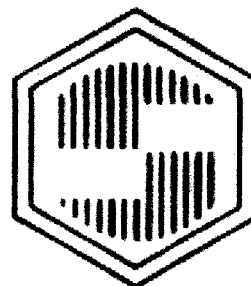


SABERO

The right chemistry at work

15th Annual Report 2005-06



SABERO ORGANICS GUJARAT LIMITED



SABERO ORGANICS GUJARAT LIMITED

BOARD OF DIRECTORS

Mr. Hero J. Chuganee
Mr. Mohit H. Chuganee
Mr. John R. English
Mr. Raj Tandon
Mr. Anand Swaminathan
Dr. U. T. Bhalerao
Mr. Sumit H. Chuganee
Mr. J. S. Sethi

Chairman
Vice Chairman & Managing Director

Director-Corporate Affairs

AUDITORS

SMNP & COMPANY
Chartered Accountants

BANKERS

Union Bank of India
Bank of India

SOLICITORS

Manilal Kher Ambalal & Co.
Rajani Associates

REGISTRARS & SHARE TRANSFER AGENTS

M/s. Intime Spectrum Registry Ltd.
C-13, Kantilal Mangalal Industrial Estate,
Pannalal Silk Mills Compound,
LBS Marg, Bhandup (West), Mumbai - 400 078.
Tel. : 55555454
Fax : 022-55555353,

REGISTERED OFFICE & FACTORY

Plot No. 2102, GIDC,
Sarigam - 396 155, Dist - Bulsar,
Gujarat.
Tel. : 0260-2780395, 2780852
Fax : 0260-2780853

CORPORATE OFFICE

A-302, Phoenix House,
3rd Floor, 462, Senapati Bapat Marg,
Worli (E), Mumbai 400 013.
Tel. : 022-24964898, 24960979
Fax : 022-24953727

15th Annual General Meeting
of the Company on Friday,
29th September, 2006 at
11.00 A.M. at Umergam Club,
Madhuban Complex, Sanjan
Road, Umergam - 396 171,
Dist. Bulsar, Gujarat.

CONTENTS

| | Page No. |
|---|----------|
| Notice | 1 |
| Directors' Report | 5 |
| Management Discussion & Analysis | 7 |
| Corporate Governance | 8 |
| Auditors' Report | 10 |
| Balance Sheet | 12 |
| Profit & Loss A/c | 13 |
| Schedules | 14 |
| Cash Flow Statement | 22 |

15TH ANNUAL REPORT



NOTICE

NOTICE is hereby given that the 15th Annual General Meeting of the Members of Sabero Organics Gujarat Limited will be held on Friday, 29th September, 2006 at 11.00 A.M. at Umergam Club, Madhuban Complex, Sanjan Road, Umergaon - 396 171, Dist. Bulsar to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31st March, 2006 and the Profit & Loss Account for the financial year ended on that date together with the Report of the Directors' and Auditors' thereon.
2. To appoint a Director in place of Mr. Raj Tandon who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS :

To consider and if thought fit, to pass with or without modifications, the following resolution :

4. (As Ordinary Resolution)

"RESOLVED THAT Dr. U. T. Bhalerao, who was appointed as an Additional Director of the Company by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 and Article 80 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting and being eligible for re-appointment and in respect of whom the Company has received a notice in writing pursuant to the provisions of Section 257 of the Companies Act, 1956, proposing his candidature as a Director of the Company, be and is hereby appointed as a Director of the Company liable to retire by rotation."

5. (As Special Resolution)

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, Schedule XIII and other applicable provisions, if any of the Companies act, 1956, Company do hereby accord its approval to re-appointment of Mr. J. S. Sethi as Director - Corporate Affairs of the Company for a period of One year from 1st April, 2006 to 31st March, 2007 upon the terms, conditions and stipulations contained in an agreement entered into by the Company with Mr. J. S. Sethi."

6. (As Special Resolution) - Preferential allotment of 18,50,000 Equity Shares

"RESOLVED that pursuant to the provisions of Section 81(1A) and other applicable provisions if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) and in accordance with the provision of the Articles of Association of the Company, the Listing Agreement entered into between the Company and various stock exchanges, the guidelines and clarifications issued by the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and any other statutory/regulatory authorities, and subject to all such other approvals, permissions, consents and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions, consents and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board", which term shall also include any committee thereof), the consent of the Company be and is hereby accorded to the Board, to issue offer and allot upto 18,50,000 Equity Shares of Rs.10/- each at a premium of not less than Rs.4.12(Rupees Four and paise Twelve only) per share aggregating to not less than Rs. 2,61,22,000 (the "Equity Shares") to the Promoters / Promoter Group / Foreign Corporate Bodies (details of whom are set out in the explanatory statement) (the "Investors"), on preferential allotment basis on such terms and conditions and in such manner as the Board may think fit, and such Equity Shares shall rank pari passu in all respects with the existing Equity Shares of the Company.

RESOLVED FURTHER THAT :

- i) the Equity Shares to be so offered and allotted shall be subject to the provisions of the Memorandum and Articles of Association of the Company;

- ii) the Relevant Date as per SEBI (Disclosure & Investors Protection) Guidelines, 2000 ("SEBI (DIP) Guidelines") on preferential issue, as amended upto date for the determination of applicable price for the issue of shares is 30th August, 2006;

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer, issue and allotment of Equity Shares to Investors, to effect any modification to the foregoing in the best interest of the Company and its shareholders including powers to the Board to issue and allot Equity Shares to any other Investors in case one or more of the Investors fail to subscribe to the Equity Shares, in part or full, as mentioned against their respective names under the explanatory statement as the Board may think fit, and further to do all such acts, deeds, matters and things and to finalise and execute all documents, papers, agreements, deeds and writings as may be necessary, desirable or expedient as it may deem fit."

7. (As Special Resolution) - Preferential allotment of 18,50,000 Warrants

"RESOLVED that pursuant to the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) and in accordance with the provision of the Articles of Association of the Company, the Listing Agreement entered into between the Company and various stock exchanges, the guidelines and clarifications issued by the RBI, SEBI and any other statutory/regulatory authorities, and subject to all such other approvals, permissions, consents and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions, consents and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board", which term shall also include any committee constituted/ to be constituted by the Board for exercising the powers conferred on the Board by this resolution), the consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot upto 18,50,000 warrants or any other securities or financial instrument(s) (hereinafter referred to as "Warrant") to the Promoters / Promoter Group / Foreign Corporate Bodies (details of whom are set out in explanatory statement) (the "Warrant Holders"), on preferential allotment basis, in one or more tranches on such terms and conditions and in such manner as the Board may think fit; each Warrant entitling the holder thereof to apply for and be allotted one equity share of Rs.10/(Rupees ten) each at a premium of not less than Rs. 4.12(Rupees Four and paise Twelve only) per share, which conversion must be made within a period not exceeding eighteen (18) months from the date of allotment of the Warrants in accordance with the SEBI (DIP) Guidelines and other relevant guidelines as maybe applicable, such that the Warrants so issued or allotted give rise (on allotment or upon conversion/exercise of right) to 18,50,000 Equity Shares of Rs.10/(Rupees ten) each (par value).

RESOLVED further that :

- i) The equity shares to be so offered on conversion of Warrants shall be subject to the provisions of the Memorandum and Articles of Association of the Company;
- ii) The equity shares issued directly or on conversion of the Warrants shall rank pari passu with the existing equity shares of the Company in all respects;
- iii) The Relevant Date as per SEBI (Disclosure & Investors Protection) Guidelines, 2000 ("SEBI (DIP) Guidelines") on preferential issue, as amended upto date for the determination of applicable price for the issue of equity shares on conversion of Warrants, in part or full is 30th August, 2006;

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer / issue and


SABERO ORGANICS GUJARAT LIMITED

allotment of Warrants or fresh equity shares on conversion of Warrants, to effect any modification to the foregoing in the best interest of the Company and its shareholders including powers to the Board to issue and allot equity shares to any other Warrant Holders, in case one or more of the Warrant Holders fails to subscribe for the Warrants, in part or full, as mentioned against their respective names under the explanatory statement as the Board may think fit, and further to do all such acts, deeds, matters and things and to finalise and execute all documents, papers, agreements, deeds and writings as may be necessary, desirable or expedient as it may deem fit."

**By Order of the Board of Directors
For Sabero Organics Gujarat Limited**

Place : Mumbai
Date : 31.7.2006

J. S. Sethi
Director - Corporate Affairs

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE ONLY ON A POLL INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. Proxies in order to be effective, should be duly completed, stamped and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. Members desirous of obtaining any information as regards accounts and operations of the Company are requested to send their queries in writing so as to reach the Corporate Office of the Company at least one week before the meeting, so that the information required will be made available at the meeting.
4. Explanatory Statement relating to the Special Business under item nos. 4 to 7 as required under Section 173 (2) of the Companies Act 1956 is annexed hereto.
5. The Register of Members of the Company will remain closed from Monday, 25th September, 2006 to Friday, 29th September, 2006 (both days inclusive).
6. Members are requested to notify immediately any change in their address to their Depository Participants (DPs) in respect of their electronic share accounts quoting Client ID No. and to M/s. Intime Spectrum Registry Limited, the Company's Registrar and Transfer Agents in respect of their physical shares, quoting Folio No.
7. The Company's shares are trading in electronic form. The investors are requested to hold their securities in the electronic form.
8. Mr. Raj Tandon who is retiring by rotation and being eligible offers himself for re-appointment. He has been holding the position of the Director of the Company for the last nine years and his business experience has been very helpful to the Company.
9. All documents referred to in the accompanying Notice and the Explanatory Statement are open for inspection at the Registered Office of the Company during office hours on all working days, except Saturdays, between 11.00 a.m. and 1.00 p.m. up to the date of the Annual General Meeting and the same will be available for inspection at the Annual General Meeting. A certificate from M/s. SMNP & Company, statutory auditors of the company certifying that the preferential issue is being made in accordance with the prescribed guidelines on preferential issue (issued by SEBI) is also available for inspection at the Registered Office of the Company during office hours on all working days except Saturdays between 11.00 a.m. and 1.00 p.m. up to the date of the Annual General Meeting and the same will be available for inspection at the Annual General Meeting.

**By Order of the Board of Directors
For Sabero Organics Gujarat Limited**

Place : Mumbai
Date : 31.7.2006

J. S. Sethi
Director - Corporate Affairs

ANNEXURE TO THE NOTICE

Explanatory Statement as required by Section 173 (2) of the Companies Act, 1956 ('the Act')

ITEM NO. 4

Dr. U. T. Bhalerao was appointed as an Additional Director of the Company with effect from 31st May, 2006 under Article 80 of the Articles of

Association of the Company. As per the provisions of Section 260 of the Companies Act, 1956, Dr. U. T. Bhalerao holds office as a Director of the Company only upto the date of the ensuing Annual General Meeting of the Company.

A notice in writing has been received from a member of the Company under Section 257 of the Companies Act, 1956, signifying his intention to propose Dr. U. T. Bhalerao as a candidate for the office of Director of the Company. The requisite sum of Rs.500/- has been duly received from such member.

Dr. U. T. Bhalerao is a Hyderabad based scientist formerly with Indian Institute of Chemical Technology Hyderabad and has done his doctorate in Organic Chemistry and presently working as Managing Director in U&M Chemicals Pvt. Ltd. It would therefore, be in the interest of the Company to continue to have the benefit of his experience and expertise in the deliberations of the Board.

The Board recommends his appointment.

Except Dr. U. T. Bhalerao, none of the other Directors of the Company is, in any way, concerned or interested in this resolution.

ITEM NO. 5

At the Thirteenth Annual General Meeting held on 28th September, 2004 the members had approved inter alia the terms of the remuneration of Mr. J. S. Sethi, Director - Corporate Affairs of the Company for a period of two years. Now it is proposed to re-appoint Mr. J. S. Sethi as Director - Corporate Affairs of the Company for a period of one year with effect from 1st April, 2006 to 31st March, 2007.

The material terms of the appointment and remuneration payable to Mr. J. S. Sethi as embodied in the Agreement to be entered into with him upon receipt of the approval of the Members are as follows:

| | | |
|-----------------------|---|---|
| Period of Appointment | : | For a period of one year from 1 st April, 2006 subject to terms and conditions as per the standard company's employees contract. |
| A. Salary | : | Rs.30,000/- per month. |
| B. Perquisites | : | a) Medical Reimbursement as per the Rules of the company and the same not to exceed one-month salary b) Company maintained Car with driver and Telephone facility at the Residence for official purpose. |

Notwithstanding anything mentioned in this part, where in any financial year, during the currency of the tenure of the Director - Corporate Affairs, the Company has no profits or its profits are inadequate, the Company shall pay him by way of salary and perquisites not exceeding the limits specified above.

The Director-Corporate Affairs so long as he functions as such will not be entitled to any sitting fees for attending meetings of the Board of Directors or committee thereof.

This agreement may be terminated at any time by either party hereto by giving to the other one month notice in writing for such termination and neither party will have any claim against the other for damages or compensation by reason of such termination. In any event, the Director-Corporate Affairs shall not be entitled to any compensation in cases mentioned in section 318(3) of the Companies Act, 1956.

If at any time this Agreement is terminated, Mr. J.S.Sethi shall cease to be Director-Corporate Affairs of the Company.

Mr. J. S. Sethi is holding Masters Degree in Economics and Law Degree and has about more than 34 years of experience in the field of Legal, Pers. & Admin. and Indirect Taxation and is considered suitable for the position of Director - Corporate Affairs of the Company. Your Directors consider that the experience and expertise of Mr. J. S. Sethi, would benefit the Company and they recommend the resolution for approval.

The agreement is available for inspection at the Registered Office of the Company between 11.00 a.m. to 1.00 p.m. on any working day prior to the date of the Meeting and also at the Meeting.

Except Mr. J. S. Sethi, none of the Directors of the other Company is, in any way, concerned or interested in this resolution.

**ITEM NO. 6 & 7**

By a shareholders resolution passed, under Section 81(IA), in an Extra Ordinary General Meeting dated June 16, 2005, the Company had proposed to allot and issue 43,00,000 warrants convertible into equity shares to Kalah Corporation and 8,60,000 warrants convertible into equity shares to Karville Company Limited respectively, on preferential basis.

Pursuant to paragraph 13.4.1 of the SEBI (DIP) Guidelines, the allotment of the Warrants must be completed within fifteen (15) days from the date of the approval, i.e. date of passing of the Extra Ordinary General Meeting.

The Company, at that time, was given to understand that issue of warrants would require prior approval of FIPB and therefore made an application to FIPB informing them about the Company's proposal to issue and allot warrants. However, FIPB informed that such an allotment falls under the General Route and does not require any prior permission.

Consequently, the Company did not issue the warrants as it was awaiting the approval from FIPB and in the meantime the period of fifteen (15) days expired and the Company was unable to issue the warrants.

The Company now desires to allot and issue warrants to Karville and Kalah Corporation Limited pursuant to a fresh resolution by passing a Special Resolution for preferential allotment of Equity Shares and Warrants. Further the Company is also in need of further funds for its working capital to achieve incremental / additional level of operations / sales, international registration of the Company's products, capital expenditure to be incurred for Research & Development, Safety, Health & Environment (SHE) and for debottlenecking of existing plants, which would help the Company achieve a higher level of sales and profitability in the next financial year. The Board has approved the proposed allotment of Equity Shares and Warrants on preferential basis to interested entities and the persons acting in concert at its meeting held on 31st July, 2006 and approved the notice with an explanatory statement for the general meeting, fixed the date, time and venue for the Annual general meeting, finalised the names of interested entities and persons acting in concert including the number, mode and terms of the proposed preferential issue of Equity Shares and Warrants to the investors, at market driven price in accordance with applicable acts and guidelines issued by SEBI from time to time which is as follows:

For Issue of Equity shares on preferential basis.

1. To M/s Karville Company Ltd. : 12,00,000 Equity Shares. (Person acting in concert)
2. To M/s Kalah Corporation : 6,50,000 Equity Shares. (Foreign Company)

For Issue of Warrants on preferential basis.

1. To M/s Kalah Corporation 18,50,000 Warrants. (Foreign Company)

Section 81 of the Companies Act, 1956 provides, inter-alia, that when it is proposed to increase the issued capital of a Company by allotment of further shares; such further shares shall be offered to the existing shareholder of the Company in the manner laid down in section 81 unless the shareholder in general meeting decide otherwise.

Accordingly, consent of the shareholders is being sought pursuant to the provisions of Section 81 & 81(IA) and all other applicable provisions of the Companies Act, 1956 and in terms of the provisions of the Listing Agreements executed by the Company with the NSE & BSE stock exchanges where Company's securities are presently listed.

Resolution at Item No.6 relates to the proposal by the Company to issue and allot upto 18,50,000 Equity Shares of Rs.10/- (Rupees ten) each to the Investors at a premium of Rs. 4.12 per share for an aggregate price of Rs.14.12 per Equity Share. Such issue and allotment of Equity Shares to the Investors shall be governed by the provisions of the SEBI (DIP) Guidelines.

The issue price of Rs.14.12 per Equity Share has been calculated as per SEBI (DIP) Guidelines.

Similarly, resolution at Item No.7 relates to the proposal by the Company to issue and allot upto 18,50,000 Warrants convertible into equity shares to Warrant Holders. Such issue and allotment of Warrants to Warrant Holders shall be governed by the provision of SEBI (DIP) Guidelines.

The Warrant Holders shall have a right to convert one (1) Warrant into one (1) equity share at a conversion price of Rs.14.12 per Equity Share, of which Rs.1.41 equivalent to ten percent (10%), per Warrant shall be paid by the Warrant Holders forthwith upon issue and allotment of the Warrant thereof and the balance Rs.12.71 per equity share shall be paid by the Warrant Holders at the time of exercising the conversion option to convert Warrants into equity shares for such number of Warrants, in respect of which the Warrant holder exercises the conversion option.

The total number of equity shares that would be issued on conversion of Warrants shall not exceed 18,50,000 Equity Shares.

The conversion price of Rs.14.12 per equity share on conversion of Warrants has been calculated on the basis of being the same price at which the preferential allotment of Equity Shares to the Investors is considered under Item No.6 above and being the price as per SEBI Guidelines.

The proceeds of this entire issue viz. issue of Equity Shares to Investors under Item. 6 and issue of Warrants (and conversion of Warrants into equity shares thereof) to Warrant Holders under Item 7. will be utilised by the Company for its working capital to achieve incremental / additional level of operations / sales, international registration of the Company's products, capital expenditure to be incurred for Research & Development, Safety, Health & Environment (SHE) and for debottlenecking of existing plants.

The consent of the shareholders is being sought pursuant to the provision of Section 81(IA) of Companies Act, 1956 and other applicable provisions. Hence, the Company proposes resolutions as mentioned Item No. 6 & 7 of the accompanying notice.

The Board recommends passing of the resolution as per Item No.6 & 7 of the notice for your approval.

Disclosure which are required to be given in terms of Clause 13.1 A of the Securities and Exchange Board of India (Disclosure & Investor Protection) Guidelines, 2000 for Preferential Issues are as under :

i) The object of the issue through preferential offer

The proceeds of this entire issue will be utilised by the Company for its working capital to achieve incremental / additional level of operations / sales, international registration of the Company's products, capital expenditure to be incurred for Research & Development, Safety, Health & Environment (SHE) and for debottlenecking of existing plants.

ii) The intention of the promoters / directors / key management persons to subscribe to the offer

M/s Karville Company Limited, who is persons acting in concert with the promoters and intend to subscribe for certain Equity Shares of the Company as disclosed in (v) below.



SABERO ORGANICS GUJARAT LIMITED

iii) Shareholding pattern of the Company before and after the proposed issue of Equity Shares and Warrants.

| Category | Pre-issue equity holding as on 30.06.2006 | % | Equity holding post issue of Equity Shares | % | Equity holding post conversion of Warrants | % |
|--|---|------------|--|------------|--|------------|
| Promoter Group | | | | | | |
| ➤ Promoters | 6208137 | 24.35 | 6208137 | 22.70 | 6208137 | 21.26 |
| ➤ Persons Acting in Concert (including Karville) | 4052390 | 15.90 | 5252390 | 19.21 | 5252390 | 17.99 |
| Sub-Total | 10260527 | 40.25 | 11460527 | 41.91 | 11460527 | 39.26 |
| Non Promoter Holding | | | | | | |
| Institutional Investors | | | | | | |
| ➤ Mutual Funds and UTI | 4200 | 0.02 | 4200 | 0.02 | 4200 | 0.01 |
| ➤ Banks, Financial institutions, insurance (Central/ State Government Institution / Non Government institutions) | 300 | 0.00 | 300 | 0.00 | 300 | 0.00 |
| ➤ FIs | 3520000 | 13.81 | 3520000 | 12.90 | 3520000 | 12.06 |
| Sub-Total | 3524500 | 13.82 | 3524500 | 12.89 | 3524500 | 12.07 |
| Others | | | | | | |
| ➤ Private Corporate Bodies | 1161309 | 4.56 | 1161309 | 4.25 | 1161309 | 3.98 |
| ➤ Indian Public | 9342380 | 36.64 | 9342380 | 34.17 | 9342380 | 32.00 |
| ➤ NRI/OCBs | 333874 | 1.31 | 333874 | 1.22 | 333874 | 1.14 |
| ➤ Any Other : | | | | | | |
| ➤ Foreign Companies (including Kalah) | 854735 | 3.35 | 1504735 | 5.50 | 3354735 | 11.49 |
| ➤ Clearing Members | 16990 | 0.07 | 16990 | 0.06 | 16990 | 0.06 |
| Sub-Total | 11709288 | 45.93 | 12359288 | 45.20 | 14209288 | 48.67 |
| GRAND TOTAL | 25494315 | 100 | 27344315 | 100 | 29194315 | 100 |

iv) Proposed time within which allotment will be completed

The Equity Shares and Warrants of the Company shall be allotted within fifteen (15) days from the date of the Annual General Meeting i.e. by October 12, 2006 provided the time for allotment shall be extended by the time taken for obtaining approval, if any, for such allotment from any regulatory bodies, authorities or the Central Government.

v) Identity of the proposed allottees and the percentage of post preferential issued capital that may be held by them.

| Category | Pre-issue equity holding as on 30.06.2006 | % | Proposed Issue of Preferential Shares | Equity holding post allotment of Equity Shares | % | Proposed Issue of Preferential Warrants | Equity Holding Post conversion of warrants | % ** |
|---|---|------|---------------------------------------|--|-------|---|--|-------|
| Foreign Corporate Body | | | | | | | | |
| M/s. Kalah Corporation | Nil | Nil | 6,50,000 | 6,50,000 | 2.38 | 18,50,000 | 25,00,000 | 8.56 |
| Person Acting in Concert with Promotes | | | | | | | | |
| M/s. Karville Company Limited | 20,09,800 | 7.88 | 12,00,000 | 32,09,800 | 11.74 | Nil | 32,09,800 | 10.99 |

** While computing the percentage, we have taken into account the new Equity Shares that will be issued to the Investors pursuant to resolution at item No.6 and the shares underlying Warrants that may be issued to the Warrant Holders pursuant to resolution at Item No. 7, (on an assumption that all the Warrants will be converted into Equity Shares).

In the circumstances, the approval of the shareholders is being sought for issue of the Equity Shares to the Investors and for issue of the Warrants convertible into equity shares to Warrant holders, each on a preferential basis pursuant to the provisions of Section 81 (1A) of the Companies Act, 1956 and other applicable provisions.

Mr. Hero J Chuganee, Mr. Mohit H Chuganee and Mr. Sumit H Chuganee shall be deemed to be concerned or interested in the above resolutions to the extent of the issue and allotment of the Shares to M/s. Karville Company Limited.

The Resolutions set out in Item Nos. 6 and 7 may be considered accordingly and the Board of Directors recommended the same for your approval.

By Order of the Board of Directors
For Sabero Organics Gujarat Limited

Place : Mumbai
Date : 31.7.2006

J. S. Sethi
Director - Corporate Affairs

15TH ANNUAL REPORT

**DIRECTORS' REPORT**

To the Members,

Your Directors have pleasure in presenting the 15th Annual Report and audited accounts of your company for the year ended 31st March, 2006.

FINANCIAL HIGHLIGHTS :

The salient features of the company's results are :

| | (Rs.in lacs) | |
|--|-----------------------|-----------------------|
| | Year Ended 31.03.2006 | Year Ended 31.03.2005 |
| Gross Sales : Domestic | 6672.30 | 7199.94 |
| Export | 8800.04 | 6801.41 |
| Total Sales | 15472.34 | 14001.35 |
| Profit before interest, Depreciation and Taxation | 1405.22 | 1388.40 |
| Less: Interest & Finance Charges | 777.99 | 779.92 |
| Depreciation | 485.95 | 467.03 |
| Exceptional Items | 35.11 | 49.95 |
| Provision for Tax (including deferred Tax) | 83.47 | (119.15) |
| Profit / (Loss) for the year before prior period adjustments | 22.70 | 310.55 |
| Less: Prior period adjustments | 5.00 | Nil |
| Profit / (Loss) for the year | 17.70 | 310.55 |
| Add: Transferred from Debentures Redemption reserve | 125.54 | - |
| Surplus Brought forward from last year | - | - |
| Transfer to General Reserve | 143.24 | 310.55 |

DIVIDEND :

In view of meager profit and to conserve the resources, the Board does not recommend any dividend for the year 2005-06.

AUDITORS' OBSERVATION :

In this connection, your attention is invited to schedule 18, forming part of the accounts & notes, which is self-explanatory.

DEPOSITORY SYSTEM :

The company's shares continue to be traded in the DEMAT form and is registered with National Securities Depository Limited (NSDL) and Central Depository Services Ltd. (CDSL)

FIXED DEPOSITS :

The Company has not accepted any deposits from Public under section 58A of the Companies' Act 1956 during the financial year under review.

HUMAN RESOURCES :

Your Company continuously monitors its human resource requirements to ensure that it has adequate human skills commensurate with its requirements. We recognise the value of people as our most valuable asset and believe that your Company's employee are central to its sustainable success.

Your Company continuously strives for developing, motivating, rewarding and retaining talent at all levels. Performance accountability is textured into the reward systems and recognition of achievements forms a critical part of our HR processes. Delegation, empowerment, learning from failures that emanate from calculated risks is being institutionalised as well.

INSURANCE :

All the properties of the company have been adequately insured.

BANK & FINANCIAL INSTITUTIONS :

We wish to place on record our appreciation for the support our Bankers viz. Union Bank of India (lead Bank), Bank of India, Oriental Bank of Commerce, IDBI Bank and ICICI bank.

DIRECTORS :

Mr. A. B. Shah, Nominee Director of GIIC Ltd. has resigned from the Board of the Company w.e.f. 24th April, 2006 due to withdrawal of nominee director by GIIC Ltd.

The Board hereby places on record its sincere appreciation for the valuable guidance and contribution made by Mr. A. B. Shah as member of the Board during the period of his association with the Company.

Dr. U. T. Bhalerao was appointed as an Additional Director with effect from 31st May, 2006 and holds office as a Director of the Company only upto the date of the ensuing Annual General Meeting. A notice in writing has been received from a member of the Company under Section 257 of the Companies Act, 1956, signifying his intention to propose Dr. U. T. Bhalerao as a candidate for the office of Director of the Company.

Mr. Raj Tandon will be retiring by rotation at the forthcoming Annual General Meeting and being eligible for re-appointment. The Board recommends their appointment.

DIRECTOR'S 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 in the preparation of the accounts for the financial year ended 31st March 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- That the Directors have selected such accounting policies and applied them consistently and made judgement and estimates that were 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 and of the profit or loss of the Company for the year under review;
- That the Directors have taken proper and sufficient care 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;
- That the Directors have prepared the accounts for the financial year ended 31st March 2006 on a 'going concern' basis.

CORPORATE GOVERNANCE :

As a listed Company your Company has taken necessary measures to comply with the Listing Agreements with the Stock Exchanges. A report on Corporate Governance, along with a certificate of compliance from the Auditors, given in Annexure 'B', forms a part of this Annual Report.

AUDITORS:

The term of M/s SMNP & Co, Chartered Accountants, expires at the conclusion of this Annual General Meeting and they are eligible for re-appointment. The Auditors have given a certificate to the effect that the re-appointment if made will be within the prescribed limits specified u/s 224 (1B) of the Companies Act, 1956. The observations made in the Auditors' Report are a statement of facts and do not require further clarifications.

SUBSIDIARIES:

A statement relating to subsidiary Companies (1) Sabero Australia Pty. Ltd. (2) Sabero Europe BV (3) Sabero Argentina S.A. (4) Sabero Organics Americas Ltda. pursuant to Section 212 of the Companies Act, 1956 is annexed.

CONSERVATION OF ENERGY, TECHNOLOGY, FOREIGN EXCHANGE EARNINGS AND OUTGO:

The details as required under the Companies (Disclosure of



SABERO ORGANICS GUJARAT LIMITED

particulars in Report of Board of Directors) Rules, 1988 are annexed.

PARTICULARS OF EMPLOYEES:

Information as per Section 217(2A) of the Companies Act, 1956 is not applicable as no employee or Directors is drawing remuneration above the limit prescribed under the aforesaid Section.

INDUSTRIAL RELATIONS:

The overall industrial relations in the company have been cordial. Your Directors wish to place on record their appreciation of the contribution made by the employees at all levels, to the continued growth and prosperity of the company.

ACKNOWLEDGEMENTS:

The Board acknowledges, the co-operation and assistance received from investors, suppliers, customers, business associates, FI's, Bankers, Vendors, Central Government agencies and State Government of Gujarat.

The Board also thanks the employees for their significant contribution made by them to the Company.

The Board now looks forward to the future with confidence.

On behalf of the Board of Directors

Place : Mumbai
Date : 31st July 2006.

Hero J. Chuganee
Chairman

ANNEXURE "A" TO THE DIRECTORS' REPORT

Information under Section 217 (1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March 2006.

FORM - A

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

| | CURRENT YEAR 2005-2006 | PREVIOUS YEAR 2004-2005 |
|--|------------------------------|-------------------------------|
| A. POWER & FUEL CONSUMPTION | | |
| 1) Electricity | | |
| a) Purchased Units (kwh) | 13444767 | 11953845 |
| Total Amount (Rs.) | 69374986 | 62324000 |
| Average Rate / Unit (Rs.) | 5.16 | 5.21 |
| b) Own Generation | | |
| Through Diesel generator | | |
| Unit (kwh) | 112957 | 160037 |
| Unit per litter of | | |
| Diesel Oil | 3.15 | 3.38 |
| Cost per unit (Rs.) | 8.44 | 6.49 |
| 2) Fuel for Steam Generation | | |
| i. Furnace Oil | | |
| Quantity (KL) | 6334 | 4040 |
| Total Amount (Rs.) | 99767099 | 49900370 |
| Average Rate (Rs./KL) | 15750 | 12350 |
| ii. HSD (KL) | 212.84 | 547.87 |
| Total Amount | 7372847 | 15401001 |
| Average Rate (Rs./KL) | 34640 | 28110 |

CONSERVATION OF ENERGY :

- For the entire plant the insulation project is under progress and 60% of the project is completed.
- One of the KC 72 systems was converted from minus 35 deg. C service to KC-9 of plus 10 deg. C service to improve the chilled water generation capacity.
- Two of the KC-72 systems of minus 30 deg. C were converted to KC-9 of minus 20 deg. C services to improve the capacity.
- The operation of one of the boosters of minus 45 deg. C services was optimised, in house, to work at 90% (plus) capacity.
- Condensers of one of the boosters were made dedicated for chilled water and chilled brine to improve the overall efficiency of the system.
- Both the centralised cooling towers for utility and process were totally revamped to improve the overall efficiency.

Form B

Disclosure of particular with respect to :

a) Research & Development :

The R&D dept. is recognised by Department of Science & Industrial Research (DSIR), Government of India and is fully equipped with Pilot plant and sophisticated instruments like GLCs, HPLC, UV-Visible spectrophotometer, potentiometric titrator, etc.

Our R&D dept. has successfully developed process for various environmental friendly formulations for Mancozeb and Acephate products and all these formulations are commercialised. Major emphasis is laid on improvisation of existing products, reduction in raw material consumption, enhancement in overall profitability and development of new products namely Trichlopyr Butyl Ester (herbicide), Clodinofof Propargyl (herbicide), Propineb & Zineb (fungicide) & Tebuconazole (fungicide).

In our future plan, we have a product list including Fipronil (insecticide), Thiodicarb (insecticide) and Lambda Cyhalothrin (insecticide).

b) Technology absorption, adoption and innovation.

During the year 2005-06, after absorption of technology of chloropyrphos the company has expanded its capacity. As a part of continual improvement programme, with the inhouse development, we have improved yields of our existing products i.e. Acephate, Chloropyrphos, Tri Ethyl Phosphite / Tri Methyl Phosphite.

C. Foreign Exchange Earnings and Outgo

| | CURRENT YEAR 2005-2006 (Rs. in Lacs) | PREVIOUS YEAR 2004-2005 (Rs. in Lacs) |
|---|---|--|
| 1. Foreign Exchange earned | | |
| Export of goods on FOB basis | 7990.75 | 5921.93 |
| 2. Outgo of foreign exchange | | |
| Value of imports on CIF basis : | | |
| (a) Raw materials | 3604.99 | 2368.04 |
| (b) Stores, components and spares | Nil | Nil |
| (c) Capital goods | Nil | Nil |
| 3. Expenditure in foreign currencies (others) | 49.19 | 47.10 |
| 4. Net Foreign exchange earning | 4336.57 | 3506.79 |