

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

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**TWENTY THIRD ANNUAL REPORT
2008 - 2009**

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**BOARD OF DIRECTORS**

Sri. N. RAM PRASAD	Chairman
Sri. N. RAVI PRASAD	Managing Director
Sri. N. RAJENDER PRASAD	Joint Managing Director
Sri. P. K. DORAI SWAMY I.A.S.(Retd)	APSFC Nominee Director (Up to 28.01.2009)
Sri. M. VENKATESHWARA RAO	APIDC Nominee Director (Up to 31.07.2009)
Sri. SNEHAL A THAKKAR	Director
SRI. K. ESHWARAIAH	APIDC Nominee Director (From 31.07.2009)
SRI.V.S.S.PRAKASH	Director (From 28.01.2009)

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 23rd Annual General Meeting of the members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on 30th September, 2009 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, 2009 and Profit and Loss Account for the year 2008 – 2009 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 Director at the conclusion of this Annual General Meeting and being eligible offers himself for re-appointment.
3. To appointment Auditors for next year and fix their remuneration and in this connection to pass the following Resolution with or without modification.

“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

1. To consider appointment of Sri.V.S.S. Prakash as Director liable for retirement by rotation of Directors whose term of office as Additional Director expires at this Annual General Meeting and offers himself for the appointment.

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

Place : Hyderabad
Date : 27.08.2009

Sd/-
N.Ravi Prasad
Managing Director

NOTES:

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

1. Proxies in order to be valid must be received at the Registered Office of the Company not later than 48 hours before the commencement of the Annual General Meeting.
2. Members are requested to notify immediately any change in their address to the registered office of the Company.
3. The register of members and share transfer book of the Company shall remain closed from 27.09.2009, 28.09.2009 & 29.09.2009.

EXPLANATORY STATEMENT FOR THE SPECIAL BUSINESS

Sri. V. S. S. Prakash is Graduate in Commerce. He is working as an Executive in Finance & Accounts of M/s. Gujarat Petrosynthese Ltd., a profit earning and Listed Public Limited Company of Bombay. He is a consultant for Finance and Accounts and Company Secretarial matters for M/s. Southern Agrosynthese Limited, a listed Public Limited Company.

He is having good experience in Finance & Accounts matters and Company Secretarial matters. He is an outsider and not related to any Director of M/s. Southern Magnesium and Chemicals Limited.

In order to fill up the vacancy of Independent Director, due to resignation of Independent Director viz. Sri.P.K.Doraiswamy I.A.S. (Retd), the Nominee Director of APSFC, the Board appointed Mr.V.S.S.Prakash as Additional Director Pursuant to Article No.130 of Articles of Association of the Company. In order to meet the requirement of Clause No.49 of the Listing Agreement with Bombay Stock Exchange and Companies Act 1956.

Mr.V.S.S. Prakash is not related to any Director.

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

Your Directors have pleasure in presenting the 23rd Annual Report and the Audited Accounts for the year ended 31st March 2009.

FINANCIAL REPORT / OPERATIONS

(Rs.Lakhs)

Particulars	Current Year As on 31.03.2009	Previous Year As on 31.03.2008
Net Sale and other income	115.01	78.27
Profit Before Depreciation and interest	6.34	(12.67)
Depreciation and interest	268.67	3.39
Net Profit (net loss)	(262.33)	(16.06)
Cum. Loss	(644.91)	(382.59)

OPERATIONS

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

Sale of Plant and Machinery items

In accordance with the sanction from the Share holders obtained by conducting Postal Ballot under Sec. 192-A of the Companies Act 1956 read with Companies (passing of Resolution by Postal Ballot) Rules 2001 the company has completed the sale of most of the plant and machinery items. Some items with Gross value of Rs.13.81 lakhs are retained and all other items with Gross value of Rs.275.83 lakhs were sold. Since the plant was established in 1990-91, the depreciated value of the sold items was Rs.28.29 lakhs only.

Changes in the Board of Directors

Since the Term Loan from APSFC was fully repaid, the APSFC has withdrawn its nominee Director Sri.P.K.Doraiswamy, I.A.S. (Retd). Also, Sri.P.K.Doraiswamy APSFC Nominee Director, as Independent Director, resigned on 28.01.2009.

The Board placed on record their high gratitude and thanks for the valuable guidance and help extended to the Company by Sri.P.K.Doraiswamy I.A.S.(Retd) as APSFC Nominee Director.

Sir.V.S.S.Prakash an outsider was appointed as Director. He being an outsider and not related to any Director, is an Independent Director.

The APIDC has withdrawn its nominee Director Sri.M.Venkateshwara Rao and nominated Sri.K.Eswaraiah as APIDC Nominee Director pursuant to Article No.129. Sri.K.Eswaraiah, the APIDC Nominee Director, is Independent Director.

The Board placed on record their gratitude and thanks for the valuable guidance and help extended to the Company by Sri.M.Venkateshwara Rao as APIDC Nominee Director.

The Company has notified the Stock Exchange about the above changes of Independent Directors pursuant to Revised Cl.49 of the Listing Agreement.

Audit Committee

Sec 292 A of the Companies Act 1956 prescribed that Audit Committee shall be constituted only by Companies whose paid up share capital is not less than Rs.5 (Five) crores. The Companies Paid up Share Capital is Rs.4 crores only.

However, the Company has set up an Audit Committee of Directors consisting Sri Snehal A Thakkar, Director, a Chartered Accountant and Sri.M.Venkateshwara Rao, Nominee Director of APIDC and Sri.N.Rajender Prasad, Joint Managing Director.

Nomination of Independent Director in Committees of Director.

Sri.V.S.S. Prakash, an independent Director was nominated on the Remuneration committee in place of Sri.P.K.Doraiswamy, I.A.S (Retd). The APSFC Nominee Director who was withdrawn as nominee Director of APSFC by APSFC on clearing their Term loan dues fully was Independent Director.

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

On the Share Holders Grievances Committee, Sri.V.S.S.Prakash, the Independent Director was nominated in place of Sri.P.K.Doraiswamy I.A.S.(Retd), a resigned Independent Director.

Absorption of full Depreciation on Fixed Assets in Accounts

The Board decided to absorb the unabsorbed Depreciation fully from the year 1996-97, up to date, in the accounts.

RETIREMENT OF DIRECTORS, BY ROTATION

Sri Snehal A Thakkar, Director retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

CLOSURE OF SHARE TRANSFER BOOKS

The Share Transfer Books will remain closed for three days from 27.09.2009, to 29.09.2009 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.

AUDITORS

You are requested to appoint M/S. K.S.Rao & Company, Chartered Accountants, Hyderabad as auditors for the year 2009-2010 and fix their remuneration.

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 Mumbai Stock Exchange and ex-Hyderabad Stock Exchange. Listing fees have been paid up to date to the Mumbai Stock Exchange.

ACKNOWLEDGEMENT:

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/-

(N.Ravi Prasad)

Managing Director

Place : Hyderabad

Date : 27-08-2009



SOUTHERN MAGNESIUM AND CHEMICALS LIMITED

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.

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 is furnished: N.A.
 - a) Technology N.A.
 - b) Year of import N.A.
 - c) Has technology been fully absorbed N.A.
 - d) If not fully absorbed, area Not applicable. N.A.
 - e) Where this has not been the case reason therefor and future plans of action N.A.

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 Group Directors and three Independent Directors.
During the year 2008 the Board met 5 times.
- 3) Audit committee
An Audit committee of the Board was constituted to meet the requirement of Clause 49 of the listing agreement. It consists 3 Directors, including 2 Independent Directors. The terms of reference by the Board are to review before submitting to the Board half Yearly and Annual Financial Statements and to ensure compliance of items specified in Clause 49 of the listing agreement. The Committee met 5 times in the year.
- 4) Remuneration committee
The Remuneration Committee was constituted by the Board consisting of 3 Members including 2 Independent Directors.
- 5) Shareholders / Investors Grievance Committee
The Share holders Grievance Committee was constituted with 3 Members.
- 6) Share Transfer Committee
The Share Transfer Committee was constituted. The Committee meets periodically to approve the 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, 2009, and also the Profit and Loss Account for the year ended on that date annexed thereto and the cash Flow Statement for the period ended on that date. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

1. As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraph 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 purpose of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow statement dealt with by this report are in agreement with the books of account.
 - d) In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 **excepting AS-15, employees Benefits.**
 - e) On the basis of written representations received from the directors, as on 31st March, 2009 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on 31st March, 2009 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 :
 - f) The Company has not adopted and complied with the requirements of AS-15 'Employee Benefits' in respect of gratuity liability. In view of this the liability of The Company in this regard could not be ascertained. Consequently, we are unable to comment about the impact of this on the loss for the year.
 - g) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read in conjunction with the Schedules annexed therewith and subject to our comments given in para f above, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :
 - i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2009 :
 - 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 : 27.08.2009