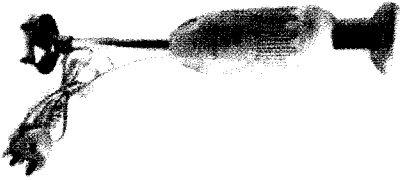
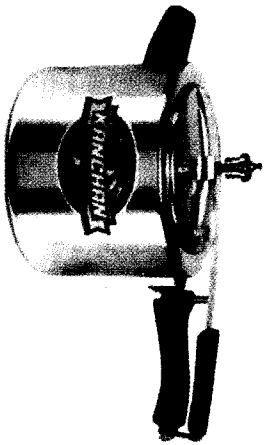
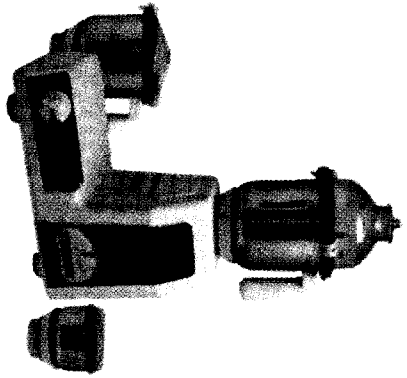


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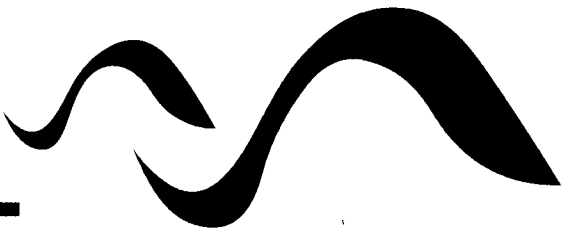


KANCHAN INTERNATIONAL LTD.

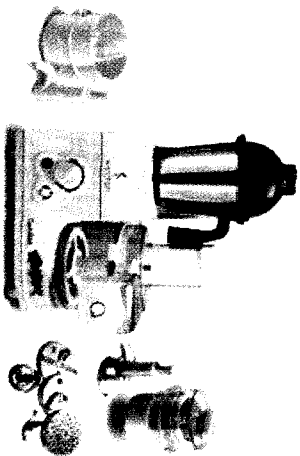
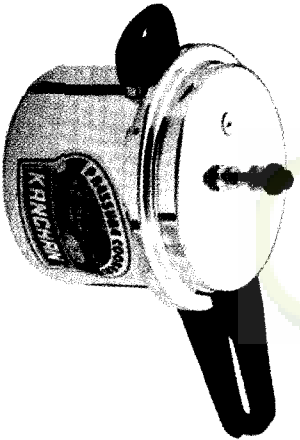
Shah Arcade, G-2, Rani Sati Marg, Malad (E), Mumbai - 400 097.



Kanchnan



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Board of Directors

Mr. Ashok C. Khimavat – Chairman
 Mr. Dinesh C. Khimavat – Managing Director
 Mr. Bharat H. Pipalia – Whole Time Director
 Mr. Champalal S. Khimavat – Non Executive Director
 Mr. Suresh C. Kapadia - Independent - Non Executive Director
 Mr. K. S. Raman – Independent, Non Executive Director
 (w.e.f. 26th April 2005)
 Mr. Parveen Kumar - Independent, Non Executive Director
 (w.e.f. 5th August 2005)

Audit Committee

Mr. Suresh C. Kapadia – Chairman)
 Mr. K. S. Raman – Member (w.e.f. 26th April 2005)
 Mr. Champalal S. Khimavat – Member
 Mr. K.R. Doddihal – Member (upto 26th April 2005)

Auditors

Jayant Salian & Co.
 Chartered Accountants
 207, Marine Chambers, New Marine Lines,
 Mumbai 400 020.

Bankers

State Bank of India
 Mumbai

Website

www.kanchanappliances.com

Registered Office

Shah Arcade, G-2, Rani Sati Marg,
 Malad (E)
 Mumbai – 400 007.

Administrative Office

28-A/B Raju Ind. Estate, Pankar Pada Road,
 Near Dahisar Check Naka, P.O. Mira – 401 104,
 Dist. Thane.

Manufacturing Facilities

At Daman

Unit I (Non Stick Cookware Division)

22-E, GDDIDC,
 Somnath Road, Dabhel,
 Daman 396 210.

Unit II (Pressure Cooker Division)

41/42, Somnath Road, Dabhel
 Daman 396 210

Unit III (Electrical Appliances Division)

9-10, Somnath Road, Dabhel,
 Daman 396 210.

Baddi Plant

45/46, Fauji Complex, Sai Road,
 Baddi, Solan (H.P.).

Registrar & Transfer Agent

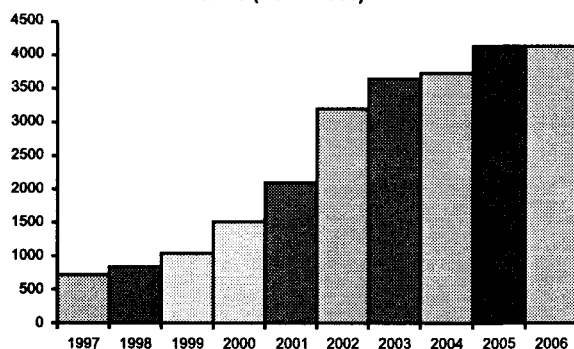
Intime Spectrum Registry Ltd.
 C-13, Pannalal Silk Mills Compound,
 L.B.S. Marg, bhandup (W),
 Mumbai-400 078.

Contents

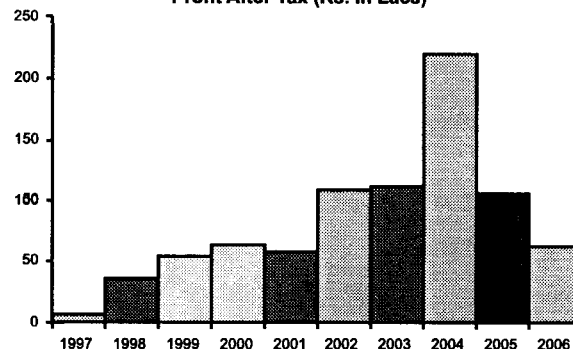
Company Information
 Financial Highlights
 Notice of AGM
 Directors Report and Management Discussions
 Corporate Governance Report
 Auditor's Report and Annexure
 Balance Sheet
 Profit and Loss Account
 Schedules forming part of the accounts
 Cash Flow Statement
 Balance Sheet Abstract
 Accounts of Subsidiary Company
 Auditor's Report on Consolidated Financial Statements
 Consolidated Financial Statements

FINANCIAL HIGHLIGHTS

Sales (Rs. in Lacs)

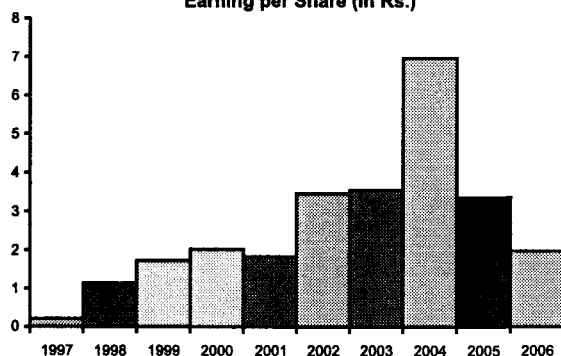


Profit After Tax (Rs. in Lacs)

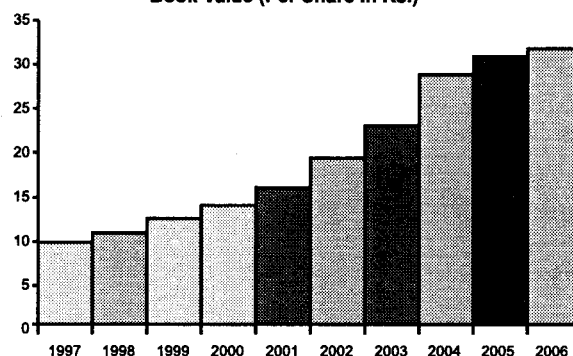


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Earning per Share (In Rs.)



Book Value (Per Share in Rs.)



NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the 12th Annual General Meeting of the Members of **KANCHAN INTERNATIONAL LIMITED** will be held at Club Link, A & B 1064, 2nd Floor, Chincholi Bunder, Malad Link Road, Malad (West), Mumbai – 400 064, India, on Friday, the 29th September, 2006, at 11.00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider, approve and adopt the Audited Balance Sheet as at 31st March 2006, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors' and Auditor's thereon.
2. To declare a dividend on equity shares for the year ended 31st March, 2006.
3. To appoint a Director in place of Mr. Champalal S. Khimavat, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Krishnamachari S. Raman, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board of Directors

Dinesh C. Khimavat
Managing Director

Place: Mumbai
Date: 30th June 2006

Registered Office:
Kanchan International Limited
Shah Arcade, G-2,
Rani Sati Marg,
Malad (E),
Mumbai 400097.

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NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND PROXY NEED NOT BE THE MEMBER OF THE COMPANY AND THE PROXY IN ORDER TO BE VALID, MUST BE DULY COMPLETED, STAMPED AND SIGNED, SHOULD REACH AT THE REGISTERED/ CORPORATE OFFICE OF THE COMPANY NOT LESS THAN FORTY EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. Members who hold Shares in dematerialized form are requested to write their Client ID and DP ID Nos. and those who hold shares in Physical form are requested to write their Folio No. in the attendance slip while attending the Meeting for easy identification of attendance at the Meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Friday, 22nd September 2006 to Friday, 29th September 2006 (Both days inclusive)

4. Dividend on equity shares as recommended by the Directors, if declared at the ensuing Annual General Meeting, the payment of the dividend will be made to those shareholders whose name appears in the Register of Members of the Company as on 29th September 2006. In respect of the shares held in electronic form (dematerialized mode), the dividend will be payable on the basis of the details of beneficial ownership, furnished by M/s. National Securities Depository Limited and Central Depository Services (India) Limited for this purpose as at the end of business hours on 29th September 2006.
5. Members are requested to:
 - i) Write to the Company at least 7 days before the date of the meeting, in case they desire any information as regards the Audited Accounts for the financial year ended 31st March 2006, so as to enable the Company to keep the information ready.
 - ii) Bring their copy of the Annual Report and the Attendance Slip at the Annual General Meeting.
 - iii) Intimate to the Registrar & Transfer Agent (R&TA) of the Company immediately, about any change in their addresses, where the shares are held in electronic form such change is to be informed to the Depository Participant (DP) and not to the Company / R & TA.
 - iv) Quote Registered Folio Number or DP ID/ Client ID in all the correspondence,
 - v) Approach the R&TA of the Company for consolidation of folios.
 - vi) Furnish bank account details to the R&TA / Depository Participant to prevent fraudulent encashment of dividend warrants.
 - vii) Avail of Nomination facility by filling in and forwarding the nomination form to the R&TA, if not already done.
 - viii) Send all share transfer lodgments (physical mode) / correspondence to the **R&TA** of the Company M/s Intime Spectrum Registry Limited, C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (w), Mumbai 400078, up to the date of book closure:-
6. Members holding shares in electronic form may kindly note that their Bank details as furnished by the respective Depositories to the R&TA will be printed on their Dividend Warrants as per the applicable Regulations of the Depositories, and that the Company / R&TA will not entertain any direct request from such Members for deletion of / change in such Bank details. Further, instructions, if any, already given by the Members in respect of Shares held in physical form will not be automatically applicable to Dividend paid on shares held in electronic form. Members may, therefore, give instructions regarding Bank Accounts in which they wish to receive Dividend, directly to their Depository Participant(s). However, shareholders holding shares in physical form are requested to complete and submit the Mandate form that is separately enclosed with this Annual Report, to the Company's Registrar and Transfer Agent latest by 18th September, 2006.
7. Securities & Exchange Board of India (SEBI) has made trading in the shares of the company compulsory in dematerialized form for all investors with effect from 8th May 2000. Shareholders are requested to open an account with Depository Participants, if not done so far.
8. Members/ Proxies are requested to bring the Attendance Slip duly filled up for attending the Meeting.
9. Non-Resident Indian Members are requested to inform the Company / R&TA the following immediately:
 - i) Change in the residential status on return to India for permanent settlement.
 - ii) The particulars of NRE Bank Account maintained in India with complete name and address of the Bank, if not furnished earlier.
10. Corporate Members are requested to forward a certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting.
11. The Company has listed its shares at Mumbai, Chennai and Ahmedabad Stock Exchanges. All the listing fees, till date, have been paid.
12. All the documents referred to in the Notice are open for inspection at the Corporate Office of the Company between 10.30 a.m. to 12.30 p.m. on all working days except Saturdays, Sundays and Public Holidays until the date of the Annual General Meeting or any adjournment(s) thereof.

13. Mr. Champalal S. Khimavat, is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment. Pursuant to clause 49 of the listing agreement relating to the code of Corporate Governance, the particulars of aforesaid Director is given below:

Mr. Champalal S. Khimavat, aged 72 years is a businessman and has wide experience in the field of electrical and non-electrical appliances retail business. He has over 40 years rich experience of the retail business. The Company will be benefited immensely from his extensive and diverse experience.

The details of the other Directorships and Board Committee Memberships of Mr. Champalal S. Khimavat in public limited companies, are given in the Corporate Governance Section of this Annual Report.

14. Mr. Krishnamachari S. Raman is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment. Pursuant to clause 49 of the listing agreement relating to the code of Corporate Governance, the particulars of aforesaid Director is given below:

Mr. Krishnamachari S. Raman, aged 58 years, is a double Graduate in Science and Law. He also holds Masters Degree in Economics. He is associated with Consumer Electronics Industry for over 30 years and has wide experience in the area of manufacturing, marketing and after sales services operations. He is also a winner of Udyog Ratna Award in the year 1985.

The details of the other Directorships and Board Committee Memberships of Mr. Krishnamachari S. Raman in public limited companies, are given in the Corporate Governance Section of this Annual Report.

By Order of the Board of Directors

Dinesh C. Khimavat
Managing Director

Place: Mumbai
Date: 30th June 2006

Registered Office:
Kanchan International Limited
Shah Arcade, G-2,
Rani Sati Marg,
Malad (E),
Mumbai 400097.

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DIRECTORS' REPORT & MANAGEMENT DISCUSSIONS

To,
The Members,
KANCHAN INTERNATIONAL LIMITED

Your Directors have pleasure in presenting the 12th Annual Report together with the Audited statement of Accounts of the Company for the year ended 31st March 2006.

FINANCIAL RESULTS

The Financial performance of your Company for the year under review is summarized below:

Rs. In Lacs

PARTICULARS	YEAR ENDED 31.03.2006	YEAR ENDED 31.03.2005
Sales	4,075.74	4,087.02
Profit before Depreciation, Finance Charges & Taxation	265.06	256.93
Less: Depreciation	40.79	37.16
Less: Finance Charges	116.61	103.91
Profit before Taxation	107.66	115.86
Less: Provision for Taxation		
Provision for Current Tax	9.06	9.33
Provision for Deferred Tax	31.46	0.70
Provision for Fringe Benefits Tax	3.45	-
Net Profit after taxation	63.69	105.83
Add: Surplus Brought Forward from previous years	283.01	263.48
Surplus available for appropriation	346.70	369.31
Less: Proposed Dividend on Equity Shares	32.10	32.10
Less: Distribution Tax	4.50	4.20
Less: Transfer to General Reserves	25.00	50.00
Balance carried to Balance Sheet	285.10	283.01

REVIEW OF OPERATIONS

Your Company has achieved sales turnover of Rs.4075.74 lacs as compared to Rs.4087.02 lacs during the preceding year, registering a marginal decline of 0.28%. The profit before taxation has gone down at Rs.107.66 lacs as compared to Rs.115.86 lacs during the preceding year mainly due to increase in prices of our basic raw material i.e. Aluminum, Steel, Copper, etc. Further the operating margins continued to be under pressure, due to severe competition and inflationary cost increase. Ongoing efforts to control material cost, focus on growth to attain greater economies of scale and control of operating expenses helped to mitigate the proportional impacts on the profits of the Company.

The Company has taken measures to adopt innovative strategies to increase the turnover and profitability of the Company. The Company is continuing its efforts to improve its productivity and curtail costs. The Company's plants at Daman and Baddi has performed satisfactorily during the year and plants II and III manufacturing Electrical Appliances & Pressure Cookers at Daman & plant at Baddi, continue to be eligible for tax holidays pursuant to section 80 IB of the Income Tax Act, 1956.

The operation of the Company is carried in a single segment i.e. manufacturing and marketing of home appliance products.

DIVIDEND

Your Directors have recommend a dividend of Re.1.00 per Equity share (Previous year Re. 1.00 per Equity share) on 32,10,100 Equity shares of Rs. 10/- each, for the financial year ended 31st March 2006, which if approved at the ensuring Annual General Meeting, will be paid to, (i) all those members whose name appears in the Register of members as on 29th September, 2006 and (ii) all those members whose name appears on that date as beneficial owners as furnished by NSDL and CSDL.

The total cash outflow on account of equity dividend payments including distribution tax will be Rs. 36.60 lacs (Previous year Rs.36.30 lacs).

REGISTERED OFFICE

The Board of Directors in their meeting held on the 29th July 2006, have decided to shift the Registered office of the Company from 1001/1002, Unique Tower, 10th Floor, Off. S. V. Road, Gaiwadi Industrial Estate, Goregaon (W), Mumbai 400 062 to, Shah Arcade, G-2, Rani Sati Marg, Malad (E), Mumbai 400097. However, all the major operations shall be carried out from the Administrative Office of the Company at 28/AB Raju Industrial Estate, Penkar Pada Road, Khashimira, Near Dahisar Check Naka, P.O. Mira – 401104, Dist. Thane.

FUTURE OUTLOOK

The Indian economy has shown a strong real GDP growth of 8 % in FY 2006 backed by a growth of 7 to 8 % in agriculture. The macro variables are looking more positive than ever before; forex reserves have crossed the USD 100 billion mark; interest rates are stable after having come down sharply over the past few years; a mildly appreciating rupee combined with a benign inflation rate are adding to the strength of the Indian economy. This augur for your Company's business as historically, the demand for small home appliance products has closely followed the GDP growth.

The growth in demand for home appliance products continues to rise in tandem with the increase in income and living standards of the people in rural areas of India. Electricity is the force driving the demand for consumer durables particularly in villages, which make up the fastest growing segment. Presently the lack of power is the single largest contributor for the low use of consumer durables in villages. With the interest rate scenario conducive to the growth of development of infrastructure projects and electrification in rural areas of India, it is expected that the demand for home appliance products viz. Pressure Cookers, Mixers, Gas stoves etc. will rise tremendously. To encourage fuel saving & health conscious products, the Government of India has reduced Excise Duty on Pressure Cookers, which will further boost the demand in rural as well as urban areas. Your Company is also exploring new markets globally to further improve the sales and profits.

SUBSIDIARY ACCOUNTS

The accounts of the Subsidiary of the Company viz., Kanchan International Middle East FZE for the year ended 31st March 2006 along with the statement Required under section 212(1) (e) of the Indian Companies Act, 1956 are annexed.

The Government of Ajman (UAE) has not prescribed any reporting formats for preparation of financial statements and audit of the same under their law. However, the Company has drawn accounts of Kanchan International Middle East FZE (subsidiary) as per the provisions of the Indian Companies Act, 1956 and the applicable Indian Accounting Standards. The same is annexed with the holding company 's accounts.

The parent company intent to develop distribution and service channel through the wholly owned subsidiary to boost exports of its products to the Middle East countries. Hence, the Company has incorporated a wholly owned subsidiary at trade free zone of Ajman (UAE), which provides hassle free world class logistic and infrastructure facilities. The subsidiary is helping parent company in distribution of its products in middle east and making products available to market at minimum lead time by warehousing the same at Ajman.

Kanchan International Middle East FZE has achieved a modest sale of Rs.513.82 Lacs (previous year Rs. 71.09 Lacs)

OPPORTUNITIES & THREATS**Opportunities**

- 1 Strong Brand.
- 2 Strong distribution network
- 3 Global presence
- 4 Established leadership position in home appliance segment.
- 5 The implementation of VAT should help to remove the disadvantage due to activities of unorganized sector.

Threats

- 1 Cheap imports from China and Far East
- 2 Uncertain Monsoon
- 3 A large number of players in the unorganized sector enjoy price advantage either due to tax concessions or SSI status.

RISK & CONCERNS

The industry fortunes are linked to the rural income, which is depending to some extent on agricultural production, government off take and monsoon in the country. The domestic, regional and global macro economic environment directly influences the demand of consumer durable products. Any economic slowdown can adversely impact demand supply dynamics and profitability of all industry players, including "Kanchan".

However, the Company's operations have historically shown significant exposure to the resilience to the fluctuations of economic and industry cycles, with demand for most of its key products continue to grow at healthy rates even at times of an overall economic slowdown.

Kanchan has insured its assets and operations against a wide range of risks, as part of its overall risk management strategies. Any adverse movement in the value of the domestic currency may increase the Company's liability on account of its foreign currency denominated loans. The Company's rapidly growing export revenues provide more than adequate cover for the foreign currency loan service requirements.

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

We have always believed that transparency, systems and controls are important factors in the success and growth of any organization. Towards this end, M/S B.B.Lodha & Co. a Chartered Accountant, who have been given the responsibility of implementing adequate systems and controls for all the activities in the Company, close monitoring thereof and to strengthen and modify the same from time to time to meet the changing requirement of the Company. The deviation from the norms are first informed to the concerned operating person for corrective actions and in case of need, these are brought to the notice of the concerned head of the unit or the department, as the case may be. The Internal Auditors constantly look into the areas where there is a possibility of saving in cost and submit their suggestions to the concerned operating departments. All major findings and suggestions are complied and reported to the Audit Committee of the Directors on a quarterly basis or earlier if so required. It operates at all the Plants at Daman and other business locations but centrally controlled from the corporate office at Mumbai. We believe that we have a sound internal control system in our Company.

MATERIAL DEVELOPMENT ON HUMAN RESOURCES / INDUSTRIAL RELATIONS

The biggest strength of the Company has always been its people. Only with their participation have we managed to achieve a healthy work culture, transparency in working, fair business practice and a passion for efficiency. The Company follows a unique, homegrown philosophy of allowing people to set their own targets and give them the freedom to achieve them: 'I can'. This philosophy has spread across all our employees and has been a constant source of motivation for our people. Further, to enhance their skills and enrich their experience, the Company provides continuous training. This includes workshops, courses, seminars and visit to the Company's plants. Of late, we have also started in-house conferences for various disciplines. Employees from all our offices are invited to participate. It is a useful forum for sharing experiences, ideas, innovations and developmental work undertaken in their respective work places. From the beginning, we have followed a progressive policy of taking keen interest in the well-being and progress of our people. All of this, we believe, has nurtured a strong sense of belonging among our people.

DIRECTORS

The Board of a Company provides leadership and strategic guidance, objective judgment independent of management to the Company and exercise control over the Company, while remaining at all times accountable to the shareholders. To make the Board more effective and broad, the Company had inducted professionals on the Board of directors during the last year.

Mr. Champalal S. Khimavat and Mr. Krishnamachari S. Raman, Director of the Company are liable to retire by rotation and being eligible, offer themselves for re-appointment.

DIRECTORS RESPONSIBILITY STATEMENT:

In Compliance to the requirements of Section 217 (2AA) of the Companies Act 1956, your directors confirm that:

- a) The Company has followed the applicable accounting standards in the preparation of the Annual Accounts and there had been no material departure.
- b) The Directors had selected the accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2006 and of the profit or loss of the Company for the year ended on that date.
- c) The Directors have taken proper and sufficient care for 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) The Directors have prepared the Annual Accounts on a going concern basis.