SUNSHIELD CHEMICALS LIMITED

(Incorporated as a private limited company, limited by shares, under the Companies Act, 1956 on November 19, 1986 with Registrar of Companies, Maharshtra, Mumbai. The name of the company was changed from Sunshield Chemicals Private Limited to Sunshield Chemicals Limited pursuant to conversion of the company to public limited company w.e.f. May 28,1992)

Registered Office: Janki Niwas, N.C. Kelkar Road, Dadar, Mumbai-400 028.
Tel: (022) 2430 1454, 2430 1057, **Fax**: (022) 2430 7094
Contact Person: Mr. Himanshu Mhatre, **Email**-: sclspl@vsnl.net

Factory/ R &D Center: Pali-Khapoli Road, Village Rasal, Taluka Sudhagad, Distt. Raigad, Maharashtra
Tel: (02142) 242226, **Fax**: (02142) 242116

Issue of 36,76,530 Equity Shares of Rs.10 each for cash at a premium of Rs. 30/- per Equity Share aggregating Rs. 1470.61 lacs on rights basis to the existing Equity Shareholders of Sunshield Chemicals Limited. (the "Company"/SCL") in the ratio of One Equity Share for Every Equity Share (i.e. 1:1) held as on the record date i.e. [·], 2006.

The face value of the Equity Shares is Rs. 10/- per share and the Issue Price is 4 times the face value

GENERAL RISKS

Investment in equity and equity related securities involve a degree of risk and investors should not invest any funds in this issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or the adequacy of this document.

The attention of investors is drawn to the statement of Risk Factors appearing on page nos. (___) to (___) of this Draft Letter of Offer.

ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for, and confirms that this Draft Letter of Offer contains all information with regard to the Issuer and the Issue, which is material in context of the Issue, that the information contained in this Draft Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions, expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The existing equity shares of the Company are listed on The Bombay Stock Exchange Ltd. (BSE) (Designated Stock Exchange). Applications will be made to the BSE for permission to deal in and for an official quotation in respect of the equity shares of the Company being offered in terms of this Draft Letter of Offer. The Company has received 'in-principle' approval from BSE for listing of the equity shares being offered pursuant to this Rights Issue vide their letter no.------------, dated: -----------

LEAD MANAGER TO THE ISSUE	REGISTRAR TO THE ISSUE
SBI Capital Markets Ltd.	**TSR Darashaw Ltd.**
202, Maker Tower 'E'	Army & Navy Bldg,
Cuffe Parade, Mumbai 400 005	148, M.G. Road,Fort,Mumbai – 400 001
Tel: (022) 22189166, Fax: (022) 22188332	Tel:(022) 5656 8484 Fax: (022) 5656 8494
Website: www.sbicaps.com	Website:www.tsrdarashaw.com
E-mail: scl.rightsissue@sbicaps.com	Email:csg-unit@tsrdarashaw.com
SEBI Registration No: INM000003531	SEBI Registration No: INR000004009
MAPIN: Unique Id No.: 100003475	MAPIN: Unique Id No.: 100001347

ISSUE OPENS ON	: ______ , 2006
LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS	: ______ , 2006
ISSUE CLOSES ON	: ______ , 2006

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I. DEFINITIONS & ABBREVIATIONS

CONVENTIONAL/ GENERAL TERMS

Act	:	The Companies Act, 1956 as Amended
Equity Shares	:	The Issued, Subscribed and Paid Up Equity Share Capital of the Company and the additional equity share of the Company offered pursuant to The Rights Issue
Equity Shareholders	:	Means a holder/beneficial owner of equity shares of the Sunshield Chemicals Limited as on the record date i.e.___________.
Depository	:	A depository registered with SEBI under the SEBI (Depository and Participant) Regulations, 1996, as amended from time to time.
Guidelines / SEBI Guidelines	:	SEBI (Disclosure and Investor Protection) Guidelines, 2000 and subsequent amendments thereto
ISIN	:	International Securities Identification Number allotted by the depository
Sole Lead Manager/SBI Capital Markets limited	:	SBI Capital Markets Limited
Registrars / Registrars To The Issue/ Registrar And Share Transfer Agent / R&T Agents	:	TSR Darashaw Ltd.(formerly Tata Share Registry Ltd.)
Rights Issue	:	Present issue of equity shares of Rs. 10 each
UIN		Unique identification number

OFFER RELATED TERMS		
CAF	:	Composite Application Form
Bankers To The Issue	:	To be Appointed
LOF / Letter Of Offer	:	Letter of Offer of the Company for the rights issue of 36,76,530 equity shares of Rs. 10 each at a premium of Rs.30
Record Date	:	__________, 2006

COMPANY/INDUSTRY RELATED TERMS		
Articles or AOA	:	Articles of Association of the Company
Board	:	The Board of Directors of the Company or The Committee Authorized to act on its behalf
Company/Issuer/SCL	:	Sunshield Chemicals Limited
Memorandum Or MOA	:	Memorandum Of Association
RVA	:	Raad Voor Accreditatie, a Dutch Council for Accreditation
EO	:	Ethylene Oxide
EOC	:	Ethylene Oxide Condensate

ABBREVIATIONS		
Act	:	The Companies Act, 1956 and amendments thereto
ACA	:	Associates of Chartered Accountant
AY	:	Assessment Year
AGM	:	Annual General Meeting
AS	:	Accounting Standard As Issued By The Institute Of Chartered Accountants Of India
BIFR	:	Board for Industrial and Financial Reconstruction
BSE/Designated Stock Exchange	:	The Bombay Stock Exchange Ltd.
CAF	:	Composite Application Form
Cenvat		Central Value Added Tax
CDSL		Central Depository Services (India) Limited
DEMAT	:	Dematerialized (Electronic/Depository as the context may be)
DP	:	Depository Participant
EBIDTA	:	Earnings Before Interest Depreciation, Tax and Amortization
EGM	:	Extra-Ordinary General Meeting

EPS	:	Earnings Per Share
FCNR	:	Foreign Currency Non Resident
FDI	:	Foreign Direct Investment
FEMA	:	Foreign Exchange Management Act 1999 and the subsequent amendments thereto
FERA	:	Foreign Exchange Regulation Act, 1973
FII	:	Foreign Institutional Investor [as defined under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000] registered with SEBI
FIPB	:	Foreign Investment Promotion Board
FY	:	Financial Year
GOI / Government	:	Government Of India
HUF	:	Hindu Undivided Family
IT	:	Income-Tax Act 1961
Lead Manager To The Issue		SBI Capital Markets Ltd.
LoF	:	Letter Of Offer
MIS		Management Information System
MPCB	:	Maharashtra Pollution Control Board
NR	:	Non Resident
NRE ACCOUNT	:	Non Resident External Account
NRI	:	Non Resident Indian
NRO ACCOUNT	:	Non Resident Ordinary Account
NSDL	:	National Securities Depository Limited
OCB	:	Overseas Corporate Bodies
PAN/GIR No.	:	Income Tax Permanent Account Number/General Index Reference Number
PDIDT	:	Profit before Depreciation on Income
QAC	:	Quality Assurance & Control
RBI	:	Reserve Bank Of India
SBI	:	State Bank Of India
SEBI	:	Securities And Exchange Board Of India
SEBI (SAST) Regulations, 1997	:	SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto
Stock Exchange	:	BSE
SICA	:	Sick Industrial Companies (Special Provisions) Act, 1985

TECHNICAL AND INDUSTRY TERMS AND ABBREVIATIONS

EPS	Earnings Per Share
VAT	Value Added Tax
NAV	Net Asset Value
PAT	Profit after Tax
PBIT	Profit before Interest and Tax
SCN	Show Cause Notice
MEG	Monoethylene Glycol
EO	Ehthylene Oxide
EOC	Ethylene Oxide Condensate
SI	
ITAT	Income Tax Appellate Tribunal
CIT(A)	Commissioner Income Tax (Appeals)
NSC	Niche Specialty Chemicals
IPCL	India Petrochemicals Corporation Limited
THEIC	Tris Hydroxy Ethyl Isocyanurate
WFC	Waste Filter Cake
LZ-RCAD	LZ-Recovered Additives
LZ-ODRP	LZ-Oil Diluted Recovered Product
PTBP	Para Tertiary Butyl Phenol
DTBP	Di- Tertiary Butyl Phenol

In this Draft Letter of Offer, all references to “Rs.” or “INR” refer to Rupees, the lawful currency of India. References to the singular also refer to the plural and one gender also refers to any other gender wherever applicable.

FORWARD-LOOKING STATEMENTS

Statements included in this Draft Letter of Offer which contain words or phrases such as "will", "aim", "will likely result", "believe", "expect", "will continue", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "project", "should", "will pursue" and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with the Company's expectations with respect to, but not limited to, the Company's ability to successfully implement its strategy, its growth and expansion, technological changes, its exposure to market risks, general economic and political conditions in India which have an impact on its business activities or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in the industry.

For further discussion of factors that could cause the Company's actual results to differ, see the section entitled "Risk Factors" beginning on page no. (   ) of this Draft Letter of Offer. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. In accordance with SEBI requirements, the Company will ensure that investors are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges for the equity shares being issued.

Use of Market Data

Unless stated otherwise, macroeconomic and industry data used throughout this Draft Letter of Offer has been obtained from publications prepared by Government sources, industry sources and data generally available in the public domain. Such publications generally state that the information contained therein has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe that industry data used in this Draft Letter of Offer is reliable, it has not been independently verified.

II. RISK FACTORS

(The Letter of Offer also includes statistical data regarding the chemical industry. This data has been obtained from industry publications, reports and other sources that the Company and the Lead Manager believe to be reliable. Neither the Company nor the Lead Manager has independently verified such data.)

A. INTERNAL RISK FACTORS

Risks Related To The Company

Non-Compliance with Chapter II of SEBI (SAST) Regulation, 1997

There was a delay of 367 days by SCL in complying with regulation 6(2) and 6(4) of the SEBI(SAST) Regulations, 1997. SEBI has initiated adjudication proceedings and has also sent a consent order to SCL. SCL has accepted the consent order vide their letter dated October 04, 2004.Further there have been several instances of delay in compliance with the Chapter II of the SEBI (SAST) Regulations, 1997 in the past by the Company and its promoters. SEBI may initiate appropriate action in respect of the said non-compliances.

The Company has been incurring losses for the past five years

SCL primarily produces Ethylene Oxide Condensates (EOC). The EOC industry is dependent on availability and price of key raw material, Ethylene Oxide (EO) which is an output of large petrochemical complexes producing MEG. The late nineties saw some major changes in the industry and there was a tremendous rise in the prices of local EO. Also during the late nineties the opening of the economy coupled with reduction in import duties on finished products and no proportionate decrease in import duties on raw material started posing a serious problem for the chemical industry in general and EOC based commodity surfactants in particular. The specialty chemical industry, based on Ethylene Oxide derivatives faced tremendous internal and external competition. During this period the steep increase in the crude prices resulted in an increase in the energy cost which led to a further squeeze on margins.

The above changes had its impact on the financials of the Company resulting in incurring losses from the year 2000 onwards. As on 31st March 2005, the carry forward loss of the company is of the order of Rs.576 lacs. Since this was greater than 50% of the peak networth during the last four financial years as computed under section 2(29A) of the Companies Act, 1956, provisions of Section 23(1) of Sick Industrial Companies (Special Provisions) Act, 1985 became applicable and therefore the Company became a potentially sick Company as on March 31, 2005.

Infusion of additional preference capital of Rs.5 crores by Mr. Amit C. Choksey and his associates has reduced the impact of carried forward loss.

Availability of Ethylene Oxide (EO), the key raw material

The EOC industry is dependent on availability and price of the key raw material i.e. EO which is primarily an output of large petrochemical complexes. Major use of EO produced by these petrochemical complexes is for captive consumption to manufacture MEG for polyester fibre. Based on the captive requirements and market conditions for MEG, the petrochemical complexes allocate EO to EOC industry.

Hence prices of EO have continued to be on the higher side during the last 4/5 years. With the take over of NOCIL's petrochemical plant and merging of IPCL's interest with Reliance, the Company is solely dependent on only one source of raw material, namely , the Reliance Group. Sea transportation of EO is difficult because of the long distance transportation hazards associated with EO, which is highly flammable. This eliminates the possibility of import of EO.

Contingent liabilities not provided for

The contingent Liabilities not provided for as on 31/03/2006 are as follows:

	Contingent Liabilities	Rs. in lacs
	Estimated amount of contracts remained to be	

	executed on capital accounts	20.64
	Contingent Liability	
1	For Counter-Guarantees issued for Bank Guarantees	
	and Letters of credit issued	119.94
2	Counter Guarantee for Bills Discounted	NIL
3	Show cause cum demand notices, issued by various	
	Authorities of Central Excise Dept. & for which the Company	
	has preferred appeals.	101.86

Availability of qualified and experienced technical personnel at a rural factory location

Our factory, which is located at Village Rasal in the Raigad District of Maharashtra has little urban infrastructure available, particularly facility of children's education. Hence the Company may face difficulty in employing trained and technically qualified persons required to run its operations at the plant.

Product Substitution Risk

The Specialty Chemical Industry is customized-formulation-oriented and therefore is susceptible to product duplication, raw material down grading, without high capital cost or technology through manpower poaching/industrial espionage, etc.

The Company is subject to certain restrictive covenants in the short term and long term debt facilities extended by the banks

The bankers of the Company restructured the lending facilities in the year 2003. Though concessional rate of interest was applied while restructuring, the bankers reserved the right to claim the difference between the rate, as it should have been as per banking norms and the concessional rate, as and when the company becomes profitable. Should the bankers exercise this option our profitability will be adversely impacted.

Risks arising out of the Backward Area Sales Tax Deferral Scheme enjoyed by the company

We were unable to pay the deferred Sales tax installments in time on some occasions due to adverse cash flow problems. The authorities have accepted payments made so far without any reference to interest and penalty. Should they decide to impose interest and/or penalty and if sustainable in law our profitability will be adversely affected.

Full provision towards Sales Tax Deferral Liability as per the applicable scheme has been made from the accounting year beginning 1st April 2004, as per Accounting Standard 29 (AS-29).

However for the period prior to April 1, 04 when AS 29 was not in force, the company has provided for Sales Tax deferral liability at its present value as described in various accounting standards of the prior period.

Should AS 29 be amended retrospectively, fresh provision will have to be made, which can adversely impact company's net worth.

We have a high Debt-Equity ratio

Because of the losses incurred earlier, and the eroded equity base our debt-equity ratio is high. The Debt –Equity ratio as on 31/03/2006 is 4.67.

Outstanding Litigations

The Central Excise authorities have issued Show Cause notices and raised demand in various matters involving a total amount of Rs.51.17 lacs. Should the outcome of such proceedings be decided against us, we may have to pay the amount of duty and the penalty involved.

The Customs authority has issued Show Cause notice and raised demand involving a total amount of Rs.28.00 lacs. Should the outcome of such proceedings be decided against us, we may have to pay the amount of duty and the penalty involved.

The Income Tax Department had disallowed certain expenses to the tune of Rs.139.4 Lacs, which have been allowed by the I.T.A.T. and Commissioner of Income Tax (Appeals). However the department has lodged an appeal against that with the Honorable Mumbai High Court. In case the Highcourt decides against the company then the corresponding consequences will follow.

The Sales tax authority has issued a Notification disallowing the benefit of incentive notification to the Company which has been challenged by us should the outcome of such proceedings be decided against us, we may have to pay the amount of duty to the extent of 32.26 Lacs and the penalty involved.

The details of other litigation's are given in chapter on Outstanding litigation on page No. ____.

RISKS RELATED TO THE PROJECT

Project has not been appraised by any bank/financial institution

The project cost and the means of finance have not been appraised by any bank/financial institution. An application for a term loan of Rs. 16.50 crores for capex of Rs. 22 crores including required working capital limits is pending with the consortium of Company's bankers viz. Bank of Baroda , The Saraswat Co-op. Bank Ltd. & State Bank of India.The leader of the consortium, Bank of Baroda, has appointed M/s. V. J. Kulkarni & Associates, Chartered Accountants, for carrying out a Techno Economic Viability study of the project. However, the utilization of the issue proceeds is at the sole discretion of the management and there is no external agency appointed for monitoring the use of the funds.

Delay in placing of orders for Plant & Machinery

The Company is yet to place firm orders (pending term loan sanction from consortium of banks namely Bank of Baroda, The Saraswat Co-op. Bank and State Bank of India.) for plant and machinery aggregating Rs. 22 crores, being almost 100% of the total cost of plant and machinery and cost of civil and structural work required for the project. Any delay in placement of orders for the entire requirement of plant and machinery may lead to time and cost overruns in the project.

Delay in implementation schedule

Any delay in implementation of the proposed project due to uncertainties will lead to time and cost overruns thereby impacting the profitability of the company.

Dependence on few customers for offtake from expanded capacities

The Company has earned 73% of its revenues for FY 2005-06 from 10 customers. Besides, the Company has also entered into supply agreements with Altana Chemie AG, Owens Corning (India) Limited and CIBA Specialty Chemicals (India) Ltd. ,Lubrizol India Pvt. Ltd. etc. for offtake of the various specialty chemicals produced by the Company and for the company to undertake "job work"/operating plant of Lubrizol India Pvt. Ltd. at Taloja. A major portion of the production is proposed to be sold to these clients. This will increase the dependence of the Company on these clients for future offtake.

RISKS RELATED TO THE ISSUE

The market price of Equity Shares may be adversely affected by additional issue of equity or equity-linked securities or by sale of a large number of Equity Shares by Promoter and significant shareholders. Additional issues of equity may dilute shareholders' equity position.

OTHER INCIDENTAL RISKS

The Company's operations could be adversely affected by strikes, work stoppages or increased wage demands by its employees.

The Company's operations are dependent on labour. Any stoppage of work due to strikes or increase in wages of labour may increase pressure on the margins which are already squeezed due to increase in raw material prices.

Competition From Cheaper Imports

Reduction in the import duties on EOC as per Government policy have made the imports of EOC cost competitive for the user industry. Due to this, the domestic EOC industry which, already face pressure from increase in raw material costs, has been rendered uncompetitive.

Future prospects of the Company are largely dependent on the success of the Company in implementing its strategy in shifting its business from Commodity EOC to Niche Specialty Chemicals.

Faced by the highly competitive conditions in the EOC industry SCL has shifted its focus from Commodity EOC to Niche Specialty Surfactants, Esters, Amides and a range of Antioxidants for diverse user industries like Lubricants, Plastics/polymers, Rubber/Latex, Agro, Pesticides, Ink, Coatings, Resins, etc. The renewed focus has helped the Company in achieving a turnaround during the year 2005-06. During this period the Company has reported a Net Profit of Rs.36.48 lacs after tax for the first time in the past five years. Continued improved performance of the Company is largely dependent on the successful implementation of the projects in hands.

We are exposed to the risk of shut down of operations due to operational hazards.

SCL's business is dependent on its manufacturing facilities. The loss of or shutdown of operations due to operational and natural hazards at its manufacturing facilities may have a material adverse effect on the business and financial condition.

The Company's insurance coverage may not adequately protect us against certain operating hazards and this may have a material adverse effect on its business.

Though the Company has taken an insurance cover against loss of profits and reimbursements of standing charges including depreciation (Rs 3.83 crores towards loss of profit for the year 2006-07 and standing charges totaling to Rs 8.11 crores for the year 06-07, in case of stoppage of factory operations on any reason as per the policy of our manufacturing operations or operations of a supplier's manufacturing operations which will bring Company's operations to standstill. However, Company's insurance coverage may not adequately protect us against certain operating hazards (other than insurance cover against public liability, fire, explosion etc.etc. as per existing insurance policy taken by the Company). The amount excess of insurance coverage will not adequately protect the Company against certain operating hazards may have a material adverse effect.

The Equity Shares of SCL are included in the T Category

The Equity Shares of SCL have been moved to 'T' Category from the 'Z' Category by BSE w.e.f. July 29, 2005. This is as a part of the Surveillance measure taken by the exchange.

<u>Exernal Risk Factors</u>

Increase in competition

Globalization has increased import of low-cost input for manufacture of finished goods, into India. Simultaneously to internally hiked, crude-based petroleum feed stock can squeeze margin of domestic sales considerably. Better infrastructure and lower transportation cost, outside India, on hydrocarbons, reduces profitability of some range of Company's products as the foreign suppliers sometimes offer very low prices for their end products which compete with Company's products in India and abroad

The Company is subject to the risk of foreign exchange fluctuation

During the year 2005-06 the Company has earned 20% of its revenues in foreign currency. This export earning as percentage to total domestic revenue is expected to rise further in future. Thus any fluctuation in the foreign exchange rates is likely to impact the profitability of the Company. Similarly the percentage of import is low, as large quantity of input of raw materials is procured locally i.e. in Rupees. Therefore a strong rupee may have an adverse impact on the profitability.

SCL's performance is linked to the stability of policies and the political situation in India

Policies pursued by the Government of India, including relaxing restrictions on the private sector, have been conducive to liberalization of the economy and overall growth in all sectors. Any slowdown in the liberalization process or political instability may slowdown the growth in the economy, which may have an adverse effect on the capital market and investor confidence. Similarly, duty free import of raw materials required as also "deemed export" purchase facility for locally procured raw materials through advance licensing scheme / deemed export scheme under duty free import of raw materials and such export oriented schemes helped the Company's thrust for exports . Any reduction in this advance licensing/ deemed export schemes of Government can have negative effects on Company's export.

NOTES TO RISK FACTORS

1.

Pre-issue Networth (as on 31/03/2006)	Rs. 13.26
Issue Size	Rights issue 36,76,530 Equity Shares of Rs.10 each for cash at a premium of Rs. 30/- per Equity Share aggregating to Rs. 1470.61 lacs
Cost per share to the promoters and promoter group:	
Mr. Amit C. Choksey	Rs.10/- per equity share of Rs.10/- each fully paid-up
M/s. Aeonian Investments Co. Ltd.	Rs.10/- per equity share of Rs.10/- each fully paid-up
M/s. Abhiraj Trading & Investments Pvt. Ltd.	Rs.10/- per equity share of Rs.10/- each fully paid-up
Mr. Satish M. Kelkar	Rs.5.99/- per equity share of Rs.10/- each fully paid-up
M/s. Neokel Investments Pvt. Ltd.	Rs.12.25/- per equity share of Rs.10/- each fully paid-up
M/s. Kelkar Chemicals Pvt. Ltd.	Rs.11.31/- per equity share of Rs.10/- each fully paid-up

2. There is no interest of promoters/directors/key management personnel other than reimbursement of expenses incurred or normal remuneration or benefits.

3. There have been no transactions since past 6 months on the stock exchange in the shares of the Company by the Promoters/Directors of the Company

4. For Related party disclosures under Accounting Standard 18 issued by the Institute of Chartered Accountants of India please refer to para under ' Related Party Transactions' on page no. ___ of this Draft Letter of Offer.

5. The lead manager and the Company shall update this Draft Letter of Offer and keep the shareholders/public informed of any material changes till the listing and trading commencement.

III. INTRODUCTION

INDUSTRY OVERVIEW

(Source: The Indian Chemical Industry, New Directions, New Hope, issued by KPMG, Chemical Process Industries Specialty Chemicals : Current Scenario & Vision by TIFAC)

The Indian chemical industry is an integral component of the Indian economy, contributing around 6.7 per cent of the Indian GDP. It touches our lives in many different ways. Whether it is thermoplastic furniture we use, or a synthetic garment we wear, or a drug we consume - we are inextricably linked to it. The industry is a vital part of the agricultural and industrial development in India and has key linkages with several other downstream industries such as automotive, consumer durables, engineering, food processing, etc.

A classification of the industry into three segments of Basic, Specialty and Knowledge chemicals facilitates its description and analysis.

Globally, the Basic segment accounts for about 47 per cent of the industry. Speciality 25 per cent and Knowledge 28 per cent.

The Indian chemical industry manufactures a wide spectrum of products spanning the Basic, Specialty and Knowledge segments.

Specialty Chemicals are very high value, low to moderate volume chemicals sold on basis of performance rather than simple specifications. These are less capital intensive and more knowledge-based products. Their applications vary enormously and can include use as cosmetic additives, water treatment products, dyes, sanitation agents, plasticizers, ion-exchange resins and agrochemicals. There is also a large range of uses as intermediate materials in which the fine chemical forms a starting block for another substance with a recognisable end use.

The TIFAC Vision 2020 study on specialty chemicals has focused on mainly three types of chemicals namely, Textile Specialty Chemicals, Polymer Additives and Rubber Chemicals. The study projects that due to the increase in population to about 1.2 billion by 2011 (approximately 30% on the current base) the industry growth would need to be atleast 2-3 times or more, including the compensation for current gaps in meeting the figures in some major chemical sector. It may be noted that growth in the speciality chemicals required to meet the projected demand by 2020 **is about 20 times,** which is the highest amongst all other areas of chemical sector. (source**:** Chemical Process Industries Specialty Chemicals : Current Scenario & Vision by TIFAC)

COMPANY OVERVIEW

SCL is engaged in the business of manufacturing specialty chemicals which find application in industries like Agrochemicals, Fertilisers, Paints, Textiles, Petroleum, Lubricants, Rubber, Latex, Plastics etc. Principal products include auxiliary chemicals, surface active agents and preparations, Amides, Esters, Antioxidants etc.

SCL's primarily produces

a) Ethylene Oxide Condensates (EOC) (which is required to meet the vital requirements of "process chemicals" for industries such as Textiles, Leather, Pesticide, Paper, Engineering, Petrochemical, Oil recovery, Cosmetics & Pharma and many others) and
b) Antioxidants for Lubricants, Plastics, Rubber, Latex, Polymers etc.

The industry has seen some major changes in the last decade. With the closure of NOCIL's petrochemical plant and merging of IPCL's interest with Reliance, the Company became solely dependent on only one source for one of its key raw material viz. Ethylene Oxide. Sea transportation of EO is difficult because of the long distance transportation hazards associated with EO, which is highly flammable. Due to this typical status, there was a tremendous rise in the prices of local EO. Against this the end products of EOCs can be imported in a cost efficient manner. The resultant price war between the EOC manufacturers started eroding the profitability of major commodity EOCs.

In view of the above changes in the industry, during the year 2001, SCL decided to shift focus from the price competitive commodity EOC market to the 'Niche Specialty Chemicals (NSC) market, being Niche Specialty Surfactants, Esters, Amides and a range of Antioxidants for diverse user industries like Lubricants, Plastics/polymers, Rubber/Latex, Agro, Pesticide, Ink, Coatings, Resins etc.The Company started taking steps to reduce dependence on EOC commodity surfactants and has over a period of time through consistent R&D efforts the Company has been able to add a few niche specialty products in the specialty EOC range of products as also Antioxidants

Specialty Chemicals in general, are individualized niche products of a comparatively low tonnage but higher value. This has opened up an opportunity for development of new specialty chemicals for global customers in India and abroad. Tremendous rise in new packaging options, growth in industries such as Automobile, Lubricants, Plastic, Rubber, Polymers etc will utlimately give rise to higher demand for Antioxidants and other additives.

In view of the opportunities for newer Antioxidants and Specialty Products coupled with the core strength in the field of Alkylation, Esterification and EO condensation, SCL has decided to launch an expansion cum backward integration programme.

SELECTED FINANCIAL INFORMATION

Following selected financial data have been prepared in accordance with Indian Accounting Standards, in conjunction with our financial statements and related notes and "Management's Discussions and Analysis". The audited financial statements have been prepared in Indian rupees and have been prepared in accordance with Indian Accounting Standards for the financial year ended on , 30th June 2001, 31st December 2002, 31st March 2004, 31st March 2005 and 31st March 2006

STATEMENT OF PROFIT AND LOSSES – RESTATED

Annexure - 1

						(Rupees in Lakhs)
Particulars		**For the year ended 30.06.01**	**For the year ended 31.12.02**	**For the year ended 31.03.04**	**For the year ended 31.03.05**	**For the year ended 31.03.06**
Financial Year comprises of		**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**
Income						
Sale of Products		1,222.68	2,096.13	1,995.06	1,751.28	2,733.18
(Net of excise & Sales Tax)						
Increase / (Decrease) in Inventories		(8.37)	(4.68)	41.43	16.01	49.12
Other Income		55.05	21.26	21.55	(5.86)	3.02
Total	**A**	**1,269.36**	**2,112.71**	**2,058.04**	**1,761.43**	**2,785.32**
Expenditure:						
Raw Materials Consumed		859.79	1,500.66	1,362.12	1,180.96	1,910.24
Staff Cost		157.80	208.60	212.88	170.67	208.02
Other Manufacturing Expenses		125.87	197.60	187.32	163.49	219.17
Administrative and other Expenses		87.68	115.37	116.78	96.80	107.87
Selling and Distribution Expenses		15.85	18.69	10.83	13.13	40.99
Reimbursement of Admin & Other Costs		(72.00)	(24.00)	-	-	-
Interest & Finance Charges		109.92	157.84	135.95	117.20	115.72
Depreciation & Amortization		72.13	137.49	134.92	98.71	106.08
Total	**B**	**1,357.04**	**2,312.25**	**2,160.80**	**1,840.96**	**2,708.09**
Net Profit / (Loss) Before Tax	**A-B**	(87.68)	(199.54)	(102.76)	(79.53)	77.23
Taxation						
Current Tax (on account of wealth tax)		0.05	0.02	0.08	0.02	0.09
Fringe Benefit Tax		-	-	-	-	4.34
Deferred Tax Asset / (Liability)		-	-	(134.46)	28.01	36.32
Net Profit / (Loss) after tax		**(87.73)**	**(199.56)**	**31.62**	**(107.56)**	**36.48**
Incremental Provision for Sales Tax						
Deferral		(42.89)	(46.14)	(105.28)	(57.49)	(56.38)

Amount Available for Appropriations		**(130.62)**	**(245.70)**	**(73.66)**	**(165.05)**	**(19.90)**
Add: Transfer from General Reserve		249.27	-	-	-	-
Add: Transfer from Investment						
Allowance Utilized Reserve		5.48	-	-	-	-
Balance		124.13	(245.70)	(73.66)	(165.05)	(19.90)
Balance Brought Forward		**(211.72)**	**(87.59)**	**(333.29)**	**(406.95)**	**(572.00)**
Balance Carried to Balance Sheet		**(87.59)**	**(333.29)**	**(406.95)**	**(572.00)**	**(591.90)**
EPS		**(2.39)**	**(5.43)**	**0.86**	**(2.93)**	**0.99**
Notes:						
(1) The above figures should be read with the Statement of Significant Accounting Policies and Statement of Notes on Profits and Losses and Assets & Liabilities, as appearing in Annexure 8 and 9 respectively.						
(2) Necessary adjustments have been made to the audited financial statements in accordance with the requirements of paragraph6.10.2 of The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines,2000.						

SUNSHIELD CHEMICALS LIMITED

STATEMENT OF ASSETS & LIABILITIES - RESTATED

Annexure -2
(Rupees in Lakhs)

	Particulars	As at 30.06.01	As at 31.12.02	As at 31.03.04	As at 31.03.05	As at 31.03.06
	Financial Year comprises of	**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**
	APPLICATION OF FUNDS					
A	**Fixed Assets**					
	Gross Block	1,263.35	1,671.23	1,768.52	1,782.02	2,041.51
	Less:Depreciation	348.13	450.24	551.94	627.89	711.10
	Net Block	915.22	1,220.99	1,216.58	1,154.13	1,330.41
	Capital Work in Progress	203.04	2.27	-	4.87	599.58
		1,118.26	**1,223.26**	**1,216.58**	**1,159.00**	**1,929.99**
B	**Investments**	**5.95**	**5.52**	**0.10**	**0.10**	**0.25**
C	**Deferred Tax Asset (net)**	**-**	**86.08**	**134.45**	**106.44**	**70.12**
D	**Current Assets, Loans & Advances**					
	Inventories	178.50	192.71	263.78	304.16	448.24
	Sundry Debtors	372.21	308.35	274.90	365.50	647.59
	Cash & Bank Balances	19.29	13.85	23.27	25.75	16.48
	Loans and Advances	112.43	71.55	64.34	72.22	152.90
		682.43	**586.46**	**626.29**	**767.63**	**1,265.21**
E	**TOTAL ASSETS (A to D)**	**1,806.64**	**1,901.32**	**1,977.42**	**2,033.17**	**3,265.57**
F	**Liabilities & Provisions**					
	Secured Loans	580.40	813.95	885.52	894.75	1,583.38
	Unsecured Loans	473.80	513.32	575.45	627.07	693.92
	Current Liabilities	265.60	287.03	366.16	417.21	500.72
	Provisions	5.41	5.43	0.12	0.07	0.14
		1,325.21	**1,619.73**	**1,827.25**	**1,939.10**	**2,778.16**
G	**NET WORTH (F-G)**	**481.43**	**281.59**	**150.17**	**94.07**	**487.41**
H	**Represented by:** **SHAREHOLDERS FUNDS**					
	Equity Share Capital	367.65	367.65	367.65	367.65	367.65
	Preference Share Capital	-	-	-	100.00	500.00
		367.65	367.65	367.65	467.65	867.65
	Reserves & Surplus	225.93	312.01	225.92	221.23	220.82
	Sub-Total	593.58	679.66	593.57	688.88	1,088.47
	Less:					
	Accumulated Loss as per Profit and Loss Account	87.59	333.29	406.95	572.00	591.90
	Deferred Revenue Expenses (to the extent not written off)	24.56	64.78	36.45	22.81	9.16
	Sub-Total	112.15	398.07	443.40	594.81	601.06
	Total	**481.43**	**281.59**	**150.17**	**94.07**	**487.41**

Notes:

(1) The above figures should be read with the Statement of Significant Accounting Policies and Statement of Notes on Profits and and Losses and Assets & Liabilities, as appearing in Annexure 8 and 9 respectively.

(2) Necessary adjustments have been made to the audited financial statements in accordance with the requirements of paragraph 6.10.2 of The Securities and Exchange Board of India (Disclosure and Investor Protectuion) Guidelines,2000.

The above details should be read in conjunction with the 'Accounting Policies' and the 'Notes to the Accounts'. For detailed financial statements, prepared in accordance with Indian Accounting Standards, as required by Guidelines, please refer, 'Auditor's Report" of this Draft Letter of Offer.

IV. GENERAL INFORMATION

SUNSHIELD CHEMICALS LIMITED

(Incorporated as a private limited company, limited by shares, under the Companies Act, 1956 on November 19, 1986. The name of the company was changed from Sunshield Chemicals Private Limited to Sunshield Chemicals Limited pursuant to conversion of the company to public limited company w.e.f. May 28,1992)

Registered Office:	Janki Niwas, N.C. Kelkar Road, Dadar, Mumbai-400 028. **Tel**: (022) 2430 1454, 2430 1057, **Fax**: (022) 2430 7094, **Contact Person**: Mr. Himanshu Mhatre, **Email**-: sclspl@vsnl.net
Factory/ R &D Center:	Pali-Khapoli Road, Village Rasal, Taluka Sudhagad, Distt. Raigad, Maharashtra **Tel**: (02142) 242226, **Fax**: (02142) 242116
Registration number of the Issuer:	11-41612 (1986)
Address of the Registrar of Companies:	Registrar of Companies, Hakoba Mills Compound, Kalachowki, Mumbai-400 013

Dear Shareholder(s),

Pursuant to the resolutions passed by the Board of Directors of the Company at its meetings held on 4th March 2006 and resolution passed under Section 81 by the shareholders in the Extraordinary General Meeting held on April 4, 2006**,** the Company has been authorized to make the following Rights Issue to the Equity Shareholders of the Company:

Issue of 36,76,530 Equity Shares of Rs.10 each for cash at a premium of Rs. 30/- per Equity Share aggregating to Rs. 1470.61 lacs on rights basis to the existing Equity Shareholders of Sunshield Chemicals Limited. (the "Company"/SCL") in the ratio of One Equity Share for Every Equity Share (i.e. 1:1) held as on the record date i.e. [·], 2006.

Statutory Declaration

In the reasonable opinion of the Board, there are no circumstances that have arisen since the date of the last financial statement disclosed in the Draft Letter of Offer, that materially or adversely affect or are likely to affect the performance or profitability of the Company or value of its assets or its ability to pay its liabilities within the next twelve months.

Important

1. This Issue is applicable only to those shareholders whose names appear as beneficial owners as per the list to be furnished by depositories in respect of the Equity Shares held in the electronic form and on the register of members of the Company in respect of the Equity Shares held in physical form at close of business hours on _____, 2006, i.e. the Record Date.
2. Shareholders' attention is drawn to RISK FACTORS appearing on Page __ to __ of this Draft Letter of Offer**.**
3. Please ensure that the CAF is received with this Draft Letter of Offer.
4. Please read this Draft Letter of Offer and the instructions contained therein and in the CAF carefully, before filling in the CAF. The instructions contained in the CAF are an integral part of this Draft Letter of Offer and must be carefully followed. Application is liable to be rejected if it is not in conformity with the terms of the Draft Letter of Offer and/or the Composite Application Form viz. CAF.
5. All enquiries in connection with this Draft Letter of Offer or CAF should be addressed to the Registrars to the Issue viz. TSR Darashaw Ltd quoting the registered folio number / DP ID/client ID number and the serial number of the CAF and his/her full name and address.
6. In case the original CAF is not received, lost or misplaced by the shareholder, the Registrars/Company will issue a duplicate CAF on the request of the shareholder who should furnish the registered folio number/DP ID/client ID number and his/her full name and address to the Registrars/Company. Please note that those applicants who are

making the application in the duplicate CAF should not utilize the original CAF for any purpose including renunciation, even if it is received/found subsequently. In case the original and the duplicate CAFs are lodged for subscription, allotment will be made on the basis of the duplicate CAF and the original CAF will be ignored.

7. The Rights Issue will be kept open for a minimum period of 30 days. If extended, it will be kept open for a maximum period of 60 days.
8. The Lead Managers and the Company shall make all information available to the Equity Shareholders and no selective or additional information would be available for a section of the Equity shareholders in any manner whatsoever including at presentations, in research or sales reports etc. after filing of the draft Letter of Offer with SEBI/Stock Exchange
9. The Lead Managers and the Company shall update the Draft Letter of Offer and keep the public informed of any material changes till the listing and trading commences.
10. All the legal requirements as applicable till the filing of the Draft Letter of Offer with the Designated Stock Exchange have been complied with.

Compliance Officer and Company Secretary

Mr. Himanshu Suresh Mhatre
Sunshield Chemicals Limited
Janki Niwas, N.C. Kelkar Raod,
Dadar, Mumbai – 400 028
Tel: (022) 2430 1454
Fax: (022) 2430 7094
email :himanshu.mhatre@sunshield.in

Investors can contact the Registrar to the Issue/Compliance Officer in case of any pre-Issue or post-Issue related problems such as non-receipt of Draft Letter of Offer/Composite Application Form/ Letter of Allotment/Share Certificate/credit of allotted shares in respective beneficiary account/refund order etc.

Bankers to the Company

Bank of Baroda

Shivaji Park Branch
Sweet Home
Lady Jamshedji Road, Mahim,
Mumbai – 400 016.
Tel: (022) 2445 2618
Fax: (022) 2444 9581
E-mail: shibom@bankofbaroda.com
Contact Person: Mr. K. C. Ahuja, Chief Manager
Website: www.bankofbaroda.com

The Saraswat Co-operative Bank Ltd.

Madhukendra Branch
Opp. N. C. Kelkar Road,
Kolsa Galli, Dadar,
Mumbai – 400 028.
Tel: (022) 2430 2190
Fax: (022) 2431 0885
E-mail: incharge_madhukendra@saraswat.com
Contact Person: Mr. R. R. Sawant, Branch Manager
Website: www.saraswatbank.com

State Bank of India
Dadar Commercial Branch
Bullet, L. N. Road, Dadar,
Mumbai – 400 014
Tel: (022) 2410 1893/94
Fax: (022) 2410 1891
E-mail: sbicbddr@bom8.vsnl.net.in

Contact Person: Mr. D. M. Kadam, Relationship Manager
Website: www.statebankofindia.com

Auditors of the Company:

M/s Tembey & Mhatre
Chartered Accountants
120, Udyog Mandir, No. 1, Bhagoji Keer Marg,
Mahim, Mumbai – 400 016.
Tel: (022) 2444 8069-73
Fax: (022) 24469706
E-mail: tembeymhatre@vsnl.com
Contact Person: Mr. Vikas Mhatre, Partner

ISSUE MANAGEMENT TEAM

Advisor to the Company

Junnarkar & Associates
Advocates, Solicitors & Notary
411, Embassy Centre,
Nariman Point, Mumbai – 400 021
Tel.: 91-22-2285 1404
Fax.: 91-22-2285 1398
E-mail: junnarkarassociates@vsnl.net

Advisor to the Lead Manager

M/s Rajani & Associates

Lead Manager to the Issue:

SBI CAPITAL MARKETS LTD.
202, Maker Tower 'E'
Cuffe Parade, Mumbai 400 005
Tel: (022) 22189166
Fax: (022) 22188332
E-mail: scl.rightsissue@sbicaps.com
Contact Person: Ms. Sheila Joseph
Website: www.sbicaps.com

Registrar to the Issue

TSR Darashaw Ltd.
Army & Navy Bldg,
148, M.G. Road,Fort,Mumbai – 400 001
Tel:(022) 5656 8484 Fax: (022) 5656 8494
Website:www.tsrdarashaw.com
Email:csg-unit@tsrdarashaw.com
SEBI Registration No: INR000004009
MAPIN: Unique Id No.: 100001347
Contact Person: Ms.Madhuri Narang

Bankers to the Issue

To be Appointed

CREDIT RATING
The present issue being a rights equity issue, credit rating is not required.

TRUSTEES

This being an issue of Equity Shares, appointment of Trustees is not required.

MONITORING AGENCY
Not Applicable

APPRAISING AGENCY

The project has not been appraised by any Bank or Financial Institution

MINIMUM SUBSCRIPTION

i) If the Company does not receive the minimum subscription of 90% of the issued amount on the date of closure of the issue, or if the subscription level falls below 90% after the closure of issue on account of cheques having been returned unpaid or withdrawal of applications, the Company shall forthwith refund the entire subscription amount received within 42 days from the date of closure of the issue .
ii) If there is a delay beyond 8 days after the Company becomes liable to pay the subscription amount (i.e. 42 days after closure of the issue), the Company shall pay interest for the delayed period at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.
iii) All moneys received out of this Rights issue of equity shares through this Draft Letter of Offer shall be transferred to a separate bank account.

In case this Rights Issue is undersubscribed after considering the number of Equity Shares applied as per entitlement/ renouncement and additional Equity Shares, the undersubscribed portion shall be applied for by the persons in the promoter group (as disclosed on page no. ____ of this Draft Letter of Offer) after the close of the Issue.

UNDERWRITING ARRANGEMENTS

The Rights Issue of equity shares is not underwritten.

ISSUE SCHEDULE

ISSUE OPENS ON	LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORM	ISSUE CLOSES ON
(●) 2006	(●) 2006	(●) 2006

V. CAPITAL STRUCTURE OF THE COMPANY

(Rs. In Lacs)

	Nominal Amount	**Aggregate Value**
Authorised Share Capital :		
1,50,00,000 Equity Shares of Rs. 10/- each	1500	
50,00,000 Preference Shares of Rs.10/- each	500	
TOTAL	2000	
Issued, Subscribed and Paid up Share Capital :		
36,76,530 Equity Shares of Rs. 10 each	367.65	
50,00,000 Preference Shares of Rs.10 each	500.00	
TOTAL	**867.65**	
Present Issue being offered to the Equity Shareholders through this Draft Letter of Offer :		
36,76,530 Equity Shares of Rs. 10 each at a premium of Rs.30/-	367.65	1470.61
Paid-up Capital after the Issue :		
73,53,060 Equity Shares of Rs. 10 each	735.31	
50,00,000 Preference Shares of Rs.10 each	500.00	
TOTAL	**1235.31**	
Share Premium Account :		
Existing Share Premium Account	194.76	
Share Premium Account after the Issue assuming allotment of all Equity Shares offered	1297.72	

Notes :- Changes in the authorized capital of the company since incorporation are given below:

Date of change	**AGM/ EGM**	**Authorised capital pursuant to change**
Incorporation	-	5,00,000 equity shares of Rs. 10/- each aggregating to Rs. 50 lacs.
17/01/1992	EGM	20,00,000 equity shares of Rs. 10/- each aggregating to Rs. 200 lacs.
24/08/1992	AGM	50,00,000 equity shares of Rs. 10/- each aggregating to Rs. 500 lacs.
14/03/2005	EGM	50,00,000 equity shares of Rs. 10/- each aggregating to Rs. 500 lacs. 50,00,000 preference shares of Rs. 10/- each aggregating to Rs. 500 lacs.
04/04/2006	EGM	1,50,00,000 equity shares of Rs. 10/- each aggregating to Rs.1500 lacs. 50,00,000 preference shares of Rs. 10/- each aggregating to Rs. 500 lacs.

NOTES TO CAPITAL STRUCTURE:

2. **Promoters' Contribution and Lock-in**

The present issue being a rights issue, provisions of promoters' contribution and lock-in are not applicable.

3. **Present Rights Issue:**

Type of Instrument	Ratio	Face Value (Rs.)	No. of shares	Issue Price (Rs.)	Consideration
Equity Shares	1:1	10/-	36,76,550	40/-	Cash

4. **Existing shareholding pattern of the Company is given below: -**

Category	No. of Shares	%
A. Promoter Holding		
Promoters	2043920	55.59
Persons Acting in Concert	0	0
Sub Total A	**2043920**	**55.59**
B. Non Promoter Holding		
a. Institutional Investors		
Mutual Funds and UTI	700	0.02
Banks, Financial Institutions, Insurance Companies (Central/State Govt. Institutions)	35817	0.97
FIIs	0	0
Sub Total (a)	**36517**	**0.99**
b. Others		
Private Corporate Bodies	193695	5.27
Indian Public	1379751	37.53
NRIs/OCBs	20947	0.57
Any Other		
Directors & their Relatives	1700	0.05
Sub Total (b)	**1596093**	**43.41**
Sub Total B (a+b)	**1632610**	**44.41**
Grand Total(A+B)	**3676530**	**100**

5. **The shareholding pattern of the promoter group and directors pre and post issue is as detailed below:**

Particulars	Present		Post Rights (refer to notes below this table)	
	No. of Equity Shares of Rs.10/- each	% of Present Capital	No. of Equity Shares of Rs.10/- each	% of post issue capital
a) Promoters				
Mr. Amit C Choksey	240000	6.53		
Mr. Satish M. Kelkar	94570	2.57		
b) Immediate relative of promoters (Spouse, parent, child, brother, sister)				
Radhika Bawa	1500	0.04		
Mrinalini Kelkar	500	0.01		
c) Company in which 10% or more of the share capital is held by the promoter his immediate relative firm or HUF in which the promoter or his immediate relative is a member			4087840	55.59
Abhiraj Trading & Investments Pvt. Ltd.*	881950	23.99		
Aeonian Investments Pvt. Ltd.*	720000	19.58		
Kelkar Chemicals Pvt. Ltd.**	68950	1.88		
Neokel Investments Pvt. Ltd.**	36450	0.99		
d) Company in which the Company mentioned in (c) above holds 10% or more of the share capital	Nil			
e) HUF in which aggregate share of the promoter and his immediate relatives is equal or more than 10% of the total	Nil			
Total	**2043920**	**55.59**	**4087840**	**55.59**

* Natural Person in control of Abhiraj Trading & Investments Pvt. Ltd. and Aeonian Investments Pvt. Ltd. is Mr. Amit C. Choksey

** Natural Person in control of Kelkar Chemicals Pvt. Ltd. and Neokel Investment Pvt. Ltd. is Mr. Satish Kelkar

Notes:

The constituents of the promoter group shall subscribe to the promoter group's entire rights entitlement in the Issue. The constituents of the promoter group have undertaken to collectively subscribe to the additional shares in the event of shortfall in the Rights Issue, if any, either by the allottee promoter himself / itself or by any member of the promoter group, so that the issue is subscribed atleast to the extent of 90%. In case shareholders other than the promoters and persons in the promoter group do not subscribe to the issue the shareholding pattern of the company will be as follows:

Category	Pre Issue		Post Issue	
	No. of equity shares	%	No. of equity shares*	%
Promoter	2043920	55.59	5352797	76.63
Non Promoter	1632610	44.41	1632610	23.37
Total	**3676530**	**100.00**	**6985407**	**100.00**

* Considering that constituents of promoter group subscribe to the extent of 90% of the issue size.

The acquisition of additional securities by subscription to the shortfall shall be exempt in terms of proviso to Regulation 3(1)(b)(ii) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. Further this acquisition will not result in change in control of management of the Company. Also refer to the paragraph "Basis of allotment" on [page no. ____ of this Draft Letter of Offer]. As such other than meeting the Object of the issue as mentioned on page no. ___ of this Draft Letter of Offer, there is no other intention/purpose of this issue, including any intention to delist the Company. The promoter currently holds 55.59% of the present equity share capital of the Company. In case the promoters and persons in the promoter group subscribe to the unsubscribed portion in the issue to the extent stated above, the public shareholding after the Rights Issue may fall below the "permissible minimum level" as specified in the listing condition or listing agreement and thus sub clause 17.1 and 17.2 of the SEBI (Delisting of Securities) Guidelines, 2003 will be applicable in this issue. Accordingly, the promoters have undertaken to make an offer for sale of their holdings to bring the public shareholding at the level specified in the listing agreement within a period of three months.

6. The Company has not issued any warrant, option, convertible loan, debenture or any other securities convertible at a later date into equity, which would entitle the holders to acquire further equity shares of the Company.

7. The equity shares of the Company have been included in the 'T' group by BSE. The equity shares of the Company are being traded in compulsory dematerialised mode. The market lot of the equity shares is 1 (one).

8. There have been no transactions since past 6 months on the stock exchange in the shares of the Company by the Promoters/Directors of the Company

9. The Company/Promoters/Directors/Lead Merchant Bankers have not entered into buyback or similar arrangements for purchase of securities issued by the Company.
10. The entire amount of Rs. 40/- per share is payable on application.
11. The ten largest shareholders two years prior to the date of filing of this Draft Letter of Offer with Stock Exchanges are as follows:

Sr. No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding (%)
1	Vinaykumar M. Patwardhan	900220	24.49
2	ICICI Bank Ltd.	535902	14.58
3	Kelkar Chemicals Pvt. Ltd.	479300	13.04
4	Neokel Investments Pvt. Ltd.	446800	12.15
5	Lloyds Equities and Debentures Ltd.	148000	4.03
6	Satish M. Kelkar	117070	3.18
7	Aruna V. Patwardhan	68500	1.86
8	Focus Holdings Pvt. Ltd.	47825	1.30
9	Travancore Chemicals & Manufacturing Co. Ltd.	20000	0.54
10	Amruta S. Kelkar	18200	0.50
	Total	**2781817**	**75.67**

12. The ten largest shareholders as on 10 days prior to the date of filing of the Draft Letter of Offer with Stock Exchanges are as follows:

Sr. No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding (%)
1	Abhiraj Trading and Investment Pvt.	881950	23.99
2	Aeonian Investment Co. Ltd.	720000	19.58
3	Amit Champaklal Choksey	240000	6.53
4	Kelkar Satish Manohar	94570	2.57
5	Parishram Properties Pvt. Ltd.	86118	2.34
6	Dharmesh Shah	76000	2.07
7	Kelkar Chemicals Private Limited	68950	1.88
8	Dipak Kanayalal Shah	49901	1.36
9	Surendra Kumar Agarwal	47370	1.29
10	Hafeez Sorab Contractor	41439	1.13
	Total	2306298	62.74

13. The ten largest shareholders as on the date of filing of the Draft Letter of Offer with Stock Exchanges are as follows:

Sr. No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding (%)
1	Abhiraj Trading and Investment Pvt.	881950	23.99
2	Aeonian Investment Co. Ltd.	720000	19.58
3	Amit Champaklal Choksey	240000	6.53
4	Kelkar Satish Manohar	94570	2.57
5	Parishram Properties Pvt. Ltd.	86118	2.34
6	Kelkar Chemicals Private Limited	68950	1.88
7.	Dipak Kanayalal Shah	50001	1.36
8	Dharmesh Shah	49445	1.34
9	Surendra Kumar Agarwal	45000	1.22
10	Hafeez Sorab Contractor	41439	1.13
	Total	2277473	61.94

14. The present rights issue is being made in the ratio of one equity share for every one equity share held as on record date and will not lead to any fractional entitlements.

15. The total number of shareholders as on the date of filing the Draft Letter of Offer with the stock exchange is 2079.

16. At any given time there shall be only one denomination for the shares of the Company and the disclosures and accounting norms specified by SEBI from time to time will be complied with.

17. The Company shall not make any further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or public issue or in any other manner during the period commencing from the submission of the Draft Letter of Offer to SEBI for the Rights Issue till the securities referred in the Draft Letter of Offer have been listed or application money refunded on account of failure of the issue.

18. The Company does not propose to alter the capital structure by way of split or consolidation of the denomination of the shares or the issue of shares on a preferential basis or issue of bonus or rights or further public issue of shares or any other securities within a period of six months from the date of opening of the present issue.

VI. PARTICULARS OF THE ISSUE

OBJECTS OF THE ISSUE

The present rights issue of 36,76,530 equity shares of Rs. 10/- each at a premium of Rs.30/- per share aggregating to Rs.1470.61lacs is being made to meet the following objectives:

1) To backward Integrate THEIC production by setting up a plant to manufacture Cyanuric Acid for captive consumption and exploit its sale opportunity

2) Expansion/ Diversification – New process platforms for Propoxylation, Hydrogenation & Expansion of current capacities for Antioxidants/ Specialities.

3) Redemption of Preference Shares

4) To fund the additional working capital margin

5) Repayment of Unsecured loan

6) Listing of equity shares being issued pursuant to this Rights Issue

The main objects clause and objects incidental or ancillary to the main objects clause of the Memorandum of Association of the Company enable the Company to undertake its existing activities and the activities for which the funds are being raised through this Issue.

COST OF THE PROJECT

(Rs. In Lacs)

Particulars	Amount
Backward Integration-Cyanuric Acid	1340.00
Expansion/ Diversification- Antioxidants & Specialties	371.00
Civil & Structural Work	489.00
Redemption of Preference Shares	500.00
Additional Working Capital margin	700.00
Repayment of Unsecured Loan	100.00
Issue Expenses	35.00
Total	**3535.00**

MEANS OF FINANCE

The above Objects of the Issue are proposed to be financed as follows:

(Rs. In Lacs)

Particulars	Amount
Rights Issue of 36,76,530 equity shares of Rs. 10/- each at a price of Rs. 40/- per share	1470.61
Term Loans	1650.00
Internal accruals	414.39
Total	**3535.00**

The Total Capital Expenditure of Rs. 2200 Lacs is proposed to be funded through a Term Loan of Rs. 1650 Lacs. The Company’s contribution towards the balance amount of Rs. 550 Lacs is proposed to be funded through the Rights Issue. An application for a term loan of Rs. 16.50 crores for capex of Rs. 22 crores including required working capital limits is pending with consortium of Company's bankers viz. Bank of Baroda , The Saraswat Co-op. Bank Ltd. & State Bank of India. As, such the funds have not yet been firmly tied up.

1) **Backward Integration – Cyanuric Acid**:

Presently the Company imports Cyanuric acid, one of the raw materials, used in the manufacture of THEIC from China. The Company’s R & D centre has developed the process to manufacture Cyanuric acid from Urea, which is easily available in India. As a step towards backward integration, the Company proposes to set up a plant to manufacture Cyanuric Acid for captive consumption and for exploiting the market opportunity. In the manufacture of Cyanuric Acid, Ammonia gas will be obtained as a by-product which to some extent will be captively consumed for production of new products as also will be sold in the market. Captive consumption will generate a direct margin saving being the difference of direct cost of raw material and manufacturing expenses for production of Cyanuric Acid as compared to landed cost of Cyanuric Acid for the manufacture of. of Sun THEIC by the Company.

Apart from the savings generated out of the captive consumption, Cyanuric acid has a market in India and a ready market abroad for exports. This would help the company in gaining global competitiveness for the Company's THEIC and would open avenues for new product diversification.

Company estimates a total expenditure of Rs. 1340 Lacs towards Plant & Machinery for setting up the facilities for production of Cyanuric Acid . Details are as follows:

Description	Qty. (Nos.)	Capacity	Est. Cost (Rs. in Lacs)
Ammonia scrubber	1	2.4 m^3	5
IMTP Packing		1.8 m^3	7
Blower	1	1250 m^3 / Hr	7
Tail Tower	1	3.7 m^2	1
Cooler	1	47m^2	18
Circulation Pump	2	20m^3 / Hr	2
Circulation Tank	1	22KL	7
Liquor NH_3 St. Tank	1	111 m^3	35
Water overhead Tank	2	7.5m^3	1
Stripper Feed Pump	2	1.7m^3 / Hr	1
Ammonia stripper	1	1.8 m^3	7
IMTP Packing		1.2 m^3	6
Pre Heater	1	5 m^2	4
Partial Condenser	1	20 m^2	14
Vent Condenser	1	5 m^2	4
Buffer Tank / Catch Pot	1	2.5 m^3	3
Stripper Bottom Transfer Pump	2	1.3m^3 / Hr	1
Cooler	1	7.5 m^2	3
NH_3 Compressor	2	625m^3 / Hr	58
Comp. NH_3 St. Tank	2	10KL	29
NH_3 Transfer Pumps	2	10m^3 / Hr	2
Cooling Tower		250TR	7
Cooling Tower Cir. Pump	2	150m^3 / Hr	4
Cooling Tower Sump	1	10KL	1
Urea Dissolution Vessel	1	7KL	19
Ribbon Blender	2	10KL	62
Acid Treatment Reactor	1	10KL	19
Agiated Nutsche Filter	1	7KL	55
Seal Pot	1	5KL	11
H2SO4 Dosing Vessel	1	1KL	4

HDPE Tanks	3	15KL	4
Silo	1	1.5KL	6
Spin Flash Dryer	1	700Kg/Hr	86
Urea Soln Transfer Pump	2	$10m^3$ / Hr	3
Cold Oil Circulation Pump	1	$42m^3$ / Hr	2
ML Transfer Pump	6	$15m^3$ / Hr	8
Oil Circulation Pump	2	42m3 / Hr	2
Cold Oil Cooler	1	35 m^2	33
Oil Suction Pot	1	1 m^3	4
Sub-total (1 to 38)			**544**
Mechanical Erection and Piping			
@40% of cost of equipment (40% of 544)			284
Cost of Electrical			
@25% of cost of Equipment (25% of 544)			177
Cost of Automation			
@30% of cost of Equipment (30% of 544)			213
Total			**1,218**
Contingency @ 10%			122
Total			**1,340**

2) Expansion/ Diversification- Antioxidants & Specialties

The Company shall put up additional capacity to produce anti-oxidants for Lubricants, Plastic, Rubber, Latex, Tyre & other end user industries. Further the Company is putting up capacity to produce more diversified product range by using EO with Propoxilation, Ammnialysis and Hydrogenation capabiliites.

Company estimates a total expenditure of Rs. 371 Lacs towards Plant & Machinery for setting up the facilities for production of Antioxidants & Specialties. Details are as follows:

Equipment	Type	Capacity	For	Basic Price in Lacs of Rupees	Excise Duty + Edu.Cess @ 16.32%	VAT @4% on Basic+ Excise	Estimated Cost Rs. in lacs
Blender-1	Rea	12 KL	Liquid Section	14.8	2.42	0.69	18
Blender-2	Rea	12 KL	Liquid Section	14.8	2.42	0.69	18
Plate & Frame Filter-1	PFF	300 kg cake	Liquid Section	12.50	2.04	0.58	15
Plate & Frame Filter-1	PFF	300 kg cake	Solid Section	12.50	2.04	0.58	15
Pharmalab Filter-1	PLF	18" Dia	Solid Section	4.15	0.68	0.19	5
Pharmalab Filter-1	PLF	18" Dia	Solid Section	4.15	0.68	0.19	5
Batch Tank for Toluene/Xylene	BT	1.2 KL	Solid Section	2.38	0.39	0.11	3
Batch Tank for Formaldehyde	BT	1.2 KL	Solid Section	2.38	0.39	0.11	3

Batch Tank for Methanol	BT	1.2 KL	Solid Section	2.38	0.39	0.11	3
Batch Tank for AMS	BT	1.2 KL	Solid Section	2.38	0.39	0.11	3
Receiver for R-207	Rec	500 Litres	Liquid Section	1.65	0.27	0.08	2
Receiver for B4 Crystalliser	Rec	500 Litres	Solid Section	1.65	0.27	0.08	2
Receiver for KR2	Rec	500 Litres	Solid Section	1.65	0.27	0.08	2
Receiver for KR5	Rec	500 Litres	Solid Section	1.65	0.27	0.08	2
Silo for Sunox 1081	Sil	1.0 KL	Solid Section	2.52	0.41	0.12	3
Storage Tank for Toluene	ST	15 KL	Tank Farm	4.15	0.68	0.19	5
Storage Tank for Xylene	ST	15 KL	Tank Farm	4.15	0.68	0.19	5
Storage Tank for 37% Formaldehyde	ST	25 KL	Tank Farm	6.20	1.01	0.29	8
Storage Tank for Methanol	ST	15 KL	Tank Farm	4.15	0.68	0.19	5
Intermediate Tank for Naugard445 filtration	InT	1.0 KL	Solid Section	2.50	0.41	0.12	3
Belt Flaker	BeFl	300 kg/Hr	Liquid Section	21.00	3.43	0.98	25
Milling Machine	MilMc	300 kg/Hr	Packing Section	2.80	0.46	0.13	3
Bag Filling Machine	BFMc	300 kg/Hr	Packing Section	2.80	0.46	0.13	3
Condenser for R-207	HE	16 M^2	Liquid Section	3.78	0.62	0.18	5
Condenser for Crystalliser	HE	16 M^2	Solid Section	3.78	0.62	0.18	5
Condenser for KR 2	HE	16 M^2	Solid Section	3.78	0.62	0.18	5
Preheater for the distillation feed---**Column DC-1**	HE	8 M^2	Liquid Section	1.96	0.32	0.09	2
Product Distillation column--DC-1	DC	Specs attached	Liquid Section	19.35	3.16	0.90	23
Structured packings for column	Pac	Specs attached	Liquid Section				
Reboiler --DC-1	HE	24 M^2	Liquid Section	8.40	1.37	0.39	10
Product Condeser--- DC-1	HE	24 M^2	Liquid Section	8.40	1.37	0.39	10
Reflux Pot---DC-1	Rec	200 Litres	Liquid Section	0.90	0.15	0.04	1
Product Cooler ---DC-1	HE	5 M^2	Liquid Section	1.85	0.30	0.09	2
Receiver---- DC-1	Rec	500 Litres	Liquid Section	1.65	0.27	0.08	2
Receiver----DC-1	Rec	500 Litres	Liquid Section	1.65	0.27	0.08	2
Modification Cost							
B4 Crystalliser	Rea	4 KL	Solid Section	2.10	0.34	0.10	3
Drum Melter		6 drums	Both	0.56	0.09	0.03	1
Additional Machineries							
Reactor in place of R-207	Rea	10 KL	Solid Section	20.70	3.38	0.96	25
Reactor in place of KR-3	Rea	5 KL	Solid Section	12.80	2.09	0.60	15
High Shear Reactor	Rea	1.2 KL	OC Section	16.70	2.73	0.78	20
Continuous Hydrogenation Plant	HydrPl	300 kgs/Hr	Hydrogenation section	41.40	6.76	1.93	50
Laboratory Equip. for New Products							
Particle Size Analyser	LabEq	-------	QC Lab	28.0	4.57	1.30	34

Total							371

3) Civil & Structural Work
Company has purchased additional land adjacent to its existing facilities at Vilage Rasal in the district of Raigad, Maharshtra for setting up the above facilities on its original and expanded land. The total expenditure proposed to be incurred towards civil and structural work is estimated by the management to be Rs. 489 lacs.

4) **Redemption of Preference Shares**

The company has been incurring losses since the year 1999-00. As on 31st March 2006, the Company had carry forward loss of Rs.591.90 lacs. In order to financially restructure the company the erstwhile promoters, viz., Sh.Vinay Kumar Patwardhan and Sh.Satish Kelkar entered into a negotiated sale of shares to Sh.Amit Choksey and his asscociates (Amit Choksey group). After completion of all the formalities under the SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, the Amit Choksey group has formally taken over the company and along with Satish Kelkar group are presently the promoters. With a view of reviving the company the new promoters infused funds to the extent of Rs. 5 crores in the form of subscription to Preference shares.

As per the Articles of Association of the company the Preference Shares can be redeemed out of the profits of the company which would otherwise would have been available for dividend or out of a fresh issue of shares made for the purpose of redemption.Taking into account the financial position of the company and with a view of providing long term capital, the Company proposes to redeem the preference shares and promoters have undertaken to subscribe fully to their entitlement in the Rights Issue. They have also undertaken to subscribe the unsubscribed portion of the Rights Issue, if any.

Out of the Issue proceeds, the Company proposes to utilize an amount of Rs. 500 Lacs towards the redemption of preference shares.

4) Additional Working capital margin

The Company estimates a requirement of Rs. 800 Lacs towards Margin Money for Working Capital Gap pursuant to the proposed expansion. The same has been arrived at as follows:

(Rs. in Las)

Particular	**Amount**
Sundry Debtors	1536.00
Inventory	1336.00
Total Current Assets	2872.00
Current Liability	495.00
Net Working Capital	2377.00
Margin (25% of Current Assets)	718.00
Working Capital required	1659.00
Working Capital requested from banks	1250.00
Actual margin for working capital	1127.00
Existing margin of working capital	300.00
Additional Working Capital Margin	827.00
Say	800.00

The above margin is proposed to be funded through the Rights Issue to the extent of Rs. 700 Lacs.

5) Repayment of Unsecured Loan
The Promoters had contributed additional margin in the form of Unsecured Loan of Rs.100 lacs as per the request of the bankers. The Company intends to repay this Unsecured Loan of Rs.100 lacs carrying interest @10% and repayable on demand out of the issue proceeds.

6) Issue Expenses:

The expenses of rights issue to be incurred by the Company are estimated to be around Rs.35-lacs as detailed below:

Particulars	Rs. In Lacs
Fee to Intermediaries	2500000
Statutory Fee	75000
Advertising	525000
Printing, Stationery and Despatch	300000
Others	100000
Total	**3500000**

APPRAISAL

An application for a term loan of Rs. 16.50 crores for part financing capex of Rs. 22 crores including required working capital limits is pending with consortium of Company's bankers viz. Bank of Baroda , The Saraswat Co-op. Bank Ltd. & State Bank of India.The leader of the consortium, Bank of Baroda, has appointed M/s. V. J. Kulkarni & Associates, Chartered Accountants, for carrying out a Techno Economic Viability study of the project.

SCHEDULE OF IMPLEMENTATION

Sr. No.	ACTIVITY	BACKWARD INTEGRATION	DIVERSIFICATION/ EXPANSION
1	Drawing, Designs & Quotations of Plant & Machinery	April'06 - July '06	April'06 - July '06
2	Orders to be placed	May'06 – Nov '06	May'06 - Nov.'06
3	Civil work at site	April'06 - March'07	April'06 - March '07
4	Fabrication work	May'06 - March ‘07	May'06 - March 07
5	Installation of plant & machinery	July'06 - June'07	June'06 - March'07
6	Trial Production	June'07 - Dec'07	July '07 - Dec'07
7	Commercial Production	Dec.'07	Dec’07

Interim Use of Proceeds

The management, in accordance with the policies set up by the Board, will have flexibility in deploying the proceeds received from the Issue. Pending utilisation for the purposes described above, Company intends to temporarily invest the funds in high quality interest bearing liquid instruments including deposits with banks, for the necessary duration or for reducing overdraft to save interest costs. Such investments would be in accordance with investment policies approved by our Board of Directors from time to time.

Monitoring of Utilisation of Funds

The Board of Directors will monitor the utilization of the proceeds of the issue. As per regulatory requirements, Company will disclose the utilization of the proceeds of the issue under a separate head in the Balance Sheet clearly specifying the purpose for which such proceeds have been utilized. Company will also, in their Balance Sheet, provide details, if any, in relation to all such proceeds of the issue that have not been utilized thereby also indicating investments, if any, of such unutilised proceeds of the Issue.

BASIC TERMS OF ISSUE

The Equity Shares now being offered are subject to the terms of this Draft Letter of Offer, the CAF, the Memorandum and Articles of the Company, approvals under the Foreign Direct Investment Scheme of Government of India, FEMA, if applicable, Guidelines issued by SEBI, the Act, the guidelines, notifications and regulations for the issue of capital and for the listing of securities issued by the Government and/or other statutory authorities and bodies from time to time and such terms and conditions as may be incorporated in the Letter of Allotment/Share Certificate or any deed or document executed by the Company regarding the Rights Issue. The principal terms and conditions of the Offer are as follows:

i. **Present Issue:** Rights issue of 36,76,530 equity shares of Rs. 10/- each for cash at a premium of Rs. 30/- per equity share in a ratio of 1:1
ii. **Face Value**: Each Equity Share shall have a face value of Rs.10/-.
iii. **Offer Price**: Rs.40/- per Share

BASIS OF ISSUE PRICE

Qualitative Factors:

1. More than 19 years experience in chemical industry.

2. Company's manufacturing plant is located close to the supply of one of the key raw materials ' E.O.' that provides it a significant cost advantage in the production of E.O. based products.

3. Company's knowledge of Specialty Chemicals industry and project management expertise positions it well to leverage emerging opportunities in the Specialty Chemicals industry.

4. Company's management team includes persons with experience in the Specialty Chemicals industry and is well placed to provide strategic leadership and direction to explore new emerging opportunities in this sector as well as constantly improve its current operations.

5. Some of the prominent multinational Companies and large Indian corporates have entered into agreements to purchase finished products of the Company/ obtain services. In particular, M/s. Altana Chemie AG has entered into a 5 year Global Supply Agreement for purchase of THEIC worldwide in the month of November, 2005 effective 1st January, 2006. Agreements to offer Specialty Chemicals and Antioxidants have also been entered into by the Company with Companies like M/s. Owens Corning India Ltd., Lubrizol India Pvt. Ltd., Ciba Specialities Chemicals India Ltd. etc.(For details please refer to page no. __ of this Letter of Offer)

Quantitative Factors

1. Earning per Share (EPS)

Financial Year	**EPS (Rs.)**	**Weight used**
2002-04 (15 months)	-2	1
2004-05	-4.49	2
2005-06	0.99	3
Weighted Average	**-1.34**	

2. Price Earnings Ratio (P/E Ratio)

Based on EPS for the year ended on 31st March, 2006 of Rs. 0.99	40

3. Industry P/E

Highest	48.9
Average	38.7
Lowest	7.9

(Source: Dalal Street Investment Journal Vol XXI No. 11 dated May 15-28, 2006 Segment:Chem-speciality-others)

4. Return on networth

The Company has been incurring losses from FY1999 upto FY 2005. During this period the networth of the Company was eroded. The Company has reported a profit for the year ended 31st March, 2006. The Return on Networth for FY 2006 is 7.48%

5. Net Asset Value (NAV) per share

As on 31/03/2006 (Rs.)	13.26
After the issue based on 31/03/2006 audited financials	26.63

6. Minimum Return on Networth required to maintain Pre-Issue EPS of Rs. 0.99 is 3.72%

7. Peerset Analysis

Brief financials of some of the companies in the same segment are provided below. Sunshield Chemicals Limited has been incurring losses since the last five years. The Company has reported a turnaround in operations for FY 2006. As such the financials of the Company are not comparable with the figures provided below:

Name of the Company (Data for the FY 2005)	**Equity Capital (Rs. in Crs)**	**Sales (Rs. in Crs)**	**PAT (Rs. in Crs)**	**EPS (Rs.)**	**BV (Rs.)**	**Price as on 08/05/2006**	**P/E**	**P/BV**
Grauer & Weil	12.8	113.2	6.0	4.7	32.2	131	28.0	4.07
Ondeo Nalco India	5.0	88.8	9.4	18.8	76.2	612	32.5	8.03
Transpek Industries	5.1	65.7	5.4	10.6	63.2	84	7.9	1.33

Sunshield Chemicals Limited has been incurring losses since the last five years**.** Since the year 2000, the Company increased its efforts to shift focus from commodity surfactants to Niche Markets/ Products. This strategy coupled with consistent Reasearch & Development efforts has helped the Company in diversifying its product profile. The company is now on its turnaround path and has achieved a 56 per cent growth in net sales (at Rs 2733 lacs) during the year ended 31st March, 2006 as against the net sales of Rs 1744 lacs in the previous year ended 31st March, 2005. The Company has reported a profit after tax (PAT) of Rs.36.48 Lacs for the year ended 31st March, , 2006 as against a loss of Rs112.67 lacs for the year ended 31st March,2005. The present Rights Issue being made at Rs.40/- per equity share is at P/E multiple of 40x (based on the EPS for the year ended on 31/03/2006) which is lower than the highest industry multiple of 48.9x. The Issue Price is also at a discount of 40.74% to the last traded price of the equity shares (Rs. 67.5) as on 11.05.2006. In view of the above the Issue Price of Rs. 40/- per share is justified.

VII. ABOUT THE ISSUER COMPANY

INDUSTRY OVERVIEW

(Source: The Indian Chemical Industry, New Directions, New Hope, issued by KPMG, Chemical Process Industries Specialty Chemicals : Current Scenario & Vision by TIFAC)

The Indian chemical industry is an integral component of the Indian economy, contributing around 6.7 per cent of the Indian GDP. It touches our lives in many different ways. Whether it is thermoplastic furniture we use, or a synthetic garment we wear, or a drug we consume - we are inextricably linked to it. The industry is a vital part of the agricultural and industrial development in India and has key linkages with several other downstream industries such as automotive, consumer durables, engineering, food processing, etc.

At the industry level, the Indian chemical industry is characterised by:

- high domestic demand potential, as the Indian markets develop and per capita consumption levels increase;
- high degree of fragmentation and small scale of operations;
- limited emphasis on exports due to domestic market focus and smaller scale of operation;
- low cost competitiveness as compared to other countries due to higher cost of power, import duties, taxes and cost of capital; and
- low focus on R&D despite initiatives to innovate processes to synthesise products cost effectively.

In spite of the disadvantages, a few proactive Indian companies have created sizeable international operations to become significant players in the global market place. The ability of chemical companies in India to perform better than global companies has already been reflected by a comparatively better performance of the Indian operations of some global companies. Operating Profit Margins (OPM) of these Indian subsidiaries range from 8 per cent to 13 per cent as compared to the global OPM range of less than 1 per cent to 6 per cent.
A classification of the industry into three segments of Basic, Specialty and Knowledge chemicals facilitates its description and analysis. The common characteristics and constituent industries for each of these segments are

Segments	Characteristics	Constituent industries
Basic	■ High volume, low value-added ■ Limited product differentiation across manufacturers ■ High entry barriers on account of high capital spend and stringent regulations	■ Petrochemicals ■ Fertilisers ■ Inorganic chemicals ■ Other industrial chemicals
Speciality	■ High product differentiation and value-addition ■ Typically smaller production units with more flexibility ■ Low capital investment levels	■ Adhesive sealants ■ Catalysts ■ Industrial gases ■ Plastic additives
Knowledge	■ Differentiated chemical and biological substances used to induce specific outcomes in humans, animals, plants and other life forms ■ High investments in R&D and marketing	■ Agrochemicals ■ Pharmaceuticals ■ Biotechnology

Note: The categorisation is illustrative and representative and does not include the entire universe of chemical industries

Globally, the Basic segment accounts for about 47 per cent of the industry. Specialty 25 per cent and Knowledge 28 per cent.

The Indian chemical industry manufactures a wide spectrum of products spanning the Basic, Specialty and Knowledge segments.

Specialty Chemicals are very high value, low to moderate volume chemicals sold on basis of performance rather than simple specifications. These are less capital intensive and more knowledge-based products. Their applications vary enormously and can include use as cosmetic additives, water treatment products, dyes, sanitation agents, plasticizers, ion-exchange resins and agrochemicals. There is also a large range of uses as intermediate materials in which the fine chemical forms a starting block for another substance with a recognisable end use.

The specialty chemicals can be divided into **two groups – performance chemicals** and **fine chemicals.** The latter is largely used by pharmaceutical, pesticide and herbicide industries. The performance chemicals, on the other hand perform a specific function such as facilitate adhesion, improve flow of gas or oil through a pipeline, inhibit corrosion, etc. It is through performance chemicals that the chemical industry interfaces with almost every other manufacturing industry e.g. textile, petrochemical, polymers process industry, rubber industry etc.

The TIFAC Vision 2020 study on speciality chemicals has focused on mainly three types of chemicals namely, Textile Specialty Chemicals, Polymer Additives and Rubber Chemicals. The study projects that due to the increase in population to about 1.2 billion by 2011 (approximately 30% on the current base) the industry growth would need to be atleast 2-3 times or more, including the compensation for current gaps in meeting the figures in some major chemical sector. It may be noted that growth in the specialty chemicals required to meet the projected demand by 2020 **is about 20 times,** which is the highest amongst all other areas of chemical sector. (source**:** Chemical Process Industries Specialty Chemicals : Current Scenario & Vision by TIFAC)

The chemical industry in India has the potential to grow to around USD 100 billion by 2010 according to KPMG's analysis based on a survey of the industry. This would imply an annual growth rate of 15.5 per cent. For the industry to achieve this size. Specialty and Knowledge chemical segments would need to grow at 16.4 per cent (current growth rate is 7.9 per cent) and 27 per cent (current growth rate is 12.3 per cent) respectively, while the Basic chemicals segment would need to sustain its current growth rate of 7.7 per cent. This would mean that the Indian industry's composition would change to match the profile of the chemical industry in global markets.

At USD 100 billion, the industry's contribution to India's GDP will grow from the current 6.7 per cent to 12.1 per cent and its share of the global industry will increase from 1.9 per cent to 3.9 per cent.

The USD 28 billion Indian chemical industry is a marginal player in the international market accounting for 1.9 per cent of the global chemicals market, while Indian trade (exports plus imports) accounts for just 1.3 per cent of the world chemical trade of USD 545 billion. Although certain sectors such as petrochemicals and Pharmaceuticals have a trade surplus, the industry remains a net importer with a trade deficit of around USD 1.3-1.8 billion annually.

Cost structures of the three segments highlight distinct characteristics. Basic has high feedstock and other raw material costs, whereas Speciality has very high selling and product development costs. Knowledge segment, on the other hand is characterised by large spends on advertising and R&D. Basic is the most mature segment with the lowest profitability, while Knowledge chemicals have the highest profitability and growth projections.

The chemical industry is a significant component of the Indian economy with revenues at approximately USD 28 billion. It constitutes 6.7 per cent of India's GDP and 10 per cent of total exports.The industry has changed over time to match the dynamic needs of the rapidly developing nation. The industry has evolved from being a producer of Basic chemicals in a highly regulated environment to becoming a mature industry, free to choose its product portfolio in an open economy.

The Indian industry has emerged from a protected environment where it was largely a supplier to the domestic market. The Indian industry is faced with multiple challenges. It is emerging from a protected environment into a highly competitive global market; at the same time the domestic market is on a path to maturity with a high demand potential for chemical end-products.

The industry is highly fragmented when compared to global scales, as well as to other industrial sectors in India. Most sub-segments of the Indian chemical industry have a very low Herfindahl Index1 1 (Herfindahl Index, a measure of the 'concentration' in an industry, is computed as the sum of the market shares of the players in the market. The value of the index, H, is the sum of the squares of the market shares of all firms in an industry)indicating a high degree of fragmentation and competition in the segments.

KPMG's survey ascertains that the industry sees possibilities of high growth in certain segments. Pharmaceuticals, biotechnology and Speciality chemicals are seen as high potential areas, both globally and in India. The industry sees Specialty chemicals as a high growth potential industry in India. Growth is expected to come largely in the organic specialty area. The agro-oriented Specialty chemicals are expected to register higher growth rates than what is expected globally, as they are driven by the domestic demand potential.

India had a slow start in Specialty chemicals. In the 1980s, a shift to a market-oriented approach led to impressive growth. With liberalisation in the 1 990s, the industry took advantage of the lower production costs prevalent in the country and shifted to value-added products. The Specialty chemicals industry has since witnessed a high growth rate.Low capital intensity of the industry, the availability of technical manpower and high profit margins have helped promote a large number of small manufacturing units. Most of these units exist in the small-scale unorganised sector where their cost advantage has deterred the entry of organised players.

KPMG's survey reveals that a low cost base is viewed as the strongest factor for competitiveness in global markets. Improving R&D is seen as the most critical imperative for the Speciality chemicals industry. Scale of operations assumes importance as the product moves out of the laboratory to be developed and produced in large volumes.

There are a number of strengths that can be leveraged to make India competitive in the global market. India's key strengths lie in quality manufacturing processes, availability of technical manpower and raw material and a latent domestic demand. India's geographical position and a long coastline are also seen as an advantage for the industry, especially in the Basic and Specialty segment. The Indian industry essentially needs to focus on developing a brand for itself in international markets, increase its focus on R&D and build global scale plants.

Growth in the Indian industry can be driven through a two-fold focus - targeting global markets and developing the domestic markets to tap the country's large potential. Improved price realisation through enhanced efficiencies and lower costs are key for driving growth.

Consolidation is seen as inevitable. Though it will reduce fragmentation, it will still not bring the Indian capacities close to global capacities. Consolidation will ensure foreign direct investment (FDI) flowing into the Indian chemical industry through M&As.

The ability of chemical companies in India to perform better than global companies is also borne out by the performance of global chemical companies operating in India. Most large global chemical companies have established a strong presence in India. Agrochemicals, dyes and pigments, and Specialty chemicals are three areas where global companies have traditionally enjoyed leadership positions.

At USD 60 billion in 2010, the contribution of the chemical industry to India's GDP would grow from the current level of 6.7 per cent to 7.1 per cent, while its contribution to the global industry would increase from 1.9 per cent to 2.3 per cent.

Industry segment	**Present size (USD billion)**	**2010 Base case industry size (USD billion)**	**Weighted average industry growth rates (per cent)**
Basic chemicals	16	31	7.7
Speciality chemicals	7	14	7.9
Knowledge chemicals	5	15	12.3
Total	28	60	8.6

*Indian chemical industry -2010 Base case*Growth in the Specialty segment will be driven mainly through development of new products and applications. It is therefore critical for companies operating in this segment to develop capabilities for product and application R&D. Indian companies could ensure that every three years, at least one-third of their revenue is from new products, to ensure a healthy product pipeline in the long-run. Since the synthesis of Specialty chemicals often involves many stages, outsourcing could be used to shorten lead-times and leverage core skills of other players specialising in certain areas of chemistry.

KEY GROWTH FACTORS

The key inhibiting factor for the industry - as stated by key players - is its legacy from the old economy. These players hold external factors like lack of enabling infrastructure, an unsupportive regulatory framework and inconsistent tariff structures responsible for hindering long-term growth of the sector. On a relative scale, access to low cost finance and global markets is not a major deterrent to the industry. Players have identified the key growth drivers that are expected to propel the industry going forward

Factors inhibiting growth

- Access to technology
- Unsupportive regulatory framework
- Access to low-cost finance
- Access to global markets
- Lack of common infrastructure
- Raw material quality
- R&D infrastructure
- End user mindset
- Inconsistent/ inadequate tariff structure

Drivers for growth

- Increased domestic volumes
- Global Markets
- Improved price realization
- Consolidation
- Improved GDP growth
- Environment and Regulatory requirements

There are a number of strengths that can be leveraged to make India competitive in the global market (Figure 45). India's key strengths lie in quality manufacturing processes, availability of technical manpower and raw material and a latent domestic demand. India's geographical position and a long coastline are also seen as an advantage for the industry, especially in the Basic and Specialty segment. The Indian industry essentially needs to focus on developing a brand for itself in international markets, increase its focus on R&D and build global scale plants.

India portfolio of strengths to leverage

- Large domestic market
- Geographical location
- Manufacturing technology/processes
- Availability of raw material
- Domestic R&D and testing facilities
- Availability of technical manpower
- Established brand name in international markets

Growth in the Indian industry can be driven through a two-fold focus - targeting global markets and developing the domestic markets to tap the country's large potential. Improved price realisation through enhanced efficiencies and lower costs are key for driving growth.

Consolidation is seen as inevitable. Though it will reduce fragmentation, it will still not bring the Indian capacities close to global capacities.

Consolidation will ensure foreign direct investment (FDI) flowing into the Indian chemical industry through M&As. However, FDI for building fresh capacities is expected to be insignificant with very few respondents expecting investment in new capacities (Figure 46).

R&D needs to form an important basis for the competitiveness of chemical companies. A focus on close customer linkages and developing skilled manpower is imperative. However, the industry places a lower importance on duty structures and regulations as drivers for competitiveness. This can be perceived as a significant shift in the mindset of industry players, who have been used to competing in a protected environment.

The scale of operations is considered to be critical by the industry for competitiveness. However, the importance of consolidation through mergers in this direction is underestimated.

OUTLOOK

The Indian Fine Chemical Industry is on a growth phase. It has been estimated at $700 million. It primarily caters to the pharmaceuticals industry. It was envisaged that by 2005 India will start recognizing product patents. This change in the patent law perhaps will accelerate the growth of the Fine chemical Industry. International companies will be more willing to tie up with Indian companies to outsource Fine chemicals for their pipe line drugs. There is a slew of drugs that will become generic globally in the next few years. Indian companies gearing towards the opportunity will require a feed of Fine chemicals. An inportant change that is taking place is that Fine chemicals companies are using their leverage and supplying products to a spectrum of generic drug manufacturers making the same or similar API's. In India Agrochemical companies rarely outsource from Fine chemicals companies making intermediates for pharmaceuticals companies. This is likley to change. Quite often the same intermediate serves an agrochemical requirement and also a pharmaceuticals requirement. @-chloronicotinic acid is one such intermediate. It is used in herbicides and is also used to make an anti-AIDS drug.

The performance of Chemical Industry in India has been estimated at $3 billion.

The bulk of the action in the textile additives and intermediates segment is in the textile pre-treatment pre treatment and finishing chemicals area. New product in the pre treatment, sizing and technical textures segments have been gaining market. These are areas where profitability is governed by constant innovation and new product development. It is estimated that large chunk of the growth would come from such new areas as anti-microbial, fabric coatings, dirt-replants, sizing chemicals, flame-retardant, water-repellents, wrinkle-resistant and spin finishes, fabric softeners and other special application chemicals for new textile finishes and texture feels are expected to post higher growth during the current fiscal too.

Other emerging areas are masterbatches, electronic chemicals, special application paper chemicals and water treatment chemicals.

The companies with niche and fundamental research strenghts will thrive. The industry is knowledge based and in order to survive Indian companies must gear up to become knowledge-based companies. They must look towards their internal organizational elements to tune themselves to this sector. Performance chemicals work well with a blend of technology and customer orientation. Research in different segments must be decentralized to account for the technical diversity though the central accounting unit must be result oriented. Fine chemicals work well as a dynamic networked organization with cross-functionalism teams and knowledge based persons empowered to perform in a fifth generation enterprise.

BUSINESS OVERVIEW

SCL is engaged in the business of manufacturing specialty chemicals which find application in industries like Agrochemicals, Fertilisers, Paints, Textiles, Petroleum, etc. Principle products include auxiliary chemicals, surface active agents and preparations and Amides , Esters & Anti Oxidants

SCL's primarily produces Ethylene Oxide Condensates (EOC) which is required to meet the vital requirements of "process chemicals" for industries such as Textiles, Leather, Pesticide, Paper, Engineering, Petrochemical, Oil recovery, Cosmetics & Pharma and many others. The EOC industry is dependent on availability and price of key raw material EO which is primarily output of large petrochemical complexes producing MEG. The major players for years were NOCIL, IPCL and Reliance based on Naptha/ other petro feed stocks. These companies marketed EO but not EOC.Major use of EO produced by these petrochemical complexes is for captive consumption.Based on the captive requirements and market conditions for MEG, the petrochemical complexes allocate EO to EOC industry.

There have been other major changes in the industry. With the closure of NOCIL's petrochemical plant and merging of IPCL's interest with Reliance, the Company is solely dependent on only one source of raw material. Sea transportation of EO is difficult because of the long distance transportation hazards associated with EO, which is highly flammable. Due to this typical status, there was a tremendous rise in the prices of local EO. Against this the end products of EOCs can be cost efficiently imported. The resultant price war between the EOC manufacturers started eroding the profitability of major commodity EOCs.

In view of the above changes in the industry, during the year 2001, SCL decided to shift focus from the price competitive commodity EOC market to the 'Niche Specialty Chemicals 'NSC' market being Niche Specialty Surfactants, Esters, Amides and a range of Antioxidants for diverse user industries like Lubricants, Plastics/Polymers, Rubber/Latex, Agro, Pesticide, Ink, Coatings, Resins etc.The Company started taking steps to reduce dependence on EOC surfactants and has over a period of time through consistent R&D efforts the Company has been able to add a few niche specialty products.

The Company's consistent R&D efforts have lead to development of a new process for manufacture of THEIC (Tris Hydroxy Ethyl Isocyanurate) which is a Specialty Chemical. THEIC is used as key input in the manufacturing of Electrical Wire Insulation Enamel both for primary and secondary insulation enamels. Customers coat this enamel on the electrical wire. THEIC is manufactured by the Company by reacting Ethylene Oxide (EO) with Cynuric acid in presence of suitable catalyst and then THEIC is further purified & dried suitably and offered in Powder /Noodles and other forms as per customer requirements. The Company has earned 25.4% of its revenues during the FY 2005 - 2006 through the sale of THEIC.

PRODUCTS

The Company manufactures specialty chemicals including:

Ethylene Oxide Condensates (EOC)
THEIC
Styrenated Phenol
Aminic Angtioxidants
Agro Emusifiers etc. etc.

These products are used in Pesticide, Agro products, Lubricants, Grease, Rubber/ Tyre/ Latex, Electrical Insulation, Plastic/ Polymer & other industries.

CLIENTELE

Some of the key customers of SCL and the products sold to them are as follows::

NAME OF THE CLIENT	NAME OF THE PRODUCTS
Altana Chemie AG-Germany, and their global affiliates in US, Europe & India.	THEIC – Specialty Ethoxylate
PMC Rubber Chemicals Ltd. (erstwhile ICI India Ltd. Rubber Chemical)	Antioxidants
Bayer India Ltd.	Pesticide Emulsifier, Specialty Ethoxylate
Ciba Specialties Chemicals (India) Ltd.	Antioxidants
National Organic Chemical Industries Ltd.-	Antioxidants

Gharda Chemicals Ltd.	Specialty Surfactants
Excel Cropcare Ltd.	Specialty Ethoxylate Surfactants
Lubrizol India Pvt. Ltd.	Antioxidants & carry out extraction process by operating LIPL's Taloja plant
Bhansali Engineering Polymers Ltd.	Antioxidants
Hindustan Petroleum Corp. Ltd.	Emulsifier
Owens Corning India Ltd.	Speciality Surfactants and formulations

RESEARCH & DEVELOPMENT

The downturn in the EOC industry has prompted the Company to take steps to expand its product range into the Niche Speciality Chemicals segment. The Company has made consistent efforts towards the same and has a fully dedicated team working on Research & Development. The specific areas in which R&D is carried out are:

- New Products Development
- Development and evolution of alternate raw material/solvents
- Improvement in quality of existing products/process
- Cost reduction
- Energy efficient processes
- New process development for safe and improved handling and recycling of waste to obtain a useful product for prime customer.

Among other products/processes developed, the R&D team has developed a method to produce THEIC-Tris 2 Hydroxyethyl Iso Cyanurate. THEIC is manufactured by reacting EO with Iso Cyanuric Acid in presence of suitable catalyst & solvent under an appropriate pressure & temperature. THEIC is then separated from solvent and then washed and dried suitably to offer the same in various forms as required by the customers. **Some of the significant agreements entered into by the Company during the past three years are as follows:**

- **OPERATING AGREEMENT WITH LUBRIZOL INDIA PRIVATE LIMITED (LIPL)**

SCL (the company) has developed a unique process along with Lubrizol India Pvt. Ltd., (LIPL) to handle & extract usable additive from a Waste (WFC) created by various filtration & other activities carried out by LIPL at its factory at Thurbhe, Maharashtra.

SCL had entered into an Operating Agreement with LIPL on August 1, 2003 whereby SCL has agreed to operate LIPL's chemical plant located at Plot No. T-6, MIDC, Taloja, Maharashtra on contract basis for developing a process for utilization/ recycling of the Waste Filter Cake (WFC) for extracting therefrom LZ-RCAD/ LZ-ODRP and for developing other possible processes for extracting further usable products from the recycled WFC and finally disposing off the balance unusable residue of WFC in a safe manner in accordance with the applicable rules and regulations and subject to the prior authorization of LIPL.

Under the said agreement, LIPL shall accept from SCL the entire quantity of the LZ-RCAD/ LZ-ODRP Product produced through SCL by LIPL at the Taloja Plant, subject to the quality of the LZ-RCAD/ LZ-ODRP. The said agreement was entered into intially for a period two years, upon expiry of which the same shall be renewed for a further period of five years on the same terms and conditions. Accordingly the agreement was renewed for a furhter period of five years starting 1st August 2005 till 31st July 2010.

- **GLOBAL SUPPLY AGREEMENT WITH ALTANA CHEMIE AG**

SCL has entered into a supply agreement on November 29, 2005 for a period of five years with Altana Chemie AG ('Altana'), for supplying SUN THEIC to Altana and to its affiliates. During the agreement period ALTANA and/ or its affiliates shall purchase 40% of its approved total consumption of SUN THEIC from SCL.

- **AGREEMENT WITH OWENS CORNING (INDIA) LTD.**

SCL has entered into a supply agreement on February 28, 2005 for a period of three years with Owens-Corning (India) Ltd. (OCIL), for the manufacture and supply SUN OC 403 & SUN SC 473 to OCIL. The annual volumes estimated to be bought by OCIL during above period for SUN OC 403 & SUN SC 473 are 60 MT/annum each.

- **AGREEMENT WITH CIBA SPECIALITY CHEMICALS (INDIA) LTD.**

SCL had entered into a supply agreement on August 10, 2004 for a period of four years with Ciba Specialty Chemicals (India) Limited for supplying IRGANOX L 67 and IRGANOX l 57 as per the specifications provided by Ciba Specialty Chemicals (India) Limited.

COMPETITION

In the EOC segment, the Company faces competition from other ethoxylators. The commodity specialty chemicals sector is highly competitive and the Company has to be very agile and price competitive. In the specialties market the Company manufactures customer specific products and the competition is limited to other niche players. In case of THEIC the Company faces competition from international players. The Company exports this product. There is hardly any domestic competition in this product line.

KEY INDUSTRY REGULATIONS

Various other General Laws & Regulations applicable to the industry:

Explosives Act

a) Storage of Ethylene Oxide, one of the raw material of company is licensed to store as per provisions of Static and Mobile Pressure Vessel (Unfired) Rules 1981 per and as approved plan subject to the provision of Indian Explosive Act 1884 and the rules made thereunder as issued / authorised by the Chief Controller of Explosive Nagpur.

b) Similarly certain other raw materials, which belong to certain class as per Petroleum Act are stored at factory site as per rules and regulations under licence issued under Petroleum Act 1934 and issued by the Joint Controller of Explosives (West) at Mumbai

Industrial Entrepreneur Memorandum (IEM)
Industrial undertakings exempt from obtaining an industrial license are required to file an Industrial Entrepreneur Memoranda (IEM) with the Secretariat for Industrial Approvals, Department of Industrial Policy and Promotion, Government of India, and obtain an acknowledgement. **No further approval is required**.

Environmental Clearances
Entrepreneurs are required to obtain Statutory clearances relating to Pollution Control and Environment for setting up an industrial project. A Notification (SO 60(E) dated 27.1.94) issued under The Environment Protection Act 1986 has listed 29 projects in respect of which environmental clearance needs to be obtained from the Ministry of Environment, Government of India. This list includes industries like petro-chemical complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilizers, dyes, paper etc.

The Industrial Disputes Act, 1947

This Act makes provisions for investigation and settlement of industrial disputes and for providing certain safeguards to the workers. This Act applies to all establishments and undertakings carrying on any systematic activity by co-operation between an employer and his workmen for the production, supply or distribution of goods or services.

The Minimum Wages Act, 1948

The wages of the workers in the un-organised sector of employment are primarily fixed under the Minimum Wages Act, 1948. Under the Act both Central and State governments are appropriate governments for fixation/ revision of minimum rates of wages in respect of the scheduled employments falling under their respective jurisdiction. The minimum Wages Act provides for periodic revision of minimum rates of wages. As per Section 22 of the Act, any person violating the provisions shall be punished with imprisonment, which may extend to 6 months or fine which may extend upto Rs.500/- or both.

The Payment of Wages Act, 1936

The Payment of Wages Act, 1936 was enacted to regulate the payment of wages to certain classes of persons employed in industry with the object to provide for a speedy and effective remedy to the employees arising out of illegal deductions or unjustified delay made in paying the wages to them. At present the Act applies only to those who are in receipt of wages whose average is below Rs 1,600 per month. The Central government is responsible for the administration of the Act in railways, mines, oilfields and air transport services, while State governments are responsible in factories and other industrial establishments.

The Contract Labour (Regulation and Abolition) Act, 1970

The Contract Labour (Regulation and Abolition) Act, 1970 has been enacted to regulate the employment of contract labour in certain establishments and for matters connected therewith. The Act applies to every establishment in which 20 or more workmen are employed or were employed on any day on the preceding 12 months as contract labour and to every contractor who employs or who employed on any day of the preceding 12 months 20 or more workmen. Every such establishment is required to get itself registered under the Act. Principal Employer should maintain register of contractors in prescribed form. Control over contract labour will be exercised by 'Appropriate Government'. Appropriate Government means Central Government in case of railways, docks, IFCI, ESIC, LIC, ONGC, UTI, Airport Authority, industry carried on by or under authority of Central Government. State Government in case of other industrial disputes

The Factories Act, 1948

The Factories Act, 1948 is the principal legislation for regulating various aspects relating to safety, health and welfare of workers employed in factories. This Act is a Central enactment which aims at protecting workers employed in factories from industrial and occupational hazards. State governments and union territory administrations frame rules under the Act and enforce provisions of the Act and rules through their factory inspectorates. If the employment is less than these numbers, the unit gets covered under Shop & Establishment Act. Factory should be licensed / registered with Chief Inspector of Factories and the license / registration has to be renewed every year.

Workmen's Compensation Act, 1923

The Act provides for payment of compensation to workmen and their dependents in case of injury and accident (including certain occupational disease) arising out of and in the course of employment and resulting in disablement or death. The Act applies to railway servants and persons employed in any such capacity as is specified in Schedule II of the Act. Schedule II includes persons employed in factories, mines, plantations, mechanically propelled vehicles, construction works and certain other hazardous occupations.

The Payment of Gratuity Act, 1972

The Payment of Gratuity Act, 1972 is applicable to factories, mines, oil fields, plantations, ports, railways, motor transport undertakings, companies, shops and other establishments. The Act provides for payment of gratuity at the rate of 15 days' wages for each completed year of service subject to a maximum of Rs 3,50,000. In the case of seasonal establishment, gratuity is payable at the rate of seven days' wages for each season. The Act does not affect the right of an employee to receive better terms of gratuity under any award or agreement or contract with the employer.

Employees' State Insurance Act, 1948

The Employees' State Insurance Act is applicable in the first instance, to non-seasonal factories using power and employing 10 or more persons and non-power using factories employing 20 or more persons. Under the enabling provisions contained in the Act, the Act is being extended by the State governments to new classes of establishments, namely, shops, hotels, restaurants, cinemas, including preview theatres, road motor transport undertakings and newspaper establishments employing 20 or more persons. Employees working though contractor are also covered. It covers employees drawing wages not exceeding Rs 6,500 with effect from 1 January 1997. Employer's contribution is 4.75% of total wage bill of all employees in respect of every wage period while the employee's contribution is 1.75% of wages. The contribution has to be paid within 21 days from close of the month. It is payable by a challan in authorised bank. If the contribution is not paid in time, interest @ 12% is payable. ESIC authorities can impose 'damages' varying between 5% to 25% of arrears of contribution

Employees' Provident Fund and Miscellaneous Provisions Act 1952

The Employees’ Provident Funds and Miscellaneous Provisions Act covers three schemes i.e. PF (Provident Fund scheme), FPF (Family Pension Fund scheme) and EDLI (Employees Deposit Linked Insurance scheme). The Act is applicable to Factories amongst various other establishments. Coverage under the Act is presently restricted to establishments employing 20 or more persons. It is further restricted to those drawing wages up to Rs 6,500 per month. Lower contribution in certain cases such as any establishment registered with Board for Industrial and Financial Reconstruction (BIFR) as a sick company and the same at the lower rate of contribution continues till its net worth is positive. Lower contribution for any other establishment, which has accumulated loss equal to or more than its assets and has also suffered cash loss in last two years is also permissible.

Payment of Bonus Act, 1965

The Act is applicable to (a) any factory employing 10 or more persons where any processing is carried out with aid of power (b) Other establishments (established for purpose of profit) employing 20 or more persons. Minimum bonus payable is 8.33% and maximum is 20%. Bonus is payable annually within 8 months from close of accounting year. Bonus is payable to all employees whose salary or wages do not exceed Rs 3,500 per month provided they have worked for at least 30 days in the accounting year. However, for calculation of bonus, maximum salary of Rs 2,500 is considered. The Act does not apply to any institution established not for purposes of profit.

VIII. HISTORY AND CORPORATE STRUCTURE OF THE COMPANY

HISTORY AND MAJOR EVENTS

Sunshield Chemicals Ltd. was incorporated as a private limited company on November 19, 1986. The company was promoted (by Mr. Satish M. Kelkar alongwith Mr. C.M. Kelkar and his three sons to manufacture Organic Chemicals. On 27th May, 1994, Mr. Vinaykumar Patwardhan joined Mr. Satish M. Kelkar as co-promoters and Mr. C. M. Kelkar and his three sons ceased to be co promoters of the Company.

SCL acquired factory assets of Dimple Chemicals & Services at MIDC, Ambarnath in April, 1993 and added 1680 tons p.a. of Sulphonate, Ester & Amides to its existing capacity. During September, 1994, the Company took over entire business of manufacture of Specialty Chemicals from Atsuan Chemicals Corporation (ACC)_ by way of Transfer of Business dated 20th October, 1994, thereby increasing its manufacturing capacity to 4500 tons p.a. Further, in September, 1994, SCL acquired the entire business of manufacture of chemicals of Kamal Chemicals Industries (KCI) by way of Transfer of Business agreement dated 20/10/94 thereby increasing its total capacity by another 1200 tons p.a of Sulphonate, Ester & Amides. In 1994, the business of both KCI & ACC were merged with that of the Company.

In the year 1994, SCL undertook a backward integration -diversification project to produce 3000 tons p.a. of Alkyl Phenol and commercial production started in 1994. During this year an offer for sale of 9,19,200 equity shares of Rs. 10/- of SCL at a premium of Rs. 38/- aggregating to Rs. 4.41 crores was made by the Industrial Credit and Investment Corporation of India Ltd. (ICICI), ICICI Securities and Finance Company Ltd. (I-Sec), Lloyds Equities and Debentures Ltd, The State Industries and Investment Corporation of Maharashtra Ltd. (SICOM) and Apple Financial Securities Ltd. ,("the Offerers") to list the equity shares of the Company on Mumbai, Delhi, Ahmedabad & Hyderabad stock exchanges.

During the year 1995-96, the company successfully launched two new range of products viz, a Nonyl Phenol and Dodecy Phenol. The company completed implementation of consolidation of production at its main manufacturing centre at Village Rasal by shifting its undertaking in the urban area at Ambernath.

During 1996-97, activities of Sunshield Organics Limited (SOL a wholy owned subsidiary of SCL) in the manufacture of Butyl Phenol from C-4 raffinate brought in interest of Schenectady International Inc. (SII) of New York and therefore, a Memorandum of Association (MOA) was entered into by and between Sunshield Chemicals Limited (the company) and SII. Thus Schenectady Specialities Asia Ltd.(SSAL) (earlier SOL) was formed as a joint venture company of SCL (20%) & SII (80%) for the manufacture and sale of Nonyl Phenol / Dodecyl Pheol / PTBP / DTBP and other Alkyl Phenols.

However, in the year September 2000, there was a major accident in the premises of SSAL on the PTBP plant. The effect of the accident was safely handled, but SCL with only 20% shareholding in SSAL, chose not to increase investments to rebuild the assets and therefore, withdrew its share holding from SSAL by way of transfer of these shares of SSAL from the company (SCL) to a Company nominated by SII.

The separation of company from the joint venture company of SSAL took place through a Separation and Good Neighbour Agreement signed in March 2001

SLIDE IN PERFORMANCE

SCL primarily produces Ethylene Oxide Condensates (EOC) which is required to meet the vital requirements of “process chemicals” for industries such as Textiles, Leather, Pesticide, Paper, Engineering, Petrochemical, Oil recovery, Cosmetics & Pharma and many others. The EOC industry is dependent on availability and price of the key raw material EO which is primarily the output of large petrochemical complexes producing MEG. The major players for years were NOCIL, IPCL and Reliance based on Naptha/ other petro feed stocks. These companies marketed EO but not EOC.Major use of EO produced by these petrochemical complexes is for captive consumption.Based on the captive requirements and market conditions for MEG, the petrochemical complexes allocate EO to the EOC industry.

The late nineties saw some major changes in the industry. With the closure of NOCIL’s petrochemical plant and merging of IPCL’s interest with Reliance, the Company is solely dependent on only one source of raw material. Sea transportation of EO is difficult/impossible because of the long distance transportation hazards associated with EO, which is highly flammable. Due to this typical status, there was a tremendous rise in the prices of local EO.

Also during the late nineties the opening of the economy coupled with reduction in import duties on finished products and no proportionate decrease in import duties on raw material started posing a serious problem for the chemical industry in general and commodity chemicals in particular. The specialty chemical industry, based on Ethylene Oxide derivatives faced tremendous internal and external competition. During this period the steep increase in the crude prices resulting in an increase in the energy cost led to a further squeeze on margins.

The above changes had its impact on the financials of the Company and it started incurring a loss from the year 2000 onwards. As on 31st March 2005, the carry forward loss of the company was of the order of Rs.576 lacs. Since this was greater than 50% of the average peak networth during the last five financial years as computed under section 2(29A) of the Companies Act, 1956, provisions of Section 23(1) of Sick Industrial Companies (Special Provisions) Act, 1985 the Company became a potentially sick Company as on March 31, 2005.

RESTRUCTING & TURNAROUND

Since the year 2000, the Company increased its efforts to shift focus from commodity/ competitive surfactants to Niche Markets/ Products. Apart from this the Company has taken various measures to control the operating costs by reorganising its operations and its manufacturing facilities . These included :

- Downsizing the manpower at the factory and office by implementing Voluntary retirement scheme (VRS)
- Reorganising its utilities like boilers, hot oil units, generators with a view to optimise production cost for new type of products
- Installing appropriate solid handling facilities to handle cost effectively new products in a safe and environmentally clean manner at optimum cost.

In view of the recurring losses, the management decided to financially restructure the company. The erstwhile promoters of the company viz., Shri Vinaykumar Patwardhan and Shri Satish Kelkar entered into a share purchase agreement with Shri Amit Choksey, his relatives, associates and nominees (the "Amit Choksey Group") for sale of 50.1% of the paid-up capital of SCL. Subsequently, the Amit Choksey Group complied with all the formalities under the SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997 and took over management control of SCL in the year 2005.

Taking into account the fact that there was an immediate need for infusion of funds, the Company issued & alloted 50,00,000 fully paid up Preference Shares to Amit Choksey & Associates on the following terms & conditions:

1. Preference shares:	7% Non cumulative Redeemable Preference shares of Rs.10/- each for cash at par.
2. Redemption:	At the end of 10 years from the date of allotment or earlier if so agreed mutually between the company & Preference Share holder.
3. Tranches:	i) 10,00,000 Preference shares of face value of Rs.10/- each for cash at par to be allotted as fully paid up on March 28, 2005 ii) 5,00,000 Preference shares of face value of Rs.10/- each for cash at par to be allotted as fully paid up on May 16, 2005 iii) 15,00,000 Preference shares of face value of Rs.10/- each for cash at par to be allotted as fully paid up on July 29, 2005 iv) 20,00,000 Preference shares of face value of Rs.10/- each for cash at par to be allotted as fully paid up on October 21, 2005

The above steps have helped the Company in diversifying its product profile. The company is now on its turnaround path and has achieved a 56 per cent growth in net sales (at Rs 2733 lacs) for the year ended 31st March, 2006 as against the net sales of Rs 1744 lacs for the year ended 31st March, 2005 The Company has reported a profit after tax (PAT) of Rs.37 lacs for the year ended 31st March, 2006 as against a loss of Rs.113 lacs for the year ended 31st March, 2005 .

IX. MANAGEMENT

BOARD OF DIRECTORS

Name, Age, Designation and Address	**Father's Name**	**Qualification**	**Other Directorship**
Mr. Amit C. Choksey 52 years Chairman "Gitanjali", 9, N. Gamadia Road, Off Peddar Road, Mumbai –26	Mr. Champaklal H. Ckoksey	B.Com.	Aeonian Investments Co.Ltd Mazda Colours Ltd Apcotex Lattices Limited Cons Holdings Limited Sammelan Investments & Trading Limited Dhumravarna Trading and Investments Private Limited Bhuvantray Investment & Trading Company Private Limited Acquamarine Investments & Trading Company Private Limited Gauriputra Investments & Trading Company Private Limited Joshimath Trading & Investments Private Limited Laxmanjhula Trading & Investments Private Limited Abhiraj Trading & Investments Private Limited Amisha Credit & Capital Private Limited Mustang Investments Private Limited Choksey Chemicals Private Limited
Mr. Bipin Vithaldas Jhaveri 67 years Director Sky Scrapper A, 6th floor, B.Desai Road, Mumbai - 400 026	Mr. Vithaldas Vandavandas Jhaveri	B.A., B.Com., FCA, FCS	Aeonian Investments Co.Ltd Apcotex Lattices Limited Mazda Colours Ltd Balasesh Leafin Ltd. Nurtur Finance Ltd. Shyamal Finvest (India) Ltd. Tinychem Specialities Pvt. Ltd. Minpiyasi Financial Services Pvt. Ltd. Apcosoft Private Ltd.
Mr. Manubhai Gokalbhai Patel 72 years Director 13, Sahyog, Sardar Patel Nagar, Ellisbridge, Ahmedabad - 9	Mr. Gokhalbhai Ishwarbhai Patel	Chartered Accountant	Aeonian Investments Co.Ltd Apcotex Lattices Limited Gujarat State Financial Services Ltd.

Mr. Kaushik Shanghvi 48 years Director 12-C, Woodlands, G. Deshmukh Marg, Mumbai - 400 026	Mr. Chandrakant Shanghvi	B.E.(Mech.), VJTI - Mumbai University	Nasik Enterprises Pvt. Ltd. Calyx Investments Pvt. Ltd.
Mr. Sandeep Hemendra Junnarkar 55 years Director 1702, Wallace Apartments, 1, Naushir Bharucha Marg, Grant Road (West), Mumbai - 400 007	Mr. Hemendra Shripatrao Junnarkar	B.Sc.(Hons.), L.L.B., Solicitor	Ambuja Cement Eastern Ltd. Excel Crop Care Ltd. Indian Petrochemicals Corp. Ltd. Stelite Industries (India) Ltd. Reliance Industrial Infrastructure Ltd. Jai Corp Ltd. Tilaknagar Industries Ltd. Everest Industries Ltd. Reliance Industrial Investment & Holding Ltd. IL & FS Infrastructure Development Corp. Ltd. Inter-connected Stock Exchange of India Ltd. The Bombay Incorporated Law Society (Sec.25 company) Reliance Ports and Terminals Ltd.
Mr. Ashok Ramchandra Datar 66 years Director 7, Manjiri Makarand Sahaniwas, S.V.Savarkar Marg, Mahim, Mumbai - 400 016	Mr. Ramchandra Datar	B.A., M.A.(Economics)	Cybertech Systems & Software Ltd. Junish International Ltd. Focus Holdings Pvt. Ltd.
Mr. Satish Manohar Kelkar 58 years Vice Chairman and Managing Director 26, White Lilly Society, D.S.Babrekar Marg, Dadar (West), Mumbai - 400 028	Mr. Manohar Kelkar	B.Sc., MMS	Kelkar Chemicals Pvt. Ltd. Neokel Investments Pvt. Ltd.

Brief Profile of the Board of Directors is given below

Mr Amit C Choksey, aged 51years, is B.Com and is Chairman & Managing Director of Mazda Colours Ltd. and is part of the "Choksey family" the original and ex-founder promoters of Asian Paints Ltd. Mr. Amit Choksey is Honourary Counsel for Slovek republic in Mumbai and in control of Aeonian Investments Company Ltd.-a listed investment company. In addition, he established Choksey Chemicals Private Limited, a manufacturer of construction chemicals and speciality proofing compounds and has substantail interest in some companies in the field on investments.He has several years of experience in the chemical industry.

Mr.Bipin Vithaldas Jhaveri, aged 67 years is B.A.,B.Com, FCA and FCS. He is a practising Company Secretary. He has worked as Company Secretary and Senior General Manager with Asian Paints for over three decaded handling Company Law, Taxation, Accounts, Finance etc. He was also a member of the Committee appointed by SEBI for revamping the Takeover Regulations.

Mr. Manubhai Gokalbhai Patel, aged 72 years, B.Com, LLB and FCA,is a practising Chartered Accountant and a senior partner in Manubhai & Co., Ahmedabad and Manubhai & Co., Mumbai. The firm is engaged in audit of large units in public and private sectors since last 30 years and has been handling taxation matters. The firm provides Management and Financial consultancy services. He is Member of Executive Committee of Income Tax Appellate Tribunal Bar Association, Ahmedabad and Vice Chairman of H.L.College Golden Jubilee Trust, Ahmedabad. He was a member of The Central Council of the Institute of Chartered Accountants of India and had served several Central Committees on Accounting and Taxation. At SCL he is a non executive independent director.

Mr. Kaushik C. Shanghvi, aged 49 years, B.E. (Mechanical) from VJTI, Mumbai, is an experienced businessman and a founder director of Nasik Enterprises Pvt. Ltd., which is presently engaged in trading in Sugar and Investments. He is also a founder director of Calyx Investments Pvt. Ltd.

Mr. Sandeep Hemendra Junnarkar, aged 55 years, B.Sc.(Hons.), L.L.B, is a solicitor of more than 20 years of standing and is a partner in M/s Junnarkar & Associates.

Mr. Ashok Ramchandra Datar, aged 66 years, B.A., M.A.(Economics) from Stanford University,has held key positions in companies like Coca Cola, Reliance, Esso etc.

Mr. Satish Manohar Kelkar, aged 58 years, B.Sc., MMS from Mumbai, is the founder promoter of the Company and has 32 years experience in the chemical industry.

COMPENSATION TO VICE CHAIRMAN & MANAGING DIRECTOR

Remuneration payable to the Vice Chairman & Managing Director Mr. Satish Kelkar appointed for a period of five years w.ef. 1st April 2002 is as follows:
Remuneration

Basic Salary Rs.9,00,000 per annum

Perquisites

- House Rent Allowance - @ 60% of the basic salary drawn for the corresponding period. Alternatively, if the managing director is staying in a rented house and if so desire, rent @ 60% of the basic salary drawn for the corresponding period will be paid on his behalf.

- Medical Reimbursement: medical expenses incurred for self and his family upto a ceiling of Rs. 20,000/- in one year.

- Leave Travel Concession: Leave Travel Concession for self and his family, equal to Rs. 20,000/- once in a year.

- Personal Accident Insurance: The Company will pay a premium not exceeding Rs. 5000/- per annum towards Personal Accident Insurance Policy.

- Soft furnishings: Reimbursement of expenditure incurred on soft furnishings subject to a maximum of Rs. 15,000/- per annum.

- Motor Car: The Company shall reimburse all the actual expenses incurred for maintenance and usage of a motor car for Company's business. Alternatively, the Company will provide with a motor car for use of Company's business. Expenditure incurred by the Company for personal usage, if ascertainable, will be recovered by the Company, otherwise the perquisite value for the same will be evaluated in terms of the Income-Tax Rules, 1962.

- Telephone: The Company will provide with a telephone at residence. The cost of personal long distance calls (STD/ISD) will be recovered by the Company.

Retirement Benefits:

- Contribution to Provident Fund and Superannuation Fund: As per the rules of the Company.

- Gratuity: In accordance with the Company's rules for the time being in force and the same shall not exceed half month's salary for each completed year of service.

- Leave Encashment: At the end of tenure as Managing Director and as per the rules of the Company.

Other facilities:

- Entertainment: Reimbursement of entertainment and other expenses incurred in the course of the business of the Company.

- Leave: In accordance with the rules of the Company.

Corporate Governance

The Company stands committed to good corporate governance practices. SCL has set up internal policies to ensure best practices in corporate governance. Our corporate governance philosophy is dedicated to the attainment of the highest levels of accountability and transparency in dealings with our stakeholders. Our corporate governance policies lay emphasis on communication, both internal and external and reporting.

The Company has complied with SEBI Guidelines in respect of corporate governance specially with respect to broad basing of the Board, constitution of committees of the Board such as Audit Committee, Shareholders/Investor Grievance Committee etc.

The Board has seven Directors, of which four are independent directors in accordance with the requirements of Clause 49 of the listing agreement of the Stock Exchange. The Chairman of the Board is a non-executive Director. Committees of the Board have been constituted in order to look into the matters in respect of audit, compensation of executive directors, shareholders/Investors Grievance Redressal. None of the Directors on the Board holds the office of Directors in more than 15 Companies or membership of Committees of the Board in more than 10 Committees or Chairmanship of more than 5 Committees of the Board across all Companies. The composition of the Board of Directors is as follows:

Name of the Director	Independent/Non Independent
Mr. Amit C. Choksey	Non Executive Non Independent
Mr. Ashok R. Datar	Non Executive Independent
Mr. Sandeep H. Junarkar	Non Executive Non Independent
Mr. Satish M. Kelkar	Executive Non Independent
Mr. Manubhai G. Patel	Non Executive Independent
Mr. Kaushik C. Shanghvi	Non Executive Independent
Mr. Bipin Jhaveri	Non Executive Independent

Committees of the Board

Audit Committee

Effective from 21st April, 2005 the Audit Committee consists of the following Directors:

Mr. Manubhai G. Patel, Chairman
Mr. Ashok R. Datar
Mr. Kaushik C. Shanghvi
Mr. Bipin V. Jhaveri

The role and terms of reference of the Audit committee was decided by the Board of Directors keeping in view the requirements of clause 49 of the listing agreement and provisions of the Act. The Committee reviews the Annual accounts and quarterly results of the Company before submission to Board of Directors with reference to accounting policies, disclosure of related party transactions, qualification in the audit report and the matters required to be included in the Directors Responsibility Statement. In addition to the above, the Audit Committee will be required to review the following:

1. Management discussion and analysis of financial condition and results of operations;

2. Statement of significant related party transactions:

   a) A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee;

   b) Details of material individual transactions with related parties, which are not in the normal course of business, shall be placed before the audit committee; and

   c) Details of material individual transactions with related parties or others, which are not on an arm's length basis, should be placed before the audit committee, together with Management's justification for the same.

3. Management letters / letters of internal control weaknesses issued by the statutory auditors;

4. Internal audit reports relating to internal control weaknesses; and

5. The appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the Audit Committee.

Shareholder's Compliance /Investors Grievance Committee

The trading in the equity shares of the Company is mandatory in dematerialized form. The Board has delegated the powers to approve share transfers in physical form above 1000 shares to the said Committee and transfers in physical form upped 1000 shares and all requests for Dematerialization/ Dematerialization of the shares to Mr. Satish Kelkar, Vice Chairman & Manging Director.

Effective from 21st April 2005 the Shareholders Compliance/Investor Grievance Committed consists of the following directors:

Mr. Ashok R. Datar – Chairman
Mr. Satish M. Kelkar
Mr. Bipin V. Jhaveri
Mr. Himanshu S. Mhatre – Compliance Officer

Remuneration Committee

The remuneration Committee has been reconstituted on 22nd April, 2006 as under:

Mr. Bipin V. Jhaveri
Mr. Ashok R. Datar
Mr. Kaushik C. Shanghvi

Shareholding of Directors in Sunshield Chemicals Limited as on 31st March, 2006 is provided below:

Name of Directors	No. of shares held including details on qualification shares held
Amit C. Choksey	2,40,000 @ equity shares of Rs.10/- each
Bipin Vithaldas Jhaveri	NIL
Manubhai Gokalbhai Patel	NIL
Kaushik C. Shanghvi	NIL
Sandeep Hemendra Junnarkar	1200 equity shares of Rs.10/- each
Ashok Ramchandra Datar	500 equity shares of Rs.10/- each
Satish Manohar Kelkar	94,570 # equity shares of Rs.10/- each

@ Excluding 8,81,950 shares held by Abhiraj Trading Pvt. Ltd and 7,20,000 shares held by Aeonian Investment Co . Ltd., the companies in which he is a director and which form the promoter group.
# Excluding 68,950 shares held by Kelkar Chemical Pvt. Ltd and 36,450 shares by Neokel Investment Pvt Ltd., 500 shares by Mrinalini V. Kelkar and 1500 shares by Radhika Bawa forming the promoter group.

INTEREST OF DIRECTORS

Mr. Amit C. Choksi, one of our directors has advanced an unsecured loan to the extent of Rs. 75.00 Lacs for payment of margin money towards working capital. An interest at the rate of 10% p.a. is payable to the director in respect of the said unsecured loan. Apart from this, except to the extent of compensation/sitting fees and their shareholding or shareholding of companies they represent, the directors do not have any other interest in the Company.

CHANGES IN BOARD OF DIRECTORS

The changes in the Board of Directors in the last three years are as follows:

Name of the Director	Date of Appointment	Date of Resignation	Reason
Mr.Vinaykumar Patwardhan	17th June 1994	20th April 2005	Sold stake to Mr. Amit Choksey & Associated
Mr. Madhav Kale	17th June 1994	20th April 2005	Sold stake to Mr. Amit Choksey & Associated
Mr. Ashok M. Patwardhan	17th June 1994	20th April 2005	Sold stake to Mr. Amit Choksey & Associated
Mr. Amit C. Choksey	21st April 2005	N.A.	Result of Takeover of the Board
Mr. Bipin V. Jhaveri	21st April 2005	N.A.	
Mr.Kaushik C. Sanghvi	21st April 2005	N.A.	
Mr. Manubhai G.. Patel	21st April 2005	N.A.	

KEY MANAGERIAL PERSONNEL

The total strength of the organization is 111. The Key Managerial Personnel on permanent rolls of the Company are as detailed below:

Name and Age	Qualification	Designation	No. of years of Experience in the Company	Total No. of years of Experience in the Industry	Shareholding in SCL
Himanshu Suresh Mhatre 30 Yrs.	ACS	Company Secretary	8 months	7 yrs	Nil
Dilip Chaterjee 63 Yrs	B. Sc., M.B.A (IIM – Calcutta)	Director-Operations	7 years	34 years	Nil
S. R. Belgaonkar	B.E.	Director Research & Commercial Development	6 years	30 years	13920
Suhas V. Patil 41 yrs.	B. E. (Chem.)	Unit Manager	5 years	21 years	Nil
Pradeep Raote 51 yrs.	M. Sc.	Marketing Manager	14 years	26 years	200
Shekhar Madhukar Pattekar 47 yrs.	B. Sc., Diploma in P. M.I. R	Factory Manager	24 years	25 years	200
Dilip Ganesh Kelbaikar 51 years	M. Sc. (Analytical Chemistry)	Product & Process Development Manager	5 years	29 years	Nil
Surendra Rajarak Khadilkar 59 yrs.	Diploma in Mech. Engineering	Manager Maintenance	19 years	39 years	200
Vaibhav Karnik 35 years	Diploma in Cehmical Engineering	Asst. Factory Manager	17 years	17 years	460
Bhalachandra Khushal Bhole 59 yrs.	Diploma in Mechanical Engineering Diploma in Electrical Engineering	Project Manager	2 ½ years	36 years	Nil
Rajeev Ramesh Gupte 46 yrs	B. Com, C. A.	Finance Manager	2 years	18 years	Nil
Vivek V. Sonalkar 53 yrs	B. Com.	Manager-Procurement	34 years	34 years	600
Sonali S. Kelkar 55 yrs	Ph. D (Bio Chemistry), Diploma in Computer Applications	Manager Human Resources	19 years	19 years	Nil

Changes in Key Managerial Personnel:

Changes in Key Employee Positions in the last 3 yeras

Name	Designation	Date of Joining	Date of Leaving	Reason
Mr. H.R. Kulkarni	Marketing Manager		31.3.2003	For Better Prospect
Mr. P.K.Raote	Marketing Manager	3.4.2003	N. A.	-
Mr. Ganesh Apte	Manager Finance		27.2.2004	For Better Prospect

Mr.R.R.Gupte	Manager Finance	1.3.2004	N. A.	
Ms.Aarti Kamath	Company Secretary		16.10.2004	For Better Prospect
Mr.Himanshu Mhatre	Company Secretary	1.7.2005	N.A.	

Employees:

Summary of manpower strength as on date is as under:

Division	**Managerial**	**Suprs/Tech/ Non-Tech**	**Clerical**	**Skilled / Semi-skilled / Un-skilled**	**Total**
a) Head Office	9	-	13	6	28
b) Factory	10	33	1	24	68
c) Others	6	9	-	-	15
Total	25	42	14	30	111

Employee Stock Option Scheme

The Company has not issued any shares to its employees and does not have an Employee Stock Option Scheme.

Currency of Presentation

In this Draft Letter of Offer, unless the context otherwise requires, all references to the word “Lakh” or “Lac”, means “One hundred thousand” and the word “million” means “Ten Lacs” and the word “Crore” means “ten million”. In this Draft Letter of Offer, any discrepancies in any table between total and the sum of the amounts listed are due to rounding off. All references to “Rupees” and “Rs.” in this Draft Letter of Offer are to the legal currency of India.

DIVIDEND POLICY

The declaration and payment of dividends on equity shares is recommended by the Board of Directors and approved by the shareholders, at their discretion, and will depend on a number of factors, including but not limited to the profits, capital requirements and overall financial condition. Since the Company has been incurring losses, it has not declared dividend for the last five years.

AUDITORS' REPORT

To,
The Board of Directors
Sunshield Chemicals Limited

Dear Sirs,

As required by Part II of Schedule II of the Companies Act, 1956 and The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 issued by the Securities and Exchange Board of India (SEBI) in pursuance of Section 11 of the Securities and Exchange Board of India Act, 1992, we have examined the financial information contained in the statements annexed to this report which is proposed to be included in the Letter of Offer of Sunshield Chemicals Limited ("the Company") in connection with the proposed Rights Issue and we report that :

We have examined the 'Statements of Profits and Losses - Restated' (Annexure 1) of the Company for each of the years ended on 30th June 2001, 31st December 2002, 31st March 2004, 31st March 2005 and 31st March 2006, and the 'Statements of Assets and Liabilities - Restated' (Annexure 2) as on those dates, the 'Statement of Cash Flows – Restated' (Annexure 3) for the years ended on those dates and the related financial statements schedules (Annexure 4 to 9) as extracted from the audited financial statements for each of the financial years ended on 30th June 2001, 31st December 2002, 31st March 2004, 31st March 2005 and adopted by the members of the Company and for the year ended on 31st March 2006, approved by Board of Directors of the Company and after making the necessary and relevant disclosures and adjustments as appropriate and required to be made, in our opinion in accordance with the provisions of Part II and Schedule II of the Companies Act, 1956 and paragraph 6.10.2 of The Securities and Exchange Board of India (Disclosures and Investor Protection) Guidelines, 2000.

We have examined the following financial information relating to the Company proposed to be included in the Letter of Offer, approved by the Board of Directors and annexed to this report:

(a) Summary of Accounting ratios based on the adjusted profits relating to the earning per share, net asset value and return on net worth (Annexure 10)
(b) Capitalization Statement of the Company (Annexure 11)
(c) Details of other Income - Restated (Annexure 12)
(d) Tax Shelter statement (Annexure 13)
(e) Statement of Principal terms of Loans and Assets Charged as security (Annexure 14)
(f) Statement of Related party Transaction (Annexure 15)
(g) Statement of Unsecured Loans (Annexure 16)

As required by clause (b) of paragraph 6.10.2.7 of The Securities and Exchange Board of India (Disclosures and Investor Protection) Guidelines, 2000, the Company has not restated the financial information for the periods prior to which, the Accounting Standard 11 (Revised) - 'The Effect of changes in Foreign Exchange rates'; Accounting Standard 22 – 'Accounting for Taxes on Income'; Accounting Standard 28 – 'Impairment of Assets'; and Accounting Standard 29 – 'Provisions, Contingent Liabilities and Contingent Assets'; became applicable because of non applicability of these accounting standards in those years and suitable declaration has been made in note no. 6 of Annexure 9.

In our opinion, the financial information of the Company read with notes to accounts and the above para, as attached to this report and as mentioned above have been prepared in accordance with the provisions of Part II of Schedule II of the Companies Act, 1956 and SEBI guidelines.

This report is intended solely for the use of Sunshield Chemicals Limited, for the purpose of inclusion in the Letter of Offer in connection with the proposed Right Issue of the Company. This report may not be used or relied upon by, or disclosed, referred to or communicated by yourself (in whole or in part) to, any third party for any purpose other than the stated use, except with our written consent in each instance, and which consent, may be given, only after full consideration of the circumstances at that time.

For Tembey & Mhatre
Chartered Accountants
Sd/-
(Vikas Mhatre)
Partner
Membership No.34195

Mumbai
Dated: 5th May, 2006

STATEMENT OF PROFIT AND LOSSES – RESTATED

Annexure - 1

(Rupees in Lakhs)

Particulars		For the year ended 30.06.01	For the year ended 31.12.02	For the year ended 31.03.04	For the year ended 31.03.05	For the year ended 31.03.06
Financial Year comprises of		**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**
Income						
Sale of Products		1,222.68	2,096.13	1,995.06	1,751.28	2,733.18
(Net of excise & Sales Tax)						
Increase / (Decrease) in Inventories		(8.37)	(4.68)	41.43	16.01	49.12
Other Income		55.05	21.26	21.55	(5.86)	3.02
Total	**A**	**1,269.36**	**2,112.71**	**2,058.04**	**1,761.43**	**2,785.32**
Expenditure:						
Raw Materials Consumed		859.79	1,500.66	1,362.12	1,180.96	1,910.24
Staff Cost		157.80	208.60	212.88	170.67	208.02
Other Manufacturing Expenses		125.87	197.60	187.32	163.49	219.17
Administrative and other Expenses		87.68	115.37	116.78	96.80	107.87
Selling and Distribution Expenses		15.85	18.69	10.83	13.13	40.99
Reimbursement of Admin & Other Costs		(72.00)	(24.00)	-	-	-
Interest & Finance Charges		109.92	157.84	135.95	117.20	115.72
Depreciation & Amortization		72.13	137.49	134.92	98.71	106.08
Total	**B**	**1,357.04**	**2,312.25**	**2,160.80**	**1,840.96**	**2,708.09**
Net Profit / (Loss) Before Tax	**A-B**	(87.68)	(199.54)	(102.76)	(79.53)	77.23
Taxation						
Current Tax (on account of wealth tax)		0.05	0.02	0.08	0.02	0.09
Fringe Benefit Tax		-	-	-	-	4.34
Deferred Tax Asset / (Liability)		-	-	(134.46)	28.01	36.32
Net Profit / (Loss) after tax		**(87.73)**	**(199.56)**	**31.62**	**(107.56)**	**36.48**
Incremental Provision for Sales Tax						
Deferral		(42.89)	(46.14)	(105.28)	(57.49)	(56.38)
Amount Available for Appropriations		**(130.62)**	**(245.70)**	**(73.66)**	**(165.05)**	**(19.90)**
Add: Transfer from General Reserve		249.27	-	-	-	-
Add: Transfer from Investment						
Allowance Utilized Reserve		5.48	-	-	-	-

Balance		124.13	(245.70)	(73.66)	(165.05)	(19.90)
Balance Brought Forward		**(211.72)**	**(87.59)**	**(333.29)**	**(406.95)**	**(572.00)**
Balance Carried to Balance Sheet		**(87.59)**	**(333.29)**	**(406.95)**	**(572.00)**	**(591.90)**
EPS		**(2.39)**	**(5.43)**	**0.86**	**(2.93)**	**0.99**

Notes:

(1) The above figures should be read with the Statement of Significant Accounting Policies and Statement of Notes on Profits and Losses and Assets & Liabilities, as appearing in Annexure 8 and 9 respectively.

(2) Necessary adjustments have been made to the audited financial statements in accordance with the requirements of paragraph6.10.2 of The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines,2000.

SUNSHIELD CHEMICALS LIMITED

STATEMENT OF ASSETS & LIABILITIES - RESTATED

Annexure -2
(Rupees in Lakhs)

	Particulars	As at 30.06.01	As at 31.12.02	As at 31.03.04	As at 31.03.05	As at 31.03.06
	Financial Year comprises of	**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**
	APPLICATION OF FUNDS					
A	**Fixed Assets**					
	Gross Block	1,263.35	1,671.23	1,768.52	1,782.02	2,041.51
	Less:Depreciation	348.13	450.24	551.94	627.89	711.10
	Net Block	915.22	1,220.99	1,216.58	1,154.13	1,330.41
	Capital Work in Progress	203.04	2.27	-	4.87	599.58
		1,118.26	**1,223.26**	**1,216.58**	**1,159.00**	**1,929.99**
B	**Investments**	**5.95**	**5.52**	**0.10**	**0.10**	**0.25**
C	**Deferred Tax Asset (net)**	**-**	**86.08**	**134.45**	**106.44**	**70.12**
D	**Current Assets, Loans & Advances**					
	Inventories	178.50	192.71	263.78	304.16	448.24
	Sundry Debtors	372.21	308.35	274.90	365.50	647.59
	Cash & Bank Balances	19.29	13.85	23.27	25.75	16.48
	Loans and Advances	112.43	71.55	64.34	72.22	152.90
		682.43	**586.46**	**626.29**	**767.63**	**1,265.21**
E	**TOTAL ASSETS (A to D)**	**1,806.64**	**1,901.32**	**1,977.42**	**2,033.17**	**3,265.57**
F	**Liabilities & Provisions**					
	Secured Loans	580.40	813.95	885.52	894.75	1,583.38
	Unsecured Loans	473.80	513.32	575.45	627.07	693.92
	Current Liabilities	265.60	287.03	366.16	417.21	500.72
	Provisions	5.41	5.43	0.12	0.07	0.14
		1,325.21	**1,619.73**	**1,827.25**	**1,939.10**	**2,778.16**
G	**NET WORTH (F-G)**	**481.43**	**281.59**	**150.17**	**94.07**	**487.41**
H	**Represented by:**					
	SHAREHOLDERS FUNDS					
	Equity Share Capital	367.65	367.65	367.65	367.65	367.65
	Preference Share Capital	-	-	-	100.00	500.00
		367.65	367.65	367.65	467.65	867.65
	Reserves & Surplus	225.93	312.01	225.92	221.23	220.82
	Sub-Total	593.58	679.66	593.57	688.88	1,088.47
	Less:					
	Accumulated Loss as per Profit and Loss Account	87.59	333.29	406.95	572.00	591.90
	Deferred Revenue Expenses (to the extent not written off)	24.56	64.78	36.45	22.81	9.16
	Sub-Total	112.15	398.07	443.40	594.81	601.06
	Total	**481.43**	**281.59**	**150.17**	**94.07**	**487.41**

Notes:

(1) The above figures should be read with the Statement of Significant Accounting Policies and Statement of Notes on Profits and and Losses and Assets & Liabilities, as appearing in Annexure 8 and 9 respectively.

(2) Necessary adjustments have been made to the audited financial statements in accordance with the requirements of paragraph 6.10.2 of The Securities and Exchange Board of India (Disclosure and Investor Protectuion) Guidelines,2000.

SUNSHIELD CHEMICALS LIMITED

CASH FLOW STATEMENT - RESTATED

	Particulars	Year ended 30.06.2001		Year ended 31.12.2002		Year ended 31.03.2004		Year ended 31.03.2005	
	Financial Year comprises of	**(12 mths)**		**(18 mths)**		**(15 mths)**		**(12 mths)**	
(A)	**CASH FLOW FROM OPERATING ACTIVITIES**								
	Net Profit / (Loss) before Tax		(87.68)		(199.54)		(102.76)		(79.53)
	Adjustments for								
1	Depreciation	63.43		109.72		106.59		85.07	
2	Interest Income	(55.45)		(13.32)		(3.06)		(1.75)	
3	Dividend Income	(0.42)		(0.24)		(0.32)		(0.02)	
4	(Profit) / Loss on sale of Asset	0.19		5.27		1.08		12.44	
5	Profit on sale of investment	-		-		(5.23)		-	
6	Provision for Bad Debts & written off	-		2.09		-		-	
7	Deferred Revenue Expenses written off	6.06		27.97		28.33		13.64	
8	Wealth Tax & Fringe Benefit Tax	(0.05)		(0.02)		(0.08)		(0.02)	
9	Interest Expenses	109.92		157.84		135.95		117.20	
10	Diminution in value of investments	-		0.42		-		-	
11	Direct Tax Refund	-		-		(12.24)		(2.34)	
12	Sales Tax deferral (Incremental Present Value)	(42.89)	80.79	(46.14)	243.59	(105.28)	145.74	(57.49)	166.74
	Operating Profit before Working Capital Changes		(6.89)		44.05		42.98		87.21
	Adjustments for								
13	(Increase) / Decrease in Debtors	116.85		61.78		33.44		(90.60)	
14	(Increase) / Decrease in Inventories	(17.84)		(14.21)		(71.07)		(40.38)	
15	(Increase) / Decrease in other Receivables	307.87		9.47		7.21		(7.88)	
16	Increase / (Decrease) in Trade Payables	(95.97)	310.91	21.45	78.49	73.82	43.40	51.05	(87.81)
	Cash Generated from Operations		304.02		122.54		86.38		(0.60)
17	Interest Paid	(109.92)		(157.84)		(135.95)		(117.20)	
18	Wealth Tax & Fringe Benefit Tax	(9.44)		-		-		(0.05)	
19	Direct tax paid	-		(0.28)		-		-	
20	Direct Tax Refunds	-	(119.36)	33.42	(124.70)	12.24	(123.71)	2.34	(114.91)
	Net Cash flow from Operating Activities		184.66		(2.16)		(37.33)		(115.52)
(B)	**CASH FROM INVESTING ACTIVITIES**								
21	Purchase of Fixed Assets	(134.78)		(232.44)		(104.95)		(49.69)	
22	Interest Received	55.45		9.79		3.06		1.75	
23	Sale of Investments	66.00		-		10.66		-	
24	Dividend Received	0.22		0.24		0.32		0.02	
25	Disposal of Fixed Assets	7.34		12.35		3.96		9.77	
	Net Cash used in Investing Activities		(5.77)		(210.06)		(86.95)		(38.15)
			178.89		(212.22)		(124.28)		(153.67)
(C)	**CASH FROM FINANCING ACTIVITIES**								
26	Proceeds from Share Capital (net)							95.30	
27	Proceeds from Long Term Borrowings(Net)	63.80		96.56		257.33		57.19	
28	Proceeds from Short Term Borrowings(Net)	(243.26)		176.51		(65.81)		52.82	
29	Special Capital Incentive Received	0.44		1.90		-		-	
30	Deferred Revenue Expenses :								
	-VRS	-		(47.86)		-		-	
	-Product development Expenses	-		(20.33)		-		-	
31	Payment of Deferred Sales Tax Installments	-		-		(57.82)		(49.16)	
	Net Cash used in Financing Activities		(179.02)		206.78		133.70		156.15
	Net increase in Cash and cash equivalents		(0.13)		(5.44)		9.42		2.48
	Cash and cash equivalents at beginning of the financial year		19.42		19.29		13.85		23.27
	Cash and cash equivalents at the close of the financial year		19.29		13.85		23.27		25.75

SUMMARY OF INVESTMENTS AS AT YEAR END

Annexure - 4
(Rupees in lakhs)

	For the year ended 30.6.01	For the year ended 31.12.02	For the year ended 31.03.04	For the year ended 31.03.05	For the year ended 31.03.06
Financial year comprises of	**12 months**	**18 months**	**15 months**	**12 months**	**12 months**
UNQUOTED INVESTMENTS					
Investment in Indira Vikas Patra, N.S.C.	1.60	1.60	-	-	-
2,500 Equity shares of Rs.10/- each fully paid up in the Saraswat Co-op.Bank Ltd. (At cost)	0.10	0.10	0.10	0.10	0.25
(I)	1.70	1.70	0.10	0.10	0.25
QUOTED INVESTMENTS					
5,000 Equity Shares of Bank of Baroda Rs.10/- each fully paid (Non-Trade)	4.25	4.25	-	-	-
Less : Diminution in value of investments	-	0.43	-	-	-
(II)	4.25	3.82	-	-	-
Market Value of Quoted Investments	3.08	3.82	-	-	-
(I) + (II)	5.95	5.52	0.10	0.10	0.25

SUNSHIELD CHEMICALS LIMITED

LOANS & ADVANCES - RESTATED

(Unsecured, Considered Good)

Annexure - 6

(Rupees in Lakhs)

Particulars	As at 30.06.01	As at 31.12.02	As at 31.03.04	As at 31.03.05	As at 31.03.06
Financial Year comprises of	**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**
Account Receivable	48.57	39.59	45.22	57.19	115.64
Advance Income Tax	53.61	20.47	8.48	9.32	10.81
Balance with Excise Authorities	7.08	10.23	10.64	5.71	26.45
Special Capital Incentive Receivable	3.17	1.26	-	-	-
Total Loans & Advances	**112.43**	**71.55**	**64.34**	**72.22**	**152.90**

SUNSHIELD CHEMICALS LIMITED

CURRENT LIABILITIES & PROVISIONS - RESTATED

Annexure - 7

(Rupees in Lakhs)

Particulars	As at 30.06.01	As at 31.12.02	As at 31.03.04	As at 31.03.05	As at 31.03.06
Financial Year comprises of	**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**
Current Liabilities:					
Sundry Creditors	124.81	193.85	226.11	265.13	343.83
SSI Creditors	41.20	17.58	31.49	60.09	60.09
Accounts Payable	30.53	23.72	28.39	26.66	23.08
Unpaid Dividend	-	0.23	0.23	0.23	-
Creditors for Expenses	69.06	51.65	79.94	65.10	73.72
Total Current Liabilities	**265.60**	**287.03**	**366.16**	**417.21**	**500.72**
Provisions (relating to taxation)	5.41	5.43	0.12	0.07	0.14
Total Provisions	**5.41**	**5.43**	**0.12**	**0.07**	**0.14**

SUNSHIELD CHEMICALS LIMITED

Annexure - 8

Significant Accounting Policies:

a) **General:**

Accounts are prepared on historical costs and on the accounting principles of a going concern. The same are in accordance with Generally Accepted Accounting Principles, the Accounting Standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956.

b) **Fixed Assets**:

(i) The gross block of fixed assets is stated at cost that includes taxes, duties and other pre-operative expenses and is net of credits/ setoff.

(ii) Depreciation has been provided on straight-line basis in accordance with the provisions of Section 205(2)(b) of the Companies Act, 1956, at the rates specified in Schedule XIV to the Act, except for capital expenditure, which is written off over a period of 10 years in equal installments. Depreciation for the year has been provided as per rates given vide circular no.G.S.R.756 (E) dt.16.12.1993.

c) **Investment:**

Investments are stated at cost or market value whichever is lower. Any diminution of temporary nature is not recognized.

d) **Inventories:**

Raw materials, work-in-progress and finished goods and bought out goods are valued at lower of cost and net realizable value. Cost for the purpose is worked out on FIFO basis. In respect of finished goods and work in process, appropriate overheads are loaded on absorption costing basis. Finished product stocks are stated inclusive of Excise Duty.

e) **Research & Development:**

R&D costs of revenue nature are charged to the Profit & Loss Account. Expenditure of capital nature is capitalised and depreciation provided thereon.

f) **Sales/ Turnover:**

Sales turnover for the year includes sale value of the goods (excluding Sales Tax) Job Processing Income (both at the Company's plant and as also under operating agreement), excise duty and other recoveries such as insurance, transport, packing charges etc.

g) **Contingent Liability:**

Contingent liabilities are disclosed by way of note to the accounts.

h) 1) **Retirement Benefits :**

As regards the gratuity liability of the Company, the Company has taken a policy with Life Insurance Corporation of India under Group Gratuity Insurance Scheme of the Corporation. LIC computes and intimates the actuarial requirements of the trust fund at the end of every balance sheet date. Shortfall if any between the amount as computed and the balance in funds is additionally provided in the accounts.

2) **Leave Encashment**: -

Present value of Leave Encashment is provided as actuarial certificate.

i) **Borrowing costs: -**

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are charged to revenue.

j) **Impairment of Fixed Assets**

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amount of the Company’s fixed assets. If any indication exists, an assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on an appropriate discount factor.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. However, the increase in carrying amount of an asset due to reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

K) OTHERS

1. The Company amortises Voluntary Retirement benefits over a period of five years.
2. The Company makes a provision for doubtful debts, which is atleast equal to certain percentage of overdue debtors.
3. The Company accounts for Sales Tax Deferral as follows:

(i) **Upto 31st March, 2004**

The present value of Sales Tax Deferral benefit (in the form of deferral / unsecured loan) is charged to the profit & loss account and correspondingly converted into interest free Unsecured Sales Tax loan at the end of accounting year. The present value of the said Sales Tax benefit is computed on the basis of the notification (referred in Annexure 9 note 4.c). Based on the said computation and movements consequent to repayments and current year's increments, any variation thereof is reflected in the profit & loss appropriation account.

(ii) **From 1st April, 2004 – (AS 29)**

Sales Tax Deferred under the backward area scheme will be provided for fully in Profit & Loss Account and as per available option will be included in “Unsecured Loans”.

Annexure - 9

NOTES ON THE STATEMENT OF ACCOUNTS

1. a) The Issued and Paid-up Capital of the Company includes 1,38,600 Equity Shares of Rs.10/- each, issued by way of capitalization of Reserves in 1991.

   b) Capital Reserve reflects Special Capital Incentive Grants received.

2 a) The term loans from Bank of Baroda and The Saraswat Co-operative Bank Ltd. have been secured by way of first charge ranking *pari passu* in the form of equitable mortgage created on the Company's immovable assets and hypothecation of the Company's movable assets situated at Village Rasal, Tal. Sudhagad, Dist. Raigad, Maharashtra State, including movable machinery, spares tools and accessories, present and future and second charge on stock of raw materials, semi-finished goods and finished goods, consumable stores and such other movables by way of hypothecation.

b) The working capital facilities from consortium Banks namely Bank of Baroda, State Bank of India, The Saraswat Co-operative Bank Ltd. (SACO) and packing credit facilities from Bank of Baroda and SACO are secured by way of pari passu first charge on Company's stock of Raw Materials, Semi Finished Goods and Finished Goods, consumable stores and such other movable and book debts (excluding specified and marked supply bills discounted with SACO separately for which independent exclusive security is created in favour of the bank) present and future and pari passu second charge in the form of equitable mortgage on the Company's Fixed assets, present and future, situated at Village Rasal, Tal. Sudhagad, Dist. Raigad, Maharashtra State.

c) As per the terms & conditions set out in the restructuring of facilities, the Consortium of Bankers have reserved right to claim recompensation of differential interest. In view of accumulated losses, the management does not recognize the possibility of a sustainable claim of differential interest to be raised by banks.

3. The Management has reviewed the element of impairment of all its fixed assets and no impairment has been identified.

4.a) The Company has availed of sales tax deferral incentives for industries located in backward area under the schemes of the Government of Maharashtra (GOM) called "1983 Scheme", "1988 Scheme", "1993 Scheme".

b) As per option available to the Company, it has opted to convert the sales tax deferral under the schemes as an interest free unsecured loan.

c) GOM has issued notification No. STR-12.02/CR-102 / Taxation1 dated 16.11.2002 (hereinafter referred to "the said notification") which provides for prepayment of this Sales Tax Deferral Liability / Unsecured Interest-free loans under the schemes. Relying on the said notifications and the repayments made over the period the present value of the outstanding Sales Tax deferral upto 31st March, 2006 of Rs 8,25,81,417/- is Rs.5,92,35,928/- and this amount of Rs.5,92,35,928/- is reflected as Unsecured Interest-free loans in the statement of Assets and Liabilities - Restated.

5.a) As per the requirement of Accounting Standard - AS 29 which deals with "Provisions, Contingent Liabilities and Contingent Assets", which came into effect from 1st April 2004, the Company accordingly has been providing for entire sales tax deferred from 1st April, 2004 in the profit & loss account.

b) With respect to Sales Tax Deferral prior to 01.04.2004 i.e. before Accounting Standard 29 (AS-29) (refer Accounting Policy k(3)(i) of Annexure 8), company is providing for the incremental present value with respect to sales tax deferral liability prior to 1st April, 2004 and the same is included in Profit & Loss Appropriation Account.

5. As required by clause (b) of paragraph 6.10.2.7 of The Securities and Exchange Board of India (Disclosures and Investor Protection) Guidelines, 2000, in respect to the following Accounting Standards; the Statement of Accounts are not restated for the periods prior to them becoming effective.

Accounting Standard	Effective Date

Accounting Standard 11 (Revised) - The Effects of Changes in Foreign Exchange Rates	Periods commencing on or after 1-4-2004
Accounting Standard 22 - Accounting for Taxes on Income	Periods commencing on or after 1-4-2001
Accounting Standard 28 - Impairment of Assets	Periods commencing on or after 1-4-2004
Accounting Standard 29 - Provisions, Contingent Liabilities and Contingent Assets	Periods commencing on or after 1-4-2004

6. Tax Provision is on account of wealth tax and fringe benefit tax. On the basis of the provisions of the Income Tax Act, 1961, no liability for income tax arises.

7. Sales include Job Work processing income and exports. The Company operates in a single primary business segment of auxiliary Speciality) chemicals – Accounting Standard 17 (AS-17)

8. Contingent Liabilities not provided for:

Contingent Liabilities	31st March 2006 Rs. in lacs	31st March 2005 Rs. in lacs
Estimated amount of contracts remained to be executed on capital accounts	20.64	(NIL)
Contingent Liability For Counter-Guarantees issued for Bank Guarantees and Letters of credit issued	119.94	(90.42)
Counter Guarantee for Bills Discounted	NIL	(69.27)
Show cause cum demand notices, issued by various Authorities of Central Excise Dept. & for which the Company has preferred appeals.	101.86	-65.28

9. Deferred Tax Asset / Liability:

Particulars	July, 2001 - Dec, 2002	Jan,2003 - March,2004	April, 2004 - March, 2005	April, 2005 - March, 2006
i)Unabsorbed Depreciation & Business Loss	1123.82	1251.15	1148.84	1081.05
ii)Others	3.32	-	-	-
Total	1127.14	1251.15	1148.84	1081.05
Deferred Tax Asset (A)	**414.22**	**448.91**	**412.20**	**363.88**
i) Difference in Book & I.T. Block of Assets	850.16	864.21	844.04	868.68
ii) Others	42.76	12.20	8.13	4.07
Total	892.92	876.41	852.17	872.75
Deferred Tax Liability (B)	**328.14**	**314.46**	**305.76**	**293.76**
Net Deferred Tax Asset (A-B)	**86.08**	**134.45**	**106.44**	**70.12**

SUMMARY OF ACCOUNTING RATIOS - RESTATED

Annexure - 10

					(Rupees in Lakhs)	
		As at	**As at**	**As at**	**As at**	**As at**
	Particulars	**30.06.01**	**31.12.02**	**31.03.04**	**31.03.05**	**31.03.06**
	Financial Year comprises of	**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**

1	Amount Available for appropriation	**(87.73)**	**(199.56)**	**31.62**	**(107.56)**	**36.48**
2	Weighted Average number of Equity Shares outstanding during the year / period (Nos. in lacs)	36.77	36.77	36.77	36.77	36.77
3	Number of Equity Shares outstanding at the end of the year / period (Nos. in lacs)	36.77	36.77	36.77	36.77	36.77
4	**Net Worth**	**481.43**	**281.59**	**150.17**	**94.07**	**487.41**
	Accounting Ratios:					
	Earning Per Share - Basic and Diluted (1) / (2)	(2.39)	(5.43)	0.86	(2.93)	0.99
	Net Asset Value per share (4) / (3)	13.09	7.66	4.08	2.56	13.26
	Return on Networth (1) / (4)	(0.18)	(0.71)	0.21	(1.14)	0.07

Note: The above ratios for the year 2002 & 2004 are not annualized.

SUNSHIELD CHEMICALS LIMITED

CAPITALIZATION STATEMENT

Annexure - 11
(Rupees in Lakhs)

Particulars		Pre-issue as at 31st March, 2006	Adjusted for rights issue
Borrowings			
Short Term		694.67	1,250.00
Long Term		1,582.63	3,232.63
Total Debts	**(A)**	**2,277.30**	**4,482.63**
Shareholders Funds			
Equity Share Capital		367.65	735.30
Pref. Share Capital		500.00	-
Reserves & Surplus		220.82	1,323.78
		1,088.47	2,059.08
Less:			
a) Accumulated Loss as per Profit and Loss Account		591.90	591.90
b) Deferred Revenue Expenditure (to the extent not written off)		9.16	9.16
c) Rights Issue Expenses		-	35.00
		601.06	636.06
Total Shareholders Funds	**(B)**	**487.41**	**1,423.02**
Long Term Debts / Equity Ratio	**(A) / (B)**	**4.67**	**3.15**

@@ adjusted for enhanced Cash Credit limit of Rs.1250 Lakhs and additional Term Loan Rs.1650 Lal
against Capex of Rs.2200 Lakhs.(Subject to approval by Consortium of Bankers)

** As per information given, premium of Rs.30 per equity share of Rs.10 (FV) has been assumed

SUNSHIELD CHEMICALS LIMITED

DETAILS OF OTHER INCOME - RESTATED

Annexure - 12
(Rupees in Lakhs)

	Particulars	For the year ended 30.06.01	For the year ended 31.12.02	For the year ended 31.03.04	For the year ended 31.03.05	For the year ended 31.03.06	Nature of Item Recurring or Non-recurring
	Financial Year comprises of	**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**	
1	Interest on Promoters' Loan	40.59	-	-	-	-	Then recurring
2	Exchange Rate Difference	-	1.67	2.43	(1.14)	-	Recurring
3	Rent Received	0.33	0.18	0.98	0.05	-	Recurring
4	Discount on Prematuared repayment of Sales Tax Deferral	-	-	1.17	-	-	Non-recurring
5	Commission Earned	-	0.34	1.24	0.40	-	Recurring
6	Refund from Taxation & Others	2.55	5.61	6.28	-	-	Normally Non-recurring
7	Sale of Advance License	3.86	-	-	-	-	Non-recurring
8	Liabilities / Provisions no longer required	2.18	3.45	1.11	4.11	0.59	Normally Non-recurring
9	Interest on Investment & Others	1.30	15.02	3.00	2.36	1.43	Recurring
10	Dividend from Investments	0.43	0.24	0.32	0.02	0.02	Recurring
11	Bad Debts Recovered	2.81	0.01	0.17	-	-	Normally Non-recurring
12	Reimbursement of Expenses	-	-	-	-	1.12	Recurring
13	Profit on Sale of Investments	-	-	5.23	-	-	Non-recurring
14	Other Miscellanious Receipts	1.19	0.01	0.70	0.78	0.57	Recurring
15	Profit / (Loss) on sale of Fixed Assets	(0.19)	(5.27)	(1.08)	(12.44)	(0.71)	Normally Non-recurring
	Total	**55.05**	**21.26**	**21.55**	**(5.86)**	**3.02**	

SUNSHIELD CHEMICALS LIMITED

TAX SHELTER STATEMENT - RESTATED

Annexure - 13
(Rupees in Lakhs)

Particulars		For the year ended 30.06.01	For the year ended 31.12.02	For the year ended 31.03.04	For the year ended 31.03.05	For the year ended 31.03.06
Financial Year comprises of		**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**
Assessment Year		2002-03	2003-04	2004-05	2005-06	2006-07
Tax Rate Including Surcharge & Education Cess (where applicable)		**35.70%**	**36.75%**	**35.88%**	**36.60%**	**33.66%**
Net Profit / (Loss) before Tax	(a)	(87.68)	(199.54)	(102.76)	(79.53)	77.23
Tax at Notional Rate on (a) above	(b)	-	-	-	-	26.00
Difference between Income Tax Depreciation & Book Depreciation		(0.32)	(12.05)	(0.68)	6.83	30.11
Other Adjustments		47.14	(10.94)	(18.76)	19.09	(107.34)
Adjustments or Rectifications resulting from Auditors Qualifications		-	-	-	-	-
Net Adjustments		46.82	(22.99)	(19.44)	25.92	(77.23)
Tax Saving on this difference	(c)	-	-	-	-	(26.00)
Total Taxation on account of -						
Income Tax / Minimum Alternate Tax	(d)	-	-	-	-	-
Fringe Benefit Tax	(e)	-	-	-	-	4.34
Wealth Tax	(f)	0.05	0.02	0.08	0.02	0.09
	(d+e+f)	0.05	0.02	0.08	0.02	4.43

SUNSHIELD CHEMICALS LIMITED

PRINCIPAL TERMS OF LOANS AND ASSETS CHARGED AS SECURITY

Annexure - 14
(Rupees in Lakhs)

Sr. No.	Name of the Bank & Branch	Nature of facility	Balance as on 31.03.2005	Balance as on 31.03.2006	Rate of Interest	Repayment Schedule	Security
1	Bank of Baroda Shivaji Park, Mahim	Term Loan	159.84	149.83	11.50%	Rs.3.33 lacs p/m w.e.f.from January-2006	Equitable Mortgage of immovable property situated at village Rasal,Dist.Raigad
		Term Loan	-	459.32	11.50%	Rs.5.96 Lacs p/m w.e.f. from September-2007	
		WCTL	67.04	-	11.50%	Paid	
		Cash Credit	120.95	199.70	10.50%		Secured by hypothecation of Inventories & Receivables. Further secured by way of joint equitable mortgage of the immovable asstes, on second charge basis.
		Packing Credit	-	88.00	7.50%	Payable on realization of export bills	
	Sub Total :		**347.83**	**896.85**			
2	State Bank of India Commercial Branch,Dadar	Cash Credit	85.55	24.11	12.75%		Secured by hypothecation of Inventories & Receivables. Further secured by way of joint equitable mortgage of the immovable asstes, on second charge basis.
	Sub Total :		**85.55**	**24.11**			
3	The Saraswat co-op Bank Ltd. Madhukendra Branch, Dadar.	Term Loan	283.38	259.87	11.50%	Rs.6.70 Lacs p/m w.e.f. from January-2006	Equitable Mortgage of immovable property situated at village Rasal,Dist.Raigad
		WCTL	72.96	-	11.50%	Payable in January-2006	Secured by hypothecation of Inventories & Receivables. Further secured by way of joint equitable mortgage of the immovable asstes, on second charge basis.
		Bill Discounting	69.28	-	11.00%	Payable in January-2006	
		Cash Credit	14.06	190.80	11.00%		
		Packing Credit	-	143.78	7.00%	Payable on realization of export bills	
		Post Shipment A	-	48.22	7.00%		
		EEFC A/c	-	0.06			
		Car Loan	9.09	0.85	9.50%	Payable in Equated Monthly Installments	Secured by hypothecation of vehicle
	Sub Total :		**448.77**	**643.58**			
4	ICICI Bank	Car Loan	12.60	18.84	7.50%	Payable in Equated Monthly Installments	Secured by hypothecation of vehicle
	Sub Total :		**12.60**	**18.84**			
	Grand Total =(1+2+3+4)		**894.75**	**1,583.38**			

SUNSHIELD CHEMICALS LIMITED

Annexure – 15

RELATED PARTY TRANSACTIONS

LIST OF RELATED PARTIES

		Remarks
(a)	Schenectady Specialities Asia Limited (Formerly known as Sunshield Organics Ltd.)	Then company under the same management (From: February 1996 To March 2001)
(b)	**Key Management Personnel** **Shri Satish M. Kelkar**	 Vice Chairman & Managing Director
(c)	**Relatives of Key Management Personnel** **Smt Sonali S.Kelkar** **Smt Radhika A. Bawa** **Shri Rohan S. Kelkar**	 Relatives of Shri. Satish M. Kelkar
(d)	**Director** **Shri Sandeep H. Junnarkar**	 For Professional Services
(e)	**Persons having controlling interest** **Shri Vinaykumar M. Patwardhan**	 Resigned as Director and sold his shareholding on 21st April 2005
(f)	**Relatives of Person having controlling interest** **Shri Ashok M. Patwardhan**	 Resigned as Director and sold respective shareholding as on 21st April 2005
(g)	**Person having significant influence** **Shri Amit C Choksey**	 Joined as Director and acquired significant influence along with associate companies w.e.f. 21st April, 2005
(h)	**Relatives of Person having significant influence** **Smt. Ashvinaben C.Choksey** **Smt. Priti A.Choksey** **Ms.Namrata A.Choksey** **Ms.Ankita A.Choksey** **Smt.Rita A.Parekh** **Smt.Girish C.Choksey** **Shri. Atul C.Choksey**	 Relatives of Shri. Amit C. Choksey
(i)	**Enterprises which are under the common control Managerial Personnel** **Neokel Investments Private Limited** **Kelkar Chemicals Private Limited** **Atsuan Chemicals Private Limited*** **Kamal Chemical Industries** **Atsuan Chemical Corporation**	 Under the common control of Shri Satish M. Kelkar * sold controlling interest on 16.03.2006

(j) **Enterprises which are under the common co**
Persons having significant influence
Aeonian Investments Co.Ltd.
Mazda Colours Ltd.
Apcotex Industries Limited
Cons Holdings Limited
Sammelan Investments & Trading Limited
Dhumravarna Trading and Investments Private Li
Bhuvantray Investment & Trading Company Limited
Acquamarine Investments & Trading Company Limited
Gauriputra Investments & Trading Company Limited
Joshimath Trading & Investments Private Limited
Laxmanjhula Trading & Investments Private Limit
Abhiraj Trading & Investments Private Limited
Amisha Credit & Capital Private Limited
Mustang Investments Private Limited
Choksey Chemicals Private Limited

Under the common control of Shri Amit C. Choksey

(k) **Kanga & Co.** — Upto 30th September 2002, under the common control of S.H.Junnarkar

S.H.Junnarkar & Associates — Under the common control of S.H.Junnarkar

The following transactions were carried out with the related parties in the ordinary course of business:

Particulars	Associates	Key management personnel	Relatives of key management personnel	Persons having controlling interest	Persons having significant influence	Enterprises over which key management personnel / shareholders / relatives have significant influence	Total
Purchases of Goods/ Services :							
2000-2001	8.17						8.17
Reimbursement of expenses :							
2001-2002				42.00			42.00
2003-2004				5.34			5.34
2004-2005				4.41			4.41
Remuneration to key managerial personnel :							
2000-2001		12.44	2.36				14.80
2001-2002		14.95	2.36				17.31
2003-2004		14.95	2.31				17.26
2004-2005		14.95	2.44				17.39
2005-2006		14.95	2.49				17.44

Finance (including loans and equity / pref. contributions in cash or in kind) :							
2004-2005						100.00	100.00
2005-2006					75.00	425.00	500.00
Interest on unsecured loans :							
2005-2006					0.74	0.25	0.99
Rent paid :							
2000-2001			0.79				0.79
Professional / Legal Charges :							
2000-2001						0.45	0.45
2001-2002						0.95	0.95
2003-2004						1.07	1.07
2004-2005						1.51	1.51
2005-2006						0.57	0.57

SUNSHIELD CHEMICALS LIMITED

UNSECURED LOANS

Annexure - 16

(Rupees in Lakhs)

Particulars	As at 30.06.01	As at 31.12.02	As at 31.03.04	As at 31.03.05	As at 31.03.06	Rate of Interest	Repayment Schedule
Financial Year comprises of	**(12 mths)**	**(18 mths)**	**(15 mths)**	**(12 mths)**	**(12 mths)**		
Employees Contribution to Residential Quarters	5.20	-	-	1.17	1.57	-	The property will be transferred to the employees on completion of specified period of employment as per the agreement.
Interest Free Sales Tax Loan under 1983 Scheme, 1988 scheme & 1993 scheme of Government of Maharashtra	468.60	513.32	575.45	625.90	592.35	-	Payable after 10 / 12 years as per the scheme in 5 annual equal installments.
Unsecured Loans from a Director and an Associate Company	-	-	-	-	100.00	10%	Repayable on demand subject to prior consent of current consortium of the company's bankers
	473.80	513.32	575.45	627.07	693.92		

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS REFLECTED IN THE FINANCIAL STATEMENTS:

Overview of the business:

Sunshield Chemicals Limited (SCL), from its inception in 1986, has been producing Ethylene Oxide (EO) based derivatives called Ethylene Oxide Condensates (EOCs).

Based on the captive requirements and market conditions for MEG, petrochemical complexes allocate EO to the EOC industry. Prices of EO for EOC industry in India, continued to rule high during the last 2/3 years. The EOC industry however, could not fully absorb these increases and had to sacrifice its operating margins.

Further there has been a steep increase in crude prices which increased prices of the other petrochemical feed stocks required by EOC industry.

Against this, reduced import duties on EOC (lowering of import duties of the Government), have made imports of EOC cost competitive, for the user industries. With this, the EOC industry could not build cost increases of EO and other petrochemical inputs, in their selling prices of EOC.

With the above developments in EOC industry, selling prices of EOC were under a downward pressure. Simultaneously, the input costs were on a upward trend, specially for the commodity range of EOC.

With the above state of margin squeeze in the EOC industry (specially the commodity surfactants), SCL started shifting its business focus from commodity EOC to Niche Speciality Chemicals. These Niche Speciality Chemicals were Specialized Surfactants, Esters, Amides based on EO and started developing a range of Antioxidants for a diverse user industry such as Lubricants, Plastics / Polymers, Rubber/ Latex, Agro, Pesticide, Ink, Coatings, Resins etc.

In order to shift the focus of business from commodity EOC to Niche Specialty Chemicals and develop Antioxidants for various industries as listed earlier, the Company had to borrow additional term loans, restructure its finances by converting short term working capital borrowing to a certain extent into Working Capital Term Loans (WCTL). Simultaneously, the Company had to incur product development and restructuring cost to right size manpower strength at appropriate levels by implementing a VRS as also recruit appropriately qualified manpower.

Bring about these changes in the business focus by new product developments with relatively less dependence on EO & development of new range of Antioxidants, non-dependent on EO/EOC.

This shift into focus on the Speciality chemical business of the Company started generating higher levels of PBIDAT (Operating Profit) specially when we compare the four annualized financial results drawn from the audited financial results for the period of four years.

(Rs in Lacs)

	AUDITED			
	FINANCIAL YEAR ENDED ON			
	31.12.02*	31.03.04**	31.03.05	31.03.06
	18 Months	15 Months	12 Months	12 Months
	(Rupees in Lacs)			
Gross Sales (Net of Sales Tax)	2,395.29	2,299.57	2,004.78	3,072.15
Sales Volume (MT)	2,586.53	2,240.59	2,524.45	4,413.25
Excise Duty	299.16	307.18	260.34	338.97
Net Sales	2,096.13	1,992.39	1,744.44	2,733.18
Other Income	24.69	11.95	7.72	3.73
Operating Expenses	2,026.91	1,845.00	1,620.89	2,437.88
Operating Profit (PBIDAT)	**93.91**	**159.34**	**131.27**	**299.03**
Inerest and Finance Charges	156.99	135.95	117.20	115.72
Cash Profit (PBDAT)	**(63.08)**	**23.39**	**14.07**	**183.31**
Depreciation & Amortization	137.48	134.91	98.71	106.08
Profit Before Tax (PBT)	**(200.56)**	**(111.52)**	**(84.64)**	**77.23**
Current Tax	(0.02)	(0.08)	(0.02)	(0.09)
Deferred Tax	-	134.46	(28.01)	(36.32)
Fringe Benefit Tax	-	-	-	(4.34)
Profit After Tax (PAT)	**(200.58)**	**22.86**	**(112.67)**	**36.48**

* The Financial Results for the Financial Year ended 31st December, 2002 was for a period of 18 months
** The financial results for the financial year ended 31st March, 2004, was for a period of 15 months.

As the period of financial year ranges between 12 , 15 and 18 months, the above financials under discussions are strictly not comparable. Therefore the above financials are presented below on an annualized basis to make them comparable:

(Rs in Lacs)

	AUDITED			
	FINANCIAL YEAR ENDED ON			
	31.12.02	31.03.04	31.03.05	31.03.06
	Annualised		12 Months	12 Months
	(Rupees in Lacs)			
Gross Sales (Net of Sales Tax)	1,596.86	1,839.66	2,004.78	3,072.15
Sales Volume (MT)	1,724.35	1,792.47	2,524.45	4,413.25
Excise Duty	199.44	245.74	260.34	338.97
Net Sales	1,397.42	1,593.92	1,744.44	2,733.18
Other Income	16.46	9.56	7.72	3.73
Operating Expenses	1,351.27	1,476.00	1,620.89	2,437.88
Operating Profit (PBIDAT)	**62.61**	**127.48**	**131.27**	**299.03**
Inerest and Finance Charges	104.66	108.76	117.20	115.72
Cash Profit (PBDAT)	**(42.05)**	**18.72**	**14.07**	**183.31**
Depreciation & Amortization	91.65	107.93	98.71	106.08
Profit Before Tax (PBT)	**(133.70)**	**(89.21)**	**(84.64)**	**77.23**
Current Tax	(0.02)	(0.08)	(0.02)	(0.09)
Deferred Tax	-	134.46	(28.01)	(36.32)
Fringe Benefit Tax	-	-	-	(4.34)
Profit After Tax (PAT)	**(133.72)**	**45.17**	**(112.67)**	**36.48**

Significant development subsequent to the last financial year:

Subsequent to the last financial year ending on 31.3.2005, based on acceptance received for company's Speciality Chemicals including Antioxidants, the Company undertook a major expansion / diversification project to increase the capacity of THEIC from 200 mt. p.a. to 3000 mt. p.a.. Simultaneously the Company also set up improved and enlarged infrastructure for putting up new manufacturing capacities to backward integrate THEIC product and gain increased global competitiveness.

This meant that the Company was capable of manufacturing the key raw material (Cyanuric Acid) for captive consumption for manufacture of THEIC. as also introduce new Speciality chemicals based on Isobutylene / Propylene Oxide etc. and put up an increased range of Antioxidants.

This was done by incurring capital cost for such expansion / diversification of Rs. 750 lacs, which was funded by Bank of Baroda through a new term loan of Rs. 5 crores. The project is under implementation and the trial production of increased quantity of THEIC and other new Specialty Chemicals have been well accepted in the market.

This has resulted in a substantial rise in net sales during the last financial year ended 31st March, 2006 as compared to the earlier two years. The business operations during the financial year ended 31st March, 2006 have shown a growth in PBIDAT (Operating Profit) – by 128% as compared to the previous year.

Increased sales turnover and infusion of interest free preference capital reduced the charge of interest & finance cost from 6.7% of net sales in 04-05 to 4.24% of net sales for the year ended 31.03.2006.

Based on the above, the Company made a profit before tax of Rs.77.23 lacs for the year ended on 31.3.2006 compared to a loss in the previous year. The profit after tax for FY ended 31.3.2006 is Rs.36.48 lacs compared to a loss of Rs. 112.67 during the FY 2005.

Based on the growth in exports by the Company to its key customer-Altana Chemie AG (the world leaders in Specialty Chemicals) and through increased supply to Altana Chemie AG and their affiliates, the Company signed a Global Supply Agreement in November, 2005 effective January 1, 2006 for a period of 5 years to source requirements of THEIC by Altana Chemie AG a German MNC along with its affiliate companies in US, Europe and India.

The Company, therefore has now decided to put up a manufacturing capacity for Cyanuric Acid for captive consumption in the manufacture of THEIC as also to sell Cyanuric Acid in India and abroad for many other uses.

Simultaneously, the Company is putting up increased capacity for current range of Antioxidants as also introduce newer Antioxidants and other Specialty Chemicals widening the range of this Specialty Chemicals.

Factors that may affect results of the operations:

Based on the agreements in place, as also product acceptance in the market resulting into actual increase sale & exports the Company does not expect any adverse impact on the operations except as brought out below:

a) The Company's export sales are rising and, therefore, an upward valuation of Rupee against Dollar can reduce sales realization.

b) The business of the Company is now largely with MNCs in India and abroad as also large Indian corporate in India who can have world wide access to similar products as the Company is offering from many similar manufacturers in the world. Therefore the Company will have to continuously develop economies in cost of production as also develop new products /applications for its user industry.

Unusual or infrequent events or transactions

None to report

Significant economic / regulatory changes that may affect income from operations

Currently the advance licensing policy of the Government allows duty free import of raw materials required for export production as also permits procurement of local raw materials for export production under the "deemed export" policy.

If for any reasons the Government reduces the import duty concession (in the form of duty free import of raw materials through advance license scheme/"deemed Export" scheme for procuring indigenously available raw materials under the scheme) available for export production. In this situation, it can increase the input cost for exports and therefore reduce margins from exports.

Known trends or uncertainties that have had or are expected to have a material adverse impact on sales, revenue or income from continuing operations

Further rise in interest cost further and input cost increase on account of petroleum feed stocks to the extent the Company cannot transfer into its product sale prices can have a material margin squeeze on the continuing operations of the Company. However the Company is improving its capital base by way of the present Rights issue, thereby improving the debt equity ratio. This will reduce its dependence on borrowed funds and therefore reduce interest cost. Simultaneously, it expects to have access to get the Packing Credits because of export thrusts.

Future relationship between costs and income

The Company on the basis of the agreements entered into with large MNCs such as Altana Chemie AG, Owens Corning India Limited, Lubrizol India Pvt. Limited., Ciba Specialities India Limited, etc. expects to have a significant rise in income levels. These agreements as also the past trend indicate that reasonable cost increase (on account of change in input costs) can be offset by price change. This is on account of the fact that these main agreements with key customers generally permit appropriate increase/decrease in the end product prices based on increase/ decrease in input cost. However, if there is a serious reduction in price on account of competition, the Company can be under pressure on margins.

Extent to which material increases in net sales or revenue are due to increased sales volume, introduction of new products

The growth of 56% in net sales / revenues including exports is on account of introduction of new products like THEIC and some of the other Specialty chemicals and Antioxidants.

The sales volume in metric tons (MTs.) has gone up by about 75% in the year 2005-06 as compared to the sales volume for the year 2004-05.

But the net sale value in rupees (net domestic sales after taxes and duties + exports) has gone up by 56% in the year 2005-06 as compared to the previous year.

Total turnover of each major industry segment

The Company's products include Niche Specialty Chemicals which are comprised of various Specialty EOCs including surfactants, Amides, Esters etc. as also the Antioxidants which belong to only one industry segment called " Specialty Chemicals". Therefore the Company operates only in one industry segment.

New Products or business segments

The new product range of Specialty Chemicals is for same / similar customers and therefore no new business segment is proposed by the Company.

Seasonality of business

Company's products are consumed throughout the year. Therefore generally there appears to be no seasonality in business except for certain Pesticide Emulsifiers, which have higher demand during April-September as compared to October-March. However, Agro Emulsifiers constitute only about 16% of total net sales revenue including exports.

Dependence on single or few suppliers or customers

The Company does depend on EO, one of the key components of the Company's products, which is sourced only from one supplier now viz. Reliance Group which controls petrocemical complexes of NOCIL-Thane and IPCL at Nagothane & Baroda as also petrochemical complexes in the name of Reliance at Hajira and Gandhar.

This raw material, EO, is not easy (practically impossible) to import by transporting across seas. Therefore the Company is dependent for EO on a single group controlling petrochemical complexes of Reliance, NOCIL & IPCL.The Company's major customers are a number of MNCs in India and abroad. For THEIC, at present the Company is dependent on a single group, Altana Chemie AG. The Company has a 5 year agreement in place with Altana Chemie AG, with reasonable competition protection clause to protect the Company from unreasonable low prices charged by other competitors.

Competitive Conditions:

The Company's products in the field of Specialty Chemicals and Antioxidants are customized to specially develop process formulations on the basis of specific needs of the customers. However, there are a number of EOC manufacturers in India and abroad. Therefore the Company will have to remain constantly agile to achieve economies in production and develop new products for same and new customers.

WORKING RESULTS

Information relating to the Company's sales, gross profit etc. as required by the Ministry of Finance Circular No. F2/5/SE/76 dated February 5, 1977 read with the amendments of No. dated March 8, 1977 as under:

The unaudited working results of the Company for the period 1st April, 2006 to 30th April , 2006 (one month) are as given as under:

Particulars	**Rs. in Lacs**
Gross Sales	377.37
Other Income	0
Total Expenditure	330.45
Gross Profit	46.92
Interest	16.03
Depreciation & Amortization	13.14
Profit Before Tax and Extraordinary Items	17.75
Extraordinary/Exceptional/Prior Period Item	0
Tax Provision (Fringe Benefit Tax)	0.33
Profit After Tax	17.42
Paid-up Equity Capital	367.65
EPS (Rs.)	0.47

LEGAL AND OTHER INFORMATION

Except as described below, there are no outstanding litigations, suits or criminal or civil prosecutions, proceedings or tax liabilities against us, our directors, our promoters or companies/firms promoted by our promoters that would have a material adverse effect on our business and there are no defaults, non payment or over dues of statutory dues, Institutional/bank dues and dues payable to holders of any debentures, bonds and fixed deposits that would have a material adverse effect on our business.

LITIGATION PERTAINING TO THE COMPANY

DISPUTES AGAINST THE COMPANY

A) Customs Cases

1. The Assistant Commissioner, Customs, Kandla has issued a SCN No. S/26-14/96/APPG-I dated December 16, 1996 to the Company raising a demand duty for an amount aggregating Rs. 28 lacs in relation to short levied amount at the rate of 45%. As per the opinion of the Chief Chemist, Heptene/ Nonene has been classified and assessed as Raw Naptha under the heading 2710.00 under the Customs Tariff Act and as ATF under the heading 2710.21 under Central Excise Tariff Act. The Company imported NONENE as "Raw Naptha" as per Notification No. 158/76 of the Customs Tariff Act, 1975 whereby import of Raw Naptha attracts Nil rate of Customs duty. However the department has objected the said import, as the Company has not complied with the requirements of the said Notification and also has objected on the ground that prior to 1994, import of Raw Naptha in 1992-93 was covered under Sr. No.9 of the Notification No. 46/92 which attracts custom duty at the rate of 45% advolerm. The Company has submitted an interim reply dated May 28, 1997 before the Assistant Commissioner, Kandla to the said SCN issued. The said SCN is not yet adjudicated and is pending before the Assistant Commissioner, Customs.

B) Central Excise Cases

1. The Superintendent C.P.U, Panvel has issued a SCN cum Demand Notice from file No. F.NO.V – 38(12)1/94-CPU (P), dated July 4, 1994 to the Company raising a demand duty for an amount aggregating Rs. 0.01 lacs in relation to failure in following excise invoice procedure on payment of excise duty. The Company has not filed any reply to the above show cause notice as they have not been provided with the relied upon documents. The said SCN is not yet adjudicated and is pending before the Assistant Commissioner, Central Excise.

2. The Additional Commissioner, Central Excise & Customs, Raigad vide Order-in-Original No. Raigad/ADC/84/05-06 dated November 18, 2005 has dropped the demand of Rs. 1.39 lacs being 8% of the price of goods cleared on job work basis to Dai Ichi Karkaria Limited. However, the Order has confirmed the following duty demands against the Company -Rs. 11.9 lacs on the ground of mis-declaration of Naptha as Nonene/ Propylene Trimer; Rs. 10.42 lacs along with interest in respect of duty on the stock of DNP sludge, waste oil and used catalyst which has been written off and disposed off without payment of duty; Rs. 0.2 lacs with interest in respect removal of 420 kgs of used catalyst. Further a penalty of Rs.22.5 lacs has been imposed on the Company and personal penalty of Rs. 5 lacs is imposed on Mr. Satish Kelkar (VCMD of the Company). The Company has filed an Appeal before the Commissioner (Appeals) against the Order dated November 18, 2005. The Commissioner (Appeals) by order dated March 24, 2006 has directed the Company to pre-deposit 50% of the duty demanded on deposit of which the appeal shall be heard and decided in the due course.

3. The Assistant Commissioner, Central Excise, Alibagh has issued a SCN cum Demand Notice File No. F.NO.V PI ABG 2 – 11/04-05/3576, dated December 28, 2004 to the Company demanding duty for an amount aggregating to Rs. 1.35 lacs in relation to the special excise duty not paid by the Company at the time of clearance of Di Iso Butylene. It is alleged that the Company has wrongly classified the said raw material under Chapter sub heading 2901.90, whereas the said raw material is classifiable under the chapter 2710.10 of the Central Tariff Act, 1985 whereby it will attract special excise duty of 74% for the period January 2002 to April 2002 vide Notification No. 1/ 2002. The Company has submitted a reply dated December 28, 2004 before the Assistant Commissioner, Alibagh to the said SCN issued. The said SCN is not yet adjudicated and is pending before the Assistant Commissioner, Central Excise.

4. The Assistant Commissioner, Central Excise, Navi Mumbai has issued a SCN cum Demand Notice File No. F.NO.V/(11A)ABG/4-31/05-06, dated July 5, 2005 to the Company demanding duty aggregating to Rs. 0.09 lacs along with applicable interest in relation to Education cess not paid on the goods exported during the period July 9, 2004 to August 9, 2004. The Company has submitted a reply dated August 4, 2005 before the Assistant Commissioner, Navi Mumbai to the said SCN issued. The said SCN is not yet adjudicated and is pending before the Assistant Commissioner, Central Excise.

C) Income Tax Cases

1. Assessment Year 1996-97: The Assistant Commissioner of Income Tax, Mumbai disallowed non-business expenditure which was in the nature of donations amounting to Rs. 0.20 lacs; expenses incurred on tea, coffee and lunch to employees amounting to Rs. 1.3 lacs; VRS payment made to the employees amounting to Rs. 25.23 lacs as deductions to the Company by order dated October 10, 2005. In the Appeal filed by the Company the Income Tax Appellate Tribunal by Order dated May 25, 2005 has allowed the aforesaid expenditures to the Company from its income. However, the department has filed an Appeal against the Order passed by ITAT before the Mumbai High Court. The matter is pending with the High Court, Mumbai.

2. Assessment Year 2001-02: The Company had filed an Appeal before the Commissioner of Income Tax (Appeals) VII, Mumbai against the order passed under section 143(3) of the Income Tax Act by the Deputy Commissioner of Income Tax, Mumbai dated February 27, 2004. The Commissioner of Income Tax (Appeals) VII, Mumbai vide Order dated February 22, 2005 has allowed revenue expenditure amounting to Rs. 65.6 lacs wrongly treated as capital expenditure by the Assessing Officer; interest amounting to Rs. 21.3 lacs; bad debts amounting to Rs. 25.8 lacs were disallowed as expenditures in the prior order dated February 27, 2004 passed by the Deputy Commissioner of Income Tax, Mumbai. However the department has filed an Appeal against the Order passed by the Commissioner of Income Tax (Appeals) VII before ITAT. The matter is pending with ITAT.

D) Sales Tax Cases

1. The State of Maharashtra had announced an Incentive Scheme namely Revision of package scheme of Incentives for dispersal of industries in 1964 whereby the Company's manufacturing unit situate at Raigad was taking the benefit of the said Scheme for deferral of sales tax/ purchase tax/ turnover tax and other exemptions under the said Scheme until the same was withdrawn by the Department in1994. Subsequently the Government issued a notification in December 1994 clarifying that the benefit of non payment of purchase tax and surcharge to the units which have availed the exemption was restored however the same was not extended to the units opting for deferral scheme. The Department is claiming disallowance of "sales tax deferral" beyond the generally notified period of Rs. 32.26 lacs The Company has filed a writ petition No. 826 of 1995 with the Mumbai High Court. The Court has granted interim relief granting the Company an extension period till April, 1997. The petition is still pending.

CLAIMS FILED BY THE COMPANY

A) Complaint under section of 138 of the Negotiable Instruments Act, 1881

1. The Company had sold goods to Tretochem Specialities (I) Private Limited, amounting to Rs. 25.80 lacs. The said customer had issued a cheque of Rs. 25.80 lacs, which was returned unpaid. The Company had therefore filed a Criminal Complaint under Section 138 of the the Negotiable Instrument Act, 1881.The complaint was decided by convicting Mr. Allen D' Silva and sentenced him for imprisonment along with a fine of Rs. 10 lacs to be paid to the Company. Mr. Allen D' Silva has filed an Appeal before the Sessions Court against the said conviction and punishment which is now pending for the final hearing. The Company has also filed Revision for enhancement of the sentence which has been admitted and is also pending for final hearing.

2. The Company had sold goods to Yash Enterprises, amounting to Rs. 0.78 lacs. The said customer had issued 2 cheques for the said amount of Rs. 0.78 lacs. The cheques when deposited for clearance were returned unpaid. Therefore the Company has filed a Criminal Complaint under Section 138 of the Negotiable Instrument Act, 1881. The complaint is pending. The summons has not been served on the accused.

LITIGATIONS/DISPUTES/DEFAULTS AGAINST PROMOTERS/DIRECTORS

There are no civil criminal statutory or other proceedings pending against the promoters / directors.

LITIGATIONS AGAINST OTHER COMPANIES IN THE GROUP

I) AEONIAN INVESTMENTS COMPANY LIMITED (AICL)

DISPUTES AGAINST AICL

A) Income Tax Cases

1. AICL has filed an Appeal before the Commissioner of Income Tax (Appeals), Mumbai against the order passed under section 143 (3) of the Income Tax Act by the Deputy Commissioner of Income Tax, Mumbai dated March 11, 2003 for the Assessment Year 1998-99 aggregating a tax liability of Rs. 38.5 lacs including interest and after adjustment of tax payment. The said Appeal has been filed by AICL inter alia on the issue of exemption disallowed by the department under section 54EA of the Income Tax Act on the grounds that AICL had availed an exemption of Rs. 2155.00 lacs under section 54EA against allowable exemption of Rs. 2046.40 lacs. AICL has filed an Appeal before the Income Tax Appellate Tribunal against the said Order of the Commissioner of Income Tax. The Appeal has been heard and the order is pending.

2. AICL has filed an Appeal before the Commissioner of Income Tax (Appeals), Mumbai against the order passed under section 143 (3) of the Income Tax Act by the Income Tax Officer (1) (1) (3), Mumbai dated December 23, 2004 for the Assessment Year 2002-03 aggregating a tax impact of Rs. 1.8 lacs. The said Appeal has been filed by AICL inter alia on the issue of exemption disallowed by the department under section 14A of the Income Tax Act amounting to Rs. 6.7 lacs, additional levy of interest under section 234B amounting to Rs. 0.2 lacs and wrong levy of interest under section 220(2) of the Income Tax Act, 1961. AICL has filed an Appeal before the Income Tax Appellate Tribunal against the said Order of the Commissioner of Income Tax. The Appeal is pending for hearing.

B) SEBI Matter

1. SEBI has imposed a penalty of Rs. 1.50 lacs on AICL for non compliance with regulations 6 and 8 of SEBI (Substantial Acquisition of Shares and Takeover) Regulation, 1997 in the year 2004. The AICL has represented to SEBI for waiver of penalty on the ground that change in the holding of promoters was negligible. The order of SEBI is awaited.

DISPUTES BY AICL

A) Recovery of Rent

1. AICL has filed a suit against European Software Alliance Limited in the Small Causes Court, Mumbai for recovery of arrears of rent amounting to Rs. 27.90 lacs. The matter is pending for final decision.

II) APCOTEX INDUSTRIES LIMITED (AIL)

DISPUTES AGAINST AIL

A) Income Tax Cases

1. Assessment Year 1996-97: The Income Tax Officer has filed an Appeal with the ITAT against the order passed by the Commissioner of Income Tax (Appeals) dated February 25, 2003 for the assessment year 1996-97, deleting the addition of interest of Rs.6.47 lacs to the Income being interest under section 244A of the Income Tax Act, 1961 on the ground that the same was not taxable on accrual basis. The ITAT has allowed the Appeal of the Department and allowed the addition of interest made by the Assessing officer vide order dated April 21, 2006.

2. Assessment Year 1997-98: The Additional Commissioner of Income tax had filed an Appeal with the ITAT against the order passed by the CIT (Appeals) dated January 15, 2000.The ACIT had contended that the CIT(Appeals) had erred in annulling the addition made by the Assessing officer on account of MODVAT credit as on March 31, 1997 of Rs. 30.9 lacs which had not been added to the value of closing stock by AIL. The Appeal was dismissed by ITAT. The IT Department has filed an Appeal with the High Court of Bombay along with the Notice of motion No. 968 of 2005 for delay in filing. The Appeal is pending with the High Court.

3. Assessment Year 1998-99:AIL has filed an application for rectification and issuance of a fresh computation of income under section 154 of the Assessment order passed by the ITAT dated March 20, 2006 for disallowing Rs. 1.50 lacs and adding it back as an expenditure incurred to earn the tax free income.

4. Assessment year 2002-03: AIL has preferred an Appeal with the Commissioner of income tax (Appeals) against the order issued by the Income Tax Officer-10 (3)(3), Mamba under section 271(1)(c) of the Income Tax Act, 1961 dated September 28, 2005. The order appealed against has imposed a penalty of RS. 7.50 lacs on AIL.

5. Assessment year 2003-04: AIL filed Income Tax Return for the assessment year of 2003-04, the same was processed after which, a refund amount was issued to AIL. The IT Department selected the case for scrutiny and issued a notice dated October 6, 2004 under Section 143(2) and another notice accompanied by a questionnaire under Section 142(1) to AIL FOR AN AMOUNT OF Rs. 6.26 lacs. AIL provided for all the details demanded by the department. The same were verified, tested, checked and found to be satisfactory. AIL has filed an application bearing C.I.R. No.AAACA-34276 for rectification and fresh assessment of income under section 154 of the Income Tax Act.

B) Wealth Tax Cases

1. 1998-99: AIL has filed an appeal with the CIT (Appeals) against the order issued under section 18(1)(c) of the Wealth Tax Act, 1957 dated September 28, 2005 by the Wealth Tax Officer-10(3)(3) , Mumbai imposing a penalty of Rs. 1.07 lacs on the ground that AIL concealed a taxable wealth of Rs. 10.00 lacs by not showing the value of the two plots of land situated at Khargar in the taxable assets of AIL.

2. 1999-2000: AIL has filed an appeal with the CIT (Appeals) against the order issued under section 18(1)(c) of the Wealth Tax Act, 1957 dated September 28, 2005 by the Wealth Tax Officer-10(3)(3) , Mumbai imposing a penalty of Rs. 1.07 lacs on the ground that AIL concealed a taxable wealth of Rs. 10.00 lacs by not showing the value of the two plots of land situated at Khargar in the taxable assets of AIL.

3. 2000-01: AIL has filed an appeal with the CIT (Appeals) against the order issued under section 18(1)(c) of the Wealth Tax Act, 1957 dated September 28, 2005 by the Wealth Tax Officer-10(3)(3) , Mumbai imposing a penalty of Rs. 1.07 lacs on the ground that AIL concealed a taxable wealth of Rs. 10.00 lacs by not showing the value of the two plots of land situated at Khargar in the taxable assets of AIL.

4. 2001-02: AIL has filed an appeal with the CIT (Appeals) against the order issued under section 18(1)(c) of the Wealth Tax Act, 1957 dated September 28, 2005 by the Wealth Tax Officer-10(3)(3) , Mumbai imposing a penalty of Rs. 1.07 lacs on the ground that AIL concealed a taxable wealth of Rs. 10.00 lacs by not showing the value of the two plots of land situated at Khargar in the taxable assets of AIL.

C) Customs cases

1. The Commissioner of Customs (Import), Mumbai vide order dated November 30, 2005 has confirmed demand of Rs. 142.10 lacs and imposed a penalty of Rs. 142.10 lacs along with Rs.222.9 lacs as redemption fine @ 5% of assessable value in lieu of the goods which are not available for confiscation under section 111(d) and 111(m) of the Customs Act, 1962. The demand has resulted on account of denial of the transaction value for the high sea sales transaction with Supreme Petrochem Ltd.

D) Central Excise Cases

1. AIL had filed an appeal with the CESTAT, Mumbai against the Order passed by the Commissioner of Central Excise (Appeals), Mumbai dated February 28, 2006 wherein the Commissioner Central Excise (Appeals) had set aside the order of the Joint Commissioner who had excluded the delivery charges collected by AIL from the assessable/ transaction value for the period from October 1997 to March 2002 which amounted to Rs. 33.13 lacs. The CESTAT has allowed the appeal filed by AIL and has set aside the order of the Commissioner of Central Excise (Appeals) and remanded back the case to the Commissioner (Appeals) for re adjudication.

E) Winding Up Petition

1. Auchtel Product Limited has filed a Company Petition No.43/ 2005 dated March 16, 2006 before the High Court of Bombay praying for winding up of AIL for non payment of dues worth Rs. 8.44 lacs. The Company has made the payment pursuant to the order of the High Court of Bombay on May 3, 2006.

III) CHOKSEY CHEMICALS PRIVATE LIMITED (CCPL)

DISPUTES BY CCPL

A) Summary Suits

1. CCPL had filed a Summary Suit No. 752 of 2005 before the High Court of Bombay for recovery of Rs. 2.1 lacs from Samartha Enterprises for default in payment for the goods supplied by CCPL. An ex-parte decree dated July 5, 2005 was passed by the Bombay High Court in favour of CCPL, directing Samartha Enterprises to pay the debt amount of Rs. 2.1 lacs and incidental costs of 0.1 lacs and further interest at the rate of 12% on Rs. 1.3 lacs till payment. CCPL is in the process of executing the ex-parte Decree.

2. CCPL had filed a Summary Suit No. 751 of 2005 before the High Court of Bombay for recovery of Rs. 1.00 lacs from Vijaykumar Rupchandani for default in payment for the goods supplied by CCPL. An ex-parte decree dated July 5, 2005 was passed by the Bombay High Court in favour of CCPL, directing Vijaykumar Rupchandani to pay the debt amount of Rs.1.00 lacs and incidental costs and further interest at the rate of 12% on Rs. 0.7 lacs till payment. CCPL is in the process of executing the ex-parte Decree.

3. CCPL had filed a Summary Suit No. 837 of 2001 before the High Court of Bombay for recovery of Rs. 8.00 lacs from Mr. B.D. Pandya for default in payment for the goods supplied by CCPL. An ex-parte decree dated March 27, 2002 was passed by the Bombay High Court in favour of CCPL, directing Mr. B.D. Pandya to pay the debt amount of Rs. 8 lacs and incidental costs of Rs. 0.2 lacs and further interest at the rate of 21% on Rs. 5.00 lacs till payment. CCPL is in the process of executing the ex-parte Decree.

4. CCPL had filed a Summary Suit No. 669 of 2002 before the High Court of Bombay for recovery of Rs. 6.10 lacs from V.K. Patel & Co. for default in payment for the goods supplied by CCPL. An ex-parte decree dated August 14, 2002 was passed by the Bombay High Court in favour of CCPL, directing V.K. Patel & Co. to pay the debt amount of Rs. 6.10 lacs and incidental costs of Rs. 0.1 lacs and further interest at the rate of 24% on Rs.4.6 lacs till payment. CCPL is in the process of executing the ex-parte Decree.

5. CCPL had filed a Summary Suit No. before the High Court of Bombay for recovery of Rs.2.70 lacs from Alif Enterprises. for default in payment for the goods supplied by CCPL. An ex-parte decree was passed by the Bombay High Court in favour of CCPL, directing Alif Enterprises to pay the debt amount of Rs. 2.70 lacs and incidental costs and further interest. CCPL is in the process of executing the ex-parte Decree.

B) Complaint under section of 138 of the Negotiable Instruments Act, 1881

1. CCPL had sold goods to Walls and Roofs amounting to Rs. 0.8 lacs. The said customer had issued cheque for the said amount of Rs.0.8 lacs. The cheques when deposited for clearance were returned unpaid. Therefore CCPL has filed a Criminal Complaint under Section 138 of the Negotiable Instrument Act, 1881. CCPL is in the process of filing a Summary Suit in the High Court of Calcutta.

IV) MAZDA COLOURS LIMITED (MCL)

DISPUTES AGAINST MCL

A) Income Tax Cases

1. Assessment Year 2001-02: MCL has filed an Appeal before the Commissioner of Income Tax (Appeals), Mumbai against the order passed under section 143(3) of the Income Tax Act by the Assistant Commissioner of Income Tax, Mumbai dated February 26, 2004 for the Assessment Year 2001-02 aggregating a tax liability of Rs. 2.5 lacs. The said Appeal has been filed by MCL inter alia on the issue of deduction under section 80HHC of the Income Tax Act, 1961 and issue of disallowance of certain other expenses. The Commissioner of Income Tax (Appeals) has allowed certain expenses in the said Order dated July 20, 2004. However MCL and the Department have both preferred an Appeal against the said Order of the Commissioner of Income Tax (Appeals), Mumbai.

2. Assessment Year 2002-03: MCL was issued a notice of demand under section 156 of the Income Tax Act, 1961 for the Assessment Year 2002-03 aggregating tax liability of Rs. 22.6 lacs on the Company. The Assessment Order has disallowed certain expenditures and recalculated the deductions claimed by MCL under section 80HHC and 80IB

of the Income Tax Act, 1961. The department has initiated separate penalty proceedings under section 271(1)(c) of the said Act, for providing inaccurate information to the department. MCL has preferred an Appeal before the Commissioner of Appeals against the said Order of the department issued under section 143 (3) of the Income Tax Act.

3. Assessment Year 2003-04: MCL was issued a notice of demand under section 156 of the Income Tax Act, 1961 for the Assessment Year 2003-04 aggregating tax liability of Rs. 11.9 lacs on the Company. The Assessment Order has disallowed certain expenditures and re calculated the deductions claimed by MCL under section 80HHC and 80IB of the Income Tax Act, 1961. MCL has preferred an Appeal before the Commissioner of Appeals against the said Order of the department issued under section 143 (3) of the Income Tax Act.

B) Sales Tax Cases

1. MCL has filed an Appeal against the Order passed by the Assistant Commissioner of Sales Tax, under the Central Sales Tax Act, 1956 for the period starting from April 1, 1999 to March 31, 2000. MCL was issued a final notice of demand under the Central Sales Tax Act, 1956 confirming the tax payable by MCL aggregating tax liability of Rs. 18.4 lacs . The Deputy Commissioner of Sales Tax has directed MCL to make a payment of Rs. 16.1 lacs after considering the part payment of Rs. 1.9 lacs made by MCL and relief in interest of Rs. 0.5 lacs. MCL has filed Appeal before the Maharashtra Sales Tax Tribunal against the Order of the Sales Tax Officer for charging tax on Branch transfer. The matter is pending for hearing.

V) Hindustan Minerals Products Co. Ltd (HMPL)

DISPUTES BY HMPL

A) Summary Suit

1. HMPL had supplied 80,000 kgs of Manganese to Vasuki Commercial Enterprise amounting to Rs.1.4 lacs. The said customer has failed to make the payment for which HMPL has filed a Summary Suit before the High Court, Bombay. The matter has not come up for hearing in the High Court, Bombay.

2. HMPL had filed a Summary Suit No. 3589 of 2000 dated April 3, 2002 before the High Court of Bombay for recovery of Rs. 0.7 lacs from Deep Jyoti Paints Industries for default in payment for the goods supplied by the HMPL. An ex-parte decree dated April 3, 2002 was passed by the Bombay High Court in favour of HMPL, directing Deep Jyoti Paints Industries to pay the debt amount of Rs. 0.7 lacs and incidental costs of Rs. 0.03 lacs and further interest at the rate of 18% on Rs. 0.4 lacs till payment. HMPL is in the process of executing the ex-parte Decree.

DISPUTES AGAINST HMPL

A) Central Excise

1. HMPL is liable to pay duty amounting to Rs. 31.4 lacs and a penalty of Rs. 30.8 lacs vide Order in Original no. 9/MP/2004 dated May 25, 2004 passed by the Commissioner Central Excise and Customs Surat-II. HMPL has preferred an appeal against the said order before the CESTAT, Mumbai for waiver of pre-deposit of the duty amount. The CESTAT, Mumbai has unconditionally allowed the stay petition in favour of HMPL vide Order No. S/749/WZB/2004-CII dated November 16, 2004.

B) Sales Tax

1. HMPL is liable to pay duty amounting to Rs. 8.4 lacs vide Order in Original dated October 20, 2004 passed by the Sales Tax officer, Vadodara. HMPL has filed an appeal against the said order before the Assistant Commissioner Sales Tax (Appeals) Vadodara in respect of disallowing the sale by HMPL against Form "C". It is mandatory for HMPL to make the sale against Form "C" as the customer catered by HMPL is covered under the BIFR. Form "C" books have not been issued to them as the same are pending for clearance. The appeal is pending before the Assistant Commissioner Sales Tax (Appeals), Vadodara.

C) Company Petition

1. HMPL had filed a Company Petition No. 56 of 2003 dated March 10, 2004 before the High Court of Bombay for recovery of Rs.8.3 lacs from Boston Education & Software Technologies Limited for default in payment after the same was ordered by the Court. The High Court of Bombay by an order dated November 29, 2003 directed Boston Education & Software Technologies Limited to pay to HMPL a sum of Rs. 8.3 lacs by monthly installments of Rs. 1.5 lacs. The matter is pending before the High Court.

D) Bombay Port Trust Matters

1. Vide order dated August 28, 2002 the Small Causes Court has ordered HMPL to deliver the possession of the premises at Mazgaon Sewri Reclamation to Bombay Port Trust under a suit filed by the Bombay Port Trust vide Suit No. 327/439 of 1981 against HMPL for eviction. HMPL has gone in Appeal against the said order. The hearing for the appeal is fixed for June 15, 2006.

2. Bombay Port Trust has filed an Appeal against the order arising out of suit No. 252/ 313 of 1984 passed by the Mumbai Small Causes Court dated June 22, 2004 wherein the Court has denied them the right to evict HMPL from the premises. The hearing for the appeal is fixed for June 15, 2006.

3. Bombay Port Trust has filed an Appeal against the order arising out of suit no. 91/106 of 1982 passed by the Mumbai Small Causes Court dated June 21, 2004 wherein the Court has denied them the right to evict HMPL from the premises. The hearing for the appeal is fixed for June 15, 2006.

OTHER PROMOTER GROUP COMPANIES

Except the above Promoter Group Companies, there are no outstanding civil, criminal, staturoty or other litigations or proceedings against other Promoter Group Companies.

GOVERNMENT APPROVALS AND LICENSING

Various approvals and licenses obtained by the Company are listed below. It must, however, be distinctly understood that in granting the above consents/ licenses/ permissions/ approvals, the Government does not take any responsibility for the financial soundness of the company or for the correctness of any of the statements or any commitments made or opinions expressed.

Investment Approvals (FIPB/ RBI, etc.)

As per Notification No. FEMA 20 / 2000 - RB dated 3rd May 2000, as amended from time to time, under automatic route of Reserve Bank, the Company is not required to make an application for Issue of Equity Shares to NRIs/FIIs with repatriation benefits. However, the allotment / transfer of the Equity Shares to NRIs/ FIIs shall be subject to prevailing RBI Guidelines. Sale proceeds of such investments in Equity Shares will be allowed to be repatriated along with the income thereon subject to the permission of the RBI and subject to the Indian tax laws and regulations and any other applicable laws.

Approvals required for manufacturing

The Company has received Acknowledgement no. 754/SIA/IMO/2000 dated 28/03/2000 from the Entrepreneurial Assistance Unit, Secretriat for Industrial Assistance, Ministry of Commerce & Industry for manufacture of Polyols, TRIS (2- Hydroxyethyl Isocyanurate) Coating Agents, Antioxidants and Deinking Agents as also received acknowledgement No 1734/SIA/IMO/2006 dt.04/04/2006 for Cyanuric Acid (with by-product Ammonia etc).

Factory License

SCL has obtained a license No. 54911, duly renewed till 31st December, 2007 to run a factory under the Factories Act, 1948 from the Chief Inspector, Factories,Government of Maharashtra

Statutory approvals

License under the Explosives Act

The Company has received a license no. P/HQ/MH/15/2094(P7382) dated 12/05/2001 from the Petroleum and Explosives Safety Organisation (PESC), Ministry of Commerce & Industry, Government of India for its existing

Petroleum Class A Installation at its unit at village Rasal, Raigad District, Maharashtra. The same has been renewed upto 31/12/2008.

The Company has received license no. P/HQ/MH/15/2094(P7382) to import and store petroleum in installation from the Chief Controller of Explosives. The same has been renewed upto 01/12/2008.

Registration under Export – Import

The Company is registered as a manufacturer exporter vide IEC No. 0388084537, dated: 01/04/1988 with the Office of Jt. Dirdctor General of Foreign Trade, Ministry of Commerce, Government of India.

Registration under the Bombay Sales Tax Act, 1959

The Company has received certificate of registration no. 410205S5 dated 01/04/1996 under section 22/22A of the Bombay Sales Tax Act, 1959

Registration under Central Sales Tax Act, 1956

The Company has received certificate of registration no. 410205C4 dated 01/04/1996 under section 7(1)/7(2) of the Central Sales Tax Act, 1956

Registration under Central Excise

The Company is in possession of Central Excise Registration Certificate bearing Registration number AABCK3123E XM 002.

Registration under Labour Laws

Registration Code No. 31-32713-102 granted by Employees' State Insurance Corporation.

Registration No. MH/37055 granted by the Office of the Regional Provident Fund Commissioner.

Approvals not received or renewed:

License under Shops and Establishment Act for Mumbai office

The Company has obtained a license under the Bombay Shops and Establishments Act, 1948 in respect of the registered office of the Company located at Mumbai.

Pollution Control

- SCL has received consent no. MPCB/WPAE/EIC-RD-0096-05/Raigad-91 dated May 02, 2005 from Maharashtra Pollution Control Board under Section 26 of the Water (Prevention & control of Pollution) Act, 1974 and Section 21 of Air (Prevention & control of Pollution) Act, 1981 and Rule 5 of Hazardous Wastes (Management & Handling) Rules, 1989 for carrying on its operations at its existing plant at Village Rasal in Raigad district of Maharashtra. The same is valid upto February 28, 2007

- SCL has received consent no. BO/RORaigad/PCI-I/EIC-301-05/E/CC-105 dated February 23, 2006 from Maharashtra Pollution Control Board under Section 25 of the Water (Prevention & control of Pollution) Act, 1974 and Section 21 of Air (Prevention & control of Pollution) Act, 1981 and Rule 5 of Hazardous Wastes (Management & Handling) Rules, 1989 for establishing plant for manufacturing Plyols/Coating Agents such as THEIC/Antioxidants/Deinking chemicals/iso-cyanuric acid/compressed ammonia gas (By-Product)

OTHER INCIDENTAL LICENSES

SCL has entered into an agreement dated 09/03/2004 with the Governor of Maharashtra for constructing a pumping station on the Company's land at Rasal Village for drawing water from the source river Amba. As per the Agreement the Company has a sanctioned limit of 70,000 litres per day to be used for its plant, and or supply to residential colonies for a period of six years with effect from 01/11/2003.

Other than those stated above no further major approval from any government authority/RBI is required to continue the business activities.

OTHER REGULATORY AND STATUTORY DISCLOSURES

IMPORTANT INFORMATION

- Under no circumstances should any request be sent to the Lead Manager to the Offer.
- The Company undertakes to provide adequate Funds to the Registrars to the Offer for posting of the Refund Orders/ Letters of Allotment/ Share Certificates by registered post wherever applicable.

AUTHORITY FOR THE PRESENT ISSUE

The Board of Directors of the Company (hereinafter referred to as "The Board") in pursuance to a special resolution passed at the Extra-ordinary General Meeting held on April 04, 2006 have decided to offer 36,76,530 equity shares of Rs. 10/- each at premium of Rs.30/- per share aggregating to Rs.1470.61 Lacs to the existing equity shareholders of the Company on rights basis in the ratio of 1 (one) equity share for every 1 (one) equity shares (i.e.1:1) held as on __________ (hereinafter referred to as "Record Date").

PROHIBITION BY SEBI

The Company, its Promoters, Directors or any of the Company's associates or group companies with which the Directors of the Company are associated as Directors or Promoters have not been prohibited from accessing the capital market under any order or direction passed by SEBI.

The Company, its promoters, their relatives and group companies are not detained as willful defaulters by RBI/ Government authorities and there are no violations of securities laws committed by them in the past or pending against them.

ELIGIBILITY

Sunshield Chemicals Limited is an existing listed Company. It is eligible to offer this Rights Issue in terms of Clause 2.4 (iv) of the SEBI (DIP) Guidelines, 2000.

DISCLAIMER CLAUSE

AS REQUIRED A COPY OF THIS DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THIS DRAFT LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE, OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE OFFER DOCUMENT. LEAD MERCHANT BANKER, SBI CAPITAL MARKETS LIMITED, HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURES AND INVESTOR PROTECTION IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT LETTER OF OFFER, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, SBI CAPITAL MARKETS LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED _______, 2006 IN ACCORDANCE WITH SEBI (MERCHANT BANKERS) REGULATION 1992 WHICH READS AS FOLLOWS:

(I) WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE DRAFT LETTER OF OFFER PERTAINING TO THE SAID ISSUE.

(II) ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.

WE CONFIRM THAT:

(A) THE DRAFT LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;
(B) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE, AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANOTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND
(C) THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE.
(D) WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT LETTER OF OFFER ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATION IS VALID.

AS PER CLAUSE 5.1.1 OF THE SEBI (DIP) GUIDELINES, 2000 THE LIABILITY OF THE LEAD MANAGER SHALL CONTINUE EVEN AFTER COMPLETION OF THE ISSUE PROCESS.

THE FILING OF THE DRAFT LETTER OF OFFER DOES NOT, HOWEVER ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 OF THE COMPANIES ACT, 1956, OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE LEAD MANAGER FOR ANY IRREGULARITIES OR LAPSES IN THE DRAFT LETTER OF OFFER.

THE PROMOTERS / DIRECTORS OF SCL VIZ. MR. AMIT C. CHOKSEY, MR. ASHOK R. DATAR, MR. SANDEEP H. JUNARKAR, MR. SATISH M. KELKAR, MR. MANUBHAI G. PATEL, MR. KAUSHIK C. SANGHVI AND MR. BIPIN V. JHAVERI DECLARE AND CONFIRM THAT NO INFORMATION/MATERIAL LIKELY TO HAVE A BEARING ON THE DECISION OF INVESTORS IN RESPECT OF THE SHARES OFFERED IN TERMS OF THIS DRAFT LETTER OF OFFER HAS BEEN SUPPRESSED / WITHHELD AND / OR INCORPORATED IN THE MANNER THAT WOULD AMOUNT TO MIS-STATEMENT/ MISREPRESENTATION AND IN THE EVENT OF ITS TRANSPIRING AT ANY POINT IN TIME TILL ALLOTMENT/REFUND, AS THE CASE MAY BE, THAT ANY INFORMATION/MATERIAL HAS BEEN SUPPRESSED/WITHHELD AND/ OR AMOUNTS TO A MIS-STATEMENT/MIS-REPRESENTATION, THE PROMOTERS/DIRECTORS UNDERTAKE TO REFUND THE ENTIRE APPLICATION MONIES TO ALL SUBSCRIBERS WITHIN 7 DAYS THEREAFTER WITHOUT PREJUDICE TO THE PROVISIONS OF SECTION 63 OF THE COMPANIES ACT.

CAUTION / DISCLAIMER CLAUSE OF THE ISSUER AND THE LEAD MANAGER

The Company and the Lead Manager accept no responsibility for the statements made otherwise than in the Draft Letter of Offer or in the advertisement or any other material issued by or at the instance of the issuer and that anyone placing reliance on any other source of information would be doing so at their own risk.

DISCLAIMER IN RESPECT OF JURISDICTION

This Offer is being made in India to persons resident in India (including Indian nationals resident in India who are majors, Hindu Undivided Families, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), Trusts registered under the Societies Registration Act, 1860, or any other Trust law and who are authorised under their constitution to hold and invest in shares) and to NRIs, OCBs and FIIs as defined under the Indian laws. This Offer Document does not, however, constitute an offer to sell or an invitation to subscribe to securities issued hereby in any other jurisdiction. Any person into whose possession this Offer Document comes is required to inform himself about and to observe any such restrictions. Any dispute arising out of this Offer will be subject to the jurisdiction of appropriate court(s) in India only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Offer Document has been submitted to the SEBI. Accordingly, the equity shares represented thereby may not be offered or sold, directly or indirectly, and this Offer Document may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of Offer Document nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Sunshield Chemicals Limited since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

CERTIFICATION BY THE LEAD MANAGER

The Lead Manager to the Offer, SBI Captal Markets Limited hereby certify that:

- SCL has been filing periodic statements in regard to the financial results and the sahreholding pattern with the Bombay Stock Exchange Limited (BSE/Designated Stock Exchange) and the Registrar of Companies, Maharashtra, Mumbai for the last three years and such statements are available on the websites of BSE/on a common e-filing platform.

- SCL has in place an investor grievance handling mechanism which includes meeting of "Shareholders" / "Investor Grievance" Committee at frequent intervals, appropriate delegation of power by the Board of Directors of SCL with regard to share transfer and clearly laid out systems and procedures for timely and satisfactory redressal of investor grievances.

LISTING

The existing equity shares of the Company are listed on The Bombay Stock Exchange Ltd. (BSE) (Designated Stock Exchange). Applications will be made to the BSE for permission to deal in and for an official quotation in respect of the equity shares of the Company being offered in terms of this Draft Letter of Offer. The Company has received 'in-principle' approval from BSE for listing of the equity shares being offered pursuant to this Rights Issue vide their letter no.------------, dated: -----------

The company's equity shares were listed on four Stock Exchanges in India viz., BSE Ltd., The Delhi Stock Exchange, The Stock Exchange Ahmedabad and The Hyderabad Stock Exchange Ltd. Since the trading vloumes in company's equity shares on Delhi, Ahmedabad and Hyderabd Stock Exchanges were either nil or insignificant. Board of Directors at its meeting held on 24th June 2004, recommeded a proposal to voluntarily delist the company's equity shares from the Stock Exchanges at Delhi, Ahmedabad and Hyderabad. Moreovcer with the company's shares continuing to be listed on the BSE Ltd. with nationwide terminals, investors at any of the said places would not in any way be adversely affected by the proposed delisting. An application dated 10th September 2004 for volutary delisting was made to Stock Exchanges at Delhi, Ahmedabad and Hyderabad. Approvals for delisting from these stock exchanges were received in January/ February 2005.

DISCLAIMER CLAUSE OF THE BOMBAY STOCK EXCHANGE LIMITED (BSE)

As required a copy of this Draft Letter of Offer has been submitted to BSE. The BSE has given the permission to the Company vide its letter ____________________________, dated ____________________ to use their name in this Draft Letter of Offer as one of the stock exchanges on which Equity Shares of the Company being issued in terms of this Draft Letter of Offer are proposed to be listed.

"Bombay Stock Exchange Limited ("the Exchange") has given vide its letter dated _____________, permission to this company to use the Exchange's name in this Draft Letter of Offer as one of the stock exchanges on which this company's securites are proposed to be listed. The Exchange has scrutinized this Draft Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner :

i. warrant, certify or endorse the correctness or completeness of any of the contents of this Draft Letter of Offer; or
ii. warrant that this company's securities will be listed or will continue to be listed on the Exchange; or
iii. take any responsibility for the financial or other soundness of this company, its promoters, its management or any scheme or project of this company;

and it should not for any reason be deemed or construed that this Draft Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription /acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever."

FILING

A copy of this Draft Letter of Offer dated **_________** has been filed with SEBI, Mumbai and The Bombay Stock Exchange Limited (BSE) (Designated Stock Exchange).

IMPERSONATION

Attention of the applicants is specifically drawn to the provisions of Sub-Section (1) of section 68A of the Companies Act, 1956 which is reproduced below:

" Any person who –

(a) **makes in a fictitious name an application to a Company for acquiring, or subscribing for, any shares therein, or**
(b) **otherwise induces a Company to allot or register any transfer of shares therein to him, or any other person in a fictitious name,**

shall be punishable with imprisonment for a term which may extend to five years."

CONSENTS

Consents in writing of : (a) the Directors, the Company Secretary and Compliance Officers, the Auditors, Lead Manager to the Issue and Registrar to the Issue, to act in their respective capacities, have been obtained and shall be filed along with a copy of the Draft Letter of Offer with SEBI and such consents have not been withdrawn up to the time of delivery of this draft Letter of Offer for registration with SEBI.

M/s Tembey & Mhatre, Stautory Auditors, have given their written consent to the inclusion of their report in the form and context in which it appears in this draft Letter of Offer and such consent and report has not been withdrawn up to the time of delivery of this Draft Letter of Offer for filing with the SEBI.

EXPERT OPINION

No expert opinion has been obtained in respect of the present Rights Issue.

EXPENSES OF THE ISSUE

Please refer to para under ‘ Issue Expenses’ on page no. _____ of this Draft Letter of Offer.

PREVIOUS PUBLIC ISSUES OR RIGHTS ISSUES

The Company has not made a public or rights issue during the past five years.

PREVIOUS ISSUE OF SHARES OTHERWISE THAN FOR CASH

The Company has issued 138600 equity shares of Rs. 10/- each as bonus in the ratio of 1:1 on October 21, 1991. Other than this the Company has not issued shares for consideration other than cash.

COMMISSION OR BROKERAGE ON PREVIOUS ISSUES

The Company made one public issue since inception and no underwriting commission was paid, as the issue was not underwritten. The Company has paid the brokerage @ 1.5% to the members of any recognized stock exchange in India on the issue price of Equity Shares on the basis of allotment made against applications bearing their respective stamps in the Broker’s column. Brokerage at the same rate was also paid to the Bankers to the Issue in respect of allotments made against applications procured by them provided the relative forms off application bear their respective stamps in the Broker’s column.

PARTICULARS IN REGARD TO CAPITAL ISSUE DURING THE LAST THREE YEARS

By the Company

The Company has not made any capital issue during the last three years.

Listed companies under the same management within the meaning section 370 (1)(B) of the Companies Act, 1956

None of the listed group companies of SCL have made preferential allotment of shares or issued debentures or made any public or rights issue in the past three years.

PROMISE VERSUS PERFORMANCE

For SCL

Public Issue

An offer for sale of Sunshield's 9,19,200 equity shares of Rs. 10/- at a premium of RS. 38 agreegating to Rs. 4.41 crores was made through its Offer for Sale document dated March 23, 1995 by the then, The Industrial Credit and Investment Corporation of India Ltd. (ICICI), ICICI Securities and Finance Company Ltd. (I-Sec), Lloyds Equities and Debentures Ltd, The State Industries and Investment Corporation of Maharashtra Ltd. (SICOM) and Apple Financial Securities Ltd. , "the Offerers" to list the equity shares of the Company on Mumbai, Delhi, Ahmedabad & Hyderabad stock exchanges.

STOCK MARKET DATA

The equity shares of the Company are listed on the Bombay Stock Exchange Limited. The stock market data for the equity shares on the BSE are as follows:

Particulars	High			Low			Average Price (Rs.)
	High (Rs)	Date	Volume on date of high (no. of shares)	Low (Rs)	Date (Rs)	Volume on date of Low (no of shares)	
2003	10.00	08/09/2003	2510	2.37	30/06/2003	2500	6.19
2004	9.48	25/11/2004	4070	0.97	29/06/2004	750	5.23
2005	83.75	20/09/2005	12350	7.50	03/01/2005	300	45.63
November, 2005	76.80	26/11/2005	3665	44.10	07/11/2005	1000	60.45
December, 2005	75.45	02/12/2005	25345	55.20	28/12/2005	850	65.33
January, 2006	68.80	25/01/2006	3870	57.50	19/01/2006	600	63.15
February, 2006	67.50	01/02/2006	6722	57.10	23/02/2006	5102	62.30
March, 2006	78.25	09/03/2006	5955	55.15	28/03/2006	1391	66.70
April, 2006	84.30	12/04/2006	21470	62.70	24/04/2006	5590	73.50

Details of Volume of shares transacted during the past six months are as follows:

Month	Volume (no. of Shares)
October, 2005	128219
November, 2005	161307
December, 2005	85301
January, 2006	116979
February, 2006	68210
March, 2006	113729
April, 2006	92248

Week end price of equity Shares of SCL on the BSE

Week ended	Closing Price (Rs)	Highest During the week	Lowest during the week
13/04/2006	77.35	84.3	77.35
21/04/2006	65.55	77.20	65.50
29/04/2006	67.90	71.35	62.70
05/05/2006	66.80	73.40	66.35

The market price of SCL as on 06th March, 2006 (next working day) was immediately after the date on which the resolution of the Board of Directors approving the issue was passed Rs.67.95. The market price of SCL as on 05th April, 2006 immediately after the date of the EGM (04/04/2006) was Rs.72.90.

- **The Cum-Rights Closing price of the shares of the Company as on ____ was ______**
- **The Ex-Rights closing price of the shares of the Company as on ___ was _____**

Mechanism for redressal of investor grievances

The company has a Registrar and Share Transfer Agent. The investor grievances are redressed within a period of one week from the date of receipt of the complaint.

Disposal of Investor Grievance

Correspondence from the investors are normally received by way of letters hand delivered, courier or postal services, over the telephone or in person.

The Categories of correspondences received from the investors mainly are of the following types: -

1.) Share transfer request.
2.) Share transmission request.
3.) Change of Address letter.
4.) Loss of shares request.
5.) Non receipt of Annual Report.

The investors correspondence are handled by the Secretarial Department. The investor's correspondence relating to share transfer, non-receipt of annual report, loss of shares etc are immediately taken care of and efforts are made to resolve the complaint immediately.

The correspondence relating of loss of shares, share transfer/transmission request, change of address letter are immediately forwarded to the Registrar and transfer, TSR Darashaw Ltd. (formerly Tata Share Registry Ltd.) who handle the investors correspondences.

The details of the investors grievances for the last one year is as follows :-

Date of receipt of complaint	Nature of Complaint	Date of redressal of complaint
Year 2004-2005		
None	**None**	None
Year 2005-2006		
None	None	None

The Company has appointed Mr. Himanshu Mhatre, Company Secretary, as Compliance Officer. The investors may contact the Compliance Officer in case of any pre issue/post issue related problems such as non-receipt of allotment advise, refund orders, demat credits etc. The Compliance Officer will be available at the following address: Janki Niwas, N.C. Kelkar Road, Dadar, Mumbai-400 028. **Tel**: (022) 2430 1454, 2430 1057, **Fax**: (022) 2430 7094, **Email**-: sclspl@vsnl.net

Change in Auditors

There has been no change in the auditors during last three years.

Capitalization of reserves or profit

We have not capitalized our reserves or profits during the last five years.

Revaluation of Assets

We have not revalued our assets in the last five years.

TERMS OF THE ISSUE

The Equity Shares now being offered are subject to the provisions of the Act and the terms and conditions of this Draft Letter of Offer, the CAF, the MoA and AoA of the Company, the approvals from the Government of India, FIPB and RBI, if applicable, FEMA, guidelines issued by SEBI, laws, guidelines, notifications and regulations for issue of capital and for listing of Equity shares issued by SEBI, Government of India, RBI and/or other statutory authorities and bodies from time to time, listing agreements entered into by the Company with Stock Exchanges, terms and conditions as stipulated in the allotment advise or letters of allotment, rules as may be applicable and introduced from time to time.

RANKING OF EQUITY SHARES

The Equity Shares allotted pursuant to this Draft Letter of Offer shall rank pari-passu in all respects with the existing Equity Shares of the Company including in respect of dividend, if any, declared by the Company, for the financial year, in which these Equity Shares are allotted.

RIGHTS OF SHAREHOLDERS

Subject to applicable laws, the equity shareholders shall have the following rights :

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right to free transferability; and
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act and our Memorandum and Articles.

MARKET LOT

Since trading of our equity shares is in dematerialized form, the tradable lot is one equity share.

In case of physical certificates the company would issue one certificate for the Equity shares allotted to one person (Consolidated Certificate). In respect of the consolidated certificate, the company will only upon receipt of a request from the Equity shareholders, split such consolidated certificate into smaller denomination with in week's time from the date of the request from the Equity shareholders. No fee would be charged by the company for splitting the consolidated certificate.

NOMINATION FACILITY TO THE INVESTOR

In accordance with Section 109A of the Companies Act, the sole or first bidder, along with other joint bidder, may nominate any one person in whom, in the event of the death of sole bidder or in case of joint bidders, death of all the bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the equity share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to equity share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/ transfer/ alienation of equity share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at our Registered / Corporate Office or to our Registrar and Transfer Agents.

MINIMUM SUBSCRIPTION

The minimum subscription which must be raised by this issue of equity shares is 90% of the amount apayable on application towards the issue of 36,76,530 equity shares of Rs. 10/- each offered in terms of this Draft Letter of Offer. The Board of Directors will proceed to allot the shares on receipt of the application money payable on 90% of the 36,76,530 equity shares.

If the Company does not receive the minimum subscription of 90% of the amount payable on application upto the date of closure of the issue, or if the subscription level falls below 90% after the closure of issue on account of cheques having been returned unpaid or withdrawal of applications, the Company shall forthwith refund the entire subscription amount received within 42 days from the date of closure of the issue. If there is a delay beyond 8 days after the Company becomes liable to pay the amount, the Company shall pay interest for the delayed period as per Section 73 of the Companies Act, 1956.

In case this Rights Issue is undersubscribed after considering the number of Equity Shares applied as per entitlement/ renouncement and additional Equity Shares, the undersubscribed portion shall be applied for by the persons in the promoter group (as disclosed on page no. ____ of this Draft Letter of Offer)only after the close of the Issue.

BASIS OF THE OFFER

The Equity Shares are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company in respect of Equity Shares held in the physical form at the close of business hours on the Record Date. The Company has in consultation with the Designated Stock Exchange fixed the Record Date for determining the shareholders who are entitled to receive this offer for Equity shares on a rights basis. The Equity Shares are being offered for subscription in the ratio of one Equity Share for every one Equity Shares held by the Equity Shareholders. The shareholders whose names appear as beneficial owners as per the list furnished by the depositories in respect of the Equity Shares held in electronic form and on the register of members of the Company in respect of the shares held in physical form on ________________ at the close of business hours shall be entitled to the equity shares on the Rights basis in the ratio of four equity share for every five equity shares held by them.

DISPOSAL OF ODD LOTS

The equity shares are being issued in the ratio of one equity shares for every equity share held as on record date. As such the rights issue will not lead to any odd lots.

OPTION TO SUBSCRIBE

Applicants to the Equity Shares of the Company issued through this Rights Issue shall be allotted the securities in dematerialized (electronic) form at the option of the applicant.

RIGHTS ENTITLEMENT

As your name appears as beneficial owner in respect of the shares held in the electronic form or appears in the register of members as an equity shareholder of the Company on the Record Date, you are entitled to this Rights Offer. The number of Equity Shares to which you are entitled is shown in Block I of Part A of the enclosed CAF and as shown in part A of the enclosed CAF.

FRACTIONAL ENTITLEMENT

The present rights issue being in the ratio of 1:1 will not lead to any fractional entitlement.

FOREFEITURE

The entire amount of Rs. 40/- per share is payable on application.

JOINT-HOLDERS

Where two or more persons are registered as the holders of any Equity Shares, they shall be deemed (so far as the company is concerned) to hold the same as joint-tenants with benefits of survivorship subject to provisions contained in the Articles.

OFFER TO NON-RESIDENT EQUITY SHAREHOLDERS/ APPLICANTS

Presently 20947 equity shares aggregating to 0.57 % of the present issued capital are held by NRIs/FIIs/OCBs on repatriation basis. Applications received from NRIs and other NR shareholders for allotment of Equity Shares shall be, inter alia, subject to the conditions imposed from time to time by the RBI under the FEMA in the matter of refund of application moneys, allotment of Equity Shares, issue of Letter of Allotment / share certificates, payment of interest, dividends, etc. General permission has been granted to any person resident outside India to apply shares offered on rights basis by an Indian Company in terms of FEMA and the rules and regulations thereunder. Vide notification dated June 18, 2003, bearing number FEMA 94/2003, RBI has granted general permission to Indian companies to issue rights/bonus shares to existing non-resident shareholders. The existing non-resident shareholders may apply for issue of additional shares and the Company may allot the same subject to the condition that the overall issue of shares to non-residents in the total paid up capital does not exceed the sectoral cap. In other words, non-residents may subscribe for additional shares over and above shares offered on rights basis by the company and renounce the shares offered in full or part thereof in favour of a person named by them. Residents may subscribe for additional shares over and above the shares offered on rights basis by the Company and also renounce the shares offered either in full or part thereof in favour of a person named by them. The Equity Shares issued under the Rights Issue and purchased by NR shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the previously held Equity Shares against which Equity Shares under the Rights Issue are issued.

However, as per the provisions of AP (DIR) circular No. 14 dated September 16, 2003 (issued by the RBI), such shareholders who have been allotted the Equity Shares as OCBs would not be permitted to participate in the Rights Issue. Accordingly, shareholders/ applicants who are OCBs and wishing to participate in the Rights Issue would be required to submit approvals in relation thereto from the FIPB and the RBI. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, payment of dividend etc. to the Equity Shareholders who are NR.

NOTICES

All notices to the Equity shareholder(s) required to be given by the Company in connection with the Issue shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation, one regional language daily in Kolkata being the place where the registered of the Company is situated and/or will be sent by ordinary post to the registered holders of the Equity Share(s) from time to time.

ISSUE OF DUPLICATE EQUITY SHARE CERTIFICATE

If any Equity Share certificate(s) is/are mutilated or defaced or the cages for recording transfers of Equity Shares are fully utilized, the Company against the surrender of such certificate(s) may replace the same, provided that the same will be replaced as aforesaid only if the certificate numbers and the distinctive numbers are legible.

If any Equity Share certificate(s) is/are destroyed, stolen, lost or misplaced, then upon production of proof thereof to the satisfaction of the Company and upon furnishing such indemnity/surety and/or such other documents as the Company may deem adequate, duplicate Equity Share certificate(s) shall be issued.

PRINTING OF BANK PARTICULARS ON REFUND ORDERS

As a matter of precaution against possible fraudulent encashment of refund orders due to loss or misplacement, the particulars of the applicant's bank account are mandatorily required to be given for printing on refund orders. Bank account particulars will be printed on the refund orders / refund warrants, which can then be deposited only in the account specified. The Company will in no way be responsible if any loss occurs through these instruments falling into improper hands either through forgery or fraud.

OPTIONS AVAILABLE TO THE EQUITY SHAREHOLDER

The CAF clearly indicates the number of Equity Shares, which the Equity shareholder is entitled to. If the Equity shareholder applies for an investment in Equity Shares, then he/she can:

- Apply for his/her entitlement in full
- Apply for his/her entitlement in full and apply for additional Equity Shares
- Apply for his/her entitlement in part
- Apply for his/her entitlement in part and renounce the other part
- Renounce the entire entitlement (or part of entitlement).
- Renouncee for the Equity Share can apply for the Equity Shares renounced to them and also apply for additional Equity Shares.

GROUNDS FOR TECHNICAL REJECTIONS

Applicants are advised to note that applications are liable to be rejected on technical grounds, including the following:

- Amount paid does not tally with the amount payable for;
- Bank account details (for refund) are not given;
- Age of First Applicant not given;
- PAN photocopy/ PAN Communication/ Form 60 / Form 61 declaration not given if Application is for Rs.50,000 or more;
- In case of Application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
- If the signature of the existing shareholder does not match with the one given on the Application Form and for renouncees if the signature does not match with the records available with their depositories;
- If the Applicant desires to have shares in electronic form, but the Application Form does not have the Applicant's depository account details;
- Application Forms are not submitted by the Applicants within the time prescribed as per the Application Form and the Draft Letter of Offer;
- Applications not duly signed by the sole/joint Applicants;
- Applications by OCBs unless accompanied by specific approval from the RBI permitting the OCBs to invest in the Issue;
- Applications accompanied by Stockinvest;
- In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Applicants (including the order of names of joint holders), the Depositary Participant's identity (DP ID) and the beneficiary's identity;
- Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws) and where last available address in India has not been provided.

HOW TO APPLY

For Resident Indian Shareholders

Application should be made only on the enclosed CAF provided by the Company. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Managers or by the Registrar to the Issue or by the Company at any offices except in the case of postal applications as per instructions given in the Draft Letter of Offer. Payment should be made by cheque/bank draft/ drawn on any bank (including a co-operative bank) which is situated at and is a member or a sub-member of the bankers clearing house located at the centre where the CAF is submitted and which is participating in the clearing at the time of submission of the application. Outstation cheques/money orders/postal orders will not be accepted and CAFs accompanied by such cheques/money orders/postal orders are liable to be rejected.

For Non-Resident Shareholders on Non-Repatriation basis

Applications received from the Non-Resident Equity Shareholders for the allotment of Equity Shares shall, inter alia, be subject to the conditions as may be imposed from time to time by the Reserve Bank of India, in the matter of Refund of application moneys, allotment of Equity Shares, issue of Letters of Allotment/ certificates/ payment of dividends etc. For NRIs holding shares on non-repatriation basis, payment may also be made by way of cheque drawn on Non-Resident Ordinary (NRO) Account maintained in Mumbai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Mumbai. In such cases, the allotment of shares will be on non-repatriation basis. If the payment is made by a draft purchased from an NRO account, an Account Debit Certificate from the bank issuing the draft, confirming that the draft has been issued by debiting the NRO account, should be enclosed with the CAF. In the absence of the above, the application shall be considered incomplete and is liable to be rejected. All cheques/bank drafts accompanying the CAFs should be crossed. A/c Payee Only. And made payable to **"(Name of The Bank) A/c –Sunshield Chemicals Ltd. - Rights Issue - NR"** The CAF duly completed together with the amount payable on application must be deposited with the collecting bank/collection centres indicated on the reverse of the CAF, on or before the close of banking hours on or before the Issue closing date. A separate cheque or bank draft must accompany each CAF. Reference number of CAF should be mentioned on the reverse of the Cheque/Draft. New Demat account shall be opened for holders who have had a change of status from Resident Indian to NRI.

The CAF consists of four parts:

Part A: Form for accepting the Equity Shares offered and for applying for additional Equity Shares
Part B: Form for renunciation
Part C: Form for application for renouncees
Part D: Form for request for split application forms

ACCEPTANCE OF OFFER

The Equity shareholder may accept and apply for the Equity Share(s) offered in whole or in part, by filling in Part "A" of the enclosed CAF and submitting the same along with payment of the application money to the Bankers to the Issue and its collection centers specified on the reverse of the CAF on or before the close of banking hours on____________, 2006. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the demand draft, net of demand draft and postal charges, payable at Mumbai to the Registrar to the Issue by registered post. Such applications sent to anyone other than the Registrar to the Issue are liable to be rejected.

You may apply for the equity shares offered wholly or in part by filling in the enclosed CAF and submitting the same along with the application money to the Bankers to the Issue or its designated branches on or before the closure of the subscription list. The CAF should be complete in all respects, as explained in the INSTRUCTIONS indicated in the CAF. The CAF should not be detached under any circumstances, otherwise the application(s) will be rejected forthwith.

ADDITIONAL EQUITY SHARES

The Equity shareholder is eligible to apply for additional Equity Shares over and above the number of Equity Shares entitled to, provided he/she applies for all the Equity Shares, to which he/she is entitled to, without renouncing them, in whole or in part, in favor of any other person(s).

If you desire to apply for additional equity shares, you may fill in the number of additional equity shares in Part A of the CAF. The allotment of additional equity shares will be at the sole discretion of the board on an equitable designated stock exchange. In the case of request for additional equity shares by non-residents, the allotment will be subject to approval of Reserve Bank of India. The board may reject any application for additional equity shares without assigning any reasons thereof.

RENUNCIATION

A shareholder to whom the equity shares are offered as rights entitlement may renounce the equity shares offered to him, either in full or in part, in favour of any other person or persons. Such renounces can only be Indian Nationals, limited companies incorporated in India and governed by the Act, statutory corporations/ institutions, societies (registered under the Societies Registration Act, 1860 or any other applicable laws) provided that such corporation/ institutions/ society is authorized under its constitution/ bye laws to hold equity shares in a company. The rights renunciation cannot be renounced jointly in favour of more than three persons, minors (unless acting through natural or legal guardians), a partnership firm, trust (unless the same is registered under the applicable Trusts laws and is authorized under its constitution to hold equity shares of a company), HUF, foreign national or his nominee (unless approved by RBI or other relevant authorities) or to any person situated within the jurisdiction where the offering in terms of this LoF could be illegal or require compliance with securities laws of such jurisdiction or to any other persons not approved by the Board.

Any renunciation from Resident Indian Shareholder(s) to Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to other Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to Resident Indian(s) is subject to the renouncer(s)/ renouncee(s) obtaining the approval of the FIPB/ SIA and /or necessary permission of the RBI under the Foreign Exchange Management Act, 1999 (FEMA) and other applicable laws and such permissions should be attached to the CAF. Applications not accompanied by the aforesaid approval are liable to be rejected.

The Board reserves the right to reject the request for allotment to renounces in its sole and absolute discretion without assigning any reason thereof.

Any person(s) other than those in whose favor this offer has been made must not use part A of the CAF. Submission of the enclosed CAF to the Banker to the Issue at its collecting centers specified on the reverse of the CAF with the Form of Renunciation (Part B of the CAF) duly filled in shall be conclusive evidence in favor of the Company of the person(s) applying for Equity Shares in Part C to receive allotment of such Equity Shares. Part 'A' must not be used by the renouncee(s) as this will render the application invalid.

By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, Overseas Corporate Bodies ("OCB") have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign exchange Management (withdrawal of General Permission to Overseas Corporate Bodies (OCBs)) Regulations, 2003. Accordingly, the existing equity shareholders of the company who do not wish to subscribe to the equity shares being offered but wish to renounce the same in favour of renounces shall not renounce the same (whether for consideration or otherwise) in favour of OCB(s).

Renouncee(s) will have no further right to renounce any Equity Shares in favor of any other person. Further Renouncee(s) cannot apply for additional equity shares.

PROCEDURE FOR RENUNCIATION

(a) To renounce the offer in whole in favor of one renouncee :
If the Equity shareholder wishes to renounce this offer in whole, then he/she has to complete Part B of the CAF. In case of joint holders, all joint holders must sign this part of the CAF. The person in whose favour renunciation has been made should complete and sign Part C of the CAF. In case of joint renouncees, all joint renouncees must sign this part of the CAF.

(b) To renounce the offer in part:
If the Equity shareholder wishes to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renouncees, separately, the CAF must be first split by applying to the Registrars to the Issue. The Equity shareholder should indicate his/her requirement for split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrars to the Issue so as to reach them latest by the close of business hours on _________ 2006. On receipt of the required number of split forms from the Registrars, the procedure as mentioned in the above Para (a) shall have to be followed.

(c) Change and/or introduction of additional holders:
If the Equity shareholder wishes to apply for Equity Shares jointly with any other person, or persons, not more than three, who is/are not already joint holders, it shall amount to renunciation and the procedure as stated above shall have to be followed. Even a change in the sequence of the joint holders shall amount to renunciation and the procedure for renunciation, as stated above shall have to be followed.

However, any right of renunciation is subject to the express condition that the Board of the Company shall be entitled in its absolute discretion to reject the request for allotment from the renouncees without assigning any reasons there for.

SPLITTING OF COMPOSITE APPLICATION FORMS

Requests for split CAF should be sent to the Registrars to the Issue, namely Intime Spectrum Registry Limited before the closure of business hours on or before ______________________ by filling in Part D of the CAF along with entire CAF. Split CAF cannot be re-split. The renouncee(s) shall be entitled to obtain split CAF.

HOW TO APPLY FOR SHARES

The Equity shareholder may exercise any of the following options with regard to the Equity Shares offered to him/her, using the enclosed CAF:

S. NO.	OPTIONS AVAILABLE	ACTION REQUIRED
1	Accept your entitlement to all the equity shares offered to you	Fill in and sign 'Part A' of the CAF.
2	Accept your entitlement to all the equity shares offered to you and apply fro additional shares	Fill in and sign 'Part A' of the CAF after indicating in Block IV the number of additional Equity Shares applied for.
3	Accept only a part of your entitlement of the equity shares offered to you (without renouncing the balance)	Fill and sign Part A of the CAF
4	Renounce your full entitlement of the equity shares offered to you to one person (Renouncee)(Joint Renouncees not exceeding three are considered as one Renouncee)	Fill and sign Part B of the CAF indicating the number of equity shares renounced and hand over the entire CAF to the renouncee. The renouncee must fill and sign Part C of the CAF
5	Accept a part of your entitlement of the equity shares offered to you and then renounce the balance to one renouncee or more renounces	Fill and sign Part D of the CAF for Split Forms after indicating the required number of Spilt Application Forms and send the entire CAF to the registrars to the Issue so as to reach them on or before the last date for receiving request for Split Forms indicated in the CAF i.e., _______. On receipt of the Split Forms take action as indicated below : (i) For the equity shares, if any, which you want to accept, fill in and sign Part A of one Split Composite Application Form. (ii) For the equity shares you want to renounce, fill in and sign Part B in the required number of Split Composite Application Forms indicating the number of Equity Shares renounced to each renounceee. (iii) each of the renouncee should then fill in and sign Part C of the respective split composite application form for the equity shares accepted by the renouncee.
	Renounce your entitlement of the equity shares offered to you, to more than one Renouncee	Follow the procedures stated in (E) above for obtaining the required number of Split Composite Application Forms and on receipt of Split Composite Application Forms follow the procedure as stated in (E) (ii) and (iii) above.
	Introduce a joint holder or change the sequence of joint holders	This will be treated as a renunciation. Fill in and sign Part B and the renouncees must fill in and sign Part C.

Application for Equity Shares should be made only on the CAFs, which are provided by the Company. The CAF should be completed in all respects as explained under the head "INSTRUCTIONS" indicated on the reverse of the CAF before submission to the Bankers to the Issue at its collecting centres on the reverse of the CAF on or before the last day of the closure of the Issue. Non resident shareholders/renouncee(s) should forward their applications to the Bankers to the Issue at the specified collection centers indicated on the reverse of the CAF for non-resident applicants. No part of the CAF should be detached under any circumstances.

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Issue will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID number and his/ her full name and address to the Registrar to the Issue. Any request for duplicate CAF should be addressed to the Registrar to the Issue. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. If the applicant violates any of these requirements, he / she shall face the risk of rejection of both the applications.

Application on Plain Paper

An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Rights Issue on plain paper, along with a Demand Draft payable at Mumbai which should be drawn in favour of the Company and send the same by registered post directly to the Registrar to the Issue.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Company, must reach the office of the Registrar to the Issue before the Issue Closing Date (i.e _______) and should contain the following particulars:

- Name of Issuer,
- Name and address of the Equity Shareholder including joint holders
- Registered Folio Number/ DP and Client ID no.
- Number of shares held as on Record Date i.e (•).
- Certificate numbers and distinctive numbers, if held in physical form
- Number of Rights Equity Shares entitled
- Number of Rights Equity Shares applied for out of entitlement
- Number of additional Equity Shares applied for, if any
- Total number of Equity Shares applied for
- Total amount paid at the rate of Rs. 25/- per Equity Share
- Particulars of cheque/draft
- Savings/Current Account Number and name and address of the Bank where the Equity Shareholder will be depositing the refund order
- Applications for a total value of Rs, 50,000 or more, i.e. where the total number of securities applied for multiplied by the Issue price, is Rs. 50,000 or more the applicant or in the case of application in joint names, each of the applicants, should mention his/her PAN number allotted under the Income-Tax Act, 1961 and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN ("PAN Communication") along with the application for the purpose of verification of the number. Applicants who do not have PAN are required to provide a declaration in Form 60/ Form 61 prescribed under the I.T.Act along with the application. Applications without this photocopy/ PAN Communication/declaration will be considered incomplete and are liable to be rejected.
- In case of Non-Resident shareholders, NRE/FCNR/NRO Account No., name and address of the bank and branch.
- Signature of Equity Shareholders to appear in the same sequence and order as they appear in the records of the Company
- Payment in such cases, should be through a demand draft, net of demand draft and postal charges, payable at Mumbai be drawn in favour of **"Sunshield Chemicals Ltd. - Rights Issue"** crossed "A/c Payee only". Please note that those who are making the application on plain paper shall not be entitled to renounce their rights and should not utilize the original CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications as well as forfeiture of amounts remitted along with the applications. The Company shall refund such application amount to the applicant without any interest thereon.

QUOTING OF UNIQUE IDENTIFICATION NUMBER (UIN) ISSUED UNDER SEBI (CENTRAL DATABASE OF MARKET PARTICIPANTS) REGULATION, 2003

In terms of SEBI (Central Database of Market Participants) Regulation, 2003 as amended from time to time and SEBI Notification dated November 25, 2003 and July 30, 2004, circular dated August 16, 2004 and press release dated December 31, 2004, no specified investor being a body corporate shall subscribe to securities which are proposed to be listed in any recognized stock exchange unless such specified investor, its promoters and directors have been allotted unique identification number (UIN). However SEBI vide its circular no. MAPIN/Cir- 13 /2005 dated July 01, 2005 has suspended all fresh registrations for obtaining UIN and the requirement to obtain/quote UIN under the MAPIN Regulations/Circulars with effect from July 01, 2005.

QUOTING OF PAN/GIR NO. IN THE APPLICATION FORMS

Where an application is for allotment of securities in response to a rights issue, for a total value of Rs. 50,000/- or more i.e. the total number of securities applied for multiplied by the issue price, is Rs. 50,000/- or more the applicant or in the case of applications in joint names, each of the applicants, should mention his/her permanent account number (PAN) allotted under the Income-Tax Act, 1961 or where the same has not been allotted, the GIR number and the Income-Tax Circle/Ward/District. In case neither the permanent account number nor the GIR number has been allotted, the fact of non-allotment should be mentioned in the application forms. Application forms without this information will be considered incomplete and are liable to be rejected.

APPLICATION NUMBER ON THE CHEQUE/DEMAND DRAFT

To avoid any misuse of instruments, the applicants are advised to write the application number and name of the first applicant on the reverse of the cheque / demand draft.

GENERAL

(a) All applications should be made on the printed CAF provided by the Company and should be complete in all respects. Applications, which are not complete in all respects or are made, otherwise than as herein provided or not accompanied by proper application money in respect thereof will be refunded without interest.

(b) Please read the instructions in the enclosed CAF carefully.

(c) ALL COMMUNICATIONS IN CONNECTION WITH YOUR APPLICATION FOR THE EQUITY SHARES INCLUDING ANY CHANGE IN YOUR REGISTERED ADDRESS SHOULD BE ADDRESSED TO THE REGISTRAR TO THE ISSUE.

(d) Application Forms must be filled in ENGLISH in BLOCK LETTERS.

(e) Signatures should be either in English or Hindi or the languages specified in the Eighth Schedule to the constitution of India. Signatures other than in the aforementioned languages or thumb impressions must be attested by a Notary Public or a Special Executive Magistrate under his/her official seal.

(f) In case of Joint Holders, all joint holders must sign the relevant parts of the Application Form in the same order and as per the specimen signatures recorded with the Company.

(g) In case of joint applicants, refunds and all payments will be made to the person whose name appears first on the application form and all communications will be addressed to him/her. To prevent any fraudulent encashment of refund orders by third parties, the Sole/First Applicant must indicate Saving / Current Account number and the name of the bank and its branch with whom such account is held in the space provided in the CAF for the purpose so that Refund Orders are printed with these details after the name. Applications without this information are liable to be rejected.

(h) The Application Form should be presented to the Bank in its entirety. If any of the Part(s) A, B, C and D of the Application Form(s) is /are detached or separated, such application will forthwith be rejected.

(i) All shareholders must submit the CAF along with remittance only to the Bankers to the Issue mentioned elsewhere in this Draft Letter of Offer and not to the Company, the Registrar or the Lead Manager.

(j) Any dispute or suit action or proceedings arising out of or in relation to this Draft Letter of Offer or in respect of any matter or thing herein contained and claimed by either party against the other shall be instituted or adjudicated upon or decided solely by the appropriate Court where Registered Office of the Company is situated.

(k) The last date for receipt of CAF along with the amount payable is ______________. However, the Board will have the right to extend the same for such period as it may determine from time to time, but not exceeding 60 days from the date of opening of the subscription list. If the CAF together with the amount payable there under is not received by the bankers to the issue on or before the closure of the banking hours on the aforesaid date, or such date as may be extended by the Board, the offer contained in this Draft Letter of Offer shall be deemed to have been declined and the Board shall be at liberty to dispose the Rights hereby offered.

For further instructions please read CAF carefully.

DEMATERIALISATION

As per the provisions of the Depositories Act, 1996, the shares of a body corporate may be held in dematerialized form i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through electronic mode. The equity shares of Sunshield Chemicals Limited are traded in the demat segment The Company has also entered into a tripartite agreement dated September 29, 2001 with the National Securities Depository Limited(NSDL) and Tata Share Registry Ltd. (now TSR Darashaw Ltd.) for dematerialization of the equity shares of the Company. The ISIN No. granted to the equity shares of the Company is INE199E01014. The Company has also entered into a tri partite agreement dated September 27, 2001 with Central Depository (India) Limited and Tata Share Registry Limited (now TSR Darashaw Ltd.) for , dematerialisation of equity shares of the Company.

An applicant has the option to seek allotment in physical or demat mode. An applicant who seeks allotment in demat mode must have atleast one Beneficiary Account with any of the Depository Participants (DP) of NSDL registered with SEBI, prior to the application. Such applicants must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's ID Number) appearing under the head "Request for shares in electronic form" in the CAF.

Applicant must indicate in the CAF, the number of shares they wish to receive in electronic form out of the total number of equity shares applied for. In case of partial allotment, shares will first be allotted in electronic form and the balance, if any, will be allotted in physical form.

Names in the CAF should be identical to those appearing in the account details in the Depository. In case of joint holders, the name should necessarily be in the same sequence as they appear in the account details in the Depository.

No separate application for demat and physical shares is to be made. If such applications are made the application for physical shares will be treated as multiple applications and rejected accordingly.

Non transferable allotment letters/ refund orders will be directly sent to the applicant by the Registrar to the Issue

The applicant is responsible for the correctness of the applicants demographic details given in the share application form vis-à-vis those with his/her DP. Equity shares allotted in demat mode will be credited directly to the respective Beneficiary Account.

MODE OF PAYMENT

For Resident Applicants

Payment(s) must be made by cash or by cheque/demand draft and drawn on any bank (including a co-operative bank) which is situated at and is a member or a sub-member of the Bankers' Clearing House located at the centre where the CAF is submitted. A separate cheque/draft must accompany each CAF. Only one mode of payment should be used. Money orders, postal orders and outstation cheques will not be accepted and applications accompanied by any such instruments will be rejected.

Shareholders/Applicants residing at places other than those mentioned in the CAF and applicants who wish to send their applications but not having collection centres should send their application by Registered Post, ONLY to the Registrar to the Issue, Intime Spectrum Registry Limited, enclosing a demand draft drawn on a clearing Bank and payable at Mumbai ONLY net of bank charges and postal charges, before the closure of the issue. The applications received through the registered post shall be dealt with by the Registrars to the Issue in the normal course.

Such cheque/drafts should be payable to **"(Name of The Bank)-A/c – Sunshield Chemicals Ltd. - Rights Issue".** All cheques/ drafts must be crossed 'A/c Payee only'. No receipt will be issued for the application money received. However, the Collection Centre receiving the application will acknowledge receipt of the application by stamping and returning the acknowledgement slip at the bottom of each CAF. The Company is not responsible for any postal delay/ loss in transit on this account.

Application will not be accepted by the Lead Manager or by the Company

For Non-Resident Applicants/ FIIs
Payments by Non-Resident Shareholders will be accepted by Indian Rupee Drafts purchased abroad or cheques/drafts drawn on Non-Resident External Account (NRE Account) or Foreign Currency Non-Resident Account (FCNR Account) maintained anywhere in India but payable at Mumbai or by Telegraphic Transfer in favour of the collecting Bankers by the concerned shareholders.

However, in case shares are held on a non-repatriable basis, payment may also be made by cheque /draft drawn on Non-Resident Ordinary Account (NRO A/c.) maintained anywhere in India but payable at Mumbai. Such cheques/drafts should be drawn in favour of " **Sunshield Chemicals Ltd - Rights Issue - NR"** payable at Mumbai, India and shall be crossed A/c. Payee Only, Banker's Certificate regarding source of payment must be submitted with the CAFs wherever necessary.

The CAF along with cheques/drafts should be deposited with any of the branches of the Bankers to the Issue nominated for this purpose. The certificate of inward remittance, if any, must be sent only to the Registrar to the Issue, Tata Share Registry Limited, quoting the details of folio no. and the name and address of the branch of the Bankers to the Issue where CAF has been deposited before the closure of the issue.

DISPOSAL OF APPLICATIONS AND APPLICATION MONIES

The Board, reserves its full, unqualified and absolute right to accept or reject any application in whole or in part in consultation with the Designated Stock Exchange without assigning any reason thereof, in case the application is not made in terms of this Draft Letter of Offer. In case an application is rejected in full, the application money received will be refunded to the first named applicant within six week from the date of closure of the Issue in accordance with Section 73 of the Act. If there is delay of refund of application money by more than 8 days after the Company becomes liable to pay (i.e. forty two days after the closure of Issue), the Company will pay interest for the delayed period at the rate prescribed under sub-section (2) and (2A) of Section 73 of the Act.

ALLOTMENT / REFUND

The Company shall give credit to the beneficiary account with Depository Participants within two working days from the date of the allotment of Equity Shares. Applicants having bank accounts at any of the 15 centres where clearing houses are managed by the Reserve Bank of India (RBI) will get refunds through Electronic Credit Service (ECS) only, except where applicant is otherwise disclosed as eligible to get refunds through direct credit or Real Time Gross Settlement (RTGS). In case of other applicants, the Company shall ensure despatch of refund orders, if any, of value up to Rs. 1,500 by "Under Certificate of Posting", and shall dispatch refund orders of Rs. 1,500 and above, if any, by registered post or speed post. Applicants to whom refunds are made through Electronic transfer of funds will be sent a letter (refund advice) through "Under Certificate of Posting" intimating them about the mode of credit of refund within 15 days of closure of Issue.

The Company shall ensure despatch of refund orders/refund advice, if any, by "Under Certificate of Posting" or registered post or speed post or Electronic Clearing Service or Direct Credit or RTGS, as applicable, only at the sole or First shareholder's sole risk within 30 days of the Issue Closing Date, and adequate funds for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar by the Issuer.

In accordance with the requirements of the Stock Exchanges and SEBI Guidelines, the Company undertakes that:
_ Despatch of refund orders/ refund advice shall be done within 30 days from the Issue Closing Date; and the Company shall pay interest at 15% per annum (for any delay beyond the 30-day time period as mentioned above), if allotment is not made, refund orders/ credit intimation are not despatched and in case where a refund is made through electronic mode, the refund instructions have not been given to the clearing system, and demat credit
within the 30-day time prescribed above, provided that the beneficiary particulars relating to such sahreholder as given
by the shareholder is valid at the time of the upload of the electronic transfer. The Company will provide adequate funds required for the cost of despatch of refund orders/ refund advice/ allotment advice to the Registrar to the Issue.

Save and except refunds effected through the electronic mode i.e ECS, direct credit or RTGS, refunds will be made by cheques, pay orders or demand drafts drawn on the Refund Bank and payable at par at places where applications are received. The bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the shareholders.

Payment of Refund

Shareholders should note that on the basis of name of the shareholders, Depository Participant's name, Depository Participant- Identification (DP ID) number and Beneficiary Account Number provided by them in the Composite Application form, the Registrar to the Issue will obtain from the Depository, the Bidders bank account details including the nine digit Magnetic Ink Character Recognition (MICR) code as appearing on a cheque leaf. Hence, Shareholders are advised to immediately update their bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to shareholders at the shareholders sole risk and neither the Lead Manager nor the Company nor the Refund Banker nor the Registrar shall have any responsibility and undertake any liability for the same.

In case of shareholder applying for physical shares, refunds will be made on the basis of the bank account details provided by them in the Composite Application Form.

Mode of Making Refunds

The payment of refund, if any, would be done through various modes in the following order of preference

I. ECS - Payment of refund would be done through ECS for applicants having an account at any of the 15 centers where clearing houses for ECS are managed by Reserve Bank of India, namely Ahmedabad, Bangalore, Bhubneshwar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram. This mode of payment of refunds would be subject to availability of complete bank acccount details including the nine digit Magnetic Ink Character Recognition (MICR) code as appearing on a cheque leaf, from the depository. The payment of refund through ECS is mandatory for applicants having a bank account at any of the 15 centers named hereinabove, except where applicant is otherwise disclosed as eligible to get refunds through direct credit or RTGS

II. Direct Credit – Applicants having their bank account with the Refund Banker, i.e. HDFC Bank shall be eligible to receive refunds, if any, throught direct credit. The refund amount, if any. would be credited directly to the eligible applicant's bank account with the Refund Banker.

III. RTGS – Applicants having a bank account at any of the 15 centers detailed above, and whose application amount exceeds Rs, 1 million, shall be eligible to exercise the option to receive refunds, if any, through RTGS. All applicants eligible to exercise this option shall mandatorily provide the IFSC code in the Composite Application Form. In the event of failure to provide the IFSC code in the Composite Application Form, the refund shall be made through the ECS or direct credit, if eligibility disclosed.

Please note that only applicants having a bank account at any of the 15 centres where clearing houses for ECS are managed by the RBI are eligible to receive refunds through the modes detailed in I,II and III hereinabove. For all the other applicants, including applicants who have not updated their bank particulars alongwith the nine digit MICR Code, the refund orders would be despatched "Under Certificate of Posting" for refund orders of value up to Rs. 1,500 and through Speed Post/Registered Post for refund orders of Rs. 1,500 and above.

LETTERS OF ALLOTMENT / SHARE CERTIFICATES

Share certificate, letter of allotment or letter of regret as the case may be will be despatched to the registered address of the first named applicant and/or the respective beneficiary accounts will be credited within six weeks, from the date of closure of the Issue. In case the allotment is made in physical form, and if letter of allotment is issued, the relevant share certificate will be dispatched within three months from the date of allotment in exchange for the letter of allotment. Allottees are requested to preserve such letter of allotment (if any) to be exchanged later for share certificates.

DISPOSAL OF APPLICATIONS AND APPLICATION MONEY

(a) The Board of the Company or Committee of Directors authorised in this behalf by the Board of the Company reserves its full, unqualified and absolute right to accept or reject any application in whole or in part in consultation with BSE without assigning any reason thereof. If any application is rejected in full the entire application money will be refunded to the applicant in accordance with the provisions of Section 73 of the Companies Act, 1956. Where the applicant is allotted in part, the balance of the application money will be refunded to the applicant in accordance with the provisions of Section 73 of the Companies Act, 1956.

(b)Refund will be made by cheques/ pay orders drawn on refund bankers and bank charges, if any, for encashing such cheques or pay orders will be payable by the applicant. Such cheques or pay orders will however, be payable at par at the branches of the refund bankers located at all places where applications are accepted or such places as may be approved by BSE.

(c)Allotment of Equity Shares and export of Letters of Allotment/share certificate(s) to NRI/OCB/Non-Residents would be subject to the approval of the Reserve Bank of India under the FEMA, if required.

(d)The Company shall provide adequate funds to the Registrar to the Issue for complying with requirement of despatch of refund cheques/Letter(s) of Allotment / share certificate(s) by registered post/under postal certificate.

BASIS OF ALLOTMENT

The basis of allotment shall be finalised by the Board of the Company or Committee of Directors of the Company authorised in this behalf by the Board of the Company. The Board of the Company or the Committee of Directors as the case may be, will proceed to allot the Equity Share in consultation with BSE in the following order of priority.

i. Full allotment to the equity shareholders who have applied for their Rights entitlement either in full or in part and also to the renouncees who have applied for Equity Shares renounced in their favour either in full or in part (subject to other provisions contained under the paragraph titled "Renunciation").
ii. Allotment to the equity shareholders who having applied for their full Rights entitlement of Equity Share offered to them and have applied for additional Equity Shares, provided there is surplus available after full allotment under (i) above and shall be at the absolute discretion of the Board of the Company or the Committee of the Directors authorised in this behalf by the Board of the Company and the decision of the Board of the Company or the Committee of the Directors shall be final and binding. The allotment of such additional Equity Shares will be made as far as possible on an equitable basis with reference to the number of Equity Shares held by them on the Record Date in consultation with BSE.
iii. Allotment to the renouncees who have applied for all the equity shares renounced in their favour and have applied for additional equity shares, as the Board may in its absolute discretion deem fit, provided there is a surplus after making full allotment (i) and (ii) above.
iv. Allotment to any other shareholder(s)/beneficial shareholder(s) as the Board of the Company or Committee of Directors of the Company authorised in this behalf by the Board of the Company may, in their absolute discretion, deem fit, provided there is surplus available after making full allotment under (i), (ii) and (iii) above.
v. The Equity Shares remaining unsubscribed after making full allotments under i, ii and iii above, shall be disposed off by the Board in any manner as it in its sole discretion deems fit and the decision of the Board in this regard shall be final and binding

The allotment to the renouncee(s) in whose favour the renunciation has been exercised shall be subject to the condition that the Board of the Company or Committee of Directors shall have the discretion to reject such request without assigning any reasons thereof. In the event of over subscription, allotment will be made only within the overall size of the Rights Issue.

DISPATCH OF SHARE CERTIFICATES/LETTERS OF ALLOTMENT/REFUND ORDER

All the pay orders / refund orders and Letter(s) of Allotment / Share Certificates will be despatched to the first named / sole applicant at his / her own risk. The Refund Orders will be payable at par in India at all the centres where the applications were originally accepted. The instruments will be marked “Account Payee Only” and in the name of the sole/first applicant. Bank charges, if any, for encashing such refund orders / pay orders will be payable by the applicants.

The Company has given an undertaking that the requisite funds will be made available to the Registrar for complying with the requirement of despatch of refund orders / allotment letters. The Company shall ensure despatch of refund orders of value over Rs.1,500/- by Registered Post only and adequate funds will be made available to the Registrar.

INTEREST IN CASE OF DELAY ON ALLOTMENT/DESPATCH

The Company agrees that as far as possible allotment of securities offered to the existing shareholders on Rights basis shall be made within 30 days of the closure of the issue. The Company further agrees that it shall pay interest at the rate of 15% per annum if the allotment letters/refund orders have not been despatched to the applicants or if in a case where the refund or portion thereof is made in electronic manner, the refund instructions have not been given to the clearing system in trhe disclosed manner within 30 days of the date of closure of the issue. Share certificate, letter of allotment or letter of regret as the case may be will be despatched to the registered address of the first named applicant and/or the respective beneficiary accounts will be credited within six weeks, from the date of closure of the Issue. In case of delay beyond eight days, the Company agrees that it shall pay interest at the rate of 15% per annum.

LAST DATE FOR SUBMISSION OF CAF

The last date for receipt of CAF by the Bankers to the Issue together with the amount payable on application is _____________. If the relevant CAF together with amount payable there under is not received by the Bankers/Registrar to the Issue on or before the close of banking hours on the aforesaid last date the offer contained in this Draft Letter of Offer shall be deemed to have been declined and the Board shall be at liberty to dispose of the equity shares hereby offered as provided under "Basis of Allotment".

UNDERTAKING BY THE COMPANY

The Company undertakes that:

a) The complaints received in respect of the Issue shall be attended to by the Company expeditiously and satisfactorily;
b) All steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed are taken within seven working days of finalisation of basis of allotment;
c) Funds required for despatch of refund to unsucessful applicants as per the mode(s) disclosed shall be made available to the registrar to the issue
d) Where refunds are made through electronic transfer of funds, suitable communication shall be sent to the applicant within 30 days of closure of the issue giving details of the bank where refunds shall be credited along with the amount and expected date of electronic credit of refund.
e) Certificates of securities/refund orders of the Non-Resident/Non Resident Indians shall be dispatched within the specified time subject to receipt of approval from RBI/FIPB, if required.
f) No further issue of shares shall be made till the shares offered through this Draft Letter of Offer are listed or till the application moneys are refunded on account of non-listing, under-subscription, etc.
g) Other than the disclosures made in the instant Draft Letter of Offer , nothing material has changed in respect of disclosures made by us at the time of our previous Offer for Sale to the Public vide Offer for Sale Document dated March 23, 1995.

UTILIZATION OF ISSUE PROCEEDS

a) All monies received out of the issue of shares to the investors shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Act;
b) Details of all monies utilised out of the Issue shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such monies has been utilised and
c) Details of all unutilized monies out of the Issue of shares, if any, shall be disclosed under an appropriate separate head in the Balance Sheet of the Company indicating the form in which such unutilized monies have been invested.

The funds received against this rights issue to be kept in a separate bank account and the Company will not have any access to such funds unless it satisfies BSE (Designated Stock Exchange) with suitable documentary evidence that the minimum subscription of 90% of the issue has been received by the Company.

OTHER INFORMATION

The following contracts mentioned below (not being contracts entered into in the ordinary course of business carried on by the Company) are or may be deemed to be material contracts. Copies of these contracts along with documents referred below may be inspected at the Registered Office of the Company between 10.00 a.m. and 1.00 p.m. on any working day until the closing of the subscription list.

MATERIAL CONTRACTS AND DOCUMENTS

The Contracts referred to in para (A) below (not being contracts entered into in the ordinary course of the business carried on by the Company or entered into more than two years before the date of this Draft Letter of Offer) which are or may be deemed material, have been entered into by the Company.

The contracts together with the documents referred to in paragraph (B) below, copies of all of which have been attached to the copy of this Draft Letter of Offer may be inspected at the Registered Office of the Company between _11.00 a.m. to 1.00 p.m. on any working day from the date of this Draft Letter of Offer until the closing of the subscription list.

A. MATERIAL CONTRACTS

1. Copy of MOU between Sunshield Chemicals Limited and SBI Capital Markets Limited, Lead Manager to the Issue.
2. Copy of MOU between Sunshield Chemicals Limited and TSR Darashaw Ltd., Registrar to the Issue.
3. Copy of Tri- Partite Agreement dated 29/09/2001 between Sunshield Chemicals Limited, Tata Share Registry Ltd.(now TSR Darashaw Ltd.) and National Securities Depository Limited.
4. Copy of Tri-Partite Agreement dated 27/09/2001 between Sunshield Chemicals Limited Tata Share Registry Ltd.(now TSR Darashaw Ltd.) and Central Depository Services (India) Limited.

B. DOCUMENTS FOR INSPECTION

1. Copy of Memorandum and Articles of Association of the Company.
2. Copy of Certification of Incorporation of the Company
3. Copies of Annual Report for the FY 2001, 2002 , 2004,2005 and 2006.
4. Copy of Notice for EGM dated 04/04/2006 and extract of minutes of EGM passing resolution under Sec. 81(1A) of Companies Act, 1956.
5. Copy of resolution dated 4th March 2006 passed by the Board of Directors regarding present rights issue.
6. Copy of Offer for Sale Document dated 23/03/1995.
7. Copy of Letter of Offer dated 11/03/2005 issued by the Acquirers in respect of the Open Offer to the Shareholders of SCL.
8. Copy of certificate dated 05th May 2006issued by M/s Tembey & Mhatre, Chartered Accountants and Statutory Auditors of the Company in terms of Part II Schedule II of The Companies Act 1956 including capitalization statement, taxation statement and accounting ratios
9. Copies of letters dated 04/02/2005,18/01/2005, 19/01/2005 received from the stock exchanges at Ahmedabad, Hyderabad and Delhi respectively in respect of the delisting of the equity shares of SCL from these exchnages.
10. Copy of Supply Agreement dated 29/11/2005 between SCL and Altana Chemie AG.
11. Copy of Operating Agreement dated 01/08/2003 entered into between SCL and Lubrizol India Pvt. Ltd.
12. Copy of renewal agreement dated 20/02/2006 entered into between SCL and Lubrizol India Pvt. Ltd.
13. Copy of Agreement dated 10/08/2004 between SCL and Ciba Speciality Chemicals (India) Limited.
14. Copy of Processing Agreement dated 11/05/2004 between SCL and Lubrizol India Pvt.Ltd.
15. Copy of Agreement dated 28/02/2005 between SCL and Owens-Corning (India) Limited.
16. Copy of Acknowledgement no. 754/SIA/IMO/2000 dated 28/03/2000 from the Entrepreneurial Assistance Unit, Secretriat for Industrial Assistance, Ministry of Commerce & Industry for manufacture of Polyols, TRIS (2-Hydroxyethyl Isocyanurate) Coating Agents, Antioxidants and Deinking Agents.
17. Copy of Acknowledgement no. 1734/SIA/IMO/2006 dated 04/04/2006 from the Public Relation & Complaints Section, Secretriat for Industrial Assistance, Ministry of Commerce & Industry for manufacture of Cyanuric Acid and Ammonia.
18. Copy of license No. 54911, to run a factory under the Factories Act, 1948 from the Chief Inspector, Factories,Government of Maharashtra
19. Copy of license no. P/HQ/MH/15/2094(P7382) dated 12/05/2001 from the Petroleum and Explosives Safety Organisation (PESC), Ministry of Commerce & Industry, Government of India for its existing Petroleum Class A Installation at its unit at village Rasal, Raigad District, Maharashtra.

20. Copy of license no. P/HQ/MH/15/2094(P7382) to import and store petroleum in installation from the Chief Controller of Explosives.
21. Copy of IEC No. 0388084537, dated: 01/04/1988 with the Office of Jt. Dirdctor General of Foreign Trade, Ministry of Commerce, Government of India.
22. Copy of certificate of registration no. 410205S5 dated 01/04/1996 under section 22/22A of the Bombay Sales Tax Act, 1959
23. Copy of certificate of registration no. 410205C4 dated 01/04/1996 under section 7(1)/7(2) of the Central Sales Tax Act, 1956
24. Copy of consent no. BO/RORaigad/PCI-I/EIC-301-05/E/CC-105 dated February 23, 2006 from Maharashtra Pollution Control Board under Section 25 of the Water (Prevention & control of Pollution) Act, 1974 and Section 21 of Air (Prevention & control of Pollution) Act, 1981 and Rule 5 of Hazardous Wastes (Management & Handling) Rules, 1989 for establishing plant for manufacturing Plyols/Coating Agents such as THEIC/Antioxidants/Deinking chemicals/iso-cyanuric acid/compressed ammonia gas (By-Product)
25. Copy of agreement dated 09/03/2004 with the Governor of Maharashtra for constructing a pumping station on the Company's land at Rasal Village for drawing water from the source river Amba.
26. Copies of various Undertakings received from the Company.
27. Copy of in-principle approval received from BSE vide their letter no. ______________
28. Copy of SEBI observation letter No. _______________.

DECLARATION

No statement made in this Draft Letter of Offer shall contravene any of the provisions of the Companies Act, 1956 and the rules made thereunder. All the legal requirements connected with the said issue as also the guidelines; instructions etc. issued by SEBI, Government and any other competent authority in this behalf have been duly complied with.

Signed by the Directors of the Company

Sd/-

Place: Mumbai
Date: 12/05/2006