
Mazda Motor Corporation, Japan		-		280.19
g. Expenses reimbursement in respect of services rendered				
Punjab Tractors Limited	12.73		23.86	
Swaraj Engines Limited	10.74		11.41	
Swaraj Automotives Limited	<u>4.90</u>	28.37	<u>5.86</u>	41.13
h. Interest expense on Inter corporate borrowings (gross)				
Sumitomo Corporation, Japan	5.38		7.79	
Punjab Tractors Limited	108.70		130.58	
Swaraj Engines Limited	<u>25.43</u>	139.51	<u>38.92</u>	177.29
i. Inter Corporate Deposit received				
Punjab Tractors Limited	4050.00		3825.00	
Swaraj Engines Limited	<u>1150.00</u>	5200.00	<u>2710.00</u>	6535.00
j. Inter Corporate Deposit paid				
Punjab Tractors Limited	4050.00		3825.00	
Swaraj Engines Limited	<u>1150.00</u>	5200.00	<u>2710.00</u>	6535.00
k. Dividend Paid (Gross)				
Mazda Motors Corp.	-		114.66	
Sumitomo Corporation, Japan	322.73		213.15	
Punjab Tractors Limited	<u>110.40</u>	433.13	<u>76.44</u>	404.25
Aggregate balances outstanding as at the period end – Payables				
Sumitomo Corporation, Japan	837.33		2503.49	
Punjab Tractors Limited	505.25		392.00	
Swaraj Engines Limited	711.94		460.19	
Swaraj Automotives Limited	<u>116.30</u>	2170.82	<u>1.45</u>	3357.13

7. **Earning Per Share (EPS) :**

	<u>31.03.2006</u>	<u>31.03.2005</u>
Profit attributable to Equity Shareholders (Rs. in lacs)	1678.22	2425.36
Basic/Weighted average number of equity shares outstanding during the year. [excluding 13,300 forfeited equity shares (Previous Year 13,300)]	10,486,700	10,486,700
Basic/Diluted Earning Per Share (Rs.) (Face Value Rs.10 per share)	16.00	23.13

8. In view of Accounting Standards –22 “Accounting for Taxes on Income” issued by the Institute of Chartered Accountants of India, the Company has accounted for deferred tax as follows:

Particulars	Amount (Rs. in lacs)		
	Balance as at 01.04.2005	Expense/ (Saving) during the year	Balance as at 31.03.2006
(A) Deferred Tax Liabilities			
(i) Tax impact of difference between carrying amount of fixed assets in the financial statements and income tax returns	267.35	(42.02)	225.33
(ii) Tax impact of expenditure under 43 B of the Income Tax Act	(87.68)	(41.50)	(129.18)
Sub Total	179.67	(83.52)	96.15
(B) Deferred Tax Assets			
(i) Tax impact of expenses charged in the financial statements but allowable as deductions in future years under income tax.	(75.38)	3.52	(71.86)
Sub Total	(75.38)	3.52	(71.86)
Deferred Tax Liabilities (A-B)	104.29	(80.00)	24.29

The Deferred Tax Asset (net) for the current year aggregating to Rs. 80.00 lacs has been credited to the Profit and Loss Account.

9. **Auditors' Remuneration:**

	<u>2005-2006</u> <u>Rs. in lacs</u>	<u>2004-2005</u> <u>Rs. in lacs</u>
Statutory Audit Fee	10.00	6.00
Tax Audit Fee	2.00	1.00
Others	4.50	3.00
Reimbursement of Out of Pocket Expenses	1.14	0.56
	<u>17.64</u>	<u>10.56</u>

10. Information with regard to Licensed Capacity, Installed Capacity*, Production, Sales and Stocks:

a) Capacities:

	Unit of Measurement	Licensed Capacity (Per annum)		Installed Capacity (Per annum)	
		31.3.2006	31.3.2005	31.3.2006	31.3.2005
On-road automobiles (having four or more wheels such as light, medium and heavy commercial vehicles and passenger cars).	Nos.	10000	10000	6000*	6000

* On single shift basis as certified by the management being technical matter, relied upon by auditors.

b) Production, Sales and Stocks of Finished Goods:

	2005-2006		2004-2005	
	Qty. (Nos.)	Rs. in lacs	Qty. (Nos.)	Rs. in lacs
VEHICLES				
Opening Stock	578	2620.46	548	2298.11
Production	11946	—	12385	—
Sales*	11887	66696.25	12353	64614.00
Closing Stock	636	3198.23	578	2620.46

*Excludes 1 vehicle capitalised during the year (Previous Year - 2).

	2005-2006		2004-2005	
	Rs. in Lacs		Rs. in Lacs	
SPARES				
Opening Stock		368.62		359.62
Purchases		2352.75		2021.06
Sales		3346.23		2863.43
Closing Stock		412.97		368.62

Note: It is not possible to furnish quantitative information in respect of spares in view of large number of items of varied size and nature.

11. Raw Material & Components Consumed :

	2005-2006		2004-2005	
	Qty. (Nos.)	Rs. in lacs	Qty. (Nos.)	Rs. in lacs
CKD Kits	11946	2078.40	12385	2715.34
Tyres, Tubes & Rims	234165	3349.21	239396	3138.10
Cargo Boxes	4649	1825.00	6404	2165.46
Batteries	12034	199.77	12731	208.51
Others		42280.75		37694.31
		49733.13		45921.72

- i) In view of varied nature of large number of items, it is not possible to furnish quantitative information on components & capital stores.
- ii) The figure of others is a balancing figure based on total consumption shown in Schedule J and includes adjustments for excess / shortage found on physical verification.
- iii) Quantities and values of all items except CKD kits (where actuals are taken) represent issues from stores made during the period.

12. Value of imported and indigenous Raw Material & Components, Stores & Spares consumed and percentage of each to total consumption:

	2005-2006		2004-2005	
	%	Rs. in lacs	%	Rs. in lacs
a) Raw Material & Components:				
Imported	4.42	2199.72	6.70	3074.49
Indigenous	95.58	47533.41	93.30	42847.23
	<u>100.00</u>	<u>49733.13</u>	<u>100.00</u>	<u>45921.72</u>
b) Stores & Spares:				
Imported	—	—	—	—
Indigenous	100.00	148.75	100.00	142.26
	<u>100.00</u>	<u>148.75</u>	<u>100.00</u>	<u>142.26</u>

13. C.I.F. Value of Imports :

	2005-2006	2004-2005
	Rs. in lacs	Rs. in lacs
Raw Material & Components	3015.69	3009.36
Spares & Stores (including Capital Spares)	—	2.28
Capital Goods	42.06	50.31
	<u>3057.75</u>	<u>3061.95</u>

14. Earnings in Foreign Currency:

	2005-2006		2004-2005	
	Nos.	Rs. in lacs	Nos.	Rs. in lacs
Exports including Deemed Exports of Vehicles at FOB Value	524	2831.94	489	2619.83
Export of Spare Parts		67.16		36.88
		<u>2899.10</u>		<u>2656.71</u>

15. Expenditure in Foreign Currency (on payment basis - net of tax):

	2005-2006	2004-2005
	Rs. in lacs	Rs. in lacs
Travelling	43.95	21.07
Royalty	537.89	—
Interest	5.90	5.59
Others	7.65	0.48
	<u>595.39</u>	<u>27.14</u>

16. Detail in respect of Dividend remitted during the year in foreign currency*:

- a) Number of Non-resident Shareholders: 1 (Previous Year 2)
 - b) Number of Shares held: 43.07 lacs (Previous Year 27.30 lacs)
 - c) Amount remitted during the year: Rs.322.73 lacs (Gross) (Previous Year Rs.190.86 lacs)
- * Credited to the NRE Account of the Shareholder.

17. The names of Small Scale Industrial Undertakings where the balance is outstanding for over 30 days as on March 31, 2006 are as given below:

A. B. ENTERPRISES	HINDUSTAN TOOLING	NAVKETAN AUTO INDUSTRIES
A. R. INDUSTRIES PVT. LTD	HITECH INNOVATIONS	NEW BOMBAY AUTO & GERNAL INDS.
AARJU PLASTICS	HOLDING DEVICE INDIA	NEW SWAN AUTOCOMP PVT LTD
ACCURATE ENGINEERING INDUSTRIES	HUNNY STAMPING	P. K. INDUSTRIES
ACME FABRICATION P. LTD	INDIAN HARNESSE IND.	PABLA ENGG. WORKS
ACME TOOLS	INDIAN PRINTERS	PARDEEP INDUSTRIES
ACRO POLYMERS & MELLTALICS	INDO SEHATTE AUTO PARTS (P) LTD	PASHUPATI INDUSTRIES
AHLUWALIA ASSO & ENGG PRODUCTS	ISLE EXPORT & ENGG. CO. (MOHALI)	PAULCO FABRICATORS
AJSCO INDUSTRIES	JASWANT RUBBER PVT. LTD	PLASTIC COMPONENT INDUSTRIES
ANANTVIR AUTO ENGINEER	JAYPEE AUTO PLAST	PN -NJ IND. PVT LTD
ATOP FASTNERS PVT. LTD	JMD ENGINEERS	POONA SHIM PVT LTD
ATUL FASTNERS LTD	JREW STEEL LTD	PRE MATCH ENGINEERING CORP.
B. K. INDUSTRIES (MOHALI)	J. B. ENTERPRISES	PRECICHECK INDIA
B. S. & COMPANY.	J. P. ENGINEERS WORKS, CHD.	PREMIER PLASTIC
BHAGWATI INDUSTRIES	J. S. AUTOMOTIVE	PRESS TOOLS ENTERPRISES
BHIVANI INDUSTRIES	JAICO STEEL FASTNER P. LTD	PRITTIKA IND. PVT LTD
BONY POLYMERS LIMITED (FBD)	JAIN INDUSTRIAL PRODUCTS	PROXXON TOOLS
BUBBER INDUSTRIES	JAMSON ENTERPRISES	PUNEET ENTERPRISE
BUMBRA INDUSTRIES	K. C. ENTERPRISES	PUNFAB
BUMRAH ENGINEERS	K. K. CORPORATION	PUNHAR INNOVATIONS PVT. LTD.
C J ACCUFAB	KAD. ENTERPRISES	R. ENGG.
CIRCLIPS INDIA PVT. LTD	KANSAL ENGG.	RAJINDRA ENGG. WORKS
CONDUCTIVE ELEMENTS AND SYSTEM	KANSAL INDUSTRIES	RAJKAMAL METAL INDUSTRIES
COOPER GASKETS PVT. LTD	KARTIK ELECTRONICS	RALSON METAL FASTNERS
DAVINDRA ENGG. WORKS.	KLIPCO PVT LTD	RAVINDERA ENGG. WORKS
DHANJAL ENGG. WORK (MOHALI)	KNIT FAB INDUSTRIES	RUBBER UDYOG VIKAS P LTD
DHIMAN MACHANICAL WORKS	KRISHNA TEXTILES	RUMI PLAST
DHIMAN MACHINE TOOLS	LINK INDIA PVT LTD	S R ENGINEERS
ELITE INDUSTRIES.	LMC INDUSTRIAL ELECTRONICS	S. B. ENTERPRISES
EMSON INDUSTRIES	LUMAN AUTOLIGHT PVT. LTD	SAGAR ENGG CO
ENGINEERS AUTO	LUTHRA PLASTICS	SAGGI PLASTIC
ENN ARR PRECISION	M. M. D ENGINEERING CORP.	SAKET FAB PVT LTD
EXCEL AUTO INDUSTRIES	MAGNUS STEEL PVT. LTD	SANDEEP INDUSTRES
EXCEL GRAPHIC (P) LTD.	MAHAJAN INDUSTRIAL CORPN	SAVG ENGINEERS
EXCEL PACKAGING	MALKE RADIATORS	SELLOWARP MFG CO
EXCELLENT ENGG.	MANDEEP INDUSTRIES	SHINE AUTO PVT LTD
EXOTECH PLASTIC P LTD	MAX VALVES & REGULATORS (P) LTD	SINE TECHPOWER SYSTEM
FAIR FAB ENGG (DERABASSI)	MAZDA AUTO DRUM	SUN-N-SHADE SUNVISORS P LTD
FRIENDS FIBRE MOULDERS	METAL FORM	SYPD ENTERPRISES
G. S. INDUSTRIES	METAL KING	TECHNICO INDUSTRIES
GEE DEE TOOLS & EQUIPMENTS	METLONIC INDUSTRIED (P) LTD	TECHONMAC INDIA
GILLARD ELECTRONICS PVT. LTD	METLONICS CORPORATION	TEHWEL INDUSTRIES
GOEL ENTERPRISES	MFTAB TECHNOLOGIES	TIGHT WELL FASTNERS
GULATI AUTO ELECTRICALS	MILL TEC INDIA	TRUDINET COSTING P LTD
GUTSY ENGG. (P) LTD.	MUSAFIR BROTHERS INDUSTRIES	UNIKELLER INDIA P LTD
HARINDRA INDUSTRIAL CORPORATION	NARINDER GLASS HOUSE	UNIQUE INDUSTRIES
HARKO METALS CHD.	NARINDER PARKASH & CO.	VIKRANT AUTO INDUSTRIES
HARYANA TIMBER	NATIONAL INDUSTRIES	WALIA INDS. ENGG. COMPONENTS
		WALIA INDUSTRIAL CORPN.

18. The Company has a system for maintenance of information and documents as required by the transfer pricing regulation under Sections 92-92F of the Income Tax Act, 1961, as applicable. Since the law requires existence of such information and documentation to be contemporaneous in nature, the Company also updates its information and documentation for international transactions entered into with the associated enterprises during the financial year. The management is of the opinion that its international transactions are at arms length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.
19. The Company has taken certain premises under operating lease arrangements. The lease period varies from 3 to 15 years with the option to extend the same with mutual consent. The total lease rental recognized as expense aggregate to Rs 83.69 lacs (Previous Year Rs.66.20 lacs).

Future minimum lease payments under non-cancelable operating leases:

	<u>2005-2006</u> <u>Rs. in lacs</u>	<u>2004-2005</u> <u>Rs. in lacs</u>
Not later than one year	0.89	5.18
Later than one year and not later than five years	-	0.89
Later than five years	-	-

20. Miscellaneous expenses include assets written off during the year Rs.11.06 lacs (Previous Year Rs. Nil.)
21. Previous year figures have been regrouped/reclassified wherever considered necessary to conform to current year's classification.

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

(Rs. in lacs)

	Year ended March 31, 2006	Year ended March 31, 2005
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax expense	2528.22	3780.36
Adjustments For :		
Provision for Leave Encashment & Grauity	53.08	48.74
Depreciation	271.42	253.88
Foreign Exchange	(1.75)	(67.41)
Interest Expense	617.64	266.21
Assets Written off	11.06	-
Provision for Doubtful Debts & Advances	-	94.76
Provision for Warranty	81.00	75.94
Liabilities/Provisions no longer required written back	(9.97)	-
Interest Income	(7.00)	(7.27)
Operating Profit Before Working Capital Changes	1015.48	664.85
	3543.70	4445.21
Adjustments for :		
Increase in Sundry Debtors	(8920.89)	(6093.54)
Increase in Other Current Assets	(258.23)	(38.10)
Increase in Loans and Advances	(837.17)	(218.39)
Increase in Inventories	(258.95)	(2820.67)
Increase in Current Liabilities	1258.06	6647.30
	(9017.18)	(2523.40)
Cash Generated From Operations	(5473.48)	1921.81
Less: Direct Tax Paid (net of refunds)	1064.43	1450.20
Fringe Benefit Tax	61.15	-
Net Cash From Operating Activities	(6599.06)	471.61
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(594.76)	(349.96)
Interest Received	7.00	7.27
Net Cash Used In Investing Activities	(587.76)	(342.69)

C. CASH FLOW FROM FINANCING ACTIVITIES

Loans taken during the year	21804.26		12035.00	
Loans repaid during the year	<u>12794.95</u>	9009.31	<u>12035.00</u>	-
Dividend Paid		(765.04)		(714.97)
Dividend Tax		(110.31)		(95.93)
Interest Paid		<u>(617.64)</u>		<u>(266.21)</u>
Net Cash Inflow / Used in Financing Activities		<u>7516.32</u>		<u>(1077.11)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		329.50		(948.19)
Cash and Cash Equivalents as at 01.04.2005 (#1)		(762.09)		186.10
Cash and Cash Equivalents as at 31.03.2006 (#2)		<u>(432.59)</u>		<u>(762.09)</u>

Notes :

#1 Cash and Bank Balances	1600.73	908.50
Cash Credit Account	<u>(2362.82)</u>	<u>(722.40)</u>
Cash and Cash Equivalents as at 01.04.2005	<u>(762.09)</u>	186.10
#2 Cash and Bank Balances	1903.41	1600.73
Cash Credit Account	<u>(2336.00)</u>	<u>(2362.82)</u>
Cash and Cash Equivalents as at 31.03.2006*	<u>(432.59)</u>	<u>(762.09)</u>

* Net of unrealised foreign exchange loss of Rs. 0.07 lacs (Previous year exchange loss of Rs. 1.40 lacs).

Notes :

1. 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.
2. Figures in bracket indicates the cash outflows.
3. Previous year figures have been regrouped and recasted, wherever necessary to conform to the 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

For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

P. SIVARAM
Executive Director
(Marketing & Finance)

S.K. TUTEJA
Chairman

V. NIJHAWAN
Partner
M. No. F87228

GOPAL BANSAL
Vice President - Finance
& Company Secretary

YASH MAHAJAN
Vice Chairman &
Managing Director

New Delhi, 1st June, 2006

Village Asron, 31st May, 2006

ANNEXURE TO DIRECTORS' REPORT

Information in accordance with the Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988.

1. CONSERVATION OF ENERGY

Company's manufacturing operations are not energy-intensive. Nevertheless, in the areas of high energy consumption such as compressed air and paint-line, steps have been taken towards energy conservation by systematic reduction of leakages. Discipline to switch off lights and machine tools, when not working, has also been introduced.

2. TECHNOLOGY ABSORPTION

2.1 Set up as a joint venture between PTL, Mazda and Sumitomo, over the years, SML has benefited immensely in developing its R&D core competencies from its parentage of Mazda Motor Corporation and Punjab Tractors. This has enabled SML to have a variety of vehicles in its product portfolio based on the original Mazda T-3500 model. Furthermore, with absorption of relevant technologies, both through in-house activity as also through its vendor base, SML has achieved a localisation level of 95%.

2.2 Expenditure on Research & Development during 2005-06 :

	(Rs. Million)
(a) Capital	6.9
(b) Recurring	23.3
(c) Total	<u>30.2</u>
(d) R&D expenditure as a %age of total turnover	0.43%

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

Export earnings were Rs. 289.9 million. Usage of fuel efficient Swaraj Mazda Vehicles also results in saving of foreign exchange indirectly through conservation of diesel. Being difficult to quantify, same is not included in the above figure.

Total foreign exchange utilised during the year amounted to Rs. 368.3 million : on business travel, royalty etc. Rs. 59.5 million and on import of raw materials, spares and capital goods Rs. 308.8 million.

AUDITORS' REPORT TO THE MEMBERS OF SWARAJ MAZDA LIMITED

1. We have audited the attached Balance Sheet of Swaraj Mazda 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 conducted our audit in accordance with the 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 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 of the books and records of the company 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 said 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 and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) *Attention is invited to non provision of Rs.488 lacs in respect of MODVAT credit receivable as explained in Note 2 on Schedule N. Had the said amount been provided, the net current assets & profit for the year would have been lower by the corresponding amount.*
 - (g) 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 subject to our comments in para (f) above*, 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.

V. Nijhawan
Partner
Membership No : F87228
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

New Delhi, 1st June, 2006

ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of Swaraj Mazda Limited on the financial statements for the year ended March 31, 2006]

1. (a) The company is maintaining proper records showing full particulars including quantitative details and situation of 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.
2. (a) The inventory (excluding stocks with third parties) has been physically verified by the management during the year. In respect of inventory lying with third parties, these have substantially 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) 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.
3. (a) The company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
(b) The company has not taken any loans, secure or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
4. 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.
5. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.
(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 Lacs in respect of any party during the year, we have been explained that since the items are as per specific technical requirements of the Company, no quotations for similar goods and materials are available and accordingly the prices cannot be compared with the prevailing market prices. In our opinion and according to the information and explanations given to us, the prices paid in respect of other transactions of purchases made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lacs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. The company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
7. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
8. 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.

9. (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 generally 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, customs 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, the particulars of dues of income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess as at March 31, 2006 which have not been deposited on account of a dispute are stated in Note 1(a) on Schedule N.
10. 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.
11. 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.
12. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the company.
14. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.
15. 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.
16. The company has not obtained any term loans.
17. 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.
18. 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 during the year.
19. There are no debentures outstanding at the year-end.
20. The company has not raised any money by public issues during the year.
21. 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.

New Delhi, 1st June, 2006

V. Nijhawan
Partner
Membership No : F87228
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE :
1. REGISTRATION DETAILS :

Registration No.	5516	State Code	16
Balance Sheet Date	31 03 06		

2. CAPITAL RAISED DURING THE YEAR (Rs. in lacs) :

Public Issue	NIL	Right Issue	NIL
Bonus Issue	NIL	Private Placements	NIL

3. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Rs. in lacs) :

Total Liabilities	18004	Total Assets	18004
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SOURCES OF FUNDS

Paid-up Capital	1050	Reserves and Surplus	5582
Secured Loans	6836	Unsecured Loans	4512
Deferred Tax Liability	24		

APPLICATION OF FUNDS

Net Fixed Assets	2260	Investments	NIL
Net Current Assets	15744	Accumulated Loss	NIL

4. PERFORMANCE OF COMPANY (Rs. in lacs) :

Turnover	61256	Total Expenditure	58728
Profit/Loss before Tax	2528	Profit/Loss after Tax	1678
Earning Per Share (Rs.)	16.00	Dividend Rate (%)	55

5. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS OF COMPANY (As per monetary terms) :

Item Code No. (ITC CODE)	374201000
Product Description	COMMERCIAL VEHICLES

ANNEXURE TO DIRECTORS' REPORT

(Year ended 31st March, 2006)

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975.

Sr. No.	Name/ (Age)	Qualification	Exp. (Years)	Date of comm. of Employment	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Last Employment Held	Designation
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Bansal Gopal (50)	B.Com., ACA A.C.S.	26	16.07.2003	Vice President- Finance & Company Secretary	4001863	Swaraj Engines Ltd.	Associate Vice President – Finance & Company Secretary
2.	Dhody K.S. (58)	B.Sc. Engg. (Mech.) P.G. Dip. in Business Management	36	30.01.1985	Vice President – Manufacturing	3724093	Ashok Leyland Ltd.	Manager Assemblies
3.	Prasad K.B. (55)	B.E. (Mech.) MBA	33	01.11.1985	Associate Vice President (Marketing)	3144127	Greaves Cotton & Co. Ltd.	Area Sales Manager

Notes :

1. Remuneration includes Salary, Allowances, Bonus, Encashment of Earned Leave, Company's contribution to Provident Fund, Gratuity & Superannuation Funds, reimbursement of Medical expenses and Leave Travel Assistance, wherever applicable and where it is not possible to ascertain the actual expenditure on a perquisite, valuation has been done on the basis of Income Tax Act, 1961 and Rules made there under.
2. Nature of employment is non-contractual.
3. All the employees have adequate experience to discharge the responsibilities assigned to them.
4. None of the employees is a relative of the Directors of the Company.

SWARAJ MAZDA LIMITED

Village Asron, Distt. Nawanshahar-144 533 (Punjab)

22nd Annual General Meeting - 9th September, 2006

Please complete this Attendance Slip and hand it over at the entrance of the Meeting Hall.

NAME OF THE SHAREHOLDER/PROXY
ADDRESS

Folio No.

DP ID*

No. of Shares held :

Client ID*

I hereby record my presence at the 22nd ANNUAL GENERAL MEETING of the Company at its Regd. Office & Works at Village Asron, Distt. Nawanshahar-144 533 (Punjab) on Saturday 9th September, 2006 at 2.00 P.M.

*To be used for shares held in
electronic form

SIGNATURE OF THE SHAREHOLDER/PROXY

PROXY

SWARAJ MAZDA LIMITED

Village Asron, Distt. Nawanshahar-144 533 (Punjab)

Folio No. DP ID* Client ID*

I/We

of being a member/members

of SWARAJ MAZDA LIMITED hereby appoint

of

for failing him

of

as my/our proxy to vote for me/us and on my/our behalf at the 22nd ANNUAL GENERAL MEETING of the Company to be held on Saturday, the 9th September, 2006 at 2.00 P.M. and at any adjournment thereof.

Signed this day of 2006 by the said.

*To be used for shares held in
electronic form

Signature



Note : This proxy must be returned so as to reach the Registered Office of the Company not less than 48 hours before the meeting. The Proxy need not be a member of the Company.