Vaibhav Gems Limited
Annual report 2004-2005

A woman's fascination
is our strength

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Vaibhav Gems Limited is India's largest exporter of colored gemstones and one of the largest exporters of studded jewellery.

The company is vertically integrated with all operations from gemstone manufacture to jewellery manufacture being conducted at world-class, in-house facilities. The company recently made its foray into jewellery retail with its first three stores commencing operations in May 2005 in Alaska, USA.

Vaibhav's facilities include a gemstone processing unit, a jewellery manufacturing plant, a state-of-the-art micro-weight gold chain manufacturing plant and a diamond-processing unit. It possesses a skilled product development team that is backed by the latest machinery. It also possesses a research team with detailed know-how of the most advanced technology.

The company's products are sold in all major retail outlets in developed markets like the USA as well as through telemarketing channels and popular holiday destinations.

Vaibhav Gems is headquartered in Jaipur with branch offices in Mumbai. It has its wholly-owned subsidiary, Jewel Gem USA Inc., in USA.

It employs (directly and indirectly) more than 2000 people. Its research, marketing and product development teams travel worldwide to track trend changes, develop new products and drive demand.

The company's shares are listed on Mumbai and National stock exchanges.

Contents

The ancients founded the industry of Vaibhav Gems.

Based on the principle that if men make something that will endure, then the women of the world will go to great lengths to buy it.

Based on the conviction that if men make something that will shine, then the women of the world will vie to wear it.

And based on the belief that if men make something that will appreciate in value, then the women of the world will queue to invest in it.

Vaibhav Gems sold Rs 168 cr of shining and enduring gems and jewellery to the women of the world in 2004-05 and reported a Rs 15 cr profit from its endeavours.

There must have been something in the wisdom of those ancients.

Our business model is based not merely on some study of demand, supply, socio-economic classes and disposable incomes.

But also on a study of women, their moods, wishes, dreams and responses.

The ways of women...


Beth - le - hem,
Beth - le - hem?

The ways of women

Jewellery is bought for a woman on her birthday, anniversary, Valentine's Day, Christmas and Mother's Day. And some other 360 days in between.

The Vaibhav response

That's the making of a business model with low cyclicality or seasonal influences.

Our results are proof.

When we entered into the business with a small manufacturing facility in India, we did so with a bigger vision. To become market leaders with a sparkling presence across the world.

With a rich understanding of the power of women who are at home, working women, appearance-conscious women, glamorous women and value-conscious women.

The result: We grew our turnover from Rs 73 cr in 2000-01 to Rs 168 cr in 2004-05, a CAGR of 23.24 per cent.

Evolving us into a prominent, respectable, fast-growing and vertically integrated global organisation.

The ways of women

What women wear today, they wouldn't want to wear forever.

The Vaibhav response

That's the origination of a business approach that reconciles value with volume.

For instance, Vaibhav Gems has consciously selected to be present in the large and dynamic mid-value segment.

Where likings are driven by the colour of the clothes that she already possesses in her wardrobe. Where preferences are dictated by the emerging collections in the world of fashion. Where tastes are influenced by who wore what on what occasion.

So this mid-value segment is always in creative ferment; it comprises wardrobes reflecting newer stones, styles and shapes.

So, interestingly, this mid-value segment is also always in profitable ferment; it generates the best returns for value-driven producers with large volume capabilities.

The result: Our bottomline grew from Rs 5 cr in 2000-01 to Rs 15 cr in 2004-05, a CAGR of 32.43 per cent.

Evolving us from a modest company into one of the most profitable jewellery producers in India today.

The ways of women

Women sometimes buy on an impulse what takes us months to create.

The Vaibhav response

In a world where it is becoming progressively difficult and expensive for most people to market, that's a remarkable thing to happen for any business.

To encash this phenomenon, we have consciously selected to place our products in stores that enjoy a strong footfall.

To place our products in stores whose brand equity increases our probability of sale.

To place our products in stores that are expanding and, therefore, enabling our collection to be taken to newer geographies.

For instance, our products are now available on the shelves of internationally reputed stores like Wal-Mart, Sterling, Macys, Zales, Friedman, White Hall, Sterling, Sears and prominent global television marketing channels like Asian, Home Shoppers and Shop at Home, among others.

Our exports grew from Rs 63 cr in 2000-01 to Rs 168 cr in 2004-05, a CAGR of 27.65 per cent.

The result: Vaibhav has evolved into a prominent and respected name in the international market today.

The ways of women

Women sometimes like to check, compare and corroborate before reaching for their credit card.

The Vaibhav response

At Vaibhav, we never forget that while we must craft products that appeal to emotion and logic, some of our buyers will buy on an impulse, while others will let the decision grow on them ever so gradually.

For both these kinds of patrons, we must combine the use of the best of gems and precious metal.

We must also do it in the most intelligent way with the objective to make their chemistry absolutely irresistible at all times.

And as a resource-respecting organisation we must do so as inexpensively as possible, sharing this benefit with our patrons and turning them into a loyal community.

Over the years, a number of our prudent initiatives have actually made this possible:

- A growing scale in our business has made it possible for us to source materials in a bigger volume with accompanying savings.
- A prudent location of our manufacturing facilities in low cost and tax-kind geographies has enabled us to stay fiscally efficient.
- An integration of the various arms of production has made it possible for us to extend our presence from rough gemstone at one end to international retail at the other, capturing cost savings at each point into our business model (Read more on page 23).

The result: Vaibhav's total costs (excluding interest and tax) declined from 94.81 per cent of turnover in 2000-01 to 90.73 per cent in 2004-05.

Making us one the lowest cost producers in the world, enhancing value in a sustainable way for our consumers and ourselves.


The beautiful Princess approaches

The ways of women

We are actually quite proud of having created an entire business out of simply observing women.

The Vaibhav response

At Vaibhav, we have made a job out of spending years of our time in some of the most fashionable places observing some of the most successful celebrities in the world.

Understanding what they are wearing, in what season and in what colours.

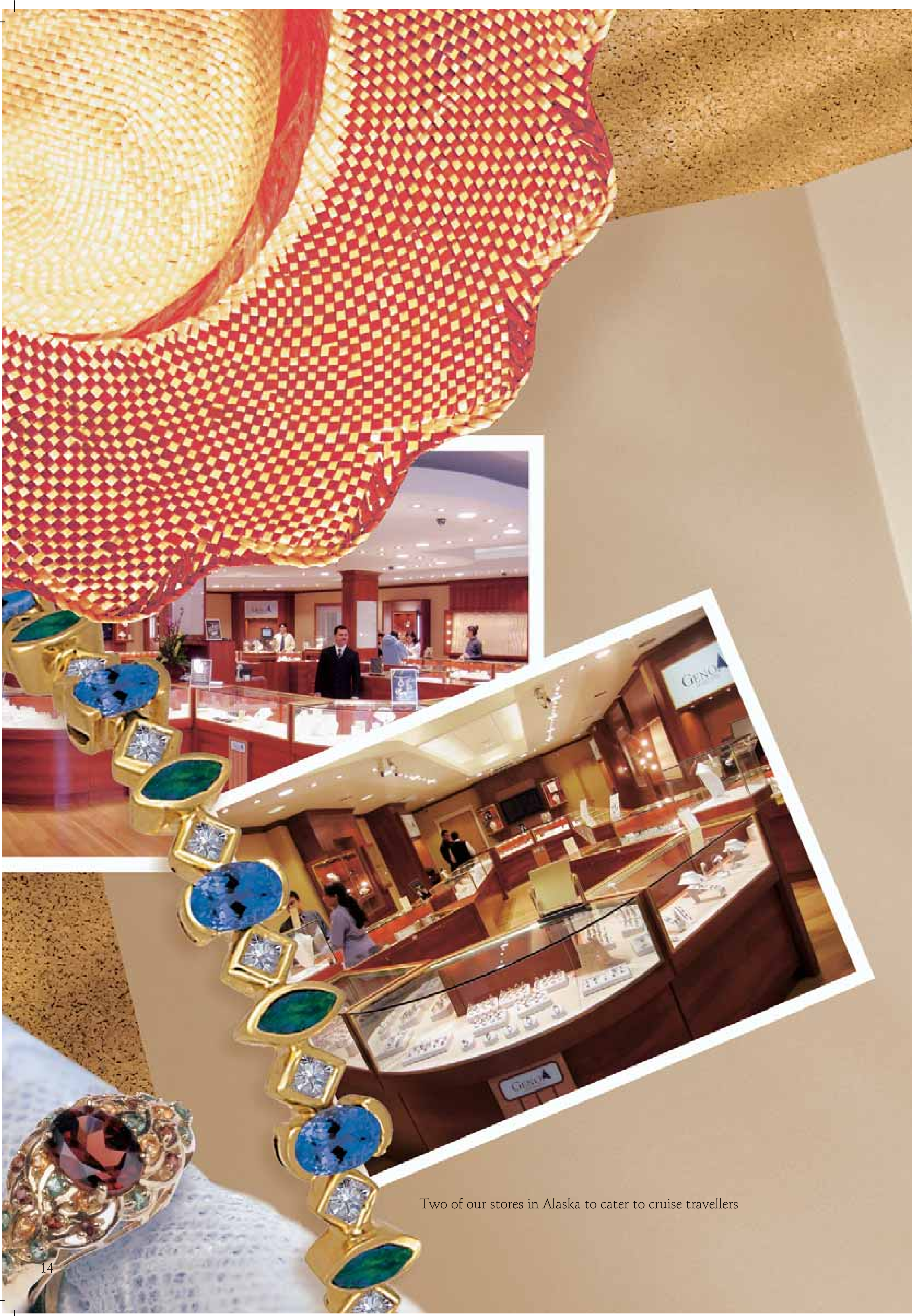
Understanding what they are buying on what occasion and in what volumes.

And more importantly, understanding what they are intending to buy in what season in what colours on what occasion and in what volumes.

At Vaibhav, this understanding has been translated into the following initiatives:

- The proactive development of new styles and products.
- The proactive investment in people, process and plant resources.

The result: Vaibhav derived a growing proportion of its revenues in 2004-05 from new designs launched in the last few years.



Two of our stores in Alaska to cater to cruise travellers

The ways of women

Women spend more when they are on holiday with their relaxed husbands who want to buy them all the riches that their busy time has not been able to afford.

The Vaibhav response

At Vaibhav, we have spent years watching men pay fortunes for things that will please their wives. This convinces us that the most profitable end of our business is a segment that we have just entered – RETAIL.

The company's decision to go retail is the logical progression of a business that commenced with trading, specialised in manufacture and will now extend to reach patrons directly.

This extension will lead to the following business advantages:

- A hands-on understanding of consumer purchase patterns, which will lead to customised product development and accelerate the company's response to dynamic market realities.
- A better control on quality, customisation and higher value realisation leading to enhanced profitability and a lasting business model.
- An ability to unleash the significant value through prudent sourcing and manufacturing excellence.

The company set up three branded stores, **GenoA Jewelers**, in Alaska under Jewel Gem USA Incorporation, its newly formed wholly-owned subsidiary, timed strategically prior to the commencement of the season in April 2005. The company intends to set up more such stores at other holiday destinations in the near future.

This decision was influenced by a detailed study of itinerant travelers in holiday destinations: That visitors are most relaxed in such locations and hence, most likely to make expensive purchases, jewellery accounting for a significant proportion of their spending.

In view of this, these retail stores will stock a range of jewellery comprising plain gold, platinum, diamond studded and precious / semi-precious stones studded jewellery.

The retailisation of the business is expected to grow the business attractively over the foreseeable future and enhance shareholder value.

The ways of women

A woman is wise. She may buy the most expensive gem and metal but she will still steal a quick glance at the price tag when no one is looking.

The Vaibhav response

At Vaibhav, we have inducted a rigorous discipline into our manufacturing system. This is in line with the best practices of the organised industry and in preparation of the progressive retailisation of our business.

At the heart of this industrial discipline lies our vertical integration, which extends from sourcing at one end to jewellery manufacture at the other, making our company a model worthy of emulation within our industry.

This integration covers the following disciplines:

Rough gemstone sourcing: The company has entered into dependable arrangements with mining and procurement enterprises for the continued supply of tanzanite, tsavorite, pink tourmaline and emerald etc; it has entered into agreements with agencies in Brazil and Africa for the supply of a range of coloured stone roughs; it has been given the status of a sight holder by one of the largest suppliers of the stone.

Gemstone manufacture: The company has invested in modern cutting and polishing facilities to ensure the efficient and accurate processing of valuable roughs into quality gemstones.

Jewellery manufacture: The company invested Rs 1032 lacs upto March 31, 2005 in the manufacture of jewellery in a state-of-the-art factory at Sitapura in Jaipur. This factory is supported by experienced professionals, aided by computerised controls and a customised ERP solution with the objective of retaining its position as the 'best in the industry.'

The result: Total vertical integration has translated into tangible results: sourcing efficiencies, consistent material supply and a competitive conversion cost. Resulting in the combination of one of the largest scales within its industry with one of the lowest costs.

The ways of women

Diamonds are a woman's best friend

The Vaibhav response

At Vaibhav, our learning over the decades is that women take brands that provide a wide choice far more seriously than those with a narrow specialisation.

Our learning is also that the world is buying more diamonds than ever before; that the greater incidence of working women is driving this phenomenon; that people are buying diamonds at ages far younger than what their parents considered possible; that diamonds are being purchased as an investment and not only for displaying ears and fingers at Ascot; that diamonds, for a change, are being presented by bored wives to their Greek ship owning husbands while lazing in the Mediterranean.

In view of this incontrovertible evidence, the company has commissioned a diamond-processing unit for captive consumption leading to the in-house manufacture of an exquisite array of diamond-encrusted jewellery.

This decision has been taken on the basis of some attractive internal ground realities:

- The company already enjoys a window on the world; an extension to diamonds will enable it to encash its understanding of trends more effectively.
- An extension to diamond processing and related jewellery production will widen the company's product range.
- This extension will leverage the company's existing expertise, manufacturing facility, international distribution and customer relationships, making it possible to generate a better return on investment.
- It will enable the company to set diamonds directly in wax moulds, reducing gold wastage and setting time while enhancing product quality.

Making it possible for us to replenish our revenues with younger income streams and paving the way for an increasingly profitable company.

The ways of women

A woman would usually want to buy something nice and excellent. Tomorrow, her choice will be something nicer and better.

The Vaibhav response

At Vaibhav, one of the biggest learnings in our business is that there is no such thing like enough.

Patrons who buy a style will inevitably want to buy something that looks, in their opinion, grander or more exquisite.

As an organisation that recognises and respects this reality, our biggest initiative in servicing this insatiable desire is in providing an improved standard of service.

At Vaibhav, this service standard has been derived through the creation of a workplace flexible enough to respond to the changing realities of a dynamic marketplace. This has been facilitated through the creation of a workplace skilled enough to respond to the growing requirements of a demanding marketplace; through the creation of a workplace sensitised to manage the rising expectations of an impatient marketplace.

These are some of the initiatives that helped us rise to such a standard:

- A 360-degree human resource appraisal process, comprising an information system, structured feedback approach and need-assessment mechanism.
- A selective recruitment process by which we took in only skilled workers for operational functions and multi-industry professionals to facilitate a cross-fertilisation of ideas and competencies.
- The commissioning of a training center to identify specific needs leading to relevant capacity building.
- A growing delegation and empowerment, evolving us into a professionally managed organisation.
- A career path with the objective to drive professional growth, chart out a succession plan and enhance organisational stability.
- The appointment of functional heads at each level, relieving the senior management of operational responsibilities and permitting them to concentrate on corporate strategy.

Strengthening product development

An intensive research, training and automated process has enabled us to produce newer and better products at declining costs within shrinking timeframes - with a greater frequency.

Process maturity

As a resource-respecting organisation, we have trained our workers to reduce waste and enhance productivity through the following initiatives:

- The commissioning of a gold recovery system from uniforms, effluents and the ambient environment.
- The commissioning of a return air dust collection system and sedimentation tanks.
- The introduction of a performance-based incentive system for shopfloor professionals.

The result: Gold waste reduced one per cent and manpower productivity increased 11 per cent in 2004-05.

The ways of women

A woman has a great eye for detail. She can spot a speck that most would miss.

The Vaibhav response

At Vaibhav, we don't just craft jewellery that will look good to a woman at first glance. We have complemented this with an investment in cutting-edge assets and equipment to make them look that way decades from now.

In view of this, the company has invested in the following business priorities:

Gemstone division

- Near 20,000 square feet gemstone cutting facility at Adarsh Nagar, Jaipur
- Recruitment of skilled cutters, assorters and polishers to painstakingly produce a million carats of colored gemstones a year
- Fully computerised network supported by a custom-designed ERP minimising time and material waste

Diamond division

- 7,000 square feet diamond processing unit at Adarsh Nagar, Jaipur
- State-of-the-art cutting and polishing facilities
- Supported by customised ERP, enhancing quality and cost efficiency.

Jewellery division

• 30,000 square feet facility located in the Export Promotion Industrial Park at Sitapura, Jaipur (to be raised to 40,000 square feet by October 2005.)

• Employment of more than 400 skilled professionals.

• Comprising a state-of-the-art dust collection system coupled with modern surveillance, security and access control

Chains division

• 5,000 square feet facility located in Sitapura, Jaipur.

• Commissioned in April 2004 to produce micro-weight gold chains.

• Commissioned to replace high cost chain imports.

Designing and product development division

• 4,000 square feet facility located at Jaipur.

• Employment of 24 design professionals drawn from reputed institutes and experience.

• Supported by CAD machines enhancing design precision and reduced turnaround time.

Information technology

• Investment of Rs 100 lacs in IT assets and technologies.

• Computerised assets comprising vacuum-pressure casting machines, laser soldering machines, chemical polishing and finishing machines.

• Customised ERP, monitoring gold losses, worker efficiencies, delivery positions, order inflow, work in progress and delivery schedules, highlighting delays for immediate corrective action.

Branch office

• Located in Panchratna, the heart of India's diamond trade in Mumbai

• Diamond procurement and assortment workplace in Mumbai, serving as an effective diamond sourcing base

• Complemented by a trained and experienced team to appraise material, study trends and inspire product development.

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

An eminent Board of Directors to facilitate growth

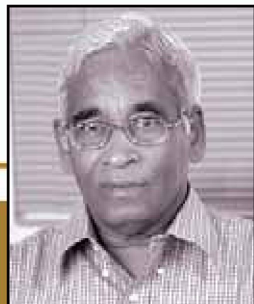
Mr Sunil Agrawal, Chairman, 46, is a commerce graduate and an MBA from Columbia University. A first generation entrepreneur, he established Vaibhav Enterprises in 1980 with the objective to trade in gemstones. He has travelled widely, gained an immense knowledge in gemstones and jewellery and has brought this to bear on the success of the company. He has represented the company at all major international trade shows and jewellery fairs. He is credited with the pioneering commercialisation of various popular gemstones like Tanzanite.

Mr Suresh Punjabi, 52, established his business of gems trading in Hong Kong. Today, he is well known internationally within the trade, is widely travelled and has visited the most prominent mines in the world. He possesses an in-depth knowledge of the gemstone industry and its supply chain and the high-end jewellery business.

Mr Nirmal Kumar Bardiya, 45, is one of the most renowned jewellers of Jaipur with a vast experience in the manufacture of coloured gemstones. He is associated with the Company since 2001. Highly specialised in high volume gemstones and beads, he is one of the leading players in this segment, internationally.

Mr Rahimullah, Managing Director, 49, began his career at 18 in the family business of emerald trading and export. He has gained considerable experience and knowledge in this field, has travelled extensively in Africa, Europe and the Far East to source rough stones and brings with him 30 years of industry experience. His dedication, vision and acumen have been responsible for the company's impressive growth.

Mr Anandi Lal Roongta, 72, is a post-graduate in Economics and Law. A retired IAS officer, he worked with the government of Rajasthan, the government of India and various public sector units. He held prestigious positions like Managing Director of the Rajasthan Finance Corporation, Chairman-cum-Managing Director of the Rajasthan State Industrial Development and Investment Corporation Limited and was also the Industry Advisor to the government of Rajasthan.



Mr M.L.Mehta, 66, is a retired IAS officer and a renowned public administrator, social activist and human resource developer. A gold medallist and a Post Graduate in Physics from the University of Rajasthan, he is a P.G. Diploma Holder in urbanisation from the University of London with merit and a Graduate from the National Defence College in New Delhi. He has served in senior government positions such as the Chief Secretary of the Government of Rajasthan, Additional Secretary of the Ministry of Home Affairs and Director of NABARD. He has won prestigious awards like 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 the Oriental Bank of Commerce.

Mr S.S. Bhandari, 57, is one of the seniormost 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, amalgamation and mergers.

Mr Sanjeev Agrawal, 39, is a commerce graduate, who promoted Stone Age Limited, engaged in the export of building stones to Far East Asia, USA, Canada and Europe. He has travelled extensively across America and Europe and possesses an in-depth understanding of the market dynamics of these geographies.

Mr Ikramullah, Executive Director, 53, is an authority in the manufacture of emeralds in India. He has gained an extensive experience in the gemstones industry through his family business and also as a result of his extensive global exposure. He personally oversees the gemstones manufacturing activities of the company. His personality is characterised by persistence and dedication.

MILESTONES

1980
Vaibhav Enterprises is launched.

1984-85
Vaibhav Enterprises receives the first of its Highest Export Awards from GJEPC in coloured gemstones (semi-precious) category.

1986-87
Vaibhav Enterprises receives the Highest Export Award from GJEPC in coloured gemstones (semi-precious) category.

1989
Vaibhav Gems Limited is incorporated on 8th May, 1989.

1992-93
Vaibhav Gems Limited receives the Highest Export Award from GJEPC in the coloured gemstones (semi-precious) category.

1994
Vaibhav Gems Limited takes over Vaibhav Enterprises as a running concern.

1994-95
Vaibhav Gems Limited receives the Highest Export Award from GJEPC in the coloured gemstones (semi-precious) category. Vaibhav Gems Limited receives the State Award from the government of Rajasthan for Export Excellence.

1995-96
Vaibhav Gems Limited receives the Highest Export Award from GJEPC in the coloured gemstones category.

1996-97
Vaibhav Gems Limited sets up a studded gold jewellery-manufacturing unit. Maiden public issue over subscribed 1.85 times. The company 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
Vaibhav Gems Limited

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

1998-99

Vaibhav Gems Limited receives the Highest Export Award from GJEPC in the coloured gemstones category.

1999-2000

Vaibhav Gems Limited receives the Highest Export Award from GJEPC in the coloured gemstones category and the Second Highest Export Award in studded gold jewellery (DTA) category. Company sets up a 100 per cent EOU at EPIP, Sitapura.

2000-01

Vaibhav Gems Limited receives the Highest Export Award from GJEPC in the coloured gemstones category and the Second Highest Export Award in Studded Gold Jewellery (DTA) Category.

2001-02

Vaibhav Gems Limited receives the Highest Export Award from GJEPC in the coloured gemstones category.

2002-03

Vaibhav Gems Limited crosses the Rs. 100 crore landmark in export turnover and receives the Highest Export Award from GJEPC in the cut and polished coloured gemstones category.

2003-04

Vaibhav Gems Limited commences production at state-of-the-art jewellery manufacturing unit at Sitapura. Installs micro-weight gold chain manufacturing plant. Receives the Highest Export Award from GJEPC in the cut and polished coloured gemstones category.

2004-05

Vaibhav Gems Limited ventures into international retail through stores at cruise-ship destinations such as Alaska. The company sets up a diamond-processing unit at its Adarsh Nagar location.

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

DISTINCTIVE

Vaibhav Gems Limited is distinctive, emphasised by its presence as probably the only corporate entity in the niche coloured gemstone jewellery segment in India.

Vaibhav Gems is distinctive, reinforced by its capability in emerging as the only Indian company in its segment to have achieved complete vertical integration.

Vaibhav Gems is distinctive, reflected in its dedicated product development wing creating relevant world-class designs following a real-time study of contemporary fashion trends.

Vaibhav Gems is distinctive, enabled by its pioneering extension among Indian companies to enter organised jewellery retail in the USA.

Vaibhav's products

- Marketed directly to the fashion-conscious, upper and medium-value segments of the market.
- Marketed through the shelves of reputed stores such as Macy's, Zales, WalMart, Sterling, Friedman, White Hall and Sears.
- Marketed through TV shopping networks.

Achievements

- Tenth consecutive Highest Exporter Awards from the Gems and Jewellery Export Promotion Council (GJEPC) and numerous state awards.
- Pioneering commercialisation of the now popular gemstone, tanzanite.
- Empanelment among top 20 private sector companies by ICSI for the Corporate Governance Award.

Facilities

Vaibhav's facilities are located in Jaipur, Rajasthan, the hub of the jewellery industry in India, comprising the following:

• A 20,000 sq feet gemstone processing division in Adarsh Nagar, annually producing over two million carats of coloured gemstones.

• A 30,000 square feet state-of-the-art jewellery-manufacturing unit at Sitapura, annually producing over 6 lakh pieces of finished jewellery.

• Custom-developed ERP software to monitor production and cost efficiency at its Adarsh Nagar and Sitapura units.

• A micro-weight gold chain-manufacturing unit, probably the only such facility outside USA.

• A diamond-processing unit that will provide diamonds captively for use, extending the company's vertical integration.

Headquartered at Jaipur, Vaibhav Gems is supported by a branch office in Mumbai as well as on-the-move international research and marketing teams to track trend changes. The company provides direct and indirect employment to more than 2,000 people. The company's shares are listed on Mumbai and National stock exchanges.

Highlights, 2004-05

Operational

• Entry into organised jewellery retail targeted at cruise ship destinations in USA.

• Commencement of a diamond-processing unit.

• Strengthening of a product development center.

Financial

• Increase in revenues by 27.26 per cent (from Rs. 13,178 lacs in 2003-04 to Rs. 16,771 lacs in 2004-05).

• Increase in profits by 58.13 per cent (from Rs. 955 lacs in 2003-04 to Rs. 1,510 lacs in 2004-05).

• Increase in earnings per share by 58.19 per cent. (from Rs. 9.04 per share in 2003-04 to Rs. 14.30 per share in 2004-05.)

"The biggest strength of Vaibhav lies in living its vision – every single day."

Mr. Sunil Agarwal, Chairman, analyses the company's performance in 2004-05 and looks ahead

"A process of 360-degree appraisal, which enabled us to identify the core strengths of individual employees and match their aspirations with their job profiles."

Q. Are you satisfied with Vaibhav's performance in 2004-05?

I am heartened by our 28 per cent growth in revenues and our 58 per cent improvement in profits during the year under review. This performance is proof of a sustained-growth business model.

Q. What operational highlights would you ascribe to this?

I would attribute the improvement to the following factors:

- Our product development skills helped us plug into customer requirements, as a result of which our processes are now more influenced by what actually happens in the marketplace.
- Our investments in design development reduced our dependence on creative flashes and increased our reliance on a system, as a result of which the order flow is consistent.
- Our improvements in manufacturing processes, which enabled us to enhance production efficiency, yield and productivity on one hand and reduce gold wastage and enhance employee productivity.

Q. Interestingly, the company embarked on a number of daring strategic initiatives during the year under review.

I think they were timely:

- The inception of our US retail venture will graduate us to the highest end of the value chain in our business.
- The commencement of our diamond-processing unit widened our product mix and extended our value chain.
- The recruitment of business heads with a rich cross-industry experience has strengthened our professionalisation.
- A process of 360-degree appraisal, which enabled us to identify the core strengths of individual employees and match their aspirations with their job profiles.

Q. Is your entry into the jewellery retailing business late?

On the contrary, we couldn't have timed it better. Consider this:

- We have a strong base of new product

"We have a highly professional team and a strong corporate culture, which is a prerequisite to succeed in retailing."

development which is crucial to success in retailing.

• We have a highly professional team and a strong corporate culture, which is a prerequisite to succeed in retailing.

• We have a customer-oriented culture developed over the last 25 years.

As a result, retail represented the logical extension and culmination of our long industry presence.

Q. You said your stores were coming up at holiday destinations. Won't that make your business season-dependent?

The selection of tourist destinations as a store location was a strategic one. We recognized that the urban retailing was saturated and that we needed greater resources to enter that segment. Moreover, as our products are already marketed on the most coveted retail shelves in the world, our presence needed to be strengthened in the markets where we did not have a strong presence. Also, the relaxed atmosphere, willingness to spend and the availability of leisure provide a favourable industry environment leading to a quicker offtake of jewellery.

To come to the second part of the question, the retail venture is expected to convert a seasonality disadvantage into an advantage. This is how: our stores will be commissioned in locations with complementing seasonality — a lean season in one will be complemented by a peak season in the other. For instance, when it is peak season in the Caribbean, it could be lean season in Alaska and vice versa.

Q. Are you not contemplating a retail venture in India?

We are but perhaps it is a little too early to talk about it at this stage. We are talking to prospective partners and are formulating a strategy to enter into the domestic market with a path-breaking range of jewellery.

Q. What are the biggest strengths of Vaibhav today?

Quite simply our ability to live up to every element of our stated vision – every single day.

• We strive to continuously exceed customer expectations, reflected in increasing repeat business from existing customers.

• Our commitment is reflected in the growing investments – people, plants and products - in our business.

• Our positive attitude is reflected in our willingness to be daringly different within what has always been perceived as a conventional and traditional business.

• Our honesty is reflected in management and information reporting transparency across employees, vendors, customers and shareholders.

• Our teamwork is reflected in how we pool our

"Our professional management and infrastructure are scalable, driving increasing returns for our shareholders."

cross-functional capabilities in linking developments in the marketplace to product conceptualisation and development.

Q. What are the biggest challenges that you face?

While our organic business growth will continue to be generated from our ongoing and predictable business momentum, our challenges are coming from some of the things that we are doing that are not conventional in our business: recruiting professionals from different industries to infuse fresh perspectives; increasing the automation in our business in place of the conventional eye-and-hand approach; introducing ERP in place of the longstanding word-of-mouth strategy.

Another challenge is to strengthen our quality obsession and create an organisation obsessed with the manufacture and marketing of zero-defect products - each time, every time.

The other big challenge, which is faced by the industry as a whole is to fight the perception of it being unorganised and closely held. At Vaibhav, we conduct our business following the principles of corporate transparency and are sure that we will bring about a paradigm shift in the way the industry is generally perceived by investors and stakeholders.

I am confident that the risk of probable failure will be more than offset by a considerable first-mover's advantage across all these areas.

Q. How does the company expect to enhance value for investors?

We are looking at stable and aggressive growth.

With Vaibhav owning less than 1 per cent of the worldwide coloured gemstone jewellery market, there is substantial room to grow. Our professional management and infrastructure are scalable, driving increasing returns for our shareholders. This, combined with exciting new opportunities within our industry like holiday-destination retailing will ensure enhanced value for our investors.

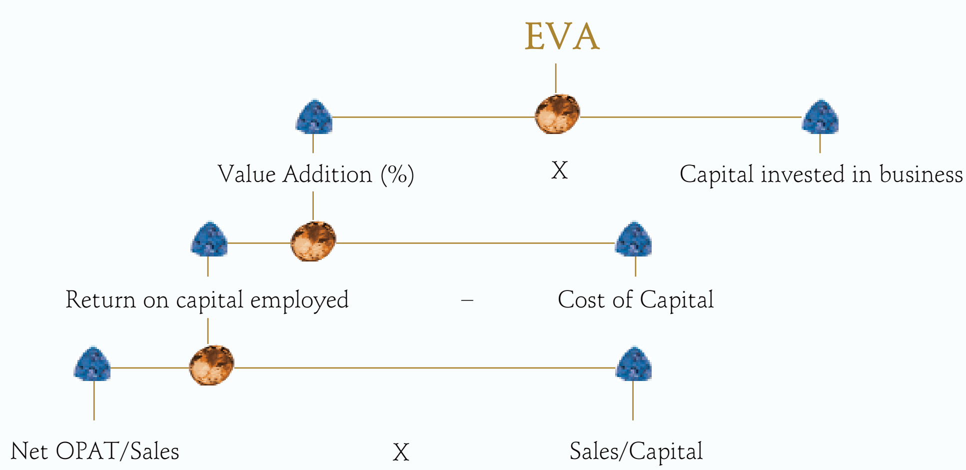
Enhancing Shareholder Value

Over the last few years, Vaibhav Gems has enhanced value in an attractive way for its shareowners as demonstrated across a number of popular and widely-accepted parameters.

Economic value-added (EVA)

The company reported a positive EVA of Rs 751.39 lacs for 2004-05, emphasising that its returns exceeded shareholder expectations.

The EVA, an internationally respected value-measurement tool, is unique in a number of ways. It accounts for the profit generated by a company in excess of the return that the company would have earned from a risk-free instrument. This number is derived through a unique methodology: it factors in the cost of debt and equity through techniques that measure them separately, as opposed to the conventionally cumulative calculation.



The following considerations were used in EVA measurement:

• For the cost of shareholders' funds, the actual outgo towards shareholders (dividend etc) was ignored and instead, a market-driven cost of equity funds was considered.

• The cost of equity was calculated using the 0.70 beta-factor for the scrip. A risk-free return of 6.80 per cent was taken. To this was added the product of the beta factor and the stock market risk premium.

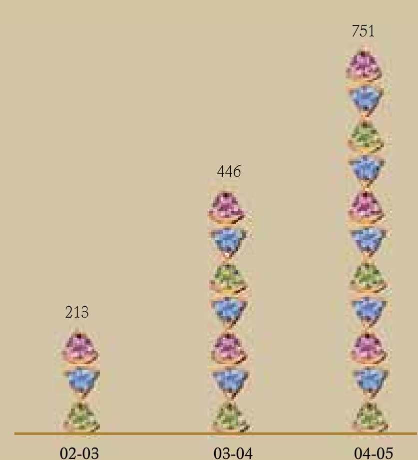
• The stock market risk premium of 7 per cent is what investors expect to earn over the risk-free return from the market.

• The product of the premium and the beta is what investors expect to earn (over and above the risk-free return of 6.80 per cent) from the company scrip in the financial year under review - the correct cost of equity funds to consider for the EVA calculation.

• The base for calculating the rupee cost of equity was the market capitalisation as on 31st March, 2005.

• Actual tax outgo was inflated for the tax shield on interest at the marginal rate of tax actually paid. This 'adjusted tax' was deducted from the Earnings before Interest and Tax to arrive at the corrected EBIT figure. A rupee cost of capital was calculated on the average capital employed over the year by using WACC. This cost of capital was subtracted from the adjusted EBIT figure to obtain the EVA for the year.

EVA (Rs in lacs)



Management's Discussion and Analysis

Industry structure and developments

Global: Gemstones and jewellery enjoy a uniformly epitomised culture, heritage, aesthetics and social status around the world. Globally, the gem and jewellery industry is valued at around US$85 billion with the coloured gemstone jewellery segment accounting for a reasonable share. Key markets registered an average compounded growth rate (CAGR) of 3-7 per cent over the last decade. Coloured gemstone jewellery is popular in the West as it complements seasonal fashion trends and its low-cost proposition makes it possible to own multiple sets and accessorise an individual's entire wardrobe. Hearteningly for the company, a similar scenario is beginning to emerge in India.

India is one of the fastest-growing gold jewellery exporters in the world, reporting an average growth of nearly 40 per cent a year over the last decade.

Indian: India's near 100,000 jewellery-manufacturing units employ over half a million people with a substantial number in front-end and marketing functions. The gemstone industry is concentrated in and around Jaipur comprising 2500 registered companies, 50,000 direct employees and an estimated 20,000 indirect employees. As a location, Jaipur is a prudent place for vertical integration due to the availability of a variety of gemstones as well as skilled and low-cost craftsmen.

India is one of 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 2004-05, it reported the following:

- 42.22 per cent increase in gold jewellery exports in dollar terms and 43.40 per cent in rupee terms.
- Exports of coloured gemstones during 2004-05 showed a growth of 8.1 per cent compared to 2003-04.
- The finished jewellery export saw an impressive growth of 42.3 per cent, indicative of a rising share of this sector in the country's overall gems and jewellery exports.
- A 29.27 per cent growth in gem and jewellery exports in dollar terms made it the largest proportion of commodity exports from India.

Rationale for industry presence

The following reasons justify Vaibhav Gems' industry presence:

- Jewellery has always been an important part of human attire, as it augments physical beauty leading to assured demand.
- Jewellery is socially significant because of its inherent value as well as its emotional and physical proximity to the human body.
- Jewellery is a convenient image-enhancing gift object.
- Jewellery uses input materials with a fair resale value, making it not only an item of adornment but investment as well.
- Jewellery offtake has increased as a result of growing fashion-consciousness.
- Jewellery as an industry enjoys considerable government patronage and little regulation. Most international trade issues affecting other industries – such as the WTO and the Free Trade Agreements - do not address the jewellery industry at all.
- Jewellery is an impulsive purchase item rather than just a considered investment, an opportunity for

design-led large volume producers.

• Jewellery, in terms of the value of gold and ornaments, is steadily declining as a proportion of an individual's income, driving offtake.

Segment-wise performance

Vaibhav Gems is strongly focused on value-addition. This is reflected in the following initiatives:

• Increasing utilisation of its gemstone production in the manufacture of jewellery, resulting in a decline in the merchant sale of gemstones from 53 per cent in 2001-02 to 26 per cent in 2004-05.

• A growing proportion of studded jewellery in its revenue basket from 47 per cent in 2001-02 to almost 74 per cent in 2004-05.

Segment wise revenue breakup

Rs. in lacs

Year	2004-05		2003-04		2002-03		2001-02	
	Revenues	%	Revenues	%	Revenues	%	Revenues	%
Gemstones	4,435	26.44	2,706	20.53	3,284	32.17	4,682	53.12
Jewellery	12,336	73.56	10,472	79.47	6,847	67.83	4,132	46.88
Total	**16,771**	**100.00**	**13,178**	**100.00**	**10,095**	**100.00**	**8,814**	**100.00**

Quantitative production

Year	2004-05	2003-04	2002-03	2001-02
Gemstones (in carats)	6,17,687 *	9,53,178	8,54,747	11,31,012
Jewellery (in pieces)	6,11,935 **	5,32,857	3,94,516	2,51,181
Captive consumption of gemstones (in carats)	5,45,758	3,98,267	3,67,930	3,06,846

* Production of 14,00,435 cts preforms not included for captive consumption

**Production of 5,87,463 pieces of accessories not included for comparison purposes

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.

The production of jewellery increased in quantity terms by 14.84 per cent, in value terms by 17.8 per cent and growth in the value of gemstone export by 63.29 per cent.

Gemstones: The company produced 6,17,687 carats of gemstones in 2004-05 compared to 9,53,178 carats in 2003-04, 88.36 per cent being utilised for captive consumption, compared to 42 per cent in 2003-04. In value terms, the production of gemstones stood at Rs. 9,317 lacs during the year (Rs. 6,794 lacs in 2003-04, increase of 37 per cent) of which Rs. 4,881 lacs (previous year Rs. 4,162 lacs) worth of gemstones were used for captive jewellery production.

Jewellery: Turnover of the jewellery segment increased nearly 18 per cent from Rs. 10,472 lacs in 2003-04 to Rs. 12,336 lacs in 2004-05. In volume terms, the company manufactured 6,11,935 pieces of jewellery during the year under review compared to 5,32,857 pieces in 2003-04. 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.

Financial review

Performance, 2004-05 vs 2003-04

The company's turnover for 2004-05 increased 27.26 per cent from Rs. 13,178 lacs in 2003-04 to Rs. 16,771 lacs largely due to an increased product acceptance leading to enhanced volumes.

Even as turnover increased by 27.26 per cent over the pervious year, PBDIT (profit before depreciation, interest and tax) grew 54.51 per cent from Rs. 1,105 lacs in 2003-04 to Rs. 1,707 lacs in 2004-05 as a result of cost optimisation, greater economies of scale, vertical integration and a tighter control on wastage.

Net profit increased 58 per cent from Rs. 955 lacs in 2003-04 to Rs. 1,510 lacs in 2004-05.

Raw materials

Raw material costs as a percentage of revenue declined from 81 per cent to 79 per cent due to enhanced realisations and a greater focus on cost rationalisation and wastage control.

Tanzanite, emerald, sapphire, rubie, amethyst, aquamarine, citrine, pink tourmaline, red garnet, rhodolite, garnet, iolite, peridot and tsavorite are the primary coloured stones used by the company. These coloured stones are sourced directly in the form of roughs from mining and procuring enterprises in Brazil, Tanzania, Zambia, Kenya and various other countries through international auctions and direct negotiations with mines.

Gold was sourced from canalising Indian agencies like the MMTC and authorised banks.

The earning per share reported by the company increased 58.2 per cent from Rs. 9.04 in 2003-04 to Rs. 14.30 in 2004-05.

Gross block and depreciation

The company added Rs. 365 lacs in capital assets in 2004-05. As a result, depreciation increased from Rs. 75 lacs in 2003-04 to Rs. 123 lacs during the year under review.

Shareholder value

The earning per share reported by the company increased 58.2 per cent from Rs. 9.04 in 2003-04 to Rs. 14.30 in 2004-05. The Board of Directors proposed a dividend of Rs. 2.50 per share on the paid up equity value of Rs. 10 each, higher than Rs. 2.00 declared in 2003-04.

Human resources

Overview

A company's growth and sustained leadership is largely dependent on the quality and competence of its human resource. At Vaibhav, we aim to create a workplace that enables individuals to achieve their optimum potential. The company actively encouraged its people to balance their professional and personal responsibilities, leading to higher productivity. Your Company enjoyed a track record of successful human capital management, lending to a sustainable competitive advantage. Fostering people development and harnessing their potential remained a thrust area; identifying and grooming management talent helped in building capability and leadership development at all levels.

Recruitment

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

Employee strength

The company employed (directly and indirectly) more than 2000 persons.

Compensation

The company believed in extending the best reward for excellent performance. As such, its compensation package continued to be one of the best in the industry, acting as an additional motivator for employees to excel.

Corporatisation

During 2004-05, the company took major steps to further corporatise its management structure. With new designations like Chief Operating Officer, Production Controller and Product Development Manager being added, the company's HR was more aligned with manufacturing companies across the country.

Evaluation

The company embarked on a system to objectively measure employee performance and reward it accordingly. This was done through the adoption of a Key Result Area (KRA)-based performance appraisal system, which linked the remuneration structure to a transparently assessed performance.

Flexibility

The company also encouraged its people to extend beyond their stated scope of work and take on projects voluntarily, enabling them to contribute innovatively to corporate growth.

Strengths, weaknesses, opportunities and threats

Strengths

The various strengths that the company can capitalise on comprise the following:

- International acceptability of the entire product range.
- World-class quality.
- Global cost competitiveness.
- Dependable logistics management.
- Availability of a wide and well-accepted product range addressing various segments of the retail market.
- Synergy leading to end-to-end vertical integration in the product value chain.
- Complete vertical integration comprising the manufacturing and marketing ends.
- Product consistency across batches and time.
- Stable supply relationships with corporate customers.
- More than a quarter century of rich experience of the promoters in the gem and jewellery industry.

Weaknesses

- Relatively small size compared to global standards.
- Excessive concentration on USA could affect sustainability.
- Exposure to foreign exchange and raw material price fluctuations.
- Dependent on the international market for raw material.

Opportunities

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

- Opening of retail stores through wholly-owned subsidiary Jewel Gem USA Inc., the final step towards total vertical integration and a face-to-face interaction with the customer.
- Branding opportunity to unlock vast value, created over decades. .
- Starting point of building lasting value.

• Ever-changing but ever-growing demand.

• Worldwide market of 120 bn USD

• Highly fragmented industry space offering room for consolidation.

Threats

The various threats faced by the company comprise the following:

• Competition from Indian and international companies.

• India's reputation as a sub-quality supplier.

• Probable loss of goodwill and dependability in the event of under-performance.

• Variations in customer requirements in terms of quality.

• Lower than expected offtake from the company's retail outlets.

The company expects to counter these threats through an institutionalised corporate process, investment in cutting-edge technology, stronger cost management, aggressive asset creation, professional marketing and closer customer relationship management.

Risks and their mitigation

A comprehensive section on risk management appears in this report on page 46.

Internal control systems and their adequacy

A proper and adequate system of internal controls 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. The system emphasises regular monitoring the entire operations and services spanning all locations, businesses and functions.

Extensive internal audits, regular reviews by management, and well-documented policies and guidelines supplement the system to ensure reliability of financial and all other records in order to prepare accurate financial statements and other data. The Company has successfully implemented an ERP program, which facilitates effective checks and controls as well as tight monitoring on a continuous basis.

Internal audit panel findings are deliberated over at the meeting of the management and suitable action is taken to address shortcomings and incorporate suggestions.

Outlook

During 2004-05, the Indian economy registered a GDP growth of 6.9 per cent, helped by a strong growth in its manufacturing and services sectors. The continued encouragement provided to the domestic gem and jewellery industry is expected to drive performance.

The government of India has announced various incentives in latest EXIM Policy for the gems and

Last year, the industry set an export target of US$16 billion by 2007, but due to an excellent performance in 2004-05 and various other positive factors the target has been revised to US$20 billion.

jewellery industry and especially for Export Oriented Units. Some of the incentives are:

1. EOUs shall be exempted from Service Tax in proportion to their exported goods and services.

2. EOUs shall be permitted to retain 100 per cent of export earnings in the EEFC accounts.

3. Status holder EoUs shall be eligible for a number of privileges including fast-track clearance procedures and exemption from the furnishing of bank guarantee / security or surety.

The recently formed Investment Commission has also propounded attractive proposals for capturing a larger slice of the Global Jewellery Market by focussing on:

1. Making imports cheaper

2. Encouraging use of the latest technology to enhance the scale of value addition.

A Special Economic Zone Act has been passed by Parliament extending the tax benefits for 15 years (earlier 10 years) to units to be situated at Special Economic Zone. This law will justify the company's objectives of setting up a plant at SEZ, Jaipur.

Last year, the industry set an export target of US$16 billion by 2007, but due to an excellent performance in 2004-05 and various other positive factors the target has been revised to US$20 billion, again a distinct possibility.

The company expects a combination of governmental encouragement to the industry as well as its own initiatives – retail, capacity utilisation, stabilisation of new ventures — to enhance margins and profits.Through this, Vaibhav Gems expects to derive a greater operating leverage and enhance wealth for investors.

Cautionary statement

All statements that address expectations or projections about the future, product development, market position, expenditures and financial results, are forward looking statements. Forward-looking statements are based on certain assumptions and expectations of future conditions. The Company cannot guarantee the accuracy of these assumptions and expectations. Therefore, actual performance may differ from the projected performance as there are certain factors affecting the Company's performance such as international market conditions, Government policies and laws, changes in the economic conditions affecting demand and supply etc. The Company does not take any responsibility to change/modify any forward-looking statement on the basis of any subsequent developments or events.

Risk Management

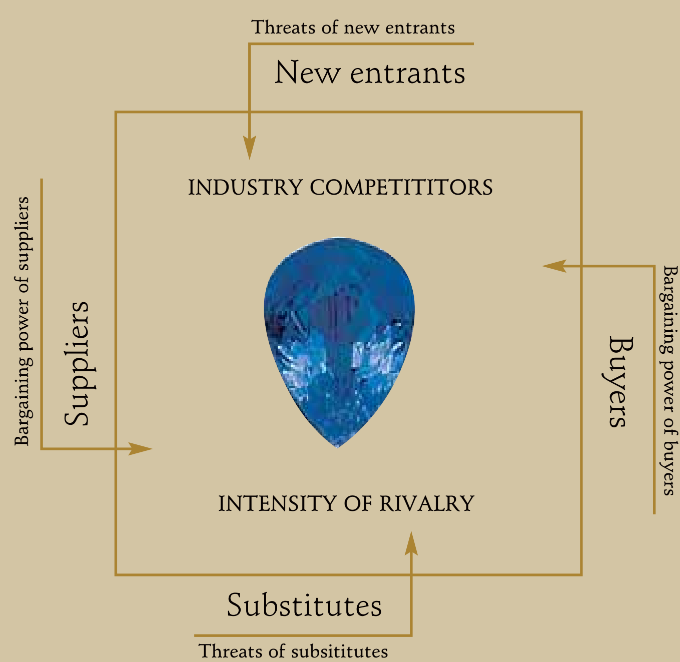
At Vaibhav Gems, we recognise that every business entails risk.

Over the last decade, two initiatives have contributed significantly to our continued success: mitigating ongoing risk and encashing the vast business upside.

Early risk identification, along with appropriate counter-measures, has enabled Vaibhav Gems to reconcile creativity with industry.

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

Vaibhav Gems operates in an intensely competitive environment. The company has thus decided to assess its risk profile based on the grid suggested by Michael E. Porter in his book *Competitive Advantage*.



Five competitive forces influence competition in any industry. These are: 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. The collective strength of these five competitive forces determine the ability of the company 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 is insatiable. The continuous evolution and refinement of tastes, together with the ephemeral nature of fashion trends secure the prospects of the gems and jewellery industry. Continued encouragement by the government, in addition to this, serves as an incentive for new industry entrants.

Existence of niches: Jewellery can be made available across a diverse range, in multiple applications and at various price points. This represents a large opportunity for players.

Fragmented industry nature: Innumerable small players with dedicated sets of customers have resulted in low transparency and information availability creating a uniquely specialised industry, where even a limited number of products can sustain an organisation.

Product differentiation: Since the gems and jewellery sector is not a part of a commoditised industry, product differentiation is of critical importance. Differentiated design has always been the mainstay of Vaibhav Gems products. Ongoing and substantial investment in research and development reinforces product development.

Entry barriers – medium to high

Capital requirement: Gems and jewellery manufacturing is not capital-intensive, thus making it possible for the entry of entrepreneurs with limited capital. However, it is working capital intensive, and the receivables cycle, being longer for newer entrants, serves as an effective entry barrier.

Brand identity: The existence of a credible brand is critical for success in the industry as a lot of the offtake is based on stringent quality considerations. Vaibhav Gems' goodwill has been earned 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. This formidable goodwill is an effective entry barrier for newcomers.

Proprietary product difference: The adaptation of design to individual taste is a critical determinant of offtake for the jewellery industry. The plethora of possible designs renders the selection of popular ones critical. Success may be largely dependent upon the accurate identification of style trends and on offering products suited to them. Vaibhav's investment in product development, protects it against this threat.

Access to raw material: The raw material used is not available either freely or abundantly. Efficient procurement of raw material is a specialised activity, honed by years of experience and in-depth knowledge. Vaibhav Gems possesses this insight and it is reflected in its cost-effective procurement of raw material. The company also uses its financial liquidity to protect itself against cyclical raw material shortages.

Suppliers' bargaining power – low

Substitutes: No substitutes exist for the raw materials used in the gems and jewellery industry. But, an unreasonable bargaining power in the hands of the suppliers is negated by the existence of a diverse sourcing base.

Raw material prices: Demand and supply govern raw material prices. As gold rates are uniform globally, there is no danger of any individual supplier dictating raw material prices. Also, the diamond trade is no longer a monopoly.

Threat of forward integration by suppliers: The different dynamics of the two industries makes this threat negligible. Also, forward integration would necessitate a considerably large investment.

Threat of substitutes – low

Buyers' propensity to substitute: There is no substitute for jewellery. With fashion being one of the most dynamic industries in the world, each season brings about a change in patterns and colours. The demand for compulsory accessories such as jewellery also changes. Vaibhav Gems' ability to create products that appeal to internationally evolving tastes obviates the threat of product substitution.

Product differences: Effective product differentiation is ensured by the company's product development capabilities, which allow it to create contemporary styles. Market share consolidation and stable realisations growth are the results.

Buyers' bargaining power – medium to high

Cost competitiveness: The large departmental and speciality stores who form the key customer base of the company are extremely cost-conscious. Supplying to them thus means that one has to be extremely cost-competitive. A globally meaningful scale, vertical integration and its location in a low-cost base country such as India give the company this competitive edge. This competitiveness is not easy to replicate and hence, Vaibhav Gems is protected against this threat.

Quality and delivery standards: Globally, a sustainable relationship with a buyer is determined by excellence in quality and delivery. Also, the manufacturing policies and processes have to adhere to certain norms specified by buyers in keeping with the laws of the land. However, its extensive association with reputed buyers gives the company the confidence to disregard this as a potential risk.

Other risks and their management

Raw materials risk

Gemstone and gold prices may be volatile and the company may be compelled to absorb their impact.

Risk mitigation

Volatile gemstone fluctuations are generally an exception. Material is sourced from competitive international auctions where prices are decided by the nature of the mine, rough quality and expected yield. Also, the proportion of gemstones in the overall revenues is low, allowing the company to absorb the impact, if required.

The company prices its jewellery at an attractive premium over its intrinsic value. This enables it to withstand minor raw material fluctuations. An order-based manufacturing discipline helps contain the impact of price volatility.

Exchange rate fluctuation risk

The 100 per cent export of production implies a greater exposure to foreign currency fluctuations, adversely impacting profits.

Risk mitigation

To mitigate the exchange fluctuation risk, Vaibhav Gems has an in-house treasury and forex management team, which tracks currency movements leading to informed decisions. Also, as most of the company's raw material is imported, a significant part of the total sales exposure is hedged. The company's working capital borrowings, being in foreign currency, also serve as a natural hedge against exchange rate fluctuations.

Debtors' risk

Any inordinate delay in the payments flow from buyers could impact the cash flow, leading to a higher cost of sales. This could, in turn, impact margins.

Risk mitigation

Vaibhav Gems enjoys a unique advantage in the industry – that of being an organised player. It is thus possible for it to assess the credit risk before supplying to a customer. Most Vaibhav customers enjoy a sound financial track record and have been dealing with the company for some time. The company has always realised its outstandings on or before schedule and it enjoys a negligible default history.

Product development risk

Jewellery purchase is a largely subjective decision, where the economic approach is not always the main

driver. It is almost a given that designs selling today may gradually lose their popularity.

Risk mitigation

The company possesses 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. The appointment of a Design Head has strengthened the product development center. The company invests in international resources that help track and identify emerging fashion trends, besides sending its design team members on regular international visits to comprehend emerging requirements.

Seasonality risk

Jewellery purchase is largely season-based. Therefore, the festival-dependant nature of revenues may render the business unsustainable during the non-peak season.

Risk mitigation

Seasonality is prevalent in every business and the jewellery industry is no exception. However, innumerable social occasions, the multi-ethnic nature of the major markets and electronic retail allay the extent of seasonality. Also, the various product segments the company caters to are complementary in terms of demand peaks, which help contain the impact of seasonality. The same strategy of complementary locations will be followed in deciding store locations as a hedge against seasonality.

Geographic concentration risk

The company exports a major portion of its products to USA. This excessive dependence on a single market may affect its sustainability.

Risk mitigation

The demand for jewellery is ever expanding and evolving. Hence, geographical dependence does not pose a serious threat. Moreover, since socio-political relations between India and the USA are not expected to deteriorate, this represents a safe market for Indian players. The US market is itself fragmented, thereby offering significant consolidation opportunities to organised players like Vaibhav. The company's foray into retailing at key holiday destinations is a step in that direction. However, as a strategic de-risking measure, the company may expand its operations to Europe, South Africa and Australia.

Inventory risk

The company must maintain a high raw material inventory level at all times, which could impact margins and liquidity.

Risk management

Most of the company's production is order-based, enabling a proper planning of inventory requirements. The ERP system alerts the management in case any inventory exceeds or falls short of the required norms. However, seasonal demand and the erratic nature of gemstone auctions do result in an industry-wide phenomenon of high inventory. However, the company does not indulge in any hoarding nor does it have any non-moving finished product inventory. This ensures optimal resource management. Moreover, initiatives such as an in-house diamond-processing unit rationalises inventory cost and minimises dependence on erratic external supplies.

Labour risk

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

Risk management

The company is located in Jaipur, which has the largest concentration of skilled manpower for the gems and jewellery industry. The implementation of progressive HR practices, training, personal development and attractive remuneration - the highest in the industry – has resulted in a high retention of professional expertise. During 2004-05, the company reinforced its commitment to maintaining an excellent HR culture by introducing performance-based pay and a 360-degree performance appraisal system. A greater emphasis on training and professionalism in the organisation is reflected in the creation of positions akin to those of any other manufacturing organisation, strengthening productivity and motivation.

Wastage risk

The jewellery manufacturing process entails a significant amount of gold and rough wastage. If not controlled properly, this may lead to significant losses.

Risk mitigation

The value of wastage in the manufacturing of jewellery is not very significant. However, the company has a multi-stage filtration and sieving process through which it achieves stringent loss control and recovery. In addition to the automated vacuum-based gold collection system, the company installed a gold recovery system from Ambient Air and the effluent from hand and uniform washing as well as a return air dust collection system and sedimentation tanks for water collection. This resulted in a reduction of gold wastage by one per cent. The company's ERP-based system records wastage data per employee for greater consistency across all operators and for tighter control. The company has implemented a strict physical examination and modern surveillance system to prevent theft.

Financial risk

Given the working capital intensive nature of the jewellery business (working capital constitutes more than 83 per cent of capital employed), a mismatch between the receivables and the payables could result in a liquidity crisis.

Risk mitigation

Vaibhav Gems follows a prudent working capital management strategy and exercises tight control over its receivables and inventory. The company also focuses on maintaining a sufficient cash buffer to tide over any temporary difficulties. These practices enabled the company to maintain its working capital turnover at a creditable figure.

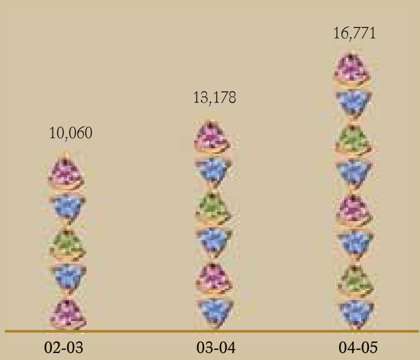
5 YEAR FINANCIAL HIGHLIGHTS

(Rs in lacs)

	2000-01	2001-02	2002-03	2003-04	2004-05	YoY (%)	CAGR (%)
Export	6,309.88	8,948.46	10,045.86	13,156.69	16,754.95	27.35	27.65
Total sales	7,270.78	9,049.16	10,060.03	13,178.48	16,771.17	27.26	23.24
PBDIT	765.94	645.50	786.01	1,104.73	1,706.88	54.51	22.18
Profit before tax	533.31	434.05	606.86	963.33	1,507.32	56.47	29.66
Profit after tax	491.03	400.95	584.76	955.00	1,510.09	58.13	32.43
Dividend (excluding tax)	132.01	145.21	168.97	211.21	264.02	25.00	18.92
Earning per share	9.30	7.59	5.54*	9.04*	14.30*	58.19	11.36
Dividend (%)	25	27.5	16*	20*	25*	25.00	–
Gross block	764.76	847.86	868.37	1,211.25	1,575.90	30.11	19.81
Net block	531.58	545.77	500.76	767.79	1,009.54	31.49	17.39
Equity capital	528.03	528.03	1,056.06	1,056.06	1,056.06	–	–
Reserves and surplus	3,289.48	3,545.23	3,411.34	4,128.07	5,337.12	29.29	12.86
Net worth	3,803.23	4,063.74	4,462.64	5,184.13	6,393.18	23.32	13.87

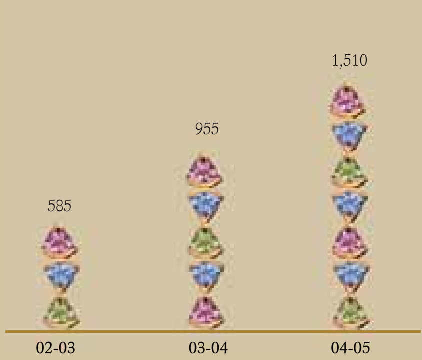
* The company issued bonus share in the ratio of 1:1 during 2002-2003.

Total sales (Rs. lacs)



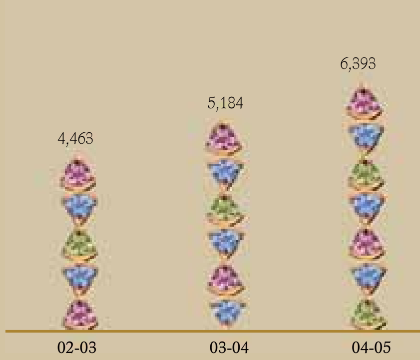
CAGR 29.12 per cent

PAT (Rs. lacs)



CAGR 60.66 per cent

Net worth (Rs. lacs)



CAGR 19.68 per cent

Financial Ratios

(per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
PROFITABILITY RATIOS					
PBDIT/ sales	10.53	7.13	7.81	8.38	10.18
PBDT/ sales	8.41	5.64	6.74	7.92	9.72
PBT/ turnover	7.31	4.78	6.01	7.31	8.99
PAT/total turnover	6.73	4.42	5.79	7.25	9.06
PAT/ average net worth	13.53	10.19	13.72	19.80	26.09
PBDIT/ total assets	12.71	10.39	10.66	14.07	16.44
PBIT/total assets	11.42	9.16	9.70	13.06	15.25
PBT/total assets	8.85	6.99	8.23	12.27	14.51
PAT/ total assets	8.15	6.46	7.93	12.17	14.63
Sales/ total assets	120.65	145.71	136.42	167.89	161.50

(per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
FINANCIAL PERFORMANCE RATIO					
Other income/total turnover	0.37	0.25	0.41	0.11	0.09
Personel cost/ total turnover	4.41	3.79	4.21	3.90	4.34
Administration expenses/ total turnover	4.06	2.96	2.69	2.19	2.56
Net Finance cost/ total turnover	2.12	1.49	1.07	0.47	0.46
Depreciation/ total turnover	1.00	0.79	0.66	0.57	0.73
Tax/ total turnover	0.58	0.36	0.22	0.06	(0.07)
Tax/ profit before tax	7.93	7.63	3.64	0.84	(0.79)

(per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
BALANCE SHEET RATIOS					
Debt equity ratio	0.44	0.39	0.37	0.33	0.44
Net fixed assets/ net worth	0.14	0.13	0.11	0.15	0.16
Current ratio	9.95	10.37	5.52	7.21	7.61
Cash and equivalent/ total assets	0.01	0.02	0.03	0.04	0.03

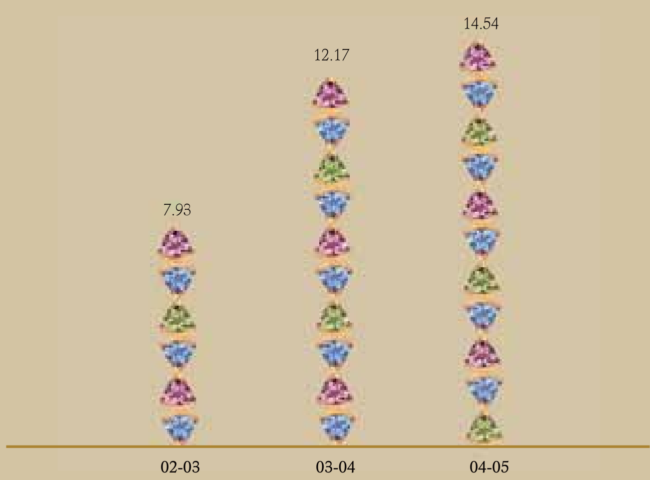
(per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
COVERAGE RATIOS					
PBDIT/ interest	4.95	4.79	7.27	17.94	22.26
PBIT/ interest	4.45	4.22	6.61	16.64	20.66
PBDIT/ total debt	0.46	0.40	0.47	0.65	0.60
PBIT/ total debt	0.41	0.36	0.43	0.60	0.56

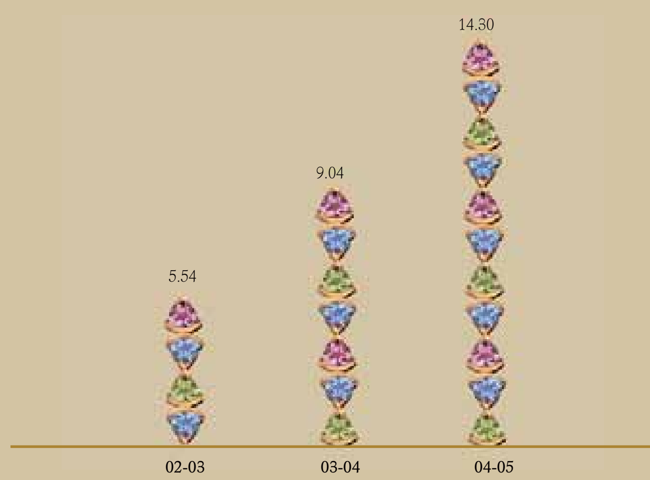
	2000-01	2001-02	2002-03	2003-04	2004-05
PER SHARE DATA					
Earning per share	9.30	7.59	*5.54	*9.04	*14.30
Cash Earning per share	10.78	9.04	6.21	9.80	15.46
Dividend(percentage)	25.00	27.50	*16	*20	*25
Book value	72.03	76.96	42.26	49.09	60.54
Dividend payout	29.63	35.70	32.60	24.95	19.94
P/E end of the year	3.01	3.01	3.35	5.18	6.72
Price/ book value	0.39	0.30	0.44	0.95	1.59
Market capitalization (Rs. lacs)	1,478.40	1,206.48	1,958.88	4,942.08	10148.74
No. of shares(lacs)	52.80	52.80	105.60	105.60	105.61
PBDIT margin	10.50	7.12	7.78	8.37	10.11
Net Profit margin	6.73	4.42	5.79	7.25	9.00
Return on total assets	8.15	6.46	7.93	12.17	14.54
Return on average net worth	13.53	10.19	13.72	19.80	26.09

* The company issued bonus share in the ratio of 1:1 during 2002-2003.

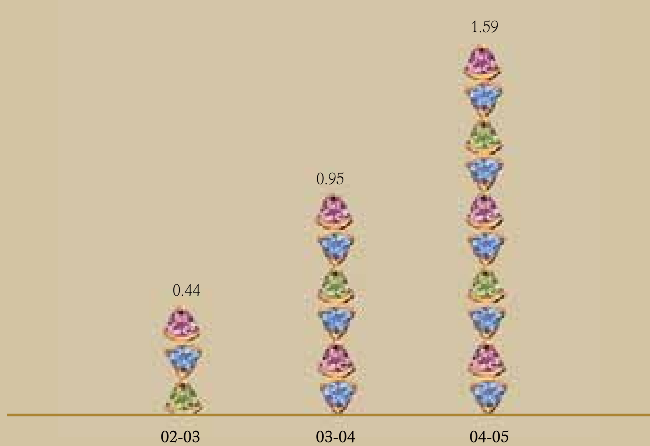
Return on total assets (per cent)



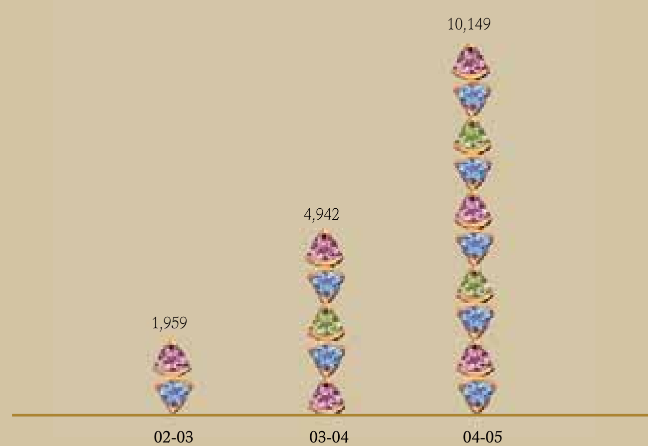
Earning per share (Rs.)



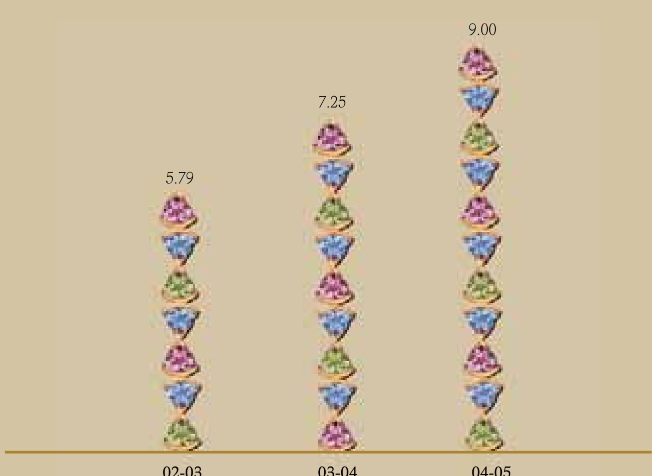
Price/ book value (Rs.)



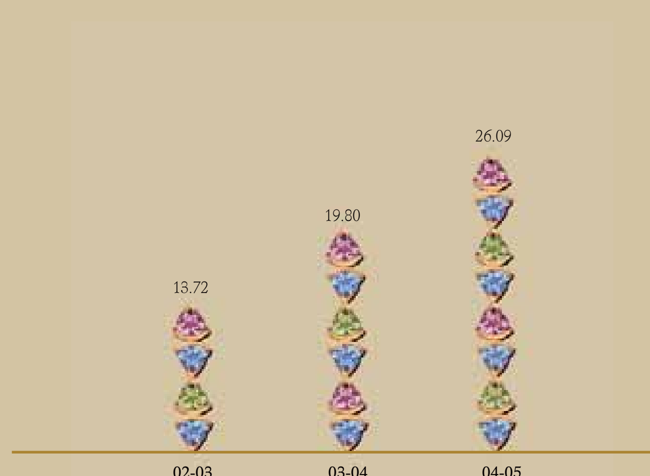
Market capitalization (Rs. lacs)



Net Profit margin (per cent)



Return on average net worth (per cent)



DIRECTORS' REPORT

Dear Shareholders

Your Directors are pleased to present the 16th Annual Report on your Company's operations and performance together with the audited financial statements for the year ended 31 March 2005. The last fiscal was yet another year of excellent all round performance.

Financial Highlights

(Rupees in lacs)

Particulars	Standalone		Consolidated
	2004-05	2003-04	2004-05
Sales and Other Income	16,879.80	13,192.67	16,879.80
Less: Cost of Sales	15,172.92	12,087.94	15,203.09
Operating Profit/PBDIT	1,706.88	1,104.73	1,676.71
Less: Interest	76.67	61.59	76.67
Less: Depreciation & Amortisation	122.90	79.82	161.67
Profit before taxes	1,507.31	963.32	1,438.37
Less: Provision for Taxes	0.30	8.00	0.32
Deferred tax Credit	(12.16)	0.10	(12.16)
Profit after taxes	1519.17	955.22	1,450.21
Add (Less): Prior period adjustments	(9.08)	(0.23)	(9.08)
Net profit for the year	1510.09	954.99	1,441.13
Add: Balance brought forward from the previous year	3,231.61	2,614.89	3231.61
Total available for appropriations	**4,741.70**	**3,569.88**	**4,672.74**
Appropriations:			
Proposed Dividend	264.01	211.21	264.01
Tax on Dividend	37.03	27.06	37.03
General Reserve	200.00	100.00	200.00
Total	501.04	338.27	501.04
Balance to be carried forward	**4,240.66**	**3,231.61**	**4,171.70**

Dividend

Your Directors, after taking into account the excellent financial results of the Company during the year, are pleased to recommend a dividend of Rs 2.50 per equity share (25 per cent of the paid-up value of Rs 10 per share) for 2004-05. The dividend, if approved, shall be subject to tax at the rates applicable on the date of declaration of dividend by the shareholders.

2004-05 in retrospect - Growth

The Indian gems and jewellery industry, India's highest foreign exchange earner, continued to report robust growth during 2004-05.

- 29.27 per cent growth in the export of gems and jewellery
- 29.6 per cent growth in the export of cut and polished diamonds
- 8.1 per cent growth in the export of coloured gemstones
- 42.22 per cent growth in the export of gold jewellery

These figures highlight the growing dominance of jewellery exports over gemstones and the resulting increase in margins due to value-addition and vertical integration.

Your Company pioneered vertical integration in the gems and jewellery industry and its first-mover benefit advantages is reflected in the following numbers:

- An increase in jewellery exports by almost 21.05 per cent from Rs. 10,472 lacs in 2003-04 to Rs. 12,335.63 lacs.
- A increase in gem exports from Rs. 1,802.33 lacs in 2003-04 to Rs. 2,633.21 lacs.
- An increase in the total exports by the company from Rs. 13,156.69 lacs in 2003-04 to Rs. 16,754.95 lacs in 2004-05.

As a result, the Company's net profit increased 58 per cent from Rs. 954.99 lacs in 2003-04 to Rs. 1510.09 lacs in 2004-05.

2004-05 in retrospect - Review of operations

At the company, stronger financials were achieved through the following business-enhancing initiatives:

- The expansion of the Sitapura unit facilitated the manufacture of value-added jewellery.
- The progressive corporatisation strengthened a culture of systems and processes.
- The creation of a product development division that accelerated the introduction of new designs.
- The commissioning of a diamond-processing unit widened the product basket and will ensure an in-house supply of polished diamonds for jewellery manufacture.
- An extension into international jewellery retail enhanced the company's exposure across the most profitable end of the business.

Expansion

Subsidiary at USA For Retail Outlet Business

During the year under review, the Company has set up Jewel Gem USA Inc., a wholly owned subsidiary at

USA with the intention to enter into retail outlet business outside India. Jewel Gem USA Inc. has started setting up Retail stores at major holiday destinations in the world.

Three retail outlets have already opened in Alaska, USA at Junho, Skagway and Ketichikin in May 2005 under the brand name 'Genoa Jewelers'.

We plan to open more such retail outlets at Caribbean and Mexico during the current fiscal year to catch the peak seasons over there which generally starts from Sep, 2005. The company is already in advance stage of negotiation of acquisition of locations / stores.

Diamond Processing and New Jewellery Unit at Special Economic Zone

A Diamond Processing Unit has been set up at Adarsh Nagar, Jaipur with state of art, modern cutting and polishing facilities to run on customized ERP software, which will result in enhanced quality and cost efficiency.

The company is very optimistic about bright future in diamond processing and manufacturing primarily for captive consumption for in-house manufacturing of jewellery. The process is already on for major expansion plan in diamond manufacturing and company has already started planning to set up a new Diamond jewellery unit at Special Economic Zone (SEZ) being developed at Sitapura Industrial Area (Jaipur) by the Rajasthan State Industrial Development & Investment Corporation Limited. For the purpose it had already purchased almost 4000 sq. meter of land at SEZ. The new production capacity will take care of both the production facility of Diamonds and Colored stones.

Diamond Exports & Product Development Centre, Diamond Jewellery Centre, Mumbai.

In addition to a branch office at Panchratna, Mumbai, which also serves as an effective diamond sourcing base, a diamond assortment workplace at Panchratna, Mumbai has also been set up. Besides, a centre for Product Development has been established in a 1700 sq. feet area in Andheri where a production development team is engaged in developing new samples and designs.

The company has acquired a 3050 sq. feet area at SEEPZ, Mumbai in order to set up a jewellery diamond unit as skilled manpower and raw material for this are centralized in Mumbai.

De-listing from Stock Exchanges

In accordance with the approval granted by the shareholders, the Company has got its equity shares delisted from the Stock Exchanges at Ahmedabad, New Delhi and Jaipur. It will help in saving of administrative costs and efforts of the company.

The Company's equity shares shall continue to be listed on the Stock Exchange, Mumbai (BSE) and the National Stock Exchange of India (NSE), which have nation-wide trading terminals.

Awards and Recognition

During the year, VGL is proud to have been empanelled by the Institute of Company Secretaries of India amongst top 20 private sector companies for corporate governance award in recognition of sound corporate governance and disclosure practices.

The Company was once again awarded the coveted GJEPC Export Award, the Tenth successive award for being the largest exporter of coloured gemstones.

Outlook

The Government of India continued to provide incentives in the form of fiscal concessions and relaxations for the gems and jewellery industry. More incentives have been announced for EOUs and procedures have been simplified under the latest EXIM Policy.

Recently formed Investment Commission has also propounded attractive proposals for capturing a larger slice of the global jewellery market by focusing on:

1. Making imports cheaper
2. Encouraging use of latest technology to step up the scale of value addition.

Pragmatic policies of Ministry of Commerce & Industry and continuous support by them have also led the industry to achieve vital growth. In view of these events the industry would continue to shine in the days ahead on the back of increased exports, competitive skilled labour and adoption of leading-edge technology.

A Special Economic Zone Act has been passed by Parliament extending the tax benefits for 15 years (earlier 10 years) for units to be situated at Special Economic Zone.

Your Company has already invested in 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.

The recent retail venture of the Company and its diamond-processing unit are expected to be aggressive growth drivers for the Company.

Conservation of Energy, Technology Absorption and Foreigh Exchance 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 possesses 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 earning and outgo

The Company is exporting coloured gemstones and studded gold jewellery. The foreign exchange earnings and outgo (FOB basis) of the Company is as follows:

	2004-05	2003-04
Earnings	Rs.1,67,11,08,959	Rs. 1,31,50,84,953
Outgo	Rs. 80,53,01,826	Rs. 62,43,18,230

Directors

As per Article 61 of Articles of Associations of the Company, Shri Nirmal Kumar Bardiya and Shri Sanjeev Agrawal, retire by rotation at the ensuing Annual General Meeting. Being eligible, they offer themselves for reappointment.

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 the directorship 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 annexture 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, 2005; 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

It is proposed to appoint M/s B. Khosla & Co., Chartered Accountants, Jaipur and M/s Haribhakti & Company, Chartered Accountants, Mumbai as Joint Statutory Auditors of the Company to hold office from the conclusion of the forthcoming Annual General Meeting for the Financial Year 2005-06. 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.

Consolidated Financial Statements

In compliance with the Accounting Standard 21 on Consolidated Financial Statements, this Annual Report also includes Consolidated Financial Statements for the financial year 2004-05.

Statement of Holding Company Interest u/s 212

As required under the provisions of Section 212 of the Companies Act, 1956, a statement of the holding company's interest in the subsidiary company forms part of this annual report.

Appreciation

Your Directors place on record their deep appreciation of the assistance and co-operation provided by the Banks, Government Authorities, Customers and Vendors.

The employees of the Company have continued to display their total commitment towards the pursuit of excellence. Your directors take this opportunity to place on record their appreciation for the valuable contribution made by the employees and look forward to their services with zeal and dedication in the years ahead to enable the company to scale even greater heights.

Your involvement as shareholders is greatly valued. Your Directors look forward to your continuing support in the endeavours of the Company.

For and on behalf of the Board of Directors

Jaipur
14th June, 2005

Sunil Agrawal
Chairman

Corporate Governance Report

1. Philosophy on code of Corporate Governance

Corporate Governance relates to systems and processes that direct corporate resources and management strategies towards maximising value for stakeholders while ensuring accountability in the conduct of business within the acceptable legal and ethical framework. A good governance process should thus provide sufficient transparency over corporate policies, strategies and the decision making process while strengthening internal control systems and building relationship with stakeholders, including employees and shareholders.

Vaibhav Gems Limited is committed to the adoption of best governance practices and their adherence in true spirit. Our governance practices are a product of self desire to change and its improvement is a continuous process, with no upper bound. The company has been striving for excellence through adoption of best governance and disclosure practices over the last few years. The Company has been making proper disclosures on the Board composition and functioning, management thoughts on business performance and outlook as well as the significant risks and protective measures taken by the Company.

In recognition of its efforts towards achieving highest standards of corporate governance, Vaibhav Gems Limited is proud to have been short listed by Institute of Company Secretaries of India amongst the top 20 Private sector companies for Corporate Governance Award 2004.

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

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

(i) To ensure that the best possible team is in place at the helm of affairs of the Company;

(ii) To ensure that the Board retains its objectivity with non-executive directors who are independent and represent the interest of shareholders;

(iii) To ensure that adequate control systems exist to enable the Board to effectively discharge its responsibilities to the stakeholders;

(iv) To ensure the fullest commitment of the Management and the Board to the maximization of shareholder value;

(v) To ensure that the Company follows globally recognized 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 non-executive directors to ensure the independence of the board, and to separate the board functions of governance and management.

Number of Board Meetings held and the dates on which held

During the Financial Year ended on 31st March 2005 the Board of Directors of the Company held 7 meetings.

The meetings were held on 28th April 2004, 30th June

2004, 27th July 2004, 25th August 2004, 17th September 2004, 29th October 2004 and 15th January 2005.

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	No. of other Director-ship	No. of other committees for which chairperson or member	No. of member-ship of board committees	No. of Board committees for which chair person
Mr. Sunil Agrawal	Chairman and Non-Executive Director	2	Yes	3	Nil	Nil	Nil
Mr. Rahimullah	Non Independent Managing Director	5	Yes	2	Nil	1	Nil
Mr. Ikramullah	Non Independent Executive Director	7	Yes	1	Nil	1	Nil
Mr. Sanjeev Agrawal	Non Independent Non-Executive Director	5	Yes	3	Nil	2	Nil
Mr. Anandi Lal Roongta	Independent Non-Executive Director	6	Yes	2	Nil	3	1
Mr. M.L. Mehta	Independent Non-Executive Director	6	Yes	1	Nil	2	1
Mr. Nirmal Kumar Bardiya	Independent Non-Executive Director	4	Yes	5	Nil	2	Nil
Mr. S. S. Bhandari	Independent Non-Executive Director	4	Yes	Nil	Nil	2	1
Mr. Suresh Punjabi	Independent Non-Executive Director	1	No	1	Nil	Nil	Nil

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, Meetings & Attendance

The audit committee consists of 5 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	2
Mr. Anandi Lal Roongta	Member	5
Mr. M.L. Mehta	Member	4
Mr. Nirmal Kumar Bardiya	Member	3
Mr. Sanjeev Agrawal	Member	3

The committee held its meetings on 28th April 2004, 30th June 2004, 27th July 2004, 29th October 2004 and 15th January 2005.

Remuneration Committee

Terms of Reference

The broad terms of reference of the Remuneration Committee are to recommend/review the remuneration package of Managing Director / Executive Director & other Directors, policy making in respect of annual increment, perquisites and commission to be paid to the Company's Managing Director / Executive Directors.

Composition, Meetings & Attendance

The Remuneration committee consists of 4 members - all non-executive & independent.

Name of the Director	Position Held in the Committee	No of Meetings Attended
Mr. M.L. Mehta	Chairman	1
Mr. Anandi Lal Roongta	Member	1
Mr. Nirmal Kumar Bardiya	Member	Nil
Mr. S. S. Bhandari	Member	1

During the year the committee met once on 28th April 2004.

Remuneration of Directors during 2004-05

Name of Director	Sitting Fees	Salary	Total	Terms
Sunil Agrawal	10,000	NA	10,000	Not liable to retire by rotation
Anandi Lal Roongta	30,000	NA	30,000	Retirement by rotation
M.L. Mehta	30,000	NA	30,000	Retirement by rotation
N.K. Bardiya	20,000	NA	20,000	Retirement by rotation
Sanjeev Agrawal	25,000	NA	25,000	Retirement by rotation
S. S. Bhandari	20,000	NA	20,000	Retirement by rotation
Suresh Punjabi	5,000	NA	5,000	Retirement by rotation
Rahimullah	NA	12,00,000	12,00,000	Contractual
Ikramullah	NA	6,00,000	6,00,000	Contractual

The contractual appointment was for the period of 5 years from the date of appointment, which may be determined, by a notice period of three months on either side.

Shareholder's / Investor's Grievance Committee

The terms of reference of the Committee include approval of issue of duplicate certificates, reviewing all matters connected with the shares transfer and redressal of shareholders' complaints like 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, Meetings & Attendance

Name of the Director	Position Held in the Committee	No of Meetings Attended
Mr. Anandi Lal Roongta	Chairman	1
Mr. Ikramullah	Member	2
Mr. Rahimullah	Member	1
Mr. Sanjeev Agrawal	Member	1

The committee held its meetings on 17th September 2004 and 15th January 2005.

Name & 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	–	7	7	–
Non receipt of Annual Report	–	4	4	–
Non receipt of securities relating to transfer of shares	–	–	–	–
Correspondence / Query relating to NSDL operations	–	1	1	–
Correction of name on securities	–	2	2	–
Other	–	1	1	–
Total	–	15	15	–

Procedure at Committee Meetings of the Board

Committee meetings are held in same manner as of 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 Meeting, for their information and noting.

4. GENERAL BODY MEETINGS

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

Year	Date	Time	Venue
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
2003-04	27th September 2004	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
2004-05	12th February 2005	11:00 A.M.	E-68, EPIP, Sitapura, Jaipur

Special Resolution passed in Annual General Meetings:

Date of Meeting	Subject matter of Resolution
2nd September 2002	1. Increase in authorised capital to Rs. 16 Crore form 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.
27th September 2004	1. Increase in the remuneration of Shri Ikramullah, Executive Director.
	2. Alteration of Article no. 68 of Articles of Association of Company.
	3. Commencing 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.

During the financial year 2004-05 no resolution was put through postal ballot.

5. DISCLOSURES

Disclosures regarding related party transactions are annexed at note no. 10 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 2005-2006 has been paid to all the stock exchanges.

6. MEANS OF COMMUNICATION OF UNAUDITED/AUDITED FINANCIAL RESULTS

Quarterly, half yearly and yearly results

(a) All financial results are immediately sent to stock exchanges after being taken on record by the Board.

(b) Results are also sent to the shareholders and published in leading local & National newspapers such as Rajasthan Patrika, Dainik Bhaskar, Economic Times, Business Standard and Hindustan Times.

(c) Results are also displayed on company's web site at www.vaibhavgems.com. and uploaded at sebi.edifar.nic.in.

(d) Press releases are published at leading newspapers and displayed at 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 2005, 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, 24th May 2005

General Information to Shareholders and Investors

a) Annual General Meeting:

Date and time	-	20th September, 2005, Tuesday, 10.00 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, 2005	-	End of second week of July, 2005
• ending 30th September, 2005	-	End of second week of October, 2005
• ending 31st December, 2005	-	End of second week of January, 2006
• ending 31st March, 2006	-	End of April, 2006

c) Dates of Book Closure: - 16th September to 20th September, 2005 (Both days inclusive)

d) Dividend Payment Date: - 21st September, 2005 onwards

e) Stock Exchanges where listed and Stock code:

1) The Stock Exchange Mumbai, Phiroze Jee Jee Bhoy Towers, Dalal Street, Mumbai- 400001 (532156)

2) The National Stock Exchange, "Exchange Plaza", Bandra Kurla Complex, Bandra (E), Mumbai - 400 051 (VAIBHAVGEM)

Note: Company's securities have been delisted from Ahmedabad, Delhi and Jaipur Stock Exchanges w.e.f. 31st March 2005.

ISIN Code no.: INE884A01019

f) Share Price Data

Month	VGL Price at BSE (In Rs.)		VGL Price at NSE (In Rs.)	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2004	55.00	44.55	56.95	42.10
May 2004	52.10	40.05	59.70	39.10
June 2004	43.00	26.00	46.00	28.65
July 2004	37.95	32.30	40.00	33.10
August 2004	38.65	33.00	39.80	33.00
September 2004	49.85	38.50	49.80	39.00
October 2004	51.00	41.40	53.50	41.00
November 2004	59.90	46.00	65.00	45.25
December 2004	100.00	50.25	97.90	42.00
January 2005	97.00	73.50	97.30	75.10
February 2005	90.75	75.20	87.50	76.05
March 2005	120.00	72.60	121.95	74.15

g) Registrar and share transfer agent:

Karvy Computershare (P) Limited,
'Karvy House'.
46, Avenue 4, Street No. 1,
Banjara Hills, Hyderabad- 500 034
Tel: 040-23320666 / 23320711 / 23323031 / 23323037

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 D-mat Mode are controlled by Depositories.

h) Distribution of shareholding as on March 31, 2005

No. of equity shares held	Total number of equity shares held	Percentage of shareholding	Number of shareholders	Percentage of shareholders
1 to 1000	2,03,151	1.92	688	81.72
1001 to 5000	2,40,766	2.28	102	12.11
5001 to 10000	1,02,737	0.97	14	1.66
10001 and above	1,00,13,946	94.82	38	4.51
Total	**1,05,60,600**	**100.00**	**842**	**100.00**

i) Dematerialization of shares and liquidity

About 98% of the Total shares of the Company have been dematerialized as on March 31, 2005. 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 of the demat system

- Trading in the shares of Vaibhav Gems Limited is under compulsory demat segment. Therefore dematerialization of shares improves liquidity.

- The concept of an 'odd lot' in respect of dematerialized 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 dematerialized 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 lodgment of securities with DPs.

j) ECS mandate

Company is providing the facility of ECS as per the stipulated guidelines issued by RBI.

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

l) Plant locations

The Company plants are located at the

following addresses:

- K-6B, Fateh Tiba, Adarsh Nagar Road, Jaipur-302 004
- E-68, EPIP, Sitapura, Jaipur – 302 022

m) Address for correspondence

Shareholders correspondence should be addressed to the Company's Registrar & Share Transfer Agent at: Karvy Computershare (P) Limited, 'Karvy House'46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad- 500 034

In case of any problem/query, shareholders can also contact Shri Ashish Jain, Company Secretary at: E-68, EPIP, Sitapura, Jaipur – 302 022, by telephone: +91-141-2770648 (extn.421) or Fax +91-141-2770510 or by email at ashishj@vaibhavgems.com.

n) Transfer of unclaimed dividend to Investor Education and Protection Fund

An unclaimed dividend amount of Rs.15,209/- was lying on 31st March 2005 for credit to Investors Education and Protection Fund pursuant to Section 205C of the Companies Act, 1956 and the Investor Education and Protection Fund (awareness and protection of Investors) Rules, 2001 and the same has been credited at Investor Education and Protection Fund in April 2005 after giving advance intimation to shareholders.

o) Other useful information to shareholders

I. Shareholders/Beneficial Owners are requested to quote their Folio No./DP & Client ID Nos., as the case may be, in all correspondence with the RTA/Company.

II. Shareholders holding shares in physical form are requested to notify to the RTA/Company, change in their address/Pin Code number and Bank Account details promptly by written request under the signatures of sole / first joint holder. Beneficial Owners of shares in demat form are requested to send their instructions regarding change of name, change of address, bank details, nomination, power of attorney, etc. directly to their DP as the same are maintained by the DPs.

III. To prevent fraudulent encashment of dividend instruments, members are requested to provide their Bank Account Details (if not provided earlier) to the Company (if shares are held in physical form) or to DP (if shares are held in D-mat form), as the case may be.

IV. Non-resident members are requested to immediately notify change in their residential status on return to India for permanent settlement and particulars of their NRE Bank Account with a bank in India, if not furnished earlier.

V. In case of loss/misplacement of shares, investors should immediately lodge a FIR/Complaint with the police and inform to RTA/Company along with original or certified copy of FIR/acknowledged copy of the complaint.

VI. For expeditious transfer of shares, shareholders should fill in complete and correct particulars in the transfer deed.

VII. Shareholders are requested to keep record of their specimen signature before lodgement of shares with the RTA/Company to obviate possibility of difference in signature at a later date.

VIII. Shareholders(s) of the Company who have multiple accounts in identical name(s) or holding more than one Share Certificates in the same name under different Ledger Folio(s) are requested to apply for consolidation of such Folio(s) and send the relevant Share Certificates to the Company/RTA.

IX. Section 109A of the Companies Act, 1956 extends nomination facility to individuals holding shares in physical form in companies. Shareholders, in particular those holding shares in single name, may avail of the above facility by furnishing the particulars of their nominations in the prescribed Nomination Form.

X. Shareholders are requested to give us their valuable suggestions for improvement of our investor services.

XI. Shareholders are requested to quote their E-mail Ids, Telephone/Fax numbers for prompt reply to their communication.

Corporate Information

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 / 2602010

Branch office

905 Panchratna, Opera House, Mumbai 400 004

Manufacturing facilities

K-6B, Adarsh Nagar, Fateh Tiba, Jaipur – 302 004
Phone: 0141-2601020, Fax: 0141 – 2602010 / 2603228

E-68, EPIP, RIICO Industrial Area, Sitapura, Jaipur – 302 022
Phone: 0141-2770648, Fax: 0141 – 2770510

Bankers

Punjab National Bank, IBB, Jaipur
State Bank of Bikaner & Jaipur, IBB, Jaipur

Subsidiary

Jewel Gem USA Inc.
30-00, 47th Avenue,
5th Floor, Long Island City,
NY 11101, USA

'GenoA Jewelers' – Retail jewellery outlets of Jewel Gem USA Inc.

1. 326, 4th Street, #810, Juneau, AK 99801, Alaska, USA
2. 132, Front Street, Ketchikan, Alaska, USA
3. Skagway Knorr Building, Leased Unit #4, 5th & Broadway, Skagway, Alaska, 99840, USA

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 2005 and also the Profit and Loss Account for the year ended on that date and Cash Flow Statement for the year ended on that date both annexed thereto in which are incorporated the report from the Mumbai Branch audited by another auditor. 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 and proper returns adequate for the purpose of our audit has been received from the Mumbai branch not visited by us. The Branch Auditors' Report has been forwarded to us and appropriately dealt with;

   (c) The Balance Sheet, the Profit and Loss account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;

   (d) In our opinion, the Balance Sheet, the Profit and Loss Account and Cash Flow Statement of the company dealt with by this report comply with the Accounting Standards as referred in Sub-Section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable;

   (e) On the basis of written representation received from the directors as on 31st March 2005, and taken on record by the Board of Directors, wherever applicable, we report that none of the directors of the company are disqualified as on 31st March 2005 from being appointed as a director of the company in terms of 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 2005;

      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

G. G. Mundra
Partner
Membership No. 008167

Place: Jaipur
Dated: 24th May 2005

ANNEXURE TO 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. In our opinion, the frequency of verification is reasonable having regard to the size of the company and nature of fixed assets.

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.

c. On the basis of examination of inventories records, we are of the opinion that the company is maintaining proper records of inventories. As explained to us, the discrepancies noticed on physical verification of stock as compared to books records are not material and same have been properly dealt with in the books of accounts.

(iii) a. The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under section 301 of the Act and therefore we have no comments on clause (iii)(b) (c) and (d) of the order.

b. The company has taken unsecured loan from one company covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 10 lacs and the year-end balance of the loan taken from such party was Rs. Nil.

c. In our opinion, the rate of interest and other terms and conditions of the unsecured loan taken by the Company, are prima-facie not prejudicial to the interest of the Company.

d. The parties have repaid the principal amount as stipulated and have been regular in payment of interest, wherever applicable.

(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 and services. 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 the particulars of contract or arrangement referred in Section 301 of the Companies Act, 1956 have been entered into the register maintained under section 301 of the Companies Act, 1956.

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 lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

(vi) 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 or any other relevant provisions of the Companies Act, 1956 are applicable. No order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal in this regard.

(vii) In our opinion, the company has an internal audit system 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, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it. No undisputed amounts payable in respect of the aforesaid statutory dues were outstanding as at the last day of the financial year for the period of more than six months from the date they became payable.

b. According to the records of the Company, there are no dues of Income Tax, Sales tax, Service Tax, Custom duty, Wealth Tax, Excise duty, Cess which has not been deposited on account of dispute except income tax of Rs. 1,55,57,249 due under the provisions of Income Tax Act, 1961 for the financial year 2000-2001 for which an appeal is pending before the ITAT Jaipur and the demand has been deposited under protest.

(x) The Company neither has accumulated losses as on 31st March 2005 nor it has incurred any cash losses during the current financial year or in 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 2005, we report that no fund raised on short term basis have been used for long term assets.

(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

G. G. Mundra
Partner
Membership No. 008167

Place: Jaipur
Dated: 24th May 2005

BALANCE SHEET

(Amount in Rupees)

As at 31st March,	Schedule		2005		2004
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	I	10,56,06,000		10,56,06,000	
Reserves and Surplus	II	53,37,11,634		41,28,06,516	
			63,93,17,634		51,84,12,516
Loan Funds					
Secured Loans	III		28,37,00,833		16,95,79,761
Deferred Tax Liability			—		8,04,244
Total			**92,30,18,467**		**68,87,96,521**
APPLICATION OF FUNDS					
Fixed Assets	IV				
Gross Block		15,75,89,680		12,11,24,707	
Less: Depreciation		5,66,36,138		4,43,45,896	
Net Block		10,09,53,542		7,67,78,811	
Capital Work-in-progress		6,29,133	10,15,82,675	95,34,716	8,63,13,527
Investments	V		5,56,19,020		53,15,500
Deferred Tax Assets (Net)			4,11,367		—
Current Assets, Loans and Advances					
Inventories	VI	36,01,29,949		24,74,81,705	
Sundry Debtors	VII	46,63,03,040		39,88,68,029	
Cash and Bank Balance	VIII	3,28,98,079		3,48,77,101	
Loans and Advances	IX	2,19,27,894		1,12,68,825	
		88,12,58,962		69,24,95,660	
Less: Current Liabilities and Provisions					
Current Liabilities	X	8,19,96,107		6,89,89,432	
Provisions	XI	3,38,57,450		2,63,38,734	
		11,58,53,557		9,53,28,166	
Net Current Assets			76,54,05,405		59,71,67,494
Total			**92,30,18,467**		**68,87,96,521**
Significant Accounting Policies	XX				
Notes on Accounts	XXI				

As per our report of even date
For and on behalf of
B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner
Jaipur, 24th May, 2005

Ashish Jain
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director
Jaipur, 24th May, 2005

PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

For the year ended 31st March,	Schedule	2005	2004
INCOME			
Sales	XII	1,67,71,17,352	1,31,78,48,346
Other Income	XIII	14,81,163	14,19,366
Exchange Gains (Net)		93,82,155	–
		1,68,79,80,670	**1,31,92,67,712**
EXPENDITURE			
Materials	XIV	1,33,01,78,585	1,06,11,12,257
Manufacturing Expenses	XV	7,13,90,040	4,71,37,260
Employees Costs	XVI	7,28,21,248	5,13,68,269
Administrative & Selling Expenses	XVII	3,42,22,913	2,25,04,138
Financial Expenses	XVIII	1,63,45,847	1,24,87,804
Exchange Losses (net)		–	2,03,42,635
		1,52,49,58,633	**1,21,49,52,363**
Profit before Depreciation and Amortisations		**16,30,22,037**	**10,43,15,349**
Depreciation and Amortisations	IV	1,22,90,320	75,06,700
Miscellaneous Expenses Written Off		–	4,75,911
Profit for the year before Tax		**15,07,31,717**	**9,63,32,738**
Provision for Income Tax		30,000	8,00,000
Net Deferred Tax Charge/(Credit) for the year		(12,15,611)	10,239
Profit for the year after Tax		**15,19,17,328**	**9,55,22,499**
Add/(Less) :			
Prior Period Adjustments		(10,37,242)	(1,86,100)
Excess Provisions of earlier years		1,29,343	1,63,349
Net Profit for the Year		**15,10,09,429**	**9,54,99,748**
Balance brought forward		32,31,61,316	26,14,88,922
Profit available for Appropriation		**47,41,70,745**	**35,69,88,670**
APPROPRIATIONS			
Proposed Dividend		2,64,01,500	2,11,21,200
Tax on Dividend		37,02,811	27,06,154
General Reserve		2,00,00,000	1,00,00,000
		5,01,04,311	**3,38,27,354**
Balance carried to Balance Sheet		**42,40,66,434**	**32,31,61,316**
Basic and Diluted Earning per Share of Rs. 10 each		14.30	9.04
Additional Information	XIX		
Significant Accounting Policies	XX		
Notes on Accounts	XXI		

As per our report of even date
For and on behalf of
B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner
Jaipur, 24th May, 2005

Ashish Jain
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director
Jaipur, 24th May, 2005

CASH FLOW STATEMENT

(Amount in Rupees)

For the year ended 31st March,	2005	2004
A. Cash Flow from Operating Activities		
Net Profit before tax and extraordinary Items	**15,07,31,717**	**9,63,32,738**
Adjustment for :		
Depreciation and Amortisations	1,22,90,320	79,82,611
Unrealised Foreign Exchange Differences	4,74,542	1,14,12,020
Profit on sale of Investment	(10,83,697)	(8,60,122)
Loss/(Profit) on sale of Fixed Assets	–	88,857
Interest and Dividend received	(3,55,653)	(5,61,605)
Interest paid on borrowings	1,63,45,847	63,42,031
Operating Profit before working Capital Changes	**17,84,03,076**	**12,07,36,530**
Adjustment for :		
Trade and other receivables	(8,14,00,363)	(3,05,56,590)
Trade payables	1,45,25,615	(2,90,35,117)
Stock-in-trade	(11,26,48,244)	1,44,40,863
Cash generated from Operations	**(11,19,916)**	**7,55,85,686**
Direct Taxes paid	7,64,111	31,88,629
Net cash from operating activities	**(18,84,027)**	**7,23,97,057**
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(2,75,68,424)	(4,42,25,852)
Sale of Fixed Assets	8,956	17,46,325
Sale/(Purchases) of Shares	(4,92,19,823)	14,42,022
Interest and Dividend received	3,55,653	5,61,605
Net Cash used in Investing Activities	**(7,64,23,638)**	**(4,04,75,900)**
C. Cash flow from Financing Activities		
Proceeds from / (Repayment of) Long Term Borrowings	11,65,55,967	90,24,561
Dividend and Tax on Dividend paid	(2,38,81,477)	(1,90,61,883)
Interest Paid on Borrowings	(1,63,45,847)	(63,42,031)
Net Cash used in Financing Activities	**7,63,28,643**	**(1,63,79,353)**
Net Increase in Cash and Cash Equivalents	**(19,79,022)**	**1,55,41,804**
Opening Balance of Cash and Cash Equivalent	3,48,77,101	1,93,35,297
Closing Balance of Cash and Cash Equivalent	**3,28,98,079**	**3,48,77,101**
Cash and Cash Equivalents comprises		
Cash, cheques and drafts in hand	8,49,954	4,08,696
Balance with Scheduled bank in current account	1,23,51,410	2,15,57,811
Balance with Scheduled bank in deposit account	1,96,96,715	1,29,10,594
	3,28,98,079	**3,48,77,101**

Notes:
The Cash Flow Statement has been prepared under the "Indirect Method " as set out in Accounting Standard -3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.

As per our report of even date
For and on behalf of
B. Khosla & Co.
Chartered Accountants

G. G. Mundra	**Ashish Jain**	**Nirmal Kumar Bardiya**	**Rahimullah**
Partner	*Company Secretary*	*Director*	*Managing Director*
Jaipur, 24th May, 2005			Jaipur, 24th May, 2005

(Amount in Rupees)

As at 31st March,		2005		2004
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 Paid up				
1,05,60,600 Equity Shares of Rs. 10 each				
Of the above 72,94,920 shares were allotted as fully paid up				
Bonus Shares by capitalisation of Reserves and Surplus.		**10,56,06,000**		**10,56,06,000**
II RESERVES AND SURPLUS				
Securities Premium		5,85,98,200		5,85,98,200
General Reserve				
As per last Balance Sheet	3,10,47,000		2,10,47,000	
Add: Transferred from Profit and Loss Account	2,00,00,000		1,00,00,000	
		5,10,47,000		3,10,47,000
Balance in Profit and Loss account		42,40,66,434		32,31,61,316
		53,37,11,634		**41,28,06,516**
III SECURED LOANS				
From Banks*				
Secured by hypothecation of Stocks	15,81,11,289		9,76,27,500	
Secured by hypothecation of Export receivables	12,55,89,544		7,19,52,261	
		28,37,00,833		16,95,79,761
		28,37,00,833		**16,95,79,761**

*** Further Secured by**

a. Equitable Mortgage of Land and Buildings situated at K-6A & K-6B, Adarsh nagar and E-68, EPIP, Sitapura, Jaipur.

b. Hypothecation of Plant and Machineries.

c. Fixed Deposits of Rs. 28,71,242 (Previous year Rs. 27,49,152).

d. Guarantees of Chairman, Managing Director and a Director.

	Additions	Deductions	2005	2004
IV FIXED ASSETS				
Gross Block				
Land (Freehold)	–	–	48,94,908	48,94,908
Land (Leasehold)	–	–	1,07,58,637	1,07,58,637
Buildings	36,31,259		3,48,78,439	3,12,47,180
Furniture & Fixtures	20,63,817	–	1,19,63,820	99,00,003
Plant & Machinery	2,27,79,841	–	6,44,73,600	4,16,93,759
Office Equipments	11,30,838	–	86,24,545	74,93,707
Vehicles	7,06,771	–	26,67,493	19,60,722
Electric Installations	16,54,972	8,956	63,10,732	46,64,716
Computers	45,06,431	–	1,30,17,506	85,11,075
	3,64,73,929	**8,956**	**15,75,89,680**	**12,11,24,707**
Previous year	3,62,31,136	24,71,758	12,05,96,799	8,68,37,421

SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

As at 31st March,	Additions	Deductions	2005	2004
IV FIXED ASSETS (Contd.)				
Depreciation and Amortisations				
Land (Freehold)	–	–	–	–
Land (Leasehold)	1,05,615	–	6,33,523	5,27,908
Buildings	24,79,483	–	1,07,39,153	82,59,670
Furniture & Fixtures	8,25,430	–	71,97,650	63,72,220
Plant & Machinery	56,55,108	–	2,24,17,494	1,67,62,386
Office Equipments	7,13,709	–	36,85,815	29,72,106
Vehicles	1,78,283	–	16,00,543	14,22,260
Electric Installations	6,17,359	78	21,63,499	15,46,218
Computers	17,15,333	–	81,98,461	64,83,128
	1,22,90,320	**78**	**5,66,36,138**	**4,43,45,896**
Previous year	75,06,700	4,11,528	4,38,56,936	3,67,61,764
Net Block				
Land (Freehold)			48,94,908	48,94,908
Land (Leasehold)			1,01,25,114	1,02,30,729
Buildings			2,41,39,286	2,29,87,510
Furniture & Fixtures			47,66,170	35,27,783
Plant & Machinery			4,20,56,106	2,49,31,373
Office Equipments			49,38,730	45,21,601
Vehicles			10,66,950	5,38,462
Electric Installations			41,47,233	31,18,498
Computers			48,19,045	20,27,947
			10,09,53,542	**7,67,78,811**
Capital Work-in-Progress			6,29,133	95,34,716
			10,15,82,675	**86,3,13,527**

Notes:

1 Capital Work-in-Progress includes advances given against Capital Expenditure.

2 Depreciation include amortisation of cost of acquisition in respect of Leasehold Land.

3 Land (Leasehold) includes Rs. 66,00,000 (Previous year Rs. 66,00,000) in respect of which Lease Agreement is yet to be executed.

	2005	2004
V INVESTMENTS		
(Long Term - At Cost)		
– **Trade - Unquoted**		
1,000 (Previous year Nil) Common Stock, No par value of wholly owned subsidiary Jewel Gem USA Inc.,	5,02,68,500	–
– **Other than trade - Quoted**		
368 (Previous year 3,500) Fully paid Equity Shares of Rs. 10 each of Punjab National Bank [Market Value Rs. 1,44,771 (Previous year Rs.11,68,650)]	1,43,520	1,08,500
– **Other than trade - Unquoted**		
3,60,000 (Previous year 3,60,000) Fully paid Equity Shares of Rs. 10 Each of VGL Softech Ltd.	52,07,000	52,07,000
	5,56,19,020	**53,15,500**

(Amount in Rupees)

As at 31st March,		2005		2004
VI INVENTORIES				
(As taken, valued and certified by the Management)				
(At cost or net realisable value, whichever is lower)				
Material-in-process		33,57,72,229		22,40,25,559
Semi Finished Goods		1,34,97,036		1,18,16,685
Finished Goods		70,34,288		77,68,123
Stores and Consumables		38,26,396		38,71,338
		36,01,29,949		**24,74,81,705**
VII SUNDRY DEBTORS				
(Unsecured and Considered Good)				
Outstanding for more than Six Months	5,02,538		15,53,014	
Others	46,58,00,502		39,73,15,015	
		46,63,03,040		39,88,68,029
		46,63,03,040		**39,88,68,029**
VIII CASH AND BANK BALANCES				
Cash in hand		8,49,954		4,08,696
Balance with Scheduled banks				
– In Current Accounts	1,23,51,410		2,15,57,811	
– In Deposit Accounts	1,96,96,715		1,29,10,594	
[Pledged Rs. 96,80,688 (Previous year Rs.1,01,61,442)]		3,20,48,125		3,44,68,405
		3,28,98,079		**3,48,77,101**
IX LOANS & ADVANCES				
(Unsecured and considered good)				
Advances recoverable in cash or in kind or for value to be received		1,61,83,480		68,34,140
Advance Income Tax (Net of Provision)		18,88,256		4,84,236
Advances to Staff		23,46,249		27,13,690
Security Deposits		15,09,909		12,36,759
		2,19,27,894		**1,12,68,825**
X CURRENT LIABILITIES				
Sundry Creditors other than SSI Undertakings		7,11,85,093		5,05,54,701
Unpaid Dividend		2,18,060		1,86,434
Investor Education and Protection Fund to be credited by -Unpaid Dividend		15,209		–
Other Liabilities		1,05,77,745		1,82,48,297
		8,19,96,107		**6,89,89,432**
XI PROVISIONS				
Leave Encashment		37,53,139		25,11,380
Proposed Dividend		2,64,01,500		2,38,27,354
Tax on Dividend		37,02,811		–
		3,38,57,450		**2,63,38,734**

SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

For the year ended 31st March,		2005		2004
XII SALES				
Exports	1,67,34,46,487		1,31,56,69,326	
Deemed Exports	20,48,677		–	
		1,67,54,95,164		1,31,56,69,326
Raw Material Sales		16,22,188		21,79,020
		1,67,71,17,352		**1,31,78,48,346**

	2005	2004
XIII OTHER INCOME		
Sale of REP Licence	–	75,864
Dividends on Investment	5,250	21,000
Interest on Bank FDRs[1]	3,50,403	3,57,362
Profit on sale of Investment	10,83,697	8,60,122
Profit on sale of Fixed Assets	–	34,286
Miscellaneous Income	41,813	70,732
	14,81,163	**14,19,366**

[1]Income-tax deducted at source Rs. 1,16,122 (Previous year Rs. 84,236)

		2005		2004
XIV MATERIALS				
Materials Consumed				
Opening Material-in-process	22,40,25,559		23,51,93,976	
Add: Purchases	1,35,23,14,529		1,04,63,44,716	
	1,57,63,40,088		1,28,15,38,692	
Less: Closing Material-in-process	33,57,72,229		22,40,25,559	
		1,24,05,67,859		1,05,75,13,133
Purchases of Finished Goods		9,05,57,242		36,42,917
(Increase)/Decrease in Semi Finished and Finished Goods				
Opening 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	
Less: Closing Stocks				
Semi Finished Goods	1,34,97,036		1,18,16,685	
Finished Goods	70,34,288		77,68,123	
	2,05,31,324		1,95,84,808	
		(9,46,516)		(43,793)
		1,33,01,78,585		**1,06,11,12,257**

	2005	2004
XV MANUFACTURING EXPENSES		
Job Work Charges	3,50,32,735	2,33,92,697
Stores and Consumables	2,10,90,888	1,44,16,778
Power and Fuel	65,19,969	51,83,360
Other Manufacturing Expenses	41,06,494	16,94,504
Repairs and Maintenance	46,39,954	24,49,921
	7,13,90,040	**4,71,37,260**

(Amount in Rupees)

For the year ended 31st March,	2005	2004
XVI EMPLOYEES COSTS		
Salaries, Wages, Bonus etc.	6,36,33,480	4,50,23,892
Contributions to Provident and Other Funds	38,95,148	28,90,907
Staff Welfare Expenses	37,98,924	29,06,958
Recruitment and Training	14,93,696	5,46,512
	7,28,21,248	**5,13,68,269**
XVII ADMINISTRATIVE & SELLING EXPENSES		
Advertisement and Business Promotion	13,11,156	13,00,258
Auditors' Remuneration	2,55,910	1,32,340
Directors' Remuneration	19,40,000	8,70,000
Discounts, Brokerage and Commission	2,20,000	–
Donation	25,300	1,26,201
Insurance	13,49,378	8,63,541
Legal and Professional	10,20,902	12,78,312
Loss on Sale of Fixed Assets	–	1,23,143
Office Expenses	79,85,232	44,59,723
Packing and Forwarding	56,07,016	42,74,156
Post and Telephone	31,48,424	19,61,342
Printing and Stationery	19,93,316	9,84,149
Rent, Rates and Taxes	7,56,261	1,98,096
Travelling and Conveyance	86,10,018	59,32,877
	3,42,22,913	**2,25,04,138**
XVIII FINANCIAL EXPENSES		
Interest	76,67,247	61,58,788
Bank Commission	86,78,600	63,29,016
	1,63,45,847	**1,24,87,804**

XIX ADDITIONAL INFORMATION

(Pursuant to provisions of Paragraph 3 and 4 of Part II of Schedule VI to the Companies Act, 1956)

	2005 Quantity	2005 Rupees	2004 Quantity	2004 Rupees
1 Materials Consumed	**Quantity**	**Rupees**	**Quantity**	**Rupees**
Roughs (Grams)	22,63,138	56,30,13,862	42,86,908	39,16,12,731
Gold and Alloys (Grams)	15,78,245	34,21,82,223	9,85,674	25,05,61,436
Gemstones (Carats)	8,36,703	15,45,70,778	10,87,417	24,30,60,911
Accessories (Nos.)	3,94,999	4,41,93,795	5,97,582	4,06,32,122
Diamond (Carats)	28,920	13,66,07,201	22,706	13,16,45,933
		1,24,05,67,859		**1,05,75,13,133**
Note: Consumption includes quantity and cost of materials sold.				
2 Stocks, Turnover and Purchases				
Opening Stocks				
Gem Stones (Carats)	2,12,905	77,68,123	1,80,640	38,21,620
Jewellery (Nos.)	–	–	74	56,575
		77,68,123		**38,78,195**
Purchases				
Gem Stones (Carats)	214	12,626	12,087	35,00,917
Jewellery (Nos.)	77	1,80,221	–	–
Diamond (Carats)	22,401	9,03,64,395	–	–
Others (Nos.)	–	–	97,400	1,42,000
		9,05,57,242		**36,42,917**

SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

For the year ended 31st March,		2005		2004
XIX ADDITIONAL INFORMATION (Contd.)				
2 Stocks, Turnover and Purchases (Contd.)	**Quantity**	**Rupees**	**Quantity**	**Rupees**
Turnover				
Gem Stones (Carats)	5,29,893	34,67,70,982	5,34,734	26,81,96,284
Jewellery (Nos.)	6,11,721	1,18,92,51,073	5,32,931	1,04,72,30,432
Accessories (Nos.)	1,97,428	4,43,12,233	–	–
Diamond (Carats)	22,401	9,51,60,876	334	21,79,020
Others (Nos.)	–	–	97,400	2,42,610
		1,67,54,95,164		**1,31,78,48,346**
Closing Stocks				
Gem Stones (Carats)	1,45,190	62,67,932	2,12,905	77,68,123
Jewellery (Nos.)	291	7,66,356	–	–
		70,34,288		**77,68,123**
3 Managerial Remuneration				
(In accordance with Schedule XIII to the Companies Act, 1956)				
Salaries		19,40,000		8,70,000
4 Payment to Auditors				
a. Audit Fees		1,92,850		84,240
b. Tax Audit Fees		16,530		10,800
c. For other services		46,530		37,300
		2,55,910		**1,32,340**
5 Repairs and Maintenance				
a. Repairs to Buildings		2,18,081		96,377
b. Repairs to Machineries		19,41,368		9,48,552
c. Other Repairs		24,80,505		14,04,992
		46,39,954		**24,49,921**
6 Capacities and Production		**Quantity**		**Quantity**
Licensed and Installed Capacities		Not Applicable		Not Applicable
Actual Production:				
Gem Stones(Carats)		6,17,687		9,53,178
Studded Jewellery (Nos.)		6,11,935		5,32,857
Accessories (Nos.)		5,87,463		–
Captive Consumption				
Gem Stones(Carats)		1,55,723		3,98,267
Accessories (Nos.)		3,90,035		–
7 Value of Imports calculated on C.I.F. basis in respect of:		**Rupees**		**Rupees**
a. Raw materials (other than through canalising agencies)		77,69,14,983		60,47,57,288
b. Consumables and Stores		95,03,187		60,42,866
c. Capital Goods		1,88,83,656		1,35,18,076
8 Expenditure in Foreign Currency on account of:				
Computer Software		–		4,66,443
Travelling		5,36,649		3,49,937
Others		–		3,24,983
9 Value and % of Material Consumption	**%**	**Rupees**	**%**	**Rupees**
Raw Materials and Components:				
Imported	57.45	71,27,15,670	57.80	61,12,12,313
Indigenous	42.55	52,78,52,189	42.20	44,63,00,820
		1,24,05,67,859		**1,05,75,13,133**
Consumables and Stores:				
Imported	41.10	86,68,629	34.04	49,07,619
Indigenous	58.90	1,24,22,259	65.96	95,09,159
		2,10,90,888		**1,44,16,778**

(Amount in Rupees)

For the year ended 31st March,	2005	2004
XIX ADDITIONAL INFORMATION (Contd.)		
10 Remittance in foreign currency on account of Dividends:		
a. Year to which the dividend relates	2003-2004	2002-2003
b. Number of non-resident shareholders to whom remittances were made	3	4
c. Number of shares on which remittances were made	15,13,800	15,48,800
d. Dividend Amount (in Rupees)	30,27,600	24,78,080
11 Earnings in Foreign Currency		
Export of goods calculated on F.O.B. basis	1,67,11,08,959	1,31,50,84,953

Overview

Vaibhav Gems Limited (VGL) was incorporated in 1989 with the object of manufacturing and exporting color gemstones & jewellery. In 1996-97 it established a jewellery manufacturing unit at Adarsh Nagar, Jaipur for manufacturing and exporting of studded gold jewellery. In 1999-00, it expanded its jewellery manufacturing capacity and set up a new 100% EOU at EPIP at Sitapura, Jaipur.

A new micro-weight gold chain manufacturing unit was commissioned in 2004 at Sitapura, Jaipur for manufacturing and captive consumption of gold chains. It also established a branch office in 2004 at Mumbai for procurements of diamonds used in jewellery manufacturing and a product development centre for Diamond Jewellery.

It has set up its own diamond processing unit at Adarsh Nagar, Jaipur in 2005 for manufacturing & captive consumption of diamonds. It also moved ahead towards its forward integration by way of entering into International Retail Market by setting up its wholly owned subsidiary Jewel Gem USA Inc. in USA in March 2005. Three jewellery stores under the brand name "GenoA Jewelers" has been set up in Alaska, U.S.A in May 2005.

Today VGL is the highest exporter of colored gemstones in India for last 10 years and one of the largest exporter of Studded Jewellery.

XX SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Preparation

a. The financial statements have been prepared to comply with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires changes in the accounting policy hitherto in use.

b. The financial statements have been prepared under historical cost convention on accrual basis.

2. Use of Estimates

The preparation of financial statements requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Difference between the actual results and estimates are recognised in the period in which the results are known/ materialised.

An impairment of assets is treated when the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the assets and its eventual disposal. The impairment loss to be charged is determined as the excess of carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are provided when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Actual results could differ from those estimates.

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 and impairment losses.

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

SCHEDULES FORMING PART OF ACCOUNTS

XX SIGNIFICANT ACCOUNTING POLICIES *(Contd.)*

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 are 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. Revenue

Revenue from sales of goods is recognized when risk and rewards of ownership of the products are passed on to the customers, which is generally on dispatch of goods and is stated net of returns, trade discounts, claims etc.

8. Expenditure

Software which is not integral part of hardware and related services is charged to cost of revenue in the year of acquisition.

Liability for outstanding leaves to the credit of employees has been provided on actual basis.

9. Foreign Currency Transactions

a. Initial Recognition

Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the time of the transaction.

b. Conversion

Monetary items denominated in foreign currencies at the year-end are translated at closing rates. Non-monetary items which are carried in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of transaction and investment in foreign companies are recorded at the exchange rates prevailing on the date of making the investments.

c. Exchange Differences

Exchange differences arising either on settlement or on translation of monetary items are recognized as income or expense in the profit and loss account.

d. Forward Exchange Contract not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts is amortized as expense or income over the life of contract. Exchange differences on such contact are recognized in the profit and loss account in the year in which the exchange rate changes.

10. 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.

11. 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 accounted 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 realization.

XXI NOTES ON ACCOUNTS

1. The deferred tax liability (asset) comprise of the following:

(Amount in Rupees)

		As at 31.03.2005		As at 31.03.2004
a. Deferred Tax Liability (Asset)				
i. Related to Depreciation		8,46,223		15,40,694
b. Deferred Tax Assets on account of				
i. Provision for Doubtful Advances	3,97,188		4,23,325	
ii. Public Issue Expenses	1,16,127		2,47,538	
iii. Provision for Leave Encashment	1,34,395		65,587	
iv. Brought forward losses	6,09,880		–	
		12,57,590		7,36,450
c. Deferred Tax Liability (Asset) (Net)		**(4,11,367)**		**8,04,244**

Net deferred tax charge/(credit) for the year of Rs.12,15,611 (Previous year Rs.10,239) has been recognised in the Profit and Loss Account for the year.

2. Sundry Debtors include Rs. 42,71,11,401 (Previous year Rs.39,80,65,990) due from bodies corporate in which directors are interested.

3. Advances recoverable include Rs. 3,00,000 due from VGL Softech Limited, a company in which directors are interested (Maximum amount outstanding during the year Rs.3,00,000).

4. Advances recoverable in cash or kind or for value to be received includes Rs. 11,80,000 (Previous year Rs. 11,80,000) considered doubtful and are fully provided for.

5. Based on the information available 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.

6. Customers' Accounts are reconciled on an ongoing basis and are not likely to have material impact on the outstanding or classification of the accounts.

7. Contingent Liabilities

	As at 31.03.2005	As at 31.03.2004
a. Estimated amount of contracts remaining to be executed on capital account and not provided for:	65,00,000	66,53,885
b. Outstanding Guarantees furnished to Banks including in respect of Letters of Credit:	68,09,446	3,51,97,449
c. Guarantee to Bank in respect of credit facilities extended to third party:	7,16,78,000	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:	1,55,57,249	1,12,26,618
e. ESI Demand paid under protest by the Company:	59,281	59,281

8. Earning per Share (EPS)

	2004-2005	2003-2004
a. Net profit available for equity shareholders (Rs.)	15,10,09,429	9,54,99,748
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 Earning per share of Rs. 10 each (Rs.)	14.30	9.04

SCHEDULES FORMING PART OF ACCOUNTS

XXI NOTES ON ACCOUNTS *(Contd.)*

9. Segment Information

A. Business Segments

(Rupees in Lacs)

	2004-2005				2003-2004			
	Gemstones	Jewellery	Elimination/ Unallocable	Total	Gemstones	Jewellery	Elimination/ Unallocable	Total
1 Revenue								
External Revenue	4,435.54	12,335.63	–	16,771.17	2,703.74	10,472.32	2.42	13,178.48
Inter-Segment Revenue	4,881.28	–	4,881.28	–	4,162.56	–	4,162.56	
Total Revenue	**9,316.82**	**12,335.63**	**4,881.28**	**16,771.17**	**6,866.30**	**10,472.32**	**4,164.98**	**13,178.48**
2 Segment Result								
Operating results	606.96	1,306.66	–	1,913.62	245.97	981.98	–	1,227.95
Un-allocable Income (Net of Expenses)	–	–	–	(256.77)	–	–	–	(208.47)
Operating profit	–	–	–	1,656.85	–	–	–	1,019.48
Interest Expenses	–	–	–	(163.46)	–	–	–	(63.42)
Interest Income	–	–	–	3.56	–	–	–	5.41
Excess Provisions of earlier years	–	–	–	1.29	–	–	–	1.63
Provision for Income Tax	–	–	–	(0.30)	–	–	–	(8.00)
Deferred Tax Credit/(Charge)	–	–	–	12.15	–	–	–	(0.10)
Net Profit after tax	**–**	**–**	**–**	**1,510.09**	**–**	**–**	**–**	**955**
3 Other Information								
Segment Assets	3,458.98	5,699.08	1,226.79	10,384.85	2,233.58	5,014.29	601.38	7,849.25
Segment Liabilities	542.87	102.95	3,345.85	3,991.67	155.33	458.61	2,051.18	2,665.12
Capital Expenditure	34.19	330.55	–	364.74	4.85	437.41	–	442.26
Depreciation and Amortisation	14.29	100.58	8.03	122.90	13.27	57.65	8.91	79.83
Non Cash Expenses other than Depreciation	(2.09)	6.83	–	4.74	18.97	163.85	–	182.82

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:

1. 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.
2. The Company has disclosed Business Segment as the primary segment.
3. Inter-Segment revenues are recognised at sales and/or transfer price.
4. 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, are shown as unallocable under respective heads.

10. Related Party Disclosures

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

Subsidiary

1. Jewel Gem USA Inc.

XXI NOTES ON ACCOUNTS *(Contd.)*

Associates

1. Amrin Gems Export
2. Aziz Gems Trading Co.
3. Reengus Exim Private Limited
4. Stone Age Limited
5. VGL Softech Limited

Key Management Personnel (KMP)

1. Shri Rahimullah – Managing Director
2. Shri Ikramullah – Whole-time Director

B. Related Party Transactions

		2004-2005			2003-2004		
S. No.	**Nature of transactions**	**Associates**	**KMP**	**Total**	**Associates**	**KMP**	**Total**
I	**Unsecured Loans**						
	a. Balance as on 01-04-2004	–	–	–	12,60,000	–	12,60,000
	b. Taken during the year	10,00,000	–	10,00,000	–		–
	c. Repaid during the year	10,00,000	–	10,00,000	12,60,000	–	12,60,000
	d. Balance as on 31-03-2005	–	–	–	–		–
II	**Advances recoverable**						
	a. Balance as on 01-04-2004	–	–	–	–	–	–
	b. Given during the year	32,06,472	–	32,06,472	11,00,000	–	11,00,000
	c. Received/Adjusted during the year	29,06,472	–	29,06,472	11,00,000	–	11,00,000
	d. Balance as on 31-03-2005	3,00,000	–	3,00,000		–	–
III	**Purchase**	30,07,722	–	30,07,722	37,47,761		37,47,761
IV	**Expenses**						
	a. Director's Remuneration	–	18,00,000	18,00,000	–	8,70,000	8,70,000
	b. Software Expenses	39,24,770	–	39,24,770	20,85,494	–	20,85,494
	c. Lease line Charges	87,872	–	87,872	–	–	–
	d. Rent	2,16,000		2,16,000	–	–	–
V	**Other Income**	–	–	–	30,450	–	30,450
VI	**Sundry Creditors**	5,89,296	–	5,89,296	2,63,597	–	2,63,597

C. Details of material related party transactions (not included in B above)

S. No.	**Nature of transactions**	**2004-2005**	**2003-2004**
1	Investment in Subsidiary (Jewel Gem USA Inc.)	5,02,68,500	–
2	Guarantee given by the company (Stone Age Limited)	7,16,78,000	2,55,00,000

11. Based on external and internal sources, the management is of the opinion that there are no indication that an asset is required to be impaired in accordance to AS-28 issued by ICAI.

12. Previous year figures have been reworked, regrouped, rearranged and reclassified wherever considered necessary, to make them comparable to those of the current year.

Signatures to Schedules I to XXI

As per our report of even date
For and on behalf of
B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner
Jaipur, 24th May, 2005

Ashish Jain
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director
Jaipur, 24th May, 2005

BALANCE SHEET ABSTRACT, GENERAL BUSINESS PROFILE AND SECTION 212 PARTICULARS

I. Registration Details

Registration No. 4 9 4 5 State Code 1 7

Balance Sheet Date 3 1 0 3 2 0 0 5

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

Public Issue	Right Issue
NIL	NIL
Bonus Issue	**Private Placement**
NIL	NIL

III. Position of mobilisation and deployment of funds

(Amount in Rupees Thousands)

Total Liabilities	Total Assets
923018	923018

Sources of Funds

Paid-up Capital	Secured Loans
105606	283701
Reserves and Surplus	**Unsecured Loans**
533712	NIL
Deferred Tax Assets (Net)	
411	

Application of Funds

Net Fixed Assets	Investment
101583	55619
Net Current Assets	**Miscellaneous Expenditure**
765405	NIL

IV. Performance of Company (Amount in Rupees Thousands)

Turnover	Total Expenditure
1687981	1537249
Profit/(Loss) before Tax	**Profit/(Loss) after Tax**
150732	151009
Earning per share in Rs.	**Dividend Rate (%)**
14.30	25.00

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	

Statement Pursuant to Section 212(1)(e) of the Companies Act,1956, Relating to Company's Interest in Subsidiary Company for the financial year 2004-05

Name of Subsidiary	Jewel Gem USA, Inc.
1. The Financial Year of the Subsidiary Company Ended on	Not yet determined
2. Date from which it became Subsidiary Company.	31st March 2005
3. a. Number of shares held by Vaibhav Gems Limited with its nominees in the Subsidiary at the end of Financial year of the Subsidiary Company	1000 Common Stock, with no par Value.
b. Extent of interest of Holding Company at the end of the financial year of the subsidiary Company.	100%(as at 31st March, 2005)
4. The net aggregate amount of the Subsidiary Company Profit/(Loss) so far as it concerns the members of the Holding Company	
a. Not dealt with in the Holding Company's accounts:	
i) For the financial year ended 31st March, 2005 (based upon the accounts as reviewed by the auditors of the subsidiary company as on 31st March 2005)	Loss of Rs. 68.96 Lacs
ii) For the previous Financial year of the Subsidiary Company since it became the Holding Company subsidiary	Not applicable
b. Dealt with in Holding Company's accounts:	
i) For the financial year ended 31st March, 2005	Nil
ii) For the Previous Financial Year of the Subsidiary Company since it became the Holding Company's Subsidiary	Not applicable

Ashish Jain	**Nirmal Kumar Bardiya**	**Rahimullah**
Company Secretary	*Director*	*Managing Director*

Jaipur, 24th May, 2005

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors
Vaibhav Gems Limited

We have examined the attached Consolidated Balance Sheet of Vaibhav Gems Limited ("the company" or "the Parent") and its subsidiary as at 31st March 2005 and the consolidated Profit and Loss Account for the year ended on that date

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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.

We report as follows:

1. We did not audit the financial statements of the Company's subsidiary, whose financial statements reflect total assets of Rs. 1230.93 lacs as at 31st March 2005 and total revenues of Rs. Nil for the year ended on that date. As stated in Note 1(b) of Schedule XX, these financial statements have been reviewed by other auditors and our opinion, insofar as it relates to the amounts included in respect of the Company's subsidiary, is based solely on the certificate of the management.
2. We report that the consolidated financial statements have been prepared by the company, except for the matters referred to in Note No. 1(b) and (c) of Schedule XX, in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and financial statements referred to in paragraph 1 above of its subsidiary in the Consolidated financial statements.
3. On the basis of the information and explanations given to us and on the consideration of the separated audit report on individual audited financial statements of the company and certificate of the management on financial statement of its subsidiary referred to in paragraph 1 above and subject to Note No. 1(b) and (c) read with Note No. 1(d) of Schedule XX, we are of the opinion that:
   a. the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of the Company and its subsidiary as at 31st March, 2005; and
   b. the Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of the Company and its subsidiary for the year ended on that date.
   c. the Consolidated Cash Flow Statement gives true and fair view of the consolidated cash flows of the company and its subsidiary for the year ended on that date.

For **B. Khosla & Co.**
Chartered Accountants

G. G. Mundra
Partner
M. No. 008167

Jaipur
Dated: 24th May 2005

CONSOLIDATED BALANCE SHEET

(Amount in Rupees)

As at 31st March,	Schedule		2005
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	I	10,56,06,000	
Reserves and Surplus	II	52,68,84,818	
			63,24,90,818
Loan Funds			
Secured Loans	III		28,37,00,833
Total			**91,61,91,651**
APPLICATION OF FUNDS			
Fixed Assets	IV		
Gross Block		18,39,31,686	
Less: Depreciation		6,05,12,443	
Net Block		12,34,19,243	
Capital Work-in-progress		6,29,133	12,40,48,376
Investments	V		53,50,520
Deferred Tax Assets (Net)			4,11,367
Current Assets, Loans and Advances			
Inventories	VI	42,29,36,093	
Sundry Debtors	VII	46,65,11,028	
Cash and Bank Balance	VIII	5,75,32,042	
Loans and Advances	IX	3,49,07,382	
		98,18,86,545	
Less: Current Liabilities and Provisions			
Current Liabilities	X	16,16,45,520	
Provisions	XI	3,38,59,637	
		19,55,05,157	
Net Current Assets			78,63,81,388
Total			**91,61,91,651**
Significant Accounting Policies	XIX		
Notes on Accounts	XX		

As per our report of even date
For and on behalf of
B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner
Jaipur, 24th May, 2005

Ashish Jain
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director

Jaipur, 24th May, 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

For the year ended 31st March,	Schedule	2005
INCOME		
Sales	XII	1,67,71,17,352
Other Income	XIII	14,81,163
Exchange Gains (Net)		93,82,155
		1,68,79,80,670
EXPENDITURE		
Materials	XIV	1,33,01,78,585
Manufacturing Expenses	XV	7,13,90,040
Employees Costs	XVI	7,32,14,339
Administrative & Selling Expenses	XVII	3,68,40,815
Financial Expenses	XVIII	1,63,52,514
		1,52,79,76,293
Profit before Depreciation and Amortisations		**16,00,04,377**
Depreciation and Amortisations	IV	1,61,66,625
Miscellaneous Expenses Written Off		–
Profit for the year before Tax		**14,38,37,752**
Provision for Income Tax		32,188
Net Deferred Tax Charge/(Credit) for the year		(12,15,611)
Profit for the year after Tax		**14,50,21,175**
Add/(Less) :		
Prior Period Adjustments		(10,37,242)
Excess Provisions of earlier years		1,29,343
Net Profit for the Year		**14,41,13,276**
Balance brought forward		32,31,61,316
Profit available for Appropriation		**46,72,74,592**
Appropriations		
Proposed Dividend		2,64,01,500
Tax on Dividend		37,02,811
General Reserve		2,00,00,000
		5,01,04,311
Balance carried to Balance Sheet		**41,71,70,281**
Basic and Diluted Earning per Share of Rs. 10 each		13.65
Significant Accounting Policies	XIX	
Notes on Accounts	XX	

As per our report of even date
For and on behalf of
B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner
Jaipur, 24th May, 2005

Ashish Jain
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director
Jaipur, 24th May, 2005

CONSOLIDATED CASH FLOW STATEMENT

(Amount in Rupees)

For the year ended 31st March,	2005
A. Cash Flow from Operating Activities	
Net Profit before tax and extraordinary Items	14,38,37,752
Adjustment for :	
Depreciation and Amortisations	1,61,66,625
Unrealised Foreign Exchange Differences	5,43,879
Profit on sale of Investment	(10,83,697)
Loss/(Profit) on sale of Fixed Assets	–
Interest and Dividend received	(3,55,653)
Interest paid on borrowings	1,63,52,514
Operating Profit before working Capital Changes	**17,54,61,420**
Adjustment for :	
Trade and other receivables	(9,45,90,026)
Trade payables	9,41,77,215
Stock-in-trade	(17,54,54,388)
Cash generated from Operations	**(4,05,779)**
Direct Taxes paid	7,64,111
Net cash from operating activities	**(11,69,890)**
B. Cash Flow from Investing Activities	
Purchase of Fixed Assets	(5,39,10,430)
Sale of Fixed Assets	8,956
Sale/(Purchases) of Shares	10,48,677
Interest and Dividend received	3,55,653
Net Cash used in Investing Activities	**(5,24,97,144)**
C. Cash flow from Financing Activities	
Proceeds from / (Repayment of) Long Term Borrowings	11,65,55,966
Dividend and Tax on Dividend paid	(2,38,81,477)
Interest Paid on Borrowings	(1,63,52,514)
Net Cash used in Financing Activities	**7,63,21,975**
Net Increase in Cash and Cash Equivalents	**2,26,54,941**
Opening Balance of Cash and Cash Equivalent	3,48,77,101
Closing Balance of Cash and Cash Equivalent	**5,75,32,042**
Cash and Cash Equivalents comprises	
Cash, cheques and drafts in hand	8,49,954
Balance with Scheduled bank in current account	2,98,51,431
Balance with Non Scheduled bank in current account	71,33,942
Balance with Scheduled bank in deposit account	1,96,96,715
	5,75,32,042

Notes:

1 The Cash Flow Statement has been prepared under the "Indirect Method" as set out in Accounting Standard -3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.

As per our report of even date
For and on behalf of
B. Khosla & Co.
Chartered Accountants

G. G. Mundra | **Ashish Jain** | **Nirmal Kumar Bardiya** | **Rahimullah**
Partner | *Company Secretary* | *Director* | *Managing Director*

Jaipur, 24th May, 2005 | Jaipur, 24th May, 2005

(Amount in Rupees)

As at 31st March,		2005
I SHARE CAPITAL		
Authorised		
1,60,00,000 Equity Shares of Rs.10 each		**16,00,00,000**
Issued, Subscribed and Fully Paid up		
1,05,60,600 Equity Shares of Rs.10 each		
Of the above 72,94,920 shares were allotted as fully paid up		
Bonus Shares by capitalisation of Reserves and Surplus.		**10,56,06,000**
II RESERVES AND SURPLUS		
Securities Premium		5,85,98,200
General Reserve		
As per last Balance Sheet	3,10,47,000	
Add: Transferred from Profit and Loss Account	2,00,00,000	
		5,10,47,000
Foreign Currency Translation Reserve		
Amount Transferred during the year		69,337
Balance in Profit and Loss account		41,71,70,281
		52,68,84,818
III SECURED LOANS		
From Banks*		
Secured by hypothecation of Stocks	15,81,11,289	
Secured by hypothecation of Export receivables	12,55,89,544	
		28,37,00,833
		28,37,00,833

***Further Secured by**

a. Equitable Mortgage of Land and Buildings situated at K-6A & K-6B, Adarsh Nagar and E-68, EPIP, Sitapura, Jaipur.
b. Hypothecation of Plant and Machineries.
c. Fixed Deposits of Rs. 28,71,242
d. Guarantees of Chairman, Managing Director and a Director.

	Additions	Deductions	2005
IV FIXED ASSETS			
Gross Block			
Land (Freehold)	–	–	48,94,908
Land (Leasehold)	–	–	1,07,58,637
Buildings	36,31,259	–	3,48,78,439
Furniture & Fixtures	2,77,63,005	–	3,76,63,008
Plant & Machinery	2,27,79,841	–	6,44,73,600
Office Equipments	11,30,838	–	86,24,545
Vehicles	7,06,771	–	26,67,493
Electric Installations	16,54,972	8,956	63,10,732
Computers	51,49,250	–	1,36,60,325
	6,28,15,935	**8,956**	**18,39,31,686**

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	Additions	Deductions	2005
IV FIXED ASSETS (contd.)			
Depreciation and Amortisations			
Land (Freehold)	–	–	–
Land (Leasehold)	1,05,615	–	6,33,523
Buildings	24,79,483	–	1,07,39,153
Furniture & Fixtures	46,80,308	–	1,10,52,528
Plant & Machinery	56,55,108	–	2,24,17,494
Office Equipments	7,13,709	–	36,85,815
Vehicles	1,78,283	–	16,00,543
Electric Installations	6,17,359	78	21,63,499
Computers	17,36,760	–	82,19,888
	1,61,66,625	**78**	**6,05,12,443**
Net Block			
Land (Freehold)			48,94,908
Land (Leasehold)			1,01,25,114
Buildings			2,41,39,286
Furniture & Fixtures			2,66,10,479
Plant & Machinery			4,20,56,106
Office Equipments			49,38,730
Vehicles			10,66,950
Electric Installations			41,47,233
Computers			54,40,437
			12,34,19,243
Capital Work-in-Progress			6,29,133
			12,40,48,376

Notes:

1 Capital Work-in-Progress includes advances given against Capital Expenditure.

2 Depreciation include amortisation of cost of acquisition in respect of Leasehold Land.

3 Land (Leasehold) includes Rs. 66,00,000 in respect of which Lease Agreement is yet to be executed.

V INVESTMENTS

(Long Term, other than trade - At Cost)	
Quoted	
368 Fully paid Equity Shares of Rs. 10 each of Punjab National Bank	1,43,520
[Market Value Rs. 1,44,771]	
Unquoted	
3,60,000 Fully paid Equity Shares of Rs. 10 Each of VGL Softech Ltd.	52,07,000
	53,50,520

VI INVENTORIES

(As taken, valued and certified by the Management)	
(At cost or net realisable value, whichever is lower)	
Material-in-process	33,57,72,229
Semi Finished Goods	1,34,97,036
Finished Goods	6,98,40,432
Stores and Consumables	38,26,396
	42,29,36,093

(Amount in Rupees)

As at 31st March,		2005
VII SUNDRY DEBTORS		
(Unsecured and Considered Good)		
Outstanding for more than Six Months	5,02,538	
Others	46,60,08,490	
		46,65,11,028
		46,65,11,028
VIII CASH AND BANK BALANCES		
Cash in hand		8,49,954
Balance with banks		
In Current Accounts	3,69,85,373	
In Deposit Accounts [Pledged Rs. 96,80,688]	1,96,96,715	
		5,66,82,088
		5,75,32,042
IX LOANS & ADVANCES		
(Unsecured and Considered Good)		
Advances recoverable in Cash or in kind or for value to be received		2,91,62,968
Advance Income Tax (Net of Provision)		18,88,256
Advances to Staff		23,46,249
Security Deposits		15,09,909
		3,49,07,382
X CURRENT LIABILITIES		
Sundry Creditors Other than SSI Undertakings		8,61,82,593
Unpaid Dividend		2,18,060
Investor Education and Protection Fund to be credited by -Unpaid Dividend		15,209
Other Liabilities		7,52,29,658
		16,16,45,520
XI PROVISIONS		
Leave Encashment		37,55,326
Proposed Dividend		2,64,01,500
Tax on Dividend		37,02,811
		3,38,59,637

For the year ended 31st March,		2005
XII SALES		
Exports	1,67,34,46,487	
Deemed Exports	20,48,677	
		1,67,54,95,164
Raw Material Sales		16,22,188
		1,67,71,17,352

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

For the year ended 31st March,		2005
XIII OTHER INCOME		
Dividends on Investment		5,250
Interest on Bank FDRs[1]		3,50,403
Profit on sale of Investment		10,83,697
Miscellaneous Income		41,813
		14,81,163

[1]Income-tax deducted at source Rs. 1,16,122

XIV MATERIALS		
Materials Consumed		
Opening Material-in-process	22,40,25,559	
Add: Purchases	1,41,51,20,673	
	1,63,91,46,232	
Less: Closing Material-in-process	33,57,72,229	
		1,30,33,74,003
Purchases of Finished Goods		9,05,57,242
(Increase)/Decrease in Semi Finished and Finished Goods:		
Opening Stocks		
Semi Finished Goods	1,18,16,685	
Finished Goods	77,68,123	
	1,95,84,808	
Less: Closing Stocks		
Semi Finished Goods	1,34,97,036	
Finished Goods	6,98,40,432	
	8,33,37,468	
		(6,37,52,660)
		1,33,01,78,585

XV MANUFACTURING EXPENSES	
Job Work Charges	3,50,32,735
Stores and Consumables	2,10,90,888
Power and Fuel	65,19,969
Other Manufacturing Expenses	41,06,494
Repairs and Maintenance	46,39,954
	7,13,90,040

XVI EMPLOYEES COSTS	
Salaries, Wages, Bonus etc.	6,39,43,122
Contributions to Provident and Other Funds	38,95,148
Staff Welfare Expenses	38,82,373
Recruitment and Training	14,93,696
	7,32,14,339

(Amount in Rupees)

For the year ended 31st March,	2005
XVII ADMINISTRATIVE & SELLING EXPENSES	
Advertisement and Business Promotion	15,31,920
Auditors' Remuneration	2,55,910
Directors' Remuneration	19,40,000
Discounts, Brokerage and Commission	2,20,000
Donation	25,300
Insurance	13,96,224
Legal and Professional	11,94,952
Office Expenses	82,67,720
Packing and Forwarding	56,07,016
Post and Telephone	32,49,004
Printing and Stationery	19,93,316
Rent, Rates and Taxes	22,48,490
Travelling and Conveyance	89,10,963
	3,68,40,815

XVIII FINANCIAL EXPENSES	
Interest	76,67,247
Bank Commission	86,85,267
	1,63,52,514

Overview:

Vaibhav Gems Limited (VGL) was incorporated in 1989 with the object of manufacturing and exporting color gemstones & jewellery. In 1996-97 it established a jewellery manufacturing unit at Adarsh Nagar, Jaipur for manufacturing and exporting of studded gold jewellery. In 1999-00, it expanded its jewellery manufacturing capacity and set up a new 100% EOU at EPIP at Sitapura, Jaipur.

A new micro-weight gold chain manufacturing unit was commissioned in 2004 at Sitapura, Jaipur for manufacturing and captive consumption of gold chains. It also established a branch office in 2004 at Mumbai for procurements of diamonds used in jewellery manufacturing and a product development centre for Diamond Jewellery

It has set up its own diamond processing unit at Adarsh Nagar, Jaipur in 2005 for manufacturing & captive consumption of diamonds. It also moved ahead towards its forward integration by way of entering into International Retail Market by setting up its wholly owned subsidiary Jewel Gem USA Inc. in USA in March 2005. Three jewellery stores under the brand name “GenoA Jewelers” has been set up in Alaska, U.S.A in May 2005.

Today VGL is the highest exporter of colored gemstones in India for last 10 years and one of the largest exporter of Studded Jewellery.

XIX SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Preparation

a. The financial statements have been prepared to comply with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires changes in the accounting policy hitherto in use.

b. The financial statements have been prepared under historical cost convention on accrual basis.

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

XIX SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2. Principles of Consolidation

The consolidated Financial Statements relate to Vaibhav Gems Limited (the parent company) and Jewel Gem USA Inc. (wholly owned subsidiary company incorporated in USA).

a. The financial statements of the Company and its subsidiary Company have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealized profits or losses as per Accounting Standard 21-Consolidated Financial Statements, issued by The Institute of Chartered Accountants of India.

b. The consolidated financial statements are prepared by adopting uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the parent company's separate financial statements unless stated otherwise.

3. Use of Estimates

The preparation of financial statements requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Difference between the actual results and estimates are recognised in the period in which the results are known/ materialized.

An impairment of assets is treated when the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the assets and its eventual disposal. The impairment loss to be charged is determined as the excess of carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are provided when it is probable that a liability will be incurred and the amount can be reasonably estimated. Actual results could differ from those estimates.

4. Fixed Assets

Fixed Assets are stated at cost of acquisition or construction inclusive of freight, duties and taxes and incidental expense less accumulated depreciation.

Improvements on Lease hold Right have been depreciated on a straight line basis over the estimated period of their utility or the period of lease of respective right whichever is lower.

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

5. 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.

6. 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 are 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.

7. 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.

8. Revenue

Revenue from sales of goods is recognized when risk and rewards of ownership of the products are passed on to the customers, which is generally on dispatch of goods and is stated net of returns, trade discounts, claims etc.

9. Expenditure

Software which is not integral part of hardware and related services is charged to cost of revenue in the year of acquisition.

Liability for outstanding leaves to the credit of employees has been provided on actual basis

XIX SIGNIFICANT ACCOUNTING POLICIES (Contd.)

10. Foreign Currency Transactions

a. **Initial Recognition**

Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the time of the transaction.

b. **Conversion**

Monetary items denominated in foreign currencies at the year-end are translated at closing rates. Non-monetary items which are carried in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of transaction and investment in foreign companies are recorded at the exchange rates prevailing on the date of making the investments.

c. **Exchange Differences**

Exchange differences arising either on settlement or on translation of monetary items are recognized as income or expense in the profit and loss account.

d. **Forward Exchange Contract not intended for trading or speculation purposes**

The premium or discount arising at the inception of forward exchange contracts is amortized as expense or income over the life of contract. Exchange differences on such contracts are recognized in the profit and loss account in the year in which the exchange rate changes.

e. **Translation**

In case of foreign subsidiary, revenue items are consolidated at the average rate prevailing during the year. All assets and liabilities are converted at the rates prevailing at the end of the year. Exchange gains/(losses) arising on conversion are recognized under Foreign Currency Translation Reserve (arising on Consolidation).

11. 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.

12. Provision for Current and Deferred Taxation

Provision for current tax is made after taking into consideration benefits admissible under the applicable Law.

Deferred tax resulting from "timing difference" between book and taxable profit is accounted 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.

XX NOTES ON ACCOUNTS

1. Basis of Consolidation

a. These accounts comprise a consolidation of the Balance Sheet, Profit and Loss Account and Cash Flow Statement of Vaibhav Gems Limited (parent), a company incorporated in India and its wholly owned subsidiary Jewel Gem USA Inc (subsidiary), which is incorporated in the State of New York, USA on October 19, 2004. The financial statement of the subsidiary pertains for the period October 19, 2004 (inception) through March 31, 2005.

b. The financial statement of the subsidiary for the period ended March 31, 2005 has been reviewed by other auditors in accordance with the Statements for Accounting and Review Services issued by the American Institute of Certified Public Accountants. It is substantial less in scope than an audit in accordance with US GAAP. These financial statements have been converted by the management as per requirement of Indian GAAP and are certified by the Management.

c. The consolidated financial statements are prepared by adopting uniform accounting policies for like transactions except in case of subsidiary no adjustment(s), if any, relating to retirement benefits (refer para 11 of Sch. XIX) and deferred tax (refer para 12 of Sch. XIX) has been carried out in accordance with the applicable law of the domicile country.

d. The subsidiary has not carried out any business activity during the financial year 2004-05 and began commercial operations on May 7, 2005. In the opinion of the management, the effect of para 1(b) and (c) above on the consolidated financial statement of the Company is not material.

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

XX NOTES ON ACCOUNTS (Contd.)

2. The deferred tax liability (asset) of parent company comprises of the following:

(Amount in Rupees)

		As at 31.03.2005
a. **Deferred Tax Liability**		
i. Related to Depreciation		8,46,223
b. **Deferred Tax Assets on account of:**		
i. Provision for Doubtful Advances	3,97,188	
ii. Public Issue Expenses	1,16,127	
iii. Provision for Leave Encashment	1,34,395	
iv. Brought forward losses	6,09,880	
		12,57,590
c. **Deferred Tax Liability (Assets)(Net)**		**(4,11,367)**

Net deferred tax charge/(credit) for the year of Rs 12,15,611 has been recognised in the Profit and Loss Account for the year.

3. Sundry Debtors include Rs. 42,71,11,401 due from bodies corporate in which directors are interested.

4. Advances recoverable include Rs. 3,00,000 due from VGL Softech Limited, a company in which directors are interested (Maximum amount outstanding during the year Rs. 3,00,000).

5. Advances recoverable in cash or kind or for value to be received includes Rs. 11,80,000 considered doubtful and are fully provided for.

6. Customers' Accounts are reconciled on an ongoing basis and are not likely to have material impact on the outstanding or classification of the accounts.

7. The subsidiary has three lease agreements for retail stores. These non-cancelable operating leases have expiration date from February 2009 to March 2010 with option for renewal.

a. Total future Minimum lease payments (excluding certain escalations) in this respect are as follows:

Year	**2005**	**2006**	**2007**	**2008**	**Beyond 2009**
Amount (Rs.)	1,40,31,938	2,05,27,369	2,17,08,575	2,25,59,688	1,66,88,438

b. Lease Rent of Rs 14,92,229/- has been included under "Rent, Rates and Taxes" in the Profit and Loss Account.

8. Balance with banks include Rs. 71,33,942 being balance with non scheduled bank namely First Bank. (Maximum balance during the year, Rs. 71,33,942)

9. Contingent Liabilities	**As at 31.03.2005**
a. Estimated amount of contracts remaining to be executed on capital account and not provided for	65,00,000
b. Outstanding Guarantees furnished to Banks including in respect of Letters of Credit	68,09,446
c. Guarantee to Bank in respect of credit facilities extended to third party	7,16,78,000
d. Income Tax Demands against the Company not acknowledged as debts and not provided for, in respect of which Company has preferred appeals	1,55,57,249
e. ESI Demand paid under protest by the Company	59,281

10. Earning per Share (EPS)	**2004-05**
a. Net profit available for equity shareholders (Rs.)	14,41,13,276
b. Weighted Average number of equity shares used as denominator for calculating EPS	1,05,60,600
c. Basic and Diluted Earning per share of Rs. 10 each (Rs.)	13.65

XX NOTES ON ACCOUNTS (Contd.)

11. Segment information:

(Rupees in Lacs)

A. BUSINESS SEGMENTS

	2004-2005			
	Gemstones	**Jewellery**	**Elimination/ Unallocable**	**Total**
1. Revenue				
External Revenue	4,435.54	12,335.63	–	16,771.17
Inter-Segment Revenue	4,881.28	–	4,881.28	–
Total Revenue	**9,316.82**	**12,335.63**	**4,881.28**	**16,771.17**
2. Segment Result				
Operating results	606.96	1,263.97	–	1,870.93
Un-allocable expenses (Net of Income)	–	–	–	(282.95)
Operating profit	–	–	–	1,587.98
Interest Expenses	–	–	–	(163.53)
Interest Income	–	–	–	3.56
Excess Provisions of earlier years	–	–	–	1.29
Provision for Income Tax	–	–	–	(0.32)
Deferred Tax Credit/(Charge)	–	–	–	12.15
Net Profit after tax	**–**	**–**	**–**	**1,441.13**
3. Other Information				
Segment Assets	3,458.98	6,553.88	1,099.94	11,112.80
Segment Liabilities	542.87	899.46	3,345.56	4,787.89
Capital Expenditure	34.19	593.97	–	628.16
Depreciation and Amortisation	14.29	139.35	8.03	161.67
Non Cash Expenses other than Depreciation	(2.09)	6.83	–	4.74

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:

1. 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.
2. The Company has disclosed Business Segment as the primary segment.
3. Inter-Segment revenues are recognised at sales and/or transfer price.
4. 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.

12. Related Party Disclosures

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

Associates

1. Amrin Gems Export
2. Aziz Gems Trading Co.
3. Reengus Exim Private Limited
4. Stone Age Limited
5. VGL Softech Limited

Key Management Personnel (KMP)

1. Shri Rahimullah – Managing Director
2. Shri Ikramullah – Whole-time Director

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

XX NOTES ON ACCOUNTS (Contd.)

B. Related Party Transactions

S. No.	Nature of transaction	2004-2005 Associates	KMP	Total
I	**Unsecured Loans**			
	a. Balance as on 01-04-2004	–	–	–
	b. Taken during the year	10,00,000		10,00,000
	c. Repaid during the year	10,00,000		10,00,000
	d. Balance as on 31-03-2005	–	–	–
II	**Advances recoverable**			
	a. Balance as on 01-04-2004	–	–	–
	b. Given during the year	32,06,472	–	32,06,472
	c. Received/Adjusted during the year	29,06,472	–	29,06,472
	d. Balance as on 31-03-2005	3,00,000	–	3,00,000
III	**Purchase**	30,07,722	–	30,07,722
IV	**Expenses**			
	a. Director's Remuneration		18,00,000	18,00,000
	b. Software Expenses	39,24,770	–	39,24,770
	c. Lease line Charges	87,872	–	87,872
	d. Rent	2,16,000		2,16,000
V	**Sundry Creditors**	5,89,296	–	5,89,296

C. Details of material related party transactions (not included in B above)

S. No.	Nature of transaction	2004-2005
1	Guarantee given by the company (Stone Age Limited)	7,16,78,000

13. Based on external and internal sources, the management is of the opinion that there are no indication that an asset is required to be impaired in accordance to AS-28 issued by ICAI.

14. This being first occasion that consolidated financial results are presented, therefore comparative figures of the previous year are not given.

Signatures to Schedules I to XX

As per our report of even date
For and on behalf of
B. Khosla & Co.
Chartered Accountants

G. G. Mundra
Partner
Jaipur, 24th May, 2005

Ashish Jain
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director
Jaipur, 24th May, 2005

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