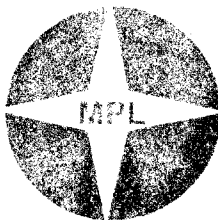


19th ANNUAL REPORT

2004 - 2005

Report  Junction.com



Manali Petrochemical Ltd

BOARD OF DIRECTORS

Dr. A. C. MUTHIAH	Chairman
Ar Rm ARUN	Director
M.H. AVADHANI	Director
C. V. R. PANIKAR	Director
G. RAGHAVENDRAN	Director
M. SIVAGNANAM	Director
Dr. P. L. SANJEEV REDDY	Director
(Nominee of UTI)	
T. WILLINGTON	Director
(Nominee of TIDCO)	
G. RAMACHANDRAN	Managing Director
K. K. RAJAGOPALAN	Director (Finance)

AUDIT COMMITTEE

M. SIVAGNANAM	Chairman
Ar Rm ARUN	Director
M. H. AVADHANI	Director
C.V.R. PANIKAR	Director
G. RAGHAVENDRAN	Director
Dr. P. L. SANJEEV REDDY	Director

COMPANY SECRETARY

S. DIRAVIAM

AUDITORS

M/s. Fraser & Ross, Chennai

BANKERS

State Bank of India
State Bank of Hyderabad
State Bank of Patiala
Indian Bank
Canara Bank
Punjab National Bank
Corporation Bank
State Bank of Bikaner & Jaipur
Bank of India

REGISTERED OFFICE

SPIC HOUSE

88 Mount Road, Guindy, Chennai - 600 032.

PRINCIPAL OFFICE & PLANT I

Ponneri High Road, Manali, Chennai – 600 068.

Phone : 25941025, 25941249, 25941253

Fax : 25941199

Email:it@manalipetro.com

PLANT - II

Sathangadu Village,

Manali, Chennai – 600 068.

Phone : 25941698, 25941402

SECRETARIAL DEPARTMENT

Ponneri High Road, Manali, Chennai – 600 068.

Phone : 25943895 (Direct)

Email : diraviam@manalipetro.com

DEPOSITORY

National Securities Depository Ltd (NSDL)

Central Depository Services (India) Limited (CDSL)

SHARES LISTED WITH

1. Madras Stock Exchange Ltd.
Exchange Building, Post Box No.183
30,Second Line Beach, Chennai - 600 001.
2. The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001.
3. National Stock Exchange of India Ltd
Exchange Plaza,
Bandra – Kurla Complex,
Bandra (East), Mumbai – 400 051.
4. The Calcutta Stock Exchange Association Ltd
No.7, Lyons Range, Kolkata – 700 001.

REGISTRARS AND SHARE TRANSFER AGENT

M/s. Cameo Corporate Services Limited

"Subramanian Building"

No.1, Club House Road, Chennai – 600 002.

Phone : 28460390 – 394 Fax: 28460129

Email : cameosys@satyam.net.in



NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the 19th Annual General Meeting of the Members of Manali Petrochemical Ltd will be held at Rajah Annamalai Hall, Esplanade (Near High Court), Chennai - 600 108, on Saturday the 10th September, 2005 at 10.35 A.M to transact the following business :

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31st March 2005 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in the place of Mr M Sivagnanam, who retires by rotation and being eligible offers himself for re-election.
3. To appoint a Director in the place of Mr M H Avadhani, who retires by rotation and being eligible offers himself for re-election.
4. To consider and if thought fit, to pass with or without modification, the following Resolution as an ORDINARY RESOLUTION :
"RESOLVED THAT pursuant to Section 224 of the Companies Act, 1956, M/s. FRASER & ROSS, Chartered Accountants, Chennai, the retiring Auditors, be and are hereby re-appointed as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on a remuneration to be fixed by the Board of Directors of the Company in connection with the Company's Audit."

SPECIAL BUSINESS:

5. To consider and if thought fit, to pass with or without modification, the following as an ORDINARY RESOLUTION :
"RESOLVED THAT Mr. Ar Rm Arun, whose term of office as Additional Director of the Company expires at this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 from a member proposing the candidature of Mr. Ar Rm Arun for the office of the Director, be and is hereby appointed as a Director of the Company, whose period of office shall be liable to retirement by rotation.
6. To consider and if thought fit, to pass with or without modification, the following as a SPECIAL RESOLUTION
"RESOLVED THAT pursuant to Article 146 of the Articles of Association of the Company and the provisions of Sections 198, 269, 309, 314 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications and / or re-enactments of the Companies Act and / or any notification which the Central Government may issue from time to time) and subject to the approval of the Central Government, if necessary, and such other approvals as may be required and such alteration /

modification, if any, that may be effected by the above mentioned bodies in that behalf, approval of the members be and is hereby accorded for the re-appointment of Mr K K Rajagopalan, Director in charge of Finance of the Company for the period from 20.4.2005 to 30.9.2008 on the terms and conditions of remuneration as set out in the Explanatory Statement annexed hereto.

RESOLVED FURTHER THAT in the event of any statutory amendment or relaxation to Schedule XIII or any provisions of Companies Act and to Income Tax Act, Income Tax Rules or issue of any notification under the aforesaid Acts / Rules, the Board of Directors be and is hereby authorised to alter and vary the terms and conditions of appointment and increase the remuneration and to sign / execute necessary agreement, deeds, etc. and to take all such steps, deeds, matters and things as may be considered necessary on behalf of the Company to give effect to the above resolution."

7. To consider and if thought fit, to pass with or without modification, the following as a SPECIAL RESOLUTION

"RESOLVED THAT pursuant to Article 146 of the Articles of Association of the Company and the provisions of Sections 198, 269, 309, 314 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications and / or re-enactments of the Companies Act and / or any notification which the Central Government may issue from time to time) and subject to the approval of the Central Government, if necessary, and such other approvals as may be required and such alteration / modification, if any, that may be effected by the above mentioned bodies in that behalf, approval of the members be and is hereby accorded for the re-appointment of Mr G Ramachandran, Managing Director of the Company for the period from 27.10.2005 to 31.08.2009 on the terms and conditions of remuneration as set out in the Explanatory Statement annexed hereto.

RESOLVED FURTHER THAT in the event of any statutory amendment or relaxation to Schedule XIII or any provisions of Companies Act and to Income Tax Act, Income Tax Rules or issue of any notification under the aforesaid Acts / Rules, the Board of Directors be and is hereby authorised to alter and vary the terms and conditions of appointment and increase the remuneration and to sign / execute necessary agreement, deeds, etc. and to take all such steps, deeds, matters and things as may be considered necessary on behalf of the Company to give effect to the above resolution."

Registered Office:

"SPIC House"

88, Mount Road, Guindy,
Chennai - 600 032.

Date : 25.7.2005

By Order of the Board

S DIRAVIAM

Company Secretary

(Notes to this Notice continued on page 3)



ANNEXURE TO NOTICE EXPLANATORY STATEMENT

(Pursuant to Section 173(2) of the Companies Act, 1956)

Item No.5

Mr. Ar Rm Arun was appointed as an Additional Director of the Company effective 25.1.2005 in terms of Section 260 of the Companies Act 1956 read with Article 97 of the Articles of Association of the Company. Mr. Ar Rm Arun holds office upto the date of this Annual General Meeting. The Company has received a notice in writing from a member under Section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- as required under that Section, signifying his intention to propose the appointment of Mr. Ar Rm Arun as a Director of the Company, who is liable to retirement by rotation.

The Board considered that the appointment of Mr. Ar Rm Arun as a Director will be beneficial to the Company and accordingly recommends the passing of the Ordinary Resolution set out in item 5 of the accompanying notice.

None of the Directors of the Company except Mr. Ar Rm Arun is concerned or interested in the above Resolution.

Item No.6

The Board at its meeting held on 25.1.2005 re-appointed Mr K K Rajagopalan as Director (Finance) of the Company for the period from 20.4.2005 to 30.9.2008, as his term of office as Director (Finance) in MPL expired on 19.4.2005.

Mr K K Rajagopalan is an Engineering graduate with post graduation in Management from Indian Institute of Management, Bangalore, with specialisation in Finance. He served as Executive Director(Finance) in M/s. SPIC Ltd before joining MPL. He carries with him about 32 years experience in the industry.

The terms and conditions of remuneration to Mr K K Rajagopalan, Director (Finance) of the Company are as follows.

- v) Telephone:
Provision of telephone at residence.
- 5) Reimbursement of expenses :
 - i) Entertainment expenses:
Reimbursement of entertainment expenses actually and properly incurred for the business of the Company, subject to a reasonable ceiling as may be fixed from time to time by the Board.
 - ii) Reimbursement of travelling expenses actually and properly incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.

Minimum Remuneration:

In the event of loss, absence or inadequacy of profit in any financial year during the currency of tenure of Mr K K Rajagopalan, the remuneration aforesaid shall be the minimum remuneration payable to him. However, any excess over the limits on minimum remuneration prescribed under the Companies Act 1956, read with Schedule XIII to the Companies Act, 1956 shall be payable to Mr K K Rajagopalan with the approval of the Central Government, if necessary.

The Board therefore recommends passing of the resolutions as contained under item no.6 of the accompanying notice.

Memorandum of Interest:

Excepting Mr K K Rajagopalan, Director (Finance) to the extent of remuneration payable to him, none of the Directors of the Company is interested or concerned in the above resolution.

Item No.7

The Board at its meeting held on 25.07.2005 re-appointed Mr G Ramachandran, Managing Director of the Company for the period from 27.10.2005 to 31.08.2009, as his present term of office as Managing Director in MPL will expire on 26.10.2005.

Mr G Ramachandran is a Chemical Engineer with a post graduate Degree in Business Administration and possesses over 30 years of industrial experience in Fertilizers and Petrochemical Industries. He worked for SPIC for 16 years before joining MPL. He has rich experience in designing, operating and commissioning of large fertilizer and petrochemical plants.

The terms and conditions of remuneration to Mr G Ramachandran, Managing Director of the Company are as follows :

- 1) Salary
Rs.60,000/- (Rupees Sixty thousand only) per month including dearness allowance.
 - 2) Commission or Special Allowance not exceeding the total annual salary.
 - 3) Perquisites
Perquisites shall be allowed in addition to both salary and commission or special allowance. However, it shall be restricted to an amount equal to the annual salary. Perquisites are presently classified as follows :-
 - i) Housing / House Rent Allowance:
The expenditure incurred by the Company will be subject to a ceiling of 60% of the salary.
 - ii) Gas, Electricity, Water and Furnishings:
The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income Tax Rules, 1962.
 - iii) Medical Reimbursement:
Expenses incurred for him and his family.
 - iv) Leave and Leave Travel Concession:
Leave as per Rules of the Company including encashment of leave. Leave Travel Concession for self and family once in a year incurred in accordance with the Rules of the Company.
 - v) Club Fees:
Fees of clubs subject to a maximum of two clubs.
 - vi) Personal Accident Insurance:
Personal Accident Insurance of an amount, the annual premium of which does not exceed Rs.4,000/-.
- For the purpose of calculating the above ceiling, perquisites will be evaluated as per the Income Tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actual cost. However, the Board will have liberty to amend the ceiling of each of the above perquisites so as not to exceed the limit of annual salary or to allow any other perquisite.
- 4) Other payments and provisions, which shall not be included in the computation of the ceiling on remuneration:
 - i) Contribution to Superannuation Fund and towards Provident Fund:
Contribution towards Provident Fund will be in accordance with the Provident Fund Rules of the Company from time to time. Contribution to Pension / Superannuation Fund together with Provident Fund shall not exceed the limit as laid down in the Income Tax Rules 1962. Contribution to Provident Fund, Superannuation Fund and Annuity Fund will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act / Rules / Notifications.
 - ii) Gratuity:
Gratuity payable shall not exceed one half month's salary for each completed year of service.
 - iii) Encashment of leave.
 - iv) Car:
Provision of Company's car for business and personal use.



Superannuation Fund and Annuity Fund will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act / Rules / Notifications.

- ii) **Gratuity:**
Gratuity payable shall not exceed one half month's salary for each completed year of service.
- iii) **Encashment of leave.**
- iv) **Car:**
Provision of Company's car for business and personal use.
- v) **Telephone:**
Provision of telephone at residence.
- 5) **Reimbursement of expenses :**
- i) **Entertainment expenses:**
Reimbursement of entertainment expenses actually and properly incurred for the business of the Company, subject to a reasonable ceiling as may be fixed from time to time by the Board.

- ii) **Reimbursement of travelling expenses actually and properly incurred for the business of the Company subject to a reasonable ceiling as may be fixed from time to time by the Board.**

Minimum Remuneration:

In the event of loss, absence or inadequacy of profit in any financial year during the currency of tenure of Mr G Ramachandran, the remuneration aforesaid shall be the minimum remuneration payable to him. However, any excess over the limits on minimum remuneration prescribed under the Companies Act 1956, read with Schedule XIII to the Companies Act, 1956 shall be payable to Mr G Ramachandran with the approval of the Central Government, if necessary.

The Board therefore recommends passing of the resolutions as contained under item no.7 of the accompanying notice.

Memorandum of Interest:

Excepting Mr G Ramachandran, Managing Director to the extent of remuneration payable to him, none of the Directors of the Company is interested or concerned in the above resolution.

This shall be construed as Disclosure under Section 302 of the Companies Act, 1956.

Registered Office:

"SPIC House"
88, Mount Road, Guindy,
Chennai - 600 032.

Date : 25.7.2005

By Order of the Board

S DIRAVIAM
Company Secretary

**Brief Resume of the Directors seeking re-appointment / appointment in the
19th Annual General Meeting to be held on 10.09.2005**

1. **Mr. M Sivagnanam** was appointed on the Board effective 26.12.1989. He was the Chief Secretary to the Government of Gujarat. He was the Managing Director of Gujarat Narmada Valley Fertilizers Ltd. He was the Chairman of the Gujarat State Constructions Corporation, Gujarat Mineral Development Corporation and Gujarat Electricity Board. He was a Director of IPCL and a Member of the Board of Governors of IIM, Ahmedabad. He was instrumental for the successful implementation of several industrial projects in Gujarat. He was also the Advisor to the Central Planning Commission and in charge of industrial policy and the Advisor, State Plan for Southern States. He was also a member of the Tamilnadu State Planning Commission.
2. **Mr. M H Avadhani** was appointed on the Board effective 15.12.1990. He is a Chemical Engineer with more than 43 years of industrial experience. He holds a Bachelor's degree B.Sc. (Hons) - Chem. Tech.

and also a Master's degree M.Sc. in Chem. Tech. He served as Vice President (Technical) in SPIC, Chennai. He also held the position of Managing Director in IFFCO, New Delhi. He is presently the Chairman of Emmellen Biotech Pharmaceuticals Limited, Mumbai.

3. **Mr. Ar Rm Arun** was appointed as an Additional Director on the Board effective 25.1.2005. He is the Chairman of Cherrytec Solutions Limited and Vice Chairman of SPEL Semiconductor Limited. He completed his Electronics & Communication Engineering from the Regional Engineering College, Trichy, India, and his Masters in Electrical Engineering from the State University of New York, USA. He started his career with Polaroid Corporation in Cambridge, USA, and then worked with Intel Corporation, Santa Clara, USA. He is on the Executive Committee and IT Sub-Committee of the Southern India Chamber of Commerce & Industry (SICCI) and the Federation of Indian Chambers of Commerce & Industry (FICCI) respectively.

(Continued from page No.1)

NOTES:

1. **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and on a poll to vote instead of himself and a proxy need not be a member of the Company.**
2. The proxies in order to be valid must be received by the Company at its Registered Office / Principal Office of the Company not less than 48 hours before the commencement of the meeting.
3. Relevant Explanatory Statement of material facts pursuant to Section 173(2) of the Companies Act, 1956, in respect of Item Nos. 5, 6 and 7 of the Notice is annexed hereto.
4. Members / Proxies should bring the Attendance slip sent herewith, duly filled in and signed and hand

over the same at the entrance of the hall for attending the meeting and members who hold shares in the dematerialised form, are requested to indicate without fail their DP ID and Client ID numbers in the Attendance Slips. Members are requested to bring their copies of the Annual Report with them.

5. The Register of Members and the Share Transfer Books of the Company will remain closed from 01.09.2005 to 10.09.2005 (both days inclusive).
6. Members are requested to furnish the details of their nomination (if not already sent) in the necessary Form to the Registered office of the Company.



REPORT OF THE DIRECTORS AND MANAGEMENT DISCUSSION & ANALYSIS.

To

The Shareholders

The Directors have pleasure in presenting their 19th Annual Report on the business and operations of your company and the Audited Statement of Accounts for the year ended 31st March 2005.

FINANCIAL RESULTS

(Rs. in lakhs)

DESCRIPTION	2004 - 2005	2003 - 2004
Profit before interest, depreciation and Deferred Revenue Expenditure Written-off	3866.13	1701.40
Interest	228.44	378.23
Depreciation	1026.39	1034.77
Deferred Revenue Expenditure Written-off	90.13	82.65
Profit before Tax	2521.17	205.75
Provision for Taxation	181.16	-
Net Profit	2340.01	205.75

Continuing the positive trend from last year, your company has increased its net profit from Rs.2.05 crores to Rs.23.40 crores, this year.

OPERATIONAL HIGHLIGHTS

Your company continued to operate the plants at capacity levels close to 100%, as achieved in the last financial year. The thrust on reducing costs through several power and utility saving arrangements continued during the year. The specific consumption graphs in Page No : 27 reflect the efforts taken in this area.

Favourable market conditions, better selling prices, increased sales turnover and consequent high capacity utilisation of all plants have been the main reasons for the vastly improved performance of this year.

With a turnover of Rs.307 crores and net profit of Rs.23.40 Crores, your company has been able to wipe off carried over losses of past years partly, which have been reduced to Rs.35.33 crores. In this situation, your Directors regret their inability to declare any dividend for the year under report because of the carried forward losses.

MARKET SCENARIO

Generally, the market trend has continued to be favourable this year also. Methylene Di Isocyanate (MDI), a complementary product for the Polyol produced by us in the manufacturer of Polyurethanes is imported into the country either by the Customer directly or by us. The international prices nearly doubled within a span of four months and its shortages in the market posed a serious threat to this line of business. However, your company reformulated the products for use with alternate Isocyanates and stabilised sales profitably.

Sales in the System segments also improved and fresh orders were secured for our products in the oil exploration and production activities. These positive trends are expected to continue.

FUTURE OUTLOOK AND NEW PRODUCTS

Your company's R&D is continuously working in developing newer grades of polyols and pre-polymers to overcome

the limitations faced by the international shortages of Methylene Di Isocyanate. Success in this effort is a reason for the continued good performance in the system grade of products put in by your company.

OPPORTUNITIES AND THREATS

Customs duties on imported items, directly competing with products of your company, have been lowered. Various protective measures are being removed or reduced to approach a free trade policy. The tremendous growth in the market for Propylene Glycol and Slab stock Polyol, however, still remains an opportunity, which your company can continue to utilise profitably, by further efforts in cost reduction.

Large plants in the region are starting up production of items competing directly with your company's products. This development is a potential threat and could lead to marketing difficulties.

RISKS AND CONCERNS

The improved operations of a major raw material supplier have reduced the risks of depending on a single source of raw material for your company. The availability of propylene from upcountry refineries and the progress of the Ennore Port to accommodate a chemical importation terminal are expected to reduce the risk to minimal levels in future.

The "Free Trade Agreement" with "ASEAN" countries is definitely a concern, which can be effectively handled by increasing the market share of better value products and also addressing the issue of higher raw material input cost vis-à-vis that of competitors from those countries.

ENVIRONMENT AND SAFETY

Your company completed the periodic audit by M/s. Det Norske Veritas (DNV) for both ISO-9001 and ISO-14001. The re-certification audit is due in June 2005.

CONSERVATION OF ENERGY

As required under Section-217(1)(e) of the Companies Act, 1956 read with Rule-2 of the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, information on conservation of energy, technology absorption, foreign exchange earnings and outgo, are as per Annexure forming part of this report.

FIXED DEPOSITS

Your company has not accepted any deposits from the public during the year under report.

INDUSTRIAL RELATIONS

Efforts are being continued to develop human relations by suitable job rotation and training systems. This enables your Company to deploy its own skilled manpower to concentrate on the high technology, sensitive process plants and for other non-critical areas, the services of Suppliers of Plant and Machinery and reputed Contractors are deployed. Presently 353 employees are working in your Company.

PARTICULARS OF EMPLOYEES

Statement giving particulars of employees as required by Section 217(2A) of the Companies Act, 1956 read with The Companies (Particulars of Employees) Rules 1975,



as amended, is not required to be annexed to this Report, as no employee is coming under the purview of the Section of the Companies Act, 1956 during the period under review.

DIRECTORS

In terms of Section 256 of the Companies Act, 1956 and Article 103 of the Articles of Association of the company, the following Directors viz., Mr.M.Sivagnanam and Mr.M.H.Avadhani, are retiring by rotation at this Annual General Meeting and being eligible, offer themselves for re-appointment.

Mr. Ar Rm Arun was appointed as an Additional Director by the Board of Directors of the Company under Section 260 of the Companies Act, 1956 with effect from 25.1.2005. Mr.Ar Rm Arun vacates his office at this Annual General Meeting. Necessary notice has been received from a Member under Section 257 of the Companies Act, 1956 signifying his intention to propose the appointment of Mr. Ar Rm Arun as a Director of the Company.

DIRECTORS' 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 annual accounts for the financial year ended 31st March 2005, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) That the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- (iii) That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions 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 had prepared the accounts for the financial year ended 31st March, 2005 on a 'going concern' basis.

CORPORATE GOVERNANCE

Your Company has complied with the requirements regarding Corporate Governance as required under Clause 49 of the Listing Agreement entered into with the Stock Exchanges, where the Company's shares are listed. A Report on the Corporate Governance in this regard is made a part of this Annual Report and a Certificate from the Auditors of your Company regarding compliance of the conditions of the Corporate Governance is attached to this report.

COMPULSORY DEMAT

As announced by SEBI vide its Circular Ref. No.SMDRP / POLICY / CIR-9 / 2000, dt. 16.2.2000, the shares of the Company are traded compulsorily in dematerialised form by all investors with effect from 08.05.2000. 36.77% of shares of your company have been demated compared to 34.57% last year.

LISTING OF EQUITY SHARES

Your Company's equity shares continued to be listed on the Madras Stock Exchange Ltd., The Stock Exchange, Mumbai, The Calcutta Stock Exchange Association Ltd and National Stock Exchange of India Ltd, Mumbai, during the year under report.

Your Company has initiated necessary action to delist its equity shares from the Madras Stock Exchange Ltd and the Calcutta Stock Exchange Association Ltd pursuant to the resolution passed at the last Annual General Meeting held on 25.9.2004 and the same is under consideration by them. The equity shares of your Company will continue to be listed on the National Stock Exchange Ltd., and the Stock Exchange, Mumbai, which are having nationwide trade terminals.

COST AUDIT

The Government of India has ordered the Company to conduct audit of cost accounts in respect of 'Chemicals' manufactured by the company and accorded approval for appointment of M/s. S Gopalan & Associates, Cost Accountants, appointed by the Company in this regard pursuant to Section 233B of the Companies Act, 1956, to conduct cost audit for the year 2004-2005.

AUDITORS

Your Company's statutory Auditors M/s. Fraser & Ross, Chartered Accountants, Chennai, retire at the conclusion of this Annual General meeting and are eligible for re-appointment.

ADEQUACY OF INTERNAL CONTROLS

Your company continues to operate adequate internal control systems in combination with delegation of powers. The control systems are also supported by internal audits and Management reviews with documented policies and procedures.

ACKNOWLEDGEMENT

Your Directors acknowledge with thanks the assistance, the co-operation and support extended to the Company by the Government of India, the Government of Tamilnadu, TIDCO, SPIC the Promoter, UTI, other Financial Institutions and the Consortium of Banks. The Directors particularly appreciate the shareholders' co-operation and continued support. The Directors also wish to place on record their recognition of the efforts made by all the employees, which have shown very promising results during the year under report.

For and on behalf of the Board

Dr. A.C. MUTHIAH
CHAIRMAN

Place : Chennai - 600 032.

Date : 20.04.2005



ANNEXURE TO DIRECTORS' REPORT

Conservation of Energy, Technology absorption and Foreign Exchange Earnings and Outgo as required under Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 for the year ended 31st March 2005.

A CONSERVATION OF ENERGY

a) Energy conservation measures taken :

- Implementation of dust scrubber system in MOL plant at Plant-II to recover heat energy and lime dust.
- Bifurcation of cooling water circulation system in Plant-I.
- b) Additional investments and proposals, if any being implemented for reduction of consumption of energy
- Implement heat recovery system in polyol reactor of Plant-II.
- Conversion of steam vacuum ejectors to vacuum pumps for Plant-I and II to save electrical energy and cooling water (under erection).

- Recover and reuse the glycol bearing condensate from the propylene glycol plant.

- Change over to water heated chlorine vapourizer and utilize the heat in condensers.

c) Impact of the measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :

- Impact of water and energy conservation measures at (a) for reduction of energy and water consumption and consequent impact on the cost of production of goods to be in the order of Rs.25 Lakhs per annum.

The saving envisaged by implementing the energy conservation measures as at (b) for reduction of energy and consequent impact on the cost of production of goods to be in the order of Rs.55 Lakhs per annum.

FORM - A (See Rule - 2)

(A) Power and Fuel Consumption

1. ELECTRICITY

	Year ended 31.3.2005	Year ended 31.3.2004
a) Purchased		
Units	26243426	25323830
Amount (Rs.) (i.e, cost paid to TNEB)	11,33,39,678	11,02,36,185
Rate per unit (Rs.)	4.32	4.35
b) Own generation		
1. Through diesel generator	94617	275444
(Units)		
Unit per litre of diesel	3.36	3.40
Cost per unit (Rs.)	7.25	6.23
2. Through steam turbine	Nil	Nil
2. Coal	Nil	Nil
3. Furnace Oil	12109	12191
(Qty in KL)		
Amount (Rs.)	13,18,72,641/-	12,30,43,705/-
Average rate (Rs./KL)	10890/-	10,093/-
4. Others/internal generation	Nil	Nil
(B) Consumption per unit of production with standards (if any)		
Products (in MT)	35,763	34,692
Electricity in units	736	738
Furnace oil in KL	0.339	0.351
Coal	Nil	Nil
Others	Nil	Nil



FORM - B
(see Rule 2)

B. TECHNOLOGY ABSORPTION

I. Research and Development (R&D)

1. **Specific areas in which R&D carried out by the company.**
 - Indigenization of currently imported expensive PU additives.
 - Speciality Glycols for oil fields.
 - Reformulation of the products to work with other isocyanates due to shortage of MDI.
2. **Benefits derived as a result of above R&D :**
 - Import substitution.
 - Reduction in operation cost.
 - Effective utilization of by-product.
 - Improved sales
3. **Future Plan of Action :**
 - Develop the prepolymer based PU systems for cold cure and rigid applications.
 - Continue to focus on Glycols for oil fields.
 - Further improvement of the PU system for soft and low resilient applications.
4. **Expenditure on R & D :**

(a)	Capital	:	- Nil -
(b)	Recurring	:	Rs.46.75 lakhs
(c)	Total	:	Rs.46.75 lakhs
(d)	Total R&D expenditure as a percentage of total turnover 0.15%		

II. Technology Absorption, Adaptation and Innovation :

1. Efforts, in brief, made towards technology absorption, adaptation and innovation :
Technology has already been fully absorbed
 2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution etc.:
Indigenous chemicals have been substituted thus reducing the cost of production.
 3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished.
- a) Technology imported :
- Design and drawing have been imported for fabrication of equipment and the process know-how has been successfully absorbed.
- | | | |
|---------|---|--|
| PO / PG | : | Process know-how from M/s ATOCHEM of France (For Plant-I) |
| | : | Process know-how from M/s MONTEDIPE of Italy (For Plant-II) |
| POLYOLS | : | Process know-how from M/s ARCO of USA (For Plant-I) |
| | : | Process know-how from M/s PRESSINDUSTRIA of Switzerland (For Plant-II) |
- b) Year of Import : 1988 & 1989
 - c) Has technology been fully absorbed : yes.
 - d) if not fully absorbed areas where this has not taken place, reasons therefore and further plans of action : does not apply

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

- a) Efforts: Further possibilities of exporting the products are being explored.

	(Rs. in lakhs)
b) i) Foreign Exchange Earnings – exports sales (FOB)	145.09
ii) Foreign Exchange outgo (on cash basis)	4455.87