

SOUTHERN MAGNESIUM AND CHEMICALS LIMITED



**TWENTY SIXTH ANNUAL REPORT
2011 - 2012**

BOARD OF DIRECTORS

Sri. N. RAVI PRASAD	Managing Director
Sri. N. RAJENDER PRASAD	Joint Managing Director
SRI. K. ESHWARAIAH	APIDC Nominee Director
Sri. SNEHAL A THAKKAR	Director
SRI.V.S.S.PRAKASH	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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REGISTRAR AND SHARE TRANSFER AGENTS	AARTHI CONSULTANTS PRIVATE LIMITED, 1-2-285, DOMALGUDA HYDERABAD-500029
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NOTICE

Notice is hereby by given that the 26th Annual General Meeting of the Members of Southern Magnesium and Chemicals Limited will be held on Saturday the 29th day of September, 2012 at 11.30 AM 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, 2012 and Profit and Loss account for the year 2011-2012 and report of the Auditors and report of Directors thereon.
2. To note that Sri.Snehal A Thakkar, Director retires by rotation and being eligible offers himself for re-appointment .
3. To appoint M/s K.S.Rao & Co, Chartered Accountants as Statutory auditors to hold office up to the conclusion of next Annual General Meeting at a remuneration as may be fixed by the Board of Directors of the Company by passing the following resolution.

“Resolved that the Statutory Auditors M/s.K.S.Rao & Co, Chartered Accountants, Hyderabad be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this 26th 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 :

Alteration of Articles of Association :

4. To consider and if thought fit, to pass, with or without modification(s) the following resolution as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section 31 and all other applicable provisions of the Companies Act, 1956 and Rules framed there under, the existing Article No.138.iii) of Articles of Association be and is hereby amended as under :

iii) Every Director, shall be paid such fee as the Board of Directors determine for each meeting of the Board or committee there of attended by him. The fee so determined shall not exceed the limits as prescribed under Companies Act, 1956.

“FURTHER RESOLVED THAT the Board of Directors of the Company (hereinafter referred to as “the Board” which term shall be deemed to include any Committee or any person which the Board may nominate/constitute to exercise its powers, including the powers by this Resolution) be and is hereby authorized to carry out the above mentioned amendments in the existing Articles of Association of the Company and to take all such steps as may be necessary to give effect to this Resolution.”

NOTES :

1. An Explanatory Statement pursuant to section 173(2) of the companies Act, 1956 in relation to the Special Business of the Meeting is annexed hereto and forms part of this notice.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF / HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES, IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**
3. The Register of Members and Share Transfer Books of the Company will be closed from 26.09.2012 to 29.09.2012 (Both days inclusive).
4. Members are requested to produce the Attendance Slip duly signed as per the Specimen Signature recorded with the Company/Depository Participant for admission to the meeting hall.

5. Members are requested to notify immediately any change in their address to the Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed on to their respective Depository Participants.
6. A Member desirous of receiving any information on the accounts or operations of the company is requested to forward his/her queries to the company at least 7 working days prior to the meeting, so that the required information can be made available at the meeting.
7. Members holding shares in physical form are requested to notify immediately any change in their address along with address proof, i.e. Electric /Telephone Bill, Driving License or a copy of passport and Bank particulars to the company or its Registrar & Share Transfer Agent and in case their shares are held in dematerialized form, this information should be passed on directly to their respective Depository Participants and not to the company/RTA without delay.
8. Members, who hold shares in de-materialized form, are requested to bring their Client ID and DP IDs for easier identification of attendance at the meeting.
9. It shall be mandatory for the transferee(s) to furnish copy of PAN Card to the Company/RTAs for registration of transfer of shares for securities market transactions and off market/private transaction involving transfer of shares in physical form of listed companies.
10. As part of Green Initiative in Corporate Governance the Ministry of Corporate Affairs (MCA), Government of India vide its Circular has allowed paperless compliances by Companies inter-alia stating that if the Company sends official documents to their shareholders electronically, it will be in compliance with the provisions of Section 53 of the Companies Act, 1956. Keeping in view shareholders are requested to update their E-Mail ID with their DP.

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

Place : Hyderabad
Date : 14.08.2012

Sd/-
N.Ravi Prasad
Managing Director

EXPLANATORY STATEMENT (Pursuant to Section 173(2)) of the Companies Act, 1956

The existing provisions of Articles of Association of the Company says that the remuneration paid to the Directors for each meeting of Board shall not exceed Rs.250/- The Board considered now it is necessary to revise the same. Hence it is proposed to amend Articles of Association of the Company for payment of remuneration/sitting fees as per the limits prescribed by the Companies Act, 1956.

As per Section 31 of the Companies Act, 1956, any amendment to Articles requires the approval of Shareholders. Hence the resolution is commended for your approval.

None of the Directors are interested in the specified resolution.

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

Place : Hyderabad
Date : 14.08.2012

Sd/-
N.Ravi Prasad
Managing Director

DIRECTOR'S REPORT

Your Directors have pleasure in presenting the 26th Annual Report and the Audited Accounts for the year ended 31st March 2012.

FINANCIAL REPORT / OPERATIONS

(Rs.Lakhs)

Particulars	Current Year As on 31.03.2012	Previous Year As on 31.03.2011
Net Sale and other income	163.61	185.29
Profit/(Loss)Before Depreciation and interest	(2.49)	29.28
Depreciation, and Interest	8.62	14.13
Net Profit/Net loss (-)	(11.11)	15.15
Total Cum.Loss	(657.61)	(646.50)

REVIEW OF OPERATIONS :

The Income for the year 2011-12 is Rs. 163.61 lakhs and a loss of Rs..11.11 lakhs. The income for the previous year 2010-11 was Rs.185.29 Lakhs and a Profit of Rs.15.15 lakhs. The loss for the current year was on account of write off of Rs.29.48 lakhs towards fraud committed by a new vendor in China. The Board it taking necessary steps to recover the same.

DIVIDEND:

In view of the accumulated losses, your Directors have decided not to recommend dividend for the year.

PUBLIC DEPOSITS:

Your Company has not accepted any deposits falling within the meaning of Sec.58A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, during the financial year under review.

LISTING:

The equity shares of your company are listed on Bombay Stock Exchange.

CAPITAL OF THE COMPANY:

The Authorised Capital of the company stands at 40,00,000 equity shares of Rs. 10/- each and 10,00,000 preference shares of Rs.10/- each. The Issued, Subscribed and Paid up capital of the company stands at 30,00,000 equity shares of Rs 10/- each and 10,00,000 preference shares of Rs.10/- each.

SUBSIDIARY COMPANY:

The Company has no subsidiaries.

INSURANCE:

The company's assets have been adequately insured against major risks.

DIRECTORS:

In accordance with the Companies Act, 1956 read with Articles of Association of the company the Director namely Sri.Snehal A Thakkar, Director retires by rotation and is eligible for re-appointment. Your Board recommends the re appointment of the Director above in the best interests of the company.

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 the 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 the preventing and detecting fraud and other irregularities.
- IV) The Directors have prepared the Annual Accounts on a going concern basis.

PARTICULARS OF EMPLOYEES

There is no employee who is falling under section 217 (2A). Therefore, the disclosures required to be made under section 217 (2A) of the Companies Act, 1956 and the rules made there under are not applicable.

AUDITORS

Your directors propose the appointment of M/s.K.S.Rao & Co, Chartered Accountants, Hyderabad as statutory auditors to hold office until the conclusion of the next Annual General Meeting of the company.

CORPORATE GOVERNANCE

As a listed company, necessary measures have been taken to comply with the listing agreements of Stock Exchanges. A report on Corporate Governance, along with a certificate of compliance from the Auditors, Forms part of this Report as Annexure.

PUBLIC DEPOSITS:

Your Company has not accepted any deposits falling within the meaning of Sec.58A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, during the financial year under review.

Conservation of energy, technology absorption, foreign exchange earnings and outgo

A) Conservation of Energy	Nil
B) Technology absorption, adoption and innovation.	
Specific areas in which R & D carried out by the company	Nil
Benefits derived as a result of the above R & D	Nil
Future plan of action	Nil
Expenditure on R & D	
a. Capital	Nil
b. Recurring	Nil
c. Total	Nil
d. Total R & D Expenditure as a percentage of Total Turnover	Nil
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 1st 5 years
(reckoned for the beginning of the Financial year)

following information is furnished:

a) Technology	N.A
b) Year 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 Therefore and future plans of action	N.A

C) FOREIGN EXCHANGE EARNING & OUT GO

During the year Foreign Excnage out go was Rs.85.19 lakhs and Foreign Exchange earnings was Rs. Nil.

ACKNOWLEDGEMENT

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

DECLARATION BY MANAGING DIRECTOR OF AFFIRMATION BY DIRECTORS AND SENIOR MANAGEMENT PERSONNEL OF COMPLIANCE WITH THE CODE OF CONDUCT:

The shareholders

I, N.Ravi Prasad, Managing Director of the Company do hereby declare that the directors and senior management of the Company have exercised their authority and powers and discharged their duties and functions in accordance with the requirements of the code of conduct as prescribed by the company and have adhered to the provisions of the same.

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

Place : Hyderabad
Date : 14.08.2012

(N.Ravi Prasad)
Managing Director

(N. Rajender Prasad)
Joint Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was set up to produce Primary Magnesium Metal. However due to dumping of Magnesium Metal from China we had to shift on focus to down stream products. To day we are largely produce magnesium powders, turnings and also regular magnesium metal ingots.

OPPORTUNITIES, RISKS, CONCERNS THREATS & OUTLOOK:

We are focused on increasing our market share of existing, products, and forging strong relationship with customers, laying thereby a robust foundation for sustainable growth.

The year 2012-13 looks promising with its own sets of challenges and opportunities for us and it is expected that there will be growth in chemical and Pharmaceuticals industry.

With global recession and idle/new capacities abroad and a weaker rupee, there is increasing threat of raw material cost increasing. Steep increase in imports into the country and withdrawal of safe guard duty are a concern.

INTERNAL CONTROL SYSTEMS & ADEQUACY:

The Company has established an appropriate system of internal control to ensure that there exists a proper control over all the transactions and that all its assets are properly safeguarded and not exposed to risk arising out of unauthorised use or disposal. The Internal Audit conducted at all divisions for all the key areas of business. The Internal Control System is supplemented by a programme of Internal Audits to ensure that the assets are properly accounted for and the business operations are conducted in adherence to laid down policies and procedures. The Internal Audit is oriented towards review of controls and operational improvements.

FINANCIAL AND OPERATIONAL PERFORMANCE:

Highlights of financial and operational Performance are given below:

Particulars	As at 31.03.2012 (Rs in lakhs)
Net Sale and other income	163.61
Profit/(loss) before Depreciation and interest	(2.49)
Depreciation. and Interest	8.62
Net Profit/ (Net loss)	(11.11)
Total Cum.Loss	(657.61)

SEGMENT WISE OR PRODUCT WISE PERFORMANCE: Not Applicable

HUMAN RESOURCES, INDUSTRY DEVELOPMENT RELATIONS:

Relations with the employees remained cordial in general throughout the year. In order to optimise the contribution of the employees to the Company's business and operations, in- house training is given to the employees to induce contribution to productivity increase and development programmes for all levels of employees have been devised. Occupational Health Safety and Environmental Management are given utmost importance.

SENIOR MANAGEMENT DISCLOSURES:

The Company's senior management makes disclosures to the Board relating to all material financial and commercial transactions as when they occur.

CAUTIONARY STATEMENT:

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations and such forward-looking statements involve risks and uncertainties. Actual results could differ materially from those expressed or implied important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the Countries in which the Company conducts business and other incidental factors. The Company undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on these forward looking statements that speaks only as of their dates.

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

Sd/-
N.Ravi Prasad
Managing Director

Place : Hyderabad
Date : 14.08.2012

REPORT ON CORPORATE GOVERNANCE

1. Company's Philosophy on code of Governance:

Corporate Governance is a synonym for sound management, transparency and disclosure. The Company's Philosophy of Corporate Governance envisages the highest level of transparency, accountability equity in all its dealings with shareholders, employees, government and lenders. The Company's guiding principles are focused to achieve the highest standards of corporate governance. In compliance with the disclosure requirements of Clause 49 of the Listing Agreement executed with the Stock Exchanges the details are set out below:

2. Board of Directors:

Composition and Category of Directors as at 31st March, 2012

The Board of Directors Comprises 2 Executive Directors and 3 non Executive Directors, During the Year under review 4 Board Meetings were held on 31.05.2011, 10.08.2011, 12.11.2011, 13.02.2012

The compositions of the Board Directors and their attendance at the meeting during the year and at the last Annual General Meeting as also number of other Directorship of committees are as follows:

Name of Director	Category of Directorship	No. of Board Meetings attended	Attendance at last AGM	No. of other Directorships	Committee Membership in Others Cos.
Mr. N. Ravi Prasad	Promoter, Managing Director	1	YES	3	1
Mr. N. Rajender Prasad	Promoter, Joint Managing Director	4	YES	3	4
Mr. K. Eshwaraiyah	Nominee Director, Independent Non Executive Director	2	NO	-	2
Mr. Snehal Thakkar	Independent Non Executive Director	4	NO	-	3
Mr. V.S.S. Prakash	Independent Non Executive Director	4	YES	-	1

AUDIT COMMITTEE

The composition of the Audit Committee is in compliance with the clause 49 of the Listing Agreement and the terms of reference, role and scope are in line with those prescribed by clause 49 of the Listing Agreement with the Stock Exchanges.

The Audit Committee comprises of 2 (Two) Non-executive Independent Directors and One Executive Director. The Audit Committee met 4 (Four) times during the year under review on 31.05.2011, 10.08.2011, 12.11.2011 and 13.02.2012.

The Composition of Audit Committee and the details of meeting attended are given below :

Sl. No.	Name	Position held in the committee	Number of committee meeting attended
1	Mr. Snehal A. Thakkar	Chairman	Three
2	Mr. K. Eshwaraiah	Member	Two
3	Mr. N. Rajender Prasad	Member	Four

During these meetings, the Committee inter alia, reviewed the financial statements including changes in accounting policies and practices before submitting to the Board, recommended the appointment of statutory Auditors including fixation of audit fee, and reviewed the company's financial and risk management policies.

Investors' Grievance Committee:

The responsibilities of the committee include

- (a) to approve share transfers and transmissions and
- (b) to approve splitting of share certificates, consolidation of share certificates and related matters including wish you of fresh share certificates in lieu of the split / consolidated certificates and redressal of all share holders queries and grievances. The Committee has been meeting at regular intervals to resolve the complaints and replied / resolved to the satisfaction of the investors.

During the year the committee met on 31.05.2011 & 10.08.2011

The Composition of share holders / investors' grievance committee and the details of meeting attended are given below.

Sl. No.	Name	Position held in the committee	Number of committee meeting attended
1	Mr. Snehal Thakkar	Chairman	Two
2	Mr. K. Eshwaraiah	Member	One
3	Mr. N. Rajender Prasad	Member	Two

Remuneration Committee:

The responsibilities of remuneration committee are to appraise the performance of Executive Directors and senior officers of the Company and to determine and recommended to the Board compensation payable to the above said persons.

During the year, the remuneration committee met on 10.08.2011.

The Composition of remuneration committee and the details of meeting attended are given below.

Sl. No.	Name	Position held in the committee	Number of committee meeting attended
1	Mr. Snehal Thakkar	Chairman	One
2	Mr. K. Eshwaraiah	Member	One
3	Mr. N. Rajender Prasad	Member	One
4	Mr. V.S.S. Praksh	Member	One

The details of the share holding and salary / perquisites paid to the Managing Directors and Joint Managing Director for the Financial Year ended 2012 are as under:

Sl.No.	Name	Salary	Provident Fund	Perquisites	Total	No of Equity Shares
1.	Mr. N. Ravi Prasad	456000	35280	19779	511059	299850
2.	Mr. N Rajender Prasad	361934	28696	39282	429912	160200

The sitting fees paid for the year 2011-12 to the Board Directors, Audit Committee, Remuneration Committee share holders / investors Grievances Committee are as under.

Name	Sitting Fee
Mr. Snehal A. Thakkar	Rs.2000

Details on General Body Meetings:

Financial Year	Date	Time	Location
2010-2011	30.09.2011	11.30 A.M	Hotel I.K.London,6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082
2009-2010	30.09.2010	11.30 A.M	Hotel I.K.London,6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082
2008-2009	30.09.2009	11.30 AM	Hotel I.K.London,6-3-656, Kapadia Lane, Somajiguda, Hyderabad – 500 082

Postal Ballot:

During the year 2011-12, there are no resolutions passed under Postal Ballot pursuant to Section 192 A of the Companies Act, 1956.

Disclosures:

The Board of Directors receive from time to time disclosures relating to financial and Commercial transactions from key management personnel of the Company as and when they and / or their relatives have personal interest in any of the pecuniary transactions with the company. There are no materially significant related party transactions, which have potential conflict with the interest of the company at large.

Means of Communication:

The Quarterly Financial Results and Share Holding Pattern of the Company are furnished to the Stock Changes.

Management's discussions & analysis forms part of the Annual Report, which is mailed to the share holders of the Company.

General Share Holders Information:

Annual General Meeting:

Date & Time : 29.09.2012 at 11.30 A.M.

Venue : Hotel I.K.London, 6-3-656, Kapadia Liane, Somajiguda, Hyderabad – 500 082

Financial Calendar (Tentative) : Financial Year April 2012- to March, 2013

First Quarter Results : 14.08.2012

Second Quarter Results : 15.11.2012

Third Quarter Results : 15.02.2013
 Fourth Quarter Results : 15.05.2013
 Book Closure Dates : 26.09.2012 to 29.09.2012

(Both Dates inclusive for the purpose of AGM)

Listing on Stock Exchanges : The Company Shares are Listed on Bombay Stock Exchange Limited

Listing Fees : Listing fee for the year 2012-13 has been paid

Stock Code : For equity shares:- ASE: 1729, BSE: 590116

ISIN No. : For equity shares: - **INE308N01012**

Stock Market Price Data:

Trading of Shares are in suspension, hence data is not available.

Registrar and Share Transfer Agents:

AARTHI CONSULTANTS PRIVATE LIMITED,

1-2-285, Domalguda

Hyderabad-500029

Ph.Nos.040-27638111/27634445

Email : info@aarthiconsultants.com

Name & Details of Compliance Officer:

Mr.N.Rajender Prasad

Deccan Chambers,5th Floor,6-3-666/B, Somajigua,Hyderabad – 500 082

Ph: 040-23311789

Fax No: 040-23319871

Email Id : southernmagnesium@gmail.com

DISTRIBUTION OF SHAREHOLDING AS ON QUARTER ENDING 31st March,2012.

No.of Shares	SHARE HOLDERS		SHAREHOLDING	
	Nos.	%	Nos.	%
Up to 5000	7434000	24.74	3861	99.20
5001-10000	504000	1.68	7	0.18
10001-20000	1355000	4.52	8	0.21
20001-30000	0	0	0	0
30001-40000	701000	2.34	2	0.05
40001-50000	497600	1.66	1	0.03
50001-100000	4936000	16.45	6	0.15
Above 100001	14582400	48.61	7	0.18
Total	30000000	100	3892	100

Categories of Shareholders as on 31st March,2012

Particulars	Category	No. of shares held	Percentage of shareholding
A	Shareholding of Promoter and promoter group		
1.	Promoters & Persons acting in concert	1698800	56.63
	Sub- Total A	1698800	56.63
B	Public Shareholding		
1.	Institutions	437500	14.58
2.	Non- Institutions		
	a) Bodies Corporate	NIL	NIL
	b) Indian public and others	863700	28.79
	c) Any others		
	i) NRI's	NIL	NIL
	ii) Clearing Members	NIL	NIL
	Sub Total B	1301200	43.37
	Grand Total (A+B)	3000000	100.00

Dematerialization of Shares and Liquidity :

The Company has obtained demat connectivity with CDSL and the ISIN is INE308N01012. All the shareholders are requested to contact Registrars and Share transfer Agents at the above mentioned address for Dematerialisation of shares.

Address for Investor correspondences:

Mr.N.Rajender Prasad (Compliance Officer)
 Deccan Chambers,5th Floor,6-3-666/B, Somajigua,Hyderabad – 500 082
 Ph: 040-23311789
 Fax No: 040-23319871
 Email Id : southernmagnesium@gmail.com

CERTIFICATE OF COMPLIANCE OF CORPORATE GOVERNANCE

To
The Members of
Southern Magnesium and Chemicals Limited

We have reviewed the compliance of conditions of Corporate Governance by M/s. Southern Magnesium and Chemicals Limited, for the year ended on March 31, 2012, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement.

No investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company

We further state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For S.S. Reddy & Associates
Practising Company Secretaries

Place: Hyderabad
Date: 14.08.2012

Sd/-
S. Sarweswara Reddy

Dear Share Holder,

Please find below the Managing Director as per clause 49 (v) of the Listing Agreement:

MANAGING DIRECTOR CERTIFICATE

I N.Ravi Prasad, Managing Director of M/s.Southern Magnesium and Chemicals Limited, Certify that:

- 1) We have reviewed the Financial Statements for the Year and that to the best of our knowledge and believe:
 - a) These Statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading:
 - b) These Statements present a true and fair view of the state of affairs of the Company and of the Results of the operations and cash flows. The Financial Statements have been prepared in conformity, in all the material respects, with the existing generally accepted accounting principles including accounting standards, applicable loss and regulations.
- 2) There are, to the best of our knowledge and believe, no transactions entered into by the company during the year which are fraudulent, illegal or in violation of Company's code of conduct.
- 3) We accept overall responsibility for establishing and monitoring the Company's internal control system for financial reporting and evaluating its effectiveness. Internal Audit function monitors the internal control system for financial reporting, which encompasses the examination and evaluation of the adequacy and effectiveness. Internal Audit works with all levels of management and statutory auditors and reports significant issues to the audit committee of the Board. The Auditors and Audit Committee are apprised of any corrective action taken with regard to significant deficiencies and material weakness.
- 4) We indicate to the Auditors to the Audit Committee:
 - a) Significant changes in internal controls over financial reporting during the year:
 - b) Significant changes in the accounting policies during the year.
 - c) No instances of significant fraud of which we have become aware of and which involve the management or other employees who have significant role in the Company's internal control system over financial reporting.

However, during the year there were no such changes and instances.

For and on behalf of the Board of Directors of
M/s. Southern Magnesium and Chemicals Limited

Place: Hyderabad
Date: 14.08.2012

Sd/-
N Ravi Prasad
Managing Director

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, 2012 and also the Statement of Profit and Loss 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 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, the Statement of Profit and Loss and Cash Flow statement dealt with by this report are in agreement with the books of account.
 - d. In our opinion, the Balance Sheet, the Statement of Profit and Loss 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, Employee Benefits.**
 - e. On the basis of the written representations received from the Directors as on 31st March, 2012 and taken on record by the Board of Directors, we report that, none of the Directors is disqualified as on 31st March, 2012 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, 2012;
 - ii) In the case of the Statement of Profit and Loss 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.

Place : Hyderabad
Date : 30-05-2012

for **K.S.Rao & Co.**,
Chartered Accountants
Firms' Regn. No. 003109S
Sd/-
(P. Govardhan Reddy)
Partner
Membership No. 029193

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 had disposed off substitutional part of factory building. In our opinion, this does not affect the going concern assumption, since the company buys magnesium ingots, process them and sell the processed products.
- 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, year end balances was Rs.260.50 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 intercorporate 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 58A, 58AA 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) In our opinion the maintenance of Cost Records rules 2011 are not applicable to the company for the year under report.

- (ix) (a) The Company is not regular in depositing undisputed statutory dues including Provident Fund and Sales Tax.
Undisputed amount of Rs.4,04,665/- in respect of interest on Sales Tax was in arrears as at 31.03.2012 for a period of more than six months from the date they became payable.
The company deposits regularly Excise Duty, Service Tax and Income Tax. During the year under report there were no amounts depositable in respect of Investor Protection Fund, Employee's State Insurance, Wealth Tax, Customs Duty.
- (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 not incurred cash loss in the period under report and incurred cash loss 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 nor 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 or 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.

for **K.S.Rao & Co.,**
Chartered Accountants
Firms' Regn. No. 003109S

Sd/-
(P. Govardhan Reddy)
Partner
Membership No. 029193

Place : Hyderabad
Date : 30-05-2012

BALANCE SHEET AS AT 31ST MARCH, 2012

(All amounts are in rupees), unless otherwise stated

PARTICULARS	Reference Note No.	As At 31.03.2012 Rs.	As At 31.03.2011 Rs.
I Equity and Liabilities			
(1) Shareholders' funds			
(a) Share capital	2	40,000,000	40,000,000
(b) Reserves and surplus	3	(64,761,487)	(63,649,571)
		<u>(24,761,487)</u>	<u>(23,649,571)</u>
(2) Current liabilities			
(a) Short-term borrowings	4	29,623,505	26,503,818
(b) Trade payables		188,226	719,061
(c) Other current liabilities	5	8,873,801	10,445,593
(d) Short-term provisions	6	155,035	43,340
		<u>38,840,567</u>	<u>37,711,812</u>
Total		<u>14,079,080</u>	<u>14,062,241</u>
II Assets			
(1) Non-current assets			
Fixed assets			
(i) Tangible assets	7	4,166,317	6,258,672
(ii) Intangible assets	7	-	-
		<u>4,166,317</u>	<u>6,258,672</u>
(2) Current assets			
(a) Inventories	8	3,045,636	2,194,930
(c) Trade receivables	9	5,727,808	4,481,399
(d) Cash and cash equivalents	10	113,941	295,980
(e) Short-term loans and advances	11	987,838	820,220
(f) Other current assets	12	37,540	11,040
		<u>9,912,763</u>	<u>7,803,569</u>
Total		<u>14,079,080</u>	<u>14,062,241</u>

The notes on accounts form an integral part of the financial statements

Per our report of even date

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

Chartered Accountants

Firm Registration No.003109S

Sd/-

(P.GOVERDHANA REDDY)

Partner

Membership No. 029193

Place : Hyderabad

Date : 30.05.2012

For and on behalf of the Board of Directors

Sd/-

(N.Ravi Prasad)

Managing Director

Sd/-

(N.Rajender Prasad)

Joint Managing Director

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH 2012

(All amounts are in Rupees, unless otherwise stated)

PARTICULARS	Reference Note No.	Current Year	Previous Year
Revenue from operations	13	15,583,944	18,413,942
Other income	14	18,090	-
Total Revenue		<u>15,602,034</u>	<u>18,413,942</u>
Expenses			
(1) Cost of raw materials consumed	15	9,432,476	10,914,935
(2) Changes in inventories of finished goods and work-in-progress	16	(112,568)	834,797
(3) Employee benefits expense	17	1,982,213	1,546,163
(4) Finance costs	18	428,752	26,850
(5) Depreciation and amortization expense	8	433,763	518,271
(6) Other expenses	19	2,359,788	2,301,508
Total expenses		<u>14,524,424</u>	<u>16,142,524</u>
Profit before exceptional and extraordinary items and tax		1,077,610	2,271,418
Exceptional items:	20		
(1) Profit on sale of assets		759,262	115,038
(2) Depreciation pertaining to earlier years		-	(867,944)
(3) Stocks written off		(2,948,788)	-
Profit/ (Loss) before extraordinary items and tax		<u>(1,111,916)</u>	<u>1,518,512</u>
Extraordinary Items		-	-
Profit/ (Loss) before tax		<u>(1,111,916)</u>	<u>1,518,512</u>
Tax expense:			
(1) Current tax		-	3,095
(2) Deferred tax (Refer note)	24 (d)	-	-
Profit / (Loss) for the period		<u>(1,111,916)</u>	<u>1,515,417</u>
Earnings per equity share			
(1) Basic & Diluted	24 (c)	(0.37)	0.51

The notes on accounts form an integral part of the financial statements

Per our report of even date

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

Chartered Accountants

Firm Registration No.003109S

Sd/-

(P.GOVERDHANA REDDY)

Partner

Membership No. 029193

Place : Hyderabad

Date : 30.05.2012

For and on behalf of the Board of Directors

Sd/-

(N.Ravi Prasad)

Managing Director

Sd/-

(N.Rajender Prasad)

Joint Managing Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH 2012

Sl. No.	PARTICULARS	Current Year	Previous Year
1	Cash Flow from Operating Activities		
	Profit / (Loss) for the period after exceptional items	(1,111,916)	1,515,417
	Adjustments for:		
	Depreciation	433,763	1,386,215
	(Profit)/ Loss on sale of assets	(759,262)	(115,038)
	Interest expense	428,752	26,850
	Interest received	(18,081)	-
	Operating Profit before Working Capital changes	<u>(1,026,744)</u>	<u>2,813,444</u>
	Adjustments for changes in Working Capital:		
	Trade and other receivables	(1,440,527)	(2,841,750)
	Inventories	(850,706)	834,797
	Trade payables and others	(2,898,568)	(1,274,331)
	Cash generated from operations	<u>(6,216,545)</u>	<u>(467,840)</u>
	Less: Interest paid during the year	(428,752)	(26,850)
	Net cash flow from Operating Activities (A)	<u>(6,645,297)</u>	<u>(4,94,690)</u>
2	Cash Flow from Investing Activities		
	Purchase of Fixed Assets	(36,618)	(10,500)
	Sale of Fixed Assets	2,454,472	115,038
	Net cash used in Investing Activities (B)	<u>2,417,854</u>	<u>104,538</u>
3	Cash Flow from Financing Activities		
	Loans repaid during the year	453,818	-
	Loans obtained during the year	3,573,505	253,818
	Interest received during the year	18,081	-
	Net cash generated from Financing Activities (C)	<u>4,045,404</u>	<u>253,818</u>
	Net Decrease in Cash and Cash equivalents (A+B+C) (D)	<u>(182,039)</u>	<u>(136,334)</u>
	Add: Cash and Cash equivalents as at 1 April 2011	295,980	432,314
	Cash and Cash equivalents as at 31 March 2012	113,941	295,980

Per our report of even date

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

Chartered Accountants

Firm Registration No.003109S

Sd/-

(P.GOVERDHANA REDDY)

Partner

Membership No. 029193

Place : Hyderabad

Date : 30.05.2012

For and on behalf of the Board of Directors

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 ENDING 31ST MARCH 2012**

2. Share Capital

(All amounts are in Rupees, unless otherwise stated)

PARTICULARS	As At 31.03.2012	As At 31.03.2011
	Rs.	Rs.
Authorised:		
40,00,000 - Equity Shares of Rs 10/- each.	<u>40,00,000</u>	<u>40,00,000</u>
10,00,000 - 5% Redeemable Cumulative Preference Shares of Rs 10/- each.	<u>10,00,000</u>	<u>10,00,000</u>
Issued, subscribed and paid up:		
30,00,000 - Equity Shares of Rs 10/- each, fully paid up	<u>30,00,000</u>	<u>30,00,000</u>
10,00,000 - 5% Redeemable Cumulative Preference Shares of Rs 10/- each.	<u>10,00,000</u>	<u>10,00,000</u>
	<u>40,00,000</u>	<u>40,00,000</u>

A. The details of share holders holding more than 5% of total number of shares in the Company is given below:

Name of the Share Holder	As at 31.03.2012		As at 31.03.2011	
	Number of shares held	Percentage	Number of shares held	Percentage
M/s. Andhra Pradesh Industrial Development Corporation	337,500	11.25%	337,500	11.25%
Mr. N. Ravi Prasad	299,850	10.00%	299,850	10.00%
Dr. N.B. Prasad	225,000	7.50%	225,000	7.50%
M/s. Pumps India Private Limited	218,990	7.30%	218,990	7.30%
Mr. N. Ranga Prasad	171,000	5.70%	171,000	5.70%
Mr. N. Rajendra Prasad	160,200	5.34%	160,200	5.34%

B. The reconciliation of number of shares outstanding as at the beginning and end of the reporting period is given below:

Particulars	Equity Shares		Preference Shares	
	Number of Share held	Amount	Number of shares held	Amount
Number of shares at the beginning of the year	3,000,000	30,000,000	1,000,000	10,000,000
Add: Shares Issued during the year	-	-	-	-
	3,000,000	30,000,000	1,000,000	10,000,000
Less: Shares bought back during the year	-	-	-	-
Shares outstanding at the end of the year	<u>3,000,000</u>	<u>30,000,000</u>	<u>1,000,000</u>	<u>10,000,000</u>

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2012**

C. Rights, preferences and restrictions attached to shares

- a. **Equity Shares:** The company has one class of equity shares having a par value of Rs.10 per share. Each shareholder is eligible for one vote per share held. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting, except in case of interim dividend. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company after distribution of all preferential amounts, in proportion to their shareholding.
- b. **Preference Shares:** 5% Cumulative Redeemable Preference shares were issued by the Company with the following periods of redemption:

Date of issue	No. of preference shares	Face value	Amount in Rs.	Time Limit for redemption*
29.03.1999	300,000	10/-	3,000,000	Redeemable at par after 3 years and before 7 years
29.03.1999	300,000	10/-	3,000,000	Redeemable at par after 3 years and before 5 years
28.09.1999	100,000	10/-	1,000,000	Redeemable at par after 3 years before 10 years.
17.04.2000	200,000	10/-	2,000,000	Redeemable at par after 3 years and before 7 years
24.07.2000	100,000	10/-	1,000,000	Redeemable at par after 3 years and before 10 years.

* Period of redemption is extended up to March 2015 vide a resolution passed on 27.09.2005 through postal ballot.

The above shares are redeemable at par.

3. Reserves and Surplus

(All amounts are in Rupees)

Particulars	As at 31 March 2011	Additions	Deductions	As at 31 March 2012
Capital Reserve - Subsidy received	1,000,000	-	-	1,000,000
Balance in Statement of Profit and Loss	(64,649,571)	(1,111,916)	-	(65,761,487)
Total	(63,649,571)	(1,111,916)	-	(64,761,487)

4. Short-term borrowings

(All amounts are in Rupees)

Particulars	As At 31.03.2012	As At 31.03.2011
Unsecured		
Secured overdraft from Andhra Bank	-	253,818
Interest-free Inter Corporate Deposits	3,750,000	3,750,000
Loan from Shriram City Union Finance Limited	3,573,505	-
Interest-free loans from Directors	22,300,000	22,500,000
Total	29,623,505	26,503,818

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2012**

5. Other current liabilities

(All amounts are in Rupees)

Particulars	As at	As at
	31.03.2012	31.03.2011
Due to directors	4,731,926	6,694,098
Advances received for transfer of lease rights	1,699,862	-
Creditors for expenses	2,265,461	3,674,177
Other payables:		
TDS payable	30,227	2,987
VAT and CST payable	126,787	65,171
Provident fund payable	18,918	8,520
Profession tax payable	620	640
Total	8,873,801	10,445,593

6. Short-term provisions

(All amounts are in Rupees)

Particulars	As At	As At
	31.03.2012	31.03.2011
Provision for employee retirement benefits :		
Gratuity	100,000	-
Other provisions		
Bonus payable	55,035	43,340
Total	155,035	43,340

7. Fixed Assets

(All amounts are in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION / AMORTISATION				NET BLOCK	
	As at 01.04.2011	Additions during the year	Deletions during the year	As at 31.03.12	Up to 01.04.11	For the Year	on Deletions	Up to 31.03.12	As at 31.03.12	As at 31.03.11
(a) Tangible Assets										
Land:										
Free hold :										
Factory	235,862	-	-	235,862	-	-	-	-	235,862	235,862
Mines	105,000	-	-	105,000	-	-	-	-	105,000	105,000
Lease hold	197,651			197,651					197,651	197,651
Buildings:										
Factory	8,469,265	-	4,334,144	4,135,121	4,873,818	282,873	2,638,934	2,517,757	1,617,364	3,595,447
Non-Factory	2,497,589	-	-	2,497,589	742,583	40,711	-	783,294	1,714,295	1,755,006
Plant and Machinery	1,404,803	-	-	1,404,803	1,228,889	74,174	-	1,303,063	101,740	175,914
Furniture and Fixtures	258,584	-	-	258,584	258,517	-	-	258,517	67	67
Vehicles	632,318	-	-	632,318	600,702	-	-	600,702	31,616	31,616
Office equipment	277,031	9,290	-	286,321	206,185	13,380	-	219,565	66,756	70,846
Electrical Installations	82,966	-	-	82,966	74,825	3,941	-	78,766	4,200	8,141
Weighing Machines	405,491	-	-	405,491	385,216	-	-	385,216	20,275	20,275
Fire Fighting Equipment	29,810	-	-	29,810	28,439	-	-	28,439	1,371	1,371
Data Processing Equipment	85,512	27,328	-	112,840	81,236	2,215	-	83,451	29,389	4,276
Lab Equipment	814,615	-	-	814,615	757,415	16,469	-	773,884	40,731	57,200
Total	15,496,497	36,618	4,334,144	11,198,971	9,237,825	433,763	2,638,934	7,032,654	4,166,317	6,258,672
Previous Year	17,735,768	10,500	2,249,771	15,496,497	10,101,381	518,271	2,249,771	9,237,825	6,258,672	7,634,387
* Depreciation for the previous year includes the depreciation pertaining to earlier years amounting to Rs. 867,944/-										
(b) Intangible Assets										
Process Knowhow	500,000	-	-	500,000	500,000	-	500,000	-	-	-
Total	500,000	-	-	500,000	500,000	-	-	500,000	-	-
Previous Year	500,000	-	-	500,000	500,000	-	-	500,000	-	-

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2012**

8. Inventory

(All amounts are in Rupees)

Particulars	As At 31.03.2012	As At 31.03.2011
Raw materials	738,138	-
Finished goods	2,307,498	2,194,930
Total	3,045,636	2,194,930

Finished Goods have been valued at the lower of cost or net realisable value

The inventories have been valued and certified by the Managing Director

9. Trade Receivables, Unsecured, Considered Good

(All amounts are in Rupees)

Particulars	As At 31.03.2012	As At 31.03.2011
Debts outstanding for a period exceeding six months	765,635	1,380,042
Other debts	4,962,173	3,101,357
Total	5,727,808	4,481,399

10. Cash and cash equivalents

(All amounts are in Rupees)

Particulars	As At 31.03.2012	As At 31.03.2011
Balances with banks	57,006	276,956
Cash on hand	56,935	19,024
Total	113,941	295,980

The balances with banks include (Current Year) Rs. Nil (Previous year: Rs. 2,49,520) held as margin money against the guarantee extended by a bank in favour of Bhabha Atomic Research Centre, Mumbai.

11. Short-term loans and advances, Unsecured, Considered Good

(All amounts are in Rupees)

Particulars	As At 31.03.2012	As At 31.03.2011
Advance for purchase and expenses	736,629	570,057
Advances to staff	3,612	6,000
Advance tax & Tax deducted at source	60,401	56,967
Deposits recoverable	187,196	187,196
Total	987,838	820,220

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2012**

12. Other current assets

(All amounts are in Rupees)

Particulars	As At 31.03.2012	As At 31.03.2011
Balance with Central Excise	37,540	11,040
Total	37,540	11,040

13. Revenue from operations

(All amounts are in Rupees)

Particulars	Current Year	Previous Year
Sale of products	16,529,361	19,432,915
Income from Job work (TDS: Rs. 9,972)	498,600	681,100
	<u>17,027,961</u>	<u>20,114,015</u>
Less: Excise duty	1,444,017	1,700,073
Total	15,583,944	18,413,942

14. Other Income

(All amounts are in Rupees)

Particulars	Current Year	Previous Year
Interest Income (TDS: Rs. 3434)	18,081	-
Credit balances written off	9	-
Total	18,090	-

15. Raw materials consumed

(All amounts are in Rupees)

Particulars	Current Year	Previous Year
Opening Stock of Raw Materials	-	-
Add: Purchases during the year	13,119,402	10,914,935
	<u>13,119,402</u>	<u>10,914,935</u>
Less: Stocks written off	2,948,788	-
	<u>10,170,614</u>	<u>10,914,935</u>
Less: Closing Stock of Raw Materials	738,138	-
Total	9,432,476	10,914,935

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2012**

A. Details of raw materials consumed

(All amounts are in Rupees)

Particulars	Current Year	Previous Year
Magnesium Metal	3,073,161	6,738,073
Magnesium Powder	6,359,315	4,176,862
Total	<u>9,432,476</u>	<u>10,914,935</u>

16. Changes in inventories of finished goods and work-in-progress

(All amounts are in Rupees)

Particulars	Current Year	Previous Year
Opening Stock:		
Finished Goods	2,194,930	2,792,277
Work-in-progress	-	237,450
	<u>2,194,930</u>	<u>3,029,727</u>
Closing Stock:		
Finished Goods	2,307,498	2,194,930
Work-in-progress	-	-
	<u>2,307,498</u>	<u>2,194,930</u>
(Increase)/ Decrease in inventories	(112,567)	834,797

17. Employee Benefits Expense

(All amounts are in Rupees)

Particulars	Current Year	Previous Year
Salaries and Wages & Bonus	1,867,301	1,405,447
Contribution to provident and other funds	81,868	53,900
Staff welfare expenses	33,044	86,816
Total	<u>1,982,213</u>	<u>1,546,163</u>

**SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDING 31ST MARCH 2012**

18. Finance Costs

(All amounts are in Rupees)

Particulars	Current Year	Previous Year
Interest	428,752	26,850
Total	<u>428,752</u>	<u>26,850</u>

19. Other Expenses

(All amounts are in Rupees)

Particulars	Current Year	Previous Year
Consumption of general stores	2,760	3,560
Power	215,475	275,850
Repairs to : Plant and machinery	61,573	115,813
: Other assets	14,816	14,924
Insurance	3,940	4,673
Rates and taxes, excluding, taxes on income	16,652	24,927
Payments to Auditor as : auditor	28,090	16,545
: for certification	7,721	8,273
Miscellaneous expenses	140,571	72,400
Packing material	79,047	145,772
Carriage and freight	329,059	424,125
Postage, telegrams and telephones	153,259	150,827
Revocation charges paid to Bombay Stock Exchange	250,000	-
Travelling and conveyance	143,451	100,035
Vehicle maintenance	123,973	130,633
General charges	255,422	196,168
Professional charges	278,923	18,803
Liquidator damage charges	206,188	525,970
Debit balances written off	-	125,492
Excise duty (See Note - 22)	48,867	(55,782)
Prior period items	-	2,500
Total	<u>2,359,788</u>	<u>2,301,508</u>

Notes to financial statements for the year ended 31 March 2012

Note – 1

Significant Accounting Policies

- a) The financial statements are prepared on the basis of historical cost.
- b) Fixed Assets:
 - Tangible fixed assets are stated at cost net of depreciation provided.
- c) **Depreciation**
 - Depreciation on the tangible fixed assets is provided on Straight line Basis in accordance with Schedule XIV to the Companies Act, 1956.
- d) **Inventory:**
 - a. Raw materials are valued at cost.
 - b. Finished goods and Work in progress are valued at lower of cost and net realisable value. Excise duty against finished goods lying in bonded godown at the end of the year is considered by making appropriate adjustments in the statement of profit and loss.
 - c. Stocks are valued on the basis of 'weighted average cost' method.
- e) **Provident Fund**
 - Provident Fund contributions are remitted to Provident Fund Commissioner and the same are charged to revenue.
- f) **Contingent Liabilities**
 - All Contingent Liabilities are indicated by way of a note and would be paid/ provided upon crystallization.

Note - 20

Exceptional items

Stocks written off

Stocks written off amounting to Rs. 29,48,788 represents the value of 16,000 Kgs of Magnesium Powder imported from M/s. AO Wei Chemical Co., China. At the time of taking delivery of the material, it was found that the material sent by the supplier M/s. AO Wei Chemical Co., China was some white powder and clay like material and the management felt that it was a zero value material. Hence, it is decided to write off the same.

Note - 21

Contingent Liabilities

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

Particulars	Current Year Rs.	Previous Year Rs.
Arrears of cumulative Dividend on 5 % preference shares	62.25	57.25
(The Cumulative Preference Shareholders have agreed for reduction in the rate of dividend payable from 14% to 5% with retrospective effect from 1999 and the time for the maturity of the cumulative preference shares has been extended till March 2015.) (Refer Note – 2C(b))		

Note - 22

Excise Duty expenditure of Rs. 48,867 represents the differential excise duty in respect of finished goods as on 01.04.2011 and as on 31.03.2012.

Note – 23

a. Value of imports calculated on C.I.F basis during the financial year in respect of:

Particulars	Current Year		Previous Year	
	Rs.		Rs.	
Raw materials	97,19,762		41,76,862	
Total	97,19,762		41,76,862	

b. Earnings in foreign exchange:

The Company has no earnings in foreign exchange for the year to report.

c. The value of consumption of imported and indigenously obtained raw materials, stores and spare parts and the percentage of each to the total consumption:

Particulars	Current Year		Previous Year	
	Rs.		Rs.	
	Amount	%	Amount	%
Indigenous	30,73,161	32.58	67,38,073	61.73
Imported	63,59,315	67.42	41,76,862	38.27
Total	94,32,476	100	1,09,14,935	100

Note - 24

Disclosures in accordance with the requirements of Accounting Standards stated under the companies (Accounting standards) rules 2006.

a. Segment Reporting

The Company operates only in one segment i.e, manufacture and sale of magnesium metal related products and hence, Segment Reporting in accordance with Accounting Standard -17 is not applicable.

b. Related Party Disclosures

The Related party disclosures as required by AS – 18 are given below:

S.No.	Related Parties	Nature of Relationship
1	Southern Electrodes Ltd	Associate Companies
2	Pumps (India) Pvt. Ltd	
3	Phoenix Finance & Leasing Limited	
4	Sri.N.Ravi Prasad, Managing Director	Key Management Personnel
5	Sri.N.Rajender Prasad, Joint Managing Director	
6	Smt.N.Anantha Lakshmi	Relatives of Key Management personnel
7	Sri.N.B.Prasad	
8	Sri N.Ram Prasad	

1. Transactions with associate Companies

S.No.	Nature of transaction	Current Year Rs.	Previous Year Rs.
1	Inter Corporate Deposits received: Outstanding at the beginning of the year	37,50,000	37,50,000
	Received during the year	-	-
	Repaid during the year	-	-
	Outstanding at the close of the year	37,50,000	37,50,000
2	Current Liabilities: Outstanding at the beginning of the year	22,89,220	25,85,678
	Received during the year	8,32,898	5,71,842
	Repaid during the year	18,19,500	8,68,300
	Outstanding at the close of the year	13,02,618	22,89,220

2. Transactions with Key Management personnel

S.No.	Nature of transaction	Current Year Rs.	Previous Year Rs.
1	Remuneration	9,74,752	6,24,324
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
3	Current Liabilities: Outstanding at the beginning of the year	25,11,188	28,76,565
	Received during the year	44,08,706	61,55,490
	Repaid during the year	62,49,730	65,20,867
	Outstanding at the close of the year	6,70,164	25,11,188

3. Transactions with relatives of Key Management personnel

S.No.	Nature of transaction	Current Year Rs.	Previous Year Rs.
1	Un secured Loans: Outstanding at the beginning of the year	1,25,00,000	1,25,00,000
	Received during the year	-	-
	Repaid during the year	2,00,000	-
	Outstanding at the close of the year	1,23,00,000	1,25,00,000
2	Current Liabilities: Outstanding at the beginning of the year	46,20,997	46,20,997
	Received during the year	Nil	Nil
	Repaid during the year	5,59,235	Nil
	Outstanding at the close of the year	40,61,762	46,20,997

C. Earnings per share

The computation of earnings per share as required under AS – 20 is given below:

Particulars	Current Year Rs.	Previous Year Rs.
Profit /(Loss) as per Profit & Loss Account	(11,11,916)	15,15,417
Number of equity Shares outstanding	30,00,000	30,00,000
Basic and diluted earnings per share in Rupees (face value of Rs.10/-)	(0.37)	0.51

d. Taxes on income

In view of the absence of reasonable certainty that sufficient future taxable income will be available against which deferred tax asset can be realized, the Company has considered prudent not to provide for deferred tax asset of Rs. 1,11,68,149/- (Previous Year Rs. 1,25,33,979/-), in accordance with Accounting Standard – 22, Accounting for taxes on income, resulted on account of brought forward losses and unabsorbed depreciation.

S.No.	Item of Deferred Tax Assets	Current Year Rs.	Previous Year Rs.
1	Unabsorbed Depreciation	3,37,65,112	3,37,37,682
2	Unabsorbed Loss	23,21,026	1,00,16,799
3	Disallowances under 43 B	9,745	64,218
4	Disallowances under 40(a)(ia)	35,811	-
	Total (A)	3,61,31,694	4,38,18,699

S.No.	Item of Deferred Tax Assets	Current Year Rs.	Previous Year Rs.
1	Net Block as per books	41,66,317	62,58,672
2	Net Block as per I.T. Act	8,91,785	23,55,763
	Total (B)	32,74,532	39,02,909

Particulars	Current Year Rs.	Previous Year Rs.
Net Deferred Tax Asset (A-B)	3,28,57,162	3,99,15,790
Tax thereon @ 33.99%	1,11,68,149	1,25,33,979

Note – 25

Dues to Micro, Small and Medium Enterprises

On the basis of details furnished by the suppliers, there are no amounts to be reported as dues to micro, small and medium enterprises as required under section 22 of the Micro, Small and Medium Enterprises Development Act, 2006 ("MSMED Act").

Note – 26

Previous Year's figures

Previous Year's figures have been reclassified, wherever necessary so as to conform with the requirements of the Revised Schedule VI to the Companies Act, 1956.

Per our report of even date

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

Chartered Accountants

Firm Registration No.003109S

Sd/-

(P.GOVERDHANA REDDY)

Partner

Membership No. 029193

Place : Hyderabad

Date : 30.05.2012

For and on behalf of the Board of Directors

Sd/-

(N.Ravi Prasad)

Managing Director

Sd/-

(N.Rajender Prasad)

Joint Managing Director



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 Sixth Annual General Meeting of the Company held at Hotel I.K. London,6-3-656, Kapadia Lane, Somajiguda; Hyderabad – 500 082; on Saturday the 29th September 2012 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 Reprot to the Meeting.

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



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 Sixth Annual General Meeting of the Company to be held on Saturday, the 29th September 2012 and at any adjournment thereof.
Signed this _____ of _____ 2012

Affix
Rev-
enue
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 :

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

Phone : 23311789, 23312341