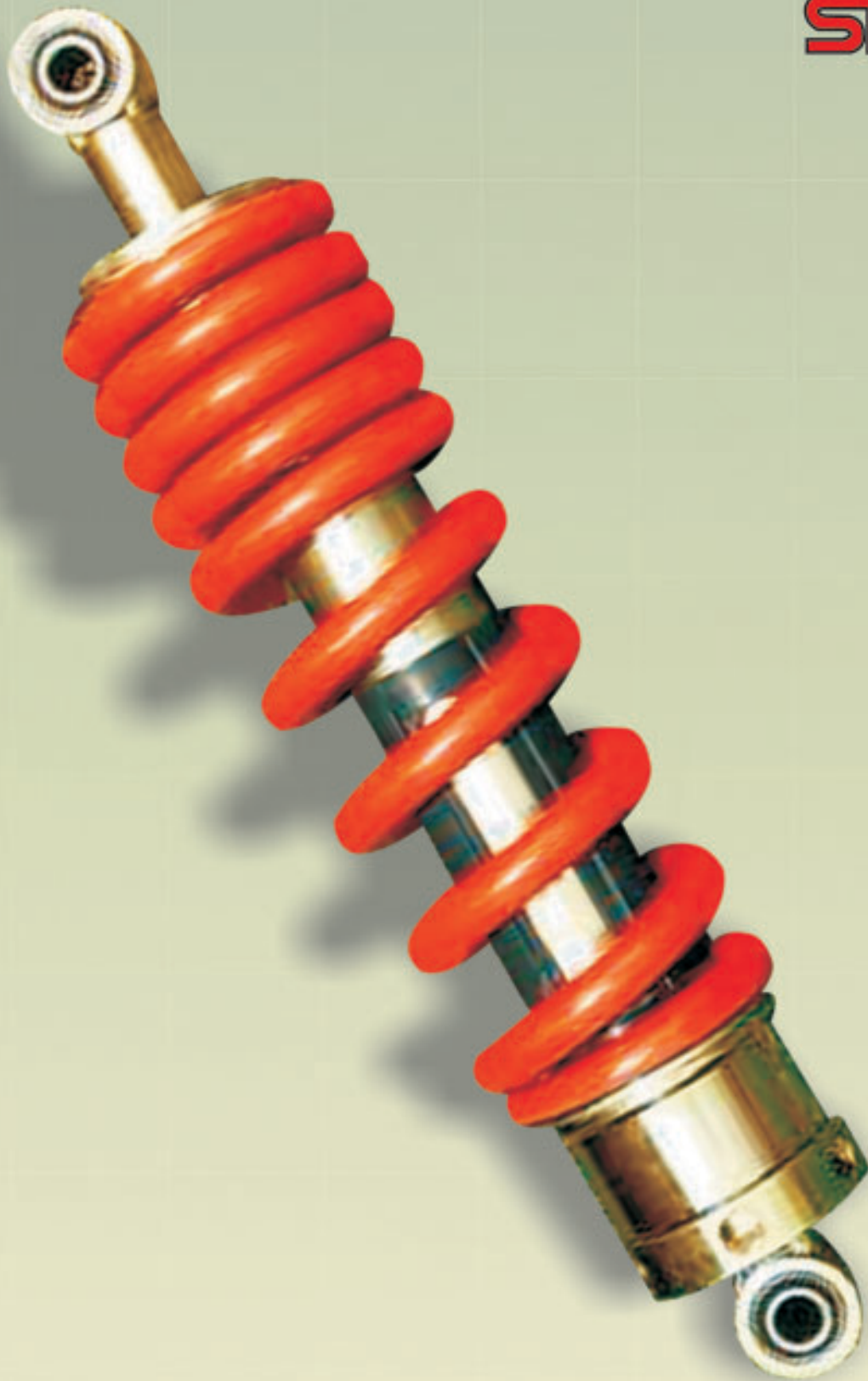


**MUNJAL  
SHOWA**



**21<sup>st</sup>**  
**Annual Report**  
**2005 - 2006**

**BOARD OF DIRECTORS****CONTENTS**

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**HEAD OF FINANCE****COMPANY SECRETARY****STATUTORY AUDITORS****COST AUDITORS****BANKERS****TECHNICAL & FINANCIAL COLLABORATOR****REGISTERED OFFICE & WORKS****SHARE TRANSFER AGENTS**

Brij Mohan Lall Munjal  
(Chairman)

Yogesh Munjal  
(Managing Director)

Kazuhiro Nishioka  
(Joint Managing Director)

Hiroshi Ijima

Ashok Munjal

Pankaj Munjal

S. D. Khosla  
(Upto November 5, 2005)

Dr. K C Sethi

Vinod K Agarwal

Anil Kumar Vadehra  
(w.e.f. December 30, 2005)

Mahesh Taneja

Pankaj Gupta

M/s S R Batliboi & Co.  
Chartered Accountants  
New Delhi

M/s Ramanath Iyer & Co.  
Cost Accountants, Delhi

Bank of Tokyo- Mitsubishi UFJ  
Canara Bank  
Standard Chartered Bank  
Citi Bank N.A.  
Punjab National Bank  
State Bank of India

Showa Corporation  
1-14-1, Fujiwar Cho  
Gyoda- shi, Saitama Ken, Japan

- a) 9-11, Maruti Industrial Area,  
Gurgaon-122015  
b) Plot No. 26 E & F, Sector 3, IMT  
Manesar, Gurgaon- 122 050

MCS Limited  
Shri Venkatesh Bhavan, W-40,  
Okhla Industrial Area, Phase II,  
New Delhi- 110 020  
Tel: 26384909; Fax: 26384907  
Email: mcsdel@vsnl.com

## YEARLY FINANCIAL RESULTS AT A GLANCE

		(Rs.in lacs)			
	March'06	March' 05	March'04	March'03	March '02
Share Capital	799.92	799.92	799.92	799.92	799.92
Reserve & Surplus	11938.18	10827.18	10729.81	9289.78	7827.18
Total Shareholder's Funds	12738.10	11627.10	11529.73	10089.70	8627.10
Unsecured Loans	-	-	226.34	552.13	742.83
Secured Loan	386.65	24.79	182.90	463.57	219.86
Total Term Liability	386.65	24.79	409.24	1015.70	962.69
Total Assets	13778.27	12230.67	12553.81	11860.07	9589.80
Net Sales	59662.37	52147.96	40427.70	35668.84	31603.66
(% Increase over Previous year)	14.41%	28.99%	13.34%	12.86%	29.86%
Profit Before Interest Depn. & Tax (PBDIT)	4207.17	#2031.11	4047.29	4059.29	4510.67
Interest	79.24	51.09	54.15	51.39	78.70
Depreciation	1051.84	823.07	747.73	629.86	546.96
Profit Before Tax (PBT)	3076.08	1156.95	3245.42	3378.04	3885.01
Profit After Tax (PAT)	2023.09	782.97	2116.82	2139.38	2507.45
Earnings per Share (EPS) (Rs.)	25.29	9.79	26.46	26.75	31.35
Book Value per Share (Rs.)	159.25	145.36	144.12	126.12	107.84
Dividend %	## 100.00%	75.00%	75.00%	75.00%	75.00%

# after exceptional loss of Rs. 1072.32 Lacs

# # Recommended by Board of Directors

## NOTICE

**NOTICE IS HEREBY GIVEN THAT THE TWENTY FIRST ANNUAL GENERAL MEETING OF THE MEMBERS OF MUNJAL SHOWA LIMITED WILL BE HELD ON MONDAY THE 28TH DAY OF AUGUST, 2006 AT 11.00 A.M. AT THE COMPANY'S PLANT SITUATED AT 26E & F, IMT MANESAR, GURGAON, HARYANA TO TRANSACT THE FOLLOWING BUSINESS: -**

### **ORDINARY BUSINESS:**

1. To receive, consider and adopt the Balance Sheet as at March 31, 2006 and Profit and Loss Account for the year ended on that date together with the Directors' and the Auditors' Report thereon.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Mr. Brijmohan Lall Munjal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Dr. K C Sethi, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint M/s S. R. Batliboi & Co., Chartered Accountants, New Delhi, the retiring Auditors of the Company as Auditors, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

### **SPECIAL BUSINESS:**

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

#### **As Ordinary Resolutions**

#### **6. Variation in the Terms of Appointment of Mr. Yogesh Munjal, Managing Director**

"RESOLVED THAT pursuant to the recommendation of the Remuneration Committee and in partial modification of the earlier Resolution passed in the Twentieth Annual general Meeting held on August 30, 2005, the consent of the Company be and is hereby accorded under Sections 198, 269 and 309 read with Schedule- XIII and other applicable provisions, if any, of the Companies Act, 1956 that the Basic Salary payable to Mr. Yogesh Munjal, Managing Director be increased to Rs. 1,50,000/- per month from Rs. 1,25,000/- per month with effect from October 01, 2005 for the remaining period of his present tenure i.e. upto August 31, 2006.

RESOLVED FURTHER THAT all other terms and conditions of his appointment shall remain unchanged.

RESOLVED FURTHER THAT the aggregate of the remuneration payable to him in any particular Financial Year will be subject to the overall ceiling limit laid down in Section 198 and 309 read with Schedule XIII of the Companies Act, 1956."

#### **7. Variation in the Terms of Appointment of Mr. Kazuhiro Nishioka, Joint Managing Director**

"RESOLVED THAT pursuant to the recommendations of the Remuneration Committee and in partial modification of the earlier Resolution passed in the Twentieth Annual General Meeting

held on August 30, 2005, the consent of the Company be and is hereby accorded under Sections 198, 269 and 309 read with Schedule- XIII and other applicable provisions, if any, of the Companies Act, 1956 that the Basic Salary payable to Mr. Kazuhiro Nishioka, Joint Managing Director be increased to Rs. 1,50,000/- per month from Rs. 1,25,000/- per month with effect from October 01, 2005 to August 31, 2006 and Rs.3,00,000/- per month with effect from September 01, 2006 for the remaining period of his tenure i.e. upto July 31, 2010. RESOLVED FURTHER THAT all other terms and conditions of his appointment shall remain unchanged.

RESOLVED FURTHER THAT the aggregate of the remuneration payable to him in any particular Financial Year will be subject to the overall ceiling limit laid down in Section 198 and 309 read with Schedule XIII of the Companies Act, 1956.”

**8. Appointment of Mr. Anil Kumar Vadehra as a Director of the Company**

“RESOLVED THAT Mr. Anil Kumar Vadehra who has been appointed by the Board of Directors as an additional director of the Company w.e.f. December 30, 2005 in terms of section 260 of the Companies Act, 1956 and Article 89 of the Articles of Association of the Company and in respect of whom the Company has received a notice from a member proposing his candidature for the office of director under section 257 of the Companies Act, 1956 together with a deposit of Rs. 500/- as required under the Act, be and is hereby appointed as a Director of the Company and that he shall be liable to retire by rotation.”

**9. Re-appointment of Mr. Yogesh Munjal as Managing Director of the Company**

“RESOLVED THAT pursuant to the recommendation by the Remuneration Committee of the Company and Sections 269, 309, 198 and Schedule XIII of the Companies Act, 1956, and all other applicable provisions, if any, of the said Act and subject to the approval of the Central Government, if required, Mr. Yogesh Munjal be and is hereby re-appointed as the Managing Director of the Company for a further period of five years with effect from September 01, 2006, on such terms and conditions and remuneration as set out in the Explanatory Statement annexed hereto.

RESOLVED FURTHER THAT in terms of Article 116 of the Articles of Association of the Company, so long as Mr. Yogesh Munjal continues to act as Managing Director, he shall not be liable to retire by rotation.”

**10. Sub-division of equity shares**

“RESOLVED THAT pursuant to section 94(1)(d) and all other applicable provisions, if any, of the Companies Act, 1956 and the provisions of the Articles of Association of the Company and subject to the guidelines, rules and/or regulation, if any, as may be prescribed by the statutory authorities in this regard and subject to the consents/ approvals as may be required to be obtained from any statutory authorities as may be applicable, each of the existing equity share of the Company having a nominal value of Rs. 10/- (Rupees Ten) be and is hereby sub-divided into five equity shares having a nominal face value of Rs. 2/- (Rupees Two) each.

“RESOLVED FURTHER THAT Clause IV of the Memorandum of Association of the Company which is read as under:

“The authorized share capital of the Company is Rs. 15,00,00,000/- (Rs. Fifteen Crores), divided in 1,50,00,000 (One Crore Fifty Lakhs) equity shares of Rs. 10/- (Rs. Ten) each.” be deleted and the following shall be substituted thereof;

“The authorized share capital of the Company is Rs. 15,00,00,000 ( Rs. Fifteen Crores), divided in 7,50,00,000 (Seven Crores Fifty Lakhs) equity shares of Rs. 2/- (Rs. Two) each.”

RESOLVED FURTHER THAT the Board of Directors of the Company / Committee thereof in this regard be and is hereby authorized to issue new share certificates representing the sub-divided shares with a new distinctive numbers in the aforesaid proportion subject to the rules as laid down in the Companies (Issue of Share Certificates) Rules, 1960 with an option to either exchange the new share certificates in lieu of cancellation of the old share certificates or without physically exchanging the share certificates, by treating the old share certificates as deemed to be cancelled and also to inform the Registrar & Transfer Agents of the Company and Depositories to take the necessary action to give effect to the above.

#### **As Special Resolutions:-**

#### **11. Amendment in Articles of Association**

Pursuant to section 31 of the Companies Act, 1956, the Articles of Association be amended in the manner following, namely, the existing Article 3 shall be deleted and the following shall be substituted thereof:

“The authorized share capital of the Company is Rs. 15,00,00,000 ( Rs. Fifteen Crores), divided in 7,50,00,000 (Seven Crores Fifty Lakhs) equity shares of Rs. 2/-(Rs. Two) each.”

#### **12 Keeping of Registers/Returns/Documents at a Place other than the Registered Office.**

“RESOLVED THAT pursuant to the provisions of Section 163 of the Companies Act, 1956, the Register and Index of Members of the Company and copies of all the Annual Returns prepared by the Company under Section 159 of the Companies Act, 1956 together with copies of all certificates and documents required to be annexed/attached thereto under Section 161 or any one or more of them be kept at the office of Intime Spectrum Registry Limited, the Registrars and Share Transfer Agents (ISRL) [as Share Registry business of MCS Ltd. being existing Registrar & Share transfer agents acquired by ISRL] of the Company, at W-40, Okhla Industrial Area, Phase II, New Delhi 110 020.”

Place : New Delhi  
Dated : July 26, 2006

By order of the Board  
**For MUNJAL SHOWA LTD.**

Registered Office:  
9-11, Maruti Industrial Area  
Gurgaon, Haryana - 122 015

PANKAJ GUPTA  
COMPANY SECRETARY

**NOTES:-**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote (on a poll only) instead of himself/herself. The proxy need not be a member. Proxies in order to be valid must be received at the Company's Registered Office not less than 48 hours before the commencement of the Meeting.
2. The Explanatory Statement setting out the material facts concerning Special Business at item Nos. 6 to 12 of the accompanying notice as required by Section 173(2) of the Companies Act, 1956, is annexed hereto. The relevant details of persons seeking appointment under Item No. 3, 4, 8 and 9, as required by clause 49 of the listing agreement with the Stock Exchanges are also annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Saturday, August 12, 2006 to Monday, August 28, 2006 (both days inclusive).
4. The dividend as recommended by the Board of Directors, if approved at the Twenty first Annual General Meeting, shall be paid to those members whose names appear on the Company's Register of Members as on August 28, 2006. In respect of the shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by the Depositories for this purpose.
5. Pursuant to Section 205 of the Companies Act, 1956, all unclaimed/unpaid dividends for the period(s) up to March 31, 1994 have already been transferred to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978. Shareholders who have not yet encashed their dividend warrants for the said period, are requested to forward their claims in the prescribed Form No. II to the Registrar of Companies, NCT of Delhi & Haryana, Paryavaran Bhawan, CGO Complex, Lodhi Road, New Delhi 110 003 by quoting the Company's Registration No.05-20934.
6. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividend for the financial year 1998-99 and thereafter, which remains unclaimed for a period of 7 years would be transferred by the Company to the "Investor Education and Protection Fund (IEPF)" established by the Central Government pursuant to Section 205C of the Companies Act, 1956. Dividends declared for the financial years 1994-95 to 1997-98 remaining unpaid/unclaimed have already been transferred to the Investor Education and Protection Fund.
7. Information in respect of unclaimed dividend pertaining to subsequent financial years when due for transfer to the said Fund is given below:

<b>Financial year ended</b>	<b>Date of declaration of Dividend</b>	<b>Last date for claiming unpaid Dividend</b>
31.03.1999	20.08.1999	26.08.2006
31.03.2000	29.08.2000	04.09.2007
31.03.2001	21.08.2001	27.08.2008
31.03.2002	19.08.2002	25.08.2009
31.03.2003	26.08.2003	01.09.2010
31.03.2004	24.08.2004	30.08.2011
31.03.2005	30.08.2005	05.09.2012

Shareholders who have not so far encashed the dividend warrant(s) are requested to seek issue of duplicate warrant(s) by writing to the Company immediately. Shareholders are requested to note that no claims shall lie against the Company or the said Fund in respect of any amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claim.

**8. Members are requested to notify immediately any change of address**

- i) To their Depository Participants (DPs) in respect of shareholding in electronic form or demat, and
- ii) To the Company's Registrar, MCS Limited, Shri Venkatesh Bhavan, W-40, Okhla Industrial Area, Phase-II, New Delhi- 110 020 in respect of their physical share folios, if any, quoting their folio number.

**9. Electronic Clearing Service (ECS) Facility**

The Company has provided a facility to the Members for remittance of dividend through Electronic Clearing System (ECS). The ECS facility is available at locations identified by Reserve Bank of India from time to time and covers most of the cities and towns. Members holding shares in the physical form who wish to avail ECS facility may authorize the Company with their ECS mandate in the prescribed Form which can be obtained from the Company upon request.

- 10.** Shareholders holding shares in electronic form may kindly note that their bank account details as furnished by their Depositories to the Company will be printed on their Dividend Warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such shareholders for deletion of / change in such Bank details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. Shareholders who wish to change such Bank Account details are therefore requested to advise their Depository Participants about such change, with complete details of bank Account.
- 11.** Shareholders are requested to bring their copy of the Annual Report and Attendance Slip duly filled in to the Annual General Meeting.

## **Annexure to the Notice**

### **EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 Item No. 6**

The Members had approved increase in basic salary of Mr. Yogesh Munjal, Managing Director from Rs. 95,000/- to Rs. 1,25,000 in the Twentieth Annual General Meeting held on August 30, 2005. The job responsibilities of Managing Director have considerably increased in view of increase in the volume of business and starting of operations at Company's Manesar unit. Keeping in view the above and on the basis of recommendation of Remuneration Committee in their meeting held on, your Board of Directors have, by passing a Resolution in their meeting held on October 28, 2005, revised the basic salary of Managing Director to Rs. 1,50,000/- per month from Rs. 1,25,000/- per month with effect from October 1, 2005 for the remaining period of his tenure. All other terms and conditions of his appointment will remain unchanged.

None of the directors except Mr. Yogesh Munjal himself is concerned or interested in the above Resolution under Item No. 6.

The Board recommends the resolution to the members for their approval.

### **Item No. 7**

The Members had approved basic salary of Mr. Kazuhiro Nishioka, Joint Managing Director from Rs. 95000/- to Rs. 1,25,000/- in the Twentieth Annual General Meeting held on August 30, 2005. The job responsibilities of Joint Managing Director have considerably increased in view of increase in the volume of business and starting of operations at Company's Manesar unit. Keeping in view the above and on the basis of recommendation of Remuneration Committee in their meeting held on, your Board of Directors have, by passing a Resolution in their meeting held on October 28, 2005, revised the basic salary of Joint Managing Director to Rs.1,50,000/- per month from Rs.1,25,000/- per month with effect from October 1, 2005. Further, pursuant to the recommendation of the Remuneration Committee and considerable involvement of Mr. Kazuhiro Nishioka in both plant, the Board of Directors have, by passing a resolution in their meeting held on July 25, 2006 revised the basic salary from Rs. 1,50,000/- per month to Rs. 3,00,000/- per month with effect from September 01, 2006. All other terms and conditions of his appointment will remain unchanged.

Except Mr. Kazuhiro Nishioka, no other director is interested /concerned in the Resolution under Item no. 7.

The Board recommends the resolution to the members for their approval.

### **Item No. 8**

Mr. Anil Kumar Vadehra was appointed as an additional director in the meeting of the Board of Directors held on December 30, 2005 pursuant to section 260 of the Companies Act, 1956 and Article 89 of the Articles of Association of the Company to hold that office upto the date of 21st Annual General Meeting of the Company.

The Company has received a notice from a member under section 257 of the Companies Act, 1956 along with a deposit of Rs. 500 signifying his intention to propose the candidature of Mr. Anil Kumar Vadehra for the office of director of the Company.

Mr. Anil Kumar Vadehra may be deemed to be interested / concerned in the Resolution under Item No. 8.

The Board recommends the resolution for approval by the members.

Mr. Anil Kumar Vadehra does not hold any share in the Company.

#### **Item No. 9**

The present tenure of Mr. Yogesh Munjal as Managing Director of the Company expires on August 31, 2006. During his tenure of five years, Mr. Yogesh Munjal steered the Company to great heights and the Company has taken strategic move towards new clientele and successfully commissioning of new plant at Manesar. Under his stewardship, the Company has achieved a record turnover. Keeping in view his long standing experience, expertise and knowledge in managing the affairs of the Company and pursuant to the recommendation of Remuneration Committee in their meeting held on July 25, 2006, he has been re-appointed as Managing Director by the Board of Directors by passing a Resolution in its meeting held on July 26, 2006 for a further period of five years w.e.f. September 01, 2006 subject to approval of the shareholders, on the terms and conditions including minimum remuneration, as set out below.

**1. Basic Salary:** Rs. 3,00,000/- (Rs. Three Lacs only) p.m.

**2. Commission:** He shall also be allowed commission in addition to Basic Salary, perquisites and any other allowances, benefits, or amenities subject to the condition that the amount of commission shall not exceed 1% of the net profits of the Company in a particular financial year as computed in the manner referred to in Section 198 read with sections 349 and 350 of the Companies Act, 1956.

**3. Perquisites and Allowances:** In addition to the above Basic Salary and Commission, he shall be entitled to the following perquisites and allowances:

**Residential Accommodation:** Rent-free furnished residential accommodation with free use of all the facilities and amenities which shall be provided by the Company;

**Medical Reimbursement:** Reimbursement of actual medical insurance premium and medical expenses incurred by him and his family;

**Leave Travel Concession:** For him and his family once in a year incurred in accordance with any Rules specified by the Company;

**Club Fees:** Actual fees of clubs will be reimbursed excluding admission fee and life membership fee;

**Gas, Electricity & Water:** Actual Expenses on Gas, Electricity and Water will be paid by the Company;

**Personal Accident Insurance:** Actual premium not exceeding Rs. 10000/- p.a. to be paid by the Company;

**Insurance of Household goods:** Actual premium to be paid by the Company;

**Car:** Facility of car(s) with driver;

**Telephone:** Free telephone facility at Residence including mobile phone facility;

**Leave:** One month's leave with full salary for every 11 months of service subject to the condition that the leave accumulated but not availed will not be en-cashed;

**Reimbursement of other expenses:** Reimbursement of entertainment, traveling, hotel and other expenses actually and properly incurred for the business of the Company;

**Contribution to Provident and Superannuation Funds:** Company's contribution to Provident and Superannuation funds will be as per the Rules of the Company; and

**Gratuity:** Not exceeding half month's salary for each completed year of service, as per the Rules of the Company.

#### **4. Minimum Remuneration**

In case of any loss or inadequacy of profits during any financial year, the remuneration payable to Mr. Yogesh Munjal shall not exceed the limits as prescribed under Part-II of Schedule XIII of the Companies Act, 1956.

Provided that the aggregate amount of remuneration payable to him in a particular financial year will be subject to the overall ceiling limits laid down in Sections 198 and 309 of the Companies Act, 1956.

However, he shall not be entitled to any sitting fee for attending meetings of the Board or Committee thereof.

**Explanation:** For the aforesaid purposes "Family" means the spouse, the dependent children and dependent parents;

The terms of appointment and remuneration including minimum remuneration as detailed in the resolution read with Explanatory Statement may be regarded as an abstract of the terms of Appointment and Memorandum of Interest under section 302 of the Companies Act, 1956.

Mr. Yogesh Munjal may be deemed to be interested / concerned in the Resolution under Item no. 9.

The Board recommends the resolution to the members for their approval.

Mr. Yogesh Munjal holds 800 equity shares in the Company.

#### **Item No. 10 & 11**

The Board of directors at their meeting held on July 26, 2006, subject to the approval of shareholders has recommended the sub-division of equity shares of the Company into smaller nominal value than fixed by the Memorandum & Articles of Association of the Company. This reduces the face value of a share and increases the number of outstanding shares without altering the total paid up capital. The availability of large number of shares improves the liquidity of the share, which in turn enhance market valuation and capitalisation. It is more attractive for all class of investors, specially for the small investors.

With this in mind, it is proposed to subdivide the Company's equity shares of Rs. 10/- each into equity shares of Rs. 2/- each. The company would issue five equity shares with a face value of Rs. 2/- each for every one equity share of Rs. 10/- each held by a shareholder.

The proposed sub-division of the face value, requires amendment to the Memorandum and Articles of Association of the Company. Accordingly Clause IV of the Memorandum of Association and Article 3 of the Articles of Association of the Company are proposed to be amended in the manner set out in items 10 & 11 respectively whereby the authorized share capital would be changed to Rs. 15,00,00,000/- (Rupees Fifteen Crores only) divided into 7,50,00,000 equity shares of Rs. 2 each.

None of the director is deemed to be interested/ concerned in the Resolutions contained under item No. 10 & 11 of the notice, except to the extent of number of shares held by them.

The Board of Directors of your Company recommends passing of the aforesaid Resolutions.

#### **Item No. 12**

The present registrar and transfer agents of the Company M/s. MCS Limited has sold its registry business to one of the existing registrar. It has been assured to the management of the Company that the better quality of service will continue to be provided to the shareholders of the company even after such transfer. Since M/s. MCS Limited was associated with the Company since beginning, there was no necessity felt to change it.

However in the present scenario and after considering the pros and cons of such change in the best interest of the members, your company has decided to appoint M/s.Intime Spectrum Registry Limited as the Registrar and Share transfer agents of the Company. The registrar is responsible for keeping the Register of Members, Index of Members, copies of certificates and documents required to be annexed thereto etc. As with this change there will be shifting of such records from one person to another, the Board subject to the approval of the shareholders passed the resolution in this regard in its meeting held on July 26, 2006.

A copy of the aforesaid Special Resolution will be sent in advance to the Registrar of Companies, NCT of Delhi & Haryana as required under Section 163 of the Companies Act, 1956.

None of the director is deemed to be interested/ concerned in the Special Resolution contained under item No. 12 of the notice.

The Board of Directors of your Company recommends passing of the aforesaid Special Resolution.

#### **Inspection**

Copies of all relevant documents and papers referred to in the accompanying Notice and Explanatory Statement are kept open for inspection by Members between 11.00 A.M. to 1.00 P.M. on any working day except Sundays and Public Holidays up to the date of Meeting at the Registered Office of the Company.

## **B. INFORMATION PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT WITH THE STOCK EXCHANGES**

a) Mr. Brijmohan Lall Munjal is the Chairman of Hero Group of Companies. Mr. Lall has a sparkling trail of success. He has steered the group to National and International recognition and the Group enjoys a number of accreditations to its credit. Hero Cycles is the largest manufacturer of bicycles in the World and one of the highest exporters from India. Hero Honda is the largest manufacturer of two-wheeler in the World and it ranks among top Indian corporate leaders as surveyed by FAs Eastern Economic Review.

Mr. Brijmohan Lall Munjal is the founder director and Chairman of the Company He was born on July 1, 1923 in Kamliya, (now in Pakistan). He has come a long way in his corporate journey with his distinct qualities of leadership, entrepreneurship and vision. Mr. Lall has steered the Company to national and international recognition. With his vision and leadership, Hero Honda is the largest manufacturer of two-wheelers in the world. In recognition of his immense contribution to the Indian industry, many awards have been conferred upon Mr. Lall, prominent among them is 'Padma Bhushan' conferred by Government of India in recognition of his immense contribution to the nation in the field of trade and industry.

He is presently holding the membership of the Board of the following Companies:

<b>Sl. No.</b>	<b>Name of Company</b>	<b>Nature of Office</b>
1	Hero Cycles Limited	Chairman and Director
2	Hero Honda Finlease Limited	Chairman and Director
3	Hero Honda Motors Limited	Chairman and Whole-time Director
4	Munjal Showa Limited	Chairman and Director
5	Sunbeam Auto Limited	Chairman and Director
6	Easy Bill Limited	Director
7	Hero Financial Services Limited	Director
8	Munjal Auto Industries Limited	Director
9.	Shivam Autotech Limited	Director
10.	Munjal Bros. Pvt. Limited	Director
11.	BCM Energies Pvt. Limited	Director

Mr. Lall does not hold any equity share in the Company either himself or on behalf of someone.

b) Dr. K C Sethi aged 68 years was Director General of Mangalmai Institute of Management and Technology, Greater Noida, until November 2002. Earlier he was Director General of BLS Institute of Management, Ghaziabad and Director of ITS (Institute of Technology and Science). Dr. Sethi an eminent Scholar, Academician and administrator having experience of around 35 years in the field of Management Education, was also associated with most of the leading and well known institutions in India like IIM Calcutta, MDI Gurgaon, Director of IMT Ghaziabad, etc.

Dr. K.C. Sethi does not hold any share in the company either on his own or on behalf of someone.

c) Mr. Anil Kumar Vadehra, aged 61 years, holds a Bachelor Degree in Mechanical Engineering from University of Roorkee. U.P and an M.B.A from Faculty of Management Studies, Delhi. Presently Mr Vadehra is offering Project & Management Consultancy Services for new/existing projects including rehabilitation of sick units.. He has served as General Manager of IFCI Ltd, Professor of Management Development Institute(MDI) Gurgaon and President of HB Estate Developers Ltd. Mr. Vadehra is also an adjunct/visitng faculty with ICFAI Business School Gurgaon, NIILM and JIMS in the areas of Project Appraisal/Management, Investment Banking & Financial Services, Financial Management, Working Capital Management, Management of Financial Institutions/Banks etc.

Mr. Anil Kumar Vadehra does not hold any share in the company.

d) Mr. Yogesh Munjal, was born on February 13, 1940 at Lahore, aged 66 years. He is the second-generation entrepreneur of Hero family with 41 years of rich experience. After completing his graduation in Architecture from IIT Roorkee, he worked with various Hero Group Companies in the capacity of CEO, and contributed for making them as world leaders. Mr. Munjal has steered the Company to national and international recognition. With his vision and leadership, Munjal Showa is the largest manufacturer of Shock-Absorbers in the World.

Apart from the above, he is on the Board of various other Companies as Director and Chairman/ Member of the Committee thereof.

He is on the Board of following other Companies:

S. No.	Name of Company	Nature of Office
1	Hero Honda Finlease Limited	Director
2	Hero Financial Services Limited	Director
3	Sunbeam Auto Limited	Director
4	Hero Motors Limited	Director
5	Easy Bill Limited	Director
6	Rockman Auto Pvt. Limited	Director
7	Thakur Devi Investments Pvt. Limited	Director

Besides, he is Chairman Emeritus- Quality Circle Forum of India (Delhi Chapter); Chairman of India National SuggestionSchemes' Association. (INSAAN) (Northern India Chapter) and Japan Desk of PHD Chamber of Commerce and Industry. He is also actively associated with various other social bodies.

Place : New Delhi  
Dated : July 26, 2006

By order of the Board  
**For MUNJAL SHOWA LTD.**

Registered Office:  
9-11,Maruti Industrial Area  
Gurgaon, Haryana - 122 015

**PANKAJ GUPTA**  
COMPANY SECRETARY

## DIRECTOR'S REPORT

Dear Members,

Your Directors have pleasure in presenting the 21st Annual Report together with the Audited Statement of Accounts for the financial year ended 31<sup>st</sup> March, 2006.

## FINANCIAL RESULTS AND APPROPRIATIONS

The salient features of the Company's Financial Results for the year under review are as follows:

	(Rs. In Lacs) Year Ended 31.03.06	(Rs. In Lacs) Year Ended 31.03.05
Sales and other Income	70048.46	61265.91
Profit before Depreciation & Tax & Exceptional Item	4127.93	3052.34
Depreciation	1051.84	823.07
Exceptional Item	-	1072.32
Profit before Tax	3076.09	1156.95
Provision for Taxation	1053.00	373.98
Profit after Tax	2023.09	782.97
Net Profit brought forward	1119.33	1101.96
Profit available for appropriation	3142.42	1884.93
Dividend (Recommended)	799.90	599.92
Dividend Tax	112.19	85.68
Transfer to General Reserve	1200.00	80.00
Surplus carried to Balance Sheet	1030.33	1119.33

## OPERATIONS

The Company has achieved a record sales turnover of Rs. 70048.46 lacs registering a growth of 14.34 % vis-à-vis Rs. 61,265.91 lacs in the previous year. The profit before tax and exceptional item in the current year was at Rs. 3076.09 lacs as compared to Rs. 2229.27 lacs in the previous year, grew by 37.99%.

## FUTURE PROSPECTS

The Company had successfully developed Front Fork and Rear cushion for 'Glamour' and 'Achiever' in Motorcycle segment and for 'Pleasure' in scooter segment for Hero Honda Motors Limited. The Company also developed hi-tech front fork and rear cushion for 'Shine' Model of Honda Motorcycle and Scooters India Private Limited. Some new models of motorcycle have been lined up for development and delivery during the year 2006-07. We are simultaneously developing shock absorbers for proposed new ventures. The Company has also received enquiries from new customers in four-wheel segment. Your Company has undertaken development and other necessary activities so as to maintain the confidence level of new customers. It is expected that four-wheel sales in coming years will increase significantly on account of cut in excise duty and efforts with bright chances are on for induction of two new customers. Two-wheelers sales are increasing steadily and we are also expecting a new customer into our fold very soon.

New Plant at Manesar became operational on the auspicious day of Baishaki in April 2005 last year. Now, it is strengthening Company's position in the Industry and reducing cycle-time for development of new models. It will also help us to carry out various tests at Manesar plant, which have been earlier conducted at Showa Corporation, Japan. The Company also plans to install some R & D facility at Manesar Plant, which is considered extremely necessary as required by our customers and for the overall growth and prosperity of the Company. With the commissioning of Manesar Plant, the Company's position has been consolidated as the largest manufactures in the Shock-Absorber Industry in organized sector.

Your Company continued to supply 100% export requirement of Maruti Udyog Limited and Honda Motorcycles and Scooters India Private Limited. Our Struts and Shock Absorbers are fitted in all the vehicles for export market in Europe and neighboring Countries. Maruti Udyog Limited had registered an export of 34,781 vehicles, all fitted with Company's Struts and Window Balancers. Similarly, Honda Motorcycles and Scooters India Private Limited had exported 38,638 scooters fitted with Company's Shock Absorbers.

### **TRANSFER TO GENERAL RESERVE**

The Board proposes to transfer an amount of Rs. 1200 lacs to General Reserve, having regard to the requirements of section 205 (2A) of the Companies Act, 1956. The balance amount of Rs. 1030.33 (previous year Rs. 1119.33 lacs) will be retained in the profit and loss account.

### **DIVIDEND**

The Board is pleased to recommend a dividend of 100% (i.e. Rs. 10/- Per equity share of Rs. 10/- each) for the year ended March 31, 2006 amounting to Rs. 799.90 lacs in aggregate. Dividend will be tax free in the hands of shareholders, as the Company will bear the dividend distribution tax of Rs. 112.19 lacs. The dividend, if approved, at the Annual General Meeting shall be payable to the shareholders registered in the books of the Company and the beneficial owners whose names are furnished by the depositories, determined with reference to the book closure from August 12, 2006 to August 28, 2006 (both days inclusive).

### **DIRECTORS**

Mr. S D Khosla and his wife were unfortunately killed by some unidentified person/s on November 05, 2005. The Board with profound grief expresses deep sorrow on the sad demise of Late Mr. S D Khosla and his wife. Board also placed on record deep appreciation for the dedicated and valuable services rendered by Late Mr. S D Khosla during his tenure as director of the Company and member of various Committees of the Board.

Mr. Brijmohan Lall Munjal and Dr. K C Sethi, the directors of the Company, retire by rotation from the Board at the ensuing Annual General Meeting. Mr. Brijmohan Lall Munjal and Dr. K C Sethi being eligible have offered themselves for re-appointment.

Mr. Anil Kumar Vadehra has been appointed by the Board as an additional director w.e.f. December 30, 2005 under section 260 of the Companies Act, 1956 read with Article 89 of the Articles of Association of the Company. The present tenure of Mr. Yogesh Munjal as Managing Director of the Company expires on August 31, 2006. He has been re-appointed as Managing Director of the Company by the Board of Directors by passing a resolution in their meeting held on July 26, 2006.

Brief resumes of Mr. Brijmohan Lall Munjal, Dr. K C Sethi Mr. Anil Kumar Vadehra and Mr. Yogesh Munjal have been given in the Annexure to the Notice of the Annual General Meeting.

Your directors recommend their appointment at the ensuing Annual General Meeting.

## **CORPORATE GOVERNANCE**

Report on Corporate Governance, and Management Discussion and Analysis Report along with Certificate of the Auditors of your Company pursuant to clause 49 of the Listing Agreement with the Stock Exchanges, have been included in this Report as Annexure-A. Your Company has been practising the principles of good Corporate Governance over the years. The Board of Directors have laid down a Code of Conduct to be followed by all the Directors and members of Senior Management of your Company. The Board of directors supports the broad principles of Corporate Governance. In addition to the basic governance issues, the Board also lays strong emphasis on transparency, accountability and integrity.

## **AUDITORS**

M/s S.R. Batliboi & Co., Chartered Accountants, New Delhi, the Auditors of the Company retire at the conclusion of the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment. The Company has received a certificate from the auditors to the effect that their re-appointment, if made, would be in accordance with Section 224(1B) of the Companies Act, 1956. The Board recommends their re-appointment.

## **AUDITORS REPORT**

The observation in the Auditors Report read with the Notes to accounts are self-explanatory and do not call for any comments.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

In compliance with Section 217(2AA) of the Companies Act, 1956, The Directors confirm:

- a) that the applicable accounting standards have been followed in the preparation of annual accounts and that there are no material departures;
- b) that such accounting policies have been selected and applied consistently and the judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March' 2006 and of the profit of the Company for the year ended on that date;
- c) that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) that the annual accounts have been prepared on a going concern basis;

## **FIXED DEPOSIT**

The Company has not accepted any Fixed Deposits during the year under Section 58A or 58 AA of the Companies Act, 1956 and the rules made there-under, and as such no amount on account of principal or interest on public deposits was outstanding on the date of the Balance Sheet.

## **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND RESEARCH & DEVELOPMENT AND FOREIGN EXCHANGE EARNINGS AND OUTGO**

The information pursuant to Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988 regarding Conservation of Energy, Technology Absorption and R & D and Foreign Exchange earnings & outgo are given in Annexure-B which forms part of Directors' Report.

## **ENVIRONMENT COMPLIANCE**

Sound environmental health and safety management is an integral part of the Company's business practices. For all manufacturing facilities, which require environmental consents such as air, water and hazardous waste,

proper authorizations from respective Pollution Control Boards have been obtained and are in compliance with the present Environmental Legislation. The Company initiated many programmes to improve the health and safety of employees by way of Internal Environment Management Programmes. These initiatives and the improvements arising out of these initiatives are monitored and reviewed through structured audits and management reviews.

The Company is member of Haryana Environment Management Society. Government of Haryana has identified and notified a site in District Faridabad for use of disposal facility for hazardous waste. The society has also entered into an arrangement with SENES, a non-profit organization of Canada which has specialized in disposal of effluent waste and is acting in co-ordination with the society for bringing up this facility.

The Company has achieved "Occupational Health and Safety Assessment Series-18001 (OHSAS) specification in March' 2004 and is maintaining OHSAS continuously. This specification lays down certain requirements for an occupational health and safety management system to enable the organization to control its Occupational Health and Safety risks and improve its performance.

The Company has planned recently to use gravest system to minimize the pollution inside the plant.

### **ISO, QS AND TS ACCREDITATION**

Your Company's manufacturing facilities in the Plant at Gurgaon continue to maintain and uphold the prestigious ISO 9001, QS 9000, ISO 14001 and TS 16949-2002 certification from reputed leading Indian and International Certification Institutions. These certifications provide continuous improvements, emphasis on prevention of defects and reduce wastes and variation in supply chain.

### **TPM**

The Company is in the process of implementing Total Productive Maintenance (TPM) with the help of JIPM Japan and CII. Major objectives of TPM is to increase Productivity, to improve Quality, to reduce Costs, to ensure Delivery in time, to increase Safety and to build Moral by formation of cross functional work groups (PQCDSM) and to improve overall effectiveness of equipment and processes within their areas. The other objectives are to procure and install maintenance free plant and machinery, to achieve zero defects, zero break down, zero losses and zero accidents. Above all, the object of TPM is to increase profits of the Company.

### **LISTING**

The shares of your Company are listed at National Stock Exchange of India Limited and The Stock Exchange, Mumbai, and pursuant to Clause 38 of the Listing Agreement, the Annual Listing fees for the year 2006-2007 have been paid to them well before the due date i.e. April 30, 2006. The Company has also paid the annual custodian fees in respect of Shares held in dematerialized mode to NSDL & CDSL for the year 2006-07 before the due date i.e. April 30, 2006. The Company has already applied to Calcutta Stock Exchange for de-listing of shares, the formal approval of which is yet to be received.

### **PARTICULARS OF EMPLOYEES**

A statement under sub-section (2A) of Section 217 of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, forming part of this Directors' Report is given in Annexure-C.

### **HUMAN RESOURCES**

Your Company believes that employees form the fulcrum of growth and differentiation for the organization. The Company recognizes that people are its principal assets and that its continued growth is dependent upon the Company's ability to attract and retain quality people. The total headcount increased to 1856 at the end of the

year as compared to 1326 of the previous year. The Company encourages long-term commitment to the Company by rewarding its people for the opportunities they create and the value generated for customers and shareholders. The Company conducts several training programmes to upgrade the skills of the workforce.

## **ACKNOWLEDGEMENT**

Your Directors place on record their appreciation of the co-operation and support extended to the Company by Government of India, State Government of Haryana, other local authorities, bankers, suppliers, customers and other stakeholders whose continued support has been a source of strength to the Company. The continued dedication and sense of commitment shown by the employees at all levels during the year deserve special mention.

The Directors also place on record their appreciation for the valuable assistance and guidance extended to the Company by Showa Corporation, Japan and for the encouragement and assurance, which our collaborator has provided for growth and development of the Company.

The Directors also take this opportunity to express its deep gratitude for the continued co-operation and support received from its valued shareholders.

For and on behalf of the Board

Place: New Delhi  
Dated: July 26, 2006

**BRIJMOHAN LALL MUNJAL**  
Chairman

## **ANNEXURE-A TO DIRECTORS' REPORT**

### **Report on Corporate Governance**

The Directors have pleasure in presenting the Corporate Governance Report for the year ended March 31, 2006.

### **Company's Philosophy on Corporate Governance**

Munjal Showa Limited, as a constituent of Hero Group, believes in the concept of good Corporate Governance involving transparency, empowerment, accountability, equity and integrity with a view to enhance stakeholders value.

## **I. BOARD OF DIRECTORS**

### **A. Composition of Board**

The Board of Directors of the Company consists of nine Directors in a pool of collective knowledge from various disciplines like Engineering, Finance, Business Management, Corporate Planning, etc. The Board has been constituted in a manner, which will result in an appropriate composition of Executive, Non-Executive and Independent Directors. The Non-executive Directors play an active role in the meetings of the Board and are associated with the various Board Committees. They also bring independent judgment in the Board's deliberations and decisions. The Board meets regularly and is responsible for the proper management of the Company. The Board comprises of more than 50% of Non-Executive Directors out of which three Directors are independent Directors.

The composition of the Board of Directors as at March 31, 2006 is as follows:

Name	Designation	Executive/ Non-executive /Independent
Mr. Brijmohan Lall Munjal	Chairman	Non-Executive
Mr. Yogesh Munjal	Managing Director	Executive
Mr. Kazuhiro Nishioka	Joint Managing Director	Executive
Mr. Hiroshi Ijima*	Director	Non-executive
Mr. Pankaj Munjal	Director	Non-executive
Mr. Ashok Munjal	Director	Non-executive
Dr. K C Secthi	Director	Non-executive - Independent
Mr. Vinod K Agrawal	Director	Non-executive - Independent
Mr. Anil Kumar Vadehra	Director	Non-executive - Independent

\*Representative of Showa Corporation, Japan based at Japan

## B. Meetings held in financial year 2005-06 and Attendance of Directors

The Board meets at least once in a quarter to consider, amongst other business, the quarterly performance of the Company and its financial results. The Board held four meetings during the financial year 2005-06 on May 10, 2005, July 29, 2005, October 28, 2005 and January 30, 2006. All the relevant information needed for taking decisions by the Board is made available to the directors for the meetings. The Board also reviews Compliance Reports of all laws applicable to the Company in each Board Meeting.

The Board and its Committees formulate policy decisions, so as to lead and control the affairs of the Company. The Composition of the Board is in conformity with the provisions as per the Listing Agreement. No Director is a member of more than of 10 Committees or act as Chairman of more than 5 Committees across all companies in which he is a director. The details are given as under:

S. No.	Name of Director	No. of Board Meetings attended	Attendance at last AGM	Number of outside Directorship(s) (*)	Total Number of Membership(s) in other Board Committees (**)	Number of Chairmanship(s) in other Board Committees (**)
1	Mr. Brijmohan Lall Munjal	4	No	8	Nil	Nil
2	Mr. Yogesh Munjal	4	Yes	5	3	Nil
3	Mr. Seiji Konoue	1	No	Nil	Nil	Nil
4	Mr. Kazuhiro Nishioka	3	Yes	Nil	Nil	Nil
5	Mr. Kiyoshi Nagashima#	Nil	No	Nil	Nil	Nil
6	Mr. Hiroshi Ijima #	Nil	No	Nil	Nil	Nil
7	Mr. Pankaj Munjal	4	Yes	7	2	1
8	Mr. Ashok Munjal	4	Yes	8	1	Nil
9	Late Mr. S D Khosla	3	Yes	3	2	3
10	Mr. K. N. Malhotra	1	Yes	3	1	Nil
11	Dr. K. C. Sethi	4	Yes	Nil	Nil	Nil
12	Mr. Vinod K Agrawal	3	Yes	Nil	Nil	Nil
13	Mr. Anil Kumar Vadehra	1	No	Nil	Nil	Nil

\* Excludes Directorship in Indian Private Limited Companies, Membership of Managing Committee of various Chambers/other Bodies and alternate Directorship.

\*\* Includes Membership/Chairmanship in Public Limited Companies only, whether listed or not, and that, too, only of Audit Committee and Shareholders' Grievance Committee and excludes those in Private Limited Companies, Foreign Companies and Section 25 Companies and other Committees.

# Representative of Showa Corporation, Japan, based at Japan.

Mr. Seiji Konoue, Mr. Kiyoshi Nagashima, Mr. K N Malhotra and Late Mr. S D Khosla were directors for part of the year. Committee position in respect of these directors has been shown as at the time of retirement / cessation.

Mr. Kazuhiro Nishioka, Mr. Hiroshi Ijima, Mr. Vinod K Agrawal and Mr. Anil Kumar Vadehra joined as directors during the year.

### C. Code of Conduct

The Company has a Code of Conduct for the members of the Board of Directors and of the Senior Management. All members of the Board and senior management affirm compliance of code on annual basis. They have affirmed compliance of the code for the year ended March 31, 2006.

## II AUDIT COMMITTEE

The Audit Committee consists of three Directors namely Dr. K. C. Sethi, Mr. Ashok Munjal and Mr. Vinod K Agrawal, being Non- Executive Directors, to review various areas of audit and accounts. Mr. K N Malhotra was Chairman of the Audit Committee but he requested the Board not to be re-appointed as Director in previous Annual General Meeting. The Board accepted his request. Mr. Vinod K Agrawal is the new Chairman of the Audit Committee. All the members are finance literate. All these Directors have good knowledge of Corporate & Project Finance, Accounts and Company Law. Mr. Vinod K Agrawal and Mr. Ashok Munjal are having accounting and related financial management expertise. The terms of reference of the Audit Committee have been restated so as to bring them in line with the amendments in the Listing Agreement and the Companies Act. The Audit Committee assures to the Board adherence of adequate internal control and financial disclosure and other acts conforming to the requirements of Listing Agreement with the Stock Exchanges. The Quarterly Financial Statements of the Company are reviewed by the Committee before submission to the Board for approval.

The terms of References of this Committee are wide enough covering the matters specified for Audit Committees under the Listing Agreement. The audit Committee regularly reviews related party transactions, internal audit reports, appointment of auditors, management letters issued by the statutory auditors, management discussion and analysis of financial condition and results of operations apart from other items of financial management and Company's business. The Constitution of Audit Committee also meets with the requirement of Section 292 A of the Companies Act, 1956. The Company Secretary acts as the secretary of the Committee. The Auditors and Head of Finance generally attend the meetings on invitation by the Chairman. During the financial year 2005-06, the Audit Committee met four times, on May 9, 2005, July 25 2005, October 28, 2005 and January 30, 2006.

Attendance of Members at the meetings of the Audit Committee held during 2005-06 was as under:

Members	No. of Meetings attended
Mr. K. N. Malhotra, Chairman *	2
Mr. Vinod K Agrawal, Chairman	2
Mr. Ashok Munjal, Member	3
Dr. K. C. Sethi, Member	4

\* Retired at 20th Annual General Meeting held on 30th August, 2005

## III. REMUNERATION COMMITTEE

The Remuneration Committee constituted on 21st July, 2003. The said Committee has been empowered to consider and recommend to the Board the remuneration of Managing Director/Whole Time Director. The present

Remuneration Committee is constituted of the following three non-executive & independent directors:

Dr. K C Sethi-Chairman

Mr. Vinod K Agrawal- Member

Mr. Anil Kumar Vadehra - Member.

The meeting of the Remuneration Committee was held on October 28, 2005 under the Chairmanship of Dr. K C Sethi. This meeting was attended by all its members. The said meeting of the Remuneration Committee was held to consider and recommend increase in the remuneration payable to Mr. Yogesh Munjal, Managing Director and Mr. Kazuhiro Nishioka, Joint Managing Director.

#### IV. REMUNERATION OF DIRECTORS

Remuneration of Managing Director and Joint Managing Director is determined by the Remuneration Committee comprising of Non-Executive and Independent Directors. The Recommendations of the Remuneration Committee are considered by the Board while deciding the remuneration subject to the approval of shareholders and Central Government, if required. The remuneration structure of Executive Directors comprises of basic salary, commission, perquisites and other allowances. The Chairman and Non-executive Directors do not draw any remuneration from the Company except Sitting Fee for attending the meetings of Board of Directors and Committees thereof as may be determined by the Board of Directors from time to time and be approved by the shareholders. Payments of sitting fee to non-executive directors are made within the limits prescribed under the Companies Act, 1956. The details of the remuneration paid to Directors for the financial year 2005-06 are as under:

Name	Salary, Allowances and Perquisites *	Commission**	Sitting Fee***	Total
Mr. Brijmohan Lall Munjal	Nil	Nil	60000	60000
Mr. Yogesh Munjal	3,125,195	3,295,556	Nil	6,420,751
Mr. Seiji Konoue	814,962	1,098,519	Nil	1,913,481
Mr. Kazuhiro Nishioka	1,774,340	2,197,037	Nil	3,971,377
Late Mr. S. D. Khosla	Nil	Nil	105000	105000
Mr. Pankaj Munjal	Nil	Nil	60000	60000
Mr. Ashok Munjal	Nil	Nil	165000	165000
Mr. K. N. Malhotra	Nil	Nil	60000	60000
Dr. K. C. Sethi	Nil	Nil	150000	150000
Mr. Vinod K agrawal	Nil	Nil	90000	90000
Mr. Anil Kumar Vadehra	Nil	Nil	45000	45000

\* Gross Salary includes basic salary, Company's contribution to Provident Fund, Medical Reimbursement, Monetary value of perquisites and value of rent-free accommodation.

\*\* Commission is calculated @ 1% of the net profit calculated in accordance with Section 198 read with sections 349 & 350 of the Companies Act, 1956.

\*\*\* Sitting fee shown above also includes the fee paid to directors for attending meetings of Committees of the Board.

There are no Stock Options available / issued to any director of the Company and this does not form a part of their contract with the Company. Non executive directors do not hold any shares in the Company.

#### V. SHARE TRANSFER AND INVESTOR GRIEVANCES COMMITTEE

The "Share Transfer and Investor Grievances Committee" has been looking into investor grievances and to suggest remedies and measures for improvement. The Committee comprises of four directors, of whom two are Non-Executive Directors, namely Mr. Anil. Kumar Vadehra and Mr. Ashok Munjal. The Chairman is a non-executive independent director.

During the year, the Company received 192 requests/complaints from the shareholders. All the requests/complaints were attended to promptly and resolved to the satisfaction of the shareholders. The Company endeavors to reply to all complaints received from the shareholders within a period of ten days. As on date no complaints are pending except those, which are under litigation, dispute or court orders. There was no other pending share transfer case as on March 31, 2006.

List of requests/complaints received from shareholders during the financial year 2005-2006 is as under:

Sr. No.	Nature of request/complaint received	Received	Solved	Pending
1.	Change of address & ECS Mandate	56	56	Nil
2.	Non-receipts of dividend warrants / Revalidation of dividend warrants	72	72	Nil
3.	Non receipt of Annual Report	7	7	Nil
4.	Loss of shares / Duplicate issue of shares	27	27	Nil
5.	Miscellaneous	30	30	Nil
TOTAL		192	192	Nil

## VI SHARE TRANSFER SYSTEM

The Board of Directors has delegated the authority to approve the share transfers etc. to the Company Secretary and/or Head of Finance who attend to the same every fortnight and in case of any dispute/difference, they forward the same to the Share Transfer and Investor Grievances Committee for their approval.

## VII. GENERAL BODY MEETINGS

The Annual General Meetings of the Company in the last three years of the Company have been held as under:

For the Year	Location	Day and Date	Time	No. of Special Resolutions passed
2004-2005	26E & F, IMT Manesar, Gurgaon	Tuesday, August 30, 2005	11:00 A.M.	01
2003-2004	Notting Hills, Opp. Pasco Automobiles, Old Delhi Road, Gurgaon- 122 015	Tuesday, August 24, 2004	10:30 A.M.	Nil
2002-2003	Notting Hills, Opp. Pasco Automobiles, Old Delhi Road, Gurgaon- 122 015	Monday, August 26, 2003	10:30 A.M.	02

No resolution has been passed by the Company's shareholders through postal ballot during the Financial Year 2005-06 and there is no resolution proposed to be passed through postal ballot in the ensuing Annual General Meeting.

## VIII. DISCLOSURES

- A statement in summary form of transactions with related parties in the ordinary course of business is placed periodically before the Audit Committee. There were no materially significant related party transactions during the year having potential conflict with the interest of the Company. The transactions with related parties are disclosed in Note No.4 of Schedule 23 Notes to Accounts in the Annual Report.
- The Company has complied with all the requirements of the listing agreement with the Stock Exchanges as well as regulations and guidelines of SEBI. No penalties or strictures have been imposed by SEBI,

Stock Exchanges or any statutory authorities in matters relating to the capital markets during the last three years.

- c. In the preparation of financial statement, all the prescribed Accounting Standards have been followed.
- d. Company is consulting foreign exchange experts on day-to-day basis for hedging / booking the import bill so as to manage the foreign exchange risks.
- e. The Company has not raised any money from public issues, right issues or preferential issues etc. during the year.

## **IX. MEANS OF COMMUNICATION**

The Quarterly and Half-yearly Un-Audited Financial Results and the Annual Audited Financial Results are published by the Company in leading national newspapers i.e. The Economic Times or Business Standards for English edition and Navbharat Times or Hindustan for Hindi edition . Though the half yearly report is not sent to each household of shareholders, these results are placed on Company's web site [www.munjalshowa.com](http://www.munjalshowa.com) and are also available in the EDIFAR System maintained by the SEBI at its website [www.sebi.gov.in](http://www.sebi.gov.in). As the Company publishes the Audited Annual Results within the stipulated period of three months from the close of the financial year, as permitted under the Listing Agreement of the Stock Exchanges, the Un-Audited results for the last quarter of the financial year are not published.

## **X. MANAGEMENT**

### **Management Discussion and Analysis Report**

#### **i Industry Structure and Development**

The Automobile Industry's performance continues to be encouraging for all segments. The Industry registered robust growth of around 14% approximately when compared with previous financial year 2004-05. The growth remained unaffected in the face of steep rise in the prices of essential inputs like oil, steel, sheet metal, other metals etc. The passenger car segment recorded smart growth of 7.4% in the year 2005-06 and vibrant Two-wheeler segment by over 15 % during the period under consideration. Munjal Showa Limited continued to dominate OEM business in organized sector. All customers are on phenomenal growth, where your Company is supplying as a single source for suspension part. Company's range and overall path variety has expanded significantly with the introduction of new models. Development of Front Fork and single rear cushion for Unicorn was a milestone achievement. Our collaborator, M/s Showa Corporation, Japan have played a vital role in terms of over all guidance, support and development of products for new generation vehicles. It has helped us to maintain supremacy in the market. The Company inaugurated a state of art new plant at Manesar in April 2005 to fulfill increasing demand of our valued customers and the new plant is running exceedingly well.

#### **ii Opportunities and Threats**

Auto component industry is on a fast track, where quality manufacturers continue to enjoy Opportunities for new business. Two-wheeler manufacturers deserve special attention as they are continuously recording healthy growth. During the period under review a total sale of Two-wheeler was 7.57 million, out of which Motorcycle accounted for 6.20 Million. Hero Honda Motors Limited's market share is 48.00 % in the motorcycle segment, where your Company is a single source supplier. Hero Honda has recently entered into scooter segment and the response is very good. The Company is catering 100% requirement of Hero Honda Motors Limited. In scooter segment, the Company enjoys market share of around 45% and 50% in Motorcycle segment on all India basis. This share is further likely to increase with the introduction of new models and new customers.

The company continues to be a leader in Shock Absorber Industry with unmatched quantity and quality level in OEM segment. As all our customers are on growth path, the company can confidently look forward to an overall growth of approximately 20%.

**İ Product-wise performance**

All the products of the Company come under single primary business segment i.e. Shock Absorbers. Its variants are Front Forks, Rear Cushions, Struts and Gas Spring / Rear Door Lifters etc. Therefore, the requirement for analyzing segment-wise or product-wise performance does not arise.

**İ Outlook**

The overall outlook for the financial year 2006-07 appears to be promising as all indicators are favorable with respect to our valued customers and overall health of Indian Economy. There is no visible sign of slow down in the economy, and most economic indicators are showing positive trends. It is expected that with timely monsoon, the economic activity will further accelerate and will immensely benefit the Auto Industry. Growth of your Company, being manufacturer of auto components, largely depends upon the growth of two-wheelers industry. As per current market trends and available indicators, buoyant growth is expected in the two-wheelers sales. Your Company is exploring opportunities to develop and widen its customer base. The Company's consistent focus has always been to understand the requirement of its customers. The Auto industry welcomed the regular reduction of duty on inputs and raw materials from 20% to 15% and to 12.5%. The industry also welcomed the rationalization in Fringe Benefit Tax. In order to meet the expected growth in the demand of customers, the Company has established last year a new plant at IMT Manesar Gurgaon (HR). The Manesar plant is running smoothly. The Company has installed some R&D equipments and robotech welding machine. It will undoubtedly help us improve quality further and have edge over our competitors.

**İ Risk and Concerns**

During the year 2005-06, raw-materials and components formed approx 65% of the total sales. For the past several years, steel prices, crude oil prices and other metal prices have been extremely volatile and trend is likely to persist. The Company has been partly countering such increases through long term contracts, identification of alternative sources, cost reduction & VAVE activities and indigenization of certain imported components. However, if these input costs continue to increase, and thus remain unabated, it will undoubtedly affect the overall margin and operating results. It may also lead to partial decline in demand. The global Automobile Industry is undergoing dramatic changes in recent times. There has been enormous competition both for auto manufacturers and component manufacturers. We have accepted this challenge and therefore have concentrated more on the quality of our products.

The Company's growth is primarily determined by overall growth of Automotive Industry and Auto Industry is largely dependent on Monsoon. Fluctuation in demand of Auto Industry is beyond the control of the Company. In spite of this, however, in India, both Auto and Auto Component Industries are growing rapidly and this trend is likely to continue in future.

Concentration of business with few customers, may adversely affect the profitability of the Company. However, to mitigate these risks, your Company is constantly working on this and widening its customer base as and when any opportunity arises.

The profitability of the Company may further be affected by changes in Government Policies regarding excise duty, service tax, import duty, Income Tax, Fringe Benefit Tax, VAT and any other Central / State levy etc. The growing cut-throat competition in the two-wheeler industry being price sensitive may squeeze the margins further in future. The import content in the product constitutes around 19 % of the raw material cost. Though, the rupee is getting stronger and stable, any sudden change due to rupee depreciation may affect adversely the profitability of the Company.

**İ Internal Control System and their adequacy**

The Company has in place an adequate system of internal controls to ensure efficacy of operations and compliance with applicable legislation. Audit Committee is reviewing the internal control systems procedures periodically. An external firm of Chartered Accountants has been appointed for conducting the internal audit.

The key elements of internal control system are:

- Revenue and Capital Budget monitoring system.
- Management Information System
- Proper authorization for conducting business
- Periodical presentation by managerial personnel

#### **İ Discussion on financial performance with respect to operational performance**

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in India. The Company has complied with the requirements of all mandatory accounting standards.

The turnover and other income of the Company for the year under review has increased to Rs. 700.48 crores as against the corresponding previous year Rs.612.66 crores. However, profit before tax and exceptional item increased to Rs. 30.76 crores as against the corresponding previous year of Rs. 22.29 crores.

#### **İ Material developments in Human Resources/ Industrial Relations, including number of people employed**

Your Company firmly believes in human capital and deeply believes that quality and positive attitude of the people are the keys to face the ever-growing competition. Accordingly, change of mindset, innovation, cost and process optimization, anticipation and management of change, culture of trust and transparency have been our major HR initiatives during the year through our various programs on naturopathy.

The Company had 1856 employees, as on 31st March, 2006. The Industrial relations remained cordial through out the year.

#### **İ Cautionary Statement**

Certain statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the markets, changes in Government regulations, tax regimes, economic developments within India and the countries in which the Company conducts business and other incidental factors.

**CEO & CFO CERTIFICATE**

We hereby certify to the Board that:

- a) We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:
  - i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - ii) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b) There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.
- c) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- d) We have indicated to the auditors and the Audit committee;
  - i) Significant changes in internal control over financial reporting during the year;
  - ii) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
  - iii) Instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

(Yogesh Munjal)  
Managing Director

(Mahesh Taneja)  
GM- Finance & IT

**AUDITORS/CERTIFICATE**

To

The Members of Munjal Showa Limited

We have examined the compliance of conditions of Corporate Governance by Munjal Showa Limited, for the year ended on March 31, 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchange(s).

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the 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.

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

Place: New Delhi

Date: May 19, 2006

**For S. R. BATLIBOI & COMPANY**  
Chartered Accountants

**per Pankaj Chadha**  
Partner  
Membership No.:91813

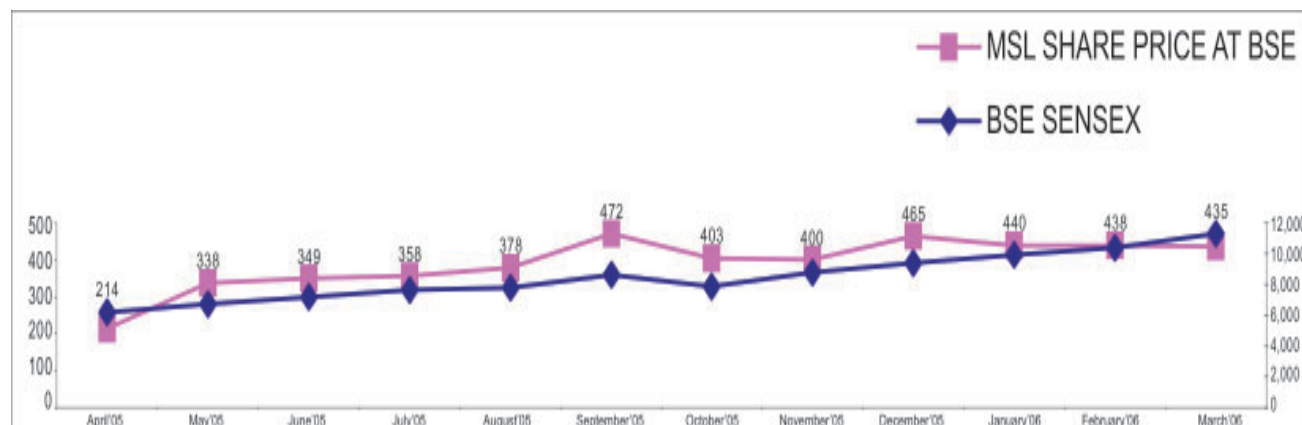
## XI. GENERAL SHAREHOLDER INFORMATION:

- 1) **Annual General Meeting**
  - Day, Date and Time : Monday, August 28, 2006, 11:00 A. M.
  - Venue : 26 E & F, Sector-3, IMT  
Manesar, Gurgaon- Haryana
- 2) **Financial Calendar**
  - (a) Financial Year 2006-2007 : April to March
  - (b) Financial reporting for the quarter ending June'2006 : End July' 2006
  - (c) Financial reporting for the half year ending Sept'2006 : End October'2006
  - (d) Financial reporting for the quarter ending December'2006 : End January'2007
  - (e) Financial reporting for the year ending March 31' 2007. : End June' 2007
  - (f) Annual General Meeting for the year ending March 31, 2007 : End September'2007
- 3) **Face Value of the Equity Share** : Rs. 10 per share
- 4) **Date of Book Closure** : August 12, 2006 to August 28, 2006  
(both days inclusive)
- 5) **Dividend Payment Date** : 30 days from the date of AGM
- 6) **Listing on Stock Exchanges** : - Bombay Stock Exchange Limited,  
Mumbai Phiroze Jeejeebhoy Towers,  
Dalal Street, Mumbai-400 001  
- National Stock Exchange of India  
Limited  
"Exchange Plaza", Bandra- Kurla  
Complex, Bandra(E), Mumbai-400 051  
- The Calcutta Stock Exchange  
Association Limited  
7, Lyons Range, Kolkata -700 001  
(Applied for De-listing)
- 7) **Stock Code**
  - The Stock Exchange, Mumbai : 520043
  - National Stock Exchange : munjalshow
  - International Securities Identification number (ISIN) for NSDL & CDSL : INE577A01019
- 8) **Monthly Highs, Lows and volume for the year 2005-2006 on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).**

YEAR ñ 2005-06	Bombay Stock Exchange			National Stock Exchange		
	High (Rs)	Low (Rs)	Volume (Nos.)	High (Rs)	Low (Rs)	Volume (Nos.)
April'05	214	184	56747	213	184	74351
May'05	338	192	560321	367	194	608668
June'05	349	301	60415	350	302	103904
July'05	358	305	50096	360	310	51985
August'05	378	315	83995	365	314	115310
September'05	472	326	78685	415	324	120607
October'05	403	345	34905	402	340	30614
November'05	400	350	17892	390	304	37588
December'05	465	355	95043	462	357	113170
January'06	440	396	23603	450	406	33414
February'06	438	387	32042	432	388	39801
March'06	435	385	91392	435	385	79906

**9) Stock Performance of Munjal Showa Limited Vs. Bombay Stock Exchange (BSE) Indices:**

INDEX COMPARISON – COMPANY'S SHARE PRICE vs. SENSEX



**10) Registrar and Share Transfer Agents :** MCS Limited  
Shri Venkatesh Bhavan  
W-40, Okhla Industrial Area  
Phase-II, New Delhi-110 020  
Tel: 26384909 Fax: 26384907  
E-mail: mcsdel@vsnl.com

**11) Share Transfer System :**

The Company's shares being in compulsory demat list are transferable through the depository system. Shares in physical form are processed by MCS Limited, Registrar and Transfer Agents of the Company every fortnight.

The total number of shares transferred in physical form during the year under review was 5620 shares.

**12) A. Distribution of Shareholding as on March 31, 2006:**

Slab	No. of Shareholders		No. of Shares	
	Numbers	% to Shareholders	Numbers	% to Shareholding
Upto 5000	3929	90.30	635173	7.94
5001-10000	270	6.21	211082	2.64
10001-20000	58	1.33	86320	1.08
20001-30000	24	0.55	61903	0.77
30001-40000	9	0.21	32922	0.41
40001-50000	13	0.30	61947	0.78
50001-100000	24	0.55	167048	2.09
100001 and above	24	0.55	6742605	84.29
<b>Total</b>	<b>4351</b>	<b>100</b>	<b>7999000</b>	<b>100.00</b>

## B. Shareholding pattern as on March 31, 2006

Category Code	Category	No. of Shares held	Percentage of Shareholding	No of Holders
01/D1/D2	Promoter's holding			
02/D3/D4	<b>Indian Promoters</b>	<b>3120000</b>	<b>39.00</b>	<b>4</b>
	HERO CYCLES LIMITED	1320000	16.50	
	DAYANAND MUNJAL INV (P) LIMITED	600000	7.50	
	THAKURDEVI INVESTMENTS (P) LTD	600000	7.50	
	SURESH CHAND MUNJAL	600000	7.50	
03/D5/D6	<b>Foreign Promoters</b>	<b>2080000</b>	<b>26.00</b>	<b>1</b>
	SHOWA CORPORATION	2080000	26.00	
04/D7/D8	Person acting in concert	800	0.01	1
05/D9/D10	<b>Sub total</b>	<b>5200800</b>	<b>65.02</b>	<b>6</b>
06/D11/D12	Non Promoters holding			
07/D13/D14	Institutional investors			
08/D15/D16	<b>Mutual funds and UTI</b>	<b>404605</b>	<b>5.06</b>	<b>8</b>
	UNIT TRUST OF INDIA	403505	5.04	
09/D17/D18	<b>Bank, Financial Institutions, Insurance Companies</b>	<b>500</b>	<b>0.01</b>	<b>4</b>
10/D19/D20	<b>FIs</b>	<b>1300</b>	<b>0.02</b>	<b>3</b>
11/D21/D22	<b>Sub total</b>	<b>406405</b>	<b>5.08</b>	<b>15</b>
12/D23/D24	Others			
13/D25/D26	<b>Private Corporate Bodies</b>	<b>1019631</b>	<b>12.75</b>	<b>193</b>
	ENAM SECURITIES PRIVATE LIMITED	567400	7.09	
	EQUITY INTELLIGENCE INDIA PRIVATE LIMITED	276586	3.46	
14/D27/D28	<b>Indian Public</b>	<b>1360226</b>	<b>17.00</b>	<b>4085</b>
15/D29/D30	<b>NRIs / OCBs</b>	<b>11938</b>	<b>0.15</b>	<b>52</b>
16/D31/D32	Any other(Please Specify)	-	-	-
17/D33/D34	<b>Sub total</b>	<b>2391795</b>	<b>29.90</b>	<b>4330</b>
18/D35/D36	<b>Grand Total</b>	<b>7999000</b>	<b>100.00</b>	<b>4351</b>

### 13) Nomination Facility:

The Company offers facility of nomination. The members are requested to refer to Section 109A of the Companies Act, 1956 as amended. The facility is made available folio-wise and for the entire shares registered under the folio. The members holding shares in dematerialized form may contact and consult their respective Depository Participant (DP) for availing the nomination facility.

### 14) Dematerialization of shares and liquidity

: As on March 31, 2006 a total of 25,39,297 equity shares of the Company, which forms 31.75 % of share capital of the Company have been dematerialized. The Trading in Company's share is permitted compulsorily in dematerialized form from 28th August' 2000 as per notification issued by SEBI.

- 15) **Outstanding GDRs/ADRs/Warrants or any convertible instruments, if any** : Not Applicable
- 16) **Plant Locations** :  
a) 9-11, Maruti Industrial Area, Gurgaon-122 015, Haryana.  
b) 26 E & F, Sector –3, IMT Manesar, Gurgaon, Haryana.
- 17) **Address for Correspondence** : 9-11, Maruti Industrial Area, Gurgaon-122 015, Haryana.  
Shareholders holding shares in electronic mode should address all their correspondence to their respective Depository Participant. Share Transfer Agent and Registrar M/s MCS Limited, New Delhi may be contacted for any query related to Share Transfer and other matters.

## ANNEXURE-B TO DIRECTORS' REPORT

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO ñ COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.**

### A. CONSERVATION OF ENERGY

Energy conservation measures taken during the financial year 2005-06 and their impact:

**Measures taken**

Additional transformers  
Energy efficient lighting to motors  
Prevention of air leakage to reduce air compressor running  
Optimum loading of genset with respect to daily load

**Impact**

Increase in capacity of machine  
Reduction in power consumption  
Reduction in power consumption  
Reduction in power generation cost

Additional investments and proposals being implemented for reduction of consumption of energy

**Measure taken**

Energy efficient lighting to motors  
To conserve water and to make 100% recyclable and conservation of water  
To use waste heat from thermo Pac / genset to heat water in paint shop

**Impact**

Reduction in power consumption  
Reduction in power consumption cost  
Reduction in power consumption

**Impact of the measures for reduction of energy consumption and consequent impact on the cost of production of goods.**

The Company has taken various steps to reduce consumption of power, fuel, oil and other energy resources by adopting various measures, improvement of power factor, indoor shop lighting, etc. Special emphasis has been given to improve the productivity of electric motors. A team of experts is studying the possibility of use of various methods by which the company optimizes the use of energy without affecting the productivity, quality, etc. Training programmes were conducted to increase awareness on energy saving. On account of the aforesaid steps/ measures, considerable savings have been achieved in consumption of energy and other utilities.

## B. TECHNOLOGY ABSORPTION

### (I) Research and Development (R & D)

#### Specific areas in which R & D carried out by the Company

New product Technology absorption

Indigenization of CKD Parts

#### Benefits derived as a result of above R & D activities

Process/product improvements for consistency of performance

Supply to the existing customers for their new models

#### Future plan of action

R & D efforts will be focused on catering the requirement of our existing customers for their new models and indigenization of various components.

#### Expenditure on R & D

Capital	NIL
Recurring	Rs.302375/-
Total	Rs.302375/-
Total expenditure as a percentage of total turnover	0.004%

### (II) Technology Absorption, Adaptation and Innovation

Your Company has absorbed the technology received from collaborator Showa Corporation, Japan, continuously.

As in the past, the Company has successfully implemented indegenisation of various components as an import substitution in order to fulfill the continuous demand of the customers for price reduction with the prior approval of our collaborators on quality issues. The cost reduction was possible because of material reduction, standardisation, application engineering, product engineering and manufacturing and reduction in manufacturing cycle time.

In the last five years, the Company has imported various drawings with right to use for getting the orders from existing and new customers for their new models.

## C. FOREIGN EXCHANGE EARNINGS AND OUTGO

### Activity relating to exports, initiatives taken to increase exports, development of new export markets for product and services and export plans

The Company is not doing directly any export, however, Company is catering the 100% requirement of shock absorbers, Struts and Window Balancers for export models of Hero Honda Motors Limited, Honda Sael cars India Limited, Maruti Udyog Limited and Honda Motorcycles and Scooter India Limited.

#### Total Foreign Exchange used and earned

The foreign exchange earnings during the year were Rs. 716,332 /- and foreign exchange outgo during the year was Rs. 858,809,798/-.

For and on behalf of the Board

Place: New Delhi  
Dated: July 26, 2006

**BRIJMOHAN LALL MUNJAL**  
Chairman

**ANNEXURE-C TO DIRECTORS' REPORT**  
**STATEMENT OF PARTICULARS OF EMPLOYEES PURSUANT TO THE PROVISIONS OF SECTION 217(2A) OF THE COMPANIES ACT, 1956 AND THE COMPANIES ( PARTICULARS OF EMPLOYEES ) RULES, 1988 FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2006**

Sl. No	Name	Age (Years)	Designation	Nature of duties	Qualification	Experience (Years)	Date Commencement of Employment	Gross Remuneration (Rs.)	Particulars of employment, designation	%age / Nos. of Equity Share as per Clause(a) (iii) of Section 217(2A)
<b>Employed for whole of the Year</b>										
1	Yogesh Munjal	66	Managing Director	Overall management of the affairs of the Company	B. Arch.	42	01.09.1986	6,420,751	Chief Executive- Rockman Cycle Inds. Ltd.	800(0.01%)
<b>Employed for part of the Year</b>										
2	Selji Konoue	50	Joint Managing Director	Overall management of the affairs of the Company	Graduate Engineer	28	07.06.2002	1,913,481	Manager Showa Corporation, Japan	NIL
3	Kazuhiko Nishioka	42	Joint Managing Director	Overall management of the affairs of the Company	Graduate Engineer	19	01.08.2005	3,971,377	Manager Showa Corporation, Japan	NIL

**NOTES**

- Information has been furnished on the basis of employees employed throughout the financial year, who were in receipt of remuneration for that year which, in the aggregate, was not less than Rs. 24,00,000/- (Rs. Twenty-four Lacs) and those employees who worked for a part of the Financial Year, and were in receipt of remuneration for any part of that year at a rate which, in the aggregate was not less than Rs. 2,00,000 (Rupees Two Lacs) per month.
- Gross remuneration includes Salary, Company's contribution to Provident Fund and Super Annuation Fund, Medical Reimbursement, Monetary Value of perquisites & value of Rent Free Accommodation.
- All appointments are / were on contractual basis.
- The above employees are not related to any Director of the Company.

For and on behalf of the Board

Place: New Delhi  
Date: July 26, 2006

**BRIJMOHAN LALL MUNJAL**  
Chairman

## **AUDITORS' REPORT**

### **To The Members of Munjal Showa Limited**

1. We have audited the attached balance sheet of Munjal Showa Limited ('the Company') as at March 31, 2006 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose 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 above, we report that:
  - i). We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - ii). In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - iii). The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
  - iv). In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
  - v). On the basis of the written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
  - vi). In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
    - a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2006;
    - b) in the case of the profit and loss account, of the profit for the year ended on that date; and
    - c) in the case of cash flow statement, of the cash flows for the year ended on that date.

**For S.R. Batliboi & Co.**  
Chartered Accountants

Place: New Delhi  
Date: May 19, 2006

**per Pankaj Chadha**  
Partner  
Membership No.: 91813

## **ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE**

### **Re: Munjal Showa Limited**

1. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.  
  
(b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.  
  
(c) There was no substantial disposal of fixed assets during the year.
2. (a) The management has conducted physical verification of inventory at reasonable intervals including at a date nearing or at the year end.  
  
(b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.  
  
(c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification carried at the end of the year.
3. (a) As informed to us, 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 Companies Act, 1956. Therefore clause 4(iii)((b),(c) and (d)) of the Order are not applicable to the Company.  
  
(b) As informed to us, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Therefore clause 4(iii)((f)and (g)) of the Order are not applicable to the Company.
4. In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods. As no services are provided, the clause is not applicable to the extent of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.
5. (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of the Act that need to be entered into the register maintained under section 301 have been so entered.  
  
(b) In respect of transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs entered into during the financial year, because of the unique and specialized nature of the items involved and absence of any comparable prices, we are unable to comment whether the transactions were made at prevailing market prices at the relevant time
6. The Company has not accepted any deposits from the public.
7. The Company's internal audit is undertaken by an independent firm and the scope and coverage thereof is commensurate with its size and the nature of its business.
8. We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 209(1)(d) of the Companies

Act, 1956 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 determining whether they are accurate or complete.

9. (a) The Company has been regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, employees state insurance, income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it with the appropriate authorities.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

(c) According to the records of the Company, there are no dues outstanding of sales tax, income tax, custom tax, wealth tax, excise duty and cess on account of any dispute, other than the following:

Name of the statute	Nature of dues	Amount in Rs	Forum where dispute is pending
Customs Act, 1962	Interest demanded by customs authorities	356,047	Assistant Commissioner of Customs

10. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
11. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to any bank. The Company did not have any dues from any financial institution or any outstanding debentures during the year.
12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
14. In respect of Company's investments in various schemes managed by recognized mutual funds, in our opinion and according to the information and explanations given to us, proper records have been maintained of the transactions and contracts and timely entries have been made therein. These investments have been held by the Company, in its own name.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
16. The Company did not have any term loans outstanding during the year.
17. According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

18. The Company has not made any allotment of shares during the year.
19. The Company did not have any outstanding debentures during the year.
20. The Company has not raised any money through a public issue during the year.
21. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

**For S.R. Batliboi & Co.**

Chartered Accountants

**per Pankaj Chadha**

Partner

Membership No.: 91813

Place: New Delhi  
Date: May 19, 2006

**BALANCE SHEET AS AT MARCH 31, 2006**

	Schedules	As at March 31, 2006 Rs	As at March 31, 2005 Rs
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' funds</b>			
Share capital	1	79,992,500	79,992,500
Reserves and surplus	2	1,193,818,408	1,082,717,813
		<u>1,273,810,908</u>	<u>1,162,710,313</u>
<b>Loan funds</b>			
Secured loans	3	38,664,886	2,479,177
		<u>38,664,886</u>	<u>2,479,177</u>
<b>Deferred tax liabilities (net)</b>	4	<u>65,350,839</u>	<u>57,882,241</u>
<b>TOTAL</b>		<u>1,377,826,633</u>	<u>1,223,071,731</u>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed assets</b>			
Gross block	5	1,676,425,735	1,208,458,141
Less : Depreciation		<u>594,088,845</u>	<u>504,519,387</u>
Net block		<u>1,082,336,890</u>	<u>703,938,754</u>
Capital work-in-progress including capital advances		<u>129,473,917</u>	<u>248,171,752</u>
		<u>1,211,810,807</u>	<u>952,110,506</u>
<b>Intangibles</b>	6	<u>2,147,500</u>	<u>2,643,137</u>
<b>Investments</b>	7	<u>44,893,843</u>	<u>4,400,303</u>
<b>Current assets, loans and advances</b>			
Inventories	8	330,738,225	253,974,800
Sundry debtors	9	693,800,767	646,144,052
Cash and bank balances	10	12,041,781	75,904,761
Other current assets	11	3,606,846	-
Loans and advances	12	465,550,881	419,026,124
		<u>1,505,738,500</u>	<u>1,395,049,737</u>
<b>Less: Current liabilities and provisions</b>			
Current liabilities	13	986,073,573	855,971,824
Provisions	14	400,690,444	275,160,128
		<u>1,386,764,017</u>	<u>1,131,131,952</u>
<b>Net current assets</b>		<u>118,974,483</u>	<u>263,917,785</u>
<b>TOTAL</b>		<u>1,377,826,633</u>	<u>1,223,071,731</u>

**Notes to accounts**

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The schedules referred to above and the notes to accounts form an integral part of the balance sheet  
As per our report of even date

**For S.R.Batilbhai & Co.**  
**Chartered Accountants**

For and on behalf of the Board of Directors

per Pankaj Chadha  
**Partner**  
Membership No. 91813

**BRIJMOHAN LALL MUNJAL**  
Chairman

**KAZUHIRO NISHIOKA**  
Jt. Managing Director

**VINOD K AGRAWAL**  
Director

**YOGESH MUNJAL**  
Managing Director

**DR K.C. SETHI**  
Director

**MAHESH TANEJA**  
GM- Finance and IT

**ASHOK MUNJAL**  
Director

**A.K. VADEHRA**  
Director

**PANKAJ GUPTA**  
Company Secretary

New Delhi  
Date: May 19, 2006

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

	Schedules	For the year ended March 31, 2006 Rs	For the year ended March 31, 2005 Rs
<b>INCOME</b>			
Turnover (Gross)		6,945,515,120	6,068,012,534
Less : Excise duty		979,277,839	853,216,292
Turnover (Net)		5,966,237,281	5,214,796,242
Other income	15	59,330,915	58,578,228
<b>TOTAL</b>		<b>6,025,568,196</b>	<b>5,273,374,470</b>
<b>EXPENDITURE</b>			
Raw materials and components consumed	16	4,577,699,399	4,199,683,794
Personnel expenses	17	185,387,722	149,616,828
Operating and other expenses	18	863,142,436	631,708,764
Decrease/(increase) in inventories	19	(22,315,620)	(18,359,510)
Depreciation and amortisation	5 and 6	105,183,958	82,307,189
Increase of excise duty on finished goods		937,586	380,987
Financial expenses	20	7,924,125	5,108,959
<b>TOTAL</b>		<b>5,717,959,606</b>	<b>5,050,447,011</b>
<b>Profit before tax &amp; exceptional item</b>		<b>307,608,590</b>	<b>222,927,459</b>
Exceptional item	21	-	107,232,133
<b>Profit after exceptional item but before tax</b>		<b>307,608,590</b>	<b>115,695,326</b>
Provision for tax		95,048,799	41,000,000
Fringe benefit tax		2,782,000	-
Deferred -tax		7,468,598	(3,601,719)
Total tax expense		105,299,397	37,398,281
<b>Profit after tax and exceptional item</b>		<b>202,309,193</b>	<b>78,297,045</b>
Balance brought forward from previous year		111,933,212	110,196,346
<b>Profit available for appropriation</b>		<b>314,242,405</b>	<b>188,493,391</b>
<b>Appropriations:</b>			
Proposed final dividend		79,990,000	59,992,500
Tax and cess on dividend		11,218,598	8,567,679
Transfer to general reserve		120,000,000	8,000,000
<b>Surplus carried to balance sheet</b>		<b>103,033,807</b>	<b>111,933,212</b>
<b>Earnings per share</b>	22		
Basic and diluted [Nominal value of shares Rs 10 (Previous year Rs 10)]		25.29	9.79

**Notes to Accounts**

23

The schedules referred to above and the notes to accounts form an integral part of the profit and loss account

**For S.R.Batliloi & Co.**  
**Chartered Accountants**

For and on behalf of the Board of Directors

per Pankaj Chadha  
**Partner**  
Membership No. 91813

**BRIJMOHAN LALL MUNJAL**  
Chairman

**YOGESH MUNJAL**  
Managing Director

**ASHOK MUNJAL**  
Director

New Delhi  
Date: May 19, 2006

**KAZUHIRO NISHIOKA**  
Jt. Managing Director

**DR K.C. SETHI**  
Director

**A.K. VADEHRA**  
Director

**VINOD K AGRAWAL**  
Director

**MAHESH TANEJA**  
GM- Finance and IT

**PANKAJ GUPTA**  
Company Secretary

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

	For the year ended March 31, 2006 Rs	For the year ended March 31, 2005 Rs
<b>A. Cash flow from operating activities</b>		
Profit after exceptional item but before tax	307,608,590	115,695,326
Adjustments for:		
Depreciation and amortisation	105,183,958	82,307,189
Loss on sale of fixed assets	5,159,187	(1,347)
Profit on sale of investments	(944,796)	16,822
Unrealised foreign exchange loss	18,270,200	3,314,718
Provision for doubtful debts and advances	2,044,195	500,000
Interest income	(2,338,279)	(6,008,491)
Dividend income	(7,262,474)	(3,213,711)
Interest expense	3,766,698	1,589,535
<b>Operating profit before working capital changes</b>	<b>431,487,279</b>	<b>194,200,041</b>
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(47,656,715)	62,165,208
Decrease / (Increase) in current assets	(3,199,539)	
Decrease / (Increase) in inventories	(76,763,425)	(35,127,949)
Decrease / (Increase) loans and advances	17,149,741	35,562,581
Increase / (Decrease) in current liabilities	137,624,396	251,771,644
Cash generated from operations	458,641,737	508,571,525
Direct taxes paid (net of refunds)	(65,741,294)	(66,497,824)
Interest on income-tax refund	1,930,972	6,313,972
<b>Net cash from operating activities</b>	<b>394,831,415</b>	<b>448,387,673</b>
<b>B. Cash flows from investing activities</b>		
Purchase of fixed assets	(367,526,871)	(365,391,363)
Proceeds from sale of fixed assets	283,063	2,192
Purchase of intangible assets	(2,304,000)	(2,474,400)
Purchase of investments	(6,830,833,802)	(3,412,313,710)
Gain on cancellation of forward contracts	(21,083,520)	-
Sale / maturity of investments	6,791,285,059	3,498,411,212
Interest received	-	805,348
Dividends received	7,262,474	3,213,711
<b>Net cash from investing activities</b>	<b>(422,917,597)</b>	<b>(277,747,010)</b>
<b>C. Cash flows from financing activities</b>		
Repayment of borrowings	36,185,709	(38,444,673)
Interest paid	(3,766,698)	(2,789,535)
Dividends paid	(59,781,335)	(59,704,688)
Tax on dividend paid	(8,414,474)	(7,840,271)
<b>Net cash used in financing activities</b>	<b>(35,776,798)</b>	<b>(108,779,167)</b>
<b>Net increase in cash and cash equivalents (A + B + C)</b>	<b>(63,862,980)</b>	<b>61,861,496</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>75,904,761</b>	<b>14,043,265</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>12,041,781</b>	<b>75,904,761</b>

Components of cash and cash equivalents as at	<u>March 31, 2006</u> <u>Rs</u>	<u>March 31, 2005</u> <u>Rs</u>
Cash and cheques on hand	937,601	82,372
With banks - on current account	1,054,012	345,163
- on unclaimed dividend account	1,601,049	1,394,263
- cash credit / overdraft	8,449,119	74,082,963
	<u>12,041,781</u>	<u>75,904,761</u>

**For S.R.Batliboi & Co.**  
**Chartered Accountants**

per Pankaj Chadha  
**Partner**  
Membership No. 91813

New Delhi  
Date: May 19, 2006

**BRIJMOHAN LALL MUNJAL**  
Chairman

**KAZUHIRO NISHIOKA**  
Jt. Managing Director

**VINOD K AGRAWAL**  
Director

For and on behalf of the Board of Directors

**YOGESH MUNJAL**  
Managing Director

**DR K.C. SETHI**  
Director

**MAHESH TANEJA**  
GM- Finance and IT

**ASHOK MUNJAL**  
Director

**A.K. VADEHRA**  
Director

**PANKAJ GUPTA**  
Company Secretary

## SCHEDULES TO THE ACCOUNTS

	As at March 31, 2006 Rs	As at March 31, 2005 Rs
<b>SCHEDULE 1 : SHARE CAPITAL</b>		
<b>Authorised</b>		
15,000,000 equity shares of Rs 10 each	<u>150,000,000</u>	<u>150,000,000</u>
<b>Issued</b>		
7,999,500 equity shares of Rs 10 each	<u>79,995,000</u>	<u>79,995,000</u>
<b>Subscribed</b>		
7,999,000 equity shares of Rs 10 each fully paid	79,990,000	79,990,000
Add : Share forfeited	<u>2,500</u>	<u>2,500</u>
	<u>79,992,500</u>	<u>79,992,500</u>
Of the above, 3,999,500 equity shares were allotted as fully paid bonus shares by capitalisation of general reserve in an earlier year.		
<b>SCHEDULE 2 : RESERVES AND SURPLUS</b>		
<b>General reserve</b>		
Balance as per last account	970,784,601	962,784,601
Add: Transfer from profit and loss account	<u>120,000,000</u>	<u>8,000,000</u>
	<u>1,090,784,601</u>	<u>970,784,601</u>
<b>Profit and loss account</b>		
	<u>103,033,807</u>	<u>111,933,212</u>
	<u>1,193,818,408</u>	<u>1,082,717,813</u>
<b>SCHEDULE 3 : SECURED LOANS</b>		
Cash credit facilities - overdraft from a bank	38,664,886	2,479,177
(Secured by hypothecation of stocks and book debts, both present and future and further secured by pari-passu first charge over the Company's fixed assets)	<u>38,664,886</u>	<u>2,479,177</u>
<b>SCHEDULE 4 : DEFERRED TAX LIABILITIES (NET) :</b>		
<b>Deferred tax liabilities</b>		
Differences in depreciation in block of fixed assets as per tax books and financial books	96,768,122	81,195,957
<b>Gross deferred tax liabilities</b>	<u>96,768,122</u>	<u>81,195,957</u>
<b>Deferred tax assets</b>		
Effect of expenditure debited to profit and loss account in the current/ earlier year but allowed for tax purposes in following years	19,351,319	11,833,793
Provision for doubtful debts and advances	9,228,862	8,540,786
Provision for inventory obsolescence	<u>2,837,102</u>	<u>2,939,137</u>
<b>Gross deferred tax assets</b>	<u>31,417,283</u>	<u>23,313,716</u>
<b>Net deferred tax liabilities</b>	<u>65,350,839</u>	<u>57,882,241</u>

## SCHEDULES TO THE ACCOUNTS

### SCHEDULE 5 : FIXED ASSETS

	Land- Freehold	Buildings	Plant and machinery	Office equipment, furniture and fittings	Vehicles	Total	Previous year
<b>Gross block</b>							
At 01.04.2005	147,002,923	63,998,433	944,309,711	37,129,177	16,017,897	1,208,458,141	1,077,908,046
Additions	-	175,603,281	293,834,370	11,960,690	4,826,365	486,224,706	130,566,903
Deductions	-	-	11,201,533	6,074,178	981,401	18,257,112	16,808
<b>At 31.03.2006</b>	<b>147,002,923</b>	<b>239,601,714</b>	<b>1,226,942,548</b>	<b>43,015,689</b>	<b>19,862,861</b>	<b>1,676,425,735</b>	<b>1,208,458,141</b>
<b>Depreciation</b>							
At 01.04.2005	-	22,662,447	454,804,411	21,008,844	6,043,685	504,519,387	427,772,661
For the year	-	7,129,552	89,383,114	4,067,349	1,804,306	102,384,321	76,762,689
Deletions / adjustments	-	-	6,907,900	5,363,427	543,536	12,814,863	15,963
<b>At 31.03.2006</b>	<b>-</b>	<b>29,791,999</b>	<b>537,279,625</b>	<b>19,712,766</b>	<b>7,304,455</b>	<b>594,088,845</b>	<b>504,519,387</b>
For previous year	-	1,954,802	70,495,058	2,809,621	1,503,208	76,762,689	
<b>Net block</b>							
<b>At 31.03.2006</b>	<b>147,002,923</b>	<b>209,809,715</b>	<b>689,662,923</b>	<b>23,302,923</b>	<b>12,558,406</b>	<b>1,082,336,890</b>	<b>703,938,754</b>
At 31.03.2005	147,002,923	41,335,986	489,505,300	16,120,333	9,974,212	703,938,754	650,135,385
Capital work-in-progress including capital advances						129,473,917	248,171,752

(Additions includes foreign exchange capitalised Rs. 38,696/-) (Previous year Rs. 67,201/-)

### SCHEDULE 6: INTANGIBLE ASSETS

	Designs and drawings	Total	Previous year
<b>Gross block</b>			
At 01.04.2005	12,120,000	12,120,000	9,645,600
Additions	2,304,000	2,304,000	2,474,400
<b>At 31.03.2006</b>	<b>14,424,000</b>	<b>14,424,000</b>	<b>12,120,000</b>
<b>Amortisation</b>			
At 01.04.2005	9,476,863	9,476,863	3,932,363
For the year	2,799,637	2,799,637	5,544,500
<b>At 31.03.2006</b>	<b>12,276,500</b>	<b>12,276,500</b>	<b>9,476,863</b>
For previous year	5,544,500	5,544,500	
<b>Net Block</b>			
<b>At 31.03.2006</b>	<b>2,147,500</b>	<b>2,147,500</b>	<b>2,643,137</b>
At 31.03.2005	2,643,137	2,643,137	-

**SCHEDULES TO THE ACCOUNTS**

	As at March 31, 2006 Rs	As at March 31, 2005 Rs
<b>SCHEDULE 7 : INVESTMENTS - UNQUOTED</b>		
<b>Current Investments (at lower of cost and market value)</b>		
2,000,000 (Previous Year Nil) Units of JM Financial Mutual Fund under JM Fixed Maturity Fund- Series II - Quarterly Plan- QSA- Growth Option (154) of the face value of Rs 10/- each	20,000,000	-
2,477,831 (Previous Year 437,832) Units of Birla Sun Life Mutual Fund under Birla Cash Plus Sweep Plan Dividend Reinvestment of face value of Rs. 10/- each	24,893,843	4,400,303
	<u>44,893,843</u>	<u>4,400,303</u>

**NOTES**

1. Repurchase price of non trade unquoted investments in Mutual Funds amount to Rs 44,938,880/- (Previous Year Rs.4,400,303/-)
2. 64,841,837 units of Standard Chartered Mutual Fund GCFD Grindlays Cash Fund- Daily Dividend option, 3,952,308 units of HDFC Mutual Fund HDFC Liquid Fund- Dividend Reinvestment, 4,708,446 units of HDFC Mutual Fund HDFC Cash Management Fund- Daily Dividend Reinvestment, 36,816,531 units of HDFC Mutual Fund HDFC Cash Management Fund- Savings Plan- Growth, 4,706,800 units of HDFC Mutual Fund HDFC Cash Management Fund- Savings Plus Plan- Growth, 3,934,250 units of Deutsche Mutual Fund-Deutsche Insta Cash Plus Fund-Daily Dividend Reinvestment option, 18,114,799 units of DSP Merrill Lynch Mutual Fund- DSP Merrill Lynch Liquidity Fund Daily Dividend Reinvestment option, 25,959,986 units of DSP Merrill Lynch Mutual Fund- DSP Merrill Lynch Floating Rate Fund Daily Dividend Reinvestment option, 4,977,925 units of Prudential ICICI Mutual Fund Prudential ICICI- Blended Plan B- Dividend, 3,379,223 units of Prudential ICICI Mutual Fund Prudential ICICI- Liquid Plan- Daily Dividend, 8,998,265 units of Reliance Mutual Fund RLF- Treasury Plan-Retail Option- Growth Option, 26,328,725 units of Reliance Mutual Fund Reliance Liquid Fund- Cash Plan Growth Option, 70,351,749 units of Reliance Mutual Fund RLF Treasury Plan- Retail Option- Daily Dividend Option and 328,237,621 units of Birla Sun Life Mutual Fund under Birla Cash Plus Sweep Plan Dividend Reinvestment were purchased and sold during the year.
3. 437,832 Units of Birla Sun Life Mutual Fund under Birla Cash Plus Sweep Plan- Dividend Reinvestment Option sold during the year

**SCHEDULE 8: INVENTORIES**

- Raw materials and components [Including material lying with outside parties Rs 3,960,888 (Previous Year Rs 3,267,583) and materials in transit Rs 63,184,958 (Previous Year Rs 86,970,867) net of provisions of Rs 8,428,582 (Previous Year Rs 8,731,716)]	242,728,273	196,662,937
- Stores and spares (Including materials in transit Rs 470,323, Previous Year Rs 235,068)	27,752,055	19,369,586
- Work-in- progress (including materials lying with outside parties Rs 5,983,582 , Previous Year Rs 2,066,766)	47,164,613	30,565,894
- Finished goods	10,932,989	7,222,571
- Scrap	2,160,295	153,812
	<u>330,738,225</u>	<u>253,974,800</u>

**SCHEDULES TO THE ACCOUNTS**

	As at March 31, 2006 Rs	As at March 31, 2005 Rs
<b>SCHEDULE 9: SUNDRY DEBTORS</b>		
Debts outstanding for a period exceeding six months		
Unsecured, considered good	4,620,707	7,708,146
Unsecured, considered doubtful	2,008,869	1,191,658
<b>Other debts</b>		
Unsecured, considered good	689,180,060	638,435,906
Unsecured, considered doubtful	101,458	-
	695,911,094	647,335,710
Less : Provision for doubtful debts	2,110,327	1,191,658
	693,800,767	646,144,052
<b>SCHEDULE 10: CASH AND BANK BALANCES</b>		
Cash on hand	937,601	82,372
Balances with scheduled banks:		
On current accounts	1,054,012	345,163
On cash credit accounts	8,449,119	74,082,963
On unpaid dividend accounts	1,601,049	1,394,263
	12,041,781	75,904,761
<b>SCHEDULE 11: OTHER CURRENT ASSETS</b>		
Interest receivable on income tax refund	407,307	-
Accrued gain on cancelled forward contracts	3,199,539	-
	3,606,846	-
<b>SCHEDULE 12: LOANS AND ADVANCES</b>		
Unsecured considered good, except where stated otherwise		
Advances recoverable in cash or kind or for value to be received (including Rs 22,532,360, Previous Year Rs 22,453,992 being considered doubtful)	43,470,686	49,167,534
Loans to employees (including Rs 28,045, Previous Year Rs 28,045 being considered doubtful)	6,056,186	3,865,813
Balances with customs, excise, etc. (including Rs 2,747,158, Previous Year Rs 1,700,000 being considered doubtful)	148,058,957	167,238,172
Deposits – others	8,385,590	3,768,310
Advance income tax/ tax deducted at source	284,887,025	219,168,332
	490,858,444	443,208,161
Less: Provision for doubtful advances	25,307,563	24,182,037
	465,550,881	419,026,124

## SCHEDULES TO THE ACCOUNTS

	As at March 31, 2006 Rs	As at March 31, 2005 Rs
<b>SCHEDULE 13: CURRENT LIABILITIES</b>		
Acceptances	178,302,567	275,545,121
Sundry creditors		
- Small scale industries *	95,269,103	34,413,985
- others	663,448,443	496,648,902
Accrued liability on forward contracts	21,083,520	20,871,693
Other liabilities	26,387,806	27,124,904
Investor Education and Protection Fund shall be credited by following amount:		
- Unpaid dividend	1,582,134	1,367,219
	<u>986,073,573</u>	<u>855,971,824</u>

\*Amount represents amounts due to small scale industries, to the extent such parties have been identified from available documents/information. Refer note 7 under schedule 23 for names of SSI which are outstanding for 30 days or more.

## SCHEDULE 14: PROVISIONS

Provision for fringe benefit tax	2,782,000	-
Provision for taxation	271,000,000	176,000,000
Provision for wealth tax	276,662	250,464
Provision for leave encashment	5,410,967	5,201,632
Provision for gratuity	1,055,464	3,203,516
Provision for warranties*	28,956,753	22,098,068
Proposed dividend	79,990,000	59,992,500
Tax on proposed dividend	11,218,598	8,413,948
	<u>400,690,444</u>	<u>275,160,128</u>
* Movement in provision for warranties		
Additions during the year	6,858,685	3,756,184

For the year ended  
March 31, 2006  
Rs

For the year ended  
March 31, 2005  
Rs

## SCHEDULE 15: OTHER INCOME

Interest:		
Interest on income-tax refund	2,338,279	5,203,143
Others (Tax deducted at source Rs Nil , Previous Year Rs 139,498)	-	805,348
Profit on sale of long term non trade investments	-	1,589,493
Profit on sale of short term non trade investments	944,796	-
Dividend on short term non trade investments	7,262,474	3,213,711
Gain on cancellation of foreign exchange contracts (net)	-	15,259,693
Sale of scrap	48,553,854	31,889,007
Profit on sale of fixed assets (net)	-	1,347
Miscellaneous income	231,512	616,486
	<u>59,330,915</u>	<u>58,578,228</u>

## SCHEDULE 16: RAW MATERIALS AND COMPONENTS CONSUMED

Inventories - Opening	196,662,937	181,633,135
Add: Purchases	4,623,764,735	4,214,713,596
	<u>4,820,427,672</u>	<u>4,396,346,731</u>
Less: Inventories - Closing	242,728,273	196,662,937
	<u>4,577,699,399</u>	<u>4,199,683,794</u>

**SCHEDULES TO THE ACCOUNTS**

	For the year ended March 31, 2006 Rs	For the year ended March 31, 2005 Rs
<b>SCHEDULE 17: PERSONNEL EXPENSES</b>		
Salaries, wages and bonus	156,190,095	126,005,034
Contribution to provident fund	6,386,484	5,160,392
Contribution to gratuity	3,169,682	1,761,333
Contribution to superannuation fund	788,640	663,259
Workmen and staff welfare expenses	18,852,821	16,026,810
	<u>185,387,722</u>	<u>149,616,828</u>
<b>SCHEDULE 18: OPERATING AND OTHER EXPENSES</b>		
Consumption of stores and spares	221,555,195	176,975,360
Sub-contracting expenses	59,025,560	63,332,777
Power and fuel	190,810,823	134,244,929
Freight and forwarding charges	10,901,383	9,330,310
Rent	2,008,697	1,680,000
Rates and taxes		
- Others	664,494	429,786
Insurance	10,078,775	8,328,263
Repairs and maintenance		
- Plant and machinery	30,263,662	31,925,458
- Buildings	3,484,883	3,185,768
- Others	16,298,009	12,989,720
Advertising and sales promotion	544,122	546,413
Cash discounts	19,933,337	4,016,485
Royalty	142,148,282	115,393,229
Technicians fee	1,061,534	940,810
Warranty expenses	32,064,267	20,211,587
Legal and professional expenses	6,996,743	4,938,494
Travelling and conveyance	20,356,431	15,940,111
Communication costs	2,151,452	2,230,185
Printing and stationery	1,899,360	1,977,477
Directors' sitting fees	735,000	660,000
Auditor's remuneration		
- Audit fee	695,000	545,000
- For certification and other matters	505,000	457,700
- Out-of-pocket expenses	78,000	79,500
	<u>1,278,000</u>	<u>1,082,200</u>
Donations and contributions (includes Rs Nil, Previous Year Rs 1,254,063 donated to Prime Minister's National Relief Fund for tsunami relief)	492,402	1,378,667
Provision for doubtful debts and advances	2,044,195	500,000
Loss on sale of short term non trade investments	-	1,606,315
Foreign exchange rate difference (net)	70,518,159	10,644,396
Loss on sale / discard of fixed assets (net)	5,159,187	-
Miscellaneous expenses	10,668,484	7,220,024
	<u>863,142,436</u>	<u>631,708,764</u>

**SCHEDULES TO THE ACCOUNTS**

	For the year ended March 31, 2006 Rs	For the year ended March 31, 2005 Rs
<b>SCHEDULE 19 : DECREASE/(INCREASE) IN INVENTORIES</b>		
Inventories - Opening		
- Work-in-progress	30,565,894	13,742,158
- Scrap	153,812	412,495
- Finished goods	7,222,571	5,428,114
	<u>37,942,277</u>	<u>19,582,767</u>
Inventories - closing		
- Work-in-progress	47,164,613	30,565,894
- Scrap	2,160,295	153,812
- Finished goods	10,932,989	7,222,571
	<u>60,257,897</u>	<u>37,942,277</u>
	<u>(22,315,620)</u>	<u>(18,359,510)</u>
<b>SCHEDULE 20: FINANCIAL EXPENSES</b>		
Interest		
- to banks	578,271	401,171
- others	3,188,427	1,188,364
Bank charges	4,157,427	3,519,424
	<u>7,924,125</u>	<u>5,108,959</u>
<b>SCHEDULE 21: EXCEPTIONAL ITEM</b>		
Product recall expenses	-	107,232,133
	<u>-</u>	<u>107,232,133</u>
<b>SCHEDULE 22: EARNINGS PER SHARE (EPS)</b>		
Net profit as per profit and loss account	202,309,193	78,297,045
Weighted average number of equity shares in calculating basic and diluting EPS	7,999,000	7,999,000
EPS	25.29	9.79

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**SCHEDULE 23: NOTES TO ACCOUNTS****1. Nature of operations**

Munjali Showa Limited (the Company) is a Company established in 1985 as result of technical and financial collaboration between Hero Group and Showa Corporation, Japan. The Company operates as an ancillary and manufactures auto components for the two-wheeler and four-wheeler industry, primary products being front forks, shock absorbers, struts, gas springs and window balancers for sale in domestic market. The Company has two manufacturing locations in the state of Haryana.

**2. Statement of significant accounting policies****a) Basis of preparation**

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies followed by the Company are consistent with those used in the previous year.

**b) Tangible assets and depreciation**

- Fixed assets are stated at cost less accumulated depreciation less impairment if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.
- Depreciation is provided on straight line method over the estimated useful lives of the fixed assets, which result in depreciation rates being equal to the corresponding rates prescribed in Schedule XIV of the Companies Act, 1956.
- Amounts 'added to' / 'deducted from' fixed assets on account of foreign currency fluctuations are considered as additions / deductions of the year in which such fluctuations occur and depreciation thereon is provided /adjusted prospectively from the date the related assets have been put to use.
- Depreciation on the amount of adjustment to fixed assets on account of capitalisation of insurance spares is provided over the remaining useful life of related assets.
- All assets costing upto Rs 5,000 are fully depreciated in the year of purchase.

**c) Impairment**

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

**d) Intangible assets and amortisation**

Amounts paid towards acquisition of designs and drawings for specifically identified products being development expenditure incurred towards product design is carried forward based on assessment of benefits arising from such expenditure. Such expenditure is amortised over the period of expected future sales from the related product, which the management has determined to be 24 months based on past trends, commencing from the month of commencement of commercial production.

The period of amortisation is reassessed annually to ascertain reasonableness and appropriateness.

**e) Leases**

Leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating charges. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

#### **f) Investments**

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and market value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline, other than temporary, in the value of the investments.

#### **g) Inventories**

Inventories are valued as follows:

Raw materials, components, stores and spares	Lower of cost and net realisable value. Cost is determined on a weighted average basis.
Work-in-progress and finished goods	Lower of cost and net realisable value. Cost includes direct materials and labour and a proportion of manufacturing overheads, including depreciation, based on normal capacity. Cost of finished goods includes excise duty.
Scrap	At net realizable value

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs, of completion. Provision for obsolescence is determined based on management's assessment and is charged to profit and loss account.

#### **h) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

##### *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer. Sale of goods is inclusive of excise duty but exclusive of sales tax.

##### *Interest*

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

##### *Dividends*

Dividend incomes on investments are accounted for when the right to receive the payment is established

#### **i) Warranty costs**

Warranty costs are provided on accrual basis determined based on past experience of claims. Exceptional warranty claims are not taken to determine such provisions.

#### **j) Foreign currency transactions**

##### **(i) Initial recognition**

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(ii) Conversion

Foreign currency monetary items are reported using the closing rate.

(iii) Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except where they related to acquisition of fixed assets, from outside India, in which case they are adjusted to the cost of the fixed asset.

(iv) Forward exchange contracts

In respect of forward exchange contracts entered into by the Company, the difference between the contracted rate and the rate at the date of transaction is recognized as gain or loss over the period of the contract except for difference in respect of liabilities incurred for acquiring fixed assets from a country outside India, in which case such difference is adjusted in the carrying amount of the respective fixed assets. Exchange differences arising on forward contracts are recognised in the statement of profit and loss in the year in which the exchange rates change. Any gain or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the year, except gain or loss on transactions relating to fixed assets acquired from a country outside India, which is adjusted to the carrying amount of respective fixed assets.

**k) Retirement and other employee benefits**

(i) Retirement benefits in the form of provident fund contributions and superannuation fund which is as per the scheme of Life Insurance Corporation are charged to the profit and loss account of the year when the contributions to the respective funds are due.

(ii) Gratuity liability under the Payment of Gratuity Act and provision for leave encashment is accrued and provided on the basis of an actuarial valuation made at the end of each financial year.

The Company does not have any other obligation other than contribution payable to the fund.

**l) Income taxes**

Tax expense comprises of current, deferred and fringe benefit tax

Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act.

Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

**m) Provisions**

A provision is recognised when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions except those stated elsewhere in the notes to accounts, are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Provision for expenditure relating to voluntary retirement is made when the employee accepts the offer of early retirement.

#### **n) Earnings per share**

Basic earnings per share is calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

#### **3. Segmental information**

Based on the guiding principles given in Accounting Standard on 'Segmental Reporting' (AS-17), issued by the Institute of Chartered Accountants of India, the Company's primary business segment is manufacturing of auto components for two-wheeler and four-wheeler industry. The business comprises manufacturing and selling of various auto components, viz, fork, shock absorbers, struts, gas springs and window balancers, having similar risks and rewards because of similar nature of these items. The Company operates in one geographical segment and thus the disclosure requirement of Accounting Standard (AS-17) is not applicable.

#### **4. Related party disclosure**

During the year, the Company has entered into transactions with related parties. Those transactions along with related balances as at March 31, 2006 and 2005 and for the years then ended are presented in the following table:

##### **(i) Names of related parties**

###### **(a) Key management personnel and their relatives**

- Mr Brijmohan Lall Munjal- Chairman
- Mr Yogesh Munjal – Managing Director
- Mr Seiji Konoue- Joint Managing Director (Upto July 31, 2005)
- Mr. Kazuhiro Nishioka- Joint Managing Director (From August 1, 2005)
- Mr Suresh Munjal- Relative of Yogesh Munjal

###### **(b) Enterprise with significant influence over the Company**

- Showa Corporation, Japan

###### **(c) Enterprises owned or significantly influenced by key management personnel and their relatives**

- Hero Honda Motors Limited
- Sunbeam Auto Limited
- Hero Cycles Limited
- Hero Corporate Services Limited
- Highway Cycles Industries Limited
- Majestic Auto Limited
- Dayanand Munjal Investments Private Limited
- Thakurdevi Investments Private Limited

(ii) Amount of Rs 390,970 receivable from Hero Motors has been provided as doubtful debts.

(iii) The remuneration paid to directors is disclosed elsewhere in the notes to the accounts.

(Amount in Rs.)

	Enterprises having significant influence over the company		Key management personnel and their relatives				Enterprises owned or significantly influenced by key management personnel and their relatives						
	Showa Corporation Inc	Total	Suresh Munjal	Others	Total	Hero Honda Motors Limited	Sunbeam Auto Limited	Hero Corporate Services Limited	Hero Cycles Ltd	Thakurdevi Investment Private Limited	Dyanand Munjal Investments Private Limited	Others	Total
<b>Transactions during the year</b>													
Sale of goods	252,773 (298,612)	252,773 (298,612)	-	-	-	5,809,177,906 (5,018,838,214)	-	-	-	-	-	19,054,292 (11,113,728)	5,828,232,198 (5,029,951,942)
Purchase of raw materials, intermediaries and finished goods	801,877,267 (844,544,531)	801,877,267 (844,544,531)	-	-	-	85,353	1,154,321,927 (949,328,746)	-	-	-	-	3,502,212 (966,630)	1,157,909,492 (950,295,376)
Service charges paid	-	-	-	-	-	-	-	2,212,816 (2,434,303)	-	-	-	-	2,212,816 (2,434,303)
Purchase of fixed assets	2,445,303	2,445,303	-	-	-	-	-	-	-	-	-	-	-
Royalty	142,148,282 (110,997,296)	142,148,282 (110,997,296)	-	-	-	-	-	-	-	-	-	-	-
Design and drawing fee – Intangible asset	2,304,000 (2,380,167)	2,304,000 (2,380,167)	-	-	-	-	-	-	-	-	-	-	-
Technician fee	991,662 (5,618,823)	991,662 (5,618,823)	-	-	-	-	-	-	-	-	-	-	-
Interest	1,891,315 (687,266)	1,891,315 (687,266)	-	-	-	-	-	-	-	-	-	-	-
Dividend	15,600,000 (15,600,000)	15,600,000 (15,600,000)	450,000 (450,000)	7,400 (10,500)	4,507,500 (4,510,500)	-	-	-	9,900,000 (9,900,000)	4,500,000 (4,500,000)	4,500,000 (4,500,000)	-	18,900,000 (18,900,000)
Surpluses given to government departments	-	-	-	-	-	565,033,377 (565,033,377)	100,000 (28,790,000)	-	100,000	-	-	100,000 (100,000)	565,233,377 (595,833,377)
Surpluses obtained	-	-	-	-	-	1,886,800 (1,886,800)	1,100,000 (1,100,000)	-	-	-	-	-	2,986,800 (2,986,800)
<b>Balance at year end</b>													
Trade payable	402,289,315 (407,754,928)	402,289,315 (407,754,928)	-	-	-	-	118,502,827 (105,093,810)	-	-	-	-	2,289,164 (2,056,091)	120,791,991 (107,149,901)
Trade receivable	213,305 (75,869)	213,305 (75,869)	-	-	-	586,228,352 (540,844,944)	-	-	-	-	-	9,072,529 (7,227,449)	595,300,881 (548,072,393)

Previous year figures are in brackets

	As at March 31, 2006 (Rs)	As at March 31, 2005 (Rs)
<b>5. Capital commitments</b>		
Estimated amount of contracts remaining to be executed on capital account and not provided for	56,066,045	248,312,937
<b>6. Contingent liabilities (not provided for) in respect of:</b>		
a) Demand raised by Income Tax Authorities, being disputed by the Company	28,918,361	15,260,137
b) Interest claims by customs authorities, not acknowledged by the Company	356,047	356,047
c) Amount claimed by Employees State Insurance Recovery Officer	9,600,316	-
d) Claims against the Company not acknowledged as debts – Amount claimed by a consultant	726,238	-

Contingent liabilities in respect of demands raised by the Income Tax Authorities comprise of the following:

- a) In respect of Assessment Year 1990-91, based on decision of ITAT in relation to assessments upto Assessment Year 1989-90, the Company continued to provide depreciation on written down value method basis, while continuing to provide depreciation on straight line method basis in accounts. Further, the Company had moved additional ground before the Tribunal that it should be allowed to set off lower of unabsorbed loss or unabsorbed depreciation. The Company has obtained legal opinion as per which the Company has good chances of success. The amount involved is Rs 5,802,578 (Previous year Rs 5,802,578).
- b) In respect of Assessment Years 1993-94, 1996-97, 1998-99 and 1999-00, allowability of certain expenses like foreign technician expenses, design and drawing fees are pending under appeal with ITAT. The Company has obtained legal opinion as per which the Company has good chances of success. The total amount involved is Rs 1,867,363 (Previous year Rs 1,867,363).
- c) In respect of Assessment Year 2001-02, 2002-03 & 2003-04 issues relating to some percentage of expenses like royalty, technician fee, design and drawing is pending with CIT (Appeals). The Company has obtained legal opinion as per which the Company has good chances of success. The amount involved is Rs 21,248,420 (Previous year Rs 7,590,196).

Contingent liabilities in respect of demands raised by the Employee State Insurance Recovery Officer represents amount demanded from the Company due to lack of records for the period 1994 to 1998 on the basis of inspections carried out at the Company. The demand has been stayed by Hon'ble Judge, Employee Insurance Court, Gurgaon.

7. The Small Scale Undertakings (SSIs) to whom the Company owes sums, which are outstanding for more than 30 days are Associated Engg., Divya Engg., Jairaj Ancillaries, Modern Hi-Tech Auto Prod., O.K. Engg. Pvt Ltd., Rikki Plastics, Shriram Engg., Tightwell Fasteners, Gowell Rubber Ind., Nice Steel Inds., Abhi Enterprises, Citizen Press Components, Delite Enterprises, Salbros Enterprises, Chauhan Industries, E R. Automotives, Rubberways, New Vishwakarma, Aavran, Ancil Autotech Pvt. Ltd., Sanewal Auto, Mod Serap Industries.

	For the year ended March 31, 2006 (Rs)	For the year ended March 31, 2005 (Rs)
<b>8. Supplementary statutory information</b>		
<b>8.1 Directors' remuneration (excluding sitting fees)</b>		
Salaries and allowances	3,300,000	2,640,000
Commission to whole time directors	6,591,112	2,609,123
Perquisites	2,051,497	2,013,531
Contribution to provident and superannuation funds	363,000	290,400
	<u>*12,305,609</u>	<u>7,553,054</u>
*Increase in the remuneration of Directors by Rs. 333,000 (previous year Rs 403,200) is subject to approval of the shareholders. The gratuity payable to the directors has not been disclosed since it is not possible to ascertain the same on an individual level.		
<b>8.2 Computation of net profit in accordance with Section 349 of the Companies Act, 1956 for calculation of commission payable to Managing Director and Joint Managing Director</b>		
Profit as per profit and loss account	307,608,590	115,695,326
Add :Directors' remuneration	12,305,609	7,553,054
Provision for doubtful advances	2,044,195	500,000
Provision for warranty	6,858,685	3,756,184
Provision for inventory obsolescence	(303,134)	2,041,123
Provision for wealth tax	276,662	250,464
Provision for labour compensation	30,000	-
Directors sitting fee	735,000	660,000
Net profit as per Section 349 of the Companies Act, 1956	<u>329,555,607</u>	<u>130,456,151</u>
Commission to Managing Director and Joint Managing Director @ 1% of the net profits for each of them	6,591,112	2,609,123
<b>8.3 Earnings in foreign currency (on accrual basis)</b>		
Exports at F.O.B. value	716,332	298,612
<b>8.4 Expenditure in foreign currency (on accrual basis)</b>		
Technician fees (previous year figure including that under product recall expenses)	991,662	5,618,823
Royalty	142,148,282	110,997,296
Travelling	2,575,764	1,500,351
Interest	1,891,315	687,266
Design and drawings (considered as intangible asset)	2,304,000	2,380,167
	<u>149,911,023</u>	<u>121,183,903</u>
<b>8.5 Value of imports calculated on CIF basis (excluding material in transit)</b>		
Capital goods	21,727,652	12,772,462
Raw materials, components, stores, spares, tools, etc.	837,082,146	885,959,335
	<u>858,809,798</u>	<u>898,731,797</u>

### 8.6 Dividend remitted in foreign exchange

Year to which the dividend pertains	2004-2005	2003-2004
Number of non-resident shareholders (to whom dividend remitted in foreign currency)	1	1
Number of equity shares held on which dividend was due	2,080,000	2,080,000
Amount of dividend remitted – net (in Rs)	15,600,000	15,600,000

## 9. Additional Information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956

### 9.1 Licensed Capacity, Installed Capacity and Actual Production

Class of Goods *	Unit	Installed Capacity **		Actual Production	
		Current year	Previous year	Current year	Previous year
Shock absorbers	Nos.	15,600,000	12,905,300	14,032,148	12,274,902
Struts	Nos.	969,000	969,000	688,054	705,719
Window balancer	Nos.	1,006,500	1,006,500	442,012	532,210
* Licenses are not applicable since 1993-94.					
* * As certified by the management and relied upon by the auditors being a technical matter.					

### 9.2 Sales

	Unit	Quantity		Value (Rs.)	
		Current year	Previous year	Current year	Previous year
Shock absorbers	Nos.	14,019,185	12,276,482	6,209,329,098	5,322,753,599
Struts	Nos.	686,848	704,510	605,695,462	602,312,856
Window balancer	Nos.	442,197	529,022	56,139,292	67,562,229
Components, etc.				74,351,268	75,383,850
				6,945,515,120	6,068,012,534

### 9.3 Consumption of raw materials and components

	Unit	Quantity		Value (Rs)	
		Current year	Previous year	Current year	Previous year
Fork pipe	Nos.	6,731,543	6,066,360	685,041,459	599,713,202
Bottom case	Nos.	6,375,224	5,541,854	860,166,090	699,743,599
Main spring cushion	Nos.	14,631,211	12,899,746	565,699,184	519,568,712
Oil seal	Nos.	14,570,846	13,158,849	609,439,044	617,201,923
Dust seal	Nos.	6,752,372	5,876,488	55,485,447	69,803,105
Other materials and components *				1,801,868,175	1,693,653,253
				4,577,699,399	4,199,683,794

\* It is not practicable to furnish quantitative information in view of the large number of items, which differ in size and nature, each being less than 10% in value of the total.

#### 9.4 Imported and indigenous raw materials, components and stores, spares consumed

	Percentage of total consumption		Value (Rs)	
	Current year	Previous year	Current year	Previous year
Raw materials and components				
Imported	19	25	879,123,798	1,044,491,244
Indigenously procured	81	75	3,698,575,601	3,155,192,550
	<u>100</u>	<u>100</u>	<u>4,577,699,399</u>	<u>4,199,683,794</u>
Stores and spares				
Imported	12	12	26,856,033	21,324,459
Indigenously procured	88	88	195,699,162	155,650,901
	<u>100</u>	<u>100</u>	<u>221,555,195</u>	<u>176,975,360</u>

#### 9.5 Details of Finished Goods

	Quantity	Value (Rs)		
	Current year	Previous year	Current year	Previous year
Opening Stock				
Shock absorbers	14,471	16,051	2,868,805	2,557,828
Struts	6,254	5,025	4,087,933	2,739,100
Window balancer	4,831	1,643	265,833	131,186
			<u>7,222,571</u>	<u>5,428,114</u>
Closing Stock				
Shock absorbers	27,434	14,471	5,315,818	2,868,805
Struts	7,460	6,234	5,256,895	4,087,933
Window balancer	4,646	4,831	360,276	265,833
			<u>10,932,989</u>	<u>7,222,571</u>

10. The Company takes various types of foreign currency derivative instruments to hedge its foreign currency risk. The category-wise outstanding position of derivative instruments as on March 31, 2006 is as under:

Particulars of Derivatives	Purpose
Outstanding Forward contracts	
Buy	
JPY 2,320,047,250	Hedge of present creditors and future liability

The amount of foreign currency exposures that are not hedged by a derivative instrument or otherwise as on March 31, 2006 is as under:

Particulars	Amount in Rs	Foreign currency
Debtors	235,291	USD 5,238
Debtors	162,562	JPY 423,339
Creditors	1,897	Euro 35.2
Creditors	169,729	SGD 6,163
Creditors	85,251	USD 1,898

## 11. Previous year comparatives

Previous year's figures have been regrouped, where considered necessary, to conform to this year's classification.

As per our report of even date

**For S.R.Batliboi & Co.**  
**Chartered Accountants**

per Pankaj Chadha  
**Partner**  
Membership No. 91813

New Delhi  
Date: May 19, 2006

For and on behalf of the Board of Directors

**BRIJMOHAN LALL MUNJAL**  
Chairman

**KAZUHIRO NISHIOKA**  
Jt. Managing Director

**VINOD K AGRAWAL**  
Director

**YOGESH MUNJAL**  
Managing Director

**DR K.C. SETHI**  
Director

**MAHESH TANEJA**  
GM- Finance and IT

**ASHOK MUNJAL**  
Director

**A.K. VADEHRA**  
Director

**PANKAJ GUPTA**  
Company Secretary

Additional Information as required under Part IV of Schedule VI to the Companies Act, 1956

## Balance Sheet Abstract and Company's General Business Profile.

### I Registration Details.

Registration No.	2	0	9	3	4	State Code	5	5
Balance Sheet	3	1	0	3	2	0	0	6
	Date	Month	Year					

### II Capital raised during the Year (Amount in Rs.)

Public Issue	N	I	L	Rights Issue	N	I	L
Bonus Issue	N	I	L	Private Placement	N	I	L

### III Position of Mobilisation and Deployment of Funds (Amount in Rs.)

Total Liabilities	1	4	6	9	0	3	5	2	3	1	Total Assets	1	4	6	9	0	3	5	2	3	1
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#### Sources of Funds

Paid - up Capital	7	9	9	9	2	5	0	0	Reserves and Surplus	1	2	8	5	0	2	7	0	0	6
Secured Loans	3	8	6	6	4	8	8	6	Unsecured Loans	N	I	L							

#### Application of Funds

Net Fixed Assets	1	2	1	1	8	1	0	8	0	7	Investments	4	4	8	9	3	8	4	3
Net Current assets	2	1	0	1	8	3	0	8	1	Misc. Expenditure	N	I	L						
Accumulated Losses	N	I	L	Deferred Tax Liabilities (Net)	6	5	3	5	0	8	3	9							

#### IV Performance of Company (Amount in Rs.)

Turnover (including other income)

6 9 4 5 5 1 5 1 2 0

Total Expenditure

6 6 3 7 9 0 6 5 3 0

Profit / Loss before Tax

3 0 7 6 0 8 5 9 0

Profit / Loss after Tax

2 0 2 3 0 9 1 9 3

Earning per Share in Rs.

2 5 . 2 9

Dividend rate%

1 0 0

#### V Generic Names of Three Principal Products / Services of Company ( As per monetary terms )

Item Code No.  
( ITC Code )

8 7 1 4 9 9 . 0 0

Product  
Description

S H O C K A B S O R B E R S

Item Code No.  
( ITC Code )

8 7 0 8 8 0 . 0 0

Product  
Description

S T R U T S

Item Code No.  
( ITC Code )

8 7 0 8 8 0 . 0 0

Product  
Description

W I N D O W B A L A N C E R S

For and on behalf of the Board of Directors

**BRIJMOHAN LALL MUNJAL**  
Chairman

**YOGESH MUNJAL**  
Managing Director

**ASHOK MUNJAL**  
Director

**KAZUHIRO NISHIOKA**  
Jt. Managing Director

**DR K.C. SETHI**  
Director

**A.K. VADEHRA**  
Director

Place: New Delhi  
Date: May 19, 2006

**VINOD K AGRAWAL**  
Director

**MAHESH TANEJA**  
GM- Finance and IT

**PANKAJ GUPTA**  
Company Secretary

## MUNJAL SHOWA LIMITED

Regd. Office: 9-11, Maruti Industrial Area, Gurgaon-122 015(Haryana)

### ATTENDANCE SLIP

I, hereby record my presence at the 21<sup>st</sup> Annual General Meeting of the Company held on Monday the 28<sup>th</sup> day of August 2006 at 26E & F, Sector-3, IMT, Manesar, Gurgaon-122050, Haryana at 11.00 A.M

Folio No.	
DP ID / Client ID	

NO. OF SHARES HELD :

Name  
Address

.....  
Signature of the member

.....  
Full name of the Proxy (in block letters)

.....  
Signature of the Proxy

### ENTRY PASS

(To be retained throughout the Meeting)

Folio No.	
DP ID / Client ID	

NO. OF SHARES HELD :

Name  
Address

#### Note:

- Members/Proxy holders are requested to bring the Attendance Slip and Entry Pass with them when they come to the meeting and hand it over at the gate after affixing their signature on it.
- Members/Proxy holders who come to attend the meeting are requested to bring their copy of the Annual Report for reference at the meeting.
- Members are informed, in case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.

## MUNJAL SHOWA LIMITED

Regd. Office: 9-11, Maruti Industrial Area, Gurgaon-122 015(Haryana)

NO. OF SHARES HELD :

### PROXY FORM

I/We, \_\_\_\_\_ of \_\_\_\_\_  
being a Member/Member's of Munjal Showa Limited  
hereby appoint \_\_\_\_\_ of \_\_\_\_\_  
or failing him \_\_\_\_\_ of \_\_\_\_\_  
as my/our proxy to vote for me/us and on my/  
our behalf at the 21<sup>st</sup> Annual General Meeting of the Company to be held on Monday the 28<sup>th</sup> day of August, 2006 at 11.00  
A.M. and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2006

Folio No.	
DP ID No.	
Client ID No.	

Signature \_\_\_\_\_

Affix  
15 Paise  
Revenue  
Stamp

FOR OFFICE USE ONLY :  
DATE & TIME OF RECEIPT :  
PROXY NO. :

Note: The proxy form duly completed and signed should be deposited at the Registered Office of the Company not less than 48 hours before the time of the meeting :

(\*) Every person holding equity share capital of the company and whose name is entered as beneficial owner in the records of the depository shall be deemed to be member of the company.



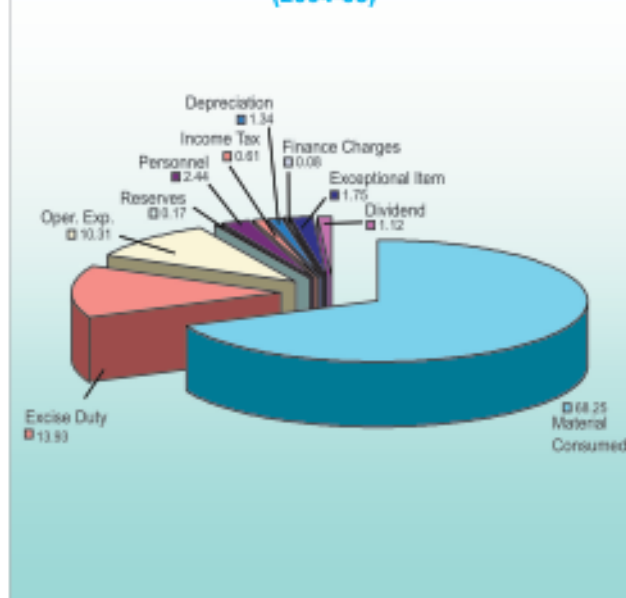
## Fixed Assets

(Rs. in Lacs)



## Distribution of Revenue

(2004-05)



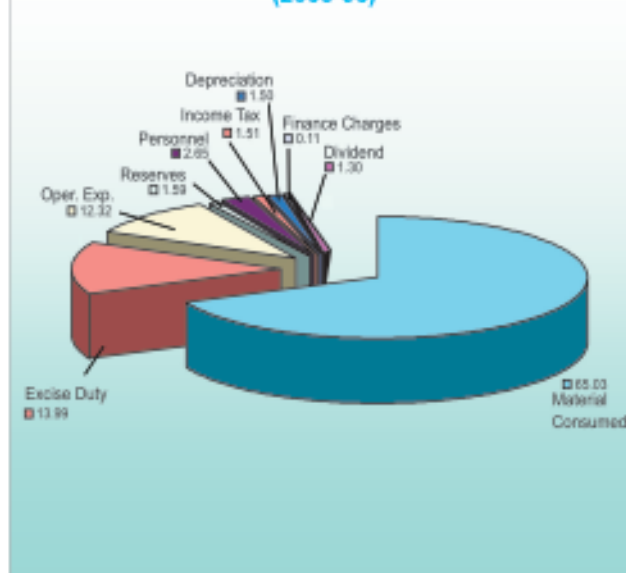
## Application of Funds

(Rs. in Lacs)



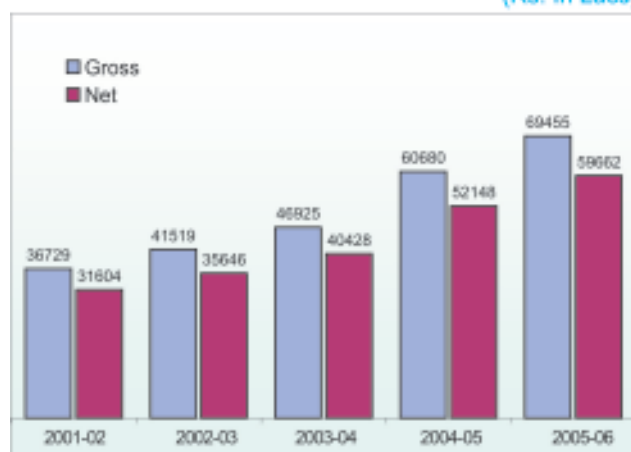
## Distribution of Revenue

(2005-06)



## Sales

(Rs. in Lacs)





Munjal Showa Plant at Gurgaon ( Haryana )



Munjal Showa Plant at IMT Manesar ( Gurgaon )

## **MUNJAL SHOWA LTD.**

9-11, Maruti Industrial Area, Gurgaon - 122015 (HARYANA)

Phones : 0124-2341001, 2341102, 2341003

Fax : 0124-2341346, 2341359

E-mail : [msl1@vsnl.com](mailto:msl1@vsnl.com)