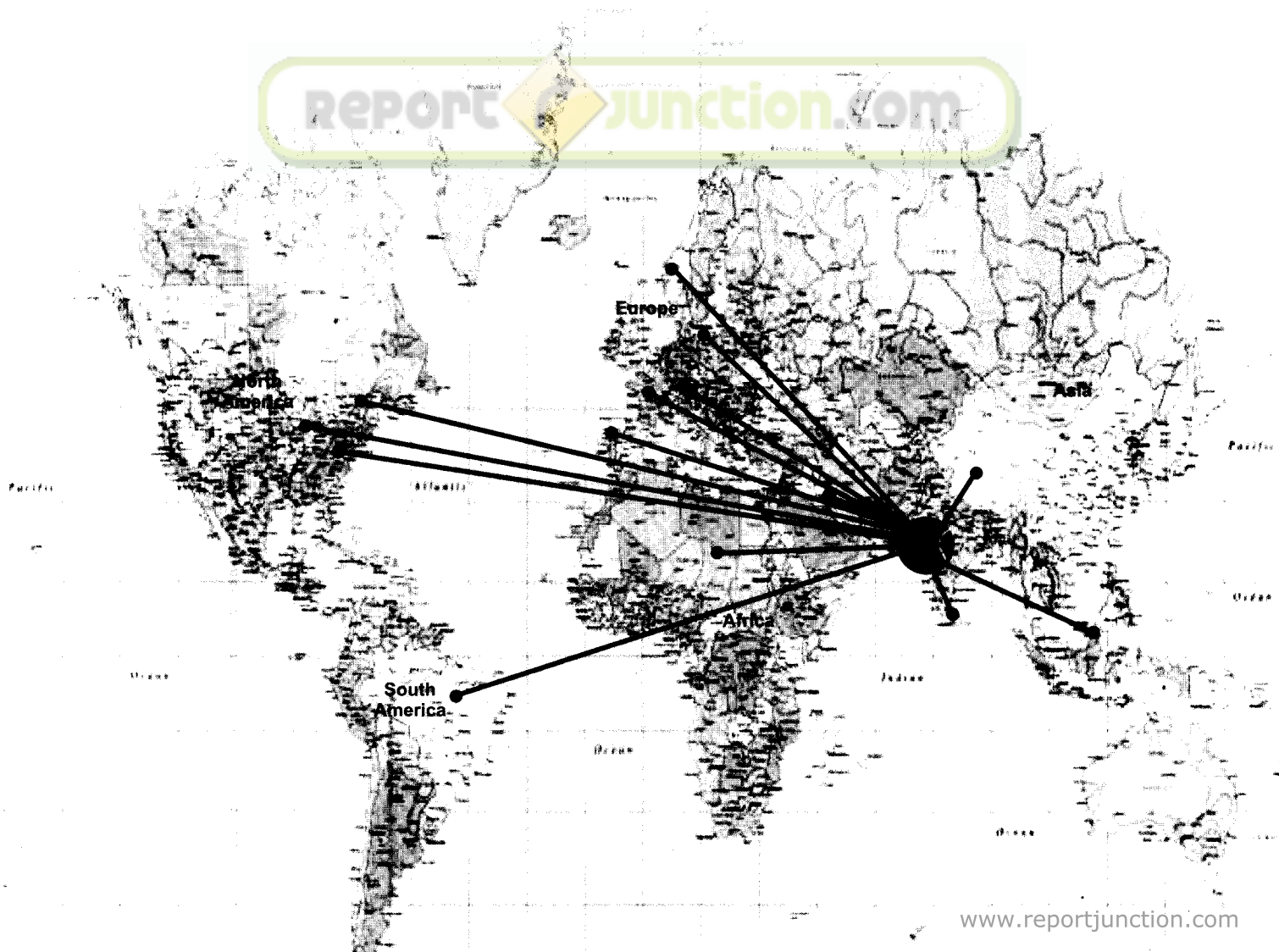


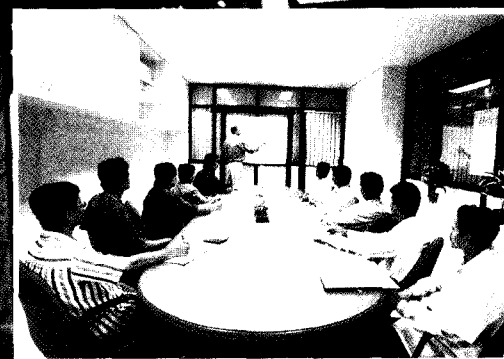
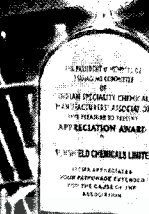
SUNSHIELD

CHEMICALS LTD.

19TH ANNUAL REPORT
FOR THE YEAR ENDED ON 31ST MARCH 2006

Report  Junction.com







BOARD OF DIRECTORS

Shri Amit C. Choksey	<i>Chairman</i>
Shri Ashok R. Datar	
Shri Bipin V. Jhaveri	
Shri Kaushik C. Shanghvi	
Shri Manubhai G. Patel	
Shri Sandeep H. Junnarkar	
Shri Satish M. Kelkar	<i>Vice Chairman & Managing Director</i>

COMPANY SECRETARY

Mr. Himanshu Mhatre

REGISTERED OFFICE

Janki Niwas, N.C.Kelkar Road,
Dadar, Mumbai – 400 028.
Tel. : 2430 1454, 2430 1057, 2430 8261
Fax.: 2430 7094

AUDITORS

M/s. Tembey & Mhatre
Chartered Accountants

FACTORY / R & D CENTRE

Pali – Khopoli Road, Village Rasal,
Taluka Sudhagad, Dist. Raigad,
Maharashtra.
Tel.: (02142) 242226

BANKERS

Bank of Baroda
The Saraswat Co-operative Bank Ltd.
State Bank of India

REGISTRAR AND SHARE TRANSFER AGENT

TSR Darashaw Ltd.
(formerly Tata Share Registry Ltd.)
Army and Navy Building,
148, Mahatma Gandhi Road, Mumbai - 400 001
Tel. 022-66568484

SOLICITORS

M/s. Junnarkar & Associates

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Persons constituting group within the definition
of “group” as defined in the Monopolies &
Restrictive Trade Practices Act, 1969

1. Amit Champaklal Choksey

2. Aeonian Investments Company Limited

3. Abhiraj Trading & Investments Private Limited

4. Satish Manohar Kelkar

5. Neokel Investments Private Limited

6. Kelkar Chemicals Private Limited



DIRECTORS' REPORT

Dear Shareholders,

Your Directors are pleased to submit their 19th Annual Report and Audited Accounts for the year ended 31st March, 2006 along with management's discussion & analysis of performance of your Company:

A) FINANCIAL RESULTS & REMARKS

Highlights of Company's financial performance during the financial year 05-06 is compared herein below with that of the financial year 04-05 with explanatory comments in the remarks column and detailed analysis thereafter.

HIGHLIGHTS OF FINANCIAL RESULTS & REMARKS

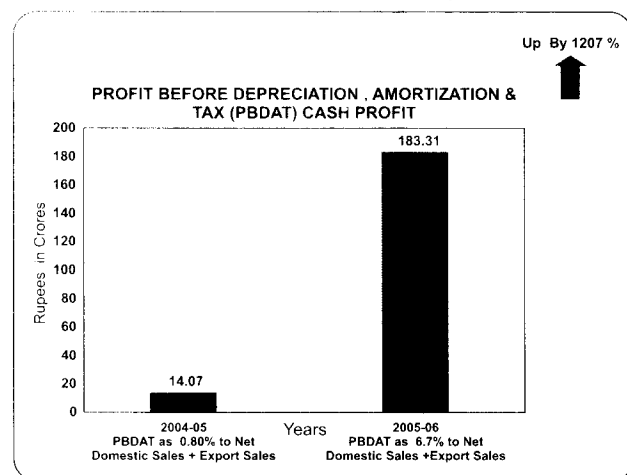
(Rs in lacs)

Sr. No.	Particulars	Pre.Year 31.03.2005	Curr.Year 31.03.2006		% Change Over Pre.Year	Remarks
	1	2	3		4	5
1	Gross Sales	2,125	3,196	↑	50%	Growth in sales of niche products & Exports
2	a. Net Domestic Sales excluding taxes, duties, etc.	1,647	2,115	↑	28%	Growth in Domestic Sales
	b. Exports Sale	97	618	↑	537%	Growth in Exports Sales
	Net Total Sales Excluding taxes, duties, etc.	1,744	2,733	↑	56%	Total Net Sales up by 56%
3	Production cost incl. Material Consumption	1,326	2,080	↓		
4	Gross Margin (2-3)	418	653	↑	56%	Shift in product mix / Increased sales
	Gross Margin as % on Net Sales	24%	24%			
5	Employee Cost	172	208			
6	Other Administrative Costs	110	146			
7	Total Fixed costs	282	354	↓		Total Fixed cost Decreases as % of Net sales
	Total Fixed costs as % on Net Sales	16%	13%			
8	Operating Profit (PBIDAT) (4-7)	131	299	↑	128%	Results into Growth in Operating Profit
9	Interest	117	116	↓		Came down from 7% to 4% of net sales
	Interest Cost as % on Net Sales	7%	4%			
10	Other Income	(5)	1			
11	Cash Profit / (Loss) (8-9+10)	14	183	↑	1207%	Growth of 1207%
12	Depreciation	85	92			
13	Ammortisation	14	14			
14	Net Profit/(Loss) - PBT	(85)	78	↑		Loss of 85 lacs turn into profit of 78 lacs
15	Provision for Tax					
	- Current	-	(4)			
	- Deferred	(28)	(37)			
16	Net Profit/ (Loss) - PAT	(113)	37	↑		Net loss of 113 lacs turn into Net profit of 37 lacs

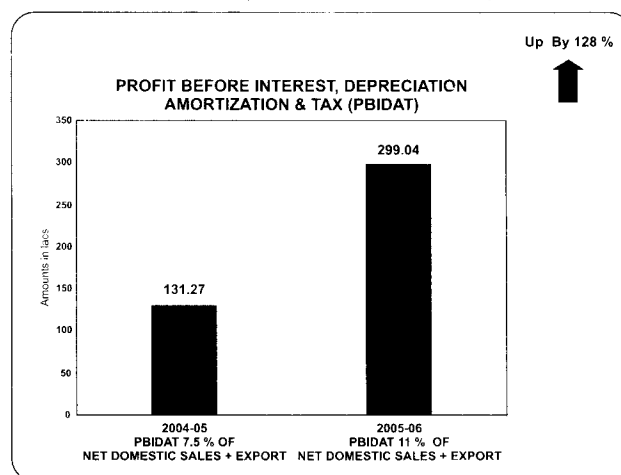


The key performance has been pictorially explained as below:

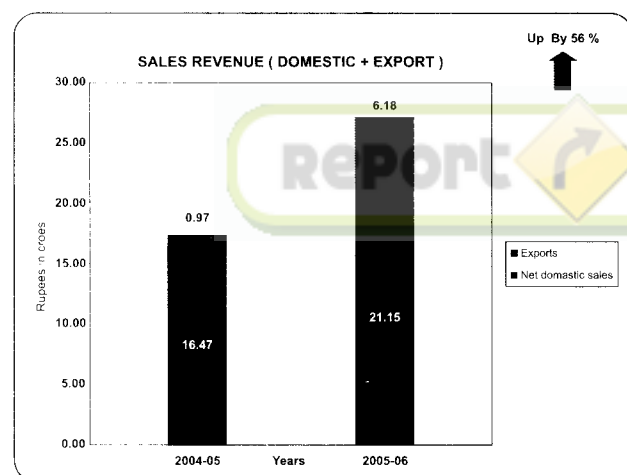
PBDAT (CASH PROFIT)



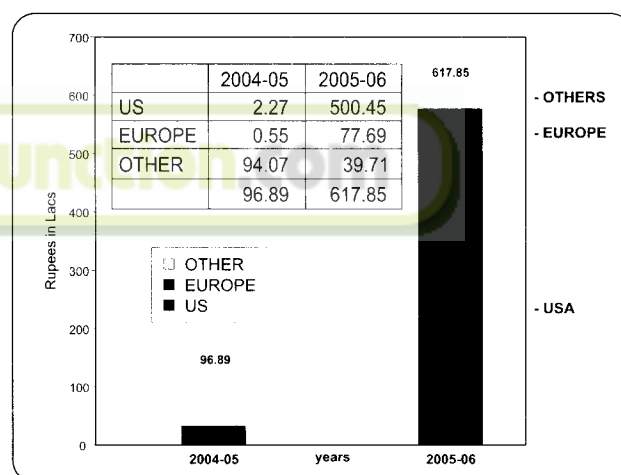
PBIDAT (OPERATING PROFIT)



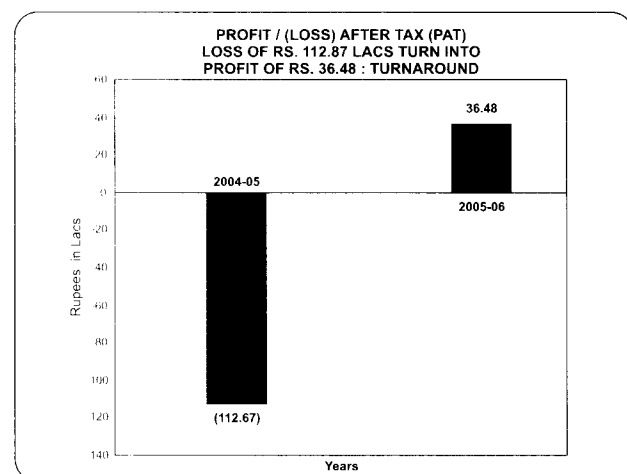
NET SALES REVENUE (DOMESTIC + EXPORT)



GEOGRAPHICAL SPREAD OF EXPORTS



LOSS TO PROFIT : TURNAROUND



Further Improvements

In November-05, your Company signed a long-term Supply Agreement with Altana Chemie AG, the world leaders in Speciality Chemicals. With this, an export of Speciality Chemicals with this group has started with increased vigor from January 01, 2005.

In addition to above Supply Agreement, your Company's research and development centre has developed improved versions of Antioxidants. Your Company has started domestic sales and exports of these new antioxidants.

Dividend

In view of the carry forward losses the Board of Directors of your Company does not recommend payment of dividend for the year ending 31st March 06.



Action taken under Section 23(1) of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA)

Since, the carried forward loss of your Company as on 31st March, 2005 was more than 50% of net worth as on that date, as required under section 23(1) of SICA Act, 1985, your Company during the year conducted an Extra Ordinary General Meeting and appropriately informed the Board of Industrial and Financial Reconstruction (BIFR) by filing Form C as per the requirement of the Sick Industrial Companies (Special Provisions) Act, 1985.

B) MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT:

(Pursuant to Clause 49 of the Listing Agreement with the Stock Exchange)

Attention is invited to the Management discussion and Analysis Report incorporated in the Directors Report forming part of 18th Annual Report. The report contained in detail the state of the Commodity Ethylene Oxide Condensate business (Commodity EOC business), which has continued during the year.

Industrial Structure & Development:

Your Company produces Ethylene Oxide (EO) based derivatives called Ethylene Oxide Condensates (EOC). For EOC industry, EO is a vital input. EO is a product manufactured by Petrochemical complexes manufacturing MEG - one of the key inputs of Polyester fiber. Major use of EO produced by these Petrochemical Complexes, is for captive consumption to manufacture MEG for Polyester fiber.

Based on the captive requirements and market conditions for MEG, petrochemical complexes allocate EO to 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 steep increase in crude prices increased prices of other petrochemical feed stocks required by EOC industry, phenomenally.

Against this, reduced import duties on EOC, 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.

Under the circumstances, the Company had no alternative but to shift its business from Commodity EOC to Niche Speciality Surfactants, Esters, Amides and a range of Antioxidants for diverse user industries like Lubricants, Plastics/ Polymers, Rubber/ Latex, Agro, Pesticide, Ink, Coatings, Resins, etc.

Your Company has during last 2/3 years successfully developed number of products in the above product categories for large multinational companies and Indian Corporates, which have found acceptance of its customers. Considering your Company's technical abilities, its customers have initiated with your Company development

of newer products for their domestic and/or overseas requirements. Prospects in this regard appear to be bright.

Your Company however faces concern in terms of repayment of large amounts of Sales Tax deferral to concerned authorities, term loans of Banks etc in the future years. This may bring pressure on its working capital resources.

The Commodity Ethylene Oxide Condensate business continues to be extremely competitive with negligible margins. Additionally, Government policy of progressive liberalization of import and reduction in duties have virtually made, local manufacture of these conventional condensates an unprofitable business.

Your Company has therefore continued to pursue a product-policy of focusing on Niche Specialties, additives, amines and Antioxidants for a wide range of user industries.

Your Company has during the financial year 2005-06 made substantial investment to increase the production capacity of certain Speciality chemicals to meet increased demand of the prime customers and efforts are being made to spread the customer-base further.

Your Company has made sizable investments to improve R & D and Testing facilities, upgrade infrastructure and utility, enhance warehousing capacity and has started development of earlier acquired land adjacent to the present site.

Your Company has decided to put up new capacities to manufacture a key raw material principally for captive consumption in the manufacturing of specialty chemical whose business is growing. This will add global competitive strength to the specialty chemical manufacturing by your Company. The new product principally being manufactured for captive consumption has also demand for manufacturing of various products in India and also export market.

To support the above-mentioned programme and streamline Company's finances, a 1:1 right issue has been authorized by the members at the Extra Ordinary General Meeting held on 4th April, 2006. The management will therefore complete the necessary and appropriate procedures ordered by the Directors as per the authorization received by the Board in the matter.

Your Company will continue to face competition in the domestic and export market as earlier but now with globally competitive strength added with your Company.

Internal Control System and their adequacy:

A system of internal controls and checks appropriate for your Company's operations is in place. In addition Internal Audit is carried out periodically.

During the year under review no significant internal control issues were identified. The Audit committee met 5 times and has been reviewing the internal control system as well as financial disclosures regularly.



Material developments in HR:

Employee relationship at all levels continue to be healthy. The management would like to record its appreciation of dedicated and strong support provided to your Company, by its employees, at all levels.

(The statement in this report including Management's Discussions & Analysis Report reflect Company's projections, estimates, expectations or predictions. These may be forward looking statements within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied, since your Company's operations are influenced by many external and internal factors beyond the control of the Company.)

DIRECTORS:

In accordance with the provision of the Companies Act, 1956 read with Article 166 of the 'Articles of Association of the Company, Mr. Ashok R. Datar and Mr. Amit C. Choksey, Directors of the Company, retire by rotation and being eligible, offer themselves, for re-appointment.

DIRECTOR'S RESPONSIBILITY STATEMENT:

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- (i) That in the preparation of the accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- (ii) That the Directors have selected such accounting policies and applied them consistently and made judgement and estimates that were reasonable and prudent so as to give a true and fair view of the profit or loss of the Company for the year under review;
- (iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provision of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) That the Directors have prepared the accounts for the financial year ended 31st March, 2006 on 'going concern' basis.

FIXED DEPOSITS

Your Company has not accepted any deposit from general public within the meaning of Section 58A of the Companies Act, 1956 and the Rules made thereunder.

AUDITORS:

M/s. Tembey & Mhatre, Chartered Accountants, Mumbai, hold office upto the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. They

have furnished the necessary certificate as required under Section 224 (1B) of the Companies Act, 1956. The Board recommend their appointment.

PARTICULARS OF EMPLOYEES:

During the year under review there were no employees, whose particulars are to be given under Section 217 (2A) of the Companies Act, 1956 read along with the Companies (Particulars of Employees) Rules, 1975.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

As required by Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 the relevant data pertaining to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo is given in the prescribed format as Annexure to this Report.

CORPORATE GOVERNANCE REPORT:

The Corporate Governance Report is set out as separate Annexure to this Report. Certificate from the Auditors of the Company, certifying compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchange is annexed to the Report on Corporate Governance.

ENVIRONMENT, HEALTH AND SAFETY:

Your Company has adopted a Health, Safety and Environment (HSE) Policy, which applies to all employees and activities. Sunshield strives to be a responsible corporate member of society committed to continuous improvement in HSE and to provide a healthy work environment for its employees. Your Company continuously strives to develop a culture, which encourages all employees to take personal responsibility for HSE.

APPRECIATION:

The Directors place on record their sincere appreciation of the support and cooperation rendered by the employees of the Company at all levels. Your Directors also place on record their sincere appreciation of the wholehearted support extended by the Company's bankers, business associates, employee's union, shareholders, auditors and various statutory authorities, both, central and state Government.

For and On Behalf of the Board of Directors

Satish M. Kelkar **Amit C. Choksey**
Vice Chairman & Mg. Director Chairman

Place: Mumbai

Date : 22nd April, 2006



ANNEXURE TO THE DIRECTORS' REPORT

Additional information as required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2006.

CONSERVATION OF ENERGY :

Your Company has always been conscious of the need to conserve energy. The Company is continuously identifying areas where energy can be saved and appropriate measures have been taken for optimizing energy conservation.

- Energy Conservation measures taken: i) Use of fuel additive for LDO used in Boiler ii) Independent electrical metering and connected load iii) Substitution of use of electricity to the extent possible by steam & iv) Co-ordination to optimize batch schedule.
- Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

Efforts continue to further reduce the consumption of energy by optimizing batch sizes. The appropriate sizing of reactor/s along with the required balancing equipments have been installed / under installation.

- Total energy consumption and energy consumption per unit of production as per Form A.

FORM A

Disclosure of particulars with respect to conservation of energy.

- Power and Fuel Consumption

(Rs. In Lacs)

Particulars	Current Year Ended 31-03-2006	Previous Year Ended 31-03-2005
1 Electricity		
a) Purchased		
Units (KW/H)	5,12,540	4,08,140
Total Amount Rs.	23,70,040	20,43,310
Rate/ Unit (Rs.)	4.62	5.01
b) Own Generation	N.A.	N.A.
2 Coal	N.A.	N.A.
3 FO/ LDO/HHC/HSD		
Qty. (Ltr.)	4,05,336	1,74,291
Total Cost	98,80,428	34,01,722
Average Rate	24.38	19.52
4 Others/internal generations	NIL	NIL

- Consumption per unit of Production

Particulars	Current Year Ended 31-03-2006	Previous Year Ended 31-03-2005
Production Units (Mt.)	3,775.77	2,334.55
Electricity (Units)/Mt.	135.74	174.83
FO/LDO/HHC/HSD (Ltr.)/Mt.	107.35 *	74.65

* On account of self generation of electricity through generator to meet gap between and demand of electricity supplied by MSEB.

FORM B

Disclosure of particulars with respect to Technology Absorption, Research and Development: (R & D)

Research & Development (R & D)

- Specific areas in which R & D carried out by the Company:

- New Products Development.
- Development and evolution of alternate raw materials / 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 a prime customer.
- New business opportunity obtained.

- Benefits Derived as a result of the above R & D :

- Improvement in the quality of products to meet the requirements of highly competitive market.
- Introduction of new products/processes..
- Increased productivity.
- Improved market acceptability of products.
- Cost economy and efficiency.
- Development of new applications of the finished products.



- Availability of alternative sources of raw materials.
- New business opportunity

3) Future plan of action:

- Antioxidant for Plastics, Polymer, Greases and Oil and Rubber / Latex Industries.
- Develop newer products in the field of Speciality Chemicals for paper, Ink, Polymer, Plastic, Perfumery, Resin, Adhesive Industry, Refineries & Lubes and Automotive fuel additives.
- Improve production capacity and reduce material handling and improve its efficiency.

4) Expenditure on R & D:	(In Rs.)
a) Capital	55,46,312
b) Recurring	7,56,043
c) Total	63,02,355
d) Total R & D Expenditure as percentage of turnover	2.05%

Technology absorption, adaptation and innovation:

1. Efforts, in brief, made towards technology absorption, adaptation and innovation: Not Applicable.
2. Benefits derived as a result of the above efforts: e.g. product improvement, cost reduction, product development, import substitution, etc.: Not Applicable.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial

year), following information may be furnished :

- | | |
|---|---|
| a) Technology imported | } Not Applicable as no imported technology is put to use. |
| b) Year of Import | |
| c) Has the technology been fully absorbed ? | |
| d) If not fully absorbed, areas where this has not taken place, reasons therefor, and future plans of action. | |

FOREIGN EXCHANGE EARNINGS AND OUTGO:

On account of activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and new export plans, the total foreign exchange used and earned:-

(Rs. in Lacs)

	Current Year ended 31-03-2006	Previous Year ended 31-03-2005
i) Total foreign exchange used	428.87	190.38
ii) Total foreign exchange earned.	591.05	31.77

For and On Behalf of the Board of Directors

Satish M. Kelkar
Vice Chairman & Mg. Director

Amit C. Choksey
Chairman

Place: Mumbai
Date : 22nd April, 2006