

ANNEXURE-II to Directors' Report

CORPORATE GOVERNANCE

Pursuant to amended Clause 49 of the Listing Agreement with the Stock Exchanges, the Directors submit the following Report on the Corporate Governance, for the information of the shareholders.

1. Company's Philosophy

The Company has always been committed to good corporate governance and adequate disclosure and it lays emphasis on transparency, accountability and integrity in all its operations and dealings with its customers, dealers, employees, shareholders and with every individual who comes in contact with the Company.

2. Board of Directors

Composition

The Board of Directors of the Company comprises of six Directors, two of whom are promoters and one Managing Director. The remaining three are non-executive and independent directors. All the non-executive Directors are being paid sitting fees for attending meetings of the Board and Committees thereof. The Managing Director is being paid remuneration as approved by the Shareholders, pursuant to Schedule XIII to the Companies Act, 1956.

Board Procedures

During the Financial Year 2005-06, the Board of the Company met on six occasions. The time gap between two consecutive meetings of the Board of Directors of the Company was not more than four months. The dates of the meetings are 2nd May, 2005, 7th June, 2005, 27th July, 2005, 24th October, 2005, 18th January, 2006 and 27th March, 2006.

The information on attendance of the Directors of the Company at the Board Meetings held during the year under review and also at the last Annual General Meeting (AGM) of the Company are given below :

Name of Director	No. of Board Meetings attended	Attendance at the last AGM
Mr. Amiya Gooptu*	4	Attended
Mr. Ratan Jindal	4	Attended
Mr. Girish Jhunjhnuwala	5	Attended
Mr. Rajiv Garg	3	Absent
Mr. Shyam Lal Agarwal	6	Attended
Mr. A.V. Lodha	5	Attended
Dr. R. Srinivasan	5	Absent

*expired on 18th January,2006.

The details of other directorships, memberships/chairmanship of Committees held, as on 31st March, 2006, by the Directors of the Company are given below:

Name of Director	No. of other Directorships*	No. of Committees** on which	
		Member	Chairman
Mr. Ratan Jindal	7		
Mr. Girish Jhunjhnuwala	13	-	-
Mr. Rajiv Garg	4	-	-

Mr. A.V. Lodha	3	-	1
Dr. R.Srinivasan	7	4	3
Mr. Shyam Lal Agarwal	2	-	-

* Other than directorship in Shalimar Paints Limited and private companies.

** In accordance with requirements of amended Clause 49 of the Listing Agreement, Memberships/Chairmanships of only Audit Committees and Shareholders'/Investors' Grievance Committees of only public limited companies (except Shalimar Paints Limited) have been considered.

3. Audit Committee

The Board of Directors of the Company constituted an Audit Committee, under the Chairmanship of Mr. Amiya Gooptu (since deceased) comprised of Mr. Girish Jhunjnuwala (resigned on 27.03.2006), Mr. A.V. Lodha, Mr. Rajiv Garg and Dr. R Srinivasan, as its members.

The present members of the Audit Committee are Mr. A.V. Lodha, Mr. Rajiv Garg and Dr. R Srinivasan. All the members of the Audit Committee are non-executive and independent Directors.

The terms of reference of the Audit Committee of the Company cover the matters specified under amended Clause 49 of the Listing Agreement as well as Section 292A of the Companies Act 1956.

The Committee met five times during the year under review, i.e., on 7th June, 2005, 27th July, 2005, 24th October, 2005, 18th January, 2006 and 27th March, 2006. The attendance of the members of the Committee is given below:

Name of Director	No. of Meetings attended
Mr. Amiya Gooptu (expired on 18th January, 2006)	3
Mr. Girish Jhunjnuwala (resigned w.e.f. 27 th March, 2006)	4
Mr. A.V. Lodha	4
Mr. Rajiv Garg	2
Dr. R Srinivasan	2

Mr. S.L. Agarwal, Managing Director of the Company, is a permanent invitee to the Audit Committee Meetings and has attended all the five meetings held during the year under review.

4. Shareholders' Grievance Committee

The Board of Directors of the Company constituted a Shareholders' Grievance Committee, under the Chairmanship of Mr. Amiya Gooptu (since deceased) comprised of Mr. Girish Jhunjnuwala and Mr. S.L. Agarwal, as its members.

The Committee looks into redressal of complaints received from shareholders. It is the policy of the Company to promptly attend to and resolve the complaints received from the shareholders. The Company has received 16 complaints from the investors during the financial year 2005-06, of which 14 complaints have been duly resolved and 2 complaints remained pending as on 31st March, 2006 which have since been resolved. Mr. S.Sarda, Chief Operating Officer & Company Secretary of the Company is designated as Compliance Officer.

The Board of Directors of the Company has delegated the power of transfer and transmission of shares to Messrs. MCS Limited, the Registrar and Share Transfer Agents of the Company who are attending these transfer formalities fortnightly, under the overall supervision of the Company's Secretarial Department.

5. Remuneration of Directors

The Company has not been paying any remuneration to non-executive Directors except sitting fee for attending each meeting of the Board of Directors of the Company and Committees thereof.

The details of sitting fees paid to the non-executive directors during the financial year 2005-06 are given below:

Name of Director	Sitting Fees (Rs.)
Mr. Amiya Goptu (expired on 18th January, 2006)	35000
Mr. Ratan Jindal	20000
Mr. Girish Jhunjhnuwala	45000
Mr. A.V. Lodha	45000
Mr. Rajiv Garg	25000
Dr. R Srinivasan	35000

The details of remuneration paid to Mr. Shyam Lal Agarwal, Managing Director, during the year under review and other requisite disclosures in this regard are given below:

(Figures in Rs.)

Salary	Contribution To PF and Other funds	Total	Period of Agreement	Notice Period
420,000	50,400	470,400	Five years with effect from 3 rd October, 2002	Two months notice by either party

6. General Body Meetings

The details of the last three Annual General Meetings are given below:

For the Financial year	Date of AGM	Time	Venue	No. of Special Resolutions
2004-2005	27.07.2005	10.00 A.M.	Mini Auditorium Science City JBS Haldane Avenue Kolkata-700 046	None
2003-2004	08.09.2004	11.00 A.M.	Mini Auditorium Science City JBS Haldane Avenue Kolkata-700 046	None
2002-2003	04.12.2003	2.00 P.M.	Kalakunj, 48, Shakespeare Sarani, Kolkata-700 017	One

At the above mentioned meetings, all the Resolutions were passed on show of hands. There was no such business which required passing of resolution through postal ballot.

7. Disclosure

There were no materially significant related party transactions i.e. transactions of material nature made by the Company with its promoters, directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interest of the Company at large. The requisite disclosure on 'Related Party Transactions' pursuant to Accounting Standard 18 has been given in Note No. 20 of Notes to Accounts.

No strictures or penalties have been imposed on the Company by the Stock Exchanges or the Securities and Exchange Board of India (SEBI) or any other statutory authority on any matter related to capital market during the year under review.

The declaration duly signed by Mr. S.L. Agarawal, Managing Director of the Company, pursuant to Clause 49 I (D) (ii) of the Listing Agreement has been received regarding receipt of affirmation from himself and the senior management personnel regarding compliance with Code of Conduct of the Company, which is made effective from 1st January, 2006.

8. Management Discussion and Analysis

Industry structure and development

The Indian economy is expected to have grown by 8% in 2005-06. There has been strong growth in the manufacturing, capital goods and infrastructure sectors. The paints industry is expected to have grown by about 14% and it has out-performed the overall industry growth rates. Both the decorative and industrial segments of the industry have performed quite well with demand coming from the housing sector as well as end user industries. In the decorative paints sector the exterior wall finishes segment continues to be the fastest growing segment. In the industrial paints sector also there has been considerable increase in demand with the protective coatings segment particularly performing very well.

Your Company, with its wide product range in both the decorative and industrial sectors, has grown by about 14% which is in line with the industry average. Your Company's emphasis has been on constantly improving operational efficiencies and reducing costs in order to achieve desired levels of profitability.

The Company's strategy will be to focus on the emulsions segment, particularly the exterior segment. It is also looking at strategic alliances with reputed partners in new and fast growing areas.

Opportunities and Threats

The Indian economy is now one of the fastest growing economies of the world. The growth in housing and infrastructure sectors will drive the growth in the paints industry. With the shift of consumer demand to branded products the organized sector is expected to perform well. .

However the volatility in the crude oil prices is severely affecting the prices of raw materials with consequential impact on the profitability. The industry is also highly competitive which also puts considerable pressure on margins.

Outlook

The per capita paints consumption in India is quite low as compared to international levels. With the economy expected to consistently grow at about 7-8% and the untapped potential of the rural market, there is considerable potential for overall growth of the paints industry. Your Company's endeavour will be to increase its market share in the focused products, both in the decorative and industrial paints segment.

Risks and Concerns

The paint industry is raw material intensive and the volatility in the raw material prices, particularly of petroleum based products, has considerable impact on operating margins.

The industry is also working capital intensive with inventory management being a key area of concern due to the sizeable number of shades and stock keeping units.

The growth in industrial paints segment is susceptible to end user business cycles.

Internal Control System and its Adequacy

The Company has adequate internal control systems commensurate with the size and nature of its business. The Company has an internal audit department and external audit firms are also employed to conduct regular audits at various locations of the Company. At every Audit Committee meeting a summary of internal audit reports, internal audit observations together with replies and action taken are placed before the Audit Committee and discussed.

Other matters such as operational and financial performance, human resource etc have been discussed under the respective heads in the Director's Report.

9. Means of Communication

The quarterly results are being generally published in Financial Express (Kolkata Edition) in English language and in Aajkal in Bengali and are also posted on the Company's website www.shalimarpaints.com.

The Management Discussion and Analysis has been given in point no.8 above and is forming part of the Annual Report.

The Company has not made any presentation to institution investors or analysts during the year under review.

10. Disclosure on appointment/re-appointment of Directors

Mr. Girish Jhunjnuwala, aged 43, is a Bachelor of Science graduate from the University of Southern California, Los Angeles and has his business in Hongkong which includes property development, watch manufacturing and the hospitality business. He is a member of the Board of Directors of the following companies:

Hind Hotels & Properties Ltd., Delta Nominees Ltd., S. Sunder & Sons Ltd., Grand Cayment, Hind strategic Investments, Reliance Properties Limited & Home2Home Lifestyles Management Ltd. amongst others.

Mr. Rajiv Garg, aged 51, is M.Sc. (Hons.) and has also completed Master Degree in Management from McGill University, Canada and Post Graduate Diploma in International Management from INSEAD, France. He is having thirty years experience in various companies in senior management positions. He is the Chief Executive Officer – Corporate Strategy & Finance of Essel Group and Managing Director of ETC Networks Ltd., Mr. Garg holds directorship in the following companies :

XL Telecom Ltd., Aplab Limited & Wire and Wireless India Ltd.

Neither Mr. Girish Jhunjnuwala nor Mr. Rajiv Garg hold any shares in the Company in their own names.

11. General Shareholder information

- a) As indicated in the notice dated 30th June, 2006, the 104th Annual General Meeting of the Company will be held on 31st July, 2006 at 10 A.M. at Mini Auditorium of Science City, National Council of Science Museums, Kolkata 700 046.
- b) The Register of Members and Share Transfer Books of the Company will remain closed from 21st July, 2006 to 31st July, 2006, both days inclusive.
- c) Financial Calendar: The unaudited/audited financial results of the Company for the following quarters ending/year ending will be published on or before the dates mentioned against the respective period:

For the Quarter ending 30 th June, 2006 (Unaudited)	: 31 st July, 2006
For the Quarter ending 30 th September, 2006 (Unaudited)	: 31 st October, 2006
For the Quarter ending 31 st December, 2006 (Unaudited)	: 31 st January, 2007
For the year ending 31 st March, 2007 (Audited)	: 30 th June, 2007

- d) The Dividend, declared if any, shall be paid within 30 days from the date of declaration thereof.
- e) The Shares of the Company are listed with the following Stock Exchanges with the stock code mentioned thereagainst:

	<u>Stock Code</u>
1. The Calcutta Stock Exchange Association Limited 7, Lyons Range, Kolkata - 700 001	10029193
2. Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai - 400 001	509874

The stock code for the Company's shares in demat segment is INE849C01018.

- f) The monthly high and low quotations during the last financial year on Bombay Stock Exchange Limited (BSE) are given below:

Month	BSE	
	High	Low
April 2005	61.90	58.45
May 2005	82.50	58.55
June 2005	86.20	75.40
July 2005	101.55	78.90
August 2005	100.25	86.60
September 2005	159.10	94.65
October 2005	142.25	97.30
November 2005	142.90	102.30
December 2005	161.10	126.65
January 2006	165.50	151.10
February 2006	165.10	149.30
March 2006	167.75	161.15

So far as monthly high and low quotations on Calcutta Stock Exchange Association Limited are concerned, there was no trading during the year under review.

- g) Performance of the price of the Company's shares on BSE vis-à-vis BSE Sensex during the period under review, is given below:

Month	Company's Shares price		BSE Sensex	
	High	Low	High	Low
April 2005	61.90	58.45	6606.41	6134.86
May 2005	82.50	58.55	6715.11	6195.15
June 2005	86.20	75.40	7193.85	6655.56
July 2005	101.55	78.90	7635.42	7145.13
August 2005	100.25	86.60	7859.53	7595.57
September 2005	159.10	94.65	8650.17	7876.15
October 2005	142.25	97.30	8799.96	7685.64
November 2005	142.90	102.30	8994.94	7994.10
December 2005	161.10	126.65	9397.93	8815.53
January 2006	165.50	151.10	9919.89	9237.53
February 2006	165.10	149.30	10370.24	9742.58
March 2006	167.75	161.15	11307.04	10508.85

- h) MCS Limited of 77/2A, Hazra Road, Kolkata - 700 029, Phone No. 2454 1892/93, are the Registrar and Share Transfer Agents of the Company for both physical as well as demat segment.
- i) The share transfer work is being handled by the Company's R&T Agents, MCS Limited of 77/2A, Hazra Road, Kolkata - 700 029 who are also having connectivity with the depositories, viz., NSDL and CDSL. The power of approving the transfer of shares has been delegated to the Registrar so that they can attend to the share transfer formalities on fortnightly basis.
- j) The distribution of shareholdings as on 31st March, 2006 is given below:

No. shares held	No. of Shareholders	Percentage	No. of Shares held	Percentage
Upto 500	3545	93.26	354765	9.37
501 to 1000	116	3.05	86051	2.27
1001 to 2000	58	1.53	87681	2.32
2001 to 3000	21	0.55	52381	1.38
3001 to 4000	13	0.34	44956	1.19
4001 to 5000	3	0.08	12556	0.33
5001 to 10000	10	0.26	68908	1.82
10001 and above	35	0.93	3078322	81.32
Total	3801	100.00	3785620	100.00

- k) Category of shareholders as on 31st March, 2006 are given below:

	No. of shares	Percentage
Promoters	2379456	62.86
Financial Institutions	250420	6.61
NRI/NRC	9693	0.25
General	1146051	30.28
Total	3785620	100.00

- l) Dematerialisation of Shares and liquidity: As on 31st March, 2006, Equity shares representing 31.31%, are in dematerialised form.
- m) The Company's plants are located at the following places:

- P.O. Danesh Shaik Lane, Goabaria, Howrah
- Village Gonde Dumala, Tehsil Igatpuri, Nasik and
- No.A-1 and A-2 Sikandrabad Industrial Area, Sikandrabad, Dist. Bulandsahar, Uttar Pradesh.

n) Address for Correspondence: Secretarial Department, Shalimar Paints Limited, 13 Camac Street, Kolkata - 700 017.

For and on behalf of the Board

Mumbai
June 30, 2006

G.Jhunjhnuwala - Director
S.L.Agarwal – Managing Director

DECLARATION
(pursuant to Clause 49 I (D) (ii) of the Listing Agreement)

I, Shyam Lal Agarwal, Managing Director of the Company, do hereby declare that all the Board members and senior management personnel of the Company affirmed compliance with the Code of Conduct for the Board of Directors and Senior Management of the Company, which has been adopted with effect from 1st January, 2006.

For Shalimar Paints Limited

S L Agarwal
Managing Director

Mumbai, 30th June, 2006.