

Board of Directors (As on 07/02/2006)

Mr. J. R. Ellis	(Chairman)
Mr. G. Willis	(Vice Chairman)
Mr. H. M. Chitale	(Managing Director)
Mr. V. Kapur	(Executive Director)
Mr. M.N. Bhagwat	(Independent Director)
Mr. S.L. Rao	(Independent Director)

Ms. Sneha Padve (Company Secretary)

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Senior Management Team (As on 07/02/2006)

Mr. H. Aparanji	Head - Human Resources and People Services
Mr. A. Bhargava	Head - Integrated Supply Chain
Mr. A. Maheshwari	Head - Security Group
Mr. A. Pai	Chief Financial Officer
Mr. S. V. Teje	Head - Control Products
Mr. A. G. Vaidya	Head - Six Sigma Plus & HSE
Mr. S. Vij	Head - Building Solutions

Registered Office

56 & 57, Hadapsar
Industrial Estate,
Pune 411 013

Auditors

Price Waterhouse & Co.
Chartered Accountants

Bankers

ABN-Amro Bank N.V.
Canara Bank
Bank of Baroda
State Bank of Travancore
HDFC Bank Ltd.
ICICI Bank Ltd.

Registrar & Transfer Agent :

Tata Share Registry Ltd. (TSRL)
Army & Navy Bldg., 148, Mahatma Gandhi Road, Fort, Mumbai-400 001.

Registry Offices

Bangalore	:	503, Barton Center, 84, M.G. Road, 5th Floor, Bangalore - 560 001. Tel.: 080-25320321/25580019
New Delhi	:	2/42, Sant Vihar, Ansari Road, Darya Ganj, New Delhi - 110 002. Tel.: 011-23271805
Jamshedpur	:	Bungalow No.1, 'E' Road, Northern Town, Bistupur, Jamshedpur - 831 001. Tel.: 0657-2426616
Kolkata	:	Tata Centre, 1st Floor, 43 Jawaharlal Nehru Road, Kolkata - 700 071. Tel.: 033-22883087/22883062

NOTICE is hereby given that the **TWENTY-SECOND ANNUAL GENERAL MEETING** of **HONEYWELL AUTOMATION INDIA LIMITED** will be held at **3.30 p.m. on Friday, April 21, 2006** in **Hotel Le Meridien, Raja Bahadur Mill Road, Pune 411 001** to transact the following business:

ORDINARY BUSINESS:

1. To receive and adopt the Directors' Report and Audited Profit and Loss Account for the year ended December 31, 2005, the Balance Sheet as at that date.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Mr. S.L. Rao who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. Gerard Willis who was appointed a Director of the Company by the Board of Directors effective January 1, 2006 in the casual vacancy caused by the resignation of Mr. K.C. Lim, and who, in accordance with Section 262 of the Companies Act, 1956, holds office upto the date of the forthcoming Annual General Meeting of the Company, but is eligible for re-appointment and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of Director pursuant to the provisions of Section 257 of the Act.
5. To appoint Auditors and to fix their remuneration.

NOTES:

- a) The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of Item no.4 set out above and the relevant details in respect of Item nos. 3 & 4 above, pursuant to Clause 49 of the Listing Agreements with the Stock exchanges are annexed hereto.
- b) The Company's shares are under the compulsory demat list. Shareholders are requested to utilise this facility to their advantage. Shareholders have been sent the ECS facility forms. Shareholders are requested to fill in the forms and take advantage of this facility.
- c) The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, April 5, 2006 to Wednesday, April 12, 2006 (both days inclusive) for payment of dividend on equity shares. In respect of shares held in electronic form, the dividend will be paid on the basis of beneficial ownership as per details furnished by the Depositories for this purpose. The Company will dispatch the dividend warrants from May 10, 2006 onwards.
- d) Members are requested to note that the Dividend Warrants are payable at par at the branches as printed overleaf of the Dividend Warrant with the initial validity period of 3 months. Thereafter, the Dividend Warrants can be revalidated only at Tata Share Registry Ltd.
- e) A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company.
- f) Members desiring any information about the Company's working are requested to write to the Company at an early date so as to enable the management to reply at the general meeting.
- g) Members are requested to promptly notify any change in their address to the Company's Registrars & Share Transfer Agents, namely, TATA SHARE REGISTRY LTD., Unit HAIL, Army & Navy Building, 148 M.G. Road, Mumbai 400 001.
- h) Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, dividend for the financial year ended March 31, 1999 will be transferred to the Investor Education and Protection Fund of the Central Government this year. Shareholders who have not encashed the dividend warrant(s) so far for the financial year ended 31st March 1999 or any subsequent financial years are requested to make their claim to the Office of the Registrar and Transfer Agents; TATA SHARE REGISTRY LTD., Unit HAIL, Army & Navy Building, 148 M.G. Road, Mumbai 400 001.
- i) As per the provisions of the amended Companies Act, 1956, facility for making nomination is now available for shareholders, debenture-holders and fixed deposit holders in respect of the shares, debentures and deposits held by them. Nomination forms can be obtained from the Share Registrars of the Company.
- j) Shareholders are requested to bring their copy of Annual report to the meeting.

By order of the Board of Directors

Pune, February 7, 2006

Registered Office:

56 & 57, Hadapsar
Industrial Estate,
Pune 411 013.

Sneha Padve
Company Secretary

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

Item No. 4:

Mr. Gerard Willis was appointed a Director of the Company in the casual vacancy caused by the resignation of Mr. K.C. Lim. Pursuant to Section 262 of the Companies Act, 1956, Mr. Gerard Willis holds office only till the date upto which Mr. K.C. Lim, in whose place he was appointed would have held office, namely, till the date of the forthcoming Annual General Meeting of the Company. The Company has received a notice in writing from a member as required by Section 257 of the Act proposing the appointment of Mr. Gerard Willis as a Director of the Company.

Gerard Willis is the V.P. and Dy. General Counsel of Honeywell Asia Pacific Inc. He has completed his Law Degree from the New York University School of Law and has done his B.A. from Brown University and M.A. from George Washington University School in International Affairs.

The Directors commend the Resolution for acceptance by the Members.

None of the Directors of the Company are interested in this Resolution except Mr. Gerard Willis.

Name of Director	Mr. S.L. Rao	Mr. Gerard Willis
Date of Birth	22.01.1936	27.12.1953
Date of Appointment	20.01.2002	01.01.2006
Expertise in specific functional areas	Professional Manager and applied Economist	Law
Qualifications	B.Com (Hons), M.A. in Economics.	New York University School of Law, 1986 Honors: Brown University BA, International Affairs Honors: George Washington University School of Public And International Affairs Washington, D.C.; MA, International Affairs
List of Public Companies in which outside Directorships held as on December 31, 2005	HEG Ltd. Rain Calcining Limited Kanoria Chemicals & Ind. Ltd. Reliance Energy Limited	Honeywell Systems Ltd. (Thailand)
Chairman/Member of the Committees of the Board of the Companies on which he is a Director as on December 31, 2005	Reliance Energy Limited Audit Committee – Member Remuneration Committee – Member Kanoria Chemicals & Ind. Ltd. Remuneration Committee – Member Rain Calcining Limited Audit Committee – Member Remuneration Committee – Member	

Dear Members,

The Directors present the **TWENTY-SECOND ANNUAL REPORT** with the audited statements of accounts of the Company for the year ended December 31, 2005.

1. FINANCIAL RESULTS :

Particulars	Year ended December 31, 2005 (Rs. in lacs)	9-months ended December 31, 2004 (Rs. in lacs)
Sales & Other Income	51464.38	27990.51
Operating Profit	5269.56	1570.32
Less: Interest	348.67	181.10
Depreciation	1097.86	681.58
Amortisation of	22.19	64.14
Miscellaneous Expenditure		
Profit for the year	3800.85	643.50
Provision for tax	410.68	343.05
Deferred Tax Adjustment	(18.03)	(548.76)
PROFIT AFTER TAX	3408.20	849.21
Profit brought forward from the previous year	1967.85	1718.49
Profit available for appropriations	5376.05	2567.70
APPROPRIATIONS		
General Reserve	1000.00	100.00
Proposed Dividend	707.32	442.08
Tax on proposed dividend	103.45	57.77
BALANCE CARRIED FORWARD	3565.28	1967.85

2. DIVIDEND :

Final dividend @Rs.8.00 per share of Rs.10/- each was recommended by the Board in their meeting held on February 7, 2006.

3. INTEGRATION WITH HONEYWELL :

The last financial year was the first full financial year after the company became a majority owned subsidiary of Honeywell. There was a task force that was set up during the early part of 2005 to help in integration of the Company into the Honeywell family. Integration was completed successfully. This entire transition has not seen any adverse impact on employee morale or retention, customer relationships as well as business in general. Your company is now better aligned with Honeywell's global best practices in various areas such as Human Resources, Project management, Control and governance, etc. and is able to leverage them for the business benefits.

4. OPERATIONS :

During the year 2005, the Company performed well to post Order growth of 71% and Sales growth of 26% as compared to the year 2004. The business has moved to the desired mix thereby not only growing the top line but also improving the profitability.

The Integrated Supply Chain continues to focus on the reduction of Cost to Serve by localisation, Value Engineering and rationalisation of the Supplier. The Manufacturing group continues to drive the new product initiative suited to the Indian market.

The year 2005 saw an accelerated growth in the Indian manufacturing and capital goods industry. We have observed an upturn in the capital investment cycle with new capital expenditure projects announced by companies across the cross section of the industry. Various segments, where we have seen increasing investment activity were: oil and gas, power metals, cement, construction and service sector as a whole.

As a reflection of the overall industrial growth, the market for your Company's industrial solution business – called Honeywell Process Solutions (HPS) had a healthy growth. Your company's major wins in this segment included Retail Automation contracts from IOCL and HPCL, Automation contract for Tata Chemicals – Soda Ash Plant, Automation contract for refinery expansion at HPCL Mumbai, Contract for Automation for some of ONGC's platforms, Number of projects for CPP automation, Automation projects for expansions programs of many paper companies such as ITC Bhadrachalam, JK Paper, etc.

The Honeywell Building Solutions (HBS) business continued to show a very healthy growth. Some of the major wins include contracts from Nokia, Rashtrapati Bhavan, RBI, ONGC (for surveillance system), Voltas for the Hyderabad International Airport (promoted by GMR Group), Delhi Metro Rail project for which automation was supplied by your Company was successfully commissioned.

After Market Services initiative started in HBS last year has also grown substantially with a number of contract for maintenance as well as upgrade and add on. A notable project in this regard has been the program awarded by TCS for access control and fire automation for all of their facilities.

During the year 2005, Control Products (CP) SBU has increased its market share in both Sensing & Control (S&C) and Environmental Combustion & Control (ECC). It received significant orders from various market segments. Some of the major wins included orders for automotive sensors from Tata Motors. This business unit also launched Trend and Allerton brands of Building Management Systems through a network of competent Channel partners. CP order booking has grown by 41 % over the last year for the same period and revenue has grown by 31 % over the last year.

Your company launched a new business called Honeywell Security Group (HSG). This business offers various Electronic security products and systems through a network of channel partners. This business has now taken roots and is poised for a healthy growth in time to come.

Global Services business unit grew its revenue by 15% in 2005. The engineering services work across Honeywell ACS grew significantly both in Process and Building solutions segments. The business faced challenge of profit margins due to fall/ volatility in exchange rate and increasing manpower costs, however actions have been taken to counter this increase through internal productivity to sustain the margins. A new initiative of providing turnkey project solutions to select overseas customer vertical was launched in 2005 by the Global Services Business Unit. This initiative has taken off successfully with some early wins secured in association with Honeywell entities in Middle East and Africa. To aid this initiative, your company has set up a new Electronic Hardware Technology Park (EHTP), to facilitate manufacturing and export of Electronic systems.

In respect of the engineering services rendered On-site, the Management of the Company is evaluating the potential international tax liability in respect of services rendered by the Company to Honeywell entities in some of the foreign countries. Due to the complexities inherent in such evaluation, the amount of the potential international tax liability, if any, is yet to be qualified by the Management. In the opinion of the Management, the ultimate outcome is unlikely to significantly impact the results of the year as international tax implications, if any, is contractually recoverable from host Honeywell entity.

5. INITIATIVES DURING 2005 :

The organization continued to focus on Learning and Development at various levels by regularly conducting training programs for all the employees. More than 90% employees of the Company underwent at least one training and on an average 8 man-days were spent by every employee in training.

Six-Sigma continued to act as a strong enabler for growth and productivity improvement. Over 60 Six-sigma projects were completed in the year, with involvement and certification of over 400 employees. One of your Company's project called 'e-retail initiative' was selected as the best in the entire Asia Pacific, in an internal Honeywell competition.

The ERP and Digitization drive across the Company has helped to achieve better productivity. Your Company continued to invest in its digitization initiatives and many new workflows were digitized to reduce cycle time and increase efficiency.

Your Company was the first Company in the Automation space in India to receive both ISO 9001 as well ISO 14000 /OHSAS certification. We continued to make substantial investments in making our workplace, safer, more ergonomic and environmental friendly. Your Company has now adopted stringent Honeywell HSE (Health Safety and Environment) standards.

6. COMMUNITY DEVELOPMENT WORK :

The community development work under the employee engagement program called DISHA had launched a mentorship and education programme with an NGO called Hermann Greimer Social Centre (HGSC). HGSC works with street children to help them with education, vocational training and give them a firm foundation for a better life. This is an employee volunteer programme where employees spend time with the children helping them with their studies, especially in Science, Mathematics and spoken English. They also help them make and promote hand made items like paper bags, diyas, candles etc. that can provide alternate means of sustenance. Individual hand painted greeting cards made by these children are bought by Honeywell.

Volunteers also visit 'The School for the Handicapped Children' at Wanowrie. Computer classes are organized for these children, besides lessons in English speaking, Mathematics and Science.

A programme for employees' children towards computer awareness is also held every Saturday at the Company premises. Employee volunteers guide the children between 6 - 10 years through a predefined three-month module, comprising of uses and advantages of Word, Excel and PowerPoint.

The Company also continues to donate computers as and when available, to the government approved schools and needy institutions. This is our CRS mission towards 'Education'.

The senior management of your Company is involved in a mentorship programme called "WINGS" wherein they act as mentors to students from key engineering colleges. This aims at grooming them for the corporate level exposure.

7. DIRECTORS :

During the year under review and upto the date of this report, Mr. John O Higgins and Mr. K.C. Lim, resigned as Directors of the Company, consequent to their departure from Honeywell. The Board places on record its sincere appreciation for the services rendered by them towards the success of this Company.

Mr. John Ellis (who is the President – Asia Pacific of ACS Business of Honeywell) was appointed as a Director and the Chairman of your Company in place of the vacancy created by the resignation of Mr. John O'Higgins.

Mr. Gerard Willis (who is the VP and Dy. General Counsel of Honeywell) was appointed as the Vice Chairman and a Director of your Company in place of the vacancy created by the resignation of Mr. K.C. Lim.

8. DIRECTORS' RESPONSIBILITY STATEMENT :

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors, based on the representations received from the Operating Management, confirm that -

- a) In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- b) They have, in the selection of the accounting policies, consulted the Statutory Auditors and have applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- c) They have taken proper and sufficient care, to the best of their knowledge and ability, 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) They have prepared the annual accounts on a going concern basis.

9. AUDITORS :

M/s. Price Waterhouse & Co., the Statutory Auditors, retire at the forthcoming Annual General Meeting and are eligible for reappointment. The Company has received the certificate from the retiring Auditors that the appointment, if made, will be in accordance with the limits specified in Section 224(1-B) of the Companies Act, 1956.

10. CEO/CFO CERTIFICATION :

The Managing Director and the Chief Financial Officer have certified 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 the 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 internal controls, if any, of which they are aware and the steps they 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 they 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.

11. OTHER INFORMATION :

Information as per Section 217 of the Companies Act, 1956, as amended, pertaining to absorption of technology, foreign exchange earnings and outgo and particulars of employees, is given as an Annexure to this Report and forms part of it.

12. ACKNOWLEDGEMENT :

The Board would like to place on record its appreciation and thanks to all its employees for their contribution. The Board also wishes to acknowledge the support it has received from its Bankers and from the Financial Institutions.

For and on behalf of the Board
JOHN R. ELLIS
Chairman

Pune, February 7, 2006

Registered Office :
56 & 57, Hadapsar
Industrial Estate,
Pune 411 013.

Annexure to Directors' Report

A) CONSERVATION OF ENERGY :

The Company continues its endeavour to improve energy conservation and utilization. The Company has received an award for the second time in a row for energy conservation from MEDA.

B) TECHNOLOGY ABSORPTION :

FORM B

Research and Development (R&D) :

1. Specific areas in which R&D is carried out by the Company :

- Terminal loading software for HPI downstream.
- Localisation of products for various lines of business.

2. Benefits derived as a result of above R&D :

- Product development for un-addressed market for Asia Pacific region.
- Hardware and software design capability enhancement.
- Cost optimisation and imports substitution.

3. Future plan of action :

- Define Roadmap for terminal loading software and continued developments.
- Additional product development initiatives to be taken up in all lines of business.

4. Expenditure on R&D :

	2005	2004
	(Rs. In lacs)	(Rs. In lacs)
(a) Capital	—	—
(b) Recurring	123.86	100.87
(c) Total	123.86	100.87
(d) Total R&D expenditure as a percentage of turnover	0.25%	0.35%

Technology Absorption, Adaptation And Innovation :

1. Efforts, in brief, made towards technology absorption and innovation : During the year localization of Field Bus Transmitters, Absolute Pressure Transmitters and Draft Range Transmitters was completed. Also manufacturing line for Throttle Position Sensors to cater to automobile industry was set up.
2. Benefits derived as a result of the above efforts : Helped us to be Responsive to the delivery needs of the market and also made these products cost competitive in the market.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) following information may be furnished.
 - a) Technology imported
 - i. Global User Station
 - ii. High Performance Process I/Os.
 - b) Year of Import
 - i. 2001-02
 - ii. 2003-04
 - c) Has the technology been fully absorbed : Has been successfully absorbed.
 - d) If not 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. In lacs)
(i) Foreign Exchange Earned	12,426
(ii) Foreign Exchange Used	16,107

Annexure II to Directors' Report

Statement pursuant to Section 217(2A) (b) (ii) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended December 31, 2005.

Persons employed throughout the Financial Year who were in receipt of Remuneration for the year which in aggregate was not less than Rs.24,00,000/- per annum.

Name	Designation & Nature of duties	Qualifications	Age	Gross Remuneration	Net Remuneration	Total Experience	Date of joining	Last Employment/ Designation
Chitale Harshavardhan	Managing Director	B.E. (Electrical Engg)	34	24,86,000	16,40,810	9	01/06/98	-
Kapur Vimal	Executive Director	B.E. (Electronics Engg)	41	24,68,000	16,16,423	20	16/02/89	Bells Controls Ltd. Manager

Notes :

Remuneration includes salary, allowances and commission received during the year, reimbursement of medical expenses, leave travel assistance, company's contribution to provident fund and superannuation fund and the monetary value of perquisites which is as per the Income Tax Act, wherever applicable, but excludes contribution towards gratuity.

Net remuneration is arrived by deducting from the gross remuneration income tax, company's contribution towards provident fund and superannuation fund wherever applicable and the monetary value of non-cash perquisites.

For and on behalf of the Board

JOHN R. ELLIS
Chairman

Pune, February 7, 2006

Registered Office:
56 & 57, Hadapsar
Industrial Estate,
Pune - 411 013.

HIGHLIGHTS OF PERFORMANCE

- Order growth of 71% over last year ↑
- Sales growth of 25% over last year ↑
- EBIDTA growth of 75% over last year ↑
- Net working capital as a percentage of Sales down by 7% over last year ↓
- Strong focus on growth projects, localization and reduced Cost to Service (CTS) using Six Sigma framework methodology.

INDUSTRY OUTLOOK AND OPPORTUNITIES

The Indian economy has witnessed all round growth in year 2005 with increased investments in industrial, infrastructure and Buildings market.

Honeywell Process Solutions (HPS) business serves core industrial sectors of Refining, Oil & Gas, Pulp & Paper, Metal and Cement etc. Solutions that this business offers include Field Instruments, PLCs, Distributed Control Systems, QCS, Advanced Software Solutions and various value added services. This business has experienced good growth in last 2 years & is expected to show similar high growth in FY 2006. General Industrial growth and increasing investments in power generation, new investments in metals and investments in refineries for expansion as well as Euro 3 and Euro 4 projects are driving growth of this business.

Honeywell Building Solutions (HBS) business provides solutions and services for facilities such as Commercial & Industrial Buildings, Hospitals, Hotels, Airports, Mass Rapid Transit (MRT) etc. Solutions include, Fire automation, Security solutions, HVAC control, Integrated Building Management Systems, Energy reduction contracts and many other facility management services. This sector is witnessing high demand due to high growth of construction sector as well as increasing use of such modern solutions in new upcoming buildings. Good opportunities for building automation are also seen in new investments that are taking place for Airport modernization and SEZs.

Environment & Combustion Control (ECC) Products business provides various products such as thermostats, valves, HVAC controllers, etc that are required for building automation. High growth of construction industry in India is expected to fuel growth of this business.

Sensing & Control (S&C) Products business provides various sensors and switches to manufacturing industry. This business serves primarily OEMs in various manufacturing industries such as auto, medical instrumentation, IT, etc. This business is experiencing good growth due to growth of manufacturing industry as well as increasing use of sensors in various equipments.

Your company launched a new Line of Business in 2005 called **Honeywell Security Group (HSG)**. This business sells security products and systems for through a network of value added resellers. This business is now well established and is expected to register a high growth due to increased focus on Security Awareness.

Global Services (GS) business, which offers solutions and services to overseas requirements of Honeywell and a few other customers, continues to show strong growth due to increased flow of work from Honeywell. The Company last year had started activity of providing complete turn key solutions for some large overseas projects. First major order of this kind has been received by the company for a project in South Africa and this activity is picking up well with many more proposals underway.

RISKS & CONCERNS

The growth in your Company's business is dependent on the sustaining momentum of the economy – specially continued investments in infrastructure, manufacturing and construction. While fundamentals appear to be strong, Indian economy picture needs to be cautiously viewed based on political scenario, progress of secondary reforms and global integration.

Volatility of exchange rate continues to be a concern due to large exposure to foreign currencies that the company has on account of imports as well as exports. While, there is some 'natural hedge' available of exports v/s imports, there is still significant residual exposure due to differences in currencies as well as timing mismatches.

HUMAN RESOURCES

Your Company believes that its Human Resources are the biggest asset of the organisation. As the Company moves in the value chain, Human Resources are becoming more and more critical and its Skills and competency needs to be upgraded to address the changing business environment. Your company now has a solid base of 1355 employees including 750 engineers. A large number of initiatives have been undertaken to improve the knowledge process and the competencies of the employees.

Some of the initiatives that have been undertaken are :

- L&D and certification of employees. The company has also launched an LDP program with faculty from IIMs to develop a pool of managerial talent.
- Deeper deployment of MRR (management resources review) framework of Honeywell to address organisation planning, succession planning and talent management.
- Web based Performance Planning & Management System (PPMS) that is tightly linked with the goals and objectives and cascading of employees key result area (KRA).
- Mentoring for the new recruits and high performers as well as counseling initiative for all employees.

SIX SIGMA & DIGITISATION

Sixty-one (61) Six Sigma projects were certified and implemented in the various areas for Cost to Serve improvement, productivity enhancement and growth initiatives. These projects are yielding good results. The Company now has over 500 employees certified as six-sigma green belt, 11 Black-belts and one Master Black Belt (MBB). This year the target is to get about 500 more employees certified on six-sigma programs.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

- **Management Audit**

The Company has a strong management audit framework. The Audit Committee consists of Promoter Directors & Independent Directors.

The Audit Committee meets every quarter to review compliance with internal controls, accounting standards, policies, quarterly accounts etc.

Audit framework includes internal audit (with the help of an external firm – Deloitte), process audits and periodic Honeywell audits for various aspects. Findings of all such audits are presented to the Audit Committee.

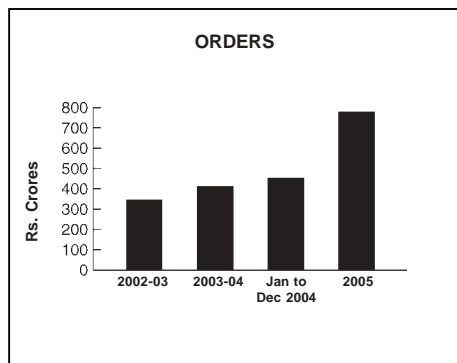
- **Budget Control**

At the beginning of the financial year, the Annual Operations plans are developed by the Business Units / Departments which get approved by the Board and are rolled out in the Organisation. The weekly and monthly MIS report provides Actual performance versus budgets.

The Company has a strong Operations review mechanism in place. The management committee, the Business Unit / Department Head review the performance of the business and the expenses on a monthly basis and corrective actions are discussed and implemented.

The Board of Directors review business performance every Quarter and suggest the corrective actions to ensure that performance is in line with the budgets.

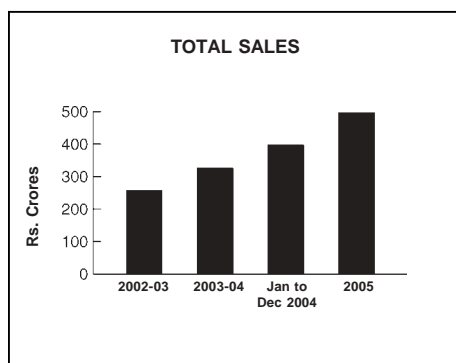
FINANCIAL PERFORMANCE



Order growth of 71% over corresponding period last year.

Major Orders were

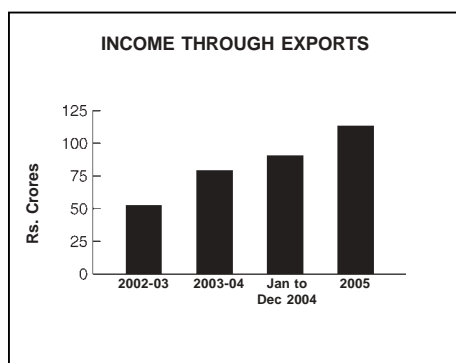
- Esckom.
- IOC E - Retail.
- Tata Chemical - Soda Ash.
- HPCL - Mumbai greenfuel.
- Hyderabad Internal airport.



Total sales growth of 25% over the corresponding period last year.

Major Achievements were

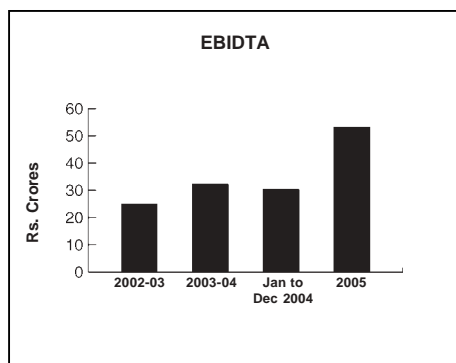
- Fairly uniform revenue quarter by quarter.
- Better working capital and cash flow performance.



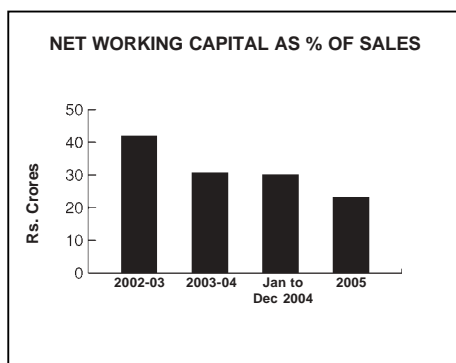
Export earnings grew 25% over the corresponding period last year.

Major achievements were :

Increased work from Honeywell.
Hardware export to Middle East.
Third party Engineering.



EBIDTA has shown a rise from the previous year despite high provisions for bad debts and write off of obsolete inventory, due to the Company moving towards a more conservative provisioning regime. This transition took place from Dec 04 to Dec 05. Total provisions/write-offs made by the company towards bad debt/inventory amount to Rs. 21.0 cr. (pr.full year - Rs.19 cr). While some provisions are expected to be there in future as well, its extent is expected to be lower.



Net working capital as % of Sales improved by 7% over last year due to tighter credit policy and commercial governance.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable securities, laws and regulations. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include domestic manufacturing sector growth & USD to Rupee parity.

To

The Members of Honeywell Automation India Limited

1. We have audited the attached Balance Sheet of Honeywell Automation India Limited as at December 31, 2005 and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The financial statements of the Company for the period of nine months ended December 31, 2004 were audited by another firm of Chartered Accountants, who expressed an unqualified opinion; vide their report dated February 23, 2005. The balances as at December 31, 2004 as per the audited financial statements have been considered as opening balances for the purpose of these financial statements.
4. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together the 'Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
5. Further to our comments in the Annexure referred to in paragraph 4 above, we report that:
 - (a) Without qualifying our opinion, we draw attention to Note 9 (a) on Schedule 18 to the financial statements. The Management of the Company is evaluating the potential international tax liability in respect of services rendered by the Company to Honeywell entities in foreign countries. Due to the complexities inherent in such evaluation, the amount of the potential international tax liability is yet to be quantified by the Management. In the opinion of the Management, the ultimate outcome is unlikely to significantly impact the results of the year;
 - (b) Read with our comments in paragraph 5 (a) above, 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;
 - (c) 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;
 - (d) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (e) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (f) On the basis of written representations received from the directors of the Company as on December 31, 2005 and taken on record by the Board of Directors of the Company, none of the directors of the Company is disqualified as on December 31, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (g) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements, together with the notes thereon annexed thereto, give in the prescribed manner the information required by the Act and also give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2005;
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Neeraj Gupta
Partner

Membership No. F 055158

For and on behalf of

Price Waterhouse & Co.

Chartered Accountants

Mumbai, February 7, 2006

[Referred to in paragraph 4 of the Auditors' Report of even date to the members of Honeywell Automation India Limited on the financial statements for the year ended December 31, 2005]

1. (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation, of fixed assets.
(b) The fixed assets are physically verified by the Management according to a phased programme which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the Management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
(c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.
2. (a) The inventory (excluding stocks with third parties) has been physically verified by the Management during the year. In respect of inventory lying with third parties, these have been confirmed by them. In our opinion, the frequency of verification is reasonable.
(b) In our opinion, the procedures of physical verification of inventory followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
(c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. The Company has not taken or granted any loans, secured or unsecured, from/ to companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, clauses (iii) (b), (iii) (c), (iii) (d), (iii) (f) and (iii) (g) of paragraph 4 of the Order are not applicable to the Company for the current year.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system, commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company carried out in accordance with the auditing standards generally accepted in India, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.
(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lacs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits from the public within the meaning of Sections 58A, 58AA or any other relevant provisions of the Act and the rules framed there under.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
8. We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
9. (a) According to the information and explanations given to us and the records of the Company examined by us, read with Note 9 (a) on Schedule 18 to the financial statements regarding non ascertainment by the Management of any potential international tax liability, in our opinion, the Company is generally regular in depositing the undisputed statutory dues, including provident fund, employees' state insurance, investor education and protection fund, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues, as applicable, with the appropriate authorities.
(b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of sales-tax, income-tax, customs duty, wealth tax, service tax, excise duty and cess as at December 31, 2005 which have not been deposited on account of a dispute, except as follows :

Name of the statute	Nature of dues	Amount* (Rs.lacs)	Financial years to which the amount relates	Forum where the dispute is pending
The Central Excise Act, 1944	Duty liability arising out of goods installed at customer sites	16	2001-02	Commissioner Appeal
The Central Excise Act, 1944	Duty liability arising out of goods installed at customer sites	2	2002-03	Customs, Excise and Service Tax Appellate Tribunal
The Central Excise Act, 1944	Classification of software for rate of duty	66	1999-00	Customs, Excise and Service Tax Appellate Tribunal
Maharashtra Sales Tax Act, 1960	Levy of Differential duty on freight and octroi	58	1998-99 to 2000-01	Maharashtra Tribunal, Mumbai
Works Contract (Re-enacted) Act, 1989	Demand of Works contract tax	666	1997-98 to 1999-00	Maharashtra Tribunal, Mumbai
Works Contract (Re-enacted) Act, 1989	Disallowance for claim towards deductions claimed.	13	1999-00	Gujarat Appeal Tribunal.

*Net of amounts paid under protest or otherwise

10. The Company has no accumulated losses as at December 31, 2005 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. According to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to any bank, financial institution or debenture holders as at the Balance Sheet date.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.
14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
15. In our opinion, and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
16. The Company has not obtained any term loans.
17. On the basis of an overall examination of the balance sheet of the company, in our opinion, and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
18. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
19. The Company has not issued any debentures.
20. The Company has not raised any money by public issues during the year.
21. During the course of our examination of the books and records of the Company, carried out in accordance with the auditing standards generally accepted in India and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the Management.

Neeraj Gupta
Partner
Membership No. F 055158

For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Mumbai, February 7, 2006

**Balance Sheet as at
December 31, 2005**

Honeywell Automation India Ltd.
Annual Report 2005

	Schedule	As At December 31, 2005 (Rs. '000)	As At December 31, 2004 (Rs. '000)
Sources of Funds			
1. Shareholders' Funds			
a) Share Capital	1	88,415	88,415
b) Reserves and Surplus	2	1,231,601	971,858
		<u>1,320,016</u>	<u>1,060,273</u>
2. Loan Funds			
a) Secured Loans	3	230,251	555,308
b) Unsecured Loans	4	128,338	133,795
		<u>358,589</u>	<u>689,103</u>
	Total	<u><u>1,678,605</u></u>	<u><u>1,749,376</u></u>
Application of Funds			
1. Fixed Assets	5		
a) Gross Block		941,468	774,667
b) Less: Depreciation		545,373	449,670
c) Net Block		396,095	324,997
d) Add: Capital Work-in-progress		11,714	79,366
		<u>407,809</u>	<u>404,363</u>
2. Investments	6	—	1,500
3. Deferred Tax Assets [Refer Note 3 (v) of Schedule 18]		54,920	53,117
4. Current Assets, Loans and Advances			
Inventories	7	282,940	410,667
Sundry Debtors	8	1,517,392	1,562,802
Contracts in progress (Refer Note 2 and 19 of Schedule 18)		151,638	—
Cash and Bank balances	9	172,951	45,508
Loans and Advances	10	402,473	330,193
		<u>2,527,394</u>	<u>2,349,170</u>
Less: Current Liabilities and Provisions	11	1,315,154	1,064,629
Net Current Assets		<u>1,212,240</u>	<u>1,284,541</u>
5. Miscellaneous Expenditure (To the extent not written off or adjusted)	12	3,636	5,855
	Total	<u><u>1,678,605</u></u>	<u><u>1,749,376</u></u>
Notes to Accounts	18		

As per our report of even date attached
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

John Ellis

Chairman

Harshavardhan Chitale

Managing Director

Neeraj Gupta
(Partner)
Membership No.F 055158
Mumbai, February 7, 2006

Sneha Padve

Company Secretary

Pune, February 7, 2006

	Schedule	Year Ended December 31, 2005 (Rs. '000)	Period ended December 31, 2004 (Rs. '000)
INCOME FROM OPERATIONS AND OTHER INCOME			
1. Sales	13	5,125,170	2,774,953
Less : Excise Duty recovered		195,168	76,157
Net Sales		4,930,002	2,698,796
2. Other Income	14	21,269	24,098
		4,951,271	2,722,894
EXPENDITURE			
1. Material and Manufacturing Expenses	15	2,977,024	1,623,477
2. Employees' Remuneration and Benefits	16	726,560	469,407
3. Selling, Administration and Other Expenses	17	720,730	472,978
4. Interest (Refer Note 7 of Schedule 18)		34,867	18,110
5. Depreciation [Refer Note 1 (f) of Schedule 18]		109,786	68,158
6. Amortisation of Miscellaneous Expenditure [Refer Note 1 (i) of Schedule 18]		2,219	6,414
		4,571,186	2,658,544
Profit Before Taxation		380,085	64,350
Provision for Taxation			
Current Tax		17,422	14,913
Deferred Tax		(1,803)	(54,876)
Fringe Benefit Tax		22,660	—
Relating to earlier years		986	19,392
Profit After Taxation		340,820	84,921
Balance of Profit and Loss Account brought forward from previous year		196,785	171,849
Profit available for Appropriation		537,605	256,770
APPROPRIATIONS			
Proposed Dividend		70,732	44,208
Dividend Distribution Tax (Rs. 425 ('000) in respect of short provision in the previous period)		10,345	5,777
Transfer to General Reserve		100,000	10,000
Balance carried to Balance Sheet		356,528	196,785
		537,605	256,770
Basic/ Diluted Earnings per Share (Face Value Rs. 10 per share) [Refer Note 3 (iv) of Schedule 18]		38.55	9.60

Notes to Accounts

18

As per our report of even date attached
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

John Ellis

Chairman

Harshavardhan Chitale

Managing Director

Neeraj Gupta
(Partner)
Membership No.F 055158
Mumbai, February 7, 2006

Sneha Padve

Company Secretary

Pune, February 7, 2006

SCHEDULES FORMING PART OF THE BALANCE SHEET
AS AT DECEMBER 31, 2005

As At December 31, 2005 Rupees ('000)	As at December 31, 2004 Rupees ('000)
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SCHEDULE - 1 : SHARE CAPITAL

Authorised :

10,000,000 Equity Shares of Rs. 10 each (Previous Period; 10,000,000 Equity Shares of Rs. 10 each)	100,000	100,000
	<u>100,000</u>	<u>100,000</u>

Issued :

8,841,697 Equity Shares of Rs. 10 each (Previous Period ; 8,841,697 Equity Shares of Rs. 10 each)	88,417	88,417
	<u>88,417</u>	<u>88,417</u>

Subscribed and Paid-up :

8,841,523 Equity Shares of Rs. 10 each, fully paid up (Previous Period 8,841,523 Equity Shares of Rs. 10 each, fully paid up)	88,415	88,415
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Note: 7,182,475 Equity Shares (Previous Period 7,182,475 equity shares) constituting 81.24% of the paid-up capital of the Company are held by Honeywell International Inc., the ultimate holding company, through its 100% subsidiary, Honeywell Asia Pacific Inc.

TOTAL	<u>88,415</u>	<u>88,415</u>
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As At December 31, 2005 Rupees ('000)	As at December 31, 2004 Rupees ('000)
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SCHEDULE - 2 : RESERVES AND SURPLUS

Securities Premium Account	157,708	157,708
General Reserve As per last Balance Sheet	614,644	626,555
Less : Provision for Impairment of Fixed Assets	—	34,169
Less : Deferred Tax Adjustment	—	12,258
	<u>—</u>	<u>21,911</u>
Add: Transferred from Investment Allowance (Utilised) Reserve	2,721	—
Add: Transferred from Profit and Loss Account	100,000	10,000
General Reserve Closing balance	717,365	614,644
Investment Allowance (Utilised) Reserve	2,721	2,721
Less: Transferred to General Reserve	2,721	—
	<u>—</u>	<u>2,721</u>
Balance in Profit and Loss Account	356,528	196,785
TOTAL	<u>1,231,601</u>	<u>971,858</u>

	As at December 31, 2005 Rupees ('000)	As at December 31, 2004 Rupees ('000)
SCHEDULE - 3 : SECURED LOANS		
Cash Credit [Refer Note 5 (a) of Schedule 18]	34,233	408,527
Finance Lease [Refer Note 3 (iii) of Schedule 18]	4,876	8,835
Foreign Currency Loan [Refer Note 5 (a) of Schedule 18]	191,142	137,946
TOTAL	230,251	555,308

SCHEDULE - 4 : UNSECURED LOANS

Deferred Sales Tax Liability		
(a) Under the 1987 Package Scheme of Incentives, Govt. of Maharashtra [Due within one year - Rs. 7,640 ('000); Previous Period - Rs. 4,279 ('000)] [Refer Note 5(b) of Schedule 18]	67,370	71,649
(b) Under the 1993 Package Scheme of Incentives, Govt. of Maharashtra (Due within one year - Rs. Nil; Previous Period - Rs. Nil) [Refer Note 5(b) of Schedule 18]	60,968	62,146
TOTAL	128,338	133,795

SCHEDULE - 5 : FIXED ASSETS

(Refer Note 1(e)(f)(g) of Schedule 18)

	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Cost as on December 31, 2004	Additions during the year	Deletions during the year	Cost as on December 31, 2005	Accumulated Depreciation as on December 31, 2004	Depreciation for the year	Depreciation written back on deletions during the year	Accumulated Depreciation as on December 31, 2005	As on December 31, 2005	As on December 31, 2004
Assets										
Tangible Assets										
Land	3,024	—	—	3,024	—	—	—	—	3,024	3,024
Buildings	56,025	51,363	—	107,388	17,651	3,403	—	21,054	86,334	38,374
Plant and Machinery	223,421	61,264	11,713	272,972	167,599	28,432	9,448	186,583	86,389	55,822
Computers	163,276	25,467	1,673	187,070	77,092	34,016	470	110,638	76,432	86,184
Furniture and Fixtures	64,950	43,933	7,701	101,182	30,085	13,712	2,770	41,027	60,155	34,865
Office Equipment	24,843	6,482	1,494	29,831	8,916	5,105	727	13,294	16,537	15,927
Vehicles (Refer Note below)	17,699	—	957	16,742	7,133	3,970	668	10,435	6,307	10,566
Product Distribution Rights HSPL	105,962	—	—	105,962	63,571	10,619	—	74,190	31,772	42,391
Product Distribution Rights SAARC	82,462	—	—	82,462	63,751	3,118	—	66,869	15,593	18,711
Oracle License	11,646	—	—	11,646	3,688	1,164	—	4,852	6,794	7,958
Intangible Assets										
Software	21,359	1,830	—	23,189	10,184	6,247	—	16,431	6,758	11,175
TOTAL	774,667	190,339	23,538	941,468	449,670	109,786	14,083	545,373	396,095	324,997
Previous year	754,012	61,005	40,350	774,667	383,144	102,327	35,801	449,670	404,363	
Capital Work in Progress (Including advances on Capital Account)								11,714	79,366	
									407,809	404,363

NOTE :

Vehicle includes assets acquired on finance lease with a cost of Rs. 14,827 ('000) [Previous Period Rs. 15,327 ('000)] and a written down value of Rs. 5,042 ('000) [Previous Period Rs. 8,882 ('000)].

	As at December 31, 2005 Rupees ('000)	As at December 31, 2004 Rupees ('000)
SCHEDULE - 6 : Investments		
Trade Investments - at cost	—	4,000
Unquoted - long term		
4,000 Equity Shares of Rs. 1,000 each fully paid of Central Monitoring Services India Pvt. Ltd.		
Less : Provision for Diminution in Value of Investment	—	2,500
TOTAL	<u>—</u>	<u>1,500</u>
SCHEDULE - 7 : INVENTORIES		
(As valued and certified by the Management)		
Raw Material (at cost)	198,346	280,236
Raw Material-in-transit (at cost)	44,432	17,951
Work-in-Progress (at lower of cost and net realisable value)	33,177	99,830
Finished Goods (at lower of cost and net realisable value)	6,985	12,650
TOTAL	<u>282,940</u>	<u>410,667</u>
SCHEDULE - 8 : SUNDRY DEBTORS		
[Refer Note 8 of Schedule 18]		
Sundry Debtors (Unsecured)		
Outstanding for a period exceeding six months		
Considered Good	625,037	631,668
Considered Doubtful	220,048	149,184
	<u>845,085</u>	<u>780,852</u>
Other Debts, considered good	892,355	931,134
(This includes Retention Money not due of Rs. 551,121 ('000); Previous Period- Rs. 512,437 ('000))		
Less: Provision for doubtful debts	220,048	149,184
TOTAL	<u>1,517,392</u>	<u>1,562,802</u>
SCHEDULE - 9 : CASH AND BANK BALANCES		
Cash	2,191	1,880
Cheques on hand	—	9,121
Bank Balance with Scheduled Banks		
- On Current Account	168,673	31,515
[includes balances in Exchange Earner's Foreign Exchange Currency Accounts equivalent to an amount aggregating to Rs. 50,914 ('000); (Previous Period Rs. 3,243 ('000))]		
Bank Balance with Non-Scheduled Banks		
- Lasalle Bank N.A.	1,717	2,992
- State Bank of India, Dhaka	370	—
TOTAL	<u>172,951</u>	<u>45,508</u>
Maximum balance outstanding during the year for the above		
- Lasalle Bank N.A.	3,519	3,038
- State Bank of India, Dhaka	671	—

	As at December 31, 2005 Rupees ('000)	As at December 31, 2004 Rupees ('000)
SCHEDULE - 10 : LOANS AND ADVANCES		
(Unsecured, Considered Good)		
Advances recoverable in cash or in kind or for value to be received	137,733	125,744
Balance with Central Excise, Custom Authorities, etc.	5,784	7,885
Loans and Advances to Employees	4,072	3,404
Advance Income Tax, including tax deducted at source (net of provisions)	187,290	144,684
Sundry Deposits	67,594	48,476
TOTAL	402,473	330,193
SCHEDULE - 11 : CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities		
Acceptances	67,210	40,499
Sundry Creditors		
- Dues to Small Scale Industrial Undertakings [Refer note 4(b) of Schedule 18]	5,272	3,979
- Dues to creditors other than Small Scale Industrial Undertakings	938,229	706,189
Advance against Orders	73,987	99,459
Liability towards Investor Education and Protection Fund under Section 205C of the Companies Act, 1956, not due		
- Unclaimed Dividend	1,181	1,130
Other Liabilities	60,957	32,204
	1,146,836	883,460
Provisions		
Proposed Dividend	70,732	44,208
Dividend Distribution Tax	9,920	5,777
Warranty (Refer Note 20 of Schedule 18)	41,276	34,565
Gratuity (Refer Note 20 of Schedule 18)	8,679	—
Leave Encashment (Refer Note 20 of Schedule 18)	21,733	27,504
Provision for Future Losses on Contracts (Refer Note 20 of Schedule 18)	15,978	69,115
	168,318	181,169
TOTAL	1,315,154	1,064,629
SCHEDULE - 12 : MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
[Refer Note 1(i) of Schedule 18]		
Technology Cost	5,855	12,269
Less: Amortisation	2,219	6,414
TOTAL	3,636	5,855

**SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2005**

Year ended December 31, 2005 Rupees ('000)	Period ended December 31, 2004 Rupees ('000)
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SCHEDULE - 13 : SALES

[Refer Note 1 (b) and 2 of Schedule 18]

Products and Jobs	4,326,608	2,241,483
Services rendered	798,562	533,470
TOTAL	5,125,170	2,774,953

SCHEDULE - 14 : OTHER INCOME

Interest - Gross	1,825	5,658
Provisions no longer required written back	1,514	2,132
Sundry Credit balances written back	7,227	9,598
Refund of Taxes and Duties	1,093	1,557
Foreign Exchange Gain (Net)	7,869	5,120
Others	1,741	33
TOTAL	21,269	24,098

SCHEDULE - 15 : MATERIAL AND MANUFACTURING EXPENSES

Raw Materials, Components and Services consumed		
Opening Stock	280,236	207,807
Add: Purchases	2,813,721	1,724,993
	3,093,957	1,932,800
Less: Closing Stock	242,779	280,236
	2,851,178	1,652,564
(Increase)/ Decrease in Work-in-Progress		
Opening Work-in-Progress	99,830	44,491
Less: Closing Work-in-Progress	33,177	99,830
	66,653	(55,339)
(Increase)/Decrease in Finished Goods		
Opening Stock	12,650	7,259
Less: Closing Stock	6,985	12,650
	5,665	(5,391)
Excise Duty Expense	7,713	2,226
Power and Fuel	23,436	13,215
Other Manufacturing Expenses	1,559	1,213
Repairs and Maintenance		
- Buildings	1,720	3,221
- Plant and Machinery	17,583	10,475
- Others	1,517	1,293
	20,820	14,989
TOTAL	2,977,024	1,623,477

	Year ended December 31, 2005 Rupees ('000)	Period ended December 31, 2004 Rupees ('000)
SCHEDULE - 16 : EMPLOYEES' REMUNERATION AND BENEFITS		
Salaries, Wages, Bonus and Allowances	648,125	404,524
Company's Contribution to Provident Fund and Other Funds	31,387	36,131
Welfare Expenses	47,048	28,752
TOTAL	726,560	469,407
SCHEDULE 17 : SELLING, ADMINISTRATION AND OTHER EXPENSES		
Rent	52,336	31,161
Rates and Taxes	8,491	1,813
Advertisement	2,954	2,011
Sales Promotion, Seminars and Exhibitions	12,638	10,687
Freight and Octroi Outward	29,572	17,545
Royalty	444	1,033
Training	14,984	9,106
Membership and Subscription	1,772	2,004
Office Maintenance	18,452	8,600
Professional Charges	29,060	22,401
Stationery	13,072	7,950
Travelling	226,252	137,457
Remuneration to Auditors :		
Statutory Audit	800	441
Tax Audit	—	165
Certification and Others	421	182
Out of pocket expenses	54	28
	1,275	816
Insurance	14,883	9,372
Job Site Expenses	28,982	4,888
Communication Expenses	44,467	25,729
Liquidated Damages written off	23,633	2,226
Bad Debts written off	52,283	4,789
Provision for doubtful debts	70,864	109,885
Loss on assets sold/ discarded	10,167	4,479
Sales Commission	8,919	10,895
Bank and other Finance Charges	13,840	7,999
Directors Fees	410	455
Other Expenses	40,980	39,677
TOTAL	720,730	472,978

SCHEDULE - 18

Annexed to and forming part of the Balance Sheet as at December 31, 2005 and the Profit and Loss Account for the year ended December 31, 2005

NOTES TO THE ACCOUNTS**1. Significant Accounting Policies :****a) Basis of Accounting :**

The financial statements are prepared under historical cost convention on accrual basis and comply with the Accounting Standards (AS) issued by The Institute of Chartered Accountants of India, referred to in Section 211 (3C) of the Companies Act, 1956.

b) Revenue Recognition :

- i) Revenue in respect of projects for construction of plants and systems, execution of which is spread over different accounting periods, is recognized on the basis of percentage of completion method in accordance with Accounting Standard 7 – Accounting for Construction Contracts.
- ii) Percentage of completion is determined by the proportion that contract costs incurred for work done till date bears to the estimated total contract costs. Also refer Note 2.
- iii) Difference between costs incurred plus recognized profits / less recognized losses and the amount of invoiced sale is disclosed as contract in progress.
- iv) Determination of revenues under the percentage of completion method necessarily involves making estimates by the company, some of which are of a technical nature, concerning where relevant, the percentage of completion, costs to completion, the expected revenue from the contract and the foreseeable losses to completion.
- v) Income from contractual claims is recognised on raising of the claim. However, consequential liability to excise duty, if any, is provided for and corresponding revenue is accounted for only on settlement of the claim. Income from non-contractual claims is recognised only on acceptance of the claim by the customer.
- vi) Revenue from sales of products and services are recognised when significant risks and rewards of ownership of products are passed on to the customer or when the service is provided.

c) Inventory Valuation :

Raw material, spares and components are valued at cost on a moving weighted average basis and after providing for cost of obsolescence and other anticipated losses, wherever considered necessary.

Work-in-Progress and finished goods are valued at lower of cost and net realisable value and include material cost and cost of conversion.

Goods-in-transit are valued at cost. In respect of goods undergoing customs clearance, no provision is made for the custom duty liability. However, this practice does not have any impact on the results for the year.

d) Foreign Currency Transactions :

- (i) Realised gains and losses on foreign currency revenue transactions are recognised in the Profit and Loss Account.
- (ii) Monetary current assets and monetary liabilities denominated in foreign currency at the year-end, other than those covered by forward contracts, are translated at the year-end exchange rates and the resulting exchange difference is recognised in the Profit and Loss Account. In the case of forward contracts, the difference between the forward rate and the exchange rate on the transaction date is recognised as income or expense over the period of the related contracts.

e) Fixed Assets :

Fixed Assets are stated at cost of acquisition less accumulated depreciation and impairment losses, if any. Cost of Fixed Asset comprises purchase price, duties, levies and any directly attributable costs of bringing the assets to its working conditions for the intended use, less CENVAT credit. Advances paid towards acquisition of fixed assets outstanding at the balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under Capital Work in Progress.

f) Depreciation :

Depreciation is provided on straight-line method at the rates and in the manner specified in Schedule XIV of the Companies Act, 1956. However, for certain types of assets, depreciation is being charged as under:

	Assets acquired upto 31.3.1999	Assets acquired after 31.3.1999
Plant & Machinery (Indigenous)	5 to 13 Years	10 Years
Plant & Machinery (Imported)	7 to 14 Years	10 Years
Plant & Machinery (Networking System)	7 to 9 Years	7 Years
Demo Equipment	4 to 6 Years	4 Years
Computers	3 to 6 Years	3 Years

The following assets are depreciated /amortised on a straight line method over the period of their estimated useful lives:

- Product distribution rights – SAARC, HSPL & Oracle License Fees are amortised over a period of 10 years and the amount so amortised is included in depreciation.
- Total Asset Management (TAM) assets are depreciated over the life of the respective contracts, or 7 years, whichever is earlier.
- Assets installed under the rental scheme of the Total Security Solution Business are depreciated over a period of 3 years.
- Software purchased for facilitating order execution is depreciated over a period of 3 years.
- Software developed for Custody Transfer System is depreciated over a period of 6 years.
- Mobile handsets are depreciated over a period of 3 years.
- Hard Furnishings provided to employees are depreciated over a period of 4 years.

Assets installed in leased premises are depreciated over 5 years representing average life of the lease for such premises.

Assets costing Rs. 5 thousand or less are depreciated fully in the year of purchase.

Where the useful life of an asset is ascertained to be lower than was previously determined, the carrying value of the asset is depreciated over the revised residual life of the asset.

g) Impairment of Assets :

The Management periodically assesses, using external and internal resources, whether there is an indication that an asset may be impaired. If an asset is impaired, the Company recognizes an impairment loss as the excess of the carrying amount of the asset over the recoverable amount.

h) Investments :

Long term investments are carried at cost. Provision, if any, for permanent diminution in value is adjusted to the carrying value.

i) Miscellaneous Expenditure :

In respect of costs incurred prior to April 1, 2003:

- Technology cost, comprising know-how and documentation fees, is amortised over a period of 6 years.
- Implementation Fee for commissioning of Oracle Business Application is amortised over a period of 36 months, commencing from the month of implementation.
- New Product Implementation training fee is amortised over a period of 72 months, commencing from the month of implementation.
- Costs incurred on development of new markets for sale of products and services are amortised over a period of 3 years.

All such costs incurred on or after April 1, 2003 are charged to the Profit and Loss Account in the year in which they are incurred.

j) Provisions :

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined based on best estimate required to settle the obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimates.

k) Employee Retirement Benefits :

- i) Contributions to approved Provident and Superannuation Funds, being defined contribution schemes, are made on actual liability basis calculated as a percentage of salary.
- ii) Contribution to Gratuity Fund, being a defined benefit scheme, is paid by way of premium under Group Gratuity – cum – Life Assurance Policy administered by Life Insurance Corporation of India, and premium is funded based on the actuarial valuation by a certified actuary.
- iii) Leave encashment benefit is provided on the basis of actuarial valuation.

l) Lease Accounting :

- i) In respect of finance lease agreements entered into by the Company on or after April 1, 2001, as a lessee, the assets taken on lease are capitalised and depreciated in accordance with the requirements of AS – 19 'Leases'. In respect of lease agreements entered into prior to April 1, 2001, the lease rentals paid are debited to the profit and loss account, as permitted by the Standard.

- ii) In respect of operating lease agreements entered into by the Company as a lessor, the initial direct costs are recognised as expense in the year in which they are incurred.
- iii) In respect of operating lease agreements entered into by the Company as a lessee, the lease payments are recognized as expense in the profit and loss account on a straight-line basis over the lease term.

m) **Taxation :****Current Tax**

Provision for the current income tax is made on the basis of the results of the year, although the actual liability will be computed and paid on the basis of the results of the year ending on March 31, 2006.

Deferred Tax

Deferred tax is recognized, subject to the consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are not recognized on unabsorbed depreciation and carry forward of losses unless there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

2. Change in Method of accounting

Revenue, that was hitherto recognized under Percentage of Completion method based on billing milestones reached, is now recognized in the proportion that costs incurred on the contract bear to the estimated total contract costs. Consequent upon the change, profit before tax for the year is higher by Rs. 27,951 thousand as compared to the method of accounting followed till the previous period.

3. Disclosures under Accounting Standardsi) **Segment Reporting: Accounting Standard 17**

The business segment has been considered as the primary segment and the geographical segment has been considered as the secondary segment. Automation & Control being the only business segment, necessary information has already been given in the Balance Sheet and Profit and Loss Account.

The Company has two geographical segments, viz. Domestic and Exports. Revenue from geographical segments based on location of customers is given below:

	Year ended December '05	Period ended December '04
Domestic	4,211,025	2,245,798
Exports	914,145	529,155
Total	5,125,170	2,774,953

(Rs. '000)

No disclosure has been made in respect of the carrying amount of segment assets and cost incurred during the period to acquire segment assets by geographical location of assets, as, in the case of the Exports segment, the amounts involved are less than 10% of the total amount involved under the respective reportable heads.

ii) **Related Party Disclosures: Accounting Standard 18**

List of related parties (as identified and certified by the Management)

(i)	Parties where control exists
	Honeywell Asia-Pacific Inc. (Holding Company w.e.f 2 nd November, 2004) Honeywell International Inc. (Ultimate Holding Company)
	Other related parties with whom transactions have taken place during the year :
(ii)	Joint Venture :
	Central Monitoring Services (I) Pvt. Ltd. (upto 7 th July, 2005)
	Tata Industries Limited (upto 2 nd November, 2004)
	Honeywell International Inc. (upto 2 nd November, 2004)

(iii)	Other fellow subsidiaries (Fellow Subsidiaries with effect from 2nd November, 2004) Cara C'Air B.V. Clarostat de Mexico, S. de R.L. de C.V. Comfort Cooling PLC Elmwood Sensors Limited Honeywell (China) Co., Ltd. Honeywell (Tianjin) Limited Honeywell A.B. Honeywell A/S (Denmark) Honeywell A/S [Norway] Honeywell AG (Switzerland) Honeywell Airport Systems GmbH Honeywell Analytics AG Honeywell ASCa Inc. Honeywell Austria Gesellschaft mbH Honeywell Automation and Control Solutions Honeywell B.V. Honeywell CentraBuerkle AG Honeywell Co., Ltd. (Korea) Honeywell Control Systems Limited Honeywell Egypt Ltd. Honeywell Engineering SDN. BHD. Honeywell Facility Management GmbH Honeywell GmbH Honeywell Hi-Spec Solutions Limited Honeywell Holdings Pty. Ltd. Honeywell Inc. - Puerto Rico Honeywell International (India) P. Ltd. Honeywell International Asia Pacific Inc. Honeywell International Inc. Honeywell International India Private Limited Honeywell Intl. Inc. Honeywell K.K. Honeywell Limited	Honeywell Limited (Hong Kong) Honeywell Middle East B.V. Honeywell NEI Division Honeywell Optoelectronica, S.A. de C.V. Honeywell Otomasyon ve Kontrol Sistemleri Sanayi ve Ticaret A.S. Honeywell OY Honeywell P3 Global It Solutions Honeywell Pte. Ltd. Honeywell S.A. (France) Honeywell S.A. [Belgium] Honeywell S.p.A. Honeywell Safety Management Systems B.V. Honeywell Security & Custom Electronics Honeywell Services, S.A. de C.V. Honeywell Southern Africa (Proprietary) Limited Honeywell Sp.z o.o. Honeywell spol, sro Honeywell Systems (Thailand) Limited Honeywell Taiwan Limited Honeywell Technology Solutions Lab Private Limited Honeywell Tecnologia y Seguridad, S.A. Honeywell, C.A. Honeywell-Measurex (Ireland) Limited [Trading Branch] Petrocom Pittway Systems Technology Group Europe Limited Satronic AGShanghai C&K Technology Co. Ltd.
(iv)	Key Management Personnel	
	Mr. Harshavardhan Chitale (Managing Director with effect from December 21, 2004)	
	Mr. Vimal Kapur (Executive Director with effect from November 19, 2004)	
	Mr. Vinayak Despande (Managing Director upto December 20, 2004)	

Related Party Disclosures (continued)
Transactions with Related parties

(Rs.'000)

Description of the nature of transactions	Volume of transactions during		Amount outstanding as on December 31			
	Year ended Dec-05	Period ended Dec-04	2005		2004	
			Receivable	Payable	Receivable	Payable
Sales of goods and services						
<u>Holding Company</u>						
Honeywell International Inc.	253,110	151,677	65,598	–	43,347	–
Total	253,110	151,677	65,598	–	43,347	–
<u>Joint Venture</u>						
Central Monitoring Services (I) Pvt. Ltd.	353	20	974	–	254	–
Total	353	20	974	–	254	–
<u>Fellow Subsidiaries</u>						
Honeywell Middle East	175,207	–	16,555	–	–	–
Honeywell Holding Pty. Ltd.	134,206	–	28,832	–	–	–
Other fellow subsidiaries	416,427	103,443	152,996	–	168,627	–
Total	725,840	103,443	198,383	–	168,627	–
Purchase of goods, services and fixed assets						
<u>Holding Company</u>						
Honeywell International Inc.	259,595	274,502	–	48,329	–	42,142
Total	259,595	274,502	–	48,329	–	42,142
<u>Joint Venture</u>						
Central Monitoring Services (I) Pvt. Ltd.	–	31	–	–	–	261
Total	–	31	–	–	–	261
<u>Fellow Subsidiaries</u>						
Honeywell Measurex (Ireland) Ltd.	90,685	–	–	16,615	–	–
Honeywell Optoelectronica, S.A. de C.V.	144,866	–	–	22,022	–	–
Other fellow subsidiaries	283,274	40,062	–	73,755	57,917	–
Total	518,825	40,062	–	112,392	57,917	–
Dividend paid						
<u>Holding Company</u>						
Honeywell Asia Pacific Inc.	36,165	28,730	–	–	–	–
<u>Joint Venture</u>						
Tata Industries Limited	–	7,800	–	–	–	–
Total	36,165	36,530	–	–	–	–
Managerial Remuneration						
<u>Key management personnel</u>						
Harshavardhan Chitale	2,486	233	–	–	–	–
Vimal Kapur	2,468	252	–	–	–	–
Vinayak Deshpande	–	2,153	–	–	–	–
Total	4,954	2,638	–	–	–	–

Related Party Disclosures (continued)
Transactions with Related parties

(Rs.'000)

Description of the nature of transactions	Volume of transactions during		Amount outstanding as on December 31			
	Year ended Dec-05	Period ended Dec-04	2005		2004	
			Receivable	Payable	Receivable	Payable
Commission						
<u>Key management personnel</u>						
Vinayak Despande	–	2,000	–	–	–	–
Harshavardhan Chitale	1,246	–	–	–	–	–
Vimal Kapur	1,230	–	–	–	–	–
Total	2,476	2,000	–	–	–	–
Rent						
<u>Key management personnel</u>						
Vinayak Despande	–	622	–	–	–	–
Total	–	622	–	–	–	–
Deposits						
<u>Key management personnel</u>						
Vinayak Deshpande	–	–	–	–	–	500
Total	–	–	–	–	–	500

iii) Lease Transactions: Accounting Standard 19

As a Lessee in a Finance Lease:

The Company has taken vehicles under finance lease arrangements of three-five years. The future minimum lease payments under these leases as of 31st December, 2005 are as follows:

(Rs.'000)

	Due within 12 months		Due between 12-60 months		Total amount due	
	Dec. 05	Dec. 04	Dec. 05	Dec. 04	Dec. 05	Dec. 04
Minimum lease rental payable as on Balance Sheet date	3,218	4,232	2,264	5,841	5,482	10,073
Finance Charges payable	254	172	352	1,066	606	1,238
Present value of Minimum lease rental payable at discounted rate implicit in lease agreement	2,964	4,060	1,912	4,775	4,876	8,835

As a Lessee in an Operating Lease:

The Company has hired premises under non-cancellable operating lease arrangements at stipulated rentals. The future minimum lease payments under these leases as of 31st December, 2005 are as follows:

(Rs.'000)

	Due within 12 months December 05	Due between 12-60 months December 05	Due beyond 60 months December 05	Total amount due December 05
Minimum lease payments	22,517	65,788	–	88,305

Rentals paid for operating leases of Rs. 19,081 ('000) (Previous Period Rs. Nil) have been included under 'Rent'.

iv) Earnings per Share (EPS): Accounting Standard 20

EPS is calculated by dividing the profit attributable to the equity shareholders by the average number of shares outstanding during the year. The basic and diluted earnings per share has been calculated as under:

	Year ended Dec. 05	Period ended Dec. 04
Profit/(Loss) after Tax (Rs.'000)	340,820	84,921
Weighted Average number of Equity Shares	8,841,523	8,841,523
EPS (Rs.) (not annualized)	38.55	9.60
Face value per share (Rs.)	10.00	10.00

v) Deferred Taxation: Accounting Standard 22

Composition	As at December 31, 2005 (Rs. '000)	As at December 31, 2004 (Rs. '000)
a) Deferred Tax Assets		
Provision for Doubtful Debts	74,068	54,590
Cost to Complete	5,378	25,291
Provision for Leave Encashment	7,315	7,790
Others	501	313
	<u>87,262</u>	<u>87,984</u>
b) Deferred Tax Liability		
Depreciation and Amortisation	32,342	34,867
Net Deferred Tax Asset / (Liability)	<u>54,920</u>	<u>53,117</u>

4. a) Estimated amount of contracts remaining to be executed on capital accounts and not provided for - Rs. 34,331 ('000) (Previous Period Rs. 49,406 ('000)).
- b) There are no Small Scale Industrial Undertakings to whom amounts are due for more than thirty days. (Previous Period NIL)
5. a) The cash credit/ working capital term loans from Banks including foreign currency loans, for working capital, are secured by hypothecation of present and future stocks of raw materials, semi- finished goods, finished goods, stores and spares and book debts.
- b) The sales tax liability of Rs. 67,370 ('000) (Previous Period Rs. 71,649 ('000)), deferred and classified under unsecured loans is repayable, in respect of each year's collection, in six equal annual installments commencing from the year 2005.
- The Sales Tax liability of Rs. 60,968 ('000) (Previous Period Rs. 62,146 ('000)), deferred and classified under unsecured loans, is repayable in five equal annual installments, commencing from the year 2011-2012.
6. Provision for taxation has been made after considering the various allowances/deductions available and after excluding profits derived from an undertaking registered with Software Technology Parks of India under section 10A of the Income Tax Act, 1961.
7. Interest includes interest on Working Capital Demand Loans & Cash Credit. Interest from fixed period loans for the year amounts to Rs.22,413 ('000) (Previous period Rs. 11,662 ('000)).
8. While effecting payments to the Company for supplies/services, its customers have not yet paid amounts aggregating to Rs. 7,653 ('000) (Previous Period Rs. 16,021 ('000)), towards late delivery in terms of customer interpretations of contractual provisions. The Company is making necessary representations to each customer and expects to be successful in obtaining release of these amounts.

9. a) The Management is evaluating the potential international tax liability in respect of services rendered by the Company in the current and previous years to Honeywell entities in those countries vis-à-vis the respective tax laws in those countries. Due to the complexities inherent in such evaluation, potential international tax liability, though not yet quantified, is unlikely to significantly impact the results of the year, as those amounts are mostly recoverable as per the underlying service contracts.

b) **Contingent Liabilities:**

(Rs.'000)

		Dec. 05	Dec. 04
a)	Income tax claims against the Company, for which the Company is in appeal.*	49,563	49,563
b)	Excise duty claims against the Company, for which the Company is in appeal.*	11,292	15,095
c)	Sales Tax refunds/claims against the Company, for which the Company is in appeal.*	103,802	28,802
d)	Customs Duty claims against the Company, for which the Company is in appeal.*	3,423	3,423
e)	Bank Guarantees given to customers- against performance/advance. The Bank Guarantees issued are secured by hypothecation of present and future stocks of raw materials, semi- finished goods, finished goods, stores and spares and book debts.	1,125,947	932,560
f)	Corporate guarantees given to customers against performance/advance.	33,731	—

* Excludes penalties, if any, relating to penalty proceedings, since the precedence indicate that the probability of levy is remote.

10. **Managerial Remuneration**

a)

(Rs.'000)

		For the year Ended December 31, 2005	For the period Ended December 31, 2004
i)	Salaries & Allowances	4,154	2,021
ii)	Perquisites	30	256
iii)	Contribution to Provident & Superannuation Fund	770	361
iv)	Commission on Profits		
	- Executive Directors	2,476	2,000
	- Non-Executive Directors	1,700	1,811
		9,130	6,449

Note: The above does not include gratuity contribution made under a group gratuity policy of the Company with LIC, as the amount is not available separately.

b) **Computation of net profit as per section 349 of the Companies Act, 1956**

(Rs.'000)

	December 31, 2005	December 31, 2004
Profit as per Profit and Loss Account (After prior period adjustment and before taxes)	380,085	64,350
Add :		
Directors' Remuneration, Commission and Fees	9,130	6,449
Provision for Doubtful Debts and Advances	70,864	109,885
Directors' Sitting fees	410	455
Depreciation as per books	109,786	68,158
	190,190	184,947
(Less) :		
Depreciation u/S 349	109,786	68,158
Net Profit in accordance with Section 349	460,489	181,139
Commission on Profits payable to non whole-time Director	1,700	1,811

11. Details of Licensed capacity, Installed capacity and Production :

a) Class of Goods	Complete Process Control and Management Systems and their Component Elements	
b) Licensed Capacity As at December 31, 2005 As at December 31, 2004	240 Systems 240 Systems	
c) Installed Capacity	Not quantifiable as the size/mix of the system varies according to customers' requirements.	
d) Production		
	Year ended December 31, 2005	Period ended December 31, 2004
Systems	112	73
Instruments	4,197	1,810

12. Details of Raw Materials Consumed :

(Rs.'000)

Description	Qty.	Year ended Dec. 31, 2005	Period ended Dec. 31, 2004
Components for System Integration	Lot	2,851,178	1,652,564
Total		2,851,178	1,652,564

13. Details of Sales :

(Rs.' 000)

Description	Qty.	Year ended Dec. 31, 2005	Period ended Dec. 31, 2004
Process Control Systems and Instruments	Lot	4,326,607	2,241,483
Services		798,563	533,470
Total		5,125,170	2,774,953

14. Details of imported and indigenous components, stores and spare parts consumed and percentage of each, to total consumption:

(Rs.'000)

Description	%	Year ended Dec. 31, 2005	%	Period ended Dec. 31, 2004
Imported	56	1,589,019	56	921,441
Indigenous	44	1,262,159	44	731,123
Total		2,851,178		1,652,564

15. CIF Value of Imports :

(Rs. '000)

Description	For the year ended December 31, 2005	For the period ended December 31, 2004
a) Capital Goods	24,655	35,269
b) Raw Materials	1,310,855	821,041

16. Expenditure in Foreign Currency :

(Rs. '000)

Description		For the year ended December 31, 2005	For the period ended December 31, 2004
a)	Royalty (Net of Taxes)	444	836
b)	Travelling	187,781	111,860
c)	Others	50,825	22,412
	Total	239,050	135,108

17. Dividend remitted during the period to non-resident Shareholders :

Description	During the year ended December 31, 2005	During the period ended December 31, 2004
Amount of Dividend (Net of Taxes) (Rs. '000)	36,165	28,810
Pertaining to Financial Year 2004 (9 months)	2003-04	
Number of non-resident shareholders	49	38
Number of shares held	7,233,014	3,601,243

18. Earnings in Foreign Currency :

(Rs. '000)

Description	For the year ended December 31, 2005	For the period ended December 31, 2004
FOB Value of Exports	177,768	96,615
Deemed Exports	111,364	111,643
Services	736,378	432,540
Reimbursements	217,146	110,637
Total	1,242,656	751,435

19. Contract Work in Progress :

Particulars		For the year ended December 31, 2005 (Rs. '000)
A)	Aggregate amount recognised as Contract Revenue	2,809,449
B)	In respect of contracts in progress as on 31 st December 2005	
	i) Aggregate amount of Costs incurred and recognized profits less recognised losses up to 31 st December 2005	5,594,027
	ii) Amount of Customer Advances received	45,069
	iii) Amount of retentions	454,505
C)	Gross amount due from customers for contract work	281,913
D)	Gross amount due to customers for contract work	130,275

20. Disclosure as required by AS 29 (Contingent Liability and Provisions)

(Rs. '000)

	Disputed Statutory Matters	Other Obligations				
		Warranty [Refer Note 1(j)]	Leave Encashment [Refer Note 1(k)]	Gratuity [Refer Note 1(k)]	Liquidated Damages	Future Loss [Refer Note 1(j)]
Opening Balance	–	34,565	27,504	–	8,562	69,115
Additions	17,681	25,971	5,487	8,679	24,346	15,978
Utilisation	–	19,260	11,258	–	–	–
Reversals	–	–	–	–	24,808	69,115
Closing Balance	17,681	41,276	21,733	8,679	8,100	15,978

A. Disputed statutory matters mainly include:

- Provision for disputed statutory matters comprises matters under litigation with Income-Tax and Sales Tax authorities.
- The amount of provision made by the Company is based on the estimate made by the Management considering the facts and circumstances of each case.
To the extent the Company is confident that it may have a strong case that portion is disclosed under contingent liabilities.
- The timing and the amount of cash flows that will arise from these matters will be determined by the Appellate Authorities only on settlement of these cases.

- Prior period comparatives have been reclassified to conform to the current year presentation, wherever applicable.
- The prior period financial statements were for the period of nine months ended December 31, 2004 and hence, the figures are not strictly comparable with the current year, which is for a period of twelve months ended December 31, 2005.
- Additional information pursuant to Part IV of Schedule VI to the Companies Act, 1956 is set out in the Annexure.

Signatures to Schedules 1 to 18 forming part of the Balance Sheet as at December 31, 2005 and the Profit and Loss Account for the year ended December 31, 2005.

As per our report of even date attached
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

John Ellis

Chairman

Harshavardhan Chitale

Managing Director

Neeraj Gupta
(Partner)
Membership No.F 055158

Sneha Padve

Company Secretary

Mumbai, February 7, 2006

Pune, February 7, 2006

**Cash Flow Statement
for the year ended
December 31, 2005**

Honeywell Automation India Ltd.
Annual Report 2005

	Year ended December 31, 2005 (Rs. '000)	Period ended December 31, 2004 (Rs. '000)
A Cash Flow from Operating Activities		
Net Profit Before Tax	380,085	64,350
Adjusted for		
Depreciation	109,786	68,158
Interest charged	34,867	18,110
Interest earned	(1,825)	(5,658)
Loss on sale of assets	10,167	4,479
Amortisation of miscellaneous expenditure	2,219	6,414
Unrealised Exchange (Gain)/ Loss (net) on restatement of foreign currency assets and liabilities	(2,809)	(4,400)
Operating Profit before working capital changes and other adjustments	<u>532,490</u>	<u>151,453</u>
Adjustments for		
Trade & other receivables	(135,849)	(294,373)
Inventories	127,726	(148,306)
Trade & other payables	217,065	159,893
Cash generated from operations	<u>741,432</u>	<u>(131,333)</u>
Direct taxes paid	(83,674)	(23,946)
NET CASH FROM OPERATING ACTIVITIES	<u>657,758</u>	<u>(155,279)</u>
B Cash Flow from Investing Activities		
Purchases of fixed assets	(122,687)	(124,954)
Sale of fixed assets	4,243	70
Sale of investments	1,500	-
Interest received	1,087	8,361
NET CASH USED IN INVESTING ACTIVITIES	<u>(115,857)</u>	<u>(116,523)</u>
C Cash Flow from Financing Activities		
Borrowings (net of repayments)	(329,833)	263,600
Interest paid	(34,266)	(17,555)
Dividend paid	(50,359)	(79,663)
NET CASH USED IN FINANCING ACTIVITIES	<u>(414,458)</u>	<u>166,382</u>
NET CHANGES IN CASH & CASH EQUIVALENTS (A+B+C)	<u>127,443</u>	<u>(105,420)</u>
CASH & CASH EQUIVALENTS - OPENING BALANCE	45,508	150,928
CASH & CASH EQUIVALENTS - CLOSING BALANCE	172,951	45,508

As per our report of even date attached
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

John Ellis

Chairman

Harshavardhan Chitale

Managing Director

Neeraj Gupta
(Partner)
Membership No.F055158

Sneha Padve

Company Secretary

Mumbai, February 7, 2006

Pune, February 7, 2006

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.

1	7	9	5	1
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 State Code

2	5
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Balance Sheet Date

3	1
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1	2
---	---

0	5
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Date Month Year

II. Capital raised during the year (Amount in Rs. Thousand)

Public Issue	Rights Issue																				
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>				N	I	L					<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>				N	I	L				
			N	I	L																
			N	I	L																
Bonus Issue	Private Placement																				
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>				N	I	L					<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>				N	I	L				
			N	I	L																
			N	I	L																

III. Position of Mobilisation and Deployment of funds (Amounts in Rs. Thousand)

Total Liabilities	Total Assets																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>1</td><td>6</td><td>7</td><td>8</td><td>6</td><td>0</td><td>5</td></tr></table>			1	6	7	8	6	0	5	<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>1</td><td>6</td><td>7</td><td>8</td><td>6</td><td>0</td><td>5</td></tr></table>			1	6	7	8	6	0	5
		1	6	7	8	6	0	5											
		1	6	7	8	6	0	5											
Sources of Funds																			
Paid-up Capital	Reserves & surplus																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td>8</td><td>8</td><td>4</td><td>1</td><td>5</td></tr></table>					8	8	4	1	5	<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>1</td><td>2</td><td>3</td><td>1</td><td>6</td><td>0</td><td>1</td></tr></table>			1	2	3	1	6	0	1
				8	8	4	1	5											
		1	2	3	1	6	0	1											
Secured Loans	Unsecured Loans																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>2</td><td>3</td><td>0</td><td>2</td><td>5</td><td>1</td></tr></table>				2	3	0	2	5	1	<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>1</td><td>2</td><td>8</td><td>3</td><td>3</td><td>8</td></tr></table>				1	2	8	3	3	8
			2	3	0	2	5	1											
			1	2	8	3	3	8											
Application of Funds																			
Net Fixed Assets	Investments																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>4</td><td>0</td><td>7</td><td>8</td><td>0</td><td>9</td></tr></table>				4	0	7	8	0	9	<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>0</td><td>0</td><td>0</td><td>0</td></tr></table>						0	0	0	0
			4	0	7	8	0	9											
					0	0	0	0											
Net Current Assets	Misc. Expenditure																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>1</td><td>2</td><td>1</td><td>2</td><td>2</td><td>4</td><td>0</td></tr></table>			1	2	1	2	2	4	0	<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>3</td><td>6</td><td>3</td><td>6</td></tr></table>						3	6	3	6
		1	2	1	2	2	4	0											
					3	6	3	6											
Accumulated Losses	Deferred Tax Asset																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td></tr></table>				N	I	L				<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td>5</td><td>4</td><td>9</td><td>2</td><td>0</td></tr></table>					5	4	9	2	0
			N	I	L														
				5	4	9	2	0											

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

Turnover	Total Expenditure																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>4</td><td>9</td><td>5</td><td>1</td><td>2</td><td>7</td><td>1</td></tr></table>			4	9	5	1	2	7	1	<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td>4</td><td>5</td><td>7</td><td>1</td><td>1</td><td>8</td><td>6</td></tr></table>			4	5	7	1	1	8	6
		4	9	5	1	2	7	1											
		4	5	7	1	1	8	6											
+ - Profit/Loss Before Tax	+ - Profit/Loss After Tax																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td>+</td><td> </td><td>3</td><td>8</td><td>0</td><td>0</td><td>8</td><td>5</td></tr></table>	+		3	8	0	0	8	5	<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td>+</td><td> </td><td>3</td><td>4</td><td>0</td><td>8</td><td>2</td><td>0</td></tr></table>	+		3	4	0	8	2	0		
+		3	8	0	0	8	5												
+		3	4	0	8	2	0												
(Please tick appropriate box + for profit - for loss)																			
Earning per share in Rs.	Dividend (in %) - Equity																		
<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>3</td><td>8</td><td>.</td><td>5</td><td>5</td></tr></table>				3	8	.	5	5	<table border="1" style="width: 100%; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td>8</td><td>0</td><td>.</td><td>0</td><td>0</td></tr></table>				8	0	.	0	0		
			3	8	.	5	5												
			8	0	.	0	0												

Code of Conduct:

The Code of Conduct has been laid down for the entire Company. The code has also been extended to the Board of Directors of the Company. The Managing Director affirms that the Board and the senior management of the Company have affirmed compliance with the Code.

Audit Committee:

The Committee is constituted with Mr. S.L. Rao as the Chairman of the Committee and Mr. Gerard Willis and Mr. M.N. Bhagwat as the members. The members of the Committee have the relevant experience in the field of financing, banking and accounting. Ms. Sneha Padve, Company Secretary acts as the Secretary to the Committee. Audit Committee meetings are attended by the Chief Financial Officer and the Company Secretary. The representatives of the Internal Auditors and the Statutory Auditors are being invited to the meetings.

The terms of reference of the Audit Committee as stipulated by the Board are in accordance with all the items listed in Clause 49 (II)(D) of the Listing Agreement as follows:

1. Overseeing the Company's financial reporting process and the disclosure of financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending the appointment/removal of external auditors, fixing audit fees and approving payments for any other services.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing with management the annual financial statements before submission to the board, with particular reference to:
 - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
 - Changes, if any, in accounting policies and practices and reasons for the same.
 - Major accounting entries involving estimates based on exercise of judgement by management.
 - Qualifications in draft audit report.
 - Significant adjustments made in the financial statements arising out of audit findings.
 - Compliance with listing and other legal requirements relating to financial statements.
 - Disclosure of any related party transactions
5. Reviewing with the management, the quarterly financial statements before submission to the board for approval.
6. Reviewing with the management, performance of statutory and internal auditors, the adequacy of internal control systems.
7. Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.
8. Discussions with internal auditors of any significant findings and follow-up thereon.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is a suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussions with external auditors before the audit commences, about the nature and scope of audit as well as have post-audit discussions to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

The Audit Committee met on the following dates during the year ended December 31, 2005:

February 22, 2005 April 25, 2005 July 18, 2005 October 17, 2005

Attendance at the Audit Committee Meeting:

Name of Director	No. of Meetings held	No. of Meetings Attended
Mr. S.L. Rao	4	4
Mr. K.C. Lim*/Mr. Willis	4	3
Mr. M.N. Bhagwat	4	4

* Mr. K.C. Lim has resigned from the Board of Directors w.e.f. December 31, 2005.

The Audit Committee mandatorily reviews all the information required as per Clause 49 (II) (E).

Remuneration Committee:

The Company had constituted the Remuneration Committee in line with the requirements of Clause 49 of the Listing Agreement. The broad terms of reference are to determine and recommend to the Board, compensation payable and appraisal of the Managing Director and Executive Director.

The Remuneration Committee comprises of the following three Directors of the Company:

Mr. M.N. Bhagwat	Chairman-Independent, Non-Executive Director
Mr. S.L. Rao	Member-Independent, Non-Executive Director
Mr. John R. Ellis	Member-Promoter, Not Independent, Non-Executive Director

The Committee met on 6th February 2006, to appraise and decide the compensation payable of the Managing and Executive Director. All the members of the Remuneration Committee attended the meeting.

The Company pays remuneration to its Managing and Executive Director by way of salary, perquisites and allowances (fixed component) and commission (variable component). Salary is paid within the range approved by the Shareholders. The Board on the recommendations of the Remuneration Committee approves the annual increments (effective 1st April each year). The Board fixes a ceiling on perquisites and allowances as a percentage of salary. Commission is calculated with reference to the net profit of the Company in a particular financial period and is determined by the Board of Directors at the end of the financial period based on the recommendations of the Remuneration Committee, subject to the overall ceiling as stipulated in Sections 198 and 309 of the Companies Act, 1956.

Given below are the details of Remuneration paid to Non-Executive Directors for the year January to December 2005 for attending Board Meetings and various Board constituted Committee Meetings.

Non-Executive Directors:

Director	Sitting Fees	Commission	Shareholding
Mr. M.N. Bhagwat	Rs.1,90,000/-	Rs.8,50,000/-	700 shares
Mr. S.L. Rao	Rs.1,80,000/-	Rs.8,50,000/-	Nil

The Directors nominated by Honeywell do not accept any sitting fees or commission.

The criteria for determination of commission to non-executive independent directors as approved by the Board, include roles, responsibilities and contribution to the Company as Chairman/member of the Board and various Committees of the Board. Criteria also include attendance at the meeting of the Board and various Board Committees.

Managing Director:

Name	Salary & Allowances	Commission for the year 2005
Mr. Harshavardhan Chitale	24,86,000/-	12,46,350/-

Period of Contract of MD : 5 years from December 21, 2004
The Contract may be terminated by either party giving the other party six months' notice or the Company paying six months' salary in lieu thereof.
Severance fees - Nil

Executive Director:

Name	Salary & Allowances	Commission for the year 2005
Mr. Vimal Kapur	24,68,000/-	12,29,970/-

Period of Contract of ED : 5 years from November 19, 2004
The Contract may be terminated by either party giving the other party six months' notice or the Company paying six months' salary in lieu thereof.
Severance fees - Nil

Shareholders'/Investors' Grievance Committee

The Shareholders'/Investors' Grievance Committee is constituted as follows:

Mr. M.N. Bhagwat – Chairman – Independent, Non-Executive Director
Mr. Harshavardhan Chitale – Member, Managing Director

The Committee met on February 23, 2005 during the last financial year.

Name, designation & address of Compliance Officer : Mrs. Sneha Padve
Company Secretary,
56&57, Hadapsar Indl. Est., Pune 411 013.
Phone: 020-56072576
Fax No.020-56039800

No. of queries received from the investors from 1.1.2005 to 31.12.2005 comprising of Non-receipt of Dividend Warrants, Non-receipt of securities sent for transfer, Demat etc.	349
No. not solved to the satisfaction of the investor as on 31.12.2005.	0
No. of pending share transfers as on 31.12.2005	0

Details on General Meetings:

Location, date and time of General Meetings held during the last 3 years:

The last three AGMs were held on –18.07.2003, 20.07.2004 and 26.04.2005
AGM held on 18.07.2003 was held at the *Conference Room, Training Centre, Tata Honeywell Limited, 56 & 57 Hadapsar Industrial Estate, Pune 411 013 at 3.30 p.m.*
AGM held on 20.07.2004 was held at *Hotel Blue Diamond, Koregaon Park, Pune 411 001 at 3.30 p.m.*
AGM held on 26.04.2005 was held at *Hotel Blue Diamond, Koregaon Park, Pune 411 001 at 3.30 p.m.*

Special Resolutions passed in the last 3 AGMs :

AGM dated 26.04.2005 : Delisting of Equity Shares of the Company from Pune Stock Exchange Ltd.

Whether Special Resolutions –

(a)	Were put through postal ballot last year -	No
	Details of voting pattern -	NA
	Person who conducted the postal ballot exercise -	NA
(b)	Are proposed to be conducted through postal ballot - No	
	Procedure for postal ballot -	NA

Disclosures

Related Party Transactions:

Related party transactions are defined as the transactions of the Company of a material nature, with its promoters, the directors or the management, their subsidiaries or relatives and the senior management of the Company etc. that may have potential conflict with the interests of the Company at large.

Among the related party transactions are, contracts or arrangements, made by the Company from time to time with Companies in which the Directors are interested. All these contracts or arrangements are entered in a Register of Contracts under Section 301 of the Companies Act, 1956 and the register is placed before every Board Meeting.

All transactions covered under the related party transactions are regularly ratified and/or approved by the Board. There were no material transactions during the year 2005 that are prejudicial to the interest of the Company.

Statutory Compliance, Penalties and Strictures:

The Company has complied with the requirements of the Stock Exchange/SEBI/ and Statutory Authority on all matters relating to capital markets during the last three years. There are no penalties or strictures imposed on the Company by the Stock Exchanges or SEBI or any statutory authorities relating to the above.

Statutory Compliance:

The Company Secretary and Chief Financial Officer of the Company act as Compliance Officers who advise the Company on compliance issues with respect to the laws of various jurisdictions in which the Company has its business activities and ensures that the Company is not in violation of laws of any jurisdiction where the Company operates. All Business Unit Heads give Compliance Certificate to the Managing Director of the Company. The Compliance Officers ensure that the business operations of the Company are not in contravention of any laws.

Whistle Blower Policy :

The Company has put in place a mechanism for the employees to reach out to report any non-compliance and no personnel have been denied access to the Audit Committee.

Compliance with Clause 49 :

The Company is striving to be fully compliant with the non-mandatory requirements of this clause.

1. The Board: The Chairman of the Board is based at Shanghai. None of the Independent Directors have exceeded nine years on the Board.
2. Remuneration Committee: This committee has been constituted and is responsible for all payments to be made to the Directors.
3. Shareholder Rights: The Company will continue sending half yearly declaration of financial performance to each household of shareholders.
4. Audit Qualifications: The Company does not have a history of audit qualifications.
5. Training of Board Members: All Board members have been grounded in the way the business operates through detailed planning meetings and other such activities.
6. Mechanism for evaluating non-executive Board Members: Such a mechanism already exists.
7. Whistle Blower Policy: This policy has been put in place.

Means of Communication:

Quarterly Results:

Which newspapers normally published in:

Economic Times, Maharashtra Times
www.honeywellautomationindia.com

Any website, where displayed:

Whether it also displays official news

Yes

Releases; and the presentations

Made to institutional investors/analysts

Whether MD&A is a part of Annual

Report or not:

Yes

General Shareholder Information

AGM: Date, time and venue-

April 21, 2006 at 3.30 p.m. at the
Hotel Le Meridien, RBM Road, Pune 411 001.

Particulars of Directors seeking reappointment are given annexed to the Notice of the Annual General Meeting to be held on April 21, 2006.

Financial Calendar -

Year ending	December 31
AGM	April 21, 2006
Dividend Payment	May 10, 2006

Date of Book Closure -

Wednesday, April 5, 2006 to Wednesday,
April 12, 2006

Dividend Payment Date -

The Dividend Warrants will be posted on
May 10, 2006

Listing on Stock Exchanges

The Company's shares are listed on the
following 2 Stock Exchanges in India:

The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001

National Stock Exchange of India Limited
Bandra Kurla Complex,
Mumbai 400 051

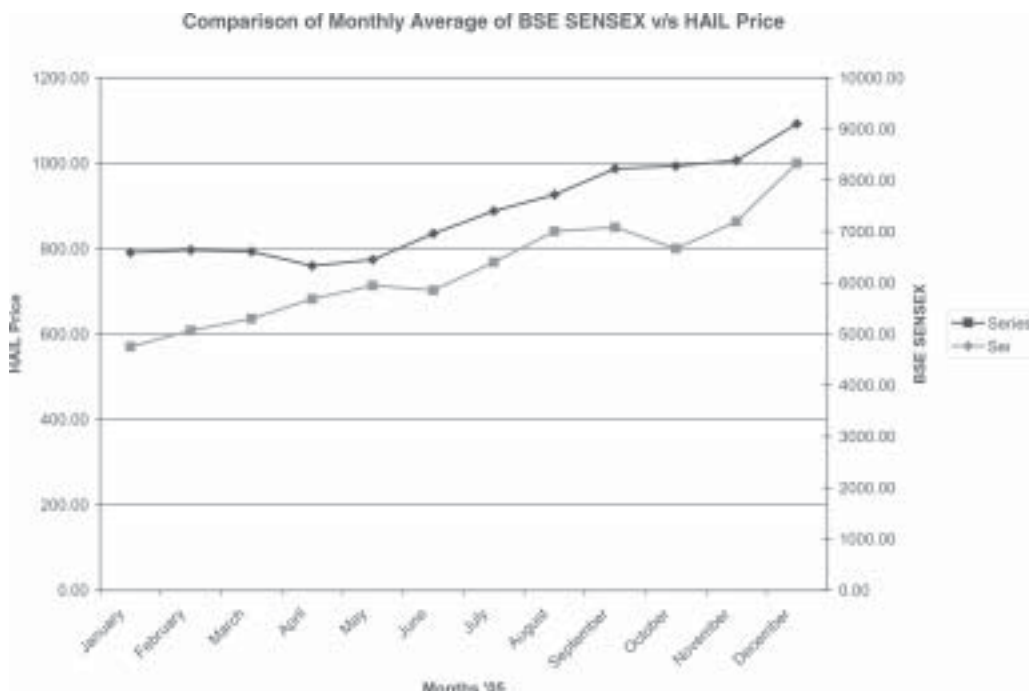
The Company had paid annual listing fees to each of the above exchanges for the financial year 2005-06.

Stock Code –

The Stock Exchange, Mumbai :
Equity Shares (physical form) : 174
(demat form) : 517174

Market Price Data –

	The Stock Exchange, Mumbai (in Rs.)			
	High	Low	Avg. Volume per day (No. of shares)	Avg. No. of Trades per day
January 2005	600.60	540.00	1012	36
February 2005	668.00	549.00	1467	81
March 2005	740.00	532.00	3878	122
April 2005	744.90	619.05	1325	36
May 2005	801.00	626.00	1172	44
June 2005	735.00	670.00	1082	30
July 2005	865.00	671.20	2187	64
August 2005	913.00	768.15	1854	60
September 2005	940.00	760.00	2405	76
October 2005	920.00	681.00	1445	53
November 2005	995.00	732.00	1856	58
December 2005	1109.95	890.10	1712	82



**Registrar and Share
Transfer Agents:**

Tata Share Registry Ltd.,
Army & Navy Bldg.,
148, M.G. Road, Fort,
Mumbai 400 001
Tel: (022) 56568484
Fax: (022) 56568494
E-mail: csg-unit@tatashare.com
Website: http://www.tatashare.com

Share Transfer System: Share Transfers in physical form can be lodged with Tata Share Registry Ltd. at the above mentioned address or at their branch offices, addresses of which are available on their website. The Transfers are normally processed within 15 days if the documents are complete in all respects. Certain Directors and the Company Secretary are severally empowered to approve transfers. The Company also offers transfer-cum-demat facility for the convenience of the investors.

Distribution of Shareholding:

Number of Ordinary Shares held	Number of Shares	
	31-12-2005 (%)	31-12-2004 (%)
1 to 500	9.24	9.81
501 to 1000	1.37	1.25
1001 to 2000	1.34	0.99
2001 to 3000	0.41	0.44
3001 to 4000	0.40	0.34
4001 to 5000	0.48	0.61
5001 to 10000	1.35	1.27
Over 10000	85.41	85.29
Total	100.00	100.00

Categories of Shareholders:

Category	No. of shareholders	No. of shares held
Foreign Promoters	1	7182475
Non Resident Individuals	63	32954
Foreign Institutional Investors	3	27426
Financial Institutions	1	100
Banks	2	300
Mutual Funds	4	70209
Insurance Companies	1	20000
Domestic Companies	310	236744
Resident Individuals	6721	1271315
	7106	8841523

Dematerialisation of shares and liquidity : The Company has arrangements with National Securities Depository Ltd. (NSDL) as well as the Central Depository Services (India) Ltd. (CDSL) for demat facility. 97.61% of the Company's share capital is dematerialised as on 31.12.2005.

The Company's shares are regularly traded on the Bombay Stock Exchange Ltd. and the National Stock Exchange of India Limited.

**Outstanding GDRs/ADRs :
Warrants of any Convertible
Instruments, conversion date
and likely impact on equity**

Nil

Plant locations :

N.A.

Address for correspondence :

Honeywell Automation India Limited,
56 & 57, Hadapsar Industrial Estate,
Pune 411 013.
Tel: (020) 56039400
Fax: (020) 56039800
E-mail: CorpComIndia@honeywell.com
Website: www.honeywellautomationindia.com

Auditors' Report on Corporate Governance

To the Members of
HONEYWELL AUTOMATION INDIA LIMITED

We have examined the compliances of the conditions of Corporate Governance by Honeywell Automation India Limited for the year ended 31st December 2005, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

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 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, the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Shareholders' Grievance Committee.

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.

Mumbai, February 7, 2006

Neeraj Gupta
Partner
Membership No. F 055158
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Our Brand Promise

We are building a world that's safer and more secure...

More comfortable and energy efficient...

More innovative and productive.

We are Honeywell.

HONEYWELL AUTOMATION INDIA LIMITED

Regd. Office : 56 & 57, Hadapsar Industrial Estate, Pune - 411 013.

ATTENDANCE SLIP

I hereby record, my presence at the TWENTY SECOND ANNUAL GENERAL MEETING of the Company at Hotel Le Meridien, RBM Road, Pune 411 001 at 3.30 p.m. on Friday, April 21, 2006.

NAME OF SHAREHOLDER/PROXY

FOLIO NO. _____

NO. OF SHARES HELD _____

SIGNATURE OF THE
ATTENDING MEMBER/PROXY

NOTES :

- (1) Shareholder/Proxyholder wishing to attend the meeting must bring the Attendance Slip to the meeting and hand over at the entrance duly signed.
- (2) Shareholder/Proxyholder desiring to attend the meeting should bring his copy of the Annual Report for reference at the meeting.

-----Cut here-----

HONEYWELL AUTOMATION INDIA LIMITED

PROXY

Regd. Office : 56 & 57, Hadapsar Industrial Estate, Pune - 411 013.

I/We

Of _____ in the district of being

a Member/members of the above-named Company, hereby appoint

of _____ in the district of or

failing him, _____ of _____ as

my/our Proxy to attend and note for me/us and on my/our behalf at the Twenty Second Annual General Meeting of the Company at Hotel Le Meridien, RBM Road, Pune 411 001 at 3.30 p.m. on Friday, April 21, 2006 and at any adjournment thereof.

Signed this _____ day of _____ 2006.

Signature Shareholder

Affix
Revenue
Stamp

Reference Folio No.

No of shares held

This form is to be used $\frac{\text{---}}{\text{---}}$ * in favour of the resolution. Unless otherwise instructed the proxy will act as he thinks fit.
* against

* strike out whichever is not desired.

NOTE : The proxy must be returned so as to reach the Registered Office of the Company at 56 & 57, Hadapsar Industrial Estate, Pune 411 013, not less than FORTY-EIGHT HOURS before the time for holding the aforesaid meeting.

