

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

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**SIXTEENTH ANNUAL REPORT
2000 - 2001**

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

BOARD OF DIRECTORS	DR. N.B. PRASAD	(Chairman)
	SRI RAM N. PRASAD	(Vice-Chairman)
	SRI P.K. DORAISWAMY	(APSFC Nominee)
	SRI V.V. RAMANA MURTHY	(APIDC Nominee)
	SRI N. RAVI PRASAD	(Managing Director)
	SRI N. RAJENDER PRASAD	(Joint Managing Director)

AUDITORS	M/s. K.S. RAO & COMPANY Chartered Accountants Hyderabad.
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BANKERS	INDIAN OVERSEAS BANK HYDERABAD
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REGD. OFFICE	DECCAN CHAMBERS, (5TH FLOOR) 6-3-666/B, SOMAJIGUDA HYDERABAD - 500 082.
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WORKS	GOWRIPATNAM WEST GODAVARI DISTRICT.
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MINES	1. MULUGU MANDAL WARANGAL DIST. ANDHRA PRADESH
	2. VENKATAYAPALAM VILLAGE KHAMMAM DIST. ANDHRA PRADESH.

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**NOTICE**

Notice is hereby given that the 16th Annual General Meeting of the Members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on 29th September 2001 at Hotel Pearl Regency, 11-5-431, Red Hills, Lakdi-kapool, Hyderabad to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2001 and report of the Directors and Auditors thereon.
2. To elect a Directors in place of Sri. Ram N.Prasad, who retires by rotation at the conclusion of this Annual General Meeting and being eligible, offers himself for re-appointment.
3. To elect a Director in place of Sri. N.Ravi Prasad who retires by rotation at the conclusion of this Annual General Meeting and being eligible, offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration and in this connection to pass the following Resolution with or without modifications.

"Resolved that the Company Auditors M/s. K.S.Rao & Company, Chartered Accountants, Hyderabad be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting of the Company until the conclusion on next Annual General Meeting of the Company at such remuneration as may be determined by the Board of Directors of the Company".

SPECIAL BUSINESS

5. 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 269, 309, 310, 314 and other applicable provisions, if any, of the Companies Act, 1956 the Company hereby approves the re-appointment of Mr. N. Rajendra Prasad, as Joint Managing Director of the Company for a period of 5 (five) years with effect from 20th December, 2001 on the same terms and conditions including remuneration and power to the Board for changing from time to time any terms and conditions governing his appointment as approved earlier by member at Annual General Meeting of the Company held on 30th September, 1993".

For and on behalf of the Board of Directors
For Southern Magnesium and Chemicals Limited

Sd/-

N. Ravi Prasad
Managing Director

Place : Hyderabad
Date : 24th July, 2001

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself and such proxy need not be a member of the Company.
2. Proxies in order to be valid must be received at the Registered Office of the company not later than 48 hours before the commencement of the Annual General Meeting.
3. Members are requested to notify immediately any change in their address to the registered office of the company.
4. The register of members and share transfer books of the Company shall remain closed from 27.09.2001 to 29.09.2001 (both days inclusive).

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

Statement in Respect of Item No. 5

As per the terms appointment of Sri N. Rajender Prasad as Joint Managing Director ends on 20th December, 2001. Hence there is need to re-appoint him for a further period of 5 years i.e., upto 20th December, 2006.

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**DIRECTORS REPORT**

Your Directors have pleasure in presenting the 16th Annual Report and the Audited Accounts for the year ended 31st March, 2001.

FINANCIAL REPORT / OPERATIONS :

As anticipated in last years report there has been no improvement in primary magnesium metal market. As a result the company had to further reduce its selling price to the existing customers which resulted in a lower net realisation of only Rs.173.59 per Kg as compared to Rs.212.81 per kg in last year. As the company did not have substantial orders, the company had to reduce the sales drastically to only 100.986 MT. This resulted in very little contribution towards fixed costs while there has been an increase in interest costs due to further borrowing consequent to substantial losses, making the situation worse. Production of corbondioxide could not be increased substantially as a result of lower gas consumption since fewer furnaces were in operation.

In order to avoid future losses and with an acceptance of the fact that the future for magnesium industry and its downstream products will continue to be bleak for the foreseeable future, the company has downsized its operations on a semi permanent basis. The contract for natural gas which is on a take or pay basis has been reduced by 50%, as also the contracted demand for electricity with APSEB has been reduced. A very substantial part of the permanent and contract labour force has been permanently laid off and all dues to them including gratuity and leave encashment have been paid and these amounts have been taken into revenue accounts.

Depreciation for the year amounting to Rs.30,23,253/- has not been provided in view of low capacity utilisation. Further the company had decided to write back the depreciation provided for the years 1996-97 and 1997-98 also.

Provision for gratuity for existing staff will be made as and when it becomes due.

CURRENT YEAR

The current magnesium market including the downstream products like powder is entirely imports driven and your company is limiting its activities in magnesium sector to only those orders where the margins are reasonable and make some contribution to overheads. In fact the major overhead burden to the company is the interest payable to the financial institutions (APSFC) and Indian Overseas Bank and the company has to investigate various ways how this can be reduced in discussion with these two institutions and obtain some relief.

In order to ensure that operating losses are minimised the company has added Dry Ice production facility based on compressed corbondioxide gas. Hopefully these operations will enable the company to survive till long term strategy can be evolved either by sale of assets or using existing substantial infrastructre for other products requiring low capital investments.

The company has excellent infrastructure in terms of a fully fenced factory land (15 acres), Mines (45 acres), large covered building space with AC sheeting and well equipped and fully furnished laboratory and office in RCC building, avallability of Natural Gas, Gas based captive power generation, APSEB Power supply, Water and Labour Quarters to house 30 families. Your Directors are actively pursuing various alternatives towards this end.

DIRECTORS RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956, your Directors confirm that :

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed ;
- ii) 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 or loss of the Company for that period ;
- iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting record 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 ;

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

iv) the Directors have prepared the annual accounts on a going concern basis.

PARTICULARS OF EMPLOYEES

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with (Companies Particulars of Employees) Rules, 1975, there are no employees who are in receipt of remuneration exceeding Rs.6.00 lakhs per annum.

DIRECTORS

Sri Ram N Prasad and Sri N Ravi Prasad retire by rotation and being eligible offers themselves for re-appointment. APIDC has withdrawn the nomination of Sri. I.G. Reddy and appointed Sri V.V. Ramana Murthy as the APIDC nominee. The Board of Directors wish to place on record their appreciation of the services rendered by Sri I.G. Reddy to the company as a Director.

The appointment of Sri N. Rajender Prasad as Joint Managing Director of the company ends on 20th December, 2001. Hence you are requested to re-appoint him for a further period of 5 years as per the special resolution proposed with power to the Board to alter terms and conditions as admissible.

Approval for payment of honorarium to Dr. N.B. Prasad, Chairman, ends on 30th September, 2001. He has expressed his desire not to draw any further honorarium for the services being rendered by him.

AUDITORS

You are requested to appoint M/s.K.S.Rao & Company, Chartered Accountants, Hyderabad as auditors for the year 2001-2002 and fix their remuneration.

DEPOSITS

In terms of Reserve Bank of India, Directions 1977 read with Section 58A of the Companies Act, 1956, the Directors Report as under :

- 1) Number of depositors who have not claimed their deposits has been paid by the Company after due date : Nil
- 2) Total amount remaining unclaimed / unpaid : Nil

LISTING ON STOCK EXCHANGES :

Company's shares are listed in Hyderabad and Bombay Stock Exchanges. Listing fees have been paid upto date to the Bombay Stock Exchange.

ACKNOWLEDGEMENT :

Your Directors wish to place on record their appreciation of the assistance received from Andhra Pradesh State Financial Corporation and Indian Overseas Bank. Your Directors wish to place on record their appreciation of the excellent services rendered by all the employees of the Company.

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On behalf of the Board

Sd/-

(Dr. N.B. Prasad)

Place : Hyderabad

Date : 24.07.2001

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**FORM - B****FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION.**

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|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| 1. Specific areas in which R & D carried out by the Company. | Work on manufacture of magnesium powders, plates and sheets and manufacture of magnesium alloys. |
| 2. Benefits derived as a result of the above R & D. | Production of magnesium powder has been commercialised and Company received substantial orders. |
| 3. Future plan of action | Work on production of magnesium compounds and the chemicals |
| 4. Expenditure on R & D | NIL (Included in revenue expenses) |
| a) Capital | |
| b) Recurring | |
| c) Total | |
| d) Total R & D expenditure as a percentage of total turnover. | |

TECHNOLOGY ABSORPTION ADOPTION AND INNOVATION.

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 1. Efforts made towards technology | N.A. |
| 2. Benefits derived as a result of the above efforts | N.A. |
| 3. In case of imported technology imported during the 1st 5 yrs. (reckoned from the beginning of the financial year), following information may be furnished : | Not applicable |
| a) Technology | |
| b) Year of import | |
| c) Has technology been fully absorbed | |
| d) If not fully absorbed, area where this has not been place, reason therefore and future plans of action. | Not applicable |

B. FOREIGN EXCHANGE EARNING & OUTGO ,

During the year foreign exchange outgo was Rs. 6.93 lakhs and foreign exchange earnings was Rs. NIL.