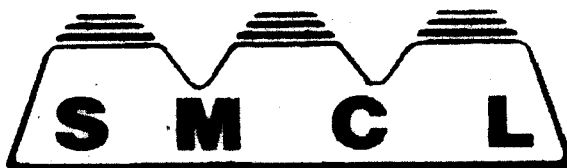


SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

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**EIGHTEENTH ANNUAL REPORT
2002 - 2003**

**BOARD OF DIRECTORS**

DR. N.B. PRASAD	(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.

BANKERS

INDIAN OVERSEAS BANK
HYDERABAD

REGD. OFFICE

DECCAN CHAMBERS, (5TH FLOOR)
6-3-666/B, SOMAJIGUDA
HYDERABAD - 500 082.

WORKS

GOWRIPATNAM
WEST GODAVARI DISTRICT.

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 18th Annual General Meeting of the Members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on Saturday, the 27th March 2004 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 and consider and adopt the Balance Sheet as at 30th September, 2003 and the report of the directors and Auditors thereon.
2. To elect a director in place of Dr. N.B. 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. P.K. Doraiswamy (Nomine Director A.P.S.F.C.) who retires as Director 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.
 "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 of the 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 a Special Resolution.
 "Resolved that pursuant to the provisions of section 269, 309, 312, 314 the company hereby approves the re-appointment of Mr. N. Ravi Prasad as Managing Director of the Company for a period of 5 (five) years with effect from 17th October 2003 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 the members at Annual General Meeting of the Company held on 20th September 1998."

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

Place: Hyderabad
 Date: 01.03.2004

Sd/-
N. Rajender Prasad
 Jt. Managing Director

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 book of the company shall remain closed from 25-3-2004 to 27-3-2004 (both days inclusive).

EXPLANATORY STATEMENT

Pursuant to section 173(2) of the Companies Act 1956

As per the terms of appointment of Sri. N. Ravi Prasad as Managing Director of the company ended on 16th October, 2003 and his term was extended by another 5 years i.e. up to 16th October 2008 which needs to be ratified. Dr. N.B. Prasad, Chairman and Sri N. Rajender Prasad, Jt. Managing Director are interested Directors in this resolution.

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**DIRECTOR'S REPORT**

Your Directors have pleasure in presenting the 18th Annual Report and the Audited Accounts for the year ended 30th September 2003.

FINANCIAL REPORT / OPERATIONS :

After downsizing of the magnesium plant operations last year, there has been a marginal improvement in the operations. The operating loss of Rs. 19.31 lakhs in 2001-02 for a period of Rs. 18 months has come down to Rs. 0.83 lakhs in the current year of 12 months. With the interest cost of Rs. 29.16 lakhs the Company ended with the loss of Rs. 29.99 lakhs for the year. Co2 and Dry Ice operations did not fetch the expected result due to severe competition from the small scale sector and finally company has to suspend the operation.

Depreciation for the year amounting to Rs. 30,75,697/- has not been provided in view of low capacity utilization.

Provision for gratuity for existing staff will be made as and when it becomes due as per the existing policy and there has been no default to date.

The Company has reached a One Time Settlement with Andhra Pradesh State Financial Corporation (for Rs. 155.00 lakhs) and paid initially Rs. 16.00 Lakhs and balance of Rs. 139.00 lakhs to be paid in four instalments. Three instalments have fallen due and your Company is making efforts to raise some amounts shortly. We will approach APSFC for additional time for payment of balance amounts.

Your company has also approached for One Time Settlement with Indian Overseas Bank and is hopeful of some settlement with them shortly and consequently no provision has been made for interest payable for months of August and September, 2003.

CURRENT YEAR

In order to further strengthen operations and ensure a reasonable cash flow, your company has terminated the agreement for supply of gas with Gas Authority of India (GAIL) and has also reduced the Contract Demand with APSEB.

The above actions have resulted in a cash loss of only Rs. 0.55 lakhs for the October – December, 2003 quarter and will result in cash surplus in subsequent quarters.

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 judgments 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.

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.

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**DIRECTORS**

Sri N. Ram Prasad, Vice Chairman and Director has relinquished his post with effect from January 30th, 2004 due to personal reasons and is not seeking reelection. Your directors wish to place on record his valuable services to the Company.

Dr. N.B. Prasad, Chairman and Sri P.K. Doraiswamy, Director are the Directors retiring 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 2003-2004 and fix their remuneration.

SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985 :

Your Company has already approached the BIFR.

AUDIT COMMITTEE

Your Company has set-up Audit Committee of Directors pursuant to Section 292(A) of the Companies Act, 1956 as amended. Sri Shehal A Tahkker, Sri M. Venkateshwar Rao and Sri N. Rajender Prasad are the members of the Audit Committee, Sri Shehal A Tahkker is the Chairman of the Audit Committee and the Committee has met twice.

CORPORATE GOVERNANCE

As required by clause 49 of the listing Agreement a Report on Corporate Governance is Appended.

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 unto 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

Place : Hyderabad
Date : 01-03-2004

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

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**FORM B****FROM OUR 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 commercialized. |
| 3. Future plan of action | Studying for use of infrastructure available at Gowripatnam |
| 4. Expenditure on R&D | Nil |
| 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 1 st 5 years (reckoned from the beginning of the financial year), following information may be furnished : | |
| a) Technology | |
| b) Year of import | |
| c) Has technology been fully absorbed | |
| d) If not fully absorbed, area Not applicable where this has not been place, reason therefore and future plans of action. | |

B. FOREIGN EXCHANGE EARNING & OUTGO

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



REPORT ON CORPORATE GOVERNANCE

(Pursuant to Clause 49 of the listing Agreement)

1) Company's philosophy on Corporate Governance

The Company's philosophy on corporate governance looks at high level of transparency, accountability and integrity, in all the operations and actions with stake holders including shareholders, customers, employees, government and lenders.

Your Company has complied with the requirements of the Corporate Governance and undernoted the required disclosures.

2) Board of Directors

The Board of Directors consists of 3 Promoter Director (One Chairman and two executive directors) two non executive independent nominee directors representing APIDC and APSFC and one independent non executive Director.

During the year 2002-2003 the Board met 4 times on 25-11-2002, 31-01-2003, 29-4-2003, 31-7-2003.

3) Audit Committee

An Audit Committee of the Board was constituted pursuant to Section 292A of the Companies Act 1956 and to meet the requirement of clause 49 of the listing agreement it consists of 3 Directors namely Sri Snehal Thakker, Chairman, Sri M. Venkateswar Rao and Sri N. Rajender Prasad, Directors. The terms of reference by the Board are to review before submitting to the Board Half Yearly results and Annual Financial Statements and to ensure compliance items specified in clause 49 of the listing agreement.

The Committee held two meeting in the year.

4) Remuneration Committee

A remuneration committee has been constituted by the Board consisting of Sri P.K. Doraiswamy, Chairman, Sri M. Venkateswar Rao and Sri N. Rajender Prasad, Directors.

The Remunerations Committee held one meeting in the year.

5) Shareholders/Investors Grievance Committee

A Shareholders/Investors Grievance Committee is constituted as per the Corporate Governance code consisting of Sri P.K. Doraiswamy, Chairman, Sri M. Venkateswar Rao and Sri N. Rajender Prasad, Directors to review and satisfy the investors/shareholders grievances.

6) Share Transfer Committee

A Share Transfer Committee was constituted of Dr. N.B. Prasad, Chairman, Sri N. Ravi Prasad and Sri N. Rajender Prasad, Directors. The Committee meets periodically to look into and approve share transfer requests.