



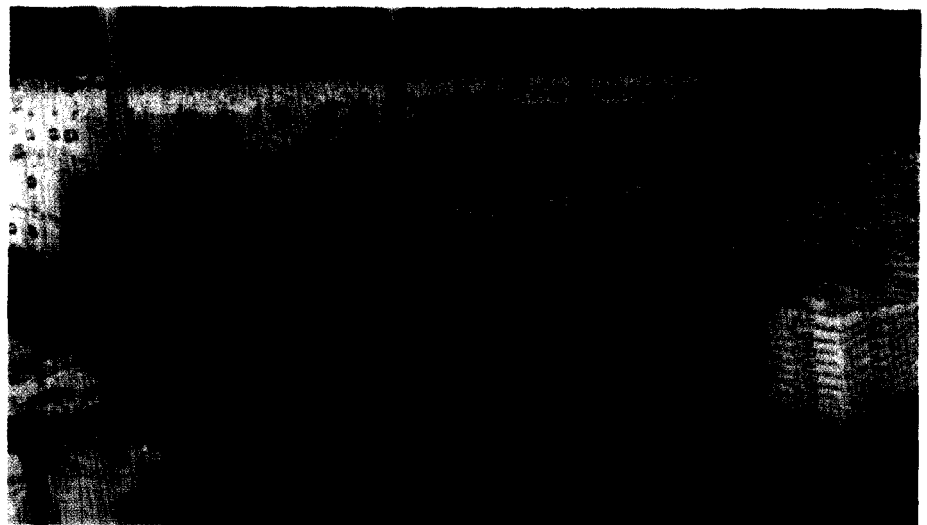
ANNUAL REPORT 2003 - 2004

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SOUTH ASIAN PETROCHEM LIMITED



A panoramic view of the Bottle Grade PET Resin Plant at Haldia



Finished Goods Warehouse - PET Resin in Jumbo & 25 Kg bags

NOTICE

NOTICE is hereby given that the Eighth Annual General Meeting of the members of the Company will be held at Gorky Sadan, 3, Gorky Terrace, Kolkata - 700 017 on Thursday the 16th day of September 2004, at 10:30 a.m. to conduct the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2004, Profit & Loss Account for the seven month period ended on that date and the Reports of the Directors' and Auditors' thereon.
2. To elect a Director in place of Mr Pradip Kumar Khaitan, who retires by rotation and being eligible offers himself for re-appointment.
3. To elect a Director in place of Mr. Mrigank Dhanuka, who retires by rotation and being eligible offers himself for re-appointment.
4. To elect a Director in place of Mr Pejavar Murari, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint Auditors and to fix their remuneration and , in this connection, to consider, and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

"RESOLVED that pursuant to the Provisions of Section 224A and other applicable provisions, if any, of the Companies Act, 1956, M/s. Lodha & Co., Chartered Accountants, the retiring Auditors, be and are hereby re-appointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at a remuneration as may be agreed upon between the Board of Directors of the Company and the said M/s. Lodha & Co."

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:-

"RESOLVED that pursuant to the provisions of Section 81 and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the appropriate authorities and such other approvals, permissions and sanctions, if and to the extent necessary and subject to the guidelines issued or as may be issued from time to time by Securities and Exchange Board of India (SEBI) and/or Stock Exchange(s) and/or any other competent authority and subject to such conditions and modifications as may be considered necessary by the Board of Directors of the Company (hereinafter called "the Board", which term shall be deemed to include any Committee, which the Board may have constituted or may hereafter constitute to exercise its powers including the powers conferred by this resolution) and as may be prescribed while granting any such approvals, permissions and sanctions, if and to the extent necessary, the consent of the Company be and is hereby accorded to the Board to issue and allot Optionally Fully Convertible Debentures (OFCDs) for an aggregate amount not exceeding Rs.150.00 lac (Rupees One Crore Fifty lac only) on such terms and conditions on private placement and/or preferential allotment as may be decided by the Board and permitted by the regulatory guidelines issued or as may be issued by appropriate authority(ies) and at such times, as the Board may at its sole discretion think fit and proper."

"RESOLVED FURTHER that such issue of OFCDs be made on such terms and conditions as may be decided by the Board on such justification as may be considered appropriate by it as regards premium, interest, redemption, conversion, discount and dividend, holding charges etc. subject however, to the compliance of the guidelines as may be in force from time to time and the guidelines as issued or as may be issued by SEBI, or any other appropriate authority in this regard."

7. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:-

"RESOLVED THAT subject to the provisions of Section 94 and all other applicable provisions, if any, of the Companies Act, 1956 (the Act) (including any statutory modification or re-enactment thereof for the

time being in force), the Authorised Share Capital of the Company be and is hereby increased from Rs.1,90,00,00,000/- divided into 190000000 Equity Shares of Rs.10/- each to Rs.1,93,00,00,000/- divided into 193000000 Equity Shares of Rs.10/- each by addition thereto 3000000 new equity shares of Rs.10/- each ranking pari-passu to the existing shares, and that the existing clause V of the Memorandum of Association of the Company be and modified as under:

V. The Authorised Share Capital of the Company is Rs.1,93,00,00,000/- (Rupees One hundred and Ninetythree crore only) divided into 193000000 (Nineteen crore Thirty lac) Equity Shares of Rs.10/- (Rupees Ten each) with rights, privileges and conditions thereto as are provided by the Articles of Association of the Company for the time being, provided always that the Company shall have the power to issue shares at a premium and to divide the shares in the capital for the time being into several classes and attach thereto respectively such preferential, qualified, and special rights, privileges, or conditions as may be permissible by law and as may be determined by or in accordance with the Articles of Association of the Company for the time being in force and to vary, modify or abrogate any such rights, privileges or conditions."

8. To consider and, if thought fit, to pass with or without modification(s), the following Resolution as an Ordinary Resolution :-

"RESOLVED that pursuant to the provisions of Sections 198, 309, 310 and all other applicable provisions, if any, of the Companies Act, 1956 ('the Act'), Mr. Biswanath Chattopadhyay (Mr. Chattopadhyay), in terms of Schedule XIII of the said Act, as amended upto date, be and is hereby re-appointed as Executive Director of the Company for a period of 3 (Three) years with effect from 1st September, 2004 on the terms and conditions set out in the draft agreement proposed to be entered into between the Company and Mr. Chattopadhyay."

By Order of the Board
For South Asian Petrochem Ltd.

Registered Office :
Dhunseri House
4A, Woodburn Park
Kolkata - 700 020
Dated : 26th July, 2004

Rajiv Kumar Sharma
Asst. Vice President (Finance)
& Company Secretary

NOTES :

1. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in relation to the Special Business of the Meeting is annexed hereto and forms part of this Notice.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his behalf and the proxy need not be a member of the Company. Proxies, in order to be effective, must be received at the Company's Registered Office not less than 48 hours before the meeting.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from 6th September, 2004 to 16th September, 2004 (both days inclusive).
4. Shareholders seeking any information with regard to Accounts may write to the Company well in advance to enable the Company to readily provide the desired details at the Annual General Meeting.
5. Members are requested to bring their copy of the Annual Report at the Meeting and produce the enclosed attendance slip at the entrance to the place of the meeting.

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No.6

The Company is under an obligation to pay IFCI Ltd. a sum of Rs.150.00 lac towards Project Consultancy fees. At the request of the Company, IFCI Ltd. has accepted allotment of Optionally Fully Convertible Debentures (OFCDs) in its favour in satisfaction of Project Consultancy Fees. The Board of Directors of the Company have at its meeting held on 26.07.2004, agreed to the terms and conditions of allotment OFCDs subject to the approval of the members in General Meeting. The principal terms on which the OFCDs would be issued are as under:

- (a) the OFCDs would carry a coupon rate equivalent to the rate of dividend to be declared by the Company on the equity shares on a year to year basis;
- (b) the OFCDs shall be redeemed not later than 15.01.2010, or such other extended date as may be agreed to between IFCI Ltd. and the Company;
- (c) the OFCDs can be converted into equity shares, at the discretion of IFCI Ltd., during their tenure at a price to be determined in terms of SEBI and/or other applicable guidelines;
- (d) the OFCDs are subject to irrevocable and unconditional personal guarantee of Shri. C K Dhanuka, the Promoter Director of the Company and
- (e) the Company to give an undertaking that after repayment of existing term loans to the Term Lenders, the Company shall create first charge on the fixed assets in favour of IFCI Ltd., for the OFCDs.

The Board, therefore, recommends the passing of the said resolution.

None of the Directors of the Company except Mr. T. K. Ray, Nominee Director of IFCI Ltd., is in any way, concerned or interested in the resolution, except as members of the Company to the extent of their shareholding.

Item No.7

The present Authorised Share Capital of the Company is Rs.1,90,00,00,000/- (Rupees One hundred and Ninety crore only) divided into 190000000 Equity Shares of Rs.10/- each. To facilitate issue of OFCDs in favour of IFCI Ltd., it is proposed that the Authorised Share Capital of the Company be increased to Rs.1,93,00,00,000/- (Rupees One hundred and Ninetythree crore only) divided into 193000000 Equity Shares of Rs.10/- each, by addition of 3000000 new equity shares of Rs.10/- each in the manner as set out in the Notice in accordance with Section 94 of the Companies Act, 1956, with consequential amendment of Clause V (Capital Clause) of the Memorandum of Association of the Company.

Directors recommends the resolution for approval of the shareholders.

None of the Directors of the Company is, in any way, concerned or interested in the resolution, except as members of the Company to the extent of their shareholding.

Item No.8

The Board of Directors of the Company ("Board") has at its meeting held on 25th June, 2004, on the recommendation of the Remuneration Committee which met on the same date, re-appointed Mr. Biswanath Chattopadhyay (Mr. Chattopadhyay) as the Executive Director of the Company for a period of 3 (Three) years with effect from 1st September, 2004, which is subject to the final approval of the members at this meeting. The remuneration payable to Mr. Chattopadhyay as set out in the Draft Agreement is within the limits which does not require the approval of the Central Government as prescribed in Schedule XIII of the Companies Act, 1956 ("the Act").

- | | | |
|-------------------------|---|--|
| (a) Salary | : | Rs.52,500/- (Grade : 52500-2500-60000-3000-72000) |
| (b) Special Allowance | : | Rs.25,000/-p.m. |
| (c) Commission/Exgratia | : | To be decided by the Board of Directors on the recommendation of the Remuneration Committee. |

(d) Perquisites**(i) Accommodation :**

- (a) Company owned/leased accommodation with basic furniture and fittings for residential use of Mr. Chattopadhyay and dependent family members.

or

- (b) House Rent Allowance @ 50% of Salary

In both the cases expenses pertaining to electricity, maintenance and other utilities will be borne/ reimbursed by the Company.

(ii) Car :

Company shall provide A.C. Car with driver and reimburse all running expenses including repairs, maintenance and petrol.

(iii) Telephone :

Company shall provide and maintain a telephone at residence.

(iv) Medical Reimbursement :

Reimbursement of medical expenses upto a limit of Rs.15,000/- (Rupees Fifteen thousand only) per annum or such higher amount as may be exempted under Income Tax, for Mr. Chattopadhyay and his dependent family members apart from any health insurance policy that may be made available by the Company to Mr. Chattopadhyay and his dependent family members.

(v) Leave Travel Allowance :

Return Air fare at actuals for Mr. Chattopadhyay and family from Kolkata to any destination in India.

(vi) Club Membership :

Reimbursement of Membership fees for such clubs as may be considered appropriate, subject to maximum of 2 clubs, including admission fees.

(vii) Credit Cards :

Entry and renewal fees to be reimbursed / paid by Company. All entertainment expenses for official purposes to be reimbursed / paid by the Company at actuals.

(viii) Provident Fund, Gratuity etc :

As per Rules of the Company, applicable to Senior Executives

(ix) Leave :

As per Rules of the Company, applicable to Senior Executives

(e) Notice Period :

3 month's advance notice either by the Company or Mr. Chattopadhyay or paying compensation in lieu thereof.

Considering the vast knowledge and rich business experience of Mr. Chattopadhyay, the Board recommends the passing of the said resolution in the interest of the Company.

This Explanatory Statement is and should be treated as an abstract under Section 302 of the Act.

None of the Directors, except Mr. Chattopadhyay, is, in any way, concerned or interested in the resolution.

By Order of the Board
For South Asian Petrochem Ltd.

Registered Office :
Dhunseri House
4A, Woodburn Park
Kolkata - 700 020
Dated : 26th July, 2004

Rajiv Kumar Sharma
Asst. Vice President (Finance)
& Company Secretary

BOARD OF DIRECTORS

P. K. KHAITAN, Chairman
 C. K. DHANUKA, Vice Chairman
 D. ATAL, Executive Director
 B. CHATTOPADHYAY, Executive Director (Technical)
 C. P. PHILIP, Nominee of IDBI
 T. K. RAY, Nominee of IFCI Ltd.
 G. KRISHNA, Nominee of WBIDC Ltd.
 A. SONMALE, Nominee of EXIM BANK
 M. DHANUKA
 H. P. BREITENBACH
 Dr. S. KAPUR, Alternate Director
 Y. F. LOMBARD
 J. P. KUNDRA
 P. MURARI
 Dr. B. SEN

VICE-PRESIDENT (FINANCE)

R. K. DALMIA

A.V.P. (FINANCE) & CO. SECRETARY

R. K. SHARMA

AUDITORS

LODHA & COMPANY
 Chartered Accountants

BANKERS

BANK OF BARODA
 BANK OF INDIA
 CANARA BANK
 PUNJAB NATIONAL BANK
 UCO BANK
 UNION BANK OF INDIA
 UNITED BANK OF INDIA

REGISTERED OFFICE

"DHUNSERI HOUSE"
 4A, Woodburn Park
 Kolkata -700 020

PLANT

JL-126, Mouza-Basudevpur,
 Haldia, Dist.-Midnapore (East)-721 602
 West Bengal

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DIRECTORS' REPORT TO THE MEMBERS

Your Directors have pleasure in presenting the Eighth Annual Report of your Company together with the Audited Statement of Accounts for the year ended 31st March, 2004.

FINANCIAL HIGHLIGHTS

Particulars	(Rs. in Lac) For the period ended 31.03.2004
Turnover and other income	38,251.89
Profit before Interest and Depreciation	3,074.89
Interest	1,721.27
Profit before Depreciation	1,353.62
Depreciation for the period	1,282.30
Profit / (Loss) for the period	71.32
Provision for Tax	
- Current Tax	0.54
- For Earlier Years	1.56
Balance carried to Balance Sheet	69.22

DIVIDEND

Your Directors do not recommend payment of dividend in respect of the year under review, in view of the fact that the Company had only seven months' of Commercial operation.

PERFORMANCE

Your Directors are glad to inform you that the Project was completed on schedule and with achievement of the major contractual norms for the Plant, your Company declared commencement of Commercial Production from 1st September, 2003. The Plant achieved 100% capacity utilisation in the month of Commercial Production itself. Since then your Company gradually stepped up its production and with minor adjustments, production at 500 MT/day (i.e. 125% of the rated capacity of 400 MT/day) was achieved in the months of March and April, 2004. The Chief Inspector of Factories, West Bengal, has granted the factory licence and registered the factory w.e.f. 14/05/2003, under the Factories Act, 1948. Your Company has also received all other major licences and approvals for running of the Plant.

The quality of the PET Resin produced has been well accepted in domestic and international markets. The Company has received quality certification for its product from Central Food Technological Research Institute, Mysore. Your Company is also in receipt of certificates of confirmation to quality specified by Food and Drug Administration of USA and confirmation to quality specified by E C Directive and U K Statutory Instrument 1376 (1998) as amended. Many large international customers have tested the product and conveyed their acceptance of the quality.

Your plant produced 86463 MT of quality PET Resin during the period 1st September, 2003 to 31st March, 2004. The total sales turnover achieved during the period was Rs. 38,109.67 lac. In terms of quantity, the total sales was 89145 MT including exports of 75987 MT.

Your Company is presently exporting to world renowned, quality conscious converters spread over 55 countries world wide. Your Company has also made in roads in the domestic market and has found wide acceptance in both the beverages and non-beverages sectors.

PROSPECTS

In view of product approvals already received, setting up and expanding the distribution network both globally and in India, the Company is making all efforts to find markets and run the plant at full capacity. However, a number of planned PET capacities in North America and Europe right through to Asia Pacific would see



global plant utilization rates fall. Utilization rates in 2004 are expected to average around 83% on a global basis. The Asian PET industry is faced with a challenging situation as capacity growth in the region exceeds present demand. Developments such as enlargement of Europe bringing 10 more countries under the European Union, as well as the threat of initiation of anti-dumping and countervailing duties in the United States, would put pressure on maintaining growth volumes in the medium term. On the positive side is the encouraging growth of end use applications resulting in healthy growth of the PET industry. Your Company is fully aware of the challenges that lie ahead and the Company's own marketing personnel are fully geared up to consolidate the gains achieved so far. The Company is taking effective steps to overcome the supply overhang in the Asian market by spreading its wings in newer markets and tapping large converters.

The future profitability will largely depend on the global economic outlook, demand – supply scenario, volatility in raw material prices. In the year 2003-04, the margins in PET industry has been low compared to the previous boom phase. The prices of major raw materials like MEG and PTA have increased substantially along with freight rates. It is anticipated that over the period of 2005-2006, the behaviour of prices may change to improve the margins for the PET producers.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS/OUTGO

The particulars as prescribed under 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 are attached as Annexure "A" to this report.

PERSONNEL

The Company has no employee whose salary exceeds the limits prescribed u/s 217(2A) of the Companies Act, 1956. Hence, information required to be given under the said section read with the Companies (Particulars of Employees) Rules, 1975 is NIL and therefore not annexed hereto.

AUDITORS

Messrs Lodha & Co., Chartered Accountants, retired on the conclusion of this Annual General Meeting and being eligible offer themselves for re-appointment. Since the provisions of Section 224A of the companies Act, 1956, are applicable to the Company, their re-appointment is proposed by way of a Special Resolution.

DIRECTORS

Mr. P. K. Khaitan, Director of your Company is retiring at this Annual General Meeting by rotation and being eligible offers himself for re-appointment. Your Directors recommend his re-appointment.

Mr. Mrigank Dhanuka, Director of your Company is retiring at this Annual General Meeting by rotation and being eligible offers himself for re-appointment. Your Directors recommend his re-appointment.

Mr. P. Murari, Director of your Company is retiring at this Annual General Meeting by rotation and being eligible offers himself for re-appointment. Your Directors recommend his re-appointment.

COST AUDIT

Under the provisions of Section 233B of the Companies Act, 1956 the Central Government has not as yet prescribed Cost Audit in respect of companies manufacturing Poly Ethylene Terephthalate (PET) Resin.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217 (2AA) OF THE COMPANIES ACT, 1956.

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, the applicable accounting standards had been followed alongwith proper explanation relating to material departures;
- (ii) That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are 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 and Loss of the Company for the period September 2003 to March 2004;

- (iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors have prepared the annual accounts on a going concern basis.

CORPORATE GOVERNANCE AND MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Corporate Governance and Management Discussion and Analysis Reports are set out as separate Annexure to this report.

EMPLOYEES

The Company is committed to the principle of equal opportunity in employment and considers its human resources as its most valuable asset. Your Company applies employment policies which are fair and equitable. Progression within the Company is determined solely by ability, competency and performance.

The employee morale across the organisation has been maintained at a very high level.

Harmonious industrial relationship marks the operations in your Company's growth.

The Directors take this opportunity to place on record their appreciation to all Management staff and employees for their sincere contribution during the Project phase of your Company and thereafter.

ACKNOWLEDGEMENT

The Directors wish to place on record their sincere appreciation for the whole-hearted support received from IFCI Ltd., Industrial Development Bank of India, Export-Import Bank of India, Dena Bank, Bank of Baroda, Bank of India, Canara Bank, Punjab National Bank, UCO Bank, Union Bank of India, United Bank of India, West Bengal Industrial Development Corporation Ltd., Office of Falta Special Economic Zone, Haldia Development Authority, Office of the District Magistrate of Midnapore, West Bengal Pollution Control Board, West Bengal State Electricity Board, Ministry of Environment & Forest, Govt. of West Bengal, Zimmer AG of Germany, Lurgi India Company Limited, and all others associated with the Company.

FOR AND ON BEHALF OF
THE BOARD OF DIRECTORS

Place : Kolkata
Date : 25th June, 2004

P. K. Khaitan
Chairman