

STYLE & SUBSTANCE



CAUTIONARY 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 realised, 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 materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

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



CONTENTS

Style & substance 01 Various facets 12 Mission and milestones 14 Profile of the Board of Directors 16 Chairman's overview 18 Management's discussion & analysis 20 Risk management 26 Financial growth over the years 31 Financial ratios 32 Directors' report 34 Corporate governance report 38 General shareholder information 45 Auditors' report 48 Balance sheet 50 Profit and loss account 51 Schedules to financial statements 52 Cash flow statement 66 Corporate information 67

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STYLE & SUBSTANCE

In Vedic India, a king commanded his aura from the gold on his body. A queen became the stuff of legends from the shine of her necklace.

Crafted painstakingly across the years by a celebrated court jeweller.

Years passed. Empires tumbled. Kings changed. Court jewelers didn't.

They guarded their expertise. And passed it from one craft-owning generation to another.

Vaibhav Gems in tradition-rich Rajasthan is proud to have inherited this hallowed centuries-old legacy.

With one difference. The company has married its craft with the contemporary, the rich with the relevant. Migrating from the protected to the public, the handful to the hundreds.

Helping extend the values of the ages across a wider range of jewellery, preferences, customers and geographies.

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STRATEGY

THE RATIONALE FOR A PRESENCE IN ANY BUSINESS IS INFLUENCED BY ITS SCOPE FOR SUSTAINABLE GROWTH, A NATURAL COMPETENCE, AVAILABLE INFRASTRUCTURE AND AN OPPORTUNITY TO PROTECT COMPETITIVENESS THROUGH SUPERIOR KNOWLEDGE.



Vaibhav Gems has emerged as one of India's largest organised jewellery-making entities with its products enjoying a presence in some of the most prestigious retail stores in the world. As an extension, the company's export revenues grew 29.92 per cent CAGR over a three year time frame.

At Vaibhav Gems, the decision to enter the gemstones and jewellery business has been patiently derived from the following drivers:

- A centuries-old tradition in jewellery craft running through the region of its presence.
- A wage structure that is among the most competitive in the world.
- A presence in the medium value jewellery segments, where ever-changing fashion trends create ongoing opportunities.
- A progressive migration to the higher end of the market.
- The availability of manufacturing facilities in Export Promotion Industrial Parks to avail of significant tax and duty benefits on imports, coupled with tax breaks for exports.
- An acquisition-led industry consolidation exercise resulting in enhanced economies of scale.
- The prudent financing of expansion plans through internal accruals.



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INTEGRATION

SUCCESS IN ANY BUSINESS IS DERIVED FROM AN ABILITY TO MINIMISE
THE GAP BETWEEN THE ONE WHO UNDERSTANDS THE CONSUMER'S MIND,
THE ONE WHO DESIGNS WHAT THE CUSTOMER WANTS
AND THE ONE WHO CREATES, RESULTING IN A NEAR SEAMLESS INTEGRATION
THAT SATISFIES CUSTOMER REQUIREMENTS.



At Vaibhav Gems, the company has graduated beyond the industry's traditional outsourcing model to integrate its marketing with the manufacturing and creating a value chain with the following features:

- Vast industry knowledge to secure high yielding raw material at the most competitive cost, leading to a presence at most gemstone roughs mining locations to directly source raw material at competitive auctions.
- Creation of a fully equipped gemstone-processing centre to transform roughs into gems; a state-of-the-art jewellery manufacturing unit and a captive micro light-weight gold-chain manufacturing plant to complete the supply chain.
- Dedicated research and product development function to create unique products as a distinctive differentiator.
- Creation of a specialised marketing function.
- Retention of artisan skills by providing them with a rewarding career.

Vaibhav Gems possess one of the quickest mine-to-market turnaround times in its industry, resulting in a rapid customer accretion. As an extension the company now uses 42 per cent of its gemstone production captively for jewellery manufacture, as against 27 per cent three years ago.



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STANDARDISATION

CUSTOMER GOODWILL IN ANY BUSINESS IS DERIVED FROM AN ABILITY TO PRODUCE AN ITEM IN LINE WITH STRINGENT CUSTOMER REQUIREMENTS AND THEN DO SO UNIFORMLY TIME AND AGAIN, RESULTING IN A DEPENDABLE QUALITY STANDARDISATION.



At Vaibhav Gems, we have reinforced decades of expertise with cutting-edge technologies and a manufacturing discipline reflected in the following:

- A gemstone processing division with the annual capability to process 20 lac carats.
- A 30,000 sq. ft. state-of-the-art jewellery manufacturing division with an annual capacity to produce more than five lac pieces, one of the largest in India.
- A world-class micro-weight (0.4 to 2 grams) gold chain manufacturing unit, probably the only such plant outside the USA.
- An institutionalised, multi-step quality assurance process, helping identify potential rejects early in the production cycle leading to proactive rectification.
- A customized ERP, which monitors every carat of gemstone and gram of gold from the time it is procured to the time it is dispatched, leading to efficient utilisation.

Vaibhav Gems is one of the lowest cost global producers of jewellery. As an extension, the company has consistently achieved a positive divergence in its revenues and operating margins. While revenues for 2003-04 have grown by 28 per cent over the last year, operating margin has grown by 44 per cent.



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INDUSTRIAL

FOR ANY GROWING BUSINESS, IT IS IMPERATIVE TO EXTEND AN
INDIVIDUAL EXPERTISE INTO CORPORATE SUSTAINABILITY
THROUGH AN INTELLIGENT USE OF SYSTEMS, TECHNOLOGY AND
KNOWLEDGE TRANSFER.



At Vaibhav Gems, we have successfully migrated individual creativity towards industrial excellence through the following initiatives:

- ✚ Migration from the use of traditional silver models to the pioneering use of CAD in India's jewellery industry.
- ✚ The facility of computer-aided manufacture, which permits designs in software to be converted into wax models to produce the final mould for creating samples.
- ✚ The creation of a dedicated product development team comprising jewellery designers from the best Indian design institutes and CAD/ CAM professionals.
- ✚ Regular visits by the product development team to major international fashion events to study emerging trends, leading to new product development.
- ✚ Access to a rich database comprising books and films of retail shows to appraise evolving global preferences.

Vaibhav Gems has progressively increased the number of jewellery designs each year. More than 2000 designs are created each year. As an extension, during 2003-04, the company has made a capital expenditure of more than Rs. 440 lacs, one of the highest in its history.



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PROFESSIONAL

FOR ANY PROFESSIONAL ORGANISATION, IT IS IMPORTANT TO SHED
A LEGACY HANGOVER AND CONTEMPORARISE THE ENVIRONMENT
IN LINE WITH EVOLVING BUSINESS REQUIREMENTS.



Vaibhav Gems today possesses one of the most professionally competent workforce in the industry today. As an extension, the average revenue per employee has gone up from Rs. 21.28 laos to Rs. 28.72 laos in a three-year timeframe.*

At Vaibhav Gems, we have successfully dispelled the notion that jewellery is essentially a family-based business. We have created one of the most professionally managed Indian jewellery company through the following landmark initiatives:

- Segregation of ownership from day-to-day management, leaving the promoters to define the strategic direction and professional managers to focus on responsible implementation.
- Implementation of progressive HR practices, including performance management and appraisal based on key result areas, attractive remuneration as well as a responsible need identification and addressal mechanism.
- Ongoing emphasis on training and development to expose artisans and other teams to contemporary management concepts and optimise their delivery efficiency.
- Creation of a knowledge pool across various competencies - raw material procurement or product development - and entering into strategic alliances for access to the most updated industry information.
- Creation of a second tier for effective succession planning and functional sustainability.
- Integration of employee productivity with ERP and electronic surveillance, minimum process loss and a negligible appropriation of precious raw material.

* Number of employees in 2001-02 was 410 and in 2003-04 was 450

Unique

Vaibhav Gems Limited is one of India's few corporate entities in the largely unorganised gemstone processing and studded jewellery-creating sector; it is possibly the only player in India's niche coloured gemstone segment.

In a relatively staid business, Vaibhav Gems has made a paradigm-changing migration: the extension of traditional craftsmanship to organised industry. In doing so, Vaibhav has pioneered the value-enhancing chemistry between centuries-old craftsmanship, cutting-edge technology, modern-day management and entrepreneurial growth.



Facilities

Vaibhav's facilities in Jaipur (Rajasthan) comprise the following:

- A 20,000 sq feet gemstone processing division where artisans produce over two million carats of coloured gemstones,
- A 30,000 sq feet jewellery-manufacturing facility with an installed capacity of more than five lac pieces. The production at both units is run on customised ERP software, resulting in enhanced quality and cost-efficiency.
- A micro-weight gold chain-manufacturing unit, probably the only one outside the USA.

The company's operations are reinforced with a branch office in Mumbai which also serves as an effective diamond sourcing base.



VARIOUS

Achievements

Vaibhav's rich 25-year industry experience has translated into the following:

- A presence on the shelves of internationally reputed stores like Wal-Mart, Sterling, Macys, Zales, Friedman, White Hall and Sears.
- Recognition through Highest Exporter Awards from the Gems and Jewellery Export Promotion Council for nine consecutive years.
- A pioneering role in the commercialisation of the popular gemstone Tanzanite.

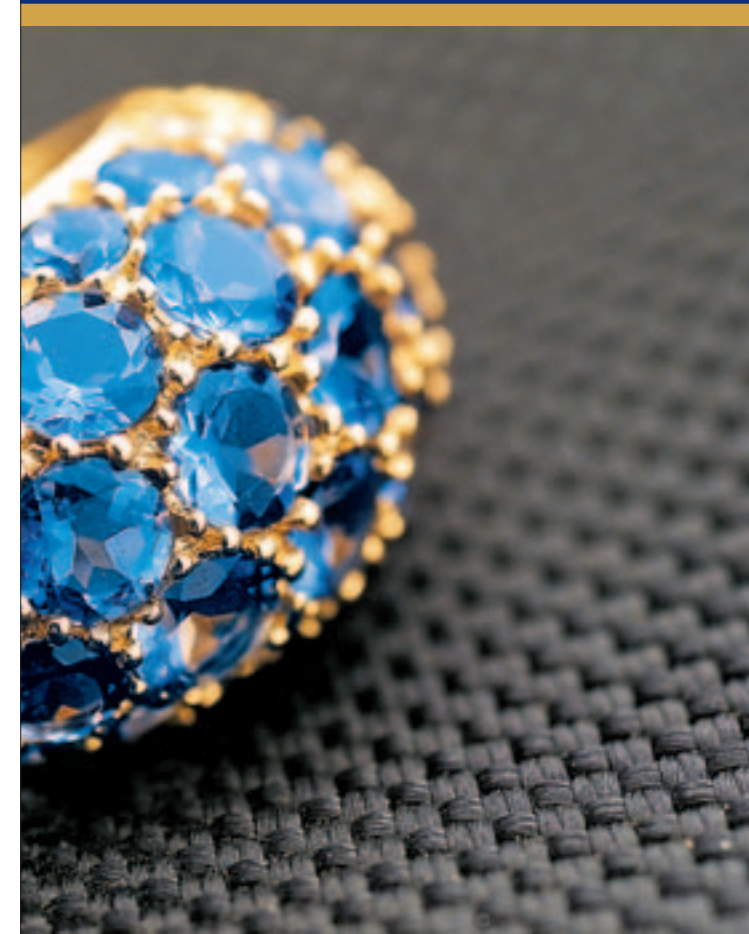


Highlights

Vaibhav recorded its best-ever financial performance in 2003-04. Its turnover of Rs. 12,924 lacs was a 28 per cent increase over 2002-03, its net profit of Rs. 955 lacs an increase of 63 per cent and earning per share of Rs. 9.04 a growth of 63 per cent.

In 2003-04, the company commenced production in its newly constructed jewellery-manufacturing unit and installed a micro-weight chain manufacturing facility.

In 2003-04, it was awarded the Gems and Jewellery Export Promotion Council award for the highest export of coloured gemstones as well as a Certificate of Merit from the Rajasthan Chamber of Commerce and Industry for excellent corporate governance practices.



FACETS

MISSION

Strive to be the best in our individual endeavours and make our organisation the best in the industry by

- Exceeding customer expectations
- Commitment
- Positive attitude
- Honesty
- Teamwork

1980

Vaibhav Enterprises is launched

1984-85

Receives the first of its Highest Export Awards in the coloured gemstones (semi-precious) category from GJEPC.

1986-87

Receives the Highest Export Award in the coloured gemstones (semi-precious) category from GJEPC.

1989

Vaibhav Gems Limited is incorporated on 8 May 1989.

1992-93

It receives the Highest Export Award in the coloured gemstones (semi-precious) category from GJEPC.

1994

Vaibhav Gems Limited takes over Vaibhav Enterprises as a running concern.

1994-95

It receives the Highest Export Award in the coloured gemstones (semi-precious) category from GJEPC and the State Award for Export Excellence from the Government of Rajasthan.

1995-96

It receives the Highest Export Award in the coloured gemstones category from GJEPC.

1996-97

Its initial public offer of Rs. 709.50 lacs is subscribed 1.85 times. It commissions a studded gold jewellery manufacturing unit. It receives the Export Company Award from the Institute of Marketing and Management, New Delhi, and the Highest Export Award in the coloured gemstones category from GJEPC.

1997-98

It receives the Highest Export Award in the coloured gemstones (semi-precious) category from GJEPC.

2000-01

It receives the Highest Export Award in the cut & polished coloured gemstones category from GJEPC and the Second Highest Export Award in studded gold jewellery (DTA) category.

2003-04

It commences the production at its state-of-the-art jewellery manufacturing unit at Sitapura. It commissions a micro-weight gold chain manufacturing plant.

2001-02

It receives the Highest Export Award in the cut & polished coloured gemstones category from GJEPC.

2002-03

It crosses Rs. 100 cr in export turnover. Receives the 'Highest Export Award' by GJEPC in the cut & polished coloured gemstones category.

GJEPC: The Gem and Jewellery Export Promotion Council, Sponsored by the Ministry of Commerce, Government of India.

MILESTONES



DIRECTORS' PROFILE

 1		 2	
	 3		 4
 5		 6	 7
	 8	 9	



1 Shri Sunil Agrawal, 45, Chairman, is a commerce graduate and an MBA from Columbia University. He is a first generation entrepreneur who established Vaibhav Enterprises in 1980 for trading in gemstones. He has travelled widely and gained immense knowledge in the field of gemstones and jewellery and has brought all of it to bear on the success of the company. He has represented the company at all major trade shows and jewellery fairs internationally. He is the pioneer in commercialisation of various popular gemstones, such as Tanzanite, etc.

2 Shri Suresh Punjabi, 51, established his business of trading in gems in Hong Kong. He is a widely travelled person to most of the prominent mines and is well known by his name in the international trade circle. He has in-depth knowledge of the gemstone industry and its supply chain. He has very good knowledge of the high-end jewellery market.

3 Shri Nirmal Kumar Bardiya, 44, is one of the most renowned jewellers of Jaipur with a vastly experience in the manufacture of coloured gemstones. He has been associated with the company since 2001. He is highly specialised in high volume gemstones and beads and known as one of the leading player in this segment internationally.

4 Shri Rahimullah, 48, Managing Director, began his career at 18 in the family business of emerald manufacture and export. He has gained considerable experience and

knowledge in the field of gemstones. He travelled extensively in Africa, Europe and the Far East for sourcing of rough gemstones and consequentially brings with him 30 years of industry expertise. His dedication and visionary acumen have been instrumental in the company s impressive growth.

5 Shri Anandi Lal Roongta, 71, is a post-graduate in Economics and Law. A retired IAS officer, he served the Government of Rajasthan, Government. of India and various Public Sector Units. He has held various prestigious positions like Managing Director, Rajasthan Finance Corporation, Chairman-cum-Managing Director, Rajasthan State Industrial Development and Investment Corporation Limited, Industry Advisor to the State Government of Rajasthan.

6 Shri M. L. Mehta, 65, is a retired IAS officer and a renowned public administrator, social activist and human resource developer. A gold medallist Post Graduate in Physics from the University of Rajasthan, he is a PG diploma holder in urbanisation from the University of London with merit and a graduate from National Defence College, New Delhi. He has served in senior government positions such as Chief Secretary of the Government of Rajasthan, the Additional Secretary of the Ministry of Home Affairs, the Secretary, Director of NABARD. He has won prestigious awards like the Indira Gandhi Priyadarshni Vriksha Mitra Award (1986), Acharya Jai Mal Gyan Award (1988) and Mewar Gaurav Award (1994). Presently

he is on the Board of Directors of Prasar Bharti, New Delhi, and Vice Chairman of Northern Regional Local Board of RBI.

7 Shri S. S. Bhandari, 56, is one of the senior most Chartered Accountants of Rajasthan and a senior partner of S. Bhandari & Co. Besides handling audit assignments in various renowned companies and financial institutions, he is one of the leading management consultants to various companies in the areas of banking and tax assignments, corporate restructuring, amalgamations and mergers. He occupies prestigious positions on various committees of the Institute of Chartered Accountants of India and is a non-executive director of the Central Bank of India.

8 Shri Sanjeev Agrawal, 38, is a commerce graduate, who promoted Stone Age Limited, engaged in the export of building stones to the Far East, USA, Canada and Europe. He has travelled extensively across America and Europe and possesses an in-depth understanding of the market dynamics in these geographies.

9 Shri Ikramullah, 52, Executive Director, is an authority in the manufacture of emeralds in India. He has gained extensive experience in the gemstones industry through his family business and also as a result of his extensive global exposure. He personally oversees the gemstone manufacturing activities of the company. His personality is characterised by persistence and dedication.

“Our ability in being able to capitalise on the first mover’s advantage resulted in attractive growth in 2003-04”

Sunil Agrawal, Chairman, analyses the company’s performance in 2003-04 and looks ahead to an optimistic future.

Q HOW WOULD YOU RATE THE PERFORMANCE OF THE COMPANY IN 2003-04?

That it was the best year in our history is reflected in the numbers. However, what is not easily perceptible at first glance is the quality of these numbers. Take a look at our positive divergence: while revenues increased by 28 per cent, our post-tax profits strengthened by 63 per cent despite a nine per cent depreciation in the value of the dollar against the rupee and a near double-digit percentage inflation in the value of gold.

Q HOW THEN DO YOU ACCOUNT FOR THE IMPROVEMENT?

Principally our ability in being able to spot an opportunity faster than the others in our business, capitalising on the first mover’s advantage before the rest in the industry and well before a probable decline in margins.

For instance, we prudently selected to be present in the coloured gemstone jewellery segment well before the rest of the industry. This transpired for two reasons: one, it belonged to the highly affordable mid-market segment, and two, it was linked to prevailing fashion trends and astrological recommendations, leading to a regular portfolio churn by consumers leading to sustained business growth. The rationale to be present in this segment has been completely justified: over time we have grown into the largest Indian player in this space.

Q IN WHAT WAYS HAS THE COMPANY DISTINGUISHED ITSELF?

Over the years, we leveraged the power of our insight and opinion-making capability to create a market for relatively unknown but large potential gemstones. This enabled us to achieve a number of advantages: the ability to buy economically, the ability to present distinctively different jewellery and most importantly, reinforce our brand equity as people with a longstanding commitment to innovation. We demonstrated this most visibly in the pioneering commercial use of Tanzanite in jewellery, emerging as the biggest users of this stone over time.

Q HOW HAS THE COMPANY LEVERAGED ITS PIONEERING PRESENCE?

We extended this ‘first in the field’ positioning to our corporatisation. At a time when our entire industry was unorganised, we demonstrated the importance of investing in a modern industrial facility supported by a professional management. Over the years, these translated into pioneering industry initiatives: a vertical integration between raw material processing, jewellery manufacture and distribution, which established the foundation for the manufacture of low cost, high quality jewellery in India and creating a case for business dependability, profitability and continuity.



The \$ 5 bn coloured gemstones market in the US is a growing part of its jewellery market valued at \$ 50 bn. However, this space is highly fragmented and marked by small players. We see this as an excellent opportunity: for instance, we expect to increase our presence in the value-added diamond studded jewellery segment, which presently accounts for less than 10 per cent of our revenues. In view of this, we expanded the coverage of our Sitapura EOU and are favourably placed to extract maximum mileage out of the various incentives that the government is providing for the promotion of the gem and jewellery industry in India.

We expect to reinforce this with a leading role in the industry consolidation through the acquisition of smaller players and brands.

Very clearly, the industry addresses most priorities of a developing economy - labour intensiveness, non-polluting, non-exploiting of Indian natural resources and an attractive foreign exchange earner. This indicates that the industry can reconcile community interests with corporate growth.

Vaibhav Gems will continue to capitalise on its rich knowledge, brand-enhancing customer base, ongoing product development and capacity expansion to strengthen its position as its industry’s most attractive proxy.

Our principal challenge will be to invest the business with systems, processes and professionals in an industry still relatively oblivious to their need. This will make our business progressively driven by an established method as opposed to being influenced by arbitrary thought and action. As the industry evolves towards consolidation, Vaibhav is expected to capitalise on opportunities and grow faster.

Q HOW DOES VAIBHAV EXPECT TO CAPITALISE ON THESE STRENGTHS?

Q WHAT IS THE INDUSTRY AND CORPORATE OUTLOOK?

MANAGEMENT'S DISCUSSION & ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENTS

Globally, the gem and jewellery industry a multi-billion dollar industry. In the US alone, it is valued almost \$ 50 billion with the coloured gemstone jewellery segment accounting for approximately ten per cent. Coloured gemstone jewellery is popular in the west because of the need to accessorise fashion with compatible embellishments even as such a trend is only beginning to become evident in India.

India's gemstone processing industry is largely fragmented, unorganised and concentrated in and around Jaipur. It is a space marked by few corporates due to a prevailing inward-looking mindset, constrained vision and disclosure requirements. As a result, the industry is characterised by closely guarded design, production techniques and the employment of highly skilled manpower. India's near 100,000 jewellery-manufacturing units employ over half a million people, a substantial number in front-end and marketing jobs.

India enjoys prominence on the world jewellery industry map. It is one the fastest growing gold jewellery exporters in the world, reporting an average growth of nearly 40 per cent a year over the last decade. In 2003-04, it reported the following:

- An increase in gold jewellery exports by 68 per cent in dollar terms and 59 per cent in Rupee terms.
- Total exports of gold jewellery worth US\$ 2,545 million (Rs. 11,641 cr) compared to US\$ 1,504 million (Rs. 7,259 cr) in 2002-03.
- A 31 per cent growth in gem and jewellery exports in dollar terms, amounting to US\$ 11,986.63 million (Rs. 54,919 cr) compared to US\$ 9,138 million (Rs. 44,080 cr) in 2002-03, making it the largest proportion of commodity exports from India.

The financial year of 2003-04 witnessed a considerable volatility in the value of gold and the US dollar. From a level of Rs. 47.41 in April 2003, the US dollar weakened against the rupee to Rs. 43.39 as on 31 March 2004, a depreciation of almost nine per cent. On the other hand, gold prices increased 9 per cent during 2003-04. What is remarkable is that the Indian industry did not just absorb the adverse impact, but posted a real growth of 31 per cent.

RATIONALE FOR INDUSTRY PRESENCE

The following reasons justify Vaibhav Gems' industry presence:

- Historically, jewellery has been an important part of human attire, augmenting physical beauty and grace. Assured demand is its biggest driver.
- Jewellery has deep social implications not just because of its inherent value but also its emotional and physical proximity to the human body.
- It is a convenient image-enhancing gift object.
- The input materials possess a fair resale value, making it not only an item of adornment but investment.
- An increase in fashion consciousness has translated into an increased offtake of jewellery.
- It enjoys considerable government patronage and little regulation. Most international trade issues worrying other industries – such as the WTO and the Free Trade Agreements – do not affect the jewellery industry at all.
- An increasing pace of living is making jewellery more of an impulsively purchased item than ever before, creating an opportunity for design-led large volume producers.

- The value of gold and ornaments as a proportion of an individual's income is steadily declining, driving offtake.

BENEFITS OF AN ORGANISED APPROACH

Strategic

- Scalable opportunity.
- Increased access to institutional finance.
- Increased accruals leading to vertical integration, business-enhancing assets and access to technology.

Operational

- A quicker incorporation of systems leading to international best practices and increased productivity.
- A credible image among international customers, leading to more orders.
- Creation of a merit-led environment which makes it possible to draw superior manpower, motivate better and retain them longer.

Financial

- Global access to cheaper funds.

SEGMENT-WISE PERFORMANCE

As a value-driven organization, Vaibhav Gems is focused on value-addition. This has been reflected in the following initiatives:

- Increasing utilisation of its gemstone production in jewellery manufacture, resulting in a decline in merchant sale of gemstone from 53 per cent in 2001-02 to 20 percent in 2003-04.
- A growing proportion of studded jewellery in its revenue basket from 36 per cent in 1999-2000 to almost 80 percent in 2003-04.

Segment wise revenue breakup

(Rs. in lacs)

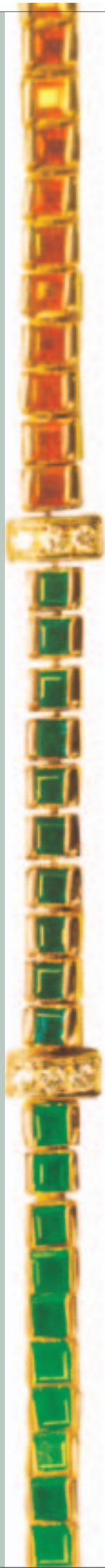
Year	2003-04		2002-03		2001-02	
	Revenues	Per cent	Revenues	Per cent	Revenues	Per cent
Gemstones	2682	20.39	3284	32.17	4682	53.12
Jewellery	10472	79.61	6847	67.83	4132	46.88
Total	13154	100.00	10095	100.00	8814	100.00

Quantitative production

Year	2003-04	2002-03	2001-02
Gemstones (in carats)	953178	854747	1131012
Jewellery (in pieces)	532857	394516	251181
Captive consumption of gemstones (in carats)	398267	367930	306846

The production of gemstones and jewellery increased in value and volume terms, though an increase in jewellery export by almost 50 per cent caused the export of gemstones to decline by 10 per cent.

The production of gemstones and jewellery increased in value and volume terms, though an increase in jewellery export by almost 50 per cent caused the export of gemstones to decline by 10 per cent.



Gemstones: The company produced 953178 carats of gemstones in 2003-04 compared to 854747 carats in 2002-03, 42 percent being utilised for captive consumption compared to 43 per cent in 2002-03. In value terms, the production of gemstones stood at Rs. 6,793 lacs during the year compared to Rs. 6,060 lacs in 2002-03 (an increase of 12 per cent) of which Rs. 4,163 lacs (previous year Rs. 2,816 lacs) worth of gemstones were used for captive jewellery production.

Jewellery: Turnover of the jewellery segment increased nearly 50 per cent from Rs. 6,809 lacs in 2002-03 to Rs. 10,190 lacs in 2003-04. In volume terms, the company manufactured 532857 pieces of jewellery during the year under review compared to 394516 pieces in 2002-03. Due to controlled employee, manufacturing, administrative and selling expenses, the increase in the company's overall expenditure was marginal in proportion to its increased scale of production. Due to efficient working capital management, the company reduced interest outflow by Rs 45 lacs.

FINANCIAL REVIEW

Performance, 2003-04 vs 2002-03

The company's turnover for 2003-04 increased 28 per cent from Rs.10,101.82 lacs in 2002-03 to Rs. 12,924.09 lacs, largely due to an increased product acceptance leading to enhanced volumes. The company's non-manufacturing income increased from Rs. 41.79 lacs in 2002-03 to Rs 100.36 lacs in 2003-04 due to a profit of Rs. 8.60 lacs following the sale of investments and a foreign exchange fluctuation gain of Rs. 84.34 lacs. Even as turnover increased by 28 per cent over the previous year, PBDIT (profit before depreciation, interest and tax) grew 41 per cent from Rs. 786.01 lacs in 2002-03 to Rs. 1106.58 lacs in 2003-04 as a result of cost optimisation, greater economies of scale, vertical integration and a tighter control on wastages.

Interest outflow declined 41 per cent from Rs. 108.15 lacs in 2002-03 to Rs. 63.42 lacs in 2003-04 largely due to efficient working capital management and a greater reliance on cash accruals. Tax liability declined from Rs. 29.08 lacs in 2002-03 to Rs. 8.10 lacs in 2003-04 as a result of the withdrawal of a 10 per cent tax imposed on the profits of an EOU with effect from the previous year. As a result, net profit increased 63 per cent from Rs. 584.76 lacs in 2002-03 to Rs. 955 lacs in 2003-04.

Raw materials

Raw material costs as a percentage of revenues remained largely unchanged – at around 82 per cent both in 2002-03 and in 2003-04 - due to a stable price scenario in gemstones and effective raw material management. The primary coloured stones used by the company comprised Tanzanite, Amethyst, Aquamarine, Citrine, Pink Tourmaline, Red garnet, Rhodolite, Garnet, Iolite, Peridot, and Tsavorite. It also uses precious stones such as diamonds, emerald, sapphire, and ruby. These are sourced directly in the form of roughs from mining and procuring enterprises in Brazil, Tanzania, Zambia, Kenya and other countries both in Africa and outside it through international auctions.

Gold is sourced from canalising Indian agencies like the MMTC and SBI. Gold prices increased nine per cent in 2003-04 and it is expected that prices will remain stable and a freeing of gold and silver imports could cut import costs by 1 to 1.5 per cent. However, as the company is a 100 per cent EOU and therefore, exempt from the incidence of customs duties, such changes will not affect it.

Gross block and depreciation

To drive corporate growth and enhance shareholder value, the company invested substantially in capacity building in 2003-04. It added capital assets of Rs. 442.26 lacs, comprising a fresh stretch of land of 4000

square metres, a new factory building for jewellery manufacture and the installation of a micro-weight gold chain manufacturing plant at the new factory premises. As a result, depreciation increased from Rs 66.24 lacs in 2002-03 to Rs. 74.68 lacs during the year under review

Shareholder value

The earning per share reported by the company in 2003-04 increased 63 per cent from Rs. 5.54 in 2002-03 to was Rs. 9.04 in 2003-04. The Board of Directors has proposed a dividend of Rs 2 per share on the paid up equity value of Rs 10 each, higher than Rs 1.60 declared in 2002-03.

HUMAN RESOURCES

The growth and sustained leadership of a company is largely a function of the competence and quality of its human resource. At Vaibhav Gems, our aim is to create a workplace where every member can achieve his optimum potential. In view of this, the company encourages its people to balance their professional and personal responsibilities leading to a more productive tenure at the company.

Recruitment

The company endeavours to recruit the best possible talent in the industry for its various needs. Therefore, it recruits chiefly from the established base of local artisans. The product development team is sourced from the premier design institutes of the country and the management staff is recruited after a stringent, benchmarked recruitment process. Also, there is a systematic induction and continuous training for professional evolution of the recruit into the company, a practice unheard of in the industry.

Employee strength

The company presently employs more than 338 skilled artisans and craftsmen and 112 executives who are responsible for the administrative and management functions.

Compensation

The company believes in extending the best reward for excellent performance. As such, its compensation package is one of the best in the industry, which acts as an additional motivator for employees to excel at their job.

Evaluation

The company has embarked on a system to objectively measure employee performance and efficiency and reward them accordingly. This is being done through the adoption of a Key Result Area (KRA)-based performance appraisal system, which links the remuneration structure to a transparently assessed performance. The company also encourages its people to transcend their stated scope of work and undertake voluntary projects that enable them to learn and contribute more innovatively and effectively to the overall objectives of the company.

OPPORTUNITIES AND THREATS

The various opportunities that the company expects to capitalise on comprise the following:

- An internationally accepted range of products.
- A world-class manufacturing quality
- Globally competitive cost supported by dependable logistics management.
- Product consistency across batches and time.
- A growing need for customer companies to enter into stable supply relationships with corporate vendors.

The company also encourages its people to transcend their stated scope of work and undertake voluntary projects that enable them to learn and contribute more innovatively and effectively to the overall objectives of the company.



The various threats faced by the company comprise the following:

- Competition from Indian as well as international companies.
- The brand equity of India a sub-quality supplier.
- A loss of goodwill and dependability in a business that survives on them.
- A quality variation from what is required by customers.
- Increasingly stringent standards of customer service.
- A decline in professionalism in the marketing and operations.

The company is confident of countering these threats through a stronger corporate process, investment in cutting-edge technology, stronger cost management, aggressive asset creation and professional marketing and customer relationship management.

*R*ISKS AND THEIR MITIGATION

A comprehensive section on risk management appears in this report on page 26.

*I*NTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has a proper and adequate system of internal controls to ensure that all assets are safeguarded, and protected against loss from unauthorised use or disposition, and that transactions are authorised, recorded, and reported correctly. The system ensures optimal utilisation and protection of resources, IT security, accurate reporting of financial transactions and compliance with applicable laws and regulations. It emphasises on monitoring the entire operations and services spanning all locations, businesses and functions on a regular basis.

The system is supplemented by extensive internal audits, regular reviews by management, and well-documented policies and guidelines to ensure reliability of financial and all other records to prepare financial statements and other data. The Company has successfully implemented its own ERP program. This facilitates effective checks and controls as well as tight monitoring on a continuous basis.

The findings of the internal audit panel are deliberated over at the meeting of the management and suitable action is taken to address shortcomings and incorporate suggestions in the operations of the company.

*O*UTLOOK

During 2003-2004, the Indian economy registered a GDP growth of 8.2 per cent and its foreign exchange reserves crossed US\$ 100 billion (December 2003). Given this background, reforms are expected to accelerate. Given the recent policy initiatives taken by the Indian Government, the outlook for the gem and jewellery segment is bright. In January 2004, the Government made it easier for exporters to import and process gold in unlimited quantity. Besides, it permitted the import of rough diamonds, rough coloured gemstones and reduced the customs duty on the import of cut & polished diamonds and stones.

Buoyed by these measures, the industry set an export target of US\$ 16 billion by 2007, highly achievable given the recovery in US, Europe and Japan. To make this a reality, the Gems and Jewellery Export Promotion Council of India appointed KPMG, a leading international consulting firm, to study the strength and potential of the Indian gems and jewellery industry and suggest a relevant roadmap.



TANZANITE, THE GEMSTONE OF THE 20TH CENTURY, AND VAIBHAV'S ROLE IN ITS PROMINENCE

Tanzanite is fascinating because its deep blue with the slight purple shade is one of the most extravagant colours, symbolising unusual and distinctive elegance. Prior to 1967, no one had heard of Tanzanite but in the following few decades, the stone evolved into the 'gemstone of the 20th century'.

Vaibhav's industry expertise is demonstrated at various levels: the ability to recognise the latent potential of the stone, its suitability in the global environment, the implementation of various initiatives to enhance its appeal within a new geography, its pioneering commercialization and the creation of a growing market where none existed. Besides, the rationale for Vaibhav's selection goes beyond

the cosmetic; it selected tanzanite partly because the trade is managed by small-scale licensed traders enjoying good business relationships with gemstone firms in Germany, India, Israel and the USA. Since an estimated 90 per cent of all Tanzanite traders are registered members of the International Colored Stone Association, they are dedicated to high ethical standards. As a result, this exclusive gemstone has not been commoditised, and in spite of its rarity, is distributed via reliable and trustworthy official channels to well-reputed gemstone-cutters and then passed on to the most important jewellers all over the world.

Over the years, Vaibhav Gems has emerged among the largest processors and users of Tanzanite in the world.

RISK MANAGEMENT

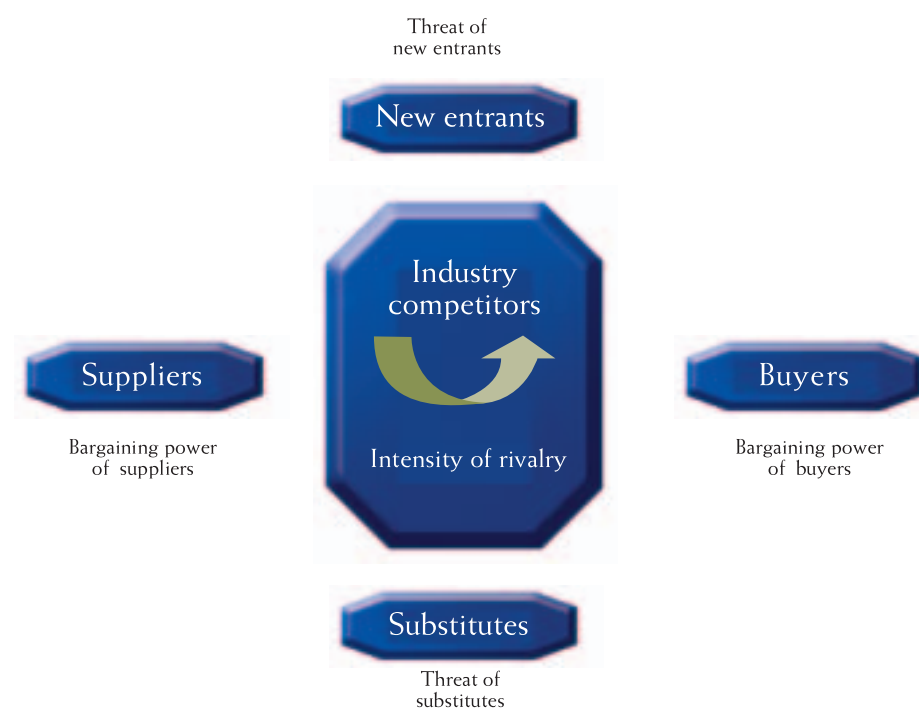
At Vaibhav Gems, we recognise that risk is inseparable from business. However, if we have succeeded over the years, we have done so primarily because of two initiatives: mitigating the risks and leveraging the vast upside in our business.

In this section, we explain how we measure, monitor and mitigate our various risks, leading to a sustainable business model. By identifying material risks at an early stage and taking appropriate counter-measures, Vaibhav Gems is in a position to make a commercially sound use of opportunities.

At Vaibhav Gems, all key aspects of risk management are incorporated in a comprehensive risk warning system, which enables the company to identify and manage strategic and operational risks at the individual, management level and Board levels.

Given the intensely competitive environment that the company operates in, the company has decided to assess its risk profile based on the grid suggested by Michael E. Porter in his book *Competitive Advantage*.

MICHAEL PORTER'S RISK MANAGEMENT GRID



In any industry, competition is influenced by the five competitive forces: threat from new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitutes and rivalry among the existing industry players. It is the collective

strength of these five competitive forces that determine the ability of the firm to earn a return on its investment higher than its cost of capital.

INTENSITY OF RIVALRY – MEDIUM TO HIGH

Industry growth: The demand for jewellery will continue for all time to come. Also, as jewellery tastes become refined and fashion changes accelerate, industry prospects will be secured further. This serves as an incentive for new industry entrants in addition to continued encouragement by the government.

Existence of niches: The diverse range in which jewellery can be made available, its multiple applications and its various price points provide a large opportunity for players.

Fragmented industry nature: A multitude of small players with a dedicated set of customers has led to low transparency and information availability. Therefore, competition is severe in individual industry pockets.

Product differentiation: The gems and jewellery industry is not a commoditised industry. Hence product differentiation is critical to success. Vaibhav Gems has consistently positioned its products on differentiated design. It continues to invest substantially in research and development to reinforce product development.

ENTRY BARRIERS – MEDIUM TO LOW

Capital requirement: The business of gem and jewellery manufacture is not capital intensive and it is possible for entrepreneurs with modest capital to enter the business. However, the requirement for working capital is substantial, an effective entry barrier.

Brand identity: Vaibhav Gems' products enjoy goodwill on the basis of quality, design and delivery consistency. As a result, customers would rather work with an existing vendor than enter into a new relationship. Displacing this formidable goodwill is an effective entry barrier for newcomers.

Proprietary product difference: While there is little differentiation in the basic product, the adaptation of design to individual tastes is a critical determinant of offtake. Thanks to its investment in product development, Vaibhav Gems is protected against this threat.

Access to raw material: The raw material used is not freely or abundantly available. Also, efficient raw material procurement requires in-depth knowledge. Vaibhav Gems not only possesses this insight but also leverages its liquidity to nurse a sufficient inventory to tide over any cyclical raw material shortages.

SUPPLIERS' BARGAINING POWER – LOW

Substitutes: There are no substitutes for the raw materials used in the gem and jewellery industry but a diverse sourcing base negates the possibility of an unreasonable bargaining power in the hands of the suppliers.

Raw material prices: Raw material prices are dictated by demand and supply. Gold rates are uniform across the world and therefore, there is no danger of raw material prices being dictated unfavourably by any individual supplier. Besides, the diamond trade is no longer a monopoly.

Threat of forward integration by suppliers: This is negligible because the dynamics of both industries are vastly different. Also, a forward integration by component suppliers would require a considerably large investment.

THREAT OF SUBSTITUTES – LOW

Buyers' propensity to substitute: Jewellery is a non-substitutable product. Also, fashion is one of the most dynamic industries in the world. Every season brings about a change in patterns and colours. As such, the demand for compulsory accessories such as jewellery also changes. Therefore, the ability of Vaibhav Gems to create products, which cater to internationally evolving tastes obviates the threat of product substitution.

Product differences: The product development capabilities of the company allow it to create contemporary styles that ensure effective product differentiation resulting in the consolidation of market shares and stable growth in realisations.

BUYERS' BARGAINING POWER – MEDIUM TO HIGH

Cost competitiveness: Since the jewellery manufactured by the company is generally sold through large departmental and speciality stores, a player has to be extremely competitive in terms of costs. The vertical integration of Vaibhav Gems and its location in a low cost base country such as India gives it that competitive edge.

Quality and delivery standards: Internationally, excellence in quality and delivery are key determinants of a sustainable relationship with a buyer. Also, the manufacturing policies and processes have to adhere to certain norms that such buyers specify for their vendors in keeping with the laws of their land. However, by virtue of its extensive association with reputed buyers, the company does not regard this as a potential risk.

OTHER RISKS AND THEIR MANAGEMENT

Presented below is an account of some of the other risks that affect the company's business and the initiatives taken to mitigate them.

Raw materials risk

The prices of gemstones and gold may be volatile. In the absence of an ability to pass on the increased prices, the company may have to absorb the impact.

Risk mitigation

Gemstone prices are not volatile and wild fluctuations in their procurement costs are generally an exception, not the rule. The company sources its material from competitive international auctions where prices are decided by the nature of mine, rough quality and expected yield. Besides, the proportion of gemstones in the overall revenues is low, enabling the company to absorb the impact, should it require.

On the other hand, gold prices are volatile; prices increased almost nine per cent in 2003-04. The company passed on most of this increase to customers and protected its profitability.

The jewellery manufactured by the company is priced at an attractive premium over its intrinsic value, which enables the company to withstand minor raw material fluctuations. The safe practice of an order-based manufacture helps contain the effect of this volatility.

Exchange rate fluctuation risk

Since the company exports 100 per cent of its production, it is exposed to the risk of a fluctuation in foreign currency rates that could adversely impact its profits.

Risk mitigation

During 2003-04, the US dollar declined by almost nine per cent against the Indian rupee and yet the company posted a net profit jump of more than 63 per cent. The company achieved this through the following initiatives:

- The use of its in-house treasury and forex management team, which tracks currency markets leading to informed decisions related to exposures.

- The company leverages the use of hedging instruments and forward covers.
- Also, as most of the company's raw material is imported, a significant part of the total exposure is naturally hedged.
- Since the company's working capital borrowings are in foreign currency, there is a natural hedge against exchange rate fluctuations.

Debtors' risk

The jewellery business is dependant on buyer integrity. Any delay in payment could stagger the cash flow of the vendor and lead to higher costs; any default could be profit-impacting.

Risk mitigation

One of the advantages of being an organised player is that it is possible to conduct a thorough credit assessment of the buyers. Most Vaibhav customers enjoy a sound financial track record and have been dealing with the company for long. As such, the company has always realised its outstandings on or before schedule with a negligible default history.

Product development risk

Jewellery purchase is a largely subjective decision and not always driven by an economic approach. It is possible that designs selling today may cease to be popular in the future.

Risk mitigation

The company has commissioned a full-fledged product development centre comprising world-class teams of CAD software operators, jewellery designers drawn from reputed designing institutes and technicians experienced in design creation. It conducts an ongoing research into the latest developments in jewellery design. Besides, the company's product development team travels to major fashion events around the world to study emerging trends.

Seasonality risk

Since a large part of the company's revenue is derived just before festive and social occasions, it might become difficult to sustain the organisation during the non-peak season.

Risk mitigation

Seasonality is a feature prevalent in every business and the jewellery industry is no exception. However, the innumerable social occasions that mark the world's calendar, the multi-ethnic nature of the major markets such as the US and the existence of electronic retail mitigate the extent of the seasonality. Also, the fact that the company caters to various product segments, which are largely complimentary in terms of demand peaks, helps contain the impact of demand seasonality.

Geographic concentration risk

Geographically, the company's fortunes are overtly dependant on the US, its largest market.

Risk mitigation

USA is a multi-ethnic and multi-cultural market with latent demand and a large fragmentation. This represents a considerable opportunity for players like Vaibhav Gems. All these factors ensure that demand for products such as jewellery will continue to exist. Moreover, since socio-political relations between India and the USA are not expected to deteriorate, this represents a safe market for Indian players.

The innumerable social occasions that mark the world's calendar, the multi-ethnic nature of the major markets such as the US and the existence of electronic retail mitigate the extent of the seasonality.

However, as a strategic de-risking measure, the company is looking to expand its operations in Europe, South Africa and Australia.

Inventory risk

The company has to maintain a high raw material inventory level at all times, which is liquidity-impacting.

Risk mitigation

Most of the company’s production is against firm orders. As a result, raw material procurement policies and inventory storage norms are dictated by delivery deadlines. However, seasonal demand and the erratic nature of gemstone auctions do result in a normal, industry wide phenomenon of high inventory. However, the company does not indulge in any hoarding nor does it have any non-moving inventory at the finished product stage, which ensures optimal resource management.

Labour risk

The business of jewellery manufacture requires highly skilled manpower, which the company may not be able to recruit and retain.

Risk mitigation

The company is located in Jaipur, which has the largest concentration of skilled manpower for the gems and jewellery industry. Also, the implementation of progressive HR practices, training, personal development and attractive remuneration - the highest paying in the industry - has resulted in a high retention of professional expertise.

Wastage risk

The company may not be able to control the gold loss or the rough loss during the production.

Risk mitigation

The proportion of volume wasted in the manufacture of jewellery is not significant in terms of value. However, the company has a multi-stage filtration and sieving process through which achieves stringent loss control and recovery. The company has installed a vacuum system for the collection of gold and gold dust; its ERP system records the exact wastage data per employee to track and enhance a sense of accountability. Besides, the company has implemented a strict physical examination and modern surveillance system to prevent theft.

Financial risk

The jewellery business is working capital intensive – 87 per cent of the total capital employed in 2003-04 was in working capital. Any short-term crisis in realisations or cash generation could impact the company.

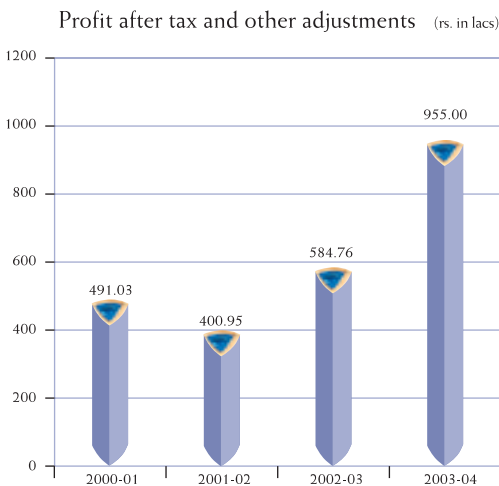
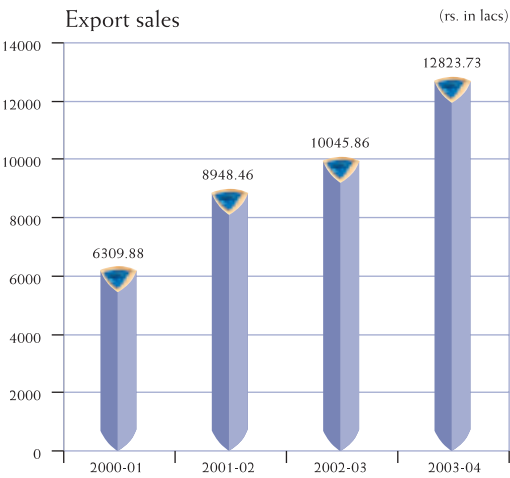
Risk mitigation

The company follows a practice of exemplary working capital management. It keeps a sufficient buffer to tide over any temporary crisis in realisations. Also, there is a strict monitoring of all outstandings so that one is assured of a regular cash inflow to service working capital requirements.

FINANCIAL GROWTH OVER THE YEARS

	2000-01 (Rs. in lacs)	2001-02 (Rs. in lacs)	2002-03 (Rs. in lacs)	2003-04 (Rs. in lacs)	Year on year growth (%)	CAGR (%)
Export sales	6309.88	8948.46	10045.86	12823.73	27.65	26.67
Domestic sales	960.90	100.70	14.17	-	-	-
Total sales	7270.78	9049.16	10060.03	12823.73	27.47	20.82
Total turnover	7297.84	9071.91	10101.82	12924.10	27.94	20.99
PBDIT	765.94	645.50	786.01	1106.57	40.78	13.05
Profit before tax	533.31	434.05	606.86	963.33	58.74	21.79
Profit after tax and other adjustments	491.03	400.95	584.76	955.00	63.31	24.82
Dividend (excluding tax)	132.01	145.21	168.97	211.21	25.00	16.96
Earning per share	9.30	7.59	5.54	9.04	63.31	-
Dividend in percentage	25.00	27.50	16.00	20.00	25.00	-
Capital work in progress	-	-	15.40	95.35	519.16	-
Gross block	764.76	847.86	868.37	1,205.97	38.88	16.40
Net block	531.58	545.77	500.76	767.79	53.33	13.04
Equity capital	528.03	528.03	1056.06*	1056.06	-	-
Reserves and surplus	3,289.48	3,545.23	3,411.34*	4,128.07	21.01	7.86
Net worth	3,803.23	4,063.74	4,462.64	5,184.13	16.17	10.88

* Consequent upon issue of bonus shares in the ratio of 1:1.



FINANCIAL RATIOS

	2000-01	2001-02	2002-03	2003-04
Financial performance ratio				
Other income/total turnover	0.37	0.25	0.41	0.78
Personel cost / total turnover	4.41	3.79	4.21	3.97
Administration expenses/ total turnover	4.06	2.96	2.69	2.23
Net Finance cost/ total turnover	2.12	1.49	1.07	0.49
Depreciation/ total turnover	1.00	0.79	0.66	0.58
Tax/ total turnover	0.58	0.36	0.22	0.06
Tax/ profit before tax	7.93	7.63	3.64	0.86
Profitability Ratios(percent)				
PBDIT/ sales	10.53	7.13	7.81	8.63
PBDT/ sales	8.41	5.64	6.74	8.13
PBT/ total turnover	7.31	4.78	6.01	7.45
PAT/total turnover	6.73	4.42	5.79	7.39
PAT/ average net worth	13.53	10.19	13.72	19.80
PBDIT/ total assets	12.71	10.39	10.66	14.10
PBIT/total assets	11.42	9.16	9.70	13.08
PBT/total assets	8.85	6.99	8.23	12.27
PAT/ total assets	8.15	6.46	7.93	12.17
Sales/ total assets	120.65	145.71	136.42	163.38
Balance Sheet Ratios				
Debt equity ratio	0.44	0.39	0.37	0.33
Net fixed assets/ net worth	0.14	0.13	0.11	0.15
Current ratio	9.95	10.37	5.52	7.21
Cash and equivalents/ total assets	0.01	0.02	0.03	0.04

	2000-01	2001-02	2002-03	2003-04
Coverage Ratios				
PBDIT/ interest	4.95	4.79	7.27	17.45
PBIT/ interest	4.45	4.22	6.61	16.19
PBDIT/ total debt	0.46	0.40	0.47	0.65
PBIT/ total debt	0.41	0.36	0.43	0.61
Growth Ratio				
Growth in total turnover	(13.16)	24.31	11.35	27.94
Operating expenses growth	(11.33)	29.00	10.55	26.85
Operating profit growth	(26.19)	(15.72)	21.77	40.78
Net profit growth	(40.38)	(18.34)	45.84	63.31
Per share data				
Earning per share	9.30	7.59	5.54*	9.04
Cash Earning per share	10.78	9.04	6.21*	9.80
Dividend (percent)	25.00	27.50	16.00*	20.00
Book value	72.03	76.96	42.26*	49.09
P/E at the end of the year	3.01	3.01	3.35	5.17
Price/ book value	0.39	0.30	0.44	0.95
Market capitalisation (Rs. lacs)	1,478.40	1,206.48	1,958.88	4,942.08
No. of shares (lacs)	52.80	52.80	105.60*	105.60
Margin ratios				
PBDIT margin	10.50	7.12	7.78	8.56
Net profit margin	6.73	4.42	5.79	7.39
Return on total assets	8.15	6.46	7.93	12.17
Return on average net worth	13.53	10.19	13.72	19.80

* Consequent upon issue of bonus shares in the ratio of 1:1.



DIRECTORS' REPORT

Dear Shareholders,

Your Directors are pleased to present the 15th Annual Report on your Company's operations and performance together with the audited financial statements for the year ended 31 March 2004.

FINANCIAL HIGHLIGHTS

(Rs. in lacs)

	2003-04	2002-03
Sales and other income	12,924.10	10,101.82
Less: Cost of sales	11,817.52	9,315.81
Operating profit/PBDIT	1,106.58	786.01
Less: Interest	63.42	108.15
Less: Depreciation and amortisation	79.83	71.00
Profit before taxes	963.33	606.86
Less: Provision for taxes	8.10	29.08
Profit after taxes	955.23	577.78
Add/Less: Prior period adjustments	(0.23)	6.98
Net profit for the year	955.00	584.76
Add: Balance brought forward from the previous year	2,614.89	2,370.74
Total available for appropriations	3,569.89	2,955.50
Appropriations:		
Proposed dividend	211.21	168.97
Tax on dividend	27.06	21.64
Transfer to general reserve	100.00	150.00
Total	338.27	340.61
Balance to be carried forward	3,231.62	2,614.89

DIVIDEND

In keeping with a consistent dividend track record, your Directors are pleased to recommend a payout of Rs 2 per equity share (i.e. 20 per cent of the paid up value of Rs 10 per share) for the year 2003-04 (previous year Rs 1.60 per equity share or 16 per cent). The dividend, if approved, shall be subject to tax at the rates, as may be applicable on the date of declaration of dividend by the shareholders at the ensuing Annual General Meeting. Therefore in the case of present dividend tax rates remaining unchanged on the aforesaid date, the actual payout from the company after factoring the dividend distribution tax and surcharge shall be Rs. 2.26 per equity share as compared to Rs. 1.805 per equity share in 2002-03.

THE YEAR IN RETROSPECT

The optimism with regard to India's gem and jewellery exports was reflected in the following in 2003-04:

- Gem and jewellery export growth of 31 per cent (24 per cent in rupee terms).
- Gold jewellery export growth of 68 per cent (59 per cent in rupee terms).
- Coloured gemstone export decline of 7 per cent (12 per cent in rupee terms).

The numbers clearly highlight a climb of Indian manufacturers up the value chain – a graduation beyond the export of coloured gemstones towards the value-added export of jewellery studded with coloured gemstones.

In line with this industry trend, your Company reported the following achievements:

- An increase in jewellery exports by almost 50 per cent from Rs. 6,809 lacs in 2002-03 to Rs. 10,190 lacs.
- A decline in gem exports from Rs. 3,244 lacs in 2002-03 to Rs. 2,631 lacs.
- An increase in the total production value of the gemstones division from Rs. 6,060 lacs to Rs. 6,793 lacs out of which production worth Rs. 4,163 lacs (previous year Rs. 2,816 lacs) was captively consumed for jewellery manufacture.
- An increase in the total exports by the company from Rs. 10,110 lacs in 2002-03 to Rs.13,178 lacs in 2003-04.

As a result, the company's net profit increased almost 63 per cent from Rs. 585 lacs in 2002-03 to Rs. 955 lacs in 2003-04.

LISTING AT NATIONAL STOCK EXCHANGE

In April 2004, National Stock Exchange (NSE), one of India's premier stock exchanges, permitted the listing of the Company's shares. As a result, the equity shares of your Company are now listed at Bombay, NSE, Delhi, Ahmedabad and Jaipur Stock Exchanges. The listing on the NSE will enhanced liquidity and facilitate better trading options for investors.

EXPANSION

It was reported last year that the Company had undertaken a substantial expansion of its Sitapura EOUI unit. Your Directors are happy to report that the construction of the state-of-the-art, centrally air-conditioned building with the most contemporary surveillance, security and access control systems was completed during 2003-04. The unit became fully operational in October 2003.

During the year under review, the Company also installed a state-of-the-art integrated plant for manufacturing micro weight gold chains used in jewellery making. The plant, imported from SISMA (Italy), was commissioned in April 2004 with the objective to substitute the use of the imported variety with substantial cost savings. The plant, the first of its kind in India, expects to export the excess production and emerge as an independent profit centre.

AWARDS AND RECOGNITION

The Company was awarded the coveted GJEPC Export Award, the ninth successive award for being the largest exporter of coloured gemstones. The Company was also awarded a Certificate of Merit for 2002-03 by the Rajasthan Chamber of Commerce & Industries (RCCI) in recognition of sound corporate governance and disclosure practices.

OUTLOOK

The Government of India continued to provide incentives in the form of fiscal concessions and relaxations for the gems and jewellery industry. The constant support from the Ministries of Finance and Commerce, particularly in the area of developing SEZs, EOUs and EPZs, will accelerate industry development.

Your Company continued to capitalised on this favourable trend and purchased almost 4000 sq metres of land at the Special Economic Zone (SEZ) being developed at Sitapura Industrial Area (Jaipur) by the Rajasthan State Industrial Development & Investment Corporation Limited. The company intends to set up a new jewellery unit at the SEZ, subject to additional benefits being offered by the State Government.

The construction of the state-of-the-art, centrally air-conditioned building with the most contemporary surveillance, security and access control systems was completed during 2003-04. The unit became fully operational in October 2003.



CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. Conservation of Energy

The Company has a policy of identifying areas of energy conservation and implements the same immediately. The impact of above measures however cannot be measured objectively.

B. Technological Absorption

The Company is possess an in-house research and development wing which is continuously working towards more efficient jewellery production, improved processes and better designs. The Company has not imported any technology for its manufacturing process and therefore the question of adaptation/absorption does not arise.

C. Foreign exchange earnings and outgo

The Company is exporting coloured gemstones and studded gold jewellery. It is continuously focusing on newer markets with bulk demands to avail economies of scale. The company has ambitious plans to increase its exports by tapping new markets. The foreign exchange earnings and outgo (FOB basis) of the Company is as follows:

	2003-04	2002-03
Earnings	Rs. 1,31,50,84,953	Rs. 100,81,77,107
Outgo	Rs. 62,54,59,593	Rs. 52,09,70,288

DIRECTORS

Shri Rajiv Jain resigned from the Directorship of the Company with effect from 20 October 2003. The Board places on record its sincere appreciation for the valuable advice and services rendered by him to the Company during his tenure.

The Board at its meeting held on 25 January 2004 appointed Shri M. L. Mehta (Ex-Chief Secretary Government of Rajasthan) and Shri S. S. Bhandari (Senior Chartered Accountant) as Additional Directors of the Company. They hold office upto the next Annual General Meeting of the Company.

Notices have been received from members under section 257 of the Companies Act, 1956, proposing the candidature of Shri S. S. Bhandari and Shri M. L. Mehta at the ensuing Annual General Meeting, as director who are liable to retire by rotation. Their presence will strengthen the management of your Company and as such, the Board recommends their appointment.

As per Article 61 of the Articles of Associations of the Company, Shri Suresh Punjabi and Shri Sunil Agrawal retire by rotation at the ensuing Annual General Meeting. Being eligible, they offer themselves for reappointment. According to the provision of the Companies Act, 1956, the Company can have a maximum of three directors not retiring by rotation. At present there are only two such directors. It is proposed to reappoint Shri Sunil Agrawal, Chairman of the Company as a Director not liable to retire by rotation.

A brief resume of the above Directors together with the nature of their expertise in specific functional areas and names of companies in which they hold Directorships and the membership/chairmanship of committees of the Board, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, are given as an annexure to the notice of Annual General Meeting.

PARTICULARS OF EMPLOYEES

There were no employees in the Company employed throughout the year and who were in receipt of remuneration more than Rs. 24,00,000 per annum or employed part of the year and were in receipt of remuneration more than Rs. 2,00,000 per month. Therefore disclosure of particulars required in accordance with the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is not applicable.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect of the Directors' responsibility statement, it is hereby confirmed:

- i. That in the preparation of the annual accounts for the financial year ended March 31, 2004, the applicable accounting standards have been followed along with proper explanation relating to material departure.
- ii. That the Directors have adopted such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and profit and loss account of the Company for that period.
- iii. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv. That the Directors have prepared the annual accounts on a going concern basis.

AUDITORS

M/s B. Khosla & Co., Chartered Accountants, Statutory Auditors of the Company, hold office until the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment. The Company has received letters from them to the effect that their appointments, if made, would be within the prescribed limits under Section 224(1-B) of the Companies Act, 1956 and also that they are not otherwise disqualified within the meaning of sub section (3) of Section 226 of the Companies Act, 1956, for such appointment. The notes to the accounts referred to in the Auditors' Report are self-explanatory.

APPRECIATION

Your Directors would like to place their grateful appreciation for the assistance and cooperation received from the banks, government authorities, customers, vendors and shareholders during the year under review.

Your Directors also place on record their appreciation of the contribution made by employees at every level of the organisation. The remarkable growth of the Company has been possible only due to their active support, dedication and solidarity.

For and on behalf of the Board of Directors,

Jaipur,
30th June, 2004


Chairman

Your Directors also place on record their appreciation of the contribution made by employees at every level of the organisation. The remarkable growth of the Company has been possible only due to their active support, dedication and solidarity.

CORPORATE GOVERNANCE REPORT

1. PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Your company is committed to achieve the highest standards of corporate governance. It continues to review its corporate governance practices to ensure that they continue to reflect domestic and international developments to position itself to conform to the best corporate governance practices. It believes that all its operations and actions must serve the underlying goal of enhancing overall shareholder value, over a sustained period of time.

In recognition of good governance and disclosure practices in 2002-2003, the company has been awarded Certificate of Merit by Rajasthan Chamber of Commerce & Industries. This certificate has made us more committed towards achieving higher levels of corporate governance.

Vaibhav's philosophy on corporate governance envisages the attainment of the highest levels of transparency, accountability and equity, in all facets of its operation, and in all its interactions with its stakeholders, including shareholders, employees, the government and lenders.

The Company's philosophy on the Code of Corporate Governance is:

- To ensure that the best possible team is in place at the helm of affairs of the Company;
- To ensure that the Board retains its objectivity with non-executive directors who are independent and represent the interest of shareholders;
- To ensure that adequate control systems exist to enable the Board to effectively discharge its responsibilities to the stakeholders;
- To ensure the fullest commitment of the Management and the Board to the maximization of shareholder value;
- To ensure that the Company follows globally recognised corporate governance practices.

2. BOARD OF DIRECTORS

Composition

The composition of the Board of Directors of the Company represents an appropriate mix of executive and independent directors to maintain the independence of the Board, and to separate the Board functions of Governance and management.

With a view to increase the number of independent directors and to strengthen the Board, Shri M.L. Mehta (Ex-Chief Secretary, Government of Rajasthan) and Shri S.S. Bhandari (Senior Chartered Accountant) has been inducted as non-executive independent directors.

Number of Board meetings held and the dates on which held

During the financial year ended on 31st March, 2004 the Board of Directors of the Company held eight meetings.

The meetings were held on 19th May 2003, 18th June 2003, 30th June 2003, 26th July 2003, 20th October 2003, 23rd December 2003, 25th January 2004 and 27th March 2004.

Other details required in terms of Clause 49 of Listing Agreement:

Name of the Director	Category	Board meetings attended during the year	Whether attended last AGM	Number of other Director -ships	Number of other committees for which chairperson or member	Number of member -ship of board committees	Number of Board committees for which chair person
Mr. Sunil Agrawal	Chairman and Non-Executive Director	3	Yes	3	Nil	Nil	Nil
Mr. Rahimullah	Non Independent Managing Director	7	Yes	2	Nil	1	Nil
Mr. Ikramullah	Non Independent Executive Director	8	Yes	1	Nil	1	Nil
Mr. Sanjeev Agrawal	Non-Independent Non-Executive Director	5	No	3	Nil	2	Nil
Mr. Nirmal Kumar Bardiya	Independent Non-Executive Director	3	Yes	3	Nil	2	Nil
Mr. Anandi Lal Roongta	Independent Non-Executive Director	7	Yes	2	Nil	3	1
Mr. Suresh Punjabi	Independent Non-Executive Director	2	No	1	Nil	Nil	Nil
*Mr. M.L. Mehta	Independent Non-Executive Director	2	No	1	Nil	2	1
*Mr. S. S. Bhandari	Independent Non-Executive Director	Nil	No	1	2	2	1
**Mr. Rajiv Jain	Independent Non-Executive Director	3	Yes	N.A.	N.A.	N.A.	N.A.

*Appointed as Additional Director by the Board at its meeting held on 25th January 2004.

** Resigned from directorship of the company with effect from 20th October 2003.

3. COMMITTEES OF THE BOARD

Audit Committee

Terms of reference

The terms of reference of the Audit Committee include the following:

- Reviewing the Company's financial reporting process and the disclosure of its financial information.
- Recommending the appointment and removal of statutory auditors, fixation of audit fees and also to approve payment for other services.
- Reviewing the quarterly and annual financial statements with primary focus on accounting policies and practices, compliance with accounting standards and legal requirements concerning financial statements.
- Reviewing the adequacy of internal control systems and internal audit function, ensuring compliance of internal control systems and reviewing the Company's financial and risk management policies.
- Reviewing the reports furnished by the internal auditors and statutory auditors and ensure suitable follow up thereon.

Composition of committee, number of meetings and attendance during the year:

The audit committee consists of five members who all are non-executive directors.

Name of the Director	Position held in the committee	No of meetings attended
*Mr. S. S. Bhandari	Chairman	Nil
**Mr. Anandi Lal Roongta	Member	3
Mr. M.L. Mehta	Member	Nil
Mr. Sanjeev Agrawal	Member	2
Mr. Nirmal Kumar Bardiya	Member	Nil
Mr. Rajiv Jain	Ex-member	2
Mr. Suresh Punjabi	Ex-member	2

*Chairman with effect from 25th January 2004

** Chairman upto 25th January 2004

The Board of Directors at its meeting held on 25th January 2004 reconstituted the Audit Committee. Shri S. S. Bhandari, Shri M. L. Mehta and Shri Nirmal Kumar Bardiya were appointed as new members of the Audit Committee. Shri S. S. Bhandari was appointed the Chairman of the committee. Shri Rajiv Jain and Shri Suresh Punjabi ceased to be members of the Audit Committee on 20th October 2003 and 25th January 2004 respectively.

The committee held its meetings on 30th June 2003, 19th July 2003, 20th October 2003 and 24th January 2004.

Remuneration Committee

Terms of reference

The broad terms of reference of the Remuneration Committee are to determine/recommend, the

remuneration to be paid to the executive director/ managing director and other directors, policy making in respect of annual increment, perquisites and commission to be paid to the Company's managing director / executive directors.

Composition of committee and attendance during the year:

Name of the Director	Position Held in the Committee	No of Meetings Attended
*Mr. M.L. Mehta	Chairman	Nil
Mr. Anandi Lal Roongta	Member	2
Mr. S. S. Bhandari	Member	Nil
Mr. Nirmal Kumar Bardiya	Member	3
Mr. Sanjeev Agrawal	(Ex-member)	1
**Mr. Suresh Punjabi	(Ex-member)	2

*Chairman with effect from 25th January 2004

**Chairman upto 25th January 2004

The Board of Directors at its meeting held on 25th January 2004 reconstituted the Remuneration Committee. Shri S. S. Bhandari and Shri M.L. Mehta were appointed as new members of the Audit Committee. Shri M.L. Mehta was appointed the Chairman of the Committee. Shri Sanjeev Agrawal and Shri Suresh Punjabi ceased to be members of the Committee on 25th January 2004.

The committee held its meetings on 19th July 2003, 20th October 2003 and 24th January 2004.

Remuneration of directors during the year 2003-04

Name of Director	Sitting Fees	Salary	Total	Terms
Sunil Agrawal	3,000	NA	3,000	Chairman
Anandi Lal Roongta	11,000	NA	11,000	Retirement by rotation
N.K. Bardiya	7,000	NA	7,000	Retirement by rotation
Sanjeev Agrawal	5,000	NA	5,000	Retirement by rotation
Suresh Punjabi	2,000	NA	2,000	Retirement by rotation
S. S. Bhandari	Nil	NA	Nil	Additional Director
M.L. Mehta	6,000	NA	6,000	Additional Director
*Rajiv Jain	3,000	NA	3,000	N. A.
Ikramullah	Nil	3,30,000	3,30,000	Contractual
Rahimullah	Nil	5,40,000	5,40,000	Contractual

* Shri Rajiv Jain resigned from the directorship of the Company with effect from 20th October 2003.

The contractual appointment was for the period of five years from the date of appointment, which may be determined by a notice period of three months on either side.



Shareholders' / Investors' Grievance Committee

Terms of reference

The terms of reference of the committee include approval of issue of duplicate certificates, redressal of shareholders' complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The Board has delegated the power of approving transfer of securities in physical form to the managing director, executive director, company secretary and other senior officials of the company.

Composition of committee

Name of the Director	Position held in the committee	Number of meetings attended
*Mr. Anandi Lal Roongta	Chairman	1
**Mr. Sanjeev Agrawal	Member	2
Mr. Rahimullah	Member	1
Mr. Ikramullah	Member	1
Mr. Suresh Punjabi	(Ex-member)	1
Mr. Nirmal Kumar Bardiya	(Ex-member)	1

*Chairman with effect from 25th January 2004

**Chairman upto 25th January 2004

The Board of Directors at its meeting held on 25th January 2004 reconstituted the Shareholders'/Investors' Grievance Committee. Shri Rahimullah and Shri Ikramullah were appointed as new members of the Committee. Shri Anandi Lal Roongta was appointed the Chairman of the committee. Shri Nirmal Kumar Bardiya and Shri Suresh Punjabi ceased to be members of the committee on 25th January 2004.

The committee held its meetings on 19th July 2003, 23rd December 2003 and 1st March 2004.

Name and designation of the compliance officer

Mr. Ashish Jain : Company Secretary

Details of shareholders'/investors' complaints received

Nature of complaints	Opening	Received	Resolved	Pending
Non-receipt of dividend	-	18	18	-
Non-receipt of annual report	-	6	6	-
Non-receipt of securities relating to transfer of shares	-	4	4	-
Correspondence / query relating to NSDL operations	-	3	3	-
Correction of name on securities	-	1	1	-
Other	-	4	4	-
TOTAL	-	36	36	-

These are routine complaints and are redressed at the earliest. On an average the problems were solved within seven days of the receipt.



Procedure at committee meetings of the Board

Committee meetings are held in the same manner as the Board meetings as far as may be practicable. Minutes of all the committee meetings are circulated to the members of the Board, as an agenda of subsequent Board meetings, for their information and noting.

4. GENERAL BODY MEETINGS

Date, time and venue of the last three annual general meetings:

Year	Date	Time	Venue
2000-01	26th September, 2001	10:00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2001-02	2nd September, 2002	10:00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2002-03	19th August, 2003	10.00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004

Date, time and venue of the extra ordinary general meetings held during the year:

Year	Date	Time	Venue
2003-04	19th January, 2004	4:00 P.M.	E-68, EPIP, Sitapura, Jaipur

Special resolution passed in annual general meetings:

Date of Meeting	Subject matter of Resolution
26th September, 2001	1. Appointment of Mr. Sunil Agrawal as Chairman & Managing Director of the Company.
	2. Appointment of Mr. Ikramullah as Executive Director of the Company.
	3. Voluntary delisting of securities form Delhi & Ahmedabad Stock Exchange.
2nd September, 2002	1. Increase in authorised capital to Rs. 16 crore from Rs. 5.50 crore
	2. Appointment of Shri Rahimullah as Managing Director of the Company.
	3. Alteration of provisions of articles relating to common seal provisions.

During the financial year 2003-04 no resolution was put through postal ballot.

5. DISCLOSURES

Disclosures regarding related party transactions are annexed at note no. 14 of notes on Accounts (Schedule XXI).

The Company has complied with the requirements of regulatory authorities i.e. stock exchanges, SEBI and other statutory authorities related to capital markets during the year. Listing fees in respect of financial year 2004-2005 has been paid to all the stock exchanges.

6. MEANS OF COMMUNICATION OF UNAUDITED/AUDITED FINANCIAL RESULTS

The Company is regular in intimating unaudited quarterly results as well as audited financial results to the stock exchanges, shareholders and to the general public immediately after they are taken on record by the Board. Quarterly results are sent to the shareholders and published in leading local and National newspapers such as Rajasthan Patrika, Dainik Bhaskar, Economic Times and Hindustan Times. In addition to that, results are also displayed on the company's web site www.vaibhavgems.com.

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To,
The Members of
VAIBHAV GEMS LIMITED
JAIPUR

We have examined the compliance of conditions of corporate governance by VAIBHAV GEMS LIMITED, for the year ended 31st March 2004, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementations thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that no investor grievance is pending for a period exceeding one month against the Company as per the information and explanations provided by the Shareholders'/ investors' Grievance Committee and the Registrar and Share Transfer Agent of the Company.

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

For B. Khosla & Co.
Chartered Accountants

G.G. MUNDRA
Partner

Jaipur
June 30th, 2004

GENERAL INFORMATION TO SHAREHOLDERS AND INVESTORS

a) Annual general meeting:

Date and time - 27th September 2004 at 10 A.M.
Venue - K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004

b) Financial Calendar: (Tentative and subject to change)

Financial reporting for the quarter

• ending 30th June 2004 - end July, 2004
• ending 30th September 2004 - end October, 2004
• ending 31st December 2004 - end January, 2005
• ending 31st March 2005 - end April, 2005

Dates of book closure: - 23rd September, 2004 to 27th September, 2004
(Both days inclusive)

d) Dividend payment date: - 27th September, 2004 onwards

e) Stock exchanges where listed and stock code:

- 1) The Stock Exchange Mumbai, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001 (532156)
- 2) The National Stock Exchange, "Exchange Plaza", Bandra Kurla Complex, Bandra (E), Mumbai - 400 051 (VAIBHAVGEM)
- 3) The Stock Exchange, Ahmedabad, Khamdhenu Complex, Panjar Pole, Near Old Sachivalaya, Ahmedabad - 385015 (64574)
- 4) The Delhi Stock Exchange Association Limited, DSE House, 3/1 Asaf Ali Road, New Delhi - 110002 (9008)
- 5) Jaipur Stock Exchange Limited, Stock Exchange Building, J.L.N. Marg, Malviya Nagar, JAIPUR - 302017 (987)

ISIN Code no.: INE884A01019

f) Share price data and its comparison with BSE Sensex

Month	Sensex		VGL		Volume at BSE
	High	Low	High	Low	
April 2003	3,037.54	3,221.90	22.00	17.10	14,270
May 2003	2,949.04	3,200.48	24.70	20.55	72,308
June 2003	3,176.56	3,632.84	29.00	22.25	103,037
July 2003	3,617.74	3,835.75	31.40	22.95	179,786
August 2003	3,800.73	4,277.64	30.00	24.00	135,675
September 2003	4,248.07	4,473.57	28.70	22.50	56,311
October 2003	4,452.07	4,951.11	26.40	22.50	70,515
November 2003	4,946.93	5,135.00	35.45	24.50	221,849
December 2003	5,086.86	5,920.76	65.00	29.15	2,586,534
January 2004	5,872.48	6,249.60	65.80	48.00	476,237
February 2004	5,715.46	6,082.80	59.80	45.00	65,171
March 2004	5,649.30	5,951.03	51.10	39.00	138,644



g) Registrar and share transfer agent:
Karvy Computershare (P) Limited,
Karvy House'. 46, Avenue 4, Street No. 1,
Banjara Hills, Hyderabad- 500 034

Share transfer system

All share transfers in physical form are dealt by Karvy Computershare (P) Limited, Hyderabad, our Registrar and Share Transfer Agents. Presently the share transfers received in physical form are processed and registered within 30 days from the date of receipt subject to the documents being valid and complete in all respects.

Share transfers in demat mode are controlled by depositories.

h) Distribution of shareholding as on 31st March, 2004

Distribution of shareholding according to number of shares:

Number of equity shares held	Number of shares held	Percentage of shareholding	Number of shareholders	Percentage of shareholders
1 to 100	14,121	0.13	204	23.72
101 to 200	32,838	0.31	167	19.42
201 to 500	76,678	0.73	188	21.86
501 to 1000	97,684	0.92	116	13.49
1001 to 5000	292,484	2.77	125	14.53
5001 to 10000	169,791	1.61	22	2.56
10001 and above	9,877,004	93.53	38	4.42
TOTAL	1,05,60,600	100.00	860	100.00

i) Dematerialisation of shares and liquidity

About 97 percent of the total shares of the Company have been dematerialised as on 31st March, 2004. Trading in equity shares of the Company is permitted only in dematerialised form. In view of the following advantage offered by the depository system, members are requested to avail of the facility of the dematerialisation of the Company's shares.

Advantages under Demat system

- Trading in the shares of Vaibhav Gems Limited is under compulsory demat segment. Therefore dematerialisation of shares improves liquidity.
- The concept of an "odd lot" in respect of dematerialised shares stands abolished i.e. in the DEMAT MODE market lot becomes ONE share.
- Dematerialised securities are most preferred by the banks and other financiers for providing credit facility against securities. Generally, demat securities attract lower margin and lower interest rate compared to physical securities.
- Securities in dematerialised form reduce all risk of loss of certificates. Under your specific instructions the same can be kept in "frozen mode" by your Depository Participant (DP).



How to dematerialise shares?

- Open a demat account with any of the Depository Participants (DPs)
- Submit demat request form (DRF) duly signed by all the holders along with the share certificates only to the DPs.
- Obtain acknowledgment from the DP for having accepted the share certificates.
- Receive a confirmation statement of holding from your DP within 15 days from the lodgement of securities with DPs.

In case you need any additional information on this matter please feel free to contact at:

Demat Advisory Cell, Karvy Computershare Private Limited,
46, Avenue 4, Street No.1, Banjara Hills, Hyderabad 500 034, India.
Telephone No: +91-40-23320666 / 23320711 / 23323031 / 23323037

j) ECS mandate

Company is providing the facility of ECS as per the stipulated guidelines issued by RBI. ECS mandate form is attached with the annual report.

k) Company has not issued any ADRs/GDRs/Warrants or any convertible instruments.

l) Plant location

The plants of the Company are located at the following addresses:

K-6B, Fateh Tiba, Adarsh Nagar Road, Jaipur-302 004.

E-68, EPIP, Sitapura, Jaipur – 303 905.

m) Address for correspondence:

Shareholders' correspondence should be addressed to the Company's registrar and share transfer agent at:

Karvy Computershare (P) Limited, Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad- 500 034, India.

In case of any problem, shareholders can contact Mr. Ashish Jain, Company Secretary at:

E-68, EPIP, Sitapura, Jaipur – 303 905, by telephone: +91-141-2770648 (extn.421) or fax +91-141-2770510 or by email at ashishj@vaibhavgems.com

AUDITORS' REPORT

To
The Shareholders of
VAIBHAV GEMS LIMITED
Jaipur

We have audited the attached Balance Sheet of VAIBHAV GEMS LIMITED as at 31st March 2004 and also the Profit and Loss Account and Cash Flow Statement of the company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph (1) above:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of accounts as required by law have been kept by the company so far as appears from

- our examination of the books of accounts;
- (c) The Balance Sheet and Profit and Loss account dealt with by this report are in agreement with the books of accounts;
 - (d) In our opinion, the Profit and Loss account and the Balance Sheet of the company comply with the Accounting Standards as referred in Sub-Section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable;
 - (e) As per information and explanations given to us, none of the directors of the company are disqualified from being appointed as a director under clause (g) of Sub-Section (1) of Section 274 of the Companies Act, 1956;
 - (f) In our opinion and to the best of our information and according to explanations given to us, the said accounts, read together with Significant Accounting Policies and Notes to 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: -
 - I. In case of Balance Sheet, of the state of the affairs of the company as at 31st March 2004;
 - II. In case of Profit and Loss Account, of the profit of the Company for the year ended on that date; and
 - III. In case of the Cash Flow Statement, of the cash flow for the year ended on that date.

For B. Khosla & Co.
Chartered Accountants

Place: Jaipur
Dated: June 30, 2004

G. G. Mundra
Partner

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 1 of our report of even date)

- (i)
 - a. The company has maintained proper records of all Fixed Assets from 1st April 1998 showing full particulars including quantitative details and location thereof. As regarding Fixed Assets acquired prior to above date, the company has compiled only item wise lists of its fixed assets
 - b. We are informed that during the year the management has physically verified these assets and no material discrepancies were noticed on such verification.
 - c. As per information and explanations given to us, during the year, the Company has not disposed off any substantial part of fixed assets that would affect the going concern.
- (ii)
 - a. As explained to us, inventories have been physically verified by the management at reasonable intervals.
 - b. In our opinion and according to information and explanations given to us, the procedure of physical verification of inventories followed by the management is reasonable and adequate in relation to the size of the company and nature of its business.
- (iii)
 - a. The company had taken interest-free unsecured loan from a company covered in the register maintained under Section 301 of the Companies Act, 1956. The amount outstanding at the beginning of the year was Rs. 1,260,000/- and the same was repaid during the year. As informed, the company has not granted any loans, secured or unsecured to companies, firms or parties covered under register maintained under section 301 of the Companies Act, 1956.
 - b. In our opinion, the rate of interest and other terms and conditions of loans taken by the company is not prima

- facie prejudicial to the interest of the company.
- c. The company has repaid the principal amounts as stipulated. As informed, the company has not granted any loans.
 - d. There is no overdue amount of loan taken or granted to companies, firms or parties covered under register maintained under section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanation given to us, there are adequate internal control procedures commensurate with size of the Company and the nature of its business, for the purchase of inventories and fixed assets and for the sale of goods. We have not observed any continuing failure to correct major weaknesses in internal control.
- (v)
 - a. According to the information and explanations given to us, we are of the opinion that transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956, have been so entered.
 - b. As informed and according to information and explanation given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of rupees five lakhs 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) In our opinion and according to information and explanations given to us, the company during the year has not accepted any deposits from the public to which the provisions of Section 58A and 58AA of the Companies Act, 1956 and directions issued by Reserve Bank of India is applicable.
- (vii) Internal Audit is being carried out departmentally by a team headed by a Chartered Accountant and in our opinion the same is commensurate with the size of the company and nature of its business.
- (viii) Maintenance of cost records under Section 209 (1) (d) of the Company Act, 1956 has not been prescribed by the Central Government for the Company
- (ix)
 - a. The company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, employees' state insurance, income tax, sales tax, wealth tax, custom duty, excise duty, cess and other material statutory dues applicable to it.
 - b. According to information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, custom duty, excise duty and cess were in arrears, as at 31st March, 2004 for a period of more than six months from the date they became payable.
 - c. According to the information and explanations given to us, there are no such statutory dues which have not been deposited on account of any such dispute, except in respect of Income tax of Rs. 14,226,618/- for the earlier years

- which is pending before Appellate Tribunal. The company has deposited Rs. 2,381,000/- against the same, which has been shown as Advance.
- (x) The Company neither has accumulated losses nor it has incurred any cash losses during the current financial year and the immediately preceding financial year.
 - (xi) In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to banks. There is no loan from the financial institution and the company has not issued debentures.
 - (xii) As informed, 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) In our opinion, the company is not a chit fund or a nidhi/ mutual benefit fund/ society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the company.
 - (xiv) In our opinion, the company is not dealing in or trading in shares, securities and debentures. The investments are held by the company in its own name.
 - (xv) According to information and explanations given by the management, in our opinion the terms and condition on which the company has given guarantee for loan taken by others from bank or financial institution are not prejudicial to the interest of the company.
 - (xvi) According to the information and explanations given to us the Company has not obtained any term loans.
 - (xvii) According to the information and explanations given to us and on overall examination of the balance sheet of the company as at 31st March 2004, we find that the Company's long term source of funds amounted to Rs. 54.23 Crores, of which the long term application of funds were Rs. 9.16 Crores and the balance of long-term fund amounted to Rs. 45.07 Crores has been utilised to finance permanent working capital. As informed, no funds raised on short-term basis have been used for long-term investment.
 - (xviii) According to the information and explanations given to us, the company has not made preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act.
 - (xix) The Company has not issued any debentures and hence clause 4(xix) of the Order is not applicable to the company.
 - (xx) During the year covered by our report the Company has not raised any money by way of public issue.
 - (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For B. Khosla & Co.
Chartered Accountants

Place: Jaipur
Dated: June 30, 2004

G. G. Mundra
Partner

VAIBHAV GEMS LIMITED

BALANCE SHEET

		(Amount in Rupees)	
As at 31st March	Schedule	2004	2003
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	I	10,56,06,000	10,56,06,000
Reserves and Surplus	II	41,28,06,516	34,11,34,122
		51,84,12,516	44,67,40,122
Loan Funds			
Secured Loans	III	16,95,79,761	16,45,72,839
Unsecured Loan	IV	–	26,60,000
		16,95,79,761	16,72,32,839
Deferred Tax Liability		8,04,244	7,94,005
Total		68,87,96,521	61,47,66,966
APPLICATION OF FUNDS			
Fixed Assets	V		
Gross Block		12,05,96,799	8,68,37,421
Less: Accumulated Depreciation		4,38,17,988	3,67,61,764
Net Block		7,67,78,811	5,00,75,657
Capital Work-in-progress		95,34,716	15,40,000
		8,63,13,527	5,16,15,657
Investments	VI	53,15,500	58,97,400
Current Assets, Loans and Advances			
Stock-in-Trade	VII	24,74,81,705	26,19,22,568
Sundry Debtors	VIII	39,88,68,029	38,39,59,532
Cash and Bank Balance	IX	3,48,77,101	1,93,35,297
Loans and Advances	X	1,20,68,825	1,47,21,109
		69,32,95,660	67,99,38,506
Less: Current Liabilities and Provisions			
Current Liabilities	XI	7,15,00,812	10,10,98,625
Provisions	XI	2,46,27,354	2,20,61,883
		9,61,28,166	12,31,60,508
Net Current Assets		59,71,67,494	55,67,77,998
Miscellaneous Expenditure	XII	–	4,75,911
Total		68,87,96,521	61,47,66,966
Notes on Accounts	XXI		
Significant Accounting Policies	XXII		

As per our report of even date
For and on behalf of

B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner

Jaipur, 30th June, 2004

Ashish Jain
Company Secretary

Rahimullah
Managing Director

Sunil Agrawal
Chairman

Jaipur, 30th June, 2004



PROFIT AND LOSS ACCOUNT

		(Amount in Rupees)	
Year ended 31st March	Schedule	2004	2003
TURNOVER			
Sales	XIII	1,28,23,72,895	1,00,60,03,030
Other Income	XIV	1,00,36,695	41,78,939
		1,29,24,09,590	1,01,01,81,969
EXPENDITURE			
Materials	XV	1,05,44,13,527	82,34,48,049
Manufacturing Expenses	XVI	4,71,37,260	3,84,07,217
Employees Costs	XVII	5,13,68,269	4,25,61,448
Administrative & Selling Expenses	XVIII	2,88,33,154	2,71,64,318
Interest on Secured Loans		63,42,031	1,08,14,627
		1,18,80,94,241	94,23,95,659
Profit before Depreciation and Amortisations		10,43,15,349	6,77,86,310
Depreciation	V	74,67,752	66,23,991
Amortisations	XIX	5,14,859	4,75,911
Profit for the year before Tax		9,63,32,738	6,06,86,408
Provision for Income Tax		8,00,000	30,00,000
Net Deferred Tax Charge/(Credit) for the year		10,239	(91,681)
Profit for the year after Tax		9,55,22,499	5,77,78,089
Add/(Less) :			
Prior Period Adjustments		(1,86,100)	(8,351)
Excess Provisions of earlier years		1,63,349	7,06,568
Net Profit for the Year		9,54,99,748	5,84,76,306
Balance brought forward		26,14,88,922	23,70,74,499
Profit available for Appropriation		35,69,88,670	29,55,50,805
APPROPRIATIONS			
Proposed Dividend		2,11,21,200	1,68,96,960
Tax on Dividend		27,06,154	21,64,923
General Reserve		1,00,00,000	1,50,00,000
		3,38,27,354	3,40,61,883
Balance carried to Balance Sheet		32,31,61,316	26,14,88,922
Basic and Diluted Earnings per Share of Rs. 10 each		9.04	5.54
Additional Information	XX		
Notes on Accounts	XXI		
Significant Accounting Policies	XXII		

As per our report of even date
For and on behalf of

B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner

Jaipur, 30th June, 2004

Ashish Jain
Company Secretary

Rahimullah
Managing Director

Sunil Agrawal
Chairman

Jaipur, 30th June, 2004

Schedules Forming Part of Accounts

(Amount in Rupees)			
As at 31st March	2004		2003
I SHARE CAPITAL			
Authorised			
1,60,00,000 Equity Shares of Rs.10 each	16,00,00,000		16,00,00,000
Issued, Subscribed and Fully Paidup			
1,05,60,600 Equity Shares of Rs.10 each	10,56,06,000		10,56,06,000
Of the above 72,94,920 shares were allotted as fully paid up Bonus Shares by capitalisation of Reserves and Surplus.			
II RESERVES AND SURPLUS			
Securities Premium	5,85,98,200		5,85,98,200
General Reserve:			
As per last Balance Sheet	2,10,47,000	5,88,50,000	
Less: Capitalised during the year	-	5,28,03,000	
	2,10,47,000	60,47,000	
Add: Transferred from Profit and Loss Account	1,00,00,000	1,50,00,000	
	3,10,47,000	2,10,47,000	
Balance in Profit and Loss account	32,31,61,316	26,14,88,922	
	41,28,06,516	34,11,34,122	
III SECURED LOANS			
From Banks*			
Secured by hypothecation of Stocks	9,76,27,500	5,65,98,185	
Secured by hypothecation of Export receivables	7,19,52,261	10,79,74,654	
	16,95,79,761	16,45,72,839	
	16,95,79,761	16,45,72,839	
*Further Secured by			
a. Equitable Mortgage of Land and Buildings situated at K-6A & K-6B, Adarsh Nagar and E-68, EPIP, Sitapura, Jaipur and a property situated at Mumbai owned by a Shareholder.			
b. Hypothecation of Plant and Machineries.			
c. Fixed Deposits of Rs. 27,49,152 (Rs. 26,25,854)			
d. Guarantees of Chairman, Managing Director, a Director and three Shareholders.			
IV UNSECURED LOANS			
Other than Short Term			
From Others	-	26,60,000	
	-	26,60,000	



Schedules Forming Part of Accounts

(Amount in Rupees)				
	Additions 2003-2004	Deductions 2003-2004	Balance as at 31-Mar-04	Balance as at 31-Mar-03
V FIXED ASSETS				
Gross Block				
Land (Freehold)	-	-	48,94,908	48,94,908
Land (Leasehold)	66,00,000	5,27,908	1,02,30,729	41,58,637
Buildings	1,20,13,500	13,58,900	3,12,47,180	2,05,92,580
Plant and Machinery	1,09,48,143	-	4,16,93,760	3,07,45,617
Computers	11,97,083	89,950	85,11,074	74,03,941
Electric Installation	20,12,401	4,95,000	46,64,716	31,47,315
Furniture and Fixtures	11,79,657	-	99,00,003	87,20,346
Office Equipment	22,80,352	-	74,93,707	52,13,355
Vehicles	-	-	19,60,722	19,60,722
	3,62,31,136	24,71,758	12,05,96,799	8,68,37,421
Previous year	21,56,456	1,04,673	8,68,37,421	8,47,85,638
Accumulated Depreciation				
Land (Freehold)	-	-	-	-
Land (Leasehold)	-	-	-	-
Buildings	18,22,284	1,08,082	82,59,670	65,45,468
Plant and Machinery	29,85,254	-	1,67,62,386	1,37,77,132
Computers	8,67,544	88,054	64,83,128	57,03,638
Electric Installation	3,47,545	2,15,392	15,46,218	14,14,065
Furniture and Fixtures	7,78,737	-	63,72,219	55,93,482
Office Equipment	4,62,287	-	29,72,106	25,09,819
Vehicles	2,04,101	-	14,22,261	12,18,160
	74,67,752	4,11,528	4,38,17,988	3,67,61,764
Previous year	66,23,991	70,913	3,67,61,764	3,02,08,686
Net Block				
Land (Freehold)			48,94,908	48,94,908
Land (Leasehold)			1,02,30,729	41,58,637
Buildings			2,29,87,510	1,40,47,112
Plant and Machinery			2,49,31,374	1,69,68,485
Computers			2,027,946	17,00,303
Electric Installation			31,18,498	17,33,250
Furniture and Fixtures			35,27,784	31,26,864
Office Equipment			45,21,601	27,03,536
Vehicles			5,38,461	7,42,562
			7,67,78,811	5,00,75,657
Capital Work-in-Progress			95,34,716	15,40,000
			8,63,13,527	5,16,15,657

Notes:

- Buildings Include Rs. Nil (Rs. 12,20,370) registered in the name of two Directors of the Company.
- Additions to Fixed Assets during the year have Increased/(decreased) by Rs. 2,626 (Rs. 1,510) on account of foreign exchange fluctuation.
- Capital Work-in-Progress includes advance given against Capital Expenditure.
- Deductions in respect of Leasehold Land include amortisation of cost of acquisition.
- Land (Leasehold) includes Rs. 66,00,000 (Rs. Nil) in respect of which Lease Agreement is yet to be executed.

Schedules Forming Part of Accounts

As at 31st March	2004	2003
VI INVESTMENTS		
(Long Term, Other than trade - At Cost)		
Fully paid Equity Shares of Rs. 10 each of:		
- Quoted		
Nil (26,300) IDBI Bank Ltd.	-	4,73,400
[Market Value Rs. Nil (Rs. 5,93,065)]		
3,500 (7,000) Punjab National Bank	1,08,500	2,17,000
[Market Value Rs. 11,68,650 (Rs. 7,12,950)]		
- Unquoted		
3,60,000 (3,60,000) VGL Softech Ltd.	52,07,000	52,07,000
	53,15,500	58,97,400

VII STOCK IN TRADE		
(As taken, valued and certified by the Management)		
(At cost or net realisable value, whichever is lower)		
Material-in-process	22,40,25,559	23,51,93,976
Semi Finished Goods	1,18,16,685	1,56,62,820
Finished Goods	77,68,123	38,78,195
Stores and Consumables	38,71,338	71,87,577
	24,74,81,705	26,19,22,568

VIII SUNDRY DEBTORS		
(Unsecured and Considered Good)		
Outstanding for more than Six Months	15,53,014	96,22,398
Others	39,73,15,015	37,43,37,134
	39,88,68,029	38,39,59,532
	39,88,68,029	38,39,59,532

IX CASH AND BANK BALANCES		
Cash on hand	4,08,696	6,75,147
Balance with Scheduled banks:		
- In Current Accounts	2,15,57,811	1,03,37,107
- In Deposit Accounts (Pledged)	1,29,10,594	83,23,043
	3,44,68,405	1,86,60,150
	3,48,77,101	1,93,35,297



Schedules Forming Part of Accounts

As at 31st March	2004	2003
X LOANS AND ADVANCES		
(Unsecured and considered good)		
Advances recoverable in Cash or in kind or for value to be received	11,62,864	50,04,078
Income Tax Refundable	56,71,276	43,88,389
Advance Income Tax	12,84,236	34,63,136
Advances to Staff	27,13,690	11,08,407
Security Deposits	12,36,759	7,57,099
	1,20,68,825	1,47,21,109

XI CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities:		
Sundry Creditors Other than SSI Undertakings	5,05,54,701	8,92,56,761
Unpaid Dividend	1,86,434	1,24,299
Other Liabilities	2,07,59,677	1,17,17,565
	7,15,00,812	10,10,98,625
Provisions:		
Provision for Income Tax	8,00,000	30,00,000
Proposed Dividend	2,11,21,200	1,68,96,960
Tax on Dividend	27,06,154	21,64,923
	2,46,27,354	2,20,61,883
	9,61,28,166	12,31,60,508

XII MISCELLANEOUS EXPENDITURE		
(To the extent not written-off)		
Deferred Revenue Expenditure	-	4,75,911
	-	4,75,911

Year ended 31st March	2004	2003
XIII SALES		
Export Sales	1,31,78,48,346	1,01,10,10,009
Domestic Sales	-	14,17,141
	1,31,78,48,346	1,01,24,27,150
Exchange Gain/(Loss) on Exports	(3,54,75,451)	(64,24,120)
	1,28,23,72,895	1,00,60,03,030

Schedules Forming Part of Accounts

Year ended 31st March	2004	2003
XIV OTHER INCOME		
Sale of REP Licence	75,864	4,09,723
Dividends on Investment ¹	21,000	3,86,300
Interest on Bank FDRs ²	5,40,605	5,91,192
Profit on sale of Investment	8,60,122	-
Profit on sale of Fixed Assets	34,286	2,05,240
Other Exchange Gain	84,34,086	25,84,414
Miscellaneous Income	70,732	2,070
	1,00,36,695	41,78,939

1 Income-tax deducted at source Rs. Nil (Rs. 40,562)

2 Income-tax deducted at source Rs. 84,236 (Rs. 1,62,574)

XV MATERIALS		
Materials Consumed		
Opening Material-in-process	23,51,93,976	15,73,64,348
Add: Purchases	1,04,63,44,716	88,80,26,569
	1,28,15,38,692	1,04,53,90,917
Less: Closing Material-in-process	22,40,25,559	23,51,93,976
	1,05,75,13,133	81,01,96,941
Exchange (Gain)/Loss on Imports	(66,98,730)	(1,14,440)
Purchases of Finished Goods	36,42,917	20,56,461
(Increase)/Decrease in Semi Finished and Finished Goods:		
Opening Stocks		
Semi Finished Goods	1,56,62,820	-
Finished Goods	38,78,195	3,08,50,102
	1,95,41,015	3,08,50,102
Less: Closing Stocks		
Semi Finished Goods	1,18,16,685	1,56,62,820
Finished Goods	77,68,123	38,78,195
	1,95,84,808	1,95,41,015
	(43,793)	1,13,09,087
	1,05,44,13,527	82,34,48,049

XVI MANUFACTURING EXPENSES		
Job Work Charges	2,33,92,697	2,12,45,185
Stores and Consumables	1,44,16,778	90,71,396
Power and Fuel	51,83,360	37,87,018
Other Manufacturing Expenses	16,94,504	29,59,689
Repairs and Maintenance	24,49,921	13,43,929
	4,71,37,260	3,84,07,217



Schedules Forming Part of Accounts

Year ended 31st March	2004	2003
XVII EMPLOYEES COSTS		
Salaries, Wages, Bonus etc.	4,55,70,404	3,78,08,272
Contributions to Provident and Other Funds	28,90,907	27,19,408
Staff Welfare Expenses	29,06,958	20,33,768
	5,13,68,269	4,25,61,448

XVIII ADMINISTRATIVE & SELLING EXPENSES		
Advertisement and Business Promotion	13,00,258	8,61,896
Auditors' Remuneration	1,05,840	97,200
Bank Charges	63,29,016	49,83,547
Director's Remuneration	8,70,000	9,18,871
Discounts, Brokerage and Commission	-	7,52,245
Donation	1,26,201	14,200
Insurance	8,63,541	7,75,253
Legal and Professional	13,04,812	27,87,896
Loss on Sale of Fixed Assets	1,23,143	-
Office Expenses	44,59,723	44,52,717
Packing and Forwarding	42,74,156	41,90,467
Post and Telephone	19,61,342	16,38,800
Printing and Stationery	9,84,149	8,70,264
Rent, Rates and Taxes	1,98,096	1,66,625
Travelling and Conveyance	59,32,877	46,54,337
	2,88,33,154	2,71,64,318

XIX AMORTISATIONS		
Deferred Revenue Expenditure	4,75,911	4,75,911
Leasehold Lands	38,948	-
	5,14,859	4,75,911

Schedules Forming Part of Accounts

(Amount in Rupees)				
Year ended 31st March	2004		2003	
XX ADDITIONAL INFORMATION				
(Pursuant to provisions of Paragraph 3 and 4 of Part II of Schedule VI to the Companies Act, 1956)				
1 Materials Consumed	Quantity	Rupees	Quantity	Rupees
Roughs (Grams)	42,86,908	39,16,12,731	28,75,600	37,47,11,535
Gold, Alloys and Accessories (Grams)	10,75,311	29,11,93,558	8,80,100	21,78,00,150
Gemstones (Carats)	10,87,417	24,30,60,911	6,55,049	13,19,21,094
Diamond (Carats)	22,706	13,16,45,933	12,085	8,57,64,162
		1,05,75,13,133		81,01,96,941
Note: Consumption includes quantity and cost of materials sold.				
2 Stocks, Turnover and Purchases	Quantity	Rupees	Quantity	Rupees
Opening Stocks				
Gem Stones (Carats)	1,80,640	38,21,620	2,13,300	2,40,78,560
Jewellery (Nos.)	74	56,575	2,679	67,71,542
		38,78,195		3,08,50,102
Purchases				
Gem Stones (Carats)	12,087	35,00,917	21,445	14,44,108
Jewellery (Nos.)	-	-	214	1,59,697
Others (Nos.)	97,400	1,42,000	241	4,52,656
		36,42,917		20,56,461
Turnover				
Gem Stones (Carats)	5,34,734	26,81,96,284	5,40,922	32,48,05,925
Jewellery (Nos.)	5,32,931	1,04,72,30,432	3,97,332	68,46,75,992
Roughs (Grams)	-	-	5,968	10,60,475
Diamond (Carats)	334	21,79,020	201	11,82,162
Others (Nos.)	97,400	2,42,610	244	7,02,596
		1,31,78,48,346		1,01,24,27,150
Closing Stocks				
Gem Stones (Carats)	2,12,905	77,65,123	1,80,640	38,21,620
Jewellery (Nos.)	-	-	74	56,575
		77,65,123		38,78,195
3 Managerial Remuneration	Rupees		Rupees	
(In accordance with Schedule XIII to the Companies Act, 1956)				
Salaries	8,70,000		9,18,871	
4 Auditor's Remuneration	Rupees		Rupees	
a. Audit Fees	84,240		75,600	
b. Tax Audit Fees	10,800		10,800	
c. For other services	10,800		10,800	



Schedules Forming Part of Accounts

XX ADDITIONAL INFORMATION (Contd..)				
Year ended 31st March	2004		2003	
5 Capacities and Production	Quantity		Quantity	
Licensed and Installed Capacities	Not Applicable		Not Applicable	
Actual Production:				
Gem Stones* (Carats)	9,53,178		8,54,747	
Studded Jewellery (Nos.)	5,32,857		3,94,516	
[*Including Captive consumption (Carats)]	3,98,267		3,67,930	
6 Value of Imports calculated on C.I.F. basis in respect of	Rupees		Rupees	
a. Raw materials (other than through canalising agencies)	60,47,57,288		51,30,59,404	
b. Consumables and Stores	60,42,866		65,60,978	
c. Capital Goods	1,35,18,076		4,96,614	
7 Expenditure in Foreign Currency on account of	Rupees		Rupees	
Computer Software	4,66,443		-	
Travelling	3,49,937		8,53,292	
Others	3,24,983		-	
8 Value and percent of Material Consumption	%	Rupees	%	Rupees
Raw Materials and Components:				
Imported	57.80	61,12,12,313	56.96	46,14,70,776
Indigenous	42.20	44,63,00,820	43.04	34,87,26,165
		<u>1,05,75,13,133</u>		<u>81,01,96,941</u>
Consumables and Stores:				
Imported	54.44	78,48,147	60.51	54,89,197
Indigenous	45.56	65,68,631	39.49	35,82,199
		<u>1,44,16,778</u>		<u>90,71,396</u>
9 Remittance in foreign currency on account of Dividends	2002-2003		2001-2002	
a. Year to which the dividend relates	4		5	
b. Number of non-resident shareholders to whom remittances were made	15,48,800		7,78,000	
c. Number of shares on which remittances were made	24,78,080		21,39,500	
d. Dividend Amount (in Rupees)				
10 Earnings in Foreign Currency	Rupees		Rupees	
Export of goods calculated on F.O.B. basis	1,31,50,84,953		1,00,81,77,107	

Schedules Forming Part of Accounts

XXI| NOTES ON ACCOUNTS

- Figures in brackets, wherever given are in respect of previous year unless stated otherwise.
- The deferred tax liability comprise of the following:

	(Amount in Rupees)	
As at 31st March	2004	2003
a. Deferred Tax Liability		
i. Related to Depreciation	15,40,694	18,44,150
b. Deferred Tax Assets on account of:		
i. Provision for Doubtful Advances	4,23,325	6,20,134
ii. Public Issue Expenses	2,47,538	3,71,306
iii. Provision for Leave Encashment	65,587	58,705
	7,36,450	10,50,145
c. Deferred Tax Liability (Net)	8,04,244	7,94,005

Net deferred tax charge/(credit) for the year of Rs. 10,239 [(Rs. 91,681)] has been recognised in the Profit and Loss Account for the year.

- In the opinion of the Board the Current Assets, Loans & Advances are approximate of the value as stated in Balance Sheet, if realised in the ordinary course of business and provision for all known liabilities has been made.
- Sundry Debtors considered good, includes Rs. 39,80,65,990 (Rs. 36,03,02,649) due from bodies corporate in which directors are interested.
- Advances recoverable in cash or kind or for which value to be received includes Rs. 11,80,000 (Rs. 17,28,597) considered doubtful and which are fully provided for.
- Based on the information available with management, the Company does not owe any sum to a small-scale industrial undertaking as defined in clause (j) to Section 3 of the Industrial (Development and Regulation) Act, 1951.
- There are no amounts due and outstanding to be credited to Investor Education and Protection Fund.
- The Balances of Sundry Debtors, Loans and Advances and Sundry Creditors are subject to confirmation.

9. Contingent Liabilities:

	(Amount in Rupees)	
As at 31st March	2004	2003
a. Estimated amount of contracts remaining to be executed on capital account and not provided for:	66,53,885	-
b. Outstanding Guarantees furnished to Banks including in respect of Letters of Credit:	3,51,97,449	90,00,000
c. Guarantee to Bank in respect of credit facilities extended to third party:	2,55,00,000	2,55,00,000
d. Income Tax Demands against the Company not acknowledged as debts and not provided for, in respect of which Company has preferred appeals:	1,42,26,618	13,81,000
e. ESI Demand paid under protest by the Company:	59,281	19,281
10. Inter unit transfers has been eliminated from sales and purchases.		
11. Repairs and Maintenance includes:		
a. Repairs to Buildings	96,377	71,041
b. Repairs to Machinery	9,48,552	5,15,205
c. Other Repairs	14,04,992	7,57,683
12. Earnings per Share (EPS)	2003-04	2002-03
a. Net profit available for equity shareholders (Rs.)	9,54,99,748	5,84,76,306
b. Weighted Average number of equity shares used as denominator for calculating EPS	1,05,60,600	1,05,60,600
c. Basic and Diluted Earnings per share of Rs. 10 each (Rs.)	9.04	5.54



Schedules Forming Part of Accounts

XXI| NOTES ON ACCOUNTS (Contd...)

13. Segment Information:

A. Business Segments	(In Rupees)			
	Gemstones	Jewellery	Elimination/ Unallocable	Total
1. Segment Revenue				
External Revenue	26,30,97,220 (32,44,57,777)	1,01,90,51,471 (68,08,65,768)	- -	1,28,21,48,691 (1,00,53,23,545)
Inter-Segment Revenue	41,62,55,837 (28,15,62,689)	- -	41,62,55,837 (28,15,62,689)	- -
Total Revenue	67,93,53,057 (60,60,20,466)	1,01,90,51,471 (68,08,65,768)	41,62,55,837 (28,15,62,689)	1,28,21,48,691 (1,00,53,23,545)
2. Segment Result	2,45,96,419 (2,33,88,600)	9,81,98,445 (7,23,06,219)	- -	12,27,94,864 (9,56,94,819)
3. Other Information				
Segment Assets	22,33,57,636 (24,43,52,375)	50,14,29,000 (44,59,17,868)	6,01,38,051 (4,71,81,320)	78,49,24,687 (73,74,51,563)
Segment Liabilities	1,55,32,555 (5,07,43,402)	4,58,61,137 (4,65,85,660)	20,51,18,479 (19,38,58,290)	26,65,12,171 (29,11,87,352)
Capital Expenditure	4,84,518 (5,71,611)	4,37,41,334 (31,24,845)	- -	4,42,25,852 (36,96,456)
Depreciation and Amortisation	13,26,484 (16,11,878)	57,65,147 (45,15,835)	8,90,980 (9,72,189)	79,82,611 (70,99,902)
Non Cash Expenses other than Depreciation	18,97,256 (5,88,288)	1,63,84,864 (30,83,239)	- -	1,82,82,120 (36,71,527))

4 Reconciliation of Results	2003-2004	2002-2003
Total Segment Result before Interest and tax	12,27,94,864	9,56,94,819
Less: Unallocated expenditure net of unallocated income	2,08,46,800	2,47,93,327
Operating Profit	10,19,48,064	7,09,01,492
Add/(Less):		
Interest Expenses	(63,42,031)	(1,08,14,627)
Interest Income	5,40,605	5,91,592
Excess Provisions of earlier years	1,63,349	7,06,568
Provision for Income Tax	(8,00,000)	(30,00,000)
Deferred Tax Credit/(Charge)	(10,239)	91,681
Net Profit after tax	9,54,99,748	5,84,76,306

B. Geographical Segments

The Company caters mainly to the need of overseas markets and this year there is no domestic turnover. There are no reportable geographical segments.

Notes:

- Segment has been identified in line with the Accounting Standard on Segment Reporting (AS-17) taking into account the organisation structure as well as the differential risks and returns of these segments.
- The Company has disclosed Business Segment as the primary segment.
- Inter-Segment revenues are recognised at sales and/or transfer price.
- The Segment Revenues, Results, Assets and Liabilities include the respective amounts identifiable to each of the segment and amounts allocated on reasonable basis. The amounts, which are not allocable to any segment, shown as unallocable under respective heads.
- Figures in brackets represent previous year's amount.

Schedules Forming Part of Accounts

XXI| NOTES ON ACCOUNTS (Contd...)

14. Related Party Disclosure

A. List of related parties with whom transactions have taken place and relationships:

1. Amrin Gems Export	Associate Companies and Firms
2. Aziz Enterprises	
3. Aziz Gems Trading Co.	
4. Reengus Exim Private Limited	
5. Shivram Properties Private Limited	
6. Stone Age Limited	
7. Vaibhav Diamonds	Key Management Personnel (KMP)
8. VGL Softech Limited	
9. Shri Ikramullah	
10. Shri Rahimullah	
11. Shri Sunil Agrawal (Upto 30th July, 2002)	

B. Transactions during the year with related parties:

	2003-04	2002-03
(In Rupees)		
A. Unsecured Loans		
– Taken during the year		
a. Aziz Enterprises	–	70,00,000
b. Reengus Exim Private Limited	–	40,000
Total	–	70,40,000
– Repaid during the year		
a. Aziz Enterprises	–	70,00,000
b. Reengus Exim Private Limited	–	40,000
c. Shivram Properties Limited	12,60,000	3,72,228
Total	12,60,000	74,12,228
– Closing Balance		
a. Shivram Properties Limited	–	12,60,000
B. Advance Recoverable in Cash or in Kind (Given and Received/Adjusted during the year)		
a. VGL Softech Limited	11,00,000	–
C. Sundry Creditors		
a. Aziz Gems Trading Co.	1,13,088	–
b. VGL Softech Limited	1,50,509	1,35,550
Total	2,63,597	1,35,550
D. Sales		
a. Vaibhav Diamonds	–	12,010
E. Purchases		
a. Amrin Gems Export	21,58,982	23,69,129
b. Aziz Gems Trading Co.	15,88,779	11,06,445
Total	37,47,761	34,75,574
F. Other Income		
a. Aziz Enterprises	30,450	–
b. VGL Softech Limited	–	3,60,000



Schedules Forming Part of Accounts

XXI| NOTES ON ACCOUNTS (Contd...)

G. Expenditure

a. Shri Sunil Agrawal (Director's Remuneration)	–	1,60,710
b. Shri Ikramullah (Director's Remuneration)	3,30,000	3,00,000
c. Shri Rahimullah (Director's Remuneration)	5,40,000	4,60,161
d. VGL Softech Limited (Software Expenses)	20,85,494	21,21,534
e. Shivram Properties Pvt. Limited (Rent)	–	60,000
Total	29,55,494	31,02,405

H. Guarantees given by Company

a. Stone Age Limited	2,55,00,000	2,55,00,000
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15. Company has acquired Land on long-term (99 Years) lease from RIICO, which in non-cancelable. The company has paid economic rent under one time lump-sum option and therefore there is no future minimum lease payment payable in respect of aforesaid Leasehold Land. The economic rent is recognised in the Profit and Loss Account under the head "Rent, Rates and Taxes" in the year of payment.
16. Previous year figures have been reworked, regrouped, rearranged and reclassified wherever considered necessary, to make them comparable to those of the current year.

XXII| SIGNIFICANT ACCOUNTING POLICIES

1. System of Accounting

- a. The Company follows mercantile system of accounting and recognizes income and expenditure on accrual basis.
- b. Accounts have been prepared on historical cost basis and comply with applicable Accounting Standards and relevant presentational requirements of the Companies Act, 1956.

2. Use of Estimates

The presentation of financial statements requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the result are known/materialised.

3. Fixed Assets

Fixed Assets are stated at cost of acquisition or construction inclusive of freight, duties and taxes and incidental expense, less accumulated depreciation. Exchange difference in respect of liabilities incurred, to acquire fixed assets are adjusted to the carrying amount of such fixed assets.

Cost in respect of assets acquired on lease is amortised over the period of lease in equal installments.

4. Depreciation

Depreciation on Fixed Assets is being provided on written down value method at the rate specified in Schedule XIV of the Companies Act, 1956.

5. Inventories

a. Inventories are valued at lower of cost and estimated net realisable value. Cost is determined on 'First-in, First-out', 'Specific Identification', or 'Weighted Averages' basis as applicable. Cost Comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of semi finished and finished goods is determined on absorption costing method.

b. Materials-in-process includes raw materials issued for production and work-in-process. Semi Finished Goods are goods manufactured and pending for pre-shipment inspection. Materials consumed are materials used in production of semi finished and finished goods only.

6. Investment

Long-term investments are stated at cost. Provision for diminution in the value of long-term investments is made only if such a decline is other than temporary in the opinion of the management.

Current investments, if any, are carried at lower of cost and fair value.

7. Sales

Sales have recognised on dispatch and are net of trade discounts and include exchange difference arising on sales transactions.

Schedules Forming Part of Accounts

XXII SIGNIFICANT ACCOUNTING POLICIES (Contd...)

8. Foreign Currency Transactions
- a. Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the time of the transaction.
- b. Monetary items denominated in foreign currencies at the year-end are translated at year-end rates. In respect of forward exchange contracts the difference between the forward rate and the exchange rate at the inception of contract is recognised as income or expense over the period of the contract.
- c. Any income and expense on account of exchange difference either on settlement or on translation is recognised in the profit and loss account except in cases where they relate to acquisition of fixed assets in which case they are adjusted to the carrying cost of such assets.
9. Retirement Benefits
- Contributions are made to the Provident Funds on actual liability basis and to the Employees' Gratuity Fund established by the Life Insurance Corporation of India by way of taking policy covering all eligible employees. Liability for outstanding leaves to the credit of employees has been provided on actual basis.
10. Provision for Current and Deferred Taxation
- Provision for current tax is made after taking into consideration benefits admissible under the provisions of the Income Tax Act, 1961.
- Deferred tax resulting from "timing difference" between book and taxable profit is accounting for using the tax rates and laws that have been enacted or substantively enacted as on the Balance Sheet date. The deferred tax assets are recognised if there is a reasonable certainty of realisation.

Signatures to Schedules I to XXII

As per our report of even date
For and on behalf of

B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner

Jaipur, 30th June, 2004

Ashish Jain
Company Secretary

Rahimullah
Managing Director

Sunil Agrawal
Chairman

Jaipur, 30th June, 2004



BALANCE SHEET ABSTRACT AND GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.

4945

State Code

17

Balance Sheet Date

31032004

II. Capital Raised During the Year (Amount in Rs. Thousands)

Public Issue

NIL

Right Issue

NIL

Bonus Issue

NIL

Private Placement

NIL

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

Total Liabilities

688797

Total Assets

688797

Sources of Funds

Paid-up Capital

105606

Reserve & Surplus

412807

Deferred Tax Liability (net)

804

Secured Loans

169580

Unsecured Loans

NIL

Application of Funds

Net Fixed Assets

86314

Net Current Assets

597167

Investment

5316

Miscellaneous Expenditure

NIL

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

Turnover

1292410

Profit/ (Loss) before Tax

96333

Earning per Shares in Rs.

9.04

Total Expenditure

1196077

Profit /(Loss) after Tax

95500

Dividend Rate %

20.00

V. Generic Names of Three Principal Products of the Company (As per monetary terms)

Product Description

Other Precious Stones

Gold Studded Jewellery

Item Code No.

710319.09

711319.03

Item Code No.

710310.11

711319.04

Item Code No.

710310.19

VAIBHAV GEMS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004

Year ended 31st March	2004	2003
(Amount in Rupees)		
A. Cash Flow from Operating Activities		
Net Profit before tax and extraordinary Items	9,63,32,738	6,06,86,408
Adjustment for :		
Depreciation	74,67,752	66,23,991
Unrealised Foreign Exchange Difference	1,14,12,020	26,92,905
Profit on sale of Investment	(8,60,122)	-
Loss/(Profit) on sale of Fixed Assets	88,857	(2,05,240)
Prior Period Items	-	(8,351)
Amortisations	5,14,859	4,75,911
Interest and Dividend received	(5,61,605)	(9,77,492)
Interest paid on borrowings	63,42,031	1,08,14,627
Operating Profit before working Capital Changes	12,07,36,530	8,01,02,759
Adjustment for :		
Trade and other Receivables	(3,05,56,590)	(4,54,42,053)
Trade paybles	(2,90,35,117)	6,41,05,865
Stock-in-trade	1,44,40,863	(6,82,91,756)
Cash generated from Operations	7,55,85,686	3,04,74,815
Direct Taxes paid	31,88,629	25,19,933
Net Cash from Operating Activities	7,23,97,057	2,79,54,882
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(4,42,25,852)	(36,96,456)
Sale of Fixed Assets	17,46,325	2,39,000
Sale/(Purchases) of Shares	14,42,022	(2,17,000)
Interest and Dividend received	5,61,605	9,77,492
Net Cash used in Investing Activities	(4,04,75,900)	(26,96,964)
C. Cash flow from Financing Activities		
Proceeds from / (Repayment of) Long Term Borrowings	90,24,561	73,49,980
Dividend and Tax on Dividend paid	(1,90,61,883)	(1,45,20,825)
Interest Paid on Borrowings	(63,42,031)	(1,08,14,627)
Net Cash used in Financing Activities	(1,63,79,353)	(1,79,85,472)
Net Increase in Cash and Cash Equivalents	1,55,41,804	72,72,446
Opening Balance of Cash and Cash Equivalent	1,93,35,297	1,20,62,851
Closing Balance of Cash and Cash Equivalent	3,48,77,101	1,93,35,297

As per our report of even date
For and on behalf of

B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner

Jaipur, 30th June, 2004

Ashish Jain
Company Secretary

Rahimullah
Managing Director

Sunil Agrawal
Chairman

Jaipur, 30th June, 2004



CORPORATE INFORMATION

Board of Directors

Sunil Agrawal - Chairman

Anandi Lal Roongta

M. L. Mehta

Nirmal Kumar Bardiya

S. S. Bhandari

Sanjeev Agrawal

Suresh Punjabi

Ikramullah – Executive Director

Rahimullah – Managing Director

Company Secretary

Ashish Jain

Auditors

B. Khosla & Co., Jaipur

Registrars and share transfer agents

Karvy Computershare (P) Limited, Hyderabad

Registered office

K-6B, Adarsh Nagar, Fateh Tiba, Jaipur – 302 004

Phone: 0141-2601020, Fax: 0141 – 2603228

Manufacturing facilities

K-6B, Adarsh Nagar, Fateh Tiba, Jaipur – 302 004

Phone: 0141-2601020, Fax: 0141 – 2603228

E-68, EPIP, RIICO Industrial Area, Sitapura, Jaipur – 303 905

Phone: 0141-2770648, Fax: 0141 – 2770510

Bankers

Punjab National Bank

State Bank of Bikaner & Jaipur

*"Greatness is not in where we stand, but in what
direction we are moving. We must sail sometimes with
the wind and sometimes against it - but sail we must
and not drift, nor lie at anchor."*

Oliver Wendell Holmes



VAIBHAV GEMS LIMITED

Regd. Office: K-6B, Fateh Tiba, Adarsh Nagar,
Jaipur – 302 004

NOTICE

FIFTEENTH ANNUAL GENERAL MEETING

The Fifteenth Annual General Meeting of the members of Vaibhav Gems Limited will be held at registered office of the company at K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004 (Rajasthan), on Monday, 27th September, 2004 at 10.00 A.M. to transact the following business:

Ordinary Business

- To receive, consider and adopt the Audited Balance Sheet as at March 31, 2004 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
- To declare dividend on equity shares for the year ended March 31, 2004.
- To appoint a Director in the place of Shri Sunil Agrawal, who retires by rotation and being eligible, offers himself for re-appointment, as Director not liable to retire by rotation.
- To appoint a Director in the place of Shri Suresh Punjabi, who retires by rotation and being eligible, offers himself for re-appointment.
- To appoint Auditors and fix their remuneration.

Special Business

- To appoint Shri S. S. Bhandari as a director liable to retire by rotation.

To Consider and, if thought fit, to pass, with or without modification, the following Resolution as an Ordinary Resolution:

"RESOLVED THAT Shri S. S. Bhandari, who was appointed as an additional director on 25th January 2004 under section 260 of the Companies Act, 1956 & Article 77 of the Articles of Association of the Company and who holds the office upto the date of this Annual General Meeting and being eligible, offers himself for appointment, and in respect of whom the Company has received notice in writing pursuant to section 257 of the Companies Act, 1956 from member of the Company proposing his appointment as Director of the Company, and who has consented, if appointed, to act as a director, be and is hereby appointed as a Director of the company liable to retire by rotation."
- To appoint Shri M.L. Mehta as a director liable to retire by rotation.

To Consider and, if thought fit, to pass, with or without modification, the following Resolution as an Ordinary Resolution:

"RESOLVED THAT Shri M.L. Mehta, who was appointed as an additional director on 25th January 2004 under section 260 of the Companies Act, 1956 & Article 77 of the Articles of Association of the Company and who holds the office upto the date of this Annual General Meeting and being eligible, offers himself for appointment, and in respect of whom the Company has received notice in writing pursuant to section 257 of the Companies Act, 1956 from member of the Company proposing his appointment as Director of the Company, and who has consented, if appointed, to act as a director, be and is hereby appointed

as a Director of the company liable to retire by rotation."

- Appointment of Branch Auditors:

To Consider and, if thought fit, to pass, with or without modification, the following Resolutions as an Ordinary Resolution:

"RESOLVED that pursuant to the provisions of Section 228 and other applicable provisions, if any, of the Companies Act, 1956, M/S Singrodia Goyal & Co. Chartered Accountants, Mumbai, be and are hereby appointed as the Branch Auditors of Mumbai Branch office of the Company to hold office from the conclusion of this meeting upto the conclusion of the next Annual General Meeting of the Company and to examine and audit the books of accounts of the Mumbai Branch office of the Company for the financial year 2004-2005 on such remuneration as may be mutually agreed upon between the Board of Directors and the Branch Auditors, Plus out-of-pocket, travelling and other expenses incurred in connection with the audit.

"RESOLVED FURTHER that pursuant to the provisions of section 228 and other applicable provisions, if any of the Companies Act, 1956, the Board of Directors of the Company be and is hereby authorised to appoint as Branch Auditors of any Branch office which may be opened hereafter in India or abroad in consultation with the Company's Auditors, any person qualified to act as Branch Auditor within the provisions of the said section 228 and to fix their remuneration.
- To increase the Remuneration of Shri Ikramullah, Executive Director:

To Consider and, if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution:

"RESOLVED THAT in accordance with the provisions of Schedule XIII and other applicable provisions of the Companies Act, 1956, consent of the Company be and is hereby accorded to give effect to the resolution of the Board passed at its meeting held on 28th April 2004, for increasing the remuneration of Shri Ikramullah, Executive Director to Rs. 50,000/- P.M. with effect from 1st April 2004,"

"RESOLVED FURTHER THAT the Board be and is hereby authorised to increase, time to time, the remuneration of Shri Ikramullah in accordance with the limits specified in Schedule XIII of the Act."

"RESOLVED FURTHER THAT the Board is also authorised to alter and vary the terms and conditions of the agreement between the Company and Shri Ikramullah, Executive Director, executed on 13th May 2001, and to do all such acts, deeds, matters and things as may be considered necessary, usual or expedient to give effect to the above resolutions."
- To make Alteration in Article No. 68 of Articles of Association of Company:

To Consider and, if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 31(1) of the

Companies Act, 1956, the existing Article 68 of the Articles of Association of the Company be and is hereby substituted by the following clause:

- The Remuneration of the directors shall be determined in accordance with the provisions of Companies Act, 1956 and in so far as it consists of a monthly payment, be deemed to be accrued from day to day.
 - In addition to the remuneration payable to them in pursuance of the Act, the directors may be paid sitting fees for every meeting of the Board attended by them as may be determined by the Board from time to time in accordance with the provisions of the Companies Act 1956 and all the travelling hotel and other expenses properly incurred by them:
 - In attending and returning from the meeting of the Board of Directors or any Committee thereof or general meetings of the Company; or
 - In connection with the business of the Company."
 - To commence new business as set out in para 7,11,15,16,29,35,53, 54,63,86,87,102,106 of Part (C)- Other Objects, under Object Clause of Memorandum of Associations of Company:

To Consider and, if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution:

"RESOLVED THAT In accordance with the provisions of Section 149(2A) of the Companies Act, 1956, approval of the company be and is hereby accorded for commencing the business mentioned in para 7,11,15,16,29,35,53,54,63,86,87,102,106 of Part (C) -Other Objects, under Object Clause of Memorandum of Association of Company as mentioned below."
- Para 7**
To carry on the business as manufacturers and suppliers of plants, machinery and equipments, stores, tools, gadgets, wire drawers, tubes, boilers and other mechanical and electrical products, devices, contraptions, instruments, spares and components and to procure agencies for the same and to develop, acquire, supply plans, drawings, estimates, project-reports and know-how for industries, business Companies, services and public bodies and Governments.
- Para 11**
To Carry on the business of manufacturers and printers of the containers, drums, and other packing articles made of metals or card-board or hard-board or of any other material or substance and to manufacture, buy, sell, import, export, convert, recondition or otherwise deal in such products.
- Para 15**
To Carry on the business of manufacturers, processors, importers, buyers, sellers, stockiest, agents and distributors of and dealers in pulp, paper and boards products of all type, transparent paper, craft paper, carbons, inks and parchments.
- Para 16**
To Carry on the business of manufacturers, processors, importers, exporters, buyers, sellers or stockiest or otherwise dealers in precision, instruments, tools and accessories and nut bolts.

Para 29
To compose, print, lithograph or by block-making or engraving or by any other means and methods whatsoever, musical piece, plays, openings, programmes or other devices for amusement and entertainment. To make,

manufacture, purchase, import, sell, export, hire or otherwise dispose of film records or other material for recording songs, poems or other pieces of entertainment or print or publish books, pamphlets, periodicals, magazines, journals or other papers.

Para 35
To develop, acquire, supply plans, drawings, estimates, project reports and know how for industries, business Companies, services and public bodies and Governments.

Para 53
To open, establish, manage, run, equip, control, maintain, undertake, transact and to carry on the business of General Merchants, Departmental stores, Provisions and Commodities requisite for personal or house hold use, chain stores and agency business of all goods and merchandise.

Para 54
To Carry on the business of operators of training and teaching schools, colleges, workshops, institutes and classes for various trades, professions, crafts, arts and university of institute courses.

Para 63
To Carry on the business as goldsmiths, silversmiths, gem merchants, watch and clock repairers, electroplaters, dressing bag makers, importers and exporters of bullion and buy, sell and deal (wholesale and retail) in bullion, jewellery, watches, clocks, gold, silver plates, cups shields, electroplate, cutlery, dressing bags, articles of virtue and objects of art.

Para 86
To import, export, buy, sell or otherwise deal in all types of articles, goods and merchandise including Jewellery and semi-precious stones of all varieties, articles of handicrafts and arts, antiques, and curios, garments and readymade clothes, wool and other fabrics, carpets, durries, rugs, paintings, brasswares, electroplated nickel, silver wares, ivory wares, sandal wood wares, marble wares, stone wares, costume Jewellery, leather wares, table wares, wood wares, lacquer wares, white metal wares and all types of handicrafts, chemicals, minerals, animals, metal and their products of agriculture, dairy, wood, cotton, woolen and silk.

Para 87
To Carry on the business of manufacturers, processors, traders, dealers, distributors, buyers, sellers, importers, exporters, programmers, managers, operators and agents or to deal in any other manner (including loan licensing basis, branding) in any of all types and varieties of computers, data processors, word processors, electronic printers, all types of entertainment electronics and accessories, computer hardware, computer software, accessories, equipments, intermediaries, spares, salvageable parts, audiovisual media, demonstration machines, electronic typewriters, allied office equipments and stationery.

Para 102
To Carry on the business as manufacturers, excavators of quarries, mines, dealers, distributors, merchants, exporters, importers, stockiests and agents of all kinds of Granite Stones, Marble Stones, slate stones, Lime stones, Scap stones, Sand stones, raw, finished or / and semi-finished including random slabs-polished or flamed or polished and monuments and all kinds of stones and stone products.

Para 106
To Carry on the business as manufacturers, dealers, distributors, exporters, importers, stockiests and agents of all kinds of Diamond tools, Saws and diamond discs.

"RESOLVED FURTHER that Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as may be considered necessary, usual or expedient to give effect to the above resolution."

By the order of the Board,
For Vaibhav Gems Limited

Ashish Jain
Jaipur, 30th June, 2004
Company Secretary

Notes:

- The Explanatory Statement, pursuant to Section 173(2) of the Companies Act, 1956 with regard to the Resolutions mentioned above is enclosed.
- A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself / herself and proxy need not be a member of Company. A proxy may be sent in the form enclosed and in order to effective must reach the Registered Office of the Company at least 48 hours before the commencement of the meeting.
- The Register of Members and Transfer Books of Company will be closed from 23rd September 2004 to 27th September 2004 (both days inclusive) for the purpose of dividend, if declared at the Annual General Meeting. It shall be paid to those members, whose names appear on the Register of Members as on book closure dates.
- Members are requested to notify the change in their address to depository Participants (if shares are held in electronic form) and to our Registrar and Share Transfer Agents, Karvy Computer Share (P) Limited, Hyderabad at Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad-500 034 (If shares are held in Physical form).
- The Shareholders are requested to send their correspondence including transfer / transmission of shares in Physical form to Karvy Computer Share (P) Limited, Hyderabad.
- Members are requested to bring their copies of Annual Report to the Annual General Meeting.

Explanatory Statement
Pursuant to Section 173(2) of the Companies Act, 1956, the following explanatory Statements set out all material facts relating to the business mentioned under items no. 6 to 11 of the accompanying notice dated 30th June 2004.

In Respect of Item No. 6
Shri S.S. Bhandari was appointed as an additional Director by the Board of Directors with effect from 25th January 2004. He holds the office upto the date of 15th Annual General Meeting of the Company. Notice has been received from member of the Company in pursuance of Section 257 of the Companies Act, 1956 along with a deposit of Rs. 500/-, proposing Shri S.S. Bhandari as a candidate for the office of the director, as a director liable to retire by rotation. Shri S.S. Bhandari has given his consent, if appointed, to act as a director of the Company.

Shri S.S. Bhandari is a Senior Practicing Chartered Accountant. He is a senior partner of the M/S S. Bhandari & Co., Jaipur since 1971, which is at present one of the biggest CA firm in Rajasthan. During his professional career and as a partner of M/S S. Bhandari & Co., he has handled various assignments of limited Companies (Both Listed and Unlisted) Financial Institutions, Banks and other Infrastructure projects. He has been rendering corporate and

industrial consultancy in all the areas, including financial closure of Industrial Projects, Banking and Tax Assignments, Corporate Restructuring, including Amalgamation and Merger.

In view of the above mentioned qualities, the Board considers it to be in the interest of the Company to continue to receive the benefit of his advice and experience.

None of the Directors except for Shri S.S. Bhandari is concerned or interested in the resolution proposed for item no. 6 of the Notice since the aforesaid resolution relates to his appointment.

The Board recommends the resolution for acceptance by the members.

In Respect of Item No. 7
Shri M.L. Mehta was appointed as an additional Director by the Board of Directors with effect from 25th January 2004. He holds the office upto the date of 15th Annual General Meeting of the Company. Notice has been received from member of the Company in pursuance of Section 257 of the Companies Act, 1956 along with a deposit of Rs. 500/- proposing Shri M.L. Mehta as a candidate for the office of the director, as a director liable to retire by rotation. Shri M.L. Mehta has given his consent, if appointed, to act as a director of the Company.

Shri M.L.Mehta aged 65 years, a retired I.A.S. officer and former Chief Secretary Rajasthan, is a well known public administrator, social activist and human resource developer. He is a post Graduate in M.SC. (Physics) from University of Rajasthan (Gold Medallist), P.G. Diploma Holder in urbanization from University of London- with merit and a Graduate from National Defence college, New Delhi. He has also studied International Agriculture at the University of Illinois (USA).

In view of the above mentioned qualities, the Board considers it to be in the interest of the Company to continue to receive the benefit of his advice and experience.

None of the Directors except for Shri M.L. Mehta is concerned or interested in the resolution proposed for item no. 7 of the Notice since the aforesaid resolution relates to his appointment.

The Board recommends the resolution for acceptance by the members.

In Respect of Item No. 8
The Company has set up a Branch Office at Mumbai w.e.f. 1stApril 2004. It is proposed to appoint M/S Singrodia Goyal & Co., Chartered Accountants, Mumbai as branch Auditors of Mumbai Branch for the financial year 2004-2005. The Shareholders' approval is sought for the appointment and to authorise the Board of Directors to determine the remuneration payable in consultation with them.

In respect of other branches of the Company, if any, which may be opened during the year, in India or abroad, the shareholders are requested to authorise the Board of Directors of the Company to appoint branch Auditors in consultation with the company's Auditors' and to fix their remuneration.

The Board recommends the resolution for acceptance by the members.

In Respect of Item No. 9
Shri Ikramullah was appointed as Executive Director w.e.f. 16th May 2001 for a period of Five years. He was paid monthly remuneration as per his slab of remuneration fixed under the Agreement between him and the Company dated 16th May 2001.

Under his supervision the company has been awarded the prestigious highest export award in Gems Category by GJEPC for last three years in succession. Keeping in view of his leadership capability and overall performance of Gems Department of the Company, his remuneration of Rs. 30,000 p.m. was found inadequate and the remuneration was increased to Rs. 50,000 p.m.

w.e.f. 1st April 2004 by the Board of Directors at its meeting held on 28th April 2004 but subject to the approval of shareholders in next general meeting. Now the shareholders approval is sought to give effect to the Boards' resolution.

The Board recommends the resolution for acceptance by the members.

In Respect of Item No. 10
Article no. 68 of Articles of association of the Company contains provisions regarding payment of sitting fees and other expenses to Directors of the Company. These provisions have not been changed since the incorporation of the company in 1989, however provisions of Companies Act, 1956 regarding payment of sitting fees have undergone to lot of changes during the period. To streamline the provisions of Articles with the Provisions of Companies Act, 1956, It is proposed to substitute the Article no. 68 with the new Article as stated in Item no. 10. Approval of the members is required to alter the Articles in terms of section 31(1) of the Companies Act, 1956.

The Board recommends the resolution for acceptance by the members.

In Respect of Item No. 11
The Board proposes to seek approval of members as required U/S 149 (2A)

of the Companies Act, 1956 in respect of commencement of new business as set out under para 7,11,15,16,29,35,53,54,63,86,87,102,106 of Part (C) -Other Objects, under Object Clause of Memorandum of Association of Company, as a matter of abundant precaution and to avoid any accidental act of ultra vires.

The Board recommends the resolution as mentioned in item no. 11 for acceptance by the members.

The members may inspect Memorandum & Articles of Associations of the Company at Registered office of the Company at K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004 or may request in writing for a copy of the same.

By the order of the Board,
For Vaibhav Gems Limited

ASHISH JAIN
Jaipur, 30th June, 2004
Company Secretary

Details of Directors in terms of listing agreement, seeking appointment / reappointment at 15th Annual General Meeting

Name of Director	Date of Birth	Date of Appointment	Experience in specific functional areas	Qualification	Name of Companies in which Directorship held on 31.3.2004	Member of the commiteees of the Board of other Companies as on 31.3.2004
Shri Sunil Agrawal	13.7.59	8.5.1989	Manufacturing & international marketing of Gemstones & Jewellery	B.Com, MBA in in Marketing from USA	1. VGL Softech Limited 2. Stone Age Limited 3. Shivram Properties Properties Pvt. Limited	Nil
Shri Suresh Punjabi	14.3.53	2.11.1995	Manufacturing & international marketing of Gemstones & Jewellery	B.Com	VGL Softech Limited	Nil
Shri S. S. Bhandari	20.1.1948	25.1.2004	Corporate consultancy in audit, taxation and other areas	FCA	Central Bank of India	2
Shri M.L. Mehta	1.1.1939	25.1.2004	Public administration and human resource development	Retd. I.A.S.	Oriental Bank of Commerce	Nil



VAIBHAV GEMS LIMITED

Regd. Office: K-6B, Fateh Tiba, Adarsh Nagar,
Jaipur – 302 004

ATTENDANCE SLIP

Please complete this Attendance Slip and hand it over at the entrance of the Meeting.

D.P. Id *	
Client Id *	

L.F. No.	
No. of Shares held :	

I hereby record my presence at the Fifteenth Annual General Meeting of the Company being held at K-6B, Fateh Tiba, Adarsh Nagar, jaipur – 302 004 on Monday, September 27, 2004 at 10.00 A.M.

Name of the Shareholder
(in block capital letters)

Signature

Name of the Proxy
(in block capital letters)

Signature

Notes :

- Shareholders attending the Meeting in person or by Proxy are requested to complete the attendance slip and hand it over at the entrance of the meeting venue.
- Shareholder/Proxy holder desiring to attend the meeting should bring his copy of the Annual Report for reference at the meeting.



VAIBHAV GEMS LIMITED

Regd. Office: K-6B, Fateh Tiba, Adarsh Nagar,
Jaipur – 302 004

PROXY

D.P. Id *	
Client Id *	

L.F. No.	
No. of Shares held :	

I/We of in the district of being a member/members of Vaibhav Gems Limited, hereby appoint of in the district of or failing himof in the district of as my/our proxy to attend and vote for me/us on my/our behalf at the Fifteenth Annual General meeting of the Company to be held on Mondy, September 27, 2004 at 10.00 A.M. at Registered office of the Company at K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302004 and at any adjournments threof.

Affix
one rupee
Revenue
stamp
here & sign

(Signature of the shareholder)

Notes :

- The Proxy Form signed across revenue stamp should reach the Registered Office of the Company atleast 48 hours before the scheduledd time of meeting.
- Those members who have multiple folios with different joint holders may use copies of this Attendance Slip/Proxy.

ELECTRONIC CLEARING SERVICE MANDATE (CREDIT CLEARING) MANDATE FORM

Shareholder's Authorisation To Receive Dividends Through Electronic Credit Clearing Mechanism

I/We do hereby authorise Vaibhav Gems Limited to credit my dividend amount directly to my Bank Account by ECS.

My/our Folio No.:

DP ID NoClient A/C No.....

Particulars of Bank Account :

- A. Bank Name :
- B. Branch Name :
- C. Address (for mandate only) :
- D. 9 Digit code number of the bank :
- Et Branch as appearing on the MICR cheque :
- E. Account No. as appearing on the Cheque Book :
- F. STD Code & Telephone No. :
- H. PAN No./GIR No. :

I/We shall not hold the Vaibhav Gems Limited responsible if the ECS could not be implemented due to incomplete or incorrect information or the Bank discontinue(s) the ECS for any technical reason.

Signature of the shareholder

(Signature should be as per the specimen signature recorded with Vaibhav Gems Limited)

Note : Please attach the photocopy of the cheque or a blank cancelled cheque issued by your bank relating to your above account for verifying the accuracy of the 9 digit code number.

Certification by the Bank

(This is required if cancelled cheque/photocopy of cheque is not enclosed)

Certified that the bank details furnished above are correct as per our records.

(Bank Stamp)

Signature of authorised official of the Bank

Note :

Send the ECS mandate form to :

- The depository participant who is maintaining your D-mat account in case of share are held in electronic form.
- Karvy Comutershare (P) Limited, Karvy House, 46, Avenue 4, Street No. 1 Banjara Hills, Hyderabad-500 034, Our Registrar and Share Transfer Agents, if shares are held in physical form.