



Vaibhav Gems Limited
Annual Report 2006 - 07

DRIVEN BY A FIRE WITHIN

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Forward looking statement

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

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

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

ENCHANTING

The enduring spirit of gemstones is reflected in their very existence. Fashioned in the depths of the earth under tremendous heat and pressure, they are testimonials to endurance and longevity.

Their colours are evocative and emotive. They influence and capture our imagination, enthrall us and heighten our senses.

They are the ultimate objects of pleasure, both aesthetic and sensual. Their very possession is a statement of achievement. It is the announcement of the ability to surmount the heights of success...

For a company that handles millions of pieces of gemstones and jewellery every year, this spirit manifests itself in every aspect of business.

At Vaibhav Gems, gemstones are not just our raw material. They are a reflection of our spirit. An indicator of our commitment, and the power behind our will to succeed - the fire within.

Our enterprise is an example of transcending obstacles and achieving new heights. Our achievements and accomplishments shine just as bright. In different lights. In different colours.

THE SPIRIT OF GEMS

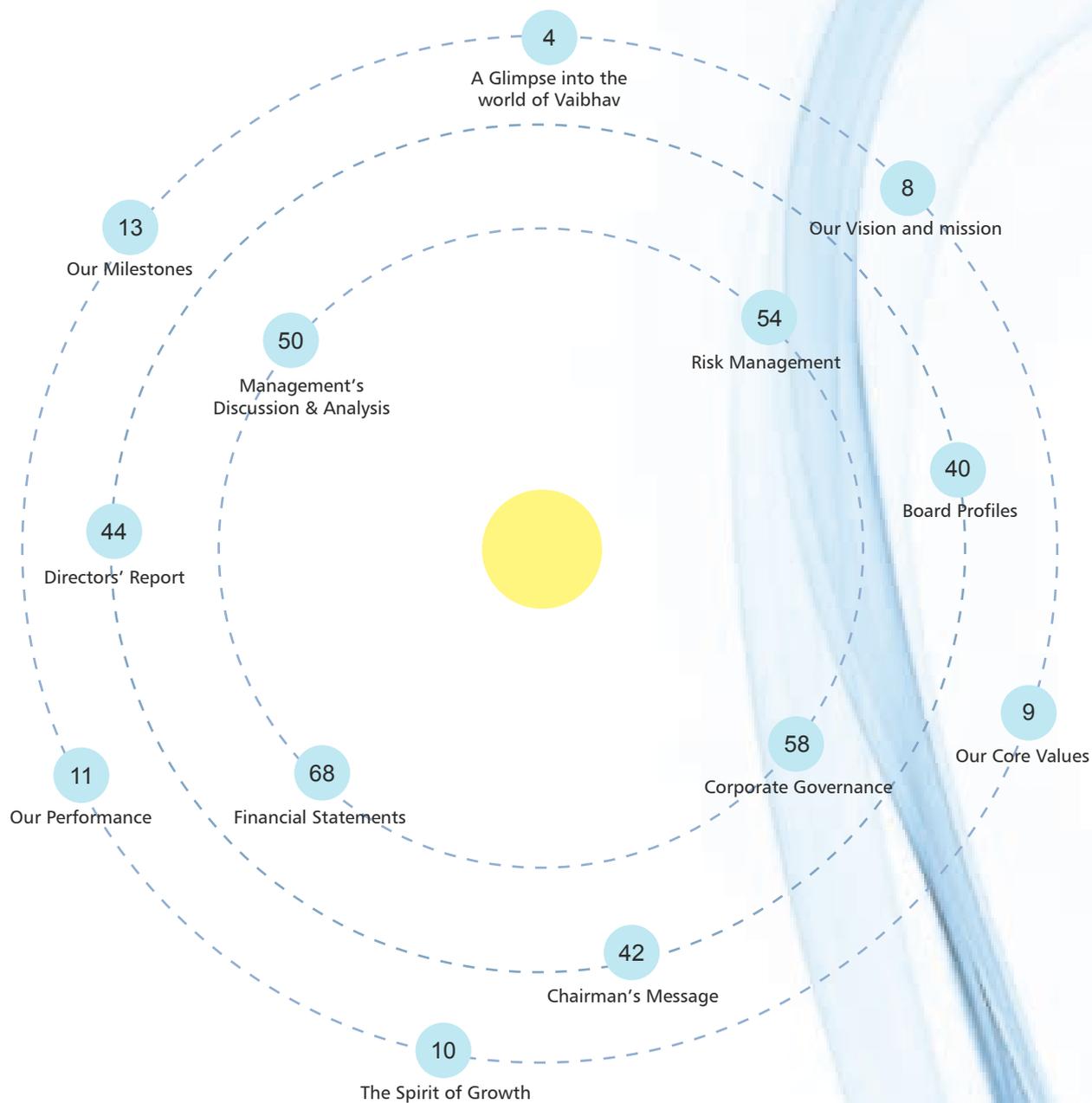


RADIATING THE SPIRIT OF GEMSTONES

We began this journey three decades ago, as a small company trading in coloured gemstones. In time we evolved into a global organization with an imposing presence across the value chain of the coloured jewellery segment.

During our journey, we faced many difficulties. Our response to these was always competent, and we emerged from all adversities stronger and richer with experience. We adopted strategic initiatives through the course of the year to fortify our business against customer concentration and geographical risk. We broke new ground in television marketing, consolidated and further right sized our operations and added muscle to our retail business.

In the process we emerged stronger and better prepared for the next level of growth. We reinforced our stakeholder commitments, and of course, exemplified the spirit of the gemstones that we work with. *Everyday.*



CONTENTS

A GLIMPSE INTO THE WORLD OF VAIBHAV

Evolution

At Vaibhav Gems, we have over twenty five years of experience in this industry and are the largest exporter of coloured gemstones from India. Having invested in continuous improvement and broadening of vision, we now have fully integrated state-of-art production facilities at Jaipur, Mumbai, Bangkok and China. Our manufacturing set up covers the entire gamut of processes from rough gemstones to polished jewellery. Our entrenched presence in the entire value chain propels us toward a successful future.

In testimony to our achievements, we received the Highest Export Award (Coloured Gemstone Category) for the fifteenth time. This is the twelfth time in succession that we achieved this distinction. We were also short-listed by the Institute of Company Secretaries of India as one of the top 25 Companies in India adopting good corporate governance practices, for the third time in succession in 2005-06. We also received the ISO 9001:2000 certification in June 2007.

Our Business

As one of the few companies integrated across the jewellery value chain, our sound business model has established us firmly in existing jewellery markets while allowing us to diversify and explore fresh initiatives.

For more than 15 years we have consistently been the largest exporters of coloured gemstones from India and also figured as one of the largest studded jewellery exporters in India.

Our Product Portfolio

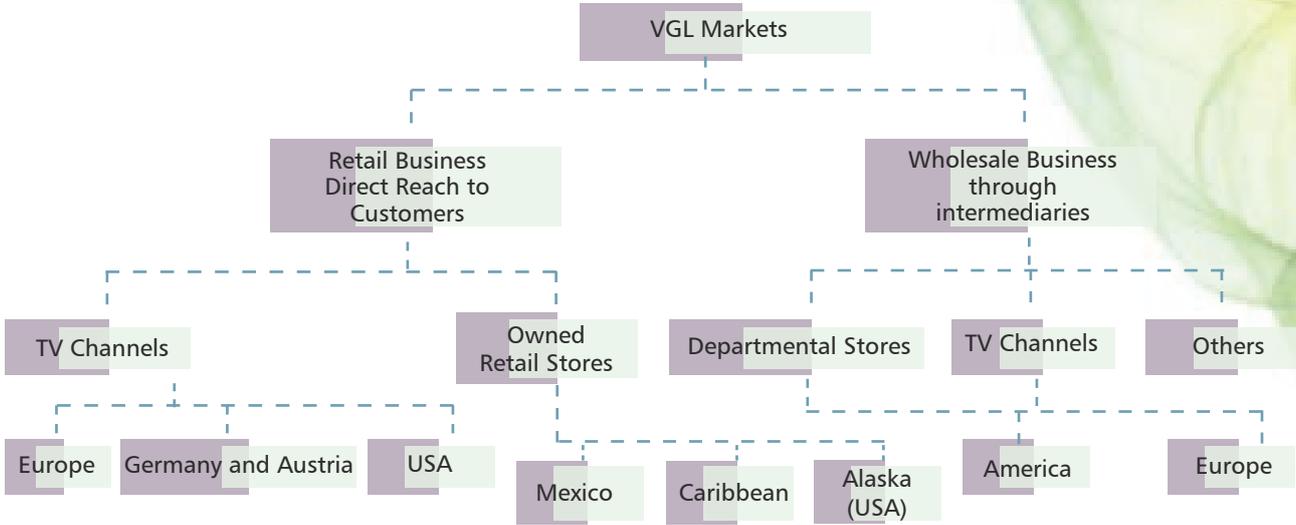
- ◆ Gemstones and Diamonds
- ◆ Gold chains, post and filing
- ◆ Coloured gemstone studded jewellery
- ◆ Diamond studded jewellery
- ◆ Silver studded jewellery

Our Marketing Strategy

Our product marketing involves a three-pronged strategy, spanning 14 countries.

- ◆ We sell in bulk to brand enhancing front-end stores such as Wal-Mart, JC Penney and Macy's, in addition to specialty jewellery stores.
- ◆ Our retail sales are primarily affected through owned Company stores named as "Milano Diamond Gallery" in Alaska, Mexico and the Caribbean.
- ◆ We also sell directly to the customer through our recently established 24 hour online jewellery shopping TV channels.

Our Business Model



Our Facilities

With a strong foothold in the jewellery value chain, our capabilities cover:

Coloured Gemstones: We process precious stones like emeralds, blue sapphires, yellow sapphires and rubies into various forms such as facets, cabochons, beads, and carvings.

Studded Jewellery Manufacturing: We manufacture diamond and coloured gemstone jewellery items such as rings, earrings, pendants and bracelets in yellow and white gold and platinum in our state-of-the-art facility at Jaipur, Mumbai, Bangkok and China.

Pioneers in tanzanite, we also process semi-precious stones like amethysts, aquamarines, citrines, pink tourmalines, red garnets, rhodolite garnets, iolites, peridots, and tsavorites.

Diamond processing and trading: Our diamond-processing unit at Mumbai crafts an exquisite array of diamond encrusted jewellery.

Chain Manufacturing: Our chain plant at Jaipur produces designs of super lightweight 5R, 6R and 7R chain series to replace high cost chain imports and provides a regular and uninterrupted supply of these through the year.

Our Presence

Our retail presence spans the length and breadth of the globe, covering more than 14 countries and five continents. Our retail network includes television channels dedicated to the sales of our jewellery in the UK, USA and Germany and stores in high-end holiday destinations like Alaska, Mexico and the Caribbean.

Our Strengths

We directly procure our raw gemstones from mines with the help of an expert team. This enables us to capture the entire value chain from the mines to the retail market and benefit from cost reduction.

Our low-cost manufacturing facilities located across India, Thailand, and China underscores our cost competitiveness.

We employ a variety of innovative retail formats to market our products. Primary among these are electronic retailing, i.e. sales through the television and the internet, and retail outlets in strategic high-end holiday destinations.

Our three hundred and fifty strong design team introduces over 15,000 new designs into the market each year and enable us to offer significant choice in each category of jewellery we manufacture.





Our Brands

Television retail brand



Jewellery designed exclusively for men, for Television retail

Premium brand sold in own retail stores



Tanzanite Dreams Premium brand sold in own retail stores
by TIMOTHY PASHA

Retail store in holiday destination





OUR VISION

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

OUR MISSION

MISSION B14X

We aim to be a company with a billion dollar turnover by the year 2014 with 10 per cent profit margin.



OUR CORE VALUES

I will serve my customers with passion.

1

2

I will keep my word.

5

I will keep an open mind and improve everyday.

4

I will always help my team.

3

I will be respectful to all.

THE SPIRIT OF GROWTH
THREE YEAR CAGR



14%
GROWTH IN
GROSS
BLOCK

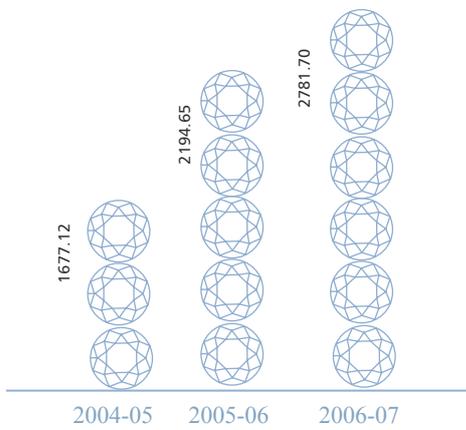
GROWTH
IN SALES
18%

GROWTH
IN NET
WORTH
119%

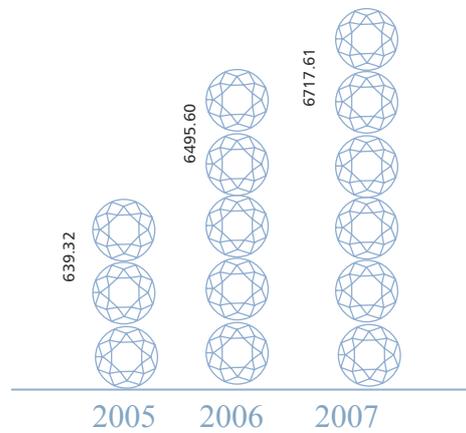
GROWTH
IN RESERVES
& SURPLUS
124%

Our Performance (Rs. million)

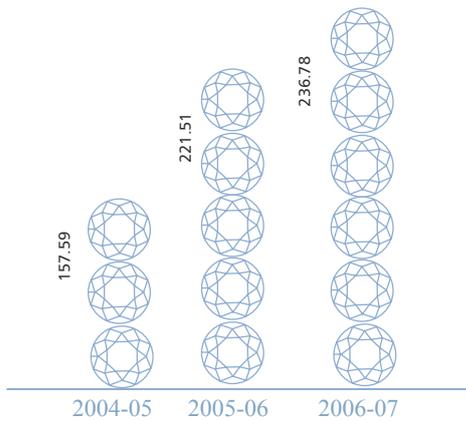
SALES



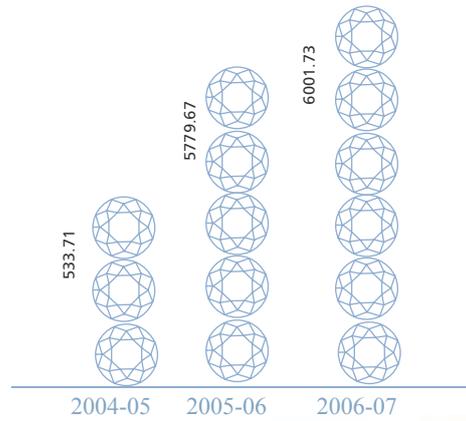
NET WORTH



GROSS BLOCK



RESERVES & SURPLUS





Our accolades

- ◆ Recipient of Highest Export Award from GJPEC in the coloured gemstones category for 15 years (12 years in a row).
- ◆ Winner of CNBC Emerging India award in gems and jewellery Sector for 2005-06.
- ◆ Raced from 9th to 2nd in terms of recommended store by the cruise lines in just 18 months, fastest ever in the industry
- ◆ Short-listed amongst the top 25 companies in India implementing good corporate governance practices for the 3rd time in succession in 2005-06 by the ICSI National Corporate Governance Award.
- ◆ Awarded with the ISO 9001:2000 certification as a mark of their world-class quality.
- ◆ Ranked 269th among the most valuable Private Sector companies in India by Business Today (one of the most reputed Business Magazines of India).
- ◆ Awarded Certificate of Merit by Rajasthan Chamber of Commerce and Industry.
- ◆ Won the prestigious WOW Award for providing outstanding customer services in the UK.

Our Milestones

2003-04

- ◆ Capacity enhanced through a new state-of-the-art jewellery manufacturing unit
- ◆ Commissioned a micro weight gold chain plant
- ◆ Rs. 1,317.85 million turnover and Rs. 95.52 million profit after tax achieved

2004-05

- ◆ Retail chain stores at major international tourist destinations set up
- ◆ Diamond processing unit in Adarsh Nagar, Jaipur set up
- ◆ Rs. 1,677.12 million in turnover and Rs. 151.01 million profit after tax achieved

2005-06

- ◆ International presence established through the acquisition of the STS Group of Companies
- ◆ Retail Chain stores at Alaska, Caribbean Islands, Mexico, St. Kitts, St. Thomas, St. Maartin set up
- ◆ Completion of USD 70 Million GDR issue
- ◆ Acquisition of a manufacturing facility at Thailand and marketing facilities at USA, UK, Japan, Hong Kong and Canada
- ◆ Started jewellery marketing through 24 hour online jewellery TV channels
- ◆ Rs. 2,194.66 million turnover and Rs. 363.22 million profit after tax achieved
- ◆ Warburg Pincus Group, one of the leading private equity investors in the world, invested USD 47 million in the company by way of private equity placement

2002-03

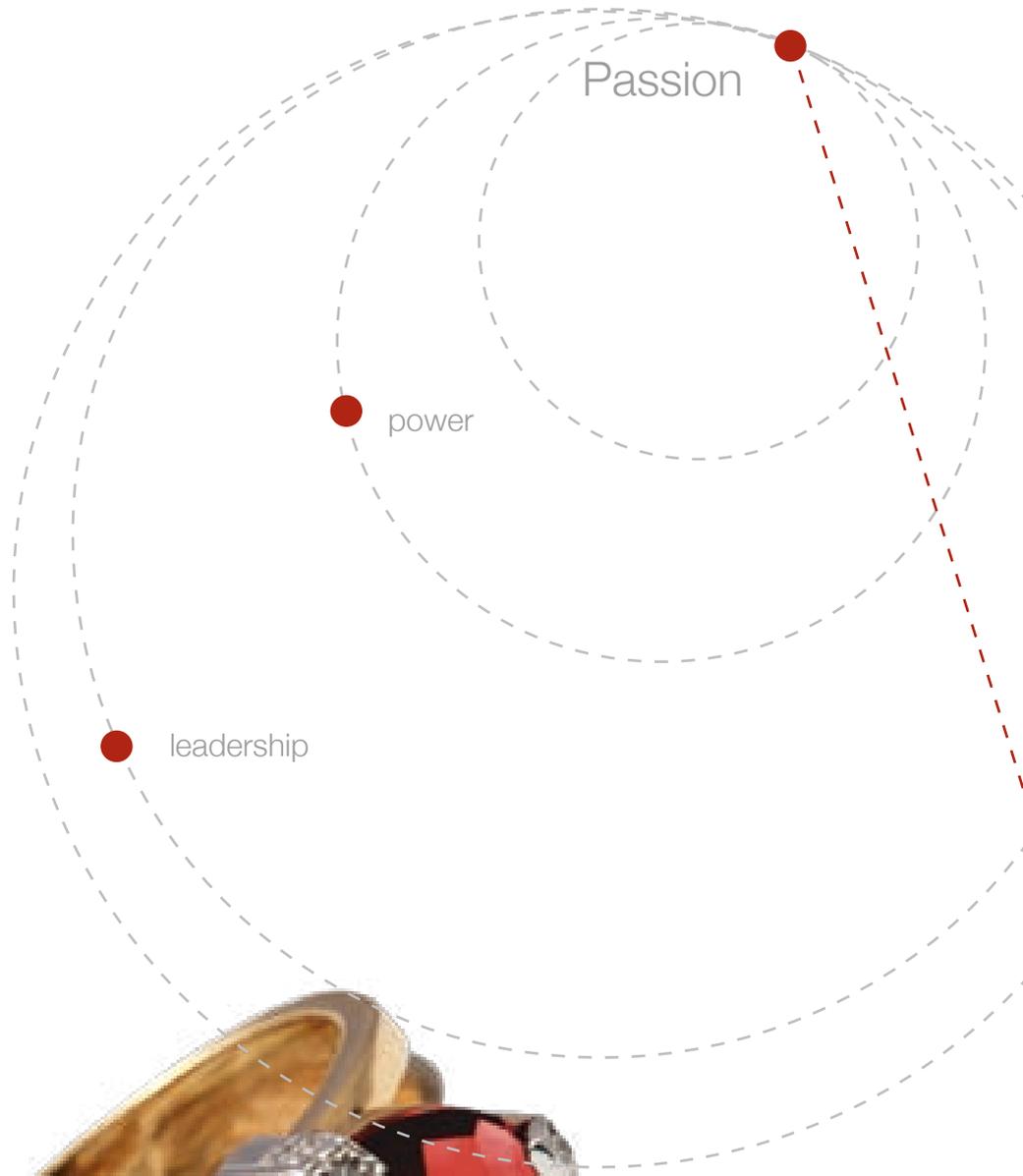
- ◆ Issued Bonus shares in 1:1 ratio.
- ◆ Rs. 1,006.00 million turnover and Rs. 57.78 million profit after tax achieved





WHAT WE ACHIEVED IN 2006-07

- ◆ Proactively shifted our focus from a B2B to a B2C model.
- ◆ Set up seven more retail stores at high-end holiday destinations, taking the total count of stores at holiday destinations to nineteen outlets.
- ◆ Started twenty four hour online jewellery shopping channels in UK and Germany followed by the launch of The Jewelry Channel Inc. in USA in April 2007.
- ◆ Awarded the GJEPC Export Award, for the twelfth time in succession for being the largest Indian exporter of coloured gemstones.
- ◆ Short listed among the top 25 companies of India for adopting good corporate governance practices by the Institute of Company Secretaries of India (for the 3rd time in succession).
- ◆ Further crystallized the business model based on geography and customer type and marketing mechanism.



RUBY - THE LEADER



PEERLESS

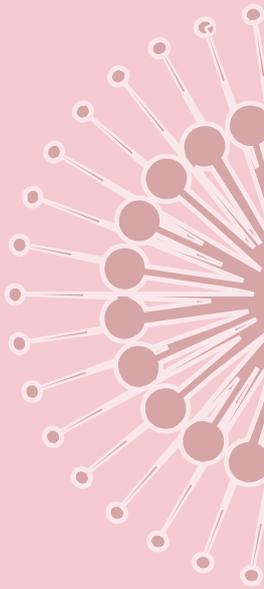
Known variously as the Alan Caplan Ruby or the Mogok Ruby, this 15.97-carat untreated Burmese stone was sold by Sotheby's of New York in October 18th, 1988 for USD 3,630,000. It was purchased by Graff of London, who reportedly sold it to the Sultan of Brunei as an engagement ring for one of his wives.

Procured primarily from the mines of Myanmar, the ruby epitomizes passion, power and possession. Its fiery red colour energizes and drives us to higher endeavours. It awakens in us a need to emulate its purity and brilliance. The ruby speaks to us of the passion of the owner and his need for the peerless jewel to commemorate his passion.

At Vaibhav Gems, the ruby stands for the vitality of our enterprise. It stands for our unchanging goal – to make the finest gems and jewellery. It stands for our ability to consistently match our aesthetic to that of our market and our passion for perfection in design, manufacture and finish.

It stands for our search for superior quality gemstones. A search that begins at the mines.

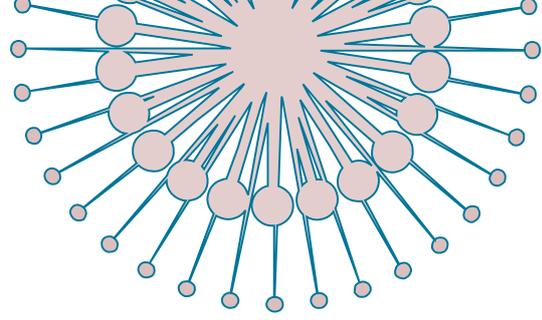
the passion of the sultān



FROM **BEING** AT THE TOP TO
BEGINNING AT THE BOTTOM



At Vaibhav Gems we believe that the quest for exquisite jewellery does not begin from glass display cases but several feet below the ground. Our passion for the business that drives our search for quality raw materials. It is the same passion that takes us directly to the mines from which we source our gemstones.



Vaibhav Gems Driven by the passion for the business

The story of gemstones begins at the mines. At Vaibhav Gems our raw materials are procured directly from the mines by our experienced procurement team. We source from mines in Ghana, Tanzania, Zambia, Brazil, Mexico, Australia, Burma, Thailand, Russia and South Africa. This practice of direct sourcing has helped us eliminate the role of intermediaries and engage miners directly in product development. Additionally it helps us reduce costs, sample first-hand feedback and customize the selection of source material in line with the evolving customer preferences and prevailing trends in the market.

AT VAIBHAV GEMS, WE HAVE A
PASSION FOR PERFECTION!

Our Global Procurement Destinations map



SAPPHIRE- THE TRANSPARENT



loyalty

durability

extendability



LOYALTY

In 1995, the Millennium Sapphire was discovered in Madagascar, an island nation located off the south-eastern coast of Africa. Designated a national treasure, the initial value reported in the local press was between USD 90 million and USD 500 million. This massive 61,500 carat sapphire now has carvings on it honouring humanity's greatest examples of ingenuity and accomplishment over the past 5000 years. It was certified to weigh 12.3 kg!

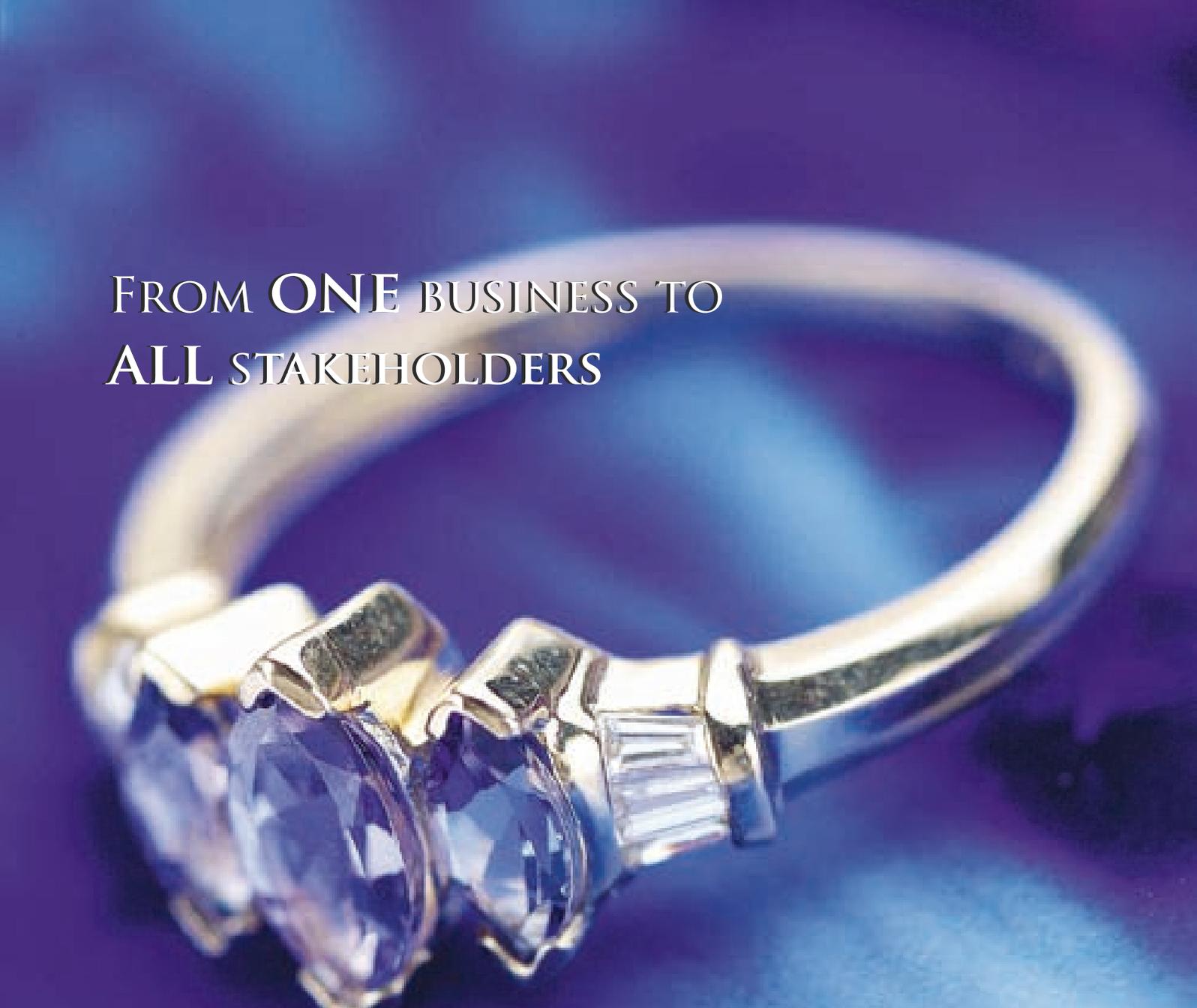
Blue, the colour of loyalty and faith, is also the colour of noble descent and pedigree.

To us blue represents our faith in the future. It stands for our pedigree as a seasoned player in the gems and jewellery industry with the ambition, capacity and the energy to grow big.

These traits of ours are well recognized within the industry. Warburg Pincus, one of the leading private equity investors in the world acquired a 32.31 per cent equity stake in the company. Naturally, this enhances our capacity to expand, and increases our drive and enthusiasm. Our belief in transparent corporate governance and caring for our stakeholders lies at the heart of the principle that drives us toward the future.

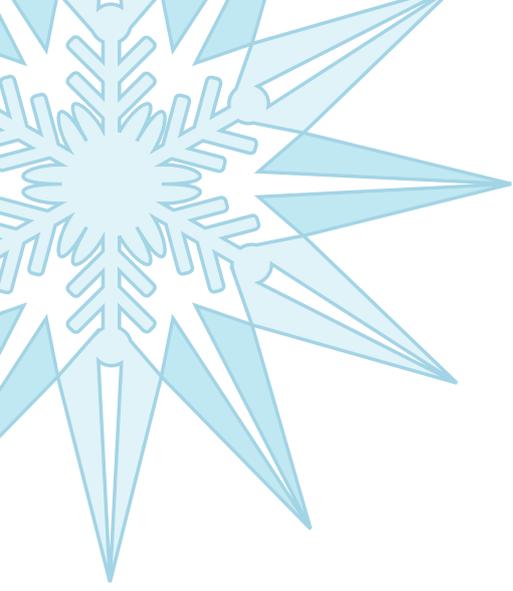
the fire within





FROM ONE BUSINESS TO
ALL STAKEHOLDERS

We are a people-centric business, caring for all our stakeholders. Be it our employees or our shareholders. Our long term investments in each and every one of them form the very core of our philosophy.



Vaibhav Gems Fuelling the fire within

Our manifold initiatives to invest in people form an intrinsic part of our business. Our 350-strong design team harnesses the best talent and CAD-CAM technology to create more than 15,000 designs annually. Being a corporatised business structure in a largely disorganized sector, boasting formal HR practices make Vaibhav one of the top destinations for the industry's best professionals. Our process-driven business employs quality management and ERP implementation to ensure sustained productivity and profitability.

AT VAIBHAV GEMS, OUR BEST ASSETS ARE NOT
OUR JEWELLERY. THEY ARE OUR PEOPLE.



DIAMOND- THE EVERLASTING



SHINING

On May 17, 1995 a diamond rated to be absolutely flawless was sold at an auction. The 100.10 carat pear-shaped diamond was rated a "D" in color, which is the rating given to the finest white diamonds. It was sold in Switzerland to Shaikh Ahmed Fetaihi for one of his Jewellery shops in Saudi Arabia. It fetched a price of USD 16,548,750.00 , which makes it the most expensive ever according to the Guinness Book of World Records.

Pure white diamonds are amongst the most valuable. White is the colour of peace, of tranquillity and transcendence. The strength of a diamond and its innate hardness and durability are values we emulate. We shape our business with the precision of a diamond cutter making a facet that reflects light. Our manufacturing facilities enable us to mould the strength of our business and achieve an edge over competition.

intrinsic value for ever



FROM REFLECTING LIGHT TO SHINING BRIGHT



Our efforts in pursuing perfection is driven by two essential elements – cutting edge technology and highly skilled workers. Strategically locating our manufacturing facilities in jewellery hubs further adds to our edge.



Vaibhav Gems Augmenting our competitive edge

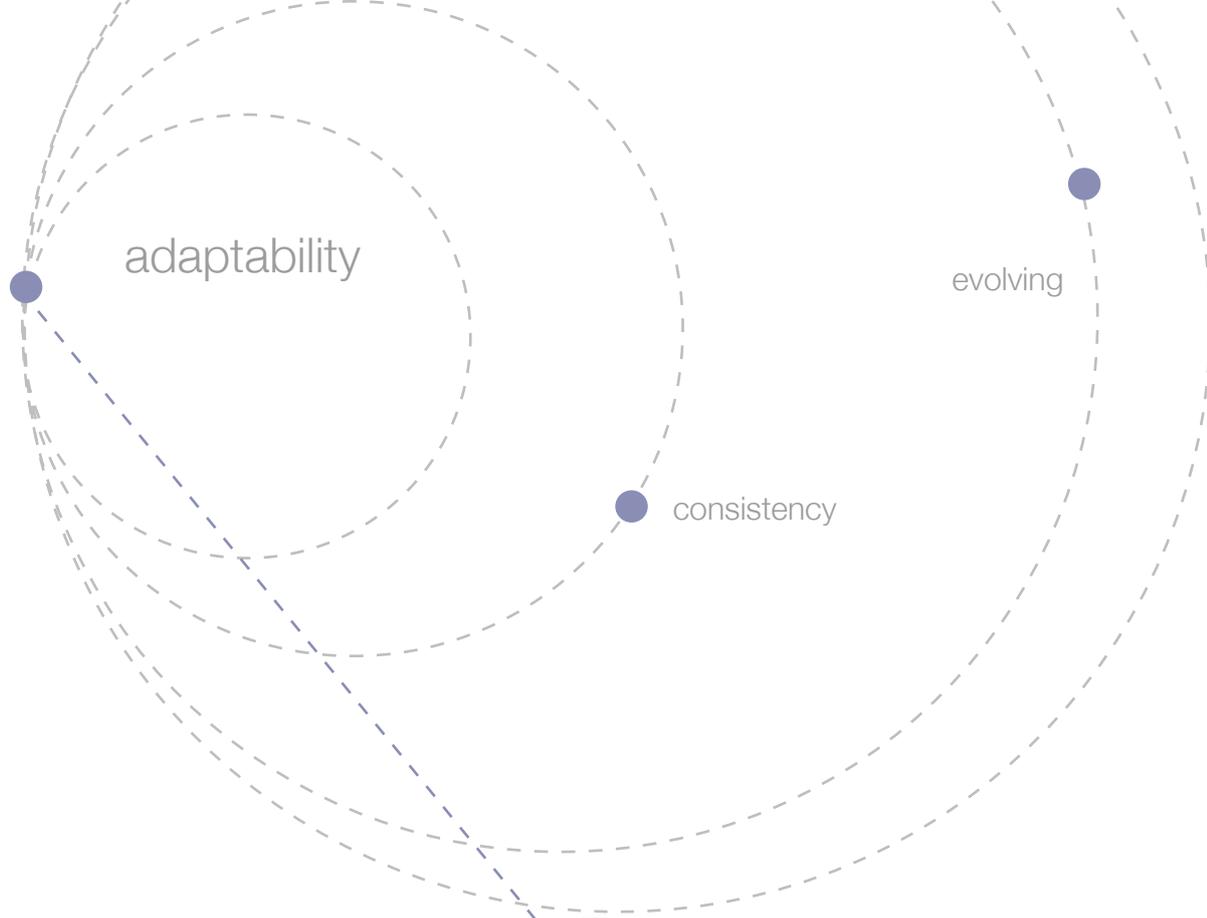
While our marketing programs help us reach increasing numbers of customers, our manufacturing facilities give us an added competitive edge. By establishing gemstone and jewellery manufacturing facilities at low cost manufacturing centres like India, China and Thailand, we have benefited from the reduced costs of operations. These countries not only have a high concentration of skilled labour, but have the additional advantage of low wages and lower costs of technology implementation. Moreover, we have positioned our facilities in Export Oriented Units (EOUs) and Special Economic Zones (SEZs) to leverage additional advantages of tax concessions and established infrastructure. These measures have enabled us offer our products at competitive rates and increase our market share.

Simultaneously we are in the process of augmenting our production capacities. We are in the process of constructing a new manufacturing plant at an SEZ, Jaipur. The new plant, equipped with the latest equipments will increase our capacity substantially. The initial plan is to add a capacity of 1.2 million pieces which will be further expanded to 3 million pieces per annum

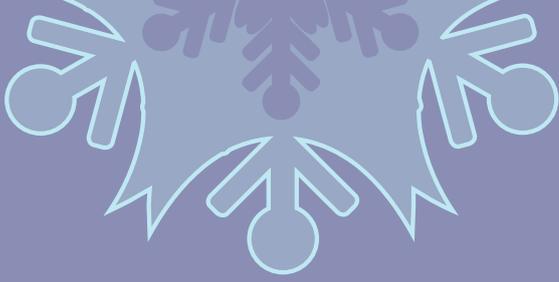
AT VAIBHAV GEMS, WE STRIVE TO SHARPEN
OUR COMPETITIVE EDGE.

Our Global Manufacturing Facilities

Jaipur (Adarsh Nagar), India	Colour Gems Stone Processing Unit.
Jaipur (Sitapura), India	Colour stone and diamond studded gold jewellery, gold chain manufacturing and diamond processing unit.
Mumbai, India	Diamond processing and trading, diamond studded jewellery manufacturing.
Bangkok, Thailand	Colour stone studded gold jewellery manufacturing.
Panyu, China	Colour stone studded gold jewellery manufacturing (outsourcing through 3rd Party)



TANZANITE- THE EXCEPTIONAL



PRICELESS

The Tanzanite is a blue/purple gemstone found in a single 15 sq km area in Tanzania. The world's largest tanzanite gem – weighing 16839 carats- the size of a brick was found in the foothills of Mount Kilimanjaro in the Tanzanite One mine.

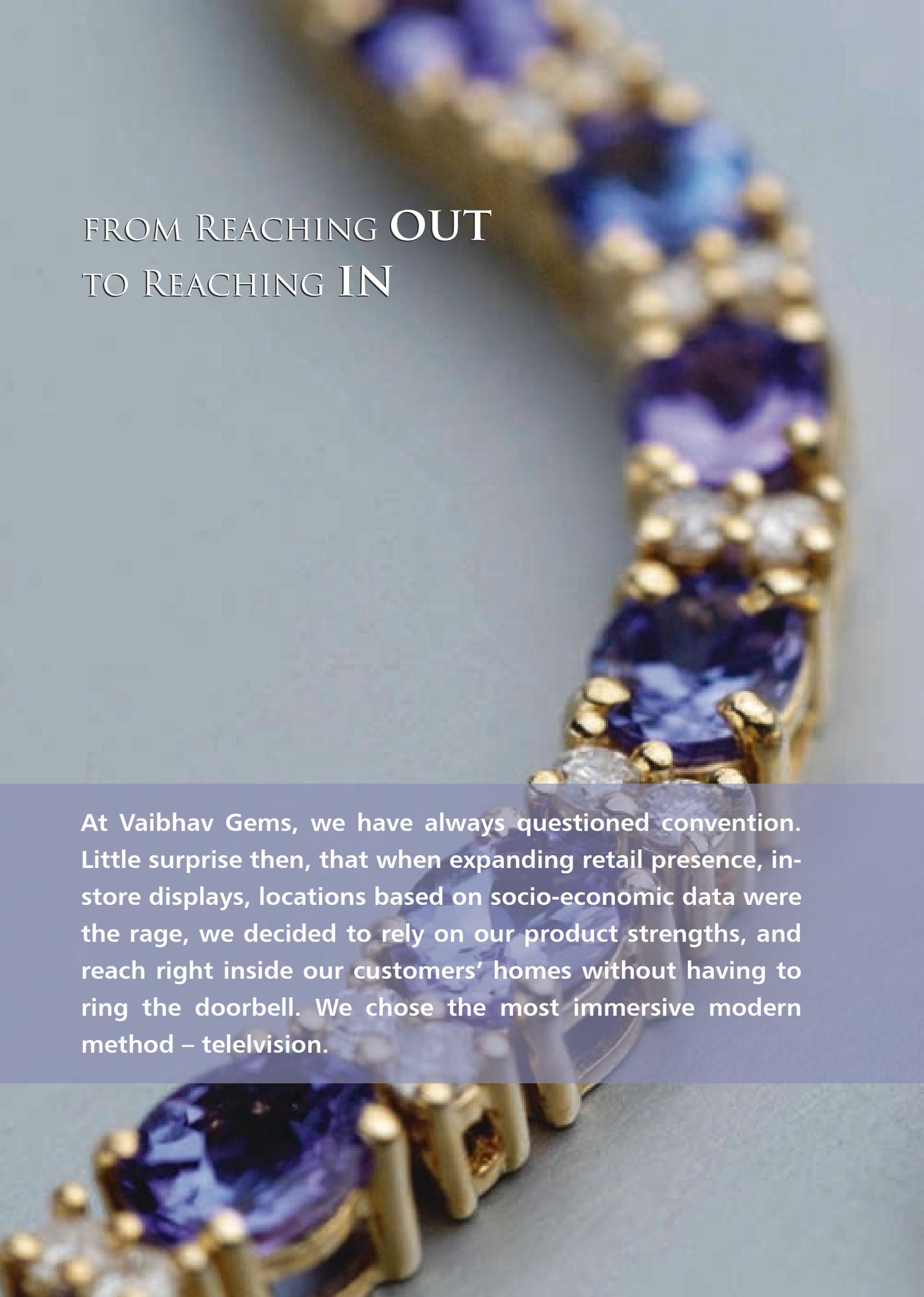
Price? Priceless!

The tanzanite's purple halo surrounding its centre signifies rarity and royalty. A thousand times rarer than a diamond, the tanzanite shines brightest among the gemstones we process.

At Vaibhav Gems, the Tanzanite is perhaps the most fitting example of our ability to stand out amidst a crowd and be distinctive. After all, we have played a significant role in popularizing the use of this stone globally, and are one of its largest users today.

The spirit of innovation and being different, as embodied in the Tanzanite, is amply reflected in our business. On the following pages, we tell you how.

a thousand times rarer than the diamond



FROM REACHING OUT TO REACHING IN

At Vaibhav Gems, we have always questioned convention. Little surprise then, that when expanding retail presence, in-store displays, locations based on socio-economic data were the rage, we decided to rely on our product strengths, and reach right inside our customers' homes without having to ring the doorbell. We chose the most immersive modern method – television.

Vaibhav Gems Driven by distinction

Our distinct business model is driven by our innovative strategy of retailing jewellery through television channels. Higher disposable incomes, an enduring visual appeal, and the near universal acceptance of credit card payments have made home shopping on TV a viable proposition. Of course there is the additional advantage of reaching a wider clientele base.

We recognised the strengths of this medium and invested in the setting up of 24 hour television channels to market our range of fine jewellery directly to homes in the USA, UK, Germany and Austria. Moreover, The Jewellery Channel, which currently broadcasts in the UK won the prestigious WOW Award for providing outstanding customer services.

Our first television channel – the Jewellery Channel – was launched in UK in April 2006. The channel markets our products under the Iliana, Kara and FH (For Him) brand names. In the first nine months after being launched, it became one of the top players in the geography. The Jewellery Channel made its presence

felt in more than 8 million households and ended 2006-07 with a turnover of USD 27 million.

Encouraged by the success in the UK, we launched another television channel in Germany, Der Schmuckkanal, in November 2006. A mere four and a half months after its launch, our German television channel ended the year with a turnover of USD 3.8 million. Today, we are also serving the Austrian market through our German television platform. Within a short span of 9 months we are already available to over 9 million households in Germany and are one of the top players in the Gems and Jewellery TV marketing companies.

The world's largest jewellery market, the USA, boasts electronic channel sales of USD 6 billion per annum. In April 2007 we entered this lucrative market by launching a Mega TV channel – The Jewelry Channel. We target a turnover of USD 60-80 million by the end of the first year itself and will be among the top league by the end of this year.

AT VAIBHAV GEMS, WE DON'T CALL THE TELEVISION
THE IDIOT BOX ANYMORE!





enterprising

continuous

resonating

EMERALD- THE EVERGREEN



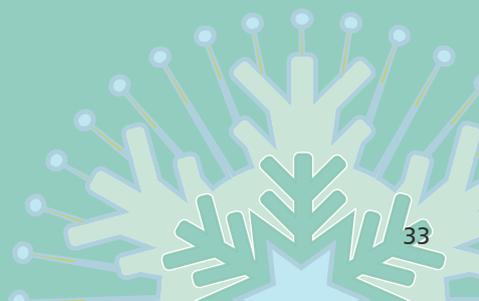
HARMONY

On April 5, 1993 the treasure hunter Victor Benilous, recovered the legendary "Isabella Emerald ©" the prized possession of the Conquistador Hernan Cortes, Conqueror of Mexico. This 964 carat emerald was recovered with the help of the descendants of Hernan Cortes who held and guarded the secret location of the treasure. It had been lost on a private merchant ship wrecked in the International waters of the Caribbean on its way back to Spain.

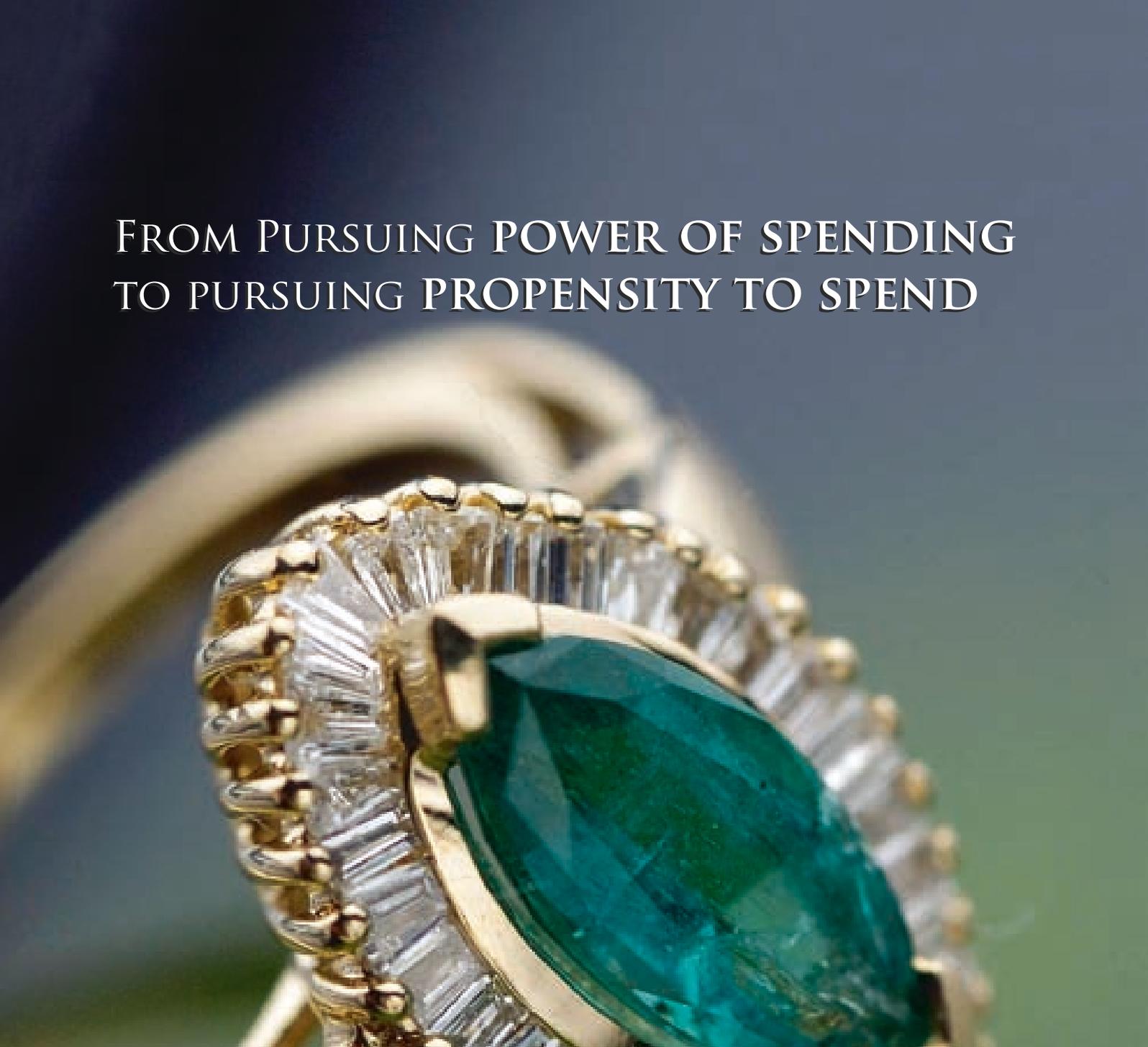
Green, the colour of richness, fertility and wealth, connotes harmony with nature and the joy of life.

For Vaibhav Gems, the emerald stands for exploring the untested and the new. While we integrated the value chain from the mines to retail, we explored innovative ways to reach ever larger and new audiences. In the choosing of our retail locations, we have done just that.

treasured through the ages



FROM PURSUING POWER OF SPENDING TO PURSUING PROPENSITY TO SPEND



Our business depends on people spending on what is clearly an optional product. Therefore, it is important that we are present when people are at their relaxed, expansive best and are willing to indulge. What better time to do that than when people are on holiday. This explains why our retail stores are not located in busy malls but at picturesque and quiet holiday destinations.

Vaibhav Gems Exploring Greenfield Locations

We established our retail presence through the 'Milano Diamond Gallery' chain at high-end holiday destinations such as Alaska, Mexico and the Caribbean. These destinations attract high income tourists during the season and this translates into increased jewellery sales. To capture this lucrative segment we expanded the number of retail stores to 19 outlets, as of 31 March 2007.

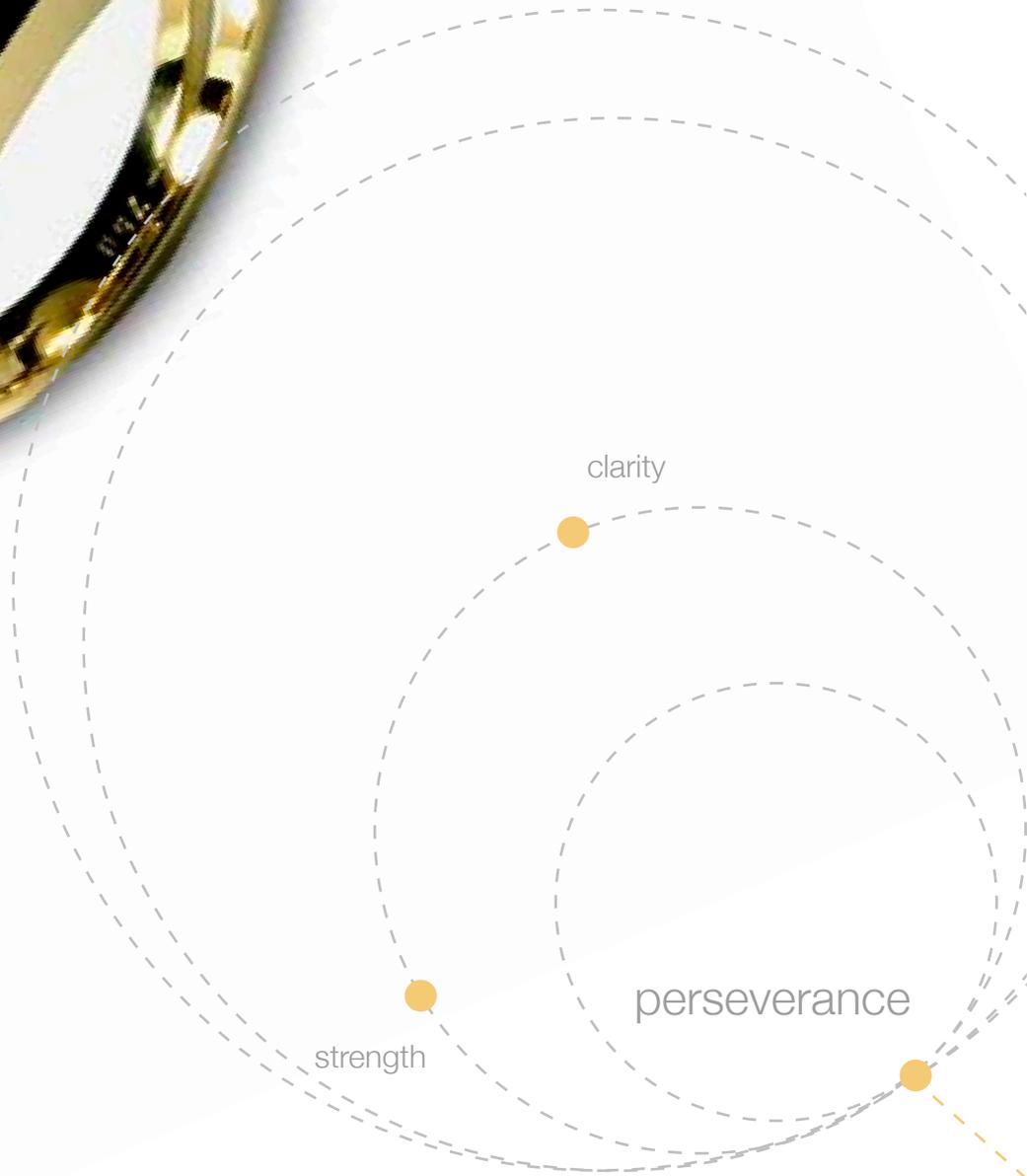
We have capitalized on the fast growth in holiday destination markets and in a span of just one and a half years, we have already emerged as the fastest growing retailer in these holiday destinations. We have grown to the second position in terms of recommended stores by cruise liners. (up from our previous ninth position) . During the current financial year each store registered a sales of USD 0.89 million on an average. The total estimated size of these markets is around USD 850 million and is expected to grow in double digits in the coming financial year, providing a huge marketing opportunity. In 2006-07 our outlets registered sales of USD 16.91 million.

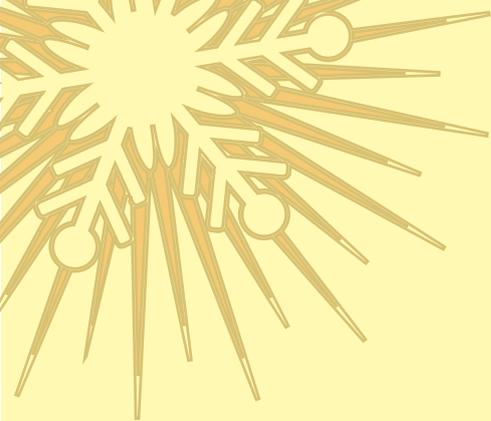
AT VAIBHAV GEMS, THIS IS OUR WAY OF
DOING BUSINESS WITH LEISURE.

Our Global Selling Destinations



TOPAZ- THE POPULAR





CELEBRATION

To date, the biggest topaz ever excavated was tagged as El Dorado, which was found in Brazil in the year of 1984. The El Dorado weighed a heavy 6.2 kg and is part of the British Royal Collection.

The pure topaz is transparent but most common varieties of topaz come in shades of wine or straw yellow.

To us, the colour yellow stands for celebration, intelligence and intellect. Yellow also stands for strength and perseverance.

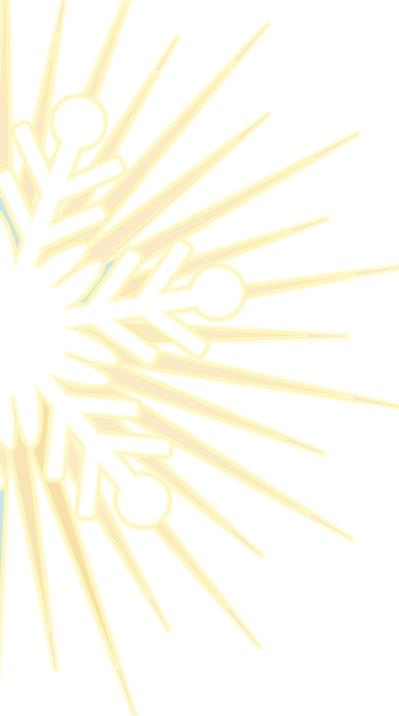
These shades of perseverance and strength are very evident in our enterprise and its manner of functioning. During the year in review, we once again received the coveted GJEPC Export Award, for the twelfth successive year for being the largest Indian exporter of coloured gemstones. And exporting gemstones is just one end of the spectrum we are present in.

versatile gemstone



FROM CONTINUED PERSISTENCE TO ESTABLISHED PRESENCE

Our persistence in establishing a strong foothold in the value chain began with total vertical integration. Starting from procuring gemstones at mines and ending in retail outlets, we covered the entire gamut of the jewellery manufacturing process.



Vaibhav Gems Vertical integration as a key to growth.

We have taken several steps to extend and strengthen our presence across the jewellery value chain. Our initiatives over the years have established our presence from mines to manufacturing, markets and retail. By using versatility and adaptability we address current issues while augmenting long term preparedness.

Vertically integrating operations helps us increase our margins and capture incremental value that adds to our competitive ability.

At Vaibhav Gems, on realizing this fact, we have completely integrated our operations and control the value chain from the procurement of the gems to the retail selling to the final customer through our own stores and television marketing channels. Moreover, we have taken measures to secure our business from global challenges and competition.

The key aspect of this whole integration is the ability to procure and manufacture at low cost centres while simultaneously being able to sell at high-end centres at premium prices.

AT VAIBHAV GEMS, WE HAVE SUCCEEDED IN
ESTABLISHING AN END-TO-END PRESENCE.

Our presence across the value chain



BOARD PROFILES



Mr. Sunil Agrawal, Chairman

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



Mr. Suresh Panjabi, Director

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



Mr. Rahimullah, Managing Director

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



Mr. Nirmal Kumar Bardiya, Director

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



Mr. Anandi Lal Roongta, Director

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



Mr. M.L. Mehta, Director

A retired IAS officer and a renowned public administrator, social activist and human resource developer, he is a gold 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. Surendra Singh Bhandari, Director

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



Mr. Sanjeev Agrawal, Director

A commerce graduate and promoter of 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, Director

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.



CHAIRMAN'S MESSAGE



Chairman's Message

Dear Shareholders,

Change is inevitable. Everyone has heard that statement before. At Vaibhav Gems our exposure to the global jewellery market has taught us that we can either become an instrument of change, or a victim. A quote by George Bernard Shaw, Irish playwright and critic, comes to mind. He said, "The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man."

We have had yet another year full of vision and growth and this year was special in the sense that our company has truly become an Indian Multinational Company. We have taken many far-reaching initiatives that will change the very dynamic of our business and positively impact our performance in the years to come.

Our manufacturing infrastructure now spans India, China, and Thailand. These low-cost manufacturing sites, full of creative talent, enable us to offer jewellery and gemstones to both our wholesale and retail customers at the most competitive prices while maintaining high quality of market-oriented product designs. We have now integrated our business from the procurement of rough gemstones

from various mining centers to retail sales at our own showrooms at various holiday destinations and TV shopping channels.

The Jewellery Channel, United Kingdom, launched in April 2006, has established itself as a high quality jewellery retailer reaching over eight million households in the UK via Sky Satellite and all of the UK online. Der Schmuckkanal, Germany launched in November 2006 also enjoys reputation as a high quality fine jewellery retailer reaching over nine million TV households and all of Germany on-line. In a short span of time since we have launched the channel, we now have remarkable presence in the households in Germany and Austria. Seeing the success of this business model and to respond to competition, we have successfully launched The Jewelry Channel, in the USA in April 2007. We reach over nineteen million TV households and all of USA online. Electronic commerce is a fast-growing market segment of the industry and we are confident of a rapid growth of our TV shopping channels in years to come.

This year we have continued expanding our retail presence at holiday destinations. Today, our retail chain, Milano Diamond Gallery, numbers nineteen stores having presence in Alaska, Mexico, St. Kitts, St. Thomas, and St. Martin. We are now the second most promoted retail chain aboard cruise ships going to these holiday destinations.

Each of these initiatives in themselves are significant, but when put together, we see an enterprise that is emerging as a gem and jewellery powerhouse at a global level – driven by a combination of globally competitive production, world-class product development and market presence through various wholesale and retail channels.

When change is inevitable, it is best to lead it!

Warm regards,

Sunil Agrawal
Chairman.



DIRECTOR'S REPORT

Dear Shareholders,

Your directors are pleased to present 18th Annual Report on the Company's operations and performance together with the audited financial statements for the year ended 31st March 2007.

FINANCIAL HIGHLIGHTS

(Rupees in lacs)

Particulars	Standalone	
	2006-07	2005-06
Sales and Other Income	28,269.59	22,175.49
Less: Cost of Sales	25,144.59	18,059.18
Operating Profit/PBDIT	3,125.00	4,116.31
Less: Interest	368.63	259.39
Less: Depreciation & Amortization	186.53	152.65
Profit before taxes	2,569.84	3,704.27
Less: Provision for Taxes (Including FBT)	140.82	38.50
Deferred tax charged	0.45	33.57
Profit after taxes	2,428.57	3,632.20
Add/Less: Prior period adjustments		-
Net profit for the year	2,428.56	3,632.20
Add: Balance brought forward from the previous year	7,011.47	4,240.66
Total available for appropriations	9,440.04	7,872.86
Appropriations:		
Dividend on Preference Share Capital	18.33	-
Proposed Dividend for Equity Shares	137.94	413.82
Tax on Dividend	26.56	58.04
General Reserve	-	389.53
Total	182.83	861.39
Balance to be carried forward	9257.21	7,011.47

DIVIDEND

Your Directors, after taking into account the financial results of the Company during the year, recommended a dividend of Rs. 0.50 per equity share (exclusive of dividend tax @ 16.995 per cent), which is 5 per cent of the paid-up value of Rs. 10 per share for 2006-07.

OUR SUBSIDIARIES

STS Jewels Inc., USA, a 100 per cent subsidiary and its subsidiaries STS Gems USA Inc, STS Jewels Canada Inc., 2 Umbrellas.com engage in marketing jewellery. Covering the entire geographies of America and Canada, these companies study the recent trends, fashion and demand of customers and regularly provide feedback to the manufacturing companies in your group.

Jewel Gem USA Inc., a 100 per cent subsidiary of your Company, is engaged in marketing jewellery, precious and semi precious stones and gift articles through retail chain stores in Alaska. These large retail stores, branded as "Milano Diamond Gallery," cater to the needs of high-end customers at various locations in Alaska.

STS Gems Thai Limited, a 100 per cent subsidiary, is situated in Thailand, one of the most economic places for jewellery production with specialization. The company, engaged in the manufacturing and marketing of precious, semi-precious, colored gemstones and studded jewellery, provides economical and skilled production facilities to the group.

STS Creations Thai Limited, a 100 per cent subsidiary is engaged in the manufacturing and marketing of silver studded jewellery.

STS Gems Limited, Hong Kong, a 100 per cent subsidiary and its subsidiary STS Jewel Gem China Limited, is engaged in manufacturing, outsourcing and marketing jewellery in addition to product development.

STS Gems Japan Limited, a 100 per cent subsidiary is engaged in marketing colored gemstones and jewellery in the Japanese market, another important jewellery market after USA and Europe, capitalizing on the potential in this segment.

Indo Mexico Co. S. De R.L. De C.V., Mexico, a 100 per cent subsidiary is engaged in marketing jewellery, precious and semi precious stones, diamonds, metals and gift articles through the retail store brand "Milano Diamond Gallery" in Mexico.

Genoa Jewellers Limited, BVI, a 100 per cent subsidiary, and its subsidiaries Der Schmuckkanal Deutschland GmbH, Germany, The Jewelry Channel Inc., USA, Genoa Jewelers STT Limited (St. Thomas), Genoa Jewelers Limited (St. Kitts), West Indies, Genoa Jewelers (SXM) N.V., St. Maarten, The Jewelry Channel Ltd., United Kingdom are engaged in marketing jewellery, precious and semi precious stones, and gift articles through retail chain stores and online 24-hour television shopping channels.

RETAIL OUTLETS

To further our objective and cater to the demand of high-end customers at major holiday destinations of the world like Mexico, Alaska and the Caribbean, your Company has set up 7 more retail stores during the year under review, taking the total number of stores to 19. Today, retail outlets have emerged as the face of VGL

allowing direct customer interaction. This retail drive has helped your Company to enhance its brand value and emerge as a name that people like to associate with. Your Company is one of the fastest growing retailer in holiday destinations and has increased its rank from 9th to 2nd in terms of recommended stores by Cruise liners.

ON-LINE TV CHANNEL

Due to the changing dynamics of the business, it is imperative for a company to look for more innovative and cost efficient mode of selling. Television channels have emerged as one such mode. They have caught the fancy of consumers in a big way and the sales through this medium are growing at a rapid pace. Your Company, recognizing the potential of TV channels as a platform to add more customers and increase market share without incurring any further costs, has started two more 24 hours online Jewellery Shopping Channels in Germany and the USA. These channels have been set up through their wholly owned subsidiaries "Der Schmuckkanal Deutschland GmbH" and "The Jewelry Channel Inc.," respectively. Now the Company has three 24 hours online Jewellery Shopping Channels in UK, USA and Germany. These channels can be reached out on the internet also, at:

United Kingdom: www.thejewellerychannel.tv,

Germany: www.derschmuckkanal.de,

United States of America: www.tjc.tv

INCREASE IN SHARE CAPITAL -

Issue of Preference Shares

As approved by you at the Annual General Meeting held on 30th September 2006, the company has allotted 44,00,000 1 per cent Non Convertible Redeemable Cumulative Preference shares of Rs. 100 each.

EMPLOYEE STOCK OPTION PLAN 2006

Pursuant to the approval obtained from you at the Extraordinary General Meeting held on 30th November 2006, for the introduction of the VGL ESOP 2006 scheme, your Company has granted a total of 3,20,800 options to employees under the Employees Stock Option Scheme 2006 (VGL ESOP 2006), on 6th January 2007.

Details of options granted are set out in Annexure I to the Directors' Report.

AWARDS AND RECOGNITION

Your Company was once again awarded with the coveted GJEPC Export Award, the Twelfth successive award for being the largest Indian exporter of coloured gemstones.

VGL was also short-listed amongst top 25 Companies for ICSI National Award for excellence in Corporate Governance in recognition of sound corporate governance and disclosure practices followed by your Company, for the third year in a row.

DIRECTORS

As per Article 61 of Articles of Association of the Company, Shri M. L. Mehta and Shri S.S. Bhandari, retire by rotation at the ensuing Annual General Meeting. Being eligible, they offer themselves for reappointment.

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

AUDITORS

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

Members are requested to consider their re-appointment for Financial Year ending 31st March, 2008 on remuneration to be decided by the Board of Directors of your Company.

CONSOLIDATED FINANCIAL STATEMENTS

Your directors have pleasure in attaching 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 Standard prescribed by the Institute of Chartered Accountants of India, in this regard.

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

As per section 212 of the Companies Act, your company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of the subsidiaries with its Annual Financial statements. Since the audited consolidated financial statements are presented in the Annual Report, your Company had made an application to the Central Government seeking exemption from attaching the Reports and Accounts of its subsidiary companies with the Balance Sheet. The approval for the same has been received. Further we believe that the consolidated accounts present a full and fair picture of the state of affairs of the Company as a whole and are accepted globally. Accordingly, the Annual report does not include the financial statements of the subsidiaries. However, as per the terms of the exemption granted by the Central Government a statement containing brief financial details of the Company's subsidiaries for the year ended 31st March 2007 is included in the Annual Report. Moreover, the accounts of the subsidiary companies will be made available for inspection to any member of the company at its registered office on any working day during business hours. 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

During 2006-07, 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 by the Government of India to the domestic gem and jewelry industry is expected to drive performance.

Initiatives taken by GOI, Ministry of Commerce & industry and relaxations/concessions announced under Foreign Trade Policy 2004-09 for Gem & Jewelry industry are as under:

1. Service tax on services (related to exports), which are rendered abroad have been exempted.
2. Re-import of Diamonds & Jewellery (either in complete or partial lot) exported on consignment basis have been allowed.
3. Cut and polished Diamonds have been exempted from custom duties.
4. Import duty on several categories of gems and jewellery has been reduced in the 2007-08 budgets. The duty has been reduced on rough synthetic stones to 5 per cent from 12.5 per cent and on raw corals to 10 per cent from 30 per cent.

Your Company expects a combination of governmental encouragement to the industry as well as its own initiatives like entering retail market segment, better capacity utilization, stabilization of new ventures, etc. which will enable your Company to increase its top line and margins. Through this, VGL expects to derive a greater operating leverage and enhance wealth for its investors.

INTERNAL CONTROL AND AUDIT

Your Company has a very active Internal Audit Team. It is considered as an independent function. The Internal Auditor reports directly to the Audit Committee of the Board consisting of senior and experienced independent directors as its active members.

The internal and financial controls, business processes and the financial transactions are independently reviewed by the internal audit team and a report is placed to the Audit Committee and appropriate corrective action is taken when required. The internal control procedures are well documented and are applied across the entire operations of your company.

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

SOCIAL RESPONSIBILITY

Recognizing its social responsibility, your Company had helped the people in the flood-hit district of Barmer, Rajasthan, by donating blankets. Your Company has also donated two solar water heaters in a school for the deaf and dumb in Jaipur.

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.

CONSERVATION OF ENERGY

The operations of your company are not energy-intensive. However, significant measures are taken to reduce energy consumption by using energy efficient computers and purchasing energy-efficient equipment. We currently evaluate new technologies and invest to make our infrastructure more energy-efficient.

TECHNOLOGICAL ABSORPTION

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

FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company exports coloured gemstones and studded gold jewelry. The foreign exchange earnings and outgo of the Company is as follows:

RS. IN LACS

	2006-07	2005-06
Earnings	26,419.84	21,947.38
Outgo	12,502.25	9,781.74

VAIBHAV GEMS WEBSITE

The website of your Company, www.vaibhavgems.com, carries a comprehensive database of information of interest to the investors including financial results of your Company, dividend declared, corporate profile and business activities of your Company and the services rendered by your Company to its investors.

PARTICULARS OF EMPLOYEES

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

DIRECTORS' RESPONSIBILITY STATEMENT

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

- (i) In the preparation of the annual accounts for the financial year ended March 31st, 2007; the applicable accounting standards have been followed along with proper explanation relating to material departure.
- (ii) 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) 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) The Directors have prepared the annual accounts on a going concern basis.

ACKNOWLEDGMENTS

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

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

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

For and on behalf of the Board of Directors
 Jaipur Sunil Agrawal
 30th June 2007 Chairman

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

Para Ref in SEBI Guidelines	Item of Disclosure	Remarks																						
12.1(a)	Options Granted	320,800 Options at an Exercise price of Rs. 240 each.																						
12.1(b)	The pricing formula	Based on the SEBI pricing formula for preferential allotment the price arrived at Rs. 260.16 and the market price on NSE was Rs 280.90, as on 5th January, a day before the grant date of Options. However, the Compensation Committee, in their meeting held on 6th January 2007, decided the Option price to be Rs 240 each based on the powers conferred upon the Board by the shareholders in their EGM held on 30th November 2006 to determine the Options price																						
12.1(c)	Options Vested	NIL																						
12.1(d)	Options exercised	Not Applicable																						
12.1(e)	The total number of shares arising as a result of exercise of option	Not Applicable																						
12.1(f)	Options lapsed	19,827																						
12.1(g)	Variation of terms of options	Pursuant to the powers conferred by the shareholders on the Board, there was a variation done in VGL ESOP 2006 prior to its coming into effect. The exercise period of the Options was increased from 1 year to 4 years. The said variation was approved by the Compensation Committee in their meeting held on 6th January 2007.																						
12.1(h)	Money realized by exercise of options	Not Applicable																						
12.1(i)	Total number of options in force	300,973*																						
12.1(j)	Employee wise details of options granted : (i) Senior Managerial Personnel;	Senior Management Personnel: <table border="1"> <thead> <tr> <th>Name of Employee</th> <th>Number of Options</th> </tr> </thead> <tbody> <tr><td>1. Mr. John Simpson</td><td>45,800</td></tr> <tr><td>2. Mr. Manoj Shrimali</td><td>18,923</td></tr> <tr><td>3. Mr. Pramod Kr Akhramka</td><td>17,192</td></tr> <tr><td>4. Mr. Paramjeet Bhatia</td><td>13,852</td></tr> <tr><td>5. Mr. Rajiv Suri</td><td>13,852</td></tr> <tr><td>6. Mr. Ruhail Sumbli</td><td>13,481</td></tr> <tr><td>7. Mr. T. Mani</td><td>12,615</td></tr> <tr><td>8. Mr. Khun Puchong</td><td>10,092</td></tr> <tr><td>9. Mr. Neeraj Jain</td><td>9,993</td></tr> <tr><td>10. Mr. Olaf Kliem</td><td>6,744</td></tr> </tbody> </table>	Name of Employee	Number of Options	1. Mr. John Simpson	45,800	2. Mr. Manoj Shrimali	18,923	3. Mr. Pramod Kr Akhramka	17,192	4. Mr. Paramjeet Bhatia	13,852	5. Mr. Rajiv Suri	13,852	6. Mr. Ruhail Sumbli	13,481	7. Mr. T. Mani	12,615	8. Mr. Khun Puchong	10,092	9. Mr. Neeraj Jain	9,993	10. Mr. Olaf Kliem	6,744
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10. Mr. Olaf Kliem	6,744																							
	(ii) Any other employee who receives a grant in any one year of option amounting to 5 per cent or more of option granted during that year.	Nil																						
	(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1 per cent of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	Nil																						
12.1(k)	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share'	As disclosed in the Financial Statements of the Company																						

* The Options are lapsed due to Employees leaving the Company.

This is to certify that **Vaibhav Gems Limited**, K-6B, Fateh Tiba, Adarsh Nagar, Jaipur has implemented its Employee Stock Option Plan, 2006 (**VGL-ESOP, 2006**) in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme & Employee Stock purchase Scheme) Guidelines, 1999 and in accordance with the resolution of the company passed in its Extra Ordinary General Meeting held on 30th November 2006.

For B. Khosla & Co.
Chartered Accountants

Sandeep Mundra
Partner
M. No. 075482

Place: Jaipur
Date: June 30, 2007

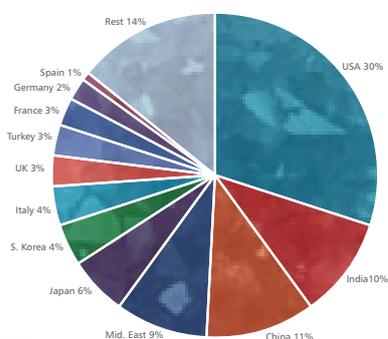


MANAGEMENT'S DISCUSSION & ANALYSIS

THE GLOBAL GEMS AND JEWELLERY INDUSTRY

The global market for gems and jewellery today is pegged at USD 210 billion with key markets having registered an average compounded annual growth rate (CAGR) of 5-10 per cent in the last decade.

Geographic share of global Jewellery consumption 2006



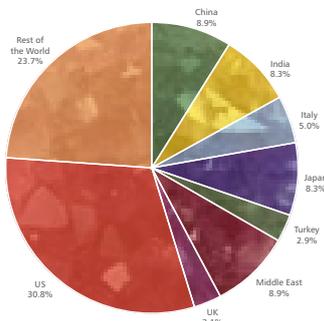
Source: KPMG

Over the years, global markets have been impacted by several developments but currently the trends in the global market are:

- ◆ Increased competition among top producing countries
- ◆ Forward Integration by countries producing rough diamond
- ◆ Emergence of different materials - different alloys within gold as well as non-gold jewellery
- ◆ Emergence of new manufacturing techniques
- ◆ Requirement of stricter quality norms and hallmarking

Sale of jewellery is concentrated in eight key world markets, which garner more than three-fourths of the world's sales. The U.S. is the world's largest market while India and China are the emerging centres of jewellery consumption. Value addition at the two ends of the value chain is the highest, with intermediate segments adding relatively lower value (29 per cent in diamond cutting and polishing and 32 per cent in jewellery manufacturing).

Eight Key World Markets



Source: KPMG analysis

Electronic Retail

One of the fastest growing segment in the global gems and jewellery industry, retail through electronic media represents a wider consumer shift towards home shopping. World jewellery sales are expected to grow at a 4.6 per cent CAGR with internet sales expected to cross 6 per cent of total retail sales by 2010.

COMPANY OVERVIEW

Vaibhav Gems Limited is a professionally managed, end-to-end vertically integrated gems and jewellery business organization. It is one of the eight world-wide 'sight' holders in tanzanite and is a leader in processing other popular gemstones such as fire opal, apatite and emerald. Procuring directly from sources, it has buying operations across the globe in Tanzania, Thailand, Mexico, China, New York, South Africa, Madagascar, Brazil and Zambia to name a few. To capitalize on the opportunities present in the electronic retail segment, Vaibhav Gems has strategically forayed into television marketing channels in the UK, Germany and USA which will allow it to realize good margins at high volumes. Additionally to ensure a sustainable future, the company is moving from a B2B to a B2C strategy.

Strengths

- ◆ Strong product design and development.
- ◆ Broad-based manufacturing infrastructure.
- ◆ Internationally accepted product range.
- ◆ 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.

Retail:

- ◆ Jewellery Brands in stores: Iliana, Kiara, Escada, Ippolita, Judith Ripka, Tanya Moss and many more.
- ◆ The company creates more than 15,000 designs a year and is known for its tanzanite products
- ◆ The company has an established presence of

nineteen retail stores across high-end holiday destinations in Alaska, Mexico and the Caribbean.

- ◆ The company's 24-hour television channels in the USA, UK and Germany retails jewellery, reaching a wide range of customers.

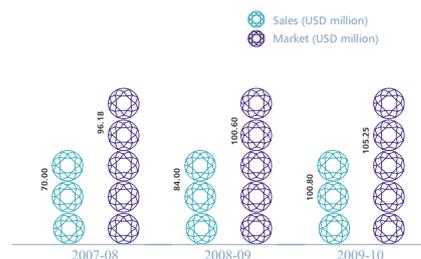
	2006-07	2007-08	2008-09	2009-2010
Existing Shops	11	19	22	27
New	8	3	5	5
Total	19	22	27	32

Source: Company

Wholesale:

- ◆ Improved relations with existing customers
- ◆ Retail comprises 70 per cent of sales while wholesale comprises 30 per cent
- ◆ Currently venturing towards sales through television channels

Growth in Jewellery Sales in the US & Europe



Source: Company

Manufacturing and infrastructure

- ◆ The company plans to construct a new plant in a RIICO-developed SEZ by 2008, with initial production of 1.2 million pieces
- ◆ The Company's China and Bangkok facilities are expandable so as to increase production
- ◆ Complimentary synergies in the global business
- ◆ The company is eliminating intermediaries and getting directly into business
- ◆ Manufacturing also includes the diamond processing business

1) Gemstones Division

- ◆ 220,000 square feet gemstone cutting facility at Adarsh Nagar, Jaipur

2) Diamond Division

- ◆ 4,500 square feet diamond processing unit at Sitapura, Jaipur

3) Jewellery Division

- ◆ 30,000 square feet facility located in the Export Promotion Industrial Park at Sitapura, Jaipur.
- ◆ 3000 square feet product development centre and diamond jewellery sourcing office at SEEPZ, Mumbai.

4) Chain Division

- ◆ Unique state-of-the-art micro weight chain plant with installed capacity of over 0.4 million chains -- probably the first production facility outside the USA

5) Designing and Product Development Division

- ◆ Exclusively dedicated infrastructure at Jaipur and Mumbai with the latest CAD / CAM software for design precision and reduced turnaround times

Outlook

Jewellery sales through electronic media is the fastest growing segment in the Gems & Jewellery markets due to shift in the customer preferences from street shops/departmental stores to online TV shopping. The electronic retail market is pegged at USD 7700 million, forming a 10.55 per cent of the total jewellery sales. Currently, the world jewellery market is expected to grow at a CAGR of 4.6 per cent. Internet sales are expected to cross 6 per cent of total retail sales by 2010. This segment has a considerable share in the world jewellery market with a market size of around USD 6.38 billion in USA, around USD 820 million in the UK and around USD 500 million in the Germany.

FINANCIAL OVERVIEW

Consolidated sales of the Vaibhav Group, increased from Rs. 2974.56 million in 2005-06 to Rs. 5191.52 million in 2006-07, growing by 74.53 per cent. Additionally, other income increased from Rs. 23.81 million in 2005-06 to Rs. 151.72 million in 2006-07, a growth of 537.21 per cent.

Vaibhav Gems' standalone profit before tax has recorded a decline of 30.62 per cent, reducing from Rs. 370.42 million in the last financial year to Rs. 256.98 million at present. The profit after tax decreased by 33.13 per cent from Rs. 363.21 million to Rs. 242.85 million in 2006-07.

Although the company's reserves and surplus increased by 3.84 per cent from Rs. 5779.67 million to Rs. 6001.72 million, its decline in profits may be attributed to the foray into newer ventures and the appreciation of the rupee against the dollar.

The company's share capital increased by 159.49 per cent from Rs. 275.87 million to Rs.715.87 million. During the year the company issued 44,00,000 1 per cent Non-Convertible Cumulative Preference Shares of Rs. 100 each at par. Moreover, the company's capital investments, increased from Rs. 221.50 million in 2005-06 to Rs. 236.77 million in 2006-07, representing a growth of 6.89 per cent.

Financials of the last 5 years

	(Rs. million)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Total Sales	1,006.00	1,317.85	1,677.12	2,194.65	2,781.70
PBDIT	78.60	110.47	170.00	411.63	312.50
Profit Before Tax	60.69	96.33	149.82	370.43	256.98
Profit After Tax and Other Adjustment related to Prior Period	57.78	95.52	151.01	363.22	242.86
Dividend in Percentage	16%	20%	25%	15%	5%
Equity Dividend (Excluding Tax)	16.90	21.12	26.40	41.38	13.79
Earning Per Share	5.54	9.04	14.30	27.62	8.73
Gross Block	86.84	121.13	157.59	221.51	236.77
Net Block	50.08	76.78	100.95	151.60	148.40
Equity Share Capital	105.61	105.61	105.61	275.88	715.88
Reserves & Surplus	341.13	412.81	533.71	5,779.67	6,001.73
Net Worth	446.26	518.42	639.32	6,496	6,717.61



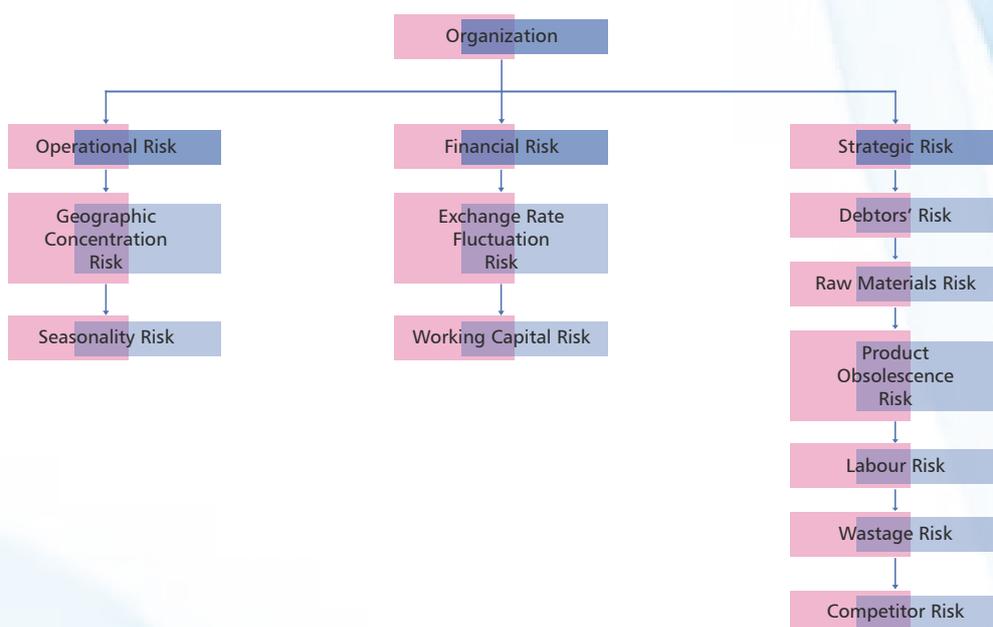
RISK MANAGEMENT

Risk Review

At Vaibhav Gems, we recognize that every business entails risk. Over the last decade, two initiatives have contributed significantly to our continued success: mitigating ongoing risk and cashing in on the vast business upside. Early risk identification and appropriate counter-measures have enabled Vaibhav Gems to reconcile creativity with industry. At Vaibhav Gems, a comprehensive risk warning system incorporates all key aspects of risk management. This enables the company to identify and manage strategic and operational risks at the individual, management and Board levels.

We define the risks upon identification of the business objectives. We have categorized risks into three broad segments :

- ◆ Operational
- ◆ Financial
- ◆ Strategic



1) GEOGRAPHIC CONCENTRATION RISK

A significant portion 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, home to the largest fashion-conscious customers. The company has been present in the US markets for the last 17 years, and has constantly widened its base of large customers. To mitigate the risk arising from an excessive presence in this geography, Vaibhav Gems has diversified into jewellery sales via twenty four hour television channels in UK and Germany. We have also established retail outlets in the high income tourist destinations of Alaska, Mexico and the Caribbean.

2) SEASONALITY RISK

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

Risk mitigation

- ◆ Vaibhav Gems' products addresses the fashion-conscious upper and mid value segment, where the impact of seasonality is limited.
- ◆ Products are marketed through large retail chains like Wal-Mart, J.C Penney, Sears, Macy's, Zales, Sterling, Friedman and White Hall among others; where jewellery is complementary to clothing.
- ◆ Offers designs and products at different price points to maximise the off take during the non-peak season as well.
- ◆ Commissioned stores in different holiday destinations like Alaska, Caribbean islands and Mexico, where an off-season in one location corresponded to a peak season in another.
- ◆ Forayed into television and internet-driven marketing where seasonality is less pronounced. Moreover seasonality in the television market complemented the seasonality of the traditional stores.
- ◆ Employs a distribution strategy to service markets, which have complementary seasons.
- ◆ Initiated the manufacture and marketing of diamond jewellery to provide a wider product range to diversified customers.

3) EXCHANGE RATE FLUCTUATION RISK

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

Risk mitigation

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

4) WORKING CAPITAL RISK

Given the working capital intensive nature of the jewellery business (working capital constituted a

substantial part of capital employed), a mismatch between receivables and payables could result in a liquidity crisis.

Risk mitigation

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

5) DEBTORS' RISK

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

Risk mitigation

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

6) RAW MATERIALS RISK

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

Synchronisation of procurement with purchase order rates.

Coloured gemstones: Gemstones pricing and availability.

Risk mitigation

- ◆ 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.
- ◆ Usually purchases gemstones that can be procured in large quantities since these generally have greater price stability.

7) PRODUCT OBSOLESCENCE RISK

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

Risk mitigation

- ◆ Vaibhav Gems possesses five design centres across the world to accelerate the rollout of approximately 15,000 new designs every year.
- ◆ Employs 350 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.

8) LABOUR RISK

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

Risk mitigation

Vaibhav Gems' manufacturing 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 an employer of choice. The company follows a regular appraisal of its workers'.

9) WASTAGE RISK

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

Risk mitigation

Vaibhav Gems controls wastage in two ways:

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

10) COMPETITOR RISK

The jewellery industry has a large number of players

Risk mitigation

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

- ◆ making the company one of the best end-to-end vertically integrated player
- ◆ expanding our reach to newer countries
- ◆ going directly to the end customer through own retail stores and television marketing channels
- ◆ reducing dependence on one market
- ◆ increasing the number of stores
- ◆ improving technology
- ◆ hiring the best talent in the industry.



REPORT ON CORPORATE GOVERNANCE

1. PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

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

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 The Institute of Company Secretaries of India amongst the top 25 Companies for Corporate Governance Award 2005-06. It was the third consecutive time that the Company received this recognition. This is not an end; the company is committed to adhere with best Corporate Governance Practices with continuous advancement in this area.

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

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

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

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 2007 the Board of Directors of the Company held 7 meetings and the gap between two meetings did not exceed four months.

The meetings were held on 26th May 2006, 30th June 2006, 29th July 2006, 27th September 2006, 31st October 2006, 31st January 2007, and 24th March 2007.

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	Nil	No	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 Non-Executive Director	1	No	1	1	Nil
Mr. Sanjeev Agrawal	Non-Independent Non-Executive Director	1	No	3	2	Nil
Mr. Anandi Lal Roongta	Independent Non-Executive Director	6	Yes	2	3	1
Mr. M.L. Mehta	Independent Non-Executive Director	7	Yes	Nil	2	1
Mr. S. S. Bhandari	Independent Non-Executive Director	5	Yes	3	5	2
Mr. Nirmal Kumar Bardiya	Independent Non-Executive Director	2	No	8	2	Nil

3. COMMITTEES OF THE BOARD

Audit committee

Terms of Reference

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

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

Composition, Meetings & Attendance

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

Name of the Director	Position Held in the Committee	No of Meetings Attended
Mr. S. S. Bhandari	Chairman	6
Mr. Anandi Lal Roongta	Member	6
Mr. M.L. Mehta	Member	7
Mr. Nirmal Kumar Bardiya	Member	3
Mr. Sanjeev Agrawal	Member	1

The committee held its meetings on 26th May 2006, 30th June 2006, 29th July 2006, 31st October 2006, 30th November 2006, 31st January 2007, and 29th March 2007.

Remuneration and compensation committee Terms of Reference

The broad terms of reference of the Remuneration and Compensation Committee are to recommend/review the remuneration package of Managing Director / Executive Director & other Directors, policy making in respect of annual increment, perquisites and commission to be paid to the Company's managing Director / executive Directors and to determine the various terms and conditions for the stock options granted/to be granted to the eligible employees.

Composition, Meetings & Attendance

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

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

During the year, the committee held 2 meetings on 26th May 2006 and 6th January 2007.

Remuneration of Directors during 2006-2007

Name of Director	Sitting Fees	Salary	Total	Terms	Shares as on 31.3.07
Sunil Agrawal	Nil	NA	Nil	Not liable to retire by rotation	28,140
Anandi Lal Roongta	60,000	NA	60,000	Retirement by rotation	2,000
M.L. Mehta	75,000	NA	75,000	Retirement by rotation	Nil
N.K. Bardiya	30,000	NA	30,000	Retirement by rotation	Nil
Sanjeev Agrawal	10,000	NA	10,000	Retirement by rotation	8,320
S. S. Bhandari	60,000	NA	60,000	Retirement by rotation	Nil
Suresh Punjabi	Nil	NA	Nil	Retirement by rotation	20,900
Rahimullah	NA	75,50,000	75,50,000	Contractual	54,600
Ikramullah	NA	Nil	Nil	Retirement by rotation	62,800

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

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

Shareholder's / investor's grievance committee

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

Composition, Meetings & Attendance

Name of the Director	Position Held in the Committee	No of Meetings Attended
Mr. Anandi Lal Roongta	Chairman	1
Mr. Ikramullah	Member	0
Mr. Rahimullah	Member	1
Mr. Sanjeev Agrawal	Member	0

The committee held 1 meeting on 26th May 2006.

Name & designation of the compliance officer

Mr. Mukesh Khetan: Company Secretary

Details of Shareholders/Investors Complaints Received

Nature of Complaints	Opening	Received	Resolved	Pending
Non receipt of dividend	-	2	2	-
Non receipt of Annual Report	-	1	1	-
Non receipt of securities relating to transfer of shares	-	4	4	-
Correspondence / Query relating to NSDL operations	-	1	1	-
Correction of name on securities	-	1	1	-
Other Requests General Query	-	12	12	-
TOTAL	-	21	21	-

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
2003-04	27 th September 2004	10:00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2004-05	20 th September 2005	10:00 A.M.	K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302 004
2005-06	30 th September 2006	04:00 P.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
2006-07	30 TH NOVEMBER 2006	11.00 A.M.	E-68, EPIP, SITAPURA, JAIPUR-302022

Special Resolution passed in Annual General Meetings:

Date of Meeting	Subject matter of Resolution
A) 27th September, 2004	<ol style="list-style-type: none"> Increase in the remuneration of Shri Ikramullah, Executive Director. Alteration of Article no. 68 of Article of Association of Company. Commencing new business as set out in para 7,11,15,16 ,29,35,53,54,63,86,87,102,1 06 of part (c)- other objects, under object clause of memorandum of association of company.
B) 30th September, 2005	No special resolution was passed in the AGM held on 30th September 2005
C) 30th September, 2006	<ol style="list-style-type: none"> Increase in Authorised Share capital of the Company from Rs 31,00,00,000 to Rs 76,00,00,000 by creating 45,00,000 unclassified shares of Rs 100/- each. To consider issue of 44,00,000 1 per cent Non-Convertible Redeemable Cumulative Preference Shares on Preferential basis. To revise remuneration of Shri Rahimullah, Managing Director

4. To confirm appointment of Mr. Rizwanullah, Son of Managing Director holding office or place of profit in the wholly owned subsidiary of Company.

5. To alter Articles of Association by modifying the Articles as:

Part I

The existing articles no. 3, 5, 7, 9, 10, 11, 30, 45, 47, 56, 59, 61, 64, 66, 73, 77, 79, 80, 85, 86, 87, 91, 94, 96, 98 contained in Part I be and is hereby amended.

Part II

The new set of articles from 135 to 157 be and is hereby inserted in Part II.

6. To consider Employee Stock Option Scheme

Postal ballots

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

5. DISCLOSURES

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

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

6. CODE OF CONDUCT

The Board at it meeting held on 27th October 2005, has adopted the Code of Conduct for Directors and Senior Management Personnel. A copy of the 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 aspect 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 to the applicable mandatory requirement of revised Clause 49 of the Listing Agreement. The company submits quarterly compliance report to BSE & NSE in respect of compliance of Clause 49 of the listing agreement.
- ii. **Adoption of non-mandatory requirements of clause 49**
Clause 49 of the Listing Agreement states that the non-mandatory requirement may be implemented as per our discretion. The company complies with the following Non-mandatory requirements stipulated under the clause 49.

◆ **Remuneration Committee**

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

◆ **Communication to shareholders**

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

12. MEANS OF COMMUNICATION

- (a) All financial results are immediately sent to stock exchanges after being taken on record by the Board.
- (b) Results are published in leading local & National newspapers such as Rajasthan Patrika, Dainik Bhaskar, 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

GENERAL INFORMATION TO SHAREHOLDERS AND INVESTORS**Annual General Meeting:**

Date and time - 27th September, 2007 at 10 A.M.
Venue - E-68 EPIP, Sitapura Industrial Area, Jaipur - 302 022

Financial Calendar: (Tentative and subject to change)

Financial reporting for the quarter	
◆ Ending 30 th June, 2007	- End of July, 2007
◆ Ending 30 th September, 2007	- End of October, 2007
◆ Ending 31 st December, 2007	- End of January, 2008
◆ Ending 31 st March, 2008	- End of April, 2008

Dates of Book Closure:

From September 24 to September 27, 2007 (both days inclusive).

Dividend Payment Date:

October 1, 2007 onwards.

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

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.

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.

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 2006	475.00	338.05	474.80	339.00
MAY 2006	447.00	315.10	442.00	306.15
JUNE 2006	425.00	300.00	434.80	267.00
JULY 2006	366.00	261.15	379.00	262.30
AUGUST 2006	367.00	282.00	361.95	275.00
SEPTEMBER 2006	333.40	268.05	334.40	274.00
OCTOBER 2006	319.90	267.00	289.80	255.00
NOVEMBER 2006	285.00	230.00	282.95	235.00
DECEMBER 2006	317.70	235.00	315.50	242.00
JANUARY 2007	312.50	245.00	313.00	250.00
FEBRUARY 2007	292.50	230.25	292.20	245.00
MARCH 2007	262.50	237.05	278.90	232.60



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

Secretarial Audit for reconciliation of capital

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

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.

Shareholding

i. Distribution of shareholding as on March 31, 2007

No. of equity Shareholding	Number of Shares	per cent of Shareholding	Number of Shareholders	per cent of Shareholders
1 to 1000	298,851	1.08%	2352	93.71%
1001 to 5000	235,740	0.86%	106	4.22%
5001 to 10000	119,581	0.43%	16	0.64%
10001 and above	26,933,701	97.63%	36	1.43%
Total	2,75,87,873	100.00%	2,510	100.00%

ii. Categories of Shareholders as on March 31, 2007

Category	No. of shares	per cent holding
INDIAN PROMOTERS	27,75,677	10.06%
FOREIGN PROMOTERS	15,62,840	5.66%
BANKS		
FIIS	4,148,679	15.04%
PRIVATE CORPORATE BODIES	700,358	2.54%
INDIAN PUBLIC	685,833	2.49%
NRIS	48,386	0.18%
OTHERS		0.00%
(I) CLEARING MEMBERS	2,571	0.00%
(II) FOREIGN COMPANY - CORTLAND INVESTMENT LIMITED	8,913,529	32.31%
(III) SHARES UNDERLYING GDR*	87,50,000	31.72%
TOTAL	2,75,87,873	100.00%

* see clause no. (o) below.

Dematerialization of shares and liquidity

As directed by SEBI, shares of the company can only be traded in Demat Form. As on March 31, 2007, 99.49 per cent of the total shares of the Company have been dematerialized.

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

ECS Mandate

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

Outstanding GDRs / ADRs / Warrants or any Convertible instruments

8,75,000 Global Depository Receipt (GDR) against

87,50,000 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.

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

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

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

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 – 303 022
- Unit No. 186-A, SDF, VI, SEEPZ, Mumbai

Branch Office

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

Investors Correspondence

Mr. Mukesh Khetan, Company Secretary heads the Corporate Secretariat Department of the Company. In case of any problem/query share holders can contact at:

Address: E-68, EPIP, Sitapura, Jaipur - 302022

Phone: 91-141-2770648 (Extn. 421)

Fax: 91-141-2770510

Email: mukesh.khetan@vaibhavgems.com

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

Address: Karvy Computershare (P) Limited,
'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

Transfer of unclaimed amount to Investor Education and Protection Fund

The company has credited unclaimed dividend amount of Rs.1250/- in March 2007 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.

Other useful information to shareholders

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

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

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

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

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

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

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

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

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

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

- ◆ Shareholders are requested to quote their e-mail Ids, telephone / fax numbers for prompt reply to their communication.

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To,
The Members 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 2007, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

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

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

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

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

For B. Khosla & Co.
Chartered Accountants

For Haribhakti & Co
Chartered Accountants

Sandeep Mundra
Partner

Chetan Desai
Partner

Place: Jaipur
Date: June 30, 2007

Place: Mumbai
Date: June 30, 2007

The Board of Directors
Vaibhav Gems Limited
Jaipur

CERTIFICATION BY MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER

We hereby certify that for the financial year ending 2006-2007, 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 2006-2007 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

Vinod Jain
Chief Financial Officer

Date: 30th June 2007
Place: Jaipur

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, 2007, 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, 2007.

Rahimullah
Managing Director

Date: 30th June 2007
Place: Jaipur



FINANCIAL STATEMENTS

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, 2007, the profit and loss account for the year ended on that date and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 as amended by the Companies (Auditors' Report) (Amendment) Order, 2004 (together 'the order') issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956 ('the Act') and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement of the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the Company.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b. in our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books of accounts;
 - c. the balance sheet, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - d. in our opinion, the balance sheet, the profit and loss account and cash flow statement of the Company dealt with by this report comply with the accounting standards referred to in Section 211(3C) of the Act, to the extent they are applicable to the Company;
 - e. on the basis of written representation received from the directors, as on March 31, 2007, and taken on record by the Board of Directors, we report that none of the directors of the Company, prima facie, are disqualified as on March 31, 2007 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, 2007;
- 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

Chetan Desai
Partner
Membership No.17000

Place: Jaipur
Date: June 30, 2007

For B. Khosla & Co.
Chartered Accountants

Sandeep Mundra
Partner
Membership No.75482

ANNEXURE TO AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

- (i) a. The Company has maintained proper records of all Fixed Assets from 1st April 1998 showing full particulars including quantitative details and location thereof. As regarding Fixed Assets acquired prior to above date, the Company has compiled only item wise lists of its fixed assets
- b. We are informed that during the year the management has physically verified these assets and no material discrepancies were noticed on such verification. In our opinion, the frequency of verification is reasonable having regard to the size of the Company and nature of fixed assets.
- c. As per information and explanations given to us, during the year, the Company has not disposed off any substantial part of fixed assets.
- (ii) a. As explained to us, inventories have been physically verified by the management at reasonable intervals.
- b. In our opinion and according to information and explanations given to us, the procedure of physical verification of inventories followed by the management is reasonable and adequate in relation to the size of the Company and nature of its business.
- c. On the basis of examination of inventories records, we are of the opinion that the Company is maintaining proper records of inventories. As explained to us, the discrepancies noticed on physical verification of stock as compared to book records are not material and same have been properly dealt with in the books of accounts.
- (iii) a. The Company has granted loan to four foreign subsidiaries covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 2092.32 lacs and the year-end balance of loan granted to such subsidiaries was Rs. 2092.32 lacs.
- b. In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not prima facie prejudicial to the interest of the Company.
- c. The loans granted are repayable on demand. As informed, the company has not demanded repayment of such loan during the year, thus, there has been no default on the part of the subsidiaries to which money has been lent. The loan given is interest free.
- b. The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Act.



- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with size of the Company and the nature of its business, for the purchase of inventories and fixed assets and for the sale of goods and services. We have not observed any continuing failure to correct major weaknesses in internal control.
- (v) a. According to the information and explanations given to us, we are of the opinion that the particulars of contract or arrangement referred in Section 301 of the Act have been entered into the register maintained under section 301 of the Act.
- b. As informed and according to information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act and exceeding the value of rupees five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (vi) In our opinion and according to information and explanations given to us, the Company during the year has not accepted any deposits from the public to which the provisions of Section 58A and 58AA or any other relevant provisions of the Act are applicable. No order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal in this regard.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size of the Company and nature of its business.
- (viii) a. The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and any other material statutory dues applicable to it.
- b. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid statutory dues were in arrears as at the last day of the financial year for a period of more than six months from the date they became payable.
- c. According to the information and explanations given to us, there are no dues of sales tax, Income tax, Custom duty, excise duty, service tax and cess which have not been deposited on account of any dispute.
- (ix) The Company neither has accumulated losses as on March 31, 2007 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) In our opinion, the terms and conditions on which the company has given guarantees for loans taken by others from banks or financial institutions are prima facie not prejudicial to the interest of the company.
- (xiii) According to the information and explanations given to us, the Company has not obtained any term loans during the year.
- (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, 2007, we report that no fund raised on short term basis have been used for long term purposes.
- (xv) According to the information and explanations given to us, the Company has made preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act. In our opinion the price at which the shares have been issued are, prima facie, 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

For B. Khosla & Co.
Chartered Accountants

Chetan Desai
Partner
Membership No.17000

Sandeep Mundra
Partner
Membership No.75482

Place: Jaipur
Date: June 30, 2007

BALANCE SHEET as at March 31, 2007

Amount in Rupees

Particulars	Schedule	As at		As at	
		31 st March, 2007		31 st March, 2006	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	I	715,878,730		275,878,730	
Reserves and Surplus	II	6,001,728,113	6,717,606,843	5,779,673,169	6,055,551,899
Share Application Money			-		440,000,000
Loan Funds					
Secured Loans	III		636,610,871		444,274,520
Deferred Tax Liability (Net)			2,990,930		2,945,643
Total			7,357,208,644		6,942,772,062
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	IV	236,775,167		221,506,375	
Less: Depreciation		88,375,482		69,907,995	
Net Block			148,399,685		151,598,380
Investments	V		5,270,946,303		3,933,352,302
Current Assets, Loans and Advances					
Inventories	VI	613,598,083		485,427,128	
Sundry Debtors	VII	1,114,415,266		873,294,660	
Cash and Bank Balances	VIII	153,216,482		1,638,537,822	
Interest accrued on Bank Deposits		101,375		4,443,810	
Loans and Advances	IX	257,022,130		35,685,122	
		2,138,353,336		3,037,388,542	
Less: Current Liabilities and Provisions					
Current Liabilities	X	177,107,048		128,506,451	
Provisions	XI	23,383,632		51,060,710	
		200,490,680		179,567,161	
Net Current Assets			1,937,862,656		2,857,821,380
Total			7,357,208,644		6,942,772,062
Significant Accounting Policies and Notes to Accounts	XX				

As per our attached report of even date

For and on behalf of the Board

For **HARIBHAKTI & CO.**
Chartered AccountantsFor **B. KHOSLA & CO.**
Chartered Accountants**RAHIMULLAH**
Managing Director**CHETAN DESAI**
Partner**SANDEEP MUNDRA**
Partner**MUKESH KHETAN**
Company Secretary**NIRMAL KUMAR BARDIYA**
DirectorPlace: Jaipur,
Date: 30th June, 2007

PROFIT AND LOSS ACCOUNT for the year ended March 31, 2007

Particulars	Schedule	Amount in Rupees	
		Year ended 31st March 2007	Year ended 31st March 2006
INCOME			
Sales	XII	2,781,695,516	2,194,651,034
Other Income	XIII	45,263,176	19,290,946
Total		2,826,958,692	2,213,941,980
EXPENDITURE			
Material Cost	XIV	2,126,460,605	1,542,797,878
Manufacturing Expenses	XV	147,436,823	82,643,049
Employees Costs	XVI	154,964,017	113,712,883
Administrative & Selling Expenses	XVII	76,937,647	52,396,982
Financial Expenses	XVIII	45,522,964	36,699,821
Depreciation	IV	18,652,540	15,264,782
Total		2,569,974,596	1,843,515,395
Profit Before Tax		256,984,096	370,426,585
Less: Provision For Taxation			
- Current Tax		10,883,000	3,000,000
- Earlier Years Tax		1,848,991	-
- Deferred Tax Charges / (Credits)		45,287	3,357,010
- Fringe Benefit Tax		1,350,000	850,000
Profit After Tax		242,856,818	363,219,575
Balance brought forward		701,147,400	424,066,434
Profit Available For Appropriation		944,004,218	787,286,009
APPROPRIATION			
Dividend on Preference Share Capital		1,833,333	-
Proposed Dividend		13,793,937	41,381,810
Tax on Dividend		2,655,855	5,803,799
General Reserve		-	38,953,000
		18,283,125	86,138,609
Balance carried to Balance Sheet		925,721,093	701,147,400
Earnings Per Share of Rs.10 each (Refer Note No.11)			
Basic (Rs.)		8.73	27.62
Diluted (Rs.)		8.73	27.62
Additional Information	XIX		
Significant Accounting Policies and Notes to Accounts	XX		

As per our attached report of even date

For and on behalf of the Board

For **HARIBHAKTI & CO.**
Chartered Accountants

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

RAHIMULLAH
Managing Director

CHETAN DESAI
Partner

SANDEEP MUNDRA
Partner

MUKESH KHETAN
Company Secretary

NIRMAL KUMAR BARDIYA
Director

Place: Jaipur,
Date: 30th June, 2007

CASH FLOW STATEMENT for the year ended March 31, 2007

Particulars	Amount in Rupees	
	Year ended 31st March 2007	Year ended 31st March 2006
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Tax and Extraordinary Items	256,984,096	370,426,585
<i>Adjustment for :</i>		
Depreciation	18,652,540	15,264,782
Unrealised Foreign Exchange Difference	8,561,984	1,289,112
Employee Compensation Expenses	1,481,110	
Loss/(Profit) on sale of Fixed Assets	(12,366)	74,270
Impairment of Assets		1,232,442
Interest and Dividend Earned	(43,075,547)	(18,968,853)
Interest paid on borrowings	36,862,632	25,939,674
Operating Profit before working Capital Changes	279,454,449	395,258,012
<i>Adjustment for :</i>		
Trade and other Receivables	(270,812,264)	(445,151,759)
Trade Payables	40,800,684	66,125,363
Stock-in-Trade	(128,170,955)	(125,297,179)
Cash Generated from Operations	(78,728,086)	(109,065,563)
Direct Taxes paid - Current Year	4,290,000	1,200,000
- Earlier Year	1,848,991	
Net Cash from Operating Activities	(84,867,077)	(110,265,563)
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(15,501,292)	(66,934,303)
Sale of Fixed Assets	59,813	345,604
Investment in Subsidiaries	(1,337,594,001)	(3,877,733,282)
Loan to Subsidiaries	(209,232,000)	
Interest and Dividend received	47,417,982	14,525,043
Net Cash used in Investing Activities	(1,514,849,498)	(3,929,796,938)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from / (Repayment of) Short Term Borrowings	202,443,336	157,019,378
Proceeds from Issuance of Share Capital		5,609,914,166
Share Issue Expenses	(3,999,860)	(69,713,867)
Dividend and Tax on Dividend paid	(47,185,609)	(30,104,311)
Interest Paid on Borrowings	(36,862,632)	(25,939,674)
Net Cash used in Financing Activities	114,395,235	5,641,175,692
Net Increase in Cash and Cash Equivalents	(1,485,321,340)	1,601,113,191
Opening Balance of Cash and Cash Equivalents	1,638,537,822	32,898,079
Closing Balance of Cash and Cash Equivalents	153,216,482	1,634,011,270
Cash and Cash Equivalents Comprises		
Cash, cheques and drafts in hand	278,267	645,359
Balance with scheduled bank in current accounts	11,417,293	9,067,523
Balance with scheduled bank in deposit accounts	141,520,922	1,132,350,726
Balance with other Banks	-	491,947,662
	153,216,482	1,634,011,270
Exchange Gain on Bank deposits	-	4,526,552
	153,216,482	1,638,537,822
Significant Accounting Policies and Notes on Accounts	Schedule - XX	

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

As per our attached report of even date

For and on behalf of the Board

For **HARIBHAKTI & CO.**
Chartered Accountants

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

RAHIMULLAH
Managing Director

CHETAN DESAI
Partner

SANDEEP MUNDRA
Partner

MUKESH KHETAN
Company Secretary

NIRMAL KUMAR BARDIYA
Director

Place: Jaipur,

Date: 30th June, 2007

SCHEDULES forming part of Balance Sheet

Amount in Rupees

Particulars	As at 31st March, 2007		As at 31st March, 2006	
SCHEDULE I - SHARE CAPITAL				
Authorised				
31,000,000 Equity Shares Rs. 10/- each	310,000,000		310,000,000	
4,500,000 (Previous year - Nil) Preference Shares of Rs 100/- each	450,000,000	760,000,000	-	310,000,000
Issued, Subscribed and Paid up				
27,587,873 Equity Shares of Rs.10/- each	275,878,730		275,878,730	
4,400,000 (Previous Year -Nil) 1per cent Non Convertible Redeemable Cumulative Preference Share of Rs. 100 each (Refer Note No.8)	440,000,000	715,878,730	-	275,878,730
		715,878,730		275,878,730

Notes:

Out of the above Equity Shares :-

- 7,294,920 Equity Shares were allotted as fully paid up Bonus Share by capitalisation of Profit & Loss Account
- 8,750,000 Equity Shares have been allotted as underlying Share for 875,000 Global Depository Receipts

SCHEDULE II - RESERVES AND SURPLUS

Securities Premium Account :				
As per last Balance Sheet	4,988,525,769		58,598,200	
Add: Received during the year	-		4,999,641,436	
	4,988,525,769		5,058,239,636	
Less: Expenses for issue of Securities	3,999,860	4,984,525,909	69,713,867	4,988,525,769
General Reserve:				
As per last Balance Sheet	90,000,000		51,047,000	
Add: Transferred from Profit and Loss Account	-	90,000,000	38,953,000	90,000,000
Employee Stock Option Outstanding (Refer Note No.7)				
Less : Deferred Employees compensation expenses outstanding	12,309,796			
	10,828,686	1,481,110		-
Balance in Profit and Loss account		925,721,094		701,147,400
		6,001,728,113		5,779,673,169

SCHEDULE III - SECURED LOANS

Working Capital Facilities from Banks:				
Foreign Currency Loans				
Pre-shipment Credit	335,105,635		165,617,120	
Post-shipment Credit	301,505,236	636,610,871	278,657,400	444,274,520
		636,610,871		444,274,520

Notes:

(i) Above Loans are secured by hypothecation of Stock-in-trade and Book Debts on pari-passu basis.

(ii) Further Secured, on parri-passu basis, by :-

- Equitable Mortgage of Land and Buildings situated at K-6A & K-6B, Adarsh Nagar and E-68 & E-69 EPIP, Sitapura, Jaipur
- Hypothecation of Plant & Machinerries & Other Movable Assets
- Personal Guarantee of Chairman

SCHEDULES forming part of Balance Sheet

Amount in Rupees

SCHEDULE IV : FIXED ASSETS											
GROSS BLOCK						DEPRECIATION			NET BLOCK		
Name of Assets	As at 01.04.2006	Addition during the year	Ded./Adj. during the year	As at 31.03.2007	As at 01.04.2006	For the Year	Ded./Adj. during the year	Up to 31.03.2007	As at 31.03.2007	As at 31.3.2006	
Freehold Land	4,894,908	-	-	4,894,908	-	-	-	-	4,894,908	4,894,908	
Leasehold Land	37,103,637	-	-	37,103,637	839,010	371,726	-	1,210,736	35,892,901	36,264,627	
Building	42,922,069	1,931,561	-	44,853,630	13,303,172	3,023,013	-	16,326,185	28,527,445	29,618,897	
Plant & Machinery	73,856,904	5,193,017	38,000	79,011,921	27,016,311	6,986,968	4,483	33,998,796	45,013,125	46,840,593	
Electric Installation	14,456,322	303,366	-	14,759,688	3,376,056	1,577,475	-	4,953,531	9,806,157	11,080,266	
Furniture & Fixtures	18,209,436	2,917,653	-	21,127,089	8,341,808	2,045,705	-	10,387,513	10,739,576	9,867,628	
Office Equipment	10,502,370	885,615	-	11,387,985	4,502,596	1,007,430	-	5,510,026	5,877,959	5,999,774	
Computer	16,856,951	3,321,551	194,500	19,984,002	10,639,943	3,208,218	180,570	13,667,591	6,316,411	6,217,008	
Vehicles	2,703,778	948,529	-	3,652,307	1,889,099	432,005	-	2,321,104	1,331,203	814,679	
Total	221,506,375	15,501,292	232,500	236,775,167	69,907,995	18,652,540	185,053	88,375,482	148,399,685	151,598,380	
Previous Year	157,589,680	67,561,936	3,645,319	221,506,375	56,636,138	15,264,782	1,992,925	69,907,995	151,598,380	101,581,175	
Notes:											
Leasehold Land includes Rs.32,945,000 (Previous year Rs.32,945,000) in respect of which Lease Agreement are yet to be executed with RILCO Ltd.											

SCHEDULES forming part of Balance Sheet

Particulars	Amount in Rupees	
	As at 31st March, 2007	As at 31st March, 2006
SCHEDULE V - INVESTMENTS		
(Long Term - at Cost)		
Trade Investments - Unquoted		
- In Wholly owned subsidiaries		
1000 (Previous year - 1000) Common Stock with No par value of Jewel Gem USA Inc.,	527,090,000	367,532,500
21,800,000 (Previous year - 5,700,000) Ordinary Shares of US \$ 1 each fully paid-up of Genoa Jewellers Limited	981,150,250	254,001,000
350,000 (Previous year - 325,000) Ordinary Shares of Baht 100 each fully paid-up of STS Gems Thai Limited	1,112,599,043	1,019,539,043
100,000 (Previous year - 100,000) Ordinary Shares of Baht 100 each fully paid-up of STS Creations Thai Limited	62,031,574	62,031,574
200 (Previous year 200) Common Shares with No par value of STS Jewels Inc.	1,995,079,632	1,995,079,631
1,500 (Previous year - 1,500) Ordinary Shares of Yen 50,000 each fully paid-up of STS Gems Japan Limited	19,918,042	19,918,042
87,500 (Previous year - 50,000) Ordinary Shares of HK \$100 each fully paid-up of STS Gems Limited, Hongkong	157,499,992	87,594,992
2 (Previous year-2) Corporate Shares (one share of Ninety Nine Thousand Pesos and other one of One thousand Pesos) of Indo Mexico Co. s. de rl.de.cv.	410,227,250	22,305,000
Other than Trade Investment - Unquoted		
360,000 (Previous year - 360,000) Equity Shares of Rs.10 each fully paid up of VGL Softech Limited	5,207,000	5,207,000
Nil (Previous year 9,998,370) of Reliance Liquidity Fund -Daily Dividend Reinvestment Option of Rs.10 each	-	100,000,000
Other than Trade Investment - Quoted		
368 (Previous year - 368) Equity Shares of Rs.10 each fully paid up of Punjab National Bank	143,520	143,520
	5,270,946,303	3,933,352,302
Notes:-		
1. Aggregate amount of Quoted Investment	143,520	143,520
2. Market value of Quoted Investment	174,506	173,401
3. Aggregate amount of Non Quoted Investment	5,270,802,783	3,833,208,782
SCHEDULE VI - INVENTORIES		
(As taken, valued and certified by the Management)		
Materials-in-process	526,111,013	453,764,969
Semi Finished Goods	41,883,532	24,740,233
Finished Goods	43,482,224	5,648,405
Stores and Consumables	2,121,314	1,273,521
	613,598,083	485,427,128

SCHEDULES forming part of Balance Sheet

Amount in Rupees

Particulars	As at 31st March, 2007		As at 31st March, 2006	
SCHEDULE VII - SUNDRY DEBTORS (Unsecured and considered good unless otherwise stated)				
Outstanding for more than Six Months	7,331,415		46,520	
Others	1,107,083,851	1,114,415,266	873,248,140	873,294,660
		1,114,415,266		873,294,660
SCHEDULE VIII - CASH AND BANK BALANCES				
Cash on hand		278,267		645,359
Balance with Scheduled Banks				
In Current Accounts	11,417,293		9,067,523	
In Deposit Accounts [Pledged Rs. 8,892,486 (previous year Rs.11,352,755)]	141,520,922	152,938,215	1,132,350,726	1,141,418,249
Balance with Non Scheduled Banks (Refer Note No.9)				
In Current Accounts	-	-	1,803,503	
In Deposit Accounts	-	-	494,670,711	496,474,214
		153,216,482		1,638,537,822
SCHEDULE IX - LOANS & ADVANCES (Unsecured and considered good unless otherwise stated)				
Advances and Loans to Subsidiaries (Refer Note No.10)	209,232,000		-	
Advances recoverable in cash or in kind or for value to be received (Refer Note No.3)	24,755,153		17,698,545	
Advance Tax (Net of Provision)	19,944,470		15,385,220	
Security Deposits	3,090,507	257,022,130	2,601,357	35,685,122
Advance considered doubtful				
Due from other parties	-	-	1,180,000	
Less: Provision for doubtful advance	-	-	1,180,000	-
		257,022,130		35,685,122
SCHEDULE X - CURRENT LIABILITIES				
Sundry Creditors (Refer Note No.5)		152,004,875		106,823,907
Unclaimed Dividend*		350,376		301,687
Other Liabilities		24,751,797		21,380,857
		177,107,048		128,506,451
* Investor Education and Protection to be credited by the amount as and when they become due				
SCHEDULE XI - PROVISIONS				
Leave Encashment		5,100,508		3,875,101
Dividend on Preference Share		1,833,333		-
Proposed Dividend		13,793,937		41,381,810
Tax on Dividend		2,655,855		5,803,799
		23,383,632		51,060,710

SCHEDULES forming part of Profit and Loss Account

Amount in Rupees

Particulars	Year ended 31st March 2007		Year ended 31st March 2006	
SCHEDULE XII - SALES				
Export Sales	2,671,692,296		2,191,471,704	
Domestic Sales	110,003,220	2,781,695,516	3,179,330	2,194,651,034
		2,781,695,516		2,194,651,034
SCHEDULE XIII - OTHER INCOME				
Interest Received (Gross, Tax deducted at source - Rs 7,892,381 Previous year - Rs.2,863,878)		38,535,103		18,968,853
Dividend Received		4,540,444		-
Commission Received (Gross, Tax Deducted at sources - Rs 119,851 Previous year - Rs.Nil)		2,151,521		-
Miscellaneous Income		36,108		322,093
		45,263,176		19,290,946
SCHEDULE XIV - MATERIAL COST				
Materials Consumed				
Opening Material-in-process	453,764,969		335,772,229	
Add: Purchases	2,094,355,862		1,582,600,954	
	2,548,120,831		1,918,373,183	
Less: Closing Material-in-process	526,111,013	2,022,009,818	453,764,969	1,464,608,214
Purchases of Finished Goods (Increase) / Decrease in Semi Finished and Finished Goods:		159,427,905		88,046,978
<i>Opening Stocks</i>				
Semi Finished Goods	24,740,233		13,497,036	
Finished Goods	5,648,405		7,034,288	
	30,388,638		20,531,324	
<i>Less: Closing Stocks</i>				
Semi Finished Goods	41,883,532		24,740,233	
Finished Goods	43,482,224		5,648,405	
	85,365,756	(54,977,118)	30,388,638	(9,857,314)
		2,126,460,605		1,542,797,878
SCHEDULE XV - MANUFACTURING EXPENSES				
Job Work Charges		84,643,726		41,487,393
Stores and Consumables		31,212,365		21,545,921
Power and Fuel		11,268,119		8,776,773
Repairs and Maintenance		6,775,007		6,139,640
Other Manufacturing Expenses		13,537,606		4,693,322
		147,436,823		82,643,049

SCHEDULES forming part of Profit and Loss Account

Amount in Rupees

Particulars		Year ended 31st March 2007		Year ended 31st March 2006
SCHEDULE XVI - EMPLOYEES COSTS				
Salaries, Wages, Bonus etc.		134,053,436		99,396,133
Contributions to Provident and Other Funds		9,416,870		5,852,460
Staff Welfare Expenses		6,757,668		4,818,103
Employee Compensation Expenses under ESOS		1,481,110		
Recruitment and Training		3,254,933		3,646,187
		154,964,017		113,712,883
SCHEDULE XVII - ADMINISTRATIVE & SELLING EXPENSES				
Rent, Rates and Taxes		1,397,213		2,004,574
Insurance		2,165,223		2,348,716
Travelling and Conveyance		22,220,528		15,145,773
Legal and Professional		3,209,945		2,497,905
Postage and Telephone		6,121,518		4,746,738
Printing and Stationery		2,810,674		2,699,823
Advertisement and Business Promotion		2,685,776		3,705,928
Brokerage and Commission		412,408		818,529
Packing and Forwarding		8,261,241		6,819,881
Misc. Expenses		4,394,892		4,465,136
Donation		385,537		-
Auditors' Remuneration		975,837		910,948
Directors' Remuneration		7,550,000		3,308,250
Directors' Sitting Fees		235,000		205,000
Information Technology Expenses		11,632,468		5,019,831
Loss on Sale of Assets		-		74,270
Loss on Impaired Fixed Assets		-		1,232,442
Bad debts	1,180,000	-		-
Less: Provision written back	1,180,000	-		-
Exchange Fluctuation (Net)		2,479,387		(3,606,762)
		76,937,647		52,396,982
SCHEDULE XVIII - FINANCIAL EXPENSES				
Interest				
- On Fixed Loans		-	4,604,702	
- On Working Capital Facilities	36,862,632	36,862,632	21,334,972	25,939,674
Bank Commission		8,660,332		10,760,147
		45,522,964		36,699,821

SCHEDULES forming part of Profit and Loss Account

Particulars	Year ended 31st March 2007		Year ended 31st March 2006	
SCHEDULE XIX - ADDITIONAL INFORMATION				
<i>(Pursuant to provisions of Paragraph 3 and 4 of Part II of Schedule VI to the Companies Act, 1956)</i>				
	Quantity	Rupees	Quantity	Rupees
1 Materials Consumed				
Roughs (Grams)	2,719,121	844,877,758	5,704,240	761,457,621
Gold and Alloys (Grams)	1,688,364	589,917,205	1,321,875	371,363,260
Gemstones (Carats)	1,214,010	437,076,910	1,769,569	179,785,362
Accessories (Nos.)	297,851	41,979,177	376,844	44,353,304
Diamond (Carats)	18,814	108,158,768	21,061	107,648,667
		2,022,009,818		1,464,608,214
<i>Note: Consumption includes quantity and cost of materials sold.</i>				
2 Stocks, Turnover and Purchases				
Opening Stocks				
Gem Stones (Carats)	111,429	4,628,135	145,190	6,267,932
Jewellery (Nos.)	67	196,289	291	766,356
Diamond (Carats)	32	331,325	-	-
Accessories (Nos.)	1,748	492,656	-	-
		5,648,405		7,034,288
Purchases				
Gem Stones (Carats)	-	-	181	181
Jewellery (Nos.)	747	8,623,103	58	240,054
Diamond (Carats)	20,943	150,793,914	16,389	86,873,277
Accessories (Nos.)	29	10,888	3,901	933,466
		159,427,905		88,046,978
Turnover				
Roughs (Grams)	29,113	24,796,474	-	-
Gem Stones (Carats)	850,955	969,016,703	1,516,342	971,026,913
Jewellery (Nos.)	622,421	1,477,117,810	551,928	1,079,862,945
Diamond (Carats)	28,322	258,453,369	16,702	92,950,792
Accessories (Nos.)	355,653	51,335,994	573,881	50,462,148
Others		975,166		348,236
		2,781,695,516		2,194,651,034
Closing Stocks				
Gem Stones (Carats)	129,335	5,949,839	111,429	4,628,135
Jewellery (Nos.)	17	15,182	67	196,289
Diamond (Carats)	2,324	37,388,840	32	331,325
Accessories (Nos.)	282	128,363	1,748	492,656
		43,482,224		5,648,405
3 Managerial Remuneration				
<i>(In accordance with Schedule XIII to the Companies Act, 1956)</i>				
From Company (Remuneration and Bonus)				
<i>Managing Director</i>	7,550,000		2,858,250	
<i>Whole time Director</i>	-	7,550,000	450,000	3,308,250
				3,308,250
4 Payments to Directors from Subsidiaries		21,981,015		21,907,057
5 Payments to Auditors				
a. Audit Fees		449,440		448,960
b. Tax Audit Fees		168,540		168,360
c. For other services		135,870		193,200
d. For Reimbursement of Expenses		221,987		100,428
		975,837		910,948

SCHEDULES forming part of Profit and Loss Account

Particulars	Amount in Rupees			
	Year ended 31st March 2007		Year ended 31st March 2006	
6 Repairs and Maintenance		Rupees		Rupees
a. Buildings		795,850		760,420
b. Machineries		2,043,284		2,026,956
c. Other Repairs		3,935,873		3,352,264
		6,775,007		6,139,640
7 Capacities and Production		Quantity		Quantity
Licensed and Installed Capacities		Not Applicable		Not Applicable
Actual Production:				
<i>Gem Stones(Carats)</i>		1,134,797		1,902,626
Diamond (Carats)		21,434		1,929
<i>Studded Jewellery (Nos.)</i>		621,624		551,646
<i>Accessories (Nos.)</i>		851,768		737,009
8 Captive Consumption		Quantity		Quantity
<i>Gem Stones(Carats)</i>		280,217		420,226
Diamond (Carats)		4,243		1,584
<i>Accessories (Nos.)</i>		496,905		165,281
9 Value of Imports calculated on C.I.F. basis		Rupees		Rupees
a. Raw Materials (other than through canalising agencies)		1,228,490,070		958,466,063
b. Consumables, Stores & Spares		16,178,627		7,495,458
c. Capital Goods		2,114,968		1,396,810
10 Expenditure in Foreign Currency		Rupees		Rupees
Travelling Expenses		3,294,469		1,194,461
Professional Fees		-		5,525,000
Others		16,678		312,886
11 Value and per cent of Material Consumption		Rupees		Rupees
Raw Materials and Components:	per cent		per cent	
Imported	58.66	1,186,053,921	57.45	887,006,459
Indigenous	41.34	835,955,897	42.55	577,601,755
		2,022,009,818		1,464,608,214
Consumables, Stores & Spares:				
Imported	58.87	18,375,375	40.61	8,750,076
Indigenous	41.13	12,836,990	59.39	12,795,845
		31,212,365		21,545,921
12 Remittance in Foreign Currency on account of Dividends:				
a. Year to which the Dividend relates		2005-06		2004-2005
b. Number of Non-Resident Shareholders to whom remittances were made		19		3
c. Number of Shares on which remittances were made		87,084		1,513,800
d. Dividend Amount (in Rupees)		130,628		3,784,500
13 Earnings in Foreign Currency		Rupees		Rupees
Export of goods calculated on F.O.B. basis		2,638,747,154		2,188,978,991
Interest		3,236,568		5,759,706

SCHEDULES forming part of Accounts

SCHEDULE XX - SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Preparation of Financial Statements

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

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

2. Use of Estimates

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

3. Fixed Assets

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

4. Depreciation and Amortization

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

b. Assets acquired on lease is amortized over the period of lease in equal installments.

5. Intangible Assets

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

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

6. Impairment of Assets

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

a. the provision for impairment loss, if any, required or

b. the reversal, if any, required for impairment loss recognized in previous periods.

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

Recoverable amount is determined

a. in the case of an individual asset, at the higher of net selling price and the value in use.

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

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

7. Borrowing Cost

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

8. Inventories

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

b. All raw materials purchased are simultaneously issued for production. Accordingly material-in-process includes such raw materials as well. Semi Finished Goods are goods manufactured and pending for pre-shipment inspection. Materials consumed are materials used in production of semi finished and finished goods only.

c. Determination of estimated net realizable value and specific identification involve technical judgments of the management, which has been relied upon by the Auditors.

SCHEDULES forming part of Accounts

9. Investments

Long-term investments including those held through nominees are stated at cost. Provision for diminution in the value of long-term investments is made only if such a decline is other than temporary in the opinion of the management. Current investments are carried at lower of cost and fair value.

10. Revenue Recognition

Sale of Goods:

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

Dividend on Investment:

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

11. Foreign Currency Transactions:

a. Initial Recognition:

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

b. Conversion:

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

c. Exchange Differences:

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

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

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

12. Retirement Benefits

a. Gratuity:

The Company annually contributes to the Employee's Gratuity Fund established by Life Insurance Corporation of India by way of taking Group Gratuity policy covering all eligible employees and same is charged to Profit & Loss Account.

b. Provident Fund:

Company's contributions to Provident Fund are charged to Profit & Loss Account on accrual basis.

c. Leave Encashment:

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

13. Employee Stock Option Scheme

The excess of the market price of shares as at the date of grant of option granted to employee (including certain employees of Subsidiaries) under the Employee Stock Option Scheme, over the exercise price, is treated as Employee Compensation Cost and amortized on a straight-line basis over the vesting period.

14. 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 that the assets will be realized in future.

15. Earning Per Share

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

SCHEDULES forming part of Accounts

16. Provision, Contingent Liabilities and Contingent Assets

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

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

Contingent Liability is disclosed in case of

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

Contingent Assets are neither recognized, nor disclosed.

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

B. NOTES ON ACCOUNTS

1. Contingent Liabilities:

Particulars	Amount in Rupees	
	As at 31.03.2007	As at 31.03.2006
a. Guarantees given by bank on behalf of Company	24,835,000	10,300,000
b. Guarantees given to Bank by the Company	256,590,000	-
c. Disputed Income Tax Matters	11,239,420	18,421,646

2. The Deferred Tax Liabilities/ (Asset) comprise of the following:

Particulars	Amount in Rupees	
	As at 31.03.2007	As at 31.03.2006
a. Deferred Tax Liability		
Depreciation	3,037,322	3,484,610
b. Deferred Tax Assets:		
Provision for Doubtful Advances	-	397,188
Provision for Leave Encashment	46,392	141,779
	46,392	538,967
c. Deferred Tax Liability/ (Assets) (Net)	2,990,930	2,945,643

Net deferred tax charge / (credit) for the year of Rs. 45,287 (Previous year Rs. 3,357,010) has been recognised in the Profit and Loss Account for the year.

- Advances recoverable include Rs.2,200,000 (Previous year Rs.7,054,646) due from VGL Softech Limited, a Company in which directors are interested.
- The annual contribution to Employee's Group Gratuity Fund established by Life Insurance Corporation of India is based on the actuarial valuation carried out by Life Insurance Corporation of India during Sept '2006.
- Sundry Creditors include overdue amounts (mainly unclaimed) of Rs. Nil (Previous Year Rs. Nil) including interest of Rs. Nil (Previous Year Rs. Nil) payable to Micro, Small & Medium enterprises. The company does not owe any amount to Micro, Small & Medium enterprises. These enterprises have been identified on the basis of information available to the Company.
- The Company's investment in its subsidiaries have been treated as long term in the nature. Based on the future business projections, no diminution in the value of investment in subsidiaries has been envisaged by the Company inspite of losses in some of the subsidiaries.

SCHEDULES forming part of Accounts**7. Employee Stock Option Scheme:**

During the year, the Company has granted stock option to its employees (including certain employees of the Subsidiaries) under the Company's Employees' Stock Option Scheme. The stock options outstanding under the scheme as at 31st March' 2007 are 300,973.

Out of above stock option, 20 per cent stock option will vest in the year 2007-08, 30 per cent stock option in the year 2008-09 and balance 50 per cent stock option in the year 2009-10. The excess of market price of Rs. 280.90 per share as on the date of grant of option, over the exercise price of Rs. 240 per share for the Stock Option granted to employees (including certain employees of the Subsidiaries), will be amortized by the Company over the vesting period. The amortized value for the year pertaining to its employees (including certain employees of the Subsidiaries) amounting to Rs. 1,481,110 has been charged under Employee Cost.

8. During the year, the Company has allotted 4,400,000 1 per cent Cumulative Non Convertible Redeemable Preference Share of Rs. 100 each out of share application money received during the last year. Same are redeemable on 31st Oct' 2013 or earlier as may be decided by the Board.

9. Balances with Non-Scheduled bank held in:

Name of The Bank	Amount in Rupees			
	As at 31.03.2007	Maximum Amount outstanding at any time during the year	As at 31.03.2006	Maximum Amount outstanding at any time during the year
a. In Current Account				
i) ICICI UK Bank Limited	-	314,863,571	1,800,960	1,031,462,250
ii) HSBC Bank USA, N.A.	-	2,543	2,543	4,420
b. In Fixed Deposit				
i) ICICI UK Bank Limited	-	494,670,711	494,670,711	941,460,000

10. Advances and Loans to Wholly Owned Subsidiaries:

Name of Subsidiaries	Amount in Rupees			
	As at 31.03.2007	Maximum Amount outstanding at any time during the year	As at 31.03.2006	Maximum Amount outstanding at any time during the year
a. Jewel Gems USA	56,667,000	56,667,000	-	-
b. STS Gems Limited, HK	21,795,000	21,795,000	-	-
c. STS Gems Thai Limited	43,590,000	43,590,000	-	-
d. Genoa Jewellers Limited	87,180,000	87,180,000	-	-

11. Earning Per Share (EPS):

Particulars	Amount in Rupees	
	2006-07	2005-06
a. Profit After Tax (Rs.)	242,856,818	363,219,575
b. Dividend on Preference Shares including Tax thereon (Rs.)	2,144,908	-
c. Profit attributable to Equity Shareholders for Basic and Diluted EPS (Rs.) (a-b)	240,711,910	363,219,575
d. i) Weighted average number of Equity Shares outstanding during the year for Basic EPS	27,587,873	13,151,148
ii) No of Stock Option Outstanding	300,973	-
iii) No of Dilutive Potential Equity Shares	-	-
e. Weighted average number of Equity Shares outstanding during the year for Diluted EPS	27,587,873	13,151,148
f. Basic Earning Per Share	8.73	27.62
g. Diluted Earning Per Share	8.73	27.62

SCHEDULES forming part of Accounts

12. 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 Jewelers 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 Jewelers STT (St. Thomas) Limited, USVI; 14. Genoa Jewelers (St. Kitts) Limited, West Indies; 15. Genoa Jewelers (SXM) N.V., St. Maarten. 16. Der Schmuckkanal Deutschland GmbH; Germany 17. The Jewellery Channel Inc., USA; 18. STS Jewel Gems (China) Ltd., China.

Enterprises in which Directors are interested :

1. Amrin Gems Export; 2. Stone Age Limited; 3. VGL Softech Limited; 5. Shivram Properties Private Limited.

Key Management Personnel (KMP)

1. Shri Rahimullah – Managing Director

Relative of Key Management Personnel

1. Shri Imran Khan

B. Related Party Transactions

Amount in Rs.

Nature of Transactions	Subsidiaries		Key Managerial Person		Relative of Key Managerial Person		Enterprises over which significant influence exercised by Key Managerial Persons	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
(i) Transaction during the year								
a. Sales of Goods	2,199,486,999	401,751,982	-	-	-	-	-	-
b. Purchases of Goods	304,923,732	131,316,138	-	-	-	-	-	3,973,779
c. Loan Given	209,232,000	-	-	-	-	-	-	-
d. Advance Given	-	-	-	-	-	-	3,332,680	12,221,560
e. Advance Given Repaid	-	-	-	-	-	-	8,201,286	5,452,954
f. Expense	-	-	-	-	-	-	7,016,481	4,023,384
g. Investment	5,265,595,783	3,828,001,781	-	-	-	-	-	-
h. Remuneration	-	-	7,550,000	3,308,250	85,500	-	-	-
i. Guarantee	271,125,000	-	-	-	-	-	-	71,678,000
(ii) Balances as at 31.03.07								
a. Amount Receivable	830,581,147	636,231,570	-	-	-	-	-	-
b. Amount Payable	-	9,437,345	-	-	-	-	-	-
c. Loan Receivable	209,232,000	-	-	-	-	-	-	-
d. Advance Receivable	-	-	-	-	-	-	2,200,000	7,068,606

SCHEDULES forming part of Accounts

Amount in Rs.

C. Details of Material Related Party Transactions																
Nature of Transactions	Subsidiaries												Enterprises over which significant influence exercised by Key Managerial Persons			
	Genoa Jewellers Limited		Jewel Gem USA Inc.		STS Jewels Inc. USA		STS Gems Japan Limited		STS Gems Limited, Hongkong		STS Gems Thai Limited		VGL Softech Limited		Stone Age Limited	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
(i) Transaction during the year																
a. Sales of Goods	601,076,960	15,120,938	80,836,089	49,126,226	819,066,582	159,249,648	22,697,136	59,735,577	175,786,671	31,613,947	454,770,613	55,099,965	-	-	-	-
b. Purchases of Goods	2,063,058	-	14,963,343	-	138,903,323	-	3,542,828	-	39,432,092	-	93,566,695	-	-	-	-	-
c. Loan Given	87,180,000	-	56,667,000	-	-	-	-	-	21,795,000	-	43,590,000	-	-	-	-	-
d. Advance Given	-	-	-	-	-	-	-	-	-	-	-	-	3,100,000	12,207,600	-	-
e. Advance Given Repaid	-	-	-	-	-	-	-	-	-	-	-	-	7,954,646	5,452,954	-	-
f. Expense	-	-	-	-	-	-	-	-	-	-	-	-	7,016,481	4,023,384	-	-
g. Investment	981,150,250	254,001,000	527,090,000	367,532,500	1,995,079,632	1,995,079,630	19,918,042	19,918,042	157,499,992	87,594,992	1,112,599,043	1,019,539,043	-	-	-	-
h. Guarantee	271,125,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,678,000
(ii) Balances as at 31.03.07																
a. Amount Receivable	328,363,981	15,227,190	17,037,760	44,735,054	177,930,896	349,846,217	20,167,396	36,095,870	138,990,214	109,337,595	208,452,299	104,061,301	-	-	-	-
b. Amount Payable	1,764,134	-	5,258,822	-	52,745,566	20,905,976	1,706,914	-	75,395	1,987,916	2,142,274	262,137	-	-	-	-
c. Loan Receivable	87,180,000	-	56,667,000	-	-	-	-	-	21,795,000	-	43,590,000	-	-	-	-	-
d. Advance Receivable	-	-	-	-	-	-	-	-	-	-	-	-	2,200,000	7,054,646	-	-

13. Segment Reporting:

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

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

Signatures to Schedules I to XX*For and on behalf of the Board*

Mukesh Khetan
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director

Place: Jaipur
Date: 30th June, 2007

Statement pursuant to exemption received under section 212(8) of the Companies Act, 1956 relating to Subsidiary Companies

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	Rs.in Lacs
STS Jewels Inc., USA	217.21	1,789.27	7,778.02	9,784.50	-	21,001.28	(65.94)	15.53	(81.47)	NIL	
STS Gems Thai Limited, Thailand	473.80	4,252.28	7,138.51	11,864.59	-	16,814.82	(369.28)	(7.77)	(361.51)	NIL	
STS Creations Thai Limited, Thailand	135.37	(243.44)	431.20	323.13	-	431.20	(142.83)	-	(142.83)	NIL	
STS Gems Limited, Hong Kong	486.48	1,303.23	4,199.86	5,989.57	-	7,949.44	42.27	10.61	31.65	NIL	
STS Gems Japan Limited	276.30	5.44	470.75	752.48	5.87	1,051.99	0.23	0.66	(0.43)	NIL	
Jewel Gem USA Inc.	5,126.12	(653.85)	6,268.97	10,741.24	-	10,242.26	(646.57)	0.12	(646.70)	NIL	
Genoa Jewellers Limited, BVI	9,470.29	236.57	1,976.17	11,683.04	915.56	-	249.51	-	249.51	NIL	
Indo Mexico Co. S. De R. L. De C.V., Mexico	3,699.49	(155.45)	2,762.44	6,306.48	-	1,978.35	(294.88)	-	(294.88)	NIL	
STS Jewels Canada INC.	4.34	(13.77)	203.14	193.72	-	637.38	13.97	-	13.97	NIL	
2Umbrellas .Com Inc., USA	-	28.89	5.29	34.19	-	233.40	34.71	0.25	34.46	NIL	
STS Gems USA Inc.	456.14	53.27	453.47	962.88	-	1,133.33	(15.72)	1.47	(17.19)	NIL	
The Jewellery Channel Ltd., United Kingdom	19.25	(1,926.55)	6,218.42	4,311.13	-	11,004.61	(1,812.08)	-	(1,812.08)	NIL	
The Jewellery Channel Ltd., USA	1,303.25	(350.81)	1,916.79	2,869.23	-	-	(573.07)	(180.28)	(392.79)	NIL	
Der Schmuckkanal Deutschland GmbH, Germany	289.65	(1,357.25)	3,378.37	2,310.76	-	1,368.35	(1,357.57)	-	(1,357.57)	NIL	
Genoa Jewellers STT (St. Thomas) Limited, USVI	0.43	(68.74)	2,758.37	2,690.06	-	1,068.00	(48.75)	-	(48.75)	NIL	
Genoa Jewellers (St. Kitts) Limited, West Indies	0.22	(59.64)	626.79	567.36	-	303.07	(30.77)	-	(30.77)	NIL	
Genoa Jewellers (SXM) N.V., St. Maarten	1.30	89.82	1,529.26	1,620.38	-	2,016.07	228.24	-	228.24	NIL	

BALANCE SHEET ABSTRACT**BALANCE SHEET ABSTRACT AND GENERAL BUSINESS PROFILE****I. REGISTRATION DETAILS**

Registration No.	4 9 4 5	State Code	17
Balance Sheet Date	31.03.2007		

II. CAPITAL RAISED DURING THE YEAR (AMOUNT IN RS. THOUSANDS)

Public Issue	Nil	Right Issue	Nil
Bonus Issue	Nil	Private Placement	440,000

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMOUNT IN RS. THOUSANDS)

Total Liabilities	7,357,209	Total Assets	7,357,209
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SOURCES OF FUNDS

Paid-up Capital	715,879	Secured Loans	636,611
Reserve & Surplus	6,001,728	Unsecured Loans	Nil
Share Application Money		Deferred Tax Assets (net)	2,991

APPLICATION OF FUNDS

Net Fixed Assets	148,400	Investment	5,270,946
Net Current Assets	1,937,863	Miscellaneous Expenditure	Nil

IV. PERFORMANCE OF COMPANY (AMOUNT IN RS. THOUSANDS)

Turnover	2,826,959	Total Expenditure	2,569,975
Profit / (Loss) before Tax	256,984	Profit / (Loss) after Tax	242,857
Earning per Shares in Rs..	8.73	Dividend Rate per cent	5.00%

V. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS OF THE COMPANY (AS PER MONETARY TERMS)

Product Description	Other Precious Stones	Gold Studded Jewellery
Item Code No.	710319.09	711319.03
Item Code No.	710310.11	711319.04
Item Code No.	710310.19	

CONSOLIDATED FINANCIAL STATEMENTS

AUDITOR'S REPORT FOR CONSOLIDATED Financial Statements

To,
The Board of Director of
VAIBHAV GEMS LIMITED

- 1) We have audited the attached Consolidated Balance Sheet of Vaibhav Gems Limited (the Company) and its subsidiaries as at 31st March 2007 and the Consolidated Profit and Loss account and Consolidated Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2) We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require obtaining reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provide reasonable basis for our opinion.
- 3) We further report that:
 - a) We did not audit the financial statement of 6 subsidiaries, whose financial statements reflect total assets of Rs. 35380.78 lacs as at March 31, 2007, and total revenue of Rs. 51240.41 lacs for the year ended on that date. These financial statements and some financial information have been audited by other auditors whose reports have been furnished to us and our opinion is based solely on the report of other auditors.
 - b) The consolidated financial statements of 1 subsidiary, which reflect total assets of Rs.19684.19 lacs and total revenue of Rs. 16451.65 lacs have been audited by one of the undersigned, viz. B. Khosla & Co.
 - c) The financial statement of 1 subsidiary which reflects total assets of Rs. 10741.25 lacs and total revenue of Rs. 10267.28 lacs have been reviewed by other auditors without expressing any opinion thereon. We have relied upon these reviewed figures.
 - d) Certain other financial information of the 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 (d) above.
- 5) We report that on the basis of the information and explanations given to us and on consideration of the separate audit report on the individual financial statement of the VGL and its subsidiaries, we are of the opinion that the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India
 - a. in case of the Consolidated Balance Sheet, of the state of affairs of the Company and its subsidiaries as at March 31, 2007.
 - b. in case of the Consolidated Profit and Loss Account, of the Loss for the year ended on that date; and
 - c. in case of the Consolidated Cash Flow Statement, of the Cash Flow for the year ended on that date.

As per our attached report of even date

For **HARIBHAKTI & CO.**
Chartered Accountants

CHETAN DESAI
Partner
Membership No. 17000

Place: Jaipur,
Date: 30th June, 2007

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

SANDEEP MUNDRA
Partner
Membership No. 75482

CONSOLIDATED BALANCE SHEET as at March 31, 2007

Amount in Rupees

Particulars	Schedule	As at		As at	
		31st March, 2007		31st March, 2006	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	I	715,878,730		275,878,730	
Reserves and Surplus	II	5,505,348,453	6,221,227,183	5,781,359,406	6,057,238,136
Share Application Money			-		440,000,000
Minority Interest			20,376,460		21,107,783
Loan Funds					
Secured Loans	III	1,053,045,302		823,509,528	
Unsecured Loans	IV	69,983,446	1,123,028,748	227,103,585	1,050,613,113
Deferred Tax Liability (Net)			-		2,945,643
Total			7,364,632,391		7,571,904,675
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	V	3,428,014,256		3,112,234,312	
Less: Depreciation		284,489,732		202,401,728	
Net Block		3,143,524,524		2,909,832,584	
Capital Work-in-progress		1,393,093	3,144,917,617	13,212,303	2,923,044,887
Investments	VI		97,493,392		105,844,927
Deferred Tax Assets (Net)			15,037,376		-
Current Assets, Loans and Advances					
Inventories	VII	3,079,641,212		2,027,000,121	
Sundry Debtors	VIII	911,737,360		1,161,657,991	
Cash and Bank Balances	IX	415,588,704		1,786,199,823	
Interest accrued on Bank Deposits		906,061		4,443,810	
Loans and Advances	X	588,117,847		265,975,540	
		4,995,991,184		5,245,277,285	
Less: Current Liabilities and Provisions					
Current Liabilities	XI	865,423,545		625,557,128	
Provisions	XII	23,383,633		76,705,296	
		888,807,178		702,262,424	
Net Current Assets			4,107,184,006		4,543,014,861
Total			7,364,632,391		7,571,904,675
Significant Accounting Policies and Notes to Accounts	XX				

As per our attached report of even date

For and on behalf of the Board

For **HARIBHAKTI & CO.**
Chartered AccountantsFor **B. KHOSLA & CO.**
Chartered Accountants**RAHIMULLAH**
Managing Director**CHETAN DESAI**
Partner**SANDEEP MUNDRA**
Partner**MUKESH KHETAN**
Company Secretary**NIRMAL KUMAR BARDIYA**
DirectorPlace: Jaipur,
Date: 30th June, 2007

**CONSOLIDATED PROFIT AND LOSS ACCOUNT** for the year ended March 31, 2007

Particulars	Schedule	Amount in Rupees	
		Year ended 31st March 2007	Year ended 31st March 2006
INCOME			
Sales	XIII	5,191,518,608	2,974,564,980
Other Income	XIV	151,720,919	23,806,878
Total		5,343,239,527	2,998,371,858
EXPENDITURE			
Materials Cost	XV	2,987,776,173	2,036,372,537
Manufacturing / Direct Expenses	XVI	324,533,175	108,700,628
Employees Costs	XVII	896,114,391	194,757,950
Administrative & Selling Expenses	XVIII	1,191,288,720	200,942,937
Financial Expenses	XIX	111,939,446	49,180,721
Total		5,511,651,905	2,589,954,773
Profit / (Loss) Before Depreciation		(168,412,378)	408,417,085
Depreciation	V	69,958,910	27,808,149
Profit / (Loss) Before Tax		(238,371,288)	380,608,936
Add / Less: Provision For Taxation			
- Current Tax		13,747,514	19,072,758
- Earlier Years Tax		1,072,377	-
- Deferred Tax Charges/(Credits)		(17,983,019)	3,357,010
- Fringe Benefit Tax		1,350,000	850,000
Profit / (Loss) After Tax and Before Minority Interest		(236,558,160)	357,329,168
Add : Minority Interest in Profit / (Loss)		175,027	(1,290,227)
Net Profit / (Loss) After Tax		(236,383,133)	356,038,941
Balance brought forward		690,384,905	420,484,573
Profit Available For Appropriation		454,001,772	776,523,514
APPROPRIATION			
Dividend on Preference Share Capital		1,833,333	-
Proposed Dividend		13,793,937	41,381,810
Tax on Dividend		2,655,855	5,803,799
General Reserve		-	38,953,000
		18,283,125	86,138,609
Balance carried to Balance Sheet		435,718,647	690,384,905
Earnings per Share of Rs.10 each (Refer Note No.4)			
Basic (Rs.)		-	27.07
Diluted (Rs.)		-	27.07
Significant Accounting Policies and Notes to Accounts	XX		

As per our attached report of even date

For and on behalf of the Board

For HARIBHAKTI & CO.
Chartered AccountantsFor B. KHOSLA & CO.
Chartered AccountantsRAHIMULLAH
Managing DirectorCHETAN DESAI
PartnerSANDEEP MUNDRA
PartnerMUKESH KHETAN
Company SecretaryNIRMAL KUMAR BARDIYA
Director

Place: Jaipur,

Date: 30th June, 2007

CONSOLIDATED CASH FLOW STATEMENT for the year ended March 31, 2007

		(Amount in Rupees)		
S. No.	Particulars	Schedule	As at 31st March, 2007	As at 31st March, 2006
A.	CASH FLOW FROM OPERATING ACTIVITIES			
	Net Profit / (Loss) before tax and extraordinary Items		(238,371,288)	380,608,936
	Adjustment for :			
	Depreciation		69,958,910	27,808,149
	Unrealised Foreign Exchange Difference		8,561,984	1,289,112
	Employee compensation Expenses		1,481,110	-
	Profit on sales of Investment		(4,870,959)	-
	Loss/(Profit) on sale of Fixed Assets		7,301	74,270
	Impairment of Assets		-	1,232,442
	Interest and Dividend earned		(45,496,736)	(19,044,969)
	Interest paid on borrowings		86,811,304	36,821,435
	Operating Profit before working Capital Changes		(121,918,374)	428,789,375
	Adjustment for :			
	Trade and other Receivables		228,043,981	(930,551,760)
	Trade payables		244,299,505	471,828,495
	Stock- in - Trade		(1,052,641,091)	(1,604,064,028)
	Cash generated from Operations		(702,215,979)	(1,633,997,918)
	Direct Taxes paid		(16,795,345)	-
	Earlier Year Tax		(1,848,991)	-
	Minority share of Interest in Profits		175,027	1,290,227
	Net Cash from operating activities		(720,685,288)	(1,635,288,145)
B.	CASH FLOW FROM INVESTING ACTIVITIES			
	Purchase of Fixed Assets		(272,738,352)	(292,914,528)
	Payment for Goodwill (net of Capital Reserve)		(19,180,402)	(2,518,016,866)
	Sales of Fixed Assets		79,813	345,604
	Sales / (Purchases) of Shares / Mutual Fund		8,351,535	(100,494,407)
	Profit on sale of investment		4,870,959	-
	Interest and Dividend received		45,496,736	14,601,159
	Net Cash used in Investing Activities		(233,119,711)	(2,896,479,038)
C.	CASH FLOW FROM FINANCING ACTIVITIES			
	Proceeds from /(Repayment of) Long Term Borrowings		61,991,135	763,357,971
	Proceeds from /(Repayment of) Short Term Borrowings		20,531,485	-
	Proceeds from Issuance of share capital (Net of Expenses)		(3,999,860)	5,540,200,299
	Loans advanced to others		(341,774,699)	-
	Minority Interest payable		(731,323)	21,107,783
	Foreign Currency Translation Reserve - Unrealised		(18,825,945)	(1,831,895)
	Dividend and Tax on Dividend paid		(47,185,609)	(30,104,311)
	Interest Paid on Borrowings		(86,811,304)	(36,821,435)
	Net Cash used in Financing Activities		(416,806,120)	6,255,908,412
	Net Increase in Cash and Cash Equivalents		(1,370,611,119)	1,724,141,229
	Opening Balance of Cash and Cash Equivalents		1,786,199,823	57,532,042
	Closing Balance of Cash and Cash Equivalents		415,588,704	1,781,673,271
	Cash and Cash Equivalents comprises			
	Cash, cheques and drafts in hand		11,143,625	3,778,801
	Balance with bank in current accounts		116,915,948	95,527,958
	Balance with bank in deposit accounts		287,529,131	1,682,366,512
	Balance with other Banks			
			415,588,704	1,781,673,271
	Exchange Gain on Bank deposits			4,526,552
			415,588,704	1,786,199,823
	Significant Accounting Policies and Notes on Accounts	XX		

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

As per our attached report of even date

For **HARIBHAKTI & CO.**
Chartered Accountants

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

For and on behalf of the Board

RAHIMULLAH
Managing Director

CHETAN DESAI
Partner

SANDEEP MUNDRA
Partner

MUKESH KHETAN
Company Secretary

NIRMAL KUMAR BARDIYA
Director

Place: Jaipur

Date: 30th June, 2007

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2007		As at 31st March, 2006	
SCHEDULE I - SHARE CAPITAL				
Authorised				
31,000,000 Equity Shares Rs. 10/- each	310,000,000		310,000,000	
4,500,000 (Previous year - Nil)				
Preference Shares of Rs 100/- each	450,000,000	760,000,000	-	310,000,000
Issued, Subscribed and Paid up				
27,587,873 Equity Shares of Rs.10/- each	275,878,730		275,878,730	
4,400,000 (Previous Year - Nil)				
1per cent Non Convertible Redeemable				
Cumulative Preference Share of Rs. 100 each	440,000,000	715,878,730	-	275,878,730
		715,878,730		275,878,730

Notes:

Out of the above Equity Shares :-

- 7,294,920 Equity Shares were allotted as fully paid up Bonus Share by capitalisation of Profit & Loss Account
- 8,750,000 Equity Shares have been allotted as underlying Shares for 875,000 Global Depository Receipts

SCHEDULE II - RESERVES AND SURPLUS

Securities Premium Account :				
As per last Balance Sheet	4,988,525,769		58,598,200	
Add: Received during the year	-		4,999,641,436	
	4,988,525,769		5,058,239,636	
Less: Expenses for issue of Securities	3,999,860	4,984,525,909	69,713,867	4,988,525,769
General Reserve:				
As per last Balance Sheet	90,000,000		51,047,000	
Add: Transferred from Profit and Loss Account	-	90,000,000	38,953,000	90,000,000
Capital Reserve on Consolidation		14,211,290		14,211,290
Foreign Currency Translation Reserve		(20,588,503)		(1,762,558)
Employee Stock Option Outstanding	12,309,796			
Less: Deferred Employees Compensation expenses outstanding	10,828,686	1,481,110		-
Balance in Profit and Loss account		435,718,647		690,384,905
		5,505,348,453		5,781,359,406

SCHEDULE III - SECURED LOANS

From Bank				
Term Loan	72,123,909		20,239,759	
[Repayable within one year Rs. 59,929,607 (Pre. Year Rs. Nil)]				
Working Capital Loan	980,921,393	1,053,045,302	803,269,769	823,509,528
		1,053,045,302		823,509,528

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2007	As at 31st March, 2006
SCHEDULE IV - UNSECURED LOANS		
From Bank [Repayable within one year Rs. 920,263 (Pre. Year Rs Nil)]	26,541,746	-
From Others [Repayable within one year Rs. 43,441,700 (Pre. Year Rs 26,324,385)]	43,441,700	227,103,585
	69,983,446	227,103,585

SCHEDULE : V - FIXED ASSETS

(Amount in Rs.)

PARTICULARS OF ASSET	GROSS BLOCK					DEPRECIATION					NET BLOCK	
	As at 01.04.2006	Additions	Deductions	Currency Reallignment	As at 31.03.2007	As at 01.04.06	Depreciation	Adjustments	Currency Reallignment	As at 31.03.2007	As at 31.03.2007	As at 31.03.2006
Intangible Assets												
Goodwill on Consolidation	2,532,228,156	19,180,402		727,755	2,551,408,558				-	-	2,551,408,558	2,532,228,156
Tangible Assets												
Land (Freehold)	45,635,975	7,270,757	-	7,270,757	52,906,732	-	-	-	-	-	52,906,732	45,635,975
Land (Leasehold)	37,103,637	-	-	-	37,103,637	839,010	371,726	-	-	1,210,736	35,892,901	36,264,627
Building	102,985,979	9,300,583	-	7,369,022	112,286,562	42,629,217	6,009,839	-	5,116,859	53,755,915	58,530,648	60,356,762
Lease Hold Improvement	87,583,154	94,075,672	868,837	(2,480,455)	180,789,989	19,174,362	12,958,803	238,230	(610,151)	31,284,786	149,505,203	68,408,792
Plant & Machinery	111,676,118	38,161,216	38,000	6,682,442	149,799,335	55,304,391	11,503,093	4,483	5,040,684	71,843,685	77,955,650	56,371,728
Electric Installation	14,475,008	302,749	-	(617)	14,777,757	3,378,859	1,577,475	-	(93)	4,956,241	9,821,516	11,096,149
Furniture & Fixtures	59,037,251	36,785,626	11,946	182,435	95,810,931	19,981,472	12,165,959	3,779	770,779	32,914,430	62,896,500	39,055,779
Office Equipment	46,949,539	22,541,591	117,658	1,295,435	69,373,471	20,799,582	5,646,697	329,485	1,443,543	27,560,338	41,813,134	26,149,957
Computer	69,637,782	85,696,711	350,499	1,210,385	154,983,995	36,527,423	18,618,868	267,033	875,622	55,754,880	99,229,114	33,110,359
Vehicles	4,921,712	3,851,578	-	325,465	8,773,290	3,767,411	1,106,450	-	334,860	5,208,721	3,564,568	1,154,301
	3,112,234,312	317,166,885	1,386,941	22,582,624	3,428,014,256	202,401,728	69,958,910	843,010	12,972,104	284,489,732	3,143,524,524	2,909,832,584
Previous Year	196,605,800	2,960,628,184	44,999,672	-	3,112,234,312	171,129,664	37,404,348	6,132,284	-	202,401,728	2,909,832,584	25,476,136

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2007		As at 31st March, 2006	
SCHEDULE VI - INVESTMENTS				
<i>(Long Term - at Cost)</i>				
Other than Trade Investment - Unquoted				
360,000 (Previous year - 360,000) Equity Shares of Rs.10 each fully paid up of VGL Softech Limited		5,207,000		5,207,000
Nil (Previous year 9,998,370) of Reliance Liquidity Fund -Daily Dividend Reinvestment Option of Rs.10 each		-		100,000,000
Other than Trade Investment - Quoted				
368 (Previous year - 368) Equity Shares of Rs.10 each fully paid up of Punjab National Bank		143,520		143,520
2569 (Previous year - 2094) Shares of Tokio Kiho of Japan Yen 50 each		586,622		494,407
10,000 0 per cent CP HBOS Treasury Serv PLC		35,264,495		-
3,000 5.22 per cent Auction Rate Receipts of SLM Student Loan Trust		43,259,245		-
Money Market Funds		13,032,510		-
		97,493,392		105,844,927
SCHEDULE VII - INVENTORIES				
<i>(As taken, valued and certified by the Management)</i>				
Materials-in-process		752,419,021		712,887,834
Semi Finished Goods		114,187,397		99,697,530
Finished Goods		2,210,913,480		1,213,141,236
Stores and Consumables		2,121,314		1,273,521
		3,079,641,212		2,027,000,121
SCHEDULE VIII - SUNDRY DEBTORS				
<i>(Unsecured and considered good unless otherwise stated)</i>				
Outstanding for more than Six Months	145,264,066		118,358,373	
Less: Provision for doubtful debts	(577,422)	144,686,644	(528,363)	117,830,010
Others		767,050,716		1,043,827,981
		911,737,360		1,161,657,991
SCHEDULE IX - CASH AND BANK BALANCES				
Cash on hand		11,143,625		3,778,801
Balance with Banks				
In Current Accounts	116,915,948		95,527,958	
In Deposit Accounts *	287,529,131	404,445,079	1,686,893,064	1,782,421,022
*Pledged, Rs 154,771,978 (Previous Year Rs 70,970,856)				
		415,588,704		1,786,199,823

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2007	As at 31st March, 2006
SCHEDULE X - LOANS & ADVANCES <i>(Unsecured and considered good unless otherwise stated)</i>		
Advances recoverable in cash or in kind or for value to be received	257,554,476	155,446,272
Key Money Deposits	246,226,047	60,179,158
Advance Tax (Net of Provision)	35,344,488	-
Security Deposits	48,992,836	50,350,110
	588,117,847	265,975,540
SCHEDULE XI - CURRENT LIABILITIES		
Sundry Creditors	680,427,835	505,566,721
Unclaimed Dividend	350,376	301,687
Other Liabilities	184,645,334	119,688,720
	865,423,545	625,557,128
SCHEDULE XII - PROVISIONS		
Leave Encashment	5,100,508	3,875,101
Dividend on Preference Share	1,833,333	-
Proposed Dividend	13,793,937	41,381,810
Tax on Dividend	2,655,855	5,803,799
Provision for Taxation (net of advance)	-	25,644,586
	23,383,633	76,705,296
SCHEDULE XIII - SALES		
Sales	5,191,518,608	2,974,564,980
	5,191,518,608	2,974,564,980
SCHEDULE XIV - OTHER INCOME		
Interest Income	45,496,736	19,044,969
Miscellaneous Income	22,949,073	2,492,494
Exchange Gain (Net)	83,275,110	2,269,415
	151,720,919	23,806,878

SCHEDULES forming part of Consolidated Accounts

Amount in Rupees

Particulars	As at 31st March, 2007		As at 31st March, 2006	
SCHEDULE XV - MATERIALS				
Materials Consumed				
Opening Material-in-process	719,721,070		755,022,351	
Add: Purchases	2,331,408,640		1,865,811,424	
	3,051,129,710		2,620,833,775	
Less: Closing Material-in-process	752,419,021	2,298,710,689	719,721,070	1,901,112,705
Purchases of Finished Goods		1,891,327,527		680,034,195
(Increase)/Decrease in Semi Finished and Finished Goods:				
Opening Stocks				
Semi Finished Goods	94,680,430		13,497,036	
Finished Goods	1,028,158,404		564,567,435	
	1,122,838,834		578,064,471	
Less: Closing Stocks				
Semi Finished Goods	114,187,397		94,680,430	
Finished Goods	2,210,913,480		1,028,158,404	
	2,325,100,877	(1,202,262,043)	1,122,838,834	(544,774,363)
		2,987,776,173		2,036,372,537
SCHEDULE XVI - MANUFACTURING / DIRECT EXPENSES				
Job Work Charges		103,976,267		41,487,393
Stores and Consumables		48,462,691		26,128,260
Power and Fuel		17,901,817		10,564,217
Repairs and Maintenance		8,621,683		11,821,898
Freight, Taxes and Duties		105,298,892		4,951,578
Other Manufacturing Expenses		40,271,825		13,747,282
		324,533,175		108,700,628
SCHEDULE XVII - EMPLOYEES COSTS				
Salaries, Wages, Bonus etc.		779,210,733		176,580,991
Contributions to Provident and Other Funds		65,109,256		7,420,122
Staff Welfare Expenses		14,071,360		5,658,866
Recruitment and Training		37,723,042		5,097,971
		896,114,391		194,757,950

SCHEDULES forming part of Consolidated Accounts

Particulars	Amount in Rupees	
	As at 31st March, 2007	As at 31st March, 2006
SCHEDULE XVIII - ADMINISTRATIVE & SELLING EXPENSES		
Rent, Rates and Taxes	127,314,125	34,734,535
Insurance	28,788,657	8,459,044
Travelling and Conveyance	86,252,603	29,338,622
Legal and Professional	88,089,991	19,765,254
Postage and Telephone	35,619,375	10,617,945
Printing and Stationery	13,991,833	3,407,072
Advertisement and Business Promotion	150,335,172	26,117,134
Discount, Brokerage and Commission	40,813,818	7,258,660
Packing and Forwarding	42,442,603	10,843,733
Repair & Maintenance	13,677,728	569,207
Bad Debts	6,581,190	124,597
Office Expenses	96,505,132	13,979,214
Directors' Remuneration	8,237,234	3,433,228
Directors' Sitting Fees	235,000	205,000
Information Technology Expenses	42,139,189	5,693,614
Loss on Sale of Assets	24,414	74,270
Loss on Impaired Fixed Assets	-	1,232,442
Pre-Operative Expenses	24,271,291	25,089,366
TV Channel Expenses		
<i>Content & Broadcasting</i>	197,086,412	-
<i>Call handling & Collection Charges</i>	87,651,098	-
<i>Packing & Distribution Charges</i>	200,690,635	-
<i>Less: Recovered</i>	(99,458,780)	-
	1,191,288,720	200,942,937
SCHEDULE XIX FINANCIAL EXPENSES		
Interest	86,811,304	36,821,435
Bank Commission & Other financial Expenses	25,128,142	12,359,286
	111,939,446	49,180,721

SCHEDULES forming part of Consolidated Accounts

SCHEDULE XX. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNT

A. SIGNIFICANT ACCOUNTING POLICIES

1. Basis for Preparation of Consolidated Financial accounts

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

2. Principles of consolidation

- The Subsidiaries considered in the consolidated financial statement are:

Name of the Subsidiaries	Country of incorporation	Ownership Interest/voting power (per cent)	Financial Year ends on
Direct Subsidiaries			
Genoa Jewelers Limited	British Virgin Islands	100%	31st March
Indo Mexico Co.S.DeR.L. De C.V.	Mexico	100%	31st March
Jewel Gem USA Inc.	USA	100%	31st March
STS Creations Thai Limited	Thailand	100%	31st March
STS Gems Japan Limited	Japan	100%	31st March
STS Gems Limited	Hong Kong	100%	31st March
STS Gems Thai Limited	Thailand	100%	31st March
STS Jewels Inc.	USA	100%	31st March
Step-down Subsidiaries			
Genoa Jewelers (St. Kitts) Limited	West Indies	100%	31st March
Genoa Jewelers (SXM) NV.,	Netherlands	100%	31st March
Genoa Jewelers STT(St, Thomas) Limited	St. Thomas, US Virgin Islands	100%	31st March
The Jewelry Channel Limited UK.	United Kingdom	100%	31st March
2 Umbrellas.com Inc	USA	100%	31st March
STS Jewels Canada Inc.	Canada	100%	31st March
STS Gems USA Inc.	USA	60%	31st March
STS Jewel Gems (China) Limited*	China	100%	31st March
Der Schmuckkanal Deutschland GmbH #	Germany	100%	31st March
The Jewelry Channel Inc.*	USA	100%	31st March

(#) Acquired during the year, (*) Incorporated during the year.

- The consolidated financial statements have been prepared on the following basis:
 - The consolidated financial statement has been prepared in accordance with the Accounting Standard –21, "Consolidated Financial Statement" issued by the Institute of Chartered Accountants of India.
 - The financial statement of VGL Group have been consolidated on a line-by-line basis by adding together the book values of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in un-realized profits or losses.
 - The consolidated financial statements have been prepared by using uniform accounting policies for like transaction and other events in similar circumstances and are presented to the extent possible, in the same manner as those of the parent company's independent financial statements unless stated otherwise.
 - 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 recognized in the financial statements as Goodwill or Capital Reserve, as the case may be. This is based upon determination of pre-acquisition profits/losses and of net worth on the date of the acquisition determined by the management on the basis of certain estimates which have been relied upon by the auditors.

SCHEDULES forming part of Consolidated Accounts

- vi. Minority Interest in the consolidated financial statements is identified and recognized after taking into consideration;
- The minorities' share of movement in equity since the date parent-subsidary relationship came into existence.
 - The profits/losses attributable to the minorities are adjusted against the income of the group in order to arrive at the net income attributable to the company.
- vii. The goods lying in inventory of any entity may include certain goods which have been processed in and transferred from one or more entity. For the purpose of consolidation, the amount of unrealized profits included in the value of such goods lying in inventory of any entity, identified on FIFO basis, as at the end of the financial period, have been eliminated to the extent of per cent of net profit of the same financial period of the entity from whom these goods have been procured.
- viii. Depreciation has been provided on the estimated useful life of an asset.
- ix. As per requirement of AS-28 "Impairment of Assets" issued by ICAI, the management is of the opinion that there is no impairment of goodwill (on consolidation)
- x. All employees' related benefits including social security have been provided in accordance with the laws of the country in which the individual entity is operating.
- xi. The financial statement of the subsidiaries for the period ended March 31, 2007 have been prepared & audited as per the generally accepted accounting principles (GAAP) of the countries in which they are operating. These financial statements have been converted by the management as per requirement of Indian GAAP.
- xii. Other significant accounting policies are as set out in standalone financial statement of Vaibhav Gems Limited, to the extent applicable.

B. NOTES TO ACCOUNTS**1. Contingent Liabilities:**

Particulars	Amount in Rupees	
	As at 31.03.2007	As at 31.03.2006
a. Guarantees given by bank on behalf of Company	24,835,000	10,300,000
b. Guarantees given by Company to Bank	256,590,000	-
c. Disputed Income Tax Matters:	11,239,420	18,421,646

2. The Deferred Tax Liabilities/ (Asset) comprise of the following:

Particulars	Amount in Rupees	
	As at 31.03.2007	As at 31.03.2006
a. Deffered tax Liability		
Depreciation	3,037,322	3,484,610
b. Deffered tax Assets:		
Provision for Doubtful advances	-	397,188
Provision for Leave Encashment	46,392	141,779
Unutilized Tax Losses	10,643,217	
Expenses Allowable on Deferred Basis	7,385,089	
	18,074,698	538,967
c. Deffered Tax Liability / (Assets) (Net)	(15,037,376)	2,945,643

Net deferred tax charge/(credit) for the year of Rs. (17,983,019) (Previous year Rs. 3,357,010) has been recognized in the Profit and Loss Account for the year.

3. Lease Commitments:

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

SCHEDULES forming part of Consolidated Accounts

Particulars	Amount in Rupees	
	2006-07	2005-06
Not later than one year	309,241,426	10,98,76,589
Later than one year & not later than five years	523,786,017	28,59,92,602
Later than five years	4,344,000	Nil

4. Earning per Share (EPS):

Particulars	Amount in Rupees	
	2006-07	2005-06
a. Profit / (Loss) for the year After Tax (Rs.)	(236,383,133)	35,60,38,941
b. Dividend on Preference Share including Tax thereon(Rs.)	2,144,908	-
c. Profit / (Loss) attributable to Equity Shareholders for Basic and Diluted EPS (Rs.) (a-b)	(238,528,041)	35,60,38,941
d. (i) Weighted averages number of Equity shares outstanding during the year for Basic EPS	27,587,873	13,151,148
(ii) No of Stock Options Outstanding	300,973	-
(iii) No of Dilutive Potential Equity Shares	-	-
e. Weighted average number of Equity Shares outstanding during the year for Diluted EPS (d(i) + d(ii))	27,587,873	13,151,148
f. Basic Earning Per Share	-	27.07
g. Diluted Earning Per Share	-	27.07

5. Employee Stock Option Scheme:

During the year, the Company has granted stock option to its employees (including certain employees of the Subsidiaries) under the Company's Employees' Stock Option Scheme. The stock options outstanding under the scheme as at 31st March'2007 are 300,973.

Out of above stock option, 20 per cent stock option will vest in the year 2007-08, 30 per cent stock option in the year 2008-09 and balance 50 per cent stock option in the year 2009-10. The excess of market price of Rs. 280.90 per share as on the date of grant of option, over the exercise price of Rs. 240 per share for the Stock Option granted to employees (including certain employees of the subsidiaries), will be amortized by the company over the vesting period. The amortized value for the year pertaining to its employees' (including certain employees of the subsidiaries) amounting to Rs.14,81,110 has been charged under Employee Cost.

6. Pending adjustment for expenses, Advance Recoverable includes amount due from Directors Rs. 1,03,727 (Previous Year -Nil)

SCHEDULES forming part of Consolidated Accounts

7. Segment information:

(i) For the year ended 31st March 2007:

Amount in Rupees

Particulars	Wholesale Operation	Retail Operations (Stores)	Retail Operations (TV Channels)	Elimination	Total
1 Revenue					
External Revenue	3,211,741,900	731,655,451	1,248,121,257		5,191,518,608
Inter-Segment Revenue	1,669,295,719		2,563,374	(1,671,859,093)	-
Total Revenue	4,881,037,619	731,655,451	1,250,684,631	(1,671,859,093)	5,191,518,608
2 Segment Result					
Operating Result	175,347,042	(3,439,926)	(350,059,082)	(10,729,538)	(188,881,504)
Interest Income					45,496,736
Interest Expenses					86,811,304
Un-allocable exchange loss					8,175,216
Profit / (Loss) Before Tax					(238,371,288)
Tax Expenses					(1,813,128)
Net Profit / (Loss) after tax					(236,558,160)
3 Capital Employed					
Segment Assets	11,568,668,077	1,118,428,749	1,480,638,325	(5,914,295,583)	8,253,439,568
Segment Liabilities	3,528,246,218	767,685,809	870,796,742	(3,134,516,384)	2,032,212,385
Depreciation and Amortization	35,558,654	23,217,064	11,183,191		69,958,910
Non Cash Expenses other than Depreciation	630,866	703,839	5,935,412		7,270,117

(ii) For the year ended 31st March 2006:

Amount in Rupees

Particulars	Wholesale Operation	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 Capital Employed					
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 and Amortization	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

SCHEDULES forming part of Consolidated Accounts

NOTES:

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

8. Related party disclosure:

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

Key Managerial Personnel(KMP)

Shri Rahimullah – Managing Director

Relative of Key Managerial Personnel

1. Shri Imranullah
2. Shri Rizwanullah
3. Shri Inamullah

Enterprises in which Directors are interested:

1. Amrin Gems Export
2. Stone Age Limited
3. VGL Softech Limited
4. Shivram Properties Private Limited
5. Emerald Creations

B. Related Party Transactions

Nature of Transactions	Key Managerial Person		Relative of Key Managerial Person		Enterprises over which significant influence exercised by Key Managerial Persons			
	2006-07	2005-06	2006-07	2005-06	2006-07		2005-06	
					VGL Softech Ltd.	Other	VGL Softech Ltd.	Other
(I) Transaction during the year								
a. Purchases of Goods	-	-	-	-	-	258,467	-	3,973,779
b. Advance Given	-	-	-	-	3,100,000	232,680	12,207,600	13,960
c. Advance Given Repaid	-	-	-	-	7,954,646	246,640	5,452,954	-
d. Expenses	-	-	-	-	58,437,322	-	11,271,421	-
e. Rent expenses	-	-	571,039	45,404	-	-	-	-
f. Remuneration	7,550,000	3,308,250	2,866,668	260,831	-	-	-	-
g. Guarantee*	-	-	-	-	-	-	-	71,678,000
(ii) Balances as at 31.03.07								
a. Amount Receivable	-	-	-	-	-	-	-	-
b. Amount Payable	-	-	-	-	36,372,833	-	2,068,026	3,620,194
c. Loan & Advance Receivable	-	-	-	-	2,200,000	-	7,054,646	13,960

* Corporate Guarantee given by Vaibhav Gems Limited to Stone Age Limited.

SCHEDULES forming part of Consolidated Accounts

9. STS Jewels Inc, one of the subsidiaries, has a gold consignment and loan agreement with a bank. The agreement states that the amount of gold that STS Jewels Inc, may receive on consignment is \$2,500,000. Leased gold must be kept on STS Jewels Inc, premises. If for any reason, the fair market value of the gold on consignment shall exceed the consignment limit, STS Jewels Inc, shall immediately redeliver the gold to the bank or purchase and pay for additional gold in a quantity sufficient to eliminate such excess. At March 31, 2007, STS Jewels Inc. held on consignment 1,493 troy ounces of fine gold valued at \$987,993.

Under the above arrangement, STS Jewels Inc. has reduced value of gold as mentioned above from the closing stock.

10. The consolidated financial statement for the current year are not comparable with that of previous year since, previous year financial statements includes the consolidation of acquired subsidiaries only for the part of the year.
11. The previous year figures have been regrouped, rearranged, restated & reclassified wherever necessary.
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For and on behalf of the Board

Mukesh Khetan
Company Secretary

Nirmal Kumar Bardiya
Director

Rahimullah
Managing Director

Place: Jaipur
Date: 30th June, 2007

// Desire is the key to
motivation. But it is
determination and commitment to an
unrelenting pursuit
of your goal - a
commitment to excellence
- that will enable you to attain the
success you seek. //

Mario Andretti - Racing Legend



CORPORATE INFORMATION

Board of Directors

- ◆ Mr. Sunil Agarwal – Chairman
- ◆ Mr. Suresh Punjabi – Director
- ◆ Mr. Rahimullah – Managing Director
- ◆ Mr. Nirmal Kumar Bardiya – Director
- ◆ Mr. Anandi Lal Roongta – Director
- ◆ Mr. Mitha Lal Mehta – Director
- ◆ Mr. Sunder Singh Bhandari – Director
- ◆ Mr. Sanjeev Agarwal – Director
- ◆ Mr. Ikramullah – Director

Company Secretary

- ◆ Mr. Mukesh Khetan

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
Tel: 0141 260 1020, Fax: 0141 260 3228/2010

Bankers

- ◆ Punjab National Bank, IBB, Jaipur
- ◆ State Bank of Bikaner & Jaipur, IBB, Jaipur
- ◆ Union Bank of India, Overseas Banking Branch, Jaipur