Synergy in energy

Sarda Energy and Minerals Limited

Annual Report 2007-08

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realized, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Inside this report

From **striking** the ground to
extracting ore.

From **stoking** a furnace to
building a home.

From **starting** a power plant to
lighting the world.

From **planting** a seed to
greening the environment.

From **helping** others to
transforming communities.

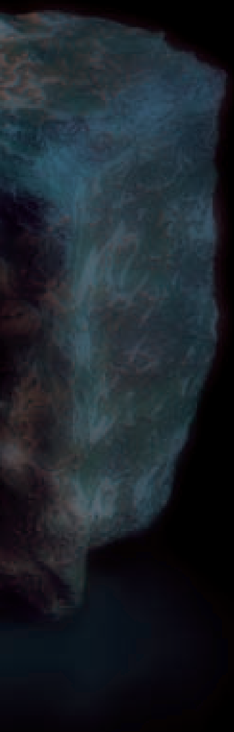
Every activity essentially narrows down to one word.

Sarda Energy and Minerals Limited is one of the lowest cost producers of quality steel (sponge iron, ingots, billets and TMT bars) and one of the largest manufacturers cum exporters of premium manganese alloys in India.

Interestingly, it is energy that has been the foundation of our strategy across the last one decade.

And it is energy that will be the prime mover of all our endeavors with three objectives.

Scalability. Profitability. Sustainability.



Vision

To be a globally respected energy and minerals company creating superior value for our stakeholders on a sustainable basis.

Values

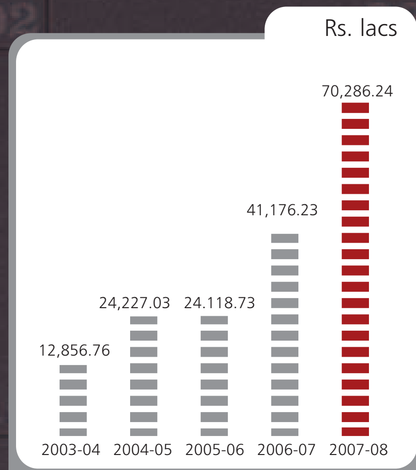
- **Quality:** We believe in setting benchmarks through the quality of our products.
- **Customer focus:** We believe in high customer satisfaction and becoming a part of our customers' success story.
- **People:** We believe in our people and constant upgradation of their skills and leadership capabilities.
- **Integrity and ethics:** We believe in our commitments and strive to set high ethical standards.
- **Corporate social responsibility:** We believe in caring for our environment and our communities.

Highlights, 2007-08

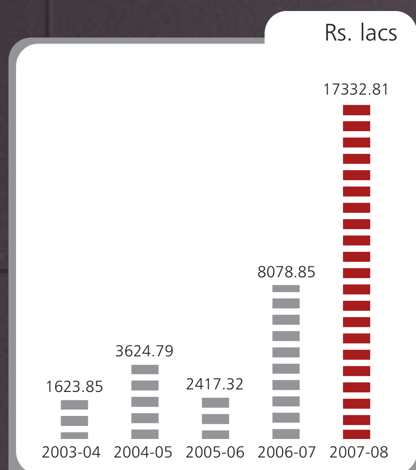
- Merged Chhattisgarh Electricity Company Limited with Raipur Alloys and Steel Limited to create Sarda Energy & Minerals Limited, reflecting our growing focus on energy and minerals.
- Achieved a record turnover of Rs 703 cr.
- Registered record EBIDTA of Rs 173 cr with a correspondingly high EBIDTA margin of 24.66 percent.
- Reported a record post-tax profit of Rs 121 cr at a net profit margin of 17.27 percent.
- Reported record PLF of 81 percent in the captive power plant.
- Reported record ferro alloy exports, which accounted for 17.21 percent of our total revenues by value.
- Incorporated a subsidiary in Hong Kong (Sarda Energy and Minerals Hong Kong Limited) to facilitate our exposure in global trading.

Ingots | Billets | TMT bars | Fly ash bricks

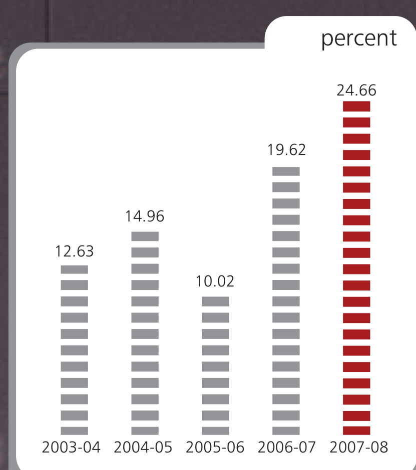
The value of our business strategy is reflected in our growing numbers.



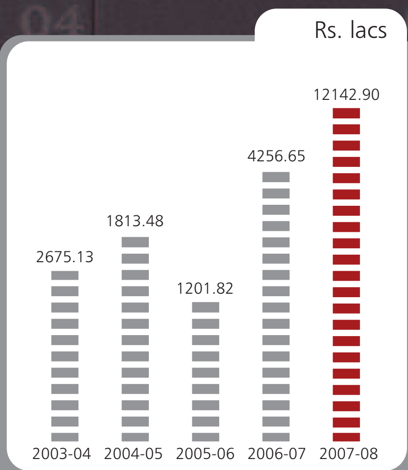
Increasing income from operations



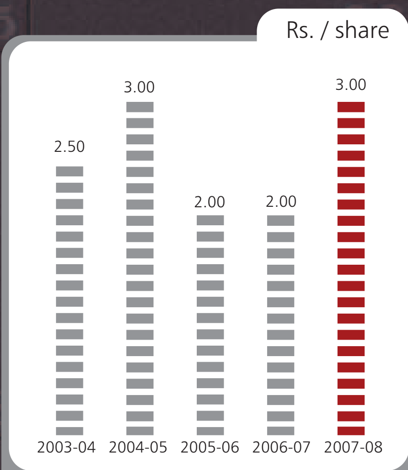
Robust EBIDTA



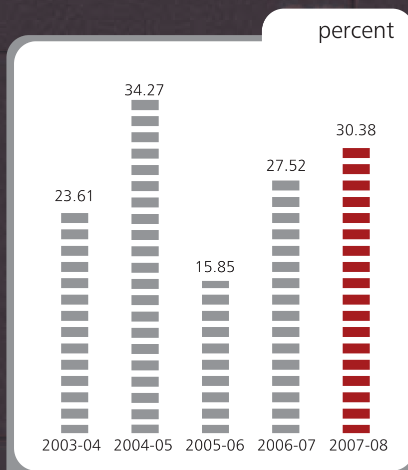
Strengthening EBIDTA margin



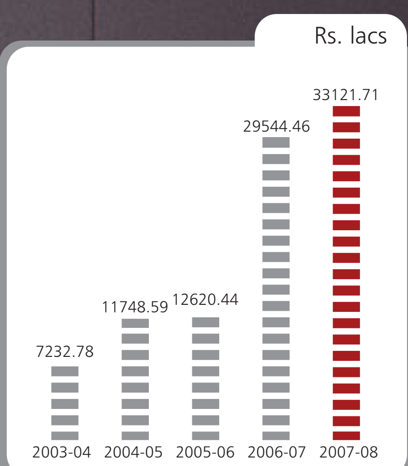
Growing post-tax profit



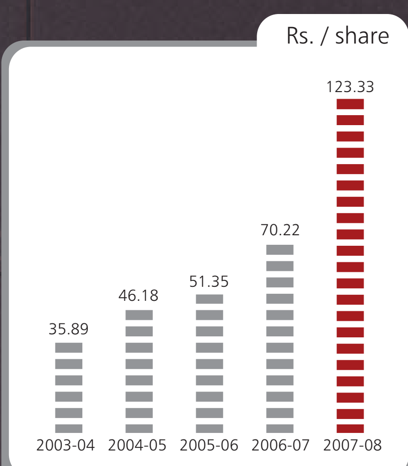
Steady dividend payout



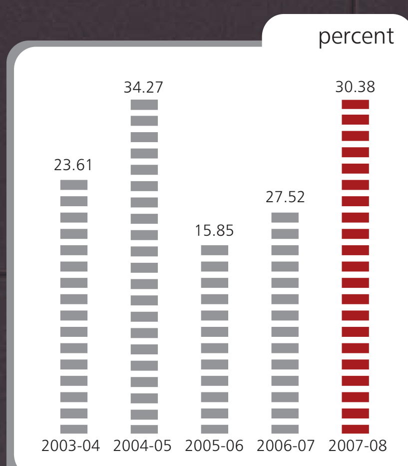
Enlarging return on employed capital



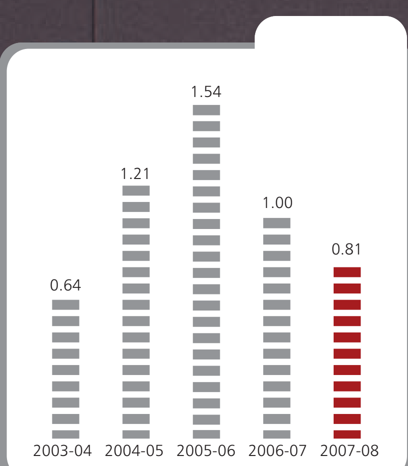
Rising gross block



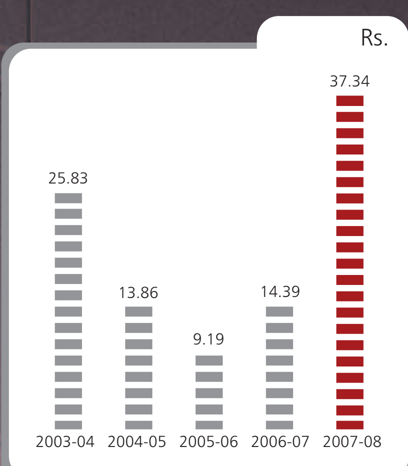
Expanding book value



Rising return on net worth



Healthy debt-equity ratio



Rising earnings per share

Credit ratings

- We have been assigned the 'PR1' rating by CARE (indicates the lowest credit risk) for working capital borrowings.
- We have been assigned 'A+' by CARE (reflecting adequate safety and low-credit risk) for long-term borrowings.

From ore to power to ferro alloys to steel.

1979
The Sarda Group took over Raipur Alloys and Steel Limited (RASL) (earlier Raipur Wires & Steel Limited), a sick and closed entity.

1981
Commissioned a 10 MT electric arc furnace to produce ingots.

1984
Installed a continuous casting machine/ billet casting machine, the fourth company in India to do so at that time.

1987
Implemented the first automated oxygen lancing plant in Madhya Pradesh to feed oxygen in the arc furnace.

1990
Implemented the first automated ultra-high power furnace (25 TPD) and ladle refining furnace (25 TPD) in Madhya Pradesh.

1993
Commissioned the first sponge iron plant (100 TPD) with modern SIL technology.

1995
Commissioned the second sponge iron plant (100 TPD).

2001
- Commissioned a 24-MW captive power plant in Chhattisgarh Electricity Company Limited (CECL).
- CECL installed 2x9-MVA closed-top ferro alloys furnaces.
- Commenced production in 2x6 tonne induction furnaces.

2002
- Implemented an integrated Oracle-based ERP solution.

2003

- Commenced a fly ash brick plant of 120 lakh units per annum to utilise hazardous fly ash from captive power plant.
- CECL installed its third 9 MVA ferro alloys furnace

2004

- Commenced extraction from RASL iron ore mines in Rajnandgaon (Dongarbore, Chhattisgarh).
- RASL augmented its sponge iron capacity through another 500-tpd kiln.
- Doubled the fly ash brick-making capacity to 240 lakh units per annum

2005

- CECL installed the fourth 9 MVA ferro alloys furnace
- CECL installed its second 24 MW power plant
- RASL achieved QMS certification of ISO 9001:2000.

2006

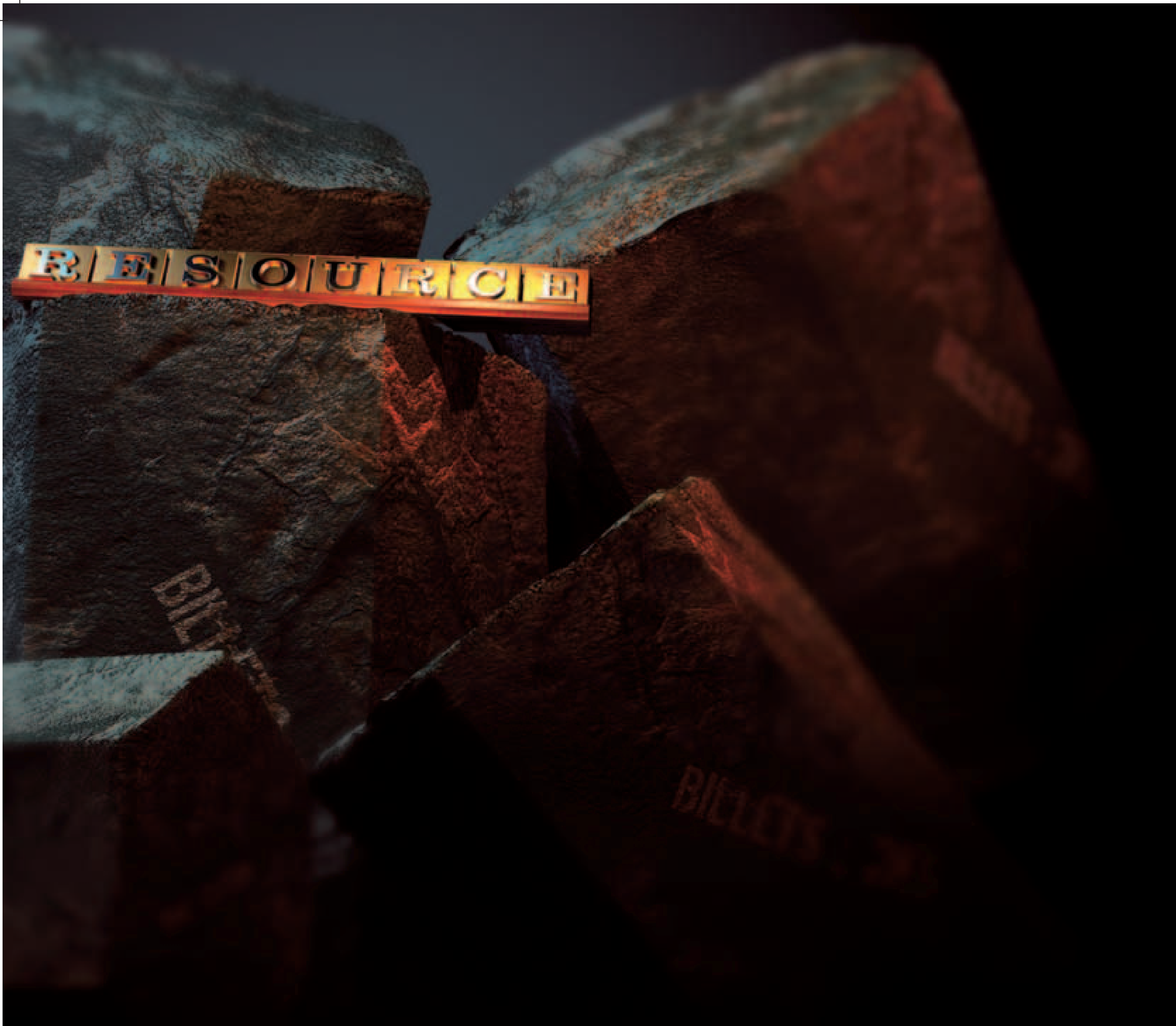
- Augmented steel-making capacity by 1,00,000 TPA (2X15 tonnes).
- Installed the fifth 9 MVA ferro alloys furnace.
- Achieved the coveted Star Export House status from the Government of India.

2007

- Sarda Energy & Minerals Limited came into existence on 2 August 2007 following the merger of CECL with RASL.

2008

- Increased steel-making capacity by 1,00,000 TPA (2x15 tonnes).
- Commissioned a 4.8 MW hydro power project through an SPV.
- Implemented SAP ERP system.



Chairman and Managing Director's review

Kamal K. Sarda
Chairman and Managing Director

Dear Shareholders,

THE YEAR 2007-08 WAS A WATERSHED FOR OUR COMPANY.

First, our net profit touched a record Rs. 121 crores compared with Rs. 42 crores in the previous year, an increase of 185 percent.

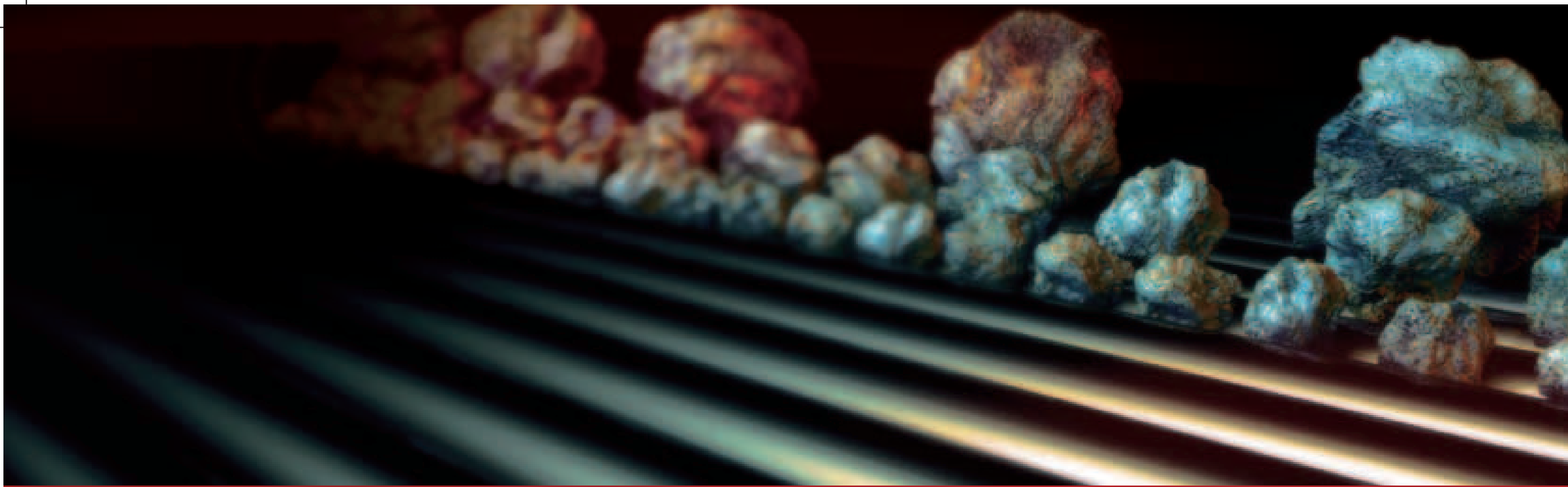
Second, despite the meltdown in the global economy following the US sub-prime crisis, we were able to achieve record sales of Rs. 703 crores, an increase of 71 percent over the previous year's sales of Rs. 412 crores.

Third, we successfully capitalised on our international goodwill to achieve a record ferro alloys export of Rs. 119 crores, compared with Rs. 59 crores in the previous year, an increase of 104 percent. The confidence in our Company was acknowledged by both domestic and foreign renowned institutional investors, who invested Rs 85 crores in the equity share capital of our Company.

Three consecutive years of record earnings growth in a volatile market was possible primarily because of our extensive resource security, low production cost, global sales presence, customer-centric approach and rich intellectual capital.

Extensive resource security

The rapid urbanisation and industrialisation in India, China, Russia and Brazil resulted in a structural shift in commodity demand. As a result, there was an unprecedented increase in the demand and price of steel. This led to a



tremendous increase in key input costs such as coal, iron ore, etc., leading to a growing pressure on the margins of steel companies. To cope with these challenges, the global steel industry witnessed two historic acquisitions – that of Arcelor by Mittal Steel and Corus by Tata.

We recognised this reality early in the business cycle and felt the need for extensive resource security, as input costs are usually decoupled from finished product realisations. It was our proactive understanding that the Company with the most extensive resource security would be the most insulated from cyclical turns.

I am proud to report that we are one such company for the following reasons:

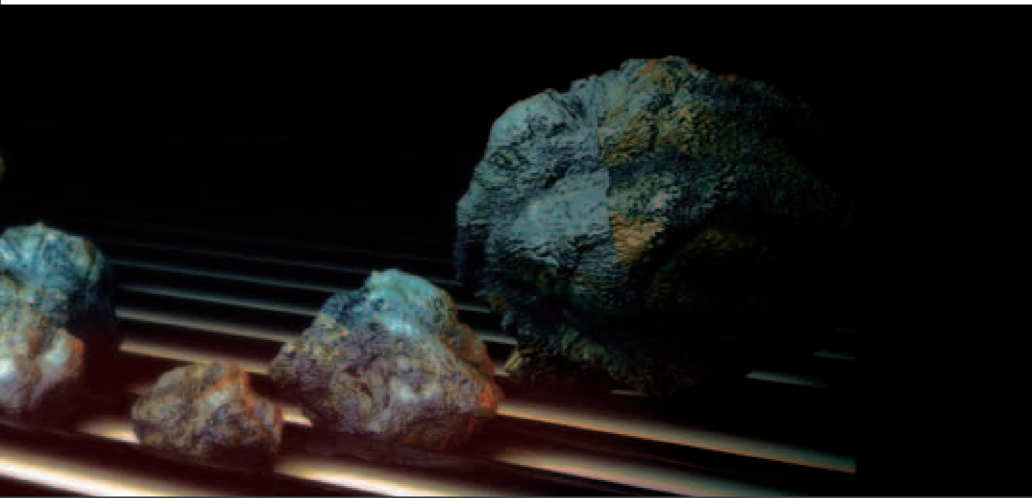
- **Energy:** We are 100 percent self-sufficient for our energy needs, which is the most critical input in ferro alloys and steel-making.
- **Iron ore:** The present operational mine has reserves of nearly 20 million MT. In addition to this, the Company has got an in-principle approval from the Government of India for five more mines possessing sufficient reserves to meet our requirement for the next 25 years.
- **Coal:** The Company secured coal reserves of more than 100 million MT. The first mine with reserves of 67 million MT was commissioned.
- **Manganese ore:** The Company acquired mining rights from private parties in Goa. In addition to that, reconnaissance permits/ in-principle approvals were granted in favour of the Company for three mines in Madhya Pradesh.

Low-cost of production

One of the major reasons of our low production cost has been our vertical integration, economy of scale and reduced dependence on the external market for the supply of critical inputs. The Company had foreseen the need to secure raw material resources more than a decade ago and had taken adequate steps in this direction. The result is that today we are completely integrated from iron ore to finished steel for end users.

Our world-class manufacturing facilities helped us achieve record production through enhanced capacity utilisation in all our activity streams. The availability of captive resources within a radius of 250 km from our manufacturing facility significantly saved logistic costs.

We expect to benefit from this edge in 2008-09 and beyond. Our 250-hectare factory area in



The availability of captive resources within a radius of 250 km from our manufacturing facility significantly saved logistic costs.

Siltara, Raipur, will suffice for a decade's expansion, and our dedicated 8-km water pipeline from the Kharoon river to our plant will be adequate to sustain our growth.

Access to customers worldwide

At SEML, a customer-centric approach represents not merely a policy but a credo. We have aligned and integrated our activities with that of our customers. We know that being sensitive to customers' needs helped us emerge as a supplier of choice.

During the year, SEML emerged as the leading exporter of manganese alloys from India. The Company was able to achieve this distinction by consistently supplying products as per international quality norms and meeting supply commitments on time. This helped us consolidate our presence across more than 25 countries.

Our human resource

At SEML, if we grew attractively over the last few years and outperformed the industry average, it was because we recruited the most motivated professionals and provided them with a challenging and empowered workplace. The result is that our people operated world-class facilities, commissioned them within schedule and budgets, manufactured the products of best quality and efficiently serviced global customers.

This is a tough time for the resource industry and our continued success will rely on our people and their determination to achieve, excel and succeed. People's health and safety are integral to our success.

Outlook

Let me leave you with a simple proposition – energy and minerals will be the bottomline of modern living for an important reason: as developing countries grow, their need for energy and metals will expand concurrently. Supply will not just feed demand; it will create demand as well. In view of this, we are optimistic that we have made the right investments in the right places at the right time, which will enhance value for all our stakeholders over the coming years.

Sincerely,

Kamal K. Sarda
Chairman and Managing Director


INVESTMENT
RELIA
REVENERGY
SYNERGY
IN
ENERGY
ENERGY
5
RUPEES
1996

Energy and minerals are a good investment. Reliable in performance. Secure in profitabilitay.

AT SEML, ENERGY AND MINERALS ARE NOT JUST ORDINARY RAW MATERIALS. THEY REPRESENT THE BUILDING BLOCK OF OUR ENTERPRISE.

They enable us to integrate each input.
They strengthen our value chain.
They protect profits during industry troughs and maximise them during sectoral rebounds.

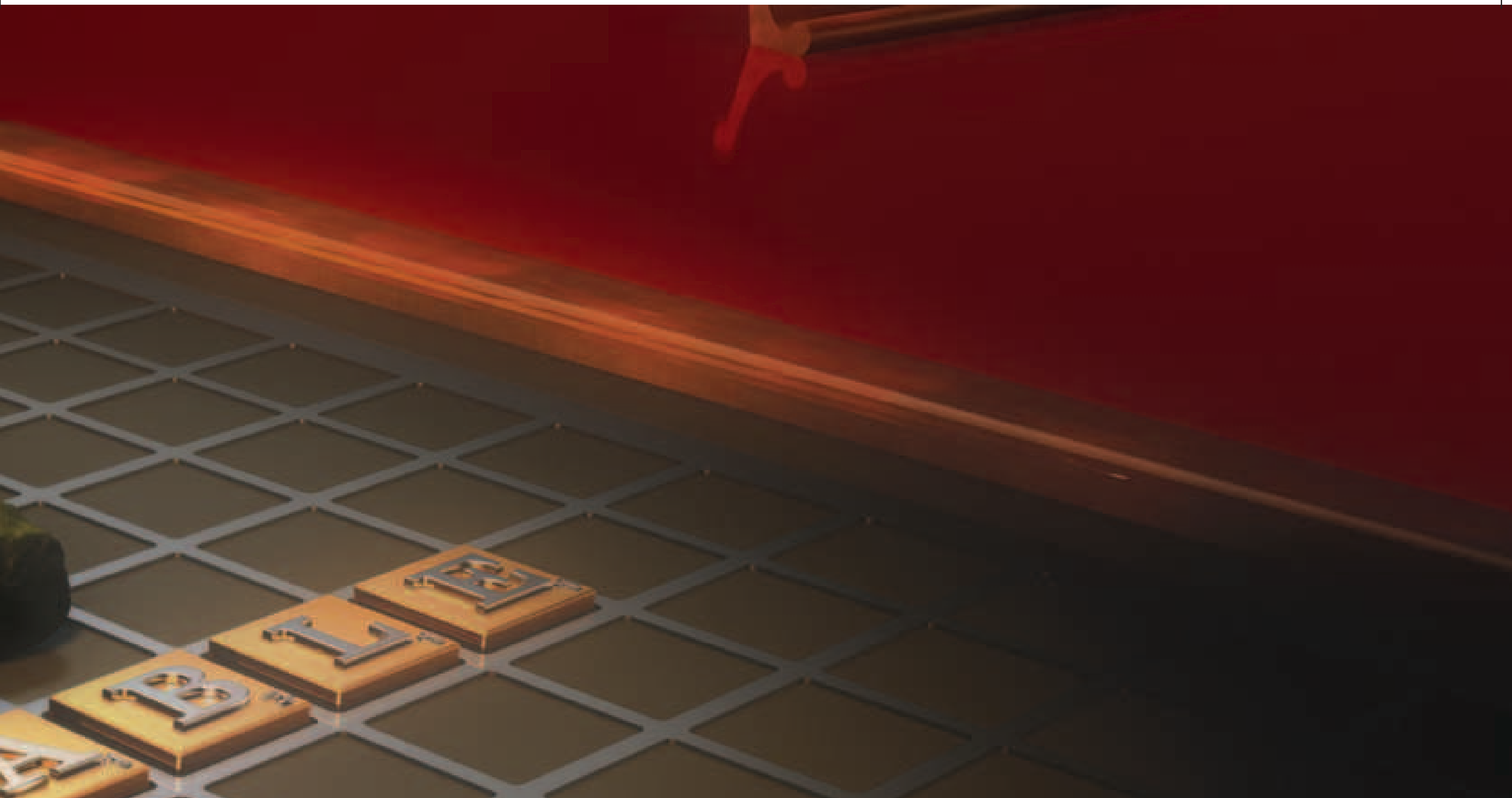

CONSUMPTION
G 2
E 1
N 1
E 1
Y 4
R 1

‘Genery’

‘GENERY’ WAS THE ‘ENERGY’ SCENARIO FOR MOST POWER-INTENSIVE COMPANIES WITH A LARGE PROPORTION OF THEIR OPERATING COST BLOCKED IN POWER AND FUEL. A DISORGANISED PICTURE.

We responded to this challenging environment through timely rearrangement of the pieces to create an ‘energy’ solution. To reduce power costs in an energy-intensive and inflationary environment. To derisk our business. To reinforce our prospects


SECURITY
TURNOVER
SUSTAIN
ACHIEVE



The growth 'spark'

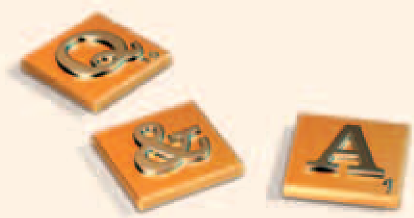
AT SEML, IT WOULD BE EASY TO CONNECT THE ENERGY IN OUR 'INTENT' WITH THE ENERGY IN OUR 'PRODUCT', WITH A SIMPLE OBJECTIVE: TO ENHANCE OUR SCALE, PROFIT AND SUSTAINABILITY.

Our projects in progress

Project	Installed capacity	Location	Projected commissioning
Coal mines (67 million tonnes)	1.20 million TPA	Raigarh, Chhattisgarh	Qtr 3, 2008-09
Pellet plant	0.6 million TPA	Raipur, Chhattisgarh	Qtr 1, 2009-10
Wire rods	0.18 million	Raipur, Chhattisgarh	Qtr 2, 2009-10
Coal washery	1 million MT	Raigarh, Chhattisgarh	Qtr 3, 2009-10
Power plant	80 MW	Raigarh, Chhattisgarh	Qtr 1, 2010-11

Our new coal mine

Specifications	Madanpur, Chhattisgarh (South)
Deposit	175 million tonnes
Our share in the joint venture	36 million tonnes
Proposed mine opening date	2010-11
Peak capacity attained by	2015-16
Our share in annual production	1.1 million TPA



The top management looks ahead

"The foresight to hedge our basic raw material needs at the right time and a robust global commodity environment yielded outstanding results at Sarda Energy and Minerals Limited."

Q. How would you assess the performance of the Company in 2007-08?

A. We are delighted because in more ways than one, the year under review represented a microcosm of our business and operating model: great results in both good and challenging times.

- Even as 2007-08 was difficult for most ferro alloys manufacturers on account of a sharp increase in the cost of manganese ore – USD 2.40/DMTU during the start of the year to USD 12/DMTU at year-end – we successfully bucked the trend for an important reason: our foresight in securing our manganese ore requirements ahead of the cost surge. So with our raw material costs more or less frozen, we focused on maximising peak ferro alloys realisations resulting in an increased from an average USD 800 per tonne in 2006-07 to an average USD 1400 per tonne in 2007-08.
- In our value-added steel products business, we capitalised on high realisations with relatively stable input costs, which signified a growing proportion of resources secured from our captive iron ore mines.
- As a result of our captive power generation, our energy costs were nearly half the cost from the State Electricity Grid. Our captive generation was largely on account of the extensive utilisation of waste heat gas from the sponge iron plant. Going ahead, this edge will be reinforced with coal production from our captive mines, insulating us completely from price and supply vagaries.

These points emphasised our relative non-cyclicality in a cyclical business environment, which will represent the foundation of our sustainable growth over the coming years.

Q. But there is a common understanding that commodities like steel and ferro alloys are cyclical...

A. There are two important points one needs to consider. Firstly, the businesses of steel and ferro alloys are indeed cyclical, but only in terms of price and not demand. It would be important to emphasise that global steel consumption – especially driven by rapid growth and urbanisation coming out of Asian and BRIC economies – has grown year-on-year. Secondly, the end realisations of steel products dictate prices of the resources that go into them and not the other way around.

It is precisely this understanding that will build profitable steel companies of the future. As a forward-looking organisation, we proactively secured our needs of two major raw material resources – iron ore and coal. While our iron ore reserves are estimated at around 20 million tonnes, coal reserves are around 67 million tonnes. Even with a 100 percent growth in our steel-making capacities, we will comfortably cover production for the next 25 years and successfully manufacture value-added products at one of the lowest costs. There is a good reason why this is a competitive edge: most other players have either coal or iron ore, while we have both, which sets us ahead of competition. It would be pertinent to indicate that while we do not possess manganese ore mines, we enjoy prospecting licenses in mineral-rich pockets and are actively seeking suitable global and domestic mine acquisition opportunities in the areas of iron ore, coal and manganese ore.

What were some of the key operational achievements of 2007-08?

There were a number of positive achievements during the year under review:

- Our rich understanding of assets and technologies helped reduce capital costs nearly by 25 percent below the industry benchmark. Our low-cost sponge iron manufacturing base will provide us with a foundation to manufacture value-added steel products, while the large capacity and merchant sales will enable us to capitalise on robust sponge iron prices.
- We doubled our billets capacity in 2007-08. This will enable us to manufacture a large quantum of value-added TMT bars, fetching robust realisations.
- We reported the highest manganese alloy export from India, indicating our strong quality compliance with stringent international product norms and specifications.
- We established a 100 percent subsidiary in Hong Kong to engage in international trading, capitalise on global opportunities and strengthen our competitiveness.

The cumulative impact of these initiatives was that we reported our highest-ever topline of Rs 702.86 crores, highest EBIDTA of Rs 173.33 crores, highest EBIDTA margin of 24.66 percent, highest net profit of Rs 121.42 crores and highest-ever EPS of Rs 37.34 in 2007-08.

The management looks ahead

"We expect to protect our margins even as we enhance our topline to Rs 1,000 cr in 2008-09, reinforcing our volume-value play."

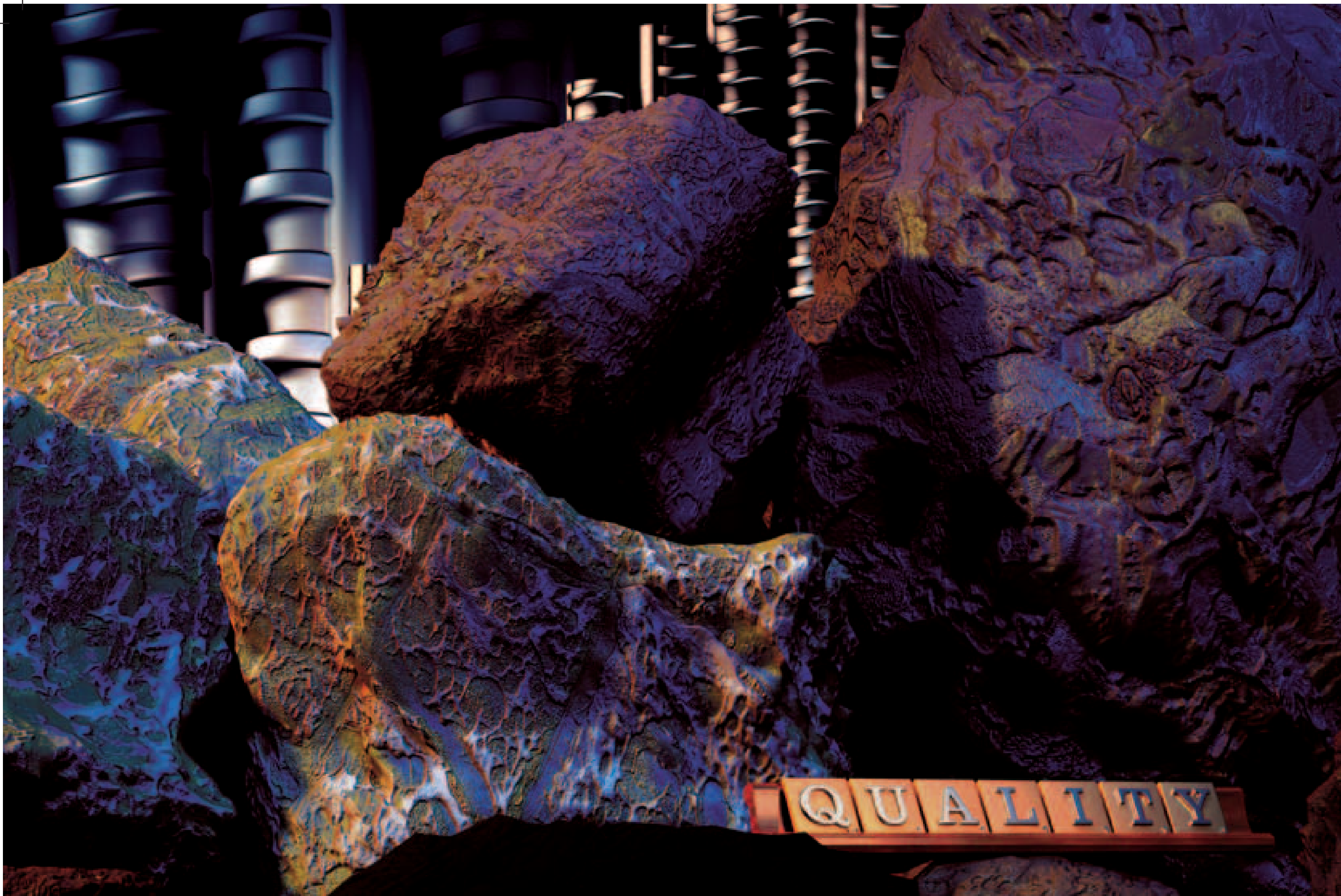
What is the agenda of the Company for 2008-09?

A. We will grow our mine output at low excavation costs, convert the ore into finished value-added products at relatively low conversion costs and market them wherever they fetch the highest realisations. Besides, we expect to achieve the following:

- We expect to begin operations of our pellet manufacturing facility by April 2009. Once commissioned, this will consume iron ore fines from our mines. These pellets, an improved iron ore substitute in steel-making, will help us reduce material costs.
- We intend to enhance the iron ore output from our captive mines and minimize excavation costs through the application of a modern excavation technology.
- We expect to commence the commercial extraction of coal from our mines by October 2008.
- We intend to embark on our coal washery project in Raigarh near the pit head, proposed to be commissioned by October 2009. This will enable an extensive utilisation of our coal resources through beneficiation.
- We plan to commission an 80-MW merchant power plant that will extensively use our captive coal reserves and generate attractive profitability. The power plant is proposed to come up in April 2010.

What are the Company's projections for 2008-09?

A. We are unambiguously focused on superior profitability and a higher return on our investments. Our mining assets will strengthen the integration of our business model and keep our costs low. A captive railway siding to be commissioned in October 2008 will result in a higher efficiency of our cargo movement. With this combination of right assets, right costs, right processes and right markets, we expect to attain a topline of Rs 1,000 cr in 2008-09 at margins higher than the industry average, enriching our shareowners.



Business segment analysis

1 Ferro alloys

- **Segment status within the Company:** Largest
- **Revenue, 2007-08:** Rs 34,240.09 lacs
- **Revenue growth, 2007-08:** 90.92 percent
- **Production, 2007-08:** 56,910 tonnes
- **Exports, 2007-08:** 22198 tonnes
- **Installed capacity:** 66,000 MTPA

Overview

SEML's ferro alloys business is volume-driven and margin-accretive. The Company enjoys the capability to manufacture customised ferro alloys – ferro manganese and silico manganese, which find applications in de-oxidation and steel alloys (automotive grade and speciality applications).

Highlights, 2007-08

- One of the largest exporters of manganese alloys from India, registering a highest-ever export income of Rs 119 crores
- Achieved 85 percent capacity utilisation in all five submerged arc furnaces.
- Recorded highest production and sales at 5,902 MT and 6,744 MT in October 2007.

Key strengths

- One of the lowest cost producers of ferro alloys due to captive power generation and economy of scale
- 'Star Export House' status granted by the Government of India.
- Preferred ferro alloys supplier across domestic and international markets through customised production.

Outlook

- The Company is debottlenecking and increasing its installed capacity from 66,000 MT to 82,500 MT per annum.

2 Steel products

▸ **Segment status within the Company:** Second ▸ **Revenue, 2007-08:** Rs 22,626.51 lacs ▸ **Revenue growth, 2007-08:** 78.49 percent ▸ **Production, 2007-08:** 82,994 tonnes ▸ **Installed capacity:** 2,40,000 MTPA

Overview

SEML is one of the most competitive mini-steel manufacturers in India, focusing on value-added steel products utilised in the country's infrastructure and construction sectors. Over the years, the Company has positioned itself distinctively through an integrated presence from mine to metal. It manufactures premium quality steel billets, ingots and TMT bars. Its continuous casting billet-manufacturing unit can produce high-tensile and corrosion-resistant steel for diverse customer demands

Highlights, 2007-08

- Commissioned a 1,00,000 MTPA billet manufacturing facility.

Key strengths

- Sponge iron, a critical intermediate in steel-making, is also produced by the Company thus reducing costs and enabling higher value addition
- Possesses a 10-year patent on a specially-designed TMT bar, sold under the 'Hytech' brand.

Outlook

- The Company expects to commence operations of a greenfield pellet-manufacturing facility by the first quarter of 2009-10 and plans to install a 1,80,000 MTPA wire rod mill

3 Sponge iron

▸ **Segment status within the Company:** Third ▸ **Revenue, 2007-08:** Rs 13,089.68 lacs ▸ **Revenue growth, 2007-08:** 31.61 percent ▸ **Production, 2007-08:** 154,796 tonnes ▸ **Installed capacity:** 2,10,000 MTPA

Overview

At SEML, sponge iron represents a critical input in the downstream manufacture of steel. The waste heat generated in the production process is consumed in the captive power plant, optimising power generation costs.

Highlights, 2007-08

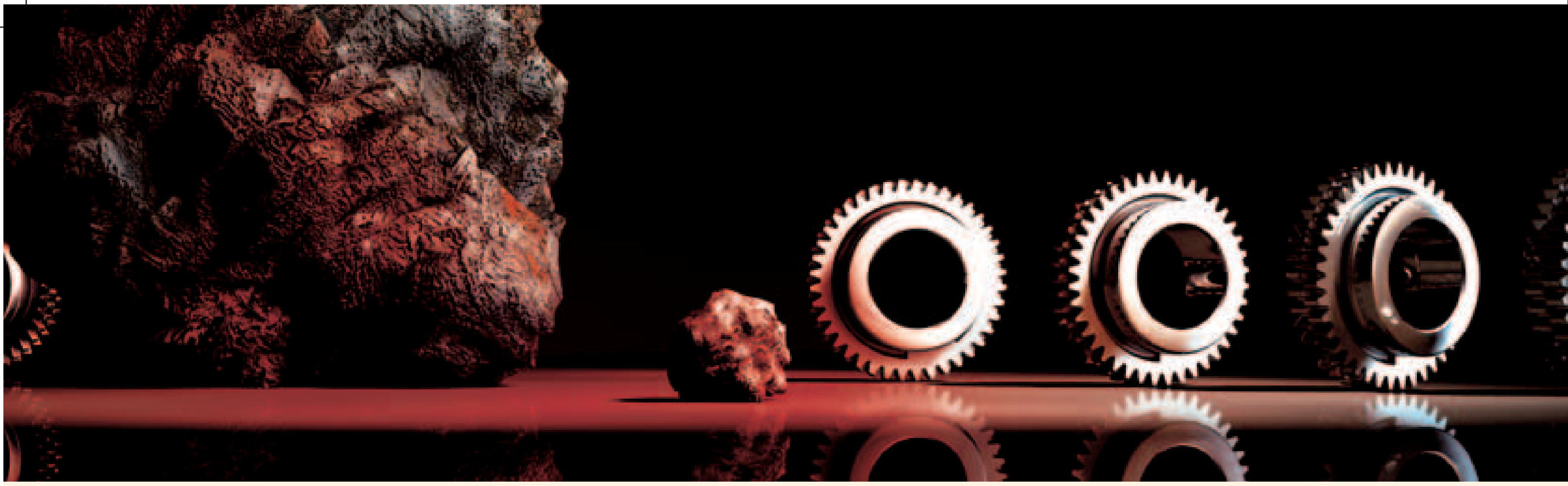
- Achieved highest sponge iron production of 16,583 MT in March 2008, operating at an installed capacity of over 95 percent.

Key strengths

- One of the lowest cost producers of sponge iron; captive iron ore helps reduce manufacturing costs to a great extent.
- Achieved high-process stabilisation through state-of-the-art digital control systems.
- Stringent quality management translated into a robust product quality.

Outlook

- The Company operationalised a new 500-TPD rotary kiln for the manufacture of sponge iron.



4 Captive power

- **Segment status within the Company:** Fourth
- **Production, 2007-08:** 33.97 crore Kwh
- **Installed capacity:** 48 MW

Overview

Energy is a vital steel input, accounting for over 40 percent of its aggregate operating cost. SEML enjoys the distinction of being a competitively low-cost manganese alloys and steel manufacturer through its 48-MW captive power plant (CPP). The CPP utilises waste heat from the sponge iron plant to minimise power generation cost. Allied infrastructure comprises a modern waste heat recovery boiler that comprehensively captures waste heat gases and minimises pollution. The Company's captive power plant meets 100 percent of its energy needs.

Highlights, 2007-08

- Achieved a plant load factor of 81 percent
- Installed a 4.8-MW hydel power plant in Uttaranchal through an SPV
- Generated record 33.97 crores Kwh of power as against 32.94 crores Kwh in the previous year

Key strengths

- Energy being a key input, 100 percent captive power generation enhances the Company's competitive edge
- The waste heat recovery helps reduce power generation costs further
- Excess power generated is supplied to the state grid at a remunerative tariff

Outlook

- The Company plans to commission an 80-MW thermal power plant in Raigarh, Chhattisgarh, by April 2010
- A 1,100-MW merchant power plant will be commissioned in two phases by 2014
- A 96-MW hydel power plant in Sikkim and a 24-MW hydel power plant in Chhattisgarh are in the pipeline

5 Eco-friendly fly ash bricks

- **Revenue, 2007-08:** Rs 50.29 lacs
- **Production, 2007-08:** 16.93 lakh bricks
- **Installed capacity:** 6,000 bricks per day

SEML manufactures eco-friendly fly ash bricks generated from process by-products. Importantly, the manufactured bricks facilitate a substantial consumption of fly ash, an environment polluter. Thus, in addition to contributing financially, the product also plays a social and ecological role. During the year, the Company marketed 22,47,610 bricks and generated revenues (free cash flow considering a negligible cost of production) of Rs 50.29 lacs. The Company is putting up a new fully automated fly ash brick-manufacturing facility of 1,60,000 bricks per day, which is expected to be commissioned in the first quarter of the next financial year. This will consume the increased fly ash output, following the expansion of manufacturing facilities.

Analysis of key financial metrics

Revenue

Revenue by division: Major revenue-generating streams comprised ferro alloys and steel. Revenues from the ferro alloys division accounted for 48.72 percent of the total revenues, growing 90.92 percent to Rs 34,240.09 lacs in 2007-08, driven by a higher sales, increased exports and an increased contribution of value-added products in the sales mix. Revenues from the steel division (sponge iron, ingots, billets and TMT bars) accounted for 50.82 percent of the total revenues, growing by 58.19 percent to Rs 35,198.08 lacs in 2007-08, prompted by escalated demand and realisations. The rest was contributed by by-products, power and eco-friendly fly ash bricks.

Revenue by geography: The share of revenues derived from India out of the total revenues moderated from 90.25 percent in 2006-07 to 84.02 percent in 2007-08 as exports increased 179.88 percent to Rs 11,233.37 lacs in 2007-08. Nearly 34.49 percent of the Company's ferro alloys (by value, as a proportion of the total ferro alloys income) were exported. Exports accounted for 15.98 percent of the income in 2007-08 (9.75 percent in 2006-07). The Company exported to Canada, Italy, Europe, the US, Japan, Turkey, Pakistan, the Middle East, China and other Southeast Asian countries.

Revenue by products: The Company's product-wise revenue break-up is given below. Rs in lacs

Products	2007-08	Proportion of the total income (percent)	2006-07	Proportion of the total income (percent)
Ferro manganese	17,221.11	24.50	6,805.03	16.53
Silico manganese	14,564.57	20.72	11,129.00	27.02
Ferro manganese slag	786.20	1.12	–	0.00
Sponge iron	12,571.57	17.89	9,493.61	23.05
Steel ingots	5,575.27	7.93	2,201.32	5.35
Steel billets	13,005.10	18.50	3,351.31	8.14
Steel TMT bars	4,046.14	5.76	7,204.70	17.50
Fly ash bricks	50.29	0.07	85.58	0.21
Power	279.68	0.40	453.78	1.10
Others	2,186.31	3.11	451.90	1.10

Cost analysis

Total cost (excluding interest and depreciation) increased 51.71 percent on account of growing activities. Inflation notwithstanding, the total operating cost as a percentage of total revenue declined 832 basis points to 66.49 percent in 2007-08.

Segmental break-up of key expenses (as a percentage of total cost*)

Segment	2006-07	2007-08
Raw material consumed	75.36	77.37
Employee cost	2.34	2.41
Manufacturing expenses	15.25	12.25

**Excluding interest and depreciation*

Raw materials costs: Raw material expenses increased 55.42 percent to Rs 36,158.51 lacs in 2007-08. Raw material costs as a proportion of total cost increased a marginal 184 basis points to 77.37 percent in 2007-08. Despite sharp spikes in manganese ore costs throughout the year, the Company was able to procure a significant portion of its requirement well ahead of the cost rise. Access to captive iron ore, as well as strategic and timely purchases of coal and other inputs, resulted in optimised raw material costs.

Employee costs: Total payments and provisions to employees increased significantly by 56.51 percent to Rs 1,127.06 lacs in 2007-08; employee costs as a proportion of the total cost increased marginally by eight basis points. The principal reason for the increase was a growing employee base and rising remuneration.

Manufacturing and other expenses: Manufacturing and other expenses increased 21.83 percent to Rs 5,724.42 lacs in 2007-08. However, as a proportion of the total cost, these expenses declined from 15.22 percent in 2006-07 to 12.25 percent in 2007-08.

Total capital employed

Total capital employed increased 73.98 percent to Rs 72,532.96 lacs in 2007-08. The Company's total debt increased 54.88 percent to Rs 32,329.46 lacs in 2007-08. It is noteworthy that despite this sharp increase, the return on employed capital (average) increased 286 basis points to 30.38 percent in 2007-08.

Own funds

Networth increased 109.52 percent to Rs 40,053.65 lacs as on 31 March 2008. Return on networth increased from 22.27 percent to 30.32 percent due to an increase in reserves and surplus, driven by growing retained profits. Retained earnings increased 185.27 percent to Rs 12,142.9 lacs in 2007-08.

Equity share capital: Equity share capital (issued and subscribed) as on 31st March 2008 comprised 3,40,45,109 shares of Rs 10 each. During the year, the Company issued 1,95,64,229 shares as fully paid-up to the shareholders of the erstwhile Chhattisgarh Electricity Company Limited and Raipur Gases Private Limited, consequent to amalgamation. The Company also issued 44,73,684 equity shares on a private placement basis to institutional investors to mobilise funds for its ongoing expansion projects.

Reserves and surplus: Reserves and surplus stood at Rs. 36,748.99 lacs, representing an increase of 105.77 percent over 2006-07.

Loan funds

Even as loan funds increased 54.88 percent to Rs. 32,329.46 lacs in 2007-08, debt–equity ratio strengthened to 0.80 as on 31 March 2008 (1.00 as on 31 March 2007).

Secured loans: Secured loans increased 65.65 percent to Rs 31,890.03 lacs in 2007-08 and accounted for 43.97 percent of the total employed capital. The increase was mainly due to the mobilisation of external commercial borrowing (ECB) of USD 280 lacs for financing the ongoing expansion plans.

Unsecured loans: Unsecured loans declined significantly from Rs 1,622.69 lacs in 2006-07 to Rs 439.43 lacs in 2007-08, on account of repayment of temporary borrowings for expansion projects.

Gross block

Gross block represents the strength of the Company. Gross block increased from Rs 29,544.86 lacs as on 31 March 2007 to Rs. 33,121.71 lacs as on 31 March 2008. This was mainly due to commissioning of additional 1 lakh TPA billet-making facility and other assets. The return on gross block was pegged at 14.41 percent in 2006-07 and 36.66 percent in 2007-08, which indicates the historic cost of the assets and their respective efficiencies.

Capital work-in-progress

Capital work-in-progress increased significantly by 169.09 percent to Rs 25,467.88 lacs as on 31 March 2008. This was due to investments in ongoing projects.

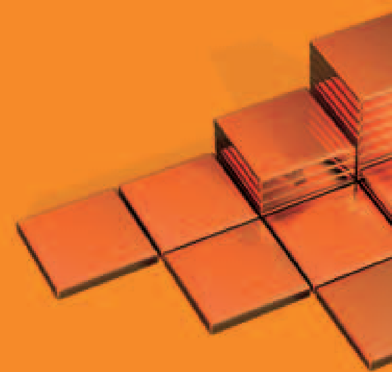
Economic value-added (EVA)

In 2007-08, SEML reported an EVA of Rs 2,239.51 lacs (Rs 2,036.39 lacs in 2006-07), indicating that the Company exceeded shareholders' expectations during the financial year under review. EVA is an internationally respected value measurement tool, unique in a number of ways: it accounts for the profit generated by a company in excess of the return that it would have earned from a risk-free instrument, arriving at this number through a unique methodology: factoring the cost of debt and equity through techniques that measure them separately, as opposed to conventionally cumulative measurement.

Total shareholders' return (TSR)

In 2007-08, SEML reported a TSR of Rs 160.75, registering a growth of 138.32 percent over that of 2006-07. The TSR measured an increase in value, directly (in the form of dividend received) and indirectly (in the form of the capital appreciation registered by the stock during the financial year under review).

Corporate stewardship



AT SEML, WE RECOGNISE THAT OUR FUTURE HINGES ON THE RESPONSIBLE STEWARDSHIP OF RESOURCES, RESPECT FOR PEOPLE, COMMUNITIES AND THE ENVIRONMENT, LEADING TO SUSTAINABLE SUCCESS.

At SEML, safety comes first, second, third and fourth…

At SEML, safety represents the cornerstone of our operational excellence. It is a philosophy embedded in the way we work, the decisions we make and the actions we take. Each of us shares safety responsibility within our working and living areas. The drivers of a safe working environment comprise a safety-focused management, a knowledgeable supervisory staff, safety leadership and informed employees. We set the highest standards for protecting our employees, communities and customers. Our goal is to attain world-class safety standards and emerge as the safest company in our industry. This leads to a zero-tolerance for unsafe equipment, actions, decisions and attitudes. A key component constitutes safety training, providing classroom instructions in fundamentals for supervisors and ground training for workers, contractors and helpers. Training seeks to enhance understanding, change behaviours and groom safety leaders who can train and lead others, and above all, make a difference.

Down to earth

Our operations focus on minimising environmental impact. As a result, all our units measure energy and water usage to reduce our reliance on finite natural resources. We have institutionalised energy and water consumption measurement. We review and affirm the supreme importance of sustainability in our strategic planning in line with our commitment to employees, owners, customers and communities.

Environment management

Since inception, the Company invested in comprehensive environment management comprising environment and resource conservation, reduction in green cover erosion, raw material conservation and optimum water consumption through waste reuse and recycling. Besides, a culture of constant upgradation and modernisation resulted in the installation of state-of-the-art pollution control systems and equipment. The Company undertook numerous initiatives to minimise stack emission well below the domestic and international standards. The emission load, including particulate matter, sulphur dioxide and oxides of nitrogen, declined on the back of several improvement initiatives.

Community development

Since inception, the Group has actively assisted communities in and around its production and mining sites with education, water and healthcare initiatives.

Education

The Company has adopted 270 single-teacher schools in the tribal areas of Chhattisgarh for providing basic education. In addition, the Company also assists primary and secondary schools around its facilities for strengthening their infrastructure. A full-fledged school in the Siltara industrial area, Raipur, has been proposed with the aid of Ramakrishna Vivekananda Ashram, catering to the educational needs of the children of industrial workers and from the surrounding villages. Besides, a school at Khadgoan village (near the Company's captive iron ore mines) has been provided with a new building, uniforms and books.

Water

Potable water is scarce in many villages, especially in summer. A tube well was built in the Khadgaon village at our iron ore mining site. The Tada village was also equipped with bore wells at the village centre. Cleaning and desilting of lakes across such villages is an annual activity carried out by the Group.

Healthcare

We recognise our responsibility to operate in harmony with our local communities. The Company actively sponsors medical facilities, assisting in primary healthcare across villages. It acquired a well-equipped ambulance and set up first-aid facilities in the villages surrounding its mines. These sponsored units fulfilled the need for low-cost and high-quality medical assistance for the economically underprivileged.

DIRECTORS' REPORT

Dear Shareholders,

Your Directors take pleasure in presenting the Thirty-Fifth Annual Report together with the Company's audited statement of accounts for the year ended 31st March, 2008. This was a year of consolidation. Your Company achieved significant increase in turnover and profitability reflected in the financial results given hereunder.

Financial results

(Rs. in lacs)

Particulars	2007-08	2006-07
Gross sales	70,286	41,176
Less: Excise duty	7,804	4,390
Net sales	62,482	36,786
Export	11,900	5,947
EBIDTA	17,333	8,079
Interest	1,211	747
Depreciation	2,214	2,257
Profit before tax	13,918	5,071
Tax including deferred tax and FBT	1,775	814
	12,143	4,257
Appropriations:		
Transfer to general reserve	1,500	1,150
Transfer to debenture redemption reserve	175	250
Dividend (including tax on dividend)	1,195	674
Balance carried over to next year	9,273	2,183

Dividend

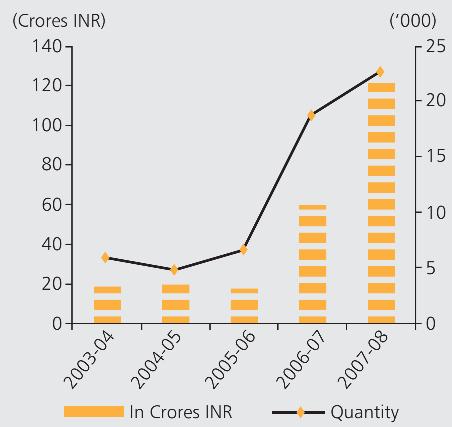
In view of the improved performance, your Directors are pleased to recommend a dividend of 30 percent for the year ended 31st March, 2008, which, if approved at the ensuing Annual General Meeting, will be paid as per the applicable provisions of law.

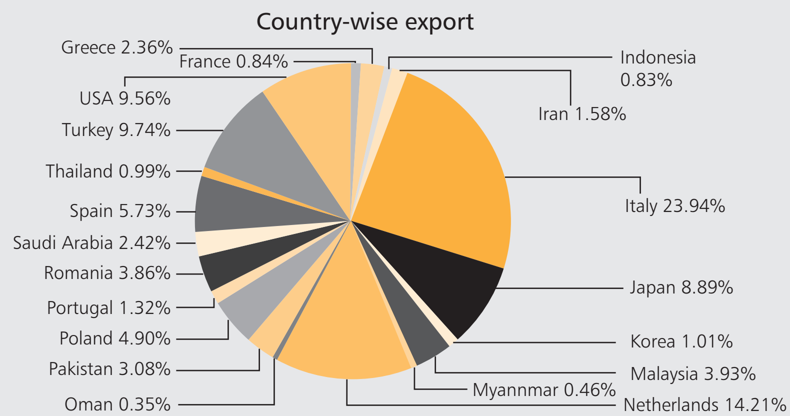
Operations

Members are requested to refer to the Management Discussion and Analysis, forming a part of this Annual Report.

Exports

The Company enjoys status of Star Export House and is a leading exporter of ferro alloys in the country. During 2007-08, the Company exported ferro alloys valued at Rs. 119 crores compared with Rs. 59.47 crores in the previous year. The Company's exports are spread across the globe. The penetration in the export market has improved further during the current financial year, despite withdrawal of export incentives.





Projects

Steel production capacity has been enhanced from 1,40,000 TPA to 2,40,000 TPA by installation of two more induction furnaces. Sponge iron production capacity has also been enhanced from 2,10,000 TPA to 3,60,000 TPA by installation of one more kiln of 500 TPD, which has commenced trial runs. Installation of balancing equipments in the power plant is also nearing completion and will become operational by August, 2008. The implementation of iron ore pelletisation plant of 6,00,000 TPA is in full swing. Most of the critical equipment have reached the site whereas non-critical, indigenous equipment will arrive by November, 2008. The project is expected to be over by the end of the current financial year. The railway siding in the plant will be operational by the end of September, 2008. Coal mines have already been opened and the overburden removal work is going on in full swing. The Company expects to start getting coal in the third quarter of the current financial year.

The work on the pithead power plant and coal washery will be taken up during 2008-09.

Mines

During 2007-08, the Company produced 1,43,285 MT of iron ore against 1,52,713 MT in 2006-07. The production was lower due to an agitation by villagers supported by external miscreants. Normalcy has returned to the mines. The Company will step up production in the mines after commissioning of the pelletisation plant.

The coal mines have also been opened and the removal of overburden is in progress. Except for unforeseen circumstances, the Company expects to start getting coal from the mine in the third quarter of the current financial year. The process of seeking various clearances for the second coal mine allotted to the Company, in consortium, is progressing well.

The exploration work on the Reconnaissance Permits and Prospecting License received for other iron ore/coal/manganese ore mines is going on as per schedule. These mines will ensure long-term sustainable and uninterrupted availability of raw materials to the Company. The Company is also exploring other avenues in the mining sector.

Finance

During the year, the Company issued 44,73,684 equity shares and 2,63,158 equity share warrants (to be converted into equivalent number of equity shares within a period of 18 months) @ Rs. 190 per share on preferential basis to raise Rs. 90 crores to part-finance its expansion projects. The Company has also availed ECB of USD 28 million and JPY 535 million, out of ECB of USD 56 million and JPY 1,070 million sanctioned by the banks for the expansion projects. The balance amount has been drawn in the current financial year. Unused ECB amount is kept abroad. Term loans of Rs. 15.33 crores and non-convertible debentures of Rs. 22.50 crores were repaid during 2007-08. The Company met all its loan and interest payment commitments on time.

Subsidiary companies

During the year, the Company has incorporated a wholly-owned subsidiary in Hong Kong in the name and style of 'Sarda Energy

& Minerals Hong Kong Limited' (SEMHL). SEMHL will work as an international trading arm. China, being a major manufacturing hub, is an important destination for international trade. Keeping that in view, SEMHL has also set up a representative office in China.

The Company has also incorporated a wholly-owned subsidiary in Singapore during the current financial year under the name and style of 'Sarda Global Venture Pte Limited' for business related acquisitions.

Joint ventures

The Company's interest in following joint ventures has also been included in the consolidated accounts prepared by the Company.

- Raipur Infrastructure Company Ltd. operates a private railway siding for the benefit of joint venture partners for unloading the raw materials, which are transported through the railways. We have a 33 percent share in the joint venture.
- Madanpur South Coal Co. Ltd. has been allotted a coal block in Madanpur area of Chhattisgarh in consortium. The Company is in the final stages of receiving the various clearances and permissions to commence its operations. We have a 24.91 percent share in the joint venture.

Associates

- Parvatiya Power Private Ltd. has installed a hydro electric project of 4.8 MW in Uttaranchal, which has commenced operations in February, 2008.
- Chhattisgarh Bricks Pvt. Ltd. has been incorporated for fly ash brick manufacturing activity. The Company is yet to commence business activity.
- Chhattisgarh Hydro Power Pvt. Ltd. has been allotted a hydro-electric project of 24 MW in Chhattisgarh which is in the advanced stage of various clearances. The forest clearance for the hydro project in Chhattisgarh is in the final stages. Land acquisition has also been started.

Consolidated accounts

The Company has consolidated its accounts after including the subsidiary and the joint ventures as per the applicable accounting standards. The Auditor's Report on the consolidated accounts and the consolidated accounts are made a part of this Annual Report. Since the Company has consolidated its accounts for the first time, the previous year's figures have not been given for the consolidated accounts.

Fixed deposits

The Company has not accepted any fixed deposits within the meaning of Section 58 (A) of the Companies Act, 1956, and the rules made thereunder, during the year under review.

Environmental protection and pollution control

The Company is not only committed to sustainable economic growth but is also cautious towards protecting environment by relentlessly pursuing the development of cleaner production processes while reducing pollution levels.

To ensure full utilisation of increased generation of fly ash, the Company is installing a state-of-the-art fly ash brick-making facility with a capacity of 30 million bricks annually, and this is expected to be commissioned before the end of the current financial year. The Company has also taken steps to further reduce the emission level of the power plant chimney through ammonia dozing. Electrostatic Precipitators have been installed with all the sponge iron kilns and steam generators to maintain the pollution within the prescribed limits. A waste heat recovery boiler has been installed to utilise the waste heat generated from the sponge iron kilns. The slag generated in the ferro alloys plant is used for land filling and road construction.Various programmes are organised in the plant to bring employee-awareness.

Extensive plantation has been done in and around the plant premises of the Company and also at the mining site to ensure environmental purity.

Clean development mechanism (CDM)

Pursuant to change in the project configuration and introduction of new methodology for waste heat recovery projects to be considered for the CDM, the Company has prepared a revised PDD and expects to get it cleared soon.

Corporate social responsibility

Being a corporate citizen, the Company has the responsibility to contribute to the welfare of the society in which it operates. The Company organises various awareness programmes for its employees and the general public to ensure a better, sustainable way of life for the weaker sections of the society.

Education

The Company has adopted 270 Ekal Vidhyalayas (schools) against 180 schools in the previous year, benefiting about 7,000 tribal students from class 1 to 3 and has contributed to various trusts engaged in arranging/providing education to the tribal students. The Company has contributed for upgrading infrastructure in rural schools near its production and mining site, which include construction/expansion of school building and computer training classes. The Company is among the founder members of 'Siksha Deep Trust', to extend financial assistance to the deserving, needy students for higher education.

Healthcare

The mobile dispensary service of the Company operating in the deep tribal areas, deprived of the basic medical facilities, is a tremendous success and more and more backward classes are enjoying the benefit of the service. The Company is providing free medical aid and medicines to the tribals/other weaker sections. Various health camps have also been organised in the areas near the Company's plant and mining site.

Community development

The Company has developed Moti Bagh public garden in the Raipur city with substantial investment. The Company has also undertaken various initiatives like, providing drinking water and building of roads in and around the Company's plant site and Khadgaon village near mining site.

The Company has also adopted a star performer player of the Chhattisgarh State Tennis Association and the entire expenses of the star performer are borne by the Company. Apart from the above, the Company has also extended financial assistance for various other social services.

Directors

Mr. G.D. Mundra and Mr. P.R. Tripathi, Directors of the Company, retire by rotation and being eligible, offer themselves for reappointment. The brief resume/details of Directors who are to be reappointed are given in the Corporate Governance Report.

As per shareholders' agreement executed with IDFC and LB, they are empowered to appoint one Director each on the Board. So far they have not proposed any person for appointment on the Board of the Company.

Directors' responsibility statement

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, your Directors state as under:

i) that in the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation;

ii) that 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 of the Company for that year;

iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv) that the Directors have prepared the Annual Accounts on a going concern basis.

Auditor

Mr. M.M. Jain, chartered accountant, auditor of the Company, holds office till the conclusion of the ensuing Annual General Meeting and is eligible for reappointment. The Company has received a letter from Mr. M.M. Jain to the effect that his appointment as auditor, if made, would be within the limits under Section 224 (1-B) of the Companies Act, 1956.

Auditor's Report

The observations made in the Auditor's Report, read with the relevant notes thereon, are self-explanatory and hence, do not call for any comments under Section 217 of the Companies Act, 1956.

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

The statement giving details of conservation of energy, technology absorption, foreign exchange earnings and outgo, in accordance with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is annexed and marked Annexure 'A', forming a part of this report.

Particulars of employees

The particulars of employees, as required under Section 217 (2A) read with the Companies (Particulars of Employees) Rules, 1975, are given as annexure to this report.

Corporate Governance

Pursuant to Clause 49 of the Listing Agreement with the stock exchanges, a Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of the Annual Report.

Acknowledgement

Your Directors express their thanks and record appreciation for the co-operation they received from various government authorities, financial institutions, bankers, suppliers and customers of the Company. The Directors place on record, their sincere appreciation for the devoted services rendered by the employees at all levels of the Company and look forward to their continued co-operation.

On behalf of the Board of Directors,

Place: Mumbai
Dated: 31st July, 2008

(K.K. Sarda)
Chairman and Managing Director

Annexure 'A' to the Directors' Report

Additional information as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. Conservation of energy

a)	Energy conservation measures taken	i) Turbine hall roof provided with transparent fibre sheets for proper illumination; energy saving tube lights provided in W.H.R. boiler control rooms and switch gear. ii) Use of refractory lined laddle cover to avoid higher temperature drop during casting of steel. iii) Modification of cooling water pipe line, resulting in total elimination of booster pumps used for water circulation. iv) Installation of sodium vapour lamps in place of halogen lamps and installation of timers for plant and yard lighting for switching on and off, the power supply. v) Introduction of VVF drives, improvement in coal distribution over the kiln length of Blow Coal System and optimising air throughput in shell air blowing system.
b)	Additional investment and proposals if any, being implemented for reduction of consumption of energy.	Expenditure incurred on energy conservation measures forms a part of capex. These expenditures are not accounted for separately.
c)	Impact of measures at (a) and (b) for reduction of energy consumption and consequent impact on the cost of production of goods.	i) Reduction in energy consumption by 4,82,000 Kwh per annum ii) Reduction per ton of steel of energy consumption – 8-9 Kwh of diesel/LDO consumption – 0.15 litre iii) Reduction in power consumption and coal consumption per ton of sponge iron.
d)	Total energy consumption and energy consumption per unit of production in Prescribed Form 'A'.	As per Form 'A' attached

B. Technology absorption

Research and development

1.	Specific areas in which R &D are carried out by the Company	**Certain modification carried out in** i) TG set 1 and 2, CHP, air compressor, DG set, 33 KV switch gear in the power plant, ii) Blow Coal System in sponge iron plant, iii) Cooling water pipe line in ferro alloys plant.
2.	Benefits derived as a result of above R&D.	Efficient operations and reduction in energy consumption
3.	Future plan of action	–
4.	Expenditure on R&D	Departmental persons engaged to carry out the engineering jobs. Expenditure incurred on R&D is not accounted for separately.
5.	Technology absorption adaptation and innovation a) Efforts in brief made towards technology absorption, adaptation and innovation	i) TG set 1 Exciter failed and there was no alternative arrangement except to stop the unit indefinitely till the other alternative systems such as static Excitation or Brushless Excitation is procured and implemented. ii) With the available in-house technology and after modification of exciter circuit and provision of DC drive, TG – 1 load could be restricted up to 20 MW. We have run the unit for a period of five and a half months
	b) Benefits derived as a result of above efforts.	Increase in power generation
	c) Information regarding technology imported during the last five years	NIL

C. Foreign exchange earnings and outgo

1.	Activities relating to export initiatives taken to increase exports, development of new export markets for products and services and export plans.	i) As part of development of new export market/customers, we have expanded our customer base in Europe. ii) The Company was the lead sponsor of the Ninth Asian Ferro Alloys Conference, Hong Kong, organised by the Metal Bulletin.
2.	Total foreign exchange used and earned (Rs. in lacs) a) Foreign exchange used	9,223.85
	b) Foreign exchange earned	11,233.37

On behalf of the Board of Directors,

Place: Mumbai
Dated: 31st July, 2008

(K.K. Sarda)
Chairman and Managing Director

Form 'A'

Form of disclosure of particulars with respect to conservation of energy

Particulars	Steel	
	2007-08	2006-07
A. Power and fuel consumption		
1. Electricity		
a) Purchase		
Units (Kwh)	NIL	NIL
Total amount (Rs. in lacs)	NIL	NIL
(Rs./Kwh)	NIL	NIL
b) Own generation		
i) Through diesel generator		
Units (Kwh)	NIL	NIL
Units per litre of diesel	NIL	NIL
Cost/unit (Rs.)	NIL	NIL
ii) Through steam turbine/generator		
Units	6,88,46,336	5,32,96,061
Units per litre of fuel - oil/gas	N.A.	N.A.
Cost/unit (Rs.)	3.47	3.40
2. Coal for domestic use		
Quantity (M.T.)	NIL	NIL
Total cost (Rs.)	NIL	NIL
Average rate (Rs.)	NIL	NIL
3. Furnace oil		
Quantity (K. litres)	NIL	NIL
Total cost (Rs. in lacs)	NIL	NIL
Average rate (Rs./K. litre)	NIL	NIL
4. Other internal generation		
Units	NIL	NIL
Total cost (Rs. in lacs)	NIL	NIL
Rate unit	NIL	NIL
B. Consumption per unit of production		
Electricity (units)	838	877
Coal NIL	NIL	
Furnace oil	NIL	NIL
Other (specify)	NIL	NIL
Own power	NIL	NIL

Note: Form ‘A’ is not applicable to sponge iron, power and ferro alloys industry

Statement of particulars of employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956, and forming part of the Directors' Report for the year ended 31st March, 2008

Employed throughout the financial year under review and were in receipt of remuneration for the financial year in the aggregate of not less than Rs. 24,00,000/- per annum:

a)	Name	:	Mr. K.K. Sarda
b)	Age	:	56
c)	Qualification	:	B.E. (Mech.)
d)	Designation	:	Chairman and Managing Director
e)	Nature of duties	:	Overall management and administration
f)	Commencement of employment	:	16th December, 1978
g)	Experience (years)	:	34
h)	Remuneration (gross)	:	Rs. 2,72,72,818/-
i)	Particulars of last employment, last post, employer (No. of years)	:	–

Notes:

1. The employment is contractual in nature.
2. Other terms and conditions are as per Company's Rules/Scheme
3. Remuneration, as shown above, includes salary, allowance, commission, contribution to provident fund, and other perquisites as per Company's Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry structure and development

Sponge iron and steel industry

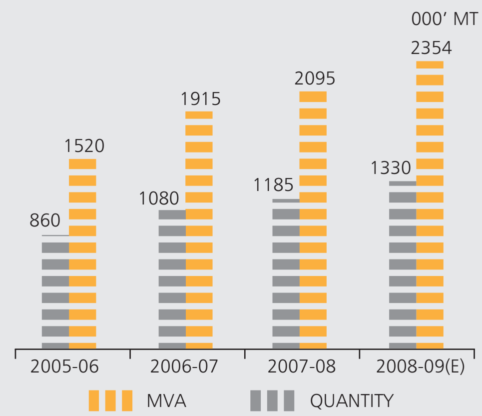
The sponge iron route of primary steel making uses indigenous coal/gas as reducing agents against coke used in the blast furnace route. The prices of coke has increased sharply in the last few months, adversely affecting the blast furnace route and making sponge iron route economically preferable in India. The country maintained its lead position as the world's largest producer of sponge iron with a production of 19.99 million tonnes compared to 16.28 million tonnes in the previous year, recording a growth of 22.79 percent. The coal-based sponge iron production recorded a growth of 28.42 percent over the previous year.

The global consolidation in the mineral and steel industry, backed by high infrastructure spending in BRIC countries, fuelled the prices of iron ore, coke, coal and steel. Long-term contracts of iron ore for the current year were signed with an 86 percent increase in price. The coke prices have gone up from USD 200 PMT to USD 650 PMT at FOB China ports. The steel prices have also increased in line with escalated input costs. To check the prices, China has imposed export duties on coking coal, coke and ferro alloys. India has also imposed export duties on iron ore and steel. A Quality Control Order on 17 selected steel products has been issued by the Department of Consumer Affairs on 12th November, 2007, under which production, sale or distribution and storage of sub-standard products would be an offense. The order is yet to come into effect. This will help quality producers like your Company and safeguard consumer interest.

At present, India is the world's fifth-largest crude steel producer and it is expected to emerge as the second-largest steel producer by 2015. The country is likely to achieve a steel production capacity of nearly 124 million tonnes by 2011-12.

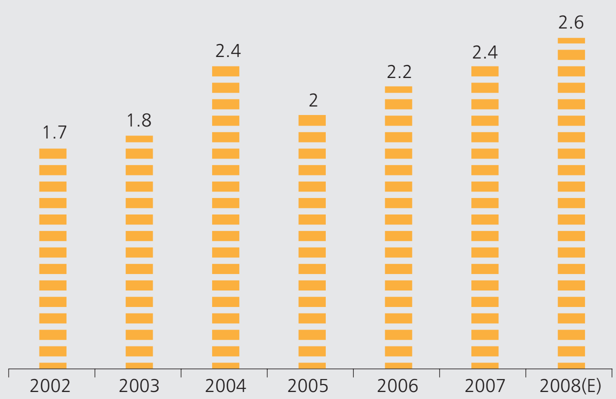
Ferro alloys industry

Ferro alloys, being a power intensive industry, has flourished in pockets where cheap and abundant power is available. Growth in steel industry, where ferro alloys are used as additives, has pushed the demand of ferro alloys globally. Substantial new capacities have been added and the production of manganese alloys, which was 1.52 million tonnes in 2005-06, has gone up to 2.10 million tonnes in 2007-08 and is expected to touch 2.35 million tonnes in 2008-09. Manganese-based ferro alloys contribute more than 60 percent of the total ferro alloys production. There are 70 plants having 150 furnaces with an installed capacity of 1,185 mva, which can produce 2.35 million tonnes annually.



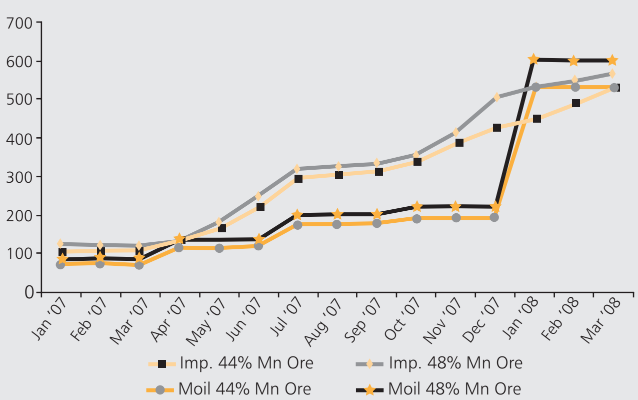
The availability of high-grade manganese ore is limited and the country depends on imports to meet raw material requirements even for the existing capacity. India exports low-grade ore but the export of high-grade manganese ore has been banned. The country's major manganese ore reserves, especially high-grade, are controlled by Manganese Ore (India) Ltd. (MOIL), a public sector undertaking. The growth in manganese ore production has been inadequate to meet the increasing demand of the ferro alloys industry in the country. The estimated production of manganese ore in 2008 is 2.6 million tonnes against 2.4 million tonnes in 2004. The country has imported about 0.675 million tonnes of manganese ore in 2008 compared with 0.284 million tonnes in the previous year, of which 0.58 million tonnes was high-grade ore.

Indian manganese ore production (In million MT)



There has been a consolidation in the manganese ore industry globally, resulting in sharp increase in the manganese ore prices from around USD 2.40/DMTU to around USD 12/DMTU, up by 400 percent. Indian manganese ore prices were never linked with international ore prices but since the last two years MOIL has linked the domestic prices with international prices and has started supply of part quantity through e-auction. The prices of coke have also increased sharply due to closure of major coking coal mines and export restrictions imposed by China.

Manganese ore prices – domestic and imports (USD/MT)



The power prices in South Africa and closure of plants in different parts of the world for different reasons have affected the supply of ferro alloys in the international market. The Company, with its quality and commitments, has been able to take advantage of the situation to push its exports. The first quarter of the current year showed better results in exports. The prices of ferro alloys have also gone up from USD 800 PMT at the beginning of the year to around USD 2400 PMT.

Opportunities and threats

The Indian economy, especially infrastructure sector, is growing at a healthy rate. India spends about 4 percent of its GDP on infrastructure investment as opposed to 9 percent in China. The Government of India has planned to raise the total infrastructure spending to 8 percent of GDP over the current Five-Year Plan. The GDP is expected to grow around 8 to 9 percent. In the view of this scenario, the demand of steel is expected to remain firm.

The National Steel Policy, 2005, had projected consumption to grow at 7 percent based on a GDP growth rate of 7-7.5 percent and production of 110 million tonnes by 2019-20. It is envisaged that in the next five years, demand will grow at a considerably higher annual average rate of over 10 percent compared with a growth rate of 7 percent achieved between 1991-92 and 2005-06. As such, on a 'most likely scenario' basis, the steel production capacity of the country will be nearly 124 million tonnes by 2011-12.

The Company is well positioned to take advantage of this growth. It has integrated and consolidated its operations and has acquired raw material resources to hedge against volatility, giving it an edge over its peers.

The demand of ferro alloys is also registering a healthy growth with more and more alloy steel production. India's share in the global ferro alloys industry is also growing and it is becoming a major player in the global ferro alloys industry. The Company has well placed itself in the quality conscious international market. The Company's exports have recorded a healthy growth over the years.

The Company is continuously on the lookout for key mineral resources to strengthen its raw material position and exploring opportunities of acquiring mines within and outside India. The

Company has received In Principle Approvals from Govt. of India for issuance of Reconnaissance Permits for iron ore mines in Chhattisgarh and manganese ore mines in Madhya Pradesh.

The severe shortage and high prices of power offers a vast opportunity to the Company. The Company has signed an MoU with the Govt. of Chhattisgarh to put up a 1,100 MW Thermal Power Plant.

Risks and concerns

There has been a consolidation in the global mineral industry backed by good demand growth and escalating raw material prices. So far the industry was able to pass on this price increase. However, the US recession and its effect on the global economy may impact the GDP growth and correspondingly the industry in which the Company operates. The availability of high-grade manganese ore is also limited and India is becoming dependent on dearer and scarce imports.

Availability of infrastructural facility for transport of raw materials and finished goods also remains a serious concern.

However, availability of captive mines and flexibility to sell power in the adverse market scenario insulates the Company from the risk of downturn.

Product-wise performance

The all-round performance of the Company improved during the year which is reflected in the operational and financial figures reported in the annual accounts. The production was constrained by limited availability of power.

Sponge Iron

During the year under review, the Company produced 1,54,796 MT of sponge iron compared with 1,39,283 MT in the previous year, recording an 11 percent growth. For manufacturing steel, 76,046 MT of sponge iron was consumed captively against 56,187 MT in the previous year. The average realization of sponge iron was Rs. 15,856 per MT compared with Rs. 11,552 per MT in the previous year. The expansion project of 1,50,000 TPA will start production from July, 2008

Steel

During the year, the Company produced 24,327 MT of ingots and 58,667 MTs of billets against 29,800 MT ingots and 30,979 MTs billets in 2006-07. Due to constraint on availability of power steel production was curtailed. Additional billet making capacity of 1,00,000 MTs has been completed and output will increase after commissioning of enhanced power plant capacity.

Ferro Alloys

The Company achieved a record ferro alloys production of 56,910 MTs (30,118 MT silico manganese and 26,792 MT ferro manganese) compared to 52,263 MT in the previous year (35,014 MT silico manganese and 17,249 MT ferro manganese), registering a growth of 8.89 percent. The average realisation was Rs. 54,545 per MT against Rs. 32,157 per MT in the previous year. The Company exported 22,199 MT of ferro alloys worth Rs. 119 crores as opposed to 18,656 MT worth Rs. 59.47 crores in the previous year, recording a 23 percent growth in terms of quantity and 100 percent in terms of value.

Power

During the year, the power plant generated a record 339.7 million Kwh of power as against 329.4 million Kwh in the previous year, a 3.12 percent growth. The third turbine will become operational by August, 2008, to meet the enhanced requirement of power. The Company is also laying a 132 KV line from the grid, for stable and smooth operation of the power plant, free from frequent disturbances in 33 KV grid line.

Outlook

Considering the consolidation, integration and expansions executed by the Company, projected GDP growth of the Indian economy and advantages enjoyed by the country over other developed nations in relation to the manufacturing facilities, barring the unforeseen circumstances, the outlook appears to be positive, except that the margins in ferro alloys will shrink due to increased raw material prices. However, the margins in steel will improve on the back of captive iron ore mines and the opening of coal mines. Open access has come into place in the

State of Chhattisgarh and the power trading exchange has become operational. If prices of steel or ferro alloys become un-remunerative, the Company can partly switch over to the sale of power at remunerative price.

Internal control systems and their adequacy

Adequate internal controls have been put in place, providing reasonable assurance that transactions in significant areas are properly authenticated and monitored to prevent any misuse. The Company has successfully implemented SAP ERP system since 1st April, 2008. Operations are closely monitored through budgets, costs and variance analysis. Authorities, responsibilities and job descriptions have been properly defined. Proper policies, rules and workflows have been defined, through exceptional reporting, for smooth functioning and adequate internal controls. The control systems are regularly reviewed by the Company's independent internal auditors, and corrective measures taken wherever necessary.

Discussion on financial performance with respect to operational performance

The Company's financial performance moved in line with the operational performance of its plants. The Company achieved a record turnover of Rs. 703 crores against Rs. 412 crores in the previous year. Better productivity and price realisations achieved across the products enabled the Company to achieve a record profitability. The EBIDTA has more than doubled from Rs. 81 crores to Rs. 173 crores.

Material developments in human resources/industrial relations front

Human resource grabbed our attention consequent to the rapid industrial growth in this region. The HR practices have been geared towards creating a performance driven organisation. Various steps, including revision of salary structure, have been taken for attraction and retention of talent and reduction of attrition. Several initiatives have been taken for enhancing the morale of the employees. The management pool has also been strengthened keeping in mind the organization's projected growth. Rigorous and structured training programmes have been designed for new employees.

Cautionary statement

Statements in the Management Discussion and Analysis, describing the Company's objectives, projections, estimates and expectations, may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. The economic conditions affecting demand/supply and price conditions in the domestic market, changes in raw material prices, changes in the government regulations, tax laws, other statutes and other incidental factors, could make a difference to the Company's operations.

CORPORATE GOVERNANCE REPORT

1. Company's philosophy on Corporate Governance

Good Corporate Governance is essentially an integral part of values, ethics and the best business practices followed by the Company. The Company stresses upon the following core values:

- **Quality:** We believe in setting benchmark through the quality of our products.
- **Customer focus:** We believe in high customer satisfaction and becoming a part of our customers' success story.
- **People centric:** We believe in our people and constant upgradation of their skills and leadership capabilities.
- **Integrity and ethics:** We believe in our commitments and strive to set high ethical standards.
- **Corporate & social responsibilities:** We believe in caring for our environment and our communities..

The Company believes in transparency, professionalism and accountability, the basic principles of Corporate Governance, and would constantly endeavour to improve these aspects.

2. Board of Directors

2.1 Composition

The Board of Directors comprises eight Directors, including four Non-Executive as well as Independent Directors. The Board composition is in accordance with the requirements of the Listing Agreement. The Non-Executive and Independent Directors are eminent professionals having rich and sound experience in business, industry and finance.

The names and categories of the Directors on the Board and also the number of Directorships and committee memberships held by them in other companies are as under:

Names of the Directors	Category	No. of other Directorships held*	No. of other Board committees member/Chairman	No. of Board Meetings attended	Last AGM attended
Mr. K.K. Sarda	Promoter Executive	5	–	7	No
Mr. G.K. Chhanghani	Wholetime Director Executive	2	–	4	No
Mr. Pankaj Sarda#	Wholetime Director Executive	3	–	1	–
Mr. G.D. Mundra	Wholetime Director Executive	1	–	6	Yes
Mr. Rakesh Mehra	Independent Non-Executive	1	–	3	No
Mr. A.K. Basu	Independent Non-Executive	1	–	5	No
Mr. P.R. Tripathi	Independent Non-Executive	8	6	5	No
Mr. G.S. Sahni $	Independent Non-Executive	–	–	–	–

** excluding Pvt. Ltd. companies*

 # w.e.f. 1st November, 2007

$ w.e.f. 4th March, 2008

As required by the Companies Act, 1956 and Clause 49 of the Listing Agreement, none of the Directors hold Directorship in more than 15 public companies, membership of Board Committees (Audit/Remuneration/Investors' Grievance Committees) in excess of 10 and Chairmanship of Board Committees as aforesaid in excess of five.

2.2 Number of Board meetings held

Eight meetings of the Board of Directors were held during the year ended 31st March, 2008 as under:

Date of meeting	No. of Directors present
28th April, 2007	5
29th June, 2007	5
4th August, 2007	3
30th August, 2007	5
31st October, 2007	4
23rd November, 2007	3
3rd January, 2008	3
29th January, 2008	3

Particulars of Directors seeking reappointment

As required under Clause 49 VI (A), particulars of Directors seeking reappointment at the ensuing Annual General Meeting are as under:

1	a)	Name	:	**Mr. G.D. Mundra**
	b)	Age	:	47
	c)	Qualification	:	Chartered Accountant
	d)	Director of the Company	:	Since December, 2000
	e)	Experience	:	He has more than 25 years experience in the field of finance and accounting.
	f)	Other Directorships	:	1. Chhattisgarh Investments Ltd.
				2. Chhattisgarh Plastics Pvt. Ltd.
				3. Mundra Polymers Pvt. Ltd.
				4. Prayag Thermoplast Pvt. Ltd.
	g)	Member of committees	:	Members of Audit Committee and Shareholders'/Investors' Grievance Committee of Sarda Energy & Minerals Ltd.
2	a)	Name	:	**Mr. P.R. Tripathi**
	b)	Age	:	65
	c)	Qualification		Mining Engineer
	d)	Director of the Company	:	Since October, 2003
	e)	Experience	:	He is Ex-CMD, NMDC. He has more than 45 years of experience in the field of mining and related activities.
	f)	Other Directorships	:	1. Minman Consultancy Services (P) Ltd.
				2. Jhagadia Copper Ltd.
				3. Hindustan Dorr Oliver Ltd.
				4. IVRCL Infrastructure Ltd.
				5. HDO Technologies Ltd.

				6. IVR Prime Urban Developer Ltd.
				7. Eastern Coal Fields Ltd.
				8. Taurian Resources Pvt. Ltd.
				9. Premier Explosives Ltd.
				10. POL India Agencies Ltd.
	g)	Chairman/member of committees	:	Members of Audit Committee and Compensation Committee of IVRCL Infrastructure Ltd., Hindustan Dorr Oliver Ltd. and Premier Explosive Ltd. and member of Remuneration Committee in Sarda Energy & Minerals Ltd.
3	a)	Name	:	**Mr. Pankaj Sarda**
	b)	Age	:	28
	c)	Qualification		Industrial Engineering from the Nagpur University and MBA from the Purdue University, USA.
	d)	Director of the Company	:	Since November, 2007
	e)	Experience	:	He is having an experience of five years in HR and corporate affairs
	f)	Other Directorships	:	1. Madhya Bharat Power Corporation Ltd.
				2. Madanpur South Coal Company Ltd.
				3. Sarda Energy Ltd.
				4. Sarda Agriculture & Properties Pvt. Ltd.
				5. Chhattisgarh Electricity Company Ltd.
	g)	Chairman/member of committees	:	NIL
4	a)	Name	:	**Mr. Gajinder Singh Sahni**
	b)	Age	:	62
	c)	Qualification		Graduate in Public Administration, IAS
	d)	Director of the Company	:	Since March, 2008
	e)	Experience	:	He is a retired IAS with a prolonged career in various government organisations.
	f)	Other Directorships	:	NIL
	g)	Chairman/member of committees	:	NIL

2.4 Remuneration

Executive Directors have been paid remuneration as per terms of their appointment as explained in note 7 of Notes to Accounts of Schedule Q, showing all elements of remuneration.

3. Audit Committee

The Company's Audit Committee comprises three Directors. Mr. A.K. Basu is the Chairman of the committee and Mr. Rakesh Mehra and Mr. G.D. Mundra are the members of the committee. The terms of reference of the committee are as per the provisions of Section 292 (A) of the Companies Act, 1956, read with Clause 49 of the Listing Agreement. The Company Secretary acts as the secretary to the Audit Committee.

Five meetings of the committee were held during the year 2007-08 on 28th April, 2007, 3rd August, 2007, 30th August, 2007, 31st October, 2007 and 29th January, 2008. The attendance particulars are as under:

Name of Chairperson/member	Meetings	
	Held	Attended
1. Mr. A.K. Basu – Chairman	5	5
2. Mr. Rakesh Mehra – Member	5	2
3. Mr. G.D. Mundra – Member	5	5

4. Remuneration Committee

The Remuneration Committee of the Company consists of three Directors, with Mr. Rakesh Mehra as its Chairman. Mr. P.R. Tripathi and Mr. A.K. Basu are the members. All the members of the committee are Non-Executive Independent Directors. A meeting of the Committee was held on 28th April, 2007.

5. Shareholders'/Investors' Grievance Committee

The Shareholders'/Investors' Grievance Committee, consisting of Mr. A.K. Basu (Chairman), Mr. Rakesh Mehra and Mr. G.D. Mundra as members, has the specific task of looking into/resolving the shareholders'/investors' grievances. The Chairman is a Non-Executive Director.

Name and designation of the Compliance Officer	:	Mr. P.K. Jain, the Company Secretary.
The number of complaints received during the year	:	74 complaints were received which were attended to in time. Apart form the above, requests for issue of duplicate shares, share transmissions, revalidation of warrants and change in bank account details, among others, were also received and attended promptly.
The number of complaints not redressed at the end of the year	:	All the complaints have been attended satisfactorily and no complaints were pending at the end of the year.
Number of pending share transfers	:	All the requests for transfer received during the year were duly attended.

6. General Body Meetings

The venue, date and time of the last three Annual General Meetings are as under:

Date	Time	Location
30th September, 2005	4.30 p.m.	73-A, Central Avenue, Nagpur 440018
30th September, 2006	4.30 p.m.	Same as above
29th September, 2007	3.30 p.m.	Same as above

The following Special Resolutions were passed in the last three Annual General Meetings:

- Resolution for appointment of Dr. K.K. Rathi, to place of profit – Section 314(1B) in the AGM held on 30th September, 2005
- Resolution for alteration of Articles of Association pursuant to alteration in the Capital Clause of the Memorandum of Association – Section 31 in the AGM held on 30th September, 2006
- Resolution for alteration of Articles of Association to give the right to appoint Directors on the Board of Company to M/S LB India Holdings Mauritius II Ltd. & Infrastructure Development Finance Company Ltd., to whom the Company has issued equity shares on private placement—Section 31 in the AGM held on 29th September, 2007
- Resolution for approval of ESOP Scheme - Section 81(1A) in the AGM held on 29th September, 2007

In the Extraordinary General Meeting held on 3rd May, 2007, two resolutions were passed through postal ballot detailed as under:

- Approval for increase in borrowing limits - Section 293(1)(a) – passed by 99.99 percent majority
- Alteration in the Object Clause – Section 17 – passed by 100 percent majority

Mr. S.G. Kankani, practicing Company Secretary was appointed as the scrutiniser for the postal ballot exercise.

In the Extraordinary General Meeting held on 24th July, 2007, the following special resolutions were passed:

- Resolution for issue of 44,73,684 equity shares on preferential basis – Section 81(1A)
- Resolution for issue of 2,63,158 share warrants on preferential basis – Section 81(1A)
- Change in the name of the Company – Section 21

7. Disclosure

Related-party transactions during the year have been disclosed in detail in note 17 of Schedule Q, required under the Accounting Standard 18, issued by the Institute of Chartered Accountants of India. These transactions are not likely to have any conflict with the Company's interest.

Compliance of SEBI, stock exchange requirements: The Company has complied with all the requirements of Companies Act, 1956, the Regulations of the Securities Exchange Board of India (SEBI) and the Listing Agreements with the stock exchanges. The Company's application for delisting is pending with the Calcutta Stock Exchange, for long. The matter has been reported to SEBI. In view of the pendency of delisting application with the Calcutta Stock Exchange, the Company has stopped sending the information to the Calcutta Stock Exchange. There were no defaults or non-compliance related to any of the statutory requirements.

8. Means of communication

Half-yearly report/Quarterly results: Quarterly, half-yearly and annual results are submitted to the stock exchange in accordance with the Listing Agreement and published in English and vernacular newspapers. The financial results and other relevant information are available on the Company's website—www.seml.co.in. Neither official news releases nor any presentations have been made to the institutional investors or to the analysts during the year.

9. General shareholder information

Annual General Meeting	:	Date: 30th, September, 2008
	:	Time: 2.30 p.m.
	:	Venue: 73-A, Central Avenue, Nagpur- 440 018
Financial calendar for 2007-08 (tentative)	:	
Financial results for the quarters ended:		
30th June, 2008	:	4th week of July, 2008
30th September, 2008	:	4th week of October, 2008
31st December, 2008	:	4th week of January, 2009
31st March, 2009	:	4th week of April, 2009 (if unaudited)
		4th week of June, 2009 (if audited)
Annual General Meeting	:	September, 2009
Listing on stock exchanges	:	
Equity shares		The shares of the Company are listed on the following exchanges: i) The Bombay Stock Exchange Ltd., Mumbai (504614) ii) The Calcutta Stock Exchange Association Ltd. ISIN no. NSDL & CDSL INE385C01013 The Company's application for delisting of its shares from the Calcutta Stock Exchange Association Ltd is pending and the matter has been reported to SEBI

Non-convertible debentures	:	The non-convertible debentures of the Company are listed on the Bombay Stock Exchange Limited, Mumbai.

Particulars	8.00% NCDs	7.90% NCDs
Market Lot	1	1
Code Number	945237	945033
Scrip ID on Bolt	RASL20FEB06	CECL21MAR05
ISIN Number	INE385C07010	INE934G07016
Credit Rating	CARE A+	CARE AA-

The Company has paid annual listing fees to the Bombay Stock Exchange Ltd., Mumbai, for the financial year 2008-09 for equity shares and also for the NCDs.

Trustees for NCDs (8% & 7.90%)	:	Axis Bank Limited, 111 Maker Tower F, Cuffe Parade, Colaba, Mumbai 400 005
Registrar and share transfer agents (for physical and electronic) (for equity shares and NCDs)	:	Sharepro Services (India) Pvt. Ltd. Satam Estate, 3rd floor, Cardinal Gracious Road, Above Bank of Baroda Chakala, Andheri (East), Mumbai 400 099
Share transfer system	:	Share transfers in physical form can be lodged with the R&T agents at the above address. Transfers are processed within the stipulated time, if the documents are complete in all respects. All share transfer requests are approved by the Share Transfer Committee or the persons authorised by the Board.

Shareholding pattern as on 31st March, 2008

Sl. no.	Category	No. of shares	Percentage
1	Promoters	2,34,95,013	69.01%
2	Banks/mutual funds	35,62,428	10.46%
3	Foreign institutional investors	33,30,028	9.78%
4	Bodies corporate	9,89,885	2.91%
5	Others	26,67,755	7.84%
	Total	**3,40,45,109**	**100.00%**

Distribution of shareholding as on 31st March, 2008

Shareholding of nominal value (Rs.)	Shareholders		Share amount	
	Number	% to total	Rs.	% to total
Up to 5,000	9,529	94.16%	1,02,08,820	3.00%
5,001 – 10,000	251	2.48%	20,64,050	0.61%
10,001 – 20,000	135	1.33%	21,21,950	0.62%
20,001 – 30,000	51	0.50%	13,13,620	0.39%
30,001 – 40,000	19	0.19%	6,66,920	0.20%
40,001 – 50,000	22	0.22%	10,53,380	0.31%
50,001 – 1,00,000	54	0.53%	39,57,730	1.16%
1,00,001 and above	59	0.58%	31,90,64,620	93.72%
Total	**10,120**	**100.00%**	**34,04,51,090**	**100.00%**

Market price data: High/low during the year 2007-08

Month	SEML on the Bombay Stock Exchange (in Rs.)		BSE Sensex	
	High	Low	High	Low
Apr 2007	187.00	146.00	14,383.72	12,425.52
May 2007	202.40	166.00	14,576.37	13,554.34
Jun 2007	214.60	173.00	14,683.36	13,946.99
Jul 2007	281.40	190.50	15,868.85	14,638.88
Aug 2007	285.00	238.10	15,542.40	13,779.88
Sep 2007	357.50	268.25	17,361.47	15,323.05
Oct 2007	480.00	335.10	20,238.16	17,144.58
Nov 2007	494.00	399.95	20,204.21	18,182.83
Dec 2007	695.00	412.00	20,498.11	18,886.40
Jan 2008	685.00	342.00	21,206.77	15,332.42
Feb 2008	545.00	389.95	18,895.34	16,457.74
Mar 2008	460.00	260.00	17,227.56	14,677.24

Performance of the share price vs the BSE Sensex

Dematerialisation of securities : The Company has an arrangement with the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL) for demat facility. As on 31st March, 2008, out of the total 3,40,45,109 equity shares held by about 10,120 shareholders, approximately 3,24,36,741 equity shares held by 5,060 shareholders representing 95.28 percent of the total paid-up equity capital have been dematerialised. Debentures are also in dematerialised form.

Outstanding convertible instrument : During 2007-08, the Company has allotted 2,63,158 equity warrants to SAB Trading Private Ltd., each warrant convertible into one equity share, of Rs. 10 each at a premium of Rs. 180 per share, within a period of 18 months from the date of allotment, i.e. 4th August, 2007. The above warrants have been issued on preferential basis, pursuant to the approval given by the members in the EGM held on 24th July, 2007.

Plant location : The plant of the Company is located at 'Industrial Growth Centre' Siltara, Raipur.

Address for correspondence : Sarda Energy & Minerals Limited
Industrial Growth Centre, Siltara, Raipur [C.G.] 493 111
Phone: 07721-264204-09, Fax: 07721-264214, e-mail: cs@seml.co.in

Certificate

To the members of
Sarda Energy & Minerals Limited

I have examined the compliance of conditions of Corporate Governance by Sarda Energy & Minerals Limited, for the year ended 31st March, 2008, 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. My examination has been limited to a review of procedures and implementations thereof, adopted by the Company for ensuring compliance with the conditions 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 my opinion and to the best of my information and according to the explanation given to me and the representations made by the Directors and the management, I certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement.

I 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.

(M.M. JAIN)
Chartered Accountant

Place: Nagpur
Date: 31st July, 2008

FINANCIAL SECTION

Auditor's Report

To
The Members of
Sarda Energy & Minerals Limited

I have audited the attached balance sheet of Sarda Energy & Minerals Ltd. as at 31st March, 2008 and also the profit and loss account for the year ended on that date, annexed thereto. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

1. I have conducted my audit in accordance with the auditing standards generally accepted in India. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

2. As required by the Companies (Auditor's Report) Order (as amended), 2003 issued by the Government of India in terms of sub section (4A) of Section 227 of the Companies Act, 1956, I enclose in the Annexure, a statement on the matter specified in paragraphs 4 and 5 of the said order.

3. Further to my comments in the Annexure referred to above, I report that :

   i) I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit;

   ii) In my opinion, proper books of account as required by law have been kept by the Company so far as it appears from my examination of those books.

   iii) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

   iv) In my opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the Accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

   v) On the basis of written representations received from the directors as on 31st March 2008, and taken on record by the Board of Directors, I report that none of the directors is disqualified as on 31st March 2008 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

   vi) In my opinion and to the best of my information and according to the explanations given to me, the said accounts 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:

      a) in the case of the balance sheet, of the state of the affairs of the Company, as at 31st March, 2008.

      b) in the case of the profit and loss account, of the profit for the year ended on the date; and

      c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

M. M. Jain
Chartered Accountant
Membership No. 05727

Place: Nagpur
Dated: 27th June 2008

Annexure to Auditor's Report

Annexure referred to in paragraph 2 of my report of even date

On the basis of such checks as I considered appropriate and in terms of information & explanations given to me I state that:

i) a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets, however the entries related to the period under consideration are to be updated.

b) All the assets have not been physically verified by the Management during the year but there is a regular programme of verification which, in my opinion, is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such verification.

c) The fixed assets disposed off are not substantial so as to affect going concern concept.

ii) a) The inventories have been physically verified at reasonable intervals by the management.

b) The procedures of physical verification of inventories 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 is maintaining proper records of inventories. The discrepancies noticed on verification between the physical stocks and the book records were not material.

iii) (a) The company has granted unsecured loan to one of the companies, covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs 2402.97 lacs and the year end balance of loans granted to such company was Rs 371.38 lacs.

b) In my opinion, the rate of interest and other terms and conditions of loans given by the company are prima facie not prejudicial to the interest of the company.

c) As per information and explanation given to me the repayment of principal and interest amount are also regular.

d) The company has taken unsecured loan from one of the companies covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs 133.59 lacs, and the year end balance of loan taken from such company was NIL.

e) In my opinion ,the rate of interest and other terms and conditions on which loan has been taken from the company listed in the register maintained u/s 301 are not prima facie, prejudicial to the interests of the company.

f) The company is regular in repaying the principal amount as stipulated along with interest and has repaid the full loan amount along with interest.

iv) In my opinion and according to the information & explanations given to me, there is adequate internal control system commensurate with the size of the company and nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. There is no major weakness in internal control system requiring correction.

v) a) According to the information & explanations given to me, the transactions that need to be entered into a register in pursuance of section 301 of the companies Act, 1956 have been so recorded.

b) In my opinion and according to the information & explanations given to me, transactions made in pursuance of such contracts or arrangements and exceeding the value of Rs. 5 lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

vi) The company has not accepted any deposits from the public.

vii) The company is having an internal audit system, which is commensurate with the size of the company and nature of its business.

viii) I have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the company pursuant to the Rules made by the Central Govt. for the maintenance of cost records under section 209(1) (d) of the Companies Act, 1956 and I am of the opinion that prima facie the prescribed accounts and records have been made and maintained. I have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.

ix) a) According to the information and explanations given to me, the company is generally regular in depositing with the appropriate authorities, undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, Service tax, custom duty, excise duty, cess and other material statutory dues applicable to it. According to the information and explanations given to me, no undisputed amount payable were in arrears as at 31/3/2008, for a period of more than six months from the date they become payable.

b) According to the information and explanation given to me dues of income tax, Excise Duty, Service tax and cess have not been deposited on account of dispute, the particulars of which and the forum where the dispute is pending are as follows:

Nature of the Statute	Nature of the Dues	Amount under dispute not yet deposited (Rs.in lacs)	Period to which it relates	Forum
Central Excise Act	Excise Duty	19.51 1.06 7.62	1989 1995 1990	High Court High Court Commissioner Appeals
Central Excise Act	Excise Duty Penalty	63.42 63.42	2001-to 2003	CESTAT, Delhi
Central Excise Act	Excise Duty	41.24	2005	CESTAT
Central Excise Act	Service Tax	9.38	2006	CESTAT
Income Tax Act	Income Tax	11.78	A Y 2004-05	ITAT, Nagpur Bench
Income Tax Act	Income Tax	0.19	A Y 2005-06	CIT CIB, Bhopal
Sales Tax & Entry Tax Act	Sales tax (including Local and Central sales tax) and Entry tax.	2.39 0.61 0.34 0.16 6.22 6.63	1992-93 1995-96 1997-98 2000-01 2002-03 2003-04	Appellate Authority–upto Commissioner's level

x) The company does not have any accumulated losses at the end of the financial year. The Company has not incurred cash losses during the financial year and in the immediately preceding financial year.

xi) In my opinion and according to the information and explanations given to me, the company has not defaulted in repayment of dues to financial institutions or banks or debenture holders.

xii) According to the information and explanations given to me, the company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii) On the basis of information and explanation given to me the company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly the provision of clause 4 (xiii) of the companies (Auditor's Report) order 2003 are not applicable to the company.

xiv) On the basis of information and explanation given to me, the company has maintained proper records of the transactions related to dealing or trading in shares, securities, debentures and other investments, and timely entries have been made therein. The shares, securities, debentures and other investments have been held by the company in its own name except to the extent of exemption granted under section 49 of the Companies Act, 1956.

xv) According to the information and explanations given to me, the company has given corporate guarantee for loans taken by a joint venture company from banks/financial institutions which in my opinion is not prima facie prejudicial to the interest of the company.

xvi) On the basis of information and explanation given to me, the term loans have been applied for the purpose for which the loans were obtained except the funds deployed temporarily elsewhere pending application.

xvii) According to the information and explanations given to me and on an overall examination of balance sheet of the company, I report that funds raised on short-term basis have not been used for long-term investment.

xviii) The company has not made any preferential allotment of shares during the year to any of the companies covered in the register maintained u/s 301 of the Companies Act,1956

xix) According to the information given to me the required security or charge has been created in respect of debentures issued by the company.

xx) The company has not raised any money by way of public issue during the year.

xxi) According to the information and explanations given to me, no fraud on or by the company has been noticed or reported during the course of my Audit.

M. M. Jain
Chartered Accountant
Membership No. 05727

Place: Nagpur
Dated: 27th June 2008

Balance Sheet as at

(Rs. in lacs)

Particulars	Schedule	31.03.2008	31.03.2007
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
a) Share Capital	A	3404.51	1308.00
b) Share Capital Suspense Account	A-1	–	1649.14
c) Share Warrant		50.00	–
d) Reserves & Surplus	B	36748.99	17858.93
		40203.50	**20816.07**
2. Loan Funds			
a) Secured Loans	C	31890.03	19251.36
b) Unsecured Loans	D	439.43	1622.69
		32329.46	20874.05
3. Deferred Tax Liability(Net)		1939.98	1708.40
Total		**74472.95**	**43398.52**
II. APPLICATION OF FUNDS			
1. Fixed Assets	E		
a) Gross Block		33121.71	29544.86
b) Less: Depreciation/Amortisation		12137.89	9991.60
c) Net Block		20983.82	19553.26
d) Add: Capital Work in Progress		25467.88	9464.56
		46451.70	**29017.82**
2. Investments	F	2044.85	2185.22
3. Current Assets,Loans &Advances			
a) Inventories	G	14988.84	6828.19
b) Sundry Debtors	H	6776.92	4825.46
c) Cash & Bank Balances	I	9823.38	2144.66
d) Loans & Advances	J	6611.53	3641.94
		38200.68	17440.26
Less: Current Liabilities & Provisions			
a) Current Liabilities	K	11072.59	5208.38
b) Provisions		1251.54	86.68
		12324.13	5295.05
Net Current Assets		25876.55	12145.20
4. Miscellaneous Expenditure (To the extent not written off or adjusted)			
Preliminary Expenses		0.73	0.98
Project Expenses		99.12	49.31
		99.85	50.28
Total		**74472.95**	**43398.52**
Accounting Policies And Notes To Accounts	Q		

As per my report of even date attached

M. M. Jain
Chartered Accountant

K. K. Sarda
Chairman &
Managing Director

G. K. Chhanghani
Executive Director

P. K. Jain
Company Secretary

Place: Nagpur
Date: 27th June 2008

Place: Raipur
Date: 27th June 2008

Profit and Loss Account for the year ended

(Rs. in lacs except per share data)

Particulars	Schedule	31.03.2008	31.03.2007
INCOME			
Sales (Gross)		70286.24	41176.23
Less: Excise Duty		7804.49	4390.54
Sales (Net)		62481.75	36785.69
Other Income	L	496.32	1213.35
Increase/(decrease) in Stocks	M	1086.53	881.74
Total		**64064.60**	**38880.78**
EXPENDITURE			
Purchase of Trading Goods		3345.75	1938.96
Raw Materials Consumed	N	36158.51	23264.67
Stores & Spares Consumed		1372.32	1306.17
Power		376.06	248.59
Payments & Other benefits to employees	O	1127.06	720.11
Manufacturing & Other Expenses.	P	4350.47	3389.63
Other Taxes & Duties		1.63	2.75
		46731.79	30870.88
Less: Trail Run Expenses (net of revenue) Capitalised		–	67.97
		46731.79	30802.90
Profit Before Interest, Depreciation & Tax		17332.81	8077.88
Interest(net)		1210.55	746.67
Depreciation / Amortisation		2213.83	2256.57
Profit For The Year (Before Tax and Prior Period items)		13908.43	5074.63
Add: Prior-Period Item		9.94	–
Add: Liability no longer required written back		–	0.97
Profit Before Taxes		13918.36	5075.60
Provision for Taxation			
Current Tax		(1594.33)	(547.01)
Deferred Tax		(231.58)	(247.63)
Fringe Benefit Tax		(17.50)	(19.50)
Total Tax		**(1843.41)**	**(814.14)**
		12074.95	**4261.46**
Income Tax Related to Earlier Years		67.95	(4.81)
Profit After Taxes		12142.90	4256.65
Balance brought forward from last year		11920.02	3322.37
Add:Transferred on Amalgamation		–	6415.37
Profit Available For Appropriation		24062.92	13994.39
Appropriations			
Interim Dividend Paid		–	591.43
Proposed Dividend		1021.35	–
Dividend Distribution Tax		173.58	82.95
Transfer to Debenture Redemption Reserve		175.00	250.00
Transfer to General Reserve		1500.00	1150.00
		2869.93	2074.37
Surplus Carried to Balance Sheet		21192.99	11920.02
Basic Earning Per Share (Rs.)		37.34	14.39
Diluted Earning Per Share (Rs.)		37.15	14.39
Accounting Policies And Notes To Accounts	Q		

As per my report of even date attached

M. M. Jain
Chartered Accountant

K. K. Sarda
Chairman &
Managing Director

G. K. Chhanghani
Executive Director

P. K. Jain
Company Secretary

Place: Nagpur
Date: 27th June 2008

Place: Raipur
Date: 27th June 2008

Cash Flow Statement for the year ended

(Rs. in lacs)

Particulars	31.03.2008	31.03.2007
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Net Profit before tax as per Profit & Loss Account	13918.36	5075.60
Adjustment for:		
Depreciation	2213.83	2256.57
Interest (Net)	1210.55	746.67
(Profit) / Loss on sale of fixed assets	1.96	6.90
	3426.34	3010.14
Operating Profit before Working Capital changes	17344.70	8085.74
Adjustment for :		
Inventories	(8160.65)	(1546.03)
Trade and other receivable	(1951.46)	(2288.88)
Loans and Advances	(3288.12)	(105.69)
Increase in Fixed deposits with scheduled banks under lien	(2222.00)	0.00
Trade Payable	5832.91	4239.14
	(9789.32)	298.53
Cash generated from Operations	7555.38	8384.28
Amalgamation expenses paid	(110.54)	(28.14)
Direct Taxes (Net)	(1169.24)	(669.28)
Net cash from Operating Activities	**6275.60**	**7686.86**
B. CASH FLOW FROM INVESTING ACTIVITIES:		
Project exploration expenses	(49.57)	(49.07)
Investment in Fixed Assets including Capital WIP	(19671.85)	(9048.35)
Sale of Fixed Assets	22.18	330.64
(Increase) / Decrease In Investments	140.37	2027.40
Net Cash used in Investing Activities	**(19558.87)**	**(6739.37)**

Cash Flow Statement *(Contd.)* for the year ended

(Rs. in lacs)

Particulars	31.03.2008	31.03.2007
C. CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issue of Share Capital	8550.00	0.00
Interest Paid (Net)	(1210.55)	(746.67)
Dividend & dividend tax paid	(54.88)	(1040.36)
Term loans received	19762.73	4000.00
Repayment of Term Loans	(9138.52)	(4781.56)
Repayment of Unsecured Loan	(1254.20)	1088.87
Sales Tax Defferment	70.94	71.49
Bank Borrowings	2014.46	1753.83
Net Cash from financing Activities	**18739.99**	**345.59**
Net Increase/ (decrease) in Cash and Cash equivalents (A+B+C)	5456.72	1293.07
Cash And Cash Equivalents As At 01/04/2007 (as per Schedule 'I')	2144.66	102.67
Cash And Cash Equivalents taken over on amalgamation	–	748.93
	2144.66	851.59
Cash And Cash Equivalents As At 31/03/2008 (as per Schedule 'I')	7601.38	2144.66
Increase/ (decrease) in Cash and Cash equivalents	**5456.72**	**1293.07**

Notes:

(a) Cash and cash equivalent include the following:

Cash on Hand		33.27
Balances with Scheduled banks	173.55	
Fixed deposits	9616.55	
Less: Fixed Deposits Under lien	(2222.00)	7568.11
		7601.38

(b) Previous year figures have been recast/restated wherever necessary.

(c) Figures in brackets represent outflows.

As per my report of even date attached

M. M. Jain
Chartered Accountant

K. K. Sarda
Chairman & Managing Director

G. K. Chhanghani
Executive Director

P. K. Jain
Company Secretary

Place: Nagpur
Date: 27th June 2008

Place: Raipur
Date: 27th June 2008

Auditors' Certificate

I have examined the attached Cash flow statement of Sarda Energy & Minerals Limited for the Year ended 31st March, 2008. The statement has been prepared by the Company in accordance with the requirement of clause 32 of listing agreement with the Stock Exchange and is based on and in agreement with the corresponding Profit and Loss account and Balance Sheet of the Company.

Place: Nagpur
Date: 27th June 2008

M. M. Jain
Chartered Accountant

Schedules 'A' to 'Q' annexed to and forming part of the Accounts as at

(Rs. in lacs)

Particulars	31.03.2008	31.03.2007
Schedule A SHARE CAPITAL		
Authorised		
3,50,00,000 Equity shares of Rs.10/- each	3500.00	3500.00
Issued, Subscribed And Paid Up		
3,40,45,109 (1,30,80,000) Equity shares of Rs.10/- each fully paid up	3404.51	1308.00
Of the above shares		
1. 6,00,000 (6,00,000) shares are alloted as fully paid-up by way of bonus shares by capitalisation of reserves.		
2. 1,95,64,229 (P Y NIL) shares are allotted as fully paid up shares to the shareholders of erstwhile Chhattisgarh Electricity Company Ltd and Raipur Gases Pvt.Ltd on amalgamation with the company		
Total	**3404.51**	**1308.00**

Particulars	31.03.2008	31.03.2007
Schedule A-1 SHARE CAPITAL SUSPENSE ACCOUNT		
Nil (1,64,91,425) Equity Shares of Rs 10 each Fully paid up	–	1649.14
These Shares have been allotted as fully paid-up shares to the Shareholders of erstwhile Chhattisgarh Electricity Company Ltd and Raipur Gases Private Limited as on 4th August 2007 on amalgamation with the company		
Total	**–**	**1649.14**

Particulars	31.03.2008	31.03.2007
Schedule B RESERVES & SURPLUS		
A. Capital Reserve		
Opening Balance	354.78	229.41
Add: Transferred on Amalgamation	–	125.37
	354.78	**354.78**
B. Securities Premium Account		
Opening Balance	2090.85	1231.01
Add : Recd During The Year	8052.63	–
Add: Transferred on Amalgamation	–	859.84
	10143.48	**2090.85**
C. General Reserve		
Opening Balance	1168.29	825.00
Add: Transferred on Amalgamation	–	950.00
Add: Transfer from Profit	1500.00	1150.00
Less: Capitalisation for issue of equity shares to shareholders of Transferor companies as per scheme of amalgamation	–	1728.57
Less: Amalgamation expenses	110.54	28.14
Closing Balance	2557.75	1168.29
D. Debenture Redemption Reserve		
Opening Balance	2325.00	75.00
Add: Transferred on Amalgamation	–	2000.00
Add: Transfer from Profit	175.00	250.00
Closing Balance	2500.00	2325.00
E. Profit And Loss Account		
Balance carried forward	21192.99	11920.02
Total	**36748.99**	**17858.93**

Schedules 'A' to 'Q' annexed to and forming part of the Accounts as at

(Rs. in lacs)

Particulars	31.03.2008	31.03.2007
Schedule C SECURED LOANS		
(for details on Securities refer point no 4 of Schedule Q)		
A) Debentures		
i) 500 - 8% Secured Redeemable Non - Convertible Debentures of Rs 6 Lac each (P.Y. Rs.8 lac each)	3000.00	4000.00
ii) 500 - 7.9% Secured Redeemable Non -Convertible Debentures of Rs. 4,37,500/- each (P.Y. Rs.6,87,500/- each)	2187.50	3437.50
B) Term Loan		
i) From Banks	19138.72	5472.31
ii) From Financial Institutions	1665.00	2405.00
iii) From others	36.36	88.56
	26027.58	15403.37
C) Working Capital & Demand Loans From Banks	5862.45	3847.99
Total	**31890.03**	**19251.36**

Schedule D UNSECURED LOANS		
From Bodies Corporate	–	1254.20
Sales Tax Defferment Account	439.43	368.49
Total	**439.43**	**1622.69**

Schedule E **FIXED ASSETS**

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 01.04.2007	Additions	Transfer/ Sales	As on 31.03.2008	Upto 01.04.2007	During the Year	Transfer / Adjustments	As on 31.03.2008	As on 31.03.2008	As on 31.03.2007
1. Free Hold Land	431.50	485.25	2.76	913.99	–	–	–	–	913.99	431.50
2. Lease Hold Land	218.65	27.75	–	246.40	3.09	0.24	–	3.33	243.07	215.56
3. Iron Ore Mines	459.91	3.00	–	462.91	35.05	17.11	–	52.16	410.74	424.86
4. Building	5299.90	943.74	46.64	6197.01	983.09	217.01	35.34	1164.76	5032.25	4316.82
5. Plant & Machinery	22161.22	1927.81	79.54	24009.49	8470.93	1823.66	10.72	10283.87	13725.62	13690.29
6. Furniture, Fixture & Equipments	301.35	147.23	–	448.57	215.02	23.86	–	238.88	209.69	86.33
7. Vehicles	672.33	213.33	42.31	843.34	284.42	131.94	21.48	394.88	448.45	387.90
Total	**29544.86**	**3748.10**	**171.25**	**33121.71**	**9991.60**	**2213.83**	**67.54**	**12137.89**	**20983.82**	**19553.26**
Previous Year	23701.67	6468.89	625.70	29544.86	7987.94	2256.57	252.91	9991.60	19553.26	8612.50
Capital Work in Progress (Including advances for capital expenditure and Stock of capital items)	–	–	–	25467.88	–	–	–	–	25467.88	9464.56

Schedules 'A' to 'Q' annexed to and forming part of the Accounts as at

(Rs. in lacs)

Particulars	31.03.2008	31.03.2007
Schedule **F** **INVESTMENTS**		
Long Term Investments (at Cost)		
Investment in Wholly Owned Subsidiary (Unquoted)		
10,00,000 (PY Nil) Equity Shares of HK$ 1.00 par value of Sarda Energy & Mineral Hongkong Ltd. (Partly paid up)	11.13	0.00
Total	**11.13**	**0.00**
Trade Investments Unquoted (of Rs.10/- each fully paid up unless otherwise stated)		
46200 (PY 46200) Equity Shares of Raipur Infrastructure Co. Ltd.	41.70	41.70
612500 (PY 612500) Equity Shares of Parvatiya Power Pvt. Ltd.	612.50	612.50
39640 (PY 39640) Equity Shares of Chhattisgarh Hydro Power Pvt.Ltd.	55.60	55.60
4000 (PY 4000) Equity Shares of Chhattisgarh Bricks Pvt. Ltd.	0.40	0.40
4,85,000 (PY Nil) Equity Shares of Chhattisgarh Ispat Bhumi Ltd. (Partly paid up Rs. 6/- each)	29.10	–
148548 (PY 95510) Equity Shares of Madanpur South Coal Co. Ltd.	158.49	95.51
Total	**897.79**	**805.71**
Current Investments (at Cost)		
Quoted Investments (of Rs.10/- each, fully paid up, unless otherwise stated)		
32813 (PY 32813) Equity Shares of Abhishek Mills Ltd.	32.81	32.81
Nil (PY 27500) Equity Shares of Abhishek Industries	–	7.88
Nil (PY 7500) Equity Shares of Balrampur Chini Mills	–	7.02
10,00,000 (PY 9,98,508) Equity Shares of Can Fin Homes Ltd.	496.58	495.74
Nil (PY 371406) Equity Shares of Dena Bank	–	136.89
Nil (PY 4067) Equity Shares of Entertainment Network India Ltd.	–	11.02
Nil (PY 217075) Equity Shares of Essar Steel Ltd.	–	74.98
Nil (PY20573) Equity Shares of Garden Silk Ltd.	–	13.22
10000 (PY 10,000) Equity Shares of GIC Housing Ltd.	5.60	5.60
1,52,440 (PY 1,52,440) Equity Shares of Gujarat Industries Power Co. Ltd.	103.72	103.72
22185 (PY 22,185) Equity Shares of Re.1/– each of Hindalco Industries Ltd.	21.30	10.65
Nil (PY 1,07,500) Equity Shares of IDBI	–	103.99
118150 (PY 118150) Equity Shares of Indian Charge Chrome Ltd.	13.63	13.63
2500 (PY 2500) Equity Shares of ITC Ltd.	4.64	4.64
47679 (PY 15893) Equity Shares of Kanoria Chemicals Ltd.	20.07	20.07
12400 (PY 12400) Equity Shares of Mangalam Cement Ltd.	24.46	24.46
NIL (PY 18500) Equity Shares of Nagarjuna Fertilisers Ltd.	–	2.77
NIL (PY 500) Equity Shares of Orient Press Ltd.	–	0.17
22332 (PY 24782) Equity Shares of Pix Transmission Ltd.	8.70	9.80
NIl (PY 7800) Equity Shares of Shakti Sugars Ltd.	–	10.48
NIL (PY 2500) Equity Shares of Shipping Corporation Ltd.	–	3.97
NIL (PY19420 (PY) Equity Shares of Tata Steel Ltd.	–	92.60
NIL (PY 8000) Preference Shares of Rs.10/- each of Essar Steel Ltd.	–	0.80
Total	**731.52**	**1186.93**
Share Application Money Pending Allotment		
Chhattisgarh Ispat Bhumi Ltd.	–	29.10
Parvatiya Power Pvt. Ltd.	227.00	0.00
Star Orchem International Pvt. Ltd.	–	70.00
Chhattisgarh Hydro Power Pvt. Ltd.	141.90	35.90
Chhattisgarh Bricks Pvt. Ltd.	1.00	1.00
Madanpur South Coal Co. Ltd.	34.51	56.58
Total	**404.41**	**192.58**
Aggregate Long Term investments	2044.85	2185.22
Aggregate book value of quoted investments	731.52	1186.93
Aggregate book value of unquoted investments	908.92	998.29
Aggregate market value of quoted investments	911.64	1215.77

Schedules 'A' to 'Q' annexed to and forming part of the Accounts as at

(Rs. in lacs)

Particulars	31.03.2008	31.03.2007
Schedule G **INVENTORIES**		
(As certified by the management)		
Stores and Spares	947.18	1341.91
Raw materials	9457.73	2341.51
Finished goods	4583.93	3144.77
Total	**14988.84**	**6828.19**
Schedule H **SUNDRY DEBTORS**		
Exceeding six months	292.65	79.78
Other Debts	6512.91	4751.28
	6805.56	4831.05
Less: Provision for Doubtful Debts	28.64	5.59
Total (Unsecured and considered good)	**6776.92**	**4825.46**
Schedule I **CASH AND BANK BALANCES**		
Cash in hand	33.27	22.72
Balance with Scheduled Banks		
In Current accounts	173.55	607.89
In Deposit accounts	9616.55	1514.05
Total	**9823.38**	**2144.66**
Schedule J **LOANS AND ADVANCES**		
(Unsecured and considered good)		
Loans to Employees	10.98	2.88
Advances recoverable in cash or in kind or for value to be received:		
To Suppliers net of Doubtful Advances	4298.88	1935.15
To Others	1301.06	467.12
Cenvat Credit & PLA (unutilised)	511.51	300.72
Security and other deposits	204.69	333.13
Income-tax advance and TDS (Net of provision)	284.41	602.95
Total	**6611.53**	**3641.94**
Schedule K **CURRENT LIABILITIES & PROVISIONS**		
Current Liabilities		
Sundry Creditors	8638.86	4138.53
Other liabilities	927.82	730.47
Interest accrued but not due	7.42	22.62
Unclaimed Dividend	27.39	56.36
Advances and deposits	1471.10	260.40
	11072.59	5208.38
Provisions		
For Income Tax (Net of Advance Tax)	56.61	0.50
For Proposed Dividend	1021.35	–
For Tax on dividend	173.58	54.88
For Gratuity	–	31.30
	1251.54	86.68
Total	**12324.13**	**5295.05**

Schedules 'A' to 'Q' annexed to and forming part of the Accounts for the year ended

(Rs. in lacs)

Particulars	31.03.2008	31.03.2007
Schedule L OTHER INCOME		
Miscellaneous Income	56.06	76.34
Profit on Sale of Shares	118.44	197.77
DEPB Claim	279.67	145.23
Dividend	37.35	72.53
Proceeds from Surrender of Keyman Insurance Policy	–	719.12
Sundry balances written off (Net)	4.79	2.35
Total	**496.32**	**1213.35**

Particulars	31.03.2008	31.03.2007
Schedule M INCREASE/(DECREASE) IN STOCKS		
Closing Stock of Finished Goods	4583.93	3144.77
Opening Stock of Finished Goods	(3144.77)	(1897.34)
Excise duty on (Increase)/Decrease in Stock of finished Goods	(352.64)	(365.68)
Total	**1086.53**	**881.74**

Particulars	31.03.2008	31.03.2007
Schedule N RAW MATERIAL CONSUMED		
Opening Stock	2341.51	2610.88
Add:Purchases	42900.41	22787.87
Add:Cost of Material Produced (Mining expenses)	374.31	207.43
	45616.24	25606.19
Less : Closing Stock	9457.73	2341.51
Total	**36158.51**	**23264.67**

Particulars	31.03.2008	31.03.2007
Schedule O PAYMENTS AND OTHER BENEFITS TO EMPLOYEES		
Salaries, Wages, Bonus and Other allowances	961.75	628.55
Staff Welfare expenses	27.65	21.55
Contribution to Provident and other funds	137.67	70.00
Total	**1127.06**	**720.11**

(Rs. in lacs)

Particulars	31.03.2008	31.03.2007
Schedule P **MANUFACTURING AND OTHER EXPENSES**		
Plant Operation Expenses	457.46	107.20
Travelling and Conveyance	128.44	60.15
Rents, rates and taxes	46.87	23.89
Insurance	81.39	63.07
Repairs and Maintenance to -		
Building	32.16	28.81
Plant and Machinery	372.24	296.04
Others (including vehicles)	41.75	32.63
Conversion Charges	401.53	741.94
Bank charges and commission	218.28	118.53
Carriage outwards	1670.21	1416.05
Selling Commission and Brokerage	130.28	143.96
Professional & legal charges	105.15	52.27
Loss on sale of Fixed Assets	1.96	6.90
Establishment and other Expenses	318.01	234.79
Charity & Donation	13.54	22.32
Directors remuneration	288.99	35.65
Provision for Doubtful Debts	23.05	–
Irrecoverable balances written off	12.24	0.58
Payment to Auditors	6.91	4.85
Total	**4350.47**	**3389.63**

Schedule Q ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

I) SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

The accounts of the Company are prepared under the historical cost convention using the accrual method of accounting in accordance with the generally accepted accounting principles in India, mandatory accounting standards as specified in the Companies (Accounting Standards) Rules, 2006 and the relevant provisions of the Companies Act, 1956.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent liabilities as at the date of financial and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

3. Fixed Assets

Fixed Assets are stated at cost net of CENVAT and VAT Credit less accumulated depreciation / amortization. Cost includes interest on specific borrowings and other funds utilised during construction and all other expenditure and costs incurred on development and construction.

4. Impairment of Fixed Assets

The carrying amount of the Company's fixed assets is reviewed at each balance sheet date. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on an appropriate discount factor. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. However, the increase in carrying amount of an asset due to reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

5. Depreciation / Amortization

Depreciation on Building and Plant & Machinery in respect of Steel and Oxygen Gas Division are provided on Straight Line Method and on all other assets including vehicles & office equipments on Written Down Value method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956.

Mining Rights and expenditure incurred on development are amortised over useful life of the mines or lease period whichever is shorter.

Leasehold lands are amortised over the period of lease.

6. Investments

Long term investments are stated at cost. Current investments are stated at lower of cost and fair value determined by category of investment.

7. Valuation of Inventories

Inventories are valued as under:

i)	Stores and Spares	:	At cost net of CENVAT & VAT on weighted average basis or net realizable value whichever is lower.
ii)	Raw Materials	:	At cost net of CENVAT & VAT, (on FIFO basis in case of Steel Division and on weighted average basis in case of Ferro and Power Divisions) or net realizable value whichever is lower.
iii)	Finished Goods	:	At lower of cost and net realisable value.

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

8. Borrowing Cost

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization is determined in accordance with Accounting Standard 16 (AS 16) on "Borrowing Costs". Other borrowing costs are recognized as an expense in the period in which they are incurred.

9. Employee Benefits

Company's contribution to Provident Fund is charged to Profit & Loss Account on accrual basis. The liability of gratuity is covered under group gratuity scheme. The Company contributes the ascertained gratuity liability based on defined benefit, to the approved Gratuity Trust which is charged to revenue on accrual basis.

The liability for encashable leaves as estimated is provided on accrual basis.

During the year the company has made provision for customary benefits payable to employees for the year as per revised Accounting Standard 15 (AS 15) on "Employee Benefits" which was earlier accounted for on cash basis. As a result of change in accounting policy the profit for the year and revenue reserves as on 31st March 2008 are reduced to the extent of Rs 40.72 lacs.

10. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

Sale of Goods

Sale is recognized, on dispatch of goods to customers and includes excise duty and exchange fluctuation thereof arising during the year relating to exports but excludes value added tax. Excise Duty to the extent included in the gross turnover is deducted to arrive at the net turnover. Excise duty incurred on stocks on the balance sheet date is disclosed separately and adjusted with changes in stock of finished goods in the profit & loss account.

Interest

Interest is recognized on a time proportion basis taking into account the amount outstanding and the rate applicable

Dividends

Revenue is recognized when the shareholder's right to receive the payment is established by the balance sheet date. Dividend from subsidiaries is recognized even if the same are recognized after the balance sheet date but pertains to the period on or before the date of balance sheet as per the requirement of Schedule VI to the Companies Act,1956.

11. Foreign Currency Transactions

a) Year end balance of foreign currency transactions except transactions covered by Forward Foreign Exchange contracts is translated at the year end rates and the corresponding effect is given in the respective accounts. Transactions completed during the year are adjusted on actual basis.

b) In respect of transactions covered by Forward Foreign Exchange contracts, the difference between the forward rate and exchange rate at the inception of contract is recognised as income or expense over the life of the contract.

c) Revised accounting Standard 11(AS 11) issued by Ministry of Corporate Affairs vide notification dated 7th December 2006 has become part of Company's Accounting Standard Rules 2006. This has been made applicable from 1st April 2007. Accordingly exchange fluctuation arising out of conversion of liabilities pertaining to long term Loans for fixed assets acquired from a country outside India are charged to profit and loss account except to the extent that they are regarded as an adjustment to the interest cost during the period of construction as per Accounting Standard 16 (AS 16) on "Borrowing Costs". Till earlier years the company had a policy of recognizing foreign exchange fluctuation loss from long term loans for fixed assets acquired from a country outside India as an adjustment in the carrying cost of fixed assets. As a result of change in accounting policy the Profit for the year and Reserves as on 31st march 2008 are reduced to the extent of Rs. 69.72 lacs.

Schedule Q **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

12. Taxes on Income

Current Tax is determined as the amount of income tax (including MAT) payable in respect of taxable income and FBT payable for the year are calculated as per the provisions of the Income Tax Act, 1961.

Deferred tax is recognized subject to consideration of prudence, on timing differences between the taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets arising on account of unabsorbed depreciation or carry forward of tax losses are recognized only to the extent there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax can be realized.

13. Capital Work in Progress / Project Expenses

Projects under commissioning including other capital work in progress are carried at cost, comprising direct cost, related incidental expenses, attributed cost and advances for capital goods. Expenses incurred on exploration of new projects are capitalized in the relevant project on materialization. If project is dropped, the expenditure incurred till date is charged to Profit & Loss Account.

14. Earnings per Share

The Company reports basic and diluted Earnings per Share (EPS) in accordance with Accounting Standard 20 on "Earnings per Share". Basic EPS is computed by dividing the net profit or loss for the year by the weighted average number of equity shares outstanding during the year. Diluted EPS is computed by dividing the net profit or loss for the year by the weighted average number of equity shares outstanding during the year as adjusted for the effects of all potential equity shares, except where the results are anti-dilutive.

15. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term investments with an original maturity of three months or less.

II) NOTES TO ACCOUNTS

1. Estimated amount of contracts remaining to be executed on Capital Account, net of advance given – Rs.4983.86 lacs (Prev. year – Rs.3971 lacs).

2. Contingent Liabilities not provided for in respect of:

i) Guarantee given by Company's bankers – Rs.491.47 lacs (Prev. year Rs.441 lacs).

ii) Guarantee (equal to Company's share in Joint Venture) given by the Company to IDBI Ltd against guarantee issued by the Bank in favour of Government of India on behalf of Madanpur South Coal Company Ltd (The Joint Venture Company for Coal Mining) – Rs.1096.04 lacs.

iii) Outstanding Letters of Credit – Rs.14289.11 lacs (Prev. year – Rs.2431 lacs)

iv) Bills discounted with the Company's bankers under Letters of Credit – Rs.1725.85 lacs (Prev. year – Rs.360.18 lacs)

v) Claim against the Company not acknowledged as debt & disputed in appeal – Rs.37.11 lacs (Prev. year Rs.38.56 lacs)

vi) Uncalled amount on partly paid shares of Sarda Energy & Minerals Hongkong Limited Rs.41.24 lacs (Prev. year - NIL) and on partly paid shares of Chhattisgarh Ispat Bhumi Pvt Ltd Rs 19.40 lacs (Prev. year - NIL)

vii) Excise Duty & Service Tax

a) Excise duty demand of Rs.20.56 lacs (Prev. year Rs.20.56 lacs) raised on account of modvat credit availed, which the company has disputed in High Court

b) Excise Duty demand of Rs.7.62 lacs (Prev. year Rs.7.83 lacs) raised on account of modvat credit availed which the company has disputed and has filed appeal with Commissioner Appeals, Raipur.

c) Excise Duty demand of Rs.168.09 lacs (Prev. year Rs.126.85 lacs) raised on account of sale of electricity, which the

Schedule Q **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

company has disputed and has already received stay from CESTAT.

d) Service Tax Credit disallowed by Commissioner (Appeals) Rs 9.38 lacs (Prev. year- 9.38 lacs), for which the company has filed an appeal with CESTAT.

viii) Commercial Tax/Entry Tax

Sales Tax / Entry Tax demand (Net of amount already deposited) of Rs.16.35 lacs (Prev. year Rs.5.84 lacs) are pending in appeal against assessment of various years.

ix) Income Tax

Income tax demand of Rs.11.78 lacs (Prev. year Rs 15.82 lacs) with respect to erstwhile CECL for the financial year 2003-04 which has been set aside / decided in favour of the Company by the Income Tax Appellate Tribunal (ITAT). The Income Tax Department's appeal before the ITAT is yet to be decided.

The Commissioner of Income Tax has set aside income tax assessments of erstwhile Chhattisgarh Electricity Company Ltd. for the financial years 2002-03 to 2004-05 under section 263 of the Income Tax Act, 1961. The Company has been advised by legal expert that the reopening of the assessments is illegal and accordingly the Company has challenged the action before ITAT. Quantum cannot be ascertained for want of reassessment of the set aside assessment orders.

The Income Tax Department has filed an appeal before the Hon'ble High Court of Chhattisgarh against the decision of ITAT in relation to the income tax assessment of erstwhile Raipur Gases Pvt. Ltd. with regard to the allowability of interest expenses of Rs.33.31 lacs as revenue expenditure in place of capital expenditure and calculation of relief under section 80I of the Income Tax Act, 1961 for the assessment year 1992-93

x) Energy development cess of Rs.773.13 lacs demanded by the Chief electrical Inspector, Govt. of Chhattisgarh for the period May 2006 to September 2007. The Honorable High Court of Chhattisgarh has held the levy of cess as unconstitutional vide its order dated 20th June 2008.The State Govt. has filed a Special Leave Petition before the Honorable Supreme Court.

xi) Electricity duty of Rs. 699.45 lacs demanded by the Chief Electrical Inspector for the period 22nd July 2006 to 31st March 2008. The Company is eligible for exemption from electricity duty for a period of 15 years starting from 22nd July 2001. The Company's application for exemption is under consideration of the State Govt.

3. Expenses incurred on amalgamation amounting to Rs. 110.54 lacs has been adjusted against the General Reserve Account.

4. Notes to Schedule 'C' – Secured Loans

i) 8% Non Convertible Debentures are secured by entire present and future fixed assets of the Sponge Iron / Steel Division of the Company at Raipur ranking pari passu with the charges created in favour of banks for their term loan and additionally secured by unconditional & irrevocable personal guarantee of Shri K.K.Sarda.

Besides, there is stipulation of additional security by way of assignment of all rights, title & interest into and/or exclusive mortgage of captive iron ore mines subject to prior consent of State Government in this regard. Pending creation of assignment, the company has created a negative lien on all movable and immovable assets of captive iron ore mines.

These Debentures are redeemable in twenty equal quarterly installments commencing from June 2006.

ii) 7.9% Secured Redeemable Non Convertible Debentures are secured by first pari-passu charge on fixed assets of the Ferro / Power Division of the company and additionally secured by unconditional & irrevocable personal guarantee of Shri K.K.Sarda. Debentures are redeemable in sixteen equal quarterly installments commencing from March 2006.

iii) Working Capital loans from banks are secured by first charge on stocks & book debts and second charge on all present and future movable plant & machinery and by equitable mortgage of immovable properties of related divisions (excluding immovable properties of closed mini steel plant) located at Siltara Industrial Growth Centre, Raipur, for which credit facilities have been sanctioned. These facilities are also secured by personal guarantee of Mr. K.K.Sarda and Mr. Manish Sarda. The Working Capital facility of Ferro / Power Division is also secured by Corporate Guarantee of M/s. Chhattisgarh Investments Ltd.

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

iv) Demand Loan of Rs. 1283.55 lacs from banks are secured by lien on Fixed Deposits Receipts and pledge thereof.

v) Term loans from banks, except External Commercial Borrowings are secured by first pari-passu charge by way of hypothecation of all movable assets of the Sponge Iron / Steel Division of the Company and equitable mortgage of immovable assets of Sponge Iron / Steel Division of the Company subject to prior charge in favour of bankers of Sponge Iron / Steel Division of the Company on stock and book debts to secure Working Capital facilities sanctioned by them. The term loans are also secured by personal guarantee of Mr. K.K.Sarda and Mr. Manish Sarda.

vi) Term Loan from Financial Institution (IDFC) is secured on first pari-passu basis by hypothecation of movable assets of the Ferro / Power Division of the Company situated at Siltara Industrial Growth Centre, Raipur subject to prior charge on stocks & book debts of the company in favour of banks for working capital facilities sanctioned by them. The loan is additionally secured by first pari-passu charge by way of equitable mortgage of immovable properties of the Ferro / Power Division of the Company situated at Siltara Industrial Growth Centre. The Term Loan is also secured by personal guarantee of Shri K.K.Sarda.

vii) External Commercial Borrowings of USD 28 Million and JPY 535 Million raised by the company during the year are to be secured by a first mortgage and charge on pari-passu basis on all the movable and immovable assets (including receivables) present and future of the company. Security by way of deed of hypothecation on movable assets in favour of lenders has already been created.

viii) Other Loans are secured by hypothecation of related vehicles.

5. Cost of iron ore produced from captive iron ore mines excludes amounts charged to various revenue heads in Profit & loss account.

6. During the year an amount of Rs.175 lacs has been appropriated towards Debenture Redemption Reserve in accordance with the requirements of Companies Act and SEBI guidelines for privately placed Non Convertible Debentures.

7. Directors remuneration is as under:

(Rs. in lacs)

	2007-08	2006-07
i) Salary, Allowances etc. to Managing Director & Whole Time Director	65.11	37.48
ii) Perquisites	2.91	3.02
iii) Contribution to Provident Fund	5.77	3.48
iv) Commission to Managing Director	240.00	NIL
v) Sitting Fees	1.75	1.47
Total	**315.54**	**45.45**

Notes:

1. The above amount does not include contribution to gratuity fund, as separate figures are not available for the Managing Director and Whole Time Directors.

2. Out of the above figures Salary, Allowances & Perquisites amounting to Rs.17.05 lacs (Prev. year Rs.12.73 lacs) and Employer's Contribution to Provident Fund amounting to Rs.1.08 lacs (Prev. year Rs.0.60 lacs) of Mr. G.K.Chhanghani, Executive Director (Coal Mines) has been debited to Coal Mines Capital Work in Progress.

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

8. Computation of net profit in accordance with section 198 and 349 of the Companies Act, 1956

(Rs. in lacs)

	2007-08	2006-07
Net Profit as per profit & loss account	12142.90	4256.56
Add:		
Managerial Remuneration Paid (including sitting fees paid to independent directors)	315.54	45.44
Depreciation Charged in the accounts	2213.83	2256.57
Provision for doubtful debts	23.05	NIL
Loss on sale of fixed assets	1.96	6.90
Total	**14697.28**	**6565.47**
Less:		
Depreciation as per section 350 of the Companies Act,1956	2213.83	2256.57
Profit on sale of assets	NIL	NIL
Excess provision of income tax written back	67.95	(4.81)
Net Profit as per section 349 of the Companies Act,1956	12415.50	4313.71
Maximum Remuneration payable @ 10% of net profit	1241.56	413.38
Maximum Remuneration payable @ 5% of net profit to each director	620.78	215.69

9. Payment to Auditor represents:

(Rs. in lacs)

	2007-08	2006-07
i) Audit Fees	4.00	3.00
ii) Taxation Matters	0.45	0.60
iii) Other Services	0.08	0.06
iv) Reimbursement of traveling and out of pocket exp.	1.38	0.69
v) Tax Audit Fees (paid to a firm in which the statutory auditor is partner)*	1.00	0.50
Total	**6.91**	**4.85**

*Net of service tax which is cenvatable and is accounted as and when paid.

10. (a) Investments purchased and sold during the year:

Sl. No.	Purchased Qty.	Sold Qty.	Nature	Name of Company
1	100	100	Equity Shares of Rs.10 each of	Can Fin Homes
2	2963	2963	Equity Shares of Rs.10 each of	DCM Shriram
3	10000	10000	Equity Shares of Rs.10 each of	Dena Bank
4	1000	1000	Equity Shares of Rs.10 each of	Essar Steel
5	1533	1533	Equity Shares of Rs.10 each of	Shakti Sugars
6	11000	11000	Equity Shares of Rs.10 each of	Sunflag Iron & Steel

11. There are no dues to Micro and Small enterprises as required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006. During the year the company has not paid any interest to any such enterprise. The above information has been determined to the extent such parties have been identified on the basis of the information available with the company and enquiries made with its suppliers. This has been relied upon by the Auditors.

12. Interest includes:

(Rs. in lacs)

	2007-08	2006-07
i) Interest on Term Loan and Debentures*	965.85	881.66
ii) Interest on others*	478.85	349.39
iii) Less: Interest received	234.15	484.38
Total	**1210.55**	**746.67**

* Net of interest Capitalized Rs. 649.12 lacs (Prev. year Rs.440.33 lacs)

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

13. Capacity, Production, Sales and Stock Particulars of each class of Goods (as certified by the Management):

a. Capacity and Production

	Items	Licensed	Unit	Installed	Production
i)	Steel Ingots / Runner Riser	N.A. N.A.	MT	40,000 (40,000)	24,327 (29,800)
ii)	Steel Billets	N.A.	MT	2,00,000 (1,00,000)	58,667 (30,979)
iii)	Sponge Iron	N.A. N.A.	MT	2,10,000 (2,10,000)	1,54,796 (1,39,283)
iv)	Iron Ore	N.A. N.A.	MT	N.A. N.A.	1,43,285 (1,52,713)
v)	Power	N.A.	MW/ KWH	48 MW (48 MW)	33,97,33,360 (32,94,44,218)
vi)	Ferro Alloys	N.A.	MT	66,000 (66,000)	56,910 (52,263)
vii)	Fly Ash Bricks, Blocks & Tiles	N.A.	Nos	6,000/Day (NIL)	16,93,145 (31,57,260)

b. Purchases and Sales Particulars

	Items	Unit	Purchases		Sales	
			Qty.	Amount Rs. in lacs	Qty.	Amount Rs. in lacs
i)	Steel Ingot / Runner & Riser	MT	(–) (–)	(–) (–)	23,037 (10,624)	5575.27 (2201.32)
ii)	Steel Billets	MT	(–) (–)	(–) (–)	49,525 (15,269)	13005.10 (3351.31)
iii)	Rolled products	MT	93 (3085)	25.86 (752.56)	13,200 (29,447)	4046.14 (7204.70)
iv)	Sponge Iron	MT	(–) (–)	(–) (–)	79,285 (82,180)	12571.57 (9493.61)
v)	By-products	MT	(–) (–)	(–) (–)	(–)	518.11 (451.90)
vi)	Ferro Alloys	MT	4353 (4000)	2398.39 (1186.40)	57,118 (55771)	31785.69 (17934.03)
vii)	Ferro Mn Slag	MT	2,968 (–)	192.30 (–)	6,470 (–)	786.20 (–)
viii)	Manganese Ore	MT	7,852	921.49	7,852	1668.20
ix)	Power	KWH	NIL (NIL)	NIL (NIL)	1,76,07,033 (2,29,57,289)	279.68 (453.78)
x)	Fly Ash Bricks, Blocks & tiles	Nos.	NIL (NIL)	NIL (NIL)	22,47,610 (4891748)	50.29 (85.58)

Notes:

1. Sale of Runner Riser is exclusive of 824 MT (Prev. year 673 MT) of Runner Riser consumed internally for manufacturing of Steel Ingots.
2. Rolled products obtained on conversion of steel ingots & billets through rerollers 14340 MT (Prev. year 26,630 MT).
3. Sale of Sponge Iron is exclusive of 76,046 MT (Prev. year 56,187 MT) of Sponge Iron consumed internally for manufacturing of Steel Ingots / Runner Riser & Billets.

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

Notes:

4. Sale of By-products includes sales of 47,659 MT (Prev. year 32,485 MT) of Iron Ore Fines, generated during production of Sponge Iron.
5. Sale of Ferro Alloys is exclusive of 1156 MT (Prev. Year 820 MT) consumed internally for manufacturing of Steel Ingots / Runner Risers and Billets.
6. Sale of Power includes 5,02,140 unit (Prev. Year 128509) units capitalized during the year.
7. Purchase of Ferro Manganese Slag and Manganese Ore does not include purchase made for self consumption which is included in the raw material.

c. Stock Particulars of Goods *(Rs. in lacs)*

	Items	Opening Stock		Closing Stock	
		Qty. (MTs)	Value	Qty. (MTs)	Value
i)	Steel Ingots / Runner Riser*	2217 (2373)	398.75 (449.95)	692 (2217)	152.07 (398.75)
ii)	Steel Billets*	7252 (962)	1335.70 (195.98)	2852 (7252)	608.64 (1335.70)
iii)	Rolled Products	– (61)	– (15.27)	(–) (–)	(–) (–)
iv)	Sponge Iron**	6849 (5877)	757.52 (634.22)	6313 (6849)	843.11 (757.52)
v)	Iron Ore (at mines)***	105029 (46180)	283.58 (124.69)	153710 (105029)	391.96 (283.58)
vi)	Ferro Alloys**	2316 (1824)	645.42 (572.25)	5305 (2316)	2977.32 (645.42)
vii)	Fly Ash Bricks, Block & Tiles		7.35 (29.66)		2.78 (7.35)

d. The Closing Stock of Steel Ingots includes 262 MT (Previous Year 370 MT) and of Steel Billets 758 MT (Prev. Year 2681 MT) out of material transferred for conversion to Rolled Products.

** Value includes value of By-products.

*** The stock of Iron Ore has been netted to arrive at Raw Material consumption.

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

14. Consumption of Important Raw Materials

	Items	2007-08			2006-07		
		Quantity (MT)	Value (Rs.) in lacs)	%	Quantity (MT)	Value (Rs.) in lacs)	%
(a)	**Indigenous**						
i)	Iron & Steel Scrap	18729	3067.61		15325	2122.35	
ii)	Iron Ore	323970	11832.92		289209	7043.64	
iii)	Manganese Ore	45638	3926.80		81150	3274.80	
iv)	Coal/Coke/Char Coal	583031	8935.20		603939	8069.58	
v)	Others	–	695.45		–	693.18	
	Total (A)		**28457.98**	**78.70%**		**21203.55**	**91.14%**
(b)	**Imported**						
i)	Manganese Ore	63098	5299.79		20359	1495.23	
ii)	Coke	16797	2175.77		5734	565.89	
iii)	Iron & Steel Scrap	1406	224.97				
	Total (B)		**7700.53**	**21.30%**		**2061.12**	**8.86%**

Notes:

1. Consumption of iron & steel scrap excludes consumption of 76,046 MT (Prev. year 56,187 MT) of Sponge Iron and 824 MT (Prev. year 673 MT) of Runner Riser produced internally.
2. Consumption of Iron Ore is inclusive of 47,971 MT (Prev. year 36,462 MT) of Iron ore fines generated during the production of Sponge Iron.
3. Consumption of Iron ore is inclusive of 73,918 MT (Prev. year 93,794 MT) Iron ore received from mines.

15. Foreign Exchange Earning & Outgo

(Rs. in lacs)

		2007-08	2006-07
(A)	CIF Value of Imports		
	Raw Materials	9974.51	1633.73
	Components & Spare Parts	35.61	25.76
	Capital Goods	2415.00	356.95
(B)	FOB Value of Exports (direct)	11233.37	4013.58
(C)	Expenditure in Foreign Currency		
	Machinery and components	1967.08	382.71
	Traveling Expenses	25.06	19.25
	Technical consultancy	20.65	21.25
	Raw Materials	6359.27	1633.73
	Ocean Freight	833.24	NIL
	Commission	2.32	NIL
	Others	16.23	NIL

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

16. Deferred Tax

The Company has estimated the deferred tax charge using the applicable rate of taxation and the same has been charged to Profit & Loss Account. Accordingly Deferred tax liability (Net) of Rs. 1939.98 lacs is disclosed under separate heading in the Balance Sheet as given below:

(Rs. in lacs)

Particulars	Deferred tax liability / (asset) as at 01.04.2007	Charges/ (Cedit) during the year	Deferred tax liability/(asset) as at 31.03.2008
On account of Time difference:			
Depreciation	1560.08	264.09	1824.17
Excise Duty on closing stock	159.61	8.69	168.30
Liability of Leave Salary	(11.29)	(5.75)	(17.04)
Liability of Amalgamation Exp		(35.45)	(35.45)
	1708.40	231.58	1939.98

17. Related Party Disclosure

I) Names of related parties and description of relationship:

Sl. No.	Description of Relationship	Names of Related Parties
1	Associates	Chhattisgarh Hydro Power Private Limited
		Parvatiya Power Private Limited
		Chhattisgarh Bricks Private Limited
2.	Related Enterprises where significant influence exist	Prachi Agriculture & Properties Private Limited
		R.R.Sarda & Company
		Sarda Agriculture & Properties Private Limited
		Madhya Bharat Power Corporation Limited
		Chhattisgarh Investments Limited
		Sarda Energy Limited
3	Key Management Personnel	Mr. Kamal Kishore Sarda
		Mr. Gopal Krishna Chhanghani
		Mr. Pankaj Sarda
		Mr. Ghanshyam Das Mundra
4	Relative of Key Management Personnel	Mrs. Shakuntala Devi Sarda
		Mrs. Uma Sarda
5	Joint Venture	Raipur Infrastructure Company Private Ltd.
		Madanpur South Coal Company Limited
6	Fully Owned Foreign Subsidiary	Sarda Energy & Minerals Hongkong Limited

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

II) Material Transactions with Related Parties (Amt. in lacs)

Particulars	Associates	Related Enterprises	Key Management Personnel	Relatives of Key Management Personnel	Joint Venture	Fully Owned Foreign Subsidiary
Sale of Goods		(–) (–)		(–) (–)	0.27 (2.61)	
Services Received					104.96 (8.76)	
Loans/Advances accepted		25.00 (1829.14)				
Loans/Advances Repaid		1093.92 (46.33)				
Loans/Advances Given	(–) (2.06)	4988.95 (923.99)				
Loans/ Advances Received Back	(–) (0.44)	(–) (335.90)				
Deposit Given					(–) (7.45)	
Deposit Received Back					(–) (7.65)	
Interest Paid/Provided		4.87 (44.76)				
Interest Received		8.27 (42.36)			(–) (2.48)	
Remuneration			70.81 (43.97)	(–) (8.71)		
Rent Paid		31.18 (8.40)		2.16 (2.16)		
Rent Received		(–) (–)				
Services Offered					3.00 (3.00)	
Corporate Guarantee Given					1096.04 (1096.04)	
Investments made	333.00 (63.50)				40.91 (152.09)	10.74 (–)
Outstanding as on 31.03.2008 Receivable		371.38 (379.02)		(–) (0.28)	(–) (28.04)	
Investments	1038.40 (658.50)	474.59 (–)			234.70 (136.96)	10.74 (–)
Share Application Money	(–) (36.90)				(–) (56.58)	
Payable	(–) (0.44)	(–) (1068.04)		(–) (0.01)	(–) (–)	

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

18. a) Interest in Joint Ventures:

Name of the Company	Proportion of ownership interest as on 31st March	
	2008	2007
i) Raipur Infrastructure Company Limited	33.33%	33.33%
ii) Madanpur South Coal Company Limited	24.91%	24.91%

b) The above joint venture companies are incorporated in India. The companies' share of the assets and liabilities as on 31st March, 2008 and income and expenses for the year ended on that date are given below which are based on unaudited figures of the joint venture companies.

(Rs. in lacs)

Particulars	As on 31st March	
	2008	2007
A. Assets		
Long term Assets	276.52	218.83
Short term Assets	132.87	68.29
Total	**409.39**	**287.12**
B. Liabilities		
Long Term liabilities	58.20	86.14
Current Liabilities and Provisions	30.52	5.29
Total	**88.72**	**279.37**
C. Contingent Liabilities	1096.04	1086.57
D. Capital Commitments	0.00	0.00
E. Income	101.08	19.71
F. Expenses	53.66	14.33

19. Earning Per Share

Particulars	Year ended 31.03.2008	Year ended 31.03.2007
Net Profit (Rs. in lacs)	12142.90	4256.65
Nominal Value of Equity Shares (Rs.)	10/-	10/-
Weighted average number of Equity Shares for Basic EPS	32517211	29571425
Basic Earnings per Share (Rs.)	37.34	14.39
Weighted average number of Equity Shares for Diluted EPS	32690493	29571425
Diluted Earnings per share (Rs.)	37.15	14.39

20. Provision for Contingencies - NIL

21. During the year the company has raised Rs 8500 lacs by issue of 44,73,684 equity shares of Rs 10/- each at a premium of Rs 180/- per share and Rs 50 lacs as 10% advance against issue of 2,63,158 equity warrants issued on preferential basis to persons other than promoters to part finance the expansion projects undertaken by the company and to augment long term resources of the company. The amount raised through the preferential issue has been utilized fully for the expansion projects going on.

22. In accordance with the Shareholder's Approval in the Extra Ordinary General Meeting of the company held on 24th July 2007 the company has, on a preferential basis issued and allotted to a person other than promoter group, 263158 warrants at Rs 190 per warrant ("warrant price") aggregating to Rs. 500.00 lacs, against which the company has received an amount equivalent to 10% of the warrant price i.e Rs. 19/- per warrant.

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

The said warrants are issued in accordance with the provision of Chapter XIII of SEBI (Disclosure and Investor Protection) Guidelines, 2000 and each warrant is convertible into one equity shares of Rs. 10/- each at a premium of Rs 180 per share on or before the expiry of 18 months from the date of their allotment in one or more trenches on exercising an option for this purpose. If the option is not exercised the 10% of the warrant price received shall be forfeited.

23) Segment Reporting

Segment information has been prepared in confirmity with the accounting policies adopted for preparing and presenting the financial statements of the company.

As part of secondary reporting, the company has no geographical segment by location.

A) Business Segment Primary

(Rs. in lacs)

	2007-2008			2006-2007		
	Steel	Ferro	Total	Steel	Ferro	Total
Revenue						
Sales & other income	30816.72	31338.49	62155.21	19724.35	16160.23	35884.58
Inter segment sales	952.92	593.67	1546.59	732.12	283.63	1015.75
Others Unallocated			822.86			1748.78
Total Revenue	31769.64	31932.17	64524.66	20456.47	16443.86	38649.11
Result						
Segment Result	5125.75	11047.96	16173.72	2933.64	3023.38	5957.02
Miscellaneous Income			157.20			1090.82
Unallocated Corporate Expenses			1211.75			1226.54
Operating Profit			15119.17			5821.30
Interest			1210.55			746.67
Profit Before Tax & Extraordinary Item			13908.63			5074.63
Add: Extra Ordinary Item			9.94			0.97
Provision for taxation						
For Current Year			(1594.33)			(547.01)
For Deffered Taxation			(231.58)			(247.63)
For Fringe Benefit Tax			(17.50)			(19.50)
Income Tax for Earlier years			67.95			(4.81)
Profit After Taxation			12143.10			4256.65
Other Information						
Segment Assets	32912.79	19973.95	52886.74	25898.63	6939.77	32838.40
Unallocated Assets			33910.34			15855.17
Total Assets			86797.07			48693.57
Segment Liabilities	1341.13	9058.02	10399.15	2117.09	2426.51	4543.60
Unallocated Liabilities			36194.42			23333.91
Total Liabilities			46593.57			27877.51
Capital Expenditure	7363.05	301.99	7665.04	5840.30	182.49	6022.79
Depreciation / Amortisation	910.76	490.51	1401.26	807.53	426.60	1234.13
Unallocated Capital Exp. & Depreciation			12402.10			4669.18
Non -cash Expenditure other than depreciation /(amortisation)			NIL			NIL

24. Previous year figures are shown in bracket and have been recast / regrouped / restated wherever necessary to make them comparable.

25. Information pursuant to part IV of schedule VI to the Companies Act 1956

Balance Sheet Abstract and Company's General Business Profile

I) Registration Details

Registration No	16617	State Code	11
Balance Sheet Date	31 (Date) 03 (Month) 2008 (Year)		

II) Capital Raised during the year *(Amount in Rs. Thousands)*

Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	850000

III) Position of Mobilisation and Deployment of Funds *(Amount in Rs. Thousands)*

Total Liabilities	7447295	Total Assets	7447295

Sources of Funds

Paid–up Capital	340451	Reserves & Surplus	3674899
Share warrants	5000		
Secured Loans	3189003	Unsecured Loans	43943
Deferred Tax Liability	193998		

Application of Funds

Net Fixed Assets	4645170	Investments	204485
Net Current Assets	2587655	Misc. Expenditure	9985

IV) Performance of the Company *(Amount in Rs. Thousands)*

Turnover	7028624	Total Expenditure	6527515
Profit Before Tax	1391836	Profit After Tax	1214290
Earning per share-Basic	37.34	Dividend Rate (%)	30%

V) Generic Names of Three Principal Products/Services of the Company (As per monetary Terms)

Item Code No. (ITC Code)	7203	**Product Description**	Sponge Iron
Item Code No. (ITC Code)	7207	**Product Description**	Steel Ingots / Billets
Item Code No. (ITC Code)	3322	**Product Description**	Ferro Alloys
Item Code No. (ITC Code)	98010003	**Product Description**	Thermal Power

Schedules 'A' to 'Q' annexed to and forming part of the Accounts

26. Statement pursuant to Section 212 of the Companies Act, 1956 in respect of the Subsidiary Company

Sl. No.	Particulars/Name of the Subsidiary Company		Sarda Energy & Minerals Hongkong Limited
1.	Financial year of the Subsidiary Company ended on	:	31st March, 2008
2.	Date from which it became Subsidiary Company	:	17th September, 2007 (Incorporation Date)
3.	Number of shares held by Holding Company in the Subsidiary Company	:	1000000 equity shares of HK$ 1 each, partly paid up
4.	Extent of holding of Sarda Energy & Minerals Ltd.	:	100%
5.	Net aggregate amount of profit (losses) of the subsidiary so far as they concern members of Sarda Energy & Minerals Ltd.		
a)	for the current financial year of the Subsidiary		
i)	Dealt with in the accounts of the Holding company	:	(HKD 1,99,964)
ii)	Not dealt with in the accounts of the Holding company	:	NIL
b)	for the previous financial years since it became Subsidiary		
i)	Dealt with in the accounts of the Holding company	:	NA
ii)	Not dealt with in the accounts of the Holding company	:	NA
6.	As the financial year of the subsidiary coincides with the financial year of the holding company, Section 212(5) of the Companies Act, 1956 is not applicable		

Signature to Schedule "A" to "Q"

As per my report of even date attached

M. M. Jain
Chartered Accountant

Place: Nagpur
Date: 27th June 2008

K. K. Sarda
Chairman &
Managing Director

G. K. Chhanghani
Executive Director

P. K. Jain
Company Secretary

Place: Raipur
Date: 27th June 2008

Consolidated Auditor's Report

TO THE BOARD OF DIRECTORS OF SARDA ENERGY & MINERALS LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF SARDA ENERGY & MINERALS LIMITED AND ITS SUBSIDIARY.

1) I have audited the attached consolidated balance sheet of SARDA ENERGY & MINERALS LIMITED (the "company"), as at 31st March, 2008, the Consolidated Profit and Loss Account for the year ended on that date, annexed thereto. The consolidated accounts include investments in associates accounted for on the equity method in accordance with Accounting Standard 23 (Accounting for Investments in Associates in consolidated financial statements) and in joint ventures, accounted as jointly controlled entities in accordance with Accounting Standard 27 (Financial Reporting of Interests in Joint Ventures). These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

2) I have conducted my audit in accordance with the auditing standards generally accepted in India. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

3) I have not conducted the audit of the financial statement of subsidiary whose financial statements reflect total assets (net) of Rs.41.03 lacs as at 31st March 2008, total revenues of Rs.NIL for the year ended on that date and Joint Ventures whose financial statements include the Company's share of assets (net) amounting to Rs 379.61 lacs as at 31st March 2008, the Company's share of revenues amounting to Rs 101.08 lacs for the year ended on that date as considered in the consolidated accounts

4) I report that the consolidated accounts have been prepared by the management in accordance with the requirements of Accounting Standard 21 (Consolidated Financial Statements), Accounting Standard 23 (Accounting for Investments in Associates in Consolidated Financial Statements) and Accounting Standard 27 (Financial Reporting of Interests in Joint Ventures) notified by the (Companies Accounting Standard) Rules, 2006

5) Based on my audit and consideration of report of other auditors on separate financial statements of the subsidiary and unaudited financial statements of Joint Ventures and Associates, I am of the opinion that the aforesaid consolidated accounts give a true and fair view in conformity with the accounting principles generally accepted in India:

   a. In the case of the Consolidated Balance Sheet of the consolidated state of affairs of the group as at March 31, 2008.

   b. In the case of the Consolidated Profit & Loss Account, of the consolidated profit of the group for the year ended on that date.

M. M. Jain
Place: Nagpur — *Chartered Accountant*
Dated: 27th June 2008 — Membership No. 05727

Consolidated Balance Sheet as at

(Rs. in lacs)

Particulars	Schedule	31.03.2008
I. SOURCES OF FUNDS		
1. Shareholders' Funds		
a) Share Capital	A	3439.92
b) Share Warrant		50.00
c) Reserves & Surplus	B	36789.97
		40279.89
2. Loan Funds		
a) Secured Loans	C	31943.07
b) Unsecured Loans	D	440.92
		32383.99
3. Deferred Tax Liability(Net)		**1943.65**
Total		**74607.52**
II. APPLICATION OF FUNDS		
1. FIXED ASSETS	E	
a) Gross Block		33315.14
b) Less : Depreciation/Amortisation		12162.17
c) Net Block		21152.97
d) Add : Capital Work in Progress		25576.02
		46728.98
2. Investments	F	1799.02
3. Current Assets, Loans & Advances		
a) Inventories	G	14988.84
b) Sundry Debtors	H	6798.86
c) Cash & Bank Balances	I	9929.90
d) Loans & Advances	J	6614.79
		38332.38
Less : Current Liabilities & Provisions		
a) Current Liabilities	K	11083.30
b) Provisions		1270.14
		12353.44
Net Current Assets		**25978.94**
4. Miscellaneous Expenditure		
(To the extent not written off or adjusted)		
Preliminary Expenses		1.46
Project Expenses		99.12
		100.58
Total		**74607.52**
Accounting policies and Notes to Account	Q	

As per my report of even date attached

M. M. Jain
Chartered Accountant

K. K. Sarda
Chairman &
Managing Director

G. K. Chhanghani
Executive Director

P. K. Jain
Company Secretary

Place: Nagpur
Date: 27th June 2008

Place: Raipur
Date: 27th June 2008

Consolidated Profit and Loss Account for the year ended

(Rs. in lacs except per share data)

Particulars	Schedule	31.03.2008
INCOME		
Sales (Gross)		70296.14
Less: Excise Duty		7804.49
Sales (Net)		62491.65
Other Income	L	496.32
Increase/(decrease) in Stocks	M	1086.53
Total		**64074.50**
EXPENDITURE		
Purchase of Trading Goods		3345.75
Raw Materials Consumed	N	36067.60
Stores & Spares Consumed		1372.32
Power		376.06
Payments & Other benefits to employees	O	1133.37
Manufacturing & Other Expenses.	P	4358.26
Other Taxes & Duties		1.63
		46654.98
Profit before Interest, Depreciation & Tax		17419.52
Interest (net)		1218.90
Depreciation / Amortisation		2231.22
Profit For The Year		13969.39
(Before Tax and Prior Period items)		
Add : Prior-Period Item		9.94
Profit Before Taxes		13979.33
Provision for Taxation		
Current Tax		(1615.35)
Deferred Tax		(234.43)
Fringe Benefit Tax		(17.50)
Total Tax		(1867.29)
		12112.04
Income Tax Related to Earlier Years		67.95
Profit After Taxes		**12179.99**
Balance brought forward from last year		11923.91
Profit Available For Appropriation		**24103.90**
Appropriations		
Proposed Dividend		1021.35
Dividend Distribution Tax		173.58
Transfer to Debenture Redemption Reserve		175.00
Transfer to General Reserve		1500.00
		2869.93
Surplus Carried to Balance Sheet		21233.97
Basic Earning Per Share (Rs)		37.46
Diluted Earning Per Share (Rs)		37.26
Accounting policies and Notes to Account	Q	

As per my report of even date attached

M. M. Jain
Chartered Accountant

Place: Nagpur
Date: 27th June 2008

K. K. Sarda
Chairman &
Managing Director

G. K. Chhanghani
Executive Director

P. K. Jain
Company Secretary

Place: Raipur
Date: 27th June 2008

Schedules 'A' to 'Q' annexed to and forming part of the Consolidated Accounts as at

(Rs. in lacs)

Particulars	31.03.2008
Schedule **A** **SHARE CAPITAL**	
Authorised	
3,50,00,000 Equity shares of Rs.10/- each	3500.00
Issued, Subscribed And Paid Up	
3,40,45,109 Equity shares of Rs.10/- fully paid up	3404.51
Share Application Money	35.41
Total	**3439.92**

Schedule **B** **RESERVES & SURPLUS**	
A. Capital Reserve	
Opening Balance	354.78
	354.78
B. Securities Premium Account	
Opening Balance	2088.62
Add : Recd During The Year	8054.85
	10143.47
C. General Reserve	
Opening Balance	1168.29
Add : Transfer from Profit	1500.00
Less : Amalgamation expenses	110.54
Closing Balance	2557.75
D. Debenture Redemption Reserve	
Opening Balance	2325.00
Add : Transfer from Profit	175.00
Closing Balance	2500.00
E. Profit And Loss Account	
Balance carried forward	21233.97
Total	**36789.97**

Schedule **C** **SECURED LOANS**	
(A) Debentures	
i) 500 - Secured Redeemable Non - Convertible	
Debentures of Rs 6 Lac each (P.Y. F.V. Rs.8 lac each)	3000.00
ii) 500 - 7.9% Secured Redeemable Non - Convertible	
Debentures of Rs. 4,37,500/- each (P.Y. F.V. Rs.6,87,500/- each)	2187.50
(B) Term Loan	
i) From Banks	19191.77
ii) From Financial Institutions	1665.00
iii) From others	36.36
	26080.63
(C) Working Capital & Demand Loans From Banks	5862.45
Total	**31943.07**

(Rs. in lacs)

Particulars	31.03.2008
Schedule D UNSECURED LOANS	
From Bodies Corporate	1.49
Sales Tax Defferment Account	439.43
Total	**440.92**

Schedule E FIXED ASSETS

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK
	As on 01.04.2007	Additions	Transfer/ Sales	As on 31.03.2008	Upto 01.04.2007	During the Year	Transfer / Adjustments	As on 31.03.2008	As on 31.03.2008
1. Free Hold Land	431.50	507.15	2.76	935.89	–	–	–	–	935.89
2. Lease Hold Land	218.65	27.75	–	246.40	3.09	0.24	–	3.33	243.07
3. Iron Ore Mines	459.91	3.00	–	462.91	35.05	17.11	–	52.16	410.74
4. Building	5,299.90	943.74	46.64	6,197.01	983.09	217.01	35.34	1,164.76	5,032.25
5. Plant & Machinery	22,290.70	1,968.59	79.54	24,179.75	8,477.83	1,840.79	10.72	10,307.90	13,871.85
6. Furniture, Fixture & Equipments	301.35	148.42	–	449.76	215.02	24.11	–	239.13	210.63
7. Vehicles	672.33	213.41	42.31	843.42	284.42	131.94	21.48	394.88	448.54
Total	**29,674.34**	**3,812.05**	**171.25**	**33,315.14**	**9,998.50**	**2,231.22**	**67.54**	**12,162.17**	**21,152.97**
Capital Work in Progress (Including Advances for Capital Expenditure and Stock of Capital Items)				25,575.99					25,575.99

Particulars	31.03.2008
Schedule F INVESTMENTS	
Investment in Associates	
Equity Shares & Share Application Money	1038.40
Less: Goodwill on acquisition of Associates	–
Add: Adjustment for post–acquisition share of profit and reserves of Associates	
Total (A)	**1038.40**
Other Investments	
Equity Shares & Share Application Money	760.62
Total (B)	**760.62**
Total (A) + (B)	**1799.02**

Schedules 'A' to 'Q' annexed to and forming part of the Consolidated Accounts as at

(Rs. in lacs)

Particulars	31.03.2008
Schedule G INVENTORIES	
(As certified by the management)	
Stores and Spares	947.18
Raw materials	9457.73
Finished goods	4583.93
Total	**14988.84**

Schedule H SUNDRY DEBTORS	
Exceeding six months	292.65
Other Debts	6534.84
	6827.49
Less : Provision for Doubtful Debts	28.64
TOTAL (Unsecured and considered good)	**6798.86**

Schedule I CASH AND BANK BALANCES	
Cash in hand	36.28
Balance with Scheduled Banks	9893.61
Total	**9929.90**

Schedule J LOANS AND ADVANCES	
(Unsecured and considered good)	
Loans to Employees	9.09
Advances recoverable in cash or in kind or for value to be received:	
To Suppliers net of Doubtful Advances	4296.64
To others	1303.77
Cenvat Credit & PLA (unutilised)	513.81
Security and other deposits	205.93
Income-tax advance and TDS (Net of provision)	285.54
Total	**6614.79**

Schedule K CURRENT LIABILITIES & PROVISIONS	
Current Liabilities	
Sundry Creditors	8646.46
Other liabilities	930.94
Interest accrued but not due	7.42
Unclaimed Dividend	27.39
Advances and deposits	1471.10
	11083.30
Provisions	
For Income Tax (Net of Advance Tax)	75.21
For Proposed Dividend	1021.35
For Tax on dividend	173.58
	1270.14
Total	**12353.44**

(Rs. in lacs)

Particulars	31.03.2008
Schedule L OTHER INCOME	
Miscellaneous Income	52.36
Profit on Sale of Shares	118.44
Duty Exempted Pass Book Claim	279.67
Dividend	37.35
Rent	3.69
Sundry balances written back (Net)	4.79
Total	**496.32**
Schedule M INCREASE/(DECREASE) IN STOCKS	
Closing Stock of Finished Goods	4583.93
Opening Stock of Finished Goods	3144.77
Excise duty on Increase/(Decrease) in Stock of finished Goods	352.64
Total	**1086.53**
Schedule N RAW MATERIAL CONSUMED	
Opening Stock	2341.51
Add: Purchases	42809.50
Add: Cost of Material Produced (Mining expenses)	374.31
	45525.33
Less: Closing Stock	9457.73
Total	**36067.60**
Schedule O PAYMENTS AND OTHER BENEFITS TO EMPLOYEES	
Salaries, Wages, Bonus and Other allowances	1032.28
Staff Welfare expenses	27.65
Contribution to Provident and other funds	73.45
Total	**1133.37**

(Rs. in lacs)

Particulars	31.03.2008
Schedule P MANUFACTURING AND OTHER EXPENSES	
Plant Operation Expenses	457.46
Travelling and Conveyance	129.79
Rents, rates and taxes	49.70
Insurance	81.39
Repairs and Maintenance to -	
Building	32.16
Plant and Machinery	373.24
Others (including vehicles)	41.75
Conversion Charges	401.53
Bank charges and commission	218.71
Carriage outwards	1670.21
Selling Commission and Brokerage	130.28
Professional & legal charges	106.09
Loss on sale of Fixed Assets	1.96
Establishment and other Expenses	318.95
Charity & Donation	13.54
Directors remuneration	288.99
Provision for Doubtful Debts	23.05
Irrecoverable balances and bad debts written off(net)	12.24
Payment to Auditors	7.23
Total	**4358.26**

Schedules 'A' to 'Q' annexed to and forming part of the Consolidated Accounts

Schedule Q ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

I) SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

The accounts of the Group are prepared under the historical cost convention using the accrual method of accounting in accordance with the generally accepted accounting principles in India, mandatory accounting standards as specified in the Companies (Accounting Standards) Rules, 2006 and the relevant provisions of the Companies Act, 1956.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent liabilities as at the date of financial and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

3. Fixed Assets

Fixed Assets are stated at cost net of CENVAT and VAT Credit less accumulated depreciation/amortization. Cost includes interest on specific borrowings and other funds utilised during construction and all other expenditure and costs incurred on development and construction.

4. Impairment of Fixed Assets

The carrying amount of the Group's fixed assets is reviewed at each balance sheet date. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its

Schedule Q **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on an appropriate discount factor. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. However, the increase in carrying amount of an asset due to reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

5. Depreciation / Amortization

Depreciation in respect of Building and Plant & Machinery pertaining to Steel Division, and Oxygen Gas Division of Holding Company are provided on Straight Line Method and on all other assets including vehicles & office equipments on Written Down Value method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956.

Mining Rights and expenditure incurred on development are amortised over useful life of the mines or lease period whichever is shorter.

Leasehold lands are amortised over the period of lease.

6. Investments

Long term investments are stated at cost. Current investments are stated at lower of cost and fair value determined by category of investment.

7. Valuation of Inventories

Inventories are valued as under:

i)	Stores and Spares	:	At cost net of CENVAT & VAT on weighted average basis or net realizable value whichever is lower.
ii)	Raw Materials	:	At cost net of CENVAT & VAT, (on FIFO basis in case of Steel Division and on weighted average basis in case of Ferro and Power Divisions) or net realizable value whichever is lower.
iii)	Finished Goods	:	At lower of cost and net realisable value.

8. Borrowing Cost

Borrowing costs that are directly attributable to the acquisition, construction of a qualifying asset are capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization is determined in accordance with Accounting Standard 16 (AS 16) on "Borrowing Costs". Other borrowing costs are recognized as an expense in the period in which they are incurred.

9. Employee Benefits

Group's contribution to Provident Fund is charged to Profit & Loss Account on accrual basis. The liability of gratuity is covered under group gratuity scheme. The Holding Company contributes the ascertained gratuity liability based on defined benefit, to the approved Gratuity Trust which is charged to revenue on accrual basis.

The liability for encashable leaves as estimated is provided on accrual basis.

During the year the Holding Company has made provision for customary benefits payable to employees for the year as per revised Accounting Standard 15 (AS 15) on "Employee Benefits" which was earlier accounted for on cash basis. As a result of change in accounting policy the profit for the year and revenue reserves as on 31st March 2008 are reduced to the extent of Rs. 40.72 lacs.

10. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

Schedule Q **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS**

Sale of Goods

Sale is recognised, on dispatch of goods to customers and includes excise duty and exchange fluctuation thereof arising during the year relating to exports but excludes value added tax. Excise Duty to the extent included in the gross turnover is deducted to arrive at the net turnover. Excise duty incurred on stocks on the balance sheet date is disclosed separately and adjusted with changes in stock of finished goods in the profit & loss account.

Interest

Interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable

Dividends

Revenue is recognised when the shareholder's right to receive the payment is established by the balance sheet date.

11. Foreign Currency Transactions

a) Year end balance of foreign currency transactions except transactions covered by Forward Foreign Exchange contracts is translated at the year end rates and the corresponding effect is given in the respective accounts. Transactions completed during the year are adjusted on actual basis.

b) In respect of transactions covered by Forward Foreign Exchange contracts, the difference between the forward rate and exchange rate at the inception of contract is recognised as income or expense over the life of the contract.

c) Exchange fluctuation arising out of conversion of liabilities pertaining to long term Loans for fixed assets acquired from a country outside India are charged to profit and loss account except to the extent that they are regarded as an adjustment to the interest cost during the period of construction as per Accounting Standard 16 (AS 16) on "Borrowing Costs". Till earlier years the Holding Company had a policy of recognizing foreign exchange fluctuation loss from long term loans for fixed assets acquired from a country outside India as an adjustment in the carrying cost of fixed assets. As a result of change in accounting policy the Profit for the year and Reserves as on 31st March 2008 are reduced to the extent of Rs 69.72 lacs.

12. Taxes on Income

Current Tax is determined as the amount of income tax (including MAT) payable in respect of taxable income and FBT payable for the year are calculated as per the provisions of the Income Tax Act, 1961

Deferred tax is recognized subject to consideration of prudence, on timing differences between the taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets arising on account of unabsorbed depreciation or carry forward of tax losses are recognized only to the extent there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax can be realized.

13. Capital Work in Progress / Project Expenses

Projects under commissioning including other capital work in progress are carried at cost, comprising direct cost, related incidental expenses, attributed cost and advances for capital goods. Expenses incurred on exploration of new projects are capitalized in the relevant project on materialization. If project is dropped, the expenditure incurred till date is charged to Profit & Loss Account.

14. Earnings per Share

Basic EPS is computed by dividing the consolidated net profit or loss for the year by the weighted average number of equity shares of the Holding Company outstanding during the year. Diluted EPS is computed by dividing the consolidated net profit or loss for the year by the weighted average number of equity shares of the Holding Company outstanding during the year as adjusted for the effects of all potential equity shares, except where the results are anti-dilutive.

15. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term investments with an original maturity of three months or less.

16. Basis of consolidation

(A) The Consolidated Financial Statements comprise the individual financial statements of Sarda Energy & Minerals Limited, its Wholly Owned Foreign Subsidiary, jointly controlled entities and associates as on March 31, 2008 and for the year ended on that date. The Consolidated Financial Statements have been prepared on the following basis:

i. The Financial Statements of the Company and its subsidiary have been consolidated on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating intra group balances and intra group transactions resulting in unrealized profits or losses as per Accounting Standard 21 on 'Consolidated Financial Statements' as notified by the Companies (Accounting Standard) Rules, 2006. The assets and liabilities of foreign subsidiary are translated at year end exchange rates and all other items in Profit and Loss Account are translated at the average annual rate. The resultant gain and losses are shown separately as Foreign Currency Translation Reserve under Reserves and Surplus.

ii. The Financial Statements of jointly controlled entities have been considered on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating intra group balances and intra group transactions resulting in unrealized profits or losses as per Accounting Standard 27 on 'Financial Reporting of Interests in Joint Ventures' as notified by the Companies (Accounting Standard) Rules, 2006 using the proportionate consolidation method.

iii. The Company's investments in associates are accounted under the equity method and its share of pre-acquisition profits / losses is reflected as Capital Reserve / Goodwill in the carrying value of investments in accordance with Accounting Standard 23 on 'Accounting for Investments in Consolidated Financial Statements' as notified by the Companies (Accounting Standard) Rules, 2006.

iv. The Financial Statements of the subsidiary, the jointly controlled entities and the associates used in the consolidation are drawn up to the same reporting date as that of the company i.e. March 31, 2008.

(B) i. The Financial Statements of the Wholly Owned Subsidiary "SARDA ENERGY & MINERALS HONGKONG LIMITED" incorporated in Hong Kong have been consolidated as per Accounting Standard 21 on 'Consolidated Financial Statements' as notified by the Companies (Accounting Standard) Rules, 2006.

ii. The Financial Statements of the following jointly controlled entities have been incorporated as per Accounting Standard 27 on 'Financial Reporting of Interests in Joint Ventures' as notified by the Companies (Accounting Standard) Rules, 2006. All the jointly controlled entities are incorporated in India.

Name of jointly controlled entity	Proportion of ownership interest (%)
Raipur Infrastructure Company Ltd.	33.33
Madanpur South Coal Company Ltd.	24.91

The following amounts are included in the Financial Statements in respect of the jointly controlled entities referred to in note (ii) above, based on the proportionate consolidation method.

Schedule Q **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

(Rs. in lacs)

Particulars	Current Year
A. Assets	
Fixed Assets	276.52
Current Assets	132.87
Total	**409.39**
B. Liabilities	
Long Term liabilities	58.20
Current Liabilities and Provisions	30.52
Total	**88.72**
C. Contingent Liabilities	1096.04
D. Capital Commitments	0.00
E. Income	101.08
F. Expenses	53.66

iii. The Holding Company has investments in the following associates which are accounted for on the equity method in accordance with Accounting Standard 23 on 'Accounting for Investments in Associates in Consolidated Financial Statements' as notified by the Companies (Accounting Standard) Rules, 2006.

Name of Associates	Proportion of ownership interest (%)
Parvatiya Power Pvt. Ltd.	48
Chhattisgarh Hydro Power Pvt. Ltd.	50
Chhattisgarh bricks Pvt Ltd	40

II) NOTES TO ACCOUNTS

1. Estimated amount of contracts remaining to be executed on Capital Account, net of advance given – Rs.4983.86 lacs.

2. Contingent Liabilities not provided for in respect of:

i) Guarantee given by Group's bankers – Rs.1587.51 lacs

ii) Outstanding Letters of Credit – Rs.14289.11 lacs

iii) Bills discounted with the Group's bankers under Letters of Credit – Rs.1725.85 lacs

iv) Claim against the Group not acknowledged as debt & disputed in appeal – Rs.37.11 lacs

v) Excise Duty & Service Tax

a) Excise duty demand of Rs. 20.56 lacs (prev. year Rs. 20.56 lacs) raised on account of modvat credit availed, which the holding company has disputed in High Court

b) Excise Duty demand of Rs. 7.62 lacs (prev. year Rs. 7.83 lacs) raised on account of modvat credit availed which the holding company has disputed and has filed appeal with Commissioner Appeals, Raipur.

c) Excise Duty demand of Rs.168.09 lacs (prev. year Rs.126.85 lacs) raised on account of sale of electricity, which the holding company has disputed and has already received stay from CESTAT.

d) Service Tax Credit disallowed by Commissioner (Appeals) Rs. 9.38 lacs (prev. year- 9.38 lacs), for which the holding company has filed an appeal with CESTAT.

vii) Commercial Tax/Entry Tax

Sales Tax / Entry Tax demand (Net of amount already deposited) of Rs.16.35 lacs (prev. year Rs. 5.84 lacs) are pending in appeal against assessment of various years.

Schedule Q **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

viii) Income Tax

Income tax demand of Rs.11.78 lacs (Prev. year Rs. 15.82 lacs) with respect to erstwhile CECL for the financial year 2003-04 which has been set aside / decided in favour of the Holding company by the Income Tax Appellate Tribunal (ITAT). The Income Tax Department's appeal before the ITAT is yet to be decided.

The Commissioner of Income Tax has set aside income tax assessments of erstwhile Chhattisgarh Electricity Company Ltd. for the financial years 2002-03 to 2004-05 under section 263 of the Income Tax Act, 1961. The Holding company has been advised by legal expert that the reopening of the assessments is illegal and accordingly the Holding company has challenged the action before ITAT. Quantum cannot be ascertained for want of reassessment of the set aside assessment orders.

The Income Tax Department has filed an appeal before the Hon'ble High Court of Chhattisgarh against the decision of ITAT in relation to the income tax assessment of erstwhile Raipur Gases Pvt. Ltd. with regard to the allowability of interest expenses of Rs. 33.31 lacs as revenue expenditure in place of capital expenditure and calculation of relief under section 80I of the Income Tax Act, 1961 for the assessment year 1992-93.

ix) Energy development cess of Rs. 773.13 lacs demanded by the Chief electrical Inspector, Govt. of Chhattisgarh for the period May 2006 to September 2007. The Honorable High Court of Chhattisgarh has held the levy of cess as unconstitutional vide its order dated 20th June 2008.The State Govt. has filed a Special Leave Petition before the Hon'ble Supreme Court.

x) Electricity duty of Rs. 699.45 lacs demanded by the Chief Electrical Inspector for the period 22nd July 2006 to 31st March 2008. The Holding company is eligible for exemption from electricity duty for a period of 15 years starting from 22nd July 2001. The Holding company's application for exemption is under consideration of the State Govt.

3. Deferred Tax

The liability for deferred tax has been estimated using the applicable rate of taxation and the same has been charged to Profit & Loss Account. Accordingly Deferred tax liability (Net) of Rs. 1943.64 lacs is disclosed under separate heading in the Balance Sheet as given below:

(Rs. in lacs)

Particulars	Deferred tax liability / (asset) as at 01.04.2007	Charges/ (Cedit) during the year	Deferred tax liability/(asset) as at 31.03.2008
On account of Time difference:			
Depreciation	1560.89	266.94	1827.83
Excise Duty on closing stock	159.61	8.69	168.30
Liability of Leave Salary	(11.29)	(5.75)	(17.04)
Liability of Amalgamation Exp		(35.45)	(35.45)
	1709.21	234.43	1943.64

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

4. Related Party Disclosure

I) Names of related parties and description of relationship:

Sl. No.	Description of Relationship	Names of Related Parties
1.	Related Enterprises where significant influence exist	Prachi Agriculture & Properties Private Limited
		R.R.Sarda & Company
		Sarda Agriculture & Properties Private Limited
		Madhya Bharat Power Corporation Limited
		Chhattisgarh Investments Limited
		Sarda Energy Limited
2	Key Management Personnel	Mr. Kamal Kishore Sarda
		Mr. Gopal Krishna Chhanghani
		Mr. Pankaj Sarda
		Mr. Ghanshyam Das Mundra

II) Material Transactions with Related Parties

(Rs. in lacs)

Particulars	Related Enterprises	Key Management Personnel	Relatives of Key Management
Sale of Goods	(–) (–)		(–) (–)
Loans/Advances accepted	25.00 (1829.14)		
Loans/Advances Repaid	1093.92 (46.33)		
Loans/Advances Given	4988.95 (923.99)		
Loans/Advances Received Back	(–) (335.90)		
Interest Paid/Provided	4.87 (44.76)		
Interest Received	8.27 (42.36)		
Remuneration		70.81 (43.97)	(–) (8.71)
Rent Paid	31.18 (8.40)		2.16 (2.16)
Outstanding as on 31.03.2008			
Receivable			
	371.38 (379.02)		(–) (0.28)
Investments	474.59 (–)		
Payable	(–) (1068.04)		(–) (0.01)

Schedule **Q** **ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** *(CONTD.)*

5. Earning Per Share

(Rs. in lacs)

Particulars	Year ended 31.03.2008
Net Profit (Rs. in lacs)	12179.99
Nominal Value of Equity Shares (Rs.)	10/-
Weighted average number of Equity Shares for Basic EPS	32517211
Basic Earnings per Share (Rs.)	37.46
Weighted average number of Equity Shares for Diluted EPS	32690493
Diluted Earnings per share (Rs.)	37.26

6. Since the consolidated financial statements of the Group have been drawn up for the first time, Cash Flow Statement has not been drawn and Previous year figures have not been given as per transitionary provisions of the Accounting Standard 21 on 'Consolidated Financial Statements'.

Signature to Schedule 'A' to 'Q'

As per my report of even date attached

M. M. Jain
Chartered Accountant

Place: Nagpur
Date: 27th June 2008

K. K. Sarda
Chairman &
Managing Director

G. K. Chhanghani
Executive Director

P. K. Jain
Company Secretary

Place: Raipur
Date: 27th June 2008

Directors' Report

The directors have pleasure to present their first report together with the audited financial statements of the Company for the period from 17 September 2007 (Date of Incorporation) to 31 March 2008.

Principal activities

The Company commenced its business in October 2007 and engaged in trading of mineral resources since then.

Results and appropriations

The results of the Company for the period and the state of the Company's affairs as at that date are set out in the financial statements on pages 3 to 12. The directors do not recommend the payment of a dividend.

Equipment and fixtures

The details of movement during the period are set out in note 7 to the financial statements.

Directors

The directors who held office during the period and up to the date of this report were,

Mr. Manish Sarda - appointed on 17.9.2007
Mr. Pankaj Sarda - appointed on 23.11.2007

Pursuant to the Company's Articles of Association, the directors are not subject to rotation or retirement, and therefore the directors shall continue to remain in office.

Directors' interests in contracts

The details of directors' interest in contract during the period are set out in note 12 to the financial statements. Apart from the above, no contract of significance to which the Company, any of its fellow subsidiaries or its holding company was a party and in which any director had a material interest, subsisted at the end of the period or at any time during the period.

Arrangement to purchase share or debenture

At no time during the period was the Company, any of its fellow subsidiaries or its holding company, a party to any arrangement to enable the directors of the Company to acquire benefit by means of the acquisition of share in or debenture of the Company or any other body corporate.

Auditor

The financial statements have been audited by Messrs. LKY China, who offer themselves for re-appointment.

On behalf of the Board

Hong Kong,
14 June 2008

Manish Sarda
Chairman

Independent Auditor's Report

To the Shareholder of SARDA ENERGY & MINERALS HONG KONG LIMITED
沙達能源礦物香港有限公司
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of SARDA ENERGY & MINERALS HONG KONG LIMITED set out on pages 3 to 12 which comprise the balance sheet as at 31 March 2008, and the income statement, statement of changes in equity and cash flow statement for the period from 17 September 2007 to 31 March 2008, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2008 and of its loss and cash flows for the period then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

LKY China
Certified Public Accountants (Practising)

Hong Kong,
14 June 2008

Income Statement For the period from 17 September 2007 (Date of Incorporation) to 31 March 2008

HK$

	Note	31.03.2008
Operating expenses		(199,964)
Loss before tax	5	(199,964)
Income tax expense	6	–
Loss for the period		**(199,964)**

The notes on pages 7 to 12 are part of these financial statements.

Balance Sheet As at 31 March 2008

	Note	HK$
Non-current assets		
Equipment and fixtures	7	14,475
Current assets		
Account and other receivables	8	801,140
Cash and cash equivalents		19,278
		820,418
Current liabilities		
Accrued charges		34,857
Net current assets		785,561
Net assets		**800,036**
Capital and reserves		
Share capital	9	1,000,000
Loss for the period		(199,964)
Shareholders' fund		**800,036**

The financial statements were approved and authorized for issue by the Board of Directors on 14 June 2008

Manish Sarda
Director

Pankaj Sarda
Director

The notes on pages 7 to 12 are part of these financial statements.

Statement of Changes in Equity For the period from 17 September 2007 (Date of Incorporation) to 31 March 2008

	Share capital HK$	Accumulated Losses HK$	Total HK$
Issue of new shares	1,000,000	–	1,000,000
Loss for the period	–	(199,964)	(199,964)
Balance as at 31 March 2008	**1,000,000**	**(199,964)**	**800,036**

The notes on pages 7 to 12 are part of these financial statements.

Cash Flow Statement For the period from 17 September 2007(Date of Incorporation) to 31 March 2008

HK$

	31.03.2008
Cash flows from operating activities	
Loss before tax	(199,964)
Adjustments for	
Depreciation	4,825
Bank charges	1,610
Operating loss before movements in working capital	(193,529)
Increase in account and other receivables	(801,140)
Increase in accrued charges	34,857
Cash used in operations	(959,812)
Bank charges	(1,610)
Net cash used in operating activities	**(961,422)**
Cash flows from investing activities	
Purchase of equipment and fixtures	(19,300)
Net cash used in investing activities	(19,300)
Cash flows from financing activities	
Issue of new shares	1,000,000
Net cash generated from financing activities	**1,000,000**
Net increase in cash and cash equivalent and at 31 March	19,278

The notes on pages 7 to 12 are part of these financial statements.

1. **General information**

The Company is a private company domiciled and incorporated in Hong Kong with limited liability. Its immediate and ultimate holding company is Sarda Energy & Minerals Limited incorporated in India and their financial statements are available for public use. The addresses of the registered office and principal place of business of the Company are 5/F, Dah Sing Life Building, 99-105 Des Voeux Road Central, Hong Kong. The principal activities of the Company are engaged in trading of mineral resources. The functional currency of the Company is United State dollars, but its financial statements are presented in Hong Kong dollars as the Company is registered in Hong Kong.

2. **Adoption of new and revised Hong Kong Reporting Standards**

At the date of the authorisation of these financial statements, there are a number of Hong Kong Financial Reporting Standards ("HKFRS") newly issued or revised by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), but not yet effective for this accounting year and which have not been adopted in these financial statements. The directors of the Company anticipate that the application of these HKFRS world have no material effect on how the results for future periods would be prepared and presented.

3. **Basis of preparation and significant accounting policies**

The financial statements have been prepared on the historical cost basis and in accordance with HKFRS issued by the HKICPA, including applicable disclosures required by the Hong Kong Companies Ordinance.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the respective notes, if appropriate.

The followings are the specific accounting policies that are necessary for a proper understanding of the financial statements,

a. **Equipment and fixtures**

Equipment and fixtures are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent expenditure relating to equipment and fixtures that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. If not, the expenditure is treated as an expense in the period in which it is incurred.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives on a straight line basis.

b. **Trade and other receivables**

At each balance sheet date, the Company assesses whether there is any objective evidence that a receivable or group of receivables is impaired. Impairment losses on trade and other receivables are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition.

c. **Cash and cash equivalents**

Cash comprises cash on hand and at bank and demand deposits with bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

d. **Trade and other payables**

Trade and other payables are initially measured at fair value and, after initial recognition, at mortised cost, except for short-tem payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount.

e. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

f. Revenue recognition

Rental income from operating leases, including charges for management maintenance and is recognized on a straight line basis over the period of the lease.

g. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

h. Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

4. Financial risks and management

The Company is exposed to various kinds of risks in its operation and financial instruments. The Company's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the Company by closely monitoring the individual exposure as follows:

a. Currency risk

The Company purchases and sells in various foreign currencies, mainly US dollars, that exposes it to foreign currency risk arising from such purchases and sales and the resulting receivables and the payables. The Company closely and continuously monitors the exposure as HK dollars is pegged to US dollars, there is no significant exposure expected on US dollars transactions and balances.

b. Credit risk

The Company has no concentrations of credit risk. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history world accumulates a higher credit limit. In addition, overseas customers would normally be required to transact with the Company by letter of credit in order to minimise the Company's credit risk exposure.

c. Liquidity risk

The Company manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Various banking facilities and credit lines have also been arranged with different banks in order to fund any emergency liquidity requirement.

5. Loss before tax

The loss before tax is arrived at after charging the following items,

	HK$
Directors' remuneration	
– directors' fee	–
– salaries and allowance	–
	–
Staff cost	
– salaries and allowances	64,165
Auditor's remuneration	5,000
Depreciation	4,825
Hire of premises under operating leases	52,705
Preliminary expenses written off	6,030

6. Income tax expense

a. Income tax in the income statement,

No provision for Hong Kong profits tax for the period has been made in the financial statements as the Company sustained a loss for taxation purpose.

b. Reconciliation between tax charge and accounting loss at applicable tax rates,

	HK$
Loss before tax	(199,964)
Tax at the domestic income tax rate of 17.5%	(34,994)
Tax effect of expenses not deductible in determining taxable profit	1,055
Utilization of deferred tax assets not recognized (Note 10)	(2,176)
Tax effect of unused tax loss not recognized (Note 10)	36,115
	–

7. Equipment and fixtures

	Office equipment HK$	Furniture and fixture HK$	Total HK$
Cost			
Addition during the period and as at 31.03.2008	13,190	6,110	19,300
Aggregate depreciation			
Charge for the period and as at 31.03.2008	3,297	1,528	4,825
Carrying value			
As at 31.03.2008	9,893	4,582	14,475

Depreciation is calculated on the straight line basis at the annual rate of 25%.

8. Account and other receivables

	HK$
Utility deposits and prepayment	54,430
Amount due from holding company	746,710
	801,140

The amount due from holding company is unsecured, interest free and repayable on demand. In the opinion of directors, no provision for recoverability is required for non-repayment of the amount due.

9. Share Capital

	HK$
Authorized, issued and fully paid,	
1,000,000 ordinary shares of HK$1 each	1,000,000

On incorporation, 10,000 ordinary shares were issued as subscriber's shares. Pursuant to a written resolution signed by the sole member dated 23 November 2007, the authorised share capital of the Company was increased from $10,000 to $1,000,000 by the creation of 990,000 ordinary shares of $1 each. The new shares rank pari passu in all respects with the existing shares. On the same date, 990,000 ordinary shares were issued at par for cash to increase the working capital of the Company.

10. Deferred tax liabilities

The principal components of the Company's provision for deferred tax is as follows,

	Accelerated tax depreciation HK$	Tax losses HK$	Total HK$
Charge/(credit) to income for the year (note 6) and at 31 March 2008	2,176	(36,115)	(33,939)

11. Operating lease commitment

At 31 March 2008, the Company's total future minimum leases payment under non-cancellable operating leases of premises are payable as follows,

	HK$
Within one year	34,003

12. Material related party transactions

All the details of transactions and balances between the Company and related parties are disclosed elsewhere in the financial statements.

“Coming together is a beginning;
keeping together is progress;
working together is success.”

Henry Ford

Corporate information

Board of Directors

Mr. K. K. Sarda,
Chairman & Managing Director

Mr. G. K. Chhanghani,
Executive Director

Mr. Pankaj Sarda,
Whole time Director

Mr. G. D. Mundra,
Whole time Director

Mr. P. R. Tripathi

Mr. Rakesh Mehra

Mr. A. K. Basu

Mr. G.S. Sahni

Chief Financial Officer-cum-Company Secretary

Mr. P. K. Jain

Auditor

Mr. M. M. Jain,
Chartered Accountant
Shreemohini, Kingsway, Nagpur

Bankers

Union Bank of India

Bank of Baroda

UCO Bank

Axis Bank Limited

Registrar & Share Transfer Agent

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