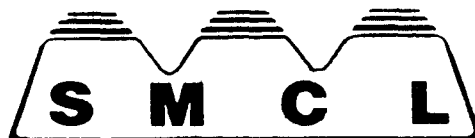


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**SOUTHERN MAGNESIUM AND
CHEMICALS LIMITED**

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**SEVENTEENTH ANNUAL REPORT
2001 - 2002**

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BOARD OF DIRECTORS	DR. N.B. PRASAD	(Chairman)
	SRI RAM N. PRASAD	(Vice-Chairman)
	SRI P.K. DORAISWAMY	(APSFC Nominee)
	SRI M. VENKATESHWAR RAO	(APIDC Nominee)
	SRI N. RAVI PRASAD	(Managing Director)
	SRI N. RAJENDER PRASAD	(Joint Managing Director)
	SRI SNEHAL A. THAKKAR	(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.

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NOTICE
SOUTHERN MAGNESIUM AND CHEMICALS LIMITED
Notice is hereby given that the 17th Annual General Meeting of the Members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on 28th December 2002 at 4.00 P.M. at Hotel Pearl Regency, 11-5-431, Red Hills, Lakdi-ka-pool, Hyderabad to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 30th September, 2002 and report of the Directors and Auditors thereon.
2. To elect a Directors in place of Sri. N. Rajender 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. M. Venkateshwar Rao (Nominee Director of APIDC) who retires by rotation at the conclusion of this Annual General Meeting and being eligible, offers himself for re-appointment.
4. To elect a Director in place of Sri. Snehal A. Thakkar, Director who retires by rotation at the conclusion of this Annual General Meeting and being eligible, offers himself for re-appointment.
5. 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".

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

Sd/-

N. Ravi Prasad
Managing Director

Place : Hyderabad
Date : 25th November, 2002

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 26.12.2002 to 28.12.2002 (both days inclusive).

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SOUTHERN MAGNESIUM INDUSTRIES LIMITED
DIRECTORS REPORT

Your Directors have pleasure in presenting the 17th Annual Report and the Audited Accounts for the year ended 30th September 2002.

The company had taken permission from the Registrar of Companies to extend the accounting period to 30th September, 2002 and consequently the accounts are prepared for 18 months.

FINANCIAL REPORT / OPERATIONS :

After downsizing of the magnesium operations last year, there is a marginal improvement in the operating results as the operating loss of Rs 76.28 lakhs in 2001-02 for a period of 12 months has come down to Rs 19.90 lakhs in current year of 18 months. With the interest cost of Rs 78.77 lakhs the company ended with the loss of Rs 98.67 lakhs. In view of the prevailing adverse market conditions for magnesium the company added facilities for production of Dry-Ice during the year and could produce and market 107.129 M.T. during the period of 18 months.

Depreciation for the year amounting to Rs.46,08,194/- has not been provided in view of low capacity utilisation.

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

The company is negotiating with Andhra Pradesh State Financial Corporation for waiver of interest on interest and penal interest and hence it is not provided in the books of accounts.

CURRENT YEAR

Due to substantial downsizing of operations, there has been a further reduction in the contracted demand for gas and power. In addition, there has been a reduction in labour and staff. The company is also pursuing for removal of anti-dumping duty on imports of magnesium metal, so that the company can import directly from overseas manufacturers at lower prices instead of buying the same from the local traders at higher prices. In view of above the company hopes to show some improvement in operating results.

In addition to production of Dry-ice, company also concentrated on development of several fine chemicals like Phosphorous Oxychloride, and others, and succeeded in production of Phosphorous Oxychloride and in fact supplied trial orders. The customers for the same are satisfied with the quality of the product and the company is focussing on the marketing of the product.

The interest cost on working capital and term loans is proving to be a heavy burden and the company is discussing with Indian Overseas Bank for reduction of interest rates, and also negotiating with APSFC. All this will help in reduction of interest costs of the company in coming years.

Further the company is having good infrastructure facilities at the plant like water, gas, power, land, buildings, employees quarters etc., and is looking as to how these could be best utilised.

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

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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 N.Rajender Prasad, Joint Managing Director, Sri Snehal Thakkar, Director and Sri M.Venkateshwara Rao, APIDC Nominee retire by rotation and being eligible offers themselves for re-appointment.

AUDITORS

You are requested to appoint M/s.K.S.Rao & Company, Chartered Accountants, Hyderabad as auditors for the year 2002-2003 and fix their remuneration.

SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985:

The Directors would like to bring to your notice that the comment of Auditors as the company is a sick industrial company is after consideration of depreciation of Rs 179.93 lakhs which has not been provided. However in accordance with the legal opinion obtained, it is not required to consider the non-provision of depreciation while determining the erosion of net worth of a company. Accordingly your Directors are of the view that the company is not a sick industrial company within the meaning of Section 3 (1) (o) of the Sick Industrial Companies (Special Provisions) Act, 1985 as there is no 100% erosion in network.

It would be observed that more than 50% of the peak net worth of the Company during the preceding four financial years was eroded as on 30th September, 2002. Hence your Directors are planning to refer the case to BIFR as per the provisions of Sick Industrial Companies (Special Provisions) Act, 1985. An Extraordinary General Meeting is therefore being held to consider the position as required under Section 23 of the said Act.

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 Mumbai Stock Exchanges. Listing fees have been paid upto date to the Mumbai 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.

On behalf of the Board

Sd/-
(Dr. N.B. Prasad)

Place : Hyderabad
Date : 25.11.2002

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION.

- | | |
|---|---|
| 1. Specific areas in which R & D carried out by the Company. | Work on manufacture of magnesium carbonate, phosphorous oxychloride and other fine chemicals. |
| 2. Benefits derived as a result of the above R & D. | Production of phosphorous oxychloride has been commercialised. |
| 3. Future plan of action | Work on manufacture of magnesium carbonate and other 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.

- | | |
|--|----------------|
| 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. NIL lakhs and foreign exchange earnings was Rs. NIL.

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SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

AUDITOR'S REPORT

To the Shareholders of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED, HYDERABAD (A.P)

We have audited the attached Balance Sheet of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED, Hyderabad, (A.P) as at 30th September, 2002 and the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion and report that:

1. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said order, wherever applicable.
2. Further to our comments in the Annexure referred to in paragraph 1 above:
 - a. We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of such books.
 - c. The Balance Sheet and Profit and Loss Account referred to in this report are in agreement with the books of account.
 - d. On the basis of written representation from the Directors taken on record by the Board of Directors, none of the Directors is disqualified as on 30th September, 2002 from being appointed as a Director under Section 274(1)(g) of the Companies Act, 1956.
 - e. In our opinion, the balance sheet and profit and loss account comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - f.
 - i. Arrears of depreciation of Rs. 1,33,85,075/- and depreciation for the current year of Rs. 46,08,194/- have not been provided. Consequently the loss for the year is understated by the same amount of Rs. 46,08,194/- and the assets are overstated by Rs. 1,79,93,269/-.
 - ii. Interest on interest and penal interest for non-payment of amounts due to APSFC, amounting to Rs. 10,55,468/- has not been provided. Consequently loss for the year is understated by Rs. 10,55,468/- and accumulated losses as at 30.09.2002 were understated by the said amount.
 - iii. Gratuity provision estimated at Rs.16,243/- for the year and Rs.77,797/- of earlier years has not been provided. Consequent to this the loss for the year is understated by Rs.16,243/- and the current liabilities are understated by Rs.94,040/-.
 - g. In our opinion and to the best of our information and according to the explanations furnished to us, the said Balance Sheet and the Profit and Loss Account read together with the schedules annexed therewith and subject to our comments given in para 2 f (i) to (iii) above give the information as required by the Companies Act, 1956, in the manner so required and give a true and fair view:
 - i) Insofar as it relates to the Balance Sheet, of the state of affairs of the Company as at 30th September, 2002.
AND
 - ii) Insofar as it relates to the Profit and Loss Account, of the loss of the Company for the year ended on that date.

for **K.S.RAO & CO.,**
Chartered Accountants.

Sd/-
(P.GOVARDHANA REDDY)
Partner

Place : Hyderabad
Date : 25.11.2002

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF OUR REPORT OF EVEN DATE

- 1) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management. There is annual verification of the fixed assets, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies have been noticed on such verification.