

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

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**TWENTY FIRST ANNUAL REPORT
2006 - 2007**

BOARD OF DIRECTORS

Sri.N..RAM PRASAD	Director &Chairman
Sri.P.K.DORAI SWAMY	APSFC Nominee Director
Sri. M.VENKATESWARARAO	APIDC Nominee Director
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
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BANKERS	ANDHRA BANK SOMAJIGUDA HYDERABAD
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REGD.OFFICE	DECCAN CHAMBERS, (5 TH FLOOR) 6-3-666/B, SOMAJIGUDA HYDERABAD – 500 082
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WORKS	GOWRIPATNAM WEST GODAVARI DISTRICT
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MINES	1. MULUGU MANDAL WARANGAL DIST. ANDHRA PRADESH 2. VENKATAYAPALAM VILLAGE KHAMMAM DIST. ANDHRA PRADESH
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SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**NOTICE**

Notice is hereby given that the 21st Annual General Meeting of the members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on 29th September, 2007 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 31st March, 2007 and Profit and Loss Account for the year 2006 – 2007 and report of the Auditors thereon and Report of Directors to the Share Holders.
2. To elect director in place of Sri Snehal A Thakkar, Director who retires by rotation of Directors at the conclusion of this Annual General Meeting and being eligible, offers for re-appointment.
3. 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”.

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

Sd/-
N.Ravi Prasad
Managing Director

Place : Hyderabad

Date : 29.08.2007

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.
3. The register of members and share transfer book of the Company shall remain closed from 26.09.2007 to 28.09.2007 (both days inclusive).

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

Your Directors have pleasure in presenting the 21st Annual Report and the Audited Accounts for the year ended 31st March 2007.

FINANCIAL REPORT/OPERATIONS

(Rs.Lakhs)

Particulars	Current Year As on 31.03.2007	Previous Year As on 31.03.2006
Net Sale and other income	159.17	179.58
Profit Before Depreciation and interest	14.96	37.35
Depreciation and interest	16.67	7.18
Net Profit (net loss)	(1.71)	30.17
Cum. Loss	366.52	364.81

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

OPERATIONS

The operations of the company are stabilized now and we hope to improve the performance and reduce the cum. losses substantially in coming years.

TERM LOAN FROM APSFC

The OTS amount of the Term Loan from APSFC for RS. 155.00 lakhs has been fully paid off. Also, the further interest as demanded by APSFC has been fully paid.

Retirement of DIRECTORS by rotation

Sri Snehal A Thakkar, Director retires at the Annual General Meeting and being eligible, offers himself for re appointment

Clarifications on the Auditors comments.

In view of Losses for the company the Board has taken decision not to charge the depreciation to Profit & Loss account which is disclosed in the item No.3 of Notes on Accounts, Gratuity is paid when it materialises.

CLOSURE OF SHARE TRANSFER BOOKS

The share transfer books will remain closed from 26th Sept 2007 to 28th Sept 2007 both days inclusive.

DIRECTORS RESPONSIBILITY STATEMENT

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

- In the preparation of the annual accounts, the applicable accounting standards have been followed;
- 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.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records 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
- 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**AUDITORS**

You are requested to appoint M/S. K.S.Rao & Company, Chartered Accountants, Hyderabad as auditors for the year 2007-2008 and fix their remuneration.

AUDIT COMMITTEE

Your Company has constituted an Audit Committee of Directors consisting Sri Snehal A Thakkar Director, a Chartered Accountant and Sri.M.Venkateswara Rao, Nominee Director of APIDC and Sri.N.Rajender Prasad Joint Managing Director as members of the Audit Committee.

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 has been paid up to 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 of Directors
Sd/-

Place : Hyderabad
Date :29-08-2007

(N.Ravi Prasad)
Managing Director

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

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

Benefits derived as a result of the above R & D —

Future plan of action
Expenditure on R & D

- | | |
|---------------------------------------------------------------|-----|
| a) Capital | NIL |
| b) Recurring | |
| c) Total | |
| d) Total R & D expenditure as a percentage of total turnover. | |

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 1st 5 yrs. (reckoned from the beginning of the financial year) following information may be furnished: N.A.
 - a) Technology
 - b) Year of import
 - c) Has technology been fully absorbed
 - d) If not fully absorbed, area Not applicable.
 - e) 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 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 5 times on 29-04-2006, 28-07-2006, 31-08-2006, 30-10-2006 and 23-01-2007.
- 3) Audit committee
An Audit committee of the Board was constituted 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, APIDC Nominee Director and Sri.N.Rajender Prasad, Joint Managing 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 of items specified in Clause 49 of the listing agreement.
- 4) Remuneration committee
A remuneration committee has been constituted by the Board consisting of Sri.P.K.Doraiswamy, APSFC Nominee Director as Chairman Sri.M.Venkateswara Rao, APIDC Nominee Director and Sri.N.Rajender Prasad, Joint Managing Director as members.
The Remuneration Committee held one meeting in the year.
- 5) Shareholders/Investors Grievance Committee
A Shareholders/Investors Grievance Committee was 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.

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**AUDITORS' REPORT**

To the Members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

We have audited the attached Balance Sheet of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED, HYDERABAD (A.P) as at 31st March, 2007 and also the Profit and Loss Account for the year ended on that date annexed thereto and the cash flow statement for the period ended on that date. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion and report that:

1. As required by the Companies (Auditors' Report) Order, 2003, issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above:
 - a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
 - c. The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account.
 - d. In our opinion, the Balance Sheet and Profit and Loss account and Cash Flow Statement dealt with by this report comply with the Accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - e. On the basis of the written representations received from the Directors as on 31st March, 2007 and taken on record by the Board of Directors, we report that, none of the Directors is disqualified as on 31st March, 2007 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
 - f. i) Arrears of depreciation of Rs.205.64 lacs and depreciation for the current period of Rs.21.33 lacs have not been provided. Consequently the loss for the current year and accumulated losses were understated by Rs.21.33 lacs and Rs.226.97 lacs respectively and the assets are overstated by Rs.226.97 lacs.
 - ii) Provision for Gratuity, estimated at Rs. 34,621/- for the current year and Rs.2,65,206/- of earlier years has not been provided. Consequently the Loss for the current year is understated by Rs.34,621/- and the current liabilities are understated by Rs. 2,99,827/-
 - g. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read in conjunction with the Schedules annexed therewith **and subject to our comments given in para f (i) and (ii) above**, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2007;
 - ii) In the case of the Profit and Loss Account, of the loss of the Company for the year ended on that date; and
 - iii) In the case of Cash Flow Statement of the cash flows for the year ended on that date.

for K.S.Rao & Co.,
Chartered Accountants
Sd/-

(P. Govardhan Reddy)
Partner

Place : Hyderabad
Date : 29.08.2007