



SUPREME PETROCHEM LTD

**ANNUAL REPORT
2005-2006**

BOARD OF DIRECTORS:

M. P. Taparia, Chairman
 Rajan B. Raheja
 A. H. Parpia
 B. L. Taparia
 Satish B. Raheja
 S. J. Taparia
 Hasmukh Shah
 M. S. Ramachandran
 R. Kannan – ICICI Bank Ltd. Nominee
 Nihalchand Chauhan
 Manoj Chhabra – Alternate Director to Satish Raheja

REGISTERED OFFICE:

612, Raheja Chambers,
 Nariman Point, Mumbai – 400 021

CORPORATE OFFICE:

Solitaire Corporate Park,
 Building No. 11, 5th Floor,
 Andheri-Ghatkopar Link Road, Chakala,
 Andheri (East), Mumbai - 400 093

PLANT:

Amdoshi,
 Wakan Roha Road,
 Post : Patansai,
 Taluka Roha,
 Dist. Raigad, Maharashtra - 402 106

BANKERS:

State Bank of India
 Central Bank of India
 ICICI Bank Ltd.
 IDBI Bank Ltd.
 Indusind Bank Ltd.
 The ING Vysya Bank Ltd.
 The Karur Vysya Bank Ltd.
 UTI Bank Ltd.
 ABN-Amro Bank N.V.

AUDITORS:

M/s. Parikh & Shah
 Chartered Accountants

INTERNAL AUDITORS:

G.M. Kapadia & Co.
 Chartered Accountants

REGISTRARS & TRANSFER AGENTS:

Karvy Computershare Private Limited
 Karvy House,
 46, Avenue 4, Street No. 1,
 Banjara Hills,
 Hyderabad – 500 034

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NOTICE

NOTICE is hereby given that the Seventeenth Annual General Meeting of **SUPREME PETROCHEM LTD** will be held at Indian Merchants' Chambers, Walchand Hirachand Conference Hall, IMC Marg, Churchgate, Mumbai 400 020 on Friday, October 27, 2006 at 4.00 p.m. to transact the following business:

ORDINARY BUSINESS:

1. To receive and adopt the Directors' Report and the Audited Statement of Accounts together with Auditors' Report thereon for the financial year ended June 30, 2006.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Shri Satish B. Raheja, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Shri S. J. Taparia, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Shri M. P. Taparia, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint Statutory Auditors and fix their remuneration.

SPECIAL BUSINESS:

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

"RESOLVED THAT Shri Nihalchand Chauhan, be and is hereby appointed as a Director of the Company, liable to retire by rotation".

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

"RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to the creation by the Board of Directors of the Company of such mortgages, charges and hypothecations in addition to the existing mortgages, charges and hypothecations created by the Company as may be necessary on such of the assets of the Company both present and future, in such manner as the Board may direct, in favour of State Bank of India (SBI) to secure FCNR(B) Term Loan of Rs.20.00 crores availed from SBI, (First Charge) together with the interest thereon at the agreed rates, further interest, liquidated damages, premium on pre-payment or on redemption, costs, charges, expenses and all other moneys payable by the Company to SBI in terms of the Agreement/Loan

Agreement entered into by the Company in respect of the said borrowing.

RESOLVED FURTHER THAT the Board be and is hereby authorised to finalise with SBI the documents for creating the aforesaid mortgages, charges and/or hypothecations and to accept any modifications to, or to modify, alter or vary, the terms and conditions of the aforesaid documents and to do all such acts and things and to execute all such documents as may be necessary for giving effect to the above resolution".

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

"RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to the creation by the Board of Directors of the Company of such mortgages, charges and hypothecations in addition to the existing mortgages, charges and hypothecations created by the Company as may be necessary on such of the assets of the Company both present and future, in such manner as the Board may direct, in favour of the financial institutions, banks, mutual funds, overseas banks and other bodies corporate (hereinafter referred to as the 'Lending Agencies') to secure rupee term loans/foreign currency loans and other instrument of an equivalent aggregate amount not exceeding Rs.40.00 crores (Rupees forty crores only) together with the interest thereon at the agreed rates, further interest, liquidated damages, premium on pre-payment or on redemption, costs, charges, expenses and all other moneys payable by the Company to the Lending Agencies under the respective Agreement/Loan Agreement to be entered into by the Company in respect of the said borrowings.

RESOLVED FURTHER THAT the Board be and is hereby authorised to finalise with the Lending Agencies the documents for creating the aforesaid mortgages, charges and/or hypothecations and to accept any modifications to, or to modify, alter or vary, the terms and conditions of the aforesaid documents and to do all such acts and things and to execute all such documents as may be necessary for giving effect to the above resolution".

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

"RESOLVED THAT the consent of the Company be and is hereby accorded to the Board of Directors of the Company for keeping the Registers of Members together with Index of Members and copies of all returns prepared under Section 159 and 160 of the Companies Act, 1956 as also the copies of the certificates and documents required to be annexed thereto under Section 160 and 161 of the



SUPREME PETROCHEM LTD

Companies Act, 1956 at the Company's Corporate Office at Solitaire Corporate Park, Building No. 11, 5th Floor, Andheri-Ghatkopar Link Road, Chakala, Andheri (East), Mumbai - 400 093 instead of the Registered Office of the Company at 612, Raheja Chambers, Nariman Point, Mumbai 400 021".

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

"RESOLVED THAT in partial modification of the special resolution passed at the sixteenth Annual General Meeting of the Company held on October 20, 2005 and subject to the provisions of Section 269, 310, 311, 198 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to approval of the Central Government, if required and such other approvals as may be necessary, consent of the Company be and is hereby accorded to the revision in the maximum amount of remuneration from Rs.48,00,000/- p.a. to Rs.60,00,000/- p.a. (inclusive of ex-gratia, if any) payable to the Manager, Shri N. Gopal, w.e.f. April 01, 2006 for the

remaining part of the tenure i.e. upto March 31, 2007, other terms and conditions of his appointment remaining unchanged as set out in the Agreement dated May 09, 2005 entered into between the Company and Shri N. Gopal.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to take all such steps as may be necessary, proper or expedient to give effect to the above resolution".

For and on behalf of the Board

M. P. Taparia
Chairman

Registered Office:
612, Raheja Chambers
Nariman Point
Mumbai - 400 021

Date: August 17, 2006

NOTES

A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. The Proxy Form should be lodged with the Company at the Registered Office at least 48 hours before the time of the meeting.

An explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of the Special Business at Item Nos. 7 to 11 of the above notice is annexed.

Register of Members of the Company will remain closed from **Tuesday, October 10, 2006 to Friday, October 27, 2006** (both days inclusive).

Members who hold shares in de-materialised form are requested to write their Client ID and DP ID Number and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.

Members who would like to avail payment of dividend through Electronic Clearing Service (ECS) are requested fill up the Mandate Form provided in this Annual Report and mail it to the Company's Registrar and Share Transfer Agents - Karvy Computershare Private Limited, Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034. The information provided by you will be kept confidential and would be utilised only for the purpose of effecting the payments meant for you.

Members are requested to bring their copies of the Annual Report to the Meeting.



ANNEXURE TO THE NOTICE

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 regarding Special Business.

ITEM NO. 7:

Shri Nihalchand Chauhan was appointed as an Additional Director under Section 260 of the Companies Act, 1956 at a meeting of the Board of Directors held on April 27, 2006.

Shri Chauhan shall hold office as a Director upto the date of the ensuing Annual General Meeting. Notice in writing under Section 257 of the Companies Act, 1956 has been received from a member proposing the candidature of Shri Chauhan for office of the Director of the Company.

Shri Chauhan, a respected and well known personality in banking and financial circles, has over 47 years experience in domestic and international banking. His rich and varied experience include long stints with State Bank of India and Arab Monetary Fund, Abudhabi. He is a consultant to Multi Commodities Exchange of India Ltd. His knowledge and experience will be an invaluable asset to the Company and will enable further broadbasing the Board of Directors.

The Directors commend the appointment of Shri Chauhan in view of his extensive knowledge and rich industrial experience.

Shri Nihalchand Chauhan may be deemed to be interested in the resolution at Item No. 7.

ITEM NO. 8:

The Company has availed of FCNR(B) Term Loan of Rs.20.00 crores from State Bank of India (SBI) for shoring up working capital/on going capital expenditure of the Company.

The said Term Loan is to be secured by appropriate mortgage/charge in favour of SBI on such of the assets of the Company both present and future, as may be decided by the Board of Directors. The resolution at Item No. 8 is considered necessary having regard to Section 293(1)(a) of the Companies Act, 1956.

The Directors commend the resolution at Item No. 8 for your approval.

None of the Directors of the Company may be deemed to be in any way concerned or interested in the resolution.

ITEM NO. 9:

The Company proposes to approach financial institutions/banks and/or other Lending Agencies for term loans not exceeding Rs.40.00 crores (Rupees forty crores only) for general corporate purposes and to augment long term resources of the Company.

The said term loans when sanctioned/availed of are to be secured by appropriate mortgage/charge in favour of respective financial institutions/banks/overseas banks and/or other Lending Agencies on such of the assets of the Company both present and future, as may be decided by the Board of Directors. The resolution at Item No. 9 is considered necessary having regard to Section 293(1)(a) of the Companies Act, 1956.

The Directors commend the resolution at Item No. 9 for your approval.

None of the Directors of the Company may be deemed to be in any way concerned or interested in the resolution except Shri R. Kannan, who is a Nominee of ICICI Bank Limited. He will be concerned or interested in the resolution, to the extent of term loans that may be availed from ICICI Bank Limited.

ITEM NO. 10:

The register of members together with index of members and copies of all returns prepared under Section 159 and 160 as also the copies of certificates and documents required to be

annexed thereto under Section 160 and 161 of the Companies Act, 1956 are proposed to be kept at the Company's New Corporate Office at Solitaire Corporate Park, Building No. 11, 5th Floor, Andheri-Ghatkopar Link Road, Chakala, Andheri (East), Mumbai - 400 093 instead of the Registered Office at Nariman Point, Mumbai since the Company's Secretarial and Share Department functions from the said office.

The approval of the members for keeping the said documents at a place out side the Company's Registered Office is necessary having regard to the provisions of Section 163 of the Companies Act, 1956.

None of the Directors of the Company may be deemed to be in any way concerned or interested in the resolution.

ITEM NO. 11:

Share holders at the sixteenth Annual General Meeting held on October 20, 2005 have approved the appointment of Shri N. Gopal as the Manager of the Company for the period April 04, 2005 to March 31, 2007.

In recognition of the responsibilities entrusted to Shri N. Gopal, it is proposed to revise the maximum remuneration (from Rs.48,00,000/- p.a. to Rs.60,00,000/- p.a., inclusive of ex-gratia, if any) payable to the Manager, Shri N. Gopal, w.e.f. April 01, 2006 to March 31, 2007. Other terms and conditions of his appointment shall remain unchanged as set out in the Agreement dated May 09, 2005 entered into between the Company and Shri N. Gopal.

The supplemental agreement dated August 18, 2006, between the Company and Shri N. Gopal can be inspected at the Secretarial Department of the Company at Solitaire Corporate Park, Building No. 11, 5th Floor, Andheri-Ghatkopar Link Road, Chakala, Andheri (East), Mumbai - 400 093 between 11.00 a.m. to 5.00 p.m. on any working day from Monday to Friday.

I. General Information:

1. Nature of Industry	: Manufacture and sale of Polystyrene.		
2. Date of Commencement of Commercial Production	: October 01, 1995.		
3. Financial Performance :	2003-04	2004-05	2005-06 (Rs. Lacs)
Gross Sales	116126.69	143510.06	152217.26
Profit before Tax	3364.85	6121.31	2752.28
Net Profit	1893.11	3661.07	1646.64
4. Export Performance :	34861.52	56288.65	66232.55
Net Foreign Exchange Earnings	(35340.09)	(48349.86)	(48440.86)
5. Foreign Investment or Collaborators, if any	: ABB Lummus Global Inc (USA) (Technical Collaboration)		

The Directors commend the resolution at Item No. 11 for your approval.

None of the Directors of the Company may be deemed to be in any way concerned or interested in the resolution.

For and on behalf of the Board

M. P. Taparia
Chairman

Registered Office:

612, Raheja Chambers
Nariman Point
Mumbai - 400 021.

Date: August 17, 2006



DIRECTORS' REPORT

Your Directors are pleased to present the Seventeenth Annual Report alongwith Audited Accounts of your Company for the financial year ended June 30, 2006.

1. FINANCIAL RESULTS

	2005 -2006	2004-2005
	(Rupees in lacs)	
Income (Net of Excise)	142379.96	134703.46
Operating Profit	6434.92	10122.08
Cash Profit/(Loss)	4421.81	8252.92
Profit for the year	2752.28	6121.31
Provision for tax	(42.50)	(492.50)
Deferred Tax Liability (Net)	(1063.14)	(1967.74)
Profit after tax	1646.64	3661.07
Prior period adjustments	6.67	(0.91)
Balance brought forward from Previous Year	1028.40	202.50
Amount available for appropriation	2681.71	3862.66
Appropriation thereof:		
Dividend on equity shares (including corporate dividend tax)	1111.89	1334.26
Transfer to general reserve	500.00	1500.00
Balance carried forward	1069.82	1028.40

Your Directors have recommended a dividend of 10% on the equity shares for the year 2005-2006.

2. REVIEW OF OPERATIONS

The first phase of debottlenecking resulted in increase in installed Polystyrene capacity to 272000 TPA in October 2005 from 204000 TPA. Your Company achieved capacity utilisation of 83% in spite of shut down of relevant production lines in the first quarter of the year under review for hook-up of revamped plant.

Polystyrene production increased by 16% over the previous year while sales quantity rose by 20%. Your Company also undertook marketing of a small quantity of EPS in the last quarter of the year under review by getting the product manufactured at its subsidiary's plant on a conversion basis.

3. FINANCE

The members are aware that the Indian economy is now entering a regime of higher interest rates. However your Company's endeavor to source funds at reasonable costs will continue. During the year under review your Company has finalised loans from institutions/banks to part finance capital expenditure schemes viz. de-bottlenecking of polystyrene capacity, construction of EPS plant and construction of minor port.

4. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Management discussion and analysis report for the year under review as stipulated under clause 49 of the Listing Agreement with the Stock Exchange is presented separately forming part of the Annual Report.

5. ISO CERTIFICATION

Your Company continues to be certified with ISO 9001:2000, Environmental Management System ISO 14001:1996 and with OHSAS 18001 specification by BVQI. Your Company is also a signatory to Responsible Care and is taking active steps in implementation and maintenance of all the applicable codes under Responsible Care.

Your Company has achieved following recognitions and awards during the period under review:

National Safety Council of India Safety Awards 2005 - "Shreshtha Suraksha Puraskar" in Manufacturing Sector, in recognition for developing and implementing the highly effective management systems and procedures and achieving outstanding performance in occupational health and safety.

Greentech Environmental Excellence Award 2005 - Silver Award in Petrochemical Sector, for outstanding achievement in Environmental Management.

Greentech Safety Award 2006 - Silver Award in Petrochemical Sector, for outstanding achievement in Safety Management.

State level award for excellence in Energy Conservation and Management for the year 2005 - Second prize in Petrochemical sector in appreciation of the achievements in Energy Conservation and Management.

6. HEALTH & SAFETY

Your Company has continued the implementation of HSE Management Systems under the guiding principles of declared 'Health and Safety Policy' and 'Environmental Policy'. Both the Environmental Management System & Occupational Health and Safety Management Systems are continued to be maintained as per ISO 14001 standard and OHSAS 18001 specification respectively. HSE performance index for the period under review stood to be in excellent range. The Company has completed 2085 accident free days and 52,76,372 accident free man-hours as on June 30, 2006.

7. DIRECTORS

Shri Satish B. Raheja, Shri S. J. Taparia and Shri M. P. Taparia, Directors of the Company retire by rotation and being eligible offer themselves for re-appointment.

Shri Nihalchand Chauhan was appointed as an Additional Director on April 27, 2006 and a notice in writing under Section 257 of the Companies Act, 1956 has been received from a member proposing the candidature of Shri Chauhan for office of the Director of the Company.

Shri Chauhan, a respected and well known personality in banking and financial circles, has over 47 years experience in domestic and international banking. His rich and varied experience include long stints with State Bank of India and Arab Monetary Fund, Abudhabi. He is a consultant to the Multi Commodities Exchange of India Ltd. His knowledge and experience will be an invaluable asset to the Company and will enable further broadbasing the Board of Directors.

Your Directors welcome Shri Chauhan on the board and are sure that his experience and knowledge will be of immense help to the Company.

A brief resume of the Directors eligible for re-appointment is given in the report on Corporate Governance.

8. SUBSIDIARY COMPANY - SHIN HO PETROCHEMICAL (INDIA) LIMITED

- (i) During the year under review, pursuant to the Share Purchase Agreement with S H Chemical Company Limited, Republic of Korea, your Company purchased 6487800 equity shares of SHIN HO Petrochemical (India) Limited (SHPIIL) @ Rs.3.85 per equity share making up 55% of the paid-up share capital of SHPIIL. SHPIIL is a producer of Expandable Polystyrene (EPS). Consequent to this purchase your Company made an open offer to the members of SHPIIL for purchasing equity shares comprising of 20% of the paid-up capital of SHPIIL as per the provisions of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. The Company acquired 130192 equity shares @Rs.5.85 per share in the open offer. In view of the takeover SHPIIL became a subsidiary, and your Company appointed 3 Nominee Directors on the board of SHPIIL. Your Company has deputed a team of experts to review the manufacturing operations, safety measures, purchase and sales policy, accounts and financing function, human resources, administration and other systems. All efforts are focused to maximise the utilisation of assets and human resources at SHPIIL's plant in Chennai. This acquisition makes immense sense since your Company is putting up a plant for manufacture of EPS and will have inherent synergies in procurement of main raw material, distribution channels etc. Your Company has started marketing of EPS by getting EPS manufactured on conversion basis from SHPIIL plant.
- (ii) Your Company has sought exemption under Section 212(8) of the Companies Act, 1956 from the Central Government from attaching a copy of the Balance Sheet and the Profit and Loss Account of the subsidiary company and other documents required to be attached under Section 212(1) of the Act to the Annual Report of the Company. Accordingly, the said documents are not being attached with the Balance Sheet of the Company. A gist of the financial performance of the subsidiary company is contained in the report. The Annual Accounts of the subsidiary are open for

inspection by any member/investor and the Company will make available these documents/details upon request by any Member of the Company or to any investor of its subsidiary who may be interested in obtaining the same. Further, the annual accounts of the subsidiary company will also be kept for inspection by any investor at the Corporate Office of the Company and that of the subsidiary Company.

- (iii) Consolidated Group Accounts comprising of consolidated balance sheet of Supreme Petrochem Ltd and its subsidiary as at June 30, 2006, the consolidated profit and loss account and the consolidated cash flow statement of the group for the year ended on that dated are annexed in accordance with Accounting Standard 23.

9. SPECIAL ECONOMIC ZONE

Your Company proposes to set-up a Special Economic Zone (SEZ) for plastic processing sector in District Raigad, Maharashtra. Your Company has received required in-principle approval from the State Government for said SEZ. Necessary application has been made to the Board of Approvals, Commerce Ministry, Government of India. The Company proposes to float a separate Company to implement this project. This project is in line with your Company's efforts to encourage setting-up plastic processing units in the country which would in turn increase the export of Polystyrene products and create more value addition and employment in India.

10. DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm that:

- (i) in the preparation of the annual accounts, applicable accounting standards have been followed, with proper disclosure of any departures;
- (ii) the accounting policies are consistently applied and reasonable, prudent judgement and estimates are made so as to give a true and fair view of the state of affairs of the Company at the end of the financial year;
- (iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors have prepared the accounts on a going concern basis.

11. CORPORATE GOVERNANCE

Pursuant to clause 49 of the listing agreement with the stock exchanges, your Company has implemented Corporate Governance practices during the period. A separate section titled corporate governance has been included in this annual report. The compliance of "Corporate Governance" conditions has also been certified by the Auditors and the same is annexed to the report on Corporate Governance.

**12. TRANSFERS TO INVESTOR PROTECTION FUND**

Your Company has transferred the unclaimed interest on non-convertible debentures paid on January 01, 1999 to the Investor Protection Fund. In the aggregate an amount of Rs.45.35 lacs has been transferred till date.

The unclaimed interest on debentures paid on January 01, 2000 will be due for transfer to the fund on February 01, 2007. Investors who have not yet claimed interest amount are requested to contact the Secretarial Department of the Company.

13. FIXED DEPOSIT SCHEME

The outstanding fixed deposits as on June 30, 2006 were Rs.616.92 lacs. There were 44 due but unclaimed deposits aggregating Rs.6.70 lacs out of which 10 deposits aggregating Rs.1.35 lacs have been paid as on the date of this report. There are no claimed and unpaid deposits.

14. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO

Information as per Section 217(1)(e) of the Companies Act, 1956 read together with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is Annexed hereto forming part of this report.

15. PERSONNEL

Excellent relations were maintained throughout the year. The Directors place on record its appreciation of the continuous efforts put in by all the employees to consolidate and improve the operations of your Company.

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of employees are set out in the Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956 the Report and the Accounts is being sent to all shareholders of the Company excluding the aforesaid information. Any

shareholder interested in obtaining such particulars may write to the Secretary at the Registered Office of the Company.

16. AUDITORS

The retiring auditors M/s. Parikh & Shah, Chartered Accountants having furnished the necessary certificate u/s. 224(1-B) of the Companies Act, 1956 are eligible for re-appointment.

The members are requested to re-appoint the auditors. There are no qualifications or adverse remarks in the auditors report.

17. DELISTING OF SECURITIES

Your Company had applied for delisting to Stock Exchange Kolkata in December 2003. However the delisting intimation is awaited inspite of rigorous follow-up.

18. ACKNOWLEDGEMENT

The Directors take this opportunity to thank Banks and Financial Institutions, for the guidance and assistance. Your Directors also place on record their appreciation of the guidance and support provided by the concerned Ministries/Regulatory Bodies at the Central and Maharashtra State Government.

The Directors are also thankful to various Suppliers, Customers and other Business Associates for their continued co-operation and support extended to your Company.

Your Directors also acknowledge the commitment, contribution and team support of your Company's employees.

For and behalf of the Board

M. P. Taparia
Chairman

Place : Mumbai
Date : August 17, 2006

ANNEXURE I TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(1)(e) READ WITH COMPANIES DISCLOSURE OF PARTICULARS IN THE REPORT OF THE (BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED JUNE 30, 2006.

A. CONSERVATION OF ENERGY

Your Company has embarked on an on-going programme for Energy Conservation, the results of which are evident from the substantial reduction in unit energy consumption.

Your Company was recognised with a 1st prize for its efforts in Energy Conservation and Management among Petrochemical Industries at State level by the Maharashtra Government.

B. TECHNOLOGY ABSORPTION

Product offerings from the Company are continuously upgraded and optimized to meet the ever increasing demand of the processing sector.

A broad range of speciality Polystyrene grades (Flame Retardent / Toughened Polystyrene / Custom Coloured Polystyrene etc.) have been successfully commercialized. The above grades are well received in the domestic / export markets. The range of grades is further widened with new alloys and blends.

ANNEXURE - FORM A

Form for disclosure of particulars with respect to conservation of energy.

A. Power and fuel consumption

Current Year
July 01, 2005 to
June 30, 2006

1. Electricity	
(a) Purchased	
Units (KWH)	31049838
Total amount (Rs. Lacs)	1063.62
Rate/unit (Rs.)	3.43
(b) Own Generation	
Through diesel generator	134208
Unit (KWH)	2.86
Unit per ltr. of diesel oil	10.66
Cost/Unit	
2. Furnace Oil	
Quantity (MT)	2034.163
Total amount (Rs. Lacs)	350.38
Average rate (Rs. per Kg.)	**17.22
3. Other/internal generation – P S Purge	
Quantity (MT)	294.379
Total cost	
Rate per unit	-

B. Consumption per unit of production

	Current Year	Previous Year
Product (POLYSTYRENE) (MT)	*212798	*184930
Electricity (KWH/MT)	*145.91	*156.63
Furnace Oil (Kgs/MT)	9.78	10.38
Others - P. S. Purge (Kgs/MT)	1.42	1.36
* Including Speciality Polystyrene		
** On Standby Mode		

For and on behalf of the Board

M. P. Taparua
Chairman

Place : Mumbai
Date : August 17, 2006



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Supreme Petrochem Ltd (SPL) is the largest Polystyrene manufacturer in India with an installed capacity of 272000 tpa. SPL increased its capacity from 204000 tpa to 272000 tpa in October 2005 with minimal capital expenditure. Total installed capacity in the country stands at 462000 tpa at present of which SPL has a share of 59%.

Improved economic performance has led to an impressive growth of over 15% in the domestic demand of Polystyrene during the year under review. This kind of growth has been witnessed by the industry after gap of almost 6 years. Demand pull has come mainly from segments such as TV, food serveware and stationery. The demand growth for these segments has made up for the decline in demand in the traditional Audio/ Video/ CD, Jewel box etc.

Improved domestic and global markets helped SPL to achieve 83% of capacity utilisation which compares very well with the global average utilisation of 77%. SPL achieved highest ever production of 212798 tons during the year under review. SPL's policy of providing quality product and customer support has helped it not only to be leader in the domestic market but also become a reputed global player. SPL maintains its market share in the domestic market. Further development of the domestic market is the priority of SPL team.

Polystyrene prices like all other petrochemical prices remained high during the year under review, driven by high crude prices. A combination of globally increased energy demand and heightened political uncertainties pushed up the crude prices which in turn increased the prices of building blocks and downstream polymer prices.

SPL continues to be a global player of Polystyrene with exports to over 80 countries. The products are extremely well received wherever they have been marketed. FOB value of exports during the year was over Rs.660 crores. SPL has been recognised as a reliable quality supplier of Polystyrene with necessary customer technical service support. SPL's exports volumes were up by 28% during the year under review compared to the previous year.

In spite of improved capacity utilisation, healthy domestic demand growth, increased exports, the profits have been low mainly due to margin squeeze. Margins have been under pressure due to high crude prices and volatile high building block prices. The international prices of Polystyrene have therefore been very much subdued with respect to its raw material and also with certain competing Polymers like Polypropylene. Continuous reduction in tariff protection on polymers over last 3 years have also had an impact on the margins.

SPL continues to benchmark against the best in the Polystyrene business and continues to strive to improve its performance in terms of conversion cost. Focus on increased productivity is an on going process in SPL and involves effort to increase efficiencies across all major activities.

SPL has had a good response to its polymer compounding business and particularly colour master batches. This business grew by 25% during F.Y. 2006. This has also received good response in the export markets. Efforts made in the last few years in getting various compounds approved from the end users have now started showing results. It is expected that during the current year this business would grow by 50%.

SPL along with Polystyrene Producer's Association India (PPA) and other petrochemical manufacturers continue to followup with the Union Government for reduction in indirect taxes (CENVAT and State VAT) which currently aggregate to 31% on articles of Polystyrene. This reduction is very essential in view of the various free trade agreements/ preferential trade agreements already signed and proposed to be signed in near future. To compete with the imports of articles of plastics it is important that the total VAT incidence is brought down to the level of ASEAN countries so that the ultimate cost to the consumer of these articles is brought down. This would set up a chain reaction of greater demand leading to higher production of Polystyrene articles which in turn will increase consumption of Polystyrene and creation of employment opportunities.

TAKEOVER OF SHIN HO PETROCHEMICAL (INDIA) LIMITED

During the year under review SPL took over management control of SHIN Ho Petrochemical (India) Limited (SHPIIL) with 56.1% shareholding. SHPIIL is engaged in the business of EPS at Chennai with installed capacity of 6000 tpa. The said capacity is now being further expanded to 15000 tpa with marginal capital expenditure and the same shall be operational in stages starting from June 2007. This acquisition would provide necessary experience to SPL in production and marketing of EPS which shall be of immense value to SPL. With this acquisition SPL gets a base in South India.

NEW PROJECTS

Expandable Polystyrene (EPS)

Work on 60,000 tpa EPS plant has progressed with technical tie up and receipt of basic engineering package SPL has however slowed down the pace of implementation of EPS plant at its existing site near Nagothane in view of the expansion undertaken by its subsidiary Shin Ho Petrochemical (India) Ltd. SPL shall coincide the implementation of its EPS plant with the easy availability of Styrene Monomer in this region as mentioned hereinafter.

Minor Port

Work on the minor port is progressing but at slow pace since Company faced certain opposition in land acquisition. Company has now acquired most of the land needed for the project and actual construction of the jetty would begin by the year end.

Special Economic Zone

SPL is setting up a Special Economic Zone (SEZ) for plastic processing sector in District Raigad, Maharashtra. SPL has received required in principle approval from the State Government for said SEZ. Necessary application has also been made to the Board of Approvals, Commerce Ministry, Government of India. It is proposed to float a separate Company to implement this project.