

Think the world of us!



Vaibhav Gems Limited
Annual Report 2005-06

Vaibhav Gems is a fashion jewellery multinational of Indian origin with operations in more than 12 countries across 5 continents.



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The world of gemstones is not only full of shine and colours.
It is full of opportunity as well.

Proposal. Marriage. Anniversary. Special moment.

Happiness has, is and will be most fittingly expressed through a gemstone or a piece of jewellery.

Vaibhav Gems is attractively placed to capitalise on this intrinsic human emotion.

The company is one of the fastest growing gemstones

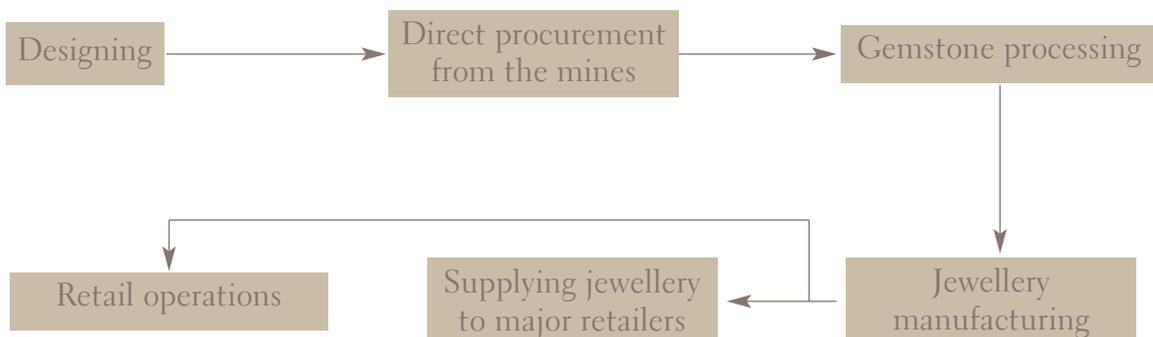
and jewellery companies in the global fashion segment. And the largest exporter of coloured gemstones from India.

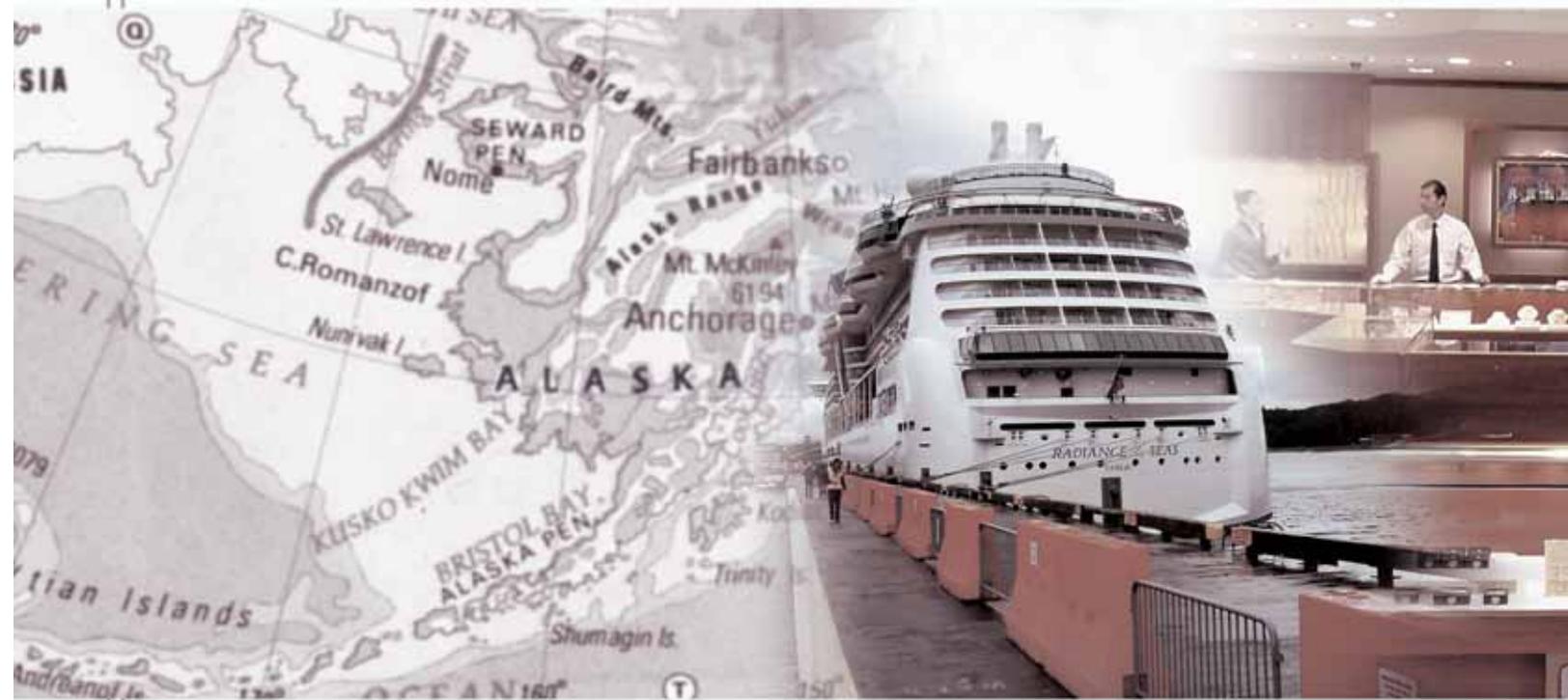
What makes it special in a select business is its most extensive presence straddling the entire value chain across the world.



Think the world of us!

The VGL presence: From mine to market

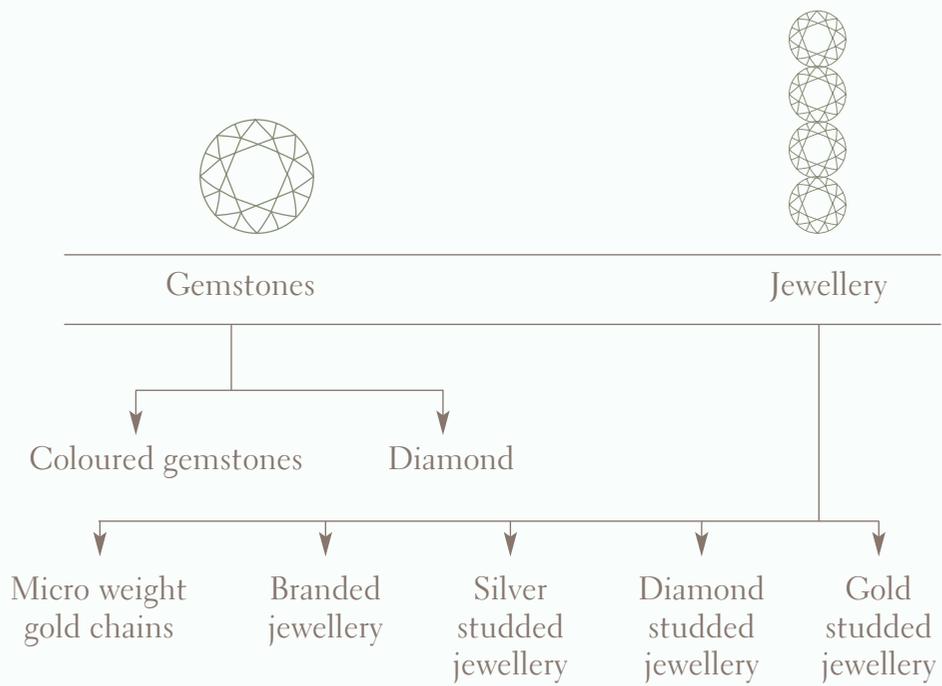






Fiona Ramirez has just walked into a stylish jewellery store at Alaska called GenoA Jewelers. She has zeroed in on the right gemstone - tanzanite - and must now blend it with the right jewellery type. She is fascinated by the delicate twist of the gold finger ring. But she is equally impressed with the bold curve of the silver ear rings.

Vaibhav Gems can really make things difficult for its patrons.





At Vaibhav Gems, we believe that the global customer of today needs to be spoiled for choice.

In view of this, the company is not just a gemstone provider, it is gemstone-studded jewellery provider as well. Besides, the company is not just a jewellery provider, it is a provider of choice across gold and silver alternatives as well.

The methodical extension of what was once a small gemstone processing business into a comprehensive value chain has translated into a rich ability to identify potential winners at the nascent end of their growth cycle, forecast trends accurately and influence user as well as industry opinions.

Over the last two years, the company embarked on the following significant initiatives:

- In 2004-05, it leveraged its understanding of existing processes and practices; it extended into the production of diamond jewellery, widening the company's product range, increasing its coverage of price points and ability to reach out to a wider spread of global customers.
- In 2005-06, it acquired the STS Group of Companies that enjoyed an extensive presence in gold, silver-studded and branded jewellery. The STS Group manufactured and marketed Rhapsody, a range of exclusive jewellery targeted at the rapidly evolving high and mid-income

segments. By the virtue of this acquisition, the company acquired these brands and their respective distribution networks, the benefit of which will be available to the company from 2006-07 onwards.

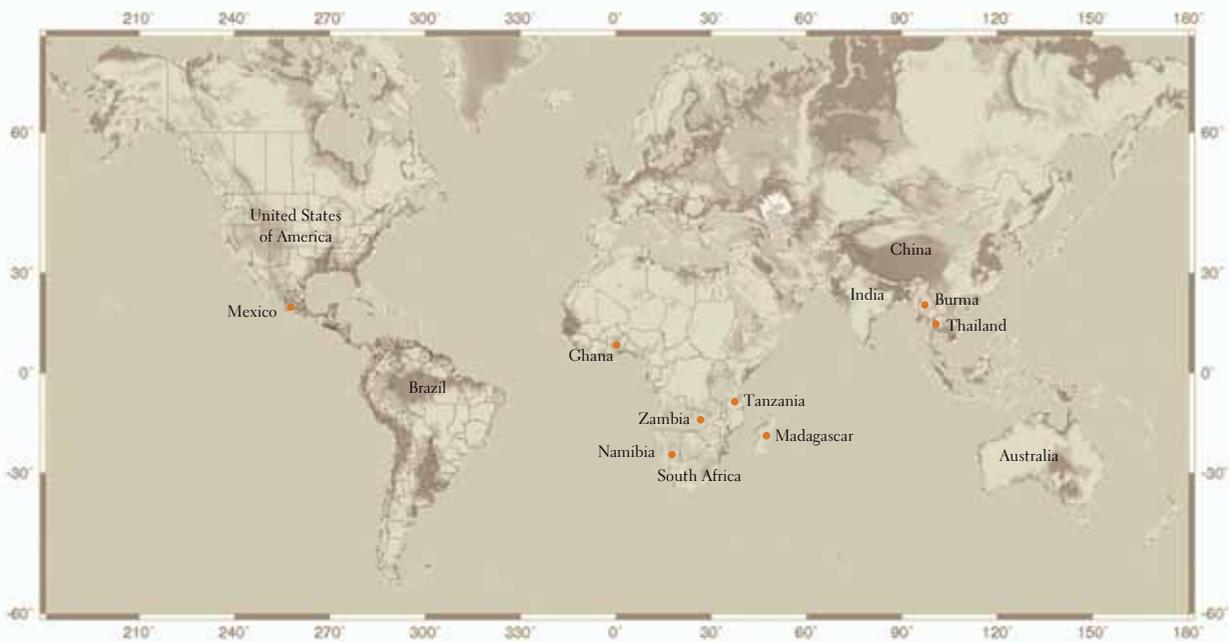
- Besides, the company also expanded the presence of its retail chain GenoA Jewellers. Located in leading holiday destinations in the Caribbean, Mexico and Alaska, it addressed a well-to-do clientele. As on 31st March, 2006, the company operated 12 stores.
- Moreover, the newly formed Vaibhav Group also marketed products on the UK-based Jewellery TV channel (launched in April 2006) under the brand name of Iliana, FH (For Him) and Kara.

Through these initiatives, Vaibhav Gems emerged as one of the most exciting global proxies, positioned attractively to capture every demand upturn across diverse jewellery preferences and a number of countries.



Kipchoge Bikila, a mine owner near Arusha, Tanzania, analyses a quality stone he has found in one of the newly excavated mines. Months of rigour have paid off. When cleaned, refined and polished, it could be something really exciting.

He immediately calls Vaibhav Gems.



At Vaibhav Gems, we believe that most clients buy on trust; the trust that our creations are not just genuine but also fairly priced.

Over the years, we have vindicated this trust through a number of initiatives, primary among them being our ability to source coloured gemstones in a raw form directly from the mines. This direct access makes it easier to ascertain the quality of roughs, gemstones and diamonds based on a credible knowledge of their sources of mineral origin.

This practice of direct sourcing has helped the company eliminate the role of intermediaries, engage miners directly in product development, reduce costs, sample first-hand feedback and customise our selection of source material in line with evolving customer preferences in the marketplace.

These are how the benefits have played out for the company over the last number of years:

- The large scale procurement of roughs has translated into a significant cost advantage leading to the development of value-for-money products.
- The comprehensive product portfolio has helped the company enter into enduring relationships with broad-based mining companies, enabling the company to economically procure a variety of products at a single point.
- The company deals with hundreds of miners who possess vast terrestrial experience, enabling it to link

mineral characteristics with commercialisation prospects.

- The company is a respected sight holder for tanzanite, enabling it to emerge as a preferred bidder.
- The company was one of the earliest promoters of mandarin garnet, enjoying market visibility for more than a decade.
- On account of its knowledge of the US and European TV markets, the company was one of the few to take early positions in emerald, kunzite, fire opal and tsavorite as the company marketed these stones through TV programs. The company also marketed gemstones like fire opal, emerald and tsavorite garnet, already birthstones for October, May and January respectively. Kunzite was promoted on the basis of rarity and beauty.

Over the years, the company has also reinforced its ability to mobilise the widest variety of gemstones in the quickest time at the lowest cost through its locational coverage.



Jaipur (India): The presence of the company's manufacturing facilities in Jaipur, considered to be the hub of coloured gemstones, makes it possible to procure roughs / processed colour gemstones at a reasonable cost.

Bangkok (Thailand), Hongkong (China) and Shenzhen (China): The presence of the company's subsidiaries in these global locations, prominent in the business of gemstones, enables it to encash the benefit of large volumes, quality and reasonable costs.

Mumbai (India): The presence of the company's assortment division in Mumbai, one of the largest diamond processing centres in the world, makes it possible to source quality diamonds from a wide selection.

Through these relationship-driven linkages, Vaibhav Gems has demonstrated a capability to turn mineral breakthroughs into popular concepts, creating a brand for itself in the minds of miners, users and peers in a competitive global marketplace.

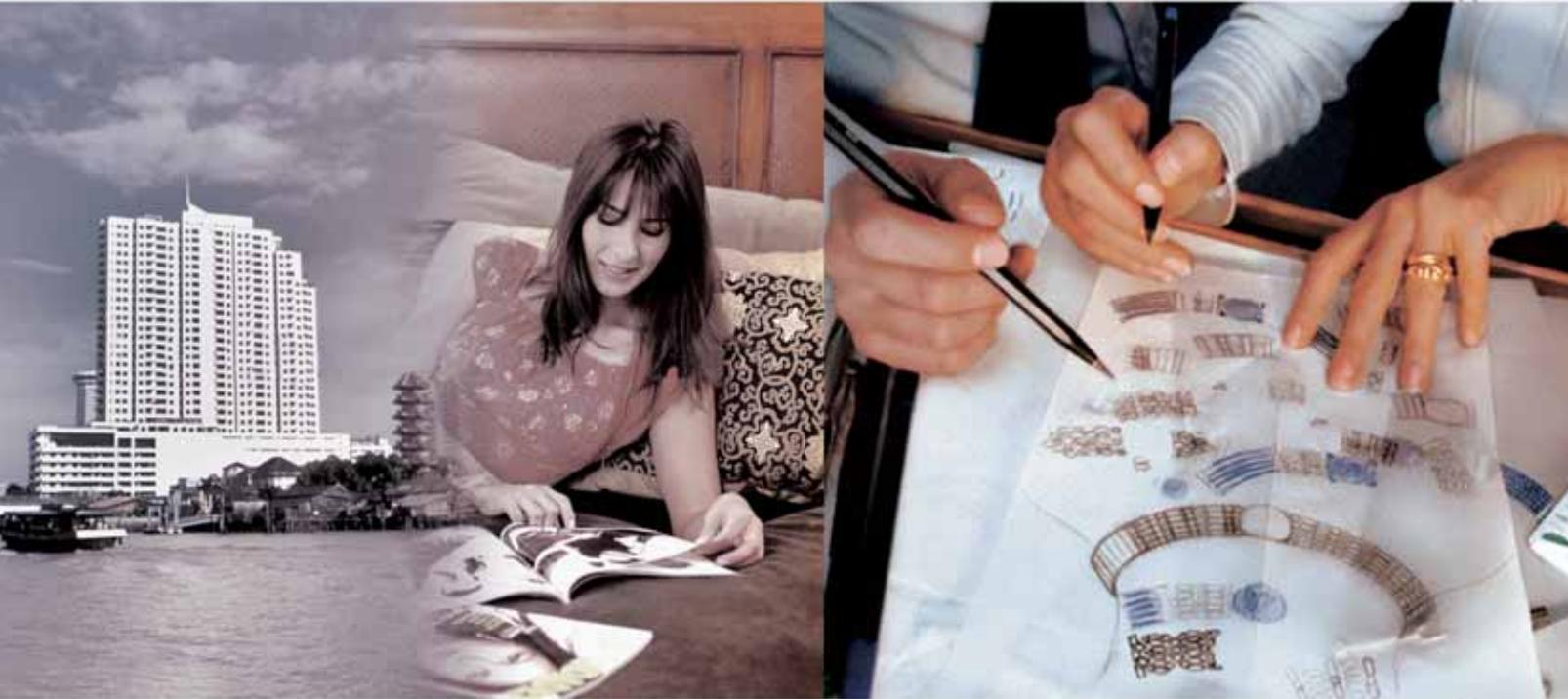
The procurement process

Vaibhav Gems

Directly from mines through international auctions and negotiated deals.

From national and international suppliers.

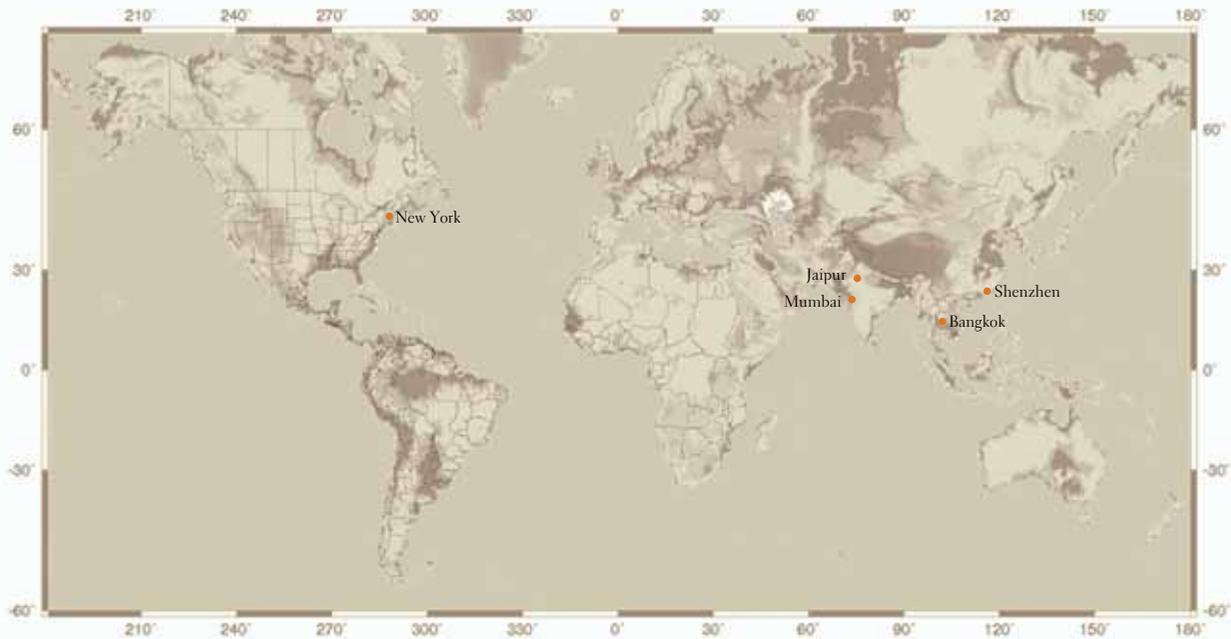




Jyoti studies what colours models are wearing in the New York Fashion Week. Sompong visits the exclusive section of five malls in Bangkok's fashionable Sukhumvit to look at what people are buying. Geetika goes through the society pages of 13 magazines to see which fashion designer is recommending what.

Just another day in the design department of Vaibhav Gems.





At Vaibhav Gems, we address a challenging reality of designing and manufacturing products well in advance of their being launched in the fashion segment of the jewellery business; we must do so in a world where consumer preferences are changing faster today than at any point in our long experience.

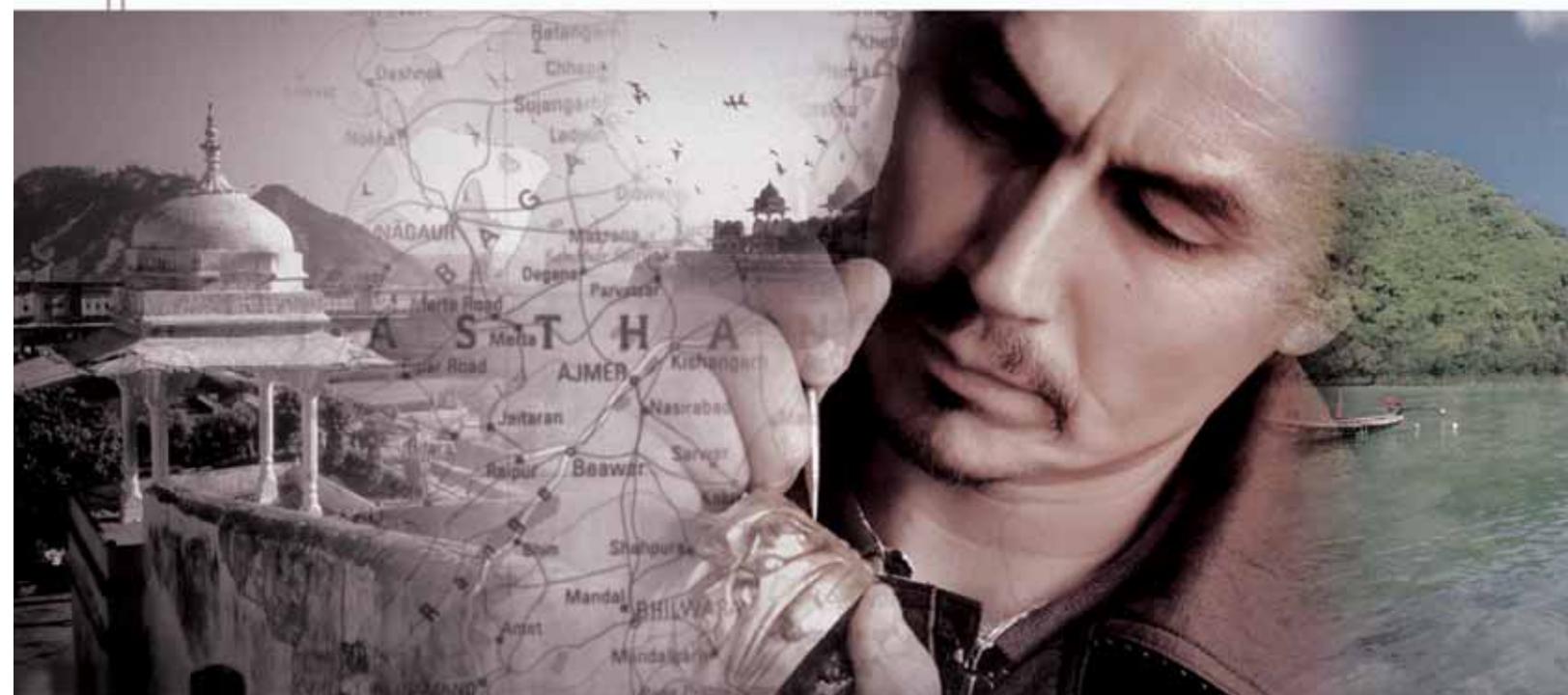
At the company, we have responded to this reality with a corresponding urgency reflected in the following initiatives:

- Priority to design products that are globally and multi-culturally relevant, prompting the company to leverage economies of scale in manufacture and marketing.
- Commissioning of five design centres - Jaipur, Mumbai, Bangkok, Shenzhen and New York - to translate global influences into popular products in an effective way.
- Active participation in all major global gemstones and

studded jewellery fairs and fashion shows.

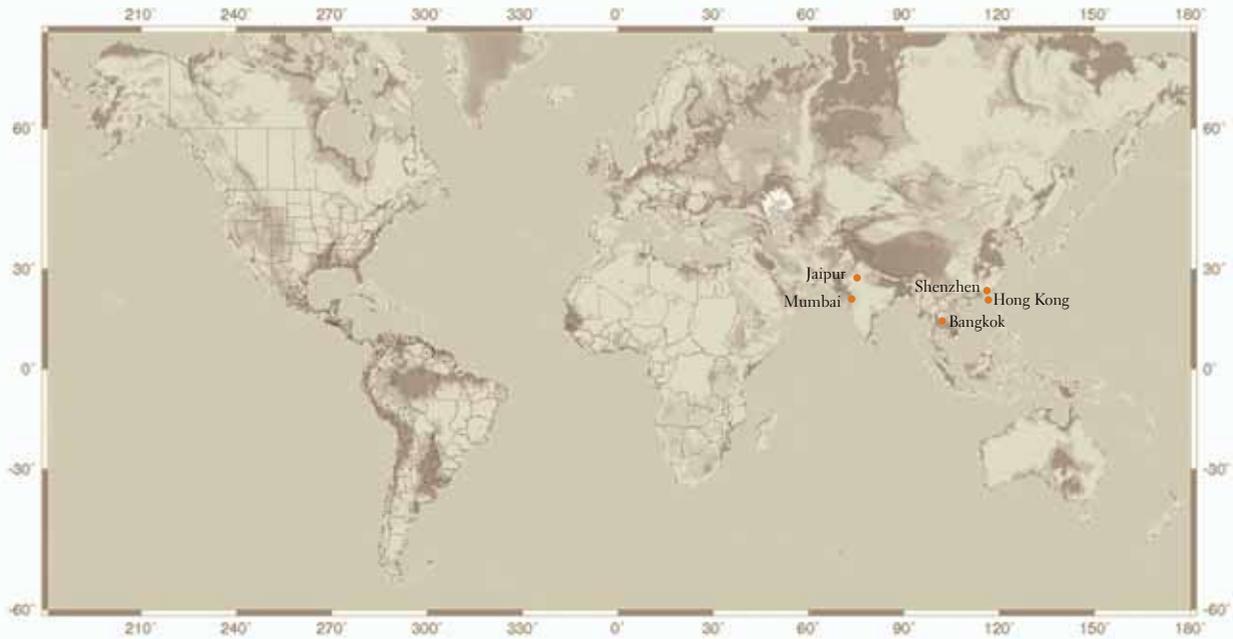
- A virtual interlinking of all design centres through the internet, facilitating the sharing of market trends and evolving consumer preferences.
- Investment in all design centres with qualified designers and the best of infrastructure (studio, software and hardware).

At Vaibhav Gems, the ability to combine multi-ethnic designs with Indian/ Thai/ Chinese manufacturing expertise has resulted in a compelling value for consumers across the world.





Gemstone manufacturing costs in India have under-performed inflation for six years. Banjong is a fine jewellery craftsman in Bangkok. Workers in China possess nimbler hands. *Just some of the serious items on the agenda of a Board meeting at Vaibhav Gems.*

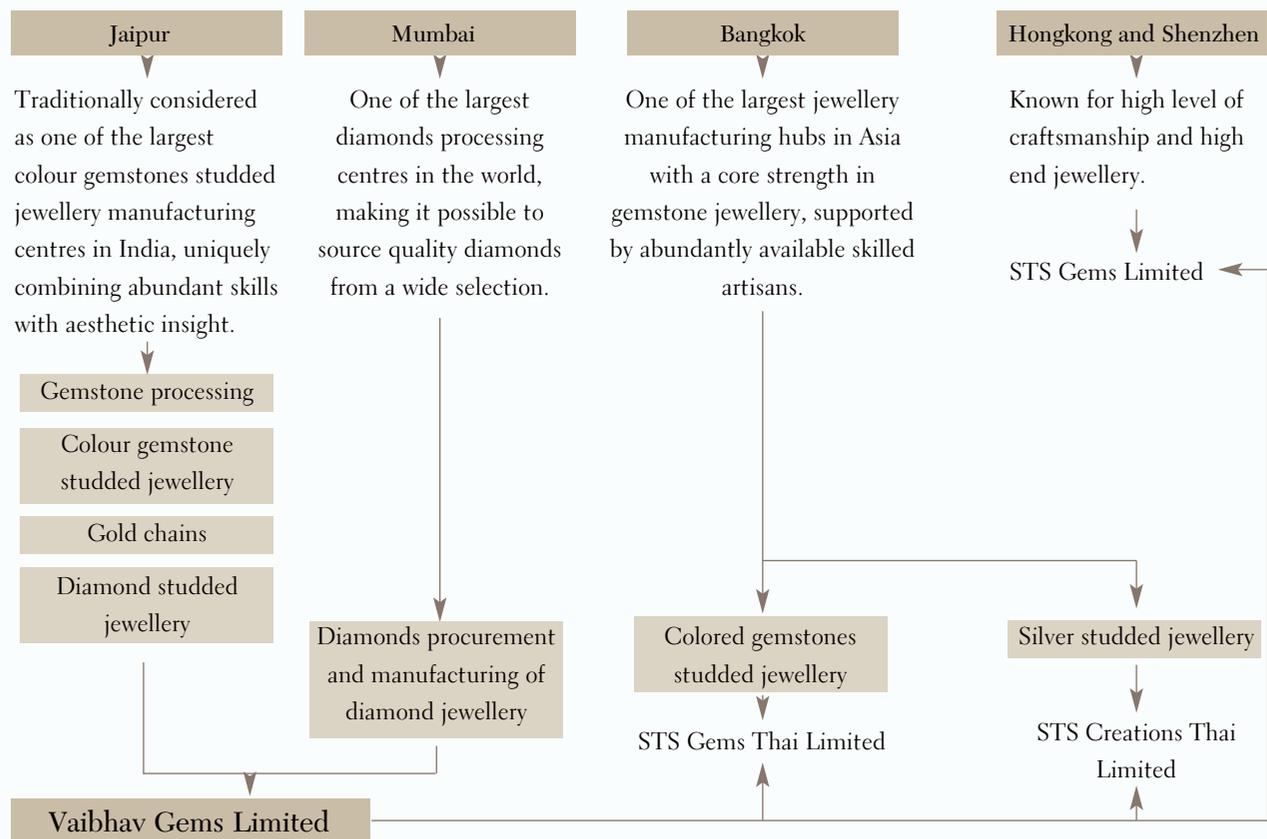


At Vaibhav Gems, we recognise the world is flat; opportunities and capital must gravitate towards locations that possess world-beating skills at world-beating costs.

At the company we have not only respected this reality, we have also lived it through the following initiatives:

- Allocation of our manufacturing capacities across India, Thailand, Hongkong and China in exchange for skill, cost, knowledge and availability advantages.





- Over the years, the company selected to locate its manufacturing facilities in areas enjoying tax concessions and established infrastructure (EOUs, SEEPZ and SEZs), reinforcing its cost-competitiveness.
- As a measure of backward integration, the company commissioned a micro-weight chain manufacturing unit, probably the only one of its kind outside USA. It invested extensively in automation, not only with the objective to accelerate workflow but maximise product purity and

consistency on the one hand and reduce waste on the other.

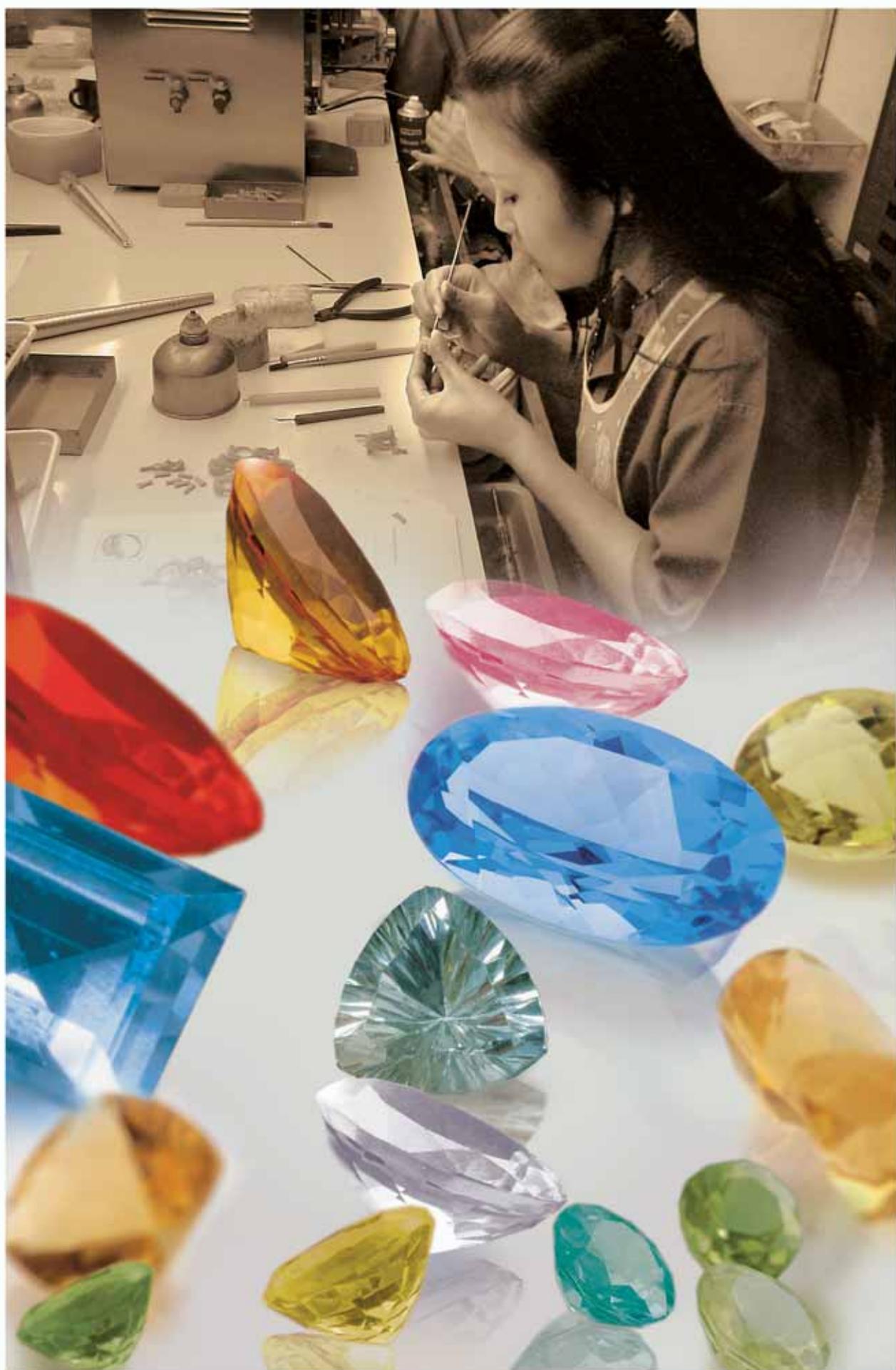
- At Vaibhav Gems, the company reinforced this locational edge with a culture of systemic discipline that comprised a process-centric approach to the business, control-driven quality management and a comprehensive ERP coverage, leading to attractive gains in quality, productivity and profitability.

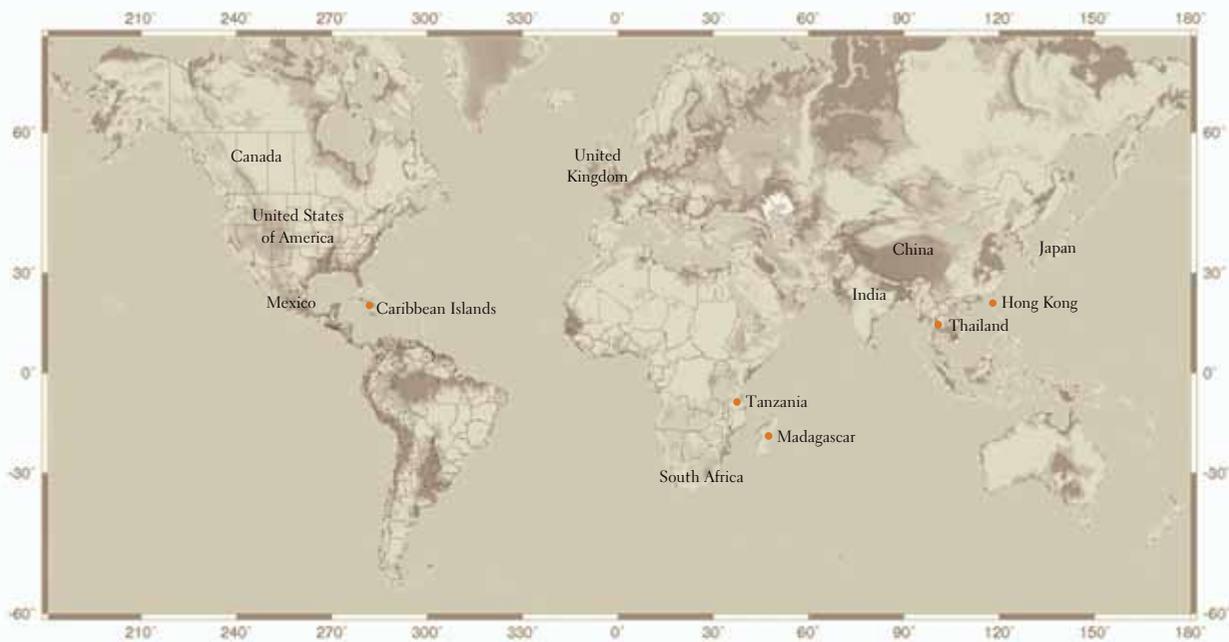




Sayed Haider in the USA is visiting a big speciality jewellery store wanting a wider selection of the company's products. Julian in the UK is talking on the gold outlook. Jatin Patel in India is negotiating a deal on a large diamond lot. Catherine in Shenzhen is uploading a regional sales analysis to global managers.

Work moves 24x7 at Vaibhav Gems.





At Vaibhav Gems, the biggest challenge lies in understanding consumer mindsets across the world. Over the years, the most effective initiative in doing so has been a broad-based recruitment priority with the objective to bring relevant cultural and consumer perspectives to the company's table.

The company has done so through a number of initiatives to achieve the following objectives:

- A global complement of skilled designers and craftsmen enabling the company to draw in diverse competencies of the best available talent.
- A growing professionalism of what was once an unorganised business, marked by systems, processes, checks, balances, selective recruitment and a formal HR

policy; this is making the company a working destination of choice for the best professionals within the industry.

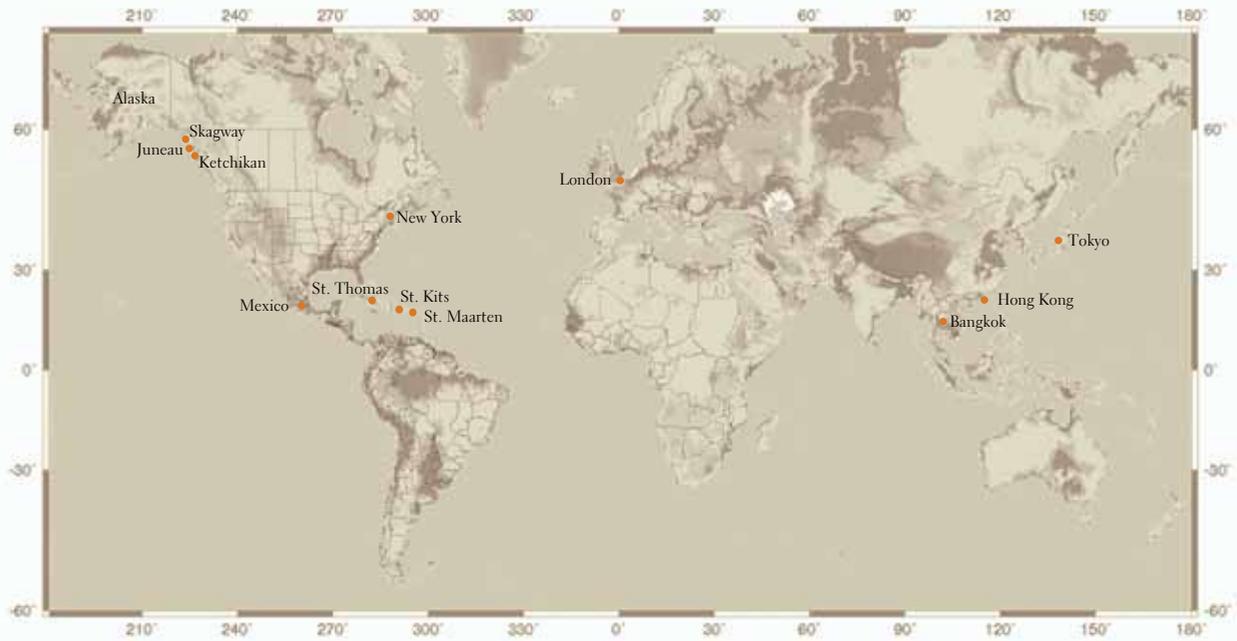
- It created decision-making centers across the management hierarchy to enhance transparency in day-to-day activity. It initiated regular training and development to maximise efficiency. It promoted an ethical policy, facilitating partnerships with companies and agencies across respective geographies.





Businessmen go to New York. Lawyers fly to London. Honeymooners prefer Alaska. Orient lovers revel in Bangkok. And the avant garde relax in Los Cabos, Mexico.

Amazingly, Vaibhav Gems had arrived well in advance to greet them in every location.



At Vaibhav Gems, we have taken note of the fact that as incomes rise, cross-border travel will accelerate; besides, we also recognise that as lives get busier, those taking vacations will do so for shorter periods in more exotic locations; we are also consciously aware that at such junctures, shopping will gravitate from the conscious to the impulsive.



The company expects to encash this phenomenon through the following initiatives:

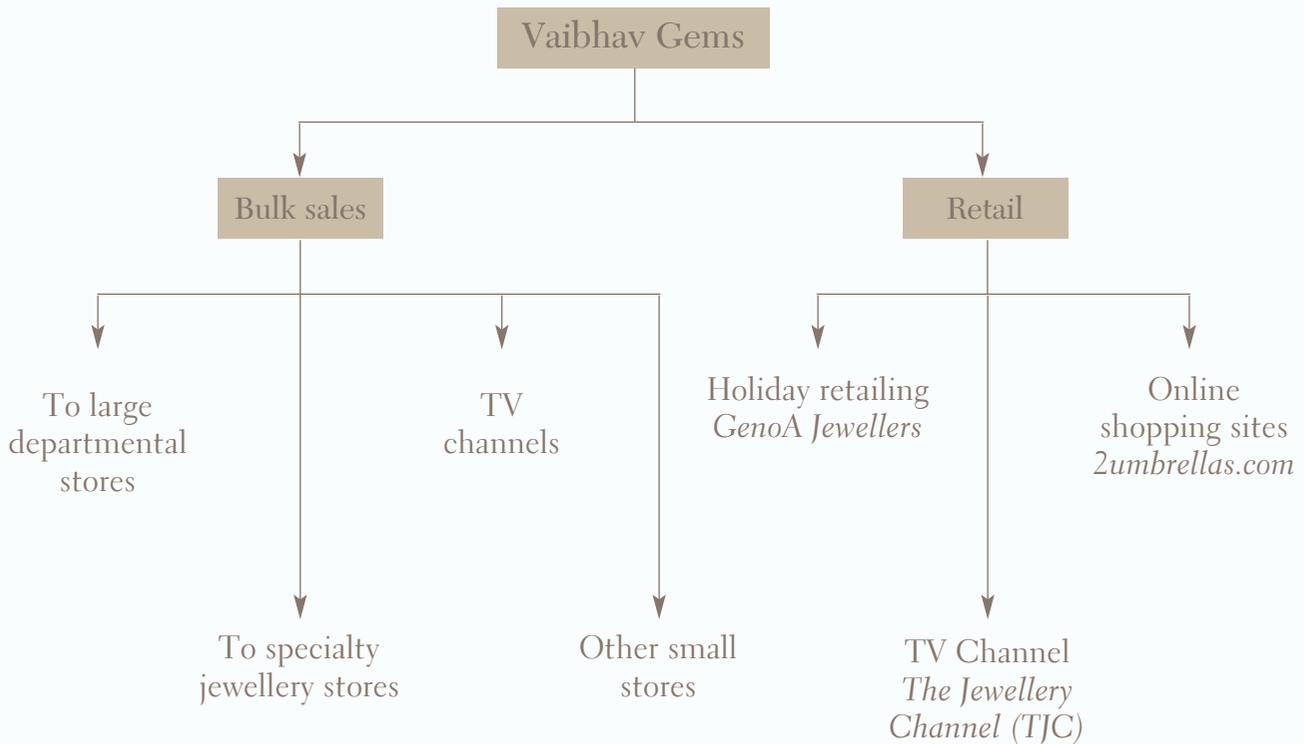
- Plugging into a distribution network that reaches the company's products to locations where this high spending vacation-seeking community traditionally converges.
- Extending our products to brand-enhancing front-end stores like Wal-Mart, JC Penney, Sears, Macy's, Sterling, Zales, Friedman and White Hall, among others.

In 2005-06, the company made the significant leap in its distribution initiative: in addition to reaching the end customer via brand-enhancing intermediaries, it selected to create a retail chain touching prominent holiday destinations like Alaska, Mexico and the Caribbean Islands.

Branded as GenoA Jewellers, the company's retail outlets - 12 at the close of 2005-06 - were consciously positioned in cruise locations frequented by holiday travellers.

The company's other important initiatives comprised the following:

- The Jewellery Channel Limited, the company's subsidiary in London, launched a 24-hour channel called The Jewellery Channel (TJC) to market jewellery. The company marketed products on this channel under the brand names of Iliana and Kara.
- The company also initiated the marketing of an exclusive range of male jewellery under the brand name of FH (For Him) through TJC.





What makes us special

- Scale: Largest exporters of coloured gemstones from India for 14 years; among the largest studded jewellery exporters in India.
- Total vertical integration: Presence across the entire value chain from mines to manufacture to markets to retail.
- Product integration: Present in coloured gemstones, studded gold jewellery, diamonds and gold chains.
- Human resources: One of the largest talent pools of skilled professionals and artisans.

What we achieved in 2005-06

- Footprint: We widened our global footprint to more than 12 countries.
- Topline: 30.86 per cent increase in turnover from Rs. 1677.12 mn in 2004-05 to Rs. 2194.65 mn.
- Bottomline: 140.53 per cent increase in net profit from Rs. 151.01 mn in 2004-05 to Rs. 363.22 mn.
- Presence: Opening of 12 global retail jewellery outlets in 2005-06.
- Recognition: Shortlisted for the ICSI Award for Excellence in Corporate Governance for 2004-05; won the national award for being the highest exporter in the coloured gemstone category for the eleventh successive year from GJEPC.
- CNBC-TV18, India's most reputed business news channel, awarded the 'Emerging India Award 2006' to Vaibhav Gems Ltd. in the gem and jewellery category.

Q&A

Mr. Sunil Agrawal, *Chairman*,
reviews the global positioning
of the company
in 2005-06 and beyond



Were you satisfied with the performance of the company in 2005-06?

Yes. The company's topline increased 30.86 per cent from Rs. 1,677.12 mn in 2004-05 to Rs. 2,194.65 mn in 2005-06 and net profit by 140.53 per cent from Rs. 151.01 mn in 2004-05 to Rs. 363.22 mn in 2005-06. But the reason for my satisfaction lies beyond these numbers. During 2005-06 we evolved our predominantly Indian pedigree into a global identity.

What initiatives enabled this to happen?

There were principally three initiatives during the year that facilitated the transition:

- The company acquired the STS Group of Companies and evolved into India's first true multinational in the gems and jewellery sector with a presence in more than 12 countries and five continents.
- The company extended from an India listing to an international listing following its GDR issue in January 2006, the first such instance in the Indian gem and jewellery sector.
- The company widened its international retail presence through the commissioning of 12 retail stores and started a 24-hour marketing TV channel called The Jewellery Channel (TJC) in UK to enhance its visibility.

Where does the company stand in the global community of gemstone and jewellery companies?

Vaibhav today stands in the forefront of the coloured

gemstone jewellery industry in the world with the power to influence consumer preferences. This is an important achievement: the coloured gemstone market accounts for 10 per cent of the US jewellery market.

There is another reason why we are globally prominent. We are one of the very few companies in the world to have integrated operations from design to retail; this has enabled us to shrink the mine-to-market cycle by a few months, resulting in a first mover's advantage. Just consider: a stone cutter cuts around a new design and hands over the sample to a jewellery manufacturer who in turn shows it to a customer for his feedback, a cycle that takes a couple of months at least. At our company, the miner speaks directly to the customer interface, accelerating the feedback cycle and resulting in decisions being taken in the shortest time.

There must be a more compelling reason to consolidate...

There are three more reasons why this is relevant:

- De Beers is nudging sight holders in the diamond industry to expand the diamond market by adding value up and down the diamond chain. To satisfy De Beers' eligibility criteria and to be competitive, a number of diamond companies in Mumbai are entering into partnerships with US players.
- Consolidation is also transpiring through retail pressure. Giants like Wal-Mart are rationalising the number of vendors for two reasons - one, they are convinced that dealing with a larger number of

companies enhances transaction cost; two, they believe that through consolidation, companies can enjoy economies of scale and offer better value to customers.

- Historically, the US market has been fragmented; despite our size and status in it, we account for a mere 2 per cent of it by value. Our growing role could only be accelerated through a rapid process of consolidation.

What was the specific need to go global?

To emerge bigger and better. Even though the company continued to be the largest exporter of coloured gemstones from India, we saw an increasing need to extend to more lucrative geographies.

Why the STS Group?

Because it was a major customer comprising eight companies with a growing presence in USA, UK, Japan, Hong Kong, China, Thailand, Germany and Canada. This acquisition immediately provided us with a multi-location presence across the globe, facilitating better sourcing, manufacturing and marketing strengths. As a result, the company became truly integrated with a significant presence at each point of the value chain from mines to manufacturing to markets.

How equipped is the company now to succeed in a globally competitive environment?

Well equipped; in fact, the prime motive behind going global was to evolve into a more competitive company through the following initiatives:

Challenges	Vaibhav's response
To provide superior quality at affordable cost	Increased manufacturing capacity, better purchasing power, access to three of the most cost-effective and quality conscious manufacturing bases in India, Thailand and China. Access to robust production processes and advanced technology, resulting in higher productivity.
To continuously provide different designs	The company has five design centres in different countries with an ability to make a variety of designs in line with the latest global trends.
To manage a bigger business efficiently and professionally	The company aggressively embarked on professionalism by bringing outside industry experience especially at the senior management level. It employed systems and processes to improve efficiency of time, cost and yield.

What strengths will facilitate the company's growth in the diversified foreign markets?

The fact that we provide quality products in large quantities around a superior value-for-money proposition. The other strengths of the company can be enumerated below:

- The company's comprehensive product presence, resulting in its emerging as a one-stop shop for customers.

- Vertical integration from mines to market, enabling it to source roughs efficiently and service large retail enquiries at competitive prices.
- An ability to expand the size of the market through a sustained introduction of new designs using new stones around the latest trends.
- A blend of multi-channel and multi-geographic sales. The company markets products through its offices in more than 12 countries, supplies to large retailers in major consumer markets and has forayed into the electronic media like internet and TV channel.

How did the company's retail operations perform?

The company forayed into the retail operations in 2005-06 by setting up 12 retail stores in the holiday destinations of Alaska, Mexico and the Caribbean islands through its wholly-owned subsidiaries. The company's retail operations contributed a small share to the company's consolidated revenues in 2005-06, but going ahead, this is likely to increase for the following reasons:

- Most of the retail stores will have established themselves in their locations after a year of operations.
- The company extended into branded jewellery through the acquisition of the Rhapsody brand from STS Jewels Inc., enabling it to cater to branded jewellery customers.
- It forayed into manufacture of diamond-studded jewellery, which will also cater to the high price, high margin segment.

The company is largely perceived to be a manufacturer and supplier of coloured gemstones and jewellery. What then was the rationale for extending into the manufacture of diamond jewellery?

The company's foray into diamond jewellery was justified for the following reasons:

- The company is headquartered in India, the largest diamond processing centres in the world. Therefore, the sourcing and procurement was not an entry barrier. The company procures rough diamonds from Antwerp and Russia; and processes and polishes them in a state-of-the-art diamond polishing centre at Sitapura, Jaipur.

- The manufacturing process is similar as in the case of coloured gemstones and diamonds, requiring no major investment in infrastructure, technology or people.

- The company's institutional clientele for coloured gemstone jewellery (precious and semi-precious) - Wal-Mart, JC Penney, Sears etc. - buy diamond jewellery as well.

- The company's retail stores would also provide the company a perfect opportunity to enter the high-end jewellery segment through diamond jewellery.

- The entry into diamond jewellery completed the company's presence in the product value chain - from diamond to precious / semi precious coloured gemstones (sapphire, emerald, ruby, tanzanite and aquamarine etc.) to jewellery.

How does the company plan to enhance shareholder value?

The company's vertical integration - direct sourcing of roughs to retail - coupled with a comprehensive product presence will enable us to increase our share in the US and grow our presence in Europe and Japan. Our capacities and multi-locational designing and manufacturing abilities will result in better margins amid competition. The company's retail operations (retail stores, TV channels and internet) are also expected to add considerably to the company's business during the coming year.

What reasons give you optimism?

Gone are the days when the reference to a gemstone

evoked the singular vision of a birthstone. There has been a significant increase in the awareness of coloured gemstones. Gemstones have now emerged as an extension of the apparel of people; since they are cost-effective, they can be matched with different clothes; since they are fashionable, they encourage churn and replenishment.

A number of leading fashion houses have helped enhance the chic appeal of coloured gemstones. So for decades, they remained exclusive, but in the last few years, Home TV shopping and even the discount stores have really grown the market for this segment across the American middle-class. A company like Vaibhav Gems has been at the right place at the right time to encash this phenomenon.

What role do you see for Vaibhav Gems in this environment?

A leader by far. Just as De Beers is synonymous with diamonds, our brand has ample opportunity to achieve top-of-the-mind-recall at the mere mention of coloured gemstones, enhancing its appeal and popularity.

We are favourably placed to do so; we have represented coloured gemstones and Indian jewellery on the global platform, leveraging our professional approach to business in the largely unorganised sector we are in a better position to position our products better within the consumer mindspace. This will not only facilitate market growth, but also help the company achieve a larger slice of the pie. In doing so, we expect to grow from Rs. 219 cr in revenues in 2005-06 to Rs. 1,000 cr by 2008-09.

Vision

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



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.



The Vaibhav share

The shares of Vaibhav Gems are listed on the Bombay Stock Exchange and the National Stock Exchange.

Vaibhav share - highs and lows

(source: BSE)

Year	High	Low	Year-end price	No. of shares	Market Cap*
2003-04	Rs. 65.80	Rs. 17.10	Rs. 46.80	1,05,60,600	Rs. 4,942 lac
2004-05	Rs. 120.00	Rs. 26.00	Rs. 96.10	1,05,60,600	Rs. 10,148 lacs
2005-06	Rs. 485.70	Rs. 92.25	Rs.435.00	2,75,87,873	Rs. 1,20,007 lacs

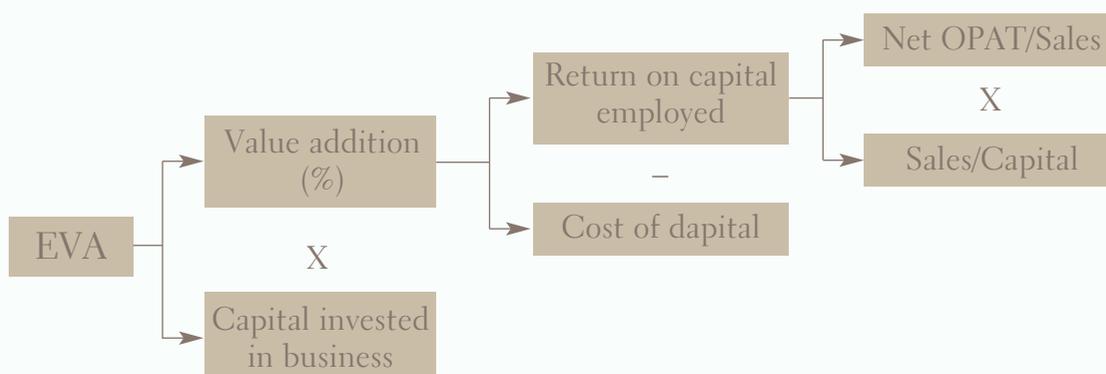
* Market capitalisation as on 31st March.

Dividend

The company's management has always believed in sharing gains with shareholders. During the year, the company proposed a final dividend of 15 per cent amounting to Rs. 414 lacs for 2005-06 (as against Rs. 264 lacs in 2004-05).

Economic Value-Added (EVA)

The Company also enhanced value for its shareowners as demonstrated by the use of the Economic Value-Added parameter, one of the modern benchmarks of value measurement. The Company reported an EVA of Rs. 2140 lacs for 2005-06 as against Rs. 751 lacs in 2004-05, after accounting for its cost of funds (debt and equity).



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

The following considerations were used in EVA measurement:

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

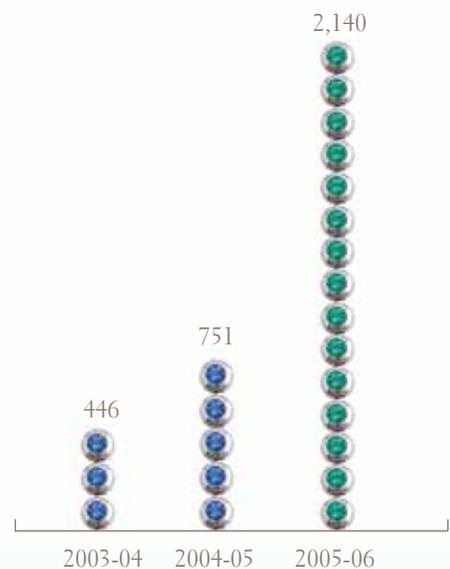
- The cost of equity was arrived at using the 0.7 beta-factor for the scrip. A risk-free return of 6.8 per cent was taken. To this was added the product of the beta factor and the stock market risk premium.
- The stock market risk premium of 7 per cent is what investors expected to earn over the risk free return from the market.
- The product of the premium and the beta is what investors expected to earn (over and above the risk-free return of 6.80 per cent) from the company's scrip in the financial year under review - the correct cost of equity funds to consider for the EVA calculation.
- The base for calculating the rupee cost of equity was the market capitalisation as on 31st March 2006.



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

● The money received on account of the GDR issue by the company in January, 2006 (US\$ 69.825 million, equivalent to Rs. 3086 million) and from the issue of equity shares on a preferential basis in February 2006 (Rs. 2085 million) was deducted from the capital employed for 2005-06 for the calculation of the EVA, as the same was not used in the business during the year and in the process did not generate any operational returns.

Economic value-added (Rs. lacs)



Management's discussion and analysis

Industry structure and developments

Gems and jewellery have epitomised heritage, aesthetics, culture and social status throughout the world across time. The global gems and jewellery industry can be divided into the following sub-sectors based on its characteristics and preciousness in terms of price range, marketability and processing techniques:

- **Gemstones:** Diamond and coloured gemstones (precious, semi-precious and synthetic).
- **Jewellery:** Plain gold, studded, silver and costume.

The global gems and jewellery sector is worth about US\$ 120 bn. The key markets of gems and jewellery reported an increase at a CAGR of 5-10 per cent across the decade. The global industry is largely unorganised, generally managed as family-owned business entities.

India's gem and jewellery industry is a rising star of the Indian economy. The industry has performed extraordinarily

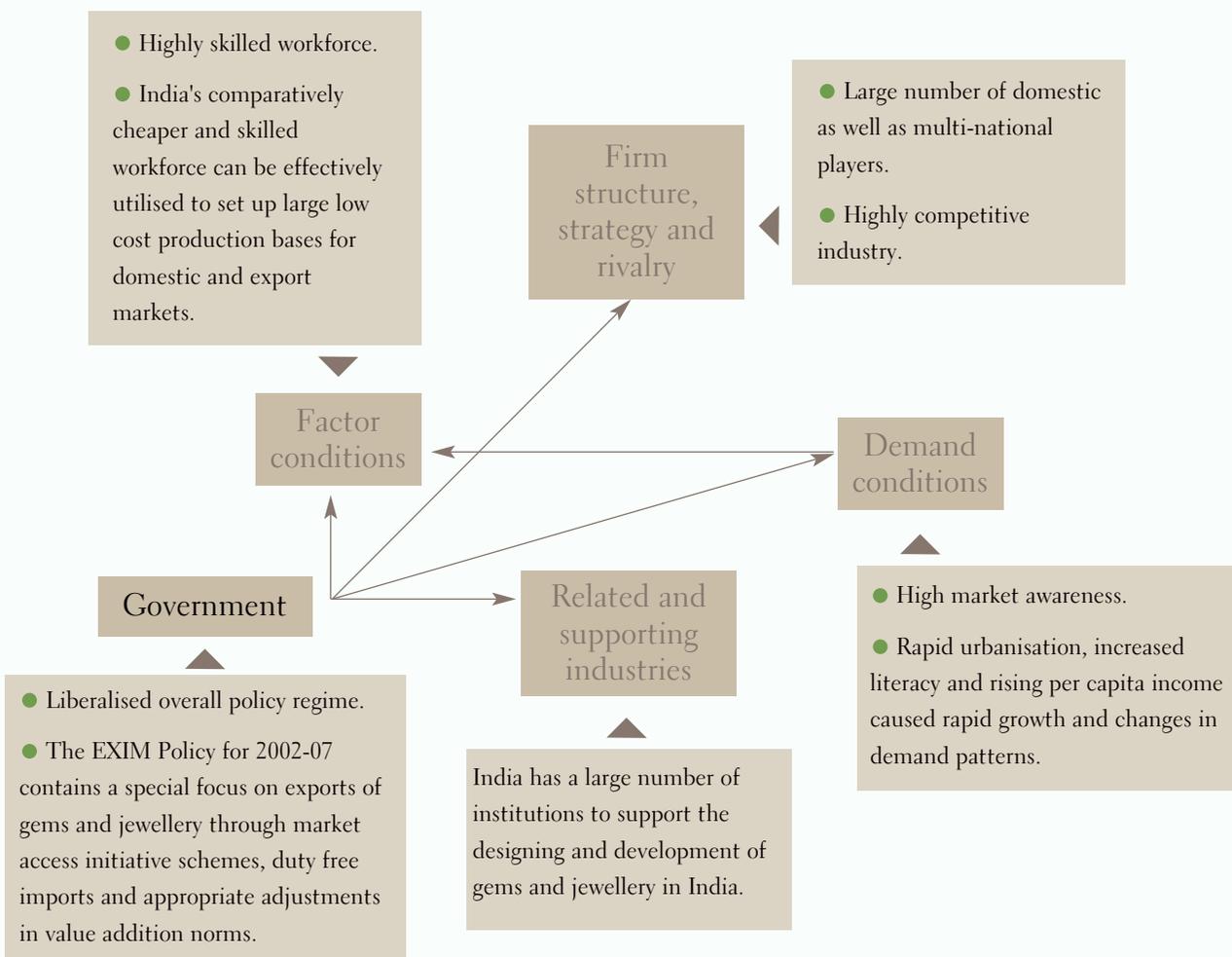
well over the past few years and this growth trend is expected to continue in the years to come. Growing rapidly, this industry has exhibited remarkable energy and focus, registering an average growth of 25-30 per cent year-on-year. Availability of skilled manpower, together with liberalised government policies catalysed continuous sectoral growth, making it a leading foreign exchange earner.

The Indian gem and jewellery industry has beaten market expectations despite the difficult global market conditions and a severe pressure on margins. In 2005-06, it reported the following:

- 21.05 per cent growth in exports of coloured gemstones in dollar terms and 19.09 per cent in rupee terms.
- 6.07 per cent growth in export of cut and polished diamonds in dollar terms and 4.09 per cent in rupee terms.
- 6.32 per cent growth in gem and jewellery exports in dollar terms and 4.35 per cent in rupee terms



Michael Porter's analysis Indian gem and jewellery industry



SWOT analysis of the Indian gem and jewellery industry

Strengths:

- About one million craftsmen are engaged in the design and manufacture of modern jewellery.
- Abundant availability of cheap and skilled labour in India.
- Presence of a wide marketing network across the world.
- Supportive government industrial/ EXIM policy.

Weaknesses:

- Small firms lacking technological/ export information expertise.
- Low productivity compared to labour in China, Thailand and Sri Lanka.
- Import of raw material necessitates a large inventory.

Opportunities:

- New markets in Europe and Latin America.
- Growing demand in South Asian and Far East countries.
- Industry moving towards consolidation.

Threats:

- China, Sri Lanka and Thailand's entry into the small diamond segment.
- Infrastructure bottlenecks, absence of latest technology.
- Volatility in the price of gold.

Financial review

Performance, 2005-06 vs. 2004-05

The company's turnover for 2005-06 increased by 31 per cent from Rs. 16,882 lacs in 2004-05 to Rs. 22,175 lacs. The company marketed gemstones and gemstone jewellery and reinforced its industry position as a major producer of coloured gemstone jewellery and extended into the production of diamond jewellery during the year under review.

Even as turnover increased by 31 per cent over the previous year, PBDIT (profit before depreciation, interest and tax) grew by 142 per cent from Rs. 1,700 lacs in 2004-05 to Rs. 4,116 lacs in 2005-06 as a result of cost optimisation, economies of scale, vertical integration and lower wastages.

Net profit also increased by 141 per cent from Rs. 1,510 lacs in 2004-05 to Rs. 3,632 lacs in 2005-06.

Share capital

The company's share capital comprised only one class of shares - equity of a par value of Rs. 10 each. During the year under review, the company issued 95,00,000 equity shares of Rs. 10 each as underlying shares for 9,50,000 GDRs to an overseas depository i.e. The Bank of New York. These GDRs are listed on the Luxembourg Stock Exchange.

The company also allotted 75,27,273 equity shares on a preferential basis to Cortland Investment Limited - a Warburg Pincus Group company, one of the leading private equity funds of the world. This allotment was made under



the guidelines issued by SEBI for such preferential allotments.

Raw materials

Raw material costs as a percentage of revenue declined from 79 per cent to 70 per cent due to better realisations and a greater focus on cost rationalisation and wastage control.

Tanzanite, emerald, sapphire, ruby, amethyst, aquamarine, citrine, pink tourmaline, red garnet, rhodolite, garnet, iolite, peridot and tsavorite were the primary coloured stones used by the company. These coloured stones were sourced directly in the form of roughs from mining and procuring enterprises in Brazil, Tanzania, Zambia and various other countries through international auctions and direct negotiations with mines. Gold was sourced from canalising Indian agencies like The Bank of Nova Scotia, MMTC and other authorised banks.

Shareholder value

The earning per share (calculated as per AS-21 of ICAI) reported by the company increased by 93 per cent from Rs. 14.30 in 2004-05 to Rs. 27.62 in 2005-06. The Board of Directors proposed a dividend of Rs. 1.50 per share on the paid up equity value of Rs. 10 each.

Human resource management

The year saw the formulation of the company's vision, mission and core values with the full involvement of its key management personnel. The company endeavoured to emerge as a preferred industry employer through HR initiatives that matched that of the best professional

entities. The Wal-Mart audit established the company's HR credibility as per global standards.

The company emerged as one of the most favoured workplaces in the gem and jewellery industry, employing (directly or indirectly) more than 2,500 individuals.

The company's recruitment policy was 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 was recruited from premier national design institutes while the management staff was recruited after a benchmarked recruitment process from best business schools. Thereafter, these candidates were put through holistic induction and on-the-job-training programmes to prepare them for growth.

The company's performance management system, along with the compensation structure, suitably rewarded the deserving and identified areas of improvement, continuously aligning individual aspirations with the organisation's growth agenda.

The responsibility structure was continuously evolved to clearly define roles and hierarchies for the smooth functioning of all processes.

Strengths, weaknesses, opportunities and threats

Strengths

The company's various strengths comprised the following:

- Rich industry experience of the promoters across a quarter of a century.

- Strong product design and development.
- Broad-based manufacturing infrastructure.
- Product range enjoying international acceptability.
- World-class quality standards.
- Global cost competitiveness.
- Availability of a wide and well-accepted product range addressing various retail segments.
- End-to-end vertical integration from mines to retail.
- Long-standing relationships with corporate customers.
- Independent and experienced Board of Directors.

Weaknesses

- Excessive concentration on USA could affect sustainability.
- Exposure to foreign exchange and raw material price fluctuations.
- Dependent on the international market for raw material.

Opportunities

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

- Worldwide market of US\$ 120 bn.
- Increase jewellery production capacity through the addition of manufacturing facilities in Bangkok, Hong Kong and China.
- Improve direct sale to end customers either through own stores or through organised channels like departmental stores and TV channels.
- Strengthened manufacturing base and the existence of product development and marketing teams.

- Branding opportunity to unlock vast value created over the decades.
- Ever-changing but ever-growing demand.
- Highly fragmented industry space offering room for consolidation.

Threats

The various threats faced by the company comprised the following:

- Competition from Indian as well as international companies.
- India's reputation as a sub-quality supplier.
- Probable loss of goodwill and dependability in the event of under-performance.
- Variations in customer requirements in terms of quality.
- Lower than expected offtake from the company's retail outlets.
- 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.

Internal control systems and their adequacy

The company has developed a proper and adequate system of internal controls commensurate with its size and the nature of its operations. The system has been designed to



provide reasonable 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 unauthorise use or disposition, IT security, executing transaction with proper authorisation 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.

Outlook

USA, Europe and Japan are the largest markets of jewellery in the world. USA is growing at a stable rate while Europe and Japan are growing faster. The international jewellery industry is also expected to sustain attractive growth in view of high demand.

During 2005-06, the Indian economy registered a GDP growth of more than 8 per cent, helped by a strong growth in its manufacturing and services sectors. The continued encouragement provided to the domestic gem and jewellery industry is expected to drive performance.

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

Cautionary statement

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

Risks review

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

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

Early risk identification 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.

The key risk factors and the steps taken to mitigate the same are given as follows:

Debtors' risk

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

Risk mitigation

- The company 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.





Raw materials risk

Gold: High volatility in gold prices may lead to lower margins.

Risk mitigation

Synchronisation of procurement with purchase order rates.

Colour gemstones: Gemstones pricing and availability

Risk mitigation

- The company sources 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.
- The company usually purchases gemstones that can be procured in large quantities, being generally more stable in price.

Exchange rate fluctuation risk

Since the company is an export-oriented unit, foreign currency volatility can affect its topline.

Risk mitigation

- Forex 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, being an EOU, naturally hedging its forex exposures.
- The company avails of foreign exchange loans to address working capital requirements, again a hedge.

Geographic concentration risk

About 56 of the company's total revenues were derived from USA, an excessive dependence on a single market.

Risk mitigation

USA is the largest jewellery consumer in the world, being home to the largest fashion-conscious customers. India's export of gem and jewellery to the US increased at a CAGR of 10 per cent between 2001 and 2006. The company has been present in US for the last 17 years, with a widening base of large customers. To mitigate the risk arising from an excessive presence in this geography, the company set up operations in UK and is actively targeting opportunities in other European countries.

Product obsolescence risk

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

Risk mitigation

- The company possesses five design centres across the world to accelerate the rollout of approximately 7,500 new designs every year.
- It employs more than 250 designers, world-class CAD software operators and experienced design technicians in its product design centres.
- Members of the design teams are sent by the company to other countries to study design trends, enabling a faster product turnaround.

Seasonality risk

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

Risk mitigation

- The company's products address the fashion-conscious upper and mid-value segment, where the impact of seasonality is limited.
- The company's products are marketed through large retail chains like Wal-Mart, J.C Penney, Sears, Macy's, Zales, Sterling, Friedman and White Hall etc., where jewellery is complementary to clothing.
- The company provided designs and products at different price points to maximise the offtake of non-peak season volumes as well.
- The company commissioned stores in different holiday destinations like Alaska, Caribbean islands and Mexico,

where an off-season in one location was corresponded by a peak season in another.

- The company has moved towards TV and internet-driven marketing where seasonality is less pronounced. The TV market seasonality complemented the seasonality of the traditional stores.
- The company employs a distribution strategy to service markets, which have complementary seasons.
- The company also initiated the manufacture and marketing of diamond jewellery to provide a wider product range to diversified customers.



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

The company's manufacturing units are located in Jaipur and Bangkok, traditional hubs in 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 a preferred place to work in. The company follows a regular appraisal of its workers'.

Wastage risk

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

Risk mitigation

The company 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 and its ERP system maintains critical data in ascertaining waste generated per employee per day, ensuring tighter control.
- The company 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. The company's units house cameras for strict anti-theft vigilance and physical frisking.

Financial risk

Given the working capital intensive nature of the jewellery business (working capital constituted more than 41 per cent of capital employed), a mismatch between receivables and payables could result in a liquidity crisis.

Risk mitigation

- The company's prudent working capital management resulted in a tight control over receivables and inventory.
- A sufficient cash buffer reinforced short-term liquidity.
- An extension into retail and TV operations will reduce the long cycle of receivables.

Board of Directors



Mr Sunil Agrawal
Chairman



Mr Suresh Punjabi



Mr Nirmal Kumar Bardiya



Mr Rahimullah
Managing Director



Mr Anandi Lal Roongta



Mr M.L. Mehta



Mr S.S. Bhandari



Mr Sanjeev Agrawal



Mr Ikramullah



Mr Sunil Agrawal

Chairman

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

Mr Suresh Punjabi

53, established his business of gems trading in Hong Kong. Today, he is well known internationally within the trade, 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 Nirmal Kumar Bardiya

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

Mr Rahimullah

Managing Director

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

Mr Anandi Lal Roongta

73, is a post-graduate in Economics and Law. A retired IAS officer, 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

67, is a retired IAS officer and a renowned public administrator, social activist and human resource developer. A gold medallist and a Post Graduate in Physics from the University of Rajasthan, he is a P.G. Diploma Holder in urbanisation from the University of London with merit and a Graduate from the National Defence College in New Delhi. He has served in senior government positions such as

the Chief Secretary of the Government of Rajasthan, Additional Secretary of the Ministry of Home Affairs and Director of NABARD. He has won prestigious awards like Indira Gandhi Priyadarshni Vriksha Mitra Award (1986), Acharya Jai Mal Gyan Award (1988) and Mewar Gaurav Award (1994).

Mr S.S. Bhandari

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

Mr Sanjeev Agrawal

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

Mr Ikramullah

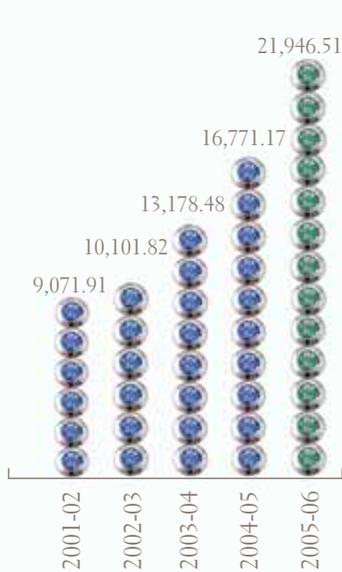
54, is an authority in the manufacture of emeralds in India. He has gained an extensive experience in the gemstones industry through his family business and also as a result of his extensive global exposure.

Five-year financial highlights

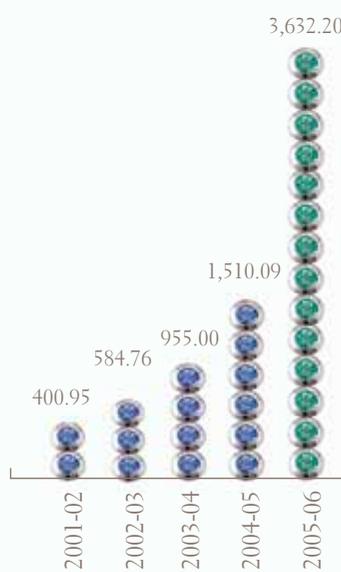
(Rs. in lacs)

	2001-02	2002-03	2003-04	2004-05	2005-06	YoY (%)	CAGR (%)
Total turnover	9,071.91	10,101.82	13,178.48	16,771.17	21,946.51	30.86	24.71
PBDIT	645.50	786.01	1,104.74	1,699.98	4,116.31	142.14	58.91
Profit before tax	434.05	606.86	963.33	1,498.24	3,704.27	147.24	70.92
Profit after tax and other adjustment	400.95	584.76	955.00	1,510.09	3,632.20	140.53	73.49
Dividend (excluding tax)	145.21	168.97	211.21	264.02	413.82	56.74	29.93
Earning per share	7.59	5.54	9.04	14.30	27.62	93.15	38.10
Dividend	27.50%	16%	20%	25%	15%	-	-
Gross block	847.86	868.37	1,211.25	1,575.90	2,215.06	40.56	27.14
Net block	545.77	500.76	767.79	1,009.54	1,515.98	50.17	29.10
Equity capital	528.03	1,056.06	1,056.06	1,056.06	2,758.79	161.23	51.19
Reserves and surplus	3,545.23	3,411.34	4,128.07	5,337.12	57,796.73	982.92	100.94
Net worth	4,063.74	4,462.64	5,184.13	6,393.18	60,555.52	847.19	96.47

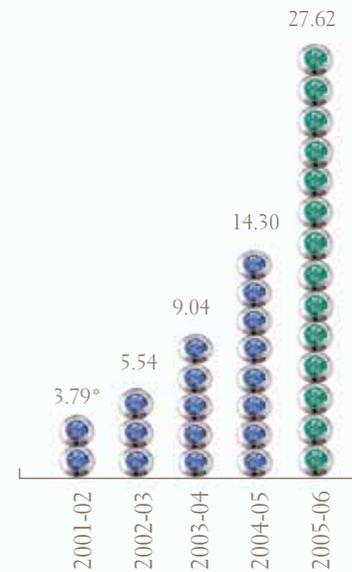
Total turnover (Rs. in lacs)



Profit after tax (Rs. in lacs)



Earnings per share (Rs.)



* Adjusted for bonus issue of 1:1 in 2002-03

Ratios



Financial performance ratio (%)	2001-02	2002-03	2003-04	2004-05	2005-06
Other income/total turnover	0.25	0.41	0.11	0.10	0.86
Personnel cost/ total turnover	3.79	4.21	3.90	4.34	5.18
Administration expenses/ total turnover	2.96	2.69	2.19	1.81	2.32
Net finance cost/ total turnover	1.49	1.07	0.47	0.47	1.18
Depreciation/ total turnover	0.79	0.66	0.57	0.73	0.70
Tax/ total turnover	0.36	0.22	0.06	(0.07)	0.33
Tax/ profit before tax	7.63	3.64	0.84	(0.79)	1.95

Profitability ratios (%)	2001-02	2002-03	2003-04	2004-05	2005-06
PBDIT/ sales	7.13	7.81	8.38	10.14	18.76
PBDT/ sales	5.64	6.74	7.92	9.67	17.57
PBT/ turnover	4.78	6.01	7.31	8.93	16.88
PAT/total turnover	4.42	5.79	7.25	9.00	16.55
PAT/ average net worth	10.19	13.72	19.80	26.09	36.97
PBDIT/ total assets	10.39	10.66	14.07	17.30	25.78
PBIT/total assets	9.16	9.70	13.06	16.05	24.83
PBT/total assets	6.99	8.23	12.27	15.24	23.20
PAT/ total assets	6.46	7.93	12.17	15.36	22.75
Sales/ total assets	145.71	136.42	167.89	170.64	137.47

Notes:

The amount of overseas investment and FDR (non-pledged) has not been taken into account for computation of total assets based ratios because of the following reasons:

A. Investment of Rs. 393 crore are investments in overseas companies which has not generated any operating returns during the year.

B. Funds raised by GDR issue and preferential allotment of equity shares have been parked in fixed deposits (non-pledged) in India and abroad for future acquisition of overseas companies.

Ratios

Balance sheet ratios	2001-02	2002-03	2003-04	2004-05	2005-06
Debt equity ratio	0.39	0.37	0.33	0.44	0.07
Net fixed assets/ net worth	0.13	0.11	0.15	0.16	0.11
Current ratio	10.37	5.52	7.21	7.61	15.10
Cash and equivalent/ total assets	0.02	0.03	0.04	0.03	1.03

Coverage ratios	2001-02	2002-03	2003-04	2004-05	2005-06
PBDIT/ interest	4.79	7.27	17.94	10.26	11.22
PBIT/ interest	4.22	6.61	16.64	9.52	10.80
PBDIT/ total debt	0.40	0.47	0.65	0.60	0.93
PBIT/ total debt	0.36	0.43	0.60	0.56	0.89

Growth ratios (%)	2001-02	2002-03	2003-04	2004-05	2005-06
Growth in total turnover	24.31	11.35	27.94	27.26	30.86
Growth in operating expenses	29.00	10.55	26.85	27.02	18.92
Growth in operating profit	(15.72)	21.77	40.78	53.87	151.33
Growth in net profit	(18.34)	45.84	63.31	58.09	140.53



Per share data	2001-02	2002-03	2003-04	2004-05	2005-06
Earnings per share (Rs.)	7.59	5.54	9.04	14.30	27.62
Cash earnings per share (Rs.)	9.04	6.21	9.80	15.46	28.84
Dividend (%)	27.50	16.00	20.00	25.00	15.00
Book value (Rs.)	76.96	42.26	49.09	60.54	219.50
Dividend payout (%)	35.70	32.60	24.95	19.94	12.99
P/E end of the year	3.01	3.35	5.18	6.72	15.75
Price/ book value	0.30	0.44	0.95	1.59	1.98
Market capitalisation (Rs. lacs)	1,206.48	1,958.88	4,942.08	10,148.74	1,20,007.25
No. of shares(lacs)	52.80	105.60	105.60	105.61	275.88
PBDIT margin (%)	7.12	7.78	8.37	10.12	18.59
Net profit margin (%)	4.42	5.79	7.25	8.99	16.41
Return on total assets (%)	6.46	7.93	12.17	17.05	25.05
Return on average net worth (%)	10.19	13.72	19.80	26.09	36.97

Directors' report

Dear Shareholders

Your Directors are pleased to present seventeenth Annual Report of the Company's performance together with the audited financial statements for the year ended 31st March, 2006.

Financial highlights

	(Rupees in lacs)	
	2005-06	2004-05
Sales and other income	22,175.49	16,881.97
Less: Cost of sales	18,059.18	15,181.99
Operating Profit/PBDIT	4,116.31	1,699.98
Less: Interest	259.39	78.84
Less: Depreciation and amortisation	152.65	122.90
Profit before taxes	3,704.27	1,498.24
Less: Provision for taxes (including FBT)	38.50	0.30
Deferred tax charged	33.57	(12.15)
Profit after taxes	3,632.20	1,510.09
Add/Less: Prior period adjustments	-	-
Net profit for the year	3,632.20	1,510.09
Add: Balance brought forward from the previous year	4,240.66	3,231.61
Total available for appropriations	7,872.86	4,741.71
Appropriations:		
Proposed dividend	413.82	264.01
Tax on dividend	58.04	37.03
General reserve	389.53	200.00
Total	861.39	501.04
Balance to be carried forward	7,011.47	4,240.66



Dividend

Your Directors are pleased to recommend a dividend of Rs. 1.50 per equity share, (15 per cent of the paid-up value of Rs. 10 per share) for the year 2005-06. Accordingly the total dividend outflow for this year including corporate dividend tax @14.025 per cent (including surcharge) will be Rs. 471.86 lacs (previous year Rs. 301.04 lacs).

Performance in 2005-06

The gem and jewellery industry, India's highest foreign exchange earner, reported another year of growth in 2005-2006.

- Export of gem and jewellery increased from US\$ 15,678.14 million to US\$ 16,669.11 million, a growth of 6.32 per cent.
- Export of cut and polished diamonds increased from US\$ 11,181.56 million to US\$ 11,860.49 million, a growth of 6.07 per cent.
- Export of coloured gemstones increased from US\$ 192.75 million to US\$ 233.32 million, a growth of 21.05 per cent.

Your Company continued to retain its market position in the gem and jewellery industry. This is reflected in the following numbers:

- An increase in exports from Rs. 16,755 lacs in 2004-05 to Rs. 21,915 lacs in 2005-06, an increase of 31 per cent.
- An increase in the Company's net profit from Rs. 1,510 lacs in 2004-05 to 3,632 lacs in 2005-06, an increase of 141 per cent.

Acquisition of overseas companies

Your Company acquired various overseas companies situated diversely in USA, Canada, Hong Kong, Thailand, Japan and Mexico. This was done to widen and strengthen the company's presence in sourcing raw materials, embarking on manufacture in low cost economies and strengthening its international marketing channels.

Profile of VGL subsidiaries

A brief profile of the Company's subsidiaries is given below:

- STS Jewels Inc., USA and its subsidiaries (STS Gems USA Inc, STS Jewels Canada Inc. and Zumbrellas.com) are engaged in jewellery marketing.
- STS Gems Thai Limited is engaged in the manufacturing and marketing of precious / semi-precious coloured gemstones studded jewellery.
- STS Creations Thai Limited is engaged in the manufacturing and marketing of silver studded jewellery.
- STS Gems Limited, Hongkong, is engaged in the manufacturing, outsourcing and marketing of jewellery. It set up a wholly owned subsidiary STS Jewel Gem Shenzhen Limited in China in April 2006.
- STS Gems Japan Limited is engaged in the marketing of coloured gemstones and jewellery in Japan.
- Jewel Gem USA Inc. is engaged in the marketing of all kinds of jewellery, precious and semi-precious stones, diamonds, metals as well as gift articles through retail chain stores in Alaska.

- Indo Mexico Co. S. De R.L. De C.V., Mexico is engaged in the marketing of all kinds of jewellery, precious and semi-precious stones, diamonds, metals and gift articles through retail chain stores in Mexico.

- Genoa Jewellers Limited, BVI and its subsidiaries (Genoa Jewelers STT (St. Thomas) Limited, Genoa Jewelers (St. Kitts) Limited, Genoa Jewelers (SXM) N.V., St. Maarten and The Jewellery Channel Ltd., United Kingdom) are engaged in the marketing of all kinds of jewellery, precious and semi-precious stones as well as diamonds, metals and gift articles through retail chains or 24 hour online TV channels.

Effect of consolidation

The Company expects to unleash significant value through these acquisitions:

- End-to-end vertical integration resulting in an extended value chain.
- Increase in jewellery production capacity through the addition of manufacturing facilities in Bangkok, and manufacturing through outsourcing at Hong Kong and China.
- Access to state-of-the-art technology.
- Stronger manufacturing, product development and marketing capabilities, resulting in cost efficiency.
- Closer customer access - direct sale to end customers - either through the Company's own stores or through organised channels (departmental stores and TV channels).
- Stronger control of raw material sources in view of enhanced purchases.

Retail outlets

For a seamless integration with customers, the Company

commissioned jewellery retail outlets at major global holiday and shopping destinations. During the year under review, the Company launched 12 retail outlets in Alaska, Mexico and the Caribbean islands.

On-line TV channel

The Company launched a 24 hour online shopping TV channel in UK through a wholly owned subsidiary, The Jewellery Channel Limited. The products are being marketed under the brand names of 'Iliana', 'FH' (For Him) and 'Kara'.

Increase in share capital

- **Global depository receipts issue:** As approved by the shareholders at the Extraordinary General Meeting held on 5th September 2005, the Company embarked on a GDR issue of US\$ 69.825 million during the year. As on 31st March 2006, 9,50,000 GDR were outstanding, representing 95,00,000 equity shares of Rs. 10 each. These GDRs were listed on the Luxembourg Stock Exchange.

- **Preferential allotment of equity shares:** As approved by the shareholders at the Extraordinary General Meeting held on 30th December 2005, the Company allotted 75,27,273 equity shares at Rs. 276.80 per share on a preferential basis to Cortland Investment Limited, a company of the Warburg Pincus Group, one of the world's leading private equity funds.

Product development centre and diamond jewellery unit

As a forward-looking initiative, the Company established a product development centre and a diamond jewellery unit at SEEPZ (SEZ), Mumbai.



Awards and recognition

The Company was awarded the coveted GJEPC Export Award for the eleventh successive year for being the largest Indian exporter of coloured gemstones.

CNBC TV-18, the country's most reputed business news channel, in association with ICICI Bank, awarded the 'Emerging India Award 2006' to Vaibhav Gems in the gem and jewellery category.

The Company was short-listed for the ICSI National Award for Excellence in Corporate Governance in recognition of sound governance and disclosure practices for the second year in a row, one of 25 companies to be so recognised and short listed.

Directors

As per Article 61 of Articles of Association of the Company, Shri Anandi Lal Roongta and Shri Suresh Punjabi retire by rotation at the ensuing Annual General Meeting and, 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 office, if re-appointed.

The notes on account referred to in the Auditors' Report are self-explanatory and therefore do not call for further comments.

Consolidated financial statements

Your Directors have pleasure in attaching the consolidated financial statement, duly incorporating the financial statements of the subsidiaries pursuant to Clause 41 of the Listing Agreement and prepared in accordance with Accounting Standards prescribed by the Institute of Chartered Accountants of India, in this regard.

Particulars required as per Section 212 of the Companies Act, 1956

The Company has been granted exemption for the year ended March 31, 2006 by the Ministry of Company Affairs vide its letter dated August 10th, 2006 ('Exemption Letter'), from the applicability of the provisions of Section 212(1) of the Companies Act, 1956, relating to the statements to be attached in respect of its subsidiary companies. As per the terms of the Exemption Letter, a statement containing brief financial details of the Company's subsidiaries for the year ended March 31, 2006 is included in the Annual Report. The annual accounts of these subsidiaries and the related detailed information will be made available to any member of the Company / its subsidiaries seeking such information at any point of time and are also available for inspection by any member of the Company / its subsidiaries at the Registered Office of the Company. The annual accounts of the said subsidiaries will also be available for inspection, as above, at the Registered Offices of the respective subsidiary companies.

Outlook

With economic liberalisation well on its way, India is enjoying a GDP growth rate of more than 8 per cent in 2005-06. This growth rate can be attributed to the phenomenal performance of India's manufacturing and services sector. India's magnificent GDP growth rates have created a window of opportunities for the domestic gem and jewellery industry.

Initiatives taken by GOI, Ministry of Commerce & Industry and relaxations/concessions announced under Exim policy for 2006-07 for the gem and jewellery industry are as under:

- Export of jewellery on consignment basis allowed.
- Export of cut and polished stones for treatment and re-import allowed.
- Value addition norm for plain gold/platinum/silver jewellery articles reduced from 7 per cent to 4.5 per cent.

The Company expects that governmental initiatives, coupled with its own efforts will bring about better margins for itself and enhanced wealth for its shareholders. The company is banking upon deeper retail network, enhanced capacity utilisation, stabilisation of new ventures and entry into emerging markets as its drivers for growth across the foreseeable future.

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, is as under:

A. Conservation of energy

Even as the Company's operations were not energy-intensive, significant measures were taken to reduce energy consumption through the use of energy-efficient equipment.

B. Technological absorption

The Company's in-house research and development wing is continuously working in the area of efficient jewellery production, improved processes and better designs. The Company has not imported any manufacturing technology so the question of adaptation/absorption does not arise.

C. Foreign exchange earnings and outgo

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

	Rs. in lacs	
	2005-06	2004-05
Earnings	21,889.79	16,711.09
Outgo	9,648.95	8,053.02

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, 2006; the applicable accounting standards have been followed along with proper explanation relating to material departure, if any
- That the Directors have adopted such accounting policies



and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and profit and loss account of the Company for that period.

iii. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv. That the Directors have prepared the annual accounts on a going concern basis.

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. A member who is interested in obtaining such particulars may write to the Company Secretary at the Company's registered office.

Acknowledgments

We thank our clients, vendors, bankers and government authorities for their continued support during the year.

The employees of the Company have continued to demonstrate a sense of total commitment in the pursuit of

excellence. Your Directors take this opportunity to place on record their appreciation and look forward to similar dedication over the coming years.

Your involvement as shareholders is greatly valued and your Directors look forward to your continuing support.

For and on behalf of the Board of Directors

16th August 2006

Sunil Agrawal
Chairman

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 organisation 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 organisation. Consequently the organisation is able to attract and enhance the trust and confidence of the stakeholders.

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

In recognition of its efforts towards achieving highest standards of corporate governance, Vaibhav Gems Limited is once again proud to have been short listed by Institute of Company Secretaries of India amongst the top 25 Companies for Corporate Governance Award 2004-05.

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 maximisation of shareholder value;
- (v) To ensure that the Company follows globally recognised corporate governance practices.

2. Board of Directors Composition

The composition of the Board of Directors of the Company represents an appropriate mix of executive and 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 2006 the Board of Directors of the Company held 11 meetings.

The meetings were held on 30th April 2005, 24th May 2005, 30th July 2005, 24th August 2005, 27th October 2005, 1st December 2005, 22nd December 2005, 25th January 2006, 27th January 2006 (two meetings) and 16th February 2006.



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 membership 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	2	Yes	3	Nil	Nil
Mr. Suresh Punjabi	Non-Independent Non-Executive Director	Nil	No	1	Nil	Nil
Mr. Rahimullah	Non Independent Managing Director	6	Yes	2	1	Nil
Mr. Ikramullah*	Non Independent Executive Director	9	Yes	1	1	Nil
Mr. Sanjeev Agrawal	Non-Independent Non-Executive Director	3	No	3	2	Nil
Mr. Anandi Lal Roongta	Independent Non-Executive Director	10	Yes	2	3	1
Mr. M.L. Mehta	Independent Non-Executive Director	9	Yes	Nil	2	1
Mr. Nirmal Kumar Bardiya	Independent Non-Executive Director	7	No	7	2	Nil
Mr. S. S. Bhandari	Independent Non-Executive Director	10	Yes	2	4	1

* Ceased to be Executive Director w.e.f. 16 th May 2006 but continued as a Director

3. Committees of the Board

Audit Committee

Terms of Reference

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

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

Composition, Meetings & Attendance

The audit committee consists of 5 members who all are non-executive directors.

The committee held its meetings on 24th May 2005, 30th July 2005, 27th October 2005 and 27th January 2006

Remuneration Committee

Terms of Reference

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

Composition, Meetings & Attendance

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

Composition of Audit Committee

Name of the Director	Position Held in the Committee	No of Meetings Attended
Mr. S. S. Bhandari	Chairman	3
Mr. Anandi Lal Roongta	Member	4
Mr. M.L. Mehta	Member	4
Mr. Nirmal Kumar Bardiya	Member	2
Mr. Sanjeev Agrawal	Member	1

Composition of Remuneration Committee

Name of the Director	Position Held in the Committee
Mr. M.L. Mehta	Chairman
Mr. Anandi Lal Roongta	Member
Mr. Nirmal Kumar Bardiya	Member
Mr. S. S. Bhandari	Member

During the year, the committee held no meetings.

Remuneration of Directors during 2005-2006

Name of Director	Sitting Fees	Salary	Total	Terms	Shares as on 31.3.06
Mr. Sunil Agrawal	10,000	NA	10,000	Not liable to retire by rotation	28,140
Mr. A.L. Roongta	50,000	NA	50,000	Retirement by rotation	2,000
Mr. M.L. Mehta	45,000	NA	45,000	Retirement by rotation	Nil
Mr. N.K. Bardiya	35,000	NA	35,000	Retirement by rotation	Nil
Mr. Sanjeev Agrawal	15,000	NA	15,000	Retirement by rotation	8,320
Mr. S. S. Bhandari	50,000	NA	50,000	Retirement by rotation	Nil
Mr. Suresh Punjabi	Nil	NA	Nil	Retirement by rotation	20,900
Mr. Rahimullah	NA	28,58,250*	28,58,250	Contractual	54,600
Mr. Ikramullah**	NA	4,50,000	4,50,000	Contractual	62,800

** Ceased to be Executive Director w.e.f. 16.05.2006, but continued as a Director

The contractual appointment was for the period of 5 years from the date of appointment. The contract may be terminated at any time either by 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.

*Subject to the approval of the shareholders, remuneration of Mr. Rahimullah has been revised w.e.f. 1st December 2005 at Rs. 6,29,167 p.m., details of which have been provided in the explanatory Statement to the Notice of Annual General Meeting.

Shareholder's / Investor's Grievance Committee

The terms of reference of the Committee include approval of issue of duplicate certificates, reviewing all matters connected with the shares transfer and redressal of shareholders' complaints like non-receipt of balance sheet, non-receipt of declared dividends, etc. The Board has

delegated the power of approving transfer of securities in physical form to the Managing Director, Executive Director, Company Secretary and other senior officials of the company.

Composition, Meetings & Attendance

Name of the Director	Position Held in the Committee	No of Meetings Attended
Mr. Anandi Lal Roongta	Chairman	4
Mr. Ikramullah	Member	4
Mr. Rahimullah	Member	2
Mr. Sanjeev Agrawal	Member	1

The committee held its meetings on 24th May 2005, 30th July 2005, 27th October 2005 and 27th January 2006.

Name & Designation of the Compliance Officer

Mr. Ashish Jain: Company Secretary

Details of Shareholders/Investors Complaints Received

Nature of Complaints	Opening	Received	Resolved	Pending
Non receipt of dividend	-	4	4	-
Non receipt of securities relating to transfer of shares	-	4	4	-
Correspondence / Query relating to NSDL operations	-	15	15	-
Correction of name on securities	-	1	1	-
TOTAL	-	24	24	-

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
2002-03	19th August 2003	10.00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2003-04	27th September 2004	10:00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2004-05	20th September 2005	10:00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004

Date, time and venue of the Extra-ordinary General Meetings held during the year:

Year	Date	Time	Venue
2005-06	5th September 2005	10.00 A.M.	E-68, EPIP, Sitapura, Jaipur-302 022
2005-06	30th December 2005	10.00 A.M.	E-68, EPIP, Sitapura, Jaipur-302 022

Special Resolution passed in Annual General Meetings:

Date of Meeting	Subject matter of Resolution
27th September, 2004	1. Increase in the remuneration of Shri Ikramullah, Executive Director. 2. Alteration of Article no. 68 of Article of Association of Company. 3. Commencing new business as set out in para 7,11,15,16,29,35,53,54,63,86,87,102,106 of part (c)- other objects, under object clause of memorandum of association of company.

Postal ballots

For the year ended 31st March 2006, there is no resolution, which was put through postal ballot.

5. Disclosures

Disclosures regarding related party transactions are annexed at note no. 9 of notes on Accounts (Schedule XX).

The Company has complied with the requirements of regulatory authorities i.e. Stock Exchanges, SEBI and other Statutory Authorities related to Capital Markets during the year.

6. Code of Conduct

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

7. Risk Management

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

8. Auditors' Report on Corporate Governance

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

11. Compliance with Clause 49

i. Mandatory Requirements

Vaibhav is fully compliant with 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 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 financial results along with summary of quarterly financial performance and significant developments are sent to shareholders. Quarterly and annual financial statements are also 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, Economic Times, Business Standard and Hindustan Times. The said results are also displayed at company's web site at www.vaibhavgems.com. and uploaded at sebi.edifar.nic.in.

(c) Press releases are published at leading newspapers and displayed at www.vaibhavgems.com.

Auditors' certificate on corporate governance



To,
The Members of
VAIBHAV GEMS LIMITED
Jaipur

We have examined the compliance of conditions of corporate governance by VAIBHAV GEMS LIMITED, for the year ended 31st March 2006, 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

Chetan Desai
Partner
Membership No.17000
Jaipur, June 30, 2006

For B. Khosla & Co.
Chartered Accountants

Sandeep Mundra
Partner
Membership No. 75482

General information to shareholders and investors

a) Annual General Meeting:

Date and time - 30th September 2006, 4.00 P.M.
Venue - K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004

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

Financial reporting for the quarter

- Ending 30th June, 2006 - End of July, 2006
- Ending 30th September, 2006 - End of October, 2006
- Ending 31st December, 2006 - End of January, 2007
- Ending 31st March, 2007 - End of April, 2007

c) Dates of Book Closure: - 27th to 30th September 2006 (Both days inclusive)

d) Dividend Payment Date: 1st October 2006 onwards

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 2006-2007 to the Mumbai Stock Exchange Limited, National Stock Exchange of India Limited & Luxembourg Stock Exchange.

g) Custodial Fees to Depository

The company has paid custodial fees for the Financial year 2006-2007 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 (In Rs.)	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2005	142.00	92.25	142.90	94.00
May 2005	225.00	140.00	225.20	143.00
June 2005	265.00	200.00	264.50	199.25
July 2005	274.65	233.00	272.15	234.00
August 2005	310.00	243.00	305.00	240.00
September 2005	297.90	247.00	300.00	240.00
October 2005	265.00	212.50	285.00	216.00
November 2005	319.95	228.00	322.25	225.10
December 2005	438.00	302.00	442.00	300.00
January 2006	412.00	352.10	412.00	332.00
February 2006	429.00	364.00	424.00	354.00
March 2006	485.70	309.10	484.80	360.35

i) Registrar & Share Transfer Agent:

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

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 dematerialised 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.

l) Shareholding

i. Distribution of shareholding as on March 31, 2006

No. of equity Shareholding	Number of Shares	% of Shareholding	Number of Shareholders	% of Shareholders
1 to 1000	3,48,970	1.26%	2,002	89.14%
1001 to 5000	4,08,607	1.48%	177	7.88%
5001 to 10000	1,55,071	0.56%	22	0.98%
10001 and above	2,66,75,225	96.70%	45	2.00%
Total	2,75,87,873	100.00%	2,246	100.00%

ii. Categories of Shareholders as on March 31, 2006

Category	No. of shares	% holding
Indian Promoters	27,89,629	10.11%
Foreign Promoters	15,68,340	5.68%
Banks	20,000	0.07%
FII's	39,35,960	14.27%
Private Corporate Bodies	11,33,833	4.11%
Indian Public	10,26,426	3.72%
NRI's	72,680	0.26%
Others		
(i) Clearing Members	13,732	0.05%
(ii) Foreign Company - Cortland Investment Limited	75,27,273	27.28%
(iii) Shares underlying GDR	95,00,000	34.44%
Total	2,75,87,873	100.00%

m) Dematerialisation of shares and liquidity

As directed by SEBI, shares of the company can only be traded in Demat Form. As on March 31, 2006, 99.18% of the total shares of the Company have been dematerialised.

We request shareholders, who still continue to hold shares in physical form, to dematerialise their shares at the earliest and avail of the various benefits of dealing in securities in electronic / dematerialised 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

During the financial year company has issued 9,50,000

Global Depository Receipt (GDR) against 95,00,000 Equity Shares @ 10/- each of the company. The outstanding GDR are backed up by underlying equity shares, which are part of the existing paid up capital.

There are no other outstanding instruments, which are convertible into equity shares of 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, Senapat Bapat Marg, Lower Parel
Mumbai-400013, India

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

The Bank Of New York
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 - 400 096

s) Branch Office

- 905 / 2505A, Panchratna, Opera House, Mumbai - 400 004

t) Investors Correspondence

Mr. Ashish Jain, 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 - 302 022

Phone: 91-141-2770648 (Extn. 421), Fax: 91-141-2770510,

Email: ashish.jain@vaibhavgems.com

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

Address: Karvy Computershare (P) Limited,

'Karvy House'46, Avenue 4, Street No. 1

Banjara Hills, Hyderabad- 500 034

Phone: 040-23320666 / 23320711 / 23323031 / 23323037

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.12,500/- in March 2006 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.

Certification by Managing Director and Chief Financial Officer

We hereby certify that for the financial year ending 2005-2006, 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 2005-2006 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

G.P. Yajurvedi
Chief Financial Officer

Jaipur, 30th June 2006



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, 2006, 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, 2006.

Jaipur, 30th June 2006

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, 2006, 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 in which are incorporated the report from the Mumbai branch audited by another auditor. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
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 and proper returns adequate for the purpose of our audit have been received from the Mumbai branch not visited by us. The Branch Auditors' report have been forwarded to us and have been appropriately dealt with;
 - c. the balance sheet, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of 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, 2006, and taken on record by the Board of Directors, we report that none of the directors of the Company is prima facie are disqualified as on March 31, 2006 from being appointed as a director in terms of section 274(1)(g) of the Act;
 - f. in our opinion and to the best of our information and according to explanations given to us, the said accounts, read together with significant accounting policies and notes 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, 2006
 - ii. in case of Profit and Loss Account, of the profits 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

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

Chetan Desai
Partner
Membership No.17000
Jaipur, 30th June, 2006

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 books records are not material and same have been properly dealt with in the books of accounts.
- (iii) a. The Company has neither granted nor taken any loans, secured or unsecured, to/ 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 explanation given to us, there are adequate internal control procedures commensurate with size of the Company and the nature of its business, for the purchase of inventories and fixed assets and for the sale of goods and services. We have not observed any continuing failure to correct major weaknesses in internal control.
- (v) a. According to the information and explanations given to us, we are of the opinion that the particulars of contract or arrangement referred in Section 301 of the Act have been entered into the register maintained under section 301 of the Act.
- b. As informed and according to information and explanation given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the 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 not 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 Income tax, Sales tax, Wealth tax, Service tax, Custom duty, excise duty, and cess which have not been deposited on account of any dispute except Income tax demand of Rs.23.64 lacs due under the provisions of Income Tax Act, 1961 for the financial year 2002-2003 for which an appeal is pending before the CIT - Appeals, Jaipur (Rajasthan).
- (ix) The Company neither has accumulated losses as on March 31, 2006 nor has it incurred any cash losses during the current financial year or in the immediately preceding financial year.
- (x) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks.
- (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) According to information and explanations given by the management, in our opinion the terms and condition on which the Company has given guarantee for loan taken by others from bank or financial institution are not prejudicial to the interest of the Company.

(xiii) According to the information and explanations given to us, the Company has applied term loans for the purpose for which they were obtained.

(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, 2006, we report that no fund raised on short term basis have been used for long term assets.

(xv) According to the information and explanations given to us, the Company has made preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act and the price at which the shares have been issued is not prejudicial to the interest of the Company.

(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) and Clause (xix)

For **Haribhakti & Co.**
Chartered Accountants

Chetan Desai
Partner
Membership No.17000
Jaipur, 30th June, 2006

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

Sandeep Mundra
Partner
Membership No.75482

BALANCE SHEET

(Amount in Rupees)

As at 31st March,	Schedule	2006		2005	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	I	27,58,78,730		10,56,06,000	
Reserves and Surplus	II	5,77,96,73,169	6,05,55,51,899	53,37,11,634	63,93,17,634
Share Application Money (Refer note - 5)			44,00,00,000		–
Loan Funds					
Secured Loans	III		44,42,74,520		28,37,00,833
Deferred Tax Liability (Net)			29,45,643		–
Total			6,94,27,72,062		92,30,18,467
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	IV	22,15,06,375		15,75,89,680	
Less: Depreciation		6,99,07,995		5,66,36,138	
Net Block		15,15,98,380		10,09,53,542	
Capital Work-in-progress		–	15,15,98,380	6,27,633	10,15,81,175
Investments	V		3,93,33,52,302		5,56,19,020
Deferred Tax Assets (Net)			–		4,11,367
Current Assets, Loans and Advances					
Inventories	VI	48,54,27,128		36,01,29,949	
Sundry Debtors	VII	89,64,50,688		46,63,03,040	
Cash and Bank Balances	VIII	1,63,85,37,822		3,28,98,079	
Interest accrued on Bank Deposits		44,43,810		–	
Loans and Advances	IX	3,56,85,122		2,19,29,394	
			3,06,05,44,570	88,12,60,462	
Less: Current Liabilities and Provisions					
Current Liabilities	X	15,16,62,480		8,19,96,107	
Provisions	XI	5,10,60,710		3,38,57,450	
				11,58,53,557	
Net Current Assets			2,85,78,21,380		76,54,06,905
Total			6,94,27,72,062		92,30,18,467
Significant Accounting Policies and Notes on Accounts - forming integral part of the Balance Sheet					
	XX				

As per our report of even date

For Haribhakti & Co.
Chartered AccountantsFor B. Khosla & Co.
Chartered Accountants

For and on behalf of the Board

Chetan Desai
Partner
Jaipur, 30th June, 2006Sandeep Mundra
PartnerAshish Jain
Company SecretaryIkramullah
DirectorRahimullah
Managing Director



PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

For the year ended 31st March,	Schedule	2006	2005
INCOME			
Sales	XII	2,19,46,51,034	1,67,71,17,351
Other Income	XIII	1,92,90,946	29,01,749
Exchange Gains (Net)		36,06,762	81,78,155
		2,21,75,48,742	1,68,81,97,255
EXPENDITURE			
Materials	XIV	1,54,27,97,878	1,33,26,84,300
Manufacturing Expenses	XV	8,76,62,880	7,36,56,743
Employees Costs	XVI	11,37,12,883	7,28,32,677
Administrative & Selling Expenses	XVII	5,09,83,913	3,03,46,963
Financial Expenses	XVIII	3,66,99,821	1,65,62,434
		1,83,18,57,375	1,52,60,83,117
Profit before Depreciation		38,56,91,367	16,21,14,138
Depreciation	IV	1,52,64,782	1,22,90,320
Profit for the year before Tax		37,04,26,585	14,98,23,818
Less:			
Provision for Income Tax		30,00,000	30,000
Provision for Fringe Benefit Tax		8,50,000	–
Net Deferred Tax Charge/(Credit) for the year		33,57,010	(12,15,611)
Profit for the year after Tax		36,32,19,575	15,10,09,429
Balance brought forward		42,40,66,434	32,31,61,316
Profit available for Appropriation		78,72,86,009	47,41,70,745
APPROPRIATIONS			
Proposed Dividend		4,13,81,810	2,64,01,500
Tax on Dividend		58,03,799	37,02,811
General Reserve		3,89,53,000	2,00,00,000
		8,61,38,609	5,01,04,311
Balance carried to Balance Sheet		70,11,47,400	42,40,66,434
Basic and Diluted Earnings per Share of Rs.10 each (Refer Note-8)		27.62	14.30
Additional Information	XIX		
Significant Accounting Policies and Notes on Accounts - forming integral part of the Profit and Loss Account	XX		

As per our report of even date

For Haribhakti & Co.
Chartered Accountants

For B. Khosla & Co.
Chartered Accountants

For and on behalf of the Board

Chetan Desai
Partner
Jaipur, 30th June, 2006

Sandeep Mundra
Partner

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director

CASH FLOW STATEMENT

(Amount in Rupees)

For the year ended 31st March,	2006	2005
A. Cash Flow from Operating Activities		
Net Profit before tax and extraordinary Items	37,04,26,585	15,07,31,717
Adjustment for :		
Depreciation	1,52,64,782	1,22,90,320
Unrealised Foreign Exchange Difference	12,89,112	4,74,542
Profit on sale of Investment	-	(10,83,697)
Loss/(Profit) on sale of Fixed Assets	74,270	-
Impairment of Assets	12,32,442	-
Interest and Dividend earned	(1,89,68,853)	(3,55,653)
Interest paid on borrowings	2,59,39,674	1,63,45,847
Operating Profit before working Capital Changes	39,52,58,012	17,84,03,076
Adjustment for :		
Trade and other receivables	(44,63,51,759)	(8,14,00,363)
Trade payables	6,61,25,363	1,45,25,615
Stock-in-trade	(12,52,97,179)	(11,26,48,244)
Cash generated from Operations	(11,02,65,563)	(11,19,916)
Direct Taxes paid	-	7,64,111
Net cash from operating activities	(11,02,65,563)	(18,84,027)
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(6,69,34,303)	(2,75,68,424)
Sale of Fixed Assets	3,45,604	8,956
Sale/(Purchases) of Shares	(3,87,77,33,282)	(4,92,19,823)
Interest and Dividend received	1,45,25,043	3,55,653
Net Cash used in Investing Activities	(3,92,97,96,938)	(7,64,23,638)
C. Cash Flow from Financing Activities		
Proceeds from / (Repayment of) Long Term Borrowings	15,70,19,378	11,65,55,967
Proceeds from issuance of share capital (Net of Expenses)	5,54,02,00,299	-
Dividend and Tax on Dividend paid	(3,01,04,311)	(2,38,81,477)
Interest Paid on Borrowings	(2,59,39,674)	(1,63,45,847)
Net Cash used in Financing Activities	5,64,11,75,692	7,63,28,643
Net Increase in Cash and Cash Equivalents	1,60,11,13,191	(19,79,022)
Opening Balance of Cash and Cash Equivalents	3,28,98,079	3,48,77,101
Closing Balance of Cash and Cash Equivalents	1,63,40,11,270	3,28,98,079
Cash and Cash Equivalents comprises		
Cash, cheques and drafts in hand	6,45,359	8,49,954
Balance with scheduled bank in current accounts	90,67,523	1,23,51,410
Balance with scheduled bank in deposit accounts	1,13,23,50,726	1,96,96,715
Balance with other Banks	49,19,47,662	-
	1,63,40,11,270	3,28,98,079
Exchange Gain on Bank deposits	45,26,552	-
	1,63,85,37,822	3,28,98,079
Significant Accounting Policies and Notes on Accounts - forming integral part of Cash Flow Statement	XX	

Notes:

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

As per our report of even date

For and on behalf of the Board

For Haribhakti & Co.
Chartered Accountants

For B. Khosla & Co.
Chartered Accountants

Chetan Desai
Partner
Jaipur, 30th June, 2006

Sandeep Mundra
Partner

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director



SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

As at 31st March,	2006	2005
I SHARE CAPITAL		
Authorised		
3,10,00,000 (Previous year 1,60,00,000) Equity Shares Rs. 10/- each	31,00,00,000	16,00,00,000
Issued, Subscribed and Fully Paid up		
2,75,87,873 (Previous year 1,05,60,600) Equity Shares of Rs.10 each	27,58,78,730	10,56,06,000
Of the above		
a) 72,94,920 (Previous year 72,94,920) shares were allotted as fully paid up Bonus Shares by capitalisation of Reserves and Surplus		
b) 95,00,000 (Previous year - Nil) Equity Shares have been allotted as underlying share for 9,50,000 Global Depository Receipts		
	27,58,78,730	10,56,06,000

II RESERVES AND SURPLUS				
Securities Premium				
As per previous Balance Sheet	5,85,98,200		5,85,98,200	
Add: Received during the year	4,99,96,41,436		–	
	5,05,82,39,636		5,85,98,200	
Less: Expenses for issue of Securities	6,97,13,867	4,98,85,25,769	–	5,85,98,200
General Reserve				
As per previous Balance Sheet	5,10,47,000		3,10,47,000	
Add: Transferred from Profit and Loss Account	3,89,53,000	9,00,00,000	2,00,00,000	5,10,47,000
Balance in Profit and Loss account		70,11,47,400		42,40,66,434
		5,77,96,73,169		53,37,11,634

III SECURED LOANS				
Working Capital Facilities from Banks:				
Foreign Currency Loans				
Pre-shipment Credit	16,56,17,120		15,81,11,289	
Post-shipment Credit	27,86,57,400	44,42,74,520	12,55,89,544	28,37,00,833
(Secured by hypothecation of Stocks and Receivables on pari passu basis)		44,42,74,520		28,37,00,833

Further Secured by

- Equitable Mortgage of Land and Buildings situated at K-6A & K-6B, Adarsh Nagar and E-68, EPIP, Sitapura, Jaipur.
- Hypothecation of Plant and Machineries and Other Movable Fixed Assets.
- Fixed Deposits of Rs. 78,54,352 (Previous year Rs.80,30,688).
- Personal Guarantees of Chairman, Managing Director and a Director.

	Additions	Deductions	Balance as at 2006	Balance as at 2005
IV FIXED ASSETS				
GROSS BLOCK				
Land (Freehold)	–	–	48,94,908	48,94,908
Land (Leasehold) ²	2,63,45,000	–	3,71,03,637	1,07,58,637
Building	80,43,630	–	4,29,22,069	3,48,78,439
Furniture & Fixtures	67,26,386	–	1,82,09,436	1,14,83,050
Plant and Machinery ³	1,24,06,205	35,03,671	7,38,56,904	6,49,54,370
Office Equipment	20,19,473	1,41,648	1,05,02,370	86,24,545
Vehicles	36,285	–	27,03,778	26,67,493
Electric Installation	81,45,512	–	1,44,56,322	63,10,732
Computer	38,39,445	–	1,68,56,951	1,30,17,506
	6,75,61,936	36,45,319	22,15,06,375	15,75,89,680
Previous year	3,64,73,929	8,956	15,75,89,680	12,11,24,707

SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

As at 31st March,	Additions	Deductions	Balance as at 2006	Balance as at 2005
IV FIXED ASSETS (Contd.)				
DEPRECIATION				
Land (Leasehold) ²	2,05,487	–	8,39,010	6,33,523
Building	25,64,019	–	1,33,03,172	1,07,39,153
Furniture & Fixtures	13,57,876	–	83,41,808	69,83,932
Plant and Machinery ³	62,90,602	19,05,503	2,70,16,311	2,26,31,212
Office Equipment	9,04,203	87,422	45,02,596	36,85,815
Vehicles	2,88,556	–	18,89,099	16,00,543
Electric Installation	12,12,557	–	33,76,056	21,63,499
Computer	24,41,482	–	1,06,39,943	81,98,461
	1,52,64,782	19,92,925	6,99,07,995	5,66,36,138
<i>Previous year</i>	1,22,90,320	78	5,66,36,138	4,43,45,896
NET BLOCK				
Land (Freehold)			48,94,908	48,94,908
Land (Leasehold) ²			3,62,64,627	1,01,25,114
Building			2,96,18,897	2,41,39,286
Furniture & Fixtures			98,67,628	44,99,118
Plant and Machinery ³			4,68,40,593	4,23,23,158
Office Equipment			59,99,774	49,38,730
Vehicles			8,14,679	10,66,950
Electric Installation			1,10,80,266	41,47,233
Computer			62,17,008	48,19,045
			15,15,98,380	10,09,53,542
Capital Work-in-Progress			–	6,27,633
			15,15,98,380	10,15,81,175

Notes:

- Capital Work-in-Progress of previous year includes advances given against Capital Expenditure.
- Land (Leasehold) includes Rs.3,29,45,000 (Previous year Rs. 66,00,000) in respect of which Lease Agreements are yet to be executed with RIICO Limited.
- Deduction includes Rs. 30,99,057 (Gross Block) and Rs. 18,66,615 (Accumulated Depreciation) on account of impaired asset.

	2006	2005
V INVESTMENTS		
(Long Term At Cost)		
– Trade - Unquoted		
– in Wholly owned subsidiaries		
1,000 (Previous year 1,000) Common Stock, No par value of Jewel Gem USA Inc.,	36,75,32,500	5,02,68,500
57,00,000 (Previous year Nil) Ordinary Shares of US \$ 1 each of Genoa Jewelers Limited	25,40,01,000	–
3,25,000 (Previous year Nil) Ordinary Shares of Baht 100 each of STS Gems Thai Limited	1,01,95,39,043	–
1,00,000 (Previous year Nil) Ordinary Shares of Baht 100 each of STS Creations Thai Limited	6,20,31,574	–
200 (Previous year Nil) Common Shares with No Par Value of STS Jewels Inc.	1,99,50,79,630	–
1,500 (Previous year Nil) Ordinary Shares of Yen 50,000 each of STS Gems Japan Limited	1,99,18,042	–
50,000 (Previous year Nil) Ordinary Shares of HK \$ 100 each of STS Gems Limited, Hongkong	8,75,94,992	–
2 (Previous year Nil) 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., Mexico	2,23,05,000	–



SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

As at 31st March,	2006	2005
V INVESTMENTS (Contd.)		
- Others Unquoted		
3,60,000 (Previous year 3,60,000) Fully paid Equity Shares of Rs.10 Each of VGL Softech Limited	52,07,000	52,07,000
99,98,370 Units (Previous year Nil) of Reliance Liquidity Fund-Daily Dividend Reinvestment Option of Rs.10 each (NAV as on 31.03.2006 Rs.10,00,14,361)	10,00,00,000	-
- Others - Quoted		
368 (Previous year 368) Fully paid Equity Shares of Rs. 10 each of Punjab National Bank [Market Value Rs.1,73,401 (Previous year Rs.1,44,771)]	1,43,520	1,43,520
	3,93,33,52,302	5,56,19,020

VI INVENTORIES

(As taken, valued and certified by the Management)

Materials-in-process	45,37,64,969	33,57,72,229
Semi Finished Goods	2,47,40,233	1,34,97,036
Finished Goods	56,48,405	70,34,288
Stores and Consumables	12,73,521	38,26,396
	48,54,27,128	36,01,29,949

VII SUNDRY DEBTORS

(Unsecured and considered good unless otherwise stated)

Outstanding for more than Six Months	46,520	5,02,538
Others	89,64,04,168	46,58,00,502
	89,64,50,688	46,63,03,040

VIII CASH AND BANK BALANCES

Cash on hand	6,45,359	8,49,954
Balance with Scheduled banks		
- In Current Accounts	90,67,523	1,23,51,410
- In Deposit Accounts [Pledged Rs.1,13,52,755 (Previous year Rs.96,80,688)]	1,13,23,50,726	1,14,14,18,249
		1,96,96,715
Balance with Non Scheduled banks		
- In Current Accounts	18,03,503	-
- In Deposit Accounts	49,46,70,711	49,64,74,214
		-
(Refer note 4(c) and 6)	1,63,85,37,822	3,28,98,079

IX LOANS & ADVANCES

(Unsecured and considered good unless otherwise stated)

Advances recoverable in cash or in kind or for value to be received (Refer note-2)	3,11,55,671	1,79,84,980
Advance Tax (Net of Provision)	2,16,467	88,256
Advances to Staff	17,11,627	23,46,249
Security Deposits (Advance considered doubtful)	26,01,357	3,56,85,122
		15,09,909
Due from other parties	11,80,000	11,80,000
Less:Provision for doubtful advance	11,80,000	11,80,000
		-
	3,56,85,122	2,19,29,394

SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

As at 31st March,		2006	2005	
X	CURRENT LIABILITIES			
	Sundry Creditors Other than SSI Undertakings	12,99,79,937		7,11,85,093
	Unpaid Dividend [Investor Education and Protection Fund to be credited by (to the extent and as and when required)]	3,01,687		2,33,269
	Other Liabilities	2,13,80,856		1,05,77,745
		15,16,62,480		8,19,96,107

XI	PROVISIONS			
	Leave Encashment	38,75,101		37,53,139
	Proposed Dividend	4,13,81,810		2,64,01,500
	Tax on Dividend	58,03,799		37,02,811
		5,10,60,710		3,38,57,450

For the year ended 31st March,		2006		2005	
XII	SALES				
	Export Sales	2,19,14,71,704		1,67,71,17,351	
	Domestic Sales	31,79,330	2,19,46,51,034	-	1,67,71,17,351
			2,19,46,51,034		1,67,71,17,351

XIII	OTHER INCOME			
	Interest on Bank FDRs ¹	1,89,68,853		5,66,989
	Profit on sale of Investment	-		10,83,697
	Miscellaneous Income	3,22,093		12,51,063
		1,92,90,946		29,01,749

¹ Income-tax deducted at source Rs. 28,63,878 (Previous year Rs. 1,16,122)

XIV	MATERIALS				
	Materials Consumed				
	Opening Material-in-process	33,57,72,229		22,40,25,559	
	Add: Purchases	1,58,26,00,954		1,35,48,20,244	
		1,91,83,73,183		1,57,88,45,803	
	Less: Closing Material-in-process	45,37,64,969	1,46,46,08,214	33,57,72,229	1,24,30,73,574
	Purchases of Finished Goods		8,80,46,978		9,05,57,242
	(Increase)/Decrease in Semi Finished and Finished Goods				
	Opening Stocks				
	Semi Finished Goods	1,34,97,036		1,18,16,685	
	Finished Goods	70,34,288		77,68,123	
		2,05,31,324		1,95,84,808	
	Less: Closing Stocks				
	Semi Finished Goods	2,47,40,233		1,34,97,036	
	Finished Goods	56,48,405		70,34,288	
		3,03,88,638	(98,57,314)	2,05,31,324	(9,46,516)
			1,54,27,97,878		1,33,26,84,300



SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

For the year ended 31st March,	2006		2005
XV MANUFACTURING EXPENSES			
Job Work Charges	4,14,87,393		3,50,32,735
Stores and Consumables	2,15,45,921		1,85,85,172
Power and Fuel	87,76,773		65,19,969
Other Manufacturing Expenses	46,93,322		36,62,903
Repairs and Maintenance	1,11,59,471		98,55,964
	8,76,62,880		7,36,56,743

XVI EMPLOYEES COSTS			
Salaries, Wages, Bonus etc.	9,93,96,133		6,35,78,980
Contributions to Provident and Other Funds	58,52,460		38,95,148
Staff Welfare Expenses	48,18,103		38,64,853
Recruitment and Training	36,46,187		14,93,696
	11,37,12,883		7,28,32,677

XVII ADMINISTRATIVE & SELLING EXPENSES			
Advertisement and Business Promotion	37,05,928		13,11,156
Brokerage and Commission	8,18,529		2,20,000
Directors' Remuneration	33,08,250		18,00,000
Directors' Sitting Fees	2,05,000		1,40,000
Insurance	23,48,716		13,49,378
Legal and Professional	34,08,853		12,76,812
Loss on Sale of Assets	74,270		–
Loss on Impaired Fixed Assets	12,32,442		–
Office Expenses	44,65,136		30,42,840
Packing and Forwarding	68,19,881		56,07,016
Post and Telephone	47,46,738		31,48,424
Printing and Stationery	26,99,823		19,93,316
Rent, Rates and Taxes	20,04,574		18,48,003
Travelling and Conveyance	1,51,45,773		86,10,018
	5,09,83,913		3,03,46,963

XVIII FINANCIAL EXPENSES				
Interest				
– On Fixed Loans	46,04,702		–	
– On Working Capital Facilities	2,13,34,972	2,59,39,674	78,83,834	78,83,834
Bank Commission		1,07,60,147		86,78,600
		3,66,99,821		1,65,62,434

	Quantity	Rupees	Quantity	Rupees
XIX ADDITIONAL INFORMATION				
(Pursuant to provisions of Paragraph 3 and 4 of Part II of Schedule VI to the Companies Act, 1956)				
I Materials Consumed				
Roughs (Grams)	57,04,240	76,14,57,621	22,63,138	56,30,13,862
Gold and Alloys (Grams)	13,21,875	37,13,63,260	12,30,354	34,46,87,939
Gemstones (Carats)	17,69,569	17,97,85,362	8,36,703	15,45,70,778
Accessories (Nos.)	3,76,844	4,43,53,304	3,94,999	4,41,93,794
Diamond (Carats)	21,061	10,76,48,667	28,920	13,66,07,201
		1,46,46,08,214		1,24,30,73,574

Note: Consumption includes quantity and cost of materials sold.

SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

For the year ended 31st March,		2006		2005	
XIX	ADDITIONAL INFORMATION (Contd.)	Quantity	Rupees	Quantity	Rupees
2	Stocks, Turnover and Purchases				
	Opening Stocks				
	Gem Stones (Carats)	1,45,190	62,67,932	2,12,905	77,68,123
	Jewellery (Nos.)	291	7,66,356	–	–
			70,34,288		77,68,123
	Purchases				
	Gem Stones (Carats)	181	181	214	12,626
	Jewellery (Nos.)	58	2,40,054	77	1,80,221
	Diamond (Carats)	16,389	8,68,73,277	22,401	9,03,64,395
	Accessories (Nos.)	3,901	9,33,466	–	–
			8,80,46,978		9,05,57,242
	Turnover				
	Gem Stones (Carats)	15,16,342	97,10,26,913	5,29,893	34,67,70,982
	Jewellery (Nos.)	5,51,928	1,07,98,62,945	6,11,721	1,18,92,51,073
	Diamond (Carats)	16,702	9,29,50,792	22,401	9,51,60,876
	Accessories (Nos.)	5,73,881	5,04,62,148	1,97,428	4,43,12,233
	Others (Nos.)	–	3,48,236	–	16,22,187
			2,19,46,51,034		1,67,71,17,351
	Closing Stocks				
	Gem Stones (Carats)	1,11,429	46,28,135	1,45,190	62,67,932
	Jewellery (Nos.)	67	1,96,289	291	7,66,356
	Diamond (Carats)	32	3,31,323	–	–
	Accessories (Nos.)	1,748	4,92,656	–	–
			56,48,403		70,34,288
3	Managerial Remuneration				
	(In accordance with Schedule XIII to the Companies Act, 1956)				
	From Company (Remuneration and Bonus)				
	Managing Director		28,58,250		12,00,000
	Whole time Director		4,50,000		6,00,000
			33,08,250		18,00,000
4	Payments to Directors from Subsidiaries		2,19,07,057		–
5	Payments to Auditors				
	a. Audit Fees		4,48,960		1,92,850
	b. Tax Audit Fees		1,68,360		16,530
	c. For other services		1,93,200		46,530
	d. For Reimbursement of Expenses		1,00,428		–
			9,10,948		2,55,910
6	Repairs and Maintenance				
	a. Buildings		7,60,420		2,18,081
	b. Machineries		20,26,956		11,56,804
	c. Software Maintenance		50,19,831		52,16,010
	d. Other Repairs		33,52,264		32,65,069
			1,11,59,471		98,55,964



SCHEDULES FORMING PART OF ACCOUNTS

(Amount in Rupees)

For the year ended 31st March,		2006		2005	
XIX	ADDITIONAL INFORMATION (Contd.)				
7	Capacities and Production		Quantity		Quantity
	Licensed and Installed Capacities		N A		N A
	Actual Production:				
	Gem Stones(Carats)		19,02,626		6,17,687
	Diamond (Carats)		1,929		–
	Studded Jewellery (Nos.)		5,51,646		6,11,935
	Accessories (Nos.)		7,37,009		5,87,463
8	Captive Consumption				
	Gem Stones(Carats)		4,20,226		1,55,723
	Diamond (Carats)		1,584		–
	Accessories (Nos.)		1,65,281		3,90,035
9	Value of Imports calculated on C.I.F. basis in respect of:		Rupees		Rupees
	a. Raw materials (other than through canalising agencies)		95,84,66,063		77,69,14,983
	b. Consumables and Stores		74,95,458		95,03,187
	c. Capital Goods		13,96,810		1,88,83,656
10	Expenditure in Foreign Currency on account of:				
	Travelling		11,94,461		5,36,649
	Professional Fees		55,25,000		–
	Others		3,12,886		–
11	Value and % of Material Consumption	%	Rupees	%	Rupees
	Raw Materials and Components:				
	Imported	60.56	88,70,06,459	57.45	71,41,55,223
	Indigenous	39.44	57,76,01,755	42.55	52,89,18,351
			1,46,46,08,214		1,24,30,73,574
	Consumables and Stores:				
	Imported	40.61	87,50,076	41.10	86,68,629
	Indigenous	59.39	1,27,95,845	58.90	1,24,22,259
			2,15,45,921		2,10,90,888
12	Remittance in foreign currency on account of Dividends:				
	a. Year to which the dividend relates		2004-2005		2003-2004
	b. Number of non-resident shareholders to whom remittances were made		3		4
	c. Number of shares on which remittances were made		15,13,800		15,13,800
	d. Dividend Amount (in Rupees)		37,84,500		30,27,600
13	Earnings in Foreign Currency		Rupees		Rupees
	Export of goods calculated on F.O.B. basis		2,18,89,78,991		1,67,11,08,959

SCHEDULES FORMING PART OF ACCOUNTS

XX SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Preparation of Financial Statements

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

2. Use of Estimates

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

3. Fixed Assets

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

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

Software, which is not integral part of hardware and related services, is charged to Profit and Loss Account in the year of acquisition.

4. Depreciation

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

5. 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 recognised in previous periods.

Impairment loss is recognised 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.

6. Inventories

- a. Inventories are valued at lower of cost and estimated net realisable value. Cost is determined on 'First-in First-out', 'Specific Identification', or "Weighted Averages' basis as applicable. Cost Comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of semi finished and finished goods are determined on absorption costing method.
- b. Materials-in-process includes raw materials issued for production and work-in-process. Semi Finished Goods are goods manufactured and pending for pre-shipment inspection. Materials consumed are materials used in production of semi finished and finished goods only.
- c. Determination of estimated net realisable value and specific identification involve technical judgments of the management, which has been relied upon by the Auditors .

7. Investments

Long-term investments including those held through nominees are stated at cost. Provision for diminution in the value of



SCHEDULES FORMING PART OF ACCOUNTS

long-term investments 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.

8. Revenue Recognition

Sale of Goods

Revenue from sales of goods is recognised 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 recognised when the right to receive payment is established.

9. Foreign Currency Transactions

a. Initial Recognition

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

b. Conversion

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

c. Exchange Differences

Exchange differences arising 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 amortised as expense or income over the life of contract. Exchange differences on such contract are recognised 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.

10. Retirement Benefits

a. Gratuity

In accordance to Payment of Gratuity Act, 1972, company provides gratuity, a defined benefit retirement plan (Gratuity Plan) covering eligible employees.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation based on which, the company annually contribute to the Employee's Gratuity Fund established by Life Insurance Corporation of India by way of taking Group Gratuity policy covering all eligible employees.

b. Provident Fund

The contribution are made to the fund administered and managed by the Government of India. Such contributions are charged to Profit & Loss Account in the period in which they are incurred.

c. Leave Encashment

Liability for leave encashment is charged to Profit and Loss Account on the basis of actual valuation made at the end of each financial year.

11. Provision for Current and Deferred Taxation

Provision for current tax is made after taking into consideration benefits admissible under the provisions of the Income Tax Act, 1961.

Deferred tax resulting from "timing difference" between book and taxable profit is accounted for using the tax rates and laws that have been enacted or substantively enacted as on the Balance Sheet date. The deferred tax assets are recognised if there is a reasonable certainty of realisation.

SCHEDULES FORMING PART OF ACCOUNTS

XX SIGNIFICANT ACCOUNTING POLICIES (Contd.)

12. Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised 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 recognised, nor disclosed.

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

NOTES ON ACCOUNTS

- The deferred tax liability/(asset) comprise of the following:

(Amount in Rupees)

	As at 31.03.2006		As at 31.03.2005	
a. Deferred Tax Liability				
i. Related to Depreciation		34,84,610		8,46,223
b. Deferred Tax Assets on account of:				
i. Provision for Doubtful Advances	3,97,188		3,97,188	
ii. Public Issue Expenses	–		1,16,127	
iii. Provision for Leave Encashment	1,41,779		1,34,395	
iv. Brought forward losses	–		6,09,880	
		(5,38,967)		(12,57,590)
c. Deferred Tax Liability/ (Assets) (Net)		29,45,643		(4,11,367)

Net deferred tax charge/(credit) for the year of Rs.33,57,010 (Previous year Rs. 12,15,611) has been recognised in the Profit and Loss Account for the year.

- Advances recoverable include Rs.70,54,646 (previous year Rs.3,00,000) due from VGL Softech Limited, a company in which directors are interested .
- Based on the information available with management, the Company does not owe any sum to a small-scale industrial undertaking as defined in clause (j) to Section 3 of the Industrial (Development and Regulation) Act, 1951.
- During the year the Company has allotted:
 - 95,00,000 Equity Shares of Rs. 10 each as Shares underlying 9,50,000 Global Depository Receipts of US\$ 73.50 (Equivalent to Rs. 324.87 per Equity Share) listed at Luxemburg Stock Exchange
 - 75,27,273 Equity Shares of Rs.10 each to a Foreign Company at a premium of Rs. 266.80 each on preferential basis.
 - Out of the proceeds of GDR amounting to Rs. 3,08,62,65,000, amounts of Rs.2,60,00,65,000 has been utilised for acquisition of subsidiaries, business purposes and other charges and balance amount of Rs. 48,62,00,000 is lying in Bank accounts as unutilised money.
- During the year the Company has received a sum of Rs. 44,00,00,000 towards subscription to proposed issue of 1 % Cumulative Non Convertible Redeemable Preference Share of Rs. 100 each.



SCHEDULES FORMING PART OF ACCOUNTS

XX NOTES ON ACCOUNTS (Contd.)

6. Balances with Non-Scheduled bank held in:

(Amount in Rupees)

Name of the Bank	As at 31.03.2006	Maximum Amount outstanding at any time during the year
In Current Account		
ICICI UK Bank Limited	18,00,960	1,03,14,62,250
HSBC Bank USA, N.A.	2,543	4,420
In Fixed Deposit		
ICICI UK Bank Limited	49,46,70,711	94,14,60,000

7. Contingent Liabilities:

	As at 31.03.2006	As at 31.03.2005
a. Estimated amount of contracts remaining to be executed on capital account and not provided for	Nil	65,00,000
b. Guarantees given by bank to Government on behalf of company	1,03,00,000	1,03,00,000
c. Guarantee to Bank in respect of credit facilities extended to third party:	Nil	7,16,78,000
d. Income Tax Demands against the Company not acknowledged as debts and not provided for, in respect of which Company has preferred appeals:	1,84,21,646	1,55,57,249
e. ESI Demand paid under protest by the Company:	Nil	59,281

8. Earnings per Share (EPS):

	2005-06	2004-05
a. Net profit available for equity shareholders (Rs.)	36,32,19,575	15,10,09,429
b. Weighted average number of equity shares used as denominator for calculating EPS	1,31,51,148	1,05,60,600
c. Basic and Diluted Earnings per share of Rs. 10 each (Rs.)	27.62	14.30

9. Related Party Disclosures:

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

Subsidiaries (Direct and Indirect)

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 Jewellers Limited, BVI; 9. STS Jewels Canada INC.; 10. 2Umbrellas .Com Inc., USA; 11. STS Gems USA Inc.; 12. The Jewellery Channel Ltd., United Kingdom; 13. Genoa Jewellers STT (St. Thomas) Limited, USVI; 14. Genoa Jewellers (St. Kitts) Limited, West Indies; 15. Genoa Jewellers (SXM) N.V., St. Maarten

Enterprises in which Directors are interested :

1. Amrin Gems Export; 2. Aziz Gems Trading Co.; 3. Aziz Enterprises 4. Stone Age Limited; 5. VGL Softech Limited; 6. Reengus Exim Private Limited; 7. Shivram Properties Private Limited

Key Management Personnel (KMP)

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

SCHEDULES FORMING PART OF ACCOUNTS

XX NOTES ON ACCOUNTS (Contd.)

B. Related Party Transactions

S. No.	Nature of transactions	2005-06	2004-05
I	Unsecured Loans		
	Reengus Exim Private Limited.		
	Opening Balance		
	Received during the year	10,86,000	10,00,000
	Paid during the year	10,86,000	10,00,000
	Closing Balance		
II	Advances recoverable in Cash or in kind or for value to be received		
	VGL Softech Limited		
	Opening Balance	3,00,000	
	Received during the year	1,22,07,600	32,06,472
	Paid during the year	54,52,954	29,06,472
	Closing Balance	70,54,646	3,00,000
III	Reimbursement of expenses to VGL Softech Limited		
	Travelling and Conveyance	7,080	
	Power and Fuel	1,85,900	
	Post and Telephone	2,54,724	87,872
	Repairs and Maintenance	35,75,680	39,24,770
IV	Director's Remuneration		
	Shri Rahimullah	28,58,250	12,00,000
	Shri Ikramullah	4,50,000	6,00,000
	Relative of Director	1,08,000	–
V	Purchases		
	a. From Subsidiaries		
	STS Gems Japan Limited.	5,82,809	–
	STS Gems Limited, Hong Kong	5,58,76,845	–
	STS Gems Thai Limited.	28,25,954	–
	STS Gems USA Inc.	1,12,82,941	–
	STS Jewels Inc. USA	6,07,47,589	–
		13,13,16,138	–
	b. From Associates		
	Amrin Gem Exports	39,73,779	24,74,213
	Aziz Gems Trading Corp.	–	5,33,509
		39,73,779	30,07,722
VI	Sales		
	To Subsidiaries		
	Jewel Gem USA Inc.	4,91,26,226	–
	The Jewellery Channel Limited	1,51,20,938	–
	STS Gems Japan Limited.	5,97,35,577	–
	STS Gems Limited, Hong Kong	3,16,13,947	–
	STS Gems Thai Limited	5,50,99,965	–
	STS Gems USA Inc.	3,17,86,198	–
	STS Jewels Canada Inc.	19,483	–
	STS Jewels Inc. USA	15,92,49,648	–
		40,17,51,982	–



SCHEDULES FORMING PART OF ACCOUNTS

XX NOTES ON ACCOUNTS (Contd.)

B. Related Party Transactions

S. No. Nature of transactions	2005-06	2004-05
VII Investment in Subsidiaries		
Jewel Gems USA Inc.	36,75,32,500	5,02,68,500
STS Gems Limited, Hong Kong	8,75,94,992	–
STS Gems Japan Ltd	1,99,18,042	–
STS Gems Thai Ltd.	1,01,95,39,043	–
STS Jewels Inc., USA	1,99,50,79,630	–
STS Creations Thai Ltd.	6,20,31,574	–
Genoa Jewellers Ltd.	25,40,01,000	–
Indo Mexico Co. S. De R.L. De C.V., Mexico	2,23,05,000	–
	3,82,80,01,781	5,02,68,500
VIII Guarantee given by the company		
Stone Age Limited (expired on 31st March 2006.)	7,16,78,000	7,16,78,000

10. Segment Reporting:

During the year the Company has acquired/ setup various Overseas Corporate Bodies and accordingly has become a company having global presence. The organisation structure has undergone change and the differential risks and rewards are now more identifiable with respect to method of distribution of products. Accordingly the Company has identified segments according to the method of distribution of products as business segments for its consolidated operations. Therefore, the business segment in which the Company is operating only one - Wholesale. In view of this no further disclosure required.

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

For and on behalf of the Board

Jaipur, 30th June, 2006

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director

BALANCE SHEET ABSTRACT, GENERAL BUSINESS PROFILE

I. Registration Details

Registration No. 4 9 4 5

State Code 1 7

Balance Sheet Date 3 1 0 3 2 0 0 6

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

Public Issue

N I L

Right Issue

N I L

Bonus Issue

N I L

Private Placement

5 1 6 9 8 1 4

III. Position of mobilisation and deployment of funds (Amount in Rupees Thousands)

Total Liabilities

6 9 4 2 7 7 2

Total Assets

6 9 4 2 7 7 2

Sources of Funds

Paid-up Capital

2 7 5 8 7 9

Secured Loans

4 4 4 2 7 5

Reserves and Surplus

5 7 7 9 6 7 3

Unsecured Loans

N I L

Share Application Money

4 4 0 0 0 0

Deferred Tax Assets (Net)

2 9 4 6

Application of Funds

Net Fixed Assets

1 5 1 5 9 8

Investment

3 9 3 3 3 5 2

Net Current Assets

2 8 5 7 8 2 1

Miscellaneous Expenditure

N I L

IV. Performance of Company (Amount in Rupees Thousands)

Turnover

2 2 1 7 5 4 9

Total Expenditure

1 8 4 7 1 2 2

Profit/(Loss) before Tax

3 7 0 4 2 7

Profit/(Loss) after Tax

3 6 3 2 2 0

Earning per share in Rs.

2 7 . 6 2

Dividend Rate (%)

1 5 . 0 0

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	

For and on behalf of the Board

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director

Jaipur, 30th June, 2006



CONSOLIDATED AUDITORS' REPORT

To
The Board of Directors 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 2006 and the Consolidated Profit and Loss account and Consolidated Cash Flow Statement for the period 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 obtaining 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provide reasonable basis of our opinion.
3. We did not audit the financial statements of 8 subsidiaries, whose financial statements reflect total assets of Rs.5,072.44 million as at March 31, 2006, total revenue of Rs.1,093.67 million for the period 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. Certain other financial information of such subsidiaries, which have not been attested by other auditors, have 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 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 VGL and its subsidiaries, we are of the opinion that the consolidated financial statements read together with Significant Accounting Policies and Notes on Accounts 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, 2006;
 - b. in case of the Consolidated Profit and Loss Account, of the profit for the period ended on that date; and
 - c. in case of the Consolidated Cash Flow Statement, of the cash flow for the period ended on that date.

For **Haribhakti & Co.**
Chartered Accountants

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

Chetan Desai
Partner
Membership No.17000
Jaipur, 30th June, 2006

Sandeep Mundra
Partner
Membership No.75482

CONSOLIDATED BALANCE SHEET

(Amount in Rupees)

As at 31st March,	Schedule	2006		2005	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	I	27,58,78,730		10,56,06,000	
Reserves and Surplus	II	5,78,13,59,406	6,05,72,38,136	53,01,99,110	63,58,05,110
Share Application Money			44,00,00,000		–
Minority Interest			2,11,07,783		–
Loan Funds					
Secured Loans	III	82,35,09,528		28,37,00,833	
Unsecured Loans	IV	22,71,03,585	1,05,06,13,113	–	28,37,00,833
Deferred Tax Liabilities (Net)			29,45,643		(4,11,367)
Total			7,57,19,04,675		91,90,94,576
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	V	3,09,95,60,198		18,39,31,686	
Less: Depreciation		18,97,27,614		5,71,98,151	
Net Block		2,90,98,32,584		12,67,33,535	
Capital Work-in-progress		1,32,12,303	2,92,30,44,887	6,29,133	12,73,62,668
Investments	VI		10,58,44,927		53,50,520
Current Assets, Loans and Advances					
Inventories	VII	2,02,70,00,121		42,29,36,093	
Sundry Debtors	VIII	1,16,16,57,991		46,65,11,028	
Cash and Bank Balances	IX	1,78,61,99,823		5,75,32,042	
Interest accrued on Bank Deposit		44,43,810		–	
Loans and Advances	X	26,59,75,540		3,30,19,126	
				97,99,98,289	
Less: Current Liabilities and Provisions					
Current Liabilities	XI	62,55,57,128		16,16,45,520	
Provisions	XII	7,67,05,296		3,19,71,381	
				19,36,16,901	
Net Current Assets			4,54,30,14,861		78,63,81,388
Total			7,57,19,04,675		91,90,94,576
Significant Accounting Policies and Notes on Accounts - forming integral part of the Balance Sheet					
	XX				

As per our report of even date

For Haribhakti & Co.
Chartered AccountantsFor B. Khosla & Co.
Chartered Accountants

For and on behalf of the Board

Chetan Desai
Partner
Jaipur, 30th June, 2006Sandeep Mundra
PartnerAshish Jain
Company SecretaryIkramullah
DirectorRahimullah
Managing Director



CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

For the year ended 31st March,	Schedule	2006	2005
INCOME			
Sales	XIII	2,97,45,64,980	1,67,71,17,352
Other Income	XIV	2,15,37,463	14,81,163
Exchange Gains (Net)		22,69,415	93,82,155
		2,99,83,71,858	1,68,79,80,670
EXPENDITURE			
Materials	XV	2,03,63,72,537	1,33,01,78,585
Manufacturing Expenses	XVI	10,87,00,628	7,13,90,040
Employees Costs	XVII	19,47,57,950	7,32,14,339
Administrative & Selling Expenses	XVIII	20,09,42,937	3,77,48,714
Financial Expenses	XIX	4,91,80,721	1,63,52,514
		2,58,99,54,773	1,52,88,84,192
Profit before Depreciation		40,84,17,085	15,90,96,478
Depreciation	V	2,78,08,149	1,28,52,333
Profit for the year before Tax		38,06,08,936	14,62,44,145
Less:			
Provision for Income Tax		1,90,72,758	32,188
Provision for Fringe Benefit Tax		8,50,000	–
Net Deferred Tax Charge/(Credit) for the year		33,57,010	(12,15,611)
Profit for the year after Tax		35,73,29,168	14,74,27,568
Less :			
Minority Interest in Profit		12,90,227	–
Net Profit for the Year		35,60,38,941	14,74,27,568
Balance brought forward		42,04,84,573	32,31,61,316
Profit available for Appropriation		77,65,23,514	47,05,88,884
APPROPRIATIONS			
Proposed Dividend		4,13,81,810	2,64,01,500
Tax on Dividend		58,03,799	37,02,811
General Reserve		3,89,53,000	2,00,00,000
		8,61,38,609	5,01,04,311
Balance carried to Balance Sheet		69,03,84,905	42,04,84,573
Basic and Diluted Earnings per Share of Rs. 10 each		27.07	13.96
Significant Accounting Policies and			
Notes on Accounts - forming integral part of the Profit and Loss Account	XX		

As per our report of even date

For Haribhakti & Co.
Chartered Accountants

For B. Khosla & Co.
Chartered Accountants

For and on behalf of the Board

Chetan Desai
Partner
Jaipur, 30th June, 2006

Sandeep Mundra
Partner

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director

CONSOLIDATED CASH FLOW STATEMENT

(Amount in Rupees)

For the year ended 31st March,	2006	2005
A. Cash Flow from Operating Activities		
Net Profit before tax and extraordinary Items	38,06,08,936	14,71,52,044
Adjustment for :		
Depreciation	2,78,08,149	1,28,52,333
Unrealised Foreign Exchange Difference	12,89,112	5,43,879
Profit on sale of Investment	-	(10,83,697)
Loss/(Profit) on sale of Fixed Assets	74,270	-
Impairment of Assets	12,32,442	-
Interest and Dividend earned	(1,90,44,969)	(3,55,653)
Interest paid on borrowings	3,68,21,435	1,63,52,514
Operating Profit before working Capital Changes	42,87,89,375	17,54,61,420
Adjustment for :		
Trade and other Receivables	(93,05,51,760)	(9,45,90,026)
Trade payables	47,18,28,495	9,41,77,215
Stock-in-trade	(1,60,40,64,028)	(17,54,54,388)
Cash generated from Operations	(1,63,39,97,918)	(4,05,779)
Direct Taxes paid	-	7,64,111
Minority share of Interest in Profits	12,90,227	-
Net cash from operating activities	(1,63,52,88,145)	(11,69,890)
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(29,29,14,528)	(5,39,10,430)
Payment for Goodwill (net of Capital Reserve)	(2,51,80,16,866)	-
Sale of Fixed Assets	3,45,604	8,956
Sale/(Purchases) of Shares / Mutual Fund	(10,04,94,407)	10,48,677
Interest and Dividend received	1,46,01,159	3,55,653
Net Cash used in Investing Activities	(2,89,64,79,038)	(5,24,97,144)
C. Cash Flow from Financing Activities		
Proceeds from / (Repayment of) Long Term Borrowings	76,33,57,971	11,65,55,966
Proceeds from issuance of share capital (Net of Expenses)	5,54,02,00,299	-
Minority Interest payable	2,11,07,783	-
Foreign Currency Translation Reserve - Unrealised	(18,31,895)	-
Dividend and Tax on Dividend paid	(3,01,04,311)	(2,38,81,477)
Interest Paid on Borrowings	(3,68,21,435)	(1,63,52,514)
Net Cash used in Financing Activities	6,25,59,08,412	7,63,21,975
Net Increase in Cash and Cash Equivalents	1,72,41,41,229	2,26,54,941
Opening Balance of Cash and Cash Equivalents	5,75,32,042	3,48,77,101
Closing Balance of Cash and Cash Equivalents	1,78,16,73,271	5,75,32,042
Cash and Cash Equivalents comprises		
Cash, cheques and drafts in hand	37,78,801	8,49,954
Balance with bank in current accounts	9,55,27,958	2,98,51,431
Balance with bank in deposit accounts	1,68,23,66,512	71,33,942
Balance with other Banks	-	1,96,96,715
	1,78,16,73,271	5,75,32,042
Exchange Gain on Bank deposits	45,26,552	-
	1,78,61,99,823	5,75,32,042
Significant Accounting Policies and Notes on Accounts - forming integral part of Cash flow Statement	XX	

Notes:

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

As per our report of even date

For and on behalf of the Board

For Haribhakti & Co.
Chartered Accountants

For B. Khosla & Co.
Chartered Accountants

Chetan Desai
Partner
Jaipur, 30th June, 2006

Sandeep Mundra
Partner

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director



SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	2006	2005
I SHARE CAPITAL		
Authorised		
3,10,00,000 (Previous year 1,60,00,000) Equity Shares Rs. 10/- each	31,00,00,000	16,00,00,000
Issued, Subscribed and Fully Paid up		
2,75,87,873 (Previous year 1,05,60,600) Equity Shares of Rs.10 each	27,58,78,730	10,56,06,000
Of the above		
a) 72,94,920 (Previous year 72,94,920) Shares were allotted as fully paid up Bonus Shares by capitalisation of Reserves and Surplus		
b) 95,00,000 (Previous year - Nil) Equity Shares have been allotted as underlying share for 9,50,000 Global Depository Receipts		
	27,58,78,730	10,56,06,000

II RESERVES AND SURPLUS

Securities Premium :				
As per previous Balance Sheet	5,85,98,200		5,85,98,200	
Add: Received during the year	4,99,96,41,436		–	
	5,05,82,39,636		5,85,98,200	
Less: Expenses for issue of Securities	6,97,13,867	4,98,85,25,769	–	5,85,98,200
General Reserve:				
As per previous Balance Sheet	5,10,47,000		3,10,47,000	
Add: Transferred from Profit and Loss Account	3,89,53,000	9,00,00,000	2,00,00,000	5,10,47,000
Capital Reserve on Consolidation		1,42,11,290		–
Foreign Currency Translation Reserve		(17,62,558)		69,337
Balance in Profit and Loss account		69,03,84,905		42,04,84,573
		5,78,13,59,406		53,01,99,110

III SECURED LOANS

From Banks				
Term Loan	2,02,39,759		–	
Working Capital Loan	80,32,69,769	82,35,09,528	28,37,00,833	28,37,00,833
		82,35,09,528		28,37,00,833

IV UNSECURED LOANS

From Others	22,71,03,585			–
(Rs. 2,63,24,385 Repayable within one year)	22,71,03,585			–

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	Additions	Deductions	Balance as at 2006	Balance as at 2005
V FIXED ASSETS				
GROSS BLOCK				
Intangible Assets:				
Goodwill on Consolidation	2,53,22,28,156	–	2,53,22,28,156	–
Tangible Assets:				
Land (Freehold)	7,67,38,917	3,59,97,850	4,56,35,975	48,94,908
Land (Leasehold)	2,63,45,000	–	3,71,03,637	1,07,58,637
Building	7,33,59,460	52,51,920	10,29,85,979	3,48,78,439
Furniture & Fixtures	4,70,73,431	–	5,90,37,251	1,19,63,820
Plant and Machinery	5,07,06,189	35,03,671	11,16,76,118	6,44,73,600
Office Equipment	3,85,68,379	2,43,385	4,69,49,539	86,24,545
Vehicles	22,57,065	2,846	49,21,712	26,67,493
Electric Installation	81,64,276	–	1,44,75,008	63,10,732
Computer	5,59,77,456	–	6,96,37,781	1,36,60,325
Leasehold Improvements	4,92,09,855	–	7,49,09,042	2,56,99,187
	2,96,06,28,184	4,49,99,672	3,09,95,60,198	18,39,31,686
Previous year	6,28,15,935	8,956	18,39,31,686	
DEPRECIATION*				
Intangible Assets:				
Goodwill on Consolidation	–	–	–	–
Tangible Assets:				
Land (Freehold)	–	–	–	–
Land (Leasehold)	2,05,487	–	8,39,010	6,33,523
Building	35,87,203	1,63,471	4,26,29,218	3,92,05,486
Furniture & Fixtures	45,19,556	–	1,99,81,472	1,54,61,916
Plant and Machinery	72,26,880	19,05,503	5,53,04,391	4,99,83,014
Office Equipment	16,18,085	97,755	2,07,99,582	1,92,79,252
Vehicles	2,93,257	–	37,67,411	34,74,154
Electric Installation	12,13,180	–	33,78,859	21,65,679
Computer	47,22,546	39,65,540	3,65,27,423	3,57,70,417
Leasehold Improvements	41,68,779	–	65,00,248	23,31,469
	2,75,54,973	61,32,269	18,97,27,614	16,83,04,910
Previous year	1,28,52,333	78	5,71,98,151	
NET BLOCK				
Intangible Assets:				
Goodwill on Consolidation			2,53,22,28,156	–
Tangible Assets:				
Land (Freehold)			4,56,35,975	48,94,908
Land (Leasehold)			3,62,64,627	1,01,25,114
Building			6,03,56,761	(43,27,047)
Furniture & Fixtures			3,90,55,779	(34,98,096)
Plant and Machinery			5,63,71,727	1,44,90,586
Office Equipment			2,61,49,957	(1,06,54,707)
Vehicles			11,54,301	(8,06,661)
Electric Installation			1,10,96,149	41,45,053
Computer			3,31,10,358	(2,21,10,092)
Leasehold Improvements			6,84,08,794	2,33,67,719
			2,90,98,32,584	1,56,26,777
Capital Work-in-Progress			1,32,12,303	6,29,133
			2,92,30,44,887	1,62,55,910

Notes:

* Pre-acquisition Depreciation Rs.11,11,06,759 is included in the Depreciation as on 31.3.2005.

Leasehold Improvement of Rs. 2,53,176, amortised by one of the subsidiaries is included in the depreciation shown in Profit & Loss Account.



SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	2006	2005
VI INVESTMENTS		
(Long Term At Cost)		
– Other than trade - Quoted		
368 (Previous year 368) Fully paid Equity Shares of Rs. 10 each of Punjab National Bank [Market Value Rs.173,401 (Previous year Rs.1,44,771)]	1,43,520	1,43,520
2,093.57 Shares of Tokio Kiho of Jap Yen 50 each [Market Value Rs. 3,86,132]	4,94,407	–
– Other than trade - Unquoted		
3,60,000 (Previous year 360,000) Fully paid Equity Shares of Rs.10 Each of VGL Softech Ltd.	52,07,000	52,07,000
99,98,370 units (previous year Nil) of Reliance Liquidity Fund of Rs.10 each	10,00,00,000	–
	10,58,44,927	53,50,520

VII INVENTORIES		
(As taken, valued and certified by the Management)		
(At cost or net realisable value, whichever is lower)		
Material-in-process	71,28,87,834	33,57,72,229
Semi Finished Goods	9,96,97,530	1,34,97,036
Finished Goods	1,21,31,41,236	6,98,40,432
Stores and Consumables	12,73,521	38,26,396
	2,02,70,00,121	42,29,36,093

VIII SUNDRY DEBTORS				
(Unsecured and Considered Good, unless otherwise stated)				
Outstanding for more than Six Months	11,83,58,373		5,02,538	
Others	1,04,38,27,981	1,16,21,86,354	46,60,08,490	46,65,11,028
Less: Provision for doubtful debts		5,28,363		–
		1,16,16,57,991		46,65,11,028

IX CASH AND BANK BALANCES				
Cash on hand		37,78,801		8,49,954
Balance with banks				
– In Current Accounts	9,55,27,958		3,69,85,373	
– In Deposit Accounts	1,68,68,93,064	1,78,24,21,022	1,96,96,715	5,66,82,088
		1,78,61,99,823		5,75,32,042

X LOANS & ADVANCES				
(Unsecured and Considered Good, unless otherwise stated)				
Advances recoverable in Cash or in kind or for value to be received		14,97,17,678		2,91,62,968
Advances to Staff		57,28,594		23,46,249
Key Money Deposits		6,01,79,158		–
Security Deposits		5,03,50,110		15,09,909
(Advance considered doubtful)				
Due from other parties	11,80,000		11,80,000	
Less: Provision for doubtful advance	11,80,000	–	11,80,000	–
		26,59,75,540		3,30,19,126

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	2006	2005
XI CURRENT LIABILITIES		
Sundry Creditors	50,55,66,721	8,61,82,593
Unpaid Dividend (Investor Education and Protection Fund to be credited by - to the extent and as and when required)	3,01,687	2,18,060
Other Liabilities	11,96,88,720	7,52,44,867
	62,55,57,128	16,16,45,520

XII PROVISIONS		
Leave Encashment	38,75,101	37,55,326
Proposed Dividend	4,13,81,810	2,64,01,500
Tax on Dividend	58,03,799	37,02,811
Provision for taxation (net of advance)	2,56,44,586	(18,88,256)
	7,67,05,296	3,19,71,381

For the year ended 31st March,	2006	2005
XIII SALES		
Sales	2,97,45,64,980	1,67,71,17,352
	2,97,45,64,980	1,67,71,17,352

XIV OTHER INCOME		
Interest on Bank FDRs ¹	1,90,44,969	3,50,403
Miscellaneous Income	24,92,494	11,30,760
	2,15,37,463	14,81,163

¹ Income tax deducted at source Rs. 28,63,878 (previous year Rs.1,16,122)

XV MATERIALS				
Materials Consumed				
Opening Material-in-process	33,57,72,229		22,40,25,559	
Opening Material-in-process*	41,92,50,122		–	
Add: Purchases	1,86,58,11,424		1,41,51,20,673	
	2,62,08,33,775		1,63,91,46,232	
Less: Closing Material-in-process	71,97,21,070	1,90,11,12,705	33,57,72,229	1,30,33,74,003
Purchases of Finished Goods		68,00,34,195		9,05,57,242
(Increase)/Decrease in Semi Finished and Finished Goods:				
<i>Opening Stocks</i>				
Semi Finished Goods	1,34,97,036		1,18,16,685	
Finished Goods	6,98,40,432		–	
Finished Goods*	49,47,27,003		77,68,123	
	57,80,64,471		1,95,84,808	
<i>Less: Closing Stocks</i>				
Semi Finished Goods	9,46,80,430		1,34,97,036	
Finished Goods	1,02,81,58,404		6,98,40,432	
	1,12,28,38,834	(54,47,74,363)	8,33,37,468	(6,37,52,660)
		2,03,63,72,537		1,33,01,78,585

* Indicates inventories on consolidation of subsidiaries during the year



SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

For the year ended 31st March,	2006	2005
XVI MANUFACTURING EXPENSES		
Job Work Charges	4,14,87,393	3,50,32,735
Stores and Consumables	2,61,28,260	2,10,90,888
Power and Fuel	1,05,64,217	65,19,969
Other Manufacturing Expenses	1,86,98,860	41,06,494
Repairs and Maintenance	1,18,21,898	46,39,954
	10,87,00,628	7,13,90,040

XVII EMPLOYEES COSTS		
Salaries, Wages, Bonus etc.	17,65,80,991	6,39,43,122
Contributions to Provident and Other Funds	74,20,122	38,95,148
Staff Welfare Expenses	56,58,866	38,82,373
Recruitment and Training	50,97,971	14,93,696
	19,47,57,950	7,32,14,339

XVIII ADMINISTRATIVE & SELLING EXPENSES		
Advertisement and Business Promotion	2,61,17,134	15,31,920
Director's Remuneration	34,33,228	19,40,000
Director's Sitting Fees	2,05,000	–
Discounts, Brokerage and Commission	72,58,660	2,20,000
Insurance	84,59,044	13,96,224
Legal and Professional	1,97,65,254	14,50,862
Office Expenses	1,96,72,828	92,00,919
Packing and Forwarding	1,08,43,733	56,07,016
Loss on Sale of Assets	74,270	–
Post and Telephone	1,06,17,945	32,49,004
Printing and Stationery	34,07,072	19,93,316
Rent, Rates and Taxes	3,47,34,535	22,48,490
Repair & Maintenance	5,69,207	–
Bad Debts	1,24,597	–
Travelling and Conveyance	2,93,38,622	89,10,963
Loss on impaired fixed assets	12,32,442	–
Pre-operative Expenses	2,50,89,366	–
	20,09,42,937	3,77,48,714

XIX FINANCIAL EXPENSES		
Interest	3,68,21,435	76,67,247
Bank Commission	1,23,59,286	86,85,267
	4,91,80,721	1,63,52,514

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

XX SIGNIFICANT ACCOUNTING POLICIES

1) Principles of Consolidation

Consolidated Financial Statements relates to Vaibhav Gems Limited (hereinafter referred to as the Company) and its Subsidiaries together referred to as the VGL consolidated.

The Subsidiaries considered in the consolidated financial statements are:

Name of the Subsidiaries	Country of incorporation	Ownership Interest and voting power	Date of Acquisition
Genoa Jewellers Limited	British Virgin Islands	100%	4 August, 2005
Indo Mexico Co.S.DeR.L. De C.V.	Mexico	100%	31 March, 2006
Jewel Gem USA Inc.	USA	100%	31 March, 2005
STS Creations Thai Limited	Thailand	100%	27 January, 2006
STS Gems Japan Limited	Japan	100%	24 January, 2006
STS Gems Limited	Hong Kong	100%	24 January, 2006
STS Gems Thai Limited	Thailand	100%	24 January, 2006
STS Jewels Inc.	USA	100%	27 January, 2006
Subsidiaries of Genoa Jewellers Limited			
Genoa Jewellers (St. Kitts) Limited	West Indies	100%	26 January, 2006
Genoa Jewellers (SXM) NV.,	St. Maarten	100%	8 November, 2005
Genoa Jewellers STT(St. Thomas) Limited	St. Thomas, US Virgin Islands	100%	16 September, 2005
The Jewellery Channel Limited	United Kingdom	100%	15 December, 2005
Subsidiaries of STS Jewels Inc.			
2 Umbrellas.com Inc.	USA	100%	27 January, 2006
STS Jewels Canada Inc.	Canada	100%	27 January, 2006
STS Gems USA Inc.	USA	60%	27 January, 2006

Financial Period of all subsidiaries ended on 31st March, 2006

- a) The financial statements of VGL Consolidated have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealised profits or losses as per Accounting Standard 21-Consolidated Financial Statements issued by The Institute of Chartered Accountants of India.
- b) The consolidated financial statements are prepared by adopting uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as those of the parent company's independent financial statements unless stated otherwise.
- c) 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".
- d) 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 recognised in the financial statements as Goodwill or Capital Reserve, as the case may be. This is based upon determination of pre-acquisition profit/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.
- e) Minority Interest in the consolidated financial statements is identified and recognised after taking into consideration;
 - The minorities' share of movement in equity since the date parent-subsidiary relationship came into existence.
 - The profits attributable to the minorities are adjusted against the income of the group in order to arrive at the net income attributable to the company.
- f) The goods lying in inventory at an entity includes certain goods which have been processed in and transferred from one or more entity. For the purpose of consolidation, the amount of unrealised profits included in the value of goods lying in inventory of any entity as at the end of the financial period has been eliminated to the extent of % of net profit of the same financial period of the entity from whom these goods have been procured.
- g) Depreciation has been provided on the estimated useful life of an asset.
- h) 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)
- i) 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.
- j) Some of the subsidiaries have lease agreements towards their retail stores. These non-cancelable operating leases have various expiry dates from February 2009 to March 2010, with options for renewal. Total future Minimum lease payments (excluding



SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

XX SIGNIFICANT ACCOUNTING POLICIES (Contd.)

certain escalations) in this respect are as follows:

(Amount in Rupees)

Year	2005-06	2004-05
Not later than one year	10,91,92,387	1,40,31,938
Later than one year & not later than five years	28,59,92,602	8,14,84,070
Later than five years	Nil	Nil

k) The financial statement of the subsidiaries for the period ended March 31, 2006 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

l) Other significant accounting policies are as set out in independent financial statements of Vaibhav Gems Limited to the extent applicable.

2) Earning Per Share (EPS)

(Amount in Rupees)

	2005-06	2004-05
a. Net profit after minority interest available for equity shareholders	35,60,38,941	14,74,27,568
b. Weighted Average number of equity shares used as denominator for calculating EPS	1,31,51,148	1,05,60,600
c. Basic and Diluted Earnings per share of Rs.10 each	27.07	13.96

3) Segment Information

Particulars	Wholesale Operations	Retail Operations (Stores)	Retail Operations (TV Channels)	Elimination	Total
1. Revenue					
External Revenue	2,92,84,49,838	4,61,15,142	–	–	2,97,45,64,980
Inter-Segment Revenue	29,81,33,390	–	–	29,81,33,390	–
Total Revenue	3,22,65,83,228	4,61,15,142		29,81,33,390	2,97,45,64,980
2. Segment Result					
Operating Result	43,89,65,333	(2,64,44,391)	(97,34,031)	(44,01,509)	39,83,85,402
Interest Income	–	–	–	–	1,90,44,969
Interest Expenses	–	–	–	–	3,68,21,435
Profit Before Tax	–	–	–	–	38,06,08,936
Tax Expenses	–	–	–	–	2,32,79,768
Net Profit after tax					35,73,29,168
3. Other Information					
Segment Assets	7,34,25,63,339	18,43,64,494	9,21,62,450	–	7,61,90,90,283
Segment Liabilities	1,00,11,48,032	(5,02,47,856)	9,97,12,937	–	1,05,06,13,113
Depreciation	2,67,42,787	10,24,375	40,986	–	2,78,08,148
Non Cash Expenses other than Depreciation	13,06,712	–	–	–	13,06,712

Notes:

- Segment has been identified in line with the Accounting Standard on Segment Reporting (AS-17) taking into account the organisation structure as well as the differential risks and returns of these segments.
 - The Company has disclosed distribution channel as the only reportable segment.
 - Inter-Segment revenues are recognised at sales and/or transfer price.
 - The Segment Revenues, Results, Assets and Liabilities include the respective amounts identifiable to each of the segment and amounts allocated on reasonable basis. The amounts, which are not allocable to any, segment, shown as unallocable under respective heads.
- The previous year figures have been regrouped, rearranged, restated & reclassified where ever necessary.
 - Current year figures are not comparable with the previous year figures as the number of group companies has increased from two to sixteen.

For and on behalf of the Board

Jaipur, 30th June, 2006

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director

Statement pursuant to exemption received under Section 212(8) of the Companies Act, 1956 relating to subsidiary companies (Rs. in lacs)

Sl. No.	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
1.	STS Jewels Inc., USA	220.53	1,842.33	7,406.11	9,468.97	-	5,864.31	339.17	56.11	283.06	-
2.	STS Gems Thai Limited, Thailand	367.54	3,650.97	4,906.39	8,924.90	-	3,366.39	251.09	59.88	191.21	-
3.	STS Creations Thai Limited, Thailand	113.26	(66.06)	408.46	455.66	-	502.14	148.57	11.38	137.19	-
4.	STS Gems Limited, Hong Kong	284.94	838.45	2,274.85	3,398.24	-	730.50	121.90	13.03	108.87	-
5.	STS Gems Japan Limited	287.55	0.26	707.63	995.44	4.94	604.38	116.17	0.91	115.26	-
6.	Jewel Gem USA Inc.	3,631.83	(73.68)	3,913.04	7,471.19	-	5,686.24	(90.02)	0.04	(90.06)	-
7.	Genoa Jewellers Limited, BVI	2,477.79	62.38	263.24	2,803.41	-	-	(1.72)	-	(1.72)	-
8.	Indo Mexico Co. S. De R.L. De C.V., Mexico	4.08	(22.91)	2,815.40	2,796.57	-	-	-	-	-	-
9.	STS Jewels Canada Inc.	4.41	(25.52)	219.68	198.57	-	27.57	(0.60)	-	(0.60)	-
10.	2Umbrellas .Com Inc., USA	110.27	(3.01)	58.44	165.70	-	86.73	1.59	0.08	1.51	-
11.	STS Gems USA Inc.	198.48	171.68	735.64	1,105.80	-	206.37	54.76	22.66	32.10	66.56
12.	The Jewellery Channel Ltd., United Kingdom	20.29	(95.79)	1,547.19	1,471.69	-	-	(97.34)	-	(97.34)	-
13.	Genoa Jewellers STT (St. Thomas) Limited, USVI	0.44	(76.04)	1,122.67	1,047.07	-	136.01	(73.49)	4.85	(78.34)	-
14.	Genoa Jewellers (St. Kitts) Limited, West Indies	0.22	(41.07)	573.38	532.53	-	-	(41.07)	-	(41.07)	-
15.	Genoa Jewellers (SXM) N.V., St. Maarten	1.31	(158.44)	2,034.50	1,877.37	-	261.56	(140.99)	12.74	(153.73)	-



CONSOLIDATED AUDITORS' REPORT (Refer Point No. 1 & 5 of Auditors' Report)

To
The Board of Directors of
VAIBHAV GEMS LIMITED

1. Vaibhav Gems Limited (VGL) have acquired various overseas 100% subsidiaries during the financial year 2005-2006. For the purpose of showing aggregate profits of VGL and all such subsidiaries (hereafter referred as VGL Group) for the financial year ended March 31, 2006, the management has prepared a consolidated financial statements of VGL group for the operations from April 1, 2005 to March 31, 2006 comprising of Consolidated Balance Sheet, Consolidated Profit and Loss Account and Consolidated Cash Flow Statement.
2. We have audited the attached Consolidated Balance Sheet of VGL group as at March 31, 2006 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.
3. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require obtaining 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provide reasonable basis of our opinion.
4. We did not audit the financial statements of 8 subsidiaries, whose financial statements reflect total assets of Rs. 5072.44 million as at March 31, 2006, total revenue of Rs. 3740.43 million 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. Certain other financial information of such

subsidiaries, which have not been attested by other auditors, have been compiled by the management and have been verified to the extent possible.

5. *We report that the consolidated financial statements have been prepared by the company's management are not in conformity with the requirements of the Accounting Standard on "Consolidated Financial Statements" (AS-21), which requires consolidation of results only after the date of acquisition.* Separate set of Financial statements in conformity with AS-21 have been prepared and separate report of these financial statements have been issued by us.
6. 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 subsidiaries, we are of the opinion that the consolidated financial statements of VGL group read in particular with Para 5 above and Significant Accounting Policies and Notes on Accounts, 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 VGL group as at March 31, 2006;
 - b. in case of the Consolidated Profit and Loss Account, of the Profit 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
Jaipur, 30th June, 2006

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

Sandeep Mundra
Partner
Membership No.75482

CONSOLIDATED BALANCE SHEET

(Refer Point No. 1 & 5 of Auditors' Report)

(Amount in Rupees)

As at 31st March,	Schedule	2006		2005	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	I	27,58,78,730		10,56,06,000	
Reserves and Surplus	II	5,78,13,59,406	6,05,72,38,136	53,01,99,110	63,58,05,110
Share Application Money			44,00,00,000		–
Minority Interest			2,11,07,783		–
Loan Funds					
Secured Loans	III	82,35,09,528		28,37,00,833	
Unsecured Loans	IV	22,71,03,585	1,05,06,13,113	–	28,37,00,833
Deferred Tax Liabilities (Net)			29,45,643		(4,11,367)
Total			7,57,19,04,675		91,90,94,576
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	V	3,09,95,60,198		18,39,31,686	
Less: Depreciation		18,97,27,614		5,71,98,151	
Net Block		2,90,98,32,584		12,67,33,535	
Capital Work-in-progress		1,32,12,303	2,92,30,44,887	6,29,133	12,73,62,668
Investments	VI		10,58,44,927		53,50,520
Current Assets, Loans and Advances					
Inventories	VII	2,02,70,00,121		42,29,36,093	
Sundry Debtors	VIII	1,16,16,57,991		46,65,11,028	
Cash and Bank Balances	IX	1,78,61,99,823		5,75,32,042	
Interest accrued on bank deposit		44,43,810		–	
Loans and Advances	X	26,59,75,540		3,30,19,126	
			5,24,52,77,285	97,99,98,289	
Less: Current Liabilities and Provisions					
Current Liabilities	XI	62,55,57,128		16,16,45,520	
Provisions	XII	7,67,05,296		3,19,71,381	
				19,36,16,901	
Net Current Assets			4,54,30,14,861		78,63,81,388
Total			7,57,19,04,675		91,90,94,576
Significant Accounting Policies and Notes on Accounts - forming integral part of the Balance Sheet					
	XX				

As per our report of even date

For Haribhakti & Co.
Chartered AccountantsFor B. Khosla & Co.
Chartered Accountants

For and on behalf of the Board

Chetan Desai
Partner
Jaipur, 30th June, 2006Sandeep Mundra
PartnerAshish Jain
Company SecretaryIkramullah
DirectorRahimullah
Managing Director



CONSOLIDATED PROFIT AND LOSS ACCOUNT
(Refer Point No. 1 & 5 of Auditors' Report)

(Amount in Rupees)

For the year ended 31st March,	Schedule	2006	2005
INCOME			
Sales	XIII	4,21,46,22,492	1,67,71,17,352
Other Income	XIV	3,12,08,490	14,81,163
		4,24,58,30,982	1,67,85,98,515
EXPENDITURE			
Materials	XV	2,46,47,90,316	1,33,01,78,585
Manufacturing Expenses	XVI	20,63,80,832	7,13,90,040
Employees Costs	XVII	44,08,31,762	7,32,14,339
Administrative & Selling Expenses	XVIII	39,38,63,541	3,77,48,714
Financial Expenses	XIX	9,41,90,120	1,63,52,514
Exchange Losses (net)		31,75,816	(93,82,155)
		3,60,32,32,387	1,51,95,02,037
Profit before Depreciation		64,25,98,595	15,90,96,478
Depreciation	V	3,88,71,265	1,28,52,333
Profit for the year before Tax		60,37,27,330	14,62,44,145
Less :			
Provision for Income Tax		8,58,50,195	32,188
Provision for Fringe Benefit Tax		8,50,000	–
Provision for Income Tax - Earlier Year		58,17,782	–
Net Deferred Tax Charge/(Credit) for the year		33,57,010	(12,15,611)
Profit for the year after Tax		50,78,52,343	14,74,27,568
Less :			
Minority Interest in profit		62,84,434	–
Net Profit for the Year		50,15,67,909	14,74,27,568
Balance brought forward		42,04,84,573	32,31,61,316
Less: Pre-Acquisition Profit		13,95,26,615	–
Profit available for Appropriation		78,25,25,867	47,05,88,884
Appropriations			
Proposed Dividend		4,13,81,810	2,64,01,500
Tax on Dividend		58,03,799	37,02,811
General Reserve		3,89,53,000	2,00,00,000
		8,61,38,609	5,01,04,311
Balance carried to Balance Sheet		69,63,87,258	42,04,84,573
Basic and Diluted Earnings per Share of Rs. 10 each		38.14	13.96
Significant Accounting Policies and Notes on Accounts – forming integral part of Profit and Loss account	XX		

As per our report of even date

For Haribhakti & Co.
Chartered Accountants

For B. Khosla & Co.
Chartered Accountants

For and on behalf of the Board

Chetan Desai
Partner
Jaipur, 30th June, 2006

Sandeep Mundra
Partner

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director

CONSOLIDATED CASH FLOW STATEMENT

(Refer Point No. 1 & 5 of Auditors' Report)

(Amount in Rupees)

For the year ended 31st March,	2006	2005
A. Cash Flow from Operating Activities		
Net Profit before tax and extraordinary Items	46,42,00,715	14,71,52,044
Adjustment for :		
Depreciation	3,88,71,265	1,28,52,333
Unrealised Foreign Exchange Difference	12,89,112	5,43,879
Profit on sale of Investment	-	(10,83,697)
Loss/(Profit) on sale of Fixed Assets	74,270	-
Impairment of Assets	12,32,442	-
Interest and Dividend earned	(1,91,89,403)	(3,55,653)
Interest paid on borrowings	7,68,80,890	1,63,52,514
Operating Profit before working Capital Changes	56,33,59,291	17,54,61,420
Adjustment for :		
Trade and other Receivables	(93,05,51,760)	(9,45,90,026)
Trade payables	39,92,33,276	9,41,77,215
Stock-in-trade	(1,60,40,64,028)	(17,54,54,388)
Cash generated from Operations	(1,57,20,23,221)	(4,05,779)
Direct Taxes paid	-	7,64,111
Minority share of Interest in profits	62,84,434	-
Net cash from operating activities	(1,57,83,07,655)	(11,69,890)
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(30,39,77,644)	(5,39,10,430)
Payment for Goowill (net of Capital Reserve)	(2,51,80,16,866)	-
Sale of Fixed Assets	3,45,604	8,956
Sale/(Purchases) of Shares	(10,04,94,407)	10,48,677
Interest and Dividend received	1,47,45,593	3,55,653
Net Cash used in Investing Activities	(2,90,73,97,720)	(5,24,97,144)
C. Cash Flow from Financing Activities		
Proceeds from / (Repayment of) Long Term Borrowings	76,33,57,971	11,65,55,966
Proceeds from issuance of share capital (Net of Expenses)	5,54,02,00,299	-
Minority Interest payable	2,11,07,783	-
Foreign Currency Translation Reserve - Unrealised	(78,34,248)	-
Dividend and Tax on Dividend paid	(3,01,04,311)	(2,38,81,477)
Interest Paid on Borrowings	(7,68,80,890)	(1,63,52,514)
Net Cash used in Financing Activities	6,20,98,46,604	7,63,21,975
Net Increase in Cash and Cash Equivalents	1,72,41,41,229	2,26,54,941
Opening Balance of Cash and Cash Equivalents	5,75,32,042	3,48,77,101
Closing Balance of Cash and Cash Equivalents	1,78,16,73,271	5,75,32,042
Cash and Cash Equivalents comprises		
Cash, cheques and drafts in hand	37,78,801	8,49,954
Balance with bank in current accounts	9,55,27,958	2,98,51,431
Balance with bank in deposit accounts	1,68,23,66,512	71,33,942
Balance with other Banks	-	1,96,96,715
	1,78,16,73,271	5,75,32,042
Exchange Gain on Bank deposits	45,26,552	-
	1,78,61,99,823	5,75,32,042
Significant Accounting Policies and Notes on Accounts	XX	
- forming integral part of Cash flow Statement		

Notes:

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

As per our report of even date

For and on behalf of the Board

For Haribhakti & Co.
Chartered Accountants

For B. Khosla & Co.
Chartered Accountants

Chetan Desai
Partner
Jaipur, 30th June, 2006

Sandeep Mundra
Partner

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director



SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	2006	2005
I SHARE CAPITAL		
Authorised		
3,10,00,000 (Previous year 1,60,00,000) Equity Shares Rs. 10/- each	31,00,00,000	16,00,00,000
Issued, Subscribed and Fully Paid up		
2,75,87,873 (Previous year 1,05,60,600) Equity Shares of Rs.10 each	27,58,78,730	10,56,06,000
Of the above		
a) 72,94,920 (Previous year 72,94,920) Shares were allotted as fully paid up Bonus Shares by capitalisation of Reserves and Surplus		
b) 95,00,000 (Previous year - Nil) Equity Shares have been allotted as underlying share for 9,50,000 Global Depository Receipts		
	27,58,78,730	10,56,06,000

II RESERVES AND SURPLUS

Securities Premium				
As per previous Balance Sheet	5,85,98,200		5,85,98,200	
Add: Received during the year	4,99,96,41,436		–	
	5,05,82,39,636		5,85,98,200	
Less: Expenses for issue of Securities	6,97,13,867	4,98,85,25,769	–	5,85,98,200
General Reserve				
As per previous Balance Sheet	5,10,47,000		3,10,47,000	
Add: Transferred from Profit and Loss Account	3,89,53,000	9,00,00,000	2,00,00,000	5,10,47,000
Capital Reserve on Consolidation		1,42,11,290		–
Foreign Currency Translation Reserve		(77,64,911)		69,337
Balance in Profit and Loss account		69,63,87,258		42,04,84,573
		5,78,13,59,406		53,01,99,110

III SECURED LOANS

From Banks				
Term Loan	2,02,39,759		–	
Working Capital Loan	80,32,69,769	82,35,09,528	28,37,00,833	28,37,00,833
		82,35,09,528		28,37,00,833

IV UNSECURED LOANS

From Others	22,71,03,585			–
(Rs. 2,63,24,385 Repayable within one year)	22,71,03,585			–

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	Additions	Deductions	Balance as at 2006	Balance as at 2005
V FIXED ASSETS				
GROSS BLOCK				
Intangible Assets:				
Goodwill on Consolidation	2,53,22,28,156	–	2,53,22,28,156	–
Tangible Assets:				
Land (Freehold)	7,67,38,917	3,59,97,850	4,56,35,975	48,94,908
Land (Leasehold)	2,63,45,000	–	3,71,03,637	1,07,58,637
Building	7,33,59,460	52,51,920	10,29,85,979	3,48,78,439
Furniture & Fixtures	4,70,73,431	–	5,90,37,251	1,19,63,820
Plant and Machinery	5,07,06,189	35,03,671	11,16,76,118	6,44,73,600
Office Equipment	3,85,68,379	2,43,385	4,69,49,539	86,24,545
Vehicles	22,57,065	2,846	49,21,712	26,67,493
Electric Installation	81,64,276	–	1,44,75,008	63,10,732
Computer	5,59,77,456	–	6,96,37,781	1,36,60,325
Leasehold Improvements	4,92,09,855	–	7,49,09,042	2,56,99,187
	2,96,06,28,184	4,49,99,672	3,09,95,60,198	18,39,31,686
Previous year	6,28,15,935	8,956	18,39,31,686	
DEPRECIATION*				
Intangible Assets:				
Goodwill on Consolidation	–	–	–	–
Tangible Assets:				
Land (Freehold)	–	–	–	–
Land (Leasehold)	2,05,487	–	8,39,010	6,33,523
Building	57,37,068	1,63,471	4,26,29,218	3,70,55,621
Furniture & Fixtures	50,50,381	–	2,01,95,190	1,51,44,809
Plant and Machinery	99,30,242	19,05,503	5,50,90,673	4,70,65,934
Office Equipment	25,37,240	97,755	2,07,99,582	1,83,60,097
Vehicles	2,93,330	–	37,67,411	34,74,081
Electric Installation	12,15,360	–	33,78,859	21,63,499
Computer	80,28,902	39,65,555	3,65,27,409	3,24,64,062
Leasehold Improvements	44,06,338	–	65,00,262	20,93,924
	3,74,04,348	61,32,284	18,97,27,614	15,84,55,550
Previous year	1,28,52,333	78	5,71,98,151	
NET BLOCK				
Intangible Assets:				
Goodwill on Consolidation			2,53,22,28,156	–
Tangible Assets:				
Land (Freehold)			4,56,35,975	48,94,908
Land (Leasehold)			3,62,64,627	1,01,25,114
Building			6,03,56,761	(21,77,182)
Furniture & Fixtures			3,88,42,061	(31,80,989)
Plant and Machinery			5,65,85,445	1,74,07,666
Office Equipment			2,61,49,957	(97,35,552)
Vehicles			11,54,301	(8,06,588)
Electric Installation			1,10,96,149	41,47,233
Computer			3,31,10,372	(1,88,03,737)
Leasehold Improvements			6,84,08,780	2,36,05,264
			2,90,98,32,584	2,54,76,137
Capital Work-in-Progress			1,32,12,303	6,29,133
			2,92,30,44,887	2,61,05,270

Notes:

* Pre-acquisition Depreciation Rs.10,12,57,399 is included in the Depreciation as on 31-Mar-05.

Leasehold Improvement of Rs. 14,66,917, amortised by one of the subsidiaries is included in the depreciation shown in Profit & Loss account.



SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	2006	2005
VI INVESTMENTS		
(Long Term At Cost)		
– Other than Trade - Quoted		
368 (Previous year 368) Fully paid Equity Shares of Rs. 10 each of Punjab National Bank [Market Value Rs.1,73,401 (Previous year Rs.1,44,771)]	1,43,520	1,43,520
2,093.57 Shares of Tokio Kiho of Jap Yen 50 each [Market Value Rs. 3,86,132]	4,94,407	–
– Other than Trade - Unquoted		
3,60,000 (Previous year 3,60,000) Fully paid Equity Shares of Rs.10 Each of VGL Softech Ltd.	52,07,000	52,07,000
99,98,370 Units (previous year Nil) of Reliance Liquidity Fund of Rs.10 each	10,00,00,000	–
	10,58,44,927	53,50,520

VII INVENTORIES		
(As taken, valued and certified by the Management)		
(At cost or net realisable value, whichever is lower)		
Material-in-process	71,28,87,834	33,57,72,229
Semi Finished Goods	9,96,97,530	1,34,97,036
Finished Goods	1,21,31,41,236	6,98,40,432
Stores and Consumables	12,73,521	38,26,396
	2,02,70,00,121	42,29,36,093

VIII SUNDRY DEBTORS			
(Unsecured and Considered Good, unless otherwise stated)			
Outstanding for more than Six Months	11,83,58,373		5,02,538
Others	1,04,38,27,981	1,16,21,86,354	46,60,08,490
Less: Provision for doubtful debts		5,28,363	–
		1,16,16,57,991	46,65,11,028

IX CASH AND BANK BALANCES			
Cash on hand		37,78,801	8,49,954
Balance with banks			
– In Current Accounts	9,55,27,958		3,69,85,373
– In Deposit Accounts	1,68,68,93,064	1,78,28,61,932	1,96,96,715
		1,78,61,99,823	5,75,32,042

X LOANS & ADVANCES			
(Unsecured and Considered Good, unless otherwise stated)			
Advances recoverable in Cash or in kind or for value to be received		14,97,17,678	2,91,62,968
Advances to Staff		57,28,594	23,46,249
Key Money Deposits		6,01,79,158	–
Security Deposits		5,03,50,110	15,09,909
(Advances considered doubtful)			
Due from other parties	11,80,000		11,80,000
Less: Provision for doubtful advance	11,80,000	–	–
		26,59,75,540	3,30,19,126

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

As at 31st March,	2006	2005
XI CURRENT LIABILITIES		
Sundry Creditors	50,55,66,721	8,61,82,593
Unpaid Dividend (Investor Education and Protection Fund to be credited by - to the extent and as and when required)	3,01,687	2,18,060
Other Liabilities	11,96,88,720	7,52,44,867
	62,55,57,128	16,16,45,520

XII PROVISIONS		
Leave Encashment	38,75,101	37,55,326
Proposed Dividend	4,13,81,810	2,64,01,500
Tax on Dividend	58,03,799	37,02,811
Provision for taxation (net of advance)	2,56,44,586	(18,88,256)
	7,67,05,296	3,19,71,381

For the year ended 31st March,	2006	2005
XIII SALES		
Sales	4,21,46,22,492	1,67,71,17,352
	4,21,46,22,492	1,67,71,17,352

XIV OTHER INCOME		
Interest on Bank FDRs ¹	1,91,89,403	3,50,403
Miscellaneous Income	1,20,19,087	11,30,760
	3,12,08,490	14,81,163

¹ Income tax deducted at source Rs. 28,63,878 (previous year Rs. 1,16,122)

XV MATERIALS				
Materials Consumed				
Opening Material-in-process	33,57,72,229		22,40,25,559	
Opening Material-in-process*	30,53,04,511		-	
Add: Purchases	2,31,57,67,913		1,41,51,20,673	
	2,95,68,44,653		1,63,91,46,232	
Less: Closing Material-in-process	71,97,21,075	2,23,71,23,578	33,57,72,229	1,30,33,74,003
Purchases of Finished Goods		88,38,05,604		9,05,57,242
(Increase)/Decrease in Semi Finished and Finished Goods:				
<i>Opening Stocks</i>				
Semi Finished Goods	1,34,97,036		1,18,16,685	
Finished Goods	6,98,40,432		-	
Finished Goods*	56,65,29,192		77,68,123	
	64,98,66,660		1,95,84,808	
<i>Less: Closing Stocks</i>				
Semi Finished Goods	9,46,80,430		1,34,97,036	
Finished Goods	1,21,13,25,094		6,98,40,432	
	1,30,60,05,524	(65,61,38,866)	8,33,37,468	(6,37,52,660)
		2,46,47,90,316		1,33,01,78,585

* Indicates inventories on consolidation of subsidiaries during the year



SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

(Amount in Rupees)

For the year ended 31st March,	2006	2005
XVI MANUFACTURING EXPENSES		
Job Work Charges	4,14,87,393	3,50,32,735
Stores and Consumables	3,88,09,941	2,10,90,888
Power and Fuel	1,47,89,170	65,19,969
Other Manufacturing Expenses	9,82,26,902	41,06,494
Repairs and Maintenance	1,30,67,426	46,39,954
	20,63,80,832	7,13,90,040

XVII EMPLOYEES COSTS		
Salaries, Wages, Bonus etc.	41,47,73,295	6,39,43,122
Contributions to Provident and Other Funds	1,12,87,701	38,95,148
Staff Welfare Expenses	93,37,091	38,82,373
Recruitment and Training	54,33,675	14,93,696
	44,08,31,762	7,32,14,339

XVIII ADMINISTRATIVE & SELLING EXPENSES		
Advertisement and Business Promotion	6,65,55,153	15,31,920
Director's Remuneration	43,02,645	19,40,000
Director's Sitting Fees	2,05,000	–
Discounts, Brokerage and Commission	58,96,589	2,20,000
Insurance	2,54,79,910	13,96,224
Legal and Professional	3,42,45,809	14,50,862
Office Expenses	7,51,09,757	92,00,919
Packing and Forwarding	2,48,68,695	56,07,016
Loss on Sale of Assets	74,270	–
Post and Telephone	1,77,61,665	32,49,004
Printing and Stationery	51,00,451	19,93,316
Rent, Rates and Taxes	5,03,30,441	22,48,490
Repair and maintenance	1,29,337	–
Bad Debts	1,24,597	–
Travelling and Conveyance	5,71,73,406	89,10,963
Loss on impaired fixed assets	12,32,442	–
Pre-Operative expenses	2,52,73,374	–
	39,38,63,541	3,77,48,714

XIX FINANCIAL EXPENSES		
Interest	7,68,80,890	76,67,247
Bank Commission	1,73,09,230	86,85,267
	9,41,90,120	1,63,52,514

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

XX SIGNIFICANT ACCOUNTING POLICIES

1) Principles of Consolidation

Consolidated Financial Statements relates to Vaibhav Gems Limited (hereinafter referred to as the Company) and its Subsidiaries together referred to as the VGL consolidated.

The Subsidiaries considered in the consolidated financial statements are:

Name of the Subsidiaries	Country of incorporation	Ownership Interest and voting power	Date of Acquisition
Genoa Jewellers Limited	British Virgin Islands	100%	4 August, 2005
Indo Mexico Co.S.DeR.L. De C.V.	Mexico	100%	31 March, 2006
Jewel Gem USA Inc.	USA	100%	31 March, 2005
STS Creations Thai Limited	Thailand	100%	27 January, 2006
STS Gems Japan Limited	Japan	100%	24 January, 2006
STS Gems Limited	Hong Kong	100%	24 January, 2006
STS Gems Thai Limited	Thailand	100%	24 January, 2006
STS Jewels Inc.	USA	100%	27 January, 2006
Subsidiaries of Genoa Jewellers Limited			
Genoa Jewellers (St. Kitts) Limited	West Indies	100%	26 January, 2006
Genoa Jewellers (SXM) NV.,	St. Maarten	100%	8 November, 2005
Genoa Jewellers STT (St. Thomas) Limited	St. Thomas, US Virgin Islands	100%	16 September, 2005
The Jewellery Channel Limited	United Kingdom	100%	15 December, 2005
Subsidiaries of STS Jewels Inc.			
2 Umbrellas.com Inc.	USA	100%	27 January, 2006
STS Jewels Canada Inc.	Canada	100%	27 January, 2006
STS Gems USA Inc	USA	60%	27 January, 2006

Financial Period of all subsidiaries ended on 31st March, 2006

- During the year the company has acquired 100% controlling interest in various overseas companies. Audited Consolidated Accounts for the year as per AS-21 has been prepared, adopted and reported separately. However for the purpose of a better understanding of the company's business operations and for future comparison the management has also adopted the Audited Consolidated Financial statements, considering operations of all such subsidiaries for the whole financial year.
- The financial statements of VGL Consolidated have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealised profits or losses.
- The consolidated financial statements are prepared by adopting uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as those of the parent company's independent financial statements unless stated otherwise.
- 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".
- 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 recognised in the financial statements as Goodwill or Capital Reserve, as the case may be. This is based upon determination of pre-acquisition profit/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.
- Minority Interest in the consolidated financial statements is identified and recognised after taking into consideration;
 - The minorities' share of movement in equity since the date parent-subsidiary relationship came into existence.
 - The profits attributable to the minorities are adjusted against the income of the group in order to arrive at the net income attributable to the company.
- The goods lying in inventory at an entity includes certain goods which have been processed in and transferred from one or more entity. For the purpose of consolidation, the amount of unrealised profits included in the value of goods lying in inventory of any entity as at the end of the financial period has been eliminated to the extent of % of net profit of the same financial period of the entity from whom these goods have been procured.
- Depreciation has been provided on the estimated useful life of an asset.



SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS

XX SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- i) 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)
- j) 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.
- k) Some of the subsidiaries have lease agreements towards their retail stores. These non-cancelable operating leases have various expiry dates from February 2009 to March 2010, with options for renewal. Total future Minimum lease payments (excluding certain escalations) in this respect are as follows:

(Amount in Rupees)

Year	2005-06	2004-05
Not later than one year	10,91,92,387	1,40,31,938
Later than one year & not later than five years	28,59,92,602	8,14,84,070
Later than five years	Nil	Nil

- l) The financial statement of the subsidiaries for the period ended March 31, 2006 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, except for AS-21 "Consolidated Financial statements".
- m) Other significant accounting policies are as set out in independent financial statements of Vaibhav Gems Limited to the extent applicable.

2) Earning Per Share (EPS)

(Amount in Rupees)

	2005-06	2004-05
a. Net profit after minority interest available for equity shareholders	50,15,67,909	14,74,27,568
b. Weighted Average number of equity shares used as denominator for calculating EPS	1,31,51,148	1,05,60,600
c. Basic and Diluted Earnings per share of Rs.10 each	38.14	13.96

3) Reconciliation of profits between profit as per AS - 21 and profit for the full year consolidation (as prepared by the management)

Profit as per Profit and Loss Account - after tax and minority interest	50,15,67,909
Less : Profit for pre acquisition period	13,95,26,615
Less : Difference in Foreign Currency Translation Reserve	60,02,353
Profit as per Profit and Loss account (as per AS - 21) - after Tax and minority interest	35,60,38,941

- 4) The previous year figures have been regrouped, rearranged, restated & reclassified where ever necessary.
- 5) Current year figures are not comparable with the previous year figures as the number of group companies has increase from two to sixteen.

For and on behalf of the Board

Jaipur, 30th June, 2006

Ashish Jain
Company Secretary

Ikramullah
Director

Rahimullah
Managing Director

“We are what we think.
All that we are, arises with our thoughts.
With our thoughts, we make the world.”
– *Gautam Buddha*

Corporate Information



Board of Directors

Mr Sunil Agrawal - *Chairman*
Mr Rahimullah - *Managing Director*
Mr Suresh Punjabi
Mr Nirmal Kumar Bardiya
Mr Anandi Lal Roongta
Mr Mitha Lal Mehta
Mr Sunder Singh Bhandari
Mr Sanjeev Agrawal
Mr Ikramullah

Company Secretary

Ashish Jain

Auditors

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

Registrars and share transfer agents

Karvy Computershare (P) Limited, Hyderabad

Registered office

K-6B, Adarsh Nagar, Fateh Tiba, Jaipur - 302 004
Phone: 0141-260 1020; Fax: 0141-260 3228/2010

Manufacturing facilities

K-6B, Adarsh Nagar, Fateh Tiba, Jaipur - 302 004
Phone: 0141-260 1020; Fax: 0141-260 2010/3228

E-68, EPIP, RIICO Industrial Area, Sitapura,
Jaipur - 302 022
Phone: 0141-277 0648; Fax: 0141-277 0510

Unit No. 186-A, SDF, VI, SEEPZ, Mumbai - 400 096
Phone: 022-2829 1823/25; Fax: 022-2829 2296

Bankers

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





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