

# **SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

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**TWENTIETH ANNUAL REPORT  
2005 - 2006**

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

BOARD OF DIRECTORS	Sri.N.B.PRASAD (Upto 28.07.2006)	(Chairman)
	Sri.N..RAM PRASAD (From 31.08.2006)	(Chairman)
	Sri.P.K.DORAI SWAMY	(APSFC Nominee)
	Sri. M.VENKATESWARA RAO	(APIDC Nominee)
	Sri. N.RAVI PRASAD	(Managing Director)
	Sri. N.RAJENDER PRASAD	(Joint Managing Director)
	Sri. SNEHAL A THAKKAR	(Director)
AUDITORS	M/S.K.S.RAO & COMPANY Chartered Accountants Hyderabad	
BANKERS	ANDHRA BANK SOMAJIGUDA HYDERABAD	
REGD.OFFICE	DECCAN CHAMBERS, (5 <sup>TH</sup> FLOOR) 6-3-666/B, SOMAJIGUDA HYDERABAD – 500 082	
WORKS	GOWRIPATNAM WEST GODAVARI DISTRICT	
MINES	1. MULUGU MANDAL WARANGAL DIST. ANDHRA PRADESH	
	2. VENKATAYAPALAM VILLAGE KHAMMAM DIST. ANDHRA PRADESH	

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****NOTICE**

Notice is hereby given that the 20<sup>th</sup> Annual General Meeting of the members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on 29<sup>th</sup> September, 2006 at 11.30 A.M. at Hotel I K London Residency, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad - 500 082 to transact the following business.

**ORDINARY BUSINESS**

1. To receive, consider and adopt the Balance Sheet as at 31<sup>st</sup> March, 2006 and Profit and Loss Account for the year 2005 - 2006 and report of the Auditors thereon and Report of Directors to the Shareholders.
2. To elect a Director in place of Sri.M.Venkateswara Rao, Director, A.P.I.D.C.Nominee, 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.N.Rajender Prasad, who retires 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 and Company, Chartered Accountants, Hyderabad be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting of the company until the conclusion of next Annual General Meeting of the Company at such remuneration as may be determined by the Board of Directors of the Company".

**SPECIAL BUSINESS:****APPOINTMENT OF SRI. RAM N.PRASAD AS DIRECTOR AND CHAIRMAN OF THE COMPANY.**

To consider and, if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION.

"RESOLVED THAT Sri.Ram N.Prasad, who was appointed as an Additional Director of the Company by the Board of Directors by a Circular Resolution dated 31.08.2006 of which the Board took a note at their meeting held on 31.08.2006, and his term is due to expire at this Annual General Meeting of the Company as per Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice under Section 257 of the Act in writing by a member proposing the candidature of Sri.RAM N.PRASAD for the office of Director and Chairman of the Company, Sri.RAM N.PRASAD be and is hereby appointed as Director and Chairman of the Company whose period of office shall be liable to determination by retirement of Directors by rotation.

**APPOINTMENT OF SRI.N.RAJENDER PRASAD AS JOINT MANAGING DIRECTOR.**

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

"RESOLVED THAT pursuant to the provisions of Section 269, 309, 310, 314 and other applicable provisions, if any, of the Companies Act, 1956, Mr.N.Rajender Prasad, be and is hereby reappointed as Joint Managing Director of the Company for a period 5 (five) years with effect from 20th December, 2006 on the same terms and conditions including remuneration and power to the Board for changing from time to time any terms and conditions governing his appointment as approved earlier by the member at Annual General Meeting of the Company held on 29<sup>th</sup> September, 2001".

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

Place : Hyderabad  
 Date : 31.08.2006

Sd/-  
**N.Ravi Prasad**  
 Managing Director

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****NOTES :**

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself and such proxy need not be a member of the Company.

1. Proxies in order to be valid must be received at the Registered Office of the Company not later than 48 hours before the commencement of the Annual General Meeting.
2. Members are requested to notify immediately any change in their address to the registered office of the Company.

The register of members and share transfer books of the Company shall remain closed from 28.09.2006 to 29.09.2006 (both days inclusive)

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

Sri Ram N. Prasad was a founder Director and also Vice Chairman of the Company. He resigned from the Board on 30<sup>th</sup> January, 2004. He is well acquainted with the operations and functioning of the Company. He has given Notice of his candidature for appointment as Director pursuant to Section 257 of the Companies Act, 1956 and also made the prescribed deposit of Rs.500 before 14 days of the AGM.

He has certified that he is not a Director in more than 15 Companies pursuant to Section 275 and that he has no disqualifications listed in Section 283 of the Companies Act, 1956. He is on the Board of One Listed Company and Four Unlisted Companies.

Sri.N.Ravi Prasad and Sri.N.Rajender Prasad, Directors are interested in the resolution.

**Item No.6**

Sri.N.Rajender Prasad, Joint Managing Director was earlier appointed as JMD for 5 years w.e.f.20<sup>th</sup> December, 2001 at the Annual General Meeting of the Company held on 29<sup>th</sup> September, 2001. His term of office expires on 20<sup>th</sup> December, 2006. There is a need to reappoint him as JMD for a further period of 5 years on same terms and conditions. Sri.N.Ravi Prasad and Sri.Ram N. Prasad, Directors are interested in the resolution.

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

Place : Hyderabad  
Date : 31.08.2006

Sd/-  
**N.Ravi Prasad**  
Managing Director

## DIRECTOR'S REPORT

Your Directors have pleasure in presenting the 20<sup>th</sup> Annual Report and the Audited Accounts for the year ended 31<sup>st</sup> March 2006.

### FINANCIAL RESULTS

(Rs.Lakhs)

Particulars	Current Year	Last Period
	As on 31 <sup>st</sup> March 2006	As on 31 <sup>st</sup> March 2005
Net Sale and other income	179.58	227.38
Profit Before Depreciation and interest	37.35	28.90
Less: Depreciation. and Interest	7.18	75.71
Net Profit (net loss)	30.17	(46.81)
Cum. Loss	364.81	394.99

(Depreciation is charged to P & L account on sold assets only and the depreciation on other assets is not charged to P&L Account)

After clearing all dues to Indian Overseas Bank, the Company has paid off Rs. 126 Lakhs out of the OTS amount of Rs. 155 lakhs to APSFC. The APSFC has given time for paying the balance upto Sept 2006.

### OPERATIONS

The operations of the company have been stabilized now and we hope to improve the performance and reduce the cumulative losses in coming years.

### DIRECTORS.

Sri N. B. Prasad, founder Director and Chairman of the company has resigned from Board w.e.f 28-7-2006 for health reasons. The Board of Directors place on record their gratitude and high appreciation for his valuable stewardship and guidance. We wish him good health and long life.

### SALE OF FIXED ASSETS.

Permission of the share holders for sale of fixed has been obtained through postal ballots and the necessary resolutions were passed at the Extraordinary General Meeting of shareholders held on 29<sup>th</sup> Sept 2005.

### PREFERENCE SHARE DIVIDEND

The cumulative preference shareholders have agreed to reduce the rate of dividend from 14% to 5% with retrospective effect from 1999 onwards and the time for the maturity has been extended till March 2015.

### CLOSURE OF SHARE TRANSFER BOOKS

The share transfer books will remain closed from 28<sup>th</sup> Sept 2006 to 29<sup>th</sup> Sept 2006 both days inclusive.

### DIRECTORS RESPONSIBILITY STATEMENT

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

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

### PARTICULARS OF EMPLOYEES

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

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****DIRECTORS**

Sri.Ram N.Prasad was co-opted as Director w.e.f.31.08.2006 retires at this A.G M. and being eligible offers himself for re-appointment.

Sri.M.Venkateswara Rao and Sri.N.Rajender Prasad ,Directors are the Directors retiring by rotation and being eligible offer themselves for re-appointment.

**AUDITORS**

You are requested to appoint M/S.K.S.Rao & Company, Chartered Accountants, Hyderabad as auditors for the year 2006-2007 and fix their remuneration.

**SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985:**

Your Company has already approached the BIFR

**AUDIT COMMITTEE**

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

**CORPORATE GOVERNANCE**

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

**DEPOSIT**

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

On behalf of the Board

Sd/-

(N.Ravi Prasad)

Managing Director

Place : Hyderabad

Date : 31.08.2006

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

Specific areas in which R & D carried out

—

By the Company.

Benefits derived as a result of the above R & D

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Future plan of action

Expenditure on R & D

a) Capital

NIL

b) Recurring

c) Total

d) Total R & D expenditure as a percentage of total turnover.

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED****TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION.**

1. Efforts made towards technology N.A
2. Benefits derived as a result of the above efforts N.A.
3. In case of imported technology imported during the 1<sup>st</sup> 5 yrs.(reckoned from the beginning of the financial year) following information 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 requirement of the Corporate Governance code and made the required disclosures.

**2) Board of Directors**

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

During the period the Board met 4 times on 01-06-2005, 29-07-2005, 29-10-2005, and 11-02-2006

An E.G.M. was conducted on 27-09-2005

**3) Audit committee**

The 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 Thakkar, Chairman Sri.M.Venkateswara 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 met 4 times in the year.

**4) Remuneration committee**

A remuneration committee has been constituted by the Board consisting of Sri.P.K.Doraiswamy Chairman Sri.M.Venkateswara 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.Venkateswara 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 with Dr.N.B.Prasad (Upto 28.07.2006) as Chairman and Sri.N.Ram Prasad (w.e.f.31.08.2006) as Chairman, Sri.N.Ravi Prasad and Sri.N.Rajender Prasad, Directors. The Committee meets periodically to look into and approve share transfer requests.