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**31<sup>st</sup> Annual Report  
2005-2006**

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**Chembond Chemicals Limited**

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**Board of Directors**

Dr. Vinod D. Shah  
 Ashwin R. Nagarwadia  
 Perviz H. Dastur  
 Mahendra K. Ghelani  
 Jayant S. Vasani  
 O. P. Malhotra  
 Sameer V. Shah  
 Nirmal V. Shah  
 Jawahar I. Mehta  
 Sanjay N. Nene  
 Sharad M. Mahadik

Chairman &amp; Managing Director

Vice Chairman &amp; Executive Director

Alternate Director to Ashwin R. Nagarwadia

**Company Secretary**

Ajay Shah

**Key Executives**

Bhadresh D. Shah  
 Rajesh K. Arora  
 V. R. Pai  
 E. Gopalkrishnan  
 Tirtha Banerjee  
 Sanjay R. Naik  
 Mangesh Narvekar  
 P. Basavaiah  
 Jinesh Maniar

General Manager (Commercial)  
 General Manager (Operations)  
 Dy. General Manager (Construction Chemicals - Retail)  
 Dy. General Manager (Construction Chemicals - Projects)  
 Region Head - West & South (Construction Chemicals)  
 Sales Manager (Anti Corrosive Coatings)  
 Sr. Manager Sales (Trading)  
 Group Accountant  
 Finance Controller

**Auditors**

M/s. Kastury & Talati  
 Chartered Accountants, Mumbai

**Whole Time Practising  
Company Secretary**

Mr. Virendra Bhatt

**Bankers**

HDFC Bank Ltd.  
 Bank of India

**Registered and Corporate  
Office**

Chembond Centre  
 EL-71, Mahape, MIDC,  
 Navi Mumbai - 400 710.  
 Tel. : (++91 22) 2761 8799  
 Fax : (++91 22) 2768 1294

**City Office**

B-23, Todi Ind. Estate, New Sunmill Compound, Lower Parel, Mumbai - 400 013.

**Plant**

Plot E-6/3 &amp; 6/4, MIDC Tarapur, Dist. Thane, Maharashtra

**Registrar and Transfer Agent**

TSR Darashaw Ltd.  
 (Formerly Tata Share Registry Ltd.)  
 Army & Navy Building,  
 148, Mahatma Gandhi Road,  
 Fort, Mumbai - 400 001  
 Tel. : (++91 22) 6656 8484  
 Fax : (++91 22) 6656 8494  
 E-mail : csg-unit@tatashare.com

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**NOTICE**

NOTICE IS HEREBY GIVEN THAT THE THIRTY FIRST ANNUAL GENERAL MEETING OF THE MEMBERS OF CHEMBOND CHEMICALS LIMITED WILL BE HELD ON SATURDAY, 29<sup>TH</sup> JULY 2006 AT EL-37, MIDC, MAHAPE, NAVI MUMBAI - 400 710 AT 3.00 P.M. TO TRANSACT THE FOLLOWING BUSINESS:

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31<sup>st</sup> March 2006 and the Balance Sheet as on that date and the Reports of the Directors and Auditors thereon.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Mr. Perviz Dastur, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. O. P. Malhotra, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint M/s Kastury & Talati auditors to hold office from conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and authorise the Board of Directors to fix their remuneration.

**SPECIAL BUSINESS:**

6. To consider and if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution :  
"RESOLVED THAT Mr. Sanjay N. Nene, who was appointed as an additional Director of the Company by the Board of Directors of the Company and who ceases to hold office under section 260 of the Companies Act, 1956 and in respect of whom, the Company has received a notice in writing proposing his candidature for the office of a Director, be and is hereby appointed a Director of the Company liable to retirement by rotation."
7. To consider and if thought fit, to pass with or without modification the following resolution as a Special Resolution :  
"RESOLVED THAT pursuant to provision of revised clause 49 of the Listing Agreement, provisions of section 198, 309, 310, 314 and any other applicable provisions of the Companies Act, 1956 and rules and regulation made there under, including any amendments made thereof from time to time, pursuant to provisions of Articles of Association of the Company and subject to approval of Central Government or any other authority, if any required, the Board of Directors of the Company be and are hereby authorised to fix, decide and pay from time to time, at their discretion any fees, commission, remuneration or any other compensation, starting with financial year ended 31<sup>st</sup> March 2006, to the Non-executive Directors of the Company for the services rendered by them either in professional or any other capacity to the Company within the prescribed limit of above provisions or at higher remuneration with the approval of concerned authority."  
"RESOLVED FURTHER THAT above remuneration shall be exclusive of the fees payable to such Directors for each meeting of the Board or Committee of the Board attended by such Director."

By Order of the Board of Directors  
of Chembond Chemicals Limited

Dr. Vinod D. Shah  
Chairman & Managing Director

Navi Mumbai, 15<sup>th</sup> June 2006

**REGISTERED OFFICE:**

Chembond Centre,  
EL-71, MIDC, Mahape,  
Navi Mumbai- 400 710.

**NOTES:**

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE ON A POLL ONLY INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.

A proxy form duly completed and stamped, must reach the registered office of the Company not less than 48 hours before the time for holding the aforesaid meeting.

2. The relevant Explanatory Statement pursuant to the Section 173(2) of the Companies Act, 1956, is annexed hereto.
3. The register of members and the share transfer books of the Company will remain closed from Friday, 21<sup>st</sup> July 2006 to Saturday, 29<sup>th</sup> July 2006 (both days inclusive) in connection with the Annual General Meeting.
4. The Directors have recommended dividend @ 32.5% on Equity Shares, which will be paid to the members whose names appear in the Company's Register of Members on 29<sup>th</sup> July 2006 with Dividend Warrants posted to them on or before 27<sup>th</sup> August 2006. In respect of shares held in the electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by the National Securities Depositories Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for this purpose.
5. Members are aware that as per the Finance Act, 2003 no tax will be deducted at source on the dividend payable to the shareholders.
6. Consequent upon the amendment to Section 205A of the Companies Act, 1956 and introduction of Section 205C by the Companies (Amendment) Act, 1999 which came into force w.e.f. 31<sup>st</sup> October, 1998, the Company would be obliged to transfer any money lying in the Unpaid Dividend Account which remain unpaid or unclaimed for a period of 7 years from the date of such transfers, to the Investor Education and Protection Fund, and hence all unclaimed dividend for the financial year 1997-1998 have been transferred to the Investor Education and Protection Fund. The details of remaining unpaid or unclaimed dividend for the subsequent years as of 31<sup>st</sup> March 2006 are as under:

Date of Declaration	Amount (Rs.)	Due Date
07-09-1999	17,034.60	06-09-2006
11-02-2000	16,257.00	10-02-2007
23-09-2000	19,652.00	22-09-2007
22-09-2001	17,262.00	21-09-2008
17-09-2002	35,803.60	16-09-2009
07-08-2003	25,122.10	06-08-2010
12-07-2004	34,646.40	11-07-2011
12-08-2005	39,182.40	11-07-2012

7. Members are requested to inform the Company about any change in their addresses, if any, immediately so as to enable the Company to despatch dividend warrants and any further communication at their correct address. This information may be provided to -
- TSR DARASHAW LIMITED (Formerly Tata Share Registry Limited)**  
Army & Navy Building, 148-Mahatma Gandhi Road,  
Fort, Mumbai- 400 001.

8. As per the Listing Agreement, particulars of Directors who are proposed to be appointed and re-appointed is furnished below -

- I. Particulars about Mr. Perviz Dastur, who is proposed to be re-appointed as Director of the Company.

- i) Name : Mr. Perviz Dastur  
ii) Age : 70 years  
iii) Qualification : Chartered Accountant, MBA, B. Com.

- iv) Expertise : Finance and Accounts  
Mr. Perviz Dastur is also a Director on the Board of Chembond Drewtreat Limited, Finor Piplaj Chemicals Limited and Oil Field Instrumentation (I) Limited. He is a Member of the Audit Committee of Chembond Chemicals Limited and Oil field Instrumentation (I) Limited. He is holding 67,030 shares in the Company in his own name.

- II. Particulars about Mr. O. P. Malhotra, who is proposed to be re-appointed as Director of the Company.

- i) Name : Mr. Om Prakash Malhotra  
ii) Age : 75 years  
iii) Qualification : B. E. (Chemical)  
iv) Expertise : Vast experience of Chemical Industry.

Mr. Om Prakash Malhotra is also a Director on the Board of Chembond Drewtreat Limited, Adorn Investments Limited, Adapt Investments Limited, PCBL Industrial Finance Limited, South Asia Electricity Holdings Limited, RPG Petrochem Limited, RPG Infrastructure Investments Private Limited, South India Fertilizers and Industries Limited, Duncan Investments and Industries Limited, Philips Carbon Black Limited, Duncan Brothers and Company Limited, RPG Hospitex Limited, Alpha Carbon Limited. He is a Member of the Audit Committee and Remuneration Committee of PCBL Industrial and Finance Limited. He is holding NIL shares in the Company in his own name.

- III. Particulars about Mr. Sanjay Nene, who is proposed to be appointed as Director of the Company.

- i) Name : Mr. Sanjay Nene  
ii) Age : 54 years  
iii) Qualification : M. Tech, M. Sc.  
iv) Expertise : Bio Technology and Scientist

Mr. Sanjay Nene is not holding any Directorship, Membership of any committee in any other Company. He is also not holding any shares in the Company in his own name.

9. Members holding shares in electronic form may please note that their bank details as furnished by the respective Depositories to the Company will be printed on their dividend warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such members for change/deletion in such bank details. Further instructions if any already given by them in respect of shares held in physical form will not be automatically applicable to the dividend paid on shares held in electronic form. Members may therefore give instructions regarding bank accounts in which they wish to receive dividend to their Depository Participants.

Navi Mumbai, 15<sup>th</sup> June, 2006

**REGISTERED OFFICE:**  
Chembond Centre, EL-71, MIDC, Mahape, Navi Mumbai- 400710.



**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956****ITEM NO: 6**

Mr. Sanjay Nene is a Scientist at the National Chemical Laboratory, Pune. Mr. Nene has done his M.Sc in Applied Microbiology from Edinburgh University and M.Tech in Bio-Chemical Engineering from IIT, Delhi. Mr. Nene has worked as Research Associate, in Hindustan Antibiotics Ltd, Pimpri, and has also worked as a Technical Consultant for Millipore Intertech Inc. and currently working as Scientist, heading Bio Chemical Engineering Group. He is also currently into research in Microbial & Food Technology.

He was appointed as Additional Director by the Board of Directors of the Company ("the Board") w.e.f. 28<sup>th</sup> December 2005. Pursuant to Section 260 of the Companies Act, 1956 ("the Act"), Mr. Sanjay Nene holds office upto the date of Annual General Meeting of the Company. Notices along with the Deposit of Rs.500/-, have been received from a member of the Company in pursuance of Section 257 of the Act, proposing Mr. Sanjay Nene as a candidate for the office of Director of the Company. Mr. Sanjay Nene has given his consent, if appointed, to act as a Director of the Company.

None of the Directors, except Mr. Sanjay Nene, is in any way concerned or interested in the resolution proposed to be passed.

**ITEM NO: 7**

The revised clause 49 of the Listing Agreement which came into effect from 1<sup>st</sup> January 2006 requires that payment of any fees/ compensation to the non executive Directors of the Company shall be fixed by the Board of Directors and the same shall be authorised by the Members in General Meeting. Further, pursuant to the provisions of the Companies Act, 1956 the Company pays the commission and fees to the Non -Executive Directors for the professional services rendered by them from time to time to the Company. Hence, in order to comply with both the provisions of the revised clause 49 of the Listing Agreement and provisions of the Companies Act, 1956 the Board recommends this resolution for the approval of Members by way of special resolution.

All the Directors of the Company except, Managing Director and Executive Directors are deemed to be interested in the proposed resolution.

By order of the Board of Directors  
of Chembond Chemicals Limited

**Dr. Vinod D. Shah**  
Chairman & Managing Director

Navi Mumbai, 15<sup>th</sup> June 2006

**Registered Office:**  
Chembond Centre,  
EL - 71, Mahape, MIDC,  
Navi Mumbai - 400 710

## DIRECTORS' REPORT

To,

The Members,

Your Directors have pleasure in presenting the 31<sup>st</sup> Annual Report on the business and operations of your Company together with Audited Financial Statements for the year ended 31<sup>st</sup> March 2006.

### FINANCIAL RESULTS

	2005 - 2006 (Rs. in '000)	2004 - 2005 (Rs. in '000)
Turnover of Sales	641,811	506,766
Less: Excise Duty	111,496	86,576
Net Sales	530,315	420,190
Profit Before Tax	41,420	25,393
(Less)/Add: Deferred Tax	(420)	6
Less: Provision for Taxation	(9,540)	(6,200)
Fringe Benefit Tax	(825)	Nil
Profit after Tax	30,635	19,199
Add: Balance as per last year	45,916	37,953
<b>Amount available for Appropriation</b>	<b>76,551</b>	<b>57,152</b>
<b>Appropriation</b>		
General Reserves	3,441	2,000
Proposed Dividend	9,750	8,100
Tax on Proposed Dividend	1,367	1,136
Balance carried to Balance Sheet	61,993	45,916
<b>Total</b>	<b>76,551</b>	<b>57,152</b>

### PERFORMANCE REVIEW

During the year under review, your Company has recorded a 26.21% increase in net sales. The profits before tax and PAT have increased by 63.12 % and 59.57% respectively over the previous year. The earnings per share increased to Rs.10.21 as at March 31, 2006 from Rs.6.40 at the end of the previous fiscal year.

Sales continued to grow impressively during the year across all segments in which your Company operates. New product launches and geographical expansion have contributed to the accelerated growth in sales and profits. The Company has also acquired a freehold plot of land in Nalagarh, Himachal Pradesh. The construction of a new plant catering to all product lines is in full swing. The plant is expected to be operational by the end of 2006.

Your subsidiary Company, ChembondDrewtreat Ltd., registered an increase of 10.70% and 47.10% in Sales and PBT respectively. The Company has made very good progress on gaining business in BWT and CWT applications across all sectors. Plans to accelerate growth in hitherto unfocused product groups have been made and the Company would shortly embark on the path.

Your joint venture Company, Henkel Chembond Surface Technologies Ltd., recorded a growth in sales of 22% for the year ended December 31, 2005 and 50% in profits. The Company has performed well in all sub-segments viz. automotive, steel, cold forming, coil coating, appliance and general industry.

### DIVIDEND

Your Directors are pleased to recommend a dividend of 32.5% on the Equity Shares for the financial year ended 31<sup>st</sup> March, 2006. The total outflow on account of dividend and the tax thereon amounts to Rs.11117 thousand (Previous year Rs.9236 thousand). The Company has also transferred an amount of Rs.3441 thousand from its current years profit to the General Reserve account.

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS AND OUTGO

The prescribed particulars Under Section 217(1)(e) of the Companies Act, 1956 relating to Conservation of Energy, Technology Absorption and Foreign Exchange earnings and outgo are furnished in the Annexure to this Report.

### PARTICULARS OF EMPLOYEES

The Information required under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is given as under

Employee Name	Designation	Age	Qualifications	Remuneration*	Nature of Contract	No. of Shares Held
Dr. Vinod D. Shah	Chairman & Managing Director	74 years	Doctorate in Chemical Engineering	Rs. 30,00,000	3 years w.e.f. 01.01.04	432480 (14.42%)

\*Excluding the Perquisite which shall not be included in the computation of the ceiling limits of remuneration.

**DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that:

- i) in the preparation of the Annual Accounts for the year ended 31<sup>st</sup> March 2006, the applicable Accounting Standards have been followed and there are no material departures from the same.
- ii) that the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 31<sup>st</sup> March 2006 and the profit of the Company for the year under review;
- iii) 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 for preventing and detecting fraud and other irregularities and
- iv) that the annual accounts for the year ended 31<sup>st</sup> March 2006 have been prepared on a 'going concern basis.'

**CORPORATE GOVERNANCE**

A separate report on Corporate Governance is produced as a part of the Annual Report along with the Auditor's Certificate on its compliance.

**CODE OF CONDUCT**

During the year the Company has introduced the Code of Conduct as per revised clause 49 of the Listing Agreement applicable to all the Directors and Senior Management of the Company. Pursuant to the said regulation, the Company has received a confirmation, from all the Directors and Senior Management of the Company, of the compliance of the said code of conduct during the financial year ended 31<sup>st</sup> March 2006.

**DEPOSITS**

The Company had accepted deposits from the public as per Section 58 A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 and there were no due and unclaimed deposits during the year under review.

**SUBSIDIARY COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS**

The Central Government has vide its letter No.47/202/2006-CL-III dated 16<sup>th</sup> May 2006 exempted the Company from attaching the financial report of the subsidiary Company to this annual report. However, the annual accounts of the subsidiary Company and related detailed information will be made available to the shareholder seeking such information at any point of time and the annual accounts of the subsidiary Company will be available for inspection at the registered office of the Company. The statement as required under section 212(1)(e) of the Companies Act 1956 and the statement containing the details of the subsidiary as required to be given as per the terms of the above exemption letter are enclosed herewith and forms part of this annual report.

Further, as stipulated by Clause 32 of the Listing Agreement and as per the conditions stated in the above letter, the Company, in accordance with the requirements of Accounting Standard 21 and Accounting Standard 27 on Consolidated Financial Statements read with Accounting Standard 23 on Accounting for Investments in Associates, has prepared the Consolidated Financial Statements for the year ended 31<sup>st</sup> March 2006 and the same is attached to this annual report.

**DIRECTORS**

Mr. Perviz Dastur & Mr. Om Prakash Malhotra, Directors of the Company are liable to retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Mr. Sanjay N. Nene was appointed as an additional Director of the Company by the Board of Directors with effect from 28<sup>th</sup> December 2005. Mr. Sanjay Nene holds office of Director up to the date of ensuing AGM. The Company has received a notice along with a deposit of Rs.500/- from a member pursuant to Section 257 of the Companies Act, 1956 of his intention to move a resolution at the ensuing AGM for the appointment of Mr. Sanjay Nene as a Director of the Company. Further, Mr. Sharad Mahadik has been appointed as an alternate Director in place of Mr. Ashwin Nagarwadia by the Board of Directors at their Meeting held on 25<sup>th</sup> April 2006.

**AUDITORS**

The Statutory Auditors of your Company M/s. Kastury & Talati, Chartered Accountants, Mumbai who were appointed as Auditors to hold office until the conclusion of the ensuing Annual General Meeting are eligible for re-appointment. The Company has received a Certificate from them to the effect that their appointment, if made, would be within the prescribed limits under section 224(1-B) of the Companies Act, 1956.

**DISCLOSURE UNDER SECTION 274(1)(g)**

None of the Directors of the Company are disqualified from being appointed as Directors as specified under Section 274(1)(g) of the Companies Act, 1956 as amended by the Companies (Amendment) Act, 2000.

**ACKNOWLEDGEMENTS**

Your Board takes this opportunity to thank the customers, vendors, shareholders and bankers for the faith reposed in the Company. Your directors also place on record their sincere appreciation of the contribution of its employees, who through their competence, hard work and cooperation have enabled the Company to achieve consistent growth.

For and on behalf of the Board of Directors  
of Chembond Chemicals Limited

Navi Mumbai, 15<sup>th</sup> June 2006

Dr. Vinod D. Shah  
Chairman & Managing Director



# ANNEXURE TO THE DIRECTORS' REPORT

Particulars required under section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988:

## A. CONSERVATION OF ENERGY

### a) Energy conservation measures taken:

The Company has taken adequate timely measures to reduce the energy consumption by change in Elements in furnace and other equipment.

### b) Additional investments and proposals for Reduction of energy:

None under the present condition.

### c) Impact of the measure as (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

In view of the measures taken by the Company as above mentioned the quantitative consumption of Energy has been maintained at satisfactory levels.

### d) Total energy consumption & energy consumption per unit of production:

Particulars	2005-06	2004-05
I) Electricity Purchased		
i) Units	3,55,285	2,80,632
ii) Total Amount (Rs. in '000)	1,797	1,265
iii) Rate/KWH (Rs.)	5.06	4.50
II) Kerosene purchased		
i) Litres	46,074	18,679
ii) Total Amount (Rs. In '000)	1122	372
iii) Rate/ Lt. (Rs.)	24.35	19.92

Since, the Company manufactures various types of chemicals of diverse formulations; it is not practicable to provide energy consumption per unit of production.

## B. 1) RESEARCH & DEVELOPMENT (R&D)

### a. Specific areas in which the research and development is being carried out

- Super plasticizers for concrete
- Industrial enzymes
- Coatings for corrosion protection.

### b. Benefits derived as a result of R&D efforts

- Super plasticizers with improved properties
- Development of industrial enzymes and formulations for use in pulp and paper, textiles, waste water treatment and brewing industries
- Development of improved coatings for industrial floors
- Development and import substitution in areas of water treatment and metal treatment chemicals
- Development of defoamers.

### c. Future plan of action

The Company's R&D initiatives in the areas of construction chemicals and coatings are part of an ongoing activity to grow these expanding businesses. The Company is also focused on continued development of applications for industrial enzymes in textile, pulp and paper, animal feed and other industries and has recently established a biotechnology laboratory for the same. The Company expects a substantial portion of future revenues to be derived from the R&D efforts in this area.

### d. Expenditure on R&D

	2005-06	(Rs. in Thousand) 2004-05
a. Capital	1797.84	126.43
b. Recurring	1185.21	177.25
Total	2983.05	303.68
c. Total R&D as a percentage of total turnover	0.46%	0.06%

## 2) TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION

The Company continues its efforts to assimilate group technology for improving product quality.

## C. FOREIGN EXCHANGE EARNINGS AND OUTGO

Particulars	2005-06	(Rs. in Thousand) 2004-05
Total Foreign Exchange Earned	5434	4445
Total Foreign Exchange Outgo	66651	65051

For and on behalf of the Board of Directors  
of Chembond Chemicals Limited

Navi Mumbai, 15th June 2006

Dr. Vinod D. Shah  
Chairman & Managing Director

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **GENERAL REVIEW**

The Company is in the Specialty Chemicals business and offers a range of products for diverse industrial applications. The Company maintains its head office in Mahape, Navi Mumbai and the plant in Tarapur, Maharashtra. Further, the Company has one subsidiary ChembondDrewtreat Limited and Joint Venture Henkel Chembond Surface Technologies Limited, which deal in Water Treatment Chemical and Metal Surface Treatment Chemicals respectively. The Company also has branch offices spread across the country.

### **COMPANY'S OBJECTIVE & POLICY**

The Company has an objective of becoming "Supplier of Choice" for its existing as well as prospective customers. It considers its customer as a partner and works towards achieving the common objectives of higher quality, better value for money and a friendly environment. The Company considers product quality, technical services and customer satisfaction as the backbone of its business. The Company is accredited with ISO 9001 Standard by DQS GmbH for its quality. The Company is also committed to absorb knowledge to incorporate improvements on continuous basis which are consistent with global standards.

The Company also has a policy called SHE (Safety, Health and Environment), which is applicable to all the employees of the Company. Every one at Chembond is committed to comply with the standards prescribed under this policy and works towards improving the same on continuous basis.

### **SIGNIFICANT FINANCIAL EVENTS OF THE YEAR**

The Company's turnover grew by 26.21% in 2005-06 to Rs.6418.11 lacs. The growth has been possible due to the overall improvement in the Indian economy and the efforts put in by your Company in the past years. The increased sales are also on account of the improved performance of Henkel Chembond Surface Technologies Ltd. (JV Company) and ChembondDrewtreat Ltd. (Subsidiary Company). The Company improved capacity utilization at the plant and streamlined production processes.

Expenditure increased from Rs.4124.72 lacs to Rs.5135.40 lacs an increase of 24.50%. This is in line with the increased sales volume. The Profit Before Tax grew by 63.12% to Rs.414.21 lacs over prior period. Interest and Financial charges were curtailed to Rs. 38.44 lacs marking a decrease of 8% over prior year. This was possible due to improved financial control and reduced interest rates on borrowings.

The paid-up equity share capital stood at Rs.300 lacs. The Earning Per Share was Rs.10.21. A dividend of 32.5% (Rs.3.25 per share) has been proposed, subject to approval of the shareholders. The payout at this rate will be Rs.97.5 lacs on account of dividend and Rs.13.67 lacs on account of dividend distribution tax.

### **RESOURCES AND LIQUIDITY**

Primary liquidity needs have been to finance working capital needs. To fund these, the Company relied on internal accruals and borrowings. The Company has secured loans of Rs.370 lacs and unsecured loans of Rs.121.07 lacs as of 31<sup>st</sup> March 2006.

### **INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY**

The Company maintains effective internal controls, systems and procedures for management of its business. As a part of this process, systems and procedures are regularly reviewed and strengthened. The internal control systems cover the accounting, production and administration functions. The Company has appointed an outside internal audit agency to further assess the systems and provide valuable feedback on the systems and areas of improvement of the same. The Company has a proper and adequate system to ensure that all assets are safeguarded and protected against loss, theft, unauthorised use and damage from improper use.

### **HUMAN RESOURCES /DEVELOPMENT**

The Company has a large pool of talented and knowledgeable personnel. The Company offers several in-house training programs to its personnel. This is aimed at continuous development and improvement of the Company's talent pool. The Company regularly held in-house training programs during the year under reference. Industrial relations at the plant remained cordial throughout the year. The Number of people employed by the Company as of 31<sup>st</sup> March 2006 is 137.

### **OUTLOOK**

The industry sector under which the Company operates has been posting healthy growth rates over the years. The market for the product mix is expanding at about 6% per annum. These factors provide opportunities for the Company to continue to return impressive growth and returns for all shareholders.

### **FORWARD LOOKING STATEMENT**

This report contains statements, which may constitute 'forward looking statements' within the meaning of the applicable securities laws and regulations. Forward-looking statements are based on certain assumptions and expectations of the future events. Actual results could differ materially from those expressed or implied. Important factors that could impact the Company's performance include, among others, economic conditions affecting the demand / supply and price conditions in the markets in which the Company operates, changes in the Government policies, regulations, tax laws, other statutes and incidental factors.

The Company undertakes no obligations to update or revise forward-looking statements on the basis of any subsequent developments, information or events.