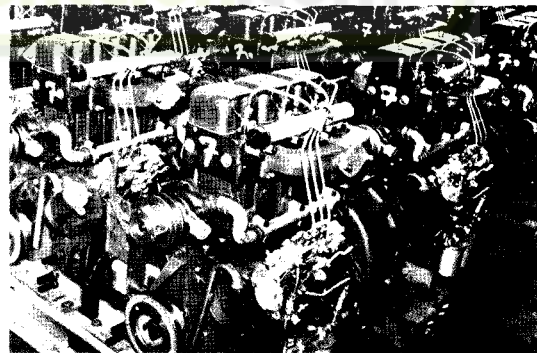
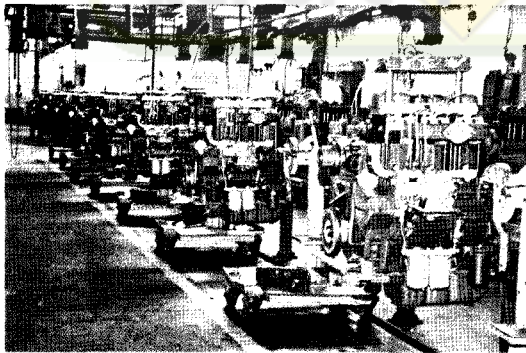
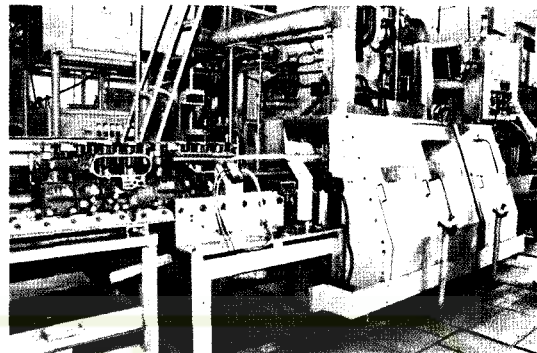


ANNUAL REPORT 2006



SWARAJ ENGINES LIMITED

Swaraj Engines Limited

Company Secretary

M.S. GREWAL

Auditors

M/S DAVINDER S. JAAJ & CO.

Chartered Accountants

Bankers

CANARA BANK

Registered Office

PHASE-IV, S.A.S. NAGAR (Mohali)

Punjab 160 055

Works

PLOT NO. 2, INDUSTRIAL PHASE IX,

S.A.S. NAGAR (Mohali)

Punjab 160 059

BOARD OF DIRECTORS

G.P. GUPTA

Dr. T.N. KAPOOR

ATUL C. KIRLOSKAR

GAUTAM KULKARNI

D.R. SWAR

DONALD PECK

S.C. BHARGAVA

P. SIVARAM

A.M. SAWHNEY

G.S. RIHAL - Managing Director

SWARAJ ENGINES LIMITED**ANNUAL GENERAL MEETING**

on Wednesday, 20th September, 2006
 at 12 Noon at Swaraj Engines Limited,
 Plot No. 2, Industrial Phase IX,
 S.A.S. Nagar (Mohali)
 Punjab 160 059.

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SWARAJ ENGINES LIMITED**KEY PERFORMANCE INDICATORS - LAST TWELVE YEARS**

(Rs. in Crores)

Fiscal Year →	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	CARG (1995-2006)
Engines Sold (Nos.)	10851	12498	15921	17382	24705	27532	22168	21013	13578	14844	18225	17631	4.5%
Total Revenue (Net)	39.85	51.33	72.59	83.74	124.57	139.75	118.91	114.60	77.86	89.79	123.52	128.18	11.2%
PBIDT	6.57	9.65	13.75	16.75	26.09	32.75	30.04	29.79	18.10	20.21	27.73	25.81	13.2%
Finance Charges (Net)	0.04	0.02	0.06	1.23	1.78	1.35	1.15	0.60	0.24	0.21	0.15	0.14	
Depreciation	0.35	0.42	0.56	1.38	2.56	3.12	3.70	3.85	3.77	3.79	3.96	4.26	
Profit Before Tax	6.18	9.21	13.13	14.14	21.75	28.28	25.19	25.34	14.09	16.21	23.62	21.41	12.0%
Income Tax	2.01	3.20	3.86	3.35	6.10	9.35	9.15	9.08	5.05	5.86	8.19	7.43	
Profit After Tax	4.17	6.01	9.27	10.79	15.65	18.93	16.04	16.26	9.04	10.35	15.43	13.99	11.6%
Dividend %	80	100	65*	100	200	225	225	225	125	150	225	75**	
Dividend Payout	1.66	2.07	2.69	4.14	8.28	9.31	9.31	9.31	5.17	6.21	9.31	9.31	
Equity Share Capital	2.07	2.07	4.14*	4.14	4.14	4.14	4.14	4.14	4.14	4.14	4.14	12.42**	
Net worth	8.94	12.89	19.19	25.43	31.88	40.21	45.98	46.30	49.50	52.85	57.64	61.01	19.1%
Capital Employed	12.69	13.78	29.12	45.64	43.45	51.48	47.68	57.11	57.88	61.90	65.80	67.29	
Market Capitalisation	51.75	69.35	161.46	200.37	349.82	169.32	110.12	98.94	71.62	97.70	144.07	183.20	
PBIDT/Total Revenue %	16.5	18.8	18.9	20.0	20.9	23.4	25.3	26.0	23.2	22.5	22.4	20.1	
Return on Net worth %	46.6	46.6	48.3	42.4	49.1	47.1	34.9	35.1	18.3	19.6	26.8	22.9	
Earning Per Share (Rs.)	20.1	29.0	22.4*	26.1	37.8	45.7	38.7	39.3	21.8	25.0	37.3	11.3**	
Book Value Per Share (Rs.)	43.2	62.3	46.4*	61.4	77.0	97.1	111.1	111.8	119.6	127.7	139.2	49.1**	

*On Post Bonus (1:1) Equity

** On Post Bonus (2:1) Equity

SWARAJ ENGINES LIMITED

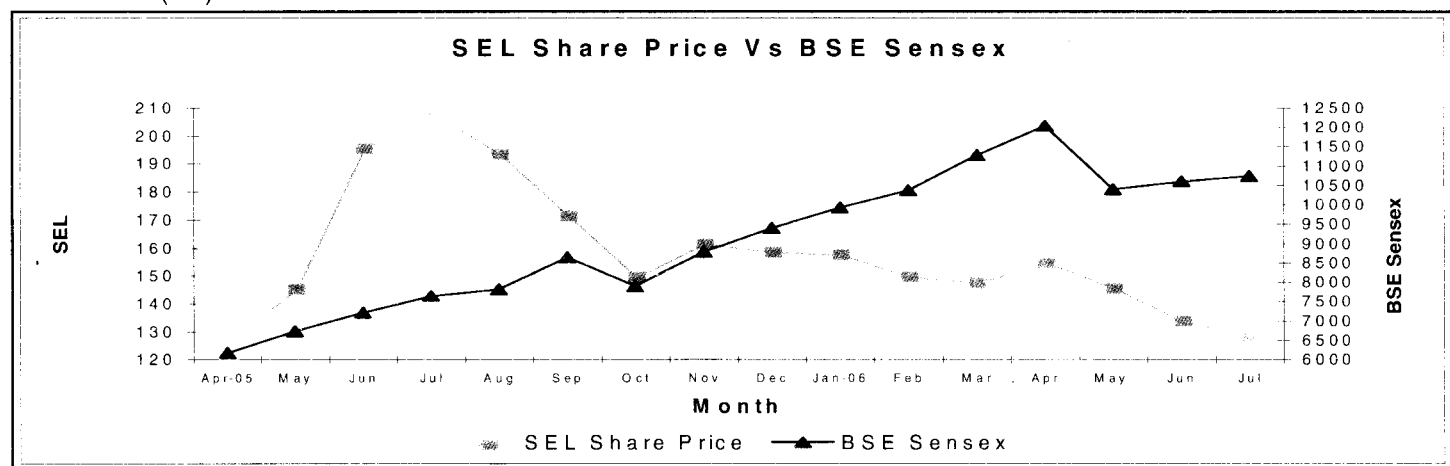
SHAREHOLDERS' INFORMATION

1. **Annual General Meeting** : 20th September, 2006 at 12 Noon
2. **Financial reporting Calendar (tentative)**
 - Quarter ending 30th June, 2006 : Taken on record on 31st July, 2006
 - Quarter ending 30th September, 2006 : Last week of October, 2006
 - Quarter ending 31st December, 2006 : Last week of January, 2007
 - Year ending 31st March, 2007 : May / June 2007
3. **Book Closure Dates** : 1st September, 2006 to 7th September, 2006 (both days inclusive)
4. **Dividend Payment** : On or after 20th September, 2006, but within statutory time limit.
5. **Listing on Stock Exchanges** : Bombay & National Stock Exchanges.
Listing Fee for 2006-07 for both these stock exchanges has been paid.
6. **Stock Code** : BSE – 500407 & NSE - SWARAJENG
7. **Stock Market Data**

Monthly High - Low quotations and Volume of Shares (Face value - Rs.10 each) traded at BSE & NSE are as under :

Month		Bombay Stock Exchange (BSE)			National Stock Exchange (NSE)		
		High (Rs.)	Low (Rs.)	Volume (Nos.)	High (Rs.)	Low (Rs.)	Volume (Nos.)
2005	April	395	349	19,805	400	342	22,347
	May	445	365	42,763	444	361	55,740
	June	605	425	2,92,991	605	423	4,92,859
	July	629	562	1,38,737	630	561	2,06,088
	August	669	185*	1,17,917	670	187*	2,32,496
	September	199	170	1,33,015	196	169	1,88,322
	October	177	146	83,352	180	146	96,429
	November	173	147	72,976	180	149	64,571
	December	174	152	69,929	174	152	78,870
2006	January	175	157	1,31,977	175	153	95,248
	February	161	146	69,552	163	137	71,859
	March	174	143	1,61,300	165	143	1,36,905
	April	176	146	1,24,300	176	143	1,27,846
	May	185	122	1,11,331	185	125	1,52,492
	June	150	112	89,393	158	112	1,01,615
	July	141	118	27,485	141	118	69,166

* Ex bonus (2:1)



- Note: 1. Pre Bonus Share Prices (April – July 2005) reflect adjustment for Bonus Shares (2:1).
2. Share Price of SEL and BSE Sensex is based on the month end closing.

SWARAJ ENGINES LIMITED**8. Dematerialisation of Shares :**

Shares of Swaraj Engines Limited are in the compulsory demat list for all categories of investors. The Company has joined National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd. (CDSL) to facilitate this facility. **On date, over 93% of Non Promoter's Equity is held in electronic form.**

International Securities Identification Number (with NSDL and CDSL) : INE277A01016

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

9. Transfer System for physical shares :

Share transfers would be registered & returned within a period of 30 days from the date of receipt, if the documents are clear in all respects. Total No. of shares transferred during 2005-06 was 8,201 (Previous Year 2,550).

10. Registrar and Transfer Agents :

M/s MCS Ltd., Sri Venkatesh Bhawan, W-40, Okhla Industrial Area, Phase – II, New Delhi – 110 020 are the Registrar and Share Transfer Agent for physical shares of the Company. MCS is also the depository interface of the Company with both NSDL and CDSL.

Share Transfer & other Communication regarding Share Certificates, Dividends and Change of Address etc. may be addressed to Registrar, MCS Ltd. or to the Share Department of the Company at its Registered Office at Phase IV, Industrial Area, S.A.S.Nagar (Mohali), Punjab – 160 055.

11. Shareholding Pattern as on 31st March, 2006 :

Category	No. of Share-holders	No. of Shares held	% of Holding
Promoters	2	62,79,000	50.56
UTI	1	3,150	0.03
Banks, Financial Institutions & Insurance Co's	4	5,25,072	4.23
FII's / NRI's / OCB's	106	3,09,809	2.49
Other Bodies Corporate	381	5,36,678	4.32
Individuals	11000	47,66,111	38.37
Total	11494	124,19,820	100.00

12. Distribution Pattern of Shareholdings as on 31st March, 2006 :

No. of Equity Shares held	No. of Shareholders		No. of Shares held	
	Numbers	% total	Numbers	% total
1 - 100	5042	43.87	2,68,011	2.16
101 - 200	1851	16.10	2,92,787	2.36
201 - 500	2325	20.23	7,58,612	6.11
501 - 1000	1528	13.29	10,11,423	8.14
1001 - 5000	651	5.66	12,78,442	10.29
5001 & above	97	0.85	88,10,545	70.94
Total	11494	100.00	124,19,820	100.00

13. The Company has not issued any GDRs/ADRs/Warrants or any convertible instruments.**14. Plant Location :** Swaraj Engines Limited,
Plot No. 2, Industrial Phase IX,
S.A.S. Nagar (Mohali), Punjab**15. Investor queries etc. may be addressed to :****Mr. M.S. Grewal, Company Secretary**

Swaraj Engines Limited,
Phase-IV, Industrial Area
S.A.S. Nagar (Mohali), Punjab-160 055
Email : msgrewal@swarajenterprise.com

Phone : 0172-2268922-33
Fax : 0172-2272731 & 2271307

16. Website Address : www.swarajenterprise.com

SWARAJ ENGINES LIMITED**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Twentieth Annual General Meeting of the Company will be held at Works of the Company at Plot No. 2, Industrial Phase-IX, S.A.S Nagar (Mohali), Punjab on 20th September, 2006 at 12 Noon to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet and Profit & Loss Account for the year ended 31st March, 2006, together with the Directors' Report and Auditors' Report thereon.
2. To declare Dividend.
3. To appoint a Director in place of Shri Atul C. Kirloskar who retires by rotation and, being eligible, offers himself for re-election.
4. To appoint a Director in place of Shri G.P.Gupta who retires by rotation and, being eligible, offers himself for re-election.
5. To appoint a Director in place of Shri Donald Peck who retires by rotation and, being eligible, offers himself for re-election.
6. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

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

7. As an Ordinary Resolution:
"RESOLVED THAT Shri S.C.Bhargava, who has been co-opted as Director of the Company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General Meeting, be and is hereby appointed as a Director of the Company".
8. As an Ordinary Resolution:
"RESOLVED THAT Shri A.M.Sawhney, who has been co-opted as Director of the Company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General Meeting, be and is hereby appointed as a Director of the Company".
9. As an Ordinary Resolution:
"RESOLVED THAT Shri P.Sivaram, who has been co-opted as Director of the Company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General Meeting, be and is hereby appointed as a Director of the Company".
10. As an Ordinary Resolution:
"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309 and 316 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to the re-appointment of Shri G.S.Rihal as Managing Director of the Company for the period commencing from 21.11.2005 to 20.11.2009 on the terms and conditions as set out in the Explanatory Statement, with liberty and authority to the Board of Directors to alter and vary the terms and conditions thereof and as may be agreed by Shri G.S.Rihal".

By Order of the Board

Regd. Office:
Phase-IV, Industrial Area,
S.A.S. Nagar (Mohali), Punjab-160 055
Date : 4th August, 2006

(M.S. GREWAL)
Company Secretary

NOTES:

1. An explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 is enclosed hereto and forms part of the Notice.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies in the Form annexed hereto must be lodged at the Registered Office of the Company not later than 48 hours before the commencement of the Meeting.
3. The Register of Members and Transfer Books of the Company shall remain closed from 1st September, 2006 to 7th September, 2006 (both days inclusive).
4. Members are requested to bring their copy of Annual Report to the Meeting. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their questions in writing to the Secretary of the Company at least 10 days before the date of the Meeting so that information required may be made available at the Meeting.
5. Subject to the provisions of Section 206A of the Companies Act, 1956, dividend, as recommended by the Board of Directors, if approved at the Meeting, will be payable on or after 20th September, 2006, but within the Statutory time limit, to those Members whose names appear in the Register of Members as on 7th September, 2006. In respect of shares held in electronic form, dividend will be payable to the beneficiary owner of shares as on the closing hours of business on 31st August, 2006 as per details furnished by the depositories for this purpose.
6. The Company has already transferred all unclaimed dividends for and upto the financial year ended 31st March, 1995 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. Members who have not encashed dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Punjab, Chandigarh and Himachal Pradesh, 286, Defence Colony, Jalandhar (Punjab) – 144 001.

Consequent upon amendment to Section 205A of the Companies Act, 1956 and introduction of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividend for the Financial Year ended 31st March, 1996 and thereafter, which remain unpaid or unclaimed for a period of 7 years from the date of transfer to Unpaid Dividend Account of the Company shall be transferred to the **Investor Education and Protection Fund (IEPF)** set up by the Government of India. Accordingly, the Company has transferred to IEPF all unclaimed/unpaid dividend in respect of financial year ended 31st March, 1998.

Members who have not encashed their dividend warrant(s) for the financial year ended 31st March, 1999 and onward are requested to make their claims to the Company accordingly, without any delay. It may be noted that unclaimed dividend for the financial year ended 31st March, 1999 is due for transfer to IEPF latest by 4th September, 2006. **It may also be noted that once the unclaimed dividend is transferred to the Central Government, as above, no claim shall lie in respect thereof with the Company.**

7. Payment of Dividend through ECS:
 - a) Members holding shares in demat form may please note that the bank details as furnished by the respective Depositories to the Company will be used for the purpose of distribution of dividend through Electronic Clearing Service (ECS) as directed by the Stock Exchanges. In the absence of ECS facility, the bank account details, if available, will be printed on the dividend warrants. Members holding shares in demat form may forward details regarding bank account in which they wish to receive dividend, to their Depository Participants. The Company or the

SWARAJ ENGINES LIMITED

Registrar and Share Transfer Agents will not act on any direct request from these members for change/deletion in such bank details.

- b) Members holding shares in physical form are advised to submit particulars of their bank account, viz., name and address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number latest by 7th September, 2006 to the Company's Registrar and Share Transfer Agents, M/s MCS Ltd., Sri Venkatesh Bhawan, W-40, Okhla Industrial Area, Phase II, New Delhi – 110 020.
8. Members holding shares in physical form are requested to notify any change in their address, mandates etc., to the Company's Registrar and Share Transfer Agents, M/s MCS Ltd., Sri Venkatesh Bhawan, W-40, Okhla Industrial Area, Phase-II, New Delhi-110 020.

In case of dematerialised shares, the change of address requests, bank mandates etc. should be directly sent to the Depository Participant concerned.

9. Members who hold shares in physical form may nominate a person in respect of all the shares held by them whether singly or jointly. Members who hold shares singly are advised to avail nomination facility by filling Form 2B in their own interest. Blank forms will be supplied by the Company on request. Members holding shares in demat form may contact their respective depository participants for recording of nomination.
10. Members / Proxy holders are requested to produce the attached admission slip duly completed and signed, for admission to the Meeting Hall.
11. Appointment / Re-appointment of Directors:

At the ensuing Annual General Meeting, S/Shri Atul C. Kirloskar, G.P.Gupta and Donald Peck retire by rotation and being eligible offer themselves for re-election.

S/Shri S.C.Bhargava, A.M.Sawhney and P.Sivaram are being appointed as Directors of the Company.

The Directors have also reappointed Shri G.S.Rihal as Managing Director of the Company on the expiry of his last tenure.

Information or details to be provided for the aforesaid Directors under Corporate Governance code are as under:

- a) Shri Atul C. Kirloskar is the Chairman and Managing Director of Kirloskar Oil Engines Limited. He is also the Chairman of G.G.Dandekar Machine Works Ltd. and Kirloskar Ferrous Industries Ltd. and a Director in Kirloskar Systems Ltd.

Details of Shri Atul C. Kirloskar's Membership in Committees are given below:

Name of Company	Name of Committee
1. Kirloskar Ferrous Industries Ltd.	Shareholders' Grievances Committee, Chairman
2. Kirloskar Systems Ltd.	Audit Committee, Chairman Share Transfer and Investor Relations Committee, Chairman Remuneration Committee, Chairman
3. Swaraj Engines Ltd.	Nomination / Remuneration Committee

Shri Kirloskar holds 600 shares in the Company.

SWARAJ ENGINES LIMITED

- b) Shri G.P.Gupta retired as Chairman, Industrial Development Bank of India in 2001. He holds Masters degree in Commerce. Shri G.P. Gupta is also on the Board of NTPC Ltd., Hindustan Aeronautics Ltd., SIDBI Venture Capital Ltd., Jammu & Kashmir Bank Ltd., PTC India Ltd., M.P.Power Generation Co. Ltd., Birla Sun Life Insurance Co. Ltd., Aditya Birla Nuvo Ltd., Su-Raj Diamonds and Jewellery Ltd., Emkay Share and Stock Brokers Ltd., Power Finance Corporation Ltd. and Shree Digvijay Cement Company Ltd.

Details of Shri G.P.Gupta' s Membership in Committees are given below:

Name of Company	Name of Committee
1. Aditya Birla Nuvo Ltd.	Audit Committee
2. NTPC Ltd.	Audit Committee, Chairman
3. Jammu & Kashmir Bank Ltd.	Audit Committee Investor Grievance Committee, Chairman
4. PTC India Ltd.	Audit Committee
5. Birla Sun Life Insurance Co. Ltd.	Audit Committee
6. Hindustan Aeronautics Ltd.	Audit Committee
7. Power Finance Corporation Ltd.	Audit Committee, Chairman
8. Shree Digvijay Cement Co. Ltd.	Audit Committee
9. Swaraj Engines Ltd.	Audit Committee, Chairman

Shri Gupta does not hold any shares in the Company.

- c) Shri Donald Peck is based in Delhi and is currently a Managing Partner of Actis Capital. Shri Peck holds a Ph.D in Economic History from Oxford University. He worked for thirteen years in Merchant Banking at Lloyds Bank, Morgan Grenfell and then in Equity Investment / Fund Management at IFC (Washington) before joining the Actis / CDC Group at its London headquarters in 1991.

Shri Peck is also on the Board of Punjab Tractors Ltd., Swaraj Mazda Ltd., Industrial Development Finance Company Ltd., Alumnus Software Ltd., CICO Technologies Ltd., Avtec Ltd. and Dalmia Cement (Bharat) Ltd.

Details of Shri Donald Peck' s Membership in Committees are given below:

Name of Company	Name of Committee
1. Punjab Tractors Ltd.	Shareholder / Investor Relations Committee, Chairman
2. Swaraj Engines Ltd.	Nomination / Remuneration Committee, Chairman

Shri Peck does not hold any shares in the Company.

- d) Shri S.C.Bhargava is a Fellow Member of the Institute of Chartered Accountants of India and also holds a Bachelor's Degree with Honours in Commerce from Delhi University. He served Life Insurance Corporation of India (LIC) for 38 years and had retired in 2005 as Executive Director (Investment). He had vast experience in Finance / Insurance related matters in LIC and had been deeply involved in the investment portfolio at LIC which virtually covered all segments of Indian Economy.