



VAIBHAV GEMS LIMITED

2008 - 2009



Board of Directors

- | | | |
|---------------------------|---|-------------------|
| ❖ Sunil Agrawal | - | Chairman |
| ❖ Suresh Punjabi | - | Director |
| ❖ Rahimullah | - | Managing Director |
| ❖ Nirmal Kumar Bardiya | - | Director |
| ❖ Anandi Lal Roongta | - | Director |
| ❖ Mitha Lal Mehta | - | Director |
| ❖ Surendra Singh Bhandari | - | Director |
| ❖ Sheela Agrawal | - | Director |

Company Secretary

- ❖ Mukesh Khetan

Statutory Auditors

- ❖ Haribhakti & Co., Mumbai
- ❖ B. Khosla & Co., Jaipur

Registrar & Share Transfer Agents

- ❖ Karvy Computershare (P) Limited
17-24, Vittal Rao Nagar, Madhapur
Hyderabad-500 081

Bankers

- ❖ Punjab National Bank, Jaipur
- ❖ State Bank of Bikaner & Jaipur, Jaipur
- ❖ Union Bank of India, Jaipur
- ❖ IDBI Bank, Jaipur

Registered Office

- ❖ K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302004
Tel: 91-141-2601020; Fax: 91-141-2603228/2010

Corporate Office

- ❖ E-68, EPIP, Sitapura, Jaipur-302022
Tel: 91-141-2770648; Fax: 91-141-2770510

Our Vision

To be the most preferred global jewellery company for all stakeholders worldwide

Our Mission

Mission B14X

Our Core Values

I will serve my customers with passion.

I will keep my word.

I will be respectful to all.

I will always help my team.

I will keep an open mind and improve everyday.

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CHAIRMAN'S MESSAGE

Dear Shareholders,

I present you the Annual Report of Vaibhav Gems Limited for Financial Year 2008-09.

Financial Year 2008-09 presented many challenges for entire Global Economy. Your company also faced many challenges during the year. On one hand consumer spending on discretionary items such as Jewellery slowed to a crawl due to rising unemployment and falling consumer confidence and on the other hand huge deficit spending by Governments to counter the severe recession led to widespread inflation fears resulting in prices of counter-inflation commodities like, Gold, Silver and Platinum to skyrocket. This severely impacted Jewelry sales and margins.

To handle the situation pro-actively, management of your company undertook various restructuring exercises. We decided to close the businesses that we did not think, would generate cash in coming few quarters. We consolidated various operations to reduce overheads. We renegotiated contracts with various service providers to reduce operational costs. We reduced the workforce at various operating units to match expected demand.

Above steps resulted in your company to exit German TV retail market and Caribbean and Alaska B&M Retail markets. We exited Japan wholesale market and closed our Thailand manufacturing operations. We consolidated our Gemstone manufacturing operations in Jaipur with our Jewellery manufacturing unit to save on costs and to get better productivity. We recently consolidated our US wholesale operations with our US TV operations in Austin to further save on costs. Renegotiation of various contracts like air-time, rents, shipping costs etc has resulted in substantial savings for coming times.

To counter the current economic conditions in our two key markets- UK and US, we have changed our product mix substantially. On one hand, we have continued to strengthen our high end brands ILIANA and Rhapsody consisting of 18kt gold and Platinum to address investment market. On other hand, we introduced many lower price point product ranges to address lower discretionary spending by consumer on jewellery. Such ranges include our exclusive 'Platinum Overlay Sterling Silver' jewellery being manufactured in our India plant. Management of your company is keeping itself abreast with change in fashion and trends in the target markets. We will continue to bring new product ranges to address those trends.

The Company is confident of its business operations in USA and UK. The size of these markets is substantially big. Electronic retail is the fastest growing segment in these markets. With our reduced operating costs, focused teams and great product lineup to suit market conditions, we are confident that we will be able to sail through these difficult times.

In the end, on behalf of the Board of Directors, I would like to sincerely thank our employees around the world for their commitment, hard work and dedication. I would also like to thank our customers and bankers for their continued support.

Warm Regards,

Sunil Agrawal
Chairman
Vaibhav Gems Limited

BOARD PROFILES



Mr. SUNIL AGRAWAL, Chairman

He is a commerce graduate with 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, and gained an immense knowledge of gemstones and jewellery. He has brought this expertise 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 commercialization of popular gemstones like Tanzanite.



Mr. SURESH PUNJABI, Director

After establishing his gems trading business in Hong Kong, he became well known internationally within the trade. He has 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. RAHIMULLAH, Managing Director

Beginning his career in his emerald trading and export business, he has gained considerable experience and knowledge in this field, and has travelled extensively in Africa, Europe and the Far East to source rough stones. He brings with him 35 years of industry experience. His dedication, vision and acumen have been responsible for the company's impressive growth.



Mr. NIRMAL KUMAR BARDIYA, Director

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. He is highly specialised in high volume gemstones and beads, and is one of the leading global players in this segment.



Mr. ANANDI LAL ROONGTA, Director

A post-graduate in Economics and Law, he is a retired IAS officer and 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, Director

A retired IAS officer and a renowned public administrator, social activist and human resource developer, he is a gold medalist 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).



Mr. SURENDRA SINGH BHANDARI, Director

One of the senior most Chartered Accountants of Rajasthan and a senior partner of M/s S. Bhandari & Co., he is one of the leading management consultants to various companies in the areas of banking and tax assignments, corporate restructuring, amalgamation and mergers, besides handling audit assignments in various renowned companies and financial institutions. Presently, he is on the Board of Reliance Capital Trustee Co. Ltd. and Asian Hotels Ltd.



Smt. Sheela Agrawal, Director

An active social worker, she possesses great acumen and business understanding. She is a religious lady and is the mother of Mr. Sunil Agrawal, Chairman

DIRECTOR'S REPORT

Dear Shareholders

Your directors present the 20th Annual Report on the Company's operations and performance together with the audited financial statements for the year ended 31st March 2009.

| FINANCIAL HIGHLIGHTS: (Rupees in Lacs) | | |
|---|-------------------|-----------------|
| Particulars | Standalone | |
| | 2008-09 | 2007-08 |
| Sales and Other Income | 17,907 | 31,398 |
| Less : Cost of Sales | 18,511 | 28,904 |
| Operating Profit/PBDIT | (604) | 2,493 |
| Less : Interest | 1,460 | 827 |
| Less : Depreciation & Amortization | 150 | 175 |
| Profit Before Taxes | (2,215) | 1,490 |
| Less : Provision for Taxes (Including FBT) | 11 | 11 |
| Deferred Tax charged | (39) | (26) |
| Net Profit after Tax but before Extra-ordinary Items | (2,265) | 1,504 |
| Less : Extra- ordinary Items – (Diminution in the value of Investments) | (23,152) | 19,911 |
| Profit after Tax and Extra-ordinary Items | (25,418) | (18,406) |
| Add: Balance brought forward from the previous year | (9,149) | 9,257 |
| Total Profits available for Appropriations | (34,568) | (9,149) |
| Appropriations : | | |
| Dividend on Preference Share Capital | – | – |
| Proposed Dividend on Equity Shares | – | – |
| Tax on Dividend | – | – |
| General Reserve | – | – |
| Total | – | – |
| Balance to be carried forward | (34,568) | (9,149) |

DIVIDEND:

Your Directors have not recommended any dividend for the current financial year due to inadequacy of Profits.

SUBSIDIARIES:

Your Company has 8 subsidiaries and 7 step down subsidiaries, (excluding Der Schmuckkanal Deutschland GmbH, Germany, which is under liquidation) which are spread across the world covering 5 continents & 14 countries. These subsidiaries are engaged in manufacturing as well as marketing of colored gemstones and colored gemstone and diamond studded and plain gold, platinum and silver Jewellery.

Due to the on-going global market turmoil your Company has restructured its business operations throughout globe. The following restructuring process/action has been taken during the year:

1. Manufacturing and marketing operations were closed at STS Gems Thai Ltd and STS Creations Thai Ltd, Bangkok, Thailand, wholly owned subsidiaries engaged in manufacturing and marketing of Gems & Jewellery.
2. Manufacturing and marketing operations were closed at STS Gems Japan Limited, Japan, a wholly owned subsidiary of the company engaged in marketing of Gems & Jewellery,
3. Indo Mexico CO. S, DE, R.L.DE, C.V., Mexico wholly owned subsidiary operating 8 retail stores of the company in Mexico have closed down its operations.
4. Jewel Gems USA Inc, wholly owned subsidiary of the company operating 4 retail stores in Alaska have closed down its operations.
5. Genoa Jewelers (STT) Ltd., St. Thomas, Genoa Jewelers SXM N.V., St Maarten and Genoa Jewelers (St Kits) Ltd., St Kits, wholly owned step down subsidiaries of the company operating in Retail (Brick and Mortar) business in Caribbean Islands and running 7 retail stores under the store brand "Milano Diamond Gallery" have closed their operations.
6. In the wholesale segment also, the company has consolidated its operations and has closed the operations in STS Gems USA Inc, and STS Canada Inc. These companies are wholly owned step down subsidiaries of Vaibhav Gems Limited and are subsidiaries of STS Jewels Inc, USA.
7. Further, the Company, looking into the grim economic outlook in Germany and in compliance to the local laws of Germany, filed liquidation petition in Germany for its wholly owned step down subsidiary Der Schmuckkanal Deutschland GmbH, Germany. The company was engaged in marketing of Gems & Jewellery through its 24 hour online Jewellery TV Shopping Channel in Germany. Hon'ble Court in Germany has appointed an official liquidator to carry on the activities of liquidation of the company in compliance of the laws.

8. Also, as a drive to focus upon the company's policy of being a low cost high value provider of goods, the company has changed the name of its Jewellery Shopping TV Channel in USA from, The Jewelry Channel to The Liquidation Channel.
9. Shifting of manufacturing activities from Adarsh Nagar to Sitapura, Jaipur under one umbrella for efficiency increase and cost reduction.
10. Construction of new manufacturing factory at Sitapura to reduce the cost of administration and operation to achieve increased level of efficiency and to have everything under one umbrella.

The Company has evaluated the possible impact of the aforesaid restructuring of its business and provided the same in its books of accounts.

After restructuring your company will be continuing with the following business activities:

Wholesale Segment: The Company will be operating its wholly owned subsidiaries STS Jewels Inc. USA and STS Gems Limited, Hong Kong. These companies will cater the demand for the wholesale segment by selling to the major departmental stores and TV Channels in USA, Europe, Asia and Africa.

Retail TV Channel Segment: The Company will be operating its wholly owned step down subsidiaries The Jewellery Channel Limited, UK and The Liquidation Channel, USA in the retail TV Channel Segment in UK and USA, respectively. The Holding company for these TV Channels and the wholly owned subsidiary of Vaibhav Gems Limited, Genoa Jewelers Limited, BVI, will also be operational.

ON-LINE TV CHANNEL:

The financial year 2008-09 was very difficult for the company. It presented many challenges for online Gems & Jewelry TV channels due to the global economic turmoil, resulting in global economic slowdown/recession. Slowing consumer spending on discretionary consumer items such as Gems & Jewelry and rising gold prices had impacted the industry demand and margin.

As the online marketplace gains attraction, your company will be established as the trusted and knowledgeable source for genuine gemstone jewelry.

Your Company is operating 24 hour Online TV Shopping Channel through its wholly owned subsidiary – The Liquidation Channel, USA and The Jewellery Channel Ltd., UK

These channels can be reached out on the Internet also, at:

United Kingdom: www.thejewellerychannel.tv,
The Liquidation Channel: www.liquidationchannel.com

EMPLOYEE STOCK OPTION PLAN 2006:

During the year, the compensation committee in their meeting held on 28th January 2009, granted 3,00,000 stock options to its employees under the Employees Stock Option Scheme 2006 (VGL ESOP 2006). The details of the options granted are set out in Annexure I to the Directors' Report.

AWARDS AND RECOGNITION:

Your Company has, once again, been awarded with the coveted **GJEPC Export Award**, the **fourteenth** successive award for being the largest Indian exporter of coloured gemstones.

DIRECTORS:

During the year, on 10th November 2008, your Company has appointed Smt. Sheela Agrawal as an additional Director to remain as a Director up to the date of the ensuing Annual General Meeting.

During the year, on 28th February 2009, Shri Pulak Chandan Prasad, Director of your company has resigned from his directorship due to personal pre- occupation.

During the year, on 30th June, 2009, Shri Sanjeev Agrawal and Shri Ikramullah, Directors of the company have resigned from their directorships due to their pre-occupation.

As per Article 61 of Articles of Association of the Company, Shri A.L.Roongta, and Shri Suresh Panjabi, retires by rotation at the ensuing Annual General Meeting. Being eligible, 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, is given as an annexure to the notice of Annual General Meeting.

AUDITORS:

The Joint auditors M/s Haribhakti & Company, Chartered Accountants, Mumbai and M/s B. Khosla & Co., Chartered Accountants, Jaipur retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if re-appointed.

Members are requested to consider their re-appointment for financial year ending 31st March 2010 on remuneration to be decided by the Board of Directors of your Company.

Members are requested to refer note no. 10 of the Notes to Accounts attached to the financial statements of the Company for the remark made by the Statutory Auditors in point no. 4(f) of the Auditors Report.

CONSOLIDATED FINANCIAL STATEMENTS:

Your directors present the consolidated financial statement, forming the part of the Annual Report. The consolidated financial statements are prepared in accordance with Accounting Standard prescribed by the Institute of Chartered Accountants of India.

PARTICULARS REQUIRED AS PER SECTION 212 OF THE COMPANIES ACT, 1956:

As per section 212 of the Companies Act, your Company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of the subsidiaries with its annual financial statements. Since the audited consolidated financial statements are presented in the Annual Report, your Company had made an application to the Central Government seeking exemption from attaching the Reports and Accounts of its subsidiary companies with the Balance Sheet. The approval for the same has been received. Further, we believe that the consolidated accounts present a full and fair picture of the state of affairs of the Company as a whole and are accepted globally. Accordingly, the Annual Report does not include the financial statements of the subsidiaries. However, as per the terms of the exemption by the Central Government, a statement containing brief financial details of the Company's subsidiaries for the year ended 31st March 2009 is included in the Annual Report. Moreover, the accounts of the subsidiary companies will be made available for inspection to any member of the company at its registered office on any working day during business hours.

OUTLOOK:

As industry survey stated, during 2008-2009 and since October 2008 India's exports started declining and are likely to continue with the downward slide for sometime due to demand contraction in the developed markets such as the US and the EU,. However, very recent figures and increase in consumer confidence across globe have boosted the industry confidence and experts are hoping for quick revival of consumer demand and growth in industry.

The growing and developed economies are showing some positive signs but the difficult phase is not yet over and the following difficulties are still experienced by the sector:-

1. Significant inventory build up.
2. Postponement / cancellation of orders across the sector, due to which liquidity of the sector as well as economy is impacted.

3. Rising pressure on receivables and operating margins.
4. Volatility in the Indian rupee/US Dollar exchange rate.

Under the Interim Indian Foreign Trade Policy 2009-10, the Government of India has come out with various steps to promote Gems & Jewellery Industry for doing business in International markets :-

- Import restrictions on worked corals have been removed to address the grievance of Gems & Jewellery exporters.
- Re-imbursement of additional duty of excise levied on fuel under the Finance Acts would be admissible in respect of EOUs.
- Export obligation period against advance authorizations has been extended up to 36 months in view of the present global economic slowdown.
- Supply of an Intermediate product by the domestic supplier directly from their factory to the Port against Advance Intermediate Authorization, for export by ultimate exporter, has been allowed.
- In case of Advance Authorization for Annual Requirement where Standard Input-Output Norms are not fixed, the provisions in Customs Notification have been amended in line with Foreign Trade Policy.

Sources : www.pr.com, www.indianyellowpages.com,
www.gjepc.org

INTERNAL CONTROL AND AUDIT:

Your Company has an active Internal Audit Team .The Internal Audit team independently reviews the internal and financial controls, business processes and the financial transactions to provide the reasonable assurance of the integrity, confidentiality and availability of critical information and the effectiveness and efficiency of operations, safeguarding of assets and compliance with rules and regulations.

It is also satisfactory to state that problems are identified proactively and to minimize unnecessary lapses and maximize best practices, prompt follow up action are taken. Timely identification and containment of business risks are also ensured.

The internal Auditor report is placed to the Audit Committee and appropriate corrective action is being taken. The internal control procedures are well documented and are applied across the entire operations of your Company.

The Internal Audit and the Internal Control procedures adopted in your Company are adequate and commensurate with the size and complexity of its business.

HUMAN RESOURCE DEVELOPMENT:

Your Company takes pride in its highly motivated and trained human resource, which has contributed its best for the Company to achieve newer heights. The total Manpower of the company as on 31st March 2009 was **889**.

Training and Development are being given paramount importance and during the year 2008-09, a total of **65** employees were imparted In-House Training and **27** employees were deputed for Outside Training Programmes.

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

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

A. Conservation of Energy

The operations of your Company are not energy-intensive. However, significant measures are taken to reduce energy consumption by using energy efficient equipments. We regularly evaluate and use new energy efficient technologies and make necessary investment in these to make our infrastructure more energy-efficient.

B. Technological Absorption

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

C. Foreign Exchange Earnings and Outgo

The Company exports coloured gemstones, diamonds and studded gold jewelry. The foreign exchange earnings and outgo (FOB basis) of the Company is as follows:

| | Rs. in Lacs | |
|----------|----------------|----------------|
| | 2008-09 | 2007-08 |
| Earnings | 16,936 | 28,427 |
| Outgo | 9,047 | 16,233 |

PARTICULARS OF EMPLOYEES:

In terms of the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of the employees are required to be set out in the Annexure to the Directors Report. However as per the provisions of Section 219(1) (b) (IV) of the said Act, the Annual Report excluding the aforesaid information is being sent to all the members of the company and others entitled thereto. Member who is interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

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 that:

- In the preparation of the annual accounts for the financial year ended March 31st, 2009; the applicable accounting standards have been followed along with proper explanation relating to material departure.
- 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.
- 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.
- The Directors have prepared the annual accounts on a going concern basis.

ACKNOWLEDGMENTS:

The Directors acknowledge the contributions made by the employees towards the success and growth of your company. The directors are also thankful for the cooperation and assistance received from the Government of India, various governmental authorities/departments, Financial Institutions, Banks and Vendors.

The Directors thank the company's valued and esteemed customers for their continued patronage.

The Directors would also like to acknowledge the continued support of the company's shareholders in its entire endeavour.

For and on behalf of the Board of Directors

Place : Jaipur
Date : 30th June 2009

Sunil Agrawal
Chairman

Annexure I: EMPLOYEES STOCK OPTION PLAN (VGL ESOP 2006)

| Para Ref in SEBI Guidelines | Item of Disclosure | Remarks | | | | | | |
|-----------------------------------|---|--|------------------|-------------------|------------------------|--------|------------------------|----------|
| 12.1(a) | Options Granted | Total 3,81,088, including 2,39,712 options reissued during the year, out of the lapsed option, on 28 th January 2009 at an exercise price of Rs. 20.65 each. | | | | | | |
| 12.1(b) | The pricing formula | Based on the SEBI pricing formula for preferential allotment, the price for the options granted during the year on 28 th January 2009 was arrived at Rs. 13.90 and the market price on NSE was Rs 13.80, as on 27 ^h January, 2009, a day before the grant date of Options. However, the Compensation Committee, in their meeting held on 28 th January 2009, decided the option price to be Rs 20.65 each, based on the powers conferred upon the board by the shareholders in their EGM held on 30 th November 2006 to determine the Options price. | | | | | | |
| 12.1(c) | Options Vested | 81,088 | | | | | | |
| 12.1(d) | Options exercised | NIL | | | | | | |
| 12.1(e) | The Total number of shares arising as a result of exercise of option | Not Applicable | | | | | | |
| 12.1(f) | Options lapsed (reissuable) | NIL. | | | | | | |
| 12.1(g) | Variation of terms of options | NIL. | | | | | | |
| 12.1(h) | Money realized by exercise of options | Not Applicable | | | | | | |
| 12.1(i) | Total number of options in force | 3,81,088 | | | | | | |
| 12.1(j) | Employee wise details of options granted: | Senior Managerial Personnel | | | | | | |
| | (i) Senior Managerial Personnel; | <table><tr><th>Name of Employee</th><th>Number of Options</th></tr><tr><td>1. Mr. Pramod Akhramka</td><td>17,192</td></tr><tr><td>2. Mr. Sri Burugapalli</td><td>3,12,000</td></tr></table> | Name of Employee | Number of Options | 1. Mr. Pramod Akhramka | 17,192 | 2. Mr. Sri Burugapalli | 3,12,000 |
| Name of Employee | Number of Options | | | | | | | |
| 1. Mr. Pramod Akhramka | 17,192 | | | | | | | |
| 2. Mr. Sri Burugapalli | 3,12,000 | | | | | | | |
| | (ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year. | Mr. Sri Burugapalli | | | | | | |
| | (iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant; | Nil | | | | | | |
| 12.1(k) | Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share' | As disclosed in the Financial Statements of the Company | | | | | | |

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENTS

Gems & Jewellery sector is regarded as one of the largest markets in the world. The sector is one of the leading foreign exchange earners. The world wide recession has impacted this sector badly, but, currently the sector is all set for revival across the globe as various governments in India, USA, UK etc have announced various schemes for the upliftment of the sector.

Product profile of various categories of Gems & Jewellery Industry are:-

- Diamonds
- Precious / Semiprecious stones or colored gemstones Gold jewellery – plain / studded
- Pearls
- Non-gold jewellery
- Synthetic stones Costume / fashion jewellery.

India apart from being the largest consumer of gold is also the largest diamond processor in the world. The Indian diamond cutting and polishing industry enjoys 60 per cent value share, 85 per cent volume share and 92 per cent share of the world market in terms of number of pieces. In other words, nearly 9 out of 10 diamonds sold worldwide are cut and polished in India.

The Indian Gems & Jewellery market is predominantly focussed on sourcing, processing, manufacturing and selling of precious metals and gemstones. Indian Gems & Jewellery account for more than 15% of India's total exports.

India is fast becoming a global hub for gems and jewellery. The major drivers for Indian Gems & Jewellery Market are highly skilled and low cost manpower, better designs and manufacturing processes along with the government supports in the form of incentives and establishments of SEZs and EOUs, low traffic. It is highly fragmented but it is rapidly transforming into an organized sector.

Sources : www.ibef.org, www.researchandmarkets.com

INDIAN GEMS & JEWELLERY SECTOR: OVERVIEW

The buoyancy in the economy, growing consumer aspiration in the urban India and a flurry of new products has provided a strong foundation for the growth of Indian Gems and jewellery industry in recent past. Some of the main highlights for the previous financial year 2008-09 are as follows:

- India's Gems & Jewelry exports posted a modest growth of 1.45 per cent during the year 2008-09 at \$21.1 billion, primarily as compared to exports of \$ 20.8 bn in 2007-08.
- Cut and polished diamonds saw a decline of 8.24 per cent with exports declining from \$14.20 billion in 2007-08 to \$13 billion in 2008-09.
- Coloured gemstone exports also plunged by 4 percent at \$266 million in 2008-09, against \$276 million in the previous year.
- Diamond Exports, which were growing at about 5-6 percent for the last few years, dropped by about 7-8 percent to \$ 13.02 billion in 2008-09 from \$14.20 billion in 2007-08.

Under Interim Indian Foreign Trade Policy 2009-2010, the Indian Government has made many provisions to promote

Gems & Jewellery Industry :-

- Import restrictions on worked corals have been removed to address the grievance of gem and jewellery exporters.
- Authorised person of Gem & Jewellery units in EOU shall be allowed personal carriage of gold in primary form upto 10 kgs in a financial year subject to RBI and customs guidelines.
- As per the existing procedure, applicants have to submit individual invoices certified by the jurisdictional excise authorities for claiming duty drawback claims. Further, for getting refund of Terminal Excise Duty deemed export ER-1 / ER-3 are required as documentary proof evidencing payment of excise duty. A simplified provision has now been introduced and exporters can now submit a Central Excise certified statement in lieu of individual invoices and a Monthly Statement confirming duty payment in lieu of ER-1/ ER-3, for the purpose of Deemed Export Benefits.

Sources: <http://www.blonnet.com>, <http://www.gjpec.org>

All these facts provides a sound and valid overview of the gems & jewellery sector in India and supports the existing presence and dominance of the company in this field of business.

COMPANY OVERVIEW:

Vaibhav Gems Limited is a professionally managed, end-to-end vertically integrated gems and jewellery business organization. It is one of the eight world-wide 'sight' holders in Tanzanite and is the leader in processing other popular gemstones such as Fire Opal, Apatite and Emerald. Procuring directly from the sources, it has buying operations across the globe in Tanzania, Thailand, Mexico, China, USA, South Africa, Madagascar, Brazil and Zambia to name a few. To capitalize on the opportunities present in the electronic retail segment, Vaibhav Gems is operating television marketing channels in UK and USA.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT ANALYSIS)

Strengths

- Good Industry experience & knowledge of Promoters.
- Strong product design and development.
- Highly skilled, qualified and motivated employee.
- Broad-based manufacturing infrastructure.
- Product range enjoying international acceptability.
- World-class quality standards.
- Global cost competitiveness.
- End-to-end vertical integration.
- Long-standing relationships with corporate customers.
- Independent and experienced Board of Directors.

Weaknesses

- Concentration on USA and European market.
- Exposure to foreign exchange and raw material price fluctuations.
- Dependency on the international market for raw material.
- Technology of production is less advanced as compared to Japan and European countries.

Opportunities

- Improve direct sale to end customers either through 24 hour jewellery TV channels or through web based electronic media.
- High potential Retail Jewellery marketing model.
- Strengthened manufacturing base and the existence of product development and marketing teams.
- Branding opportunity to unlock value.
- Ever-changing but ever-growing demand.
- Highly fragmented industry space offering room for consolidation.

Threats

- Rising Gold prices.
- Competition from Indian as well as international companies.
- Global economic slowdown- Jewellery is a discretionary product.
- Variations in customer requirements in terms of quality.
- Unforeseen general macro-economic factors and political turmoil.

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

DESIGNING & TECHNOLOGY

This is considered as the most vital part of the product development cycle in the gems and jewellery segment. It is the design of the creation which entice the customers. The designs fashioned by the Company are the latest and well in accordance with the contemporary style & demand. The designs produced by the Company are configured by using the CAD and CAM technology, which is modern. The Company has a skillful and professionalized team for designing and technical areas, recruited mostly from the Institutes of repute. The employees of designing and technical areas make frequent visits to the exhibitions, trade fairs, fashion / jewellery shows in India and abroad for bringing out new and latest ideas and innovations to the production management. Besides, a number of brochures and magazines are considered for having the latest information and ideas about the production system and the designs in vogue. These initiatives ensure that the customers get the best of quality with the latest designs in fashion.

QUALITY & STANDARDS

In our business, where the ultimate product is having a very large value, it is very essential to preserve the genuineness and originality of the product at each stage of development. For this, the Company has constantly upgraded its manufacturing process and has taken a series of initiatives to improve the quality of its products. The whole production process of the Company is under a strict quality control procedure to ensure standardized product manufacturing and designing. The global acceptance of the company's products itself illuminate the subsistence of international quality standards. The Company is accredited with the prestigious

ISO 9000: 2001 certification which is a hallmark as well as representative of the quality product manufacturing by the company.

FINANCIAL REVIEW

Financial Performance

The Company's consolidated turnover for the year 2008-09 has decreased by 24.64 % from Rs Rs. 760.78 crores in 2007-08 to Rs 573.34 Crore in 2008-09. The consolidated net losses after tax and extra-ordinary item stood at Rs. 240.35 crore for the year ended 31st March 2009

The Company's standalone turnover for the financial year 2008-09 decreased by 44.84% per cent from Rs.309.96 crores in 2007-08 to Rs.170.96 crores in 2008-09. The net loss after taxes (PAT) after extra-ordinary items for the year 2008-09 stood at Rs 254.18 crores, showing a rise of 38.09 % as compared to the previous year's loss of Rs 184.07 Crore. In view of the losses incurred by the subsidiaries, the Company has accounted for diminution in the value of some its investments in subsidiaries to the extent of Rs 100.73 Crore. The Company has also made provision for doubtful debts to the extent of Rs 130.79 crores.

Convertible Share Warrants

The Company had allotted 176,660 convertible warrants to Surawell Pacific Limited, a promoter group company and 176,660 convertible warrants to Nalanda India Fund Limited on 15th October 2007 and the company received Rs 8.13 Crore as an advance for these warrants, representing 10% of the total money payable on conversion. These warrants were to be converted on or before 15th April 2009. However, the company had received communication from the allottees of warrants for not converting them. Resultantly, the warrants allotted to them lapsed on 15th April 2009 and therefore, the advance money received towards these warrants was forfeited by the Company.

HUMAN RESOURCE: THE BIGGEST COMPETITIVE EDGE

The Company's belief in trust, transparency and teamwork improved employee productivity at all levels. Vaibhav's commitment to harmonious industrial relations through partnership and collaboration resulted in enhancing effectiveness of operations and enabled the achievement of international benchmarks in productivity and quality. The Company's ongoing objective is to create an inspirational work climate where talented employees engage in creating sustained value for the shareholders and other stakeholders. The Company's endeavour is to emerge as a preferred industry employer through HR initiatives that matched that of the best professional entities.

As on 31st March 2009 the company employed 889 number of employees.

The Company's recruitment policy is planned well in advance to fulfill the corporate requirement of well-rounded experienced industry professionals and management professionals. The Company's product design and development team are recruited from premier national design institutes while the management staffs are recruited after a

benchmarked recruitment process from best business schools. Thereafter, these candidates are put through holistic induction and on-the-job-training programmes to prepare them for taking the challenging assignments and ensuring growth. The Company's performance management system, along with the compensation structure, suitably reward the deserving and identifies areas of improvement, continuously aligning individual aspirations with the organization's growth agenda.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has developed a proper and adequate system of internal control that commensurate with its size and the nature of its operations. The system has been designed to provide satisfactory assurance with regard to optimal utilisation and protection of resources, recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding asset from unauthorised use or disposition, IT security, executing transaction with proper authorization and ensuring compliance of corporate policies.

The Company has a well defined delegation of power with authority limits for approving revenue as well as capital expenditure. The Company uses a state-of-the-art ERP system to record data for accounting and management information purposes and connects to different locations for efficient exchange of information which facilitates effective checks and controls as well as tight monitoring on a continuous basis.

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

MANAGEMENT OUTLOOK

During the current financial year, the company has taken various austerity measures to reduce the costs and took various measures to consolidate its business operations to focus on its business operation and turnaround including the following measures:

1. Manufacturing and marketing operations were closed at STS Gems Thai Ltd and STS Creations Thai Ltd, Bangkok, Thailand, wholly owned subsidiaries engaged in manufacturing and marketing of Gems & Jewellery.
2. Manufacturing and marketing operations were closed at STS Gems Japan Limited, Japan, a wholly owned subsidiary of the company engaged in marketing of Gems & Jewellery.
3. Indo Mexico CO., S, DE, R.L. DE, C.V., Mexico, wholly owned subsidiary operating 8 retail stores of the company in Mexico have closed down its operations.
4. Jewel Gems USA Inc, wholly owned subsidiary of the company operating 4 retail stores in Alaska have closed down its operations.
5. Genoa Jewelers STT Limited, St. Thomas, Genoa Jewelers SXM N.V., St Maarten and Genoa Jewelers (St Kits) Limited, St Kits, wholly owned step down subsidiaries of the

company operating in Retail (Brick and Mortar) business in Caribbean Islands and running 7 retail stores under the store brand "Milano Diamond Gallery" have closed their operations.

6. In the wholesale segment also, the company has consolidated its operations and has closed the operations in STS Gems USA Inc, and STS Gems Canada Inc. These companies are wholly owned step down subsidiaries of Vaibhav Gems Limited and are subsidiaries of STS Jewels Inc, USA.
7. Further, the Company, looking into the grim economic outlook in Germany and in compliance to the local laws of Germany, filed liquidation petition in Germany for its wholly owned step down subsidiary Der Schmuckkanal Deutschland GmbH, Germany. The company was engaged in marketing of Gems & Jewellery through its 24 hour online Jewellery TV Shopping Channel in Germany. Hon'ble Court in Germany has appointed an official liquidator to carry on the activities of liquidation of the company in compliance of the laws.
8. Also, as a drive to focus upon the company's policy of being a low cost high value provider of goods, the company has changed the name of its Jewellery Shopping TV Channel in USA from, The Jewelry Channel Inc, USA to The Liquidation Channel, USA.
9. Shifting of manufacturing activities from Adarsh Nagar to Sitapura, Jaipur under one umbrella for efficiency increase and cost reduction.
10. Construction of new manufacturing factory at Sitapura to reduce the cost of administration and operation to achieve increased level of efficiency and to have everything under one umbrella.

The Company has evaluated the possible impact of the aforesaid restructuring of its business and provided the same in its books of accounts.

After restructuring your company will be continuing with the following business activities:

Wholesale Segment: The Company will be operating its wholly owned subsidiaries STS Jewels Inc. USA and STS Gems Limited, Hong Kong. These companies will cater the demand for the wholesale segment by selling to the major departmental stores and TV Channels in USA, Europe, Asia and Africa.

Retail TV Channel Segment: The Company will be operating its wholly owned step down subsidiaries The Jewellery Channel Limited, UK and The Liquidation Channel, USA in the retail TV Channel Segment in UK and USA, respectively. The Holding company for these TV Channels and the wholly owned subsidiary of Vaibhav Gems Limited, Genoa Jewelers Limited, BVI, will also be operational.

The company's financial position was impacted due to the rising gold prices, global economic slowdown etc. To ward off all odds, the Company is consolidating its existing ventures by closing all its existing loss making operations. The Company is focusing on its core competencies and expect a turnaround in near future. The Company is confident that with gradual increase in sales, cost cutting and re-negotiation of various contracts it will be able to reduce its losses and will become profitable in near future.

RISK MANAGEMENT

RISK REVIEW

At Vaibhav Gems, we recognize that every business entails risk. Over the last decade, two initiatives have contributed significantly to our continued success: mitigating ongoing risk and cashing in on the vast business upside. Early risk identification and appropriate counter-measures have 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.

At Vaibhav we have identified the following risks:

1. GEOGRAPHIC CONCENTRATION RISK

A significant portion of the company's total revenues was derived from USA, an excessive dependence on a single market.

Risk mitigation

USA is the largest jewellery consumer in the world, home to the largest fashion-conscious customers. The company has been present in the US markets for the two decades, and has constantly widened its base of large customers. To mitigate the risk arising from an excessive presence in this geography, Vaibhav Gems has diversified into jewellery sales via twenty-four hour television channels in UK. Though, in recent conditions when the global economy is caught in economic recession, the impact has been there on the company's business as well.

2. SEASONALITY RISK

Jewellery is considered to be a seasonal business; lower revenues in the non-peak season may make the business unsustainable.

Risk mitigation

- ❑ Vaibhav Gems' products addresses the fashion conscious upper and mid value segment, where the impact of seasonality is limited.
- ❑ Products are marketed through large retail chains like Wal-Mart, J.C Penney, Sears, Macy's, Zales, Sterling, among others; where jewellery is complementary to clothing.
- ❑ Offers designs and products at different price points to maximize the off take during the non-peak season as well.
- ❑ Forayed into television and internet-driven marketing where seasonality is less pronounced. Moreover seasonality in the television market complemented the seasonality of the traditional stores.

- ❑ Employs a distribution strategy to service markets, which have complementary seasons.

3. EXCHANGE RATE FLUCTUATION RISK

Since the company is an Export Oriented Unit (EOU), foreign currency volatility can affect its top line realizations.

Risk mitigation

Foreign exchange fluctuations are managed through an in-house treasury and forex management team that tracks forex movements leading to informed decisions on exposures. The company imports a substantial quantity of raw materials, naturally hedging its forex exposures.

4. WORKING CAPITAL RISK

Given the working capital intensive nature of the jewellery business (working capital constituted a substantial part of capital employed), a mismatch between receivables and payables could result in a liquidity crisis.

Risk mitigation

Vaibhav Gems' prudent working capital management resulted in a tight control over receivables and inventory. Though the recent global economic recession has resulted in delayed receivables but it is a temporary phenomena. The Company has been maintaining liquidity through efficient inventory management.

5. DEBTORS' RISK

The company supplies materials to its buyers on credit, and any default in which can jeopardize cash flow.

Risk mitigation

Vaibhav Gems supplies material on credit only to large and credible retail houses like Wal-Mart and JC Penney. The company's retail operations are conducted in cash, eliminating the risk of default.

6. RAW MATERIALS RISK

Gold: High volatility in gold prices may lead to lower margins. Synchronisation of procurement with purchase order rates.

Coloured gemstones: Gemstones pricing and availability.

Risk mitigation

- ❑ Sourcing gemstones directly from the mines through international auctions.
- ❑ Procurement in a majority of cases is done within a few days of the acceptance of the order.
- ❑ Usually purchases gemstones that can be procured in large quantities since these generally have greater price stability.

7. Product obsolescence risk

The company caters to dynamic markets where fashions change rapidly, making the need to predict trends accurately critical.

Risk mitigation

- q Vaibhav Gems has a rich collection of designs and also with the help of its efficient designers in place it produces newer designs which are in vogue looking into the customer choices.
- q Members of the design teams are sent by the company to other countries to study design trends, enabling a faster product turnaround.

- ☐ making the company one of the best end-to-ends vertically integrated player
- ☐ expanding our reach to newer countries
- ☐ going directly to the end customer through television marketing channels
- ☐ reducing dependence on one market
- ☐ improving technology
- ☐ hiring the best talent in the industry.

8. LABOUR RISK

Human resources represent critical raw material for the gem and jewellery industry. In a labour-centric industry, the unavailability of skilled labour could affect growth.

Risk mitigation

Vaibhav Gems' manufacturing unit is located in Jaipur, traditional hub of jewellery-making enjoying a high availability of skilled labour. Moreover, the company's progressive HR practices, with a thrust on transparent recruitment, training and professionalism, make it an employer of choice. The company follows a regular appraisal of its workers'.

9. WASTAGE RISK

The jewellery manufacturing process comprises a high use of gold and rough gemstones; wastage could lead to considerable loss.

Risk mitigation

Vaibhav Gems controls wastage in two ways:

- ☐ Through training and process orientation to make employees conscious; it initiated a multi-stage filtration and sieving process to recover gold waste. Its ERP system maintains critical data ascertaining waste generated per employee per day, ensuring tighter control.
- ☐ Installed vacuum based gold collection systems from Ambient Air, equipped to extract effluents from hands and ensure apparel washing. Its return air dust collector and sedimentation tanks ensure superior water collection. Moreover, the units house cameras for strict anti-theft vigilance and physical frisking

10. COMPETITOR RISK

The jewellery industry has a large number of players

Risk mitigation

At Vaibhav Gems, we have taken the best possible action to counter competition. We have successfully achieved this by:

CORPORATE GOVERNANCE REPORT

1. PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Corporate Governance is the mechanism by which the values, principles, policies and procedures of a corporation are inculcated and manifested. The essence of Corporate Governance lies in promoting and maintaining integrity, transparency and accountability in the organization, commitment to values and ethical business conduct. Accordingly, timely and adequate disclosure of information regarding the financial situation, performance, ownership and governance of the company is an important part of corporate governance. It improves public understanding of the structure, activities and policies of the organization. Consequently the organization is able to attract and enhance the trust and confidence of the stakeholders.

Company'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 shareholders, 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.

Vaibhav Gems Limited is practicing corporate governance much before it became mandatory. Your company has always been proactive when it comes to ensuring better corporate governance and it benchmarks itself with the international codes of corporate governance. Your company believes that for a company to be successful it must maintain global standards of corporate conduct towards its stakeholders. The company also appreciate that it is

rewarding to be better managed and governed and to identify its activities with national interest. Your company views corporate governance not merely as a compliance and a system of internal checks and controls but as an ongoing measure of superior delivery of company's objectives with a view to translate the opportunities into reality.

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. The company also complies with all the mandatory as well as non-mandatory requirements relating to disclosure with respect to Corporate Governance as stipulated under clause 49 of the listing agreements with stock exchanges.

The company has already got the pride of being short listed among the Top-25 in the recent past for a continuous period of three years (2003-04 to 2005-06) by the Institute of Company Secretaries of India for the Corporate Governance Excellency Awards. This is a clear recognition to the efforts of the company towards achieving the highest standards of corporate governance. But this is not an end; as the company is committed to adhere with the best Corporate Governance Practices with continuous advancement in this area.

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 2009 the Board of Directors of the Company held 11 meetings and the gap between two meetings did not exceeded four months.

The meetings were held on 28th May 2008, 16th June 2008, 30th June 2008, 31st July 2008, 19th August 2008, 18th September 2008, 30th October 2008, 10th November 2008,

28th January 2009, 21st February 2009, and 28th February 2009.

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 Directorship in other companies | No. of member-ship of Board committees **including Vaibhav Gems Ltd. | No. of Board committees **for which chairperson including Vaibhav Gems Ltd. |
|--------------------------|--|---|---------------------------|--|--|---|
| Mr. Sunil Agrawal | Chairman and Non-Executive Director | 4 | No | 3 | Nil | Nil |
| Mr. Suresh Punjabi | Non-Independent Non-Executive Director | Nil | No | Nil | Nil | Nil |
| Mr. Rahimullah | Non Independent Managing Director | 11 | Yes | 2 | 1 | Nil |
| Mr. Ikramullah | Non Independent Non-Executive Director | 1 | No | 1 | 1 | Nil |
| Mr. Sanjeev Agrawal | Non-Independent Non-Executive Director | 1 | No | 3 | 2 | Nil |
| Mr. Anandi Lal Roongta | Independent Non-Executive Director | 11 | Yes | 2 | 2 | 1 |
| Mr. M.L. Mehta | Independent Non-Executive Director | 10 | Yes | Nil | 1 | Nil |
| Mr. S. S. Bhandari | Independent Non-Executive Director | 9 | Yes | 6 | 4 | 2 |
| Mr. Nirmal Kumar Bardiya | Independent Non-Executive Director | 8 | No | 8 | 1 | Nil |
| Smt. Sheela Agrawal* | Non-Executive Director | 2 | No | 3 | Nil | Nil |
| Smt. Pulak Prasad** | Non Independent Non-Executive Director | 1 | No | 3 | Nil | Nil |

- *Appointed as an additional director of the Company w.e.f. 10th November 2008
- ** Resigned from the Board w.e.f. 28th February 2009
- ***Committees include Audit Committees and Shareholder's/Investors Grievance Committees.

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 ensures 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 Committee | No of Meetings Attended |
|--------------------------|----------------------------|-------------------------|
| Mr. S. S. Bhandari | Chairman | 3 |
| Mr. Anandi Lal Roongta | Member | 5 |
| Mr. M.L. Mehta | Member | 5 |
| Mr. Nirmal Kumar Bardiya | Member | 3 |
| Mr. Sanjeev Agrawal | Member | Nil |

The committee held its meetings on 8th May 2008, 30th June 2008, 31st July 2008, 30th October 2008, and 28th January 2009.

REMUNERATION AND COMPENSATION COMMITTEE**Terms of Reference**

The broad terms of reference of the Remuneration and Compensation 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 and to determine the various terms and conditions for the stock options granted/to be granted to the eligible employees.

Composition, Meetings & Attendance

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

| 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 | 1 |
| Mr. S. S. Bhandari | Member | 1 |

During the year, the committee held only one meeting as on 28th January, 2008.

Remuneration of Directors during 2008-2009

| Name of Director | Sitting Fees | Remuneration | Total | Terms | Shares held as on 31.3.09 |
|--------------------|--------------|--------------|----------|----------------------------------|---------------------------|
| Sunil Agrawal | Nil | NA | Nil | Not liable to retire by rotation | 28,140 |
| Anandi Lal Roongta | 1,00,000 | NA | 1,00,000 | Retirement by rotation | 1,787 |
| M.L. Mehta | 90,000 | NA | 90,000 | Retirement by rotation | Nil |
| N.K. Bardiya | 70,000 | NA | 70,000 | Retirement by rotation | Nil |
| Sanjeev Agrawal | 10,000 | NA | 10,000 | Retirement by rotation | 8,320 |
| S. S. Bhandari | 80,000 | NA | 80,000 | Retirement by rotation | Nil |
| Suresh Punjabi | Nil | NA | Nil | Retirement by rotation | 20,900 |
| Rahimullah | NA | 42,00,000 | NA | Contractual | 54,600 |
| Ikramullah | 10,000 | Nil | 10,000 | Retirement by rotation | 62,800 |
| Pulak Prasad | 10,000 | NA | 10,000 | Retirement by rotation | Nil |
| Sheela Agrawal | 15,000 | NA | 15,000 | Additional Director | 14453 |

No stock options have been granted, during the year, to any of the Directors of the Company.

The contractual appointment is for the period of 5 years from the date of appointment. The contract may be terminated at any time by either party thereto by giving to the other party three months' notice in writing. However no compensation for loss of office shall be payable to the incumbent.

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 Committee | No of Meetings Attended |
|------------------------|----------------------------|-------------------------|
| Mr. Anandi Lal Roongta | Chairman | 1 |
| Mr. Ikramullah | Member | 0 |
| Mr. Rahimullah | Member | 1 |
| Mr. Sanjeev Agrawal | Member | 0 |

The committee held 1 meeting on 18th September 2008.

NAME & DESIGNATION OF THE COMPLIANCE OFFICER

Mr. Mukesh Khetan : Company Secretary

Details of Shareholders/Investors Complaints Received

| Nature of Complaints | Opening | Received | Resolved | Pending |
|--|---------|----------|----------|---------|
| Non receipt of dividend | - | 1 | 1 | - |
| Non receipt of Annual Report | - | 1 | 1 | - |
| Non receipt of securities relating to transfer of shares | - | - | - | - |
| Correspondence / Query relating to NSDL operations | - | - | - | - |
| Correction of name on securities | - | - | - | - |
| Other Requests General Query | - | - | - | - |
| TOTAL | - | 2 | 2 | - |

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 |
|---------|----------------------------------|------------|--|
| 2005-06 | 30 th September, 2006 | 04:00 P.M. | K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004 |
| 2006-07 | 27 th September, 2007 | 10:00 A.M. | E-68, EPIP, Sitapura, Jaipur-302022 |
| 2007-08 | 30 th September, 2008 | 11:00A.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 |
|----------------|------|------|-------|
| 2008-09 | - | - | - |

Special Resolution passed in Annual General Meetings

| Date of Meeting | Subject matter of Resolution |
|-------------------------------------|--|
| A) 30th September, 2006 | <ol style="list-style-type: none"> 1. Increase in Authorised Share capital of the Company from Rs 31,00,00,000 to Rs 76,00,00,000 by creating 45,00,000 unclassified shares of Rs 100/- each. 2. To consider issue of 44,00,000 1% Non-Convertible Redeemable Cumulative Preference Shares on Preferential basis. 3. To revise remuneration of Shri Rahimullah, Managing Director 4. To confirm appointment of Mr. Rizwanullah, Son of Managing Director holding office or place of profit in the wholly owned subsidiary of Company. 5. To alter Articles of Association by modifying the Articles as: Part I The existing articles no. 3, 5, 7, 9, 10, 11, 30, 45, 47, 56, 59, 61, 64, 66, 73, 77, 79, 80, 85, 86, 87, 91, 94, 96, 98 contained in Part I be and is hereby amended. Part II The new set of articles from 135 to 157 be and is hereby inserted in Part II. |
| B) 27th September, 2007 | 6. To consider Employee Stock Option Scheme |
| C) 28 th September, 2008 | No special resolution was passed in the AGM held on 27 th September 2007. <ol style="list-style-type: none"> 1. To alter the Articles of Association by modifying the Articles as : Part I The existing articles no .86, 135,137 (a) , 137(b) , 137(c),138 , 138(a), 138(b), 142(a)143,144(a),153(a),155,156, contained in Part I be and hereby amended. Part II The new set of articles 153(b) 153(c) be and is hereby inserted in Part II. |

Postal ballots

During the last year no resolution were put through postal ballot and neither during the current year any resolution is proposed to be passed through postal ballots.

Code has been put on the Company's website: www.vaibhavgems.com.

Affirmation from Managing Director regarding compliance of Code of Conduct has been given in the Annual Report.

5. DISCLOSURES

No materially significant related party transaction that may have potential conflict with the interests of the company at large have been entered into.

The Company has continued to comply with the requirements of regulatory authorities' i.e. stock exchanges, SEBI and other Statutory Authorities on all matters relating to Capital Markets during the last three years and no penalties or strictures have been imposed on the Company by the above-mentioned authorities.

6. CODE OF CONDUCT

The Board at it meeting held on 27th October 2005, has adopted the Code of Conduct for Directors and Senior Management Personnel. A copy of the

7. RISK MANAGEMENT

We have an inherent approach to managing risks inherent in various aspect of our business. A detailed Risk Management Report is provided in the Annual Report.

8. AUDITORS' REPORT ON CORPORATE GOVERNANCE

As required by Clause 49 of the Listing Agreement the Auditors Certificate is provided in the Annual Report

9. MANAGEMENT DISCUSSION AND ANALYSIS

This is given as a separate section in this Annual Report.

10. MD & CFO CERTIFICATION

As required by clause 49 of the listing agreement, the MD & CFO certification is provided in the Annual Report.

11. COMPLIANCE WITH CLAUSE 49**i. MANDATORY REQUIREMENTS**

Vaibhav is fully compliant to the applicable mandatory requirement of revised Clause 49 of the Listing Agreement. The company submits quarterly compliance report to BSE & NSE in respect of compliance of Clause 49 of the listing agreement.

ii. ADOPTION OF NON-MANDATORY REQUIREMENTS OF CLAUSE 49

Clause 49 of the Listing agreement states that the non-mandatory requirement may be implemented as per our discretion. The company complies with the following Non-mandatory requirements stipulated under the clause 49.

➤ **Remuneration Committee**

The company has constituted Remuneration Committee to recommend/ review remuneration of the Managing Director and Whole time Directors based on their performance and defined assessment criteria.

➤ **Communication to shareholders**

At Vaibhav, quarterly significant developments, if any, are sent to shareholders. Quarterly and annual financial statements are regularly displayed at our website.
(www.vaibhavgems.com)

12. MEANS OF COMMUNICATION

- (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, Financial Express, Business Standard and/or Economic Times. The said results are also displayed at company's web site at www.vaibhavgems.com and uploaded at sebi.edifar.nic.in. as stipulated in Clause 51 of the listing agreement.
- (c) Press releases, if any, are published at leading newspapers and displayed at www.vaibhavgems.com.

GENERAL INFORMATION TO SHAREHOLDERS AND INVESTORS

a. Annual General Meeting:

Date and time - 30th September, 2009 at 11.00 A.M.
 Venue - E-68, EPIP, Sitapura, Jaipur 302022

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

Financial reporting for the quarter

- Ending 30th June, 2009 - End of July, 2009
- Ending 30th September, 2009 - End of October, 2009
- Ending 31st December, 2009 - End of January, 2010
- Ending 31st March, 2010 - End of May/June, 2010

c. Record Date: - 25th to 30th Sept. 09
(Both Days Inclusive)**d. Dividend Payment Date:** - NA**e. Stock Exchanges where listed and Stock code:****Listing of Equity Shares on Stock Exchanges at: Mumbai Stock Exchange Limited (BSE)**

Phiroze Jee Jee Bhoy Towers
 Dalal Street, Mumbai - 400001

Stock Code : 532156

National Stock Exchange of India Limited (NSE)

"Exchange Plaza", Bandra Kurla Complex, Bandra
 (E), Mumbai - 400 051

Stock Code : VAIBHAVGEM

ISIN Code no. : INE884A01019

Listing of Global Depository Receipts at Luxembourg Stock Exchange

11, Avenue de la Porte-Neuve,
 L-2227 Luxembourg

Common Code: 023953692 for both Euroclear
 and Clearstream

ISIN Code : US9187661064

f. Listing Fees to Stock Exchanges

The company has paid listing fees in respect of financial year 2008-2009 to the Bombay Stock Exchange Limited and National Stock Exchange of India Limited.

g. Custodial Fees to Depository

The company has paid custodial fees for the Financial year 2008-2009 to National Securities Depository Limited and Central Depository Services (India) Limited.

h. Share Price Data

| Month | VGL Price at BSE (in Rs.) | | VGL Price at NSE | |
|----------------|---------------------------|----------------------|-----------------------|----------------------|
| | Month's High Price | Month's Low Price | Month's High Price | Month's Low Price |
| April 2008 | 78.00 | 50.00 | 77.85 | 50.15 |
| May 2008 | 65.50 | 53.00 | 64.00 | 52.50 |
| June 2008 | 81.30 | 43.65 | 81.40 | 44.00 |
| July 2008 | 49.90 | 40.50 | 49.95 | 40.10 |
| August 2008 | 49.25 | 42.50 | 49.55 | 41.60 |
| September 2008 | 43.60 | 28.00 | 43.70 | 28.00 |
| October 2008 | 32.00 | 16.90 | 32.90 | 17.00 |
| November 2008 | 19.25 | 11.55 | 19.45 | 11.15 |
| December 2008 | 17.66 | 11.95 | 18.10 | 11.70 |
| January 2009 | 17.45 | 13.10 | 18.15 | 12.95 |
| February 2009 | 15.90 | 12.50 | 16.00 | 12.00 |
| March 2009 | 15.00 | 11.60 | 16.00 | 10.45 |

i. Registrar & Share Transfer Agent:

Karvy Computershare (P) Limited,
 17-24 Vittal Rao Nagar,
 Madhapur,
 Hyderabad - 500 081.
 Andhra Pradesh, India
 Tel: 040-23420815 / 23420828

j. Secretarial Audit for reconciliation of capital

As stipulated by Securities and Exchange Board of India, a qualified practicing Company Secretary carries out the Secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. This audit is carried out every quarter and the report thereon is submitted to the stock exchange, NSDL and CDSL and is also placed before the Board of Directors. The audit, inter alia, confirms that the total listed and paid-up capital of the company is in agreement with the aggregate of the total number of shares in dematerialized form (held with NSDL and CDSL) and total number of shares in physical form.

k. Share Transfer System

All transfers of shares held 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.

Depositories control share transfers in Demat Mode.

The company obtains from a Company Secretary in Practice half yearly certificate of compliance with the share transfer formalities as required under Clause 47(c) of the Listing Agreement with Stock Exchanges and files a copy of the certificate with the stock Exchanges.

I. Shareholding

i. Distribution of Shareholding as on March 31, 2009

| No. of equity Shareholding | Number of Shares | % of Share-holding | No. of Share-holders | % of Share-holders |
|----------------------------|------------------|--------------------|----------------------|--------------------|
| 1 to 1000 | 862173 | 46.57 | 5049 | 95.68 |
| 1001 to 5000 | 420619 | 22.72 | 196 | 3.71 |
| 5001 to 10000 | 134269 | 7.25 | 17 | 0.32 |
| 10001 and above | 434301 | 23.46 | 15 | 0.28 |
| Total | 1851362 | 100 | 5277 | 100.00 |

ii. Categories of Shareholders as on March 31, 2009

| Category | No. of shares | % holding |
|--|--------------------|----------------|
| Indian Promoters | 2,775,727 | 8.76% |
| Foreign Promoters | 15,62,840 | 4.93% |
| Banks | Nil | Nil |
| FII's | 2,580,221 | 8.14% |
| Private Corporate Bodies | 9,51,408 | 3.00% |
| Indian Public | 18,51,162 | 9.83% |
| NRIs | 1,90,998 | 0.60% |
| Others | | |
| (i) Clearing Members | 11,988 | 0.04% |
| (ii) Foreign Company - Cortland Invest. Ltd. | 89,13,529 | 28.12% |
| (iii) Shares underlying GDR* | 1,28,60,600 | 40.57% |
| Total | 3,16,98,473 | 100.00% |

*see clause no. (o) below.

m. Dematerialization of shares and liquidity

As directed by SEBI, shares of the company can only be traded in Demat Form. As on March 31, 2009, 99.57% of the total shares of the Company have been dematerialized.

We request shareholders, who still continue to hold shares in physical form, to dematerialize their shares at the earliest and avail of the various benefits of dealing in securities in electronic / dematerialized form. If you need any further information / clarification / assistance in this regard please do contact Corporate Secretarial Department.

n. ECS Mandate

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

o. Outstanding GDRs / ADRs / Warrants or any Convertible instruments

As on 31st March 2009, 1,286,060 Global Depository Receipt (GDR) against 12,860,600 Equity Shares @ 10/- each of the company are outstanding. The outstanding GDR are backed up by underlying equity shares, which are part of the existing paid up capital. Further, 353,320 warrants pending for subscription was not subscribed by the Promoter Group Company, M/s Surawell Pacific Limited and Nalanda India Fund Limited. Therefore, the warrants allotted to them were lapsed on 15th April 2009 and resultantly, the advance money received towards these warrants was forfeited by the Company.

p. Name and address of the custodian in India for the purpose of GDR

ICICI Bank Limited
Securities Market Services,
Empire Complex, F7/ E7 1st Floor
414, Senapati Bapat Marg, Lower Parel
Mumbai-400013, India

q. Name and address of the Depository for the purpose of GDR

The Bank of New York Mellon
101 Barclay Street, 22nd Floor
New York - 10286
USA

r. 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
- Unit No. 186-A, SDF, VI, SEEPZ, Mumbai

s. Branch Office

- 905 / 304, Panchratna, Opera House, Mumbai - 400004

t. Investors Correspondence

Mr. Mukesh Khetan, Company Secretary heads the

Corporate Secretariat Department of the Company. In case of any problem / query shareholders can contact at:

Address : E-68, EPIP, Sitapura, Jaipur
Phone : 91-141-2770648
Fax : 91-141-2770510
Email : mukesh.khetan@vaibhavgems.com

Shareholders can also contact Company's Registrar & Share Transfer Agent at:

Address : Karvy Computershare (P) Limited,
17-24 Vittal Rao Nagar, Madhapur,
Hyderabad - 500 081.
Andhra Pradesh, India
Phone : 040-23420815 / 23420828
Fax : 040-23420814 / 23420857
Email : sreedharamurthy@karvy.com
ussingh@karvy.com

u. Transfer of unclaimed amount to Investor Education and Protection Fund

The company has credited unclaimed dividend amount of Rs.18, 250/- in November 2008 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 after giving advance intimation to shareholders.

v. Other useful information to shareholders

- 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.
- 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.

- 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.
- 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.
- 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.
- For expeditious transfer of shares, shareholders should fill in complete and correct particulars in the transfer deed.
- 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.
- 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.
- 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.
- Shareholders are requested to give us their valuable suggestions for improvement of our investor services.
- Shareholders are requested to quote their e-mail Ids, telephone / fax numbers for prompt reply to their communication.

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To,
The Members
VAIBHAV GEMS LIMITED
Jaipur

We have examined the compliance of conditions of Corporate Governance by VAIBHAV GEMS LIMITED, for the year ended 31st March 2009, 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 **Haribhakti & Co.**
Chartered Accountants

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

Chetan Desai
Partner

Sandeep Mundra
Partner

Place : Jaipur
Date : 30th June 2009

**CERTIFICATION BY
MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER**

To,
The Board of Directors
Vaibhav Gems Limited
Jaipur

We hereby certify that for the financial year ending 2008-2009, we have reviewed the financial statements and the cash flow statement and that to the best of our knowledge and belief:

1. These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.
2. These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
3. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year 2008-2009 which are fraudulent, illegal or violate the Company's code of conduct.
4. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the audit committee those deficiencies, of which we are aware, in the design or operation of the internal control systems for the purpose of financial reporting and that we have taken the required steps to rectify these deficiencies.
5. We further certify that we have indicated to the Auditors and Audit Committee that:
 - a. There have been no significant changes in internal control during this year.
 - b. There have been no significant changes in accounting policies during this year.
 - c. There have been no instances of significant fraud of which we have become aware and the involvement therein, of management or an employee having a significant role in the Company's internal control system over financial reporting.

Rahimullah
Managing Director

Manoj Saraf
Chief Financial Officer

Place: Jaipur
Date: 30th June 2009

DECLARATION REGARDING COMPLIANCE BY BOARD MEMBERS AND SENIOR MANAGEMENT PERSONNEL WITH THE COMPANY'S CODE OF CONDUCT

This is to confirm that the Company has adopted a Code of Conduct for its Board of Directors and Senior Management Personnel employees. This Code is available on the Company's web site.

I confirm that the Board of Directors and Senior Management Personnel of the Company have, in respect of the financial year ended March 31, 2009, affirmed compliance with the Code of Conduct as applicable to them.

For the purpose of this declaration, Senior Management Team means the personnel who are members of the core management team, including persons in the cadre of functional heads and above but excluding Board of Directors, as on March 31, 2009.

Place: Jaipur

Date: 30th June 2009

Rahimullah

Managing Director

AUDITORS' REPORT

To
The Members of
Vaibhav Gems Limited

1. We have audited the attached balance sheet of VAIBHAV GEMS LIMITED (the 'Company') as at March 31, 2009, the profit and loss account for the year ended on that date and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. 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.
3. As required by the Companies (Auditors' Report) Order, 2003 as amended by the Companies (Auditors' Report) (Amendment) Order, 2004 (together 'the order') issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956 ('the Act') and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement of the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the Company.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b. in our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books of accounts;
 - c. the balance sheet, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - d. in our opinion, the balance sheet, the profit and loss account and cash flow statement of the Company dealt with by this report comply with the accounting standards referred to in Section 211(3C) of the Act, to the extent they are applicable to the Company;
 - e. on the basis of written representation received from the directors, as on March 31, 2009, and taken on record by the Board of Directors, we report that none of the directors of the Company, prima facie, are disqualified as on March 31, 2009 from being appointed as a director in terms of section 274(1)(g) of the Act;
 - f. Attention is invited to Note No. 10 on the accounts. As explained therein, exposure of the Company to two foreign subsidiaries whose net worth is negative aggregate Rs. 401.54 crores against which no provision is considered necessary by the management.
 - g. 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 on accounts, give the information required by the Act 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 March 31, 2009;
 - ii. in case of Profit and Loss Account, of the losses of the Company for the year ended on that date; and
 - iii. in case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Haribhakti & Co.
Chartered Accountants

Chetan Desai
Partner
Membership No.17000

Place : Jaipur
Date : 30th June 2009

For B. Khosla & Co.
Chartered Accountants

Sandeep Mundra
Partner
Membership No.75482

ANNEXURE TO AUDITORS' REPORT (*Referred to in paragraph 3 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.
- (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 book records are not material and same have been properly dealt with in the books of accounts.
- (iii)
 - a. The Company has granted loan to four foreign subsidiaries covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 13491.84 lacs and the year-end balance of loan granted to such subsidiaries was Rs. 13491.84 lacs.
 - b. In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not *prima facie* prejudicial to the interest of the Company.
 - c. The loans granted are repayable on demand. As informed, the Company has not demanded repayment of such loan during the year, thus, there has been no default on the part of the subsidiaries to which money has been lent. The loan given is interest free.
 - b. The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Act.
- (iv) In our opinion and according to the information and explanations 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 Act have been entered into the register maintained under section 301 of the Act.
 - b. As informed and according to information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act 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 Act 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) a. The Company is generally 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 any other material statutory dues applicable to it.
- b. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid statutory dues were in arrears as at the last day of the financial year for a period of more than six months from the date they became payable.
- c. According to the information and explanations given to us, there are no dues of sales tax, Income tax, Custom duty, excise duty, service tax and cess which have not been deposited on account of any dispute.
- (ix) In our opinion, the accumulated losses of the Company as on March 31, 2009 exceed fifty percent of its net worth. The Company has incurred cash losses during the current financial year. The Company has not incurred cash losses in immediately preceding financial year.
- (x) Considering the terms of CDR, in our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks and Financial Institutions.
- (xi) 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.
- (xii) In our opinion, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are prima facie not prejudicial to the interest of the Company.
- (xiii) In our opinion and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were raised.
- (xiv) According to the information and explanations given to us and on overall examination of the balance sheet of the Company as at March 31, 2009, we report that no fund raised on short term basis have been used for long term purposes.
- (xv) According to the information and explanations given to us, the Company has not made any preferential allotment of shares during the year to a body corporate covered in the register maintained under Section 301 of the Act.
- (xvi) During the year covered by our report the Company has not raised any money by way of public issue.
- (xvii) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.
- (xviii) The following clauses of paragraphs 4 & 5 of the said Order are not applicable to the Company and has not been reported.
Clause (viii), Clause (xiii), Clause (xiv) Clause (xix) and Clause (xx)

For **Haribhakti & Co.**
Chartered Accountants

Chetan Desai
Partner
Membership No. 17000
Place: Jaipur
Date: 30th June 2009

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

Sandeep Mundra
Partner
Membership No. 75482

BALANCE SHEET as at 31st March, 2009

Amount in Rupees

| Particulars | Schedule | As at 31st March, 2009 | | As at 31st March, 2008 | |
|--|----------|---------------------------|---------------|---------------------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Shareholders' Funds | | | | | |
| Share Capital | I | 756,984,730 | | 756,984,730 | |
| Share Warrants (Refer Note No. 8) | | 81,263,600 | | 81,263,600 | |
| Reserves and Surplus | II | 5,979,210,122 | 6,817,458,452 | 5,863,313,585 | 6,701,561,915 |
| Loan Funds | | | | | |
| Secured Loans | III | | 1,750,054,046 | | 1,689,326,151 |
| Total | | | 8,567,512,498 | | 8,390,888,066 |
| APPLICATION OF FUNDS | | | | | |
| Fixed Assets | IV | | | | |
| Gross Block | | 208,508,946 | | 243,047,679 | |
| Less : Depreciation | | 117,995,477 | | 105,758,832 | |
| | | 90,513,469 | | 137,288,847 | |
| Add : Capital Work in Progress | | 2,000,000 | 92,513,469 | – | 137,288,847 |
| Investments | V | | 2,772,455,724 | | 3,759,829,602 |
| Deferred Tax Asset (Net) | | | 1,022,939 | | 4,949,117 |
| Current Assets, Loans and Advances | | | | | |
| Inventories | VI | 532,550,307 | | 829,632,841 | |
| Sundry Debtors | VII | 1,234,262,171 | | 1,644,121,675 | |
| Cash and Bank Balances | VIII | 59,591,726 | | 271,882,372 | |
| Interest Accrued on Bank Deposits | | 88,926 | | 3,815,766 | |
| Loans and Advances | IX | 641,118,680 | | 1,050,777,641 | |
| | | 2,467,611,810 | | 3,800,230,295 | |
| Less : Current Liabilities and Provisions | | | | | |
| Current Liabilities | X | 133,809,822 | | 123,615,506 | |
| Provisions | XI | 9,440,805 | | 23,105,668 | |
| | | 143,250,627 | | 146,721,174 | |
| Net Current Assets | | | 2,324,361,183 | | 3,653,509,121 |
| Profit and Loss Account | | | | | |
| Debit Balance in Profit & Loss Account | | 3,456,806,439 | | 914,958,635 | |
| Less : General Reserve deducted as per contra | | 79,647,256 | 3,377,159,183 | 79,647,256 | 835,311,379 |
| Total | | | 8,567,512,498 | | 8,390,888,066 |

Significant Accounting Policies and Notes to Accounts
As per our attached report of even date

XX

For and on behalf of the Board

For **HARIBHAKTI & CO.**
Chartered Accountants

For **B. KHOSLA & CO.**
Chartered Accountants

RAHIMULLAH
Managing Director

CHETAN DESAI
Partner
Jaipur, 30th June, 2009

SANDEEP MUNDRA
Partner

MUKESH KHETAN
Company Secretary

NIRMAL KUMAR BARDIYA
Director

PROFIT AND LOSS ACCOUNT for the year ended 31st March, 2009

Amount in Rupees

| Particulars | Schedule | Year ended 31st March 2009 | Year ended 31st March 2008 |
|--|----------|-------------------------------|-------------------------------|
| INCOME | | | |
| Sales | XII | 1,709,649,007 | 3,099,588,081 |
| Other Income | XIII | 81,057,552 | 40,258,680 |
| Total | | 1,790,706,559 | 3,139,846,761 |
| EXPENDITURE | | | |
| Material Cost | XIV | 1,593,171,466 | 2,513,611,695 |
| Manufacturing Expenses | XV | 71,823,599 | 105,085,935 |
| Employees Costs | XVI | 124,749,564 | 188,011,246 |
| Administrative & Selling Expenses | XVII | 49,065,380 | 74,588,554 |
| Financial Expenses | XVIII | 158,415,490 | 91,948,028 |
| Depreciation | IV | 15,013,110 | 17,595,707 |
| Total | | 2,012,238,609 | 2,990,841,165 |
| Profit/(Loss) Before Tax | | (221,532,050) | 149,005,596 |
| Less: Provision For Taxation | | | |
| – Current Tax | | - | - |
| – Earlier Years Tax | | 116,812 | (572,186) |
| – Deferred Tax Charges/(Credits) | | 3,926,178 | (2,609,191) |
| – Fringe Benefit Tax | | 1,000,000 | 1,750,000 |
| Profit/(Loss) After Tax Before Exceptional Item | | (226,575,040) | 150,436,973 |
| Less: Provision for Doubtful Debts (Refer Note No. 10) | | 1,307,898,903 | - |
| Less: Diminution in Value of Investment (Refer Note No. 10) | | 1,007,373,860 | 1,991,116,701 |
| Profit/(Loss) After Tax After Exceptional Item | | (2,541,847,803) | (1,840,679,728) |
| Balance Brought Forward | | (914,958,635) | 925,721,093 |
| Balance Carried to Balance Sheet | | (3,456,806,439) | (914,958,635) |
| Earnings Per Share of Rs.10 each (Refer Note No.14) | | | |
| Basic (Rs.) | | | |
| Before Exceptional Item | | (7.29) | 4.95 |
| After Exceptional Item | | (80.33) | (62.50) |
| Diluted (Rs.) | | | |
| Before Exceptional Item | | (7.29) | 4.95 |
| After Exceptional Item | | (80.33) | (62.50) |
| Additional Information | XIX | | |
| Significant Accounting Policies and Notes to Accounts | XX | | |

As per our attached report of even date

For and on behalf of the Board

For **HARIBHAKTI & CO.**
Chartered AccountantsFor **B. KHOSLA & CO.**
Chartered Accountants**RAHIMULLAH**
Managing Director**CHETAN DESAI**
Partner
Jaipur, 30th June, 2009**SANDEEP MUNDRA**
Partner**MUKESH KHETAN**
Company Secretary**NIRMAL KUMAR BARDIYA**
Director

CASH FLOW STATEMENT for the year ended 31st March, 2009

Amount in Rupees

| Particulars | Year ended 31st March 2009 | Year ended 31st March 2008 |
|--|-------------------------------|-------------------------------|
| A. Cash Flow from Operating Activities | | |
| Net Profit before Tax and Exceptional Items | (221,532,050) | 149,005,596 |
| Adjustment for : | | |
| Depreciation | 15,013,110 | 17,595,707 |
| Unrealised Foreign Exchange Difference | (105,888,180) | (39,581,068) |
| Employee Compensation Expenses | (3,661,411) | 4,646,014 |
| Loss/(Profit) on sale of Fixed Assets | 1,106,002 | (14,736) |
| Loss on Impaired Fixed Assets | 1,206,360 | - |
| Gratuity Expenses | (12,121,844) | 2,990,260 |
| Interest and Dividend Earned | (5,052,755) | (13,789,203) |
| Interest paid on borrowings | 146,052,720 | 82,776,899 |
| Operating Profit before working Capital Changes | (184,878,048) | 203,629,469 |
| Adjustment for : | | |
| Trade and other Receivables | 183,136,284 | (515,444,926) |
| Trade Payables | 3,460,881 | 51,440,226 |
| Stock-in-Trade | 297,082,534 | (216,034,758) |
| Cash Generated from Operations | 298,801,652 | (579,290,439) |
| Direct Taxes paid - Current Year | 3,000,000 | 15,200,000 |
| - Earlier Year | 116,812 | - |
| Net Cash from Operating Activities | 295,684,840 | (594,490,439) |
| B. Cash Flow from Investing Activities | | |
| Purchase of Fixed Assets | (3,500,605) | (6,585,133) |
| Sale of Fixed Assets | 30,950,511 | 115,000 |
| Investment in Subsidiaries | (19,999,982) | (480,000,000) |
| Loan to Subsidiaries | (353,931,448) | (786,021,000) |
| Interest and Dividend received | 8,779,595 | 10,074,812 |
| Net Cash used in Investing Activities | (337,701,929) | (1,262,416,321) |
| C. Cash flow from Financing Activities | | |
| Proceeds from/(Repayment of) Long Term Borrowings | 39,119,164 | 594,028,792 |
| Proceeds from/(Repayment of) Long Term Loan | (63,340,000) | 470,740,000 |
| Proceeds from Issuance of Share Capital | - | 1,026,701,600 |
| Share Issue Expenses | - | (14,837,718) |
| Dividend and Tax on Dividend paid | - | (18,283,125) |
| Interest Paid on Borrowings | (146,052,720) | (82,776,899) |
| Net Cash used in Financing Activities | (170,273,556) | 1,975,572,650 |
| Net Increase in Cash and Cash Equivalents | (212,290,645) | 118,665,890 |
| Opening Balance of Cash and Cash Equivalents | 271,882,372 | 153,216,482 |
| Closing Balance of Cash and Cash Equivalents | 59,591,726 | 271,882,372 |
| Cash and Cash Equivalents Comprises | | |
| Cash, cheques and drafts in hand | 458,778 | 460,820 |
| Balance with scheduled bank in current accounts | 9,413,616 | 20,043,245 |
| Balance with scheduled bank in deposit accounts | 48,098,209 | 50,862,355 |
| Balance with other Banks | 1,621,123 | 200,515,952 |
| | 59,591,726 | 271,882,372 |

Significant Accounting Policies and Notes on Accounts

Schedule - XX

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

As per our attached report of even date

For **HARIBHAKTI & CO.**
Chartered Accountants

For **B. KHOSLA & CO.**
Chartered Accountants

CHETAN DESAI
Partner

SANDEEP MUNDRA
Partner

MUKESH KHETAN
Company Secretary

Jaipur, 30th June, 2009

For and on behalf of the Board
RAHIMULLAH
Managing Director

NIRMAL KUMAR BARDIYA
Director

SCHEDULES Forming Part of Balance Sheet

Amount in Rupees

| Particulars | As at 31st March, 2009 | | As at 31st March, 2008 | |
|--|---------------------------|--------------------|---------------------------|--------------------|
| SCHEDULE I - SHARE CAPITAL | | | | |
| Authorised | | | | |
| 41,000,000 (Previous Year - 41,000,000) Equity Shares of Rs. 10/- each | 410,000,000 | | 410,000,000 | |
| 4,500,000 (Previous Year - 4,500,000) Unclassified Shares of Rs 100/- each | 450,000,000 | 860,000,000 | 450,000,000 | 860,000,000 |
| Issued, Subscribed and Paid up | | | | |
| 31,698,473 (Previous Year - 31,698,473) Equity Shares of Rs.10/- each | 316,984,730 | | 316,984,730 | |
| 4,400,000 (Previous Year-4,400,000) 1% Non Convertible Redeemable Cumulative Preference Share of Rs. 100 each (Refer Note No. 6) | 440,000,000 | 756,984,730 | 440,000,000 | 756,984,730 |
| | | 756,984,730 | | 756,984,730 |

Notes:

Out of the above Equity Shares :

- a) 7,294,920 (Previous Year - 7,294,920) Equity Shares were allotted as fully paid up Bonus Share by capitalisation of Profit & Loss Account
- b) 12,860,600 (Previous Year - 12, 860,600) Equity Shares have been allotted as underlying Shares for 1,286,060 Global Depository Receipts

SCHEDULE II - RESERVES AND SURPLUS

| | | | | |
|---|---------------|----------------------|---------------|----------------------|
| Securities Premium Account | | | | |
| As per last Balance Sheet | 5,874,020,191 | | 4,984,525,909 | |
| Add: Received during the year | - | | 904,332,000 | |
| | 5,874,020,191 | | 5,888,857,909 | |
| Less: Expenses for issue of securities | - | 5,874,020,191 | 14,837,718 | 5,874,020,191 |
| General Reserve | | | | |
| As per last Balance Sheet | 79,647,256 | | 90,000,000 | |
| Less : Transitional Liabilities for Retirement Benefits Plan (Refer Note No. 4) | - | | 10,352,744 | |
| | 79,647,256 | | 79,647,256 | |
| Less: Debit Balance in Profit & Loss deducted as per contra | 79,647,256 | - | 79,647,256 | - |
| Employee Stock Option Outstanding (Refer Note No.7) | 2,825,699 | | 10,068,148 | |
| Less : Deferred Employees Compensation Expenses Outstanding | 359,986 | 2,465,713 | 3,941,024 | 6,127,124 |
| Foreign Currency Translation Reserve | | 102,724,218 | | (16,833,730) |
| | | 5,979,210,122 | | 5,863,313,585 |

SCHEDULES Forming Part of Balance Sheet

Amount in Rupees

| Particulars | As at 31st March, 2009 | | As at 31st March, 2008 | |
|---|---------------------------|---------------|---------------------------|---------------|
| SCHEDULE III - SECURED LOANS | | | | |
| Working Capital Facilities from Banks : | | | | |
| Pre-shipment Credit | 486,145,518 | | 383,343,421 | |
| Post-shipment Credit | 856,508,528 | 1,342,654,046 | 835,242,730 | 1,218,586,151 |
| Term Loan | | | | |
| Corporate Loan | | 407,400,000 | | 470,740,000 |
| | | 1,750,054,046 | | 1,689,326,151 |

Notes:**A. Working Capital Facilities :**

- (i) Above Loans are secured by hypothecation of Stock-in-Trade and Book Debts on pari-passu basis.
- (ii) Further Secured, on parri-passu basis, by :
 - a. Equitable Mortgage of Land and Buildings situated at K-6A & K-6B, Adarsh Nagar and E-68 & E-69 EPIP, Sitapura Jaipur
 - b. Hypothecation of Plant & Machineries & Other Movable Assets
 - c. Personal Guarantee of Mr. Sunil Agrawal, Chairman of the Company

B. Term Loan :

- (i) Above Corporate Loan is secured by second charges on Current Assets as well as Fixed Assets of the Company.
- (ii) Pledge of 2,300,000 equity shares of Rs. 10 each of Vaibhav Gems Limited by Brett Plastic Private Limited and;
- (iii) Pledge of 21,800,000 equity shares of US \$ 1 each of Genoa Jewelers Limited, BVI.
- (iv) Personal Guarantee of Mr. Sunil Agrawal, Chairman of the Company

SCHEDULE IV : FIXED ASSETS (Amount in Rupees)

| NAME OF ASSETS | GROSS BLOCK | | | | DEPRECIATION | | | | NET BLOCK | |
|-----------------------|---------------------|--------------------------------|---------------------------------|---------------------|--------------------|-------------------|---------------------------------|---------------------|---------------------|--------------------|
| | As at 01.04.2008 | Addition during the year | Ded./Adj. during the year | As at 31.03.2009 | Up to 31.3.2008 | For the Year | Ded./Adj. during the year | Up to 31.03.2009 | As at 31.03.2009 | As at 31.3.2008 |
| Freehold Land | 4,894,908 | - | - | 4,894,908 | - | - | - | - | 4,894,908 | 4,894,908 |
| Leasehold Land | 37,103,637 | - | 32,945,000 | 4,158,637 | 1,582,462 | 371,726 | 1,231,541 | 722,647 | 3,435,990 | 35,521,175 |
| Building | 45,135,506 | - | - | 45,135,506 | 19,204,275 | 2,593,123 | - | 21,797,398 | 23,338,108 | 25,931,231 |
| Plant & Machinery* | 80,473,156 | 831,121 | 2,383,567 | 78,920,710 | 40,371,447 | 5,658,624 | 1,065,397 | 44,964,674 | 33,956,036 | 40,101,709 |
| Electric Installation | 14,901,752 | 216,381 | - | 15,118,133 | 6,336,901 | 1,218,706 | - | 7,555,607 | 7,562,526 | 8,564,851 |
| Furniture & Fixtures | 21,840,471 | 129,013 | 4,000 | 21,965,484 | 12,426,854 | 1,714,311 | - | 14,141,165 | 7,824,319 | 9,413,617 |
| Office Equipment | 12,087,063 | 296,125 | - | 12,383,188 | 6,454,722 | 799,688 | - | 7,254,410 | 5,128,778 | 5,632,341 |
| Computer | 22,387,569 | 27,965 | - | 22,415,534 | 16,776,576 | 2,259,714 | - | 19,036,290 | 3,379,244 | 5,610,993 |
| Vehicles | 4,223,617 | - | 706,771 | 3,516,846 | 2,605,595 | 397,218 | 479,527 | 2,523,286 | 993,560 | 1,618,022 |
| Total | 243,047,679 | 1,500,605 | 36,039,338 | 208,508,946 | 105,758,832 | 15,013,110 | 2,776,465 | 117,995,477 | 90,513,469 | 137,288,847 |
| Previous Year | 236,775,167 | 6,585,133 | 312,621 | 243,047,679 | 88,375,482 | 17,595,707 | 212,357 | 105,758,832 | 137,288,847 | 148,399,685 |

*Deduction includes Rs. 1,923,567 (Gross Block) and Rs. 717,207 (Accumulated Depreciation) on account of impairment of assets (Refer Note No. 11).

SCHEDULES Forming Part of Balance Sheet

Amount in Rupees

| Particulars | As at 31st March, 2009 | As at 31st March, 2008 |
|---|---------------------------|---------------------------|
| SCHEDULE V - INVESTMENTS (Long Term - at Cost) | | |
| Trade Investments - Unquoted | | |
| – In Wholly Owned Subsidiaries | | |
| 1,000 (Previous Year - 1,000) Common Stock with No par value of Jewel Gem USA Inc., | 527,090,000 | 527,090,000 |
| Less: Diminuation in Value of Investment | 379,422,525 | - |
| | | 527,090,000 |
| 34,376,633 (Previous Year - 33,879,121) Ordinary Shares of US \$ 1 each fully paid-up of Genoa Jewellers Ltd | 1,481,150,232 | 1,461,150,250 |
| Less: Diminuation in Value of Investment | 1,009,085,127 | 1,009,085,127 |
| | | 452,065,123 |
| 350,000 (Previous Year - 350,000) Ordinary Shares of Baht 100 each fully paid-up of STS Gems Thai Ltd | 1,112,599,043 | 1,112,599,043 |
| Less: Diminuation in Value of Investment | 1,112,599,043 | - |
| | | 920,000,000 |
| | | 192,599,043 |
| 100,000 (Previous Year-100,000) Ordinary Shares of Bhat 100 each fully paid-up of STS Creations Thai Ltd | 62,031,574 | 62,031,574 |
| Less: Diminuation in Value of Investment | 62,031,574 | - |
| | | - |
| 200 (Previous Year-200) Common Shares with No par value of STS Jewels Inc. | | 1,995,079,632 |
| | | 1,995,079,632 |
| 1,500 (Previous Year - 1,500) Ordinary Shares of Yen 50,000 each fully paid-up of STS Gems Japan Ltd | 19,918,042 | 19,918,042 |
| Less: Diminuation in Value of Investment | 19,918,042 | - |
| | | 19,918,042 |
| 87,500 (Previous Year - 87,500) Ordinary Shares of HK \$100 each fully paid-up of STS Gems Limited Hongkong | | 157,499,992 |
| | | 157,499,992 |
| 2 (Previous Year-2) Corporate Shares (one share of Ninety Nine Thousand Pesos and other one of One Thousand Pesos) of Indo Mexico Co. s. de rl.de.cv. | 410,227,250 | 410,227,250 |
| Less: Diminuation in Value of Investment | 410,227,250 | - |
| | | - |
| | | 410,227,250 |
| Other than Trade Investment - Unquoted | | |
| 360,000 (Previous Year - 360,000) Equity Shares of Rs.10 each fully paid up of VGL Softech Limited | 5,207,000 | 5,207,000 |
| Less: Diminuation in Value of Investment | 5,207,000 | - |
| | | - |
| | | 5,207,000 |
| Other than Trade Investment - Quoted | | |
| 368 (Previous Year - 368) Equity Shares of Rs.10 each fully paid up of Punjab National Bank | | 143,520 |
| | | 143,520 |
| | 2,772,455,724 | 3,759,829,602 |

Notes:

| | | |
|--|---------------|---------------|
| 1. Aggregate amount of Quoted Investment | 143,520 | 143,520 |
| 2. Market value of Quoted Investment | 151,414 | 187,772 |
| 3. Aggregate amount of Non Quoted Investment | 2,772,312,204 | 3,759,686,082 |

SCHEDULES Forming Part of Balance Sheet

Amount in Rupees

| Particulars | As at 31st March, 2009 | As at 31st March, 2008 |
|--|---------------------------|---------------------------|
| SCHEDULE VI - INVENTORIES (As taken, valued and certified by the Management) | | |
| Materials-in-process | 507,136,959 | 704,607,465 |
| Semi Finished Goods | 8,041,533 | 97,472,162 |
| Finished Goods | 15,619,087 | 26,359,452 |
| Stores and Consumables | 1,752,727 | 1,193,762 |
| | 532,550,307 | 829,632,841 |

| | | | | |
|---|---------------|----------------------|---------------|----------------------|
| SCHEDULE VII - SUNDRY DEBTORS (Unsecured and considered good unless otherwise stated) | | | | |
| Outstanding for more than Six Months | | | | |
| Considerd good | 616,499,065 | | 2,416,039 | |
| Considered doubtful | 482,759,042 | | - | |
| | 1,099,258,107 | | | |
| Less : Provision for Doubtful Debts | 482,759,042 | | - | |
| | 616,499,065 | | 2,416,039 | |
| Others | | | | |
| Considered good | 617,763,106 | | 1,641,705,636 | |
| Considered doubtful | 67,292,781 | | - | |
| | 685,055,887 | | 1,641,705,636 | |
| Less : Provision for Doubtful Debts | 67,292,781 | | - | |
| | 617,763,106 | 1,234,262,171 | 1,641,705,636 | 1,644,121,675 |
| | | 1,234,262,171 | | 1,644,121,675 |

| | | | | |
|--|------------|-------------------|-------------|--------------------|
| SCHEDULE VIII - CASH AND BANK BALANCES | | | | |
| Cash in Hand | | 458,778 | | 460,820 |
| Balance with Scheduled Banks | | | | |
| In Current Accounts | 9,413,616 | | 20,043,245 | |
| In Deposit Accounts | 48,098,209 | 57,511,825 | 50,862,355 | 70,905,600 |
| [Pledged Rs. 6,845,240 (Previous Year Rs. 10,862,355)] | | | | |
| Balance with Non Scheduled Banks (Refer Note No. 12) | | | | |
| In Current Accounts | 848,893 | | 665,952 | |
| In Deposit Accounts | 772,229 | 1,621,123 | 199,850,000 | 200,515,952 |
| | | 59,591,726 | | 271,882,372 |

SCHEDULES Forming Part of Balance Sheet

Amount in Rupees

| Particulars | Year ended 31st March, 2009 | Year ended 31st March, 2008 |
|-------------|--------------------------------|--------------------------------|
|-------------|--------------------------------|--------------------------------|

SCHEDULE IX - LOANS & ADVANCES

(Unsecured and considered good unless otherwise stated)

| | | | | |
|---|---------------|--------------------|-------------|----------------------|
| Advances and Loans to Subsidiaries (Refer Note No. 13) | | | | |
| Considerd good | 591,337,367 | | 995,253,000 | |
| Considered doubtful | 757,847,081 | | - | |
| | 1,349,184,448 | | 995,253,000 | |
| Less : Provision for Doubtful Debts | 757,847,081 | 591,337,367 | - | 995,253,000 |
| Advances recoverable in cash or in kind or for value to be received (Net of Provision for Doubtful Advance Rs. NIL (Previous Year Rs. 941,421) (Refer Note No. 3) | | 12,609,187 | | 19,912,861 |
| Advance tax (Net of Provision) | | 34,542,675 | | 31,504,704 |
| Security Deposits | | 2,629,452 | | 4,107,076 |
| | | 641,118,680 | | 1,050,777,641 |

SCHEDULE X - CURRENT LIABILITIES

| | | | | |
|------------------------------------|--|--------------------|--|--------------------|
| Sundry Creditors (Refer Note No.5) | | 111,295,051 | | 101,190,838 |
| Unclaimed Dividend* | | 342,122 | | 360,372 |
| Other Liabilities | | 22,172,649 | | 22,064,296 |
| | | 133,809,822 | | 123,615,506 |

* Investor Education and Protection to be credited by the amount as and when they become due

SCHEDULE XI - PROVISIONS

| | | | | |
|-------------------------------------|--|------------------|--|-------------------|
| Leave Encashment (Refer Note No. 4) | | 2,888,789 | | 4,431,808 |
| Gratuity (Refer Note No. 4) | | 6,552,016 | | 18,673,860 |
| | | 9,440,805 | | 23,105,668 |

SCHEDULES Forming Part of Profit & Loss Account

Amount in Rupees

| Particulars | Year ended 31st March, 2009 | | Year ended 31st March, 2008 | |
|-------------|--------------------------------|--|--------------------------------|--|
|-------------|--------------------------------|--|--------------------------------|--|

SCHEDULE XII - SALES

| | | | | |
|----------------|---------------|----------------------|---------------|----------------------|
| Export Sales | 1,693,610,770 | | 2,840,650,562 | |
| Domestic Sales | 16,038,237 | 1,709,649,007 | 258,937,519 | 3,099,588,081 |
| | | 1,709,649,007 | | 3,099,588,081 |

SCHEDULE XIII - OTHER INCOME

| | | | | |
|--|--|-------------------|--|-------------------|
| Interest Received (Gross, Tax Deducted at Source - Rs. 315,178) (Previous Year - Rs. 435,772) | | 4,981,785 | | 12,720,341 |
| Dividend Received | | 70,969 | | 1,068,862 |
| Commission Received (Gross, Tax Deducted at Sources - Rs. 722,793) (Previous Year - Rs.1,688,207) | | 6,950,434 | | 15,100,089 |
| Miscellaneous Income | | 1,165,159 | | 115,851 |
| Exchange Fluctuation (Net) | | 67,889,204 | | 11,253,537 |
| | | 81,057,552 | | 40,258,680 |

SCHEDULE XIV - MATERIAL COST

| | | | | |
|--|---------------|----------------------|---------------|----------------------|
| Materials Consumed | | | | |
| Opening Material-in-Process | 704,607,465 | | 526,111,013 | |
| Add: Purchases | 1,228,680,268 | | 2,531,285,700 | |
| | 1,933,287,733 | | 3,057,396,713 | |
| Less: Closing Material-in-Process | 507,136,959 | 1,426,150,774 | 704,607,465 | 2,352,789,248 |
| Purchases of Finished Goods | | 66,849,699 | | 199,288,305 |
| (Increase)/Decrease in Semi Finished and Finished Goods: Opening Stocks | | | | |
| Semi Finished Goods | 97,472,162 | | 41,883,532 | |
| Finished Goods | 26,359,452 | | 43,482,224 | |
| | 123,831,614 | | 85,365,756 | |
| Less: <i>Closing Stocks</i> | | | | |
| Semi Finished Goods | 8,041,533 | | 97,472,162 | |
| Finished Goods | 15,619,087 | | 26,359,452 | |
| | 23,660,620 | 100,170,993 | 123,831,614 | (38,465,858) |
| | | 1,593,171,466 | | 2,513,611,695 |

SCHEDULES Forming Part of Profit & Loss Account

Amount in Rupees

| Particulars | Year ended 31st March, 2009 | | Year ended 31st March, 2008 | |
|--|--------------------------------|-------------|--------------------------------|-------------|
| SCHEDULE XV - MANUFACTURING EXPENSES | | | | |
| Job Work Charges | | 19,817,297 | | 42,548,176 |
| Stores and Consumables | | 20,657,597 | | 26,334,835 |
| Power and Fuel | | 9,889,789 | | 12,820,311 |
| Repairs and Maintenance | | 4,686,662 | | 6,971,808 |
| Other Manufacturing Expenses | | 16,772,254 | | 16,410,805 |
| | | 71,823,599 | | 105,085,935 |
| SCHEDULE XVI - EMPLOYEES COSTS | | | | |
| Salaries, Wages, Bonus etc. | | 115,974,625 | | 162,253,861 |
| Contributions to Provident and Other Funds | | 9,143,838 | | 11,885,292 |
| Staff Welfare Expenses | | 2,948,334 | | 7,088,922 |
| Employee Compensation Expenses under ESOS (Refer Note No. 7) | | (3,661,411) | | 4,646,014 |
| Recruitment and Training | | 344,178 | | 2,137,157 |
| | | 124,749,564 | | 188,011,246 |
| SCHEDULE XVII - ADMINISTRATIVE & SELLING EXPENSES | | | | |
| Rent, Rates and Taxes | | 1,890,292 | | 2,164,864 |
| Insurance | | 898,266 | | 1,564,804 |
| Travelling and Conveyance | | 10,614,300 | | 22,698,429 |
| Legal and Professional | | 2,365,896 | | 6,924,501 |
| Postage and Telephone | | 3,481,829 | | 5,951,784 |
| Printing and Stationery | | 1,046,144 | | 2,632,890 |
| Advertisement and Business Promotion | | 876,512 | | 1,340,220 |
| Brokerage and Commission | | - | | 1,067,262 |
| Packing and Forwarding | | 10,091,911 | | 11,420,176 |
| Misc. Expenses | | 7,397,040 | | 4,911,808 |
| Donation | | 25,000 | | 8,601 |
| Auditors' Remuneration | | 920,771 | | 850,559 |
| Directors' Remuneration | | 4,200,000 | | 6,983,308 |
| Directors' Sitting Fees | | 585,000 | | 400,000 |
| Information Technology Expenses | | 2,300,301 | | 5,653,031 |
| Loss on Sale of Assets | | 1,165,758 | | 16,318 |
| Loss on Impaired Fixed Assets | | 1,206,360 | | - |
| | | 49,065,380 | | 74,588,554 |
| SCHEDULE XVIII - FINANCIAL EXPENSES | | | | |
| Interest | | | | |
| – On Fixed Loans | 51,787,674 | | 20,347,770 | |
| – On Working Capital Facilities | 94,265,046 | 146,052,720 | 62,429,129 | 82,776,899 |
| Finance Charges | | 12,362,770 | | 9,171,129 |
| | | 158,415,490 | | 91,948,028 |

SCHEDULES Forming Part of Profit & Loss Account

Amount in Rupees

| Particulars | Year ended 31st March, 2009 | | Year ended 31st March, 2008 | |
|--|--------------------------------|--|--------------------------------|--|
| SCHEDULE XIX - ADDITIONAL INFORMATION (Pursuant to provisions of Paragraph 3 and 4 of Part II of Schedule VI to the Companies Act, 1956) | | | | |
| 1. Materials Consumed < | | | | |

SCHEDULES Forming Part of Profit & Loss Account

Amount in Rupees

| Particulars | Year ended 31st March, 2009 | | Year ended 31st March, 2008 | |
|--|--------------------------------|------------------------|--------------------------------|----------------------|
| 4. Captive Consumption | | Quantity | | Quantity |
| Gem Stones(Carats) | | 4,914 | | 223,012 |
| Diamond (Carats) | | - | | 6,588 |
| Accessories (Nos.) | | 773,824 | | 660,114 |
| 5. Managerial Remuneration | | Rupees | | Rupees |
| Profit before Taxation after Exceptional Item | | (2,536,804,813) | | (1,842,111,105) |
| Add: Depreciation as per Accounts | | 15,013,110 | | 17,595,707 |
| Managerial Remuneration | | 4,200,000 | | 6,983,308 |
| Loss on Sale of Fixed Assets | | 1,165,758 | | 16,318 |
| Loss on Impaired Fixed Assets | | 1,206,360 | | - |
| Diminution in Value of Investment | | 1,007,373,860 | | 1,991,116,701 |
| | | (1,507,845,725) | | 173,600,929 |
| Less: Depreciation as per Section 350 of Companies Act, 1956 | | 15,013,110 | | 17,595,707 |
| Profit on Sale of Fixed Assets | | 59,756 | | 31,054 |
| Share Issue Expenses | | - | | 14,837,718 |
| Profit as per Sec. 349 | | (1,522,918,591) | | 141,136,450 |
| Eligible Remuneration to Managing Director as per Sec. 309 (5% of Eligible Profit) | | 4,200,000 | | 7,056,822 |
| Remuneration paid to Managing Director | | 4,200,000 | | 6,983,308 |
| 6. Payments to Directors from Subsidiaries | | 24,851,090 | | 20,072,415 |
| 7. Payments to Auditors | | | | |
| a. Audit Fees | | 441,200 | | 449,440 |
| b. Tax Audit Fees | | 165,450 | | 168,540 |
| c. For Other Services | | 55,150 | | 56,180 |
| d. For Reimbursement of Expenses | | 258,971 | | 176,399 |
| | | 920,771 | | 850,559 |
| 8. Repairs and Maintenance | | | | |
| a. Buildings | | 1,146,530 | | 808,042 |
| b. Machineries | | 2,034,521 | | 2,379,943 |
| c. Other Repairs | | 1,505,611 | | 3,783,823 |
| | | 4,686,662 | | 6,971,808 |
| 9. Value of Imports calculated on C.I.F. basis | | | | |
| a. Raw Materials (other than through canalising agencies) | | 895,867,910 | | 1,599,204,894 |
| b. Consumables, Stores & Spares | | 10,465,587 | | 10,513,504 |
| c. Capital Goods | | 448,565 | | 697,443 |
| 10. Value and % of Material Consumption | % | Rupees | % | Rupees |
| Raw Materials and Components: | | | | |
| Imported | 72.91 | 1,039,849,623 | 63.18 | 1,486,435,166 |
| Indigenous | 27.09 | 386,301,151 | 36.82 | 866,354,082 |
| | | 1,426,150,774 | | 2,352,789,248 |

SCHEDULES Forming Part of Profit & Loss Account

Amount in Rupees

| Particulars | Year ended 31st March, 2009 | | Year ended 31st March, 2008 | |
|--|--------------------------------|-------------------|--------------------------------|-------------------|
| | % | Rupees | % | Rupees |
| <i>Consumables, Stores & Spares:</i> | | | | |
| Imported | 53.45 | 11,041,408 | 45.40 | 11,954,891 |
| Indigenous | 46.55 | 9,616,189 | 54.60 | 14,379,944 |
| | | 20,657,597 | | 26,334,835 |
| 11. Expenditure in Foreign Currency | | | | |
| Travelling Expenses | | 887,192 | | 1,428,457 |
| Professional Fees | | – | | 10,099,450 |
| Others | | – | | 679,596 |
| 12. Earnings in Foreign Currency | | | | |
| Export of goods calculated on F.O.B. basis | | 1,721,426,487 | | 2,826,244,635 |
| Interest | | 3,450,468 | | 7,698,096 |
| Commission | | 6,432,808 | | 8,759,546 |
| 13. Remittance in Foreign Currency on Account of Dividends: | | | | |
| a. Year to which the Dividend relates | | – | | 2006-2007 |
| b. Number of Non-Resident Shareholders to whom remittances were made | | – | | 3 |
| c. Number of Shares on which remittances were made | | – | | 1,513,800 |
| d. Dividend Amount (in Rupees) | | – | | 756,900 |

SCHEDULES Forming Part of Accounts

SCHEDULE XX - SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Preparation of Financial Statements

- a. The financial statements have been prepared in compliance with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India, the accounting standards as specified in Companies (Accounting Standards) Rules 2006, prescribed by Central Government 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 an 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 recognized in the period in which the results are known /materialized.

3. Fixed Assets

Fixed Assets are stated at cost less accumulated depreciation and impairment losses. Cost includes capital cost, freight, duties, taxes and other incidental expense incurred during the construction / installation stage attributable to bringing the asset to working condition for its intended use.

4. Depreciation and Amortization

- a. Depreciation on Fixed Assets is being provided on written down value method at the rate and in the manner specified in Schedule XIV of the Companies Act, 1956.
- b. Assets acquired on lease is amortized over the period of lease in equal installments.

5. Intangible Assets

An Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the company and the cost of the assets can be measured reliably.

Intangible Assets are amortized over their respective individual estimated useful lives on a straight line basis.

6. Impairment of Assets

As at each balance sheet date, the carrying amount of assets is tested for impairment so as to determine

- a. the provision for impairment loss, if any, required or
- b. the reversal, if any, required for impairment loss recognized in previous periods.

Impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

Recoverable amount is determined

- a. in the case of an individual asset, at the higher of net selling price and the value in use.
- b. in the case of a cash-generating unit (a group of assets that generates identified independent cash flows), at the higher of the cash generating unit's selling price and the value in use.

Value in use is determined as the present value of estimated future cash flow from the continuing use of an asset and from its disposal at the end of its useful life.

7. Borrowing Cost

Borrowing Cost attributable to the acquisition or construction of qualifying assets are capitalised as a part of the cost of such assets. All other borrowing costs are charged to revenue.

8. 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 of Inventories Comprises of 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.

SCHEDULES Forming Part of Accounts

- b. All raw materials purchased are simultaneously issued for production. Accordingly material-in-process includes such raw materials as well. 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.
- c. Identification of a specific item and determination of estimated net realizable value involve technical judgments of the management, which has been relied upon by the Auditors.

9. Investments

Long-term investments including those held through nominees are stated at cost. Provision for diminution in the value of long-term investments (including Loans and Advances to Subsidiaries considered as a part of net investment) is made only if such a decline is other than temporary in the opinion of the management.

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

10. Revenue Recognition

Sale of Goods:

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.

Dividend on Investment:

Revenue is recognized when the right to receive payment is established.

Interest Income:

Revenue is recognized on time proportionate basis.

Commission Income:

Revenue is recognized on the accrual basis.

11. 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. Contingent Liabilities are translated at closing rate.

Exchange difference arising on translation of Loan and Advances to non – integral wholly owned subsidiaries and forming part of net investment, are recognized in foreign currency translation reserve.

c. Exchange Differences:

Exchange differences arising on the settlement of monetary items or on restatement of monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise.

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 contract are recognized in the profit and loss account in the year in which the exchange rate changes. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense.

12. Employee Benefits

- a. Short term and other long term employee benefits are recognized as an expense at the undiscounted amount in the profit and loss account of the year in which the related service is rendered.
- b. Employee's Retirement benefits are recognized as an expense in the profit and loss for the year in which the employee has rendered services. The expense is recognized at the present value of the amounts payable, determined using actuarial valuation techniques. Actuarial gains and losses in respect of post employment and other long term benefits are charged to the profit and loss account.
- c. In respect of Employee Stock Options, the excess of market price of shares as at the date of grant of option granted to employee (including certain employees' of subsidiaries) over the exercise price is treated as Employee Compensation Cost and amortized on a straight – line basis over the vesting period.

13. 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

SCHEDULES Forming Part of Accounts

been enacted or substantively enacted as on the Balance Sheet date. The deferred tax assets are recognized if there is a virtual certainty that the assets will be realized in future.

14. Earning Per Share

The basic earning per share is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per shares, net profit after tax for the year and weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The dilutive potential equity shares are adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares)

15. Provision, Contingent Liabilities and Contingent Assets

Provisions are recognized for liabilities that can be measured only by using a substantial degree of estimation, if

- the Company has a present obligation as a result of past event,
- a probable outflow of resources is expected to settle the obligation and
- the amount of the obligation can be reliably estimated

Contingent Liability is disclosed in case of

- a present obligation arising from a past event, when it is not probable that an outflow of resources will be required to settle the obligation
- a possible obligation, unless the probability of outflow of resources is remote.

Contingent Assets are neither recognized, nor disclosed.

Provisions, Contingent Liabilities and Contingent Assets are reviewed at each Balance Sheet Date.

B. NOTES ON ACCOUNTS

| Particulars | 31st March, 2009 | | 31st March, 2008 | |
|---|------------------|--------------------|------------------|--------------------|
| | Rupees | Rupees | Rupees | Rupees |
| 1(a). Capital Commitment: | | | | |
| Estimated amount of contracts remaining to be Executed and not provided for | | 2,555,150 | | Nil |
| 1(b). Contingent Liabilities: | | | | |
| a. Guarantees given by bank on behalf of Company | | 81,861,000 | | 72,050,000 |
| b. Guarantees given to bank & others by the Company | | 1,693,851,500 | | 1,237,225,000 |
| c. Disputed Tax Matters | | | | |
| Income Tax | | 11,099,221 | | 11,300,891 |
| Service Tax | | 1,436,380 | | 782,551 |
| Custom Duty | | Nil | | 1,026,147 |
| d. Dividend on Cumulative Preference Share | | 8,800,000 | | 44,00,000 |
| 2. The Deferred Tax Liabilities/(Asset) comprise of the following: | | | | |
| a. Deferred Tax Liability | | | | |
| i. Depreciation | | 2,185,990 | | 3,048,941 |
| b. Deferred Tax Assets: | | | | |
| i. Provision for Gratuity | 2,227,030 | | 6,347,245 | |
| ii. Carried Forward Losses | Nil | | 1,612,329 | |
| iii. Provision for Leave Encashment | 981,899 | | 38,484 | |
| | | 3,208,929 | | 7,998,058 |
| c. Deferred Tax Liability/(Assets)(Net) | | (1,022,939) | | (4,949,117) |

SCHEDULES Forming Part of Accounts

Net deferred tax charge/(credit) for the year of Rs. 3,926,178 (Previous year Rs. (2,609,191)) has been recognized in the Profit and Loss Account for the year.

3. Advances recoverable include Rs. Nil (Previous year Rs.26,350) due from VGL Softech Limited, a Company in which directors are interested.
4. The Company has classified various benefits provided to employees as under:

A. Defined Contribution Plans

a. Provident Fund

b. State Defined Contribution Plans

i. Employers' Contribution to Employees' State Insurance

The Company has recognised the following amounts in Profit and Loss Account:

| Particulars | Year Ended March 31, 2009 Rupees | Year Ended March 31, 2008 Rupees |
|--|--|--|
| Employer's contribution to Provident Fund | 6,585,636 | 8,451,719 |
| Employer's contribution to Employees State Insurance | 2,515,603 | 3,271,764 |

B. Defined Benefit Plans

a. Contribution to Gratuity Fund (Funded Scheme)

In accordance with the Accounting Standard (AS 15) (Revised 2005), actuarial valuation was performed in respect of the Gratuity liability based on the following assumptions:

| | | |
|---|----------|----------|
| Discount rate (per annum) | 7.80% | 8.00 % |
| Rate of increase in compensation levels (per annum) | 7.10% | 12.00 % |
| Rate of return on plan assets (for Funded Scheme) | 9.15 % | 9.15% |
| Expected average remaining working lives of the employees (years) | 23 years | 29 Years |

I. Change in the Present Value of Obligation

The Scheme is funded with an insurance company in the form of qualifying insurance policy

| | | |
|---|--------------|-------------|
| Present value of defined benefit obligation as at beginning of the year | 23,956,457 | 19,202,285 |
| Interest cost | 1,916,517 | 1,536,183 |
| Current service cost | 1,587,266 | 5,878,684 |
| Benefits paid | (2,639,312) | (241,577) |
| Actuarial (gain)/loss on obligations | (14,817,850) | (2,419,118) |
| Present value of defined benefit obligation as at the end of the year | 10,003,078 | 23,956,457 |

II. Changes in the Fair Value of Plan Assets

| | | |
|--|-------------|-----------|
| Present value of plan assets as at beginning of the year | 5,282,597 | 3,518,685 |
| Expected return on plan assets | 483,358 | 313,163 |
| Contributions | 395,783 | 1,608,387 |
| Benefits paid | (2,639,312) | (241,577) |
| Actuarial gains/(losses) | (71,364) | 83,939 |
| Fair value of plan assets as at end of the year* | 3,451,062 | 5,282,597 |
| *All the funds under the Plan Assets are managed by insurer. | | |

III. Reconciliation of Present Value of Defined Benefit Obligation and the Fair Value of Assets

| | | |
|--|------------|------------|
| Present value of funded obligation as at end of the year | 10,003,078 | 23,956,457 |
| Fair value of plan assets as at end of the year | 3,451,062 | 5,282,597 |
| Funded Asset recognised in the Balance Sheet | — | — |
| Shown under Schedule XI - "Provision" | 6,552,016 | 18,673,860 |

SCHEDULES Forming Part of Accounts

| Particulars | Year Ended March 31, 2009 Rupees | Year Ended March 31, 2008 Rupees |
|-------------|--|--|
|-------------|--|--|

IV. Amount recognised in the Balance Sheet

| | | |
|---|------------|------------|
| Present value of defined benefit obligation as at the end of the year | 10,003,078 | 23,956,457 |
| Fair value of plan assets as at end of the year | 3,451,062 | 5,282,597 |
| Liability/(Net Asset) recognised in the Balance Sheet | 6,552,016 | 18,673,860 |

V. Expenses recognised in Profit and Loss Account

| | | |
|--|--------------|-------------|
| Current service cost | 1,587,266 | 5,878,684 |
| Past service cost | — | — |
| Interest cost | 1,916,517 | 1,536,183 |
| Expected Return on Plan Assets | (483,358) | (313,163) |
| Net Actuarial (gain)/loss recognised in the period | (14,746,486) | (2,503,057) |
| Total Expenses recognised in the Profit and Loss Account* | (11,726,061) | 4,598,647 |
| * included in Salaries, wages, bonus etc in Schedule - XVI | | |

VI. Actual Return on Plan Assets

| | | |
|--|----------|---------|
| Expected Return on Plan Assets | 483,358 | 313,163 |
| Actuarial gain/(losses) on Plan Assets | (71,364) | 83,939 |
| Actual Return on Plan Assets | 411,994 | 397,102 |

The 100% Plan Assets of the Company as on Balance Sheet date are invested with Life Insurance Corporation through Group Gratuity Policy.

The expected rate of return on plan assets is based on market expectations at the beginning of the period. The rate of return on long-term government bonds is taken as reference for this purpose.

b. Leave Encashment (Non-Funded Scheme)

Leave Encashment has been provided at actual (Un-discounted) based on the leave standing to the credit of employees as at the Balance Sheet date.

I. Amount recognised in the Balance Sheet

| | | |
|--|-----------|-----------|
| Actual value of leave encashment as at beginning of the year | 4,431,808 | 5,100,508 |
| Leave encashment provided for the year | 1,640,402 | 4,772,205 |
| Actual paid for the year | 3,183,421 | 5,440,905 |
| Actual value of leave encashment as at end of the year on 31.03.2008 | 2,888,789 | 4,431,808 |

5. Sundry Creditors include overdue amounts (mainly unclaimed) of Rs. Nil (Previous Year Rs. Nil) including interest of Rs. Nil (Previous Year Rs. Nil) payable to Micro, Small & Medium enterprises. The company does not owe any amount to Micro, Small & Medium enterprises. These enterprises have been identified on the basis of information available to the Company.

6. Non Convertible Redeemable Cumulative Preference Share are redeemable at the end of seven years from the date of allotment i.e. 31st Oct' 2006 or before at the discretion of the Board.

SCHEDULES Forming Part of Accounts

7. Employee Stock Option Scheme:

The Company has issued Employees' Stock Option Scheme (VGL ESOP – 2006) to its employees (including certain employees of the Subsidiaries).

Out of stock option granted, 20% stock option will vest at the end of one year from the date of Grant, 30% stock option at the end of the second year and balance 50% stock option at the end of third year. The exercise period for the options is four year from the date of vesting.

The details of the Grant under the aforesaid schemes are as under:

| Particulars | VGL ESOP – 2006 | | | |
|---|-----------------|------------|------------|---------|
| | A | B | C | Total |
| Exercise (Grant) Price | 240 | 202 | 20.65 | |
| Date of Grant of Option | 06.01.2007 | 27.07.2007 | 28.01.2009 | |
| Vesting commences on | 06.01.2008 | 27.07.2008 | 28.01.2010 | |
| Options granted & outstanding as at the beginning of the year on 01.04.08 | 246,165 | 12,000 | – | 258,165 |
| Options granted during the year | – | – | 300,000* | 300,000 |
| Options lapsed during the year (Re-issuable) | 177,077 | – | – | 177,077 |
| Options granted and outstanding as at the end of the year on 31.03.09 | 69,088 | 12,000 | 300,000 | 381,088 |

* Partially granted out of lapsed option

The excess of market price per share as on the date of grant of option, over the exercise price for the Stock Option granted to employees (including certain employees of the Subsidiaries), is amortized by the Company over the vesting period. The amortized value for the year pertaining to its employees (including certain employees of the Subsidiaries) amounting to (Rs.3,661,411) (Last Year Rs.4,646,014) has been charged under Employee Cost.

8. The company has received letters from the allottees of warrants dissenting the conversion of 353,320 warrants issued @ 2300/- per warrant convertible into 3,533,200 Shares of Rs. 10/- each at a premium of Rs. 220/- Per Shares. The last date for conversion of warrants has also expired on 15th April'2009. Therefore, in compliance to the statutory provision and terms of issue of warrants, the company shall forfeit as amount of Rs. 812.63 lacs received as an advance for allotment of warrants depicting 10% of the total money payable on conversion and credited subsequently into General Reserve.
9. The company has applied for restructuring of its working capital and term loan under CDR Mechanism and accordingly honorable CDR Cell has approved the restructuring of debts of the company in the month of June, 2009. Out of the total working capital limit Rs. 72 Crores will be converted into Working Capital Term Loan and Rs. 60 Crores will continue as working Capital. The Company has not provided for differential interest of Rs. 0.75 Crores on the basis of final approval of CDR which is effective from 01.01.09.
10. In view of global slowdown and recession, the company has carried on restructuring of business activities across the Globe. As a part of the business re-structuring, the Company has suspended/ closed its business operations in Thailand, Germany, Japan, Mexico and Caribbean islands. Due to aforesaid restructuring, provisions amounting to Rs. 100.74 Crores, Rs. 75.78 Crores and Rs. 55.01 Crores towards diminution in value of Investment, Loans and Advances and Sundry Debtors respectively has been provided for in the books of account of the Company as an exceptional item. In the view of management above provision is adequate. Two of the other subsidiaries of the Company are having negative net worth where the Company has exposure of Rs. 246.71 Crores, Rs. 45.89 Crores and Rs. 87.07 Crores in these Companies towards the Investment, Loans and Advance and Sundry Debtors respectively. The management of the Company does not foresee any further requirement of provision in respect of these two subsidiaries, since the investments in these subsidiaries are long term in nature and both the subsidiaries are having substantial carrying business value.

SCHEDULES Forming Part of Accounts

11. The company has in view of curtailment of its operations at its seepz unit, Mumbai reassessed the carrying value of its Plant & Machinery of the unit for possible impairment. Based on the estimated realizable value of such Plant & Machinery, as amount of Rs.1,206,360 (Previous year Nil) has been charged to Profit & Loss account as Provision for impairment.

12. Balances with Non-Scheduled bank held in:

| Name of the Bank | As at 31.03.2009 any time during the year | Maximum Amount outstanding at | As at 31.03.2008 any time during the year | Maximum Amount outstanding at |
|------------------------------|--|----------------------------------|--|----------------------------------|
| a. In Current Account | | | | |
| i) ICICI Bank UK Limited | 848,893 | 848,893 | 665,952 | 276,282,307 |
| ii) ICICI UK, Escrow A/c | – | – | – | 945,727,586 |
| b. In Fixed Deposit | | | | |
| i) ICICI Bank UK Limited | – | – | – | 937,150,400 |
| ii) PNB, UK | 772,229 | 6,532,477 | 199,850,000 | 199,850,000 |

13. Advances and Loans to Wholly Owned Subsidiaries:

| Name of the Subsidiaries | As at 31.03.2009 any time during the year | Maximum Amount outstanding at | As at 31.03.2008 any time during the year | Maximum Amount outstanding at |
|----------------------------|--|----------------------------------|--|----------------------------------|
| a. Jewel Gems USA | 106,995,000 | 106,995,000 | 75,943,000 | 81,225,000 |
| b. STS Gems Limited, HK | 25,475,000 | 25,475,000 | 19,985,000 | 21,795,000 |
| c. STS Gems Thai Limited | 122,270,000 | 152,850,000 | 119,910,000 | 122,270,000 |
| d. Genoa Jewellers Limited | 1,094,444,448 | 1,245,727,500 | 779,415,000 | 786,796,730 |

14. Earning Per Share (EPS):

| | 2008-09 | 2007-08 |
|---|-----------------|-----------------|
| a. Profit After Tax (Rs.) | | |
| – Before Exceptional Item | (226,575,040) | 15,04,36,973 |
| – After Exceptional Item | (2,541,847,803) | (1,840,679,728) |
| b. Dividend on Preference Shares (Rs.) | 4,400,000 | 4,400,000 |
| c. Profit attributable to Equity Shareholders for Basic and Diluted EPS (Rs.) (a-b) | | |
| – Before Exceptional Item | (230,975,040) | 146,036,973 |
| – After Exceptional Item | (2,546,247,803) | (1,845,079,728) |
| d. i) Weighted average number of Equity Shares outstanding during the year for Basic EPS | 31,698,473 | 29,519,630 |
| ii) No of Stock Option Outstanding | 381,088 | 258,165 |
| iii) No of Dilutive Potential Equity Shares | – | – |
| e. Weighted average number of Equity Shares outstanding during the year for Diluted EPS (d (i)+d (iii)) | 31,698,473 | 29,519,630 |
| f. Basic Earning Per Share | | |
| – Before Exceptional Item | (7.29) | 4.95 |
| – After Exceptional Item | (80.33) | (62.50) |
| g. Diluted Earning Per Share | | |
| – Before Exceptional Item | (7.29) | 4.95 |
| – After Exceptional Item | (80.33) | (62.50) |

SCHEDULES Forming Part of Accounts

15. Related Party Disclosures:

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

Subsidiaries (Direct and Step down)

1. Jewel Gem USA Inc.; 2. STS Gems Japan Limited; 3. STS Gems Limited, Hong Kong; 4. STS Jewels Inc., USA; 5. STS Creations Thai Limited, Thailand; 6. STS Gems Thai Limited, Thailand; 7. Indo Mexico Co. S. De R.L. De C.V., Mexico; 8. Genoa Jewelers Limited, BVI; 9. STS Jewels Canada INC.; 10. STS Gems USA Inc.; 11. The Jewellery Channel Ltd., United Kingdom; 12. Genoa Jewelers STT (St. Thomas) Limited, USVI; 13. Genoa Jewelers (St. Kitts) Limited, West Indies; 14. Genoa Jewelers (SXM) N.V., St. Maarten. 15. Der Schmuckkanal Deutschland GmbH; Germany 16. Liquidation Channel, Austin (formerly known as The Jewellery Channel Inc., USA).

Enterprises in which Directors are interested :

1. VGL Softech Limited; 2. Shivram Properties Private Limited. 3. Surawell Pacific Limited. 4. Emerald Creation Inc. 5 Brett Plastic Pvt. Limited

Key Management Personnel (KMP)

1. Shri Rahimullah – Managing Director;

Relative of Key Management Personnel

1. Shri Imran Khan; 2. Arif Ullah

B. Related Party Transactions

Amount in Rs.

| Nature of Transactions | Subsidiaries | | Key Managerial Person | | Relative of Key Managerial Person | | Enterprises over which significant influence exercised by Key Managerial Persons | |
|--|---------------|---------------|-----------------------|-----------|-----------------------------------|---------|--|------------|
| | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 |
| (i) Transaction during the year | | | | | | | | |
| a. Sales of Goods | 1,364,920,422 | 2,230,093,534 | – | – | – | – | – | – |
| b. Purchases of Goods | 287,844,471 | 406,192,343 | – | – | – | – | 13,708,545 | – |
| c. Loan Given | 234,373,500 | 802,854,730 | – | – | – | – | – | – |
| d. Advance Given | – | – | – | – | – | – | – | 26,350 |
| e. Advance Given Repaid | – | – | – | – | – | – | – | 2,200,000 |
| f. Expense | 2,339,516 | – | – | – | – | – | 3,819,074 | 6,336,016 |
| g. Investment | 19,999,982 | 480,000,000 | – | – | – | – | – | – |
| h. Remuneration | – | – | 4,200,000 | 6,983,308 | 48,000 | 230,588 | – | – |
| i. Guarantee | 480,422,500 | 1,286,290,000 | – | – | – | – | – | – |
| j. Share Warrants | – | – | – | – | – | – | – | 40,631,800 |
| (ii) Balances as at 31.03.09 | | | | | | | | |
| a. Amount Receivable | 1,653,951,682 | 1,234,163,414 | – | – | – | – | 6,715,008 | – |
| b. Amount Payable | 17,323,369 | 234,995 | – | – | – | – | 324,828 | 1,509,893 |
| c. Loan Receivable | 1,349,184,448 | 995,253,000 | – | – | – | – | – | – |
| d. Investment | 5,765,595,765 | 5,745,595,783 | – | – | – | – | 5,207,000 | 5,207,000 |
| e. Advance Receivable | – | – | – | – | – | – | – | 26,350 |
| f. Guarantee | 1,766,712,500 | 1,286,290,000 | – | – | – | – | – | – |

SCHEDULES Forming Part of Accounts**C. Details of Material Related Party Transactions**

Amount in Rs.

| Nature of Transactions | Subsidiaries | | | | | | | | | | | | Enterprises over which significant influence exercised by Key Managerial Persons | | | | | | | |
|---------------------------------|-------------------------|---------------|--------------------|-------------|---------------------|---------------|------------------------|------------|----------------------------|-------------|-----------------------|---------------|--|-----------|----------------------------|---------|-------------------|---------|-----------------------|------------|
| | Genoa Jewellers Limited | | Jewel Gem USA Inc. | | STS Jewels Inc. USA | | STS Gems Japan Limited | | STS Gems Limited, Hongkong | | STS Gems Thai Limited | | VGL Softech Ltd. | | Shivam Properties Pvt Ltd. | | Emreald Creations | | Surawell Pacific Ltd. | |
| | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | 2007-08 |
| (i) Transaction during the year | | | | | | | | | | | | | | | | | | | | |
| a. Sales of Goods | 678,380,657 | 1,129,267,438 | 16,782,140 | 32,284,414 | 392,365,236 | 598,604,298 | 36,093,960 | 31,224,548 | 139,575,871 | 134,821,151 | 101,722,558 | 201,491,864 | - | - | - | - | 13,708,545 | - | - | - |
| b. Purchases of Goods | 17,416,264 | 49,742,677 | 2,560,124 | 10,331,281 | 119,587,118 | 171,470,503 | 3,102,735 | 3,612,430 | 67,799,492 | 50,731,567 | 77,378,738 | 101,268,097 | - | - | - | - | - | - | - | - |
| c. Loan Given | 225,845,500 | 699,616,730 | 8,528,000 | 24,558,000 | - | - | - | - | - | - | - | 78,680,000 | - | - | - | - | - | - | - | - |
| d. Advance Given | - | - | - | - | - | - | - | - | - | - | - | - | - | 26,350 | - | - | - | - | - | - |
| e. Advance Given Repaid | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,200,000 | - | - | - | - | - | - |
| f. Expense | 2,336,701 | - | - | - | - | - | - | - | - | - | 2,815 | - | 3,399,074 | 6,057,592 | 420,000 | 278,424 | - | - | - | - |
| g. Investment | 19,999,982 | 480,000,000 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| h. Guarantee | 431,488,500 | 935,705,000 | - | - | - | - | - | - | 48,934,000 | 79,460,000 | - | - | - | - | - | - | - | - | - | - |
| i. Share Warrants | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 40,631,800 |
| (ii) Balances as at 31.03.09 | | | | | | | | | | | | | | | | | | | | |
| a. Amount Receivable | 1,216,529,693 | 741,130,305 | 19,250,806 | 11,823,027 | 209,420,085 | 239,331,662 | 43,016,701 | 14,029,174 | 124,286,614 | 111,552,321 | 41,447,784 | 116,296,925 | 826,815 | - | - | - | 5,888,193 | - | - | - |
| b. Amount Payable | 4,389,613.55 | - | - | - | 6,289,477 | - | - | - | 6,644,278 | - | - | - | - | 1,331,019 | 324,828 | 178,874 | - | - | - | - |
| c. Loan Receivable | 1,094,444,448 | 779,415,000 | 106,995,000 | 75,943,000 | - | - | - | - | 25,475,000 | 19,985,000 | 122,270,000 | 119,910,000 | - | - | - | - | - | - | - | - |
| d. Advance Receivable | - | - | - | - | - | - | - | - | - | - | - | - | - | 26,350 | - | - | - | - | - | - |
| e. Investment | 1,481,150,232 | 1,461,150,250 | 527,090,000 | 527,090,000 | 1,995,079,632 | 1,995,079,632 | 19,918,042 | 19,918,042 | 157,499,992 | 157,499,992 | 1,112,599,043 | 1,112,599,043 | 5,207,000 | 5,207,000 | - | - | - | - | - | - |
| f. Guarantee | 1,638,318,500 | 1,206,830,000 | - | - | - | - | - | - | 128,394,000 | 79,460,000 | - | - | - | - | - | - | - | - | - | - |

16. Segment Reporting:

Due to change in organizational structure as well as business focus of company consequent upon acquisition/setting up of various Overseas Corporate Bodies, differential risk and rewards are, now, more identifiable and associated with the method of distribution of product and hence, Company has identified business segment with respect to method of distribution as Primary Segment for its Consolidated Operation. The Company, on standalone basis, operates in only one business segment – **“Wholesale Business”** In view of this, no further disclosure is required as per Accounting Standard “AS-17”.

- 17.** 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 XX

For and on behalf of the Board

Mukesh Khetan
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director

Place : Jaipur

Date : 30th June 2009

BALANCE SHEET ABSTRACT AND GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.

4 9 4 5

State Code 17

Balance Sheet Date

31.03.2009

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

Public Issue

Nil

Right Issue

Nil

Bonus Issue

Nil

Private Placement

Nil

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

Total Liabilities

8,567,512

Total Assets

8,567,512

Sources of Funds

Paid-up Capital

7,56,985

Secured Loans

1,750,054

Reserve & Surplus

5,979,210

Unsecured Loans

Nil

Share Warrant Money

81,264

Deferred Tax Assets (Net)

Nil

Application of Funds

Net Fixed Assets

92,513

Investment

2,772,456

Net Current Assets

2,324,361

Deferred Tax Assets (Net)

1,023

Profit & Loss Account

3,377,159

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

Turnover

1,790,707

Total Expenditure

2,012,239

Profit/(Loss) before Tax

(221,532)

Profit/(Loss) after Tax

Before Exceptional Item

(226,575)

Profit/(Loss) after Tax

After Exceptional Item

(2,541,848)

Earning per Shares in Rs.

Before Exceptional Item

(7.29)

Earning per Shares in Rs.

After Exceptional Item

(80.33)

Dividend Rate %

0.00%

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 exemption received
under Section 212(8) of the Companies Act, 1956 relating to Subsidiary Companies**

Rs in Lacs

| Name of the Company | Issued & Subscribed Share capital | Reserves | Total Liabilities | Total Assets | Investment other than Investment in Subsidiary | Turnover | Profit/(Loss) before Taxation | Provision for Taxation | Profit & (Loss) after Taxation | Proposed Dividend |
|--|-----------------------------------|-------------|-------------------|--------------|--|-----------|-------------------------------|------------------------|--------------------------------|-------------------|
| STS Jewels Inc., USA | 260.87 | (838.63) | 4,054.35 | 3,476.60 | - | 10,441.21 | (1,248.38) | 2.21 | (1,250.59) | NIL |
| STS Gems Thai Limited, Thailand | 518.39 | (41.31) | 2,209.76 | 2,686.84 | - | 3,026.38 | (1,647.46) | - | (1,647.46) | NIL |
| STS Creations Thai Limited, Thailand | 148.11 | (314.38) | 182.10 | 15.84 | - | 9.01 | (16.94) | - | (16.94) | NIL |
| STS Gems Limited, Hong Kong | 589.07 | 660.41 | 4,732.01 | 5,981.48 | - | 9,011.90 | (385.93) | - | (385.93) | NIL |
| STS Gems Japan Limited | 402.30 | (847.53) | 1,175.29 | 730.07 | - | 1,504.13 | (592.01) | - | (592.01) | NIL |
| Jewel Gem USA Inc. | 6,156.57 | (6,483.71) | 6,434.27 | 6,107.13 | - | 4,341.35 | (4,997.13) | - | (4,997.13) | NIL |
| Genoa Jewellers Limited, BVI | 17,935.77 | (20,029.60) | 12,759.17 | 10,665.33 | 2,309.28 | - | (7,764.16) | - | (7,764.16) | NIL |
| Indo Mexico Co. S. De R.L. De C.V., Mexico | 3,400.65 | (3,461.84) | 566.77 | 505.59 | - | 2,048.70 | (3,022.78) | - | (3,022.78) | NIL |
| STS Jewels Canada Inc.** | - | - | - | - | - | - | - | - | - | NIL |
| 2Umbrellas. Com Inc., USA# | - | - | - | - | - | - | - | - | - | NIL |
| STS Gems USA Inc. | - | - | - | - | - | - | - | - | - | NIL |
| STS Jewel Gems (China) Ltd. * | - | - | - | - | - | - | - | - | - | NIL |
| The Jewellery Channel Ltd., UK | 18.54 | (10,499.09) | 14,417.19 | 3,936.64 | - | 13,822.34 | (6,354.13) | - | (6,354.13) | NIL |
| The Jewellery Channel Inc., USA | 1,565.23 | (16,891.10) | 17,937.10 | 2,611.23 | - | 21,636.86 | (3,124.63) | 216.52 | (3,341.15) | NIL |
| Der Schmuckkanal Deutschland GmbH, Germany*** | - | - | - | - | - | - | - | - | - | NIL |
| Genoa Jewellers STT (St. Thomas) Limited, USVI | 0.52 | (2,191.14) | 4,241.09 | 2,050.48 | - | 918.32 | (1,258.13) | - | (1,258.13) | NIL |
| Genoa Jewellers (St. Kitts) Limited, W.I. | 0.26 | (358.23) | 1,904.42 | 1,546.45 | - | 211.20 | 1.18 | - | 1.18 | NIL |
| Genoa Jewellers (SXM) N.V., St. Maarten | 1.57 | (320.74) | 2,703.90 | 2,384.72 | - | 1,481.56 | (277.46) | - | (277.46) | NIL |

Notes:

1. * Liquidated during the year and all the reserves & assets were transferred to its holding Company viz, STS Gems Limited, Hong Kong;
2. ** Ceases its operation and all reserves and assets were transfer to respective holding company viz, STS Jewels Inc.;
3. ***Not consolidated due to under liquidation

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS REPORT FOR CONSOLIDATED Financial Statements

To,
The Board of Director of
VAIBHAV GEMS LIMITED

- 1) We have audited the attached Consolidated Balance Sheet of Vaibhav Gems Limited (the Company) and its subsidiaries as at 31st March 2009 and the Consolidated Profit and Loss account and Consolidated Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2) We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provide reasonable basis for our opinion.
- 3) We further report that:
 - a) We did not audit the financial statement of 6 subsidiaries, whose financial statements reflect total assets of Rs. 24,5930.07 lacs as at March 31, 2009, and total revenue of Rs. 26,404.76 lacs for the year ended on that date. These financial statements and some financial information have been audited by other auditors whose reports have been furnished to us and our opinion is based solely on the report of other auditors.
 - b) The consolidated financial statements of 2 subsidiaries, which reflect total assets of Rs.13,087.28 lacs and total revenue of Rs. 5,162.62 lacs have been audited by one of the undersigned, viz. B. Khosla & Co.
 - c) We draw attention to Note no. 9 of Notes to accounts. As explained therein the auditors of four subsidiaries have laid an emphasis on the ability of the subsidiaries to continue on going concern basis without the adequate support from the Company.
 - d) Certain other financial information of the subsidiaries, which have not been attested by other auditors, has been compiled by the management and have been verified to the extent possible.
- 4) We report that the consolidated financial statement have been prepared by the company's management in accordance with the requirements of the Accounting Standard (AS) 21, Consolidated Financial Statements and on the basis of the separate audited financial statements and other information referred in paragraph 3 (d) above.
- 5) We report that on the basis of the information and explanations given to us and on consideration of the separate audit report on the individual financial statement of the Company and its subsidiaries, we are of the opinion that the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India
 - a. in case of the Consolidated Balance Sheet, of the state of affairs of the Company and its subsidiaries as at March 31, 2009.
 - b. in case of the Consolidated Profit and Loss Account, of the Loss for the year ended on that date; and
 - c. in case of the Consolidated Cash Flow Statement, of the cash flow for the year ended on that date.

For **Haribhakti & Co.**
Chartered Accountants

Chetan Desai
Partner
Membership No. 17000
Place : Jaipur
Date : 30th June 2009

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

Sandeep Mundra
Partner
Membership No. 75482

CONSOLIDATED BALANCE SHEET as at 31st March, 2009

Amount in Rupees

| Particulars | Schedule | As at 31st March, 2009 | | As at 31st March, 2008 | |
|--|----------|---------------------------|----------------------|---------------------------|----------------------|
| SOURCES OF FUNDS | | | | | |
| Shareholders' Funds | | | | | |
| Share Capital | I | 756,984,730 | | 756,984,730 | |
| Share Warrants(Refer Note No. 10) | | 81,263,600 | | 81,263,600 | |
| Reserves and Surplus | II | 5,775,287,235 | 6,613,535,565 | 5,829,674,630 | 6,667,922,960 |
| Minority Interest | | | — | | 19,072,986 |
| Loan Funds | | | | | |
| Secured Loans | III | 2,106,486,055 | | 2,104,880,798 | |
| Unsecured Loans | IV | 51,385,383 | 2,157,871,438 | 55,455,107 | 2,160,335,905 |
| Total | | | 8,771,407,003 | | 8,847,331,851 |
| APPLICATION OF FUNDS | | | | | |
| Fixed Assets | V | | | | |
| Gross Block | | 2,585,085,317 | | 2,884,885,872 | |
| Less: Depreciation | | 374,408,766 | | 373,440,467 | |
| Net Block | | 2,210,676,551 | | 2,511,445,405 | |
| Capital Work-in-Progress | | 2,000,000 | 2,212,676,551 | | 2,511,445,405 |
| Investments | VI | | 231,071,456 | | 50,955,574 |
| Deferred Tax Assets (Net) | | | 1,022,939 | | 4,949,117 |
| Current Assets, Loans and Advances | | | | | |
| Inventories | VII | 1,847,402,596 | | 3,813,212,212 | |
| Sundry Debtors | VIII | 390,835,390 | | 989,035,753 | |
| Cash and Bank Balances | IX | 145,900,456 | | 506,618,196 | |
| Interest Accrued on Bank Deposits | | 88,926 | | 5,025,882 | |
| Loans and Advances | X | 270,598,149 | | 481,005,204 | |
| | | 2,654,825,517 | | 5,794,897,247 | |
| Less: Current Liabilities and Provisions | | | | | |
| Current Liabilities | XI | 763,698,976 | | 1,533,231,966 | |
| Provisions | XII | 9,440,805 | | 23,105,668 | |
| | | 773,139,781 | | 1,556,337,634 | |
| Net Current Assets | | | 1,881,685,736 | | 4,238,559,613 |
| Profit and Loss Account | | | | | |
| Debit Balance in Profit & Loss Account | | 4,524,597,577 | | 2,121,069,398 | |
| Less: General Reserve deducted as per contra | | 79,647,256 | 4,444,950,321 | 79,647,256 | 2,041,422,142 |
| Total | | | 8,771,407,003 | | 8,847,331,851 |
| Significant Accounting Policies and Notes to Accounts | XX | | | | |

As per our attached report of even date

For and on behalf of the Board

For **HARIBHAKTI & CO.**
Chartered Accountants

For **B. KHOSLA & CO.**
Chartered Accountants

RAHIMULLAH
Managing Director

CHETAN DESAI
Partner
Jaipur, 30th June, 2009

SANDEEP MUNDRA
Partner

MUKESH KHETAN
Company Secretary

NIRMAL KUMAR BARDIYA
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31st March, 2009

Amount in Rupees

| Particulars | Schedule | Year ended 31st March 2009 | Year ended 31st March 2008 |
|--|----------|-------------------------------|-------------------------------|
| INCOME | | | |
| Sales | XIII | 5,733,395,012 | 7,607,808,945 |
| Other Income | XIV | 78,361,619 | 135,295,490 |
| Total | | 5,811,756,631 | 7,743,104,435 |
| EXPENDITURE | | | |
| Materials Cost | XV | 3,795,975,177 | 4,713,293,428 |
| Manufacturing/Direct Expenses | XVI | 274,529,799 | 376,378,103 |
| Employees Costs | XVII | 975,061,808 | 1,247,313,436 |
| Administrative & Selling Expenses | XVIII | 1,721,852,784 | 2,978,078,974 |
| Financial Expenses | XIX | 450,593,246 | 146,017,997 |
| Total | | 7,218,012,814 | 9,461,081,938 |
| Profit/(Loss) Before Depreciation | | (1,406,256,183) | (1,717,977,503) |
| Depreciation | V | 124,622,685 | 112,542,155 |
| Profit/(Loss) Before Tax | | (1,530,878,868) | (1,830,519,658) |
| Add/Less: Provision For Taxation | | | |
| – Current Tax | | 221,428 | 2,887,201 |
| – Earlier Years Tax | | 116,812 | (347,095) |
| – Deferred Tax Charges/(Credits) | | 3,926,178 | 13,968,026 |
| – Fringe Benefit Tax | | 1,000,000 | 1,750,000 |
| Profit/(Loss) After Tax and before Minority Interest | | (1,536,143,286) | (1,848,777,790) |
| Add : Minority Interest in Profit/(Loss) | | 6,048,775 | (336,617) |
| Profit After Tax Before Exceptional Item | | (1,530,094,511) | (1,849,114,407) |
| Less : Exceptional Item (Refer Note No. 11) | | (873,433,668) | (707,673,638) |
| Profit After Tax After Exceptional Item | | (2,403,528,179) | (2,556,788,045) |
| Balance brought forward | | (2,121,069,398) | 435,718,647 |
| Profit Available For Appropriation | | (4,524,597,577) | (2,121,069,398) |
| APPROPRIATION | | | |
| Proposed Dividend | | – | – |
| Tax on Dividend | | – | – |
| Balance Carried to Balance Sheet | | (4,524,597,577) | (2,121,069,398) |
| Earnings Per Share of Rs.10 each (Refer Note No.6) | | | |
| Basic | | | |
| Before Exceptional Item | | (48.41) | (62.78) |
| After Exceptional Item | | (75.96) | (86.76) |
| Diluted Rs. | | | |
| Before Exceptional Item | | (48.41) | (62.78) |
| After Exceptional Item | | (75.96) | (86.76) |
| Significant Accounting Policies and Notes to Accounts | XX | | |

As per our attached report of even date

For **HARIBHAKTI & CO.**
Chartered Accountants

CHETAN DESAI
Partner
Jaipur, 30th June, 2009

For **B. KHOSLA & CO.**
Chartered Accountants

SANDEEP MUNDRA
Partner

MUKESH KHETAN
Company Secretary

For and on behalf of the Board
RAHIMULLAH
Managing Director

NIRMAL KUMAR BARDIYA
Director

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31st March, 2009

Amount in Rupees

| Particulars | Schedule | As at 31st March 2009 | As at 31st March 2008 |
|---|----------|--------------------------|--------------------------|
| A. Cash Flow from Operating Activities | | | |
| Net Profit/(Loss) before tax and extraordinary Items | | (1,530,878,868) | (1,830,519,658) |
| Adjustment for : | | | |
| Depreciation | | 124,622,685 | 112,542,155 |
| Unrealised Foreign Exchange Difference | | - | (39,581,068) |
| Employee Compensation Expenses | | (3,661,411) | 4,646,014 |
| Profit on Sales of Investment | | - | (2,619,031) |
| Loss/(Profit) on Sale of Fixed Assets | | 2,955,070 | (670,360) |
| Gratuity Expenses | | (12,121,844) | 2,990,260 |
| Interest and Dividend Earned | | (22,490,540) | (19,738,153) |
| Interest Paid on Borrowings | | 186,003,467 | 119,053,466 |
| Operating Profit before working Capital Changes | | (1,255,571,441) | (1,653,896,375) |
| Adjustment for : | | | |
| Trade and Other Receivables | | 404,149,992 | (53,668,667) |
| Trade Payables | | (771,076,009) | 671,037,550 |
| Stock- in - Trade | | 1,965,809,616 | (733,571,000) |
| Cash generated from Operations | | 343,312,158 | (1,770,098,492) |
| Direct Taxes Paid | | (3,000,000) | (15,200,000) |
| Earlier Year Tax | | (116,812) | 347,095 |
| Minority Share of Interest in Profits | | 6,048,775 | (336,617) |
| Net Cash from operating activities | | 346,244,121 | (1,785,288,014) |
| B. Cash Flow from Investing Activities | | | |
| Purchase of Fixed Assets | | 122,304,471 | (186,997,442) |
| Payment for Goodwill (net of Capital Reserve) | | - | - |
| Sales of Fixed Assets | | 107,757,734 | 924,221 |
| Sales/(Purchases) of Shares/Mutual Fund | | (185,322,882) | 46,537,818 |
| Profit on Sale of Investment | | - | 2,619,031 |
| Interest and Dividend Received | | 27,427,496 | 19,738,153 |
| Net Cash used in Investing Activities | | (172,442,123) | (117,178,219) |
| C. Cash Flow from Financing Activities | | | |
| Proceeds from/(Repayment of) Long Term Borrowings | | (63,981,591) | 442,552,677 |
| Proceeds from/(Repayment of) Short Term Borrowings | | 61,517,124 | 606,807,992 |
| Proceeds from Issuance of Share Capital (Net of Expenses) | | - | 1,011,863,883 |
| Loans Advanced to Others | | (276,252,834) | 98,172,983 |
| Minority Interest Payable | | (19,072,986) | (1,303,474) |
| Foreign Currency Translation Reserve - Unrealised | | (50,725,984) | (27,261,745) |
| Dividend and Tax on Dividend Paid | | - | (18,283,125) |
| Interest Paid on Borrowings | | (186,003,467) | (119,053,466) |
| Net Cash used in Financing Activities | | (534,519,738) | 1,993,495,725 |
| Net Increase in Cash and Cash Equivalents (A+B+C) | | (360,717,740) | 91,029,492 |
| Opening Balance of Cash and Cash Equivalents | | 506,618,196 | 415,588,704 |
| Closing Balance of Cash and Cash Equivalents | | 145,900,456 | 506,618,196 |
| Cash and Cash Equivalents Comprises | | | |
| Cash, Cheques and Drafts in Hand | | 2,615,718 | 3,339,971 |
| Balance with Bank in Current Accounts | | 66,113,112 | 160,135,999 |
| Balance with Bank in Deposit Accounts | | 77,171,626 | 343,142,226 |
| Balance with Other Banks | | | |
| | | 145,900,456 | 506,618,196 |
| Exchange Gain on Bank deposits | | - | |
| | | 145,900,456 | 506,618,196 |

Significant Accounting Policies and Notes on Accounts forming integral part of Cash Flow Statement XX

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 attached report of even date**For HARIBHAKTI & CO.**

Chartered Accountants

CHETAN DESAI

Partner

Jaipur, 30th June, 2008**For B. KHOSLA & CO.**

Chartered Accountants

SANDEEP MUNDRA

Partner

MUKESH KHETAN

Company Secretary

For and on behalf of the Board**RAHIMULLAH**

Managing Director

NIRMAL KUMAR BARDIYA

Director

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

| Particulars | As at 31st March, 2009 | As at 31st March, 2008 |
|---|---------------------------|---------------------------|
| SCHEDULE I - SHARE CAPITAL | | |
| Authorised | | |
| 41,000,000 (Previous Year - 41,000,000) Equity Shares of Rs 10/- each | 410,000,000 | 410,000,000 |
| 4,500,000 (Previous Year - 4,500,000) Unclassified Shares of Rs 100/- each | 450,000,000 | 860,000,000 |
| Issued, Subscribed and Paid up | | |
| 31,698,473 (Previous Year - 3,16,98,473) Equity Shares of Rs 10/- each | 316,984,730 | 316,984,730 |
| 4,400,000 (Previous Year - 4,400,000) 1% Non Convertible Redeemable Cumulative Preference Share of Rs. 100 each | 440,000,000 | 756,984,730 |
| | 756,984,730 | 756,984,730 |

Notes:

Out of the above Equity Shares :

- a) 7,294,920 (Previous Year - 7,294,920) Equity Shares were allotted as fully paid up Bonus Share by capitalisation of Profit & Loss Account
b) 12,860,600 (Previous Year - 12, 860,600) Equity Shares have been allotted as underlying Shares for 1,286,060 Global Depository Receipts

SCHEDULE II - RESERVES AND SURPLUS

| | | | |
|--|---------------|----------------------|----------------------|
| Securities Premium Account : | | | |
| As per last Balance Sheet | 5,874,020,191 | | 4,984,525,909 |
| Add: Received during the year | - | | 904,332,000 |
| | 5,874,020,191 | | 5,888,857,909 |
| Less: Expenses for Issue of Securities | - | 5,874,020,191 | 14,837,718 |
| | | | 5,874,020,191 |
| General Reserve: | | | |
| As per last Balance Sheet | 79,647,256 | | 90,000,000 |
| Add: Transitional liabilities for Deferred Benefit Plan | - | | (10,352,744) |
| | 79,647,256 | | 79,647,256 |
| Less: Debit Balance in Profit & Loss deducted as per contra | 79,647,256 | - | 79,647,256 |
| | | | - |
| Capital Reserve on Consolidation | | 14,211,290 | 14,211,290 |
| Foreign Currency Translation Reserve | | (115,409,959) | (64,683,975) |
| Employee Stock Option Outstanding (Refer Note No. 12) | 2,825,699 | | 10,068,148 |
| Less: Deferred Employees Compensation Expenses Outstanding | 359,986 | 2,465,713 | 3,941,024 |
| | | 5,775,287,235 | 5,829,674,630 |

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

| Particulars | As at 31st March, 2009 | As at 31st March, 2008 |
|-------------|---------------------------|---------------------------|
|-------------|---------------------------|---------------------------|

SCHEDULE III - SECURED LOANS

| | | | | |
|----------------------|---------------|----------------------|---------------|----------------------|
| From Bank | | | | |
| Term Loan | 438,641,483 | | 502,623,074 | |
| Working Capital Loan | 1,667,844,572 | 2,106,486,055 | 1,602,257,724 | 2,104,880,798 |
| | | 2,106,486,055 | | 2,104,880,798 |

SCHEDULE IV - UNSECURED LOANS

| | | | | |
|--------------------|--|------------|--|------------|
| From Bank | | 25,298,233 | | 27,493,537 |
| From Others | | 26,087,150 | | 27,961,570 |
| | | 51,385,383 | | 55,455,107 |

SCHEDULE V - FIXED ASSETS**(Amount in Rs.)**

| PARTICULARS OF ASSET | GROSS BLOCK | | | DEPRECIATION | | | NET BLOCK | | | | |
|----------------------------|-----------------------------|-------------|-------------|-------------------------|-----------------------------|-----------------------------|--------------|-------------|-------------------------|-----------------------------|-----------------------------|
| | Balance as on 31.03.2008 | Additions | Deductions | Currency Realignment | Balance as on 31.03.2009 | Balance as on 31.03.2008 | Depreciation | Adjustments | Currency Realignment | Balance as on 31.03.2009 | Balance as on 31.03.2008 |
| Intangible Assets | | | | | | | | | | | |
| Goodwill on Consolidation* | 1,843,734,920 | - | 45,805,417 | - | 1,797,929,503 | - | - | - | - | 1,797,929,503 | 1,843,734,920 |
| Tangible Assets | | | | | | | | | | | |
| Land (Freehold) | 51,650,200 | 7,299,242 | 54,054,533 | 7,299,242 | 4,894,908 | - | - | - | - | 4,894,908 | 51,650,200 |
| Land (Leasehold) | 51,429,171 | 4,457,304 | 32,945,000 | 4,457,304 | 22,941,475 | 1,940,600 | 3,71,726 | 1,701,112 | 111,433 | 22,218,828 | 49,488,571 |
| Building | 123,341,630 | 16,769,518 | 55,832,100 | 16,769,518 | 84,279,048 | 56,865,009 | 4,257,956 | 40,396,833 | 3,854,071 | 24,580,203 | 66,476,621 |
| Lease Hold Improvement | 240,626,222 | 60,134,408 | 130,459,880 | 59,140,569 | 170,300,749 | 57,824,383 | 35,675,051 | 32,211,081 | 14,724,319 | 76,012,672 | 182,801,839 |
| Plant & Machinery | 194,863,992 | 17,252,328 | 44,442,091 | 29,258,624 | 167,674,229 | 82,209,332 | 23,340,588 | 38,214,091 | 5,694,418 | 73,030,248 | 112,654,660 |
| Electric Installation | 14,918,439 | 221,594 | 21 | 5,192 | 15,140,013 | 6,342,742 | 1,218,706 | 7,658 | 1,817 | 7,555,607 | 8,575,698 |
| Furniture & Fixtures | 100,059,565 | 24,646,849 | 17,022,882 | 19,933,355 | 107,683,532 | 40,906,668 | 15,477,652 | 9,698,841 | 6,123,587 | 52,809,067 | 59,152,897 |
| Office Equipment | 69,087,522 | 9,456,043 | 41,380,016 | 9,790,342 | 37,163,549 | 33,136,468 | 5,024,052 | 24,369,603 | 4,561,271 | 18,352,188 | 35,951,053 |
| Computer | 187,303,248 | 32,044,468 | 49,387,813 | 46,965,388 | 169,959,903 | 89,575,769 | 38,172,321 | 25,635,351 | 14,137,104 | 116,249,843 | 97,727,479 |
| Vehicles | 7,870,963 | 398,394 | 1,150,919 | 716,097 | 7,118,408 | 4,639,495 | 1,084,634 | 840,392 | 212,608 | 5,096,291 | 3,231,469 |
| Total | 2,884,885,872 | 172,680,147 | 472,480,672 | 194,335,631 | 2,585,085,317 | 373,440,467 | 124,622,685 | 173,074,962 | 49,420,629 | 2,210,676,551 | 2,511,445,406 |
| Previous Year | 3,428,014,256 | 176,419,501 | 719,547,885 | - | 2,884,885,872 | 284,489,732 | 112,542,155 | 11,498,736 | - | 2,511,445,405 | 3,143,524,524 |

Note: *Goodwill on consolidation written off due to permanent diminution in the value of investments in subsidiaries.

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

| Particulars | As at 31st March, 2009 | As at 31st March, 2008 |
|--|---------------------------|---------------------------|
| SCHEDULE VI - INVESTMENTS (Long Term - at Cost) | | |
| Trade Investments - quoted | | |
| 11,000 4.9% Commercial Deposit/Morgan Stanely of US \$ 100 each | - | 43,939,610 |
| Reich & Tang Daily Dollar INTL Limited II | 220,493,076 | - |
| Money Market Funds | 10,434,860 | 910,372 |
| Other than Trade Investment - Unquoted | | |
| 360,000 (Previous Year - 360,000) Equity Shares of Rs.10 each fully paid up of VGL Softech Limited | 5,207,000 | 5,207,000 |
| Less : Diminuation in Value of Investment | (5,207,000) | - |
| Other than Trade Investment - quoted | | |
| 368 (Previous year - 368) Equity Shares of Rs. 10 each fully paid up Punjab National Bank | 143,520 | 143,520 |
| (Previous year - 3130.07) Shares of Tokio Kiho of Japan Yen 50 each | - | 755,073 |
| | 231,071,456 | 50,955,574 |

SCHEDULE VII - INVENTORIES

(As taken, valued and certified by the Management)

| | | |
|------------------------|----------------------|----------------------|
| Materials-in-Process | 507,136,959 | 854,590,471 |
| Semi Finished Goods | 8,041,533 | 192,777,879 |
| Finished Goods | 1,330,471,377 | 2,764,650,100 |
| Stores and Consumables | 1,752,727 | 1,193,762 |
| | 1,847,402,596 | 3,813,212,212 |

SCHEDULE VIII - SUNDRY DEBTORS (Unsecured and considered good unless otherwise stated)

| | | | |
|--------------------------------------|--------------------|--------------|--------------------|
| Outstanding for more than six months | | | |
| Considered good | 40,257,989 | 175,436,466 | |
| Considered doubtful | 308,219,686 | 24,300,939 | |
| Less: Provision for doubtful debts | (308,219,686) | (24,300,939) | 175,436,466 |
| Others | | | |
| Considered good | 350,577,401 | 813,599,287 | |
| Considered doubtful | - | - | |
| Less: Provision for doubtful debts | - | - | 813,599,287 |
| | 390,835,390 | | 989,035,753 |

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

| Particulars | As at 31st March, 2009 | | As at 31st March, 2008 | |
|---|---------------------------|-------------|---------------------------|---------------|
| SCHEDULE IX - CASH AND BANK BALANCES | | | | |
| Cash in Hand | | 2,615,718 | | 3,339,971 |
| Balance with Banks | | | | |
| - In Current Accounts | 66,113,112 | | 160,135,999 | |
| - In Deposit Accounts* | 77,171,626 | 143,284,738 | 343,142,226 | 503,278,225 |
| (*Pledge, Rs. 35,483,456 (Previous Year Rs. 154,771,978) | | 145,900,456 | | 506,618,196 |
| | | | | |
| SCHEDULE X - LOANS & ADVANCES (Unsecured and considered good unless otherwise stated) | | | | |
| Advances recoverable in cash or in kind or for value to be received | | 158,686,834 | | 167,818,382 |
| Key Money Deposits | | – | | 236,369,977 |
| Advance Tax (Net of Provision) | | 40,082,198 | | 43,656,996 |
| Security Deposits | | 71,829,117 | | 33,159,849 |
| | | 270,598,149 | | 481,005,204 |
| | | | | |
| SCHEDULE XI - CURRENT LIABILITIES | | | | |
| Sundry Creditors | | 405,670,918 | | 1,264,885,587 |
| Unclaimed Dividend | | 342,122 | | 360,372 |
| Other Liabilities | | 357,685,936 | | 267,986,006 |
| | | 763,698,976 | | 1,533,231,966 |
| | | | | |
| SCHEDULE XII - PROVISIONS | | | | |
| Leave Encashment | | 2,888,789 | | 4,431,808 |
| Gratuity | | 6,552,016 | | 18,673,860 |
| | | 9,440,805 | | 23,105,668 |
| | | | | |

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

| Particulars | Year ended 31st March, 2009 | | Year ended 31st March, 2008 | |
|--|--------------------------------|---------------|--------------------------------|---------------|
| SCHEDULE XIII - SALES | | | | |
| Sales | | 5,733,395,012 | | 7,607,808,945 |
| | | 5,733,395,012 | | 7,607,808,945 |
| SCHEDULE XIV - OTHER INCOME | | | | |
| Interest Income | | 22,490,540 | | 19,738,153 |
| Miscellaneous Income | | 55,871,079 | | 35,308,732 |
| Exchange Gain (Net) | | – | | 80,248,605 |
| | | 78,361,619 | | 135,295,490 |
| SCHEDULE XV - MATERIALS | | | | |
| Materials Consumed | | | | |
| Opening Material-in-Process | 854,590,471 | | 752,419,022 | |
| Add : Purchases | 1,362,407,050 | | 3,173,143,333 | |
| | 2,216,997,521 | | 3,925,562,355 | |
| Less : Closing Material-in-Process | 507,136,959 | 1,709,860,562 | 854,590,471 | 3,070,971,884 |
| Purchases of Finished Goods | | 496,277,432 | | 2,274,648,646 |
| (Increase)/Decrease in Semi Finished and Finished Goods: | | | | |
| Opening Stocks | | | | |
| Semi Finished Goods | 192,777,879 | | 114,187,397 | |
| Finished Goods | 2,764,650,100 | | 2,210,913,480 | |
| | 2,957,427,979 | | 2,325,100,877 | |
| Less : Closing Stocks | | | | |
| Semi Finished Goods | 8,041,533 | | 192,777,879 | |
| Finished Goods | 1,359,549,263 | | 2,764,650,100 | |
| | 1,367,590,796 | 1,589,837,183 | 2,957,427,979 | (632,327,102) |
| | | 3,795,975,177 | | 4,713,293,428 |
| SCHEDULE XVI - MANUFACTURING/DIRECT EXPENSES | | | | |
| Job Work Charges | | 61,465,367 | | 102,641,911 |
| Stores and Consumables | | 20,773,260 | | 37,681,315 |
| Power and Fuel | | 9,889,789 | | 17,398,921 |
| Repairs and Maintenance | | 4,686,662 | | 7,982,221 |
| Freight, Taxes and Duties | | 106,564,348 | | 179,748,860 |
| Other Manufacturing Expenses | | 71,150,373 | | 30,924,875 |
| | | 274,529,799 | | 376,378,103 |

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

| Particulars | Year ended 31st March, 2009 | Year ended 31st March, 2008 |
|---|--------------------------------|--------------------------------|
| SCHEDULE XVII - EMPLOYEES COSTS | | |
| Salaries, Wages, Bonus etc. | 868,128,409 | 1,060,880,808 |
| Contributions to Provident and Other Funds | 82,565,626 | 126,909,742 |
| Staff Welfare Expenses | 8,935,103 | 29,966,837 |
| Recruitment and Training | 15,432,670 | 29,556,049 |
| | 975,061,808 | 1,247,313,436 |
| SCHEDULE XVIII - ADMINISTRATIVE & SELLING EXPENSES | | |
| Rent, Rates and Taxes | 159,721,944 | 155,194,582 |
| Insurance | 39,742,672 | 32,901,645 |
| Travelling and Conveyance | 53,347,019 | 103,833,334 |
| Legal and Professional | 88,630,898 | 136,600,133 |
| Postage and Telephone | 44,632,758 | 45,767,881 |
| Printing and Stationery | 7,928,230 | 15,103,743 |
| Advertisement and Business Promotion | 97,330,250 | 195,730,900 |
| Discount, Brokerage and Commission | 74,283,668 | 77,653,540 |
| Packing and Forwarding | 28,826,267 | 73,368,214 |
| Repair & Maintenance | 9,423,923 | 32,339,190 |
| Bad Debts | 58,961,277 | 66,168,616 |
| Office Expenses | 133,450,441 | 172,536,694 |
| Donation | 306,924 | 2,429,921 |
| Auditors' Remuneration | 4,861,291 | 6,849,608 |
| Directors' Remuneration | 26,864,081 | 27,897,641 |
| Directors' Sitting Fees | 585,000 | 1,977,098 |
| Information Technology Expenses | 38,168,901 | 48,465,956 |
| Loss on Sale of Assets | 1,287,717 | 99,350 |
| Loss on Impaired Assets | 1,667,353 | — |
| TV CHANNEL EXPENSES | | |
| Content & Broadcasting | 799,098,702 | 1,346,150,030 |
| Call Handling & Collection Charges | 136,150,647 | 222,154,211 |
| Packing & Distribution Charges | 130,884,261 | 464,366,131 |
| Less: Recovered | (214,301,440) | (249,509,444) |
| | 1,721,852,784 | 2,978,078,974 |
| SCHEDULE XIX - FINANCIAL EXPENSES | | |
| Interest | 186,003,467 | 119,053,466 |
| Bank Commission & Other Financial Expenses | 35,630,975 | 26,964,531 |
| Exchange Fluctuation Losses | 228,958,804 | — |
| | 450,593,246 | 146,017,997 |

SCHEDULES forming part of Consolidated Accounts**SCHEDULE XX - SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS****Schedule XX. Significant Accounting Policies and Notes to Account****A. Significant Accounting Policies****1) Basis for Preparation of Consolidated Financial accounts**

- (a) The consolidated financial statement relates to Vaibhav Gems Limited (**'the holding Company'**) and it's Subsidiaries (**together** referred to as **'VGL Group'**) and has been prepared in compliance with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provision of the Companies Act, 1956.
- (b) The consolidated financial statement has been prepared under historical cost convention on an accrual basis.

2) Principles of consolidation

- (a) The Subsidiaries considered in the consolidated financial statement are:

| Name of the Subsidiaries | Country of incorporation | Ownership Interest/voting power (%) | Financial Year ends on |
|---|-------------------------------|-------------------------------------|------------------------|
| Direct Subsidiaries | | | |
| Genoa Jewelers Limited | British Virgin Islands | 100 | 31 st March |
| Indo Mexico Co.S.De.R.L. De C.V. | Mexico | 100 | 31 st March |
| Jewel Gem USA Inc. | USA | 100 | 31 st March |
| STS Creations Thai Limited. | Thailand | 100 | 31 st March |
| STS Gems Japan Limited | Japan | 100 | 31 st March |
| STS Gems Limited. | Hong Kong | 100 | 31 st March |
| STS Gems Thai Limited | Thailand | 100 | 31 st March |
| STS Jewels Inc. | USA | 100 | 31 st March |
| Step-down Subsidiaries | | | |
| Genoa Jewelers (St. Kitts) Limited | West Indies | 100 | 31 st March |
| Genoa Jewelers (SXM) NV | Netherlands | 100 | 31 st March |
| Genoa Jewelers STT(St, Thomas) Limited | St. Thomas, US Virgin Islands | 100 | 31 st March |
| The Jewellery Channel Limited UK | United Kingdom | 100 | 31 st March |
| STS Jewels Canada Inc. | Canada | 100 | 31 st March |
| STS Gems USA Inc. | USA | 100 | 31 st March |
| The Jewelry Channel Inc. | USA | 100 | 31 st March |

- (b) The consolidated financial statements have been prepared on the following basis:
- (i) The consolidated financial statement has been prepared in accordance with the Accounting Standard –21, "Consolidated Financial Statement" issued by the Institute of Chartered Accountants of India.
- (ii) The financial statement of VGL Group have been consolidated on a line-by-line basis by adding together the book values of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in un-realized profits or losses.
- (iii) The consolidated financial statements have been prepared by using uniform accounting policies for like transaction and other events in similar circumstances and are presented to the extent possible, in the same manner as those of the parent company's independent financial statements unless stated otherwise.

SCHEDULES forming part of Consolidated Accounts

- (iv) The operations of foreign subsidiaries have been considered by the management, as non integral operations as described in Accounting Standard –AS 11 (revised) “Accounting for the effects of changes in foreign exchange rates”
- (v) The difference between the cost to the company of its investments in the subsidiaries and its portion of equity of subsidiaries at the dates they became subsidiaries, is recognized in the financial statements as Goodwill or Capital Reserve, as the case may be. This is based upon determination of pre-acquisition profits/losses and of net worth on the date of the acquisition determined by the management on the basis of certain estimates which have been relied upon by the auditors.
- (vi) Minority Interest in the consolidated financial statements is identified and recognized after taking into consideration;
- ☐ The minorities’ share of movement in equity since the date parent-subsidiary relationship came into existence.
- ☐ The profits/losses attributable to the minorities are adjusted against the income of the group in order to arrive at the net income attributable to the company
- (vii) The goods lying in inventory of any entity may include certain goods which have been processed in and transferred from one or more entity. For the purpose of consolidation, the amount of unrealized profits included in the value of such goods lying in inventory of any entity as at the end of the financial period, have been eliminated to the extent of % of net profit of the same financial period of the entity from whom these goods have been procured.
- (viii) Depreciation has been provided on the estimated useful life of an asset.
- (ix) As per requirement of AS-28 “Impairment of Assets” issued by ICAI, the management is of the opinion that there is no impairment of goodwill (on consolidation) except as provided in the financial statement.
- (x) All employees’ related benefits including social security have been provided in accordance with the laws of the country in which the individual entity is operating.
- (xi) The financial statement of the subsidiaries for the period ended March 31, 2008 have been prepared & audited as per the generally accepted accounting principles (GAAP) of the countries in which they are operating. These financial statements have been converted by the management as per requirement of Indian GAAP.
- (xii) Other significant accounting policies are as set out in standalone financial statement of Vaibhav Gems Limited, to the extent applicable.

B. Notes to Accounts

| 1. Capital Commitment: | | |
|--|--|--|
| Particulars | As at 31.03.2009 Rupees | As at 31.03.2008 Rupees |
| Capital Commitment | | |
| Estimated Amount of contracts remaining to be executed | 2,555,150 | NIL |
| 2. Contingent Liabilities: | | |
| Particulars | As at 31.03.2009 Rupees | As at 31.03.2008 Rupees |
| a. Guarantees given by bank on behalf of Company | 81,861,000 | 72,050,000 |
| b. Guarantees given by Company to Bank | 1,693,851,500 | 89,80,11,000 |
| c. Disputed Income Tax, Service Tax Matters: | 11,488,321 | 13,109,589 |
| d. Dividend on Cumulative Preference Shares | 88,00,000 | 44,00,000 |

SCHEDULES forming part of Consolidated Accounts**3. The Deferred Tax Liabilities/ (Asset) comprise of the following:**

| Particulars | As at 31.03.2009 Rupees | As at 31.03.2008 Rupees |
|--|----------------------------|----------------------------|
| a. Deferred tax Liability Depreciation | 2,185,990 | 3,048,941 |
| b. Deferred tax Assets: Provision for Gratuity | 2,227,030 | (6,347,245) |
| Provision for Leave Encashment | 981,899 | (38,484) |
| Carried forward Losses | - | (16,12,329) |
| Total | | (79,98,358) |
| c. Deferred Tax Liability/(Assets)(Net) | (1,022,939) | (49,49,117) |

Net deferred tax charge/(credit) for the year of Rs. 39,26,178 (Previous year Rs.13,968,026) has been recognized in the Profit and Loss Account for the year.

4. Lease Commitments:

Some of the subsidiaries have lease agreements towards their retail stores, office and other premises. These non-cancelable operating leases have various expiry dates. The total future minimum lease payments (excluding certain escalations) in this respect are as follows:

| Year | 2008-09 | 2007-08 |
|---|------------|-------------|
| Not later than one year | 51,618,438 | 33,0316,117 |
| Later than one year & not later than five years | 74,571,273 | 663,997,281 |
| Later than five years | - | - |

5. Non Convertible Redeemable Cumulative Preference Share are redeemable at the end of seven years from the date of allotment i.e.31st October, 2006 or before at the discretion of the Board.**6. Earning per Share (EPS):**

| | 2008-09 Rupees | 2007-08 Rupees |
|--|-----------------|-----------------|
| a. Profit / (Loss) for the year After Tax (Rs.) | | |
| - Before Exceptional Items | (1,530,094,511) | (1,849,114,407) |
| - After Exceptional Items | (2,403,528,179) | (2,556,788,045) |
| | 4,400,000 | 4,400,000 |
| b. Dividend on Preference Share including Tax thereon(Rs.) | | |
| c. Profit / (Loss) attributable to Equity Shareholders for Basic and Diluted EPS (Rs.) (a-b) | | |
| - Before Exceptional Items | (1,534,494,511) | (1,853,514,407) |
| - After Exceptional Items | (2,407,928,179) | (2,561,188,045) |
| d. (i) Weighted averages number of Equity shares outstanding during the year for Basic EPS | 31,698,473 | 29,519,630 |
| (ii) No of Stock Options Outstanding | 381,088 | 258,165 |
| (iii) No of Dilutive Potential Equity Shares | | |
| e. Weighted average number of Equity Shares outstanding during the year for Diluted EPS (d(i) + d(iii)) | 31,698,473 | 29,519,630 |
| f. Basic Earning Per Share | | |
| - Before Exceptional Items | (48.41) | (62.79) |
| - After Exceptional Items | (75.96) | (86.76) |
| g. Diluted Earning Per Share | | |
| - Before Exceptional Items | (48.41) | (62.79) |
| - After Exceptional Items | (75.96) | (86.76) |

SCHEDULES forming part of Consolidated Accounts

7. The holding company has applied for restructuring of its working capital and term loan under CDR Mechanism and accordingly honorable CDR Cell has approved the restructuring of debts of the company in the month of June, 2009. Out of the total working capital limit Rs. 72 Crores will be converted into Working Capital Term Loan and Rs. 60 Crores will continue as working Capital. The Company has not provided for differential interest of Rs. 0.75 Crores on the basis of final approval of CDR which is effective from 01.01.09.
8. One of the step down subsidiary namely DSK, during the financial year is being under liquidation and all the residual assets of this company is under control of official liquidator, hence the same has not been consolidated during the financial year. The entire balances representing investments, loans and advances and sundry debtors are written off as an exceptional item.
9. In case of few subsidiaries, although, the net worth as on the balance sheet date is negative, based on the management representation for continuing support to those subsidiaries, the respective auditors have accepted the financials on the going concern basis and accordingly no adjustment is made in the consolidated financial statement.
10. The company has received letters from the allottees of warrants dissenting the conversion of 353,320 warrants issued @ 2300/- per warrant convertible into 3,533,200 Shares of Rs. 10/- each at a premium of Rs. 220/- Per Shares. The last date for conversion of warrants has also expired on 15th April'2009. Therefore, in compliance to the statutory provision and terms of issue of warrants, the company shall forfeit as amount of Rs. 812.63 lacs received as an advance for allotment of warrants depicting 10% of the total money payable on conversion and credited subsequently into General Reserve.
11. During the financial year, considering the global economic recessionary scenario, the group has closed/ suspended operations of few subsidiaries, and accordingly the group has provided for diminution in the value of investments, loans and advances and sundry debtors and the same has been shown as exceptional item as under:

| Sr. No. | Particulars | 2008-2009 | 2007-2008 |
|---------|--|--------------------|--------------------|
| 1 | Dues from subsidiaries under liquidation (DSK) | 398,389,919 | – |
| 2 | Stores Key money write-off | 256,701,541 | – |
| 3 | Goodwill on consolidation written-off | 45,805,417 | 707,673,638 |
| 4 | Investments written off | 29,649,301 | – |
| 5 | Impairment of fixed assets | 142,887,489 | – |
| | Total | 873,433,667 | 707,673,638 |

12. Employee Stock Option Scheme:

The holding Company has issued Employees' Stock Option Scheme (VGL ESOP – 2006) to its employees (including certain employees of the Subsidiaries).

Out of stock option granted, 20% stock option will vest at the end of one year from the date of Grant, 30% stock option at the end of the second year and balance 50% stock option at the end of third year. The exercise period for the options is four year from the date of vesting.

The details of the Grant under the aforesaid schemes are as under:-

| Particulars | VGL ESOP – 2006 | | | |
|---|-----------------|------------|------------|----------|
| | A | B | C | Total |
| Exercise (Grant) Price | 240 | 202 | 20.65 | |
| Date of Grant of Option | 06.01.2007 | 27.07.2007 | 28.01.2009 | |
| Vesting commences on | 06.01.2008 | 27.07.2008 | 28.01.2009 | |
| Options granted and outstanding as at the beginning of the year on 01.04.08 | 246,165 | 12,000 | – | 258,165 |
| Options granted during the year | – | – | 300,000* | 300,000 |
| Options lapsed during the year (Re-issuable) | 1,77,077 | – | – | 1,77,077 |
| Options granted and outstanding as at the end of the year on 31.03.08 | 69,088 | 12,000 | 300,000 | 3,81,088 |

* Partially granted out of lapsed option

SCHEDULES forming part of Consolidated Accounts

The excess of market price per share as on the date of grant of option, over the exercise price for the Stock Option granted to employees (including certain employees of the Subsidiaries), is amortized by the holding Company over the vesting period. The amortized value for the year pertaining to its employees (including certain employees of the Subsidiaries) amounting to Rs.3,661,411 (Last Year Rs..4,646,014 has been charged under Employee Cost.

13. Segment information:**(i) For the year ended 31st March 2009:**

Amount in Rupees

| Sr. No. | Particulars | Wholesale Operations | Retail Operations (TV Channels) | Retail Operations (Stores) | Elimination | Total |
|---------|---|----------------------|---------------------------------|----------------------------|------------------------|------------------------|
| 1 | Revenue | | | | | |
| | External Revenue | 1,385,039,938 | 3,448,241,866 | 900,113,208 | – | 5,733,395,012 |
| | Inter-Segment Revenue | 1,577,860,367 | 67,360,353 | – | (1,645,220,720) | – |
| | Total Revenue | 2,962,900,305 | 3,515,602,219 | 900,113,208 | (1,645,220,720) | 5,733,395,012 |
| 2 | Segment Result | | | | | |
| | Operating Result | (149,653,009) | (628,143,580) | (265,576,776) | (89,051,181) | (1,132,424,547) |
| | Interest Income | | | | | 22,556,725 |
| | Interest Expenses | | | | | 186,003,467 |
| | Un-allocable exchange loss | | | | | (228,958,810) |
| | Profit / (Loss) Before Tax | | | | | (1,524,830,099) |
| | Tax Expenses | | | | | 5,264,418 |
| | Net Profit / (Loss) after tax | | | | | (1,530,094,517) |
| | Less Exceptional Item | | | | | (873,433,667) |
| | Profit after Exceptional Item | | | | | (2,403,528,184) |
| 3 | Other Information | | | | | |
| | Segment Assets | 7,258,825,126 | 1,533,943,923 | 649,520,366 | (4,341,896,248) | 5,100,393,167 |
| | Segment Liabilities | 3,797,509,238 | 3,019,519,238 | 940,672,897 | (4,827,636,378) | 2,930,064,995 |
| | Depreciation and Amortization | 22,114,074 | 76,572,831 | 25,935,780 | – | 124,622,685 |
| | Non Cash Expenses other than Depreciation | 2,955,070 | – | – | – | 2,955,070 |
| | Goodwill on Consolidation Written Off | 45,805,417 | – | – | – | 45,805,417 |

(ii) For the year ended 31st March 2008:

| Sr. No. | Particulars Operation | Wholesale Operations | Retail Operations (TV Channels) | Retail Operations (Stores) | Elimination | Total |
|---------|-----------------------------|----------------------|---------------------------------|----------------------------|------------------------|------------------------|
| 1 | Revenue | | | | | |
| | External Revenue | 2,558,446,690 | 4,035,303,576 | 1,014,058,678 | – | 7,607,808,945 |
| | Inter-Segment Revenue | 3,277,386,672 | 94,901,906 | – | (3,372,288,578) | – |
| | Total Revenue | 5,835,833,362 | 4,130,205,482 | 1,014,058,678 | (3,372,288,578) | 7,607,808,945 |
| 2 | Segment Result | | | | | |
| | Operating Result | (211,865,636) | (1,583,087,977) | 4,556,641 | (16,607,893) | (1,807,004,864) |
| | Interest Income | | | | | 19,738,153 |
| | Interest Expenses | | | | | 119,053,466 |
| | Exchange gain - Unallocated | | | | | 75,463,902 |
| | Profit Before Tax | | | | | (1,830,856,275) |
| | Tax Expenses | | | | | 18,258,132 |
| | Net Profit After Tax | | | | | (1,849,114,407) |

SCHEDULES forming part of Consolidated Accounts

| | | | | | | |
|----------|---|----------------|---------------|---------------|-----------------|-----------------|
| | Less Goodwill W/off | | | | | (707,673,638) |
| | Profit after Exceptional Item | | | | | (2,556,788,045) |
| 3 | Other Information | | | | | |
| | Segment Assets | 11,890,946,351 | 2,399,899,600 | 1,191,590,116 | (7,120,188,724) | 8,362,247,343 |
| | Segment Liabilities | 5,115,143,771 | 2,921,328,315 | 873,435,051 | (5,174,160,613) | 3,735,746,524 |
| | Depreciation and Amortization | 31,763,006 | 53,097,615 | 27,681,534 | | 1,12,542,155 |
| | Non Cash Expenses other than Depreciation | 31,625,690 | 34,642,275 | – | – | 66,267,966 |
| | Goodwill on consolidaion written off | 7,07,673,638 | – | – | – | 7,07,673,638 |

Notes:

- Segment has been identified in line with the Accounting Standard-17, "Segment Reporting" taking into consideration the organization structure as well as the differential risks and returns of these segments.
- The differential risk and rewards of VGL Group are more identifiable and associated with the method of distribution of product and hence, the company has identified two reportable segments viz. Wholesale Operations & Retail Operations. The Retail Operations are further classified into two sub-segments viz. Retail Operations (Stores) & Retail Operation (TV channels).
- Inter-Segment revenues are recognized at sales and/or transfer price.
- The Segment Revenues, Results, Assets and Liabilities include the respective amounts identifiable to each of the segment and amounts allocated on reasonable basis. The amounts, which are not allocable to any segment, are shown as unallocable under respective heads.

14. Related Party Disclosures:**A. List of related parties with whom transactions have taken place and relationships:**

Key Managerial Personnel (KMP)

Shri Rahimullah – Managing Director

Relative of Key Managerial Personnel

- Shri Imranullah; 2. Shri Rizwanullah; 3. Shri Inamullah 4. Shri Arifullah

Enterprises in which Directors are interested:

- Amrin Gems Export; 2. Stone Age Limited; 3. VGL Softech Limited; 4. Shivram Properties Private Limited; 5. Emerald Creations 6. Surawell Pacific Ltd. 7. SI Creation Thai Ltd.

| Nature of Transactions | Key Managerial Person | | Relative of Key Managerial Person | | Enterprises over which significant influence exercised by Key Managerial Persons | | | |
|--|-----------------------|------------|-----------------------------------|-----------|--|------------|------------------|---------|
| | 2008-09 | 2007-08 | 2008-09 | 2007-08 | 2008-09 | | 2007-08 | |
| | | | | | VGL Softech LTD. | Other | VGL Softech Ltd. | Other |
| (i) Transaction during the year | – | – | – | – | – | – | – | – |
| a. Purchases of Goods | – | – | – | – | – | 72,236 | – | – |
| b. Sales of Goods | – | – | – | – | – | 22,173,582 | – | – |
| b. Advance Given | – | – | – | – | – | – | 26,350 | – |
| c. Advance Given Repaid | – | – | – | – | – | – | 2,200,000 | – |
| d. Expenses | – | – | 742,295 | 618,432 | 20,762,711 | 420,000 | 38,829,220 | 278,424 |
| e. Remuneration | 26,882,638 | 27,897,641 | 3,484,550 | 3,273,789 | – | – | – | – |
| f. Guarantee* | – | – | – | – | – | – | – | – |
| (ii) Balances as at 31.03.09 | – | – | – | – | – | – | – | – |
| a. Amount Receivable | – | – | – | 94,482 | – | – | – | – |
| b. Amount Payable | – | – | – | – | – | – | 8,495,532 | 178,174 |
| c. Loan & Advance Receivable | – | – | – | – | – | – | – | – |
| d. Investments | – | – | – | – | – | – | 5,207,000 | – |

16. The previous year figures are not comparable with the current year due to non consolidation and acquisition of minority interest in two steps down subsidiaries.

Mukesh Khetan
Company Secretary

Nirmal Kumar Bardiya
Director

For and on behalf of the Board
Rahimullah
 Managing Director

Place : Jaipur
Date : 30th June 2009

Notes

[illegible]



VAIBHAV GEMS LIMITED

www.vaibhavgems.com



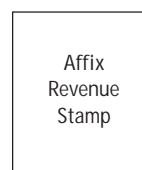
VAIBHAV GEMS LIMITED

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

| | | | |
|---------------|--|--------------------|--|
| DPID No. | | L.F. No. | |
| Client ID No. | | No. of Shares held | |

PROXY FORM

I/We of in the district of being a member/members of Vaibhav Gems Limited, hereby appoint of in the district of or failing him of in the district of as my/our proxy to attend and vote for me/us on my/our behalf at the Twentieth Annual General Meeting of the Company to be held on Wednesday, September 30th, 2009 at 11.00 A.M. at Corporate office of the Company at E-68, EPIP, Sitapura Industrial Area, Jaipur 302022 and at any adjournments thereof.



(Signature of the shareholder)

Signed this day of 2009

Note: 1. The Proxy Form signed across revenue stamp should reach the Registered Office of the Company atleast 48 hours before the scheduled time of meeting.

2. Those members who have multiple folios with different joint holders may use copies of this Attendance Slip/Proxy.

| | | | |
|---------------|--|--------------------|--|
| DPID No. | | L.F. No. | |
| Client ID No. | | No. of Shares held | |

ATTENDANCE SLIP

I hereby record my presence at the Twentieth Annual General Meeting of the Company held on Wednesday, September 30th, 2009 at 11.00 A.M. at Corporate office of the Company at E-68, EPIP, Sitapura Industrial Area, Jaipur 302022.

.....
Name of the Shareholder
(in block capital letters)

Signature

.....
Name of the Proxy
(in block capital letters)

Signature

Notes: 1. Shareholders attending the Meeting in person or by Proxy are requested to complete the attendance slip and hand it over at the entrance of the meeting venue.

2. Shareholder/Proxy holder desiring to attend the meeting should bring his copy of the Annual Report for reference at the meeting.



VAIBHAV GEMS LIMITED

Regd. Office : K-6B, FATEH TIBA, ADARSH NAGAR, JAIPUR-302 004

NOTICE TWENTIETH ANNUAL GENERAL MEETING

Notice is hereby given that the Twentieth Annual General Meeting of the members of Vaibhav Gems Limited will be held at E-68, EPIP, Sitapura, Jaipur-302 022 (Rajasthan), on Wednesday, the 30th day of September, 2009, at 11.00 A.M. for the transaction of the following businesses:

ORDINARY BUSINESS

1. To consider and adopt the Audited Accounts for the financial year ended 31st March, 2009, the Balance Sheet as at that date and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in the place of Shri Suresh Panjabi, who retires by rotation and being eligible, offers himself for re-appointment, as a Director liable to retire by rotation.
3. To appoint a Director in the place of Shri A.L. Roongta, who retires by rotation and being eligible, offers himself for re-appointment, as a Director liable to retire by rotation.
4. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

5. To appoint Smt. Sheela Agrawal as a director liable to retire by rotation.

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

"RESOLVED THAT Smt. Sheela Agrawal, who was appointed by the Board of Directors as an Additional Director of the Company with effect from 10th November 2008 and who holds the office upto the date of the forthcoming Annual General Meeting of the Company, in terms of Section 260 of the Companies Act, 1956 and in respect of whom the Company has received Notice in writing from a member under section 257 of the Companies Act, 1956, proposing her candidature for the office of Director of the Company, be and is hereby appointed as a Director of the company liable to retire by rotation."

6. To approve the remuneration of Shri Rahimullah, Managing Director of the company

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

RESOLVED THAT, pursuant to section 198 and 310 of the Companies Act, 1956 and subject to any other approval as may be required, in partial modification of the earlier respective shareholders resolution in the matter, approval be and is hereby accorded for refixing the payment of maximum remuneration to Mr. Rahimullah, Managing Director in the event of absence or inadequacy of profits in any financial year, as per and subject to overall ceiling laid down in Section II of Part II-Para 1(B) of Schedule XIII of the Companies Act, 1956, effective from 01.04.2008, as per the components proposed by the Board on the recommendation of Remuneration Committee in its meeting held on 28th January 2009

RESOLVED FURTHER THAT the above approval shall be in force for a period of 3 years from 01.04.2008 or till the expiry of current term of office of Mr. Rahimullah, Managing Director, whichever is earlier"

By the order of the Board,

For Vaibhav Gems Limited
MUKESH KHETAN
Company Secretary
Jaipur, 10th August 2009

Notes:

1. The Explanatory Statement, pursuant to Section 173(2) of the Companies Act, 1956 with regard to the Resolutions mentioned above is enclosed.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself / herself and proxy need not be a member of Company. A proxy may be sent in the form enclosed and in order to be effective must reach the Registered Office of the Company at least 48 hours before the commencement of the meeting.
3. The Register of Members and Transfer Books of Company will be closed from 25th September 2009 to 30th September 2009 (both days inclusive) for the purpose of taking record of Members on the date of Annual General Meeting.

4. Members are requested to notify the change in their address to depository Participants (if shares are held in electronic form) and to our Registrar and Share Transfer Agents, Karvy Computer Share (P) Limited, Hyderabad at Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad-500 034 (If shares are held in Physical form).
5. The Shareholders are requested to send their correspondence including transfer / transmission of shares in Physical form to Karvy Computer Share (P) Limited, Hyderabad.
6. Members are requested to bring their copies of Annual Report to the Annual General Meeting.

EXPLANATORY STATEMENT

Pursuant to Section 173(2) of the Companies Act, 1956, the following Explanatory Statement setting out all material facts relating to the businesses mentioned under item no. 5 & 6 of the accompanying notice dated 10th August, 2009.

IN RESPECT OF ITEM NO 5

Smt. Sheela Agrawal was appointed as an Additional Director of the company with effect from 10th November, 2008 by the Board of Directors. She holds the office upto the date of 20th Annual General Meeting of the Company. A Notice has been received from one of the member's of the Company in pursuance of Section 257 of the Companies Act, 1956 along with a deposit of Rs. 500/-, proposing Smt. Sheela Agrawal as a candidate for the office of the director, as a director liable to retire by rotation. Smt. Sheela Agrawal has given her consent, if appointed, to act as a director of the Company.

Smt. Sheela Agrawal is an active social worker and has a great business acumen and understanding.

The Board considers it to be in the interest of the Company to continue to receive the benefit of her advice and experience. Shri Sunil Agrawal, Chairman and Smt. Sheela Agrawal, are interested in the resolution proposed for item no. 5 of the Notice, as Shri Sunil Agrawal, Chairman of the company is the son of Smt. Sheela Agrawal.

The Board recommends the resolution for acceptance by the members.

IN RESPECT OF ITEM NO. 6

The Shareholders had approved the appointment, terms and conditions and remuneration of Mr. Rahimullah, Managing

Director by ordinary resolution dated 27th September 2007 for a period of 5 years w.e.f 1st August 2007. The Board on the recommendation of Remuneration Committee in its meeting held on 28th January 2009, pursuant to the powers conferred on by the members and subject to the approval of the members, modified the remuneration of Mr. Rahimullah, Managing Director as per the limits specified in Section II of Part II-Para 1(B) of Schedule XIII of the Companies Act, 1956. The modified remuneration payable, subject to ceiling specified in Section II of Part II-Para 1(B) of Schedule XIII of the Companies Act, 1956, as per approval referred to above is as under:

| Remuneration | In Rs. |
|---------------|-----------|
| Basic | 3,00,000 |
| HRA | 1,00,000 |
| Monthly (CTC) | 4,00,000 |
| Annual (CTC) | 48,00,000 |

During the year 2007-08 because of unprecedented and unforeseen global economic recession and resultant depressed market conditions, business declined sharply. Being the discretionary nature of product, the effect was all the more severe on Gems & Jewellery Industry. Exports to major markets such as USA, UK etc plunged sharply. The industry being mostly labour intensive and cost being almost fixed in nature didn't reciprocate with the declined exports. This resulted in losses, computed as per Section 198 of the Companies Act, 1956 for the purpose of Managerial Remuneration. As a result, as per the existing resolutions and the company's capital structure the maximum remuneration worked out to be Rs 3.50 Lacs per month, subject to the approval of Remuneration committee, Board and Shareholders.

Considering the contributions of Mr. Rahimullah, Managing Director in running the affairs of the Company during this difficult phase and the fact that the losses incurred was because of unexpected change in economy and Gems & Jewellery Industry. The Board, on the recommendation of the Remuneration Committee, approved the above remuneration, subject to the approval of the shareholders by way of a special resolution pursuant to Section 310 of the Companies Act, 1956, read with Section II of Part II-Para 1(B) of Schedule XIII of the Companies Act, 1956 for payment of above mentioned remuneration to Mr. Rahimullah, Managing Director of the Company, w.e.f. 1st April 2008.

Additional information required to be given along with notice calling General Meeting as per sub-Para (B) of Para 1 of Section II of Schedule XII of the Companies Act, 1956, is given hereunder:

| | | | | |
|------------|---|--|----------------|----------------|
| 1 | General Information | | | |
| i | Nature of Industry | The Company operates in Gems and Jewellery Industry | | |
| ii | Date or expected date of commencement of commercial production | The Company has been in the business for more than 19 years (Since 1990) | | |
| iii | Financial performance based on given indicator (Rs./cr.) | 2006-07 | 2007-08 | 2008-09 |
| | a. Turnover | 282.45 | 313.98 | 179.07 |
| | b. Net profit (as computed u/s.349) | 26.05 | 14.11 | (152.29) |
| | c. Net profit /(loss) as per Profit & Loss Account | 24.29 | (184.07) | (254.18) |
| | d. Amount of dividend paid | 1.83 | - | - |
| | e. Rate of dividend declared | 5% | - | - |
| iv | Export performance and net foreign exchange earnings (Rs/ Cr.) | 267.17 | 284.07 | 169.36 |
| v | Foreign investments or collaborations if any (Rs/Cr) | 17.66 | 21.77 | 21.77 |
| 2 | Information about the Appointee | | | |
| i | Background details (Name): | Shri Rahimullah | | |
| | a. Father's name | Late Shri Azizullah | | |
| | b. Nationality | Indian | | |
| | c. Date of birth | 03.03.1956 | | |
| | d. Qualification | B.Com | | |
| ii | Past remuneration (FY 2007-08): | | | |
| | a. Salary and perks | Rs 69.83 Lacs | | |
| | b. Commission | Nil | | |
| 3 | Job Profile & Suitability | Shri Rahimullah, Managing Director has over 35 years of experience in the Gems & Jewellery Industry with expertise in procurement of rough gemstones. Currently, he manages all the functions and operations of Vaibhav Gems Limited. He is also a part of strategic management team of the VGL Group. He handles all the day to day operations of the company under overall superintendence of Board of Directors. The Company greatly benefits from his experience and vision. | | |
| 4 | Remuneration proposed | The proposal is to pay Shri Rahimullah maximum remuneration in the absence or inadequacy of profits in any financial year as per sub-Para 1 (B) of Part II of Schedule XII of the Companies Act, which stipulates a limit of not exceeding Rs.4.00 Lacs p.m. / Rs.48 Lacs p.a., as recommended by the Board. | | |
| 5 | Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin. | The remuneration being paid to Shri Rahimullah, Managing Director is comparatively lower than what is prevalent in the industry | | |
| 6 | Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any. | Shri Rahimullah, Managing Director does not have any pecuniary relationship with the company except the remuneration paid to him. | | |
| iii | Other Information: Reasons of loss or inadequate profits | In the year 2007-08 and thereafter the world market has witnessed worst ever recession. Ours being the Gems & Jewellery industry and the product being of discretionary nature, the operations were badly affected due to the sharp fall in demand, resulting into losses | | |

| | | |
|----|---|---|
| 2. | Steps taken or proposed to be taken for improvement | The company has taken various steps to cut costs in all possible areas. The Company has consolidated operations and closed loss making units at various centers and is now focusing on its core business areas to regain strength |
| 3. | Expected increase in productivity and profits in measurable terms | The Position is expected to improve in the current financial year depending on the improvement in the economic scenario and resultant growth in demand |
| | Disclosure: | The remuneration package of Shri Rahimullah, Managing Director is given above. All elements of remuneration package for the year 2007-08 and 2008-09 are also given in the Corporate Governance Reports of the respective year. The services of Shri Rahimullah, Managing Director are on contract basis and can be determined by giving 3 months notice in writing. As on date the company has not granted any stock options to its Directors. |

The above may also be treated as an abstract u/s 302 of the Companies Act, 1956.

Except Shri Rahimullah, none of the other directors of the company are interested in the resolution.

DETAILS OF DIRECTORS IN TERMS OF LISTING AGREEMENT, SEEKING APPOINTMENT/REAPPOINTMENT AT 20th ANNUAL GENERAL MEETING

| Name of Director | Date of Birth | Date of Appointment | Expertise in specific functional areas | Qualifications | Name of Companies in which Directorship held on 31.3.2009 | Member of the committees of the Board of other Companies as on 31.3.2009 | Number of Shares held in the Company |
|------------------------|----------------|---------------------|--|-----------------------------------|---|--|--------------------------------------|
| Smt. Sheela Agrawal | Dec. 12, 1942 | 10 Nov., 2008 | She is a Social Worker and has a great acumen and understanding of business. | Graduate | 1. Brett Plastics Private Ltd 2. Reengus Exim (P) Ltd | Nil | 14,953 |
| Shri Anandilal Roongta | Jan 15, 1933 | 12 Dec., 1995 | IAS Officer (Retd.), worked with the government of Rajasthan, Govt. of India & various public sector units. He held prestigious positions like Managing Director of the Rajasthan Financial Corporation. | Post graduate in Economic and Law | 1. Ramniwas Capital Investment (P) Ltd. | Nil | 1787 |
| Shri Suresh Punjabi | March 14, 1953 | 2 Nov., 1995 | In-depth knowledge of the gemstone industry and its supply chain besides good knowledge of high-end Jewellery market. | Graduate | 1. VGL Softech Limited | Nil | 20,900 |