

SOUTHERN MAGNESIUM & CHEMICALS LIMITED

TWENTY FOURTH ANNUAL REPORT

2010-2011

## BOARD OF DIRECTORS

Sri. N. RAM PRASAD	Chairman
Sri. N. RAVI PRASAD	Managing Director
Sri. N. RAJENDER PRASAD	Joint Managing Director
Sri. K.ESHWARAI AH	APIDC Nominee Director
Sri. SNEHAL A THAKKAR	Director
Sri.V.S.S.PRAKASH	Director
AUDITORS	M/S. K.S.RAO & COMPANY Chartered Accountants Hyderabad
BANKERS	ANDHRA BANK SOMAJIGUDA HYDERABAD
REGD. OFFICE	Deccan Chambers, 5 <sup>th</sup> Floor, 6-3-666/B, Somajigdua, Hyderabad.
WORKS	Gowripatnam West Godavari District, A.P
MINES	1) Mulugu Mandal Warangal Dist. Andhra Pradesh  2) Venkatayapalam Village Khammam Dist. Andhra Pradesh

## NOTICE

Notice is hereby given that the 25<sup>th</sup> Annual General Meeting of the members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on 30<sup>th</sup> September, 2011 at 11.30 A.M. at Hotel I. K. London Residency, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082 to transact the following business.

### ORDINARY BUSINESS

1. To receive consider and adopt the Balance Sheet as at 31<sup>st</sup> March, 2011 and Profit and Loss Account for the year 2010 – 2011 and report of the Auditors thereon and Report of Directors to the Share Holders.
2. To note that Sri.N.Ram Prasad, Director and Chairman retire by rotation of the Directors at the conclusion of this Annual General Meeting. He is however not offering himself for re-appointment as Director / Chairman.
3. To appointment Auditors for next year 2011 – 2012 and fix their remuneration and in this connection to pass the following Resolution

“Resolved that the Present Auditors M/S. K.S. Rao and 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 next Annual General Meeting of the Company at such remuneration as may be determined by the Board of Directors of the Company”.

### SPECIAL BUSINESS

4. 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 269, 309, 310, 314 and other applicable provisions, of the Companies Act, 1956, Sri.N.Rajender Prasad, Joint Managing Director, be and is hereby re-appointed as Joint Managing Director of the company for a period of 5 (five) years with effect from 20<sup>th</sup> December, 2011 on the terms, and conditions including remuneration and power to the Board of Directors for changing from time to time any terms and conditions governing the appointment, as recommended by the Remuneration Committee on 10.08.2011 as follows:

Salary           Rs.35,000-3000-50000 per month

Perquisites:

- a. Company's contribution towards P.F. not exceeding 12% of the salary as laid down in the Income Tax Rules, 1962,
- b. Contribution towards super annuation fund of annuity fund and Gratuity not exceeding half month's salary for each completed year.

c. Housing I. The expenditure incurred by the Company on hiring unfurnished accommodation for the Joint Managing Director will be subject to a ceiling of sixty percent of the salary over and above ten percent payable by the Joint Managing Director.

Housing II. If accommodation in the Company owned house is provided, ten percent of salary of the Joint Managing Director shall be deducted by the Company

Housing III. If the Company does not provide accommodation, the Joint Managing Director shall be entitled to House rent allowance as per applicable norms.

D. Medical Reimbursement: Expenses incurred by the appointee and family subject to a ceiling of one months salary in a year or 3 months salary over a period of 3 years.

E. Leave Travel Concession: For appointee and his family once in a year travel expenses incurred in accordance with the rules specified by the company. (Family means spouse, dependent children and dependent parents of the appointee)

F. Club Fees: Fees of club subject to maximum two clubs But this ceiling excludes admission and life membership fees

g. Personal accident Insurance: Premium not exceeding Rs. 1000/- per annum Provision for a car: For company's business and telephone at residence for company's business only.

“ Resolved further that the consent of the Company be and is hereby accorded to the payment of Remuneration; and perquisites; sanctioned above to Managing Director/Joint Managing Director as minimum remuneration notwithstanding that in any financial year the Company makes no profit or its profits are inadequate”

5. To consider and if thought fit to pass, with or without modification(s), the following resolution as a special resolution:

To revise the salary and perquisites to Sri.N.Ravi Prasad, Managing Director and to pass the following special resolution viz.

"Resolved that the salary and perquisites of Sri.N.Ravi Prasad, Managing Director be and are hereby revised as follows, viz.

Salary Rs.35,000-3000-50000 per month

Perquisites:

a. Company's contribution towards P.F. not exceeding 12% of the salary as laid down in the Income Tax Rules, 1962,

- b. Contribution towards super annuation fund of annuity fund and Gratuity not exceeding half month's salary for each completed year.
- c. Housing I. The expenditure incurred by the Company on hiring unfurnished accommodation for the Managing Director will be subject to a ceiling of sixty percent of the salary over and above ten percent payable by the Managing Director.

Housing II. If accommodation in the Company owned house is provided, ten percent of salary of the Managing Director shall be deducted by the Company

Housing III. If the Company does not provide accommodation, the Managing Director shall be entitled to House rent allowance as per applicable norms.

D. Medical Reimbursement: Expenses incurred by the appointee and family subject to a ceiling of one months salary in a year or 3 months salary over a period of 3 years.

E. Leave Travel Concession: For appointee and his family once in a year travel expenses incurred in accordance with the rules specified by the company. (Family means spouse, dependent children and dependent parents of the appointee)

F. Club Fees: Fees of club subject to maximum two clubs But this ceiling excludes admission and life membership fees

g. Personal accident Insurance: Premium not exceeding Rs. 1000/- per annum Provision for a car: For company's business and telephone at residence for company's business only.

“ Resolved further that the consent of the Company be and is hereby accorded to the payment of Remuneration; and perquisites; sanctioned above to Managing Director as minimum remuneration notwithstanding that in any financial year the Company makes no profit or its profits are inadequate”

For and on behalf of the Board of Directors  
For SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

Sd/-  
(N.Ravi Prasad)  
Managing Director

Place : Hyderabad  
Date : 10.08.2011

## NOTES:

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself pursuant to Article No.114 of the Articles of Association and such proxy need not be a member of the Company.

1. 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.
2. Members are requested to notify immediately any change in their address to the registered office of the Company.
3. The register of members and share transfer book of the Company shall remain closed from 27.09.2011 to 30.09.2011

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

### Item No.4. Re-appointment of Sri.N.Rajender Prasad as JMD

Sri.N.Rajender Prasad, Joint Managing Director was earlier – re-appointed as Joint Managing Director for 5 years w.e.f. 20<sup>th</sup> December, 2006 at the 20<sup>th</sup> Annual General Meeting of the Company held on 29<sup>th</sup> September, 2006. His term of office expires on 19<sup>th</sup> December, 2011. There is need to re-appoint him as JMD for a further period of 5 years on the same terms and conditions. Sri.N.Ravi Prasad, Managing Director and Sri.N.Ram Prasad, Director and Chairman of the company are interested in the resolution.

### Item No.5. Revision of Salary and perquisites of Sri.N.Ravi Prasad Managing Director.

The salary and perquisites of Sri.N.Ravi Prasad, Managing Director were originally approved on 16.08.1993 and subsequently revised on 31.10.2008. The Board now considered that it is necessary to revise his salary and perquisites as proposed. Sri.N.Rajender Prasad, Joint Managing Director, and Sri.N.Ram Prasad, Director and Chairman of the Company are interested in the resolution.

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

Sd/- (N.Ravi  
Prasad) Managing  
Director

Place: Hyderabad  
Date : 10.08.2011

# SOUTHERN MAGNESIUM & CHEMICALS LIMSITED

## DIRECTOR'S REPORT TO SHARE HOLDERS

Your Directors have pleasure in presenting the 25th Annual Report and the Audited Accounts for the year ended 31<sup>st</sup> March 2011.

### FINANCIAL REPORT / OPERATIONS

	Current year As on 31-03-2011 Rs.	(Rs.Lakhs) Last Year As on 31-03-2010 Rs.
Net Sale and other income	185.29	64.34
Profit Before Depreciation and interest	29.28	(-) 10.56
Depreciation. and Interest --	14.13	6.18
Net Profit/ Net loss (-)	15.15	(-) 16.74
Total Cum. Loss	(-) 646.50	(-) 661.65

### OPERATIONS

The Company is continuing business by procuring Magnesium metal from open market and processing the same to meet the requirements of customers.

### RETIREMENT OF DIRECTORS BY ROTATION

Sri N. Ram Prasad Director & Chairman retires by rotation at the ensuing Annual General Meeting. He is not however offering himself for reappointment as Director. The Board of Directors of the Company places on record their appreciation and thanks for the valuable guidance and contribution to the company by Sri.N.Ram Prasad.

### 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 polices 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 Company for the period :
- iii) Proper and sufficient care has been taken 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 the limits prescribed

## AUDITORS

Your directors propose to appoint M/s K.S.Rao & Company, Chartered Accountants, Hyderabad as statutory auditors to hold office until the conclusion of the next Annual General Meeting of the Company.

## CORPORATE GOVERNANCE

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

## CODE OF CONDUCT

The Code has been circulated to all the members of the Board and Senior Management and the compliance of the same has been affirmed by them. A declaration signed by the Managing Director is given in the Annual Report.

## 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 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 Bombay Stock Exchange and Listing fees is paid up to date.



DECLARATION BY DIRECTOR OF AFFIRMATION BY MANAGING DIRECTOR  
AND SENIOR MANAGEMENT PERSONNEL OF COMPLIANCE WITH THE  
CODE OF CONDUCT

The Shareholders,

I, Ravi Prasad Nuthakki, Managing Director of the Company, do hereby declare that the Directors and senior management of the company have exercised their authority and powers and discharged their duties and functions in accordance with the requirements of the code of conduct as prescribed by the company and have adhered to the provisions of the same.

For and on behalf of the Board of Directors of  
M/s. Southern Magnesium & Chemicals Limited

Place: Hyderabad  
Date: 10.08.2011

Ravi Prasad Nuthakki  
Managing Director

ACKNOWLEDGEMENT:

Your Directors wish to place on record their appreciation of the excellent service rendered by all the employees of the Company.

Place : Hyderabad  
Date 10-08-2011 :

On behalf of the Board  
Sd/-  
(N.Ravi Prasad)  
Managing Director

FORM – B

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION.

Specific areas in which R & D carried out by the Company.

Benefits derived as a result of the above R & D	--
Future plan of action	
Expenditure on R & D	
a) Capital	NIL
b) Recurring	
c) Total	
d) Total R & D expenditure as a percentage of total turnover.	Nil

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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<sup>st</sup> 5 yrs.(reckoned from the beginning of the financial year) following information is furnished: N.A
  - a) Technology ...nil
  - b) Year of import ... nil
  - c) Has technology been fully absorbed ...NA
  - d) If not fully absorbed, area Not applicable...NA
  - e) Where this has not been place, reason there for and future plans of action NA

B. FOREIGN EXCHANGE EARNING & OUTGO

During the year foreign exchange outgo was Rs 41.76. lakhs and foreign exchange earnings was Rs.NIL. Lakhs

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## REPORT ON CORPORATE GOVERNANCE

### 1. Company's philosophy on code of governance:

Corporate governance is a synonym for sound management, transparency and disclosure. The Company's philosophy of corporate governance envisages the highest level of transparency, accountability and equity in all its dealings with shareholders, employees, government and lenders. The Company's guiding principles are focused to achieve the highest standards of corporate governance. In compliance with the disclosure requirements of Clause 49 of the Listing Agreement executed with the Stock Exchanges, the details are set out below:

### 2. Board of Directors:

Composition and Category of Directors as at 31st March, 2011:

The Board of Directors comprises 2 Executive Directors and 4 Non Executive Director. During the Year 4 Board Meetings were held on 29.04.2010, 12.08.2010, 15.11.2010, 03.02.2011.

The Compositions of the Board of Directors and their attendance at the Meetings during the year and at the last Annual General Meeting as also number of other directorship of committees are as follows:

Name of Director	Category of Directorship	No. of Board Meetings attended	Attendance at last AGM	No. of other Directorships	Committee Membership in Others Cos.
Mr. N. Ram Prasad	Promoter Executive Director	4	No	6	1
Mr. N. Ravi Prasad	Promoter, Managing Director	4	YES	3	1
Mr. N. Rajender Prasad	Promoter, Joint Managing Director	4	YES	3	4
Mr. K. Eshwaraiah	Nominee Director, Independent Non Executive Director	4	NO	-	2
Mr. Snehal Thakkar	Independent Non Executive Director	3	No	-	3
Mr. V.S.S. Prakash	Independent	4	YES	-	1

	Non Executive Director				
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#### Audit Committee:

The Composition of the Audit Committee is in compliance with the Clause 49 of the Listing Agreement and the terms of reference, role and scope are in line with those prescribed by Clause 49 of the Listing Agreement with the Stock Exchanges.

The Audit Committee comprises of 2 (Two) Non-executive Independent Directors and One executive director. The Audit Committee met 4 (Four) times during the year under review on 29.04.2010, 12.08.2010, 15.11.2010, 03.02.2011.

The composition of Audit Committee and the details of meetings attended are given below:

SL. NO.	Name	Position held in the committee	Number of committee meeting attended
1	Mr. Snehal Thakkar	Chairman	Four
2	Mr. K. Eshwaraiah	Member	Four
3	Mr. N. Rajender Prasad	Member	Four

During these meetings, the Committee, inter alia, reviewed the financial statements including changes in accounting policies and practices before submission to the Board, recommended the appointment of statutory auditors including fixation of audit fee, and reviewed the company's financial and risk management policies.

#### Investors' Grievance Committee:

The responsibilities of the Committee include a) to approve share transfers and transmissions and b) to approve splitting of share certificates, consolidation of share certificates and related matters including issue of fresh share certificates in lieu of the split / consolidated certificates and redressal of all shareholders queries and grievances. The Committee has been meeting at regular intervals to resolve the complaints and replied / resolved to the satisfaction of the investors.

During the year, the committee met once on 30.10.2010

The composition of Shareholders/ investors grievance committee and the details of meetings attended are given below:

SL. NO.	Name	Position held in the committee	Number of committee meeting attended
1	Mr. Snehal Thakkar	Chairman	Three
2	Mr. K. Eshwaraiah	Member	Four
3	Mr. N. Rajender Prasad	Member	Four

## Remuneration Committee:

The responsibilities of remuneration committee are to appraise the performance of Executive Directors and senior officers of the Company and to determine and recommend to the Board compensation payable to the above said persons.

During the year, the remuneration committee has not met since no activities took place in this direction during the period under review.

The composition of remuneration committee and the details are given below:

SL. NO.	Name	Position held in the Committee
1	Mr. Snehal Thakkar	Chairman
2	Mr. K. Eshwaraiah	Member
3	Mr. N. Rajender Prasad	Member

Sl.No	Name	Salary	Provident Fund	Perquisites	Total	No of Equity Shares
1.	Mr. N. Ravi Prasad	240000	20160	46853	307013	299850
2.	Mr. N. Rajender Prasad	240000	20160	56655	316815	160200

The sitting fees paid for the year 2010-11 to the Board of Directors, Audit Committee, Remuneration Committee and Share Holders/Investors Grievance Committee are as under

Name	Sitting Fee
S. Snehal Thakkar	Rs.1500

## Details on General Body Meetings:

Financial Year	Date	Time	Location
2009-2010	30/09/2010	11.30 A.M	Hotel I.K. London, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500082
2008-2009	30/09/2009	11.30 A.M	Hotel I.K. London, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad - 500082
2007-2008	30/09/2008	11.30 A.M	Hotel I.K. London, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad - 500082

## Postal Ballot:

During the year 2010-2011, there are no resolutions passed under Postal Ballot pursuant to Section 192A of the Companies Act, 1956.

## Disclosures:

The Board of Directors receive from time to time disclosures relating to financial and commercial transactions from key management personnel of the Company as and when they and / or their relatives have personal interest in any of the pecuniary transactions with the Company. There are no materially significant related party transactions, which have potential conflict with the interest of the Company at large.

## Means of Communication:

The quarterly financial results and shareholding pattern of the Company are furnished to the Stock Exchanges.

Management's Discussion & analysis forms part of the Annual Report, which is mailed to the shareholders of the Company.

## General Shareholder Information:

### 1. Annual General Meeting:

Date and Time: 30th September, 2011 at 11.30 A.M  
Venue: Hotel I.K. London, 6-3-656, Kapadia Lane,  
Somajiguda, Hyderabad - 500082

Financial Calendar (tentative): Financial Year April 2011 to March 2012

First quarter results	: 15.08. 2011
Second quarter results	: 15.11 2011
Third quarter results	: 15.02. 2012
Fourth quarter results	: 15.05. 2012

Book Closure Dates: 27th September, 2011 to 29th September, 2011  
(both days inclusive for the purpose of AGM)

Listing on Stock Exchanges: The Company Shares are listed on the following Stock Exchanges

### 1. Bombay Stock Exchange Limited

## Stock Market Price Data:

Trading of shares are in suspension, hence data is not available.

## Registrar and Share Transfer Agents:

In House

Southern Magnesium and Chemicals Limited  
Deccan Chambers, 5<sup>th</sup> Floor,  
6-3-666/B, Somajiguda,  
Hyderabad- 500082.

Share Transfer System :

In House

Southern Magnesium and Chemicals Limited  
Deccan Chambers, 5<sup>th</sup> Floor,  
6-3-666/B, Somajiguda,  
Hyderabad- 500082.

Name & Details of Compliance Officer:

Mr. N. Rajender Prasad  
Deccan Chambers, 5<sup>th</sup> Floor,  
6-3-666/B, Somajiguda,  
Hyderabad- 500082.  
Ph: 040-23311789  
Fax: 040-23319871  
Email Id: southernmagnesium@yahoo.com

DISTRIBUTION OF SHAREHOLDING AS ON QUARTER ENDING 31st March, 2011

No.of Shares	SHARE HOLDERS		SHAREHOLDING	
	Nos.	%	Nos.	%
Upto 5000	7424000	24.74	3861	99.20
5001-10000	504000	1.68	7	0.18
10001-20000	1355000	4.52	8	0.21
20001-30000	0	0	0	0
30001-40000	701000	2.34	2	0.05
40001-50000	497600	1.66	1	0.03
50001-100000	4936000	16.45	6	0.15
Above 100001	14582400	48.61	7	0.18
TOTAL	30000000	100.00	3892	100.00

j) Categories of Shareholders as on 31<sup>st</sup> March,2011

Particulars	Category	No. of shares held	Percentage of shareholding
A	Shareholding of Promoter and Promoter group		
1.	Indian		
	Individual	1089950	36.33
	Bodies Corporate	293990	9.80
	Directors/Promoters & Relatives	102600	3.42
2.	Foreign		
	Individual	112260	3.74
	Sub-Total A	1598800	53.29
B	Public Shareholding		
1.	Institutions	537500	17.92
2.	Non Institutions		
	a. Bodies Corporate	-	-
	a. Indian Public and others	863700	28.79
	Sub Total B	1401200	46.71
	Grand Total (A+B)	3000000	100.00

Dematerialization of Shares and Liquidity :

All the shares are in physical form. Application is being made to NSDL & CDSL for demat of shares. Presently the trading of shares is under suspension in BSE.

Address for Investor Correspondence : Shares Division:

Deccan Chambers, 5<sup>th</sup> Floor,

6-3-666/B, Somajiguda,

Hyderabad- 500082.

Ph: 040-23311789

Fax: 040-23319871

Email Id: southernmagnesium@yahoo.com

In terms of Clause 47(f) of the Listing Agreement of Stock Exchanges investors may please use the following exclusive e-mail ID for redressal of their grievances. E-Mail: southernmagnesium@yahoo.com.



Dear Shareholder,

Please find below the Managing Director certificate as per Clause 49(V) of the Listing Agreement:

#### MANAGING DIRECTOR CERTIFICATE

I N Ravi Prasad, Managing Director of M/s. Southern Magnesium and Chemicals Limited certify that:

1. We have reviewed the financial statements for the year and that to the best of our knowledge and belief:
  - (a) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - (b) These statements present a true and fair view of the state of affairs of the Company and of the results of the operations and cash flows. The financial statements have been prepared in conformity, in all material respects, with the existing generally accepted accounting principles including accounting standards, applicable laws and regulations.
2. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or in violation of Company's code of conduct.
3. We accept overall responsibility for establishing and monitoring the Company's internal control system for financial reporting and evaluating its effectiveness. Internal Audit function monitors the internal control system for financial reporting, which encompasses the examination and evaluation of the adequacy and effectiveness. Internal Audit works with all levels of management and Statutory Auditors, and reports significant issues to the Audit Committee of the Board. The Auditors and Audit Committee are apprised of any corrective action taken with regard to significant deficiencies and material weakness.
4. We indicate to the Auditors and to the Audit Committee:
  - (a) Significant changes in internal controls over financial reporting during the year;
  - (b) Significant changes in the accounting policies during the year;
  - (c) No instances of significant fraud of which we have become aware of and which involve the management or other employees who have significant role in the Company's internal control system over financial reporting.

However, during the year there were no such changes and instances.

For and on behalf of the Board of Directors of  
M/s. Southern Magnesium and Chemicals Limited

Place: Hyderabad

Date: 10.08.2011

Sd/-  
N Ravi Prasad  
Managing Director

## **MANAGEMENT AND DISCUSSION & ANALYSIS REPORT**

### **INDUSTRY STRUCTURE AND DEVELOPMENTS:**

Chemical industry is an important constituent of the Indian economy. Its size is estimated at around US \$ 35 billion approx., which is equivalent to about 3% of India's GDP. The total investment in Indian chemical sector is approx. US \$ 60 billion and total employment generated is about 1 million. India also produces a large number of fine and specialty chemicals, which have very specific uses and are essential for increasing industrial production. These find wide usage as food additives and pigments, polymer additives, anti-oxidants in the rubber industry, etc.

Magnesium is the primary alloy element in the aluminum alloy with an annual industry demand in excess of 160000 tonnes globally. Magnesium alloys also play a critical role in the building and construction, transport, defence, electronics, chemical and aerospace industries. With all these sectors experiencing a huge growth impetus, it has become imperative for the Indian manufacturing sectors to keep up to date with the latest global technologies and developments that impact the use of magnesium and its alloys.

### **OPPORTUNITIES, RISKS, CONCERNS THREATS & OUTLOOK:**

We are focused on increasing our market share of existing products, launching new products, creating foot prints in untapped growth market segments in export market and forging strong relationship with customers, laying thereby a robust foundation for sustainable growth.

The year 2011-12 looks promising with its own sets of challenges and opportunities for us and it is expected that there will be growth in chemical industry. The population growth is a good sign towards the optimistic future market.

With global recession and idle/new capacities abroad and a stronger rupee, there is increasing threat from imports. Steep increase in imports into the country and withdrawal of safe guard duty are the concerns for the product/division.

**INTERNAL CONTROL SYSTEMS & ADEQUACY:**

The Company has established an appropriate system of internal control to ensure that there exists a proper control over all the transactions and that all its assets are properly safeguarded and not exposed to risk arising out of unauthorised use or disposal. The Internal Audit conducted at all divisions for all the key areas of business. The Internal Control System is supplemented by a programme of Internal Audits to ensure that the assets are properly accounted for and the business operations are conducted in adherence to laid down policies and procedures. The Internal Audit is oriented towards review of controls and operational improvements.

**FINANCIAL AND OPERATIONAL PERFORMANCE:**

Highlights of financial and operational Performance are given below:

Particulars	As at 31.03.2011(Rs in lakhs)
Net Sale and other income	185.29
Profit Before Depreciation and interest	29.28
Depreciation. and Interest	14.13
Net Profit/ Net loss (-)	15.15
Total Cum. Loss	(-) 646.50

**SEGMENT WISE OR PRODUCT WISE PERFORMANCE:** Not Applicable

**HUMAN RESOURCES, INDUSTRY DEVELOPMENT RELATIONS:**

Relations with the employees remained cordial in general throughout the year. In order to optimise the contribution of the employees to the Company's business and operations, in-house training is given to the employees to induce contribution to productivity increase and development programmes for all levels of employees have been devised. Occupational Health Safety and Environmental Management are given utmost importance.

**SENIOR MANAGEMENT DISCLOSURES:**

The Company's senior management makes disclosures to the Board relating to all material financial and commercial transactions as when they occur.

**CAUTIONARY STATEMENT:**

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations and such forward-looking statements involve risks and uncertainties. Actual results could differ materially from those expressed or implied important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the Countries in which the Company conducts business and other incidental factors. The Company undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on these forward looking statements that speaks only as of their dates.

## Code of Conduct for the Board of Directors and Senior Management:

### Preface:

This Model Code of Conduct for Directors & Senior Management personnel is a guide to help Directors on the Board & Senior Management team of the Company to live up to Company's ethical standards.

The rules and principles set forth in this Code are general in nature and the compliance with the Code shall be ensured read with other applicable policies and procedures of the Company.

This model code of conduct may be reviewed by the Board from time to time to keep in pace with the regulatory environment and any amendments to this Code, shall be approved by the Board of Directors.

### Applicability:

This Code of Conduct (the "Code") for the Board of Directors and Senior Management shall be applicable to each member of the Board of Directors of Southern Magnesium and Chemicals Limited (the "Company") and functional heads of the Company, or such other employees of the Company as may be designated as members of the "senior management" for the purposes of the Code by the Managing Director of the Company from time to time (hereinafter referred to as Senior Management"). References herein to the term "Company" shall include its subsidiaries, joint ventures and associates unless the context otherwise requires.

### Objective:

The Code has been drafted in accordance with the provisions of Clause 49 of the Listing Agreement to be entered into by the Company with the Stock Exchange/s to:

- a). set standards of corporate governance by complying with laws, rules and regulations applicable to the Company and applicable policies and procedures adopted by the Company and to fulfil the responsibilities to stakeholders.
- b). set and implement high standards of transparency, integrity, accountability and corporate social responsibility in all dealings.

### The Code:

The Board of Directors of the Company is entrusted with the fiduciary responsibility of oversight of the affairs of the Company. As Directors of the Company, they have a duty to make decisions and implement policies in the best interests of the Company and its stakeholders.

Therefore, the Directors and Senior Management are obliged to carry out their duties in an honest, fair, diligent and ethical manner, within the scope of the authority conferred upon them and in accordance with the laws, rules, regulations, agreements, guidelines, standards and internal policies and procedures.

The Directors & Senior Management personnel are required to act with utmost care, skill and diligence and in accordance with the highest standards of personal and professional integrity and legal conduct, when acting on behalf of the Company or in connection with the Company's business or operations and at social events.

#### Conflict of Interest:

The Directors and senior management personnel are expected to avoid and disclose any activity or association that creates or appears to create a conflict between the personal interests and the Company's business interests. A Conflict of interest exists where the interests or benefits of one person or entity conflict with the interests or benefits of the Company.

Relationships with prospective or existing suppliers, contractors, customers, competitors or regulators must not affect the independent and sound judgment on behalf of the Company. Directors & the Senior Management personnel are required to disclose to the Board any situation that may be, or appear to be, a conflict of interest. When in doubt, Disclosure is the best way out.

#### Regulatory Compliances:

It is the general obligation of the Directors to conduct the business and operations of the Company in accordance with the laws, rules, regulations, agreements, guidelines; standards including Accounting Standards governing its operations in the geographies where the Company operates. The Directors and Senior Management personnel shall acquire appropriate knowledge of the legal requirements relating to their duties sufficient to enable them to perform their obligations diligently.

The Directors and Senior Management personnel shall also comply with the internal policies and procedures of the Company to the extent applicable to them including but not limited to compliance with Prohibition of Insider Trading policy of the Company.

#### Confidential Information and Corporate Disclosure Policy:

The Directors and Senior Management personnel must maintain the confidentiality of information relating to the affairs of the Company until and unless authorized or legally required to disclose such information; and shall not use confidential information for their personal advantage.

The Directors and Senior Management are obliged to ensure continuous, timely and adequate disclosure of necessary information to the Company at regular intervals in respect of declarations required to be made under Applicable Laws, including the Companies Act, 1956 as amended, details of related parties and details of any material financial and commercial transactions where a conflict of interest is likely.

#### Fair Dealing, Use and Protection of Company's Assets:

The Directors and Senior Management personnel are obligated to deal fairly and honestly with each other, the Company's associates and with the Company's customers, suppliers, competitors and other third parties. Directors and Senior Management personnel shall not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation or any other unfair dealing or practice.

The Directors and Senior Management are required to protect the Company's assets and properties, records and systems, including intellectual property and ensure their efficient use. The assets of the Company shall be used for legitimate business purposes and shall not be used for personal purposes. Incidental personal use, if reasonable, does not amount to violation of the code.

#### Compliance and Violation of Code of Conduct:

It is the duty and obligation of every Director and Senior Management person to comply with this code of conduct and he/she shall acknowledge and affirm ongoing compliance with the code on an annual basis. This code of conduct shall be posted on the website of the Company.

Any violations of this code shall be promptly reported to the Chairman of the Board or any other person appointed for this purpose. The Company will take appropriate action against any Director member or the Senior Management whose actions are found to violate the Code, after giving him/her a reasonable opportunity of being heard.

#### Waivers and Amendments of the Code:

We are committed to continuously review and update our policies and procedures. Therefore, this Code is subject to modifications. Any amendment / inclusion or wavier of any provision of this Code must be approved by the Company's Board of Directors and promptly disclosed, if required pursuant to Applicable Laws.

#### Certification:

Each of the Directors and members of the Senior Management and every other person to whom this Code is made applicable, shall file with the Company Secretary of the Company, or any other person appointed for this purpose, a certificate addressed to the Chairman, by the 1st of April of every year, confirming his/her compliance with the provisions of this Code.

#### Acknowledgement:

The Directors and Senior Management personnel shall read and fully understand this model code of conduct and comply with the policies procedures and principles contained therein.

## CERTIFICATE OF COMPLIANCE OF CORPORATE GOVERNANCE

To  
The Members of  
Southern Magnesium and Chemicals Limited

We have reviewed the compliance of conditions of Corporate Governance by M/s. Southern Magnesium and Chemicals Limited, for the year ended on March 31, 2011, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement.

No investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company

We further state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For S.S. Reddy & Associates  
Practicing Company Secretaries

Date : 10.08.2011  
Place : Hyderabad

Sd/-  
S. Sarweswara Reddy  
CP No: 7478



## AUDITORS' REPORT

To the Members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

We have audited the attached Balance Sheet of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED, HYDERABAD (A.P) as at 31st March, 2011 and also the Profit and Loss Account for the year ended on that date annexed thereto and the cash flow statement for the period ended on that date. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the 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 Companies (Auditors' Report) Order, 2003, issued by the Central Government of India 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.
2. Further to our comments in the Annexure referred to in paragraph 1 above :
  - a. We have obtained all the information and explanations 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 those books.
  - c. The Balance Sheet, Profit and Loss Account and Cash Flow statement dealt with by this report are in agreement with the books of account.
  - d. In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 excepting AS-15, Employee Benefits.
  - e. On the basis of the written representations received from the Directors as on 31st March, 2011 and taken on record by the Board of Directors, we report that, none of the Directors is disqualified as on 31st March, 2011 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
  - f. The company has not adopted and complied with the requirements of AS-15 'Employee Benefits' in respect of gratuity liability. In view of this the liability of the company in this regard could not be ascertained. Consequently, we are unable to comment about the impact of this on the Profit for the year.

- g. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read in conjunction with the Schedules annexed therewith and subject to our comments given in para f above, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :
- i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;
  - ii) In the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date; and
  - iii) In the case of Cash Flow Statement of the cash flows for the year ended on that date.

for K.S.RAO & CO.,  
Chartered Accountants.  
Firms' Regn.No.003109S

Place: Hyderabad  
Date : 31.05.2011

(P.GOVARDHANA REDDY)  
Partner  
Membership No.029193

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

- (i) (a) The Company maintains proper records showing full particulars, including quantitative details and situation of fixed assets;
- (b) The fixed assets have been physically verified by the management at reasonable intervals; no material discrepancies were noticed on such verification.
- (c) During the year the company had disposed off assets. In our opinion, this does not affect the going concern assumption.
- ii) (a) Management had physically verified the inventory at reasonable intervals.
- (b) In our opinion the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) The Company maintains proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) to (d) Since the Company has not granted any loans, our comments do not arise with regard to the principal recoveries and overdue amounts in respect of loans granted.
- (e) The Company has taken unsecured loans from two Companies and other three parties covered in the register maintained under section 301 of the Act. The amount involved in transactions is Rs.262.5 lakhs and
- (f) In our opinion the terms and conditions on which the unsecured loans were availed by the Company are not prima facie prejudicial to the interest of the company.
- (g) The company has not repaid principal amount and the loans are interest free.
- (iv) In our opinion there are adequate internal control systems commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and there were no weaknesses in internal control system.
- (v) (a) There were no transactions that need to be entered into a register required to be maintained under section 301 of the Act during the year except acceptance of unsecured loans from directors and intercorporate deposits.
- (b) In view of the above comment Clause - V(b) is not applicable.
- (vi) The Company has not accepted deposits from the public, so the directives issued by the Reserve Bank of India and the provisions of sections 58A, 58AA or any other relevant provisions of the Act and the rules framed there under are not applicable to the Company during the year under report.
- (vii) The Company has no internal audit system. However, there are adequate internal control procedures commensurate with its size and nature of its business.
- (viii) The Central Government has not prescribed u/s.209(1)(d) of the Act the maintenance of cost records for the products of the company.

- (ix) (a) The Company is not regular in depositing undisputed statutory dues including Provident Fund and Sales Tax.

Undisputed amount of Rs.4,65,160/- in respect of interest on Sales Tax was in arrears as at 31.03.2011 for a period of more than six months from the date they became payable.

The company deposits regularly Excise Duty, Service Tax and Income Tax . During the year under report there were no amounts depositable in respect of Investor Protection Fund, Employee's State Insurance, Wealth Tax, Customs Duty.

- (b) There are no dues of sales tax, income tax, custom tax, wealth tax, cess which have not been deposited on account of any dispute.
- (x) Company's accumulated losses at the end of the financial year were more than 50% of its net worth and it had not incurred cash loss in the period under report and incurred cash loss in the immediately preceding financial year.
- (xi) Company has not borrowed money from a financial institution or from a bank. Hence, clause (xi), of the above said order is not applicable with regard to defaults in repayments of dues.
- (xii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. (xiii) This clause is not applicable to the Company since this Company is neither a Chit Fund nor Nidhi/mutual benefit fund Society.
- (xiv) The Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) As per the information given by the Company it has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) During the year under report the Company has not availed term loans. Hence clause (xvi) of the above said order is not applicable.
- (xvii) In our opinion the funds raised on short-term basis were not used for long term investment.
- (xviii) During the period under report the company had not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.
- (xix) This clause is not applicable since the Company has not issued any Debentures.
- (xx) During the period under report the management has not raised any money through public issue.
- (xxi) During the year under report no fraud on or by the company has been either noticed or reported.

for K.S.RAO & CO.,  
Chartered Accountants.  
Firms'

Regn.No.003109S

Place: Hyderabad  
Date : 31.05.2011

(P.GOVARDHANA REDDY)  
Partner  
Membership No.029193



**BALANCE SHEET AS AT 31.03.2011**

Particulars	Sch.No.	As At 31.03.2011 Rs.	As At 31.03.2010 Rs.
<b>1 SOURCE OF FUNDS</b>			
1) Share Holders Funds			
a) Share Capital	1	4,00,00,000	4,00,00,000
b) Reserves & Surplus	2	10,00,000	10,00,000
		4,10,00,000	4,10,00,000
2) Loan Funds			
Unsecured Loans	3	2,65,03,818	2,62,50,000
		2,65,03,818	2,62,50,000
Total		6,75,03,818	6,72,50,000
<b>II APPLICATION OF FUNDS</b>			
1) Fixed Assets			
a) Gross Block	4	1,59,96,497	1,82,35,768
b) Less : Depreciation		97,37,825	1,06,01,382
c) Net Block		62,58,672	76,34,386
2) Current Assets, Loans and Advances			
a) Inventories	5	21,94,930	30,29,727
b) Sundry Debtors	6	44,81,399	21,22,690
c) Cash & Bank balances	7	2,95,980	4,32,315
d) Loans & Advances	8	8,31,260	3,48,219
		78,03,569	59,32,951
Less:Current Liabilities & Provisions	9	1,12,07,994	1,24,82,325
Net Current Assets		(34,04,425)	(65,49,374)
3) Profit & Loss Account		6,46,49,571	6,61,64,988
Total		6,75,03,818	6,72,50,000
NOTES ON ACCOUNTS	15	0	0

Per our report of even date  
For K.S.Rao & Co  
Chartered Accountants  
Firm Registration No.003109S

For and on behalf of the Board

(P.Govardhana Reddy)  
Partner

(N.Ravi Prasad)  
Managing Director

(N.Rajender Prasad)  
Joint Managing  
Director

Place : Hyderabad  
Date : 31.05.2011

**PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDING 31ST MARCH, 2011**

Particulars	Sch. No.	Current Year Rs.	Previous Year Rs.
<b>I. INCOME</b>			
Sales		19432915	59,19,137
Less Excise Duty		<u>1700073</u>	<u>4,61,980</u>
		17732842	54,57,157
Other Income	10	<u>796138</u>	<u>9,77,235</u>
Total		18528980	64,34,392
<b>II. EXPENDITURE</b>			
Materials Consumed	11	1,09,14,935	42,77,836
Power		2,75,850	2,16,809
Staff Cost	12	15,46,163	14,51,808
Interest : Others		26,850	-
Other Expenses	13	20,81,440	21,96,792
Excise duty (Refer Note No.4)		(55,782)	1,06,231
Depreciation for the year		5,18,271	6,18,486
Depreciation for earlier years		8,67,944	-
(Increase) / Decrease in Stocks	14	<u>8,34,797</u>	<u>(7,62,549)</u>
Total		1,70,10,468	81,05,411
III. Profit/(Loss) for the Period		15,18,512	(16,71,019)
Less: Provision for the FBT		0	2,850
Frienge benfit Tax of earlier Year		<u>3,095</u>	<u>0</u>
		15,15,417	(16,73,869)
Balance Brought forward from last year		<u>6,61,64,988</u>	<u>6,44,91,119</u>
Loss Carried to Balance Sheet		<u>(6,46,49,571)</u>	<u>6,61,64,988</u>
Notes on Accounts	15		
Earning per share (Refer Note No.7C)		0.51	(0.56)

Per our report of even date  
For K.S.Rao & Co  
Chartered Accountants  
Firm Registration No.0031096

For and on behalf of the Board

(P.Govardhana Reddy)  
Partner  
Place : Hyderabad

(N.Ravi Prasad)  
Managing Director

(N.Rajender Prasad)  
Joint Managing  
Director

SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS  
FOR THE PERIOD ENDED 31ST MARCH, 2011

Particulars	As At 31.03.2011 Rs.	As At 31.03.2010 Rs.
<b>1. SHARE CAPITAL</b>		
<u>AUTHORISED</u>		
40,00,000 Equity Shares of Rs.10/- Each	4,00,00,000	4,00,00,000
10,00,000 Preference shares of Rs.10/- Each	1,00,00,000	1,00,00,000
Total	5,00,00,000	5,00,00,000
<u>ISSUED, SUBSCRIBED &amp; PAID UP</u>		
a) 30,00,000 Equity Share Capital of Rs.10/- each fully paid up	3,00,00,000	3,00,00,000
b) 10,00,000 5% Cumulative Redeemable Preference Shares of Rs.10/- each fully paid up	1,00,00,000	1,00,00,000
Total	4,00,00,000	4,00,00,000
<b>2. RESERVES AND SURPLUS</b>		
Capital Reserve - Subsidy	10,00,000	10,00,000
Total	10,00,000	10,00,000
<b>3. UNSECURED LOANS</b>		
Andhra Bank - SOD	2,53,818	0
Interest Free Loan From Directors includes Rs.1.25 crores from an erstwhile Director	2,25,00,000	2,25,00,000
Interest Free Inter Corporate Deposits	37,50,000	37,50,000
Total	2,65,03,818	2,62,50,000



#### 4. FIXED ASSETS

Description		GROSS BLOCK				DEPRECIATION					NET BLOCK	
		As at 31.03.10	Additions	Deletions	As at 31.03.11	Up to 31.03.10	For the Year	Dep. Arrers	Deletion	Up to 31.03.11	As at 31.03.11	At at 31.03.10
Land : Factory		235862	0		235862	0	0			0	235862	235862
: Mines		302651	0		302651	0	0			0	302651	302651
Building : Non-Factory	1.63	2497589	0		2497589	701872	40711			742583	1755006	1795717
: Factory	3.34	8469265	0		8469265	4590945	282873			4873818	3595447	3878320
Plant & Machinery	5.28	1394303	10500		1404803	1154715	74174			1228889	175914	239588
Electrical Installations	4.75	1981577	0	1898611	82966	1055806	49686	867944	1898611	74825	8141	925771
Weighing Machines	7.07	405491	0		405491	385216	0			385216	20275	20275
Lab Equipmnet	4.75	814615	0		814615	718721	38694			757415	57200	95894
Office Equipment	4.75	277031	0		277031	193026	13159			206185	70846	84005
Fire Fighting Equipment	4.75	29810	0		29810	27023	1416			28439	1371	2787
Furniture & Fixtures	6.33	258584	0		258584	258517	0			258517	67	67
Vehicles	9.5	983478	0	351160	632318	934304	17558		351160	600702	31616	49174
Data Processing Equip.	16.21	85512	0		85512	81236	0			81236	4276	4276
Process Know-how		500000	0		500000	500000	0			500000	0	0
<b>Total Rs.</b>		<b>18235768</b>	<b>10,500</b>	<b>22,49,771</b>	<b>15996497</b>	<b>10601381</b>	<b>518271</b>	<b>867944</b>	<b>2249771</b>	<b>9737825</b>	<b>6258672</b>	<b>7634387</b>
Previous year		20090347	0	1854579	18235768	11223676	618486		1240780	10601382	7634386	886671

Particulars	As At 31.03.2011 Rs.	As At 31.03.2010 Rs.
5. INVENTORIES (At cost other,wise stated)		
(Valued and certified by the Managing Director)		
Work in Process	-	2,37,450
Finished Goods (at lower of cost and realisable value)	21,94,930	27,92,277
Total	<u>21,94,930</u>	<u>30,29,727</u>
6. SUNDRY DEBTORS (Unsecured, Considered Good) Debts outstanding for a period		
exceeding six months	13,80,042	10,46,012
Other debts	31,01,357	10,76,678
Total	<u>44,81,399</u>	<u>21,22,690</u>
7. CASH & BANK BALANCES		
Cash in Hand	19,024	50,203
Cash With Schedule Banks : in Current Accounts	27,436	3,82,112
: In Margin Deposit	2,49,520	0
Total	<u>2,95,980</u>	<u>4,32,315</u>
8. LOANS AND ADVANCES		
(Unsecured, Considered good recoverable in cash or in kind or for value to be received)		
Advance for Purchases & Expences	5,70,057	933
Deposits Recoverable	1,87,196	1,67,693
Balance with Central Excise	11,040	1,34,954
Advance Income Tax & TDS	56,967	36,239
Staff Advances	<u>6,000</u>	<u>8,400</u>
Total	<u>8,31,260</u>	<u>3,48,219</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS  
FOR THE PERIOD ENDED 31ST MARCH 2011

Particulars	As At 31.03.2011 Rs.	As At 31.03.2010 Rs.
<b>9. CURRENT LIABILITIES &amp; PROVISIONS</b>		
a) Creditors for : Purchase & Expenses		
l) Total outstanding dues of Micro Enterprises and Small enterprises	30,08,281	38,19,835
b) Total outstanding dues of creditors other than micro enterprises and small enterprises	14,28,297	15,67,616
Creditors for : Other Finances	77,318	34,524
Due to Directors	66,94,098	70,59,476
Provision for FBT	-	875
Total	<u>1,12,07,994</u>	<u>1,24,82,325</u>
	Current Year	Previous Year
<b>10. OTHER INCOME</b>		
Job Work Charges (TDS Rs.20278/-)	6,81,100	9,77,235
Profit on sale of assets	1,15,038	-
Total	<u>7,96,138</u>	<u>9,77,235</u>
<b>11. RAW MATERIAL CONSUMED</b>		
Opening Stock	-	-
Add : Purchases	<u>1,09,14,935</u>	<u>42,77,836</u>
	1,09,14,935	42,77,836
Less: Closing Stock	-	-
Total	<u>1,09,14,935</u>	<u>42,77,836</u>
<b>12. STAFF COST</b>		
Salaries, Wages & Bonus	14,05,447	13,02,503
Contribution to P.F & Other funds	53,900	52,992
Workers and Staff Welfare	<u>86,816</u>	<u>96,313</u>
Total	<u>15,46,163</u>	<u>14,51,808</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS  
FOR THE PERIOD ENDED 31ST MARCH, 2011

Particulars	Current Year Rs.	Previous Year Rs.
13. OTHER EXPENSES		
Packing Material	1,45,772	1,17,693
Consumption of General Stores	3,560	-
Carriage and Freight	4,24,125	2,54,323
Rates & Taxes	24,927	73,614
Printing & Stationery	41,130	32,231
Postage, Telegrams & Telephones	1,50,827	1,45,368
Insurance	4,673	5,773
Travelling & Conveyance	1,00,035	69,528
Repairs & Maintenance :		
Plant & Machinery	1,15,813	1,04,020
Other Assets	14,924	1,272
Vehicle Maintenance	1,30,633	69,278
Bank Charges	31,270	14,346
Auditors Remuneration		
As Auditors	16,545	16,545
For Certification	8,273	-
General Charges	2,17,471	2,11,137
L.D.Charges	5,25,970	2,39,400
Interest for delayed payment to sales tax	-	4,55,908
Loss on sale of Assets	-	3,86,356
Debit Balance Written Off	<u>1,25,492</u>	<u>-</u>
Total	<u>20,81,440</u>	<u>21,96,792</u>
14. (INCREASE) / DECREASE IN STOCKS		
a. Opening Stocks		
Finished Goods	27,92,277	20,29,728
Work- in- Progress	<u>2,37,450</u>	<u>2,37,450</u>
	<u>30,29,727</u>	<u>22,67,178</u>
b. Closing stocks		
Finished Goods	21,94,930	27,92,277
Work in Progress	<u>-</u>	<u>2,37,450</u>
	<u>21,94,930</u>	<u>30,29,727</u>
(Increase) / Decrease (a-b)	8,34,797	(7,62,549)

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31ST MARCH, 2011

S.No.	Particulars	Year Ended 31.03.11	Year Ended 31.03.10
A)	CASH FROM OPERATING ACTIVITIES		
	Profit (Loss) for the year	1515417	(16,73,870)
	Adjustment for Depreciation	1386215	618485
	Profit/(Loss) on sale of assets	115038	(3,86,356)
	Interest	26850	0
	Operating profit before		
	Working capital change	3043520	(14,41,741)
	Adjustments for :		
	Trade and other receivables	(28,41,750)	1765996
	Inventories	834797	(7,62,549)
	Trade payable	(12,74,331)	(1,72,158)
	CASH GENERATED FROM OPERATIONS	(4,67,840)	162260
	Interest paid	26850	0
	NET CASH FROM OPERATING ACTIVITY (A)	(4,94,690)	162260
B)	CASH FLOW FROM INVESTING ACTIVITIES		
	Sale of Assets	115038	240380
	Purchase of Assets	-10500	-12937
	NET CASH FROM INVESTING ACTIVITIES	104538	227443
C)	CASH FLOW FROM FINANCING ACTIVITIES		
	Loan obtained	253818	0
	NET CASH GENERATED IN FINANCING ACTIVITIES	253818	0
	NET INCREASE/ DECREASE IN CASH & CASH EQUIVALENT (A+B+C)	-136334	389702
	Cash & cash equivalent as at 01.04.2010	432314	42612
	Cash & cash equivalent as at 31.03.2011	295980	432314
	per our Report of even date		
	For K.S.Rao & Co.,		
	Chartered Accountants		
	Sd/-	Sd/-	Sd/-
	(P.GOVARDHANREDDY)	(N.Ravi Prasad)	(N.Rajender Prasad)
	Partner	Managing Director	Joint Managing Director

For and on behalf of the Board

15. NOTES ON ACCOUNTS

1. The following are the significant accounting policies adopted by the company in preparation and presentation of financial statements.

- a) Financial Statements are based on historical costs.
- b) Tangible fixed assets are stated at cost net of depreciation provided.
- c) Depreciation on the fixed assets of the company is provided on Straight line Basis method as per Schedule XIV to the Companies Act, 1956.
- d) Raw Materials, stores and spares are valued at cost, Finished goods and working progress are valued at lower of cost and realisable value.
- e) Provident Fund contributions are remitted to Provident Fund Commissioner and the same are charged to revenue.
- f) All Contingent Liabilities are indicated by way of a note and will be paid / provided on crystallization.

2. Redeemable Preference shares are issued on the following terms.

Date of Issue	No. of Preference Shares	Face Value	Amount Rs.	Time Limit For redemption
29.03.1999	3,00,000	10/-	30,00,000	Redeemable at par after 3 years and before 7 years
29.03.1999	3,00,000	10/-	30,00,000	Redeemable at par after 3 years and before 5 years
28.09.1999	1,00,000	10/-	10,00,000	Redeemable at par after 3 years before 10 years.
17.04.2000	2,00,000	10	20,00,000	Redeemable at par after 3 years and before 7 years
24.07.2000	1,00,000	10	10,00,000	Redeemable at par after 3 years and before 10 years.

However, period of redemption of these shares is extended up to March 2015 vide a resolution passed on 27.09.2005 through postal ballot.

3. a) Contingent Liabilities to the extent not provided for on account of:

	As at 31.03.2011 Rs. in lakhs	As at 31.03.2010 Rs. In lakhs
b) Arrears of cumulative Dividend on preference shares (@5%)	57.25	52.25
(The Cum. Pref. Shareholders have agreed to reduce the rate of dividend from 14% to 5% with retrospective effect from 1999 onwards and the time for the maturity has been extended till March 2015)		

4. Excise Duty of Rs.55,782/- represents the differential excise duty in respect of finished goods as on 01.04.2010 and as on 31.03.2011.

5. Managerial Remuneration, included in other Heads of Account

	Current Year	Previous Year
Managing Director		
Salary	2,40,000	2,40,000
Perquisites	46,853	39,623
Contributions to Provident Fund	20,160	20,160

Total	3,07,509	2,99,783
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Joint Managing Director		
Salary	2,40,000	2,40,000
Perquisites	56,655	35,522
Contributions to Provident Fund	20,160	20,160
Total	3,16,815	2,92,038

6. In view of the absence of reasonable certainty that sufficient future taxable income will be available against which deferred tax asset can be realized, it is considered prudent not to provide for deferred tax asset of Rs. 1,23,33,979/- (Previous Year Rs.1.34 crores), in accordance with Accounting Standard – 22, Accounting for taxes on income, resulted on account of brought forward losses and unabsorbed depreciation.

	Deferred Tax Assets	31.03.2011 Rs.	31.03.2010 Rs.
I)	Unabsorbed Depreciation	3,37,37,682	3,46,67,666
II)	Unabsorbed Loss	1,00,16,799	1,36,25,231
III)	Disallowances under 43 B	64,128	25,835
IV)	Disallowances under 40(a) (I a)	-	1,14,397
		4,38,18,699	4,84,33,131

	Deferred Liability		
I)	Net Block as per books	62,58,672	76,34,386
II)	Net Block as per I.T. Act	23,55,763	25,39,114
		39,02,909	50,95,272

	31.03.2011	31.03.2010
Deferred Tax Asset	3,99,15,790	4,33,37,859
Tax there on @ 30.9%	1,23,33,979	1,33,91,398

Information required pursuant to the Accounting Standards issued by the Institute of Chartered Accountants of India.

- a) AS-17 Segment Reporting: Company operates only in one segment that of manufacture and sale of magnesium metal related products, Segment Reporting in accordance with AS-17 is not required.

- c) AS-18 Related party disclosures:

Related party disclosures as required by AS – 18 are given below.

	Related Parties	Nature of Relationship
1	Southern Electrodes Ltd	} Associate Companies
2	Pumps (India) Pvt. Ltd	}
3	Phoenix Finance & Leasing Limited	}
4	Sri.N.Ravi Prasad	} Key Management Personnel
5	Sri.N.Rajender Prasad	}
6	Smt.N.Anantha Lakshmi	Relatives of Key Management personnel
7	Sri.N.B.Prasad	
8	Sri N.Ram Prasad	

- i) Transactions with associate Companies

	Current Year	Previous Year	Receivable (Payable)	Receivable (Payable)
			As on 31.03.2011	As on 31.03.2010
	Rs.	Rs.	Rs.	Rs.
i) Inter Corporate Deposits	-	-	(37,50,000)	(37,50,000)

ii) Current Liabilities	-	-	(22,89,220)	(27,23,539)

ii) Details of transactions in respect of Key Management personnel.

		Current year	Previous Year
		Rs.	Rs.
1	Remuneration (as detailed in note no.5)	6,24,324	5,95,465
2	Un secured Loans:		-
	Outstanding at the beginning of the year	1,00,00,000	1,00,00,000
	Received during the year	-	-
	Repaid during the year	-	-
	Outstanding at the close of the year	1,00,00,000	1,00,00,000
	Amount payable on current A/c	26,23,937	28,76,567
3	Details of transaction in respect Relatives Of Key Management Personnel		
	Rent for Premises Leased to Company		-
	Rent Deposit		
	Unsecured Loans Payable	1,25,00,000	1,25,00,000
	Current Liabilities Payable	46,20,997	46,20,997

c) Earning per Equity Share

	Profit /(Loss) as per Profit & Loss Account	15,15,417	(16,73,869)
	Number of equity Shares outstanding	30,00,000	30,00,000
	Basic and diluted earnings per share in Rupees ( face value of Rs.10/-)	0.51	(0.56)

8. Quantitative particulars in accordance with the requirements of part II of Schedule VI to the Companies Act.

		Current Year Qty .MT	Previous Year Qty .MT
a)	Licenced Capacity Magnesium Metal	2000	2000
b)	Installed Capacity Magnesium Metal	NIL	NIL

(The Figures for installed Capacity are as certified by the management and not verified by the auditors this being a technical matter)

		Current Year Qty. MT	Previous year Qty.MT
c)	Opening Stock		
	Magnesium Turnings	1.228	2.053
	Magnesium Powders	8.386	6.451
	Magnesium Pieces	2.500	0.584
	Total	12.114	9.088
d)	Production includes of magnesium powder imported From abroad in different forms (Magnesium Metal converts into different forms)	28.00	-
	Magnesium Turnings	0.700	-
	Magnesium Powders	56.273	23.885
	Magnesium Pieces	12.492	4.216
	Total	69.465	28.101
e)	Closing Stock		
	Magnesium Turnings	0.153	1.228
	Magnesium Powders	8.280	8.386
	Magnesium Pieces	1.557	2.500
	Total	9.990	12.114



	Current Year		Previous Year	
	Qty. MT	Value. Rs.	Qty. MT	Value. Rs.
f) Sales:				
Magnesium Turnings	1.775	4,35,925	0.825	1,87,750
Magnesium Powders	56.379	150,31,456	21.950	48,01,407
Magnesium Pieces	13.435	23,96,080	2.600	4,68,000
Total	71.589	178,63,461	25.375	54,57,157
g) Details of raw Material consumed:				
Magnesium Metal	70.209	109,14,935	28.681	42,77,836
Total	<u>70.209</u>	<u>109,14,935</u>	<u>28,681</u>	<u>42,77,836</u>
h) Analysis of materials and Stores consumed:	Percentage	Value. Rs.	Percentage	Value. Rs.
a. Indigenous	60.12	68,72,370	100.00	43,97,394
b. Imported	38.88	41,76,862	Nil	Nil
Total	<u>100.00</u>	<u>1,10,49,232</u>	<u>100.00</u>	<u>46,69,394</u>
l) Value of imports Calculated on C.I.F. basis In respect of Raw Materials	<u>28.00</u>	<u>41,76,862</u>	<u>Nil</u>	<u>Nil</u>
J) Expenditure in foreign currency on account of import of Raw materials	28.000	USD 83,433.9	Nil	Nil

10. Previous Year's figures have been regrouped wherever necessary and paise have been rounded off to the nearest rupee.

Per our report of even date  
For K.S.Rao & Co.  
Chartered Accountants

For and on behalf of the Board

(P.GOVARDHAN REDDY)  
Partner

(N.RAVI PRASAD)  
Managing Director

(N.RAJENDER PRASAD)  
Joint Managing Director

Place: Hyderabad  
Date: 31.05.2011

Regd.Office : DECCAN CHAMBERS, 5<sup>TH</sup> FLOOR, 6-3-666/B  
SOMAJIGUDA, HYDERABAD – 500 082

ATTENDANCE SLIP

(To be handed over at the entrance of the meeting hall)

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Name of the attending Member  
(In Block Letters)

Member's Registered  
Folio Number

Name of Proxy (In Block Letters)  
(To be filled, if the Proxy attends instead of the Member)

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No of Shares held-----

I hereby record my presence at the Twenty Fifth Annual General Meeting of the Company held at Hotel I..K. London,6-3-656, Kapadia Lane, Somajiguda; Hyderabad – 500 082; on Friday the 30<sup>th</sup> September 2011 at 11.30 A.M.

(Member/Proxy's Signature)  
(To be signed at the time of handing over this slip)

Note; Since it will not be possible to distribute copies of the Annual Report at the Meeting hall, the Members are requested to bring their copy of the Annual Report to the meeting.

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SOUTHERN MAGNESIUM AND CHEMICALS LIMITED  
Regd.Office : DECCAN CHAMBERS, 5<sup>TH</sup> FLOOR, 6-3-666/B  
SOMAJIGUDA, HYDERABAD – 500 082

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Form of Proxy

I/we.....of .....  
being a Member /Members of the above named Company hereby  
appoint.....of ..... or failing him .....of  
..... as my/our proxy to attend and vote for me /us and on my/our behalf at  
the twenty Fourth Annual General Meeting of the Company to be held on Friday the ;30<sup>th</sup>  
September 2011 and at any adjournment thereof

Signed this..... of.....2011

Affix Revenue stamp  
Signature

Note: This Instrument of Proxy should be deposited at the Registered Office of the Company not less than 48 (Forty Eight) hours before the time of holding the meeting.