

NOTICE

Notice is hereby given that 28th Annual General Meeting of the Members of Bihar Sponge Iron Limited will be held on Wednesday, 29th day of September, 2010 at 10:00 A.M. at the Registered Office of the Company at Umesh Nagar, Chandil, Dist. Saraikela-Kharsawan – 832401, Jharkhand to transact the following businesses:-

ORDINARY BUSINESS:

1. To receive, consider and adopt audited Balance Sheet as at 31st March, 2010 and Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. K. K. Jain, who retires from office by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Dr. Wolfgang Janke, who retires from office by rotation, and being eligible, offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration. M/s. Thakur, Vaidyanath Aiyar & Co., Chartered Accountants, [Firm Registration No. 000038N] the retiring Auditors, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS:

5. To consider and if thought fit, to pass the following resolution with or without modification, as an Ordinary Resolution:-

"RESOLVED THAT Mr. Jayesh Modi who was appointed as an additional director by the Board of Directors on June 18th, 2010 and whose term of office pursuant to the provisions of Section 260 of the Companies Act, 1956 expires at this Annual General Meeting and in respect of whom a notice has been received from a member under Section 257 of the Companies Act, 1956 proposing his candidature as a Director of the Company be and is hereby appointed as Director of the Company liable to retire by rotation."

6. To consider and if thought fit, to pass the following resolution with or without modification, as an Ordinary Resolution:-

"RESOLVED THAT Mr. B.K.Luthra, who was appointed as an additional director by the Board of Directors on June 18th, 2010 and whose term of office pursuant to the provisions of Section 260 of the Companies Act, 1956 expires at this Annual General Meeting and in respect of whom a notice has been received from a member under Section 257 of the Companies Act, 1956 proposing his candidature as a Director of the Company be and is hereby appointed as Director of the Company."

7. To consider and if thought fit, to pass the following resolution with or without modification, as a Special Resolution:-

"RESOLVED THAT pursuant to Section 198, 269 and 309 read with Schedule XIII as amended from time to time and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby approves the appointment of Mr. B.K.Luthra as Whole Time Director designated as Executive Director (Works) of the Company for a period of one year with effect from 18th June, 2010 on the terms, conditions and remuneration mentioned herein below.

- 1) Basic Salary : Rs. 122,000/- per month
- 2) Perquisites & Allowances:
 - a) Housing : Company Lease Accommodation (lease rent not to exceed 60% of the Basic Salary.
 - b) Conveyance :
 - i) Company's car, with actual petrol and repair & maintenance.
 - ii) Driver's salary Rs. 7000/- per month to a maximum.
 - c) Telephone : One telephone at residence (Rs. 5000/-per month to a maximum)
 - d) Medical Reimbursement : Expenses incurred for him and his family subject to a maximum of five percent of the basic salary per month.
 - e) Leave Travel Allowance : One month basic salary per annum.
 - f) Bonus/Ex-gratia : One month basic salary per Annum.
 - g) Contribution to Provident Fund, Superannuation Fund or Annuity Fund : As per the rules of the Company which shall not be computed for the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act.
 - h) Gratuity : Gratuity payable shall not exceed half month's salary for each completed year of service.

- i) Sitting Fee : Mr. B.K.Luthra will not be entitled for sitting fees for attending the meetings of the Board or Committees thereof
- j) Minimum Remuneration : In the event of inadequacy or absence of profit in any financial year during his tenure, Mr. B.K.Luthra will be entitled to remuneration along with the perquisites/benefits mentioned above by way of minimum remuneration in terms of Para 1 (B) of Section II of Part II of Schedule XIII of the Companies Act, 1956.

Explanation : Provision of car for use of Company's business and telephone at residence will not be considered in computing the value of perquisites.

Note : All the perquisites will be interchangeable i.e. any excess in a particular perquisite may be permissible by a corresponding reduction in one or more of the other perquisite(s)

3) Other Terms

- i. Leave: As per the rules of the Company.
- ii. Reimbursement of entertainment expenses: Mr. B.K. Luthra will be entitled to reimbursement of entertainment and other expenses incurred in the course of legitimate business purpose of the Company.

RESOLVED FURTHER THAT the Board be and is hereby authorised to do all acts and take all such steps as may be necessary, proper or expedient to give effect to this resolution."

BY ORDER OF THE BOARD

Place New Delhi
Dated: 13th, August, 2010

[MANOJ KUMAR]
COMPANY SECRETARY

NOTES:

1. A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself/ herself and the proxy need not be a member. Such proxies duly completed should reach the Registered Office of the Company at least 48 hours before the time fixed for the meeting.
2. All documents referred to in Notice are open for inspection at the Registered Office of the Company between 11.00 A.M to 1.00 P.M on any working day prior to the date of Meeting and also at the Meeting.
3. The Register of Members and Share Transfer Books of the Company will remain close from Wednesday, 22nd day of September, 2010 to Wednesday, 29th day of September, 2010 (both days inclusive).
4. Non- Resident Shareholders are requested to inform immediately the change in the residential status on return for permanent settlement.
5. As per the provisions of the Companies Act, 1956, as amended, facility for making nominations is available to INDIVIDUALS holding shares in the Company. The Nomination can be made in Form-2B, which can be obtained from the Shares Department of the Company.
6. Members are requested to notify immediately the change in their address, if any, at the Registered Office of the Company.
7. Members desiring any information as regards to accounts are requested to address their questions to the Secretary of the Company at least 7 days before the date of the Meeting so that the required information is made available at the Meeting.

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

ITEM NO. 5

The Board of Directors at their meeting held on June 18th, 2010 appointed Mr. Jayesh Modi as an additional director of the Company. As per the provisions of Section 260 of the Companies Act, 1956. Mr. Jayesh Modi holds the office of director only up to the date of this Annual General Meeting. The Company has received a notice from a member under Section 257 of the Companies Act, 1956 along with deposit of Rs. 500, proposing the candidature of Mr. Jayesh Modi as a Director of the Company liable to retire by rotation.

Mr. Jayesh Modi has recently returned to India after completing his studies in U K. He has imbibed entrepreneurship skills from family business and has experience in the area of administration, business planning & development. He is also director of SBEC Bioenergy Ltd, SBEC Sugar Ltd and Morgardshammar India Ltd. The Board recommends this resolution to be passed as an ordinary resolution.

b) Particulars in respect of Opening Stock, Sales and Closing Stock of goods dealt with by the Company.

	This Year		Previous Year	
	Qty. M/Ton	Value Rs. thousands	Qty. M/Ton	Value Rs. thousands
SPONGE IRON				
Opening Stock	25,280	33,79,15	25,124	35,68,57
Sales / Stock Adjustment	1,44,430	1,95,55,62	1,36,216	2,43,69,22
Closing Stock	22,115	27,73,79	25,280	33,79,15

c. Details of Raw Material and Stores & Spares consumed:**i) Raw Material Consumed**

Coal*	2,18,280	50,43,90	2,12,760	44,85,26
Iron Ore	3,02,884	70,46,17	3,25,987	1,11,24,73
Others		1,29,73		1,53,97

ii) Stores and Spares Consumed

—	5,24,24	—	6,32,66
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(Includes Plant repair and maintenance)

* Excludes consumption of coal/coal fine for Captive Power Plant 26,746 MT Value Rs. 5,23,45 Thousand (Previous Year 20,595 MT Rs. 3,37,26 Thousands)

d) Value of imported and indigenous raw materials and components consumed and percentage of each to total consumptions:

	This Year		Previous Year	
	Value Rs. thousands	%	Value Rs. thousands	%
i) Raw Material				
Indigenous	1,22,19,80	100.00	1,57,63,96	100.00
	1,22,19,80	100.00	1,57,63,96	100.00
ii) Stores & Spares				
Indigenous*	5,09,56	97.20	6,16,72	97.48
Imported	14,68	2.80	15,94	2.52
	5,24,24	100.00	6,32,66	100.00

* Includes consumption for repair and maintenance

e) Earnings in Foreign Currency (Cash Basis)

Exports of goods on F.O.B. Value	—	—
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f) Expenditure in Foreign Currency (Cash Basis)

(i) Interest	20,78	84,87
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g) Value of Import on CIF basis

Stores and Spare Parts	—	1,60
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21. Previous year figures have been requested / rearranged wherever necessary.

22. Schedule 1 to 18 form an integral part of the Balance Sheet and Profit & Loss Account and have been duly authenticated.

As per our Report of even date

for **Thakur, Vaidyanath Aiyar & Co.**
Chartered Accountants
FRNo. 000038N

Umesh K. Modi
(Chairman &
Managing Director)

B.K. Luthra
(Executive Director-Works)

Directors
Abhishek Modi
K.K. Jain
G.C. Jain
B.N. Nayak
J.N. Khurana
Vijay K. Modi

M.P. Thakur
(Partner)
Membership no. 52473

Manoj Kumar
(Company Secretary)

A.K. Sinha
Sr. Manager (Accounts)

Place : New Delhi
Date : 13th August, 2010

15. The management is of the opinion that except the assets written off during the year and the assets retired from active use, there is no further impairment of assets as at 31-3-2010 as contemplated in the accounting standard 28.

17. Remuneration to Directors :

	Rs.thousands	
	This year	Previous year
(a) Chairman cum Managing Director		
(i) Salary	24,00	11,35
(ii) Company's contribution to Provident Fund	2,88	1,36
(iii) Perquisites	16,83	8,45
Sub Total	43,71	21,16
(b) Non-Executive Directors		
Director Sitting Fee	76	1,09
T o t a l	44,47	22,25

Chairman cum Managing Director has been paid minimum remuneration in absence of adequacy of profit in terms of para 1(B) of Section II of Part II of Schedule XIII of the Companies Act, 1956.

18. Operating Leases

The Company's leasing arrangements are in respect of premises (for office, godown and accommodation of company's officers & directors). These arrangements are both cancelable and non-cancellable in nature and ranging between one to three years as at 31st March, 2010.

Disclosure related to operating lease as lessee as per the Accounting Standard-19 are as under :

	(Rs. Thousands)	
Particulars	As at 31.03.2010	As at 31.03.2009
A. Total of future minimum Lease payments under non-cancellable operating leases for each of the following periods		
— Not Later than one year	30,00	30,00
— Later than one year and not later than five years	57,50	60,00
— Later than five years	—	—
B. Lease rent recognized as expenses in P&L A/c	1,19,35	1,37,91

19. Legal and professional charges in Schedule No. 12 includes remuneration to auditors as under:

	This Year	Previous Year
Audit Fee	4,50	4,50
Company law and certification	2,33	2,35
Expenses reimbursed	49	70
Expenses reimbursed	40	40
	<u>7,72</u>	<u>7,95</u>

20. Additional information pursuant to the provision of Schedule VI of the Companies Act, 1956.

a) Details of Licensed, Installed Capacity & Production

	This Year Qty /M.Ton	Previous Year Qty./M. Ton
Licensed Capacity*		
Installed Capacity**	2,10,000	2,10,000
Production	1,41,265	1,36,372

* No Longer required

** As certified by the Management, being technical matter

Transactions with related Parties (As identified by the Management)

Rs. In thousand

Nature of Transactions	By virtue of control		Enterprises where influence exist		Key Managerial Personnel	
	Current year	Previous Year	Current year	Previous Year	Current year	Previous Year
I Sale of Fixed Assets	—	—	9,35	27	—	—
II Purchase of Fixed Assets	—	—	—	8,02	—	—
III Sales of finished goods	—	—	—	27,70	—	—
Rent Recovered	—	—	5,36	60	—	—
IV Rent Paid	30,00	17,15	—	—	—	—
Misc Expenses Recovered	—	—	6,70	85	—	—
V Purchase of Stores/	—	—	—	—	—	—
Misc. Exp.Reimbursed/Paid	—	—	45,65	1,01,29	—	—
VI Interest and Financial charges	36,02	36,63	—	—	—	—
VII Loan taken	14,16,54	1,50,00	—	—	—	—
VIII Loan repaid	2,91,00	36,03,00	—	—	—	—
IX Equity Share Capital	—	11,79,33	—	—	—	—
IX Securities Premium	—	23,63,38	—	—	—	—
X Remuneration to Managing Director	—	—	—	—	43,71	21,16
XI Outstanding balances as on	31.3.10	31.3.09	31.3.10	31.3.10	—	—
— Receivable	—	—	14,36	2,70	—	—
— Payable	—	—	84	—	—	—
— Unsecured Loan	12,16,08	85,00	—	—	—	—
Intt accrued but not due (CR)	—	5,54	—	—	—	—

13. Earnings Per Share (EPS)

EPS has been computed in accordance with Accounting Standard AS -20.

(Rs - Thousand)

		Unit	Current Year	Previous Year
1 Profit / (Loss) after tax for the year as per accounts attributable to equity shareholders.	(A)	Rs. Thousands	(7,75,24)	(11,44,68)
2 Weighted Average number of equity shares of Rs. 10/- each fully paid outstanding during the period used in computing the basic earnings per equity share.	(B)	Nos.	9,02,05,403	8,89,77,601
3 Basic Earnings Per share (A)/(B)	(C)	Rs.	(0.86)	(1.29)
4 Adjustment for interest on potential equity shares	(D)	Rs. Thousands	10,67	10,67
5 Adjusted Profit / (Loss) for the year	(E)	Rs. Thousands	(7,64,57)	(11,34,01)
6 No of potential equity shares	(F)	Nos.	11,86,000	11,86,000
7 Weighted average number of equity shares of Rs. 10 each used in computing diluted earnings per equity.	(G)	Nos.	9,13,91,403	9,01,63,601
8 Diluted Earnings per equity share (E)/(G)*	(H)	Rs.	(0.86)	(1.26)

*Since diluted earning per share is increased while taking convertible loan in account from Re.0.86 (negative) to Re.0.84 (negative) which is antidilutive and hence ignored. So diluted earning is Re. 0.86 (negative).

14. Deferred Tax

Deferred Tax Assets are Rs.47,98,43 thousands as on 31.03.2010 (Previous year Rs.45,24,60 thousands) constituting mainly of carried forward business losses, unabsorbed depreciation and provision for doubtful debts / advances, provision disallowed. Deferred Tax Liabilities is Rs.8,58,05 thousands as on 31.03.2010 (Previous year Rs.8,27,19 thousands) on account of higher depreciation claimed in Income Tax. On conservative basis as required by the Accounting Standard 22 the Deferred Tax Assets and Deferred Tax Liabilities have not been recognised. However, the possible Deferred Tax Assets and Liabilities details are given as under:

Rs. Thousands

	As on 31.03.2009	For the Year 2009-10	As on 31.03.2010
Deferred Tax Assets:			
(i) Unabsorbed Depreciation	40,67,50	2,11,11	42,78,61
(ii) Assessed Business loss	1,52,95	89,02	2,41,97
(iii) Provision Disallowed Under Income Tax Act	1,10,18	(4)	1,10,14
(iv) Disallowed U/S 43B (other than interest)	1,93,97	(26,26)	1,67,71
Total	4,52,60	2,73,83	47,98,43
Deferred Tax Liability:			
Difference between book and tax depreciation	8,27,19	30,86	8,58,05
Net Deferred Tax Assets	36,97,41	2,42,97	39,40,38

Deferred tax liability has been calculated in accordance with the return of income (filed) / assessment made.

(d) Reconciliation of Opening and Closing Balances of Defined Benefit Obligations and plan assets.

Rs. Thousands

	Gratuity	Leave Encashment
Benefit obligation at beginning of the year includes Rs.14,73 thousands on unapproved plan assets with Metlife India Insurance Co. Ltd., which has since been withdrawn.	3,38,87	58,44
Current service cost	18,40	7,31
Interest Cost	25,42	4,38
Benefits paid	(1,07,95)	(27,47)
Curtailement and Settlement cost	Nil	Nil
Actuarial (gain)/ loss	24,29	9,02
Benefit obligation at year end	(2,99,03)	(51,68)
B. Plan Assets :		
Fair value of Plan assets at beginning of year	—	—
Expected return on Plan assets	—	—
Actuarial gain / (loss)	—	—
Employer contribution	—	—
Settlement cost	—	—
Benefit paid	—	—
Fair value of plan assets at year end	—	—
Net Funded status of the plan as on 31.3.2010	(2,99,03)	(51,68)
Net amount recognized in the balance sheet as at 31.3.2010	(2,99,03)	(51,68)

Estimated amounts of defined benefits payable for the gratuity plan within next year is Rs. 39,82 thousands.

8. Balances from some of the Debtors, Creditors / Suppliers and Lenders are subject to confirmation as at 31.03.2010.
9. In the opinion of the management, Current Assets, Loans and Advances have a realizable value equivalent to the amount at which they are stated in the Balance Sheet and the provision for all known liabilities have been made except to the extent as appearing in other notes.
10. a) Repairs & Maintenance to Plant include stores and spare parts consumed as under:

Rs. (in thousands)

Particulars	Current year	Previous year
Plant & Machinery	4,49,74	5,63,57
Railway Siding	6,48	5,36
Others	6,68	5,73

11. Segmental Reporting

The company is a single location single product company and hence the requirements of AS - 17 on Segment Reporting are not relevant.

12. Related Party Transactions - AS 18

As per AS-18 issued by the Institute of Chartered Accountants of India, the Company's related parties transactions with them are disclosed below:

- (a) By virtue of control
Moderate Leasing & Capital Services Ltd.
Longwell Investments Private Ltd.
- (b) Key Management Personnel and their relatives
Mr. U K Modi being Chairman and Managing Director is the Key Management Personnel and Mr. Abhishek Modi, Director is related to him being son.
There has been no transaction with the key management personnel except payment of remuneration.
- (c) Enterprises over which (b) above have significant influence and with whom transactions have taken place.
- SBEC Sugar Ltd.
 - SBEC Bioenergy Ltd.
 - Modi Industries Limited
 - Modi Mundipharma Pvt. Ltd.
 - Modi Revlon Pvt. Ltd.
 - Modiline Travel Services Pvt. Ltd.
 - Win Medicare Pvt. Ltd.
 - Modi Motors Pvt. Ltd.
 - Modi Senator (India) Pvt. Ltd.
 - Morgardshammar India Ltd.
 - M.G. Mobiles India Pvt. Ltd.
 - H.M. Tube & Containers Pvt. Ltd.
 - Chandil Power Ltd.

In the review hearing held on 3rd September, 2007, the BIFR, by exercising powers under Section 18 (5) and 18 (9) of the SICA, clarified / directed that the Company would make payment of the due instalments to its foreign currency lenders in 'Euro' as per the amount reflected in Euro in the statement annexed to the sanctioned scheme alongwith the applicable interest i.e. LIBOR plus 1% per annum. (LIBOR + 3% in case of delay/ default in payment of instalments)

The Company has filed appeal with AAIFR challenging the said order of BIFR which is pending.

4. The demand of water charges Rs. 12,49,06 thousands (inclusive of interest on arrear of water bills of Rs.1,23,66 thousands) as on 31.03.2010 (Rs.10,86,31 thousands as on 31.3.2009) raised by Chief Engineer, Subarnarekha Multipurpose Project, Chandil has been disputed by the company under a Writ Petition with Jharkhand High Court, Ranchi. However, pending disposal of Writ Petition, the company based on its own estimate of liability has made total provision for Rs.1,01,32 thousands upto 31st March, 2010, (Rs.93,84 thousands as on 31.3.2009).
5. The amount of borrowing cost capitalized in accordance with requirement of AS-16, amounts to Rs.4,01 Thousand (Previous year Rs.3,95 Thousand).
6. DUES TO MICRO Small and Medium Enterprises:
The disclosure of dues to enterprises covered under Micro, Small and Medium Enterprises Development Act 2006 who have filed a memorandum with the appropriate authority, to the extent the information are available with the Company, are as under :

		Rs. Thousands	
		As at 31.3.2010	As at 31.3.2009
a)	(i) Principal amount remaining unpaid to any supplier as at the year end.	30	2,38
	(ii) Interest due thereon.	5	4
b)	(i) Amount of interest paid beyond the due date in terms of Sec.16 of MSMED Act, 2006 during the financial year.	Nil	Nil
	Amount of interest not claimed & written back.	10	2,86
	(ii) Amount of principal paid beyond the due date during the year.	17	3,38
c)	Amount of interest due and payable for delay period (where principal has already been paid after due date)	2	6
d)	Amount of interest accrued and remaining unpaid as at the year end.	7	10
e)	Amount of interest payable or paid in accordance with the provision of MSMED Act, 2006 disallowable as deductible expenditure for the purpose of computation of income tax as per the provision of Section 23 of MSMED Act, 2006.	7	10

7. Employee Benefits.

The disclosure of 'Employee Benefits' as defined in Accounting Standard 15 (revised) are as under:

		Rs. Thousands
		Year ended
		March 31,2010

i) Defined Contribution Plan

Contribution to Provident Fund	94,76
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Has been recognized in the Profit & Loss Account Schedule 15.

ii) Defined Benefits Plans

The 'Employee's Gratuity' and 'Leave Encashment' are the Defined Benefit Plans and are unfunded.

The present value of obligation is determined based on the actuarial valuation using Projected Unit Credit Method (PUC) as defined in AS-15.

(Rs. Thousands)

Expenses recognized during the year are as under :	Gratuity	Leave Encashment
Current service cost	18,40	7,31
Interest cost	25,42	4,38
Expected Return on Plan Assets	—	—
Actuarial (gain)/loss	24,29	9,02
Past Service cost	—	—
Curtailement and Settlement Cost/(credit)	—	—
Net Cost	68,11	20,71

(a) Actuarial Assumptions :

	Gratuity	Leave Encashment
Mortality Table (L.I.C.)	1994-96	1994-96
Discount Rate	7.50%	7.50%
Expected Rate of increase in Salary	5.00%	5.00%
Expected Rate of Return on Plan Assets	NA	NA
Expected Average remaining working lives of employees (in years)	17.23	19.51

the Payment of Gratuity Act, 1972, the Gratuity Plan provides a lump sum payment to vested employees at retirement, deaths incapacitation or termination of employment. Liabilities with regards to the Gratuity Plan are determined by actuarial valuation as of balance sheet date and are expensed in the Profit and Loss account.

(iii) The actuarial valuation takes note of Actuarial gains and losses.

14. Contingent Liabilities

Liabilities, though contingent, are provided for if there are reasonable prospects of such liabilities maturing. Other contingent liabilities, barring frivolous claims, not acknowledged as debt, are disclosed by way of a note.

15. Earning Per Share

The earnings considered in accounting the Company's Earning Per Share (EPS) comprise the net profit after tax and includes the post tax effect of any extra ordinary items. The number of shares used in computing basic & diluted EPS is the weighted average number of shares outstanding during the periods and adjusted for all events.

The diluted EPS is calculated on the same basis as basic EPS, after adjusting for the effects of potential dilutive shares.

16. Taxation

- Provision for current tax is made on the basis of applicable Income Tax Act, 1961.
- Deferred tax assets and liabilities are accounted for in accordance with AS-22 issued by the Institute of Chartered Accountants of India.

B. NOTES FORMING PART OF ACCOUNTS

1. Contingent Liabilities:

(a) Claims not acknowledged as debts are as under: -

(Rs. Thousands)		
	As at 31.03.10	As at 31.03.09
(i) Custom Duty on Plant & Machinery	1,06,92	1,06,92
(ii) Custom duty and interest on Imported Stores & Spares	1,54,59	1,54,59
(iii) (a) JVAT demand under appeal before the Jt. Commissioner of Commercial Taxes (Appeals) Jamshedpur for the asstt. Year 2006-07.(excludes amount Rs.23,07 thousand paid by the company but not considered as credit by deptt.)	23,97	—
(b) Central Sales Tax demand (including interest) under appeal before the Jt. Commissioner of Commercial Taxes (Appeals) Jamshedpur for the asstt. Year 2006-07.	3,11	—
(iv) Demand for Water Charges and interest thereon.	11,47,75	9,92,47
(v) Disputed liability on account of currency fluctuation on foreign currency loans and interest thereon, pending before the Hon'ble AAIFR / Hon'ble High Court Delhi.	17,09,65	37,52,60
(vi) Liability for price difference / other claims net of counter claims, if any, arising on account of procurement of raw materials under a contract (since terminated) pending before an Arbitrator / Orissa High Court.	Not ascertained	Not ascertained
(vii) (a) The company has received a show cause notice to explain as to why the production of Sponge Iron was low in comparison to iron ore consumed. The company has furnished its reply, justifying consumption of iron ore viz a viz iron ore consumption. The matter is still pending.	Not ascertained	Not ascertained
(b) The Company has received a Show Cause Notice from Assistant Commissioner, Central Excise Division IV, JSR for recovery of irregular Cenvat Credit availed by the company of service tax and education cess thereon input services availed by the company. The Company has furnished its reply stating that it has claimed cenvat credit on input services as per the provision of the CCR 2004. The matter is pending for disposal.	1,23	—
(viii) Liability on account of Bank Guarantee	2,81,00	2,81,00

2. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs. 46,43 thousand (Previous Year Rs. 44,20 thousand).

3. Rehabilitation Scheme:

The company was declared a Sick Industrial Company within the meaning of clause (0) of Sub-Section (1) of Section 3 of the Sick Industrial Companies (Special Provision) Act, 1985 by the Hon'ble BIFR vide its order dated 19.12.1996. The Hon'ble BIFR vide its order dated 29th July, 2004 had sanctioned the Rehabilitation Scheme. The said scheme envisaged a total payment of Rs. 135 crores, Rs.65 crores was to be paid as upfront payment and the balance Rs. 70 crores was to be paid in 30 quarterly installments effective from 15th July, 2004. The Rehabilitation Scheme is under implementation.

SCHEDULE 18: ACCOUNTING POLICIES AND NOTES ON ACCOUNTS**A. Accounting Policies****1. Basis of preparation of Financial Statements**

The financial statements have been prepared on the historical cost convention basis (except for revaluation of certain fixed assets and providing for depreciation on revalued amounts) on accrual basis of accounting. The generally accepted accounting principles and the Accounting Standards referred under section 211(3C) of the Companies Act, 1956 have been adopted by the company and the disclosures made in accordance with the requirements of Schedule VI of the Companies Act, 1956 and the Indian Accounting Standards.

2. Inventory valuation

- Stocks of raw materials and stores and spares are valued at weighted average cost or net realisable value whichever is lower. The cost being exclusive of leviable excise duty and set offs of VAT, if any.
- The material in transit is valued at invoice cost.
- Closing stock of finished goods is valued at lower of cost or estimated realisable value. For this purpose, cost includes depreciation and direct expenses to the point of stocking and excise duty but excludes interest, administrative and selling expenses.
- Work-in-progress is valued at lower of cost or net realisable value; for this purpose cost does not include excise duty.

3. Fixed Assets:

- Fixed Assets are stated at cost or revalued cost; cost includes taxes, duties (net of CENVAT and set off) and expenditure during construction and installation where applicable. Indirect expenses are not capitalised along with fixed assets.
- Gross block of Fixed Assets, which are revalued, are stated at the amounts revalued; base for revaluation being the replacement cost method at the time of revaluation of the depreciated value of assets as at the end of the year.
- An impairment loss is recognized wherever the carrying value of assets exceeds its net selling price or value in use, whichever is higher.
- The cost of stores and materials at the time of issue is debited to CWIP.

4. Expenditure during Construction:

In respect of new projects, all expenses including interest incurred upto the date of commencement of commercial production are capitalised.

In respect of substantial expansion of business, at existing locations, only direct costs are capitalised together with interest on the funds relating to them upto the date of commercial production.

5. Depreciation:

- Depreciation is provided on straight line method on all fixed assets at the rates and in the manner as prescribed in Schedule XIV of the Companies Act, 1956. Leasehold land is amortised over the lease period.
- Depreciation on realignment of value of assets as a result of foreign exchange variations is amortised over the unexpired life of the assets.
- The value added on revaluation of assets is depreciated over the remaining useful life of the assets. The additional depreciation thereon for the year is withdrawn from the revaluation reserve and credited to the Profit & Loss Account.
- Intangible assets are being amortised over their useful life of 6 years.

6. Foreign Currency Translation:

- Transactions in Foreign Currencies are recorded at the exchange rate prevailing on the date of transactions.
- Foreign Currency Loans and other Liabilities are stated at the exchange rate prevailing as on date of the Balance sheet.
- Exchange variation arising as a result of the translation of foreign currency loans are Capitalised / decapitalised to relating plant & machinery / assets.
- Exchange variations arising as a result of translation of interest on Foreign currency loans accrued but not due are treated as income on exchange.

7. Revenue Recognition:

- Sales are accounted for based on despatch of finished goods to the customers from various stocking points, and includes excise duty but exclusive of VAT / CST and is net of trade discounts.
- Other miscellaneous revenues are recognized when the amount and the collectability are certain. Accordingly insurance claims are accounted for on settlement.

8. Raw Material consumption is accounted for after ascertaining the year end closing stock of the raw materials by an independent Surveyor from the total of the opening stocks and purchases.**9. Salaries and wages on repairs and maintenance of plant & machinery, where carried out internally, are charged to salaries and wages account.****10. Extra Ordinary Items:**

Extra ordinary items of income & expenditure as covered by AS-5, are disclosed separately.

11. Borrowing cost

Borrowing cost attributable to the acquisition or construction of a qualifying assets are capitalized as part of cost of that asset. Other borrowing costs are recognized as expense in the period to which they relate.

12. Leases

Lease rental paid to Lessors is recognized as expenses on accrual basis.

13. Employee Benefits

Retirement benefits have been recognized in accordance with Revised Accounting Standard 15 issued by the ICAI Accordingly :-

- Short Term Employee Benefits
Short Term employee benefits are recognized in the period during which the services have been rendered.
- Long Term Employee Benefits
 - Defined Contribution Plan

Provident Fund

All employees of the Company are entitled to receive benefits under the Provident Fund, which is a defined contribution plan. Both Employee and employer make monthly contribution to the plan at a predetermined rate of employee's basic salary. Contribution to Provident Fund are administered and managed by a separate fund. Contributions to Provident Fund are expensed in the Profit and Loss account.

(ii) Defined benefits plan**(a) Leave encashment**

The liability on account of unavailed earned leave at the year end is fully provided for on actuarial valuation basis.

(b) Gratuity

The Company provides for gratuity, a defined benefit plan (the 'Gratuity Plan') covering all eligible employees. In accordance with