

**SOUTHERN MAGNESIUM AND
CHEMICALS LIMITED**

(CIN NO.L27109TG1985PLC005303)



**29th ANNUAL REPORT
2014 - 2015**

CORPORATE INFORMATION**BOARD OF DIRECTORS:**

| | |
|------------------------|---------------------------------|
| Mr. N. RAVI PRASAD | Managing Director and CEO |
| Mr. N. RAJENDER PRASAD | Joint Managing Director and CFO |
| Mrs. MARIYAMMA | APIDC Nominee Director |
| Mr. K. ESHWARAIAH | Director |
| Mr..V. S. S. PRAKASH | Director |
| Mr. G. RAGHAVENDRA RAO | Director |

REGISTERED OFFICE:

Deccan Chambers, 5th Floor,
6-3-666/B, Somajiguda, Hyderabad – 500 082
Ph: 040-23311789, Fax No: 040-23319871

AUDITORS:

K S Rao & Co.
Chartered Accountants, Hyderabad.

BANKERS:

Andhra Bank, Somajiguda, Hyderabad

WORKS:

Gowripatnam, West Godavari District

MINES:

Mulugu Mandal, Warangal District, Andhra Pradesh

LISTED AT:

BSE Limited

**REGISTRAR &
SHARE TRANSFER AGENTS:**

Aarathi Consultants Private Limited,
1-2-285, Domalguda, Hyderabad-500029
Ph.Nos.040-27638111/27634445
Email : info@aarthiconsultants.com

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NOTICE

Notice is hereby given that the 29th Annual General Meeting of the Members of Southern Magnesium and Chemicals Limited will be held on Wednesday, the 30th September, 2015 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 Audited Balance Sheet as at March 31, 2015, the Profit & Loss Account and Cash Flow Statement for the year ended on that date together with the Schedules and Notes attached thereto, along with the Reports of Auditors and Directors thereon.
2. To ratify appointment of statutory Auditors
To consider and if thought fit to pass with or without modification(s) the following resolution as an Ordinary Resolution
“RESOLVED that, pursuant to Section 139 and other applicable provisions, if any, of the Companies Act, 2013 and Rules made thereunder as amended from time to time and for the time being in force, the appointment of M/s. K. S. Rao & Co., Chartered Accountants (Firm Registration No. 003109S) Hyderabad, as Auditors of the Company to hold office from conclusion of this Annual General Meeting till the conclusion of thirtieth Annual General Meeting be and is hereby ratified on a remuneration including Service Tax and travelling/out of pocket expenses to be mutually agreed upon by the Board of Directors of the Company and the Auditors”.

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

Sd/-

Place: Hyderabad
Date: 03.08.2015

(N.Ravi Prasad)
Managing Director
(DIN: 00319537)

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF / HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.** Proxies, in order to be effective must be received by the company not less than 48 hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the Company will be closed from 23rd September 2015 to 30th September 2015 (Both days inclusive)
3. Members are requested to produce the Attendance Slip duly signed as per the Specimen Signature recorded with the Company/Depository Participant for admission to the meeting hall.
4. Members are requested to notify immediately any change in their address to the Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed on to their respective Depository Participants.
5. A Member desirous of receiving any information on the accounts or operations of the company is requested to forward his/her queries to the company at least 7 working days prior to the meeting, so that the required information can be made available at the meeting.
6. Members holding shares in physical form are requested to notify immediately any change in their address along with address proof, i.e., Electric /Telephone Bill, Driving License or a copy of passport and Bank particulars to the company or its Registrar & Share Transfer Agent and in case their



shares are held in dematerialized form, this information should be passed on directly to their respective Depository Participants and not to the company/RTA without delay.

- 7. Members, who hold shares in de-materialized form, are requested to bring their Client ID and DP IDs for easier identification of attendance at the meeting.
- 8. It shall be mandatory for the transferee(s) to furnish copy of PAN Card to the Company/RTAs for registration of transfer of shares for securities market transactions and off market/private transaction involving transfer of shares in physical form of listed companies.
- 9. **Voting through electronic means**

Pursuant to the provision of Section 108 and other applicable provision, if any, of the companies Act, 2013 read with Rule 20 of the companies (Management and Administration) Rules, 2014 as amended and Clause 35B of the Listing Agreement, the Member are provided with the facility to cast their Votes on resolution through e-voting services provided by Central Depository Services (India) Limited (CDSL)

The e- voting period commence on 26th September, 2015 (9.00 A.M. IST) and ends on 29th September, 2015 (5.00 P.M. IST). During this period, Members of the company, holding shares **either in physical form or in dematerialized form, as on September 22nd September, 2015 (cut off date), may cast their votes electronically. The e-voting module shall be disabled by CDSL for voting thereafter. Once the vote on a resolution is cast by the member, he shall not be allowed to change it subsequently.**

The instructions for shareholders voting electronically are as under:

- (i) The voting period begins on 26th September, 2015 (9.00 a.m) and ends on 29th September 2015 (5.00 p.m). During this period shareholders’ of the Company, holding shares either in physical form or in Dematerialized form, as on the cut-off date (record date) of 22nd September 2015, may cast their vote electronically. The e-voting module shall be disabled by CDSL for voting thereafter.
- (ii) The shareholders should log on to the e-voting website www.evotingindia.com.
- (iii) Click on Shareholders
- (iv) Now Enter your User ID
 - a) For CDSL: 16 digits beneficiary ID,
 - b) For NSDL: 8 Character DP ID followed by 8 Digits Client ID
 - c) Members holding shares in Physical Form should enter Folio Number registered with the Company.
- (v) Next enter the Image Verification as displayed and Click on Login.
- (vi) If you are holding shares in demat form and had logged on to www.evotingindia.com and voted on an earlier voting of any company, then your existing password is to be used.
- (vii) If you are a first time user follow the steps given below:

| For Members holding shares in Demat Form and Physical Form | |
|---|--|
| PAN | Enter your 10 digit alpha-numeric *PAN issued by Income Tax Department (Applicable for both demat shareholders as well as physical shareholders)- <ul style="list-style-type: none"> ◆ Members who have not updated their PAN with the Company /Depository Participant are requested to use the first two letters of their name and the 8 digits of the sequence number in the PAN field. |

| | |
|---------------|---|
| | <ul style="list-style-type: none"> ◆ In case the sequence number is less than 8 digits enter the applicable number of 0's before the number after the first two characters of the name in CAPITAL letters. Eg. If your name is Ramesh Kumar with sequence number 1 then enter RA00000001 (which is printed on address label) in the PAN field. |
| DOB | Enter the Date of Birth as recorded in your Demat account or in the company records for the said demat account or folio in dd/mm/yyyy format. |
| Dividend Bank | Enter the Dividend Bank Details as recorded in your demat account or in the company records for the said demat account or folio. |
| Details | Please enter the DOB or Dividend Bank Details in order to login. If the details are not recorded with the depository or company please enter the member id / folio number in the Dividend Bank details field as mentioned in instruction (iv). |

- viii) After entering these details appropriately, click on "SUBMIT" tab.
- ix) Members holding shares in physical form will then directly reach the Company selection screen. However, members holding shares in demat form will now reach 'Password Creation' menu wherein they are required to mandatorily enter their login password in the new password field. Kindly note that this password is to be also used by the demat holders for voting for resolutions of any other company on which they are eligible to vote, provided that company opts for e-voting through CDSL platform. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.
- x) For Members holding shares in physical form, the details can be used only for e-voting on the resolutions contained in this Notice.
- xi) Click on the EVSN for the relevant <Company Name> on which you choose to vote.
- xii) On the voting page, you will see "RESOLUTION DESCRIPTION" and against the same the option "YES/NO" for voting. Select the option YES or NO as desired. The option YES implies that you assent to the Resolution and option NO implies that you dissent to the Resolution.
- xiii) Click on the "RESOLUTIONS FILE LINK" if you wish to view the entire Resolution details.
- xiv) After selecting the resolution you have decided to vote on, click on "SUBMIT". A confirmation box will be displayed. If you wish to confirm your vote, click on "OK", else to change your vote, click on "CANCEL" and accordingly modify your vote .
- xv) Once you "CONFIRM" your vote on the resolution, you will not be allowed to modify your vote.
- xvi) You can also take out print of the voting done by you by clicking on "Click here to print" option on the Voting page.
- xvii) If Demat account holder has forgotten the same password then Enter the User ID and the image verification code and click on Forgot Password & enter the details as prompted by the system.
- xviii) Note for Non-Individual Shareholders & Custodians:

- ◆ Non-Individual shareholders (i.e. other than Individuals, HUF, NRI etc.) and Custodian are required to log on to www.evotingindia.com and register themselves as Corporates.
 - ◆ A scanned copy of the Registration Form bearing the stamp and sign of the entity should be emailed to helpdesk.evoting@cdslindia.com.
 - ◆ After receiving the login details a compliance user should be created using the admin login and password. The Compliance user would be able to link the account(s) for which they wish to vote on.
 - ◆ The list of accounts should be mailed to helpdesk.evoting@cdslindia.com and on approval of the accounts they would be able to cast their vote.
 - ◆ A scanned copy of the Board Resolution and Power of Attorney (POA) which they have issued in favour of the Custodian, if any, should be uploaded in PDF format in the system for the scrutinizer to verify the same.
- xix) In case you have any queries or issues regarding e-voting, you may refer the Frequently Asked Questions (“FAQs”) and e-voting manual available at www.evotingindia.com, under help section or write an email to helpdesk.evoting@cdslindia.com.

10. For members who wish to vote using ballot form:

Pursuant to Clause 35B of the Listing Agreement, members who do not have access to e-voting facility may fill in the ballot form sent along with the notice and submit the same in a sealed envelope to the scrutinizer, M/s.D.Hanumanta Raju & Co., Company Secretaries, C/o Southern Magnesium and Chemicals Limited, Deccan Chambers, 5th Floor, 6-3-666/B, Somajiguda, Hyderabad, Telangana – 500 082. Incomplete or incorrectly ticked forms are liable to be rejected and the decision of the scrutinizer on the validity of the forms will be final.

In the event a member casts his votes through both the processes i.e. e-voting and ballot form, the votes in the electronic system would be considered and the ballot form would be ignored.

DIRECTORS' REPORT

To

The Members,

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED,

Your Directors hereby presents the 29th Annual Report of your Company together with the Audited Statement of Accounts and the Auditors' Report of your company for the financial year ended, 31st March, 2015. The summarized financial results for the year ended 31st March, 2015 are as under:

FINANCIAL REPORT / OPERATIONS:

(Rs. In Lakhs)

| Particulars | Current Year As on 31.03.2015 | Previous Year As on 31.03.2014 |
|---|----------------------------------|-----------------------------------|
| Net Sale / Income from Operations | 546.64 | 175.68 |
| Other Income | 2.14 | 0.23 |
| Operating Expenses | 292.54 | 152.22 |
| Net Profit (+) / (Loss) before tax for the period | 256.24 | 23.69 |
| Current Tax / Exceptional Items | 81.09 | 0.00 |
| Net Profit (+) / (Loss) for the period | 337.33 | 23.69 |

REVIEW OF OPERATIONS:

During the period revenue of the Company increased to Rs. 546.64 lakhs as compared to Rs. 175.68 Lakhs of the previous year. The net profit before tax has also increased to Rs. 337.33 Lakhs from Rs. 23.69 Lakhs of the previous year.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors confirm that in the preparation of Profit & Loss Account for the year end and Balance Sheet as at that date ("Financial Statements") that:

- (a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (b) the directors had 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 and loss of the company for that period;
- (c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) the directors had prepared the annual accounts on a going concern basis; and
- (e) The directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.
- (f) The directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

DISCLOSURES UNDER SECTION 134 OF THE COMPANIES ACT, 2013

1. State of affairs of the company:

The Company deals in the business of Magnesium Metal. During the year, the Company has seen growth in terms of the Sale which is reflected in the financial results of the Company for the year.

2. Amounts, if any, carried to reserves:

The company transferred Rs. 3.36 crores to the general reserve out of the amount available for

appropriation.

3. Dividend:

The Company has declared the dividend amounting to Rs 77.25 Lakhs, which includes the arrear of the outstanding cumulative preferential Dividend and also redeemed the said preference shares out of the current year profits.

4. Inter - Corporate deposits:

(i) The details relating to deposits are as follows: The Company has received Inter Corporate Deposits, the details of which is given below.

(a) Accepted during the year - Nil

(b) Remained unpaid or unclaimed as at the end of the year - Rs. 37,50,000/-

(c) Whether there has been any default in repayment of deposits or payment of interest thereon during the year and if so, number of such cases and the total amount involved at the beginning of the year; -Nil

Maximum outstanding during the year; Rs. 37,50,000/-

Outstanding at the end of the year; Rs. 35,50,000/-

(ii) The details of deposits which are not in compliance with the requirements of the Act- NIL.

5. Number of meetings of the Board:

Five meetings of the board were held during the year as per the details given below:

| S. No. | Date of meeting | Total No. of Directors on the Date of Meeting | No. of Directors attended | % of Attendance |
|--------|-----------------|---|---------------------------|-----------------|
| 1. | 26.05.2014 | 5 | 4 | 80.00 |
| 2. | 13.08.2014 | 6 | 4 | 66.67 |
| 3. | 11.11.2014 | 6 | 5 | 83.33 |
| 4. | 14.02.2015 | 6 | 6 | 100.00 |
| 5. | 28.03.2015 | 6 | 5 | 83.33 |

6. Board Evaluation:

The board of directors has carried out an annual evaluation of its own performance, Board Committees and individual directors pursuant to the provisions of the Act and the corporate governance requirements as prescribed by Securities and Exchange Board of India ("SEBI") under Clause 49 of the Listing Agreements ("Clause 49").

The performance of the Board was evaluated by the Board after seeking inputs from all the directors on the basis of the criteria such as the Board composition and structure, effectiveness of board processes, information and functioning, etc.

The performance of the committees was evaluated by the board after seeking inputs from the committee members on the basis of the criteria such as the composition of committees, effectiveness of committee meetings, etc.

The Board and the Nomination and Remuneration Committee ("NRC") reviewed the performance of the individual directors on the basis of the criteria such as the contribution of the individual director to the board and committee meetings like preparedness of the issues to be discussed, meaningful and constructive contribution and inputs in meetings, etc.

In a separate meeting of Independent Directors, performance of Non- Independent directors, performance of the Board as a whole and performance of the Chairman was evaluated, taking into

accounts the views of Executive Directors and Non-Executive Directors. The same was discussed in the board meeting that followed the meeting of the Independent Directors, at which the performance of Board, its committee and individual directors was also discussed.

7. Policy on Directors' appointment and remuneration and others details:

The company's policy on Directors appointment and remuneration and other matters provided in section 178(3) of the companies act has been disclosed in the Corporate Governance Report, which forms part of this directors' report.

8. Directors:

There is no change in the offices held by the Directors of the company.

9. Internal Financial Control Systems and their Adequacy:

The details in respect of internal financial control and their adequacy are included in the Management Discussion & Analysis and which forms a part of this report.

10. Audit Committee

The details pertaining to composition of Audit Committee are included in Corporate Governance Report, which forms a part of this report.

11. A statement on declaration given by independent directors under Sub-Section (6) of Section 149:

The provisions of Section 149(6) relating to Independent Directors has been complied with.

12. Risk Management:

The Board of the company regularly reviews and had adopted measures to frame, implement and monitor the risk management plan for the company. The Board is responsible for reviewing the risk management plan and ensuring its effectiveness. The audit committee has additional oversight in the area of financial risks and controls. Major risk indentified, if any, by the business functions are systematically addressed through mitigating actions on a continuing basis.

13. Particulars of Loans, Guarantees or Investments Under Section 186 of the Companies Act, 2013:

There were no loans, guarantees or investments made by the Company under Section 186 of the Companies Act, 2013 during the year under review.

14. Particulars of contracts or arrangements made with related parties Under Section 188 of the Companies Act, 2013:

None of the transactions with related parties falls under the scope of section 188(1) of the act. Information on transaction with related parties pursuant to section 134(3)(h) of the act read with rule 8(2) of the companies (Accounts) Rules, 2014 are given in Annexure-1 in Form AOC-2 and the same forms part of this report.

15. The change in the nature of business, if any:

There was no change in the nature of Business.

16. The details of directors or key managerial personnel who were appointed or have resigned during the year:

There was no appointment or resignation of any director or Key Managerial Personnel since the last Annual General Meeting.

17. The names of companies which have become or ceased to be its Subsidiaries, joint ventures or associate companies during the year:

The Company does not have any Subsidiary, Joint venture or associate company which have become

or ceased to be its Subsidiaries, joint ventures or associate company during the year.

18. The details of significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future:

There are no material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future. However the company has received some show-cause notices from stock exchanges for which company have replied accordingly.

19. Particulars of Employees:

The information required under section 197 of the act read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014, are given below:

a. The ratio of remuneration of each director to the median remuneration of the employees of the company for the financial year:

| Non Executive Directors | Ratio to median remuneration |
|----------------------------|------------------------------|
| Raghavendra Rao Griddalur | NIL |
| Chilukuri Mariamma | NIL |
| Surya Sesa Prakash Valluru | NIL |
| EShwariah Kaparathi | NIL |

| Executive Directors | Ratio to median remuneration |
|--------------------------|------------------------------|
| Ravi Prasas Nuthakki | 17.36:1 |
| Rajender Prasad Nuthakki | 16.84:1 |

b. The percentage increase in remuneration of each Director, Chief Executive Officer, Chief financial Officer, Company Secretary in the financial year:

| Director, chief executive officer, chief financial officer, company secretary | % of increase in remuneration in the financial year |
|---|---|
| Ravi Prasad Nuthakki –MD and CEO | 56.66 |
| Rajender Prasad Nuthakki – Jt.MD and CFO | 63.33 |

c. The percentage increase in median remuneration of employees in the financial year : 5.99%

d. The number of permanent employees on the rolls of the company: 21

e. The explanation on the relationship between average increase in remuneration and the companies performance:

The increase in remuneration is in line with market trends. In order to ensure that the remuneration reflects company's performance, the performance pay is linked to organisation performance.

f. Comparison of the remuneration of key managerial personnel against the performance of the company.

| | |
|---|---------------|
| Aggregate remuneration of key managerial personnel (KMP) in FY 15 | 24,31,701/- |
| Revenue | 5,48,77,939/- |
| Remuneration of KMP (as a % of revenue) | 4.43/- |
| Profit before tax (PBT) (Rs. In Lakhs) | 3,37,33,591/- |
| Remuneration of KMP (as a % of PBT) | 7.21/- |

- g. **Variation in the market capitalisation of the company, price earning ratio as at the closing date of the current financial year and previous financial year.**

| Particulars | March 31, 2015 | March 31, 2014 | % Change |
|------------------------------------|----------------|----------------|----------|
| Market capitalisation (Rs. Crores) | 54750000 | 27240000 | 100.99 |
| Price Earning Ratio | 1.65 | 14.65 | -88.74 |

- h. **Percentage increase over decrease in the market quotation of the shares of the company comparison to the rate at which the company came out with the last public offer:**

| Particulars | March 31, 2015 | March 31, 2014 | % Change |
|--------------------|----------------|----------------|----------|
| Market price (BSE) | 18.25 | 9.08 | 100.99 |

- i. **Average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration:**

Average increase in salaries of employees other than managerial personnel in 2014-15 was 10.66%. however during the course of the year the total increase is approx 32.98% after accounting for addition, deletion and promotion of the employee force. Increase in Managerial Remuneration for the year was 59.88%.

- j. **Comparison of each remuneration of key managerial personnel against the performance of the company:**

| Particulars | Mr. Rajender Prasad Nuthakki | Mr. Ravi Prasad Nuthakki |
|------------------------------|------------------------------|--------------------------|
| Remuneration in FY 15(Rs) | 10,71,479 | 10,34,782 |
| Revenue(Rs) | 5,46,64,146 | 5,46,64,146 |
| Remuneration as % of Revenue | 1.96% | 1.89% |
| Profit before tax (PBT) (Rs) | 3,37,33,591 | 3,37,33,591 |
| Remuneration (as % of PBT) | 3.17% | 3.06% |

- k. **The key parameters for any variable component of remuneration availed by the directors:**

The Board has approved one months bonus pay to all its employees at its meeting held on 14.02.2015 including its Executive Directors.

- l. **The ratio of remuneration of the highest paid director to that of the employees who are not directors but receive remuneration in excess of the highest paid director during the year: Not Applicable**

- m. **Affirmation that the remuneration is as per the remuneration policy of the company:**

The Company affirms remuneration is as per the Remuneration policy of the company.

20. **Disclosure as per Sexual Harassment of Women at Work Place (Prevention, Prohibition and Redressal) Act, 2013:**

Your company has zero tolerance for sexual harassment at work place and has adopted a policy on prevention, prohibition and redressal of sexual harassment at work place in line with the provision of Sexual Harassment of Women at Work Place (Prevention, Prohibition and Redressal) Act, 2013 and rules framed there under.

No complaint have been received by the company on sexual harassment during the financial year 2014-2015.

21. Disclosure Requirements:

As per Clause 49 of the listing agreement entered into with the stock exchange, corporate governance report with certificate from Practising Company Secretary thereon and management discussion and analysis are attached, which form part of this report.

The company has formulated a whistle blower policy. A copy of the same is made available at the registered office of the company. The provisions of this policy are in line with the provisions of section 177(9) of the act and the revised Clause 49 of the Listing Agreements with the stock exchanges.

Your Company has a vigil mechanism to deal with instances of fraud and mismanagement, if any. The Whistle Blower Policy enables reporting of unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct or ethics policy, to the management. The Vigil mechanism also ensures strict confidentiality is maintained and provided adequate safeguards against victimization of employees who avail of the mechanism and also provided for direct access to the Chairman of the Audit committee in exceptional cases.

22. Auditors:

Pursuant to the provision of section 139 of the act and the rules framed thereunder, M/s. K.S.Rao & Co (Firm Registration No. 003109S), Chartered Accountants, were appointed as Statutory Auditors of the company from the conclusion of 28th Annual General Meeting held on 30.09.2014 till the conclusion of 31st Annual General Meeting of the company to be held in the year 2017, subject to ratification of their appointment at every subsequent Annual General Meeting.

23. Secretarial Auditors' Report:

The company has appointed M/s D.Hanumanta Raju & Co, Company Secretaries, Hyderabad as the Secretarial Auditor of the company to undertake audit as per the provisions of section 204 of the Companies Act, 2013 and the report of the secretarial auditor is annexed to this report. Management replies to the observations, comments and qualifications made by the secretarial auditor is as under:

1. *The company has paid accumulated preference dividend out of the current year profits inspite of accumulated losses and has redeemed those preference shares out of current year profits without creating Capital Redemption Reserve.*

The provisions of section 55(3) are not yet enforced by the regulator. As such the company is governed by the provisions of Companies Act, 1956 for redemption of preference shares. As per the said provisions the company was to approach to Company Law Board (CLB) for extension of the time for redemption. However the preference shareholder on request for extension for redemption period have not agreed to co-operate and agree for the same. The company was confident to make higher profits and was considering to redeem the same as per the relevant provisions. Also due to continuous losses the company was unable to create capital redemption reserve.

However due to some inadvertent and unforeseen contingencies the company did not perform as expected. By the time it was crystallised that the company will not be able to redeem as per the provisions, company has lost the time to make an application and get approval of the CLB. As such the Board has discussed the same at length and decided to redeem the same along with cumulative outstanding dividend from the current year profits while ensuring liquidity and working capital requirements of the company are not adversely effected. Also as the shares are not listed on the stock exchange the same was not intimated to the stock exchange.

2. *There was no appointment of Company Secretary.*

The board of directors of the company have discussed in board meeting that the company is required to appoint a Company Secretary as per the provisions of section 203 of the Companies Act 2013, and the relevant rules made thereunder. Also they expressed their inability to find a suitable candidate for the post in spite of continuous efforts made by them. They have discussed the requirement of a good candidate with a few professors and reputed Practising Company Secretaries and Chartered

Accountants known to them and are hoping to find a suitable candidate soon to meet the requirements as per the Act.

3. *The company has not maintained any functional website.*

The company was continuously maintaining the official website i.e www.southernmagnesium.com. However due to some technical problems the website of the company is inactive and the company is under the process of resolving the issue. The company is taking steps to have a fully updated website with all required particulars and has initiated steps in this regard.

4. *The company has received few show cause/penalty notices from Stock Exchange. The company replied to such notices & there is no further communication/ information from Stock Exchange.*

The company has received few show cause notices/ penalty notices from stock exchange. Company replied to such notices and there is no further communication/ information from stock exchange. If any further communication/ information will be required by stock exchange, the same will be relevantly replied and dealt with by the company.

24. Clarifications on Auditors Comments in Auditors Report

Management replies to the observations, comments and qualifications made by the statutory auditor is as under:

1. *Company had paid preference dividend on cumulative preference shares without setting off accumulated losses and depreciation and preference shares are also redeemed despite unavailable profits for distribution of dividends, thereby the Company has not complied with the provisions of Section 55 of the Companies Act 2013.*

The provisions of section 55(3) are not yet enforced by the regulator. As such the company is governed by the provisions of Companies Act, 1956 for redemption of preference shares. As per the said provisions the company was to approach to Company Law Board(CLB) for extension of the time for redemption. However the preference shareholder on request for extension for redemption period have not agreed to co-operate and agree for the same. The company was confident to make higher profits and was considering to redeem the same as per the relevant provisions. Also due to continuous losses the company was unable to create capital redemption reserve.

However due to some inadvertent and unforeseen contingencies the company did not perform as expected. By the time it was crystallised that the company will not be able to redeem as per the provisions, company has lost the time to make an application and get approval of the CLB. As such the Board has discussed the same at length and decided to redeem the same along with cumulative outstanding dividend from the current year profits while ensuring liquidity and working capital requirements of the company are not adversely effected. Also as the shares are not listed on the stock exchange the same was not intimated to the stock exchange.

2. *The Company has not adopted and complied with the requirements of AS-15 'Employee Benefits' in respect of the Gratuity liability, which constitutes a departure from the Accounting standards referred to in section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. 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, income tax and shareholder's funds*

In view of the losses of the company, the board has taken decision to provide for gratuity when it materializes.

3. *We draw attention to Note 21.1 in the financial statements which state that the Company's current liabilities exceeded its current assets by Rs. 56.05 lakhs. Further, as indicated by the Company's Balance Sheet as at March 31, 2015, the net worth of the Company has eroded completely. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.*

Although this net worth of the Company has been eroded, the Company is presently making profits and hopes to come to positive net worth in the coming years.

25. Annual Return:

The extracts of Annual Return pursuant to the provisions of Section 92 read with Rule 12 of the Companies (Management and Administration) Rules, 2014 is furnished in Annexure II and is attached to this Report.

26. Conservation of energy, technology absorption, foreign exchange earnings and outgo:

The information pertaining to conservation of energy, technology absorption, Foreign exchange Earnings and outgo as required under Section 134 (3)(m) of the Companies Act, 2013 read with Rule 8(3) of the Companies (Accounts) Rules, 2014 is as under.

| | | |
|--------------------------------------|----------|--------------------------|
| (A) Conservation of energy | : | NIL |
| (B) Technology absorption | : | Not Applicable |
| (C) Foreign exchange earnings | : | NIL |
| (D) Foreign exchange outgo | : | Rs. 2,06,22,043/- |

27. Acknowledgement:

Your Directors wish to place on record their gratitude to shareholders and thank the customers, bankers, vendors, State and Central Governments Authorities for their continued support to your Company's growth. Your Directors also wish to place on record, their appreciation for the contribution made by the employees at all levels, who, through their competence, sincerity, hard work, solidarity and dedicated support enabled to your company to make continued progress.

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

Place: Hyderabad

Date: 03.08.2015

Sd/-

Mr. Rajender prasad Nuthakki
Jt. Managing Director & CFO
(DIN- 00145659)

Sd/-

Mr. Ravi Prasad Nuthakki
Managing Director & CEO
(DIN- 00319537)

Form No. AOC-2

(Pursuant to *clause (h) of sub-section (3) of section 134 of the Act and Rule 8(2) of the Companies (Accounts) Rules, 2014*)

Form for disclosure of particulars of contracts/arrangements entered into by the company with related parties referred to in sub-section (1) of section 188 of the Companies Act, 2013 including certain arms length transactions under third proviso thereto:

1. Details of contracts or arrangements or transactions at arm's length basis:

The company has not entered into any related party transaction during the year under review.

- (a) Name(s) of the related party and nature of relationship: N.A
- (b) Nature of contracts/arrangements/transactions: N.A.
- (c) Duration of the contracts / arrangements/transactions: N.A
- (d) Salient terms of the contracts or arrangements or transactions including the value, if any: N.A
- (e) Date(s) of approval by the Board, if any: N.A
- (f) Amount paid as advances, if any: N.A

2. Details of material contracts or arrangement or transactions not at arm's length basis:

- (g) Name(s) of the related party and nature of relationship: N.A
- (h) Nature of contracts/arrangements/transactions: N.A
- (i) Duration of the contracts / arrangements/transactions: N.A
- (j) Salient terms of the contracts or arrangements or transactions including the value, if any: N.A
- (k) Date(s) of approval by the Board, if any: N.A
- (l) Amount paid as advances, if any: N.A

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

Place: Hyderabad
Date: 03.08.2015

Sd/-
Mr. Rajender prasad Nuthakki
Jt. Managing Director & CFO
(DIN- 00145659)

Sd/-
Mr. Ravi Prasad Nuthakki
Managing Director & CEO
(DIN- 00319537)

Form No. MGT-9
EXTRACT OF ANNUAL RETURN
As on the financial year ended on 31.03.2015
of
SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

[Pursuant to Section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014]

I. REGISTRATION AND OTHER DETAILS:

- i) CIN : L27109TG1985PLC005303
- ii) Registration Date : 13/02/1985
- iii) Name of the Company : Southern Magnesium and Chemicals Limited
- iv) Category / Sub Category of the Company : Public company having share capital.
- v) Address of the Registered office and contact details : Deccan Chambers, 5th Floor, 6-3-666/B, Somajiguda, Hyderabad, Telangana -500 082
- vi) Whether listed company (Yes / No): - Yes
- vii) Name, Address and Contact details of Registrar and Transfer Agent, if any :
Aarthi Consultants Pvt. Ltd, 1-2-285, Domalguda, Hyderabad – 500 029
Tel : 040 - 27638111, 27634445,27642217.

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing 10 % or more of the total turnover of the company shall be stated:-

| Sl. No. | Name and Description of main products / services | NIC Code of the Product / service | % to total turnover of the company |
|---------|--|-----------------------------------|------------------------------------|
| 1. | Magnesium Metal | 8104 | 100% |

III. PARTICULARS OF HOLDING SUBSIDIARY AND ASSOCIATE COMPANIES :

| Sl. | Name and Address of the company | CIN / GLN | Holding Subsidiary/ Associate | % of shares held | Applicable section |
|-----|---------------------------------|-------------------------------|-------------------------------|------------------|--|
| 1. | Southern Electrodes Limited | U31908TG 1963PLC0 0091 | Associate | 0 | Section 2(6) of the companies Act 2013 |
| 2. | Pumps India Private Limited | U29120TG 1966PTC0 01131 | Associate | 0 | Section 2(6) of the companies Act 2013 |

IV. SHARE HOLDING PATTERN (Equity Share Capital Breakup as percentage of Total Equity)

i) Category-wise Share Holding:

| Category of Shareholders | No. of Shares held at the beginning of the year(01.04.2014) | | | | No. of Shares held at the end of the year (31.03.2015) | | | | % of Change during the year |
|--|---|----------|---------|-------------------|--|----------|---------|-------------------|-----------------------------|
| | Demat | Physical | Total | % of Total Shares | Demat | Physical | Total | % of Total Shares | |
| (A) Promoters | | | | | | | | | |
| (1) Indian | | | | | | | | | |
| (a) Individual/HUF | 1116142 | 507658 | 1623800 | 54.13 | 1116142 | 507658 | 1623800 | 54.13 | 0 |
| (b) Central Govt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (c) State Govt (s) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (d) Bodies Corp. | 0 | 75000 | 75000 | 2.50 | 0 | 75000 | 75000 | 2.50 | 0 |
| (e) Banks / FI | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (f) Any Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sub-Total (A) (1) | 1116142 | 582658 | 1698800 | 56.63 | 1116142 | 582658 | 1698800 | 56.63 | 0 |
| (1) Foreign | | | | | | | | | |
| (a) NRIs - Individuals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (b) Other - Individuals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (c) Bodies Corp. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (d) Banks / FI | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (e) Any Other.... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sub-Total (A) (2) | 1116142 | 582658 | 1698800 | 56.63 | 1116142 | 582658 | 1698800 | 56.63 | 0 |
| Total Shareholding of Promoter(A) = (A) (1) + (A) (2) | 1116142 | 582658 | 1698800 | 56.63 | 1116142 | 582658 | 1698800 | 56.63 | 0 |
| (B) Public Shareholding | | | | | | | | | |
| (1) Institutions | | | | | | | | | |
| (a) Mutual Funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (b) Banks/FI | 100000 | 0 | 0 | 3.33 | 100000 | 0 | 0 | 3.33 | 0 |
| (c) Central Govt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (d) State Govt (s) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (e) Venture Capital funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (f) Insurance Companies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (g) FII's | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (h) Foreign Venture Capital Funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (i) Others (Specify) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sub-Total (B)(1) | 1100000 | 0 | 0 | 3.33 | 100000 | 0 | 0 | 3.33 | 0 |

| Category of Shareholders | No. of Shares held at the beginning of the year(01.04.2014) | | | | No. of Shares held at the end of the year (31.03.2015) | | | | % of Change during the year |
|--|---|----------|---------|-------------------|--|----------|---------|-------------------|-----------------------------|
| | Demat | Physical | Total | % of Total Shares | Demat | Physical | Total | % of Total Shares | |
| (2) Non- Institutions | | | | | | | | | |
| (a) Bodies Corp | | | | | | | | | |
| i. Indian | 100 | 339900 | 340000 | 11.33 | 600 | 3399000 | 340500 | 11.35 | 002 |
| ii. Overseas | | | | | | | | | |
| (a) Individuals | | | | | | | | | |
| i. Individual shareholders holding nominal share capital up toRs. 1 lakh | 3000 | 725800 | 728800 | 24.29 | 8500 | 719600 | 728100 | 24.27 | -0.02 |
| ii. Individual shareholders holding nominal share capital in excess of Rs 1 lakh | 0 | 132400 | 132400 | 4.41 | 0 | 132400 | 132400 | 4.41 | 0 |
| (C) Others (Specify) (Clearing Members) | 0 | 0 | 0 | 0 | 200 | 0 | 200 | 0.01 | 0.01 |
| Sub-Total (B)(2) | 3100 | 1198100 | 1201200 | 40.04 | 9300 | 1191900 | 1201200 | 40.04 | 0 |
| Total Shareholding of Public= (B) (1) + (B) (2) | 103100 | 1198100 | 1301200 | 43.37 | 109300 | 1191900 | 1301200 | 43.37 | 0 |
| C. Shares held by custodian for GDRs & ADRs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Grand Total(A+B+C) | 1219242 | 1780758 | 3000000 | 100 | 1225442 | 1774558 | 3000000 | 100 | 0 |

(ii) Shareholding of Promoters:

| S. No. | Shareholders during Name | Shareholding at the beginning of the year | | | Shareholding at the end of the year | | | % of Change the Year |
|--------|-----------------------------------|---|----------------------------------|---|-------------------------------------|----------------------------------|---|----------------------|
| | | No. of Shares | % of total Shares of the company | % of Pledged/encumbered to total shares | No. of Shares | % of total Shares of the Company | % of Pledged encumbered to total shares | |
| 1. | Ms.Urmi Prasad | 6,200 | 0.21 | 0 | 6,200 | 0.21 | 0 | 0 |
| 2. | Ms. Anantha Lakshmi. N. | 2,33,998 | 7.80 | 0 | 2,33,998 | 7.80 | 0 | 0 |
| 3. | Mr.Ravi Prasad Nuthakki | 3,88,148 | 12.94 | 0 | 3,88,148 | 12.94 | 0 | 0 |
| 4. | Mr.N.Rajender Prasad | 2,48,498 | 8.28 | 0 | 2,48,398 | 8.28 | 0 | 0 |
| 5. | Ms.N.Naga Ratna | 64,100 | 2.14 | 0 | 64,100 | 2.14 | 0 | 0 |
| 6. | Mr.Ram Prasad Nuthakki | 1,80,298 | 6.01 | 0 | 18,0298 | 6.01 | 0 | 0 |
| 7. | Ms.N.Rama Parvati | 32,100 | 1.07 | 0 | 32,100 | 1.07 | 0 | 0 |
| 8. | Mr.Satyanarayana Nandigam | 1,800 | 0.06 | 0 | 1,800 | 0.06 | 0 | 0 |
| 9. | Mr.Srinivasa Rao Vuppuluri | 1,700 | 0.06 | 0 | 1,700 | 0.06 | 0 | 0 |
| 10. | Mr. Haranadh Katragadda | 1,800 | 0.06 | 0 | 1,800 | 0.06 | 0 | 0 |
| 11. | Mr.Rambabu Mullapudi | 2,000 | 0.07 | 0 | 2,000 | 0.07 | 0 | 0 |
| 12. | Venkata Seshagiri Rao Devulapalli | 1,800 | 0.06 | 0 | 1,800 | 0.06 | 0 | 0 |
| 13. | Mr.Ratnam Bodapati | 1,800 | 0.06 | 0 | 1,800 | 0.06 | 0 | 0 |
| 14. | Mr.Ranga Prasad | 2,59,298 | 8.64 | 0 | 2,59,298 | 8.64 | 0 | 0 |
| 15. | A.Subhadra | 3,000 | 0.10 | 0 | 3000 | 0.10 | 0 | 0 |
| 16. | GPL Finance and Investments Ltd | 75,000 | 2.50 | 0 | 75000 | 2.50 | 0 | 0 |
| 17. | RV Mulla Pudi | 62,500 | 2.08 | 0 | 62500 | 2.08 | 0 | 0 |
| 18. | P V Krishna Rao | 10,000 | 0.33 | 0 | 10000 | 0.33 | 0 | 0 |
| 19. | P.Narendra Nath Chowdary | 20,000 | 0.67 | 0 | 20000 | 0.67 | 0 | 0 |
| 20. | P S R V K Ranga Rao | 10000 | 0.33 | 0 | 10000 | 0.33 | 0 | 0 |
| 21. | P.Sujatha | 10,000 | 0.33 | 0 | 10000 | 0.33 | 0 | 0 |
| 22. | P.A.Ramaiah | 20,000 | 0.67 | 0 | 20000 | 0.67 | 0 | 0 |
| 23. | P.V.Raidu | 5,000 | 0.17 | 0 | 5000 | 0.17 | 0 | 0 |
| 24. | P.Ravi | 5,000 | 0.17 | 0 | 5000 | 0.17 | 0 | 0 |
| 25. | N.B.Prasad | 2,500 | 0.08 | 0 | 2500 | 0.08 | 0 | 0 |
| 26. | S.Satya Narayana Murthy | 2,500 | 0.08 | 0 | 2500 | 0.08 | 0 | 0 |
| 27. | Raghu V Batta | 49,760 | 1.66 | 0 | 49760 | 1.66 | 0 | 0 |

(iii) Change in Promoters' Shareholding (please specify, if there is no change):

| S. No | Particulars | Shareholding at the beginning of the year | | Cumulative Shareholding during the year | |
|-------|-----------------------------------|---|----------------------------------|---|----------------------------------|
| | | No. of shares | % of total shares of the company | No. of shares | % of total shares of the company |
| 1. | Ms.Urmi Prasad | 6,200 | 0.21 | 6,200 | 0.21 |
| 2. | Ms. Anantha Lakshmi. N. | 2,33,998 | 7.80 | 2,33,998 | 7.80 |
| 3. | Mr.Ravi Prasad Nuthakki | 3,88,148 | 12.94 | 3,88,148 | 12.94 |
| 4. | Ms.N.Rajender Prasad | 2,48,498 | 8.28 | 2,48,498 | 8.28 |
| 5. | Ms.N.Naga Ratna | 64,100 | 2.14 | 64,100 | 2.14 |
| 6. | Mr.Ram Prasad Nuthakki | 1,80,298 | 6.01 | 1,80,298 | 6.01 |
| 7. | Ms.N.Rama Parvati | 32,100 | 1.07 | 32,100 | 1.07 |
| 8. | Mr.Satyanarayana Nandigam | 1,800 | 0.06 | 1,800 | 0.06 |
| 9. | Mr.Srinivasa Rao Vuppuluri | 1,700 | 0.06 | 1,700 | 0.06 |
| 10. | Mr. Haranadh Katragadda | 1,800 | 0.06 | 1,800 | 0.06 |
| 11. | Mr.Rambabu Mullapudi | 2,000 | 0.07 | 2,000 | 0.07 |
| 12. | Venkata Seshagiri Rao Devulapalli | 1,800 | 0.06 | 1,800 | 0.06 |
| 13. | Mr.Ratnam Bodapati | 1,800 | 0.06 | 1,800 | 0.06 |
| 14. | Mr.Ranga Prasad | 2,59,298 | 8.64 | 2,59,298 | 8.64 |
| 15. | A.Subhadra | 3,000 | 0.10 | 3,000 | 0.10 |
| 16. | GPL Finance and Investments Ltd | 75,000 | 2.50 | 75,000 | 2.50 |
| 17. | RV Mulla Pudi | 62,500 | 2.08 | 62,500 | 2.08 |
| 18. | P V Krishna Rao | 10,000 | 0.33 | 10,000 | 0.33 |
| 19. | P.Narendra Nath Chowdary | 20,000 | 0.67 | 20,000 | 0.67 |
| 20. | P S R V K Ranga Rao | 10,000 | 0.33 | 10,000 | 0.33 |
| 21. | P.Sujatha | 10,000 | 0.33 | 10,000 | 0.33 |
| 22. | P.A.Ramaiah | 20,000 | 0.67 | 20,000 | 0.67 |
| 23. | P.V.Raidu | 5,000 | 0.17 | 5,000 | 0.17 |
| 24. | P.Ravi | 5,000 | 0.17 | 5,000 | 0.17 |
| 25. | N.B.Prasad | 2,500 | 0.08 | 2,500 | 0.08 |
| 26. | S.Satya Narayana Murthy | 2,500 | 0.08 | 2,500 | 0.08 |
| 27. | Raghu V Batta | 49,760 | 1.66 | 49,760 | 1.66 |

(iv) Shareholding Pattern of top ten Shareholders (other than Directors, Promoters and Holders of GDRs and ADRs):

| S.No | For Each of the Top 10 Shareholders | Shareholding at the beginning of the year | | Cumulative Shareholding during the year | |
|------|---|---|----------------------------------|---|----------------------------------|
| | | No. of shares | of total % shares of the company | No. of shares | % of total shares of the company |
| 1. | Andhra Pradesh Industrial Development Corporation | 337500 | 11.25 | 337500 | 11.25 |
| 2. | ICICI Bank Ltd | 100000 | 3.33 | 100000 | 3.33 |
| 3. | G. Lakshmi | 38000 | 1.26 | 38000 | 1.26 |
| 4. | D. Srinivas | 20000 | 0.66 | 20000 | 0.66 |
| 5. | J. Ashok Rao | 18000 | 0.60 | 18000 | 0.60 |
| 6. | Surender Reddy | 16200 | 0.54 | 16200 | 0.54 |
| 7. | Ashwini Kedia | 15000 | 0.50 | 15000 | 0.50 |
| 8. | Mohan Rao | 13000 | 0.43 | 13000 | 0.43 |
| 9. | GVR Raju | 12200 | 0.40 | 12200 | 0.40 |
| 10. | Md. Noushad Ali | 10000 | 0.33 | 10000 | 0.33 |

(v) Shareholding of Directors and Key Managerial Personnel:

| S.No | Name of the Directors and KMP for each of the Directors and KMP | Shareholding at the beginning of the year | | Cumulative Shareholding during the year | |
|------|---|---|----------------------------------|---|----------------------------------|
| | | No. of shares | of total % shares of the company | No. of shares | % of total shares of the company |
| 1 | N.Ravi Prasad | 388148 | 12.94 | 388148 | 12.94 |
| 2 | N.Rajender Prasad | 248498 | 8.28 | 248498 | 8.28 |
| 3 | Raghavendra Rao Griddalur | 0 | 0 | 0 | 0 |
| 4 | Chilukuri Mariamma | 0 | 0 | 0 | 0 |
| 5 | SS.Prakash Valluru | 0 | 0 | 0 | 0 |
| 6 | Eshwariah Kaparathi | 0 | 0 | 0 | 0 |

V. INDEBTEDNESS:

Indebtedness of the Company including interest outstanding/accrued but not due for payment

| | Secured Loans excluding deposits | Unsecured Loans | Deposits | Total Indebtedness |
|--|-------------------------------------|--------------------|----------|-----------------------|
| Indebtedness at the beginning of the financial year | | | | |
| i) Principal Amount | | 9,50,000 | | 9,50,000 |
| ii) Interest due but not paid | | 0 | | 0 |
| iii) Interest accrued but not due | | 0 | | 0 |
| Total (i+ii+iii) | | 9,50,000 | | 9,50,000 |
| Change in Indebtedness during the financial year | | | | |
| Addition | | 2,72,46,133 | | 2,72,46,133 |
| Reduction | | 83,65,000 | | 83,65,000 |
| Net Change | | 1,88,81,133 | | 1,88,81,133 |
| Indebtedness at the end of the financial year | | | | |
| i) Principal Amount | | 1,98,31,133 | | 1,98,31,133 |
| ii) Interest due but not paid | | 0 | | 0 |
| iii) Interest accrued but not due | | 0 | | 0 |
| Total (i+ii+iii) | | 1,98,31,133 | | 1,98,31,133 |

VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL:
A. Remuneration to Managing Director, Whole-time Directors and/or Manager:

| S.No | Particulars of Amount Remuneration | Name of MD/WTD/Manager | | | | Total |
|------|---|-------------------------|--|-----------------------------|--|-----------|
| | | Managing Director & CEO | | Jt. Managing Director & CFO | | |
| | | N. Ravi Prasad | | N. Rajender Prasad | | |
| 1 | Gross salary | | | | | |
| (a) | Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 | 10,20,000 | | 10,20,000 | | 20,40,000 |
| (b) | Value of perquisites u/s 17(2) Income-tax Act, 1961 | 2,14,199 | | 1,77,502 | | 3,91,701 |
| (c) | Profits in lieu of salary under section 17(3) Income-tax Act, 1961 | 0 | | 0 | | 0 |
| 2 | Stock Option | 0 | | 0 | | 0 |
| 3 | Sweat Equity | 0 | | 0 | | 0 |
| 4 | Commission - as % of profit - others, specify... | 0 | | 0 | | 0 |
| 5 | Others, please specify | 0 | | 0 | | 0 |
| | Total (A) | 12,34,199 | | 11,97,502 | | 24,31,701 |
| | Ceiling as per the Act | 16,84,251 | | 16,84,251 | | 37,05,352 |

B. Remuneration to other Directors:

| S.No | Particulars of Remuneration | Name of Directors | | | Total Amount |
|------|--|-------------------|--|----------------|--------------|
| | | K. Eshwaraiah | | Smt. Mariyamma | |
| | 1. Independent Directors • Fee for attending board / committee meetings • Commission • Others, please specify | 1750 | | 500 | 2250 |
| | Total (1) | 1750 | | 500 | 2250 |
| | 2. Other Non-Executive Directors • Fee for attending board / committee meetings • Commission • Others, please specify | 0 | | 0 | 0 |
| | Total (2) | 0 | | 0 | 0 |
| | Total (B) = (1)+(2) | 1750 | | 500 | 2250 |
| | Total Managerial Remuneration | | | | |
| | Overall Ceiling as per the Act | | | | |

C. Remuneration to other Directors key managerial personnel other than MD/MANAGER/WTD: *

| S.No | Particulars of Remuneration | Key Managerial Personnel | | | |
|----------|---|--------------------------|----|-----|-------|
| | | CEO | CS | CFO | Total |
| 1 | Gross Salary | | | | |
| (a) | Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 | 0 | 0 | 0 | 0 |
| (b) | Value of perquisites u/s 17(2) Income-tax Act, 1961 | 0 | 0 | 0 | 0 |
| (c) | Profits in lieu of salary under section 17(3) Income-tax Act, 1961 | 0 | 0 | 0 | 0 |
| 2 | Stock Option | 0 | 0 | 0 | 0 |
| 3 | Sweat Equity | 0 | 0 | 0 | 0 |
| 4 | Commission- as % of profit- others, specify... | 0 | 0 | 0 | 0 |
| 5 | Others, please specify | 0 | 0 | 0 | 0 |
| | Total (A) | 0 | 0 | 0 | 0 |

* As disclosed under VI - A

VII. PENALTIES / PUNISHMENT/ COMPOUNDING OF OFFENCES: NIL

| Type Act | Section of theCompanies | Brief Description | Details of Penalty / Punishment/ Compounding fees imposed | Authority [RD /NCLT/ COURT] | Appeal made, if any(give Details) |
|---|----------------------------|----------------------|---|-----------------------------------|--------------------------------------|
| A. COMPANY Penalty | NIL | NIL | NIL | NIL | NIL |
| Punishment | NIL | NIL | NIL | NIL | NIL |
| Compounding | NIL | NIL | NIL | NIL | NIL |
| B. DIRECTORS Penalty | NIL | NIL | NIL | NIL | NIL |
| Punishment | NIL | NIL | NIL | NIL | NIL |
| Compounding | NIL | NIL | NIL | NIL | NIL |
| C. OTHER OFFICERS IN DEFAULT | | | | | |
| A. COMPANY Penalty | NIL | NIL | NIL | NIL | NIL |
| Punishment | NIL | NIL | NIL | NIL | NIL |
| Compounding | NIL | NIL | NIL | NIL | NIL |

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

Place: Hyderabad
Date: 03.08.2015

Sd/-
Mr. Rajender prasad Nuthakki
Jt. Managing Director & CFO
(DIN- 00145659)

Sd/-
Mr. Ravi Prasad Nuthakki
Managing Director & CEO
(DIN- 00319537)

Form No. MR-3
SECRETARIAL AUDIT REPORT

FOR THE FINANCIAL YEAR ENDED 31.03.2015

*[Pursuant to section 204(1) of the Companies Act, 2013 and rule No.9 of the Companies
(Appointment and Remuneration Personnel) Rules, 2014]*

To,
The Members,
SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

We have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by **Southern Magnesium And Chemicals Limited** (hereinafter called the company). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing our opinion thereon.

Based on our verification of the company's books, papers, minute books, forms and returns filed and other records maintained by the company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, we hereby report that in our opinion, the company has, during the audit period covering the financial year ended on March 31, 2015, complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

We have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on March 31, 2015, according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the rules made thereunder;
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings .(Not applicable to the Company during the period of audit);
- (v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
 - (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
 - (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
 - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;
 - (d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (Not applicable to the Company during the period of audit);
 - (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 (Not applicable to the Company during the period of audit);
 - (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
 - (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 ;(Not applicable to the Company during the period of audit); and
 - (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998;(Not applicable to the Company during the period of audit)
- (vi) Other Laws applicable to the company as per the representations made by the management.

We have also examined compliance with the applicable clauses of the following:

- (i) Secretarial Standards issued by The Institute of Company Secretaries of India.(Not notified by the Central Government hence not applicable to the Company during the period of audit)
- (ii) The Listing Agreements entered into by the Company with BSE Limited.

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above except as under :-

1. The company has paid accumulated preference dividend out of the current year profits inspite of accumulated losses and has redeemed those preference shares out of current year profits without creating Capital Redemption Reserve.

2. There was no appointment of Company Secretary.
3. The company has not maintained any functional website.
4. The company has received few show cause/ penalty notices from Stock Exchange. The company replied to such notices & there is no further communication/ information from Stock Exchange.

We further report that

The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. There were no changes in the composition of the Board of Directors that took place during the period under review.

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

Decisions at the Board Meetings are carried out unanimously as recorded in the Minutes.

We further report that there are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

We further report that during the audit period the company has no specific events / actions having a major bearing on the company's affairs in pursuance of the above referred laws, rules, regulations, guidelines, standards, etc. referred to above.

**For D.HANUMANTA RAJU & CO
COMPANY SECRETARIES**

Sd/-

**CS MOHIT KUMAR GOYAL
PARTNER**

ACS: 32655, CP NO: 12751

**Place: Hyderabad
Date : 03.08.2015**

This report is to be read with our letter of even date which is annexed as **Annexure A** and forms an integral part of this report.

'Annexure A'

To,
The Members.

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

Our report of even Date is to be read along with this letter

1. Maintenance of secretarial record is the responsibility of the management of the company. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the secretarial records. The verification was done on test basis to ensure that correct facts are reflected in secretarial records. We believe that the processes and practices, we followed provide a reasonable basis for our opinion.
3. We have not verified the correctness and appropriateness of financial records and Books of Accounts of the Company.
4. Where ever required, we have obtained the Management Representation about the compliance of laws, rules and regulations and happening of events etc.
5. The compliance of the provisions of Corporate and other applicable laws, rules, regulations, standards is the responsibility of management. Our examination was limited to the verification of procedures on test basis.
6. The Secretarial Audit report is neither an assurance as to the future viability of the company nor of the efficacy or effectiveness and with which the management has conducted the affairs of the company.

**For D.HANUMANTA RAJU & CO
COMPANY SECRETARIES**

Sd/-

**CS MOHIT KUMAR GOYAL
PARTNER**

ACS: 32655, CP NO: 12751

**Place: Hyderabad
Date : 03.08.2015**

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was set up to produce primary Magnesium Metal. However due to dumping magnesium metal from China we had to shift on focus to downstream products. Today we largely produce magnesium powders, turnings, and also regular magnesium metal ingots.

OPPORTUNITIES, RISKS, CONCERNS THREATS & OUTLOOK:

We are focused on increasing our market share of existing, products, and building strong relationship with our customers, there by laying a robust foundation for sustainable growth.

The year 2015-16 looks promising with its own sets of challenges and opportunities for us. It is hoped that we will maintain revenue and profitability of the company as in the previous year.

However due to a weaker rupee there is increasing threat of raw material cost increment and steep increase in imports into the country poses a major challenge. However the Board assures its members that the company will ensure timely and appropriate preventive measures to minimize the risks.

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 unauthorized use or disposal. The Internal Audit is 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 31.03.2015 (Rs in lakhs) | As at 31.03.2014 (Rs in lakhs) |
|---|-----------------------------------|-----------------------------------|
| Net Sale and other Income | 546.64 | 175.91 |
| Profit (loss) before Depreciation and interest | 256.24 | 30.68 |
| Depreciation And Interest | 7.65 | 6.99 |
| Net Profit/ (Net loss) | 337.33 | 23.69 |

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 optimize 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.

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

Sd/-

(N. Ravi Prasad)
Managing Director and CEO
(DIN:00319537)

Place : Hyderabad
Date : 03.08.2015

REPORT ON CORPORATE GOVERNANCE

1. Company's philosophy on Corporate Governance:

The Company's philosophy on Corporate Governance is aimed at assisting the management of the Company in the efficient conduct of the business and to meet its obligations to the stakeholders. The Company firmly believes that practice of Corporate Governance inter alia should aim at meeting the aspirations of the stakeholders and the expectations of the society at large. Accordingly, the Company believes in and has consistently practiced good Corporate Governance. In pursuance of this philosophy, the management adheres to transparency, professionalism and accountability in performance of its role.

2. Board of Directors:

Composition and Category of Directors:

The Board of Directors Comprises of 2 Executive Directors and 4 Non-Executive Directors of which 3 are Independent Directors. The Composition of the Board is in conformity with the listing requirements.

The details of the Directors being appointed/ re-appointed on retirement by rotation at the ensuing Annual General Meeting, as required pursuant to Clause 49(IV)(G) of the Listing Agreement, are mentioned in the Directors' Report, forming part of the Annual Report.

The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and the number of Directorships and Committee Chairmanships/ Memberships held by them in other companies is given below. Other Directorships do not include alternate directorships, directorships of the private limited companies, section 8 companies and of companies incorporated outside India. Chairmanship/Membership of board Committees includes only Audit, Stakeholders Relationship and Nomination and remuneration committee.

Pecuniary relationship or transaction of the Non-executive Directors vis-à-vis the company:

None of the Non-executive Directors has any pecuniary relationship or transactions with the company.

Meetings of the Board:

During the Year under review 5 Board Meetings were held on 26.05.2014, 13.08.2014, 11.11.2014, 14.02.2015 and 28.03.2015

The maximum gap between two meetings was less than 120 days as stipulated under the Clause 49 of the Listing Agreement.

Board Meetings/ AGM – Attendance and Directorships / Committee Memberships:

The compositions of the Board of Directors and their attendance at the meeting 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 Attended | No. of Board Meetings A.G.M | Attendance At Last Directorship | No. of Other in other cos. | Committee Memberships |
|---|--------------------------------------|-----------------------------|---------------------------------|----------------------------|-----------------------|
| Mr. N. Ravi Prasad and CEO | Promoter Managing Director | 4 | Yes | 4 | - |
| Mr. N. Rajender Prasad Director and CFO | Promoter Jt. Managing | 5 | Yes | 4 | - |
| Mr. K. Eshwaraiah | Independent Non – Executive Director | 4 | Yes | - | - |
| Mr. Raghavendra Rao Griddalur | Independent Non – Executive Director | 4 | Yes | 1 | - |
| Mr. V. S. S. Prakash | Independent Non – Executive Director | 5 | Yes | - | - |
| Mrs. Mariyamma | Nominee Non – Executive Director | 2 | Yes | 2 | - |

3. Audit Committee:

- I. 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.
- II. The terms of reference of the audit committee are broadly as under.
 - Oversight of the company’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
 - Recommend the appointment, remuneration and terms of appointment of auditors of the company
 - Approval of payment to statutory auditors for any other services rendered by the statutory Auditors.
 - Reviewing, with the management, the annual financial statements and auditors’ report thereon before submission to the Board for approval with particular reference to:
 - Matters required to be included in the director’s responsibility statement to be included in the board’s report in terms of clause (c) of sub section 3 of section 134 of the Act.
 - ◆ Changes, if any, in accounting policies and practices and reasons for the same.
 - ◆ Major accounting entries involving estimates based on the exercise of judgment by management.
 - ◆ Significant adjustments made in financial statements arising out of Audit Findings.
 - ◆ Compliance with listing and other legal requirements relating to financial statements.
 - ◆ Disclosure of any related party transactions.
 - ◆ Qualifications in the draft audit report.
 - Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
 - Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc) the statement of funds utilised for purpose other than those stated in the offer document / prospectus / notice and the report submitted by the

monitoring agency monitoring the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the board to take up the steps in this matter.

- Review and monitor the Auditors' independence and performance, and effectiveness of Audit process.
 - Approval of any subsequent modification of transactions of the company with related parties.
 - Scrutiny of inter corporate loans and investments.
 - Valuation of undertaking or assets of the company, wherever it is necessary.
 - Evaluation of internal financial controls and risk management system.
 - Reviewing with the management performance of statutory and internal Auditors, adequacy of the internal control systems.
 - Reviewing the adequacy of internal audit functions, if any, including the structure of internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
 - Discussion with internal auditors of any significant findings and follow up there on.
 - Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or failure of internal control systems of a material nature and reporting to the matter to the Board.
 - Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post audit discussion to ascertain any area of concern.
 - To look into the reasons for substantial defaults in the payment to Depositors, debenture holders, share holders (in case of non-payment of declared dividends) and creditors.
 - Establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed.
 - To Review the functioning of whistle blower mechanism.
 - Approval of appointments of CFO.
 - The Audit committee may call for the comments of the Auditors' about internal control system, the scope of audit, including the observations of the Auditors' and Review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors' and the management of the company.
 - Carrying out any other function as is mentioned in the terms of reference of the audit committee.
 - Oversee financial reporting controls and process for material subsidiaries.
 - Oversee compliance with legal and regulatory requirements including the code of conduct for the company and its associated companies.
 - To mandatorily review following information.
 - ◆ Management discussion and analysis of the financial condition and results of operations
 - ◆ Statement of significant related party transactions, (as defined by Audit Committee) submitted by the management.
 - ◆ Management letters / letter of internal control weaknesses issued by statutory auditors'
 - ◆ Internal audit reports relating to internal control weaknesses; and
 - ◆ The appointment, removal and terms of remuneration of Chief internal Auditor.
- III. The Audit Committee invites executive, as it considers appropriate (particularly the head of finance function), representatives of the statutory auditors and representatives of the internal auditors to be present at its meetings. The Company Secretary acts as a Secretary to the audit committee.

- IV. The previous Annual General Meeting (AGM) of the Company was held on 30th September, 2014 and was attended by Mr. Mr. G. Raghavendra Rao, Chairman of the Audit Committee.
- V. The Audit Committee comprises of 3 (Three) Independent Directors and 1 (One) Executive Director. The Audit Committee met 4 (Four) times during the year under review on 26.05.2014, 13.08.2014, 11.11.2014 and 14.02.2015

The Composition of Audit Committee and the details of meeting attended are given below:

| Sl. No | Name | Position held in the Committee | Number of meetings attended |
|--------|------------------------|--------------------------------|-----------------------------|
| 1 | Mr. G. Raghavendra Rao | Chairman | 3 |
| 2 | Mr. K. Eshwaraiah | Member | 3 |
| 3 | Mr. V. S. S. Prakash | Member | 4 |
| 4 | Mr. N. Rajender Prasad | Member | 4 |

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

4. Stakeholders' Relationship Committee:

The company had a shareholders / investors grievance committee of directors to look into the redressal of complaints of investors. The nomenclature of the said committee was changed to stakeholders' relationship committee in the light of the provisions of the act and revised clause 49 of the listing agreement. The responsibilities of the committee include:

- to approve share transfers and transmissions and
- to look into the redressal of complaints of investors such as transfer or credit of shares, non receipt of dividend/ notice annual reports etc.
- 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 share holders' queries and grievances. The Committee has been meeting as required to resolve the complaints and replied / resolved to the satisfaction of the investors.

During the year the committee met on 13.08.2014

The Composition of Stakeholders Relationship Committee and the details of meeting attended are given below.

| Sl. No. | Name | Position held in the Committee | Number of meetings attended |
|---------|------------------------|--------------------------------|-----------------------------|
| 1 | Mr. K. Eshwaraiah | Chairman | 1 |
| 2 | Mr. N. Rajender Prasad | Member | 1 |
| 3 | Mr. V.S.S.Prakash | Member | 1 |
| 4 | Mr. G. Raghavendra Rao | Member | 1 |

5. Nomination and remuneration committee:

The terms of reference stipulated by the board of directors to the nomination and Remuneration committee as contained in Clause 49 of the listing agreement and sub-section (1) of Section 178 of companies Act, 2103, are as follows:

- Formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the appointment and remuneration of the directors, key managerial personnel and other employees.

- Formulation of criteria for evaluation of independent Director and the Board.
- Devising a policy on Board diversity
- Identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down and recommend to the Board their appointment and removal. The company shall disclose the remuneration policy and the evaluation criteria its Annual report.

During the year the committee met on 13.08.2014

The Composition of Nomination and remuneration committee is given below.

| S.No. | Name | Position held in the Committee | Number of meetings attended |
|-------|----------------------|--------------------------------|-----------------------------|
| 1 | Mr.G.Raghavendra Rao | Chairman | 1 |
| 2 | Mr.N.Rajender Prasad | Member | 1 |
| 3 | Mr.V.S.S.Prakash | Member | 1 |
| 4 | K. Eshwariah | Member | 1 |

The details of the share holding and salary / perquisites paid to the Managing Director & CEO and Joint Managing Director & CFO for the Financial Year ended 2015 are as under:

| Sl. No. | Name | Salary | Perquisites Medical | Club bills | Provident Fund | Total | No. of Equity Shares held |
|---------|------------------------|-----------|---------------------|------------|----------------|-----------|---------------------------|
| 1 | Mr. N. Ravi Prasad | 10,20,000 | 42,280 | 9,199 | 1,62,720 | 12,34,199 | 388148 |
| 2 | Mr. N. Rajender Prasad | 10,20,000 | 5,182 | 9,600 | 1,62,720 | 11,97,502 | 248498 |

The sitting fees paid for the year 2014-15 to the Board Directors, Audit Committee, Remuneration Committee, Stakeholders' Relationship Committee are as under.

| Name | Sitting Fee |
|---------------------|-------------|
| 1. Mr. K. Eshwariah | 1,750 |
| 2. Smt. Mariamma | 500 |

Performance Evaluation

During the year, the Board adopted a formal mechanism for evaluation its performance and as well as that of its committees and individual directors, including the chairman of the Board. Separate exercise was carried out to evaluate the performance of individual director including the Board, chairman who were evaluated on parameters such as attendance, contribution at the meeting and other wise. The guidelines for evaluation of Board and committee are available at the registered of the company.

Remuneration policy

The nomination and remuneration policy of your company is a comprehensive policy which is competitive, in line with the industry practices and reward good performance of employee of the company. The policy is available at the registered office of the company.

The objectives and Board framework of the remuneration policy is to consider and determine the remuneration based on the fundamental principles of payment for performance, for potential, and for growth and to provide to Key Managerial personnel and Senior Management reward linked directly to their effort, performance, dedication and achievement relating to the company operations.

Your company endeavours to attract, retain, develop and motivate a high performance workforce. Your company follows a compensation mix of fixed and variable pay. Individual performance pay is

determined by the business performance and the performance of the individuals measured through the annual appraisal process.

The remuneration policy of the company for managerial personnel is primarily based on the performance of the company, performance and potential of individual managers, and External competitive environment.

6. Risk management:

The risks faced by the Chemical Industry and the Company along with risk mitigation measures are elaborately discussed in Management Discussion & Analysis forming part of the Annual Report.

7. Details on general body meetings:

The location and time of the last three Annual General Meetings held:

| Financial Year | Date | Time | Location |
|----------------|------------|-----------|--|
| 2013-2014 | 30.09.2014 | 11.30 A.M | Hotel I. K. London, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082 |
| 2012-2013 | 30.09.2013 | 11.30 A.M | Hotel I. K. London, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082 |
| 2011-2012 | 29.09.2012 | 11.30 A.M | Hotel I. K. London, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082 |

Special Resolution Passed at the Last Three AGMs

| Year | 2011-12 | 2012-13 | 2013-14 |
|--------|--|---------|--|
| Items. | 1. Alteration in Article of Association of the company regarding Directors Sitting Fee | Nil | To Appoint of Sri. N.Ravi Prasad as Managing Director and Chief Executive Officer of the Company pursuant to section 203 of the companies Act, 2013 and to enhance his remuneration. |
| | | | To Appoint of Sri. N.Rajender Prasad as Joint Managing Director and Chief Financial Officer of the Company pursuant to section 203 of the Companies Act, 2013 and to enhance his remuneration. |

8. Code of Conduct for Directors and members of senior management:

The Company adopted a Code of Business Conduct and Ethics for its Directors and members of senior management. The Code is available at the registered office of the company. The Managing Director has given a declaration that all the Directors and members of senior management have affirmed compliance with the Code of Conduct.

9. CEO/CFO Certification:

A certificate duly signed by Chairman & Managing Director and CFO relating to financial statements and internal controls and internal control systems for financial reporting as per the format provided in Clause 49 of the Listing Agreement was placed before the Board and was taken on record.

10. Whistle Blower :

The Company has formulated Whistle Blower Policy and established a mechanism for directors and employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the company’s code of conduct or ethics policy. This mechanism provides for adequate safeguards against victimization of director(s)/employee(s) who avail of the mechanism and

also provide for direct access to the Chairman of the Audit Committee in exceptional cases. The Whistle Blower Policy is available at the registered office of the company.

11. Postal Ballot:

No special resolution was passed through postal ballot during the financial year ended March 31, 2015.

Disclosures:

- (a) There were no significant related party transactions that may have potential conflict with the interests of the Company at large.
- (b) In the preparation of financial statements, no treatment materially different from that prescribed in Accounting Standards had been followed.
- (c) There were no penalties or strictures imposed on the Company by the Stock Exchanges or SEBI or any statutory authority on any matter related to capital markets at any time during the last 3 years.
- (d) Managing Director of the Company has furnished the requisite Certificates to the Board of Directors under Clause 49 of the Listing Agreement.

12. Means of communication:

The Quarterly Financial Results and Share Holding Pattern of the Company are furnished to the Stock Exchange and are also published in the newspapers as prescribed in the Listing agreement

13. GENERAL SHARE HOLDERS INFORMATION:

i. Annual General Meeting:

Date & Time : Monday, 30.09.2015 at 11.30 A.M.
 Venue : Hotel I. K. London, 6-3-656, Kapadia Lane,
 Somajiguda, Hyderabad – 500 082

ii. Financial Calendar (Tentative): Financial Year April 2015- to March, 2016

First Quarter Results : 03.08.2015
 Second Quarter Results : 11.11.2015
 Third Quarter Results : 13.02.2016
 Fourth Quarter Results : 30.05.2016

iii. Book Closure Dates : 23.09.2015 to 30.09.2015

iv. Listing on Stock Exchange : BSE Limited

Listing Fees : 2,24,720/- is paid.
Stock Code : For equity shares: BSE: 513498
ISIN No. : For equity shares: - INE308N01012

v. Stock Market Price Data:*

| Month | High | Low | No. of Shares |
|---------------|-------|-------|---------------|
| November 2014 | 12.50 | 12.50 | 100 |
| December 2014 | 15.87 | 13.12 | 1200 |
| January 2015 | 16.60 | 14.35 | 300 |
| February 2015 | 16.60 | 16.60 | 100 |
| March 2015 | 18.25 | 17.40 | 500 |

* The data is available only from November, 2014 till March, 2015 at the BSE website

vi. Registrar and Share Transfer Agents:

Aarathi Consultants Private Limited,
 1-2-285, Domalguda
 Hyderabad-500029
 Ph.Nos.040-27638111/27634445
 Email : info@aarhiconsultants.com

vii. Share Transfer System:

The Physical shares transfers are processed and the share certificates are returned to the shareholders within a maximum period of 15 days from the date of receipt, subject to the document being valid and complete in all respects.

Any transferee who wishes to demat the shares may approach a Depository Participant along with a duly filled Demat Request Form, who shall, on the basis of the Share Certificate, generate a demat request and send the same to the Registrar and Share Transfer Agents (RTA). On receipt, the Depository Registrar confirms the request.

All the requests for dematerialization of shares are processed and the confirmation is given within 21 days on receipt.

vii. Name & Details of Compliance Officer:

Mr. N. Rajender Prasad, Jt. Managing Director and CFO
 Deccan Chambers, 5th Floor, 6-3-666/B,
 Somajiguda, Hyderabad – 500 082
 Ph: 040-23311789
 Fax No: 040-23319871
 Email Id : southernmagnesium@gmail.com

viii. Distribution of Shareholding as on 31st March, 2015:

| No. of Shares | No. of Share Holders | | No of Shares Held | |
|----------------|----------------------|-------|-------------------|-------|
| | Nos. | % | Nos | % |
| 1 - 5000 | 3777 | 95.23 | 522300 | 17.41 |
| 5001 - 10000 | 85 | 2.14 | 67200 | 2.24 |
| 10001 - 20000 | 39 | 0.98 | 59600 | 1.99 |
| 20001 - 30000 | 29 | 0.73 | 73200 | 2.44 |
| 30001 - 40000 | 2 | 0.05 | 7500 | 0.25 |
| 40001 - 50000 | 4 | 0.1 | 19300 | 0.64 |
| 50001 - 100000 | 7 | 0.18 | 64200 | 2.14 |
| 100001 & Above | 23 | 0.58 | 2186700 | 72.89 |
| Total | 3966 | 100 | 3000000 | 100 |

ix. Shareholding pattern as on 31st March, 2015:

| Particulars | Category | No. of shares held | Percentage of shareholding |
|-------------|---|--------------------|----------------------------|
| A | Shareholding of Promoter and promoter group | 1698800 | 56.63 |
| 1. | Promoters & Persons acting in concert | 0 | 0 |
| | Sub- Total A | 1698800 | 56.63 |
| B | Public Shareholding | | |
| 1. | Institutions | 98000 | 3.27 |
| 2. | Non- Institutions | 0 | 0 |
| a) | Bodies Corporate | 340800 | 11.36 |
| b) | Indian public and others | 862400 | 28.74 |
| c) | Any others | 0 | 0 |
| | i) NRI's | 0 | 0 |
| | ii) Clearing Members | 0 | 0 |
| | Sub Total B | 1301200 | 43.37 |
| | Grand Total (A+B) | 3000000 | 100.00 |

x. Dematerialization of Shares and Liquidity:

The Company has obtained demat connectivity with CDSL and the ISIN is INE308N01012. All the shareholders are requested to contact Registrars and Share transfer Agents at the above mentioned address for Dematerialization of shares.

xi. Address for Investor correspondences:

Mr. N. Rajender Prasad, Jt. Managing Director and CFO
 Deccan Chambers, 5th Floor, 6-3-666/B,
 Somajiguda, Hyderabad – 500 082
 Ph: 040-23311789
 Fax No: 040-23319871
 Email Id: southernmagnesium@gmail.com

Declaration by Managing Director of affirmation by directors and senior management personnel of compliance with the code of conduct:

To,
 The shareholders

I, N. Ravi Prasad, 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
Southern Magnesium and Chemicals Limited

Sd/-

Place: Hyderabad
 Date: 03.08.2015

(N.Ravi Prasad)
 Managing Director and CEO
 (DIN:00319537)

MANAGING DIRECTOR CERTIFICATE

Dear Share Holders,

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 on our knowledge and belief :
 - (a) These have reviewed the financial statements for the year that to the best of our knowledge and belief :
 - (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 worked 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 appraised 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
Southern Magnesium and Chemicals Limited**

Place: Hyderabad

Date: 03.08.2015

**Sd/-
(N. Ravi Prasad)
Managing Director & CEO
(DIN- 00319537)**

CERTIFICATE ON 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, 2015, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchange.

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.

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 **D. HANUMANTA RAJU & CO.**
Company Secretaries

Place: Hyderabad
Date: 03-08-2015

Sd/-
CS MOHIT KUMAR GOYAL
Partner
ACS : 32655, CP NO : 12751

INDEPENDENT AUDITOR'S REPORT**To The Members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****Report on the Standalone Financial Statements**

1. We have audited the accompanying standalone financial statements of **SOUTHERN MAGNESIUM AND CHEMICALS LIMITED, HYDERABAD, TELANGANA** ("The Company"), which comprise the Balance Sheet as at 31st March 2015, the Statement of Profit and Loss, Cash flow statement for the year then ended and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Standalone Financial Statements

2. The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act 2013 ("the Act") with respect to the preparation and presentation of these standalone financial Statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these standalone financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and Matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under.
4. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.
6. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the standalone financial statements.

Basis for Qualified Opinion

7. *Company had paid preference dividend on cumulative preference shares without setting off accumulated losses and depreciation and preference shares are also redeemed despite unavailable profits for distribution of dividends, thereby the Company has not complied with the provisions of Section 55 of the Companies Act 2013.*
8. *The Company has not adopted and complied with the requirements of AS-15 'Employee Benefits' in respect of the Gratuity liability, which constitutes a departure from the Accounting standards referred to in section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. 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, income tax and shareholder's funds

Qualified Opinion

9. In our opinion and to the best of our information and according to the explanations given to us , except for the effects of the matter described in the Basis for Qualified Opinion Paragraph, the standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India , *of the state of affairs of the Company as at 31 March 2015 and its profit and its cash flows for the year ended on that date.*

Emphasis of matter

10. *We draw attention to Note 21.1 in the financial statements which state that the Company's current liabilities exceeded its current assets by Rs. 56.05 lakhs. Further, as indicated by the Company's Balance Sheet as at March 31, 2015, the net worth of the Company has eroded completely. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.*

Report on Other Legal and Regulatory Requirements

11. As required by the Companies(Auditor's Report) Order 2015 ("the Order") issued by the Central Government of India in terms of sub-section(11) of section 143 of the Act, we give in the Annexure, a statement on the matters specified in paragraphs 3 and 4 of the Order , to the extent applicable.
12. As required by Section 143 (3) of the Act, we report that:
- (a) we have sought and 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 it appears from our examination of those books;
 - (c) the Balance Sheet, the Statement of Profit and Loss and Cash Flow statement dealt with by this report are in agreement with the books of account;
 - (d) *except for the matter described under the basis for qualified opinion paragraph, in our opinion, the Balance sheet, Statement of Profit and Loss, and Cash flow Statement comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules 2014.*
 - (e) on the basis of the written representations received from the directors as on 31st March 2015 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March 2015 from being appointed as a director in terms of Section 164 (2) of the Act and;
 - (f) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. the Company does not have any pending litigations which would impact its financial position
 - ii. the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
 - iii. there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

For K.S.RAO & Co
Chartered Accountants
Firm's Regn. No.003109S

Sd/-
(P.GOVARDHANA REDDY)
Partner
Membership No. 029193

Place : HYDERABAD
Date : 30.05.2015.

ANNEXURE REFERRED TO PARAGRAPH 11 OF OUR REPORT OF EVEN DATE

Statement on the Companies (Auditor's Report) Order, 2015

- 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 and no material discrepancies were noticed on such verification.
- 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) The Company has not granted any loans, secured or unsecured to/from Companies, firms or other parties covered in the register maintained under Section 189 of the Companies Act, 2013.
- (b) In view of our comment in clause iii (a) above, clause iii (b), of paragraph 3 of the aforesaid Order are not applicable to the Company.
- iv) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business.
- v) The Company has not accepted deposits from the public. Hence the provisions of Sections 73 to 76 and other relevant provisions of the Companies Act, 2013 and the Companies (Acceptance of Deposits) Rules, 2014 are not applicable to the Company.
- vi) In view of the present activity carried on by the company the Para 3(vi) of the said Order with respect to cost records is not applicable.
- vii) a) According to the records, the Company is regular in depositing with appropriate authorities undisputed statutory dues like Income-tax, Service tax and other statutory dues applicable to it.
- b) According to the information and explanations given to us, no undisputed amounts payable in respect of Income-tax, Wealth tax, Service tax, Sales tax and Cess were in arrears, as at 31st March, 2015 for a period of more than six months from the date they became payable.
- c) In our opinion and according to the information and explanations given to us, there are no dues of Sales tax, Income-tax, Wealth tax, Service tax and Cess which have not been deposited on account of any dispute.
- viii) The Company has no accumulated losses at the end of the financial year under report and the Company has not incurred any cash losses in the financial year and in the immediately preceding financial year.
- ix) According to the information and explanations given to us, the Company has not availed any loans from financial institutions or banks.
- x) In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- xi) The company has not availed any term loans. Accordingly the provisions of Para 3(xi) of the above referred order are not applicable to the Company.
- xii) Based upon the audit procedures performed and according to the information and explanations given to us, we report that no fraud on or by the Company has been noticed or reported during the year.

For K.S.RAO & Co
Chartered Accountants
Firm's Regn. No.003109S

Sd/-
(P.GOVARDHANA REDDY)
Partner
Membership No. 029193

Place : HYDERABAD
Date : 30.05.2015.

BALANCE SHEET AS AT 31ST MARCH, 2015

(All amounts are in rupees)

| Particulars | Note No. | As at 31 March 2015 | As at 31 March 2014 |
|--|----------|------------------------|------------------------|
| I Equity and Liabilities | | | |
| Shareholders' funds | | | |
| (a) Share capital | 2 | 30,000,000 | 40,000,000 |
| (b) Reserves and surplus | 3 | (33,365,660) | (56,871,530) |
| | | (33,65,660) | (16,871,530) |
| Non - Current liabilities (Net) | | 8,39,532 | - |
| Current liabilities | | | |
| (a) Short-term borrowings | 4 | 23,391,133 | 19,611,837 |
| (b) Trade payables | | - | 214,312 |
| (c) Other current liabilities | 5 | 2,254,057 | 11,634,641 |
| (d) Short-term provisions | 6 | 6,53,112 | 170,560 |
| | | 26,298,302 | 31,631,350 |
| Total | | 23,772,174 | 14,759,820 |
| II Assets | | | |
| (1) Non-current assets | | | |
| Fixed assets | 7 | | |
| (i) Tangible assets | | 3,361,269 | 3,675,221 |
| (ii) Intangible assets | | - | - |
| | | 3,361,269 | 3,675,221 |
| Non Current Investments | | | |
| (i) Investment property | | - | 1,05,000 |
| (2) Current assets | | | |
| (a) Inventories | 8 | 7,927,707 | 5,297,846 |
| (b) Trade receivables | 9 | 8,148,962 | 4,702,792 |
| (c) Cash and cash equivalents | 10 | 2,841,590 | 681,588 |
| (d) Short-term loans and advances | 11 | 1,324,980 | 294,960 |
| (e) Other current assets | 12 | 167,666 | 2,413 |
| | | 20,410,905 | 10,979,599 |
| Total | | 23,772,174 | 14,759,820 |
| Significant Accounting Policies | 1 | | |
| Explanatory Notes & Other Disclosures | 21-27 | | |

As per our report of even date

For **K.S.RAO & CO.**

Chartered Accountants

Firm Registration No.003109S

Sd/-

P.GOVERDHANA REDDY

Partner

Membership No. 029193

Place : Hyderabad

Date : 30.05.2015

For and on behalf of the Board

Sd/-

N.Ravi Prasad

Managing Director

Sd/-

N.Rajender Prasad

Joint Managing Director

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH 2015

(All amounts are in Rupees)

| Particulars | Note No. | Current Year | Previous Year |
|---|---------------|-------------------|-------------------|
| I Revenue from operations | 13 | 54,664,146 | 17,568,247 |
| II Other income | 14 | 213,793 | 23,260 |
| III Total Revenue (I + II) | | 54,877,939 | 17,591,507 |
| IV Expenses | | | |
| Cost of raw materials consumed | 15 | 20,598,835 | 9,459,512 |
| Changes in inventories of finished goods and work-in-progress | 16 | 486,325 | (761,886) |
| Employee benefits expense | 17 | 4,365,044 | 2,791,403 |
| Finance costs | 18 | 599,232 | 480,000 |
| Depreciation and amortization expense | 8 | 165,625 | 199,756 |
| Other expenses | 19 | 3,039,105 | 3,054,027 |
| Total expenses | | 29,254,166 | 15,222,811 |
| V Profit before exceptional and extraordinary items and tax (III-IV) | | 25,623,773 | 2,368,696 |
| VI Exceptional items: | 20 | 8,109,818 | - |
| VII Profit before extraordinary items and tax (V-VI) | | 33,733,591 | 2,368,696 |
| Extraordinary Items | | - | - |
| VIII Profit before tax (VII-VIII) | | 33,733,591 | 2,368,696 |
| IX Tax expense: | | | |
| (1) Current tax (MAT) | 25d (i) | 4,74,427 | - |
| (2) Mat Credit entitlement | | (1,43,885) | - |
| (3) Deferred tax | 25d (ii) | 8,39,532 | - |
| X Profit for the period (VIII-IX) | | 32,563,517 | 2,368,696 |
| XI Earnings per equity share | 25 (c) | | |
| (Face value of Rs.10/- Each) | | | |
| (1) Basic | | 10.69 | 0.62 |
| (2) Diluted | | 10.69 | 0.62 |
| Significant Accounting Policies | 1 | | |
| Explanatory Notes & Other Disclosures | 21-27 | | |

As per our report of even date

For **K.S.RAO & CO.**

Chartered Accountants

Firm Registration No.003109S

Sd/-

P.GOVERDHANA REDDY

Partner

Membership No. 029193

Place : Hyderabad

Date : 30.05.2015

For and on behalf of the Board

Sd/-

N.Ravi Prasad
Managing Director

Sd/-

N.Rajender Prasad
Joint Managing Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2015

(All amounts are in Rupees)

| Sl. No. | Particulars | As at 31 March 2015 | As at 31 March 2014 |
|------------|--|------------------------|------------------------|
| I | Cash Flow from Operating Activities | | |
| | Profit for the year before tax | 33,733,591 | 2,368,696 |
| | Adjustments for: | | |
| | Depreciation | 165,625 | 199,756 |
| | (Profit) on sale of assets | (6,695,000) | - |
| | Interest | 599,232 | 480,000 |
| | Interest earned | (199,285) | (23,260) |
| | Excess Provision Written Back | (12,607) | - |
| | Operating Profit before Working Capital changes | 27,691,556 | 3,025,191 |
| | Adjustments for : | | |
| | Increase / (Decrease) in Short term Borrowings | 3,779,296 | (6,850,000) |
| | Increase / (Decrease) in Trade Payables | (214,312) | (192,821) |
| | Increase / (Decrease) in Other Current Liabilities | (9,380,584) | 2,702,714 |
| | Increase / (Decrease) in Short-term Provisions | 8,125 | 17,875 |
| | (Increase) / Decrease in Inventories | (2,629,861) | (761,886) |
| | (Increase) / Decrease in Trade Receivables | (3,446,171) | 1,843,963 |
| | (Increase) / Decrease in Short-term Loans & Advances | (886,135) | 743,870 |
| | (Increase) / Decrease in Other Current Assets | (8,298) | 4,035 |
| | Cash generated from operations | 14,913,616 | 532,941 |
| | Net cash flow from Operating Activities (A) | 14,913,616 | 532,941 |
| II | Cash Flow from Investing Activities | | |
| | Purchase of Fixed Assets | (56,499) | (29,075) |
| | Proceeds from disposal of Assets | 6,897,651 | - |
| | Interest received during the year | 42,330 | 23,260 |
| | Net cash used in Investing Activities (B) | 6,883,482 | (5,815) |
| III | Cash Flow from Financing Activities | | |
| | Redemption of Preference Shares | (10,000,000) | - |
| | Interest paid | (599,232) | (106,305) |
| | Dividend Paid | (7,725,001) | - |
| | Dividend Distribution Tax paid | (1,312,864) | - |
| | Net cash used in Financing Activities (C) | (19,637,097) | (106,305) |
| IV | Net Increase/ (Decrease) in Cash and Cash equivalents (A+B+C) (D) | 2,160,002 | 420,820 |
| | Cash and Cash equivalents as at 31.03.2014 | | |
| | - Opening Balance | 681,588 | 260,768 |
| | Cash and Cash equivalents as at 31.03.2015 - Closing Balance | 2,841,590 | 681,588 |

As per our report of even date

For **K.S.RAO & CO.**
Chartered Accountants
Firm Registration No.003109S

For and on behalf of the Board

Sd/-
P.GOVERDHANA REDDY
Partner Managing Director
Membership No. 029193

Sd/-
N.Ravi Prasad
Joint Managing Director

Sd/-
N.Rajender Prasad

Place : Hyderabad
Date : 30.05.2015

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

2. Share Capital

(All Amounts in Rupees)

| PARTICULARS | As At | As At |
|---|-------------------|-------------------|
| | 31st March, 2015 | 31st March, 2014 |
| Authorised: | | |
| 40,00,000 - Equity Shares of Rs 10/- each. | <u>40,000,000</u> | <u>40,000,000</u> |
| 10,00,000 - 5% Redeemable Cumulative Preference Shares of Rs 10/- each. | <u>10,000,000</u> | <u>10,000,000</u> |
| Issued, subscribed and paid up: | | |
| 30,00,000 - Equity Shares of Rs 10/- each, fully paid up | <u>30,000,000</u> | <u>30,000,000</u> |
| 10,00,000 - 5% Redeemable Cumulative Preference Shares of Rs 10/- each. | <u>-</u> | <u>10,000,000</u> |
| | <u>30,000,000</u> | <u>40,000,000</u> |

A. The reconciliation of number of shares outstanding as at the beginning and end of the reporting period is given below:

| Particulars | Equity Shares | | Preference Shares | |
|---|----------------------|-------------------|-----------------------|-------------------|
| | Number of Share held | Amount | Number of shares held | Amount |
| Number of shares at the beginning of the year | 3,000,000 | 30,000,000 | 1,000,000 | 10,000,000 |
| Add: Shares Issued during the year | - | - | - | - |
| | 3,000,000 | 30,000,000 | 1,000,000 | 10,000,000 |
| Less: Shares bought back during the year | - | - | - | - |
| Shares outstanding at the end of the year | <u>3,000,000</u> | <u>30,000,000</u> | <u>1,000,000</u> | <u>10,000,000</u> |

B. Rights, preferences and restrictions attached to shares

- (i). **Equity Shares:** The company has one class of equity shares having a par value of Rs.10 per share. Each shareholder is eligible for one vote per share held. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting, except in case of interim dividend. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company after distribution of all preferential amounts, in proportion to their shareholding.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015
C. The details of share holders holding more than 5% of total number of shares is given below:

| Name of the Share Holder | As at 31st March 2015 | | As at 31st March 2014 | |
|--|-----------------------|--|-----------------------|--|
| | Number of shares held | % out of total number of shares of the company | Number of shares held | % out of total number of shares of the company |
| Mr. N. Ravi Prasad | 388,148 | 12.94% | 388,148 | 12.94% |
| M/s. Andhra Pradesh Industrial Development Corporation | 337,500 | 11.25% | 337,500 | 11.25% |
| Mr. N. Ranga Prasad | 259,298 | 8.64% | 259,298 | 8.64% |
| Mr. N. Rajendra Prasad | 248,498 | 8.28% | 248,498 | 8.28% |
| Smt. N. Anantha Lakshmi | 233,998 | 7.80% | 233,998 | 7.80% |
| Mr. N Ram Prasad | 180,298 | 6.01% | 180,298 | 6.01% |
| Total | 1,647,740 | | 1,647,740 | |

3. Reserves and Surplus

(All amounts are in Rupees)

| Particulars | As at 31 March 2015 | | As at 31 March 2014 | |
|--|---------------------|-----------|---------------------|---------------------|
| (i) Capital Reserve - Subsidy received | | 1,000,000 | | 1,000,000 |
| (ii) Balance in Statement of Profit and Loss | | | | |
| Opening Balance | (57,871,530) | | (60,240,226) | |
| Less: Adjustment w.r.t. Sch-II (Refer Note No. 23 (iii)) | (19,782) | | | |
| | (57,891,312) | | | |
| Add: Profit for the year | 32,563,517 | | 2,368,696 | |
| | (25,327,795) | | | |
| Less : Dividend Paid on Preference Shares | (7,725,001) | | | |
| Dividend Distribution Tax | (1,312,864) | | | |
| Balance as at the end of the year | (34,365,660) | | | (57,871,530) |
| Total | (33,365,660) | | | (56,871,530) |

* Pursuant to the adoption of useful lives specified in Part C of Schedule II to the Companies Act 2013 for providing depreciation on fixed assets, the carrying amounts as on 01.04.2014 in respect of the useful lives expired assets is adjusted to accumulated losses as on 01-04-2014.

4. Short-term borrowings (Unsecured)

(All amounts are in Rupees)

| Particulars | As at 31 March 2015 | As at 31 March 2014 |
|--|---------------------|---------------------|
| (i) Loans from Related Parties (Interest free, Repayable on Demnad) | | |
| : Directors | 450,000 | 950,000 |
| : Others | - | 12,500,000 |
| : Inter Corporate Deposits | 3,550,000 | 3,750,000 |
| (ii) Loan from Shriram City Union Finance Limited | - | 2,411,837 |
| (iii) Andhra Bank OD A/c. | 19,391,133 | - |
| Total | 23,391,133 | 19,611,837 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

5. Other current liabilities

(All amounts are in Rupees)

| Particulars | As at 31 March 2015 | As at 31 March 2014 |
|---|---------------------|---------------------|
| (i) Dues to Related Parties | | |
| : Directors | 622,467 | 973,514 |
| : Others | - | 661,762 |
| (ii) Advances received against sale of land | - | 7,699,862 |
| (iii) Creditors for expenses | 646,840 | 1,183,756 |
| (iv) Statutory Liabilities | 984,750 | 1,115,747 |
| Total | 2,254,057 | 11,634,641 |

6. Short-term provisions

| Particulars | As at 31 March 2015 | As at 31 March 2014 |
|--|---------------------|---------------------|
| (i) Provision for employee retirement benefits | | |
| Gratuity | 100,000 | 100,000 |
| (ii) Other provisions | | |
| Bonus payable | 78,685 | 70,560 |
| Provision for Income Tax | 474,427 | - |
| Total | 653,112 | 170,560 |

(All amounts are in Rupees)

| Particulars | GROSS BLOCK | | | DEPRECIATION | | | | | NET BLOCK | | | |
|---------------------------------|------------------|---------------------------|---------------------------|------------------|---------------|---|-----------------------------------|---------------|--------------|---------------|----------------|----------------|
| | As at 31.03.2014 | Additions during the year | Deletions During the year | As at 31.03.2015 | Upto 31.03.14 | Depreciation on expired useful lives assets (+) | Excess Depn. in earlier years (-) | Upto 01.04.14 | For the year | Upto 31.03.15 | As at 31.03.15 | As at 31.03.14 |
| A) Tangible Assets | | | | | | | | | | | | |
| (i) Land: | | | | | | | | | | | | |
| (a) Factory | 235,862 | | | 235,862 | - | - | - | - | - | - | 235,862 | 235,862 |
| (b) Mines | 105,000 | 105,000 | | - | - | - | - | - | - | - | 105,000 | - |
| (c) Mines - Lease Hold | 197,651 | 197,651 | | - | - | - | - | - | - | 197,651 | - | - |
| (ii) Buildings: | | | | | | | | | | | | |
| (a) Factory | 4,135,121 | 4,135,121 | 2,793,983 | - | - | 2,793,983 | 106,197 | 2,900,180 | 1,234,941 | 1,341,138 | - | - |
| (b) Non-Factory | 2,497,589 | 2,497,589 | 864,716 | - | - | 864,716 | 40,296 | 905,012 | 1,592,577 | 1,632,873 | - | - |
| (iii) Plant and Machinery | 1,412,203 | 1,412,203 | 1,334,823 | - | - | 1,334,823 | 475 | 1,335,298 | 76,905 | 77,380 | - | - |
| (iv) Electrical Installations | 82,966 | 82,966 | 78,766 | 52 | - | 78,818 | - | 78,818 | 4,148 | 4,200 | - | - |
| (v) Weighing Machines | 410,491 | 410,491 | 390,216 | - | - | 390,216 | 390,216 | 20,275 | 20,275 | - | - | - |
| (vi) Fire Fighting Equipment | 29,810 | 29,810 | 28,439 | - | (120) | 28,319 | - | 28,319 | 1,491 | 1,371 | - | - |
| (vii) Data Processing Equipment | 112,840 | 112,840 | 107,198 | - | - | 107,198 | - | 107,198 | 5,642 | 5,642 | - | - |
| (viii) Lab Equipment | 814,615 | 814,615 | 773,884 | - | - | 773,884 | - | 773,884 | 40,731 | 40,731 | - | - |
| (ix) Furniture and Fixtures | 258,584 | 258,584 | 258,517 | - | (12,487) | 246,030 | - | 246,030 | 12,554 | 67 | - | - |
| (x) Vehicles | 632,318 | 632,318 | 600,702 | - | - | 600,702 | - | 600,702 | 31,616 | 31,616 | - | - |
| (xi) Office equipment | 334,796 | 56,499 | 391,295 | 248,381 | 19,730 | - | 288,111 | 18,657 | 286,768 | 104,527 | 86,415 | - |
| Total | 11,259,846 | 56,499 | 302,651 | 11,013,694 | 7,479,625 | 19,782 | (12,607) | 7,486,800 | 165,625 | 7,652,425 | 3,361,269 | 3,780,221 |
| Previous Year | 11,230,771 | 29,075 | | 11,259,846 | 7,279,869 | - | - | 7,279,869 | 199,756 | 7,479,625 | 3,780,221 | 3,950,902 |
| | | | | | | | | | | | | |
| (b) Intangible Assets | | | | | | | | | | | | |
| Process Knowhow | 500,000 | - | 500,000 | 500,000 | - | - | - | - | - | 500,000 | - | - |
| Total | 500,000 | - | 500,000 | 500,000 | - | - | - | - | - | 500,000 | - | - |
| Previous Year | 500,000 | - | 500,000 | 500,000 | - | - | - | - | - | 500,000 | - | - |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

8. Inventory

(All amounts are in Rupees)

| Particulars | As at 31 March 2015 | As at 31 March 2014 |
|--------------------|------------------------|------------------------|
| (i) Finished goods | 4,811,521 | 5,297,846 |
| (ii) Raw Material | 3,116,186 | - |
| Total | 7,297,707 | 5,297,846 |

Finished Goods have been valued at the lower of cost and net realisable value.
The inventories have been valued and certified by the Managing Director.

9. Trade Receivables (Unsecured)

| Particulars | As at 31 March 2015 | As at 31 March 2014 |
|---|------------------------|------------------------|
| (i) Debts outstanding for a period exceeding six months | | |
| Considered good | 30,771 | 30,771 |
| Considered doubtful | 701,830 | 701,830 |
| | <u>732,601</u> | <u>732,601</u> |
| (ii) Other debts Considered good | 8,116,361 | 4,607,191 |
| Sub Total | 8,848,962 | 5,402,792 |
| Less : Provision for Bad & Doubtful Debts | 700,000 | 700,000 |
| Total | 8,148,962 | 4,702,792 |

10. Cash and Cash equivalents

| Particulars | As at 31 March 2015 | As at 31 March 2014 |
|--|------------------------|------------------------|
| (i) Balances with banks | | |
| In Current Accounts | 152,760 | 76,792 |
| As Fixed Deposits (Margin Money) | 2,675,000 | 561,000 |
| Fixed Deposit receipts are held by a bank as 100% margin with a lien marked in the favour for the Bank Guarantees issued by them | | |
| (ii) Cash on hand | 13,830 | 43,796 |
| Total | 2,841,590 | 681,588 |

11. Short-term loans and advances (Unsecured, Considered Good)

| Particulars | As at 31 March 2015 | As at 31 March 2014 |
|---------------------------------------|------------------------|------------------------|
| (i) Advance for purchase and expenses | 912,205 | - |
| (ii) Tax deducted at source | 93,510 | 93,701 |
| (iii) MAT credit Entitlement | 159,749 | 15,864 |
| (iii) Deposits recoverable | 117,196 | 120,596 |
| (iv) Balance with Central Excise | 42,320 | 62,349 |
| (v) Service Tax Credit | - | 2,450 |
| Total | 1,324,980 | 294,960 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

12. Other Current Assets

(All amounts are in Rupees)

| Particulars | As at 31 March 2015 | As at 31 March 2014 |
|---------------------------------------|------------------------|------------------------|
| (i) Interest Accrued - Fixed Deposits | 150,964 | 2,413 |
| (ii) Interest Accrued - APSEB | 8,404 | - |
| (iii) Others | 8,298 | - |
| Total | 167,666 | 2,413 |

13. Revenue from operations

| Particulars | Current Year | Previous Year |
|---------------------------------|-------------------|-------------------|
| Sale of products (Net of taxes) | 61,430,259 | 19,722,159 |
| | <u>61,430,259</u> | <u>19,722,159</u> |
| Less: Excise duty | 6,766,113 | 2,153,912 |
| Total | 54,664,146 | 17,568,247 |

14. Other Income

| Particulars | Current Year | Previous Year |
|-----------------------------|----------------|---------------|
| Interest Income | 199,285 | 23,260 |
| Credit balance written back | 14,508 | - |
| Total | 213,793 | 23,260 |

15. Raw materials consumed

| Particulars | Current Year | Previous Year |
|--------------------------------|-------------------|------------------|
| Opening Stock of Raw Materials | - | - |
| Add: Purchases during the year | 23,715,021 | 9,459,512 |
| | <u>23,715,021</u> | <u>9,459,512</u> |
| Less : Closing Stock | 3,116,186 | - |
| Total | 20,598,835 | 9,459,512 |

| Particulars | Current Year | Previous Year |
|--|-------------------|------------------|
| Details of raw materials consumed | | |
| Magnesium Metal | 173,834 | 3,432,573 |
| Magnesium Powder | 20,425,001 | 6,026,939 |
| Total | 20,598,835 | 9,459,512 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

16. Changes in inventories of finished goods and work-in-progress (All amounts are in Rupees)

| Particulars | Current Year | Previous Year |
|--|------------------|------------------|
| Opening Stock: | | |
| Finished Goods | 5,297,846 | 4,535,959 |
| Work-in-progress | - | - |
| | <u>5,297,846</u> | <u>4,535,959</u> |
| Closing Stock: | | |
| Finished Goods | 4,811,521 | 5,297,846 |
| Work-in-progress | - | - |
| | <u>4,811,521</u> | <u>5,297,846</u> |
| (Increase)/ Decrease in inventories | 486,325 | (761,887) |

17. Employee Benefits Expense

| Particulars | Current Year | Previous Year |
|---|------------------|------------------|
| Salaries, Wages & bonus | 4,063,249 | 2,579,038 |
| Staff welfare expenses | 112,903 | 90,863 |
| Contribution to provident and other funds | 188,892 | 121,502 |
| Total | <u>4,365,044</u> | <u>2,791,403</u> |

18. Finance Costs

| Particulars | Current Year | Previous Year |
|-----------------------|----------------|----------------|
| Interest expense | 599,232 | 480,000 |
| Other Borrowing Costs | - | - |
| Total | <u>599,232</u> | <u>480,000</u> |

19. Other Expenses

| Particulars | Current Year | Previous Year |
|---|------------------|------------------|
| Consumption of general stores | 157,429 | 116,102 |
| Power | 233,006 | 355,983 |
| Repairs to : Plant and machinery | 121,386 | 71,745 |
| : Other assets | 30,263 | 11,464 |
| : Building Maintenance | 95,560 | - |
| Insurance | 63,849 | - |
| Rates and taxes (excluding taxes on income) | 31,221 | 194,395 |
| Payments to Auditor as : Auditor | 53,371 | 28,090 |
| : Tax Audit | - | 8,427 |
| : Tax Audit earlier years | - | 47,753 |
| : for certification | 10,111 | 12,359 |
| Carriage and freight | 532,407 | 319,253 |
| Postage and telephones | 171,963 | 194,665 |
| Travelling and conveyance | 160,978 | 146,461 |
| Vehicle maintenance | 220,115 | 89,064 |
| General charges | 766,353 | 557,810 |
| Professional charges | 113,847 | 78,781 |
| Debit Balance Written off | - | 11,430 |
| Liquidator damage charges | 99,227 | 6,978 |
| Excise duty (See Note - 22) | (48,169) | 83,810 |
| Provision for Bad & Doubtful debts | - | 700,000 |
| PF Penalty | 169,188 | - |
| Interest and Penalties | 57,000 | 19,457 |
| Total | <u>3,039,105</u> | <u>3,054,027</u> |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

20. Exceptional Items

| Particulars | Current Year | Previous Year |
|---|------------------|---------------|
| Excess Provision Written back (Refer Note No. 23) | 12,607 | - |
| Gain on sale of Asset | 6,595,000 | - |
| Lease Amount Received | 1,502,211 | |
| Total | 8,109,818 | - |

1. Significant Accounting Policies

a) The Financial statements are prepared on historical cost basis.

b) Fixed Assets:

Tangible fixed assets are stated at cost net of depreciation provided.

c) Depreciation

Depreciation on the fixed assets is provided on Straight line Method Basis in accordance with Schedule II of the Companies Act, 2013.

d) Inventory:

a. Raw materials are valued at lower of cost and realizable value.

b. Finished goods and Work in progress are valued at lower of cost and net realizable value. Excise duty against finished goods lying in bonded godown at the end of the year is considered by making appropriate adjustments in the statement of profit and loss.

c. Cost Formula used is 'weighted average cost'.

e) Provident Fund

Provident Fund contributions are remitted to Provident Fund Commissioner and the same are charged to revenue.

f) Contingent Liabilities

All Contingent Liabilities are indicated by way of a note and would be paid/ provided upon crystallization.

21. Explanatory Notes & Other Disclosures

21.1 Financial Statements of the Company have been prepared on "Going Concern basis" despite complete erosion of net worth and the current liabilities exceeding the current assets by Rs.58.87 lakhs.

21.2 Contingent Liabilities

(i) Arrears of Fixed cumulative dividends on preference shares.

(Rs. in Lakhs)

| Particulars | Current Year | Previous Year |
|---|--------------|---------------|
| Arrears of cumulative Dividend on 5 % preference shares | Nil | 72.25 |

(ii) Interest against Late Filing of TDS Returns of Rs. 79,000/- not acknowledged as debt.

22. Excise Duty expenses of Rs. 48,169 /- represents the differential excise duty in respect of finished goods as on 01.04.2014 and as on 31.03.2015.

23. (i) Depreciation for the year has been provided as per the provisions of the Section 123 read with Schedule II to the Companies Act 2013 under the Straight Line Method pursuant to this, provision

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

of depreciation is lower by Rs. 30,760/- compared to the depreciation as per the schedule XIV of the Companies Act 1956. and accordingly the profit for the year is more by Rs. 30,760/-for the year.

- (ii) In respect of Fixed Assets those had completed useful life as on 31-03-2014, the carrying amount of Rs. 19,782/- had been adjusted to accumulated loss.
- (iii) Where the Net block of an asset is less than the residual value specified in schedule - II to the Companies Act 2013, residual values are restored by adjusting the net block and crediting the excess depreciation written back which is taken to statement of profit and loss.

24. Additional Information
a. Value of imports calculated on C.I.F basis during the financial year in respect of:

| Particulars | Current Year (Rs.) | Previous Year (Rs.) |
|---------------|--------------------|---------------------|
| Raw materials | 2,06,22,043 | 55,75,235 |
| Total | 2,06,22,043 | 55,75,235 |

b. Earnings in foreign exchange:

The Company has no earnings in foreign exchange for the year to report.

c. The value of consumption of imported and indigenously obtained raw materials, stores and spare parts and the percentage of each to the total consumption:

| Particulars | Current Year | | Previous Year | |
|--------------|-------------------|---------------|------------------|---------------|
| | Amount in Rs. | % | Amount in Rs. | % |
| Indigenous | 173,834 | 0.84 | 34,32,573 | 36.29 |
| Imported | 20,425,001 | 99.16 | 60,26,939 | 63.71 |
| Total | 205,98,835 | 100.00 | 94,59,512 | 100.00 |

25. Disclosures in accordance with the requirements of Accounting Standards stated under the Companies (Accounting Standards) Rules, 2006.
a. Segment Reporting

The Company operates only in one segment i.e, manufacture and sale of magnesium metal related products and hence, Segment Reporting in accordance with Accounting Standard -17 is not applicable.

b. Related Party Disclosures

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

| S. No | Related Parties | Nature of Relationship |
|-------|---|---|
| 1 | Mr. N. Ravi Prasad, Managing Director | Key Managerial Personnel |
| 2 | Mr. N. Rajender Prasad, Joint Managing Director | |
| 3 | Smt. N. Anantha Lakshmi | Relatives of Key Managerial Personnel |
| 4 | Southern Electrodes Ltd | Enterprise over which relatives of Key Managerial Personnel exercise significant influence. |
| 5 | Pumps India Pvt. Ltd | |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

1. Transactions with Key Management personnel

(Amount in Rs.)

| S.no | Nature of transaction | Current Year | Previous Year |
|------|--|--------------------|---------------|
| 1 | Remuneration | 25,57,440 | 14,44,800 |
| 2 | Medical Reimbursement | 47,462 | 55,477 |
| 3 | Club Subscriptions | 18,799 | 20,719 |
| 4 | Un secured Loans: | | |
| | Outstanding at the beginning of the year | 9,50,000 | 78,00,000 |
| | Received during the year | - | - |
| | Repaid during the year | (5,00,000) | (68,50,000) |
| | Outstanding at the close of the year | 4,50,000 | 9,50,000 |
| 5 | Current Liabilities: | | |
| | Outstanding at the beginning of the year | 6,42,243 | 10,79,907 |
| | Received during the year | 36,54,523 | 27,88,061 |
| | Repaid during the year | (39,00,700) | (32,25,725) |
| | Outstanding at the end of the year | 3,96,066 | 6,42,243 |

2. Transactions with Relatives Key Managerial Personnel

(Amount in Rs.)

| S.no | Nature of transaction | Current Year | Previous Year |
|------|--|--------------------|---------------|
| 1 | Un secured Loans: | | |
| | Outstanding at the beginning of the year | 1,25,00,000 | 1,25,00,000 |
| | Received during the year | - | - |
| | Repaid during the year | 1,25,00,000 | - |
| | Outstanding at the end of the year | - | 1,25,00,000 |
| 2 | Current Liabilities: | | |
| | Outstanding at the beginning of the year | 6,61,762 | 35,61,762 |
| | Received during the year | - | - |
| | Repaid during the year | (6,61,762) | (29,00,000) |
| | Outstanding at the end of the year | - | 6,61,762 |

3. Transactions with enterprise over which relatives of Key Managerial Personnel exercise significant influence

(Amount in Rs.)

| S.no | Nature of transaction | Current Year | Previous Year |
|------|---|------------------|---------------|
| 1 | Inter Corporate Deposits received: | | |
| | Outstanding at the beginning of the year | 37,50,000 | 37,50,000 |
| | Received during the year | - | - |
| | Repaid during the year | 2,00,000 | - |
| | Outstanding at the end of the year | 35,50,000 | 37,50,000 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

(Amount in Rs.)

| S.no | Nature of transaction | Current Year | Previous Year |
|------|--|--------------|---------------|
| 2 | Current Liabilities: | | |
| | Outstanding at the beginning of the year | 5,41,720 | 10,08,720 |
| | Received during the year | 4,38,000 | - |
| | Repaid during the year | (69,675) | (4,67,000) |
| | Outstanding at the end of the year | 1,73,395 | 5,41,720 |

c. Earnings per share

(Amount in Rs.)

The computation of earnings per share as required under AS – 20 is given below:

| Particulars | Current Year | Previous Year |
|---|--------------|---------------|
| Profit as per statement Profit & Loss | 3,25,63,517 | 23,68,696 |
| Less: Preference Dividend @5% of Rs.1,00,00,000 | 5,00,000 | (5,00,000) |
| Earnings available for Equity Shareholders | 3,20,63,517 | 18,68,696 |
| Number of equity Shares outstanding | 30,00,000 | 30,00,000 |
| Basic and Diluted earnings per share in Rupees (Face value of Rs.10/- each) | 10.69 | 0.62 |

d. Accounting for Taxes on income

i) Current Tax

The Company has made Current Tax Provision for Minimum Alternate Tax (MAT) under section 115JB of the Income Tax Act, 1961. As per the provisions of section 115JAA, MAT Credit receivable for the amount in excess over tax liability as per normal computation of income has been recognized as an asset. MAT Credit is recognized as an asset in accordance with the recommendations contained in Guidance Note Issued by ICAI. The said asset is created by way of the credit to the Statement of Profit and Loss and shown as MAT Credit entitlement.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2015

Deffered Tax :

(Amount in Rs.)

Deffered Tax Liability workings in accordance with AS - 22 are given below.

| S.no | Items of Deferred Tax Assets | Current Year | Previous Year |
|------|--------------------------------|---------------|--------------------|
| 1 | Unabsorbed Deprecation | - | 2,69,47,184 |
| 2 | Disallowances under 43 B | 23,225 | 2,91,940 |
| 3 | Disallowances under 40(a) (ia) | 21,975 | 2,500 |
| | Total (A) | 45,200 | 2,72,41,624 |

| S.no | Items of Deferred Tax Liabilities | Current Year | Previous Year |
|------|-----------------------------------|------------------|------------------|
| 1 | Depreciation | 27,62,132 | 28,89,376 |
| | Total (B) | 27,62,132 | 28,89,376 |

| Particulars | Current Year | Previous Year |
|--|--------------|---------------|
| Net Deferred Tax Asset (Liability) (A-B) | (27,16,932) | 2,43,52,248 |
| Tax thereon @ 30.9 % | (8,39,532) | 75,24,845* |

* Differed Tax Asset of Rs. 75,24,845/- was not recognised in earlier years.

Note – 26

Dues to Micro, Small and Medium Enterprises

On the basis of details furnished by the suppliers, there are no amounts to be reported as dues to micro, small and medium enterprises as required under section 22 of the Micro, Small and Medium Enterprises Development Act, 2006 ("MSMED Act").

Previous Year's figures have been reclassified, wherever necessary so as to conform with those of Current Year.

As per our report of even date

For **K.S.RAO & CO.**

Chartered Accountants

Firm Registration No.003109S

Sd/-

P.GOVERDHANA REDDY

Partner

Membership No. 029193

Place : Hyderabad

Date : 30.05.2015

For and on behalf of the Board

Sd/-

N.Ravi Prasad
Managing Director

Sd/-

N.Rajender Prasad
Joint Managing Director



SOUTHERN MAGNESIUM AND CHEMICALS LIMITED
(L27109TG1985PLC005303)

ATTENDANCE SLIP FOR ANNUAL GENERAL MEETING

(to be surrendered at the venue of the meeting)

I certify that I am a registered shareholder/proxy/representative for the registered shareholder(s) of Southern Magnesium And Chemicals Limited.

I hereby record my presence at the Twenty Ninth Annual General Meeting of the shareholders of Southern Magnesium And Chemicals Limited at Hotel I. K. London Residency, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082 at 11.30 A.M. on Wednesday, the 30th September, 2015.

| | |
|------------|----------------|
| DP ID* | Reg. Folio No. |
| Client ID* | No. of Shares |

* Applicable if shares are held in electronic form

Name & Address of Member

Signature of shareholders/Proxy/
Representative (please Specify)



**Form No. MGT-11
Proxy Form**

[Pursuant to section 105(6) of the Companies Act, 2013 and rule 19(3) of the Companies (Management and Administration) Rules, 2014]

CIN: L27109TG1985PLC005303

Name of the company: SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

Registered office: Deccan Chambers, 5th Floor, 6-3-666/B, Somajiguda, Hyderabad, Telangana – 500082

| | | | |
|--|--|--|--|
| Name of the member (s): Registered address: | | Email Id: Folio No. | |
| I/We, being/ the member(s) of _____ shares of the above named company, hereby appoint: | | | |
| 1. Name: Address: E-Mail Id: Signature: or failing him | 2. Name: Address: E-Mail Id: Signature: or failing him | 3. Name: Address: E-Mail Id: Signature: | |

as my / our proxy to attend and vote (on a poll) for me / us and on my / our behalf at the 29th Annual General Meeting of the Company, to be held on Wednesday, the 30th day of September, 2015 at 11.30 a.m at Hotel I. K. London Residency, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082 and at any adjournment thereof in respect of such resolutions as are indicated below:

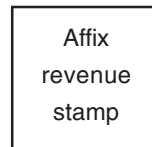
Resolutions:

1. Adoption of Audited Financial statements for the year ended March 31, 2015, Reports of the Board of Directors and Auditors.
2. Ratification of the appointment of M/s. K. S. Rao & Co., Chartered Accountants (Firm Registration No. 003109S), as Statutory Auditors of the Company and authorising the Board to fix their remuneration.

Signed this..... day of..... 2015

Signature of shareholder:

Signature of Proxy holder(s):



Note :

1. This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the Meeting.
2. A person can act as proxy on behalf of members not exceeding fifty (50) and holding in the aggregate not more than 10% of the total share capital of the Company. A member holding more than 10%, of the total share capital of the Company carrying voting rights may appoint a single person as proxy. However such person shall not act as proxy for any other person.

MGT - 12
BALLOT FORM
(In lieu of E-voting)
29th Annual General Meeting - September 30, 2015

| Sl. No. | Particulars | Details |
|---------|---------------------------------------|---------|
| 1. | Name of the shareholder | |
| 2. | Registered address | |
| 3. | Registered Folio/DPID & Client ID No. | |
| 4. | No. of Shares held | |

I/We hereby exercise my/our vote in respect of the Resolution(s) to be passed for the business stated in the Notice of 29th Annual general meeting of the Company scheduled on Wednesday, September 30, 2015, by conveying my/our assent or dissent to the said Resolution(s) by placing the tick ("") mark at the appropriate box below.

| Item No. | Description | No. of equity shares | I / We assent to the resolution (For) | I / We dissent to the resolution (Against) | Abstain |
|----------|---|----------------------|---------------------------------------|--|---------|
| 1. | Adoption of Audited Financial statements for the year ended March 31, 2015, Reports of the Board of Directors and Auditors. | | | | |
| 2. | Ratification of the appointment of M/s. K. S. Rao & Co., Chartered Accountants (Firm Registration No. 003109S), as Statutory Auditors of the Company and authorising the Board to fix their remuneration. | | | | |

Place Date:

Signature of Shareholder

NOTE: Kind NOTE: Kindly read the instructions printed overleaf before filling the form.

INSTRUCTIONS

1. Members may fill up the ballot form and submit the same in a sealed envelope to the Scrutinizer, M/s. D. Hanumanta Raju & Co, Company Secretaries, C/o Southern Magnesium and Chemicals Limited, Deccan Chambers, 5th Floor, 6-3-666/B, Somajiguda, Hyderabad, Telangana – 500 082 or to the email id southernmagnesium@gmail.com, so as to reach by 5.00 p.m. on 29th September, 2015. Ballot form received thereafter will strictly be treated as if not received.
2. It is optional to indicate your preference. If you leave the for, against, or abstain column blank against any or all resolutions, your proxy will be entitled to vote in the manner as he/she deem appropriate.
3. The Company will not be responsible if the envelope containing the ballot form is lost in transit.
4. Unsigned, incomplete or incorrectly ticked forms are liable to be rejected and the decision of the scrutinizer on the validity of the forms will be final.
5. In the event member casts his votes through both the processes i.e. e-voting and ballot form, the votes in the electronic system would be considered and the ballot form would be ignored.
6. The right of voting by ballot form shall not be exercised by a proxy.
7. To avoid fraudulent transactions, the identity/signature of the members holding shares in electronic / demat form is verified with the specimen signatures furnished by NSDL/CDSL and that of members holding shares in physical form is verified as per the records of the share transfer agent of the Company (i.e. Central Depository Services (India) Limited) Members are requested to keep the same updated.
8. There will be only one ballot form for every Folio / DP ID Client ID irrespective of the number of joint holders.
9. In case of joint holders, the ballot form should be signed by the first named member and in his/her absence by the next named member. Ballot form signed by a joint holder shall be treated valid if signed as per records available with the Company and the Company shall not entertain any objection on such ballot form from other joint holders.
10. Where the ballot form has been signed by an authorized representative of the body corporate / trust / society, etc. a certified copy of the relevant authorisation / broad resolution to vote should accompany the ballot form.
11. Instructions for e-voting procedure are available in the Notice of AGM which is also placed on the website of the Company. Shareholders who wish to use e-voting should follow the steps for e-voting procedure given in the Notice of AGM or by logging on to - helpdesk.evoting@cdslindia.com

**BOOK-POST
Printed Matter**



If undelivered please return to :

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

Regd. Office: DECCAN CHAMBERS (5th Floor), 6-3-666/B,
Somajiguda, Hyderabad - 500 082.

Phone : 23311789, 23312341



SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

Deccan Chambers, 5th Floor, 6-3-666/B, Somajiguda, Hyderabad-500 082
Phones: 23311789, 23312341, Fax: 040-23319871 E-Mail: southernmagnesium@gmail.com
CIN : L27109AP1985PLC005303

FORM-B

Format of covering letter of the annual audit report to be filed with the Stock Exchanges

| | | |
|----|---|---|
| 1. | Name of the company | Southern Magnesium And Chemicals Limited |
| 2. | Annual financial statements for the year ended. | 31st March, 2015 |
| 3. | Type of audit qualification | Qualified |
| 4. | Frequency of qualification | (A) Appeared for the first time in the financial year 2014-15 in respect of the observation No. 7 as stated under the heading "Basis for qualified opinion" of independent auditor's report which forms the part of annual report (B) Repetitive for the last 7 years and first time appeared in the year 2007-08 in respect of observation No. 8 as stated under the heading "Basis for qualified opinion" of independent auditor's report which forms the part of annual report. |
| 5. | Draw attention to relevant notes in the annual financial statements and management response to the qualification in the directors report: | Refer basis for qualified opinion in auditor report of the enclosed annual report and Comments to audit report. Managements Response is mentioned under point No. 24 of the Director's Report. |
| 6. | Additional comments from the board/audit committee chair | N.A |

Signed by

For Southern Magnesium and Chemicals Ltd

N. Ravi Prasad
Managing Director and CEO

For Southern Magnesium and Chemicals Ltd

G. Raghavendra Rao
G. Raghavendra Rao
Audit Committee Chairman

For K.S Rao & Co.
Chartered Accountants,
Firm Regn. No. 003109S



P. Govardhan Reddy
Partner
M. No. 029193

Place: Hyderabad
Date: 08.10.2015