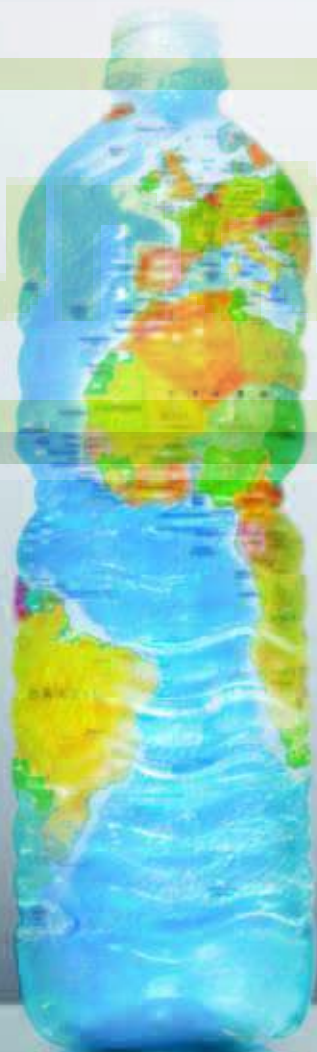


MIND OVER
MARKET

Report



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19°N/85°E

40°N/116°E

36°S/149°E

44°N/60°W

36°N/115°W

44°N/60°W



Cairo.
Chicago.
Copenhagen.
Canberra.
Coimbatore.



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Corporate Information

(as on 12th May, 2008)

Board of Directors
P K Khaitan, *Chairman*
C K Dhanuka, *Vice- Chairman*
J P Kundra
Dr B Sen
Y F Lombard
P Murari
S Bagaria
Nandini Chakravorty
(Nominee of West Bengal Industrial Development Corporation Ltd.)

S Bhattacharyya
(Nominee of Exim Bank of India)
Dr S S Banerjee
(Nominee of Industrial Development Bank of India Ltd.)

Executive Director & CEO
B Chattopadhyay

Executive Director
M Dhanuka

Executive Director (Corporate)
B K Biyani
Senior Vice President (Finance) & CFO
R K Sharma

Company Secretary & Compliance Officer
K V Balan

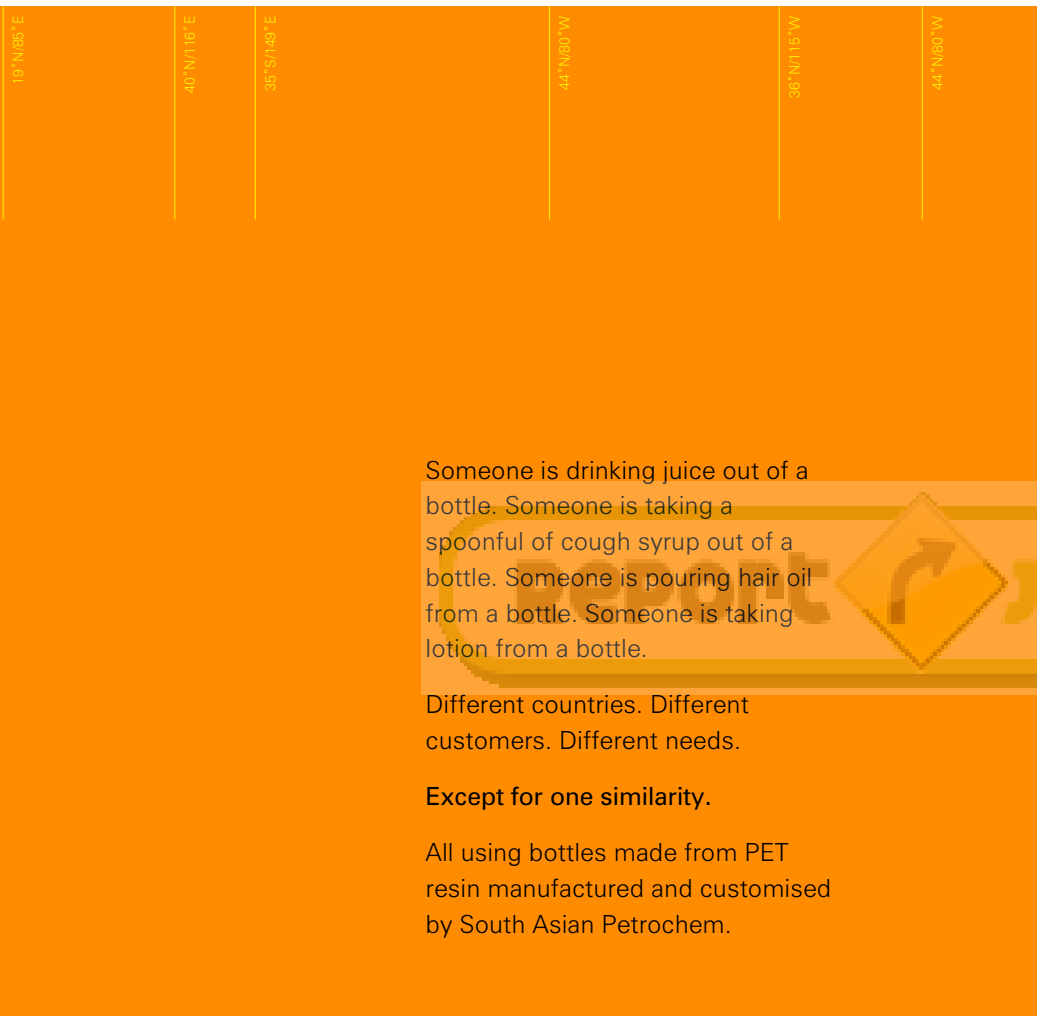
Auditors
Lovelock & Lewes

Bankers & Financial Institutions
Arab Banking Corporation, Egypt
Bank of America,
Bank of Baroda,
Bank of India,
Canara Bank,
Citibank N.A,
Deutsche Bank,

Export-Import Bank of India,
ICICI Bank Limited,
Industrial Development Bank of India Limited,
International Finance Corporation, Washington
Punjab National Bank,
State Bank of India,
State Bank of Travancore,
Syndicate Bank,
United Bank of India

Registered Office
Dhunseri House
4A, Woodburn Park
Kolkata – 700020, India

Plant
JL-126
Mouza- Basudevpur, Haldia,
District: Midnapore (East),
Pin-721 602
West Bengal, India



Reflecting mind over market.

South Asian Petrochem Limited is one of the largest manufacturers of PET resin in South Asia. Through its products and their varied applications, SAPL touches the lives of millions of people every single moment of every single hour of every single day.

Our lineage

South Asian Petrochem Limited's parentage is drawn from the Kolkata-headquartered Dhunseri Group, a company of standing in the niche of select teas for more than half a century. The Dhunseri Group promoted SAPL as a 100% export-oriented unit in 1996 to manufacture and market PET resin granules.

Our technology

The Company's manufacturing plant in Haldia (130 km from Kolkata) is equipped with world-class technology from Zimmer AG of Germany. The Company's fully automated plant is rated among the most advanced PET resin manufacturing facilities in the world.

Our footprint

- ◆ The Company's products are available across 60 destinations around the globe, including Europe and the US – the world's largest PET resin markets.
- ◆ In 2007-08, the Company contributed Rs. 9.71 crore in a

315,000-TPA greenfield facility in Egypt as initial equity contribution.

- ◆ The Company's shares are actively traded on the National Stock Exchange and Bombay Stock Exchange apart from being listed on the Calcutta Stock Exchange. The Unsecured Foreign Currency Convertible Bonds issued during the year are listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

Our value proposition

The Company's products are customised around varied customer and application needs. The product range comprises the finest bottle-grade, sheet-grade and jar-grade PET resins, reconciling the Company's commitment to quality, customisation and value-addition. Over the last five years, SAPL has continuously developed new and specialised PET resin grades.

Our recognition

The Company has received quality certifications from

national and international agencies like the USDA, EEC and ITRC. It received the ISO 9001: 2000 certification from TUVNORD in 2006-07.

Our domain

Nearly 64% of the Company's revenue was derived from exports in 2007-08. Besides this strong export presence, it enjoyed a substantial share of the Indian market. Its client base comprised brand-enhancing multinational giants, providing it with repeat business.

Our performance

- ◆ Sales volume increased from 165,727 MT in 2006-07 to 170,077 MT in 2007-08.
- ◆ EBIDTA grew 11.76% – from Rs. 10,479.32 lakhs to Rs.11,711.39 lakhs in 2007-08.
- ◆ EBIDTA margin expanded 139 basis points – from 9.83% to 11.22% in 2007-08.
- ◆ Post-tax profit surged 24.25% – from Rs. 4,469.01 lakhs to Rs. 5,552.86 lakhs in 2007-08.

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“As a market-focused organisation, we will capitalise on product development, process reengineering, capacity utilisation, energy conservation, quality control, distribution realignment and logistical efficiency to address favourable market scenarios proactively.”

In conversation with **Mr. C K Dhanuka**, Vice Chairman, on the Company's performance in 2007-08.

Q. Were you pleased with the Company's performance in 2007-08?

I was pleased that the Company strengthened its business from a holistic perspective during the year under review. This improvement comprised initiatives taken in the financial, marketing, product mix and geographic domains during the previous year.

We successfully entered the long-targeted Middle east and East European markets. For years, the majority of our export revenues were derived from the European Union and North America. During the year under review, we diversified our market presence and while the numbers from these markets will take some time to scale, we are optimistic that our wider presence will de-risk the Company from a downturn in select markets on the one hand and also give us the confidence to enhance our installed capacity on the other.

At SAPL, our research was not only focused on process improvement; it was also directed at value addition. The result was that the Company introduced two premium grades of PET resin, which will translate into increasing revenues as we go on from here.

One of the most significant initiatives that accelerated during the year under review was our Egypt facility obtaining all the necessary major legal and administrative approvals to implement the 315,000-TPA project, which will enable the Company to service the under-penetrated North African and large European market.

Q. What were the operational highlights of the Company in 2007-08?

The Haldia plant was commissioned in May 2003 and we gradually enhanced its capacity through progressive de-bottlenecking, the last one in November 2007, following which we achieved 100% capacity utilisation by the end of March 2008. As a result, what was a 140,000-TPA plant in 2003 was scaled up to 200,000 TPA in 2007-08 with superior output standardisation, value addition, higher

yield and enhanced quality standards. In 2007-08, we produced 1.65 lakh tonnes of PET resin despite a one-month shutdown.

Concurrently, we invested in coal-fired hot oil heaters, which will result in savings in our fuel cost in the wake of rising crude oil prices and a two year payback. The Company applied for a linkage to procure low-cost coal; the environment approvals were received from the Ministry of Environment and Forests and the West Bengal Pollution Control Board.

Q. How did the Company progressively de-risk its business model?

There are a number of ways in which we did so but I would specifically focus on two that transpired during the last financial year.

One, the direct sales model helped us eliminate the cost of intermediaries. We delivered directly to the customer's doorstep, leveraging our superior distribution network and logistic management skills.

Two, we recognised the need to diversify across different

businesses to reduce product, user and cyclical risks. We are in the process of embarking on a new petrochemical project to cater to the engineering plastic market for which we expect to achieve financial closure by the end of 2009. And, importantly, we strengthened our investment in Egypt where we expect to commission a PET resin facility by the end of 2010.

Q. Shareholders would need to know why the Company is investing in Egypt when it could well have expanded its existing facility in India.

Permit me to reverse the paradigm and ask: Why not Egypt? First, Egypt's consumption of PET resin is expected to be around 80,000 TPA by 2009, while the consumption in North Africa will jump to 300,000 TPA by 2011. Our proposed plant will be the first of its kind in the entire region. We already possess manufacturing expertise and established customers in the US, Europe, Middle East and Africa. This means that our proposed plant in Egypt can easily reach the markets that I have indicated quicker and at a lower transportation cost with corresponding implications – lower inventory and short order-to-dispatch



cycle – for customers. So our Egypt facility will have an existing market to service from the day one.

Second, it is our understanding that Africa and the Middle East will emerge as dominant MEG (raw material used in the manufacture of PET resin) producers, while Asia will turn into a net importer. In such a scenario, the long-term advantage will lie in positioning close to MEG sources — an edge that our Egyptian facility will enjoy.

Besides, in centralised petrochemicals businesses, the key issue is going to be transportation costs, especially when oil price remains above US\$120 a barrel. In this respect, Egypt is strategically located. The logistics cost on account of the inward movement of raw materials and outward dispatch of finished goods will decline once this plant goes on stream. It is also close to the PET resin-deficit markets such as Russia, Ukraine, Morocco, Tunisia, Libya, etc.

The US and European Union are major business destinations, accounting for 65% of the global demand for PET resin (bottle grade). The Egypt plant will place us favourably to leverage our existing brand in these markets with prompt supplies and after-sales services. This location will also enable us to seed the rapidly growing African and Middle Eastern markets with our products.

Q. What is the present status of the Egypt project?

The project received approvals and clearances from the Egyptian government, the Egyptian Environment Accreditation Agency (EEAA) and the local port authorities. The new manufacturing plant is proposed to be set up through a subsidiary called, Egyptian Indian Polyester Company S.A.E. Equity stakes of 30% will be vested with Egyptian Petrochemicals Holding Company (ECHEM), an

agency of the Government of Egypt, for promoting the petrochemical industry in that country and the ENPPI, a nodal agency of the Government of Egypt. The manufacturing facility received a private free-zone status from the government, amounting to duty waiver benefits on the import of capital goods and raw materials as well as the export of finished goods. The plant, being located on the Damietta port in Egypt, will reduce the cost of transportation and logistics.

Q: Shareholders are concerned about the financial implications of this huge project.

The Egypt project will cost around USD 100 mn, excluding working capital. At the Company, we are critically aware that we will be able to enhance value for our shareowners if we can enhance our earnings without a corresponding increase in our equity capital. This understanding was factored into our funding; we sourced long-term loans from the IFC and syndication to that effect has already been received, with the signing of an agreement in June 2008. The loan disbursement is slated to start in July 2008. As a result, we expect to enhance long-term value for all those who own equity shares in our Company.

Q. Going forward, what is your basis for optimism?

Let us first consider the macro picture:

♦ Global PET bottle resin demand doubled between 1999 and 2005 and is expected to grow at more than 7% every year over the foreseeable future.

♦ Around 43% of PET resin consumption will be derived from the irreversibly growing carbonated soft drinks and mineral water segments.

♦ A growing focus on health is helping substitute other packaging materials with food-grade, non-toxic PET.

♦ There is a visible emergence of new application areas for PET resin like alcoholic and non-alcoholic beverages as well as pharmaceuticals.

♦ There is a growing scope of lifting the anti-dumping duty on PET resin in the US.

♦ There were several recent innovations in bottle-grade PET recycling technologies that will make it a preferred packing material by governments.

While bottle-grade PET resin shows buoyant demand in

the US and Europe, India still lags at a nascent stage of growth on account of an infancy in the country's retail industry and unfavourable cultural issues. Once the full impact of these changes set in, the packaged food and beverage markets will expand significantly. To achieve better value addition, we have proactively prepared for this eventuality through the development of new PET resin variants (25H and 20HF).

As a market-focused organisation, SAPL will capitalise on product development, process reengineering, capacity utilisation, energy conservation, quality control, distribution realignment and logistical efficiency to address favourable market scenarios proactively.

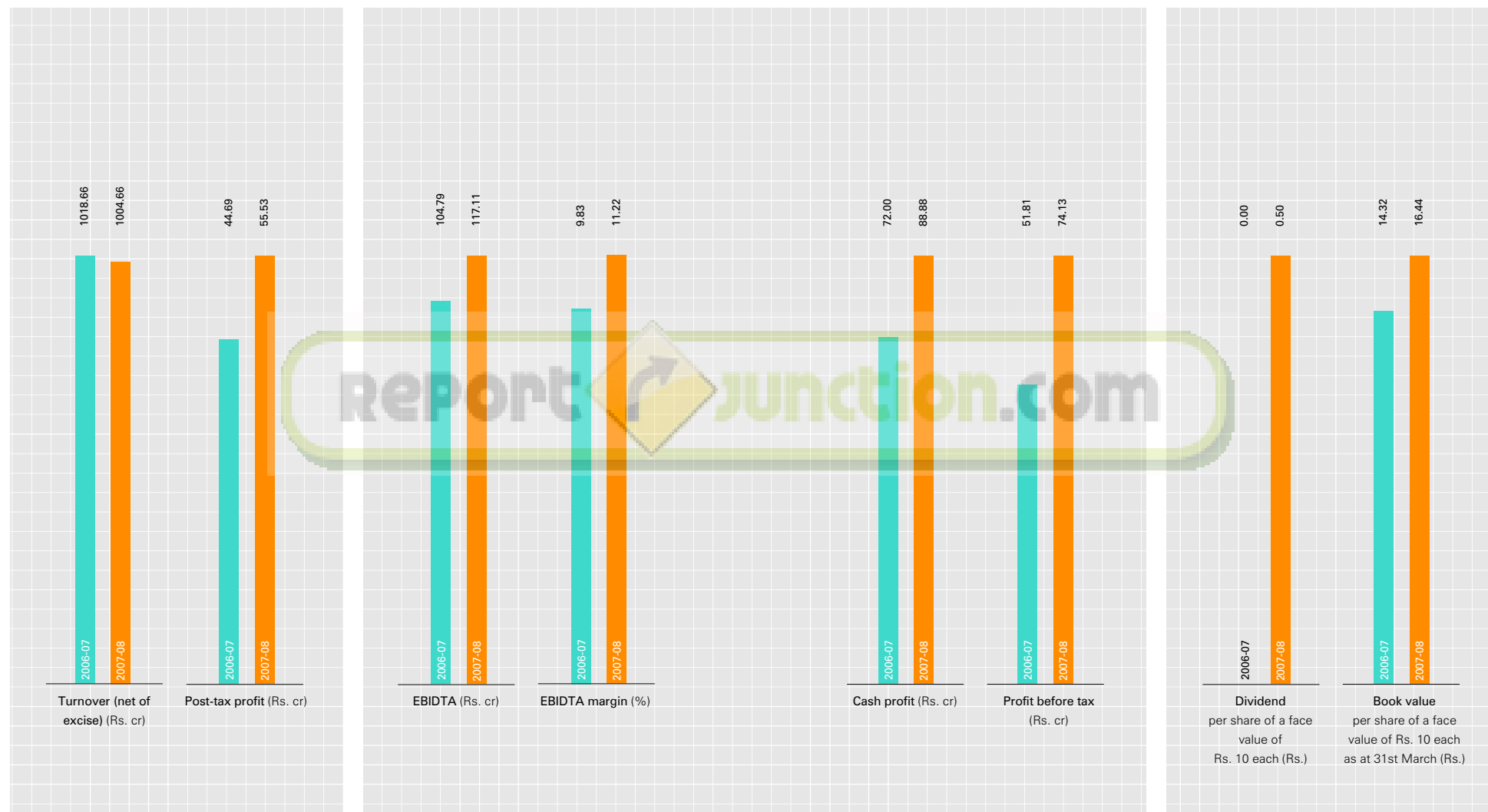
Global PET supply and demand

(kt/pa)

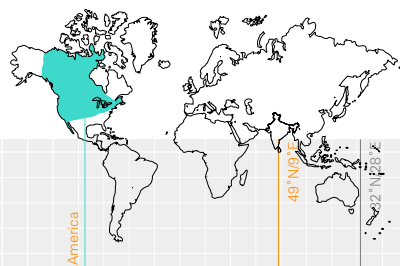
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Capacity	8,234	8,837	9,526	11,045	12,197	12,530	14,272	16,036	17,989	19,240	20,787	23,294	23,644	23,644
Capacity growth (%)	11.9	7.3	7.8	15.9	10.4	2.7	13.9	12.4	12.2	7.0	8.0	12.1	1.5	0.0
Production	6,469	7,204	7,796	8,720	9,465	10,491	11,383	12,450	13,679	14,839	16,159	17,209	18,572	19,475
Production growth (%)	16.3	11.4	8.2	11.9	8.5	10.8	8.5	9.4	9.9	8.5	8.9	6.5	7.9	4.9
Consumption	6,437	7,186	7,857	8,730	9,581	10,515	11,505	12,566	13,674	14,861	16,031	17,213	18,425	19,475
Consumption growth (%)	15.1	11.6	9.3	11.1	9.7	9.7	9.4	9.2	8.8	8.7	7.9	7.4	7.0	5.7
Operating rate (%)	78.6	81.5	81.8	79.0	77.6	83.7	79.8	77.6	76.0	77.1	77.7	73.9	78.5	82.4

Source: CMAI and Deutsche Bank estimates

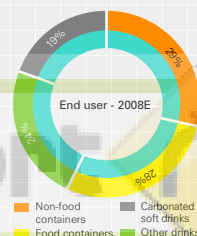
What our numbers indicate



Soft drinks, soft drinks everywhere!



Industry slowdown or no slowdown, PET resin consumption is growing attractively in North America, riding a mature retail market and an increasing consumption of packaged food and beverages.



Even as percentage growth in North America is expected to be modest, the sheer volume of incremental annual demand makes it the most important market in the world on the one hand and the most significant product importer on the other.

Consider this. The carbonated soft drinks market – the

principal user of PET bottles – will sustain its growth due to stronger promotion together with beverages, an intrinsic part of everyday living in that part of the world. The FMCG sector continues to prefer the use of PET bottles due to usage functionality and a growing preference of consumers to view the content prior to purchase.

North America PET supply & demand

(kt/pa)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Capacity	2,676	3,012	3,207	3,282	3,643	3,755	3,815	3,941	4,573	5,011	5,674	6,107	6,257	6,257
Capacity growth (%)	2.1	12.6	6.5	2.3	11.0	3.1	1.6	3.3	16.0	9.6	13.2	7.6	2.5	0.0
Production	2,383	2,550	2,711	2,793	2,988	3,413	3,297	3,429	3,660	3,879	4,097	4,265	4,692	4,695
Production growth (%)	8.4	7.0	6.3	3.0	7.0	14.2	-3.4	4.0	6.7	6.0	5.6	4.1	10.0	0.1
Net exports	150	138	125	-31	40	293	-52	-187	-210	-262	-264	-530	-432	-713
Inventory	-1	-26	-38	12	-7	-33	7	27	4	0	0	0	0	0
Consumption	2,2234	2,438	2,324	2,812	2,955	3,153	3,342	3,589	3,856	4,141	4,461	4,797	5,124	5,408
Consumption growth (%)	15.5	9.15	7.6	7.2	5.1	6.7	6.0	7.4	7.4	7.4	7.7	7.5	6.8	5.5
Operating rate (%)	89.1	84.7	84.5	85.1	82.0	90.9	86.4	87.05	80.0	77.4	72.2	69.8	75.0	75.0

Source: CMAI and Deutsche Bank estimates

This represents an attractive opportunity for companies like South Asian Petrochem on two counts – a large and growing market and the US decision to call off countervailing and anti-dumping regulations on imports of PET resin from India, Indonesia and Thailand.

In South America, the opportunity appears bigger with a shortage of 300 kt in Brazil and 500 kt across the region being projected by the end-2008 sustained by an annual continental demand growth for bottle-grade PET resin estimated at 6-8%.

South Asian Petrochem expects to capitalise on these realities through the following initiatives:

- ♦ Reduced production costs through proactive low-cost capacity expansion.

- ♦ Introduction of value-added AS25H hot-fill grade (microwave-proof) for the developed markets.
- ♦ Reaching out to customers directly, circumventing trade intermediaries leading to a better understanding of the market dynamics and stronger relationships.
- ♦ Strengthening the ASPET brand for enhanced visibility, product recall and sustainable revenues.
- ♦ Implementing a new PET resin manufacturing project in Egypt.

With a consolidated post-expansion production in excess of 500,000 TPA, SAPL is expected to compete effectively in the volume end of the business and carve out an attractive market share.



What is a meal without a cola?

The market for PET resin – especially the value-added variety – remains buoyant across the European Union on account of a bias for pre-cooked food, beverages, mineral water and other FMCG products.



Carbonated soft drinks constitute around 37% of the market, processed food packaging 25% and dairy products 17%. A large capacity is expected to come up in the Middle East and Central Europe.

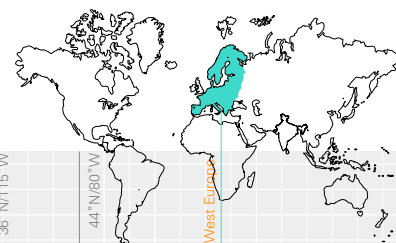
South Asian Petrochem embarked on a number of initiatives to enhance its presence in the large and growing West European market:

- ♦ Aligned its manufacturing facility to customer needs, rationalising the logistics cost and making superior deliveries affordable at reasonable prices.

- ♦ Introduced two new variants – 20HF and 25H – of oven-friendly products, ideal for cooked food.

- ♦ Launched a new solid-state poly-condensation line (capacity 42,000 TPA) for manufacturing speciality-grade resins. This will improve the production efficiency by matching the capacities of the continuous poly-condensation and SSP lines. These speciality-grade resins are resistant to temperature fluctuations, making them suitable for storage under refrigeration.

- ♦ Strengthened after-sales service, ensuring customer satisfaction and repeat business.



Western Europe PET supply and demand

	(kt/pa)													
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Capacity	2,049	1,980	2,108	2,150	2,120	2,169	2,480	2,572	2,487	2,651	2,709	2,709	2,709	2,709
Capacity growth (%)	28.2	-3.4	6.5	2.0	1.4	2.3	14.3	3.7	-3.3	6.6	2.2	0.0	0.0	0.0
Production	1,518	1,537	1,646	1,832	1,945	2,073	2,273	2,284	2,317	2,330	2,362	2,301	2,254	2,301
Production growth (%)	40.8	1.3	7.1	11.3	6.2	6.6	9.6	0.5	1.4	0.6	1.4	-2.6	-2.0	2.1
Net exports	-38	-33	-110	-174	-266	-232	-141	-248	-332	-451	-550	-743	-934	-1,017
Inventory	-30	0	-1	-10	11	15	10	-38	-0	0	0	0	0	0
Consumption	1,538	1,570	1,757	2,016	2,200	2,290	2,404	2,570	2,649	2,781	2,912	3,044	3,188	3,318
Consumption growth (%)	12.9	-1.0	11.9	14.7	9.1	4.1	5.0	6.9	3.1	5.0	4.7	4.5	4.7	4.1
Operating rate (%)	74.1	77.6	78.1	85.2	91.7	95.6	91.7	88.8	93.2	87.9	87.2	84.9	83.2	84.9

Source: CMAI and Deutsche Bank estimates

Indians are taking to bottled fruit juice!



The consumption of PET resin is growing in India on account of new customers being created for bottled beverages as well as an increasing number of products substituted with PET.

The next time you see an advertisement for natural orange juice on television, score a point for PET resin. Even as you may not be aware, this is not an isolated point. This growing consumption of PET resin is now extending across various sectors and products. The result is that India is at an inflection point: the country is ramping its PET resin capacity to almost 350 ktpa by 2010; reflecting indirectly the latent demand potential in the domestic market.

A new report from beverage industry analyst Canadian estimates that consumption in India leapt by 13% with the average summer temperature rising over the last 10 years, producers will clearly try to capitalise on this rapid advance in the years to come.

Still drinks remain the largest single sector, according to Canadian, and while the sale of packaged still drinks grew strongly, the sector as a whole was held back by almost flat consumption of unpackaged or loose alternatives.

Asia (excluding Japan) Pet supply & demand

(kt/pa)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Capacity	2,384	2,640	2,980	4,222	4,792	4,876	6,069	6,995	7,647	7,847	8,302	9,677	9,677	9,677
Capacity Growth (%)	9.9	10.7	12.9	41.7	13.5	1.8	24.5	15.3	8.9	3.0	5.8	16.6	0.0	0.0
Production	1,648	2,015	2,286	2,963	3,395	3,712	4,452	4,948	5,168	5,431	6,026	6,205	6,940	6,856
Production growth (%)	9.6	22.3	13.4	29.6	14.6	9.3	20.0	11.1	4.4	5.1	11.0	3.0	11.8	-1.2
Net exports	704	963	1,263	1,650	1,976	1,890	2,496	2,715	2,569	2,500	2,767	2,592	2,954	2,511
Inventory	45	38	-103	-66	-166	-27	-127	-50	34	-21	-10	-5	-0	0
Consumption	899	1,014	1,126	1,390	1,696	1,848	2,283	2,283	2,565	2,952	3,269	3,618	3,986	4,345
Consumption growth (%)	16.3	12.8	11.0	22.6	14.9	16.5	12.7	9.6	12.4	15.1	10.7	10.7	10.2	9.0
Operating rate (%)	69.1	76.3	76.7	70.2	70.8	76.1	73.4	70.7	67.8	69.2	72.6	64.1	71.7	70.8

Source: CMAI and Deutsche Bank estimates



SAPL strengthened its competitiveness in response to this favourable industry environment through the following initiatives:

De-bottlenecked its plant to enhance capacity and reduce overheads.

Widened its pan-India presence to service and grow the market.

Strengthened its technical service through pilot scale extrusion blow moulding machine.

Helped by strong sales through roadside vendors, loose or unpackaged still drinks account for over 90% of total still drinks consumption, the report indicated.

Enjoying a share of almost 60%, cola dominates the carbonates market and continues to extend its lead, with a 20% rise in consumption last year. Water is the third most popular sector in India with both the packaged and bulk/HOD sub-sectors increasing sharply.

The result: SAPL enhanced revenues from the Indian market as a proportion of its total revenues from 32% of its turnover in 2006-07 to more than 36% 2007-08.