

ANNUAL REPORT 2005-06



ALKYL AMINES CHEMICALS LIMITED

ALKYL ANNUAL REPORT 2005-2006



ANNUAL REPORT 2005-2006

ALKYL AMINES CHEMICALS LIMITED

FINANCIAL HIGHLIGHTS OF THE LAST DECADE

YEAR ENDING	31.03.1997	31.03.1998	31.03.1999	31.03.2000	31.03.2001	31.03.2002	31.03.2003	31.03.2004	31.03.2005	31.03.2006
GROSS REVENUE	4998.04	6247.28	8612.41	8298.00	7969.67	9409.50	10477.38	10515.21	11599.21	12954.62
OPERATING PROFIT (PBIDT)	1221.57	1176.56	2448.39	1707.88	660.30	1651.27	1865.94	1609.09	1463.30	1635.40
PROFIT BEFORE TAX	648.13	488.98	1639.97	872.84	-842.58	278.46	567.39	402.45	347.37	602.96
PROFIT AFTER TAX	527.93	428.79	1284.88	774.72	-842.69	172.25	331.39	241.31	289.64	410.19
GROSS FIXED ASSETS	5075.57	5335.66	5731.03	9292.66	9794.09	10033.48	10217.40	10794.89	10927.77	11209.65
NET FIXED ASSETS	3792.19	3826.84	3952.51	7250.72	7307.95	7092.05	6828.49	6927.22	6571.36	6368.29
NET CURRENT ASSETS	1777.94	2605.39	2991.04	4465.89	3744.62	3682.48	4034.19	3898.01	3090.71	5503.74
EQUITY SHARE CAPITAL	365.84	730.52**	730.57	730.58	886.49	886.49	886.49	886.49	886.49	886.49
RESERVES & SURPLUS (Including Deferred Taxation (Net))	2018.64	1986.14	2925.71	3530.70	2967.20	3230.87	3653.08	3900.97	4040.86	4411.96
BOOK VALUE (Rs.)	64.87	36.35	50.05	58.33	43.47	46.45	51.21	54.00	55.59	59.77
EARNING PER SHARE (RS.)	17.62	9.00*	17.59	10.60	-9.51	1.94	3.74	2.72	3.27	4.63
EQUITY DIVIDEND (%)	25.00	20.00**	40.00	20.00	—	—	12.00	12.00	15.00	18.00

* WEIGHTED AVERAGE BASIS ON INCREASED EQUITY BASE

** AFTER ISSUE OF BONUS SHARES IN THE RATIO OF 1:1

ALKYL AMINES CHEMICALS LIMITED

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MANAGEMENT TEAM

*Chairman &
Managing Director*
Yogesh M. Kothari

Executive Director
Kirat Patel

*Vice President
(Technical)*
Sameer S. Katdare

*Vice President
(Manufacturing)*
R. N. Iyer

*Chief Financial
Officer*
R. S. R. Murthy

*General Manager
(Corporate Personnel
& Admin.)*
S. S. Khade

*General Manager
(Secretarial & Legal)*
K. P. Rajagopalan

*General Manager -
Business Development*
Suneet Y. Kothari

*General Manager -
Materials*
S. V. Dandekar

Non-Executive Directors :

Hemendra M. Kothari
Shyam B. Ghia
Shobhan M. Thakore
Dilip G. Piramal
Premal N. Kapadia
K. R. V. Subrahmanian
Anand S. Bhatt
Tarjani Wakil
N. Shankar (Nominee Director)

Registered Office :

401-407, Nirman Vyapar Kendra,
Plot No. 10, Sector 17, DBC, Vashi, Navi Mumbai 400 703.
Ph. 67946618 • Fax : 67946666 • Email : investorinfo@alkylamines.com

Plants :

Patalganga Plant

Plot No. A-7 & A-25,
MIDC Patalganga Industrial Area, Dist. Raigad 410 220, Maharashtra

Kurkumbh Plant :

Plot No. D-6/1, MIDC Kurkumbh Industrial Area,
Tal. Daund, Dist. Pune - 413802, Maharashtra

Auditors

Messrs Banshi S. Mehta & Co.

Bankers

State Bank of India
Bank of Baroda
UTI Bank Ltd.

Registrar & Transfer Agents

Sharex Dynamic (India) Pvt. Ltd.

Fort Office : 17/B, Dena Bank Building, 2nd floor, Horniman Circle, Fort,
Mumbai - 400 001. Ph.: 22702485, 22641376 • Fax : 022 22641349

Branch Office : Unit No. 1, Luthra Ind. Premises, Andheri Kurla Road,

Safed Pool, Andheri (E), Mumbai - 400 072

Ph.: 28515606, 28515644 • Fax : 022 2851 2885

Email : sharexindia@vsnl.com • www.sharexindia.com

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ANNUAL REPORT 2005-2006**ALKYL AMINES CHEMICALS LIMITED****ALKYL****ALKYL AMINES CHEMICALS LIMITED**

Registered office: 401-407 Nirman Vyapar Kendra,
Plot No. 10, Sector 17, DBC, Vashi, Navi Mumbai-400 703

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 26th Annual General Meeting of **ALKYL AMINES CHEMICALS LIMITED** will be held at Chandragupt Hall, 2nd Floor, Hotel Abbott, Sector 2, Vashi, Navi Mumbai 400 703 on Tuesday, the 4th July, 2006 at 11.00 a.m. to transact the following business:

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2006, Profit and Loss Account for the year ended on that date and the reports of Directors and Auditors thereon.
2. To declare dividend for the financial year ended 31st March, 2006.
3. To appoint a Director in place of Mr. Shobhan M. Thakore, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Mr. K.R.V. Subrahmanian, who retires by rotation and being eligible offers himself for reappointment.
5. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of next Annual General Meeting and to fix their remuneration.
6. The register of members and Share Transfer Books will remain closed from 27th June, 2006 to 4th July, 2006 (both days inclusive) for the purpose of Annual General Meeting and Dividend.
7. Dividend, if declared at the meeting, will be paid on or after 11th July, 2006 to those shareholders whose names appear in the Register of Members of the Company or in the Register of Beneficial Owners maintained by the Depositories as at the close of their business hours on 27th June, 2006.
8. Please note that pursuant to Section 205C of the Companies Act, 1956 all unclaimed/unpaid dividends upto the financial year ended March 31, 1998 have been transferred to the Account of Central Government.

Kindly note that in terms of section 205C of the Companies Act, 1956, the unclaimed dividend for the financial year 1998-1999 (which has remained unclaimed for a period of seven years) will become due for transfer to Investor Education and Protection Fund in the month of August 2006.

By order of the Board

K. P. RAJAGOPALAN

General Manager (Secretarial & Legal)

Registered Office :

401-407, Nirman Vyapar Kendra,
Plot No. 10, Sector 17, DBC
Vashi, Navi Mumbai 400 703.

Dated: May 18, 2006.

NOTES

1. Pursuant to the provisions of Corporate Governance, we enclose the relevant Explanatory Statement relating to the reappointment of Directors.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF

6. We are pleased to offer the facility of electronic credit of dividend directly to the respective bank accounts of our shareholders, through Electronic Clearing Service (ECS). This is in addition to the Bank mandate facility that already exists whereby bank account details are printed on the dividend warrants. Shareholders who would like to avail of the ECS facility or the Bank mandate facility (if not done earlier) are requested to complete and submit the ECS/Bank Mandate Form that is also sent with this Annual Report, to the Company's Registrar and Transfer Agents so as to reach them latest by 27th June, 2006. Kindly note that shareholders holding shares in dematerialised form would receive their dividend directly to the bank account nominated by them to their Depository Participant, as per SEBI directives.

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7. The members are requested to notify change of address, if any, to the Company's Registrar & Transfer Agents.
8. The shareholders holding shares in physical form are once again advised to seek their shareholding changed to dematerialized form since in terms of SEBI and Stock Exchange guidelines no physical shares can be traded on the Stock Exchanges.
9. The members may note that the company's Equity Shares are listed on the Bombay Stock Exchange and the listing fees to the stock exchange have been paid.

By order of the Board

K. P. RAJAGOPALAN

General Manager (Secretarial & Legal)

Registered Office :

401-407, Nirman Vyapar Kendra,
Plot No. 10 Sector 17, DBC
Vashi, Navi Mumbai 400 703.

Dated: May 18, 2006.

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT AS REQUIRED UNDER CORPORATE GOVERNANCE

ITEM 3

Mr. Shobhan M. Thakore retires by rotation at the ensuing Annual General Meeting, and being eligible, has offered himself for reappointment.

Mr. S.M. Thakore, aged 58 years, has been on our Board since April 19, 1988. He is chairman of our Investors Grievances Committee and a member of the Remuneration Committee. Mr. Shobhan Thakore is on the Board of the following companies.

1. Bharat Forge Ltd.
2. Camphor & Allied Products Ltd. (Also the Chairman of Investors Grievance Committee).
3. Carraro India Ltd.
4. Morarjee Textiles Ltd.
5. Scandent Solutions Corporation Ltd.
6. Carraro PNH Components (India) Pvt. Ltd.
7. Turbo Gears India Pvt. Ltd.

Mr. S.M. Thakore is a well-known Solicitor and is a Partner of AZB & Partners, a leading Solicitor Firm. In view of his vast experience in the Industry and Profession, it will be in the interest of the Company that Mr. Thakore continues as Director of the Company. Mr. Thakore holds 5,540 equity shares in

this company. Except Mr. Thakore, no other Director is interested in this resolution.

ITEM 4

Mr. K.R.V. Subrahmanian retires by rotation at the ensuing Annual General Meeting, and being eligible, has offered himself for reappointment.

Mr. Subrahmanian, aged 72 years, has been on the Board of the Company since July 28, 2000. He is Chairman of our Audit Committee. He is on the Board of the following Companies:

1. Sesa Industries Ltd.
2. Matrix Laboratories Ltd.
3. ING Vysya Bank Ltd.
4. DSP Merrill Lynch Fund Managers Ltd.
5. New Consolidated Construction Co. Ltd.
6. Lanxess ABS Ltd.
7. Sesa Goa Ltd.
8. Bayer Polychem (India) Pvt. Ltd.
9. Bayer Material Sciences Pvt. Ltd.
10. Lanxess India Pvt. Ltd.

He is also member of the following Committees :

1. Sesa Industries Ltd. (Chairman of Audit Committee and member of Remuneration Committee).
2. Matrix Laboratories Ltd. (Member of Audit Committee).
3. ING Vysya Bank Ltd. (Member of Audit Committee and Investors Committee).
4. DSP Merrill Lynch Fund Managers Ltd. (Chairman of Audit Committee).
5. Lanxess ABS Ltd. (Member of Audit Committee and Remuneration Committee)

With his vast experience in the Industry, it will be in the interest of the Company that Mr. Subrahmanian continues as Director of the Company. Except Mr. Subrahmanian, no other Director is interested in this resolution.

By Order of the Board

K.P. RAJAGOPALAN

General Manager (Secretarial & Legal)

Registered Office :

401-407, Nirman Vyapar Kendra
Plot No.10, Sector 17, DBC,
Vashi, Navi Mumbai 400 703

Dated: May 18, 2006.

ANNUAL REPORT 2005-2006 ALKYL AMINES CHEMICALS LIMITED**DIRECTORS' REPORT TO THE MEMBERS**

Dear Shareholders,

We are presenting the 26th Annual Report and the Audited Statement of Accounts of the Company for the financial year ended March 31, 2006.

1. FINANCIAL HIGHLIGHTS & APPROPRIATION

	2005-2006 (Rs. in lacs)	2004-2005 (Rs. in lacs)
Gross Total Income	12955	11599
Profit before interest, depreciation & taxation	1636	1463
Interest & financial expenses	538	617
Depreciation	495	499
Profit before tax	603	347
Provision for taxation:		
a. Current Income tax/wealth tax	57	27
b. Deferred Income tax	136	30
Profit after Taxation	410	290
(Less)/Add; Adjustments relating to earlier years	7	(29)
Transfer from Debenture Redemption Reserve	0	83
Add/(Less): Balance Profit/(Loss) b/f	371	199
Profits available for appropriation	788	543
Equity Dividends (including Income tax)	182	152
Transfer to General Reserve	42	20
Balance profit carried to Balance Sheet	564	371

2. DIVIDENDS:

We recommend a dividend of Rs. 1.80 per Equity Share of Rs.10/- each for the year ended March 31, 2006 (Previous Year: Rs.1.50 per equity share). The total amount of dividend including Income tax thereon would amount to Rs. 1.82 crores (Previous year : Rs. 1.52 crores).

3. OPERATIONS:

Total income (gross) for the year 2005-06 was Rs.12955 lacs compared to Rs. 11599 lacs for the year 2004-2005 registering an increase of 12 %. The Profit before tax (after interest and depreciation charges) increased to Rs.603 lacs compared to Rs. 347 lacs of the previous year, i.e. an increase of 74%. During the year 2005-2006 we have achieved a higher profit after tax of Rs.410 lacs compared to Rs.290 lacs of the previous year, i.e. an increase of 41%.

The results should be viewed favourably considering the fact that year in retrospect has been very challenging for alcohol based chemical industries because of higher ethyl alcohol prices.

Further details of operations are given in the Management Discussion and Analysis Report annexed (Annexure 1).

4. EXPORTS/ FOREIGN EXCHANGE:

During the year 2005-2006, we achieved an export turnover of Rs.1807 lacs (FOB) compared to Rs.1829 lacs (FOB) of the previous year. During the year we have utilised a sum of approx. Rs.2900 lacs in foreign currency mainly to import raw materials.

5. ASSOCIATE/SUBSIDIARY COMPANIES**a. Diamines & Chemicals Limited, Vadodara:**

Diamines and Chemicals Ltd., Vadodara, our associate company, has achieved a total income of Rs. 2459 lacs as against Rs. 2185 lacs of the previous year and a profit after tax of Rs. 611 lacs as against Rs.456 lacs of the previous year.

The Board of Directors of DACL has recommended an equity dividend of 50% for the year 2005-2006 (including interim dividend of 15% already paid) as against 25% dividend for the previous year.

b. Alkyl Speciality Chemicals Limited:

Our subsidiary company, Alkyl Speciality Chemicals Ltd., has achieved a total income of Rs.275.42

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lacs (Previous Year: Rs.240.03 lacs) and a profit before tax of Rs.5.75 lacs (Previous Year: Rs.13.59 Lacs), after considering a loss of Rs.40.89 lacs on sale of their old machinery to us. After making provision for taxation of Rs.1.10 lacs (previous year Rs.0.6 lacs) and taking credit of a sum of Rs. 16.69 lacs on account of deferred tax, this company has achieved a profit of Rs.21.34 lacs compared to Rs.1.76 lacs of the previous year. The carry forward loss in this company is Rs.39.08 lacs compared to Rs. Rs.60.42 lacs of the previous year.

Copy of the Balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the Subsidiary Company, Alkyl Speciality Chemicals Limited, has not been attached with the Annual Report of the Company. The Company will make available these documents, upon request, by any member of the company interested in obtaining the same. However, pursuant to Accounting Standard AS21 issued by the Institute of Chartered Accountants of India, Consolidated Financial Statements presented by the Company include the financial information of the subsidiary company. The Annual Accounts of the subsidiary is available for inspection by any member at the registered office during business hours.

6. CONSERVATION OF ENERGY:

Considering the importance of energy conservation, your Company has taken various measures for conservation of energy. These include de-bottlenecking to enhance plant capacity, planned production at optimum levels, regular monitoring of electricity and fuel consumption and corrective steps wherever required and utilisation of by-product steam.

We have set up at Kurkumbh a cogeneration plant (where the Company would have co-generation rated at 1.5 MW) to meet captive power and steam requirement with the use of bagasse/coal as fuel thereby reducing fuel and power costs. Trial runs are in progress with respect to this project. The benefits arising from this project will be reflected in the results of coming years.

More details are given in Annexure 2 (Form A) annexed to this report.

7. TECHNOLOGY ABSORPTION/ R & D

The information required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in Annexure 3 (Form B) attached to this report.

8. SAFETY, HEALTH AND ENVIRONMENT:**(a) Environment Management System:**

We are pleased to report that we have obtained certification for Environment Management System ISO 14001 for our Patalganga Plant and we are trying to work towards ISO 18000. We are in the process of implementing ISO 14001 for our Kurkumbh Plant.

(b) Safety – Safety is accorded high priority and concerted efforts are made to ensure safe working conditions for employees. All incidents are analysed in safety committee meetings and corrective actions are taken immediately. Employees are trained in safe practices to be followed at workplace. Active participation is done in Mutual Aid scheme in the respective industrial areas.

(c) Health – Health of employees is also accorded importance. Periodic check up of all employees is done to monitor their health. Regular work area monitoring to check concentration of chemicals, noise level, and quality of ambient air is done. We also have Occupation Health Centres with staff at both manufacturing sites at Patalganga and Kurkumbh.

(d) Environment: The Company also attaches importance to Environment protection and adherence to pollution control norms.

a) Air Emissions – Emissions from various sources are monitored regularly and compliance to statutory requirement is ensured. Projects are undertaken for reduction of emissions.

b) Liquid waste Treatment – The Company has integrated Effluent Treatment Plants and outlet standards are maintained within the prescribed limits. Continuous efforts are made to minimise the quantity of effluent generated and feasibility of recycling of treated effluent is being studied. The company has made substantial investment for expanding its effluent treatment capacity to meet long term requirements. Your Company is also a member of the CETP located at Pataganga and Kurkumbh.

c) Solid Waste Management – Solid wastes are either incinerated or disposed off to secured landfill. The manufacturing sites at Kurkumbh and Patalganga are members of the Mumbai Waste Management Limited Common Hazardous Waste Treatment, Storage & Disposal Facility.

ANNUAL REPORT 2005-2006**ALKYL AMINES CHEMICALS LIMITED****9. CODE OF CONDUCT:**

The Board of Directors has laid down a Code of Conduct applicable to the Board of Directors and Senior Management, which is available on the company's website. All Board Members and Senior Management personnel have affirmed compliance with the code of conduct.

10. FIXED DEPOSITS:

The Company has not accepted any fixed deposits from the public within the meaning of the Companies (Acceptance of Deposits) Rules 1975 during the year.

11. DIRECTORS:

Mr. Anand Bhatt retires by rotation at the ensuing Annual General Meeting. He has informed that, due to his preoccupation, he will not be available for reappointment and hence, he will vacate his office at the conclusion of the Annual General Meeting. The Board of Directors wish to place on record their appreciation of the valuable advice and guidance, the company has received from Mr. Anand Bhatt during his tenure as Director.

Mr. S.M. Thakore and Mr. K.R.V. Subrahmanian also retire by rotation at the Annual General Meeting and, being eligible, have offered themselves for re-appointment. Your Directors recommend the re-appointment of Mr. Thakore and Mr. Subrahmanian.

12. AUDITORS:

Members are requested to appoint Auditors and fix their remuneration. M/s. Bansi S. Mehta & Co., Chartered Accountants, the retiring Auditors, are eligible for re-appointment. The Company has received a Certificate from them to the effect that their appointment, if made, will be within the prescribed limit under Section, 224(1-B) of the Companies Act, 1956.

13. RESPONSIBILITY STATEMENT

To the best of their knowledge and belief and according to the information and explanations obtained by them, your Directors make the following statement in terms of Section 217(2AA) of The Companies Act, 1956:

- (a) That in the preparation of the annual accounts for the year ended March 31, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- (b) That such accounting policies as mentioned in Schedule 18 to the annual accounts have been selected and applied consistently and judgements and estimates that are reasonable and prudent made so as to give a true and fair view of the state of affairs of the company at the end of the financial year ended on March 31, 2006 and of the profit of the company for that year;
- (c) That proper and sufficient care has been taken 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 to prevent and detect fraud and other irregularities;
- (d) That the Annual accounts for the year ended 31st March, 2006 have been prepared on a going concern basis.

14. CORPORATE GOVERNANCE

A separate detailed Corporate Governance report is attached herewith as Annexure 4.

15. EMPLOYEES

Employee relations continue to be cordial. Your Directors wish to acknowledge the sincere and dedicated efforts of the employees of the company and would like to thank them for the same.

Information required to be given pursuant to the provisions of Section 217(2A) of The Companies Act, 1956 is given in the Annexure, a copy of which can be obtained by the members from the Company's Registered Office on request.

16. ACKNOWLEDGEMENTS:

The Directors wish to place on record their appreciation of the continuous support received by the Company from the investors, participating Financial Institutions, Banks, Foreign Principals, Central/State Government Departments, its Customers and Suppliers.

For and on behalf of the Board.

Place: Mumbai
Dated: May 18, 2006

YOGESH M. KOTHARI
Chairman & Managing Director

ALKYL AMINES CHEMICALS LIMITED ANNUAL REPORT 2005-2006**MANAGEMENT DISCUSSION AND ANALYSIS REPORT****ANNEXURE 1****INDUSTRY STRUCTURE AND DEVELOPMENT**

We are one of the leading producers of aliphatic amines, amine derivatives and other speciality chemicals. We have two plants, one at Patalganga and the other at Kurkumbh. We also have an R&D Centre at Pune. We have an excellent team of technical and commercial professionals with expertise in chemicals manufacture and marketing.

Our products have application in important industries like pharmaceuticals, agro-chemicals, water treatment chemicals, photography chemicals, rubber chemicals, etc. We cater to both domestic and international market. We have competition both from local producers and international producers.

For more details please refer to our web-site www.alkylamines.com.

PERFORMANCE

Sales of our products for the year 2005-2006 registered a 12% increase at around Rs.124 crores compared Rs.111 crores of the previous year.

Production of speciality chemicals amounted to 14936 MT for the year 2005-2006 compared to 16270 M.T. for the year 2004-2005. We have been focusing more on products of better value addition.

The contract processing activity, which we started a few years ago, is gradually growing. During the year 2005-06 we have entered into an agreement with one more customer for contract processing. Income from contract processing for 2005-06 was Rs.235 lacs compared to Rs.197 lacs of the previous year.

OPPORTUNITIES, THREATS, RISKS AND CONCERNS

Our Company enjoys a pre-eminent position in various amines and amine derivative markets, which it intends to consolidate. We offer activities like reductive amination (liquid and vapour phase), air oxidation, high pressure hydrogenation, peroxide oxidation, etc. for customers both domestic and international, which have very good growth potential.

On the finished products front, the reduction in customs tariffs as per WTO, can be a matter of concern to a Company like ours and competition from a few established players globally can be a threat to maintain the turnover and profitability. On the raw materials front, in view of supply-demand mismatch, prices of ethyl alcohol have been rising, which has affected realizations. We are gearing up to face the increase in alcohol prices by passing on the same to the customers.

Threats and challenges also provide opportunities for growth. Since the chemicals industry is growing, we have a fair chance of improving our position as a reliable supplier of good quality chemicals. Our Core Competence in chemicals handling and manufacturing supported by an able Technical Team, focussing more on customer relationship management should provide a lot of opportunities and scope to the company to improve its performance in an otherwise difficult business environment.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The operating profit before tax amounted to Rs.603 lacs compared to Rs.347 lacs reported last year. Operating profit of the previous year included foreign exchange gain of Rs.77 lacs approx. while operating profit of this year is net of foreign exchange loss of Rs.36 lacs approx.

During the year, our domestic sales registered a 15% rise at Rs.10505 lacs compared to Rs.9111 lacs of the previous year. However, export sales marginally declined to Rs.1807 lacs (FOB) compared to Rs.1829 lacs of the previous year. Export sales were affected due to increased costs of products which could not be passed on due to competition. Our export realisation was also to some extent affected due to weakening of Dollar against rupee.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has installed a good system of internal controls in all spheres of its activity. The internal control is supplemented by effective internal audit being carried out by an external firm of chartered accountants. The Audit Committee of Directors regularly reviews the findings of the Internal Auditors and effective steps to implement the suggestions/observations of the Auditors are taken and monitored regularly. In the opinion of the Board, an effective internal control system adequate to the size of the Company exists.

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The company was examining the desirability of going in for an upgradation of its current software systems for sometime. After detailed evaluation of a number of ERP packages available, it has chosen SAP.

The Project implementation commenced in the last week of December 2005 and the "GO LIVE" is in the second quarter of 2006-07.

The Project is named "SAPHAL", standing for SAP housed in ALKYL, and also carrying the auspicious connotation of success !.

HUMAN RESOURCE/INDUSTRIAL RELATIONS

There have been excellent relations between the employees at various levels and the management. Based on a training identification system, employees are given training by attending seminars/ workshops (both inhouse and outside) to enhance their skills and knowledge.

OUTLOOK

As regards the outlook for the year 2006-2007, much depends upon various external and internal factors which affect the working of the Company. The Pharma Sector in India is showing positive trend and it is likely to improve the volume of sales of our company. On the export front, exports look not very promising for our basic products. However, we expect to get better export volumes from our newly developed intermediates. During the year, a few of our amine derivatives were exported which have added to our contribution.

Ethyl Alcohol, one of our main raw materials, is available locally. However, extra requirement of ethyl alcohol by larger players such as MEG producers as well as increased use of Ethyl Alcohol as a petrol additive, have made alcohol procurement very challenging. During the last two years, the alcohol situation in Maharashtra, where our Plant is situated, was not very conducive for sugar and alcohol production, because of insufficient rains in sugar-cane growing areas. However, next year is expected to be better for sugar cane availability, but alcohol prices will depend again on supply-demand situation in the State.

Steel prices which had gone up last year, continued to be high, which have increased our packing costs. We are trying to reduce our dependency on packing drums by requesting large customers to switch over to tanker supplies, wherever possible.

The Contract manufacturing business is showing improved trend and we expect to achieve better contribution from this business.

The co-generation plant will help in reducing fuel and power costs and the benefits arising thereof will be reflected in the results of future years. This will also help us in getting better quality of power.

As per Kyoto Protocol ratified by Government of India, we are entitled for sale of CERs arising out of the co-gen project. We have received Host Country Approval from Government of India, Ministry of Environment, for this project with a view of carbon trading. We are in the process of getting the project validated with an approved agency. After the project is fully commissioned, we will be able to enter into carbon trading and barring unforeseen circumstances, this would boost our revenues in the coming years. CO2 reduction per annum is expected to be around 12500 MT initially and the price of CO2 in the world market at present is around EURO 10 per MT. Our current year results do not reflect our entitlement for Carbon Credit.

We are also exploring opportunities for leveraging our core strengths by tie-up with other global suppliers of chemicals to unlock better values to the shareholders.

The Management is optimistic about the future outlook of the company. With various initiatives taken by the Company for improvement in yields and cost reduction and with strategic decisions on marketing and production like better volume by proper utilization of facilities, tight cost control measures, better sourcing, better marketing strategies etc., the company expects to improve its profitability. The new products, which we have added to our portfolio, are helping us in increasing sales and contribution and we are confident that this trend will remain.

CAUTIONARY STATEMENT

Statements made in the report, including those stated under the caption "Management Discussion and Analysis" describing the company's plans, projections and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results may differ materially from those either expressed or implied.

Place: Mumbai

Dated: May 18, 2006

YOGESH M. KOTHARI

Chairman & Managing Director