

Board of Directors (As on 03/02/2007)

Mr. J. R. Ellis	(Chairman)
Mr. H. M. Chitale	(Vice Chairman)
Mr. G. Willis	(Director)
Mr. V. Kapur	(Managing 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 03/02/2007)

Mr. H. Aparanji	Head - Human Resources
Mr. A. Bhargava	Head - Integrated Supply Chain
Mr. A. Pai	Chief Financial Officer
Mr. S. Pradhan	Head - Sensing & Control
Mr. N. Pradhan	Head - Environment, Combustion & Control
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.
Citibank N. A.

Registrar & Transfer Agent :

TSR Darashaw Ltd.
6-10, Haji Moosa Patrawala Ind. Estate,
20, Dr. E. Moses Road, Mahalaxmi,
Mumbai 400 011.

NOTICE is hereby given that the **TWENTY-THIRD ANNUAL GENERAL MEETING of HONEYWELL AUTOMATION INDIA LIMITED** will be held **at 11.00 a.m. on Friday, April 13, 2007** in Hotel Le Meridien, Raja Bahadur Marg, Pune 411 001 to transact the following business:

1. To receive and adopt the Directors' Report and Audited Profit and Loss Account for the year ended December 31, 2006, the Balance Sheet as at that date.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Mr. M.N. Bhagwat who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. John Ellis 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. John O'Higgins, 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 consider and, if thought fit, to pass with or without modification, the following Resolution as an Ordinary Resolution:**

"RESOLVED THAT pursuant to the provisions of Sections 269, 309 and other applicable provisions of the Companies Act, 1956, the Company hereby approves of the appointment and remuneration of Mr. Vimal Kapur as Managing Director, with effect from November 1, 2006, upon the terms and conditions set out in the draft Agreement submitted to this meeting and for identification signed by the Chairman, which Agreement is hereby specifically sanctioned with liberty to the Directors to alter and vary the terms and conditions of the said Agreement in such manner as may be agreed to between the Directors and Mr. Kapur."

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

"RESOLVED THAT pursuant to the provisions of Sections 269, 309 and other applicable provisions of the Companies Act, 1956, the Company hereby approves of the appointment and remuneration of Mr. Harshavardhan Chitale as Executive Director, with effect from November 1, 2006, upon the terms and conditions set out in the draft Agreement submitted to this meeting and for identification signed by the Chairman, which Agreement is hereby specifically sanctioned with liberty to the Directors to alter and vary the terms and conditions of the said Agreement in such manner as may be agreed to between the Directors and Mr. Chitale."

7. **To consider and, if thought fit, to pass with or without modification, the following Resolution as a Special Resolution:**

"RESOLVED THAT, pursuant to the provisions of Section 163 and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby approves that the Registers of Members, Indexes of Members, the Registers and Indexes of Debenture holders and bond holders, if any, and copies of all Annual Returns prepared under Section 159 of the Act, together with copies of certificates and documents required to be annexed thereto under Section 161 of the Act, or any one or more of them, be kept at the Registered Office of the Company and/or the offices of the Company's Registrars and Share Transfer Agents – TSR Darashaw Limited, 6-10, Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011.

8. **To consider and, if thought fit, to pass with or without modification, the following Resolution as a Special Resolution:**

"RESOLVED THAT pursuant to the provisions of Section 309 and other applicable, provisions, if any, of the Companies Act, 1956 a sum not exceeding one percent per annum of the net profits of the Company calculated in accordance with the provisions of Section 198, 349 and 350 of the Act, be paid to and distributed amongst the Directors of the Company or some or any of them (other than the Managing & Executive Directors) in such amounts or proportions and in such manner and in all respects as may be directed by the Board of Directors and such payments shall be made in respect of the profits of the Company for each year of the period of five years commencing with the financials for the year commencing 1st January, 2007."

9. 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 nos. 4, 5, 6, 7 & 8 set out above and the relevant details in respect of Item nos. 3 & 4 above, pursuant to Clause 49 of the Listing Agreements 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 Tuesday, April 3, 2007 to Wednesday, April 11, 2007 (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 April 27, 2007 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 TSR Darashaw 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, TSR DARASHAW LTD., 6-10 Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011.
- h) Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, dividend for the financial year ended March 31, 2000 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 2000 or any subsequent financial years are requested to make their claim to the Office of the Registrar and Transfer Agents; TSR DARASHAW LTD., 6-10 Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011. It may be noted that once the dividend is transferred to the Investor Education and Protection Fund as above, no claim shall lie with the Company in respect of such amount.
- i) As per the provisions of the amended Companies Act, 1956, facility for making nomination is now available for shareholders in respect of the shares 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.

Mumbai, February 3, 2007

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

By order of the Board of Directors

Sneha Padve
Company Secretary

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956**Item No. 4 :**

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

Mr. John Ellis is the President-ACS of Honeywell Asia Pacific Inc. He has done his MBA from Harvard and BS from Haverford College.

The Directors commend the Resolution for acceptance by the Members.

None of the Directors of the Company are interested in this Resolution except Mr. John Ellis.

Item No. 5 :

Mr. Vimal Kapur has been appointed as Managing Director of the Company w.e.f. November 1, 2006 for a period of 5 years, subject to the approval of the shareholders. Mr. Harshavardhan Chitale relocated to Honeywell Inc. USA and hence resigned as the Managing Director of the Company w.e.f. November 1, 2006. Consequent to his resignation, the Board passed a resolution appointing Mr. Kapur as the Managing Director for a period of 5 years w.e.f. November 1, 2006, on the following terms and conditions:

I) Mr. Vimal Kapur shall, as the Managing Director, be head of the Management Team and shall, subject to the supervision and control of the Board of Directors, be responsible for the overall conduct and functioning of the Company.

II) **Period :** Five years w.e.f. November 1, 2006 with liberty to either party to terminate the appointment by three months notice in writing to the other.

III) Remuneration :

1. A basic salary scale of Rs.1,50,000/- to 4,00,000/- per month, with authority to the Board to fix his salary within this scale from time to time. The annual increment will be merit based and take into account the Company's performance.

2. Commission :

Such remuneration by way of commission, in addition to the salary, perquisites and allowances payable, calculated with reference to the net profits of the Company in a particular financial year, as may be determined by the Board of Directors of the Company at the end of each financial year subject to the overall ceilings stipulated in Sections 198 and 309 of the Act. The specific amount payable to the Managing Director will be based on certain performance criteria to be laid down by the Board and will be payable annually after the annual accounts have been approved by the Board of Directors and adopted by the members. The Managing Director will also be entitled to stock issued by Honeywell Inc., from time to time as per Honeywell policy.

3. Perquisites and Allowances :

a) In addition to the salary and commission payable, the Managing Director shall also be entitled to perquisites and allowances like accommodation (furnished or otherwise) or house rent allowance in lieu thereof; house maintenance allowance, together with reimbursement of expenses or allowances for utilities such as gas, electricity, water, furnishings and repairs; medical reimbursement; leave travel concession for himself and his family and such other perquisites and allowances in accordance with the rules of the Company or as may be agreed to by the Board of Directors and the Managing Director; such perquisites and allowances will be limited to 30% of his annual salary.

b) For the purpose of calculating the above ceiling, perquisites shall be evaluated as per income tax rules, wherever applicable. In the absence of any such rules, perquisites and allowances shall be evaluated at actual cost.

c) Provision for the use of the Company's Car for official duty and telephone at residence (including payment for local calls and long distance official calls) shall not be included in the computation of perquisites and allowances for the purpose of calculating the said ceiling.

d) Company's contribution to Provident Fund and Superannuation or Annuity Fund, to the extent these either singly or together, not taxable under the Income Tax Act; Gratuity payable as per the rules of the Company and encashment

of leave at the end of tenure shall not be included in the computation of the limits for the remuneration or perquisites mentioned above.

The aggregate of the remuneration and perquisites as aforesaid in any financial year shall not exceed the limits prescribed from time to time under Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the said Act or any statutory modifications or re-enactment thereof for the time being, be in force.

4. **Minimum remuneration** : Notwithstanding anything to the contrary herein contained wherein any financial year during the currency of the tenure of the Managing Director, the Company has no profits or inadequate profits, the Company will pay remuneration by way of salary and perquisites as specified above.

Memorandum of concern or interest :

Mr. Vimal Kapur is interested in his aforesaid appointment as the Managing Director of the Company.

Item No.6 :

Mr. Harshavardhan Chitale is relocating to a global position in Honeywell Inc. as Vice-President (Marketing & Strategy) for Honeywell Process Solutions Business Unit but will continue to remain on Board as the Vice-Chairman. He continues to remain on the employment rolls of HAIL and hence he has been appointed as an Executive Director on the following terms and conditions:

I) **Period** : Three years w.e.f. November 1, 2006 with liberty to either party to terminate the appointment by three months notice in writing to the other.

II) **Remuneration** :

1. A basic salary scale of Rs.2,00,000/- to 5,00,000/- per month, with authority to the Board to fix his salary within this scale from time to time.

2. **Perquisites and Allowances** :

a) In addition to the salary payable, the Executive Director shall also be entitled to perquisites and allowances like accommodation (furnished or otherwise) or house rent allowance in lieu thereof; house maintenance allowance, together with reimbursement of expenses or allowances for utilities such as gas, electricity, water, furnishings and repairs; medical reimbursement; leave travel concession for himself and his family, car allowance and such other perquisites and allowances in accordance with the rules of the Company or as may be agreed to by the Board of Directors and the Executive Director; such perquisites and allowances will be limited to 300% of his annual salary.

b) Company's contribution to Provident Fund and Superannuation or Annuity Fund, to the extent these either singly or together, not taxable under the Income Tax Act; Gratuity payable as per the rules of the Company and encashment of leave at the end of tenure shall not be included in the computation of the limits for the remuneration or perquisites mentioned above.

The above payments made to the Executive Director comprising of salary, perquisites and allowances shall be reimbursed to the Company by Honeywell Inc., USA for the entire period during which Mr. Chitale is on deputation for his global assignment.

The aggregate of the remuneration and perquisites as aforesaid in any financial year shall not exceed the limits prescribed from time to time under Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the said Act or any statutory modifications or re-enactment thereof for the time being, be in force.

3. **Minimum remuneration** : Notwithstanding anything to the contrary herein contained wherein any financial year during the currency of the tenure of the Executive Director, the Company has no profits or inadequate profits, the Company will pay remuneration by way of salary and perquisites as specified above.

Memorandum of concern or interest :

Mr. Harshavardhan Chitale is interested in his aforesaid appointment as the Executive Director of the Company.

Item No. 7 :

Consequent to the takeover of Tata Share Registry Ltd. by Darashaw and Company, the name has been changed to TSR Darashaw Limited and the office has shifted to 6-10 Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011. In order to enable them to carry out their work at their new premises, it will be necessary for the Company to keep its Registers of Members, Indexes of Members etc. at the office of TSR Darashaw Limited.

Section 163 of the Companies Act, 1956, provides that the approval of the Shareholders by way of a Special Resolution is necessary for keeping the Registers of Members, Indexes of Members etc. at places other than the Registered Office of the Company. The proposed Resolution is for obtaining such approval of the Members. The time for inspection of documents by the Shareholders or such persons as are entitled to inspection will be between 11.00 a.m. and 1.00 p.m. on every working day of the Company or of TSR Darashaw Limited.

Item No. 8 :

At present the Directors of the Company (other than the Managing & Executive Director) are paid a fee of Rs.20000/- for each Board meeting attended by them. Taking into account the Company's activities which have increased manifold since its inception and the consequent enhancement of the responsibilities of the Directors in attending to the business of the Company, it is proposed that pursuant to the provisions of Section 309(4) of the Companies Act, 1956, in addition to fees for attending Board meetings, the Directors (other than the Managing & Executive Director) be paid with effect from the financials for the year commencing 1st January 2007, for the services they have rendered and are rendering to the Company, a remuneration not exceeding 1% of the net profits of the Company, calculated in accordance with the provisions of the Act. This remuneration will be distributed amongst all or some of the Directors in accordance with the directions given by the Board.

Name of Director	Mr. M.N. Bhagwat	Mr. John Ellis
Date of Birth	04.06.1932	03.03.1942
Date of Appointment	02.11.2004	01.01.2006
Expertise in specific functional areas	Engineering	Engineering
Qualifications	1. B. E. (Mechanical & Electrical), University of Pune. 2. M. S. Mechanical Engineering, University of Illinois, USA. 3. Diploma in Business Management, Bajaj Management Institute, Mumbai.	1. M.B.A. Harvard Graduate School of Business Administration 2. B. S. Haverford College
List of public Companies in which outside Directorships held as on December 31, 2006	Nelco Limited Kennametal India Ltd. Walchand Capital Limited Technopolis Knowledge Park Ltd. Nelito Systems Ltd. Orpak Systems Ltd.	—
Chairman/Member of the Committees of the Board of the Companies on which he is a Director as on December 31, 2006	Audit Committee : Kennametal India Ltd. - Chairman Walchand Capital Ltd. - Chairman Nelco Limited - Chairman Orpak Systems Ltd. - Member Shareholder Grievance Committee : Nelco Limited - Chairman	—

Dear Members,

The Directors present the **TWENTY-THIRD ANNUAL REPORT** with the audited statements of accounts of the Company for the year ended December 31, 2006.

1. FINANCIAL RESULTS :

Particulars	Year ended December 31, 2006 (Rs. in lacs)	Year ended December 31, 2005 (Rs. in lacs)
Sales & Other Income	66837.86	51464.39
Operating Profit	8999.74	5269.57
Less: Interest	217.00	348.67
Depreciation	981.61	1097.86
Amortisation of	36.36	22.19
Miscellaneous Expenditure		
Profit for the year	7764.77	3800.85
Provision for tax	2214.13	410.68
Deferred Tax Adjustment	(250.31)	(18.03)
PROFIT AFTER TAX	5800.95	3408.20
Profit brought forward from the previous year	3565.28	1967.85
Profit available for appropriations	9366.23	5376.05
APPROPRIATIONS		
General Reserve	1000.00	1000.00
Proposed Dividend	884.15	707.32
Tax on proposed dividend	124.00	103.45
BALANCE CARRIED FORWARD	7358.08	3565.28

2. DIVIDEND :

Final dividend @Rs.10 per share of Rs.10 each was recommended by the Board in their meeting held on February 3, 2007.

3. OPERATIONS :

The Honeywell Process Solutions (HPS) business grew in all major segments of its operations such as Metals, Chemicals, Paper & Pulp, Oil & Gas etc. The HPS business won major contracts from Reliance Jamnagar Refinery, Hindustan Petroleum Corporation Ltd., Bongaigaon Refinery and Petrochemicals Ltd., Indian Petroleum Corporation Ltd., Indal, Hindustan Zinc, Steel Authority of India Ltd., Italcementi, Reliance Energy etc. and also won a large number of orders from the Sugar Industry from Renuka Sugars, Dalmia Sugars etc. HPS successfully expanded its project operations in Chennai and Jamshedpur to be closer to customer which is delivering results in faster project close outs and higher customer satisfaction. HPS is also making major investments to expand its manufacturing facilities to cater to its current and future growth and expanded facilities are expected to be completed by June 2007.

Honeywell Business Solutions (HBS) delivered a good growth over last year. The major orders won during 2006 include Tata Consultancy Services, Mandke Research, Magus, IBM, Flextronics, Regenesys etc. These orders were bagged across the entire offering range of Solutions, Services and Energy across our major verticals of Office Space/IT Space, Healthcare, Hospitality, Drugs & Life Sciences, Retail, Infrastructure and Industrial Complexes. HBS was also recognized across the entire value chain by bagging 6 national level awards during the year from reputed organizations such as the Confederation of Indian Industry, MEDA, Frost & Sullivan and several other recognitions for our market leadership in this business.

Environment Combustion Control (ECC) also showed a healthy growth over 2005. The major orders received were from Voltas, Prestige Builders and Parle Products. In 2006 NOVAR building management business was integrated successfully in ECC India as part of global acquisition.

The Sensing & Control (S & C) Products business won major orders from Indfoss, Delta Engineer, Terex Vectra, Ashok Leyland and Escorts. Honeywell has started supplying Crank sensors and pressure sensors to Tata Motors. These sensors are installed on the engines and critical parts of the engines. Tata Motors is using Honeywell sensors in their passenger car.

Global Engineering Services continued its organic growth in 2006 and has exceeded 1 Million hours of engineering services spread across all continents. The electronic systems export facilities initiated in 2005 were expanded to double its capacity

and were utilized at 100% in the very first year of its commercial operations. The business faced profit pressure due to rapidly escalating manpower cost which was mitigated by favorable dollar exchange rate and internal productivity improvement programs. With the boom in the Indian engineering industry there was an immense pressure on resource supply. In order to address this market condition, the business launched several initiatives to enhance employee engagement and thereby managed attritions levels below market average.

Your Company also decided to discontinue distribution of security products through third party distributors as this was causing conflict with our Honeywell Business Solutions business. As this business was started only in 2006, there is no material impact of this decision on the current Profit or Balance Sheet.

4. INITIATIVES DURING 2006 :

In the year 2006, your Company successfully automated about 200 petrol stations spread all over India for oil majors like Indian Oil Corporation Ltd., IBP Co. Ltd. and Hindustan Petroleum Corporation Ltd. Automation in petrol stations is a major initiative taken by all the oil companies for the first time in India for consumer satisfaction and retention. It is an emerging market and your Company has largest market share in this segment. Your Company received confirmation from oil major like Indian Oil Corporation Ltd., and Hindustan Petroleum Corporation Ltd., to go ahead with automation of their more than 1200 petrol stations to be completed in 2007. With success and valuable experience for petrol station automation, a new opportunity has opened not only for domestic market but also for looking at many global markets.

Your Company has taken major capital investment to expand its manufacturing and office space. The project will create 170,000 sq. feet of additional space at our Pune headquarters and would cater to our current and future growth needs.

Your Company is also working actively to add System Integrators for Novar Building Control products to serve a wider market in the rapidly growing construction segment. We already have appointed 10 System Integrators and hope to continue to expand on this program in 2007.

Your Company has initiated S&C Transportation as a growth initiative. This initiative has started delivering results and we have won couple of projects, which will bring revenue growth year on year. Some of the major customers are Tata Motors, Escorts, BEML, Action Construction, Caterpillar, Larsen & Tubro Komatsu, Ingersol Rand, Godrej and Voltas etc.

Your Company has increased its focus on compliance to Health and Safety across its facilities and also at various customer locations where we work in India and globally. The implementation of a comprehensive Health Safety & Environment program has shown positive results and your company can be compared with other manufacturing companies to implement best procedures and practices.

5. 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.

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.

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'.

6. DIRECTORS :

As per the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. John Ellis retires as a Director appointed in a casual vacancy and is eligible for reappointment. Mr. M.N. Bhagwat retires by rotation and is eligible for re-appointment. Mr. Harshvardhan Chitale has been deputed to Honeywell Inc. US and he remains on Board as the Executive Vice-Chairman subject to the approval of the shareholders. Mr. Vimal Kapur has been appointed, subject to the approval of the shareholders, as the Managing Director of the Company.

7. 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.

8. 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 to the effect that the appointment, if made, will be in accordance with the limits specified in Section 224(1-B) of the Companies Act, 1956.

9. CEO/CFO CERTIFICATION :

The Managing Director and the Chief Financial Officer have certified 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.
- (e) We affirm that we have not denied any personnel, access to the Audit Committee of the Company (in respect of matters involving alleged misconduct) and we have provided protection to 'whistle blowers' from unfair termination and other unfair or prejudicial employment practices; and
- (f) We further declare that all board members and senior managerial personnel have affirmed compliance with the code of conduct for the current year.

10. 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.

11. 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 ELLIS
Chairman

Mumbai, February 3, 2007

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.

B) TECHNOLOGY ABSORPTION :

FORM B

Research and Development (R&D) :

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

- New Product development for cooling solutions and building solutions
- RFID based Asset Locator
- IEC Protocol development

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

- Product development for un-addressed market for Asia Pacific region in different industrial segments.

3. Future plan of action :

- Enhanced Terminal Automation Software
- Industry Specific application with Generic HMI development to be taken up
- RFID technology evaluation for other industrial segments.

4. Expenditure on R&D :

	2006	2005
	(Rs. In lacs)	(Rs. In lacs)
(a) Capital	—	—
(b) Recurring	32.50	123.86
(c) Total	32.50	123.86
(d) Total R&D expenditure as a percentage of turnover	0.05%	0.25%

Technology Absorption, Adaptation And Innovation :

1. Efforts, in brief, made towards technology absorption and innovation : During the year local manufacturing lines for Temperature Transmitters and LCD Hour Meters was set up successfully and also local sources were developed for certain parts of these products. Localization of these products helped us reduce the product cost and the delivery period.
2. Benefits derived as a result of the above efforts : The above efforts enabled us to grow the domestic business of Temperature Transmitters and LCD Hour Meters. In the case of Temperature Transmitters it helped us bag export orders from other Affiliates.
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. High Performance Process I/Os.
 - b) Year of Import : i. 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	1,943,894
(ii) Foreign Exchange Used	2,308,149

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, 2006.

Persons employed during 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 (Yrs.)	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Total Experience (Yrs.)	Date of joining	Last Employment/ Designation
Aparanji Harshavardhan V.	Head - H.R.	B.E. (Mech), MBA (HR)	35	2,705,782	1,975,936	11	20/06/2005	Colgate Palmolive / Talent Strategy Manager
Arora Asheesh *	Asia Pacific Leader Industrial Measurement & Control	B.E. (Elect & Comm.) MBA	34	3,235,403	2,187,097	11	22/08/2000	Tata Administrative Services/ Manager
Chitale Harshavardhan M *	Executive Director	B.E. (Elec. Engg)	35	5,700,007	3,738,430	13	01/06/1994	Tata Administrative Services / Manager
Gaikwad Ashish M *	Director - Advanced Solutions Business - Asia Pacific	B.E. (Hons) (Elec. & Elect. Engg)	38	2,930,107	1,892,247	16	14/07/1992	CMC Ltd. Application Engineer
Ganguly Gautam	Head - Northern Region	B.E. (Elect. & Comm.)	58	3,004,577	2,116,270	37	04/01/1993	EETDC, New Delhi / General Manager
Kapur Vimal	Managing Director	B.E. (Elect. Engg.)	42	4,313,890	2,392,376	21	16/02/1989	Bells Controls Ltd./ Manager
Khushoo K K **	Head - Factory	B.Sc. (Elect.)	59	2,699,565	1,794,685	36	02/01/1989	Bells Controls Ltd./ Manager

* Represents people working on global assignments. Proportionate cost has been recovered from the respective entities.

** Employed for part of the year - Retired in December 2006.

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.

Mumbai, February 3, 2007

For and on behalf of the Board

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

JOHN ELLIS
Chairman

HIGHLIGHTS OF PERFORMANCE

- Sales growth of 31% over last year, all segments grew in similar proportions ↑
- EBIDTA growth of 70 % over last year ↑
- Net working capital as a percentage of Sales down by 9 % over last year
- Cash Flow from Operations (without Capex) more than 100% of Net Income
- Strong focus on growth projects, localization and reduced Cost to Serve (CTS) using Six Sigma framework methodology.

INDUSTRY OUTLOOK AND OPPORTUNITIES

The Indian economy has witnessed all round growth in year 2006 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 3 years & is expected to show similar high growth in FY 2007. 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 compliance projects are driving growth of this business.

Honeywell Building Solutions (HBS) business provides solutions and services for facilities such as Commercial & Industrial Buildings, IT & ITES industry, 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 solution in new upcoming buildings. Good opportunities for building automation are also seen in new investments that are taking place for Airport modernization and SEZ's.

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. We also expect this business to grow rapidly through its new initiatives of Novar products distribution.

Sensing & Control (S&C) Products business provides various sensors and switches to manufacturing and automobile 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 started the distribution of Honeywell Security Group (HSG) products in 2005. This initiative will continue to growing along with the synergies that exist with other solutions businesses like HBS and HPS. However, the Company has decided not to pursue the external distribution business in such products.

Global Services (GS) business, which offers solutions and services to overseas requirements of Honeywell and 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.

FINANCIALS

The financial results for 2006 demonstrate another strong stride in achievement of that goal. Net Sales were up 31% to Rs 644 Crores. Earnings per share grew 70% to Rs 65.61. Operating cash flow (cash flow from operations) at Rs 76.3 Crores was up by 15% and represented 131% conversion of net income. Another strong performance.

Good cash flow, a strong balance sheet, and a robust outlook for the future allowed us to again share our dividend by 100% to 10 per share. Delivering these consistent results like we did in 2005, 2006 and will do again in 2007 moves us a long way to building investor credibility.

“WHERE IT MATTERS”

One Mission is doing a great job for our customers every day in delivery, quality, value and technology. A primary thrust of our Growth initiative. Its tough to talk with customers about new products and services if they are having issues with the current shipments.

Your Company has been chosen as a pilot site for Honeywell Operating System (HOS) being rolled out to improve customer service and efficiency.

FIVE INITIATIVES

Few years ago Honeywell Inc. developed Five Initiatives (Growth, Productivity, Cash, People and Enablers) to provide direction for the Company. The results indicate it's working and we will continue. Growth is driven by our Four Pillars (1) doing a great job for our customers every day, (2) Sales and Marketing excellence, (3) Globalization and (4) Introduction of new products and services supported by VPD and Six Sigma (SSP). Customer service continues to improve with more to go. Marketing has improved a lot with the Strategic Marketing Program.

Productivity continues to focus on traditional materials and manufacturing programs, and we're excited about what SSP and HOS can do to improve service levels internally and externally while reducing costs substantially. Growth and Productivity are interdependent. Growth provides fixed costs leverage and Productivity provides the opportunity to generate more value for customers.

Six Sigma continues to be strong focus for operational excellence further transitioning to next level of maturity through **Honeywell Operating System (HOS)**. More than 1000 employees have been certified as Green Belts and few additional as Black Belts in the end of 2006. In 2007 two large Master Black Belt projects have been launched. Also 3 HOS full scale deployment sites are identified in Engineering and Integrated Supply Chain areas. HOS will drive solid impact in Safety, Quality, Delivery, Cost and Inventory through deployment of integrated management system and strong commitment from Leadership

Cash is always uppermost in our minds, and the Company's leadership teams bonus pool is determined by cash performance. We again generated cash at over 100% of net income.

People are the ultimate differentiator and we'll continue improving our selection, reward, and promotion processes to get better and better. People provide the "glue". The best people, organized correctly and motivated, make all the difference.

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.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

- **Management Audit**

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 Organization. The weekly and monthly MIS report provides Actual performance versus budgets

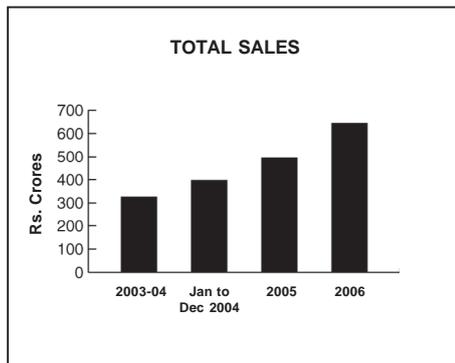
The Company has a strong Operations review mechanism in place. The management committee, the Business Unit / Department Head review the performance of the business and the expenses on a monthly basis and corrective actions are discussed and implemented.

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

Summary

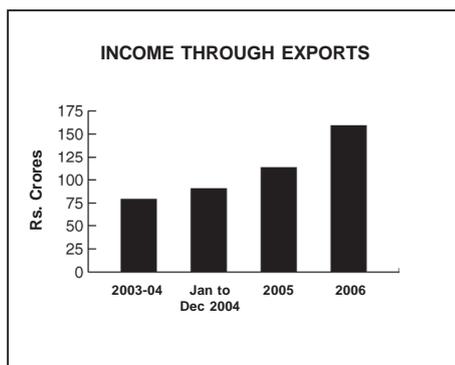
Our Five Initiatives continue to provide direction. Major Company process improvements like VPD, HOS and working capital make us a better Company. Importantly, it is all showing in the financial results.

FINANCIAL PERFORMANCE



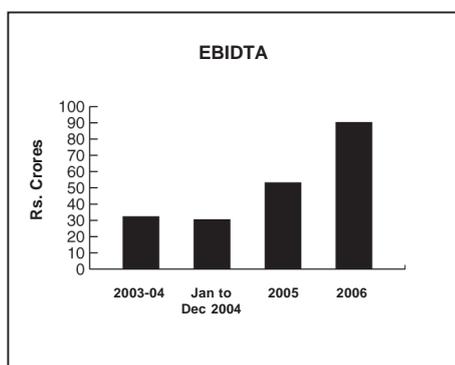
Total sales growth of 31% over the corresponding period last year. Major achievements were:

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

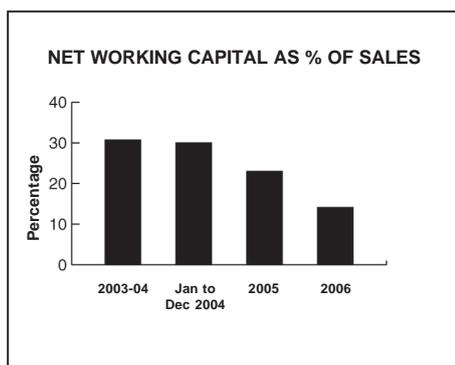


Export earnings grew 40% over the corresponding period last year. Major achievements were :

- Increased work from Honeywell.
- Hardware export to middle east.
- Third party Engineering



EBIDTA growth of 70% over last year



Net working capital as % of Sales improved by 9% 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, 2006 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. 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.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) 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.
 - (b) 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;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) 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;
 - (e) On the basis of written representations received from the directors of the Company as on December 31, 2006 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, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) 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, 2006;
 - (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

Place : Mumbai
Date : February 3, 2007

[Referred to in paragraph 3 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, 2006]

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 in five years 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. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, clauses (3)(b), (3)(c) and (3)(d) of paragraph 4 of the Order are not applicable to the Company for the current year.
(b) The Company has taken unsecured loans from two companies covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year and the year-end balance of such loans aggregates to Rs. 205,000 ('000) and Rs. Nil respectively.
(c) In our opinion, the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Company.
(d) In respect of the aforesaid loans, the Company is regular in repaying the principal amounts as stipulated, and is also regular in payment of interest.
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 the 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, 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, 2006 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	21	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	Tax levied on reimbursement of freight & insurance	8	1997-98 to 2000-01	Tribunal
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	Differential tax on AMC contracts	81	1999-2000 to 2000-01	Deputy Commissioner (Appeals)
Gujarat Sales Tax Act 1969	Exemption denied for supplies and imports used in WCT under NEXUS theory	71	2000-01 and 2001-02	Assistant Commissioner (Appeals)
Pune Municipal Corporation - Octroi	Denial of exemption granted on account of procedural lapses	11	2003-04	Small Cause Court

* Net of amounts paid under protest or otherwise

10. The Company has no accumulated losses as at December 31, 2006 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

Place : Mumbai
Date : February 3, 2007

**Balance Sheet as at
December 31, 2006**

**Honeywell Automation India Ltd.
Annual Report 2006**

	Schedule	As At December 31, 2006 (Rs. '000)	As At December 31, 2005 (Rs. '000)
Sources of Funds			
1. Shareholders' Funds			
a) Share Capital	1	88,415	88,415
b) Reserves and Surplus	2	1,710,881	1,231,601
		<u>1,799,296</u>	<u>1,320,016</u>
2. Loan Funds			
a) Secured Loans	3	4,652	230,351
b) Unsecured Loans	4	120,698	128,338
		<u>125,350</u>	<u>358,689</u>
	Total	<u><u>1,924,646</u></u>	<u><u>1,678,705</u></u>
Application of Funds			
1. Fixed Assets	5		
a) Gross Block		1,040,211	941,468
b) Less: Depreciation		634,877	545,373
c) Net Block		405,334	396,095
d) Add: Capital Work-in-progress		119,179	11,714
		<u>524,513</u>	<u>407,809</u>
2. Deferred Tax Assets		79,952	54,920
[Refer Note 2 (v) of Schedule 17]			
3. Current Assets, Loans and Advances			
Inventories	6	340,717	282,940
Sundry Debtors	7	1,901,374	1,517,392
Contracts in progress (Refer Note 17 of Schedule 17)		609,473	151,638
Cash and Bank balances	8	386,270	174,372
Loans and Advances	9	372,755	390,560
		<u>3,610,589</u>	<u>2,516,902</u>
Less: Current Liabilities and Provisions	10	2,290,408	1,304,562
Net Current Assets		<u>1,320,181</u>	<u>1,212,340</u>
4. Miscellaneous Expenditure	11	–	3,636
(To the extent not written off or adjusted)			
	Total	<u><u>1,924,646</u></u>	<u><u>1,678,705</u></u>
Notes to Accounts	17		

Schedules referred to above form an integral part of the Balance Sheet

As per our report of even date attached

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

Neeraj Gupta
(Partner)
Membership No.F 055158

Mumbai, February 3, 2007

For and on behalf of the Board of Directors

John Ellis Chairman
Vimal Kapur Managing Director
Sneha Padve Company Secretary

Mumbai, February 3, 2007

SCHEDULES FORMING PART OF THE BALANCE SHEET
AS AT DECEMBER 31, 2006

As At December 31, 2006 Rupees ('000)	As at December 31, 2005 Rupees ('000)
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SCHEDULE - 1 : SHARE CAPITAL

Authorised :

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	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	88,415	88,415
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Note: 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><u>88,415</u></u>	<u><u>88,415</u></u>
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As At December 31, 2006 Rupees ('000)	As at December 31, 2005 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	717,365	614,644
Add: Transferred from Investment Allowance (Utilised) Reserve	—	2,721
Add: Transferred from Profit and Loss Account	<u>100,000</u>	<u>100,000</u>
General Reserve Closing balance	817,365	717,365
Investment Allowance (Utilised) Reserve	—	2,721
Less: Transferred to General Reserve	<u>—</u>	<u>2,721</u>
	—	—
Balance in Profit and Loss Account	<u>735,808</u>	<u>356,528</u>
TOTAL	<u><u>1,710,881</u></u>	<u><u>1,231,601</u></u>

	As at December 31, 2006 Rupees ('000)	As at December 31, 2005 Rupees ('000)
SCHEDULE - 3 : SECURED LOANS		
Cash Credit [Refer Note 4 (a) of Schedule 17]	264	34,333
Loan from Banks (Repayable within one year Rs. 326 ('000); previous year Rs. Nil) [Refer Note 4 (a) of Schedule 17]	1,427	—
Finance Lease [Refer Note 2 (iii) of Schedule 17]	2,961	4,876
Foreign Currency Loan from Bank (Repayable within one year Rs. Nil; previous year Rs. 191,142 ('000))	—	191,142
TOTAL	4,652	230,351

SCHEDULE - 4 : UNSECURED LOANS		
Deferred Sales Tax Liability		
(a) Under the 1987 Package Scheme of Incentives, Govt. of Maharashtra [Due within one year - Rs. 12,415 ('000); previous year - Rs. 7,640 ('000)] [Refer Note 4 (b) of Schedule 17]	59,730	67,370
(b) Under the 1993 Package Scheme of Incentives, Govt. of Maharashtra (Due within one year - Rs. Nil; previous year - Rs. Nil) [Refer Note 4 (b) of Schedule 17]	60,968	60,968
TOTAL	120,698	128,338

SCHEDULE - 5 : FIXED ASSETS										
[Refer Note 1(e), (f), (g) of Schedule 17]										
(Rs. '000)										
Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Cost as on December 31, 2005	Additions during the year	Deletions during the year	Cost as on December 31, 2006	Accumulated Depreciation as on December 31, 2005	Depreciation for the year	Depreciation written back on deletions during the year	Accumulated Depreciation as on December 31, 2006	As on December 31, 2006	As on December 31, 2005
Tangible Assets										
Land	3,024	—	—	3,024	—	—	—	—	3,024	3,024
Buildings	107,388	8,509	9,133	106,764	21,054	3,689	3,734	21,009	85,755	86,334
Plant and Machinery	272,972	38,567	1,443	310,096	186,583	19,145	697	205,031	105,065	86,389
Computers	187,070	43,659	155	230,574	110,638	41,103	59	151,682	78,892	76,432
Furniture and Fixtures	101,182	15,296	2,401	114,077	41,027	6,875	1,540	46,362	67,715	60,155
Office Equipment	29,831	5,286	3,014	32,103	13,294	2,752	934	15,112	16,991	16,537
Vehicles (Refer Note below)	16,742	2,416	1,923	17,235	10,435	3,423	1,693	12,165	5,070	6,307
Intangible Assets										
Product Distribution Rights HSPL	105,962	—	—	105,962	74,190	10,618	—	84,808	21,154	31,772
Product Distribution Rights SAARC	82,462	—	—	82,462	66,869	3,119	—	69,988	12,474	15,593
Oracle License	11,646	—	—	11,646	4,852	1,336	—	6,188	5,458	6,794
Software	23,189	3,079	—	26,268	16,431	6,101	—	22,532	3,736	6,758
TOTAL	941,468	116,812	18,069	1,040,211	545,373	98,161	8,657	634,877	405,334	396,095
Previous year	774,667	190,339	23,538	941,468	449,670	109,786	14,083	545,373		
Capital Work in Progress (Including advances on Capital Account)									119,179	11,714
									524,513	407,809

NOTE :

Vehicle includes assets acquired on finance lease with a cost of Rs.7,786 ('000) [Previous year Rs.14,827 ('000)] and a written down value of Rs.2,821 ('000) [Previous year Rs.5,042 ('000)].

	As at December 31, 2006 Rupees ('000)	As at December 31, 2005 Rupees ('000)
SCHEDULE - 6 : INVENTORIES		
(As valued and certified by the Management)		
[Refer Note 1(c) of Schedule 17]		
Raw Material (Including trading stock of Rs. 44,334 ('000); Previous year Rs. 42,174 ('000))	238,800	198,346
Raw Material-in-transit (at cost)	54,806	44,432
Work-in-Progress	31,377	33,177
Finished Goods	15,734	6,985
TOTAL	340,717	282,940

SCHEDULE - 7 : SUNDRY DEBTORS

[Refer Note 7 of Schedule 17]

Sundry Debtors (Unsecured)

Outstanding for a period exceeding six months

Considered Good

Considered Doubtful

514,800

625,037

211,393

220,048

726,193

845,085

1,386,574

892,355

Other Debts, considered good

(This includes Retention Money not due of Rs. 609,997 ('000);

Previous Period- Rs. 551,121 ('000))

Less: Provision for doubtful debts

211,393

220,048

TOTAL **1,901,374** **1,517,392****SCHEDULE - 8 : CASH AND BANK BALANCES**

Cash

2,573

2,191

Bank Balance with Scheduled Banks

- On Current Account

- On Fixed Deposits

200,001

170,464

180,000

—

[includes balances in Exchange Earner's Foreign Exchange Currency

Accounts equivalent to an amount aggregating to Rs. 28,845 ('000);

(Previous Period Rs. 50,914 ('000)]

Bank Balance with Non-Scheduled Banks

- Lasalle Bank N.A.

3,696

1,717

TOTAL **386,270** **174,372**

Maximum balance outstanding during the year for the above

- Lasalle Bank N.A.

4,989

3,519

	As at December 31, 2006 Rupees ('000)	As at December 31, 2005 Rupees ('000)
SCHEDULE - 9 : LOANS AND ADVANCES		
(Unsecured, Considered Good)		
Advances recoverable in cash or in kind or for value to be received	259,499	213,237
Balance with Central Excise, Custom Authorities, etc.	11,481	5,784
Advance Income Tax, including tax deducted at source (net of provisions)	101,775	171,539
TOTAL	372,755	390,560

SCHEDULE - 10 : CURRENT LIABILITIES AND PROVISIONS**Current Liabilities**

Acceptances	22,250	67,210
Sundry Creditors		
- Dues to Small Scale Industrial Undertakings [Refer note 3(b) of Schedule 17]	4,356	5,272
- Dues to creditors other than Small Scale Industrial Undertakings	1,602,749	934,931
Advance from Customers	372,383	73,987
Liability towards Investor Education and Protection Fund under Section 205C of the Companies Act, 1956, not due		
- Unclaimed Dividend	1,351	1,181
Other Liabilities	36,623	53,764
	2,039,712	1,136,345

Provisions

Proposed Dividend	88,415	70,732
Dividend Distribution Tax	12,400	9,920
Warranty (Refer Note 18 of Schedule 17)	92,625	41,276
Leave Encashment	26,564	21,733
Gratuity	7,135	8,578
Provision for Future Losses on Contracts (Refer Note 18 of Schedule 17)	23,557	15,978
	250,696	168,217
TOTAL	2,290,408	1,304,562

SCHEDULE - 11 : MISCELLANEOUS EXPENDITURE

(To the extent not written off or adjusted)
[Refer Note 1(h) of Schedule 17]

Technology Cost	3,636	7,699
Less: Amortisation	3,636	4,063
TOTAL	0	3,636

**SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Year ended December 31, 2006 Rupees ('000)	Year ended December 31, 2005 Rupees ('000)
--	---	---

SCHEDULE - 12 : SALES

[Refer Note 1(b) and 2(i) of Schedule 17]

Products and Jobs	5,594,184	4,326,608
Services rendered	1,047,963	798,562
TOTAL	6,642,147	5,125,170

SCHEDULE - 13 : OTHER INCOME

Interest - Gross	4,357	1,825
Provisions for doubtful debts written back	8,655	—
Provisions no longer required written back	6,556	1,514
Sundry Credit balances written back	13,819	7,227
Refund of Taxes and Duties	—	1,093
Foreign Exchange Gain (Net)	7,107	7,869
Miscellaneous Income	1,145	1,741
TOTAL	41,639	21,269

SCHEDULE - 14 : MATERIAL AND MANUFACTURING EXPENSES

Raw Materials, Components and Services consumed		
Opening Stock	242,778	280,236
Add: Purchases	3,751,059	2,787,348
	3,993,837	3,067,584
Less: Closing Stock	293,606	242,778
	3,700,231	2,824,806
(Increase)/ Decrease in Work-in-Progress		
Opening Work-in-Progress	33,177	99,830
Less: Closing Work-in-Progress	31,377	33,177
	1,800	66,653
(Increase)/Decrease in Finished Goods		
Opening Stock	6,985	12,650
Less: Closing Stock	15,734	6,985
	(8,749)	5,665
Excise Duty Expense	6,944	7,713
Power and Fuel	29,986	23,436
Other Manufacturing Expenses	10,007	1,559
Repairs and Maintenance		
- Buildings	2,006	1,720
- Plant and Machinery	14,345	17,583
- Others	1,854	1,517
	18,205	20,820
TOTAL	3,758,424	2,950,652

	Year ended December 31, 2006 Rupees ('000)	Year ended December 31, 2005 Rupees ('000)
SCHEDULE - 15 : EMPLOYEES' REMUNERATION AND BENEFITS		
Salaries, Wages, Bonus and Allowances	862,597	648,125
Company's Contribution to Provident Fund and Other Funds	41,063	31,387
Welfare Expenses	52,021	47,048
TOTAL	955,681	726,560
SCHEDULE 16 : SELLING, ADMINISTRATION AND OTHER EXPENSES		
Rent	73,828	52,336
Rates and Taxes	5,636	8,491
Freight and Octroi Outward	43,870	29,572
Travelling	315,809	243,216
Remuneration to Auditors :		
As Auditor	1,421	1,221
Other (Including Tax Audit)	750	—
Out of pocket expenses	24	54
	2,195	1,275
Insurance	12,138	14,883
Job Site Expenses	58,794	28,982
Communication Expenses	49,480	44,467
Liquidated Damages written off	20,603	23,633
Bad Debts written off	42,993	52,283
Provision for doubtful debts	—	70,864
Loss on assets sold/ discarded	9,448	10,167
Sales Commission	4,138	8,919
Directors Fees	370	410
Miscellaneous Expenses	227,795	157,604
TOTAL	867,097	747,102

SCHEDULE - 17

Annexed to and forming part of the Balance Sheet as at December 31, 2006 and the Profit and Loss Account for the year ended December 31, 2006

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

The financial statements are prepared under historical cost convention as a going concern 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.
- 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 recognized 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.
- vii) Revenue from short term software development services includes revenue from time and material and fixed price contracts. Revenue from time and material contracts are recognized as related services are performed. With reference to fixed price contracts revenue is recognized in accordance with percentage of completion method of accounting.

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.

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 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.
- 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 4 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) Miscellaneous Expenditure :

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

- New Product Implementation training fee amortised over a period of 72 months, commencing from the month of implementation.

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.

i) 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.

j) Employee Retirement Benefits :

- Contributions to approved Provident and Superannuation Funds, being defined contribution schemes, are made on actual liability basis calculated as a percentage of salary.
- 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 given by Life Insurance Corporation of India.
- Leave encashment benefit is provided on the basis of actuarial valuation.

k) 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 over the lease term.

l) Taxation :**Current Tax**

Provision for the current income tax is made in the accounts on the basis of estimated tax liability as per the applicable provisions of the Income Tax Act, 1961.

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. Disclosures under Accounting Standards**i) 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 '06	Year ended December '05
Domestic	5,052,878	4,211,025
Exports	1,589,269	914,145
Total	6,642,147	5,125,170

(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. Honeywell International Inc.
(ii)	Joint Venture : Central Monitoring Services (I) Pvt. Ltd. (upto July 7, 2005)

(iii)	Other related parties with whom transactions have taken place during the year :	
	Other fellow subsidiaries (Fellow Subsidiaries with effect from 2nd November, 2004)	
<p>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 GmbH Honeywell Automation and Control Solutions Sarl 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 (Not in Law DB) Honeywell International (India) P. Ltd Honeywell International Asia Pacific Inc. Honeywell International Inc. Honeywell K.K. Honeywell Limited Honeywell Limited (Hong Kong) Honeywell Middle East B.V.</p>	<p>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 AG Shanghai C&K Technology Co. Ltd. Novar Controls Trend Control systems Limited Novar India Limited Honeywell Investment India Private Limited.</p>	
(iv)	Key Management Personnel	
	Mr. Vimal Kapur (Executive Director upto October 31, 2006 and Managing Director with effect from November 01, 2006)	
	Mr. Harshavardhan Chitale (Managing Director upto October 31, 2006 and Executive Director with effect from November 01, 06)	

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 December 31, 2006	Year ended December 31, 2005	2006		2005	
			Receivable	Payable	Receivable	Payable
Sales of goods and services						
<u>Holding Company</u>						
Honeywell International Inc.	349,676	253,110	77,880	–	65,598	–
Total	349,676	253,110	77,880	–	65,598	–
<u>Joint Venture</u>						
Central Monitoring Services (I) Pvt. Ltd.	–	353	–	–	974	–
Total	–	353	–	–	974	–
<u>Fellow Subsidiaries</u>						
Honeywell Middle East B. V.	252,069	175,207	44,706	–	16,555	–
Honeywell S. A. (Belgium)	263,195	81,290	18,295	–	19,400	–
Other fellow subsidiaries	755,918	469,343	187,489	–	162,428	–
Total	1,271,182	725,840	250,490	–	198,383	–
Purchase of goods, services and fixed assets						
<u>Holding Company</u>						
Honeywell International Inc.	424,624	259,595	–	108,109	–	48,329
Total	424,624	259,595	–	108,109	–	48,329
<u>Fellow Subsidiaries</u>						
Honeywell Optoelectronica, S.A. de C.V.	162,915	144,866	–	35,937	–	22,022
Other fellow subsidiaries	603,435	373,959	–	159,389	–	90,370
Total	766,350	518,825	–	195,326	–	112,392
Dividend paid						
<u>Holding Company</u>						
Honeywell Asia Pacific Inc.	57,463	36,165	–	–	–	–
Total	57,463	36,165	–	–	–	–
Royalty						
<u>Holding Company</u>						
Honeywell Intellectual Properties Ltd.	–	444	–	–	–	444
Total	–	444	–	–	–	444
Inter Corporate Loans						
<u>Fellow Subsidiaries</u>						
Novar India Limited	55,000	–	–	–	–	–
Honeywell International India Pvt. Limited	150,000	–	–	–	–	–
Total	205,000	–	–	–	–	–
Interest on Inter Corporate Loans						
<u>Fellow Subsidiaries</u>						
Novar India Limited	2,092	–	–	–	–	–
Honeywell International India Pvt. Limited	5,205	–	–	–	–	–
Total	7,297	–	–	–	–	–

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. 06	Year ended Dec. 05	2006		2005	
			Receivable	Payable	Receivable	Payable
Managerial Remuneration						
<u>Key management personnel</u>						
Harshavardhan Chitale	4,454	2,486	–	–	–	–
Vimal Kapur	3,038	2,468	–	–	–	–
Total	7,492	4,954	–	–	–	–
Commission						
<u>Key management personnel</u>						
Harshavardhan Chitale	2,016	1,246	–	–	–	–
Vimal Kapur	1,915	1,230	–	–	–	–
Total	3,931	2,476	–	–	–	–

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 December 31, 2006 are as follows:

(Rs.'000)

	Due within 12 months		Due between 12-60 months		Total amount due	
	Dec. 06	Dec. 05	Dec. 06	Dec. 05	Dec. 06	Dec. 05
Minimum lease rental payable as on Balance Sheet date	1,703	3,218	1,701	2,264	3,404	5,482
Finance Charges payable	250	254	193	352	443	606
Present value of Minimum lease rental payable at discounted rate implicit in lease agreement	1,453	2,964	1,508	1,912	2,961	4,876

As a Lessee in an Operating Lease:

The Company has hired assets under non-cancelable operating lease arrangements at stipulated rentals. The future minimum lease payments under these leases as of December 31, 2006 are as follows:

(Rs.'000)

	Due within 12 months	Due between 12-60 months	Due beyond 60 months	Total amount due
Minimum lease payments	22,753	40,328	–	63,081

Rentals paid for equipments under operating leases of Rs. 20,231 ('000) (Previous year Rs. 18,660 ('000)) have been included under 'Manufacturing Expenses'.

Rentals paid for computers under operating leases of Rs. 2,281 ('000) (Previous year Rs. 421 ('000)) 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. 31, 06	Year ended Dec. 31, 05
Profit after Tax (Rs.'000)	580,095	340,820
Weighted Average number of Equity Shares	8,841,523	8,841,523
EPS (Rs.) (not annualized)	65.61	38.55
Face value per share (Rs.)	10.00	10.00

v) **Deferred Taxation: Accounting Standard 22**

Composition	As at December 31, 2006 (Rs. '000)	As at December 31, 2005 (Rs.'000)
a) Deferred Tax Assets		
Provision for Doubtful Debts	71,155	74,068
Cost to Complete	7,929	5,378
Provision for Leave Encashment	6,707	7,315
Bonus	11,478	–
Others	525	501
	<u>97,794</u>	<u>87,262</u>
b) Deferred Tax Liability		
Depreciation and Amortisation	17,842	32,342
	<u>17,842</u>	<u>32,342</u>
Net Deferred Tax Asset / (Liability)	<u>79,952</u>	<u>54,920</u>

3. a) Estimated amount of contracts remaining to be executed on capital accounts and not provided for - Rs.156,440 ('000) (Previous Year Rs. 34,331 ('000)).
- b) The Small Scale Industrial Undertakings to whom amounts are due for more than thirty days are as under :
- | | |
|------------------------------------|----------------------|
| Shankar Maniram | R K Sales & Services |
| U L Electro Devices Pvt. Ltd. | J K Packages |
| Connectwell Industries (Pvt.) Ltd. | Mark Vision |
4. a) The cash credit/working capital term loans from Banks including foreign currency loans, for working capital, accounts are secured by hypothecation of present and future stocks of raw materials, semi- finished goods, finished goods, stores and spares and book debts. The vehicle loans are secured by hypothecation of vehicles.
- b) The sales tax liability of Rs. 59,730 ('000) (Previous Year Rs. 67,370 ('000)), deferred and classified under unsecured loans is repayable, in respect of each year's collection, in six annual installments commencing from the year 2005.
- The sales tax liability of Rs.60,968 ('000) (Previous Year Rs. 60,968 ('000)), deferred and classified under unsecured loans is repayable, in respect of each year's collection, in five annual installments commencing from the year 2010.
5. 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
6. Interest includes interest on fixed loans Rs. 17,495 ('000) (Previous Year Rs. 22,431 ('000)) and others Rs. 4,205 ('000) (Previous Year Rs. 12,436 ('000)).
7. While effecting payments to the Company for supplies/services, its customers have not yet paid amounts aggregating to Rs.14,487 ('000) (Previous Year Rs. 7,653 ('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.

8. Contingent Liabilities:

(Rs.'000)

		Dec. 31, 06	Dec. 31, 05
a)	Income tax claims against the Company, for which the Company is in appeal.*	113,900	49,563
b)	Excise duty claims against the Company, for which the Company is in appeal.*	9,110	11,292
c)	Sales Tax refunds/claims against the Company, for which the Company is in appeal.*	125,829	103,802
d)	Customs Duty claims against the Company, for which the Company is in appeal.*	3,200	3,423
e)	Octroi Claim against which the company is in appeal *	1,055	-
f)	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.	8,919,356	1,125,947

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

9. Directors' Remuneration

a)

(Rs.'000)

		For the year Ended December 31, 2006	For the year Ended December 31, 2005
i)	Salaries & Allowances	6,443	4,154
ii)	Perquisites	28	30
iii)	Contribution to Provident & Superannuation Fund	1,021	770
iv)	Commission on Profits		
	- Executive Directors	3,206	2,476
	- Non-Executive Directors	1,800	1,700
		12,498	9,130

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, 2006	December 31, 2005
Profit as per Profit and Loss Account (After prior period adjustment and before taxes)	776,477	380,085
Add :		
Directors' Remuneration, Commission and Fees	12,498	9,130
Provision for Doubtful Debts and Advances	(8,655)	70,864
Directors' Sitting fees	370	410
Bad debts written off	42,993	52,283
Loss on sale of Fixed Assets	9,448	10,167
Depreciation as per books	98,161	109,786
	154,815	252,640
(Less) :		
Depreciation under Section 349	98,161	109,786
Net Profit in accordance with Section 349	833,131	522,939
Maximum Commission on Profits payable to Director (1% of Net Profit)	8,331	5,230
Restricted to	5,006	4,176

10. Additional Information pursuant to the provision of paragraphs 3 and 4 of Part II of Schedule VI to the Companies Act, 1956 of India.

Details of Products Manufactured, Traded and Services Rendered.

(Rs.'000)

	Licensed Capacity	Installed Capacity	Opening Stock		Production	Sales		Closing Stock	
			Qty. (Nos)	Value		Qty. (Nos)	Qty. (Nos)	Value	Qty. (Nos)
(i) Manufactured Products									
Systems	240 (240)	* *	- -	- -	139 (112)	139 (112)	878,658 (748,906)	- -	- -
Transmitters	- -	- -	38 (78)	1,404 (1,806)	5,656 (4,157)	5,593 (4,197)	114,324 (108,153)	101 (38)	2,584 (1,404)
Others (including Bought Outs and Reimbursements)	- -	- -	- -	5,581 (14,456)	- -	- -	3,966,405 (3,005,880)	- -	13,150 (5,581)
(ii) Traded Products									
Various	- -	- -	- -	42,174 (39,329)	- -	- -	634,797 (463,669)	- -	44,334 (42,174)
(iii) Services Rendered									
	-	-	-	-	-	-	1,047,963 (798,562)	-	-
Total							6,642,147 (5,125,170)		

* Not quantifiable as the size/mix of the system varies according to customers' requirements. Previous year figures are indicated in bracket.

11. Details of Raw Materials Consumed :

(Rs.'000)

Description	Qty.	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005
Components for System Intergration	Lot	3,700,231	2,824,806
Total		3,700,231	2,824,806

12. 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, 2006	%	Year ended Dec. 31, 2005
Imported	58	2,162,978	56	1,589,019
Indigenous	42	1,537,253	44	1,235,787
Total		3,700,231		2,824,806

13. CIF Value of Imports :

(Rs. '000)

Description		For the year ended December 31, 2006	For the year ended December 31, 2005
a)	Capital Goods	23,417	24,655
b)	Raw Materials	1,909,820	1,310,855
	Total	1,933,237	1,335,510

14. Expenditure in Foreign Currency :

(Rs. '000)

Description		For the year ended December 31, 2006	For the year ended December 31, 2005
a)	Royalty (Net of Taxes)	–	444
b)	Traveling	284,835	187,781
c)	Others	90,077	50,825
	Total	374,912	239,050

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

Description	For the year ended December 31, 2006	For the year ended December 31, 2005
Amount of Dividend (Net of Taxes) (Rs. '000)	58,207	36,615
Pertaining to Financial Year	2005	2003-04
Number of non-resident shareholders	92	49
Number of shares held	7,275,848	7,233,014

16. Earnings in Foreign Currency :

(Rs. '000)

Description	For the year ended December 31, 2006	For the year ended December 31, 2005
FOB Value of Exports	557,801	177,768
Deemed Exports	7,942	111,364
Services	1,031,468	736,378
Reimbursements	346,683	217,146
Total	1,943,894	1,242,656

17. Contracts in Progress :

(Rs. '000)

Particulars	For the year ended December 31, 2006	For the year ended December 31, 2005
A) Aggregate amount recognized as Contract Revenue	3,797,457	2,809,449
B) In respect of contracts in progress as on December 31, 2006		
i) Aggregate amount of Costs incurred and recognized profits less recognised losses up to December 31, 2006	8,003,705	5,594,027
ii) Amount of Customer Advances received	194,303	45,069
iii) Amount of retentions	544,034	454,505
C) Gross amount due from customers for contract work	736,219	281,913
D) Gross amount due to customers for contract work	126,746	130,275

**Cash Flow Statement
for the year ended
December 31, 2006**

**Honeywell Automation India Ltd.
Annual Report 2006**

	Year ended December 31, 2006 (Rs. '000)	Year ended December 31, 2005 (Rs. '000)
A Cash Flow From Operating Activities		
Net Profit Before Tax	776,477	380,085
Adjusted for		
Depreciation	98,161	109,786
Interest charged	21,700	34,867
Interest earned	(4,357)	(1,825)
Loss on sale of assets	9,448	10,167
Amortisation of miscellaneous expenditure	3,636	2,219
Unrealised Exchange (Gain)/ Loss (net) on restatement of foreign currency assets and liabilities	(1,959)	(2,809)
Operating Profit before working capital changes and other adjustments	<u>903,106</u>	<u>532,490</u>
Adjustments for		
Trade & other receivables	(902,697)	(139,686)
Inventories	(57,777)	127,726
Trade & other payables	971,949	207,755
Cash generated from operations	<u>914,581</u>	<u>728,285</u>
Direct taxes paid	(151,649)	(67,923)
NET CASH FROM OPERATING ACTIVITIES	<u>762,932</u>	<u>660,362</u>
B Cash Flow from Investing Activities		
Purchases of fixed assets	(224,278)	(122,687)
Discard of fixed assets	5,403	4,243
Sale of investments	0	1,500
Interest Received	3,361	1,087
NET CASH USED IN INVESTING ACTIVITIES	<u>(215,514)</u>	<u>(115,857)</u>
C Cash Flow from Financing Activities		
Borrowings (net of repayments)	(233,338)	(330,415)
Interest Paid	(21,700)	(34,867)
Dividend paid	(80,482)	(50,359)
NET CASH USED IN FINANCING ACTIVITIES	<u>(335,520)</u>	<u>(415,641)</u>
NET CHANGES IN CASH & CASH EQUIVALENTS (A+B+C)	<u>211,898</u>	<u>128,864</u>
CASH & CASH EQUIVALENTS - OPENING BALANCE	174,372	45,508
CASH & CASH EQUIVALENTS - CLOSING BALANCE	386,270	174,372

NOTES:

- The above Cash Flow statement has been prepared under the 'Indirect Method' set out in Accounting Standard (AS) - 3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.
- Prior year comparatives have been reclassified to confirm with current year's presentation, where applicable
- The figures in Cash Flow statement are based on or have been derived from the annual financial statements of the Company..
- Figures in brackets represent out flows of cash and cash equivalents.

This is the Cash Flow referred to in our report of even date.

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

Place: Mumbai
Date: February 3, 2007

For and on behalf of the Board of Directors

John Ellis
Chairman

Vimal Kapur
Managing Director

Sneha Padve
Company Secretary

Place: Mumbai
Date: February 3, 2007

V. Generic names of three principal products/services of company (as per monetary terms)

Item Code (ITC Code)

9	0	3	2	8	9	.	0	4
---	---	---	---	---	---	---	---	---

Product Description

D	I	S	T	R	I	B	U	T	E	D		C	O	N	T	R	O	L			
S	Y	S	T	E	M	S															

Item Code (ITC Code)

8	5	3	2	2	0	.	0	0
---	---	---	---	---	---	---	---	---

Product Description

B	U	I	L	D	I	N	G		C	O	N	T	R	O	L						
S	Y	S	T	E	M	S															

Item Code (ITC Code)

9	0	2	6	8	0	.	0	9
---	---	---	---	---	---	---	---	---

Product Description

S	M	A	R	T		T	R	A	N	S	M	I	T	T	E	R	S				
---	---	---	---	---	--	---	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--

Company's Philosophy on the Code of Governance

The revised Corporate Governance Code incorporated in Clause 49 of the Listing Agreement of the Stock Exchanges is applicable to your Company with effect from the financial year January 1, 2006. The Company continues to have Independent Directors on the Board who are actively involved in all the important policy matters. Your Company has put in its best efforts to ensure that it follows the Code of Corporate Governance not only in letter but also in spirit to ensure transparency, accountability and integrity and will continue to do so in future.

Board of Directors

Composition:

The Board comprises of 2 Directors nominated by Honeywell, 2 Independent Directors, an Executive Director and a Managing Director. The Company has a Non-Executive Chairman and one-third of the total number of Directors are Independent Directors [as per Clause 49(I)(A)].

Remuneration of Directors:

The Non-Executive Directors (NEDs) are paid remuneration by way of Commission and Sitting Fees. The commission is paid at a rate not exceeding one percent per annum of the net profits of the Company calculated in accordance with the provisions of Sections 198, 349 and 350 of the Companies Act, 1956.

A Sitting Fee of Rs.20,000/- per Board, Audit Committee and Remuneration Committee Meeting and Rs.10,000/- for Investor Grievance Committee Meetings attended by the Non-Executive Directors is paid to them [as per Clause 49(I)(B)].

Committees of the Board:

None of the Directors on the Board is a Member on more than 10 Committees and Chairman of more than 5 Committees [as per Clause 49(I)(C)] across all the companies in which he is a Director. All the Directors have made the requisite disclosures regarding Committee positions occupied by them in other companies.

The Board met four times on the following dates during the year ended 31st December 2006 and the gap between two meetings did not exceed four months:

7th February 2006 21st April 2006 29th July 2006 17th October 2006

As required by Annexure 1 to Clause 49 of the Listing Agreement with the Stock Exchanges, all the necessary information was placed before the Board from time to time.

The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and at the last Annual General Meeting, as also the number of Directorships and Committee positions as held by them in other public limited companies as on December 31, 2006 are given below:

Name	Category	No. of Board meetings attended during 2006	Attendance at the last AGM held on April 21, 2006	No. of Directorships in other public limited co.	No. of Committee positions held in other public limited companies	
					Chairman	Member
Mr. John R. Ellis (Chairman)	Promoter Not Independent Non-Executive	4	Yes	Nil	Nil	Nil
Mr. Harshavardhan Chitale Vice-Chairman	Executive Director	4	Yes	Nil	Nil	Nil
Mr. Gerard Willis	Promoter Not Independent Non-Executive	4	Yes	Nil	Nil	Nil
Mr. Vimal Kapur Managing Director	Managing Director	4	Yes	Nil	Nil	Nil
Mr. M.N. Bhagwat	Independent Non-Executive	4	Yes	5	4	1
Mr. S.L. Rao	Independent Non-Executive	4	Yes	4	1	3

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. [as per Clause 49(I)(D)]

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 [as per Clause 49(II)(A)]. 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. Oversight 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 31st December 2006:

February 6, 2006 April 20, 2006 July 28, 2006 October 16, 2006

Attendance at the Audit Committee Meeting:

Name of Director	No. of Meetings held	No. of Meetings Attended
Mr. S. L. Rao	4	4
Mr. G. Willis	4	4
Mr. M. N. Bhagwat	4	4

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 February 3, 2007, to appraise and decide the compensation payable of the Managing and Executive Director.

The Company pays remuneration to its Managing and Executive Director by way of salary, perquisites and allowances (a fixed component) and commission (a 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 2006 for attending Board Meetings and various Board constituted Committee Meetings.

Non-Executive Directors :

(Rs. in '000)

Director	Sitting Fees	Commission	Shareholding (Nos.)
Mr. M.N. Bhagwat	190	Rs. 900	700
Mr. S.L. Rao	180	Rs. 900	Nil

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.

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

Managing Director :

(Rs. in '000)

Name	Salary & Allowances (Rs.)	Commission for the year 2006 (Rs.)
Mr. Vimal Kapur	3038	1593

Period of Contract of MD : 5 years from November 1, 2006
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 :

(Rs. in '000)

Name	Salary & Allowances (Rs.)	Commission for the year 2006 (Rs.)
Mr. Harshvardhan Chitale	4458	1612

Period of Contract of ED : 3 years from November 1, 2006
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. Harshvardhan Chitale	–	Member - Executive Director

The Committee met on 7th February 2006 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: 020-66072576
Fax no. 020-66039800

No. of queries received from the investors from 1.1.2006 to 31.12.2006 comprising of Non-receipt of Dividend Warrants, Non-receipt of securities sent for transfer, Demat etc.	270
No. not solved to the satisfaction of the investor as on 31.12.2006.	0
No. of pending share transfers as on 31.12.2006	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 – 20.07.2004, 26.04.2005 and 21.04.2006
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.*
AGM held on 21.04.2006 was held at *Hotel Le Meridien, RBM Road, Pune 411 001 at 3.30 p.m.*

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 [as per Clause 49(IV)(A)] are defined as the transactions of the Company of a material nature, with its promoters, the directors or the management, their subsidiaries or relatives, 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 2006 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. It is the responsibility of the Compliance Officers to 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.

Code of Conduct :

The board members and senior managerial personnel have affirmed compliance with the code of conduct for the current year.

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.
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 publishes the financial results in two newspapers and also uploads them in SEBI's (EDIFAR) website. Therefor no individual intimations are sent to the 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

Any website, where displayed:

www.honeywellautomationindia.com

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 13, 2007 at 11.00 a.m. at the

Hotel Le Meridien, RBM Road, Pune 411 001.

As required under clause 49 VI(A), particulars of Directors seeking reappointment are given in the Explanatory Statement to the Notice of the Annual General Meeting to be held on April 13, 2007.

Financial Calendar -

Year ending December 31

AGM April 13, 2007

Dividend Payment April 27, 2007

Date of Book Closure -

Tuesday, April 3, 2007 to Wednesday,

April 11, 2007

Dividend Payment Date -

The Dividend Warrants will be posted on

April 27, 2007

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 2006-07.

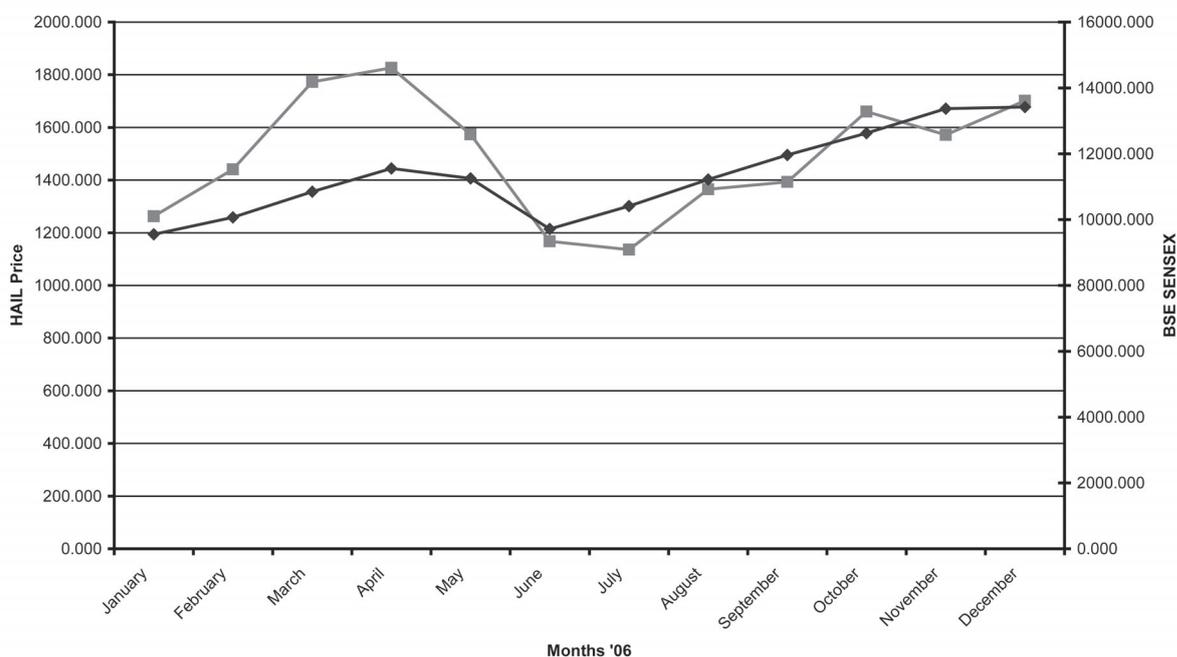
Stock Code –

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 2006	1416.35	1108.90	2760	113
February 2006	1639.95	1241.10	3277	150
March 2006	2036.00	1510.00	5260	215
April 2006	2002.65	1650.00	2378	118
May 2006	1844.00	1304.00	1705	85
June 2006	1400.00	935.00	1771	75
July 2006	1252.20	1019.00	1933	69
August 2006	1454.00	1276.00	1829	100
September 2006	1546.90	1239.00	1549	61
October 2006	1835.00	1485.00	1288	85
November 2006	1735.00	1408.35	1469	67
December 2006	1877.00	1526.00	2875	145

Comparison of Monthly Average of BSE SENSEX v/s HAIL Price



Registrar and Share
Transfer Agents:

TSR Darashaw Ltd.,
6-10, Haji Moosa Patrawala Ind. Estate,
20, Dr. E. Moses Road,
Mahalaxmi, MUMBAI - 400 011
Tel: (022) 66568484
Fax: (022) 66568494
E-mail: csg-unit@tsrdarashaw.com
Website: <http://www.tsrdarashaw.com>

Share Transfer System: Share Transfers in physical form can be lodged with TSR Darashaw 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.

Distribution of Shareholding:

Number of Ordinary Shares held	Number of Shares	
	31-12-2006 (%)	31-12-2005 (%)
1 to 500	9.13	9.24
501 to 1000	1.30	1.37
1001 to 2000	1.13	1.34
2001 to 3000	0.51	0.41
3001 to 4000	0.32	0.40
4001 to 5000	0.43	0.48
5001 to 10000	1.70	1.35
Over 10000	85.48	85.41
Total	100.00	100.00

Categories of Shareholders:

Category	No. of shareholders	No. of shares held
Foreign Promoters	1	7182475
Non Resident Individuals	91	29353
Foreign Institutional Investors	8	69265
Financial Institutions	0	0
Banks	0	0
Mutual Funds	7	120726
Insurance Companies	1	14000
Domestic Companies	360	213946
Resident Individuals	8040	1205522
Trust & Charitable Institutions	4	6236
	8512	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. 97.54% of the Company's share capital is dematerialised as on 31.12.2006.

The Company's shares are regularly traded on the Stock Exchange, Mumbai 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) 66039400
Fax: (020) 66039800
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 December 31, 2006, 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 3, 2007

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

Our Initiatives

- Growth
- Productivity
- Cash
- People
- Enablers: Honeywell Operating System, Functional Transformation and Velocity Product Development™

Our Behaviors

- Growth and Customer Focus
- Leadership Impact
- Gets Results
- Makes People Better
- Champions Change and Six Sigma
- Fosters Teamwork and Diversity
- Global Mindset
- Intelligent Risk Taking
- Self-Aware/Learner
- Effective Communicator
- Integrative Thinker
- Technical or Functional Excellence