

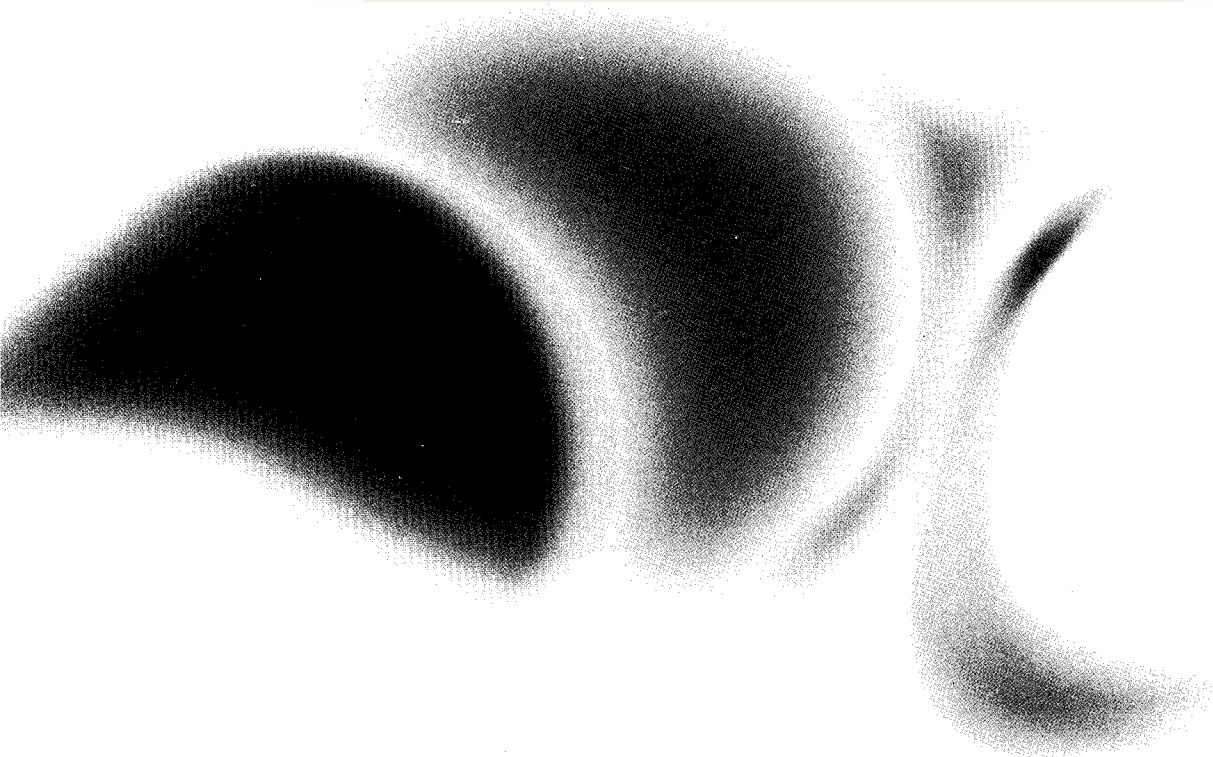
GOODLASS **NEROLAC** PAINTS LTD.

GANPATRAO KADAM MARG, LOWER PAREL, MUMBAI 400 013



86TH ANNUAL REPORT 2005-06

Report  junction.com



Innovations for the future

We at Goodlass Nerolac Paints Ltd., recognize the importance of innovation to compete in future markets. Innovation, not only from a product development angle, but from a business angle - covering multiple facets that influence processes, suppliers and consumers. While we had put new systems and processes in place, the future focus would be in coming up with innovative solutions for better effectiveness and efficiencies.

All departments within the Company would be driven by innovation as a key driver, with the objective of meeting emerging consumer needs and more importantly taking consumers ahead in time.

This vision would take our Company to newer heights and help us emerge as a strong market contender in India and other emerging economies.

86th Annual Report

2005-06

DIRECTORS:

Dr. J.J. IRANI (Chairman)
 D.M. KOTHARI (Vice Chairman)
 Y. KAWAMORI
 K.C. MEHRA
 H.M. BHARUKA (Managing Director)
 S.M. DATTA
 Y. TAJIRI
 H. ISHINO

COMPANY SECRETARY:

G.T. GOVINDARAJAN

BANKERS:

UNION BANK OF INDIA
 STANDARD CHARTERED BANK
 BANK OF TOKYO-MITSUBISHI LTD.
 HDFC BANK LTD.
 BNP PARIBAS

AUDITORS:

A. F. FERGUSON & CO., MUMBAI.

SOLICITORS:

KANGA & CO., MUMBAI

REGISTERED OFFICE:

NEROLAC HOUSE,
 GANPATRAO KADAM MARG, LOWER PAREL, MUMBAI - 400 013

FACTORIES:

- B1, B2, JAINPUR INDUSTRIAL ESTATE, KANPUR DEHAT, KANPUR, U.P.
- F/2, MIDC, LOTE PARSHURAM, TALUKA KHED, DISTRICT RATNAGIRI, MAHARASHTRA.
- BIBI TALAV, VATVA, AHMEDABAD, GUJARAT.
- 142, TIRUPORUR ROAD, PERUNGUDI, CHENNAI, TAMIL NADU.
- 36, SECTOR-7, HSIDC IGS, BAWAL, DISTRICT REWARI, HARYANA.

GOODLASS **NEROLAC** PAINTS LTD.

Contents:

Key Highlights of the Year	3-5
Notice.....	6-8
Directors' Report including Management Discussion and Analysis.....	9-26
Report on Corporate Governance.....	27-39
Auditors' Report	40-43
Balance Sheet	44
Profit and Loss Account	45
Schedules forming part of Accounts	46-68
Cash Flow Statement	69-70
Statement pursuant to Section 212 of the Companies Act	71
Summarised Balance Sheet and Profit and Loss Account of 15 years	72-73
Auditors' Report on Consolidated Accounts.....	74-75
Consolidated Balance Sheet	76
Consolidated Profit and Loss Account	77
Schedules forming part of Consolidated Accounts	78-91
Consolidated Cash Flow Statement.....	92

Key Highlights of the year.

ENERGY CONSERVATION AWARD FOR JAINPUR-2005



Goodlass Nerolac Paints Ltd. (GNP) received the National Conservation Energy Award 2005 for its Jainpur (Kanpur Dehat) plant. The Company has won the first prize in the paint & allied product industry sector in recognition of its outstanding achievements and contribution in the field of energy conservation and management. The award constituted by the Ministry of Power, Government of India, was handed over by Dr. A.P.J. Abdul Kalam, President of India. This is the first time that paint industry has been included in the award process and it is a matter of immense pride that Jainpur plant won the first prize in this category. GNP has always been concerned about the environmental impacts and has been consciously making efforts for efficient utilization and conservation of energy and other resources. GNP being a responsible and a socially aware organization will continue to drive such macro issues with a concerted and dedicated approach, in future too.

EXCELLENCE IN CORPORATE GOVERNANCE AWARD-2005:

The system of Corporate Governance is based on the principles of proper management and information achieved by means of a continuous process of verification of their efficiency and effectiveness. The Company is fully committed to and continues to practice good Corporate Governance. Our day-to-day business practices are based on high ethical and legal standards and Company is committed to ensure an open and transparent working environment. This urge to excel and commitment to Corporate Governance made GNP the proud winners of the prestigious 'Golden Peacock Award' this year - an award won amongst 163 participants. The trophy has been given, along with the certificate, by the Institute of Directors, from the hands of Mrs. Shiela Dikshit, CM of Delhi.



BREAKTHROUGH TECHNOLOGY OF ACRYLIC CED:

GNP has always believed in products that are technologically sound, environment friendly and up to date. Conducting research projects at regular intervals and working to improve the quality of our products is our continuous endeavour. The concept was to develop a product with specially designed polymers, so that corrosion resistance and weather/ UV resistance can be obtained with a single dip coat. The product is based on acrylic resin and hence weather and UV resistance is imparted to the coating. There is no need to apply any solvent-based topcoat over this. This led to significant material cost saving, reduction in capital investment and improvement in productivity at the customers' end. The new technology has enabled setting up of Acrylic CED line for coating of motorcycle frames.

LAUNCH OF NEROLAC DISNEY EMULSION:

GNP in the month of January 2006 launched a special range of products for the kids, 'Nerolac Disney Emulsion range'. GNP has always understood the decision making power and the importance of communicating to children and hence creating a product for them has been a part of marketing strategy. In this day and age when home decor is beyond just a clean house and is indicative of personal style statements, dressing up children's dens is catching up as a necessity. Decorating children's rooms is getting more attention today than ever before because of small sized families and increased disposable income, thus more money can be spent making each room a delight unto itself. Research conducted by GNP threw up facts of parents being more than eager to dress up their kids' rooms, which was one of the biggest motivations for GNP to start on a concept around kids' rooms.



While working on the concept of 'Kids Room décor' the idea of tying up with Disney Consumers Products and using their characters to beautify the kids room was found to be exciting and hence the birth of the marketing alliance between Nerolac and Disney.

Nerolac Disney Emulsion is being positioned as a paint that helps you bring your kids' dreams alive through wall designs that tell a story of their own. Initially it is only launched in eight key markets, the product pack contains wall designs consisting of paint for wall, and custom made stencils to capture the designs on the walls. An elaborate service model has been put in place for implementation. A call centre has been set up with a toll free number (1800 2200 24 and also SMS 'NEROLAC' to 4646) in Mumbai to take calls from any consumer from eight cities, to begin with. This initiative is intended to build image of GNP as a pioneering and innovative company.

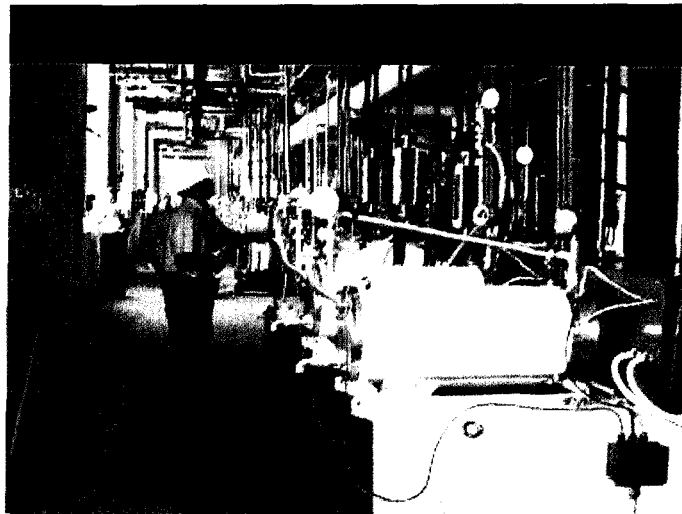
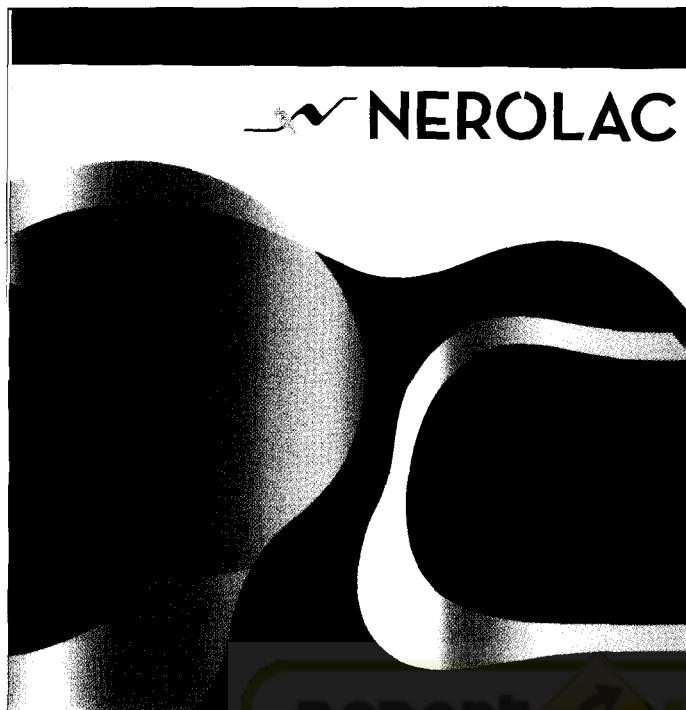


NEROLAC'S NEW IDENTITY:

Need for a new corporate identity: Organization and Brands need to evolve and reinvent themselves with time to meet the ever-changing consumer expectations. GNP has been reinventing its business, is more visible in the media and is aggressive in marketing of its products. In keeping with these changes, the Brand identity also needs to be revitalized and integrated to maximize the brand impact and influence stakeholders, including customers and the employees, keeping in mind the existing markets and the future global aspirations. GNP has thus embarked upon Brand identity change, which will give fresh thrust to the brands in the coming months. As a part of this exercise all the aspects and elements of the Company that form an interface with customers and influencers, will be given a new and integrated look.

Objective of doing the Corporate Identity is to make GNP future ready, reflecting the Company's commitment to positive change and serve to be the internal driving force as well. This will create a strong purpose and vision and also create a singular identity that can be adopted for next few decades.

As an outcome of this, the ""Kaizen"" (Continuous Improvements) scheme has generated 11000 Kaizens in this FY. Other areas that are positively impacted are Productivity, Costs, and Reduction in Factory level losses, Overall Equipment Effectiveness (for Equipment Availability), Skills and Competency development, Energy Conservation, House-keeping levels on shop floor etc.



Various projects have been initiated in the areas mentioned above, which have given both tangible and intangible benefits. GNP's teams have also participated in various national forums to share the initiatives and improvements. The journey towards the manufacturing excellence in on - to meet the future challenges.

MANUFACTURING EXCELLENCE:

The journey towards Excellence in Manufacturing, which started from Lote in August 2003, has now picked up speed and all the manufacturing plants are working towards achieving challenging milestones at a great pace. Striving for improvements in both cultural and functional areas has become a way of life and under the framework of Total Productive Maintenance (TPM) and Six- Sigma, various initiatives are continuously launched. Such company wide initiatives demand active involvement of each and every employee, including the operators. The "Total Employee Involvement" is being ensured through following enablers:

- Mass awareness program for entire workforce
- Work Culture Improvement Initiatives
- Motivate workforce to carry out and sustain various initiatives
- Cross-functional team working in resolving various day to day problems
- Sensitize employees towards achieving higher goals of Productivity, Costs, Quality, Safety, Customer focus, Reduction in Wastages and Losses, Asset utilisations etc.
- Continuous training on various aspects of skills and competency building to enable the workforce to face new challenges.

GOODLASS NEROLAC PAINTS LIMITED

NOTICE

NOTICE is hereby given that the Eighty-sixth Annual General Meeting of the Shareholders of GOODLASS NEROLAC PAINTS LIMITED will be held at the M. C. Ghia Hall, Bhogilal Hargovindas Building, 2nd Floor, 18/20, Kaikhushru Dubash Marg, (Behind Prince of Wales Museum), Mumbai 400 001 on Monday, 12th June, 2006, at 3.30 p.m. (S.T.) to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To confirm the Interim Dividend of Rs. 8.50 per equity share of Rs. 10 each already paid and to declare final dividend for the year ended 31st March, 2006.
3. To appoint a Director in place of Mr. D.M. Kothari, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. K.C. Mehra, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. S.M. Datta, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint a Director in place of Mr. H. Ishino, who was appointed as a Director of the Company, under Article 114 of the Articles of Association of the Company to fill in the casual vacancy created by the resignation of Mr. S. Kobayashi and who holds office upto the date of this Annual General Meeting by reason of Section 262 of the Companies Act, 1956, but being eligible, offers himself for re-appointment and in respect of whom the Company has received a notice in writing from some Shareholders proposing his candidature for the office of Director.
7. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company, and to authorise the Audit Committee to fix their remuneration.

Special Business

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

"RESOLVED THAT subject to the approval of the Central Government under Section 21 and other applicable provisions, if any, of the Companies Act, 1956, the name of the Company be changed from "Goodlass Nerolac Paints Limited" to "Kansai Nerolac Paints Limited" and accordingly, the name "Goodlass Nerolac Paints Limited" wherever it occurs in the Memorandum and Articles of Association and in all other records of the Company be substituted by the name "Kansai Nerolac Paints Limited."

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

"RESOLVED THAT Article 163 of the Articles of Association of the Company be and is hereby amended as follows:

'163. The Directors shall have power to provide a Common Seal for the purpose of the Company, and from time to time to destroy the same and substitute a new Seal in lieu thereof, and shall provide for the safe custody of the Seal

Goodlass Nerolac Paints Limited • Annual Report 2005-2006

for the time being, under such regulations as the Directors may prescribe, and it shall not be used except by the authority of the Directors and in the presence of any two persons authorised by a resolution passed at a meeting of the Board of Directors, for this purpose.'

RESOLVED FURTHER THAT Article 164 of the Articles of Association of the Company be and is hereby amended as follows :

'164. Every deed or other instrument to which the Seal of the Company is required to be affixed shall be signed by any two persons authorised by a resolution passed at a meeting of the Board of Directors provided nevertheless that the certificates of shares may be sealed in the manner mentioned in Article 21 thereof.'

Registered Office:
"Nerolac House",
Ganpatrao Kadam Marg,
Lower Parel,
Mumbai 400 013.

For and on behalf of the Board

J.J.IRANI
Chairman

Dated: 19th April, 2006

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, relating to Items No. 6, 8 and 9 is annexed hereto.

**Explanatory statement under Section 173 of the Companies Act, 1956****Item No. 6**

Mr. H. Ishino was appointed as a Director of the Company on 19th January, 2005, by the Board of Directors in the casual vacancy caused by the resignation of Mr. S. Kobayashi. Pursuant to Section 262 of the Companies Act, 1956, ("the Act") read with Article 114 of the Articles of Association of the Company, Mr. Ishino holds office only upto the forthcoming Annual General Meeting because Mr. Kobayashi in whose place he was appointed would have held the office upto the date of the forthcoming Annual General Meeting, had he not resigned.

Notice in writing has been received from some Shareholders of the Company pursuant to Section 257 of the Act signifying their intention to propose Mr. Ishino as a candidate for the office of Director. As required by the said Section 257, the Shareholders giving notice have deposited a sum of Rs. 500 with the Company which shall be refunded if Mr. Ishino is elected as a Director.

Mr. Ishino, aged 55, handles the Marketing function at Kansai Paint Co. Ltd., Japan. The services of Mr. Ishino have been and will be very useful to the Company. The Directors, therefore, recommend that he be appointed as a Director of the Company.

Mr. Ishino is interested in the Resolution at Item No. 6 of the accompanying Notice since it relates to his own appointment.

Mr. Y. Kawamori and Mr. Y. Tajiri, Directors of the Company, are nominees of Kansai Paint Co. Ltd., Japan and accordingly, may be deemed to be concerned or interested in the Resolution at Item No. 6 of the Notice. None of the other Directors is in anyway concerned or interested in the Resolution.

Goodlass Nerolac Paints Limited • Annual Report 2005-2006**Item No. 8**

The Company is a subsidiary of Kansai Paint Co. Ltd., Japan (Kansai Paint). Kansai Paint holds 64.52% of the paid-up share capital of the Company. Kansai Paint is one of the top paint companies in the world. It is considered advantageous for the Company to have "Kansai" as a part of its name, as the name "Kansai" adds a lot of value to the corporate brand, being associated with quality, technology and global presence. Likewise, the brand "Nerolac" enjoys high awareness in the minds of the consumers as well as other stakeholders. It is proposed to substitute "Goodlass" in the name of the Company with "Kansai" so that the name of the Company would read as "Kansai Nerolac Paints Limited". Hence the Resolution at Item No. 8 of the Notice.

An application will be made to the Central Government for the change of name under Section 21 of the Companies Act, 1956.

If the change of name is approved, share certificates in physical form already issued will not be called in for the purpose of exchange into certificates bearing the new name. The existing certificates will continue to be accepted for all purposes, as indicating entitlement to shares of the Company.

The Directors commend the Resolution for acceptance by the Shareholders.

None of the Directors is in any way concerned or interested in the Resolution.

Item No. 9

Articles 163 and 164 of the Articles of Association of the Company provide that the documents which require affixing of the Common Seal be executed in the presence of two Directors of the Company. It is considered desirable that such documents requiring affixing of the Common Seal of the Company be signed by any two persons who are so authorised to sign the same by a resolution passed at a meeting of the Board of Directors for this purpose.

Hence the Resolution at Item No. 9 of the Notice.

None of the Directors is in any way concerned or interested in this Resolution.

Disclosure in terms of Clause 49(IV)(E)(v) of the Listing Agreement with the BSE and the NSE.

Name of the Director seeking appointment/re-appointment	Shares held as on 31.3.2006 (Own or held by/for other persons on a beneficial basis)
(1) Mr. D.M. Kothari	19960
(2) Mr. K.C. Mehra	Nil
(3) Mr. S.M. Datta	Nil
(4) Mr. H. Ishino	Nil**

** Nominee Director of Kansai Paint Co. Ltd., Japan. No share held in personal capacity.

Registered Office:
"Nerolac House",
Ganpatrao Kadam Marg,
Lower Parel,
Mumbai 400 013.

For and on behalf of the Board

Dated: 19th April, 2006

J.J.IRANI
Chairman