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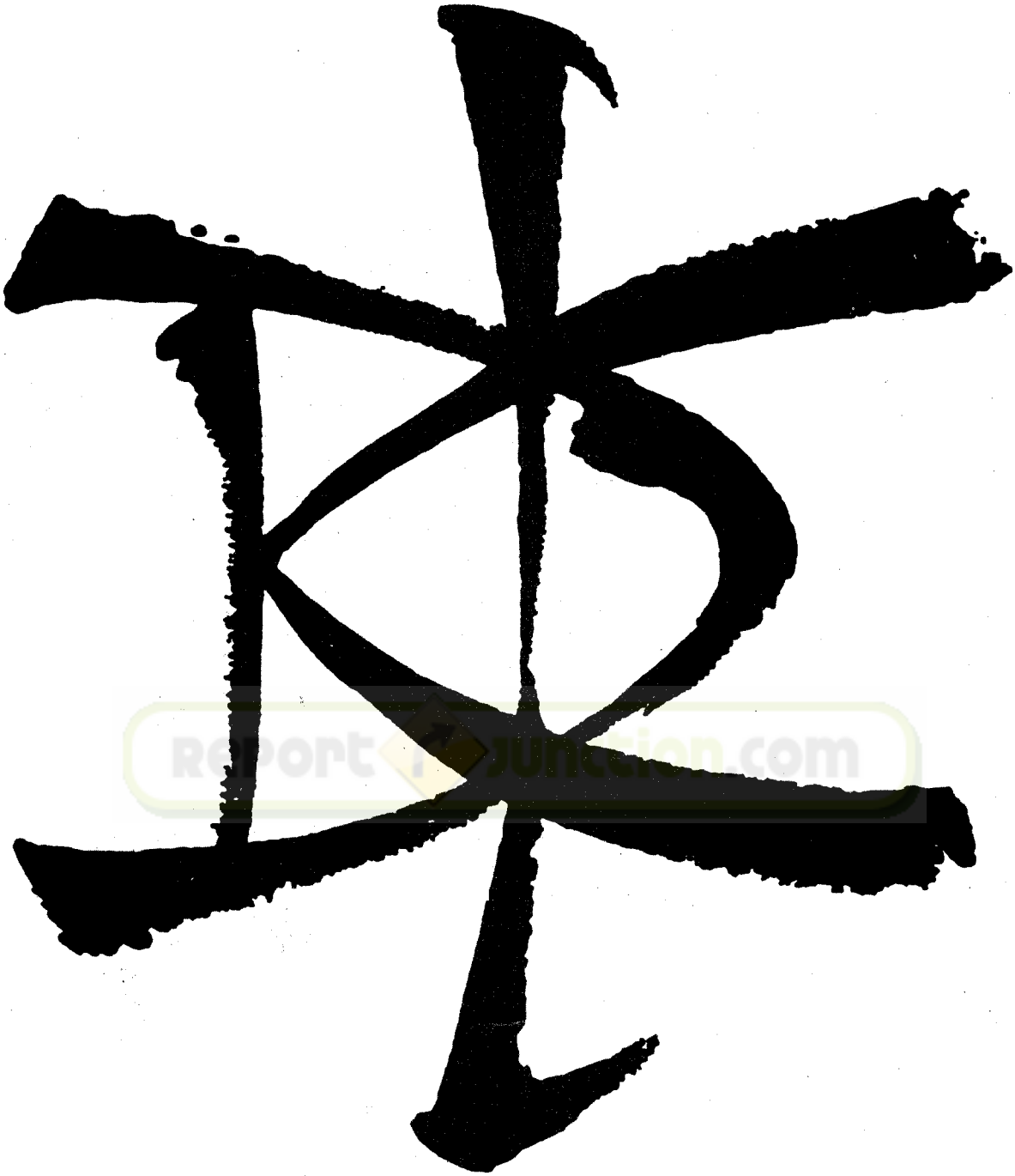

DAI-ICHI

ANNUAL REPORT
2006-2007

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DAI-ICHI KARKARIA LIMITED

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Board of Directors:

Mr. D. M. Neterwala	*Chairman*
Mr. J. H. C. Jehangir	
Mr. A. H. Jehangir	
Mr. K. D. Patel	
Dr. Anil M. Naik	
Dr. K. R. Bharucha	
Mrs. S. F. Vakil	*Vice-Chairperson & Managing Director*
Ms. Kavita Thadeshwar	*Dy. Company Secretary*

Bankers:

Bank of India
The Shamrao Vithal Co-operative Bank Ltd.
The Saraswat Co-operative Bank Ltd.
The Zoroastrian Co-operative Bank Ltd.

Auditors:

P. C. Hansotia & Co.
Chartered Accountants, Mumbai.

Solicitors:

Amarchand & Mangaldas &
Suresh A. Shroff & Co., Mumbai.

Registered Office:

Liberty Building,
Sir Vithaldas Thackersey Marg,
Mumbai - 400020.

Works:

105th Milestone, Mumbai-Pune Marg,
P.O. Kasarwadi, Pune 411034.
Kurkumbh Industrial Area, Plot No. D-13,
Village Kurkumbh, Tal. Daund, Dist. Pune.

Registrars and Transfer Agents:

Sharex Dynamic (India) Private Ltd.
Unit 1, Luthra Industrial Premises,
Andheri-Kurla Road, Safed Pool,
Andheri (E), Mumbai - 400 072
Tel: 2851 5606/2851 5644

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NOTICE

NOTICE is hereby given that the Forty-Seventh Annual General Meeting of the Members of **DAI-ICHI KARKARIA LIMITED** will be held on Wednesday, the 5th day of September 2007, at 11.30 a.m. at M. C. Ghia Hall, Bhogilal Hargovindas Building, 2nd Floor, 18/20 Kaikhushru Dubash Marg, Mumbai - 400 023 to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March 2007 and the Balance Sheet as at that date together with the Directors' Report and Auditors' Report thereon.
2. To declare a dividend.
3. To appoint a Director in place of Dr. K. R. Bharucha, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. K. D. Patel, who retires by rotation and, being eligible, offers himself for re-appointment.

Special Business:

5. Appointment of Auditors:

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

   "RESOLVED THAT subject to the provisions of sections 224, 225 and other applicable provisions, if any, of the Companies Act, 1956, Messrs. Deloitte Haskins & Sells, Chartered Accountants, be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting upto the conclusion of the next Annual General Meeting of the Company, in place of the retiring auditors Messrs. P. C. Hansotia & Co., Chartered Accountants to examine and audit the accounts of the Company for the financial year 2007-08, at such remuneration as may be mutually agreed upon between the Board of Directors of the Company and the Auditors, plus reimbursement of out of pocket expenses and applicable taxes."

6. Re-appointment of Mrs. S. F. Vakil as Vice Chairperson and Managing Director:

   To consider and if thought fit to pass with or without modifications, the following as a Special Resolution:

   "RESOLVED THAT pursuant to provisions of Section 198, 269, 309 and 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, or any statutory modification(s) or re-enactment(s) thereof and subject to such approvals, if any, as may be necessary, the re–appointment of Mrs. S. F. Vakil as Vice Chairperson and Managing Director of the Company, for a period of three (3) years with effect from 1st June 2007, be and is hereby approved as per the terms and conditions set out in the explanatory statement annexed hereto which shall be deemed to form part hereof."

By Order of the Board

Kavita Thadeshwar
Dy. Company Secretary

Registered Office:
Liberty Building,
Sir Vithaldas Thackersey Marg,
Mumbai - 400 020.

Date: 29th May, 2007

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NOTES:

(1) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND THE MEETING AND PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING THE PROXY SHOULD BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

(2) An Explanatory statement pursuant to section 173(2) of the Companies Act, 1956 relating to Special Business to be transacted at the Annual General Meeting is annexed.

(3) The Register of Members and Share Transfer Books of the Company will remain closed from 22nd August 2007 to 5th September 2007 (both days inclusive) in connection with the Annual General Meeting.

(4) Subject to provisions of Section 206A of the Companies Act, 1956, dividend as recommended by the Directors, if declared, at the meeting, will be payable to those Members whose names appear on the Register of Members on or before 5th September 2007. In respect of the shares in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by National Securities Depository Ltd and Central Depository Services (I) Ltd. for this purpose on 21st August 2007.

(5) As regards payment of dividend through Electronic Clearing Services (ECS), Members holding shares in physical form are advised to submit particulars of their bank account viz., name and address of the branch of bank, 9 digit MICR code of the branch, type of account and account number latest by 18th August 2007 to the company's share transfer agent M/s. Sharex Dynamic (India) Pvt. Limited. Members holding shares in the demat form are advised to inform particulars of their bank accounts to their respective depository participants.

(6) Pursuant to the provisions of sub-section (5) of Section 205A of the Companies Act, 1956, dividend for the financial year ended 31st March 2000 and thereafter which remains unclaimed for a period of seven years will be transferred to Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956. The Shareholders who have not claimed or encashed their dividend warrants in respect of financial year 2000-2001 or thereafter are therefore requested to approach the Company in writing with their folio numbers to facilitate payment.

(7) Members whose shareholding is in physical mode are requested to immediately notify any change in their addresses to M/s. Sharex Dynamic (India) Pvt. Ltd. at Unit-1, Luthra Ind. Premises, Andheri Kurla Road, Safed Pool, Andheri (East), Mumbai - 400 072 and members whose shareholding is in electronic mode are requested to direct change of their address notification and updations of saving bank accounts details to their respective Depository Participants.

(8) The Shareholders desiring any information as regards Accounts are requested to write to the Company at an early date so as to enable the Management to keep the information ready.

(9) Members/proxies are requested to bring duly filled Attendance slips and their copies of annual report along with them as copies of the Report will not be distributed at the meeting.

(10) Additional information on Directors recommended for appointment or seeking re-appointment on rotational basis at the Annual General Meeting is provided under Corporate Governance Disclosure Report forming part of this Annual Report.

(11) The Annual Accounts of the subsidiary companies and related information will be made available to investors seeking such information. All such documents referred to herein will be available for inspection at the registered office of the company on all working days except Saturday between 11.00 a.m. and 1.00 p.m. upto the date of Annual General Meeting.

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EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956

Item no. 5:

Presently the Company's accounts are being audited by Messrs P. C. Hansotia & Co., Chartered Accountants, who are part of Messrs. Deloitte Haskins & Sells in India. Messrs P. C. Hansotia & Co. has informed the Company that they do not wish to seek re-appointment as statutory auditors of the Company for the financial year 2007-2008 at the forthcoming Annual General Meeting.

The Company has received a special notice from a member of the Company, in terms of the provisions of the Companies Act, 1956 signifying its intention to propose the appointment of Messrs. Deloitte Haskins & Sells as the Statutory Auditors of the Company from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting. Messrs. Deloitte Haskins & Sells have expressed their willingness to act as Auditors of the Company, if appointed and have further confirmed that the said appointment would be in conformity with the provisions of section 224 (1B) of the Act.

In view of the above, and based on the recommendations of the Audit Committee, the Board of Directors has, at its meeting held on 29th May 2007 proposed the appointment of Messrs Deloitte Haskins & Sells as the Statutory Auditors and to authorize the Board of Directors, on the recommendation of the Audit Committee, to determine the remuneration payable to the Auditors.

The Directors commend the Resolution at item no. 5 for approval by the Members.

Item no. 6:

The Board of Directors have re-appointed Mrs. S. F. Vakil as Vice Chairperson and Managing Director of the Company for a tenure of three years w.e.f. 1st June 2007 on the terms and remuneration set out hereunder subject to the approval of the shareholders.

As required under Clause (iv) of provision to paragraph 1(B) of Section II of Part II of the Schedule XIII to the Companies Act, 1956, the relevant details to be sent alongwith the notice convening the General Meeting are as under:

(I) General Information:

1. Nature of Industry: Specialty Chemical Industry.
2. Date of commencement of commercial production: In the year 1963.
3. In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus: Not Applicable.
4. Financial performance based on given indicators:

Particulars for Financial year ended 31st March 2007	Rs. In lacs
Gross Sales and other income	5,104.00
Operating Profit (before exceptional items, Interest, Depreciation and Tax)	346.02
Profit before Tax	162.60

5. Export Performance and net foreign collaborations:

   The exports for the year ended 31st March 2007 was Rs.147 lacs. The Company does not have any foreign collaborations.

6. Foreign Investment of Collaborators, if any : Not applicable.

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(II) Information about the appointee:

1. **Background Details:** Mrs. Shernaz F. Vakil is the Vice Chairperson and Managing Director of the Company and Member of Share Transfer Committee of the Company.

   Mrs. S. F. Vakil holds an M.B.A. degree from U.S.A. and has over 30 years of experience in business.

   Mrs. S. F. Vakil has played a vital role in the success of the Company. In fact under her able and dynamic leadership the Company initiated and successfully accomplished the all round measures of cost cutting and restructuring of the business of the Company. Mrs. S. F. Vakil is shouldering the responsibilities of the Management and in house research and development. She also supervises marketing, finance and general administration.

2. **Past remuneration:** At Annual General Meeting held on 19th September 2002, Mrs. S. F. Vakil was appointed as Managing Director, for a period of 5 years on the following terms and conditions:

   (a) **Remuneration:**

   Rs.75,000/- per month in the salary scale of Rs.75,000 – 10,000 – 1,25,000.

   (b) **Perquisites & Allowances:**

   In addition to the above, perquisites and allowances which will be restricted to 65% of the annual salary except those specifically excluded as per Schedule XIII of the Companies Act, 1956.

   (c) **Commission:**

   In addition to the above, in the event of adequate profits the Managing Director will also be entitled to remuneration by way of commission calculated @ 1% of the net profits of the Company, subject to the overall ceiling stipulated in Section 198 and 309 of the Companies Act, 1956.

   The Managing Director shall not be paid any sitting fees for attending the meeting of the Board of Directors of the Company or any Committees thereof.

3. **Job profile and her suitability:** Mrs. S. F. Vakil as Vice Chairperson and Managing Director of the Company is vested with substantial powers of management under the superintendence, control and direction of the Board of Directors. She is also involved in policy planning, vision and strategy and long term development activities of the Company, besides Corporate Governance and Board co-ordination.

4. **Remuneration proposed:** The Board of Directors of the Company at its meeting held on 12th March 2007 approved the terms of remuneration for the tenure of three years W.e.f. 1st June, 2007 as under:

   (a) **Remuneration:**

   Rs. 1,60,000/- per month

   (b) **Perquisites & Allowances :**

   In addition to the above, perquisites and allowances which will be restricted to 65% of the annual salary except those specifically excluded as per Schedule XIII of the Companies Act, 1956.

   (c) **Commission:**

   In addition to the above, in the event of adequate profits the Managing Director will also be entitled to remuneration by way of commission calculated @ 1% of the net operating profits of

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the Company, subject to the overall ceiling stipulated in Section 198 and 309 of the Companies Act, 1956.

Minimum Remuneration:

In the event of absence or inadequacy of profits in any financial year during the tenure of the appointment, Mrs. Vakil will be entitled to draw the same remuneration as stated above as minimum remuneration.

The Terms and conditions of her appointment may be altered and varied from time to time by the Board of Directors, as they may, in its discretion, deem fit within the maximum amount payable in accordance with provisions of the Companies Act, 1956 or any amendments thereto or with the approval of Central Government, if required.

Mrs. Vakil shall not be paid any sitting fees for attending the meeting of the Board of Directors of the Company or any Committee/s thereof.

5. **Comparative remuneration profile with respect to industry, size of the company, profile of the position and person:** The executive remuneration in the industry is on the rise. Appreciating this, the Central Government has also from time to time raised the ceiling specified in Schedule XIII dealing with managerial remuneration. The approval is granted by the Board of Directors, for the proposed remuneration after perusing the remuneration of managerial persons in the Speciality Chemical Industry and other companies comparable with the size of the Company, industry benchmarks in general, profile and responsibilities of Mrs. S. F. Vakil.

6. **Pecuniary relationship directly or indirectly with the Company or relationship with the managerial personnel, if any:** Besides the remuneration proposed, Mrs. S. F. Vakil does not have any pecuniary relationship with the Company. Mrs. S. F. Vakil is the relative of Mr. D. M. Neterwala, Chairman of the Company.

(III) Other Information:

(i) **Reasons of inadequate profits:**

Intense competition from the unorganized sector in the domestic industry along with cheap imports from China and other low cost countries affected the margins of the Company. Progressively reduced import tariffs resulted in intense competitive activity. In addition, the business faced challenges on the cost front due to higher crude oil and raw material prices, for three years in a row. Extreme volatile Crude prices influenced the prices of basic raw materials.

(ii) **Steps taken or proposed to be taken for improvement:**

The Company has taken the following steps for the improvement in performance:

(a) Better Capacity Utilisation.

(b) Reducing variable cost, whilst maintaining quality standards.

(c) Development of new process intensive technologies that subvert the need for large scale production.

(d) Focusing and Targeting on business areas where the Company can use its technical and technological expertise to advance higher value added business.

(e) Constant up-gradation of product and focus on upstream intermediates.

(iii) **Expected increase in productivity and profits in measurable terms:**

Better capacity utilization and effective cost cutting has resulted in improvement in earnings this year. In addition, the Company expects to be able to pass on higher R. M. costs more fully than in the past, due to a vibrant market, and the newer product portfolio. EBIT increased due to a serious reduction in costs

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of Rs. 1.7 crores (27%). The Company successfully achieved significant cost savings through process improvements, fuel cost reductions and operational efficiencies.

The Company's policy to constantly innovate and renovate its products, and create long term value for itself and its customers, has resulted in a reasonable increase in turnover from newly developed products. New products specifically in the Textile segment, will contribute significantly to the volume of business and has good potential for the future.

An abstract under section 302 of the Companies Act, 1956, in respect of this item has already been circulated separately to all the shareholders within the prescribed time.

The Resolution is recommended to the shareholders for passing as a Special Resolution.

Mrs. S. F. Vakil (Vice-Chairperson and Managing Director) and Mr. D. M. Neterwala (Chairman) being the relative of Mrs. S. F. Vakil are concerned and interested in the above matter. None of the other directors are concerned or interested in the aforesaid resolution.

By Order of the Board

Kavita Thadeshwar
Dy. Company Secretary

Registered Office:
Liberty Building,
Sir Vithaldas Thackersey Marg,
Mumbai - 400 020.

Date: 29th May, 2007

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DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the Forty-Seventh Annual Report together with the audited accounts for the year ended March 31, 2007.

1. FINANCIAL RESULTS:

	2006-2007	2005-2006
	Rs.	Rs.
Sales and Other Income	**51,04,22,175**	58,77,73,125
Gross Profit	**2,87,70,855**	76,82,189
Depreciation	**89,72,652**	1,53,54,571
Interest	**79,30,554**	1,19,18,837
Profit/(Loss) before exceptional & prior period item & taxation	**1,18,67,649**	(1,95,91,219)
Exceptional and prior period item	**43,92,300**	12,32,79,409
Profit/(Loss) before Tax	**1,62,59,949**	10,36,88,190
Less : Provision for taxation	**58,00,000**	4,20,00,000
Less : Prior years	**44,39,050**	Nil
Less : Deferred Tax	**(1,10,53,493)**	(2,94,30,645)
Less : Fringe Benefit Tax	**6,00,000**	8,20,000
Profit/(Loss) after Taxation	**1,64,74,392**	9,02,98,835
Balance brought forward	**10,83,74,583**	4,24,22,143
Amount available for appropriation	**12,48,48,975**	13,27,20,978
Appropriations:		
Proposed Dividend	**83,67,040**	1,52,12,800
Tax on proposed Dividend	**14,21,978**	21,33,595
Transfer to General Reserve	**5,00,000**	70,00,000
Balance carried forward	**11,45,59,957**	10,83,74,583

2. DIVIDEND:

The Directors have recommended a dividend of 11% i.e. Rs.1.10/- per equity share of Rs.10/- each for the year ended 31st March 2007.

3. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

INDUSTRY STRUCTURE & DEVELOPMENT: OPPORTUNITIES AND THREATS, RISKS AND CONCERNS.

Economic Trends:

With record growth rates in the Indian Economy, there is a strong surge in the manufacturing sector. This growth is seen in areas such as Textiles, Paints, Paper, Construction and other industrial sectors serviced by the Company. With these key markets expanding considerably the Company looks forward to a steady

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increase in these businesses. The 10.6% growth in the Industrial Sector in the last 3 Quarters of the year has been the highest since 1995.

The Indian Textile Sector has shown a growth of 9.25%. With the opening of the quota regime, exports have surged by 21%, due to increased global offtake of apparels, home textiles, etc. Textile Houses have made huge investments in modern continuous machinery, requiring specialized auxiliaries.

The Coating Industry expects serious growth from the Construction and Housing Sectors, as well as the Automobile Sector. This surge in demand is resulting in good growth prospects for our current and newly developed additives.

Paper: Though the Industry remains fragmented the Company has focused on the major paper mills, who are currently expanding capacities. With growth rates of over 10% expected, the Company has targeted significant market share in this area.

Construction: With Infrastructural investments poised to rise substantially over the next 3 years, the Company is focusing on new developments in this area. Several global companies have brought in newer construction techniques and the increased need for specialized products.

The Company plans to capture all the growth opportunities thrown open by the strong economic development in the country, through its continued focus on customer specific projects, specifically in the Textile, Coatings, Paper, Petroleum & Construction Sectors.

Economic growth coupled with high fuel prices has put a lot of pressure on the Company to improve efficiencies and examine alternate strategies to reduce costs. In addition, intense competition from the unorganized sector in the domestic industry along with cheap imports from China and other low cost countries poses a risk on margins. Progressively reduced import tariffs resulted in intense competitive activity. In addition, the business faced challenges on the cost front due to higher crude oil and R. M. prices, for three years in a row. Crude prices continued to be extremely volatile influencing the prices of basic R. M.s.

However, better capacity utilization and effective cost cutting has resulted in improvement in earnings this year. In addition, the Company expects to be able to pass on higher R. M. costs more fully than in the past, due to a vibrant market, and the newer product portfolio.

Functional and Specialty Products:

The Company's roadmap for growth is based on the strategic Marketing initiative that preempts the Business Planning Process. The Company's ability to effectively identify individual customer needs provides the basis for development of new market-aligned solutions. These solutions are offered, based on acquired knowledge of the customers' businesses and processes. The emphasis is on innovation in product development and commercial models. The bottom line remains at capturing growth through new product development and businesses that are adequately linked to our proprietary technology and focused on high-value markets. Though the Company has failed to capture the full commercial rewards of its R & D effort this year, there are several products in the pipeline, which should bring increased revenues in the present year.

The Company's policy to constantly innovate and renovate its products, and create long term value for itself and its customers, has resulted in a reasonable increase in turnover from newly developed products. The Company continues to work towards acquiring critical mass, to compete in a globalizing market. Constant up-gradation of Product Portfolios, and focus on upstream intermediates, will result in larger volume business in the coming year.

New Products, specifically in the Textile segment, will contribute significantly to the volume and hold good potential for the future.

The Company will also continue its thrust in the development of new range polymers and resins for the oil field and lubricant sector.

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