

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

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**NINETEENTH ANNUAL REPORT
2003 - 2005**

BOARD OF DIRECTORS

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

AUDITORS

M/s. K.S. RAO & COMPANY
Chartered Accountants
Hyderabad.

BANKERS

INDIAN OVERSEAS BANK
HYDERABAD

REGD. OFFICE

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

WORKS

GOWRIPATNAM
WEST GODAVARI DISTRICT.

MINES

1. MULUGU MANDAL
WARANGAL DIST.
ANDHRA PRADESH
2. VENKATAYAPALAM VILLAGE
KHAMMAM DIST.
ANDHRA PRADESH

NOTICE

Notice is hereby given that the 19th Annual General Meeting of the Members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on Saturday, the 25th June 2005 at 4.30 pm. at Hotel I K London Residency, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad-500 082 to transact the following business.

ORDINARY BUSINESS

1. To receive consider and adopt the Balance Sheet as at 31st March, 2005 and the report of the directors and Auditors thereon.
2. To elect a director in place of Sri N. Ravi Prasad, who retires by rotation as Director at the conclusion of this Annual General Meeting and being eligible offers himself for re-appointment.
3. To elect a Director in place of Sri. Snehal A. Thakkar who retires as Director by rotation at the conclusion of this annual General meeting and being eligible, offers himself for re-appointment.
4. To appointment Auditors and fix their remuneration and in this connection to pass the following Resolution.
"Resolved that the company Auditors' M/s. K .S. Rao & Company, Chartered Accountants, Hyderabad be and are hereby re-appointed as Auditors of the company to hold office from the conclusion of this Annual General Meeting of the company until the conclusion on next Annual General Meeting of the Company at such remuneration as may be determined by the Board of Directors of the Company".

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

Place: Hyderabad
Date : 01.06.2005

Sd/-
N. Ravi Prasad
Director

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself / herself and such proxy need not be a member of the Company.
2. Proxies in order to be valid must be received at the Registered Office of the company not later than 48 hours before the commencement of the Annual General Meeting.
3. Members are requested to notify immediately any change in their address to the registered office of the company.
4. The register of members and share transfer book of the company shall remain closed from 23.05.2005 to 25.05.2005 (both days inclusive).

DIRECTOR'S REPORT

Your Directors have pleasure in presenting the 19th Annual Report and the Audited Accounts for the year ended 31st March 2005.

FINANCIAL REPORT / OPERATIONS:

During the year company suspended all operations except for manufacture of downstream Magnesium Metal. This has enabled us to make an operating profit of Rs. 18.99 Lakhs as compared to operating loss of Rs. 9.64 lakhs in 2002-03.

Depreciation of Rs. 73.87 Lakhs has been provided on assets sold during the year. Further depreciation for the year amounting to Rs.33,69,999/- has not been provided in view of low capacity utilisation.

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

The Company has yet to pay an amount of Rs.84.00 Lakhs to Andhra Pradesh State Financial Corporation out of Rs.155.00 lakhs of One Time settlement amount. Company is approaching APSFC for further time for balance payment and is expected to repay the balance amount in short time.

The Company has concluded an One Time settlement with Indian Overseas Bank, and the entire sum of Rs.101.77 Lakhs has been repaid.

Your company's request for refund of excess amount charged by Gas Authority of India Ltd. on reduced CMD transportation charges of Gas was acknowledged by GAIL and has agreed to refund an amount of Rs.11.44 Lakhs.

The Company plans to dispose off the Assets pertaining to Primary Magnesium production which are no longer in use. For purpose of disposal of substantial part of Machinery share holders approval by postal ballot is required and the approval will be sought separately.

DIRECTORS RESPONSIBILITY STATEMENT

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

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of Company for that period;
- iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting record in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv) the Directors have prepared the annual accounts on a going concern basis.



SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

PARTICULARS OF EMPLOYEES

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

DIRECTORS

Sri. N. Ravi Prasad, and Sri. Snehal Thakkar Directors are the Directors retiring by rotation and being eligible offers themselves for re-appointment.

AUDITORS

You are requested to appoint M/s. K.S. Rao & Company, Chartered Accountants, Hyderabad as auditors for the year 2004-2005 and fix their remuneration.

SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985 :

Your Company has already approached the BIFR

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE

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

DEPOSITS

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

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

LISTING ON STOCK EXCHANGES:

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

ACKNOWLEDGEMENT:

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

On behalf of the Board

Sd/-

(Dr. N.B. Prasad)

Place : Hyderabad

Date : 01.06.2005

FORM - B**FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION.**

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

Work on manufacture of phosphorous oxychloride and other fine chemicals.

Benefits derived as a result of the above R & D

Production of phosphorous oxychloride has been commercialised.

Future plan of action

Expenditure on R & D

a) Capital

b) Recurring

c) Total

d) Total R & D expenditure as

a percentage of total turnover.

NIL (included in revenue expenses)

TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION.

1. Efforts made towards technology N.A.

2. Benefits derived as a result of the above efforts N.A.

3. In case of imported technology imported during the 1st 5 yrs. (reckoned from the beginning of the financial year) following information may be furnished:

a) Technology

b) Year of import

c) Has technology been fully absorbed

d) If not fully absorbed, area Not applicable where this has not been place, reason therefore and future plans of action.

B.FOREIGN EXCHANGE EARNING & OUTGO

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

REPORT ON CORPORATE GOVERNANCE

(Pursuant to Clause 49 of the listing Agreement)

1) Company's Philosophy on Corporate Governance

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

2) Board of Directors

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

During the period of 18 months 2003-2005 the Board met 8 times on 29.10.2003, 30.01.2004, 1.3.2004, 27.3.2004, 30.4.2004, 30.7.2004, 21.10.2004, 1.3.2005.

3) Audit Committee

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

The Committee held three meetings in the year.

4) Remuneration Committee

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

The Remuneration Committee held one meeting in the year.

5) Shareholders/Investors Grievance Committee

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

6) Share Transfer committee

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