

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED



**TWENTY FOURTH ANNUAL REPORT
2009 - 2010**

BOARD OF DIRECTORS

Sri. N. RAM PRASAD	Chairman
Sri. N. RAVI PRASAD	Managing Director
Sri. N. RAJENDER PRASAD	Joint Managing Director
SRI. K. ESHWARAJAH	APIDC Nominee Director
Sri. SNEHAL A THAKKAR	Director
SRI.V.S.S.PRAKASH	Director

AUDITORS

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

BANKERS

ANDHRA BANK
SOMAJIGUDA
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 24th Annual General Meeting of the members of SOUTHERN MAGNESIUM AND CHEMICALS LIMITED will be held on 30th September, 2010 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, 2010 and Profit and Loss Account for the year 2009 - 2010 and report of the Auditors thereon and Report of Directors to the Share Holders.
2. To elect Director in place of Sri V.S.S.Prakash, 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 for next year 2010 - 2011 and fix their remuneration and in this connection to pass the following Resolution

"Resolved that the Present 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 : 12.08.2010

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 27.09.2010, 28.09.2010 & 29.09.2010.

DIRECTOR'S REPORT

Your Directors have pleasure in presenting the 24th Annual Report and the Audited Accounts for the year ended 31st March 2010.

FINANCIAL REPORT / OPERATIONS

(Rs.Lakhs)

Particulars	Current Year As on 31.03.2010	Previous Year As on 31.03.2009
Net Sale and other income	64.34	115.01
Profit Before Depreciation and interest	(10.56)	6.34
Depreciation and interest	6.18	268.67
Net Profit (net loss)	(16.74)	(262.33)
Total Cum. Loss	(661.65)	(644.91)

OPERATIONS

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

Retirement of DIRECTORS by rotation

Sir.V.S.S.Prakash, Director retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re appointment.

CLOSURE OF SHARE TRANSFER BOOKS

The Share Transfer Books will remain closed for three days from 27.09.2010, to 29.09.2010 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 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
- 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 2010-2011 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 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/-

Place : Hyderabad

(N.Ravi Prasad)

Date : 12-08-2010

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.

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 2009 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 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 Grievance Committee
The Share holders Grievance Committee was constituted with 3 Members.
- 6) Share Transfer Committee
The Share Transfer Committee was constituted. The Committee met periodically to approve the Share Transfer requests.
- 7) Shareholders / Investors Grievance Committee
A Share holders / Investors Grievance Committee is constituted as per the Corporate Governance code consisting of Sri.Snehal A Thakkar and Sri.V.S.S.Prakash Directors and Sri.N.Rajender Prasad, JMD to review and satisfy the investors / shareholders grievances.
- 8) Share Transfer Committee
A Share Transfer Committee was constituted of Sri.N.Ram Prasad as Chairman, Sri.N.Ravi Prasad and Sri.N.Rajender Prasad, Directors. The Committee meets periodicals to approve share transfer requests.

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, 2010, 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, 2010 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on 31st March, 2010 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, 2010.
 - 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 : 12-08-2010

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF OUR REPORT OF EVEN DATE

- 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; no material discrepancies were noticed on such verification.
- (c) During the year the Company disposed of assets, in our Opinion this do not effect the going concern assumption.
- 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) to (d) Since the Company has not granted any loans, our comments do not arise with regard to the principal recoveries and overdue amounts in respect of loans granted.
- (e) The Company has taken unsecured loans from two companies and other three parties covered in the register maintained under section 301 of the Act. The amount involved in transactions is Rs.262.5 lakhs and
- (f) In our opinion the terms and conditions on which the unsecured loans were availed by the Company are not prima facie prejudicial to the interest of the Company.
- (g) The Company has not repaid principal amount and the loans are interest free.
- (iv) In our opinion there are adequate internal control systems commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and there were no weaknesses in internal control system.
- (v) (a) There were no transactions that need to be entered into a register required to be maintained under section 301 of the Act during the year except acceptance of unsecured loans from directors and Corporate Deposits.
- (b) In view of the above comment clause – V (b) is not applicable.
- (vi) The Company has not accepted deposits from the public, so the directives issued by the Reserve Bank of India and the provisions of sections 58 A, 58 AA or any other relevant provisions of the Act and the rules framed there under are not applicable to the Company during the year under report.
- (vii) The Company has no internal audit system. However, there are adequate internal control procedures commensurate with its size and nature of its business.
- (viii) The Central Government has not prescribed u/s 209 (1) (d) of the Act the maintenance of cost records for the products of the Company.

- (ix) (a) The Company is regular in depositing undisputed statutory dues including provident fund, investor education protection fund, employees state insurance, income tax, sales tax, wealth tax, customs duty and excise duty etc.
- (b) There are no dues of sales tax, income tax, custom tax, wealth tax, cess which have not been deposited on account of any dispute.
- x) Company's accumulated losses at the end of the financial year were more than 50% of its net worth and it had incurred cash losses in the period under report and also in the immediately preceding financial year.
- xi) Company has not borrowed money from a financial institution or from a Bank. Hence, clause (xi), of the above said Order is not applicable with regard to defaults in repayments of dues.
- xii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) This clause is not applicable to the Company since this Company is neither a Chit Fund or Nidhi/ Mutual benefit fund Society.
- xiv) The Company is not dealing or trading in shares, securities, debentures and other investments.
- xv) As per the Information given by the Company it has not given any guarantee for loans taken by others from bank of financial institutions.
- xvi) During the year under report the Company has not availed term loans. Hence clause (xvi) of the above said order is not applicable.
- xvii) In our opinion the funds raised on short term basis were not used for long term investment.
- xviii) During the period under report the Company had not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.
- xix) This clause is not applicable since the Company has not issued any Debentures.
- xx) During the period under report the management has not raised any money through public issue.
- xxi) During the year under report no fraud on or by the Company has been either noticed or reported.

Place : Hyderabad
Date : 12-08-2010

for K.S.Rao & Co.,
Chartered Accountants
Sd/-
(P. Govardhan Reddy)
Partner

BALANCE SHEET AS AT 31ST MARCH, 2010

PARTICULARS	Sch No.	As At 31.03.2010 Rs.	As At 31.03.2009 Rs.
I SOURCE OF FUNDS			
1) Share Holders Funds			
a) Share Capital	1	4,00,00,000	4,00,00,000
b) Reserves & Surplus	2	10,00,000	10,00,000
		<u>4,10,00,000</u>	<u>4,10,00,000</u>
2) Loan Funds			
a) Unsecured Loans	3	2,62,50,000	2,62,50,000
		<u>2,62,50,000</u>	<u>2,62,50,000</u>
Total		<u>6,72,50,000</u>	<u>6,72,50,000</u>
II APPLICATION OF FUNDS			
1) Fixed Assets			
a) Gross Block	4	1,82,35,768	2,00,90,347
b) Less : Depreciation		<u>1,06,01,382</u>	<u>1,12,23,676</u>
c) Net Block		<u>76,34,386</u>	<u>88,66,671</u>
2) Current Assets, Loans and Advances			
a) Inventories	5	30,29,727	22,67,178
b) Sundry Debtors	6	21,22,690	38,32,844
c) Cash & Bank balances	7	4,32,315	42,612
d) Loans & Advances	8	3,48,219	4,04,061
		<u>59,32,951</u>	<u>65,46,695</u>
Less: Current Liabilities & Provisions	9	<u>1,24,82,325</u>	<u>1,26,54,485</u>
Net Current Assets		<u>(65,49,374)</u>	<u>(61,07,790)</u>
3) Profit & Loss Account		<u>6,61,64,988</u>	<u>6,44,91,119</u>
Total		<u>6,72,50,000</u>	<u>6,72,50,000</u>
NOTES ON ACCOUNTS	15		

Per our report of even date

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

Chartered Accountants

Sd/-

(P.GOVERDHAN REDDY)

Partner

Place : Hyderabad

Date : 12.08.2010

For and on behalf of the Board

Sd/-

(N.Ravi Prasad)
Managing Director

Sd/-

(N.Rajender Prasad)
Joint Managing Director

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDING 31ST MARCH 2010

PARTICULARS	Sch No.	Current Year Rs.	Previous Year Rs.
I. INCOME			
Sales		59,19,137	79,07,498
Less Excise Duty		4,61,980	9,24,621
		<u>54,57,157</u>	<u>69,82,877</u>
Other Income	10	9,77,235	45,18,301
Total		<u>64,34,392</u>	<u>1,15,01,178</u>
II. EXPENDITURE			
Materials Consumed	11	42,77,836	45,92,889
Power		2,16,809	1,83,395
Staff Cost	12	14,58,940	13,88,397
Interest : Others		-	1,226
Other Expenses	13	21,89,660	24,89,423
Excise duty (Refer Note No.4)		1,06,231	(1,45,197)
Depreciation for the year		6,18,486	20,59,316
Depreciation for earlier years		-	2,48,05,976
(Increase) / Decrease in Stocks	14	(7,62,549)	23,27,401
Total		<u>81,05,411</u>	<u>3,77,02,822</u>
III. Loss for the Period		<u>(16,71,019)</u>	<u>(2,62,01,644)</u>
Less: Provision for the FBT		-	30,874
FBT of earlier years		2,850	0
		<u>(16,73,869)</u>	<u>(2,62,32,518)</u>
Balance Brought forward from last year		6,44,91,119	3,82,58,601
Loss Carried to Balance Sheet		<u>6,61,64,988</u>	<u>6,44,91,119</u>
Notes on Accounts	15		
Earning per share (Refer Note No.II)		(0.56)	(8.74)

Per our report of even date

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

Chartered Accountants

Sd/-

(P.GOVERDHAN REDDY)

Partner

Place : Hyderabad

Date : 12.08.2010

For and on behalf of the Board

Sd/-

(N.Ravi Prasad)
Managing Director

Sd/-

(N.Rajender Prasad)
Joint Managing Director

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDED 31st MARCH 2010**

PARTICULARS	As At 31.03.2010 Rs.	As At 31.03.2009 Rs.
1. Share Capital		
Authorised		
40,00,000 Equity Shares of Rs.10/- Each	4,00,00,000	4,00,00,000
10,00,000 Preference shares of Rs.10/- Each	1,00,00,000	1,00,00,000
Total	5,00,00,000	5,00,00,000
Issued, Subscribed and paid up		
a) 30,00,000 Equity shares of Rs.10/- Each fully paid up	3,00,00,000	3,00,00,000
b) 5% Cumulative 10,00,000 Redeemable Preference Shares of Rs.10/- Each fully paid up	1,00,00,000	1,00,00,000
Total	4,00,00,000	4,00,00,000
2. Reserves and Surplus		
Capital Reserve - Subsidy	10,00,000	10,00,000
Total	10,00,000	10,00,000
3. Unsecured Loans		
Interest Free Loan From Directors	2,25,00,000	2,25,00,000
Interest Free Inter Corporate Deposits	37,50,000	37,50,000
Total	2,62,50,000	2,62,50,000

SCHEDULE "4"

FIXED ASSETS

(Amounts in Rs.)

Sl. No.	Description	GROSS BLOCK			DEPRECIATION				NETBLOCK		
		As at 01.04.2009	Additions	Deletions	As at 31.03.10	Upto 01.04.09	For the Period	Deletions	Upto 31.03.10	As at 31.03.10	As at 31.03.09
1	Land : Factory	235862	0	0	235862	0	0	0	0	235862	235862
	: Mines	302651	0	0	302651	0	0	0	0	302651	302651
2	Building : Non-Factory	2497589	0	0	2497589	661161	40711	0	701872	1795717	1836428
	: Factory	8469265	0	0	8469265	4308072	282873	0	4550945	3878320	4161193
3	Plant & Machinery	1381366	12937	0	1394303	1081096	73619	0	1154715	239598	300270
4	Electrical Installations	3849093	0	1867516	1981577	2144941	151645	1240780	1055806	925771	1704152
5	Weighing Machines	405491	0	0	405491	385216	0	0	385216	20275	20275
6	Lab Equipment	814515	0	0	814615	680027	36694	0	718721	95894	134588
7	Office Equipment	277031	0	0	277031	179967	13159	0	193026	84005	97164
8	Fire Fighting Equipment	29810	0	0	29810	25607	1416	0	27023	2787	4203
9	Furniture & Fixtures	258594	0	0	258584	242149	16368	0	258517	66.6328	16435
10	Vehicles	983478	0	0	983478	934304	0	0	934304	49174	49174
11	Data Processing Equip.	85512	0	0	85512	81236	0	0	81236	4276	4276
12	Process Know-how	500000	0	0	500000	500000	0	0	500000	0	0
	Total Rs.	20090347	12,937	1,867,516	18235788	11223676	618486	1240780	10801382	7634396	8866671
	Previous year	47673112	0	27582765	20090348	9112506	26865292	24754122	11223676	8866671	38560636

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2010**

PARTICULARS	As At 31.03.2010 Rs.	As At 31.03.2009 Rs.
5. INVENTORIES (At cost otherwise stated)		
(Valued and certified by the Managing Director)		
Work in Process	2,37,450	2,37,450
Finished Goods (at lower of cost and realisable value)	27,92,277	20,29,728
Total	30,29,727	22,67,178
6. SUNDRY DEBTORS		
(Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months	10,46,012	12,50,477
Other debts	10,76,678	25,82,367
Total	21,22,690	38,32,844
7. CASH & BANK BALANCES		
Cash in Hand	50,203	21,958
Cash With Schedule Banks in Current Accounts	3,82,112	20,654
Total	4,32,315	42,612
8. LOANS AND ADVANCES		
(Unsecured, Considered good recoverable in cash or in kind or for value to be received)		
Advance for Purchases	933	933
Deposits Recoverable	1,67,693	3,17,693
Prepaid expenses	-	2,497
Balance with Central Excise	1,34,954	56,945
Advance Income Tax & TDS	36,239	25,993
Staff Advances	8,400	-
Total	3,48,219	4,04,061

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2010**

PARTICULARS	As At 31.03.2010 Rs.	As At 31.03.2009 Rs.
9. CURRENT LIABILITIES & PROVISIONS		
a) Creditors for : Purchase & Expenses		
I) Total outstanding dues of Micro Enterprises and Small enterprises	38,19,834	35,45,994
II) Total outstanding dues of creditors other than micro enterprises and small enterprises	11,16,421	13,70,533
: Other Finances	4,85,719	6,44,069
Due to Directors	70,59,476	70,62,140
Provision for FBT	875	31,749
Total	1,24,82,325	1,26,54,485
10. OTHER INCOME		
Job Work Charges	9,77,235	4,79,700
Credit Balances written back	-	34,12,244
Profit on sale of assets	-	6,26,357
Total	9,77,235	45,18,301
11. RAW MATERIAL CONSUMED		
Opening Stock	0	7,97,904
Add : Purchases	42,77,836	45,92,889
	42,77,836	53,90,793
Less: Closing Stock	0	-
Dolomite stocks written off	0	797904
Total	42,77,836	45,92,889
12. STAFF COST		
Salaries, Wages & Bonus	13,02,503	12,51,187
Contribution to P.F & Other funds	60,124	61,917
Workers and Staff Welfare	96,313	59,291
Gratuity	-	16,002
Total	14,58,940	13,88,397

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2010**

PARTICULARS	As At 31.03.2010 Rs.	As At 31.03.2009 Rs.
13. OTHER EXPENSES		
Packing Material	1,17,693	76,505
Carriage and Freight	2,54,323	1,96,676
Rates & Taxes	73,614	20,267
Printing & Stationery	32,231	31,892
Postage, Telegrams & Telephones	1,45,368	1,58,578
Insurance	5,773	4,801
Travelling & Conveyance	69,528	1,15,642
Repairs & Maintenance :		
Plant & Machinery	1,04,020	33,913
Other Assets	1,272	3,622
Vehicle Maintenance	69,278	77,114
Bank Charges	14,346	17,329
Auditors Remuneration		
As Auditors	16,545	16,545
General Charges	2,04,005	1,79,617
Loss on sale of store items	-	1,22,371
Debit Balances written Off	-	5,37,620
L.D.Charges	2,39,400	1,01,027
Dolomite Stock Written off	-	7,97,904
Loss on sale of Assets	3,96,356	-
Interest for delayed payment to sales Tax	4,55,908	-
Total	21,89,660	24,89,423
14. (INCREASE) / DECREASE IN STOCKS		
a. Opening Stocks		
Finished Goods	20,29,728	23,78,174
Work- in- Progress	2,37,450	22,16,400
	22,67,178	45,94,574
b. Closing stocks		
Finished Goods	27,92,277	20,29,728
Work in Progress	2,37,450	237,450
Total	30,29,727	22,67,178
(Increase) / Decrease (a-b)	(7,62,549)	23,27,396

15. NOTES ON ACCOUNTS

1. The following are the significant accounting policies adopted by the company in the preparation and presentation of financial statements.
 - a) Financial Statements are based on historical costs.
 - b) Tangible fixed assets are stated at cost net of depreciation provided.
 - c) Depreciation on the fixed assets of the company is provided on Straight line Basis method as per Schedule XIV to the Companies Act, 1956.
 - d) Raw Materials, stores and spares are valued at cost, Finished goods and working progress are valued at lower of cost and realisable value.
 - e) Provident Fund contributions are remitted to Provident Fund Commissioner and the same are charged to revenue.
 - f) All Contingent Liabilities are indicated by way of a note and will be paid / provided on crystallization.
2. Redeemable Preference shares are issued on the following terms.

Date of Issue	No. of Preference Shares	Face Value	Amount Rs.	Time Limit For redemption
29.03.1999	3,00,000	10/-	30,00,000	Redeemable at par after 3 years and before 7 years.
29.03.1999	3,00,000	10/-	30,00,000	Redeemable at par after 3 years and before 5 years.
28.09.1999	1,00,000	10/-	10,00,000	Redeemable at par after 3 years before 10 years.
17.04.2000	2,00,000	10	20,00,000	Redeemable at par after 3 years and before 7 years.
24.07.2000	1,00,000	10	10,00,000	Redeemable at par after 3 years and before 10 years.

However, period of redemption of all the shares is extended up to March 2015 vide a resolution passed on 27.09.2005 through postal ballot.

3. Contingent Liabilities to the extent not provided for on account of:

Particulars	As at 31.03.2009 (Rs. In lakhs)	As at 31.03.2008 (Rs. In lakhs)
i) Penalty levied by the Deputy Director, Directorate of Enforcement (FEMA) As the company prefers as appeal Before the special Director (Appeals) FEMA – New Delhi.	Nil	0.50
ii) a) Interest levied by the Sales Tax Authorities for the accounting year 2000-01 on delayed payments of General Sales Tax	Nil	1.96

Particulars	As at 31.03.2010 (Rs. In lakhs)	As at 31.03.2009 (Rs. in lakhs)
Central Sales Tax	Nil	2.36
The Company preferred appeals before Deputy Commissioner (Appeals)		
b) Arrears of cumulative Dividend on preference shares (@5%)	52.25	47.25
(The Cum. Pref 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)		

4. Excise Duty of Rs.1,06,231/- represents the differential excise duty in respect of finished goods as on 01.04.2009 and as on 31.03.2010.

5. Managerial Remuneration, Included in other Heads of Account

	Current Year	Previous Year
Managing Director		
Salary	2,40,000	2,40,000
Perquisites	39,623	33,852
Contributions to Provident Fund	20,160	20,160
Total	2,94,012	2,94,012
Joint Managing Director		
Salary	2,40,000	2,40,000
Perquisites	35,522	31,878
Contributions to Provident Fund	20,160	20,160
Total	2,92,038	2,92,038

6. In view of the absence of reasonable certainty that sufficient future taxable income will be available against which deferred tax asset can be realized, it is considered prudent not to provide for deferred tax asset of Rs.2,27,21,627/-, in accordance with Accounting Standard – 22, Accounting for taxes on income, resulted on account of brought forward losses and unabsorbed depreciation.

Deferred Tax Assets	31.03.2010 Rs.	31.03.2009 Rs.
i) Unabsorbed Depreciation	3,16,13,642	3,59,08,954
ii) Unabsorbed Loss	3,73,85,424	3,68,70,102
iii) Disallowances under 43 B	25,835	1,36,798
iv) Disallowances under 40(a) (I a)	86,347	56,932
	7,36,11,248	7,29,72,786
Deferred Liability		
i) Net Block as per books	76,34,386	83,28,158
ii) Net Block as per I.T. Act	25,50,110	22,03,349
	50,84,276	61,24,809
Deferred Tax Asset	6,85,26,972	6,68,47,977
Tax there on @ 33.99%	2,32,93,318	2,27,21,627

7. Information required pursuant to the Accounting Standards issued by the Institute of Chartered Accountants of India.

- a) AS-17 Segment Reporting. Company operates only in one segment that of manufacture and sale of magnesium metal related products. Segment Reporting in accordance with AS-17 is not required.
- b) AS-18 Related party disclosures:

Related party disclosures as required by AS - 18 are given below

Related Parties	Nature of Relationship
1 Southern Electrodes Ltd	Associate Companies
2 Pumps (India) Pvt. Ltd	
3 Phoenix Finance & Leasing Limited	
4 Mr.N.Ravi Prasad	Key Management Personnel
5 Mr.N.Rajender Prasad	
6 Smt N.Anantha Lakshmi	Relatives of Key Management Personnel
7 Sri N.B.Prasad	
8 Sri N. Ram Prasad	

- i) Transactions with associate Companies

	Current Year	Previous Year	Receivable (Payable) As on 31.03.10	Receivable (Payable) As on 31.03.09
a) Inter Corporate Deposits	-	-	(37,50,000)	(37,50,000)
b) Current Liabilities	-	-	(25,85,678)	(27,23,539)

- ii) Details of transactions in respect of Key Management personnel.

	Current Year (Rs.)	Previous Year (Rs.)
1 Remuneration (as detailed in note no.5)	5,95,465	5,86,050
2 Un-secured Loans:		
Outstanding at the beginning of the year	1,00,00,000	1,00,00,000
Received during the year	-	-
Repaid during the year	-	-
Outstanding at the close of the year	1,00,00,000	1,00,00,000
Amount payable on current A/c	28,76,567	28,79,230
3 Details of transaction in respect of Relatives of Key Management Personnel		
Rent for Premises Leased to Company	-	-
Rent Deposit	-	1,50,000
Unsecured Loans Payable	1,25,00,000	1,25,00,000
Current Liabilities Payable	46,20,997	47,70,997
c. Earning per Equity Share		
Loss as per Profit & Loss Account (Before extraordinary item)	16,73,869	2,62,32,522
Number of equity Shares outstanding	30,00,000	30,00,000
Basic and diluted earnings per share in Rupees of face value of Rs.10/-	(0.56)	(8.74)

8. Quantitative particulars in accordance with the requirements of Part - II of Scheduled VI to the Companies Act., 1956.

	Current Year Qty (Metric Tonnes)	Previous Year Qty (Metric Tonnes)
a) Licenced Capacity		
Magnesium Metal	2000	2000
b) Installed Capacity		
Magnesium Metal	-	-

(The Figures for installed Capacity are as certified by the management and not verified by the auditors this being a technical matter)

	Current Year Qty (Metric Tonnes)	Previous Year Qty (Metric Tonnes)
c) Opening Stock		
Magnesium Turnings	2.053	2.552
Magnesium Powders	6.451	6.750
Magnesium Pieces	0.584	0.374
Total	<u>9.088</u>	<u>9.676</u>
d) Production(Magnesium Metal converted into different forms)		
Magnesium Turnings	-	1.071
Magnesium Powders	23.885	16.701
Magnesium Pieces	4.216	2.945
Total	<u>28.101</u>	<u>20.717</u>
e) Closing Stock		
Magnesium Turnings	1.228	2.053
Magnesium Powders	8.386	6.451
Magnesium Pieces	2.500	0.584
Total	<u>12.114</u>	<u>9.088</u>

	Current Year		Previous Year	
	Qty.MT	Value in Rs.	Qty.MT	Value in Rs.
f) Sales:				
Magnesium Turnings	0.825	1,87,750	1.570	5,69,571
Magnesium Powders	21.950	48,01,407	17.000	64,10,822
Magnesium Pieces	2.600	4,68,000	2.735	9,27,105
(inclusive of 300 kg returned)				
Total	25.375	54,57,157	21.305	79,07,498
g) Details of raw Material consumed:				
Magnesium Metal	28.681	42,77,836	21.150	45,92,889
Total	28.681	42,77,836	21.150	45,92,889
h) Analysis of materials and Stores consumed:	Percentage	Value. Rs.	Percentage	Value.Rs.
a. Indigenous:	100.00	43,97,864	100.00	46,69,394
b. Imported	Nil	Nil	Nil	Nil
Total	100.00	43,97,864	100.00	46,69,394
i) Value of imports Calculated on C.I.F. basis. In respect of Raw Materials		Nil		Nil

9. Previous Year's figures have been regrouped wherever necessary and paise have been rounded off to the nearest rupee.

Per our report of even date
For **K.S. RAO & CO.**
Chartered Accountants

For and on behalf of the Board

Sd/
(P. GOVARDHAN REDDY)
Partner

Sd/-
(N. Ravi Prasad)
Managing Director

Sd/-
(N. Rajender Prasad)
Joint Managing Director

Place : Hyderabad
Date : 12-08-2010

CASH FLOW STATEMENT FOR THE PREIOD ENDED 31st MARCH 2010

PARTICULARS	YEAR ENDED 31.03.2010	YEAR ENDED 31.03.2009
A) CASH FROM OPERATING ACTIVITIES		
Loss for the year before tax and extraordinary items	(16,73,870)	(2,62,01,644)
Adjustments for :		
Credit Balances written back	0	(34,12,244)
Stock written off	0	27,76,854
Depreciation	6,18,485	2,68,65,292
Loss on Sale of Asset	3,86,356	(6,26,357)
Interest	0	1,226
Differential Excise Duty	1,06,231	0
Direct Taxes Paid	2,850	0
Operating Profit before working capital Changes	(5,59,948)	(5,96,873)
Adjustments for :		
Trade and other receivables	17,65,996	(21,31,969)
Inventories	(7,62,549)	5,15,817
Trade Payables	(1,72,158)	(9,38,842)
Differential Excise Duty	(1,06,231)	
CASH GENERATED FROM OPERATIONS	1,65,110	(31,51,967)
Interest Paid	-	(1,226)
Direct Taxes Paid	(2,850)	(31,808)
NET CASH FROM OPERATING ACTIVITY (A)	1,62,260	(31,85,001)
B CASH FLOW FROM INVESTING ACTIVITIES		
Sale of Assets	2,40,380	34,55,000
Purchase of Assets	(12,937)	-
NET CASH FROM INVESTING ACTIVITIES (B)	2,27,443	34,55,000
C CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of Loan	0	(4,00,000)
NET CASH GENERATED IN FINANCING ACTIVITIES (C)	0	(4,00,000)
Net increase / (Decrease) in cash and cashEquivalents (A+B+C)	3,89,702	(1,30,001)
Cash and Cash equivalents as at 1 st April, 2009	42,612	1,72,613
Cash and Cash equivalents as at 31 st March, 2010	4,32,314	42,612

Per our report of even date

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

Chartered Accountants

For and on behalf of the Board

Sd/-
(P. GOVARDHAN REDDY)
Partner

Sd/-
(N. Ravi Prasad)
Managing Director

Sd/-
(N. Rajender Prasad)
Joint Managing Director

Place : Hyderabad
Date : 12-08-2010

**INFORMATION PURSUANT TO PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

I. REGISTRATION DETAILS

Registration No. 5 3 0 3

State Code 0 1

Balance Sheet 3 1 - 0 3 - 2 0 1 0

II. CAPITAL RAISED DURING THE YEAR (Amount in Rs. thousands)

Public Issue

N I L

Rights Issue

N I L

Bonus Issue

N I L

Private Placement

N I L

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount in Rs. thousands)

Total Liabilities

6 7 2 5 0

Total Assets

6 7 2 5 0

SOURCE OF FUNDS

Paid - up Capital

4 0 0 0 0

Reserves & Surplus

1 0 0 0

Secured Loans

N I L

Unsecured Loans

2 6 2 5 0

APPLICATION OF FUNDS

Net Fixed Assets

7 6 3 4

Investments

N I L

Net Current Assets

(6 1 0 4)

Misc. Expenditure

N I L

Accumulated Losses

6 5 7 2 0

IV. PERFORMANCE OF THE COMPANY (Amount in Rs. Thousands)

Turnover

6 4 3 4

Total Expenditure

7 6 6 0

Profit / (Loss) before Tax

(1 2 2 5)

Profit / (Loss) after Tax

(1 2 2 8)

Earning per share (Rs.)

(0 4 1)

Dividend Rate (%)

N I L

V. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS / SERVICES OF COMPANY (as per monetary terms)

Item Code No. (ITC Code)

8 1 0 4 - 0 0

Product Description

M A G N E S I U M M E T A L

For and on behalf of the Board

Place : Hyderabad
Date : 12-08-2010

Sd/-
(N. Ravi Prasad)
Managing Director

Sd/-
(N. Rajender Prasad)
Joint Managing Director

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

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

ATTENDANCE SLIP

(To be handed over at the entrance of the meeting hall)

Name of the attending Member
(In Block Letters)

Member's Registered
Folio Number

Name of Proxy (In Block Letters)
(To be filled, if the Proxy attends instead of the Member)

No. of Shares held _____

I hereby record my presence at the Twenty Fourth Annual General Meeting of the Company held at Hotel I K London Residency, 6-3-656, Kapadia Lane, Somajiguda, Hyderabad-500 082 on Thursday, the 30th September 2010 at 11.30 A.M.

(Member's / Proxy's Signature)

(To be signed at the time of handing over this slip)

Note: Since it will not be possible to distribute copies of the Annual Report at the Meeting Hall, the Members are requested to bring their copy of the Annual Report to the Meeting.

----- TEAR HERE -----

**SOUTHERN MAGNESIUM AND CHEMICALS LIMITED**

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

FROM OF PROXY

FOLIO NO.

I/We _____ of _____

being a Member / Members of the above named Company hereby appoint _____

of _____ or failing him _____ of _____

as my / our proxy to attend and vote for me / us and on my/our behalf at the Twenty Fourth Annual General Meeting of the Company to be held on Thursday, the 30th September 2010 and at any adjournment thereof.

Signed this _____ of _____ 2010

Affix
Revenue
Stamp

Signature

Note: This Instrument of Proxy should be deposited at the Registered Office of the Company not less than 48 (Forty Eight) hours before the time of holding the meeting.

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