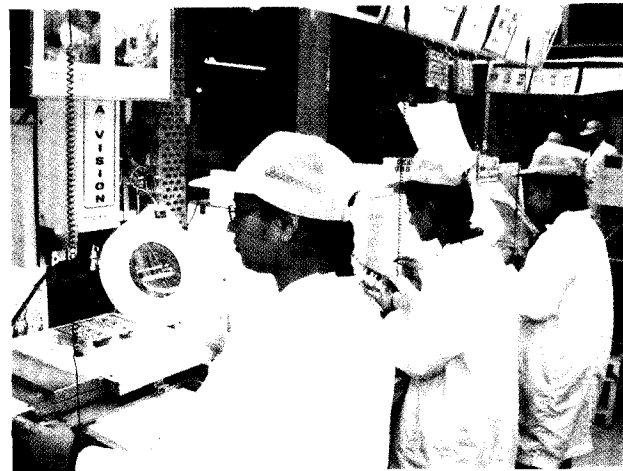


DENSO

TWENTY FIRST
ANNUAL REPORT
2005-2006

DENSO INDIA LIMITED

DENSO INDIA PLANT AT TILPATTA



CONTENTS :	Page No.(s)
Board of Directors	1
Notice	2-4
Directors' Report	5-8
Corporate Governance Report	9-16
Auditors' Report	17-19
Balance Sheet	20
Profit & Loss Account	21
Schedules	22-34
Balance Sheet Abstract	35
Cash Flow Statement	36-37

BOARD OF DIRECTORS

MANAGING DIRECTOR

Mr. H. Hirahata

DY. MANAGING DIRECTOR

Mr. T. Ishiguro

(w.e.f. from 9th January, 2006)

COMPANY SECRETARY

Mr. Lalit Prabhakar

DIRECTORS

Mr. K. Higuchi

Mr. T. Yoshimoto

(Alternate to Mr. K. Higuchi)

(till 27th July, 2005)

Mr. H. Fujimoto

(Alternate to Mr. K. Higuchi)

(w.e.f. from 27th July, 2005)

Mr. J.S. Baijal

Mr. R.K. Bhatnagar

Mr. A.C. Chakrabortti

Mr. A. Omoto

(Alternate to Mr. M. Hanai)

Mr. H. Ishida

(Alternate to Mr. T. Kondo)

Mr. M. Hanai

Mr. T. Kondo

Mr. M. Osada

AUDITORS

Price Waterhouse

Chartered Accountants,

New Delhi

REGISTERED OFFICE

3rd Floor, Left Wing, Capital Court,

Olof Palme Marg, Munirka,

New Delhi- 110 067

WORKS

Noida-Dadri Road,

P. O. Tilpatta,

Tehsil-Dadri,

District Gautam Budh Nagar,

Uttar Pradesh- 203 207

DENSO

NOTICE

Notice is hereby given that the Twenty First Annual General Meeting of the Company shall be held on Friday, 8th day of September, 2006 at 10.30 a.m. at FICCI Auditorium, Tansen Marg, New Delhi-110001 to transact the following business:

ORDINARY BUSINESS :

1. To receive and adopt the Audited Profit and Loss Account for the year ended March 31, 2006 and the Audited Balance Sheet as at that date together with the reports of the Directors and Auditors thereon.
2. To recommend and declare dividend for the financial year ended 31st March, 2006.
3. To appoint Auditors of the Company in place of those retiring and to fix their remuneration. The present Auditors are eligible for re-appointment.
4. To elect Director in place of Mr. A.C. Chakrabortti who retires by rotation and being eligible offers himself for re-appointment.
5. To elect Director in place of Mr. J.S. Baijal who retires by rotation and being eligible offers himself for re-appointment.

SPECIAL BUSINESS :

6. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution.

RESOLVED THAT Mr. Tatsumi Ishiguro, be and is hereby appointed as non rotational Director under Article 70(e) of the Articles of Association of the Company.

RESOLVED THAT subject to the provisions of section 198, 269, 309 & 310 and any other applicable provisions of the Companies Act, 1956, the approval of the shareholders of the Company in the General Meeting, the approval of the Central Govt. if deemed necessary and such other approval as may be required, the appointment of Mr. Tatsumi Ishiguro, as Deputy Managing Director of the company w.e.f. 9th January, 2006 be and is hereby approved on the terms and conditions as stated in the Annexure to the Notice.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to vary the remuneration of Mr. T. Ishiguro subject to the limits specified and according to provisions of Section (s) 198, 269, 309 & 310 and Schedule XIII to the Companies Act, 1956 and variation in the applicable statutes from time to time.

RESOLVED FURTHER THAT in addition to the remuneration within the limits specified under Schedule XIII, Mr. T. Ishiguro be paid such perquisites and benefits as are specifically applicable to expatriate managerial personnel as specified in Section II of Part II of Schedule XIII to the Companies Act, 1956 subject to the overall limit as specified under Section I, Part II of Schedule XIII to Companies Act, 1956.

RESOLVED FURTHER THAT the above remuneration shall constitute the minimum remuneration payable in case of absence or inadequacy of profits during the tenure of Mr. T. Ishiguro, Dy. Managing Director of the Company.

DENSO

RESOLVED FURTHER THAT Mr. Lalit Prabhakar, Company Secretary of the Company be and is hereby authorised to sign and complete the other formalities required under the Companies Act, 1956 for the purpose.

By Order of the Board

Place: New Delhi
Date : 27th July, 2006

Lalit Prabhakar
Company Secretary

NOTES :

- (A) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON POLL, VOTE INSTEAD OF HIMSELF. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- (B) The Register of Members of the Company will be closed from 4th September, 2006 to 8th September, 2006, both days inclusive.
- (C) Members are requested to intimate any change of registered address (including PIN code number) to the Registered Office of the Company, if they are holding shares in physical forms only.
- (D) PLEASE NOTE THAT NO SWEET COUPONS / GIFTS SHALL BE DISTRIBUTED AT THE FORTHCOMING ANNUAL GENERAL MEETING.

DENSO

ANNEXURE TO NOTICE

THE EXPLANATORY STATEMENT PURSUANT TO PROVISIONS OF SECTION 173 OF THE COMPANIES ACT, 1956 RELATING TO THE ITEMS AS STATED IN THE ACCOMPANYING NOTICE IS AS FOLLOWS:

Item No. 6

The Board of Directors of the Company vide resolution dated 25th January, 2006 have appointed Mr. T. Ishiguro as the Deputy Managing Director of the Company. .

Terms of appointment of Mr. T. Ishiguro, as the Dy. Managing Director

- | | |
|------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A. Period of Employment | 3 years w.e.f. 9th January, 2006 |
| B. Salary | In the range of Rs.60000/- to 70000/- per month w.e.f. 9th January, 2006. |
| C. Other benefits | DNIN shall for Mr. T. Ishiguro and his family. |
| 1) Accommodation | a) Provide fully furnished (including furniture, soft furnishing, electrical equipment like Air conditioner with stabilizer, UPS, transformer, refrigerator, oven and further kitchen appliances and colour T.V. and telephone connection with ISD) accommodation.
b) Repair & maintain such premises.
c) Reimburse expenses relating to electricity, gas and water.
d) Reimburse expenses of servants.
e) Provide telephone facilities and meet all related expenses except expenses on long distance personal calls. |
| 2) Car | a) a) At the cost of DNIN to be provided with driver for official and private use. Cost of car including expenses of maintenance and running of the vehicle will be borne by DNIN.

If, however, Mr. T. Ishiguro wishes to import his own car, he may do so at his cost. Expenses towards maintenance and running of the car, even in this case shall be borne by DNIN.

As per DNIN rules for category of Deputy Managing Director as per DNIN designation or equivalent subject to Govt. regulations as may be applicable. |
| B. Business Travel (Tour expenses)
Medical, Special Language Training
Working Rules, Regulation and
Return expenses | |

Notes: To the extent that these salaries, perquisites and facilities are taxable under the Income Tax Rules, the tax will be borne by Mr. T. Ishiguro and will be deducted at source by DNIN.

All reference to DNIN in the above are DENSO INDIA LIMITED, NEW DELHI.

In order to give effect to the above, the terms and conditions of the appointment have to be approved by the Members. The Board recommends the resolution to the Members for their approval .

No Director other than Mr. T. Ishiguro is interested in the above resolution.

By Order of the Board

Lalit Prabhakar
Company Secretary

Place : New Delhi
Date : 27th July, 2006

DIRECTORS' REPORT

Your Directors are pleased to present their Twenty First Annual Report together with the audited statement of accounts for the financial year ended 31st March, 2006.

FINANCIAL RESULTS

	For the Year Ended 31.03.06 Rs. 000	For the Year Ended 31.03.05 Rs. 000
Gross Sales	418,29,60	379,33,82
Sales (Net of Excise)	360,99,51	326,62,30
Gross Profit (before depreciation and miscellaneous expenditure write-off)	47,12,83	41,10,70
Depreciation & Miscellaneous Expenditure written off	13,66,99	13,97,45
Profit for the year before Taxation	33,45,84	27,13,25
Tax Provision (Deferred Tax)	11,68,70 29,44	12,45,79 (1,66,10)
Fringe Benefit Tax	51,13	-
Profit after Tax	20,96,57	16,33,56

MANAGEMENT DISCUSSION AND ANALYSIS:**OPERATIONS:**

During the financial year 2005-06, the Gross Sales grew by 10.26 % and profit before tax by 23.31%. After the provisions for tax, the Company earned profit after tax of Rs.20.97 crores signifying an increase of 28.34% over the previous year. The Company outperformed the auto industry.

Auto Industry was one of the components of the manufacturing sector which has contributed to the high end growth rate of 8% plus for the Indian economy during the last fiscal year.

The passenger car market grew by 8%. The Auto Industry is witnessing introduction of newer models by the

Original Equipment Manufacture (OEM) to cater to varied needs of the Indian consumer. As the competition is intensifying the margins of the players is shrinking. Those products excelling in quality and price shall outperform others.

The market leader Maruti Udyog Limited (MUL) maintained its position with the vehicle production of MUL showing an overall growth rate of 6%. Its latest edition Swift has reported very encouraging results and it shall outperform all other vehicles in the "B" segment.

MUL performance at the export front was not very encouraging, with exports touching 34781 units, a decrease of 29% over the previous year.

Two Wheeler Industry is also witnessing intense competition-Bajaj Auto and TVS Motors are growing rapidly. Hero Honda Motors Limited continues to be the market leader. The overall production of Two wheeler manufacturers went up by 16%.

The Company is watching the trend in the Industry and is well equipped to cater to the needs of the OEMs who are introducing new models every year.

Opportunities and Threats:

The Indian economy is set to grow at the rate of 8% for the next year and with satisfactory monsoon predicted, the demand for passenger cars as well as two wheelers shall continue to show upward trend.

However as the competition among the OEMs intensifies, the pricing of the products of the Company shall be under pressure.

In order to off set this, the Company is pursuing aggressive cost control activities and the Company expects to be successful in its endeavours.

In order to cater to newer models of OEMs the Company is modifying its existing products and also adding to its existing product range to further improve its profitability levels.

However, by adding to the existing product range the Company expects to bolster its turnover and further improve its profitability levels, it may put pressure on the margins in the short term.

DENSO

Any adverse change in the Government policy is also likely to have corresponding and challenging repercussions which the management feels could be duly taken care of in due course.

Despite competition and pressure on the pricing front the Company expects to maintain its competitive edge in the coming years.

Segment wise Performance:

The Company's operating business is organized and managed according to the nature of product, with single Primary Reportable Segment comprising of manufacturing and supply of electrical automotive components.

OUTLOOK:

Current Operation

The Company achieved a Net Sales of Rs. 361 crores for the year ended 31st March, 2006. This was possible due to higher sales volume of both Four-wheeler and Two wheeler segment of the Industry.

The Company expects higher sales for the year 2006-07. The on-going efforts of increasing the customer base along with introduction of new products is expected to help the Company in achieving the sales target for the next year. The Company is facing pressure from its customers on the price front which it hopes to off set by cost control measures.

Internal Control Systems:

The Company maintains a system of internal control, including suitable monitoring procedures. The Internal Auditors regularly conducts a review of the financial and operating controls.

Human Resources:

The Company continued to have cordial and harmonious relations with its employees.

Cautionary Note:

Certain statements in the "Management Discussion and Analysis" section may be forward looking and are stated as required by applicable laws and regulations. Many factors may affect the actual results, which could be

different from what the Directors' envisage in terms of the future performance and outlook.

Additional Disclosures:

In line with the requirements of the Listing Agreements and the Accounting Standards of the Institute of Chartered Accountants of India your Company has made additional disclosures in respect of Related Party transactions and Segmental Reporting.

FIXED DEPOSITS:

The Company has not invited or availed Fixed Deposits from the public during the year under review.

AUDIT COMMITTEE

During the year the Audit Committee Meetings were conducted as per the provisions of listing agreement with the Stock Exchange(s). The details about the functioning of the committee is being enumerated in the Corporate Governance report section which is part of the Annual Report for the year ending March 31, 2006.

DIRECTORS:

Mr. T. Yoshimoto, resigned as Alternate Director to Mr. K. Higuchi on 27.07.2005 and Mr. H. Fujimoto was appointed in his place w.e.f. 27.07.2005

Mr. T. Ishiguro was appointed as the Deputy Managing Director of the Company on 25th January, 2006, w.e.f. 9th January, 2006, a nominee of Denso Corporation, Japan.

DIVIDEND:

The Directors are pleased to propose dividend of 12% on paid-up value of Equity Shares. This will absorb Rs. 3.34 crores out of current year profits. Tax on dividend declared amounting to Rs. 46.92 lacs shall be paid by the Company and no deduction of tax shall be made from the dividend payable to shareholders.

AUDITORS:

Messers Price Waterhouse, Chartered Accountants, New Delhi, retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. They have furnished a certificate to the effect that the proposed re-appointment, if made, will be in accordance with the provisions of Section 224(1-B) of the Companies Act, 1956.

PARTICULARS OF CONSERVATION OF ENERGY TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS AND OUTGO.

The Statement 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 is given in the Annexure forming part of this Report.

PERSONNEL

The Statement showing particulars of employees as required under Section 217(2-A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended to date, is not enclosed as none of the employees are covered under its provisions.

Directors Responsibility Statement as per Section 217(2AA) of the Companies Act, 1956.

1. The Financial Statement for the year ended 31.03.2006 are in full conformity with the Accounting Standard issued by the Institute of Chartered Accountants of India till date.
2. The Directors of Denso India Ltd. accept the responsibility for the integrity and objective of these Financial Statement as reflected through the consistent application of the Accounting Policies as well as for the estimates made and the judgment exercised relating to matters not concluded by year-end.
3. The Directors believe that the Financial Statements reflect fairly the form and substance of the transactions concluded and reasonably present the Company's financial condition and true and fair view of the results of the operation for the year and the state of affairs of the business as at 31st March, 2006.
4. The Company has installed an accounting system and the financial statements have been prepared on a going concern basis along with a system of controls which are reviewed, evaluated and updated on an on going basis.
5. Our internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and the procedures of the

Company have been followed for safeguarding the assets of the Company and for preventing any form of fraud and other irregularities subject to the inherent limitations in any system and procedure and coverage thereof that should be recognized in weighing the assurance provided by any system of internal controls. These have been reviewed periodically at Audit Committee Meetings.

6. The financial statements have been audited by M/s Price Waterhouse, Chartered Accountants, the statutory auditors.

ACKNOWLEDGEMENTS

Your Directors take this opportunity to thank the customers, vendors, shareholders, the bankers, the Central and State Governments and other agencies for their continued support, co-operation and contribution during the year under review. Your Directors place on record their deep appreciation of the managements of Denso Corporation, Japan, Sumitomo Corporation, Japan, Maruti Udyog Limited and ASMO Co. Ltd., Japan for their assistance and support during the year. Your Directors wish to place on record their appreciation of the contribution made by the employees at all levels.

For and on behalf of the Board

Place : New Delhi
Date : 22nd May, 2006

H. Hirahata
Managing Director

DENSO

ANNEXURE TO DIRECTORS' REPORT

INFORMATION REQUIRED UNDER 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.

A. CONSERVATION OF ENERGY

Form A of Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 – Not Applicable.

CDI Systems for two/three wheelers -do-
Fan Motor Assembly for Ventilation/ -do-
Engine Cooling -do-

B. TECHNOLOGY ABSORPTION

The Company obtains all Technical know-how inputs from Denso Japan. However all research data obtained from Denso Japan is further re-examined and reviewed for adaptation to Indian conditions. This process of absorption and up-gradation of technology is continuous process and is followed by the Company to meet competition.

No expenditure either of Capital or Revenue nature on Research & Development has been incurred during the year under review.

c) Has technology been fully absorbed, areas where this has not taken place, reasons therefore and future plans of action.

Not applicable.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

	Rs. Lacs
EARNINGS:	103.23
OUTGO:	
- Import of Goods (f.o.b.)	7796.61
- Stores & Spares (f.o.b.)	37.79
- Import of Capital Goods (f.o.b.)	582.07
- Royalty	624.00
- Technical Service Fees	
and Application cost	56.88
- Travelling & Others	80.71
	9178.06

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

- Efforts made: New models are being developed to help in further localisation by vehicle makers.
- Benefits derived: In-house skills are being developed in design, production engineering and endurance testing. Extensive help is also being provided to vendors to upgrade their technology to meet quality requirements.

We are sole suppliers in our range of products to Maruti Udyog Limited for majority of their export designated vehicles.

a) Technology imported : Import of technology for the manufacture of auto electricals.

b. Year of import:

Product	Year
Alternators	1984
Regulators	-do-
Starters	-do-
Wiper Motors (with Link)	-do-
AC Generators / Flywheel Magnetos	1988
Ignition coils for two/three wheelers	-do-