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NINETEENTH ANNUAL REPORT & ACCOUNTS 2005 - 2006

DESIGN AUTO SYSTEMS LIMITED

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DESIGN AUTO SYSTEMS LTD.
Board of Directors

Mr. Sarvesh Garg	: Chairman & Managing Director
Mr. Prashant S. Rajgarhia	: Director
Mr. Ravindra Dharne	: Director
Mr. Pradeep Khandelwal	: Director
Mr. R.C. Khurana	: Director (Bank Of India Nominee)
Mr. V. Sreedharan	: Director (Bank of Baroda Nominee)
Mr. P.V.V. Kamath	: Director (Syndicate Bank Nominee)
Mr. Abhitap Jain	: Director

Registered Office

Plot No. 58, Sector-1
Pithampur Industrial Area
Dist. Dhar (M.P)

Works

Plot No.58, Sector-1
Pithampur Industrial Area
Dist. Dhar (M.P)

Corporate Office

5/5-B, Navaratan Bag Road,
Near-Geeta Bhawan Square
A.B. Road, Indore – 452 001

Plot No.25, Sector-1
Pithampur Industrial Area
Dist. Dhar (M.P)

Registrar & Share Transfer Agent

Ankit Consultancy Private Limited
Alankar Point, A.B.Road,
Indore 452 001

Bankers

Bank of India
Bank of Baroda
Syndicate Bank

Auditors

S.N. Kabra & Company
Chartered Accountants
207-C, IInd Floor, Silver Mall
R.N.T Marg
Indore – 452 001

Annual General Meeting will be held at
Registered Office of the Company at
Plot No:58, Sector-1, Pithampur
Industrial Area, Dist. Dhar (MP) on
Tuesday the 26th Dec.06 at 11.00 A.M.

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DESIGN AUTO SYSTEMS LTD.

NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of the company will be held on Tuesday, 26th December, 2006 at 11.00 AM at the Registered Office of the Company at Plot No. 58, Sector-1, Industrial Area, Pithampur, Dist. Dhar [M.P.] to transact the following business.

ORDINARY BUSINESS:

1. To receive consider and adopt the Profit and Loss Account of the Company for Financial Period ended 30.06.06 and the Balance Sheet as at 30.06.2006 together with the Auditors report and Directors' Report and its annexure and attachments thereon.
2. To appoint a director in place of Mr. Ravindra Dharne who retires by rotation and being eligible offer himself for reappointment.
3. To appoint M/s S.N. Kabra & Company, Chartered Accountants as Auditors of the Company, to hold office up to the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board
For Design Auto Systems Limited

Place : Indore

Date:20th November, 2006

SARVESH GARG

[Managing Director]

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING PROXY SHOULD BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. Members/proxies should bring the attendance slip, duly filled in and signed for attending the Meeting.
3. Members/proxies attending the Meeting should bring their copy of the annual report for reference at the meeting.
4. Register of Members and share transfer books of the company will remain closed from 22-12-2006 to 26-12-2006 [Both days inclusive].
5. Members are requested to notify the company immediately the change of address, if any, and also write to the company immediately about corrections, if any, in name, address and Pin code.
6. All Documents referred to in accompanying notice are open for inspection at the Registered office of the Company on all working days, between 11.00 A.M. to 1.00 P.M. upto the date of meeting.
7. Mr. Ravindra Dharne is 43 years old. He is Commerce Graduate and has wide experience in field of marketing.

By Order of the Board
For Design Auto Systems Limited

Place : Indore

Date : 20th November, 2006

SARVESH GARG

[Managing Director]

**DESIGN AUTO SYSTEMS LTD.****DIRECTOR'S REPORT**

Dear Shareholders,

Your Directors have pleasure in presenting Nineteenth Annual Report for the financial period ended on 30th June 2006.

FINANCIAL HIGH LIGHTS

	(Rs. in Lacs)	
	<u>2005-06</u>	<u>2004-05</u>
	(15 Months ended	(6 months ended
	30.06.2006)	31.03.2005)
Sales and other Income	5507.21	2907.31
Gross Profit/(Loss) before depreciation	(-) 428.75	(-) 210.72
Depreciation	140.69	55.61
Profit before tax	(-) 569.44	(-) 266.33
Provision for Taxation for the year (FBT)	3.62	-
Prior Period Expenses/Income	11.61	7.82
Profit/(Loss) after Taxation	(-) 561.45	(-) 258.51
Balance brought forward from previous period	(-) 1185.75	(-) 927.23
Profit/Loss for Appropriation	(-) 1747.20	(-) 1185.74
Amount carried to Balance Sheet	(-) 1747.20	(-) 1185.74

PERFORMANCE

Your company's Turn Over for the period under review (15 Months) have been Rs.55.07 Crores as against Rs.29.07 crores in the preceding 6 Months period. The prices of major raw materials mainly Electric Grade Steel, Copper Wire, Brass, Filament etc. have gone up substantially during the period which adversely impacted the profitability of the Company.

The price increases obtained by the Company, from the OE business segment, could off set only a portion of the input cost increase, severely impacting the bottom line, in view of the size of this business segment. In spite of growth in revenues and your Company's sustained cost reduction measures, your Company incurred a loss of Rs.5.61 Crores during 15 Month period as against Rs.2.59 Crores in the previous period of 6 Months. In view of the unabated increase in the input cost till now, your company is seeking to get a reasonable price adjustment in all the business segments of the company. Your company has lined up a series of cost reduction measures and productivity improvement programs to partially offset the impact of spiraling input cost increases.

DIVIDEND

On Account of loss incurred by the company during the financial period, no dividend is being recommended for the period under review.

PUBLIC DEPOSITS

The Company has accepted and renewed public deposits within the meaning of Section 58-A of the Companies Act, 1956 and Rules made there under, during the period under review. For this purpose, all necessary formalities have been complied with. During the period under review Company do not have any unpaid deposits. The company has not made any default in repayment to small depositor within meaning of Section 58-AA.

EXPORTS

Your Company continues to explore various new business segment and geographical territories, for identifying profitable growth opportunities.



DESIGN AUTO SYSTEMS LTD.

EXPANSION

Your company have taken up expansion to expand the capacity in Auto Bulb manufacturing and have decided for installation of facilities for manufacture of silencers for 2 wheelers. The capital expenditure will be funded from internal accruals.

INSURANCE

All properties and insurable interests of the Company including Buildings, Plant & Machinery and stocks have been adequately insured.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information as per Section 217(1)(e) read with Companies (Disclosures of particulars in the report of Board of Directors) Rules, 1988 are given in the Annexure forming part of this Report.

PARTICULARS OF EMPLOYEES

None of the Employees in the Company is drawing remuneration in excess of the limits prescribed under Section 217 (2A) read with the Companies (Particulars of Employees) Rules, 1975 during the 15 month financial period ended 30th June 2006.

There is no employee who is drawing remuneration in excess of remuneration to Managing Director during the period.

HUMAN RESOURCE & INDUSTRIAL RELATIONS

Industrial relations were harmonious throughout the period. The Board wishes to place on record their sincere appreciation to the co-operation extended by all employees in maintaining cordial relations.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreements with the Stock Exchanges, a Management discussion and Analysis Report, Corporate Governance Report and Auditor's certificate regarding compliance of conditions of Corporate Governance are made a part of the Annual Report.

DIRECTOR'S RESPONSIBILITY STATEMENT

The Company is in compliance with various accounting and financial reporting requirements in respect of the financial statement for the period under review. Pursuant to Section 217(2AA) of the Companies Act, 1956, and in respect of the annual accounts for the period under review, the Director hereby confirm that :

- I. In the preparation of the annual accounts, the applicable accounting standards had been followed.
- II. Appropriate accounting policies have been selected and applied consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial period and of the loss of the Company for that period;
- III. Proper and sufficient care for 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 have been taken to the best of their knowledge and ability.
- IV. The annual accounts have been prepared on a "going concern basis".

DIRECTORS

Shri Ravindra Dharme, Director of the Company retires by rotation in accordance with the provisions of the Articles of Association of the Company and being eligible offers himself for reappointment.



DESIGN AUTO SYSTEMS LTD.

During the period under review following Directors were nominated by Banks/Institutions.

- | | | | |
|----|-----------------------|---|----------------------------|
| a) | Shri. R.C. Khurana | - | Director of Bank of India |
| b) | Shri. O.S.Pillai | - | Director of Bank of Baroda |
| c) | Shri. Akshay D. Patel | - | Director of IDBI |

During the period under review nominations of Shri S.S. Rathi, Shri G.C.Tewari, Shri B.G.Parmar & Shri Akshay D. Patel were withdrawn by their respective Banks/Institutions. Your Directors place on record their appreciation of the valuable services rendered by them during their tenure as Director of the Company.

AUDITORS

The Auditors M/s. S.N. Kabra and Co., Chartered Accountants, retire at the forthcoming Annual General Meeting and are eligible for re-appointment.

BOARD'S REPLY ON OBSERVATIONS/QUALIFICATIONS IN AUDIT REPORT

Our reply to Auditors observations mentioned at 2 (f), (g) & (h) of the auditors report to the members is as under:-

- 2-(f) Directors are taking effective steps such as close monitoring of the outstanding, rigorous follow-up with the party to collect money/material, reconciliation of the accounts etc. Directors are confident of recovery from the debtors.

As regards outstanding advances company is hopeful to recover from Sterling Auto, who are in the process of disposing of assets shortly. Company is also following up with balance parties for recovery of the advances made.

- 2-(g) Corporate guarantee to Bank of Baroda for loan to Design Auto Distributions Ltd was given in 2001. Similarly advance to Sterling Auto also relates to period 1997-98 to 2002-03. Company is to file condonation application with Company Law Board for delay in obtaining approval under section 295 of the company's act, 1956.

- 2-(h) As per CDR sanction, company will provide for interest sacrifices in the final year of repayment of loan i.e. 2012 and thereafter payment of interest sacrifice will be made in 3-4 years as per cash flow of the company.

AUDIT COMMITTEE

The Company has Audit Committee consisting of three non-executive Independent Directors. The Committee is periodically reviewing the accounting policies, financial statements and other matters within powers of the committee.

LISTING

The Shares of the company are listed on Bombay Stock Exchange Limited and Madhya Pradesh Stock Exchange.

The trading in shares of the company continues to be suspended on the Stock Exchange, Mumbai since 10th January, 2002. The Securities Appellate Tribunal has directed BSE to reconsider the listing application of the Company.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation of the assistance and support extended by the financial institutions, banks, government authorities, shareholders and business associates. Directors also take this opportunity to thank the employees for their devoted service and continued co-operation and support.

For and on behalf of the Board of Directors

Dated : 20th November, 2006
Place : Indore

(SARVESH GARG)
MANAGING DIRECTOR

(PRASHANT S. RAJGARHIA)
DIRECTOR



DESIGN AUTO SYSTEMS LTD.

ANNEXURE TO DIRECTOR'S REPORT

Information as per section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors') Rules, 1988 and forming part of the Directors' Report for the fifteen months period ended 30th June 2006.

	<u>2005-06</u> (15 months Period ended 30.06.2006)	<u>2004-05</u> (6 months Period ended 31.03.2005)
1. CONSERVATION OF ENERGY		
A) Power & Fuel Consumption		
1. Electricity		
(a) Units Purchased	1310907	487785
Total Amount (Rs.)	5881949	2380858
Rate/Unit(Rs.)	4.49	4.88
(b) Own Generation (Th.D.G.Set)		
Units produced	17600	15710
Total Amount (Rs.)	271600	217401
Rate/Unit (Rs.)	15.43	13.84
B) Consumption per unit of production Electricity (Unit)	-	-

2. TECHNOLOGY ABSORPTION

The Company is keeping pace with the developments in the Auto Electric Components Industry.

Both the units of the company are having separate earmarked section dedicated for the development activities. Engineering Department of the respective units are continuously working on development of components for new models of automobile and also development of alternate process to enhance quality and to reduce costs.

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

During the period under review, the foreign exchange outgo was Rs.334.16 lacs (Previous period Rs. 143.90 Lacs) and the foreign exchange earnings on exports was Rs.23.24 lacs (Previous period Rs. Nil)

For and on behalf of the Board of Directors

Dated : 20th November,2006

Place : Indore

(SARVESH GARG)
MANAGING DIRECTOR

(PRASHANT S.RAJGARHIA)
DIRECTOR


DESIGN AUTO SYSTEMS LTD.
MANAGEMENT DISCUSSION AND ANALYSIS REPORT
DESIGN AUTO SYSTEMS LIMITED
1. Industry Structure & Developments

The Auto ancillary Industry including Auto Electric Bulbs and Coils growth is related to the sales of Vehicles and the demand from the after market. Both these segments are in turn dependent on the overall state of health of the economy.

In 2005-06, the 2 wheeler sales and production went up by nearly 16% which is almost same as that of last year. This has resulted in growth in demand from the after market also.

2. Discussion and Analysis

Increase in prices of Steel, Copper, Brass, Filament etc. in particular and increase in other inputs, resulted in shrinkage of margins for all the bulb & Coil manufacturers. In view of intense Competition, the cost increases could only be passed on partly to the customers.

3. Outlook

Input costs have gone up and are expected to remain high. The industry may have to increase prices to maintain profitability.

On the positive side, it is predicted that there will be a volume growth of 12% to 14% in 2006-07. The Company is also making vigorous efforts to increase exports. These opportunities will partially offset the impact of the cost increases that have happened. We are optimistic of growing our business in the Indian after market as well as getting an increased share of business with all key OEM customers.

4. Risks and concerns

If price increases are not obtained matching with cost escalation, there will be an impact on the Company's bottomline. Government policy relating to imports and duties thereon will also have an effect on the performance. Your company has taken adequate insurance cover, wherever the risk is insurable. Your company has complied with all the safety requirements and norms of the various Government agencies. Your company also faces other normal risks which are faced by an industrial undertaking of similar size.

5. Internal Control Systems

Your Company has an adequate system of internal control, designed to provide reasonable assurance on the achievement of the objectives relating to efficiency and effectiveness of operations, reliability of financial reporting, compliance to applicable laws and regulations and for safeguarding of assets. Your Company's internal auditors evaluate the internal control in design and in operation, their observations are reviewed by the Senior Management and the Audit Committee.

6. Discussion on financial performance with respect to operational performance.

	(Rs. in lacs)
Sales and Other Income	5507.21
Net loss after tax	(-) 561.45

7. Cautionary Statement

Certain statements in the Management Discussion and Analysis describing the Company's views about the industry, expectations, objectives etc. maybe forward looking within the meaning of applicable laws and regulations. Actual results may differ materially from those expressed in the statement. Factors like supply and demand situations, input prices and their availability, changes in Government regulations, tax laws and other factors such as industrial relations and economic developments etc. may influence the company's operations or performance.



DESIGN AUTO SYSTEMS LTD.

REPORT ON CORPORATE GOVERNANCE

In Compliance with clause 49 of the Listing Agreement with Stock Exchanges, the Company submits the report on the matters mentioned in the said clause and practices as followed by the Company.

1. COMPANY'S PHILOSOPHY OF CORPORATE GOVERNANCE

The Company believes in the philosophy of continuous improvement in all facets of its operations. Budgets, investment proposals, significant developments are placed before the Board. Audit, share transfer and shareholder and investors committee meet regularly to consider aspects relevant to each committee.

There are comprehensive internal control management reporting systems on all functions and they are reviewed by the Senior Management and the Board.

2. BOARD OF DIRECTORS

The Board of Directors comprises of Eight Directors, out of which 6 Directors are non executive independent Directors. Shri SARVESH GARG Managing Director holds the office of Chairman in the meeting.

During the fifteen month' period ending 30th June, 2006 the Board met 5 times on the following dates.

Details of Board Meetings held during the financial year from 1st April, 2005 to 30th June, 2006.

Sr. No.	Date
1	30.04.2005
2	30.07.2005
3	29.08.2005
4	29.10.2005
5	30.03.2006

The following table gives details of Directors, attendance of directors at the board meeting and at the last annual general meeting.

Name of Directors	Category of Directors	No. Of Board Meetings Attended	Attendance at the last AGM
Mr. Sarvesh Garg	Chairman & Managing Director	4	Yes
Mr. Prashant S. Rajgarhia	Independent Director	5	Yes
Mr. S.S. Rathi (Nomination Withdrawn on 03.08.2005)	Independent Director- IDBI	1	No
Mr. Akshay D. Patel (Nominated on 03.08.2005 Nominated withdrawn on 9.5.2006)	Independent Director- IDBI	1	No
Mr. Ravindra Dharne	Non Executive Director	-	No
Mr.G.C. Tiwari (Nomination withdrawn on 09.05.2005)	Independent Director-Bank of India	1	No
Mr.R.C. Khurana (Nominated on 09.05.2005)	Independent Director-Bank of India	4	No
Mr. B.G. Parmar (Nomination withdrawn on 12.11.2005)	Independent director-Bank of Baroda	-	No
Mr. O.S. Pillai (Nominated on 12.11.2005)	Independent director-Bank of Baroda	1	No
Mr.Pradeep Khandelwal	Non executive Director	-	No
Mr.Abhitap Jain	Independent Director	4	No
Mr.P.V.V. Kamath	Independent Director-Syndicate Bank	3	No


DESIGN AUTO SYSTEMS LTD.

Shri S.S. Rathi, Shri B.G. Parmar and Shri G.C. Tiwari ceased to be Directors during the financial period. Number of membership held by directors in the board/committees of various companies:-

Name of Director	No. of Directorships in other Boards*	No. of Memberships in other Board Committees#	No. of Chairmanships in other Board Committees#
Mr. Sarvesh Garg	3	Nil	Nil
Mr. Prashant S. Rajgarhia	1	Nil	Nil
@ Mr. Akshay D. Patel	-	Nil	Nil
Mr. Ravindra Dharne	-	Nil	Nil
@ Mr. R. C. Khurana	-	Nil	Nil
@ Mr. O.S. Pillai	-	Nil	Nil
Mr. Pradeep Khandelwal	-	Nil	Nil
Mr. Abhitap Jain	-	Nil	Nil
@ Mr. P.V.V. Kamath	-	Nil	Nil

@ Nominee Director

Directorships in Private Limited Companies are also included in the above table.

Memberships in Audit Committees/ Shareholders' Grievance Committee/ Remuneration Committee of all public limited companies (excluding Design Auto Systems Limited) have been considered.

None of the Directors is a member in more than ten Committees and acts as a chairman in more than five committees across all companies in which he is a director.

3. **AUDIT COMMITTEE**

The Audit Committee constituted by the Board of Directors consists of three independent Non Executive Directors. All the Directors have the good knowledge of the corporate and the project finance, accounts and the company law. Audit Committee Meetings were held on 30.04.05, 30.07.05, 29.08.05 & 29.10.05 (Four times) during the financial Period ended on 30th June, 2006. Audit Committee also advises the Company in the area where the internal audit could be improved. The minutes of the meeting of the Committee are placed before the Board.

Name of Director	No. Of Meetings attended
Mr. Prashant S. Rajgarhia	4
Mr. R.C. Khurana	3
Mr. Abhitap Jain	3

Mr. M.K. Jain Chief Financial Officer of the Company was invited to attend the Audit Committee meeting.

Terms of Reference:

The terms of reference and powers of this Committee are wide enough covering the matters specified under the Listing Agreement and the Companies Act, 1956.

4. **REMUNERATION COMMITTEE (NON MANDATORY)**

The remuneration Committee of the Board is constituted to formulate and recommend to the Board from time to time a compensation Structure for the Whole time Directors and the Managing Directors of the Company. It also reviews the market practices and to decide on the remuneration packages applicable to the executive Director of the Company. The Committee comprises of 3 Independent Directors. No meeting was held during the financial period.