



COATES OF INDIA LIMITED
A Dainippon Ink & Chemicals Inc. Group Company

Annual Report 1999

Contents

DIC : An Overview	1
Board of Directors	4
Corporate Information	5
From the Chairman	6
Directors' Report	8
Auditors' Report	11
Ten-Year Record	13
Balance Sheet	14
Profit & Loss Account	15
Schedules to the Accounts	16
Cash Flow Statement	37
Particulars of Employees	39
Subsidiary Company's Reports & Accounts	40

DIC: An Overview

DIC Group, now the principal shareholder of Coates of India, is the largest manufacturer of printing inks in the world.

CORPORATE DATA

HEADQUARTERS :
Tokyo, Japan

FOUNDED ON :
15th February, 1908

PAID-IN CAPITAL :
Yen 82,423 million

TOTAL STOCKHOLDERS' EQUITY :
US\$ 1.6 billion (as on 31st March, 1999)

SUBSIDIARIES & AFFILIATES :
250 (55 in Japan and 195 outside Japan)

EMPLOYEES :
Over 25,000

TOTAL ASSETS :
US\$ 9.3 billion (as on 31st March, 1999)

NET SALES :
US\$ 8.1 billion (as on 31st March, 1999)

Dainippon Ink and Chemicals, Incorporated (DIC), is one of Japan's most diversified chemical companies. The DIC Group includes 250 subsidiaries and affiliates in Japan and in more than 40 countries around the world.

The DIC Group's four business operations are as follows :

GRAPHIC ARTS

- Printing Inks and Supplies Division
- Liquid Ink Division
- News Ink Division
- Chemical Coatings Division
- Machinery Division
- Pigment Division
- Synthetic Chemicals Division
- Imaging & Reprographic Products Division
- Liquid Crystal Materials Division

POLYMERS & RELATED PRODUCTS

- Coating Resins Division
- Specialty Resins & Chemicals Division
- Molding Resins Division
- Finechemicals Division
- Petrochemicals Division

SPECIALTY PLASTICS & COMPOUNDS

- Special Compounds & Colorants Division
- Plastics Division
- Engineering Plastics Division

OTHER BUSINESS

- Building Materials Division
- Water Treatment Plants Division
- Pressure-Sensitive Adhesive Materials Division
- Biochemicals Division
- Foods & Foodstuff Division
- International Division
- New Business Promotion Division

The DIC Group is dedicated to being a creative, distinctive organisation capable of innovating products that enrich the lives of people around the world.

In terms of geographic segment, net sales for Japan amounted to \$3.6 billion and for outside Japan to \$4.5 billion.

The Graphic Arts segment accounts for nearly half of the DIC Group's sales and includes the manufacture and marketing of printing inks and supplies, machinery, chemicals and imaging and reprographic products.

In particular, as the world's foremost supplier of printing inks, the DIC Group's Printing Inks and Supplies Division offers high-quality products that meet printers' most stringent requirements.

The DIC Group is dedicated to being a creative, distinctive organisation capable of innovating products that enrich the lives of people around the world.

In line with this concept, the DIC Group conducts Research & Development (R&D) aimed at developing environmentally sound technologies and products. These efforts are supported by the Group's global network of R&D centres.

In Japan, these include independent technical departments in each division that conduct advanced, specialized research in tune with current market requirements. These departments are supported by the Graphic Arts Technical Centre and two polymer research centres which focus primarily on the Group's core businesses.

Outside Japan, the Group has seven major R&D Centres—in the United States, Europe and the People's Republic of China.

The Group's R&D network is a well-knit set-up aimed at achieving the Group's objectives.

As a responsible corporate citizen, the DIC Group has incorporated issues related to environment, safety and health into its managerial foundation.

As a responsible corporate citizen, DIC recognizes that care for the environment, safety and health (ESH) is fundamental to the management of the company. In 1992, it set forth a guiding principle and 10 specific policies concerning ESH issues. The principle and policies remain an essential part of DIC today.

In particular, DIC continues to actively pursue ISO 14001 certification – the world benchmark for environmental management systems – for its facilities.

DIC is proud to be a founding member of the Japan Responsible Care Council, which was established in 1995. Responsible Care is a global movement that relies on self-responsibility to monitor ESH standards throughout the life cycles of chemical products, from development and production to distribution, use, final consumption and disposal.

In product development, DIC adheres to the principles of Responsible Care as it endeavours to create innovative products that not only meet immediate user requirements, but also contribute to resolving some of the serious problems threatening the environment.

As a distinctive and diversified fine chemical manufacturer, the DIC Group is committed to maximising its extensive capabilities, global network and leading position in core businesses to better serve its customers worldwide.

Coates of India now looks forward to an exciting future as part of the DIC Group.

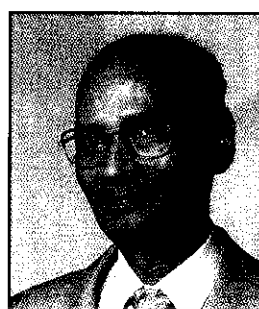
Board of Directors



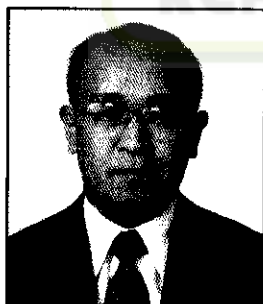
Jagdish Narain Sapru



Dr Prabir Kumar Dutt



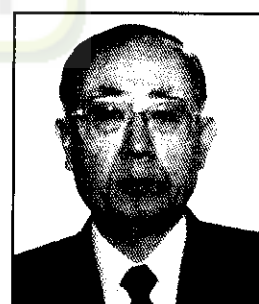
Sambamurti Venkatraman



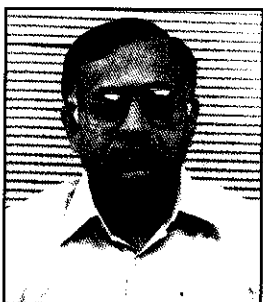
Minoru Iseda



Takeshi Kumagai



Tsutomu Nomoto



Ramabadran Srinivasan



Hisato Tanemura



Babulal Madhavji Varma

Corporate Information

Board of Directors

Jagdish Narain Sapru	Chairman
Dr. Prabir Kumar Dutt	Managing Director
Sambamurti Venkatraman	Director-Corporate Affairs

Minoru Iseda
Takeshi Kumagai
Tsutomu Nomoto
Ramabadran Srinivasan
Hisato Tanemura
Babulal Madhavji Varma

Timir Baran Chatterjee Vice President & Company Secretary

Management Committee

Dr. P.K. Dutt	T.B. Chatterjee
S. Venkatraman	R.G. Ganguly
B.K. Basu	B.S. Kampani
J.L. Basu	A. Mukhopadhyaya
S. Bhaumik	A. Puri
A.D. Chatterjee	N.R. Sharma

Auditors

Lovelock & Lewes

Bankers

ANZ Grindlays Bank
Bank of Baroda
State Bank of India
The Hongkong & Shanghai Banking Corporation Limited

Registered Office

Transport Depot Road
Calcutta 700 088

From the Chairman



Dear Shareholder,

Let me begin by wishing you a very happy inauguration of the new millennium and the hope that in the year ahead the country will be spared another General Election and the inaction that it automatically enforces on the caretaker government in the interim. To make matters worse in 1999, the country had to withstand the Kargil incursion and it is a tribute to our Armed Forces and the political leadership that they could deal with it effectively.

Despite the uncertainties of the first nine months of last year, the country emerged more confident and determined to put the economy in the next gear. There is, therefore, today a greater degree of confidence and optimism that the modest 6% growth of the GDP being projected is very achievable. A feature that marked 1999 was the heralding of, what may euphemistically be called the "Dot.Com" revolution in the country. The realisation of the potential and strength of the country in the computer and software industry and its ability to exploit the Information, Communication and Entertainment industries, took the country by storm. In the process, new millionaires, and even a few billionaires were created overnight. In the euphoria, there is however a tendency to forget the nuts and bolts of business that produce the goods and services. It is necessary to have a balance and not get totally carried away.

In spite of the uncertainties faced in the year goneby, your Company has fared creditably and recorded satisfactory growth, both in volume and value, although with increasing competition and over capacity in the Printing Industry, margins have been under pressure. Nevertheless, a tight control on costs

and effective management has enabled your Company to record a 20% growth in profit, both before and after tax. Your Directors have thought it prudent to recommend maintaining the Dividend at Rs. 4/- per share net of tax in your hands.

The Directors' Report gives you the performance and developments in detail and I shall confine myself to a few aspects which are of special significance.

Total, as a sequel to its acquisition of Fina and Elf and as a part of its restructuring, have sold their worldwide interests in the printing inks business to Sun Chemical Group B.V. (SCGBV), a wholly owned subsidiary of ultimate holding company, Dainippon Ink and Chemicals Incorporated (DIC) of Japan. Pursuant to this restructuring and upon completion of the legal and statutory formalities, SCGBV has acquired control over the 51% equity holding of Coates Bros. Plc, UK now a 100% subsidiary of SCGBV. Further, pursuant to the Public Offer made by SCGBV under SEBI guidelines 579,550 equity shares of your Company have been tendered to it by Indian shareholders. Consequently, DIC Group's overall holding in your Company now stands increased to 4,091,174 equity shares representing 59.42% of the total paid up Equity of the Company.

Following the change in the majority shareholding, Messrs. Alain Fillon, Benoit Dupont, Patrick Chausserie-Lapree and William Boledziuk have resigned from the Board of your Company. I would like to take this opportunity to place on record our sincere appreciation of the very valuable services rendered by them to your Company during their period of association.

Mr. Takeshi Kumagai, Mr Tsutomu Nomoto, Mr. Minoru Iseda and Mr. Hisato Tanemura, all of DIC have been appointed Directors in the consequential casual vacancies and I am sure you will welcome them wholeheartedly and support their appointment as Directors of the Company.

Following the change in the majority ownership and the de-linking of your Company from TotalFina, your Board has considered it desirable to withdraw from the Joint Venture with Cray Valley of France and has, therefore, sold its holding of 46,600 equity shares in Cray Valley Resins India Ltd. to TotalFina at the original subscription price together with interest on the investment.

Since TotalFina are continuing with their Adhesives Business, they have expressed a desire to acquire this business from your Company. Since the "Bostik" brand name and further technology in this business will not be available in the future, your Directors, considering the long term viability of this business have considered it desirable to dispose of this business. Therefore, subject to your approval and subject to compliance with legal and statutory procedures, it is the intention of your Directors to dispose the Adhesives business to TotalFina or its subsidiary/associates, on the basis of independent valuation by experts.

The proposed two stage take over of your Company's subsidiary Coates Coatings India Ltd. by Valspar Corporation of USA has made little progress during the past year, despite the efforts to expedite by both TotalFina as well as us. Valspar Corporation do not appear to be eager to commence operations in India. With TotalFina also no longer linked with your Company, your Directors are examining other options to improve the Coatings business.

During the year, your Company disposed of its shares in ICICI Ltd. which it had received in lieu of shares in ITC Classic Finance. You will recall that last year

a provision of Rs. 17.12 million for diminution in value was made for these shares. By selling these shares at a price higher than the written down value, a recovery of Rs. 554,936 has been made. Your Company also disposed of its entire shareholding in Noble Synthetics as it was no longer interested in continuing with the residual resins business. In the process it has derived a capital gain of Rs. 11.92 million.

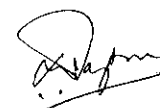
I am also glad to advise that your Company had a smooth transition to the year 2000, achieving total Y2K compliance at all centres. I am also happy to advise that your Company's Factory at Calcutta has been awarded ISO 14001 Certification.

The recent Central Budget, apart from proposing doubling the dividend tax on corporations has other features that are forward looking. The concentration on improving infrastructure, reducing subsidies and allowing private sector in insurance are all very positive steps. Hence, despite the volatility in the stock market, the overall economy appears buoyant.

The association with the new majority shareholders of your Company, DIC augurs well as with their acquisition of TotalFina's Inks Division, they have become the largest manufacturers of printing inks in the world. They are, in any case, leaders in Graphic Arts which include not only Printing Inks but also printing supplies, machinery, pigments and reprographic products. This provides opportunity which your Company can now explore.

With your support and sustained effort by employees at all levels, you can look forward to a bright future for your Company.

Calcutta
24th April, 2000


J. N. Sapru

Directors' Report

The Directors have pleasure in submitting their Report and the Accounts for the year ended 31st December 1999.

FINANCIAL RESULTS

	Rs. Million	
	1999	1998
Net Sales and Other Income	1694.91	1493.56
Profit before tax	141.01	118.28
Out of which provision for taxation accounts for	40.00	33.70
	101.01	84.58
Transfer from Contingency Reserve	—	16.50
Balance brought forward from previous year	0.42	0.76
Less: Provision against diminution in value of Investments	—	17.12
Making a total available for appropriation of	101.43	84.72
Out of which Directors have transferred to General Reserve	35.00	54.00
Your Board recommends for distribution as		
Dividend at the rate of Rs. 4.00 per share		
on 6,885,537 Equity Shares (together with		
Tax on Dividend) absorbing in all	30.84	30.30
Leaving a balance carried forward of :	35.59	0.42

PERFORMANCE REVIEW

While a positive beginning was made by presenting a growth oriented budget in 1999, the fall of the government soon thereafter resulted in initial uncertainty, a costly interim-election, and compulsion on the caretaker government to defer positive action for nearly six months. The country also had to bear the expenses on defending its borders arising out of the Kargil incursion. Nevertheless, key statistical indicators suggest that the economy is now on the path of sustained growth.

The packaging industry in India is still faced with excess capacities established in anticipation of accelerated growth. A large part of the packaging industry continues to operate with inadequate financial resources, causing frequent business failures. Despite vigilance on exposure in terms of credit and quick actions for recovery, losses on account of bad debts is becoming a business reality.

Steep increase in energy costs and generally upward trend in costs of other inputs aggravated the situation calling for continuous corrective measures. Despite the negative factors, your Company has been able to achieve all round growth.

Net sales for the year at Rs. 1642 Million showed an increase of 13% over comparable sales for 1998. In terms of volume, the overall growth was 15%. Significant growth of 24% has been registered in Paste Ink segment. However, the Company maintained a cautious approach in liquid ink sales, where credit risk was higher.

Operations of the Adhesive Division showed further improvement in sales – 28% in terms of value and 16% in terms of volume leading to improved operating margin and profitability.

During the year the Company sold its entire holdings in Noble Synthetics Ltd., and derived a capital gain of Rs. 11.92 Million. The Company also disposed off its holdings in ICICI Ltd.

Through a careful mix of the borrowings and extensive use of Commercial Papers, the Company was able to effect a saving in the interest costs compared to 1998.

In the given circumstances, profit before and after tax at Rs. 141 Million, and Rs. 101 Million respectively, recording a 20% growth, are considered very satisfactory.